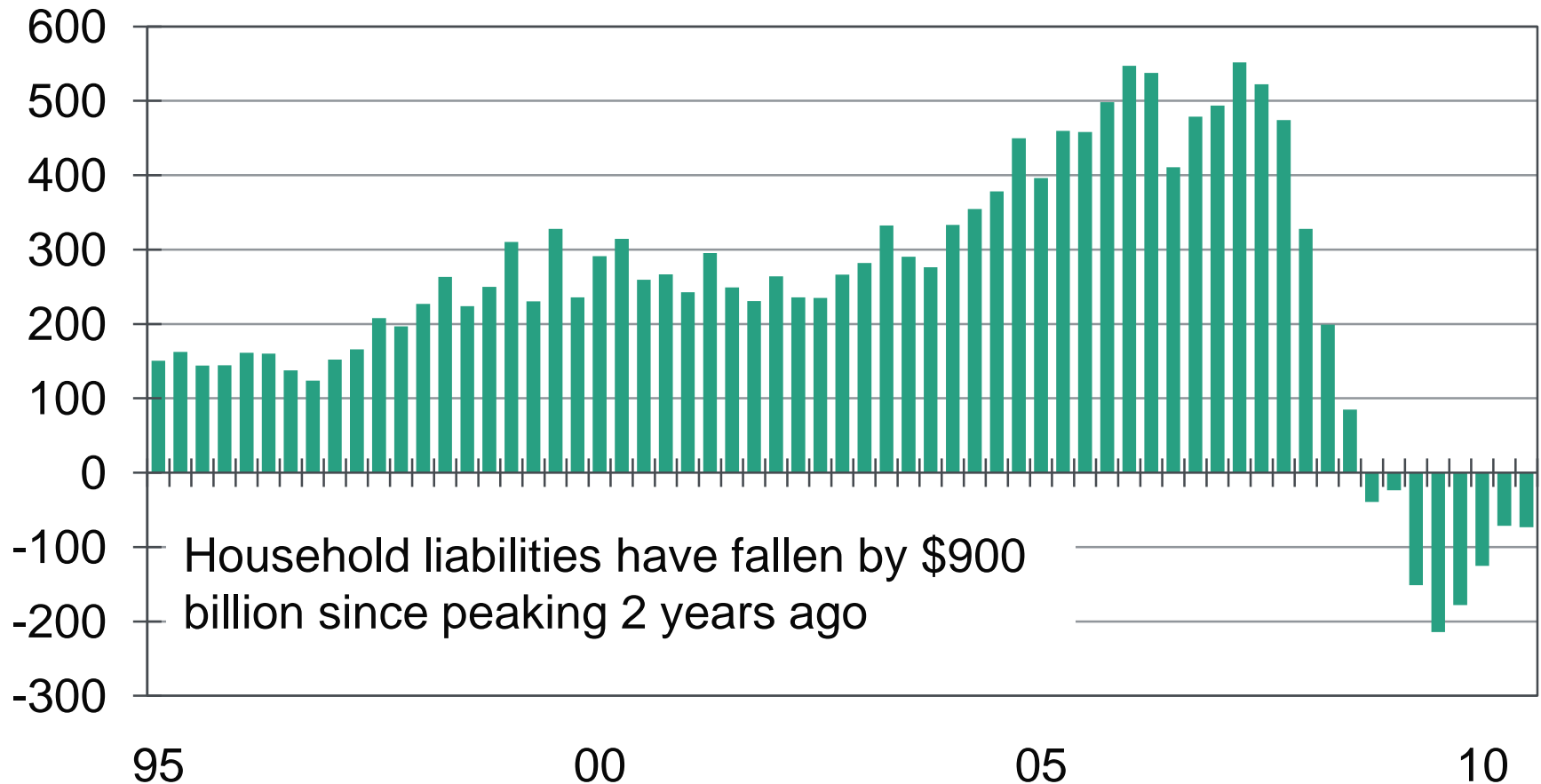


# **Another Year of Slow Recovery**

**EDWARD FRIEDMAN, DIRECTOR**

# Households and Businesses Deleveraging

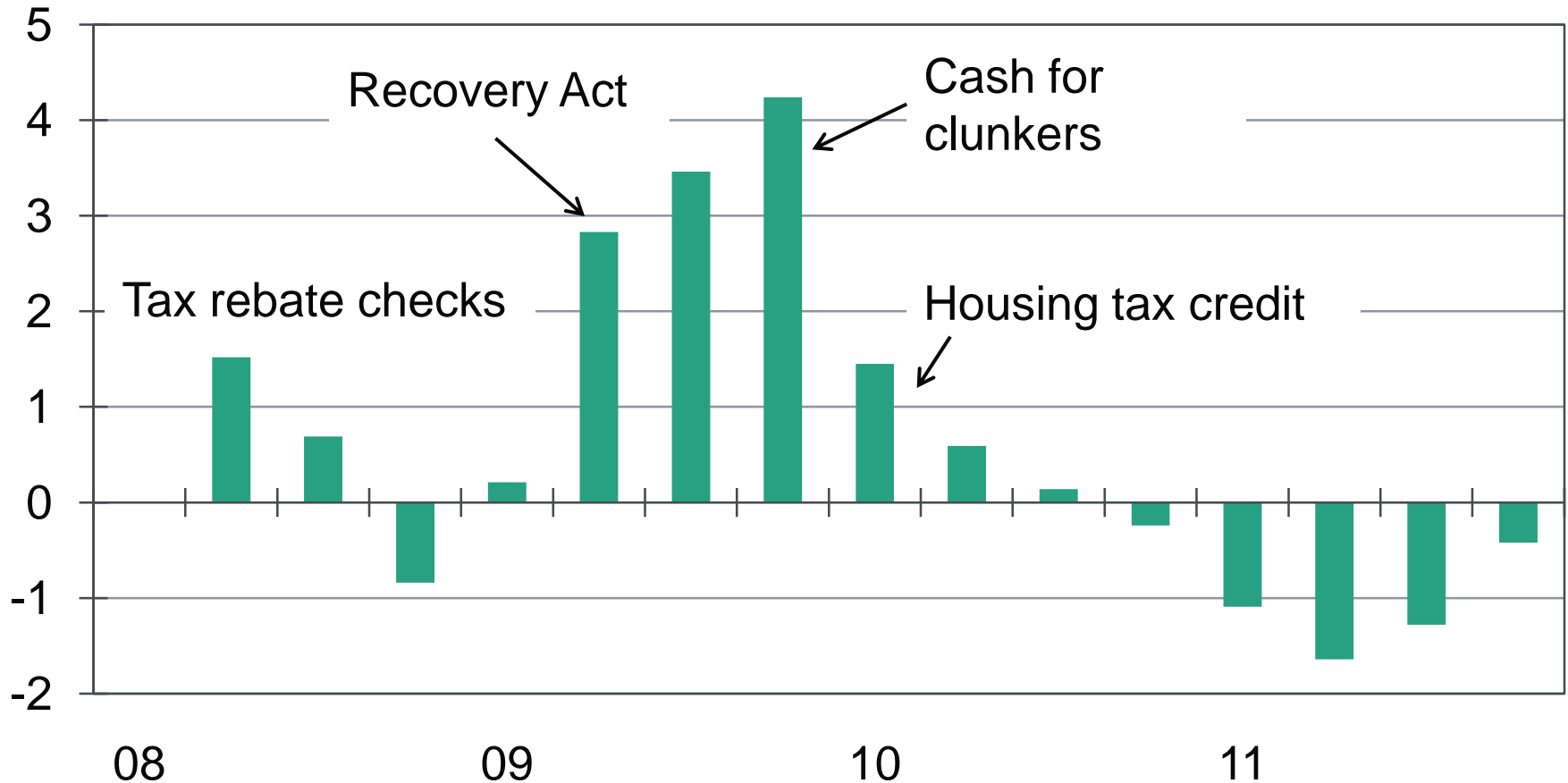
Change in household and nonfinancial corporate debt, \$ bil



Sources: Federal Reserve Board, Moody's Analytics

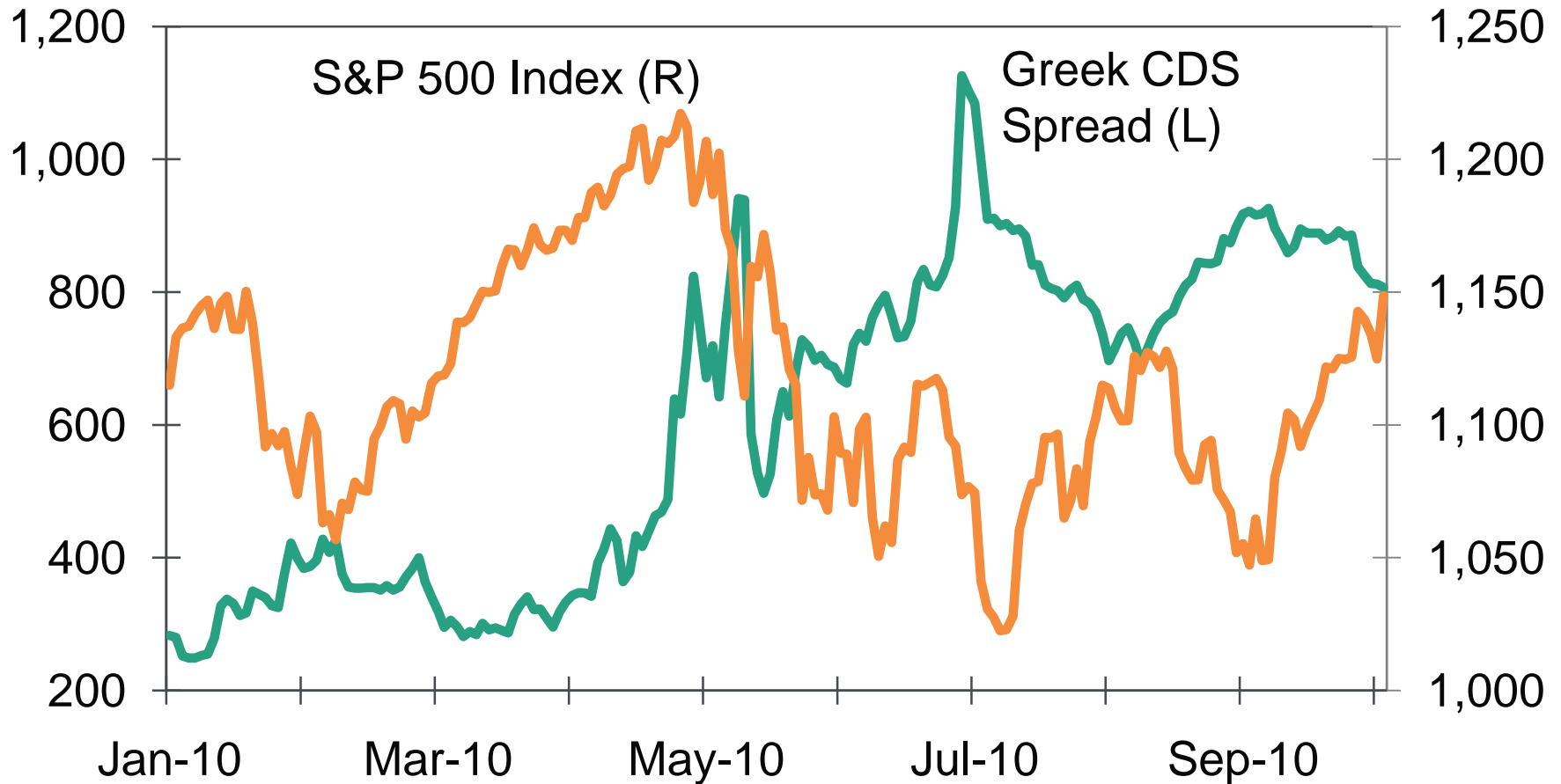
# Boost From Fiscal Stimulus Fading

Contribution to real GDP growth, %



Source: Moody's Analytics

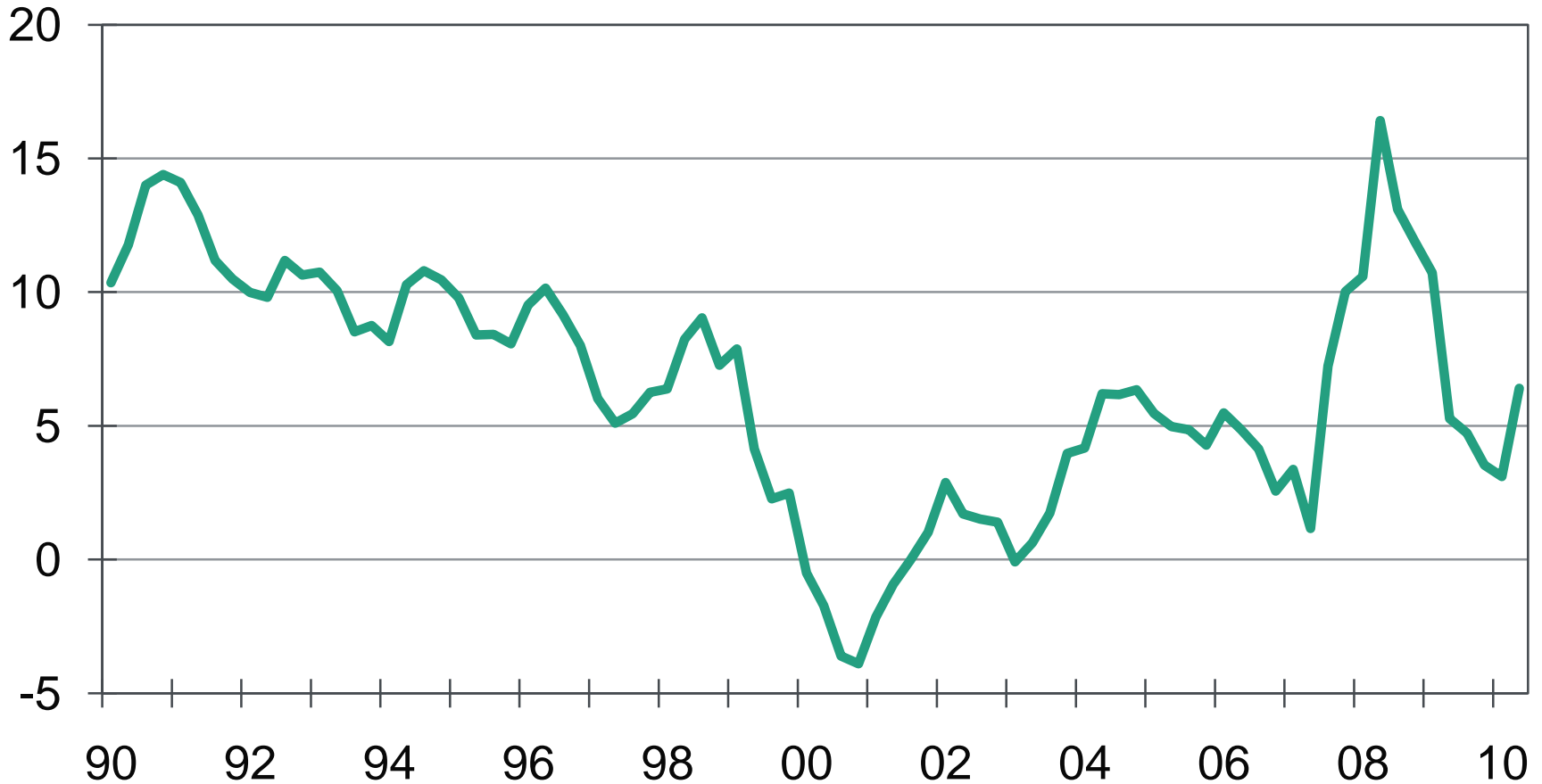
# Euro Debt Crisis Hurt Confidence



Sources: Bloomberg, S&P, Moody's Analytics

# Especially Of Nervous High Income Households

Personal saving rate for families in top fifth of income distribution



Sources: Federal Reserve, Moody's Analytics

# Hiring Is Dormant

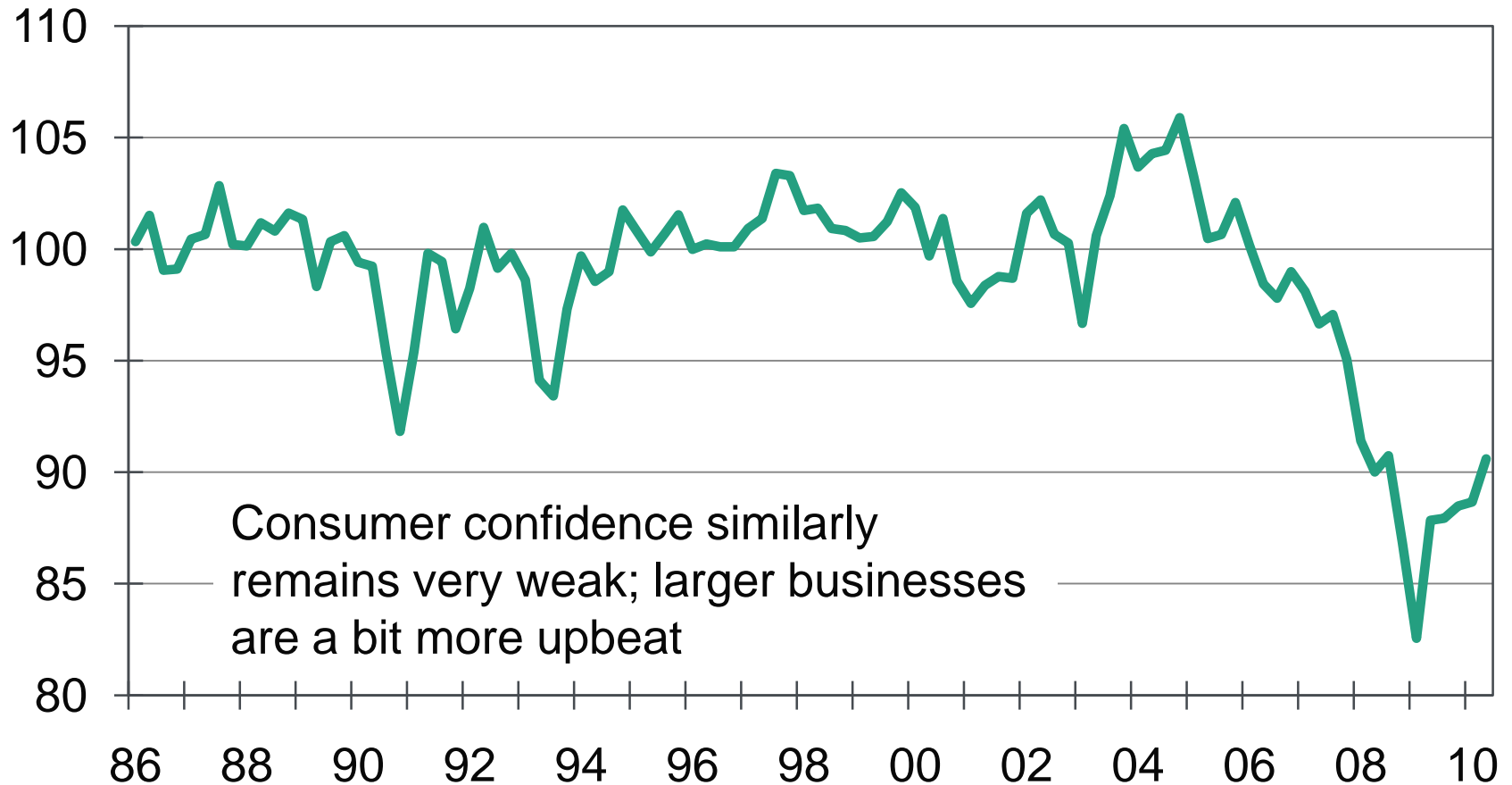
Number of monthly hires ex Census, ths, SA



Source: Bureau of Labor Statistics

# As Businesses Remain Exceptionally Anxious

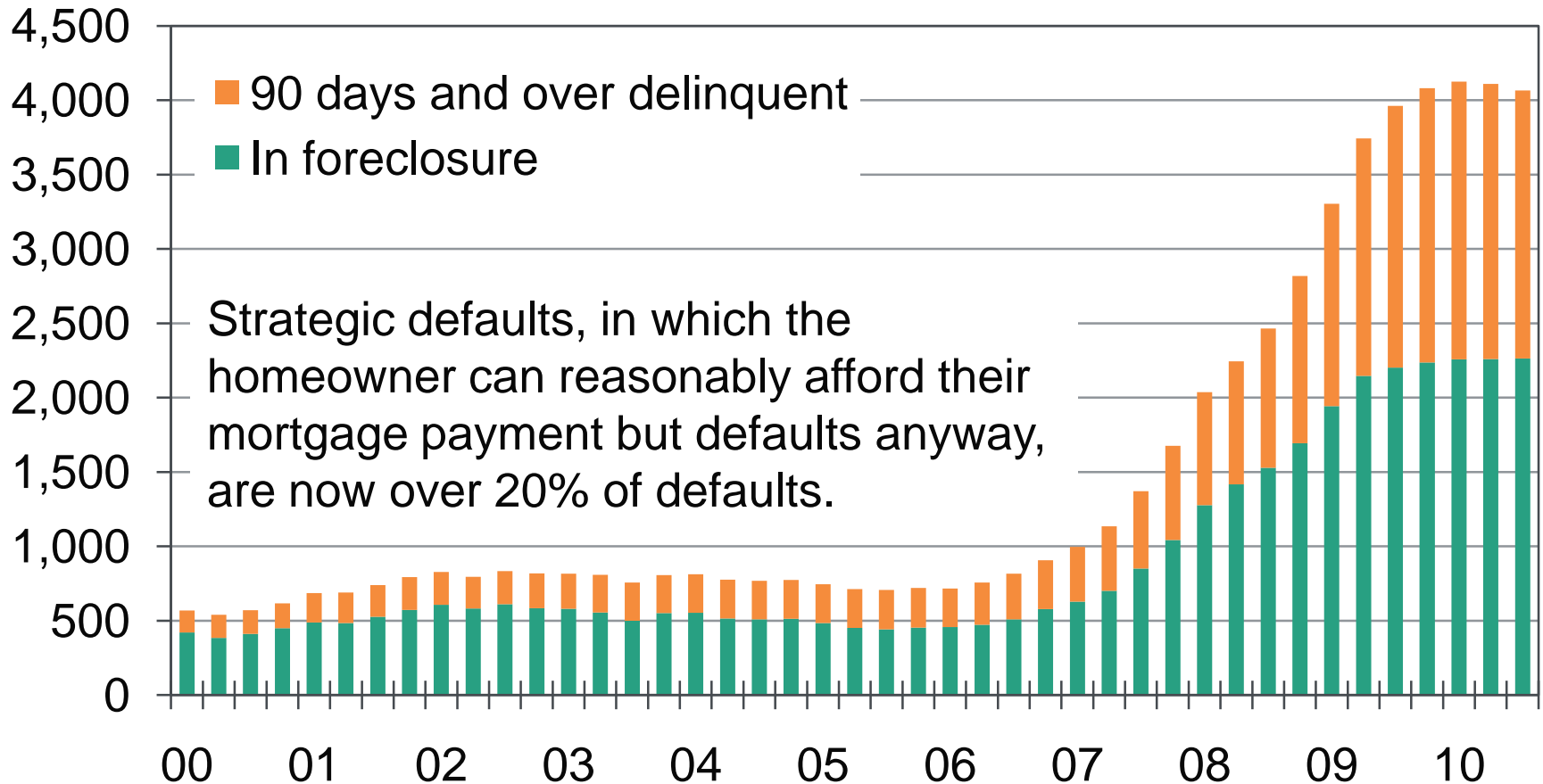
Small business confidence index, 1986=100



Source: National Federation of Independent Businesses

# The Foreclosure Crisis Continues on

First mortgage loans, the

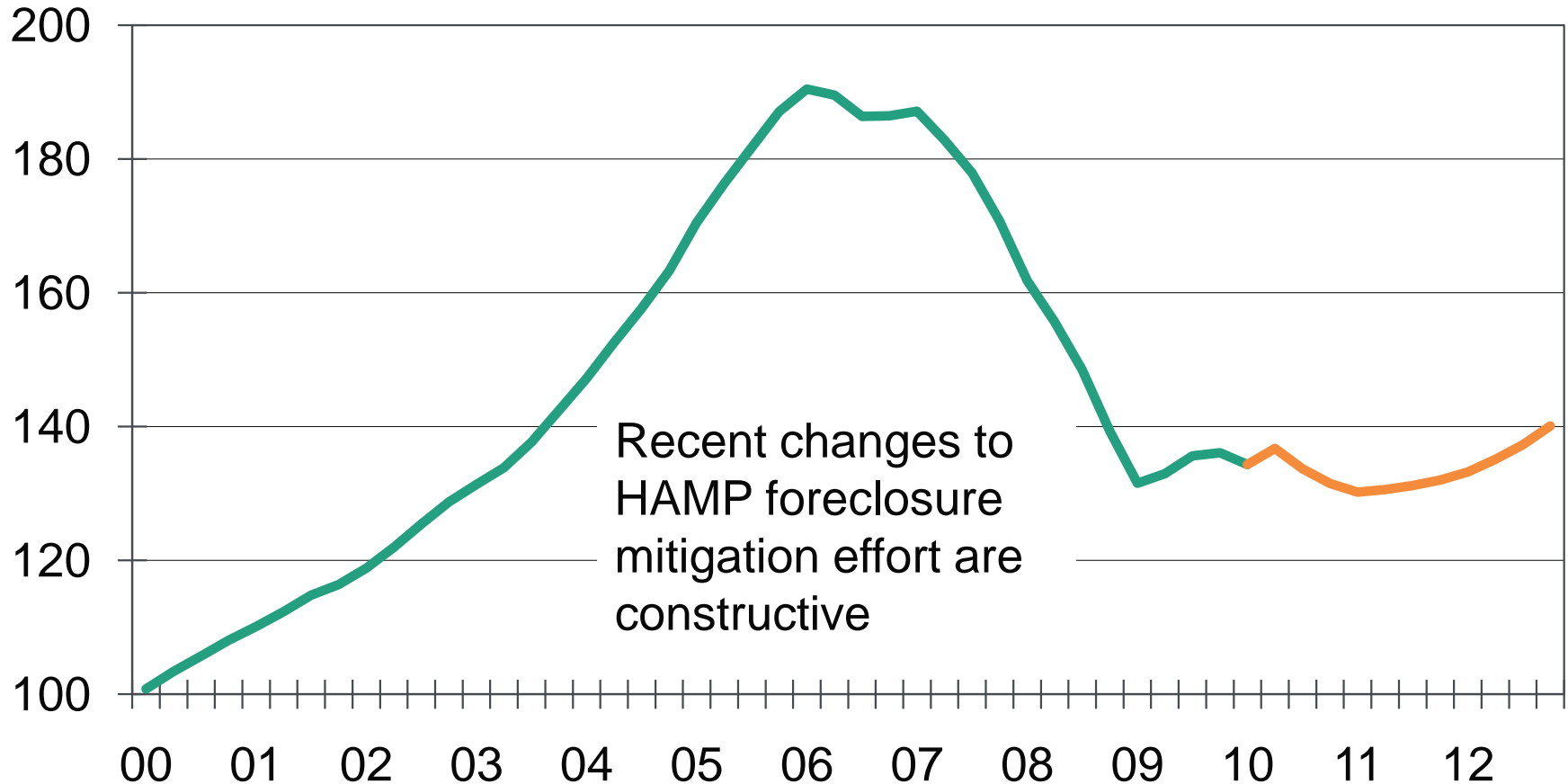


Sources: Equifax, Moody's Analytics



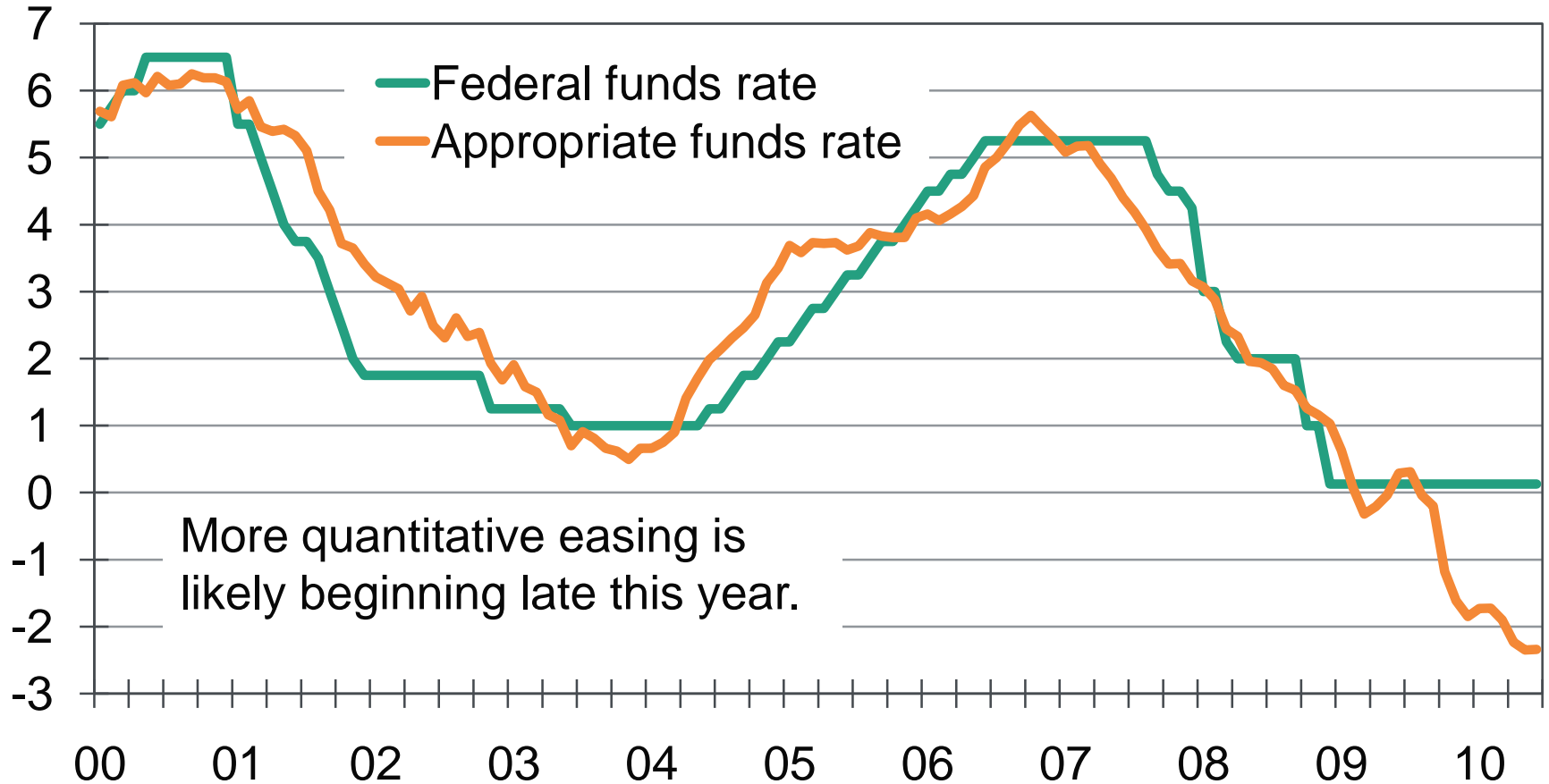
# More House Price Declines Are Coming

Case Shiller® Home Price Index: 2000Q1 = 100



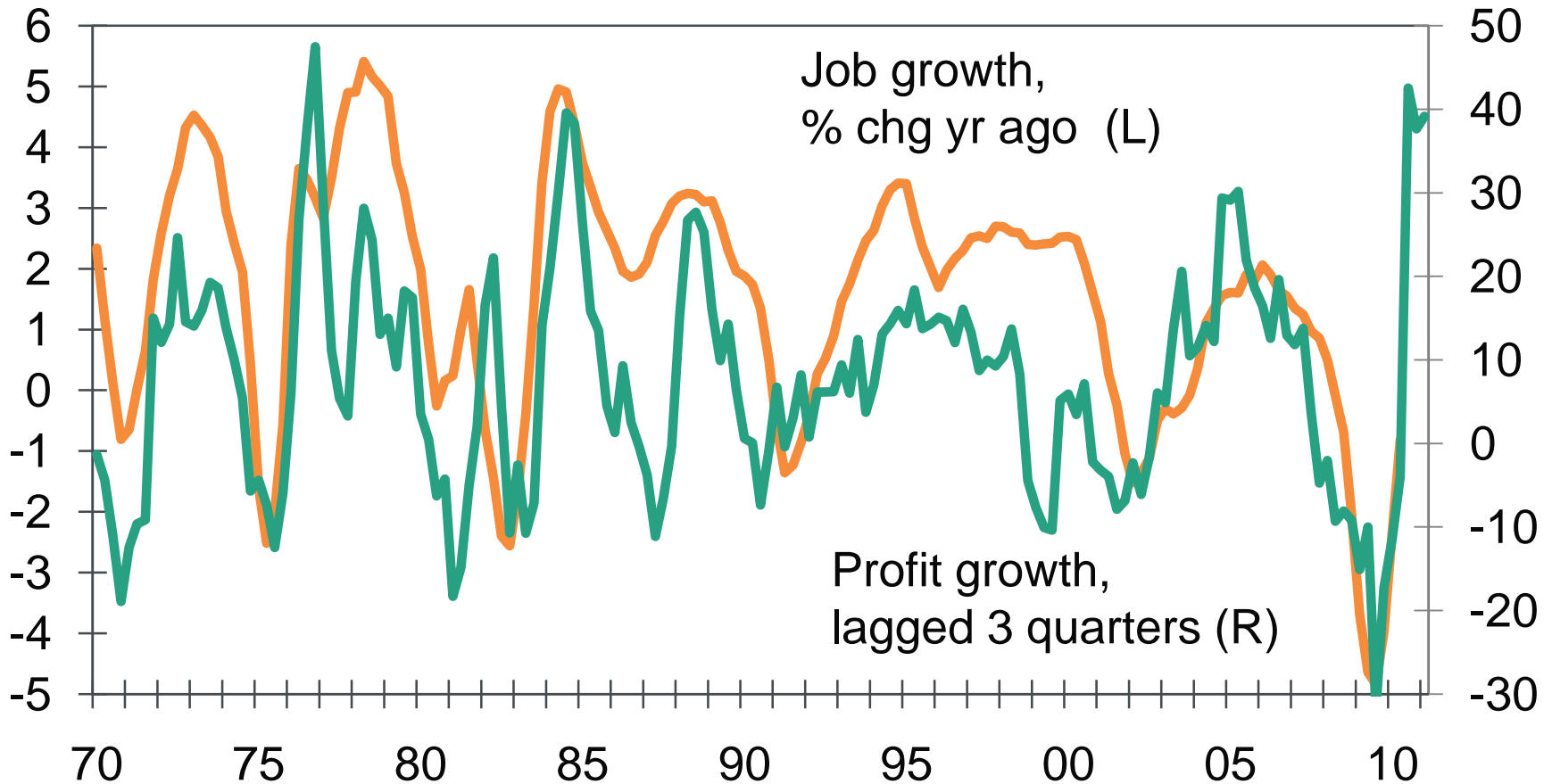
Sources: Fiserv, Moody's Analytics

# The Federal Reserve Will Remain Aggressive



Sources: Federal Reserve, Moody's Analytics

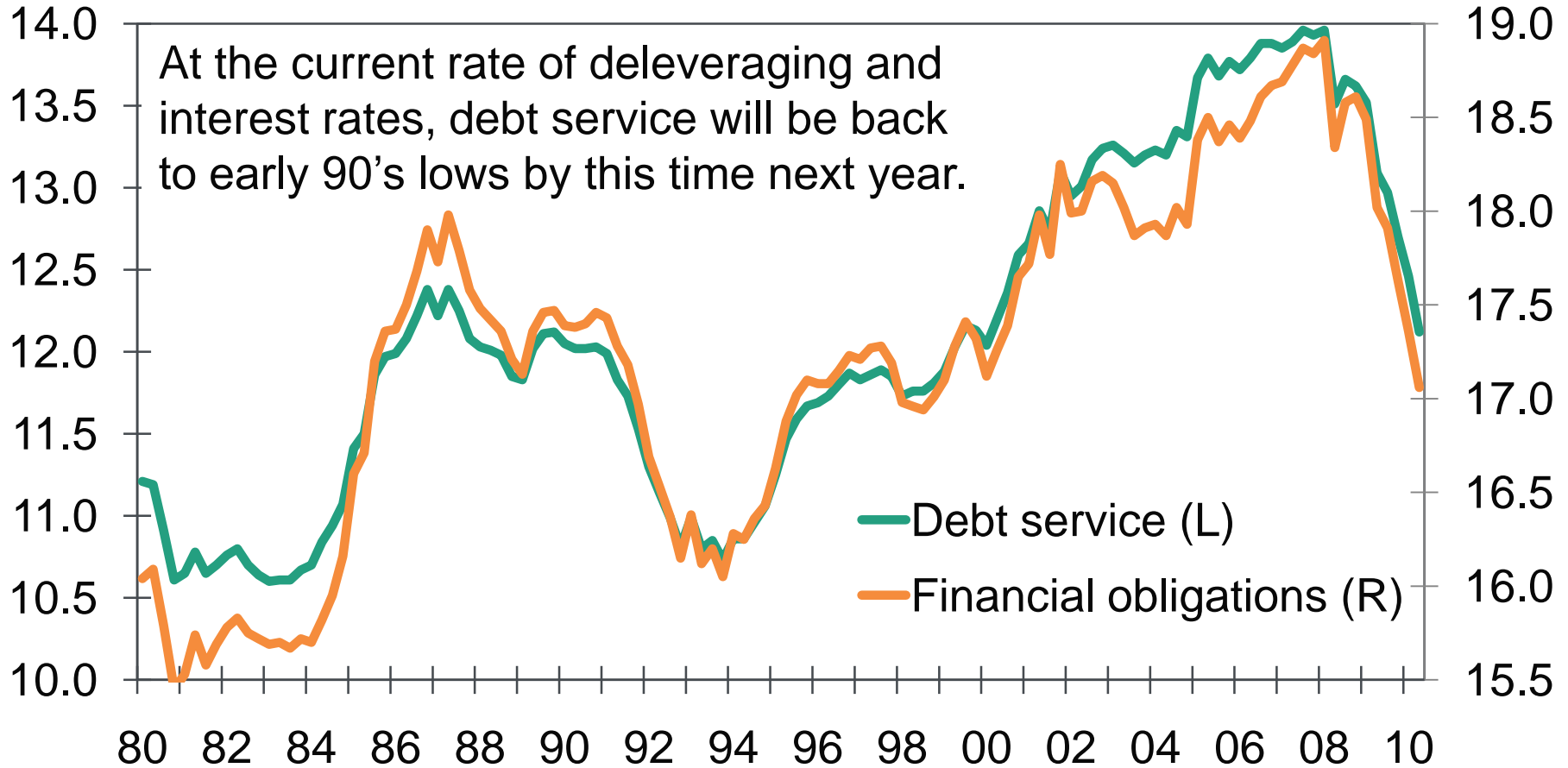
# Profits Surge and Jobs Should Follow



Sources: BLS, BEA

# Household Debt Burdens Are Falling Fast

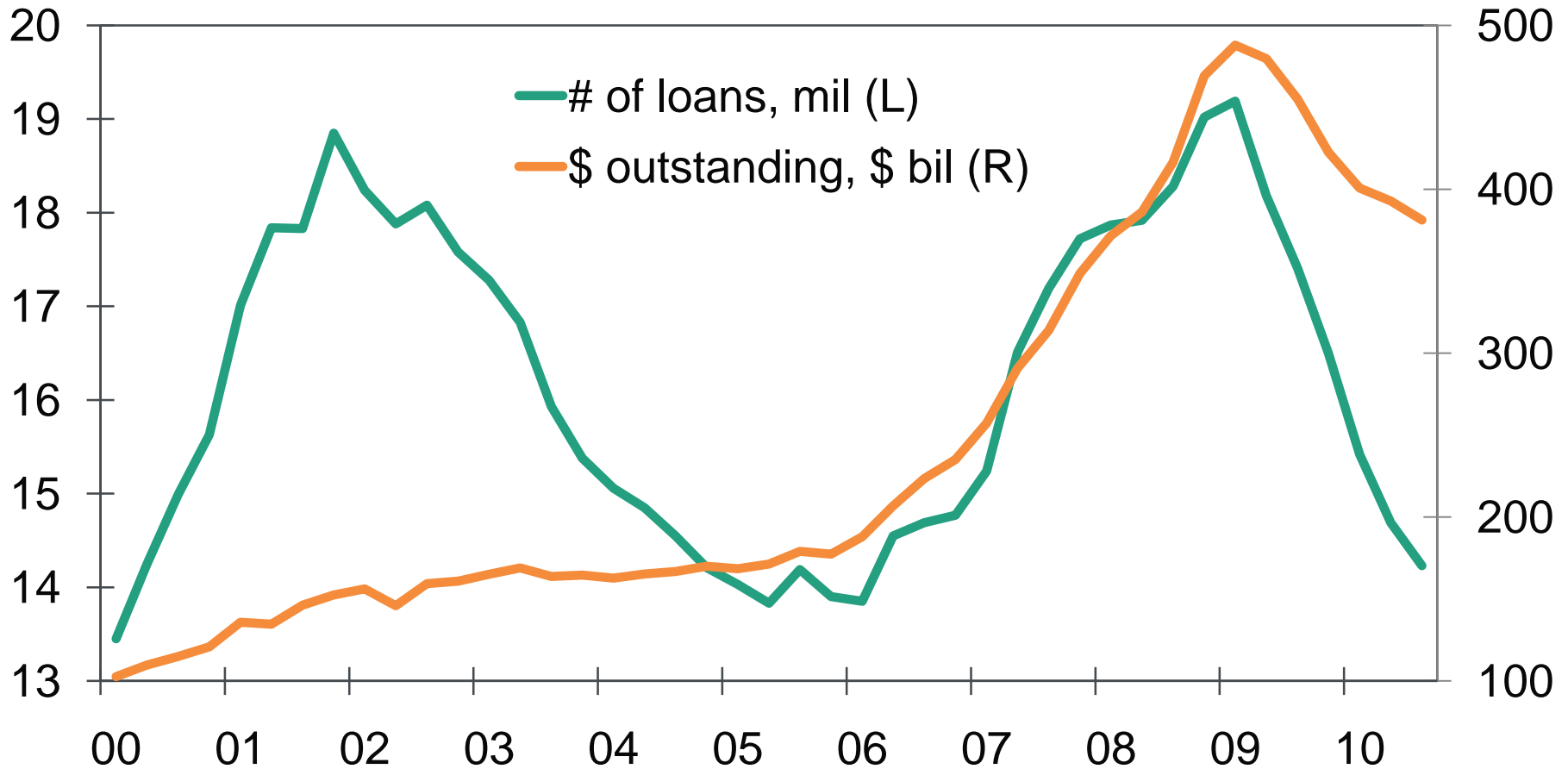
% of disposable income



Sources: Federal Reserve, BEA, Moody's Analytics

# Credit Conditions Slowing Improving

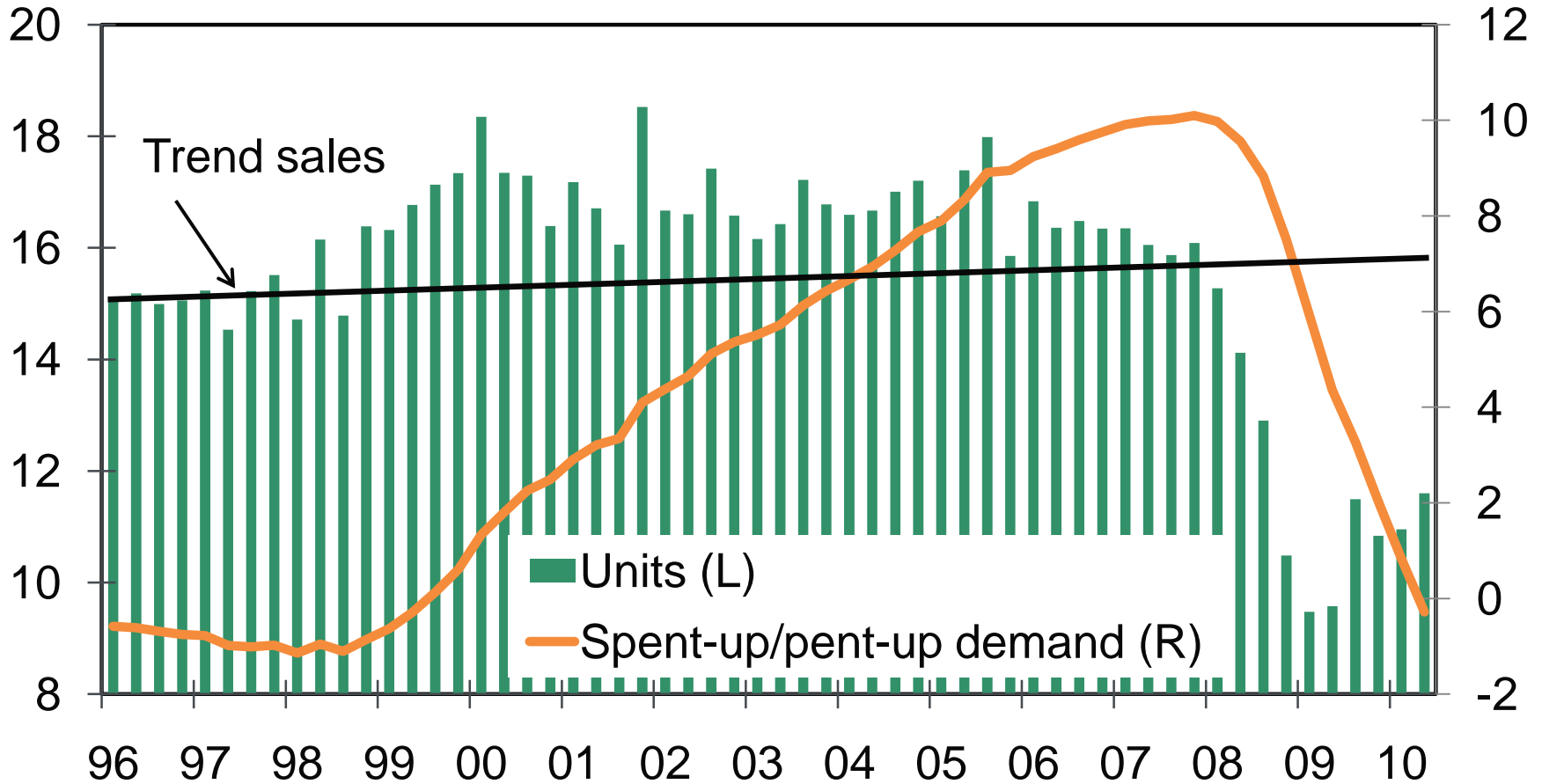
30-90 days delinquent, all household liabilities, SA



Sources: Equifax, Moody's Analytics

# Pent-Up Demand Is Developing...

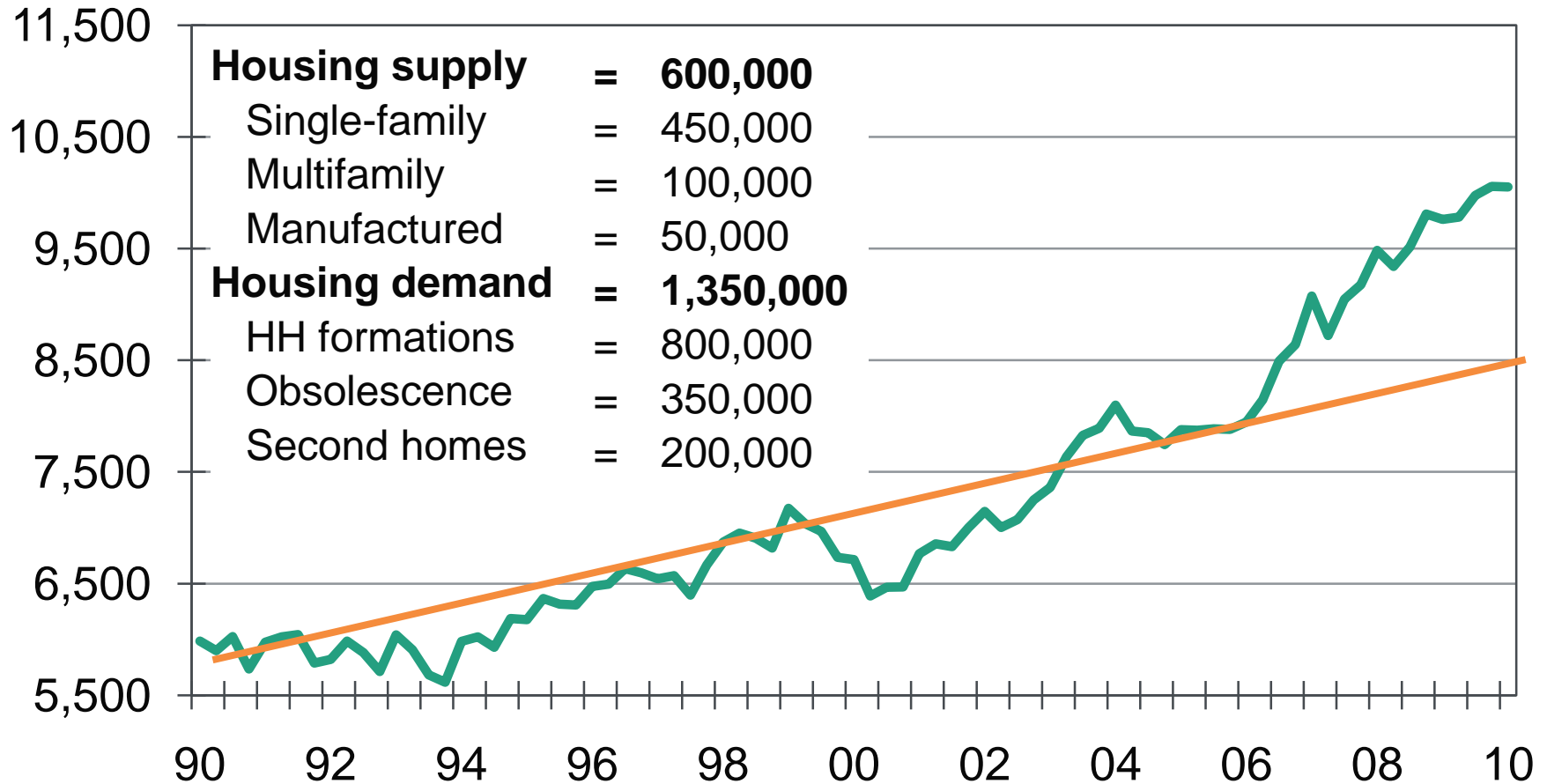
Light vehicle sales, mil



Sources: BEA, Moody's Analytics

## ...And Housing Inventories Are Peaking

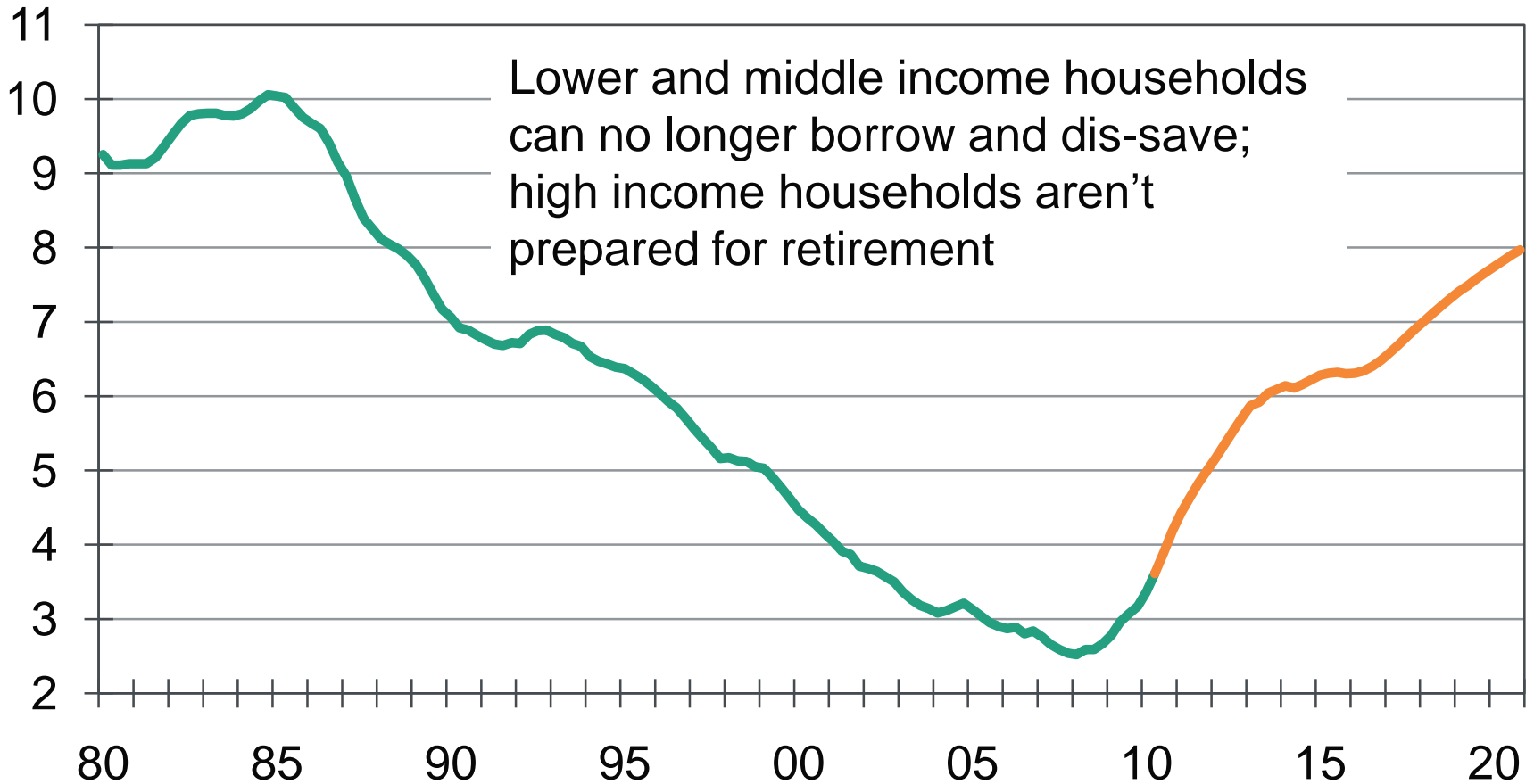
Vacant homes for sale, for rent and held off market, the



Sources: Census, Moody's Analytics

# Consumers Will No Longer Lead the Way...

Personal saving rate, 5-year MA

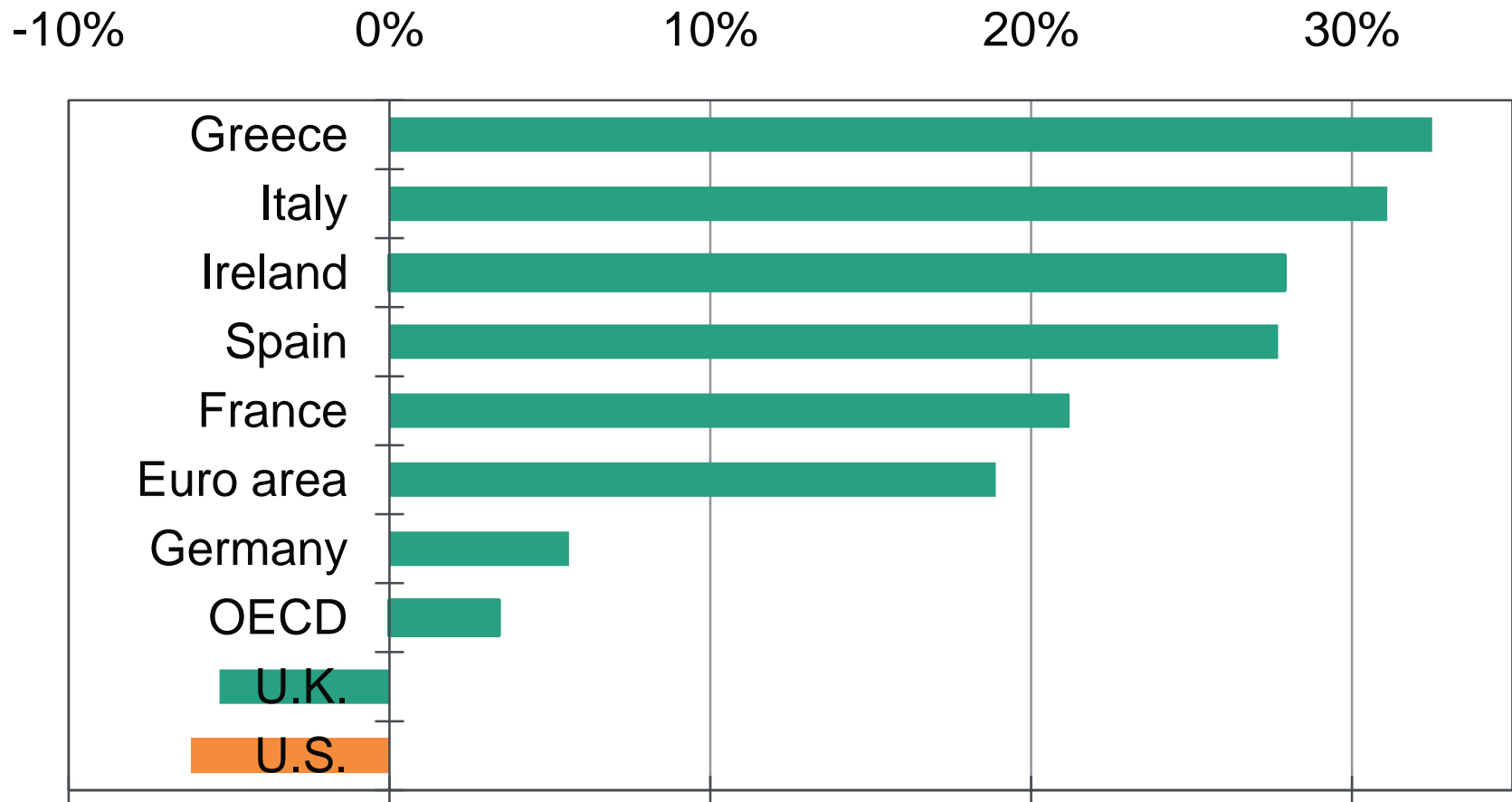


Sources: BEA, Moody's Analytics



## ...But Exports Will Pick-Up the Slack

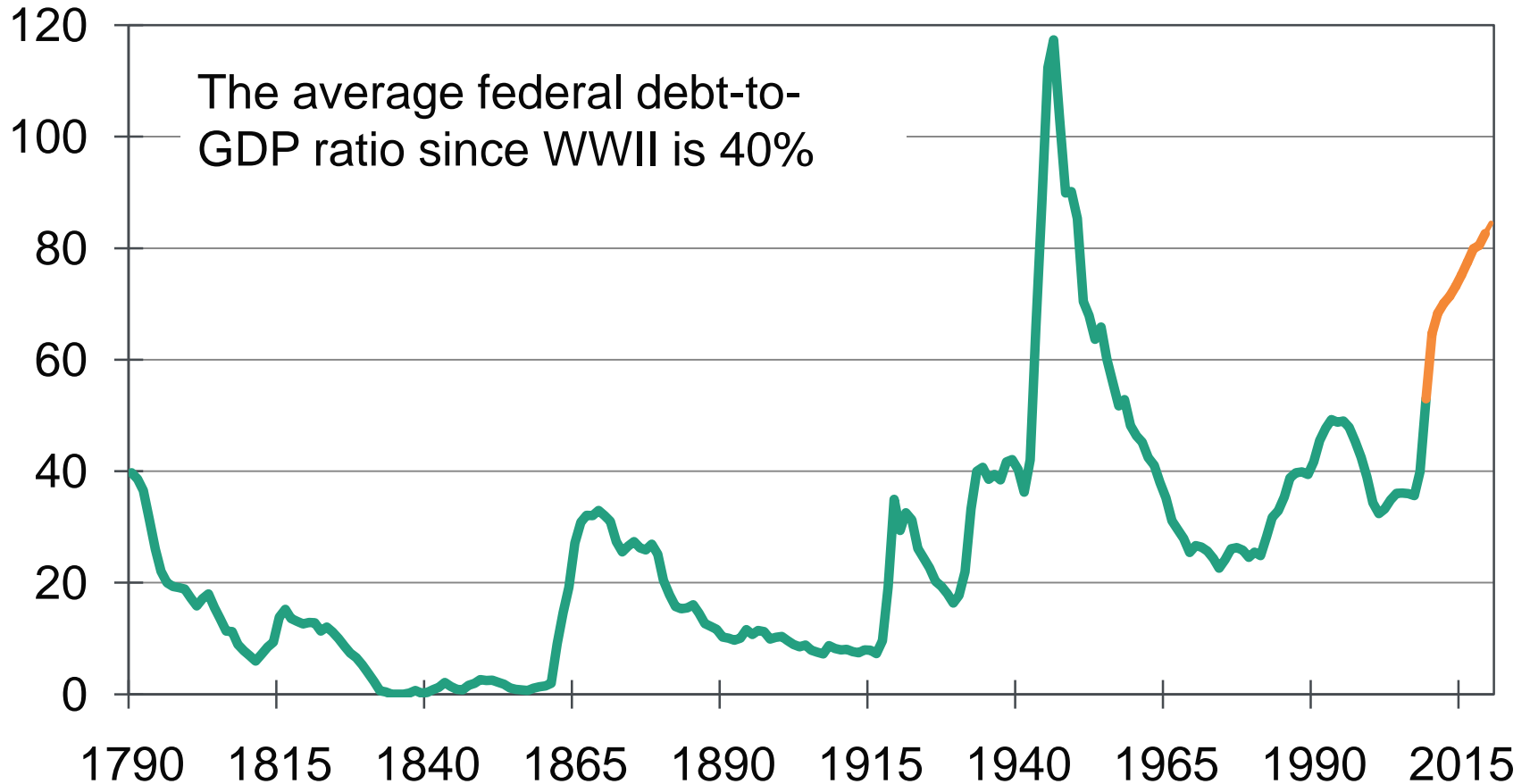
Unit labor costs in euros, % chg, past decade



Sources: OECD, Moody's Analytics

# Policymakers Must Change This Outlook

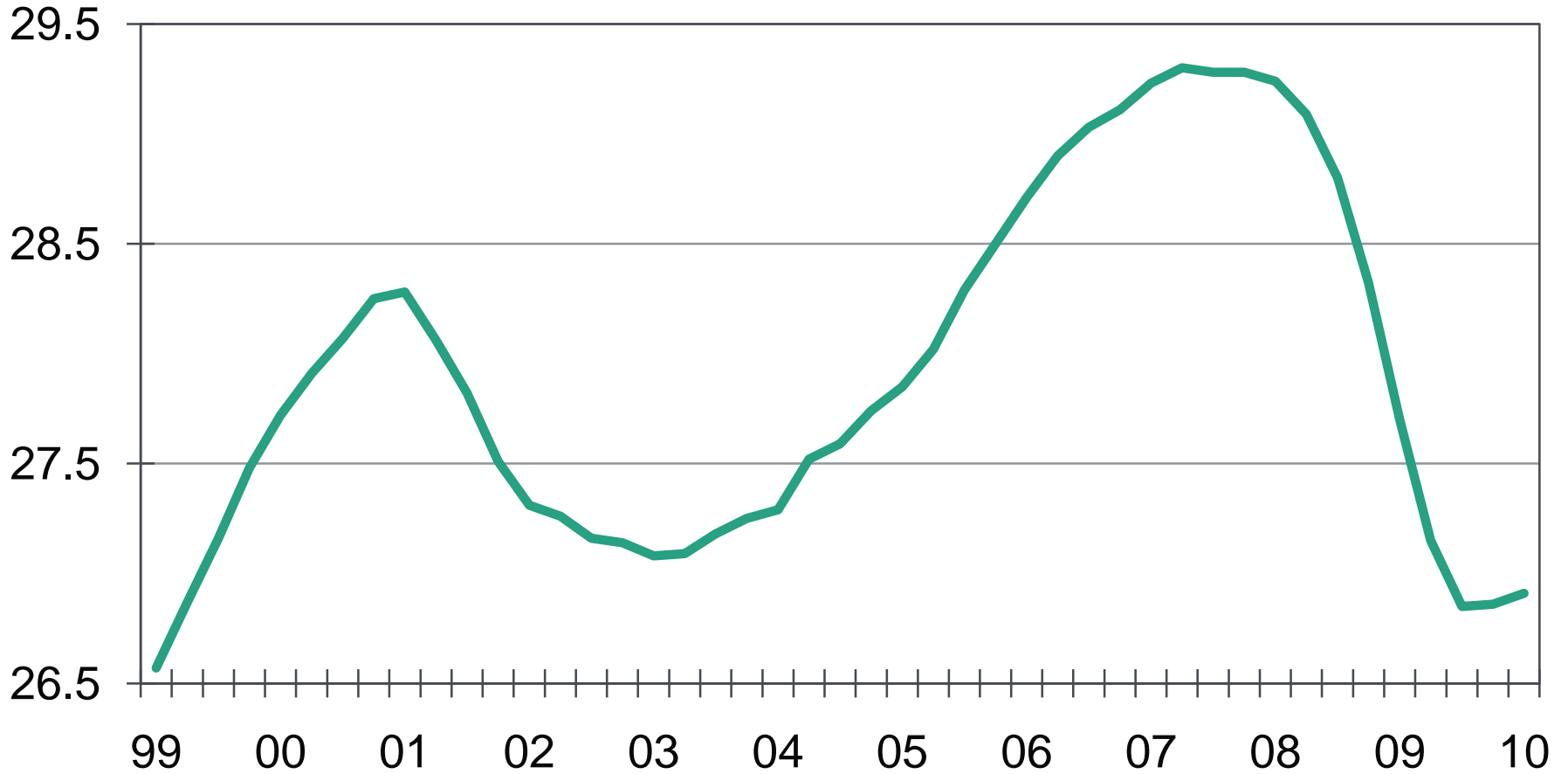
## Federal debt-to-GDP ratio



Sources: Treasury, Moody's Analytics

# Dramatic Drop in Office-using Employment

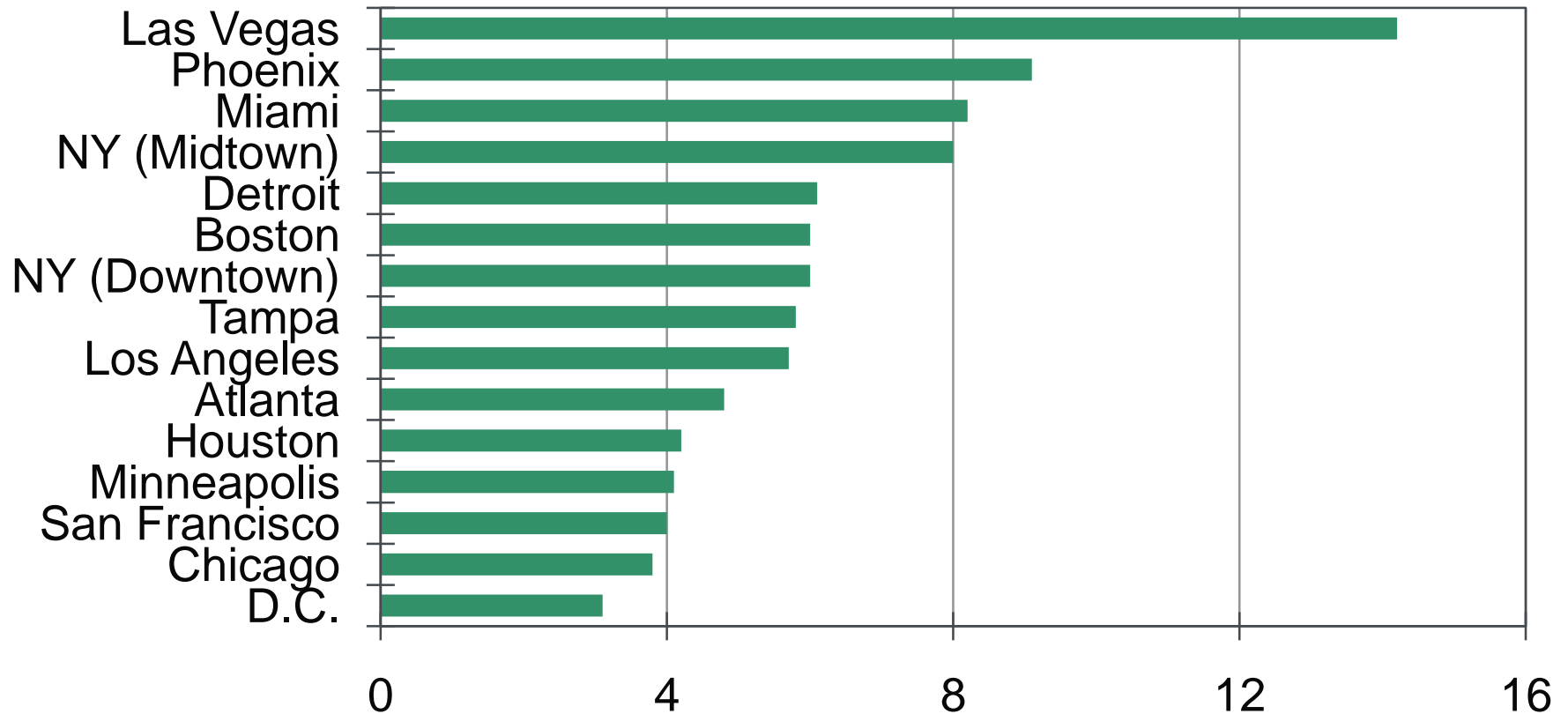
Office-using employment, mil



Sources: BLS

# Vacancies Up Sharply Across the Nation

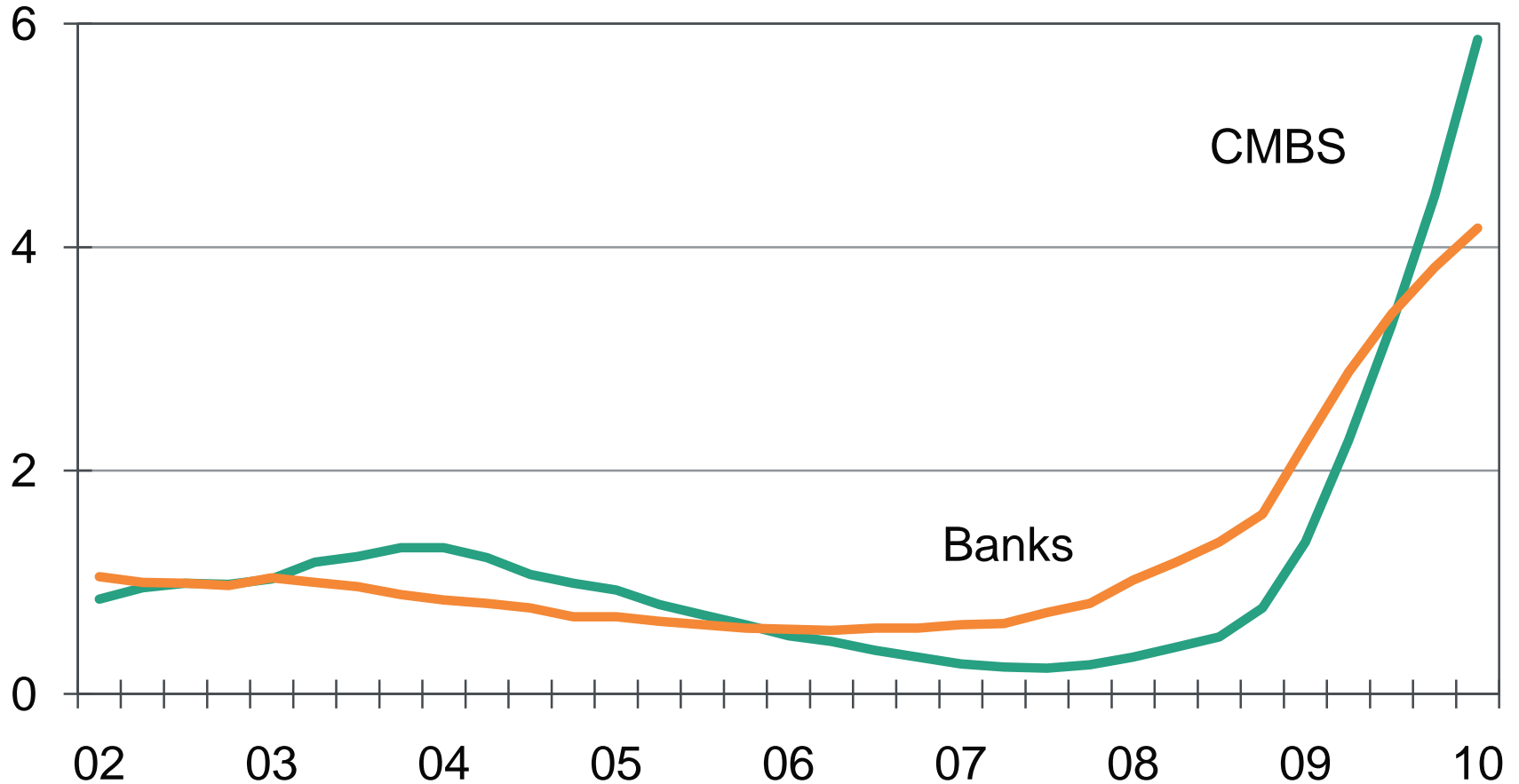
Office vacancy rate, change from trough to end of 2009, ppt



Source: Colliers International

# CRE Mortgage Quality Eroded Quickly in 2009

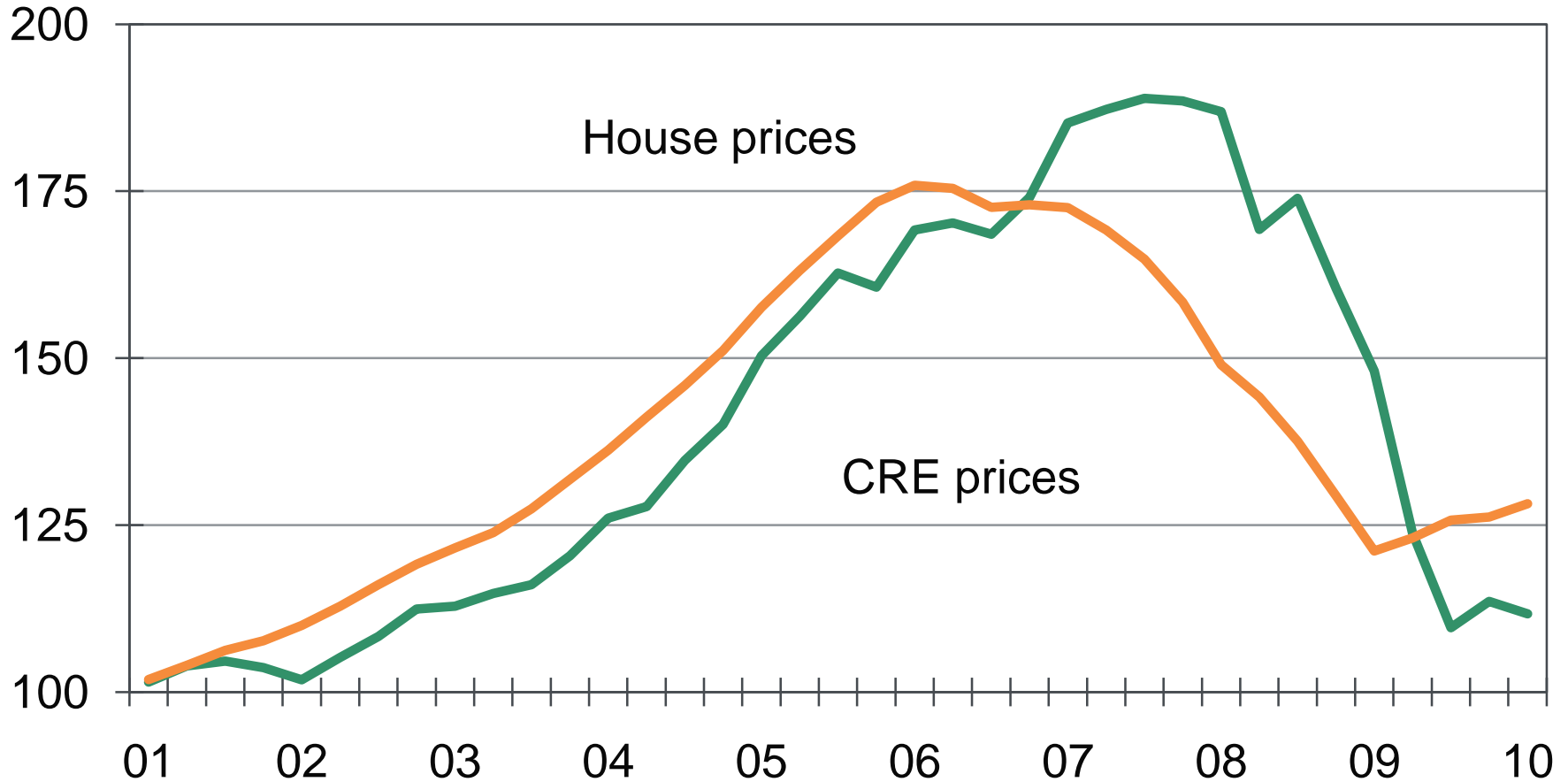
Delinquency rates, % of \$



Sources: Moody's Investors Service, FDIC

# CRE Prices Fell Even Further Than Housing

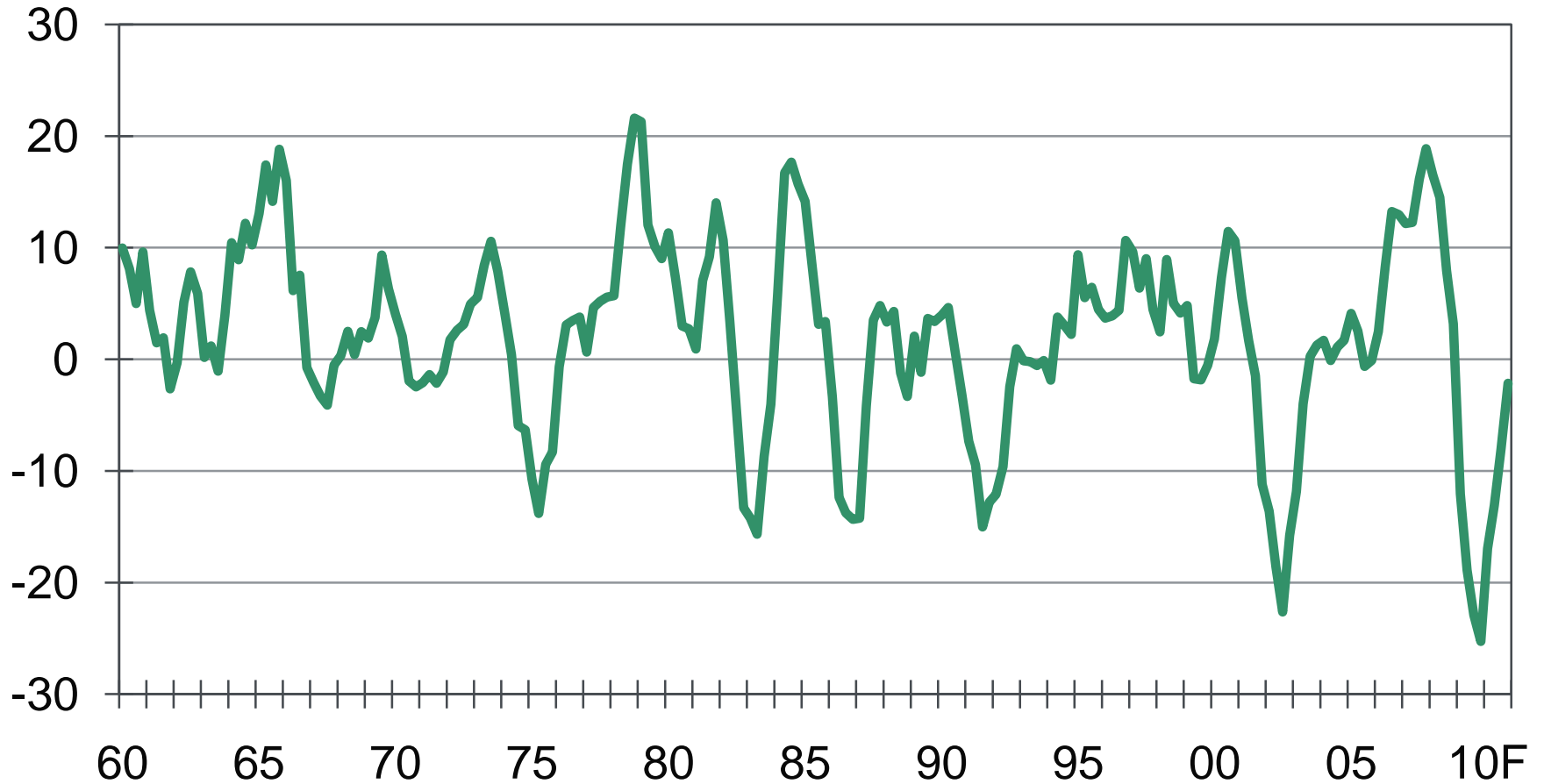
Repeat-sales indices: 2000Q4=100



Sources: Moody's Investors Service, REAL, Fiserv, Moody's Economy.com

# Worst Decline in Fifty Years

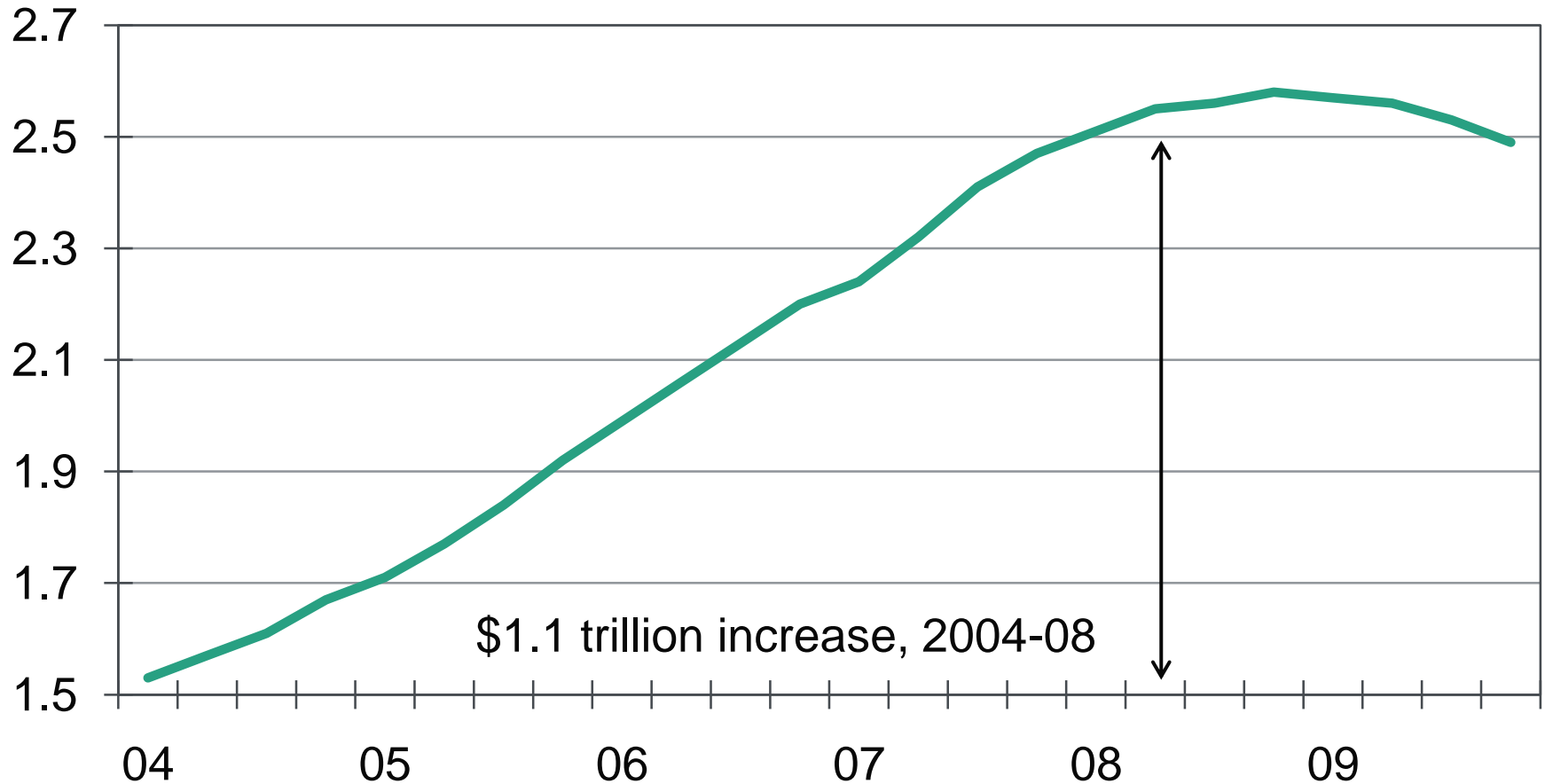
Real nonresidential construction spending, % change yr ago



Source: BEA

# Huge Refinancing Needs Coming

Commercial mortgages outstanding, \$ tril

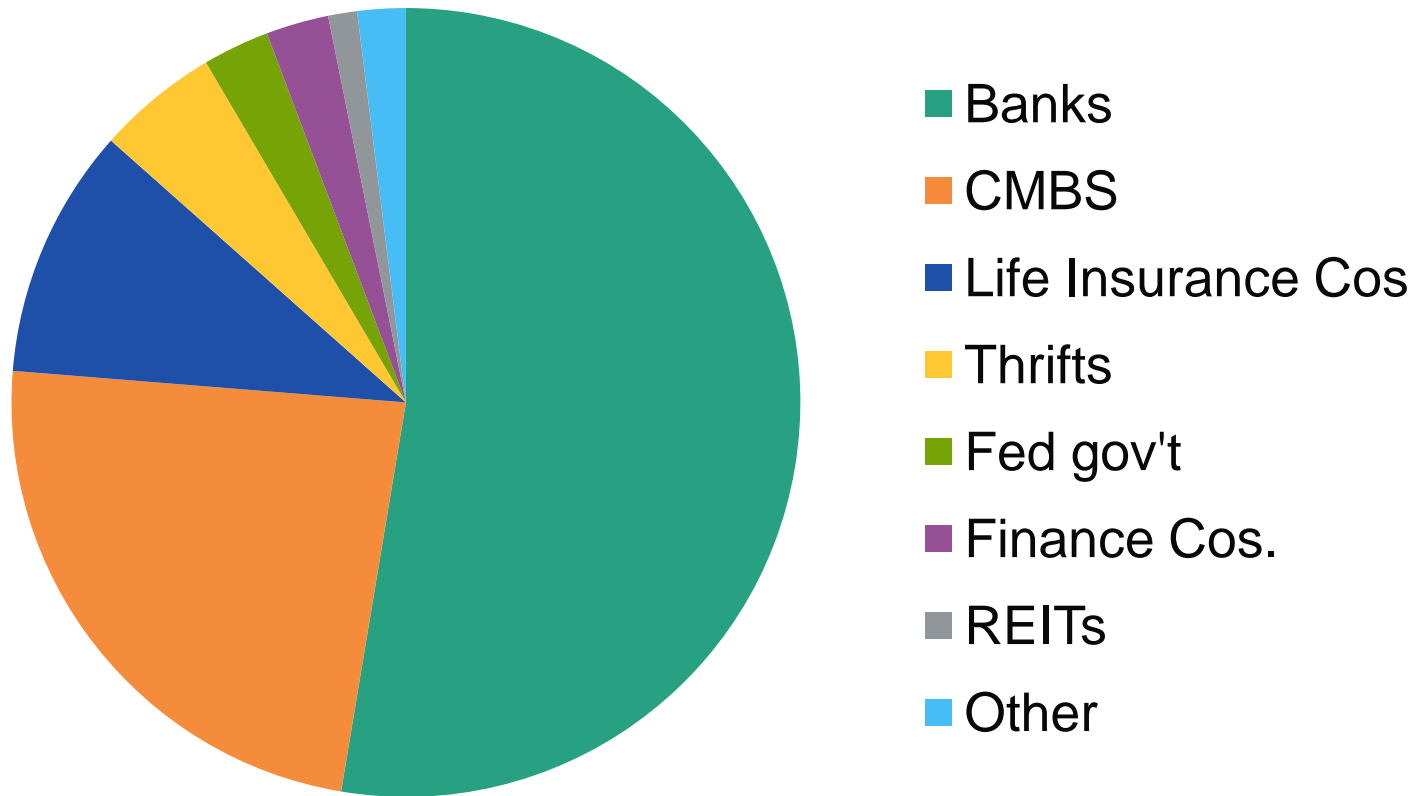


Sources: Federal Reserve



# Biggest Sources of Funding Are Constrained

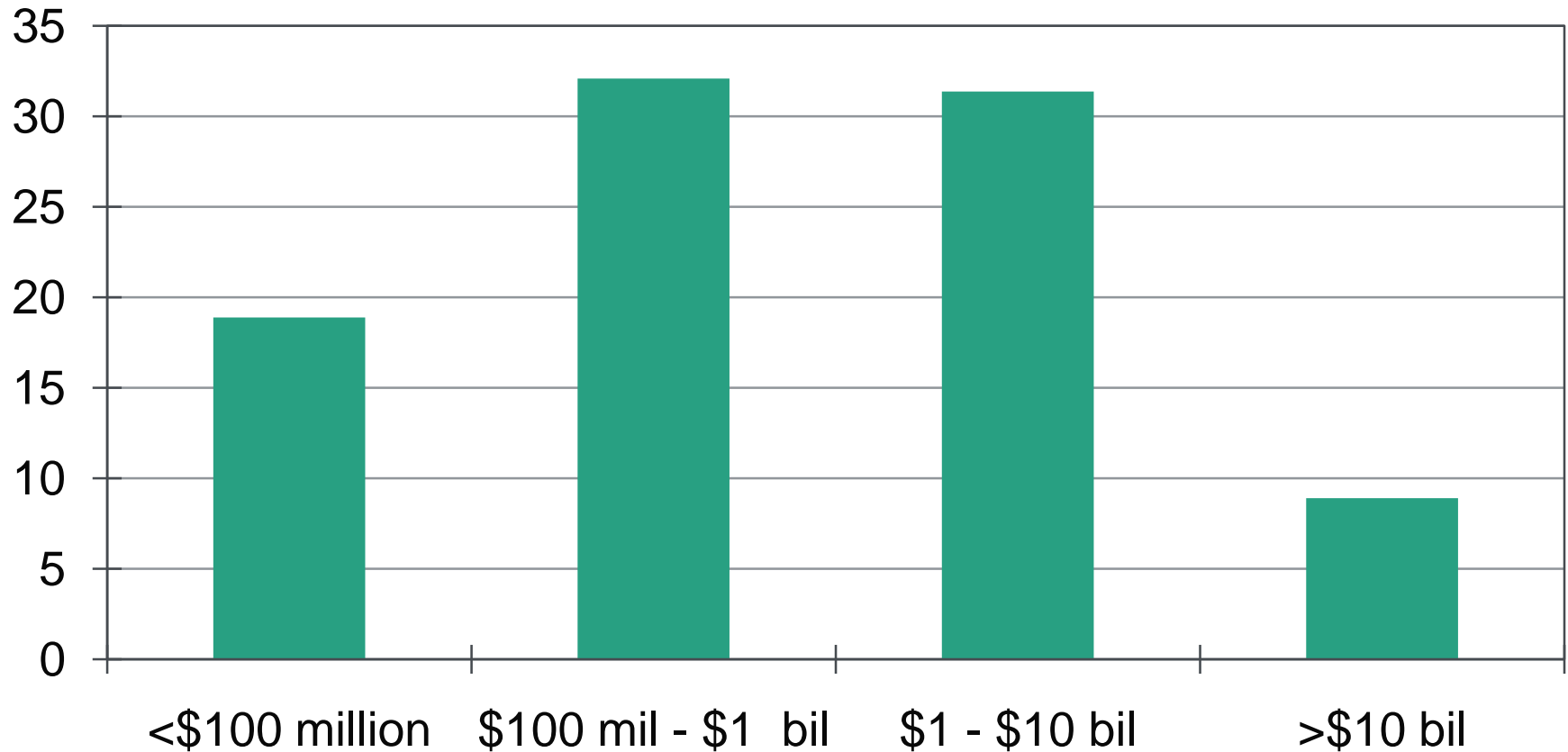
Commercial mortgage percentage holdings by lender, 2009Q4



Source: Federal Reserve

# Smaller Banks in Particular Are at Greater Risk

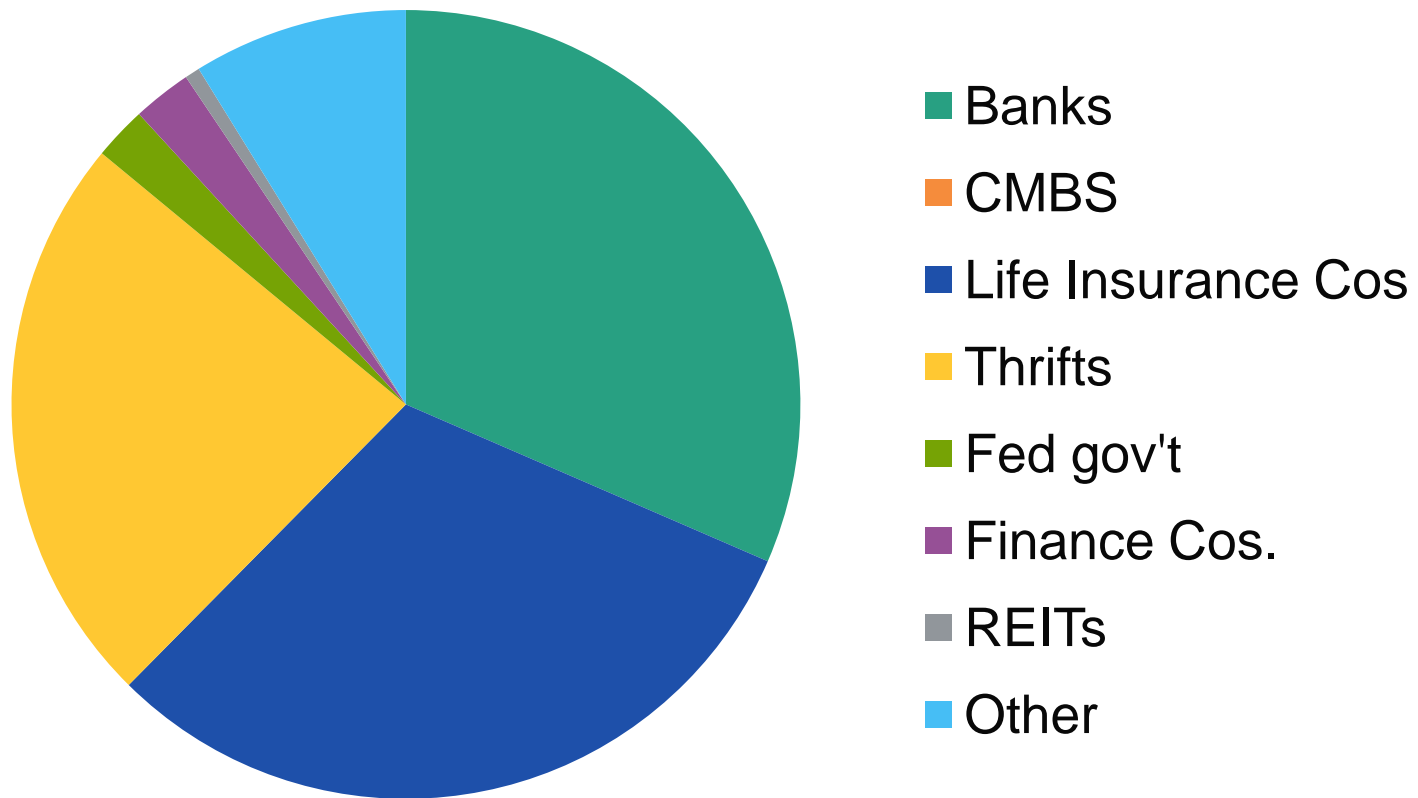
CRE as % of total assets by bank size



Source: FDIC

# Others Sources Participate Much Less

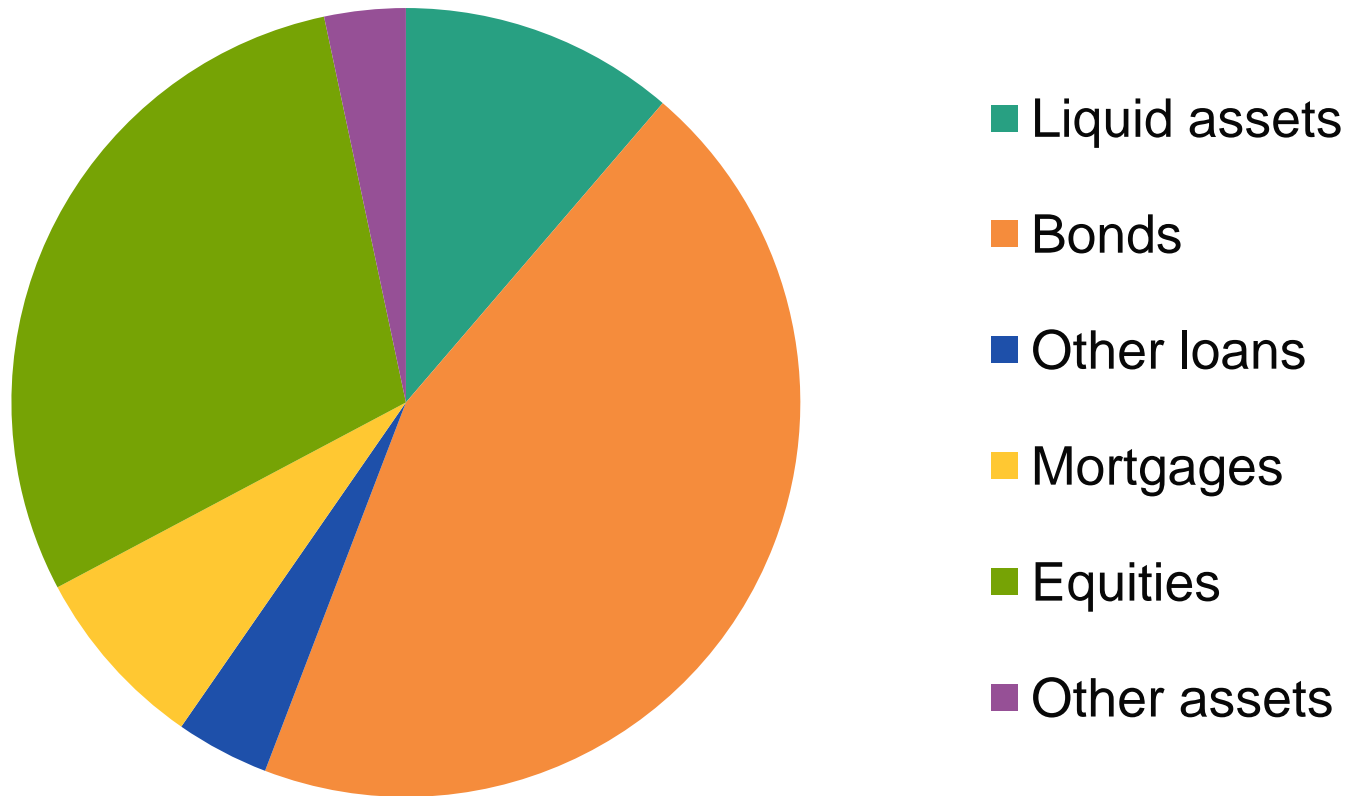
Commercial mortgage percentage holdings by lender, 1980Q4



Source: Federal Reserve

# Life Insurance Companies Could Do More

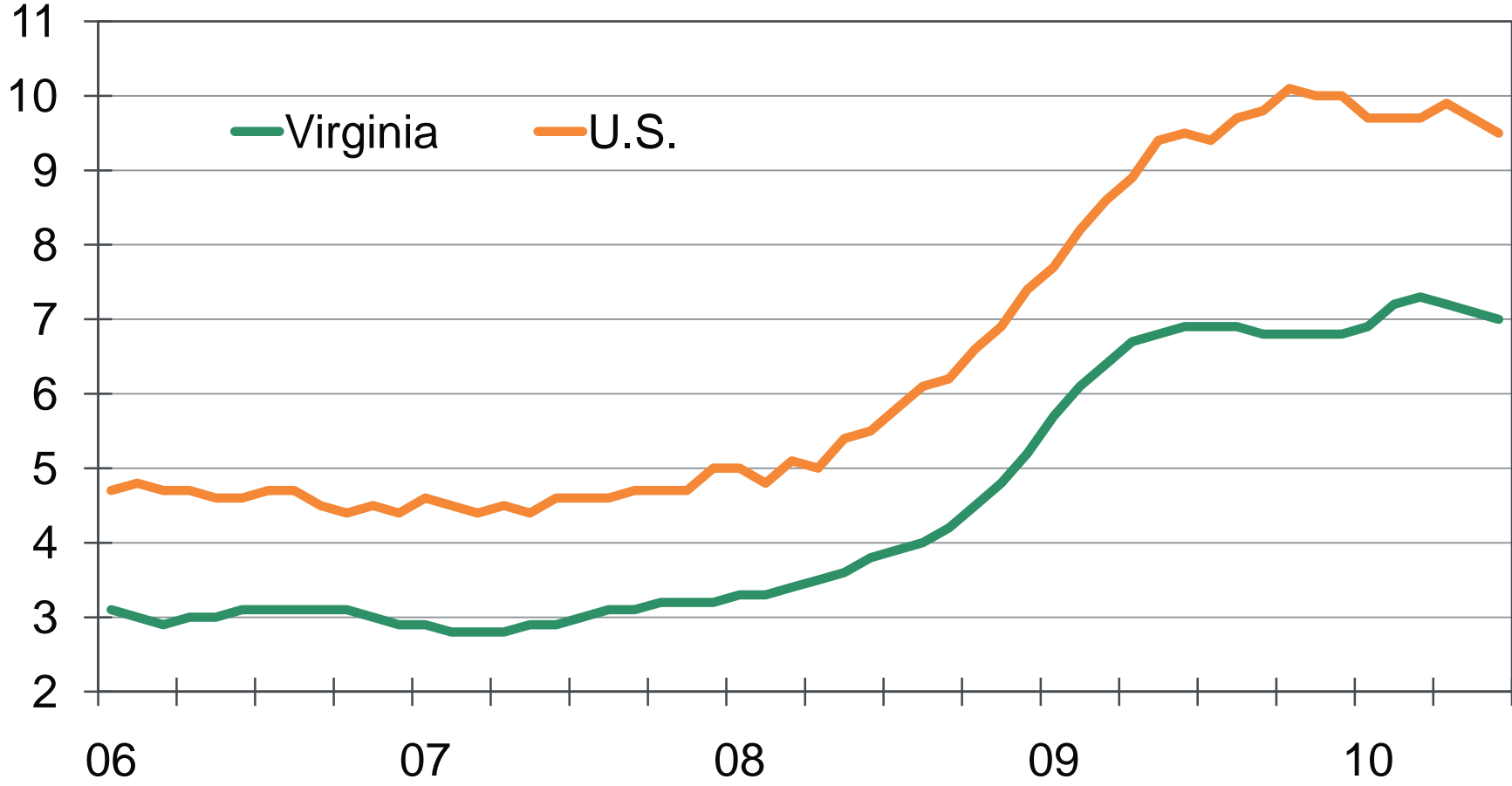
Life companies percentage holdings of asset classes, 2009Q4



Source: Federal Reserve

# Overall Virginia Labor Market Above Average

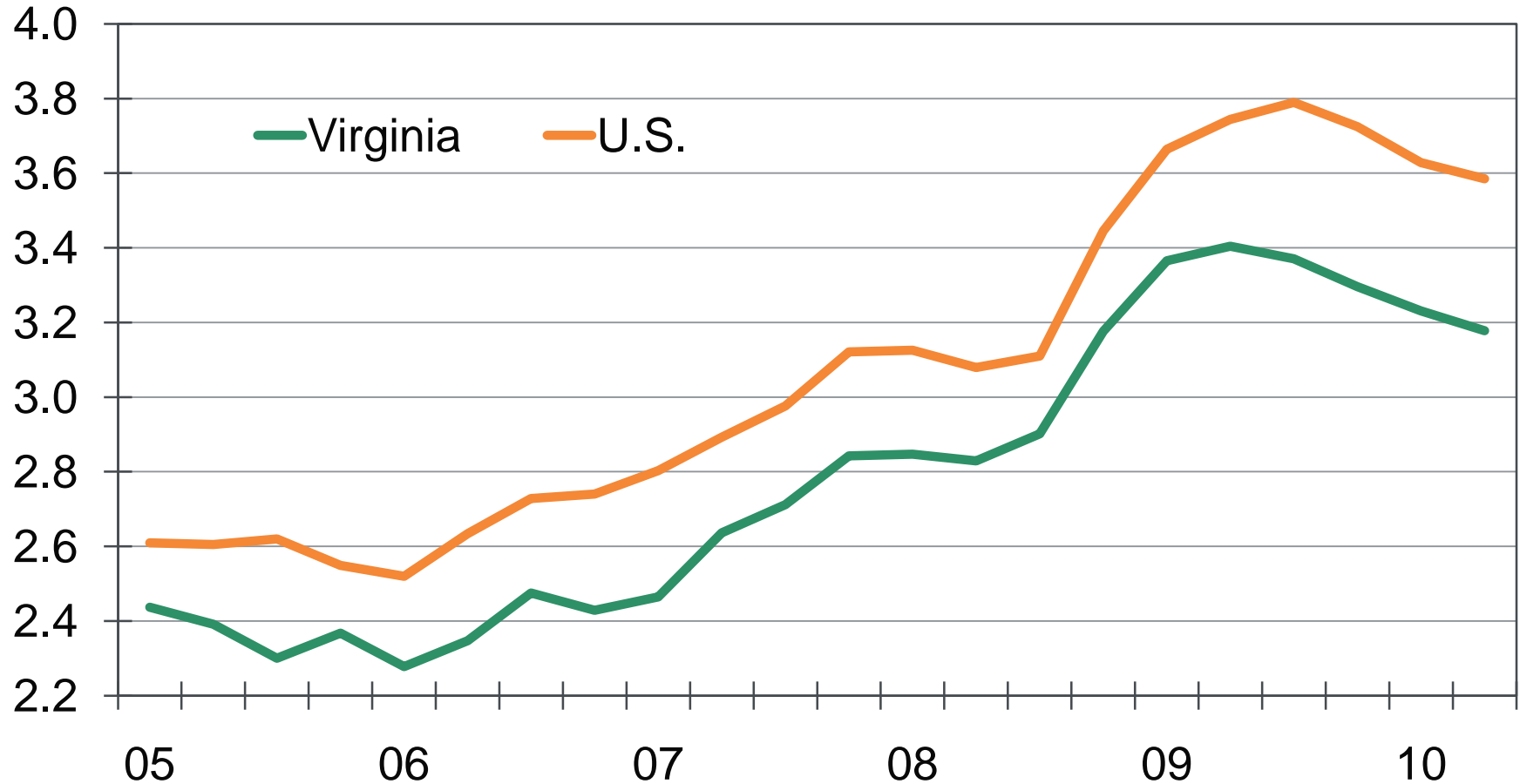
Unemployment rate, %



Source: BLS

# And Credit Conditions Better

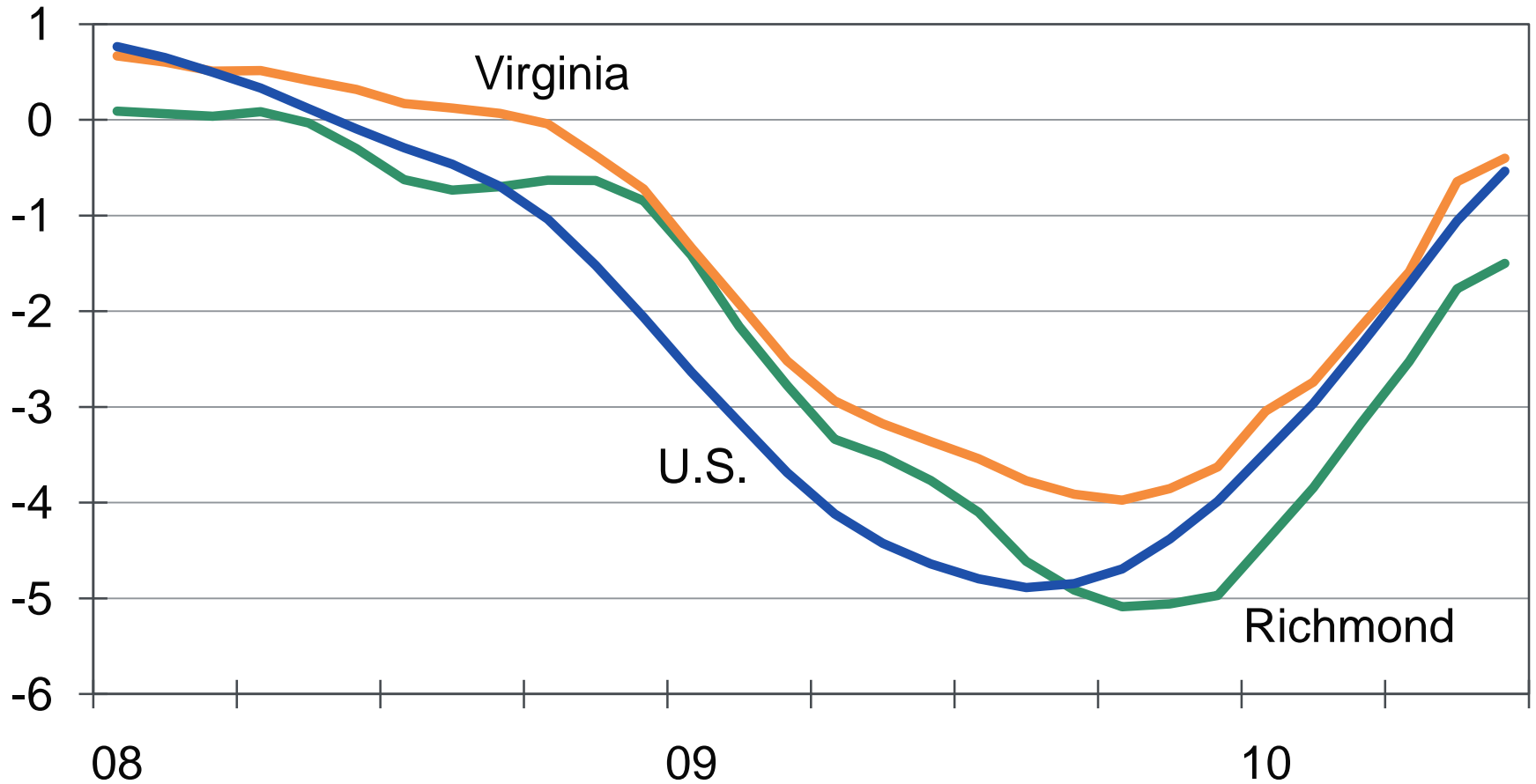
Aggregate delinquency rate, % of accounts



Sources: Equifax, Moody's Analytics

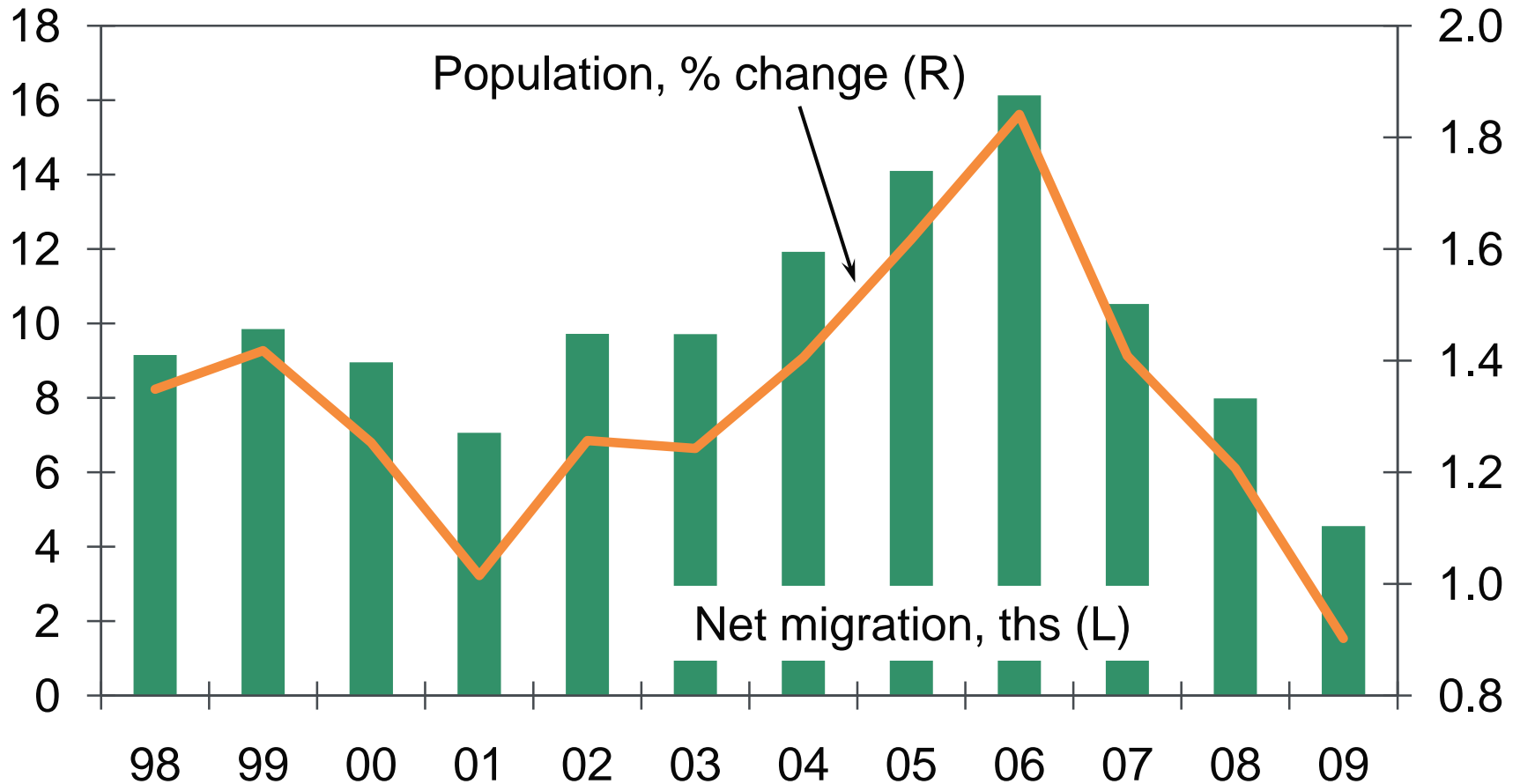
# Richmond Employment Lags...

Employment, % change yr ago, 3-mo MA



Source: BLS

# Recession Weighed on Population Growth

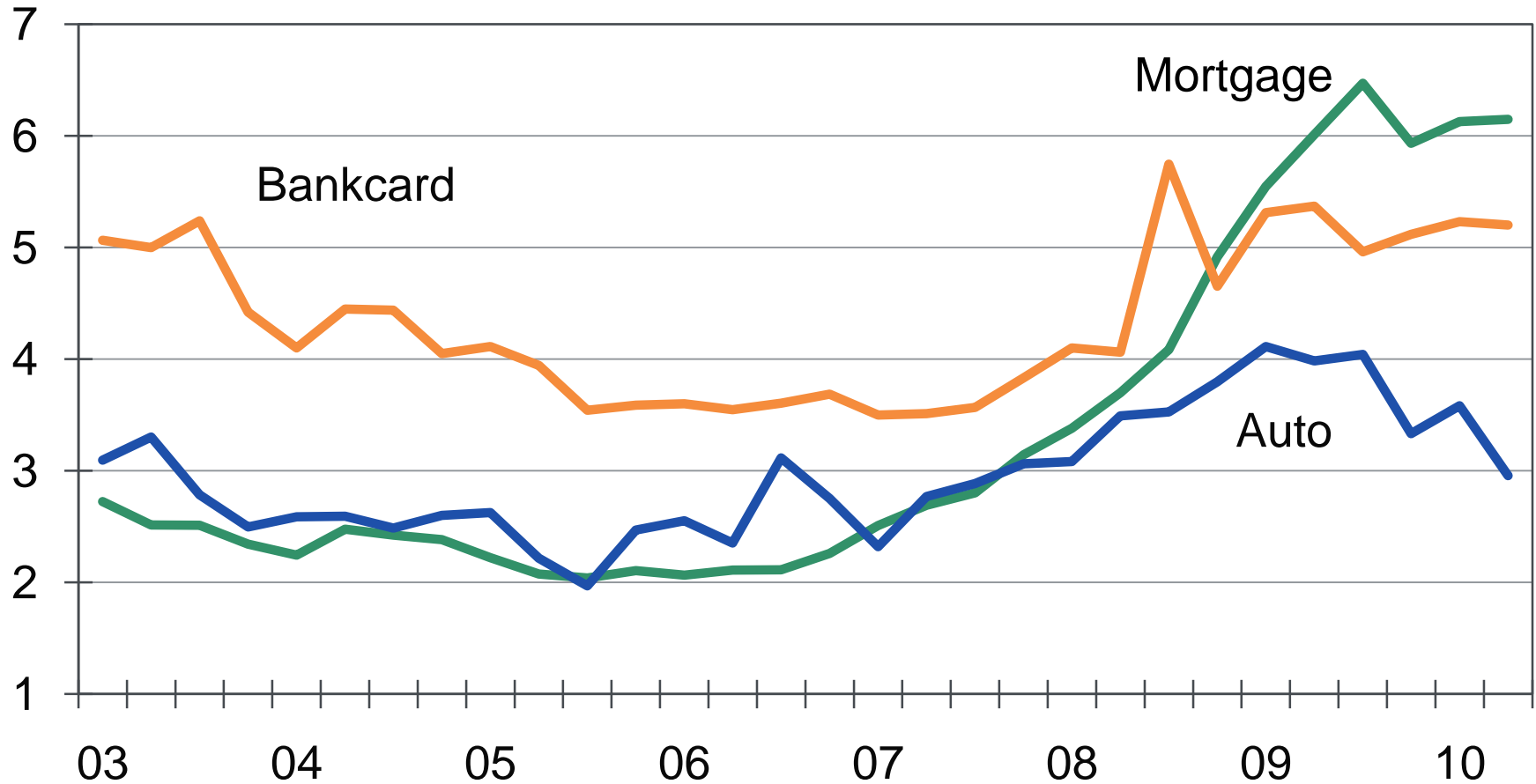


Sources: Census Bureau, Moody's Analytics



# Local Credit Quality Improving Slowly

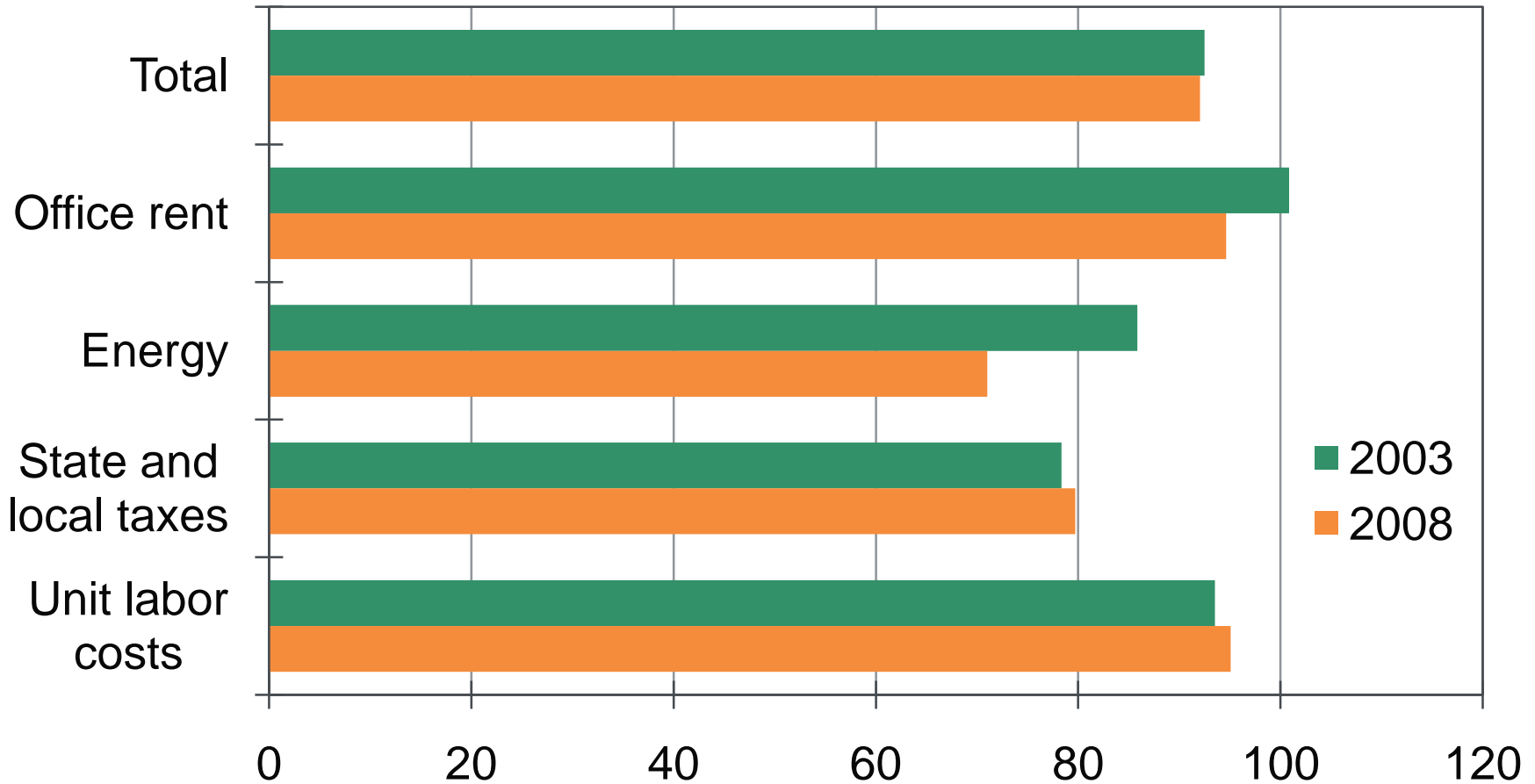
Delinquency rate, % by \$ volume



Sources: Equifax, Moody's Analytics

# Low Business Costs Provide Support

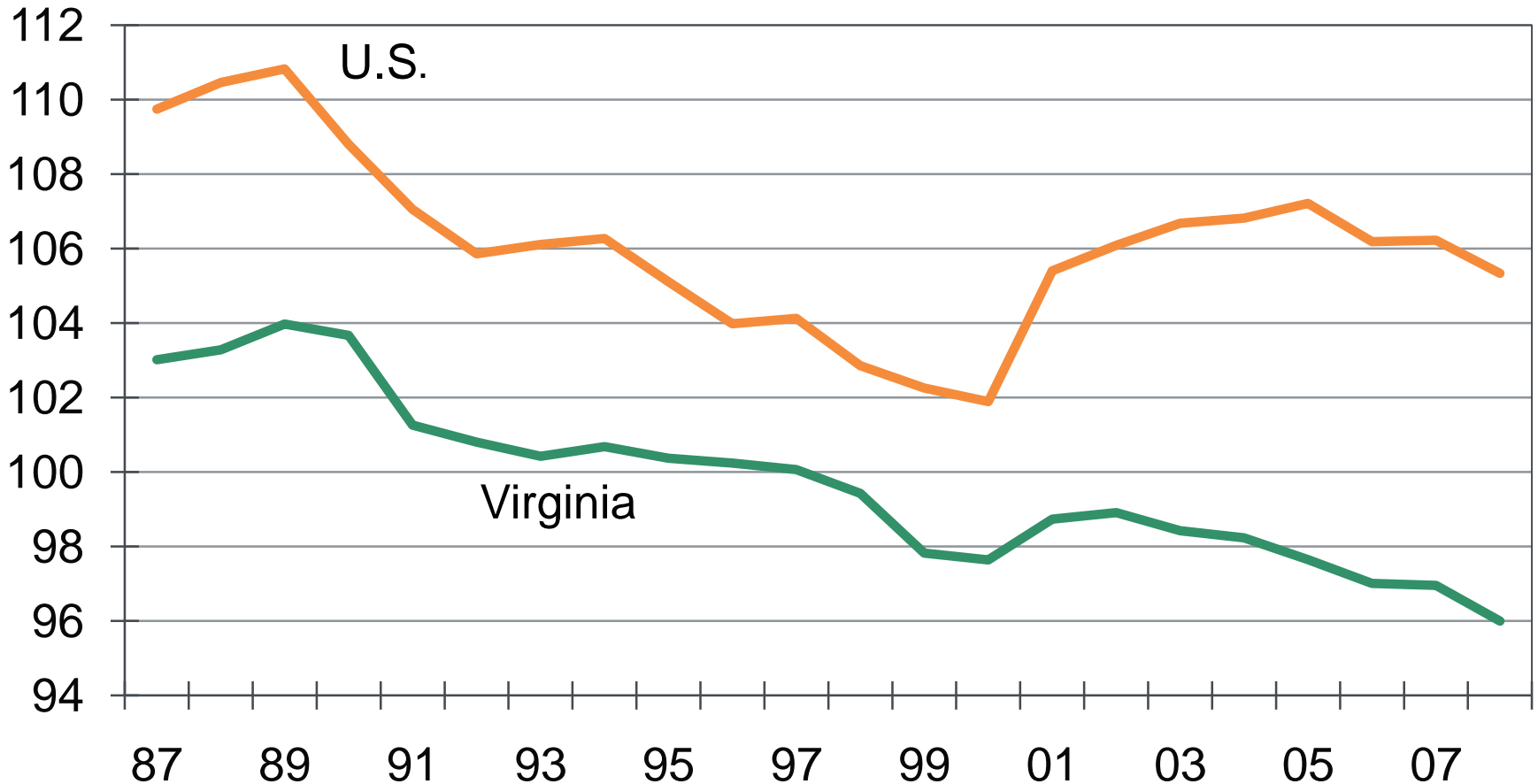
Cost of doing business index, U.S.=100



Source: Moody's Analytics

# Above Average Income Is Also a Support

Per capita income indexed to...



Source: BEA

# MOODY'S

ANALYTICS

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