Another Year of Slow Recovery

EDWARD FRIEDMAN, DIRECTOR
Households and Businesses Deleveraging

Change in household and nonfinancial corporate debt, $ bil

Household liabilities have fallen by $900 billion since peaking 2 years ago

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

Layoffs have abated, but hiring has yet to revive, and quits remain extraordinarily low

Source: Bureau of Labor Statistics
As Businesses Remain Exceptionally Anxious

Small business confidence index, 1986=100

Consumer confidence similarly remains very weak; larger businesses are a bit more upbeat

Source: National Federation of Independent Businesses
The Foreclosure Crisis Continues on

First mortgage loans, ths

- 90 days and over delinquent
- In foreclosure

Strategic defaults, in which the homeowner can reasonably afford their mortgage payment but defaults anyway, are now over 20% of defaults.

Sources: Equifax, Moody’s Analytics
More House Price Declines Are Coming

Case Shiller® Home Price Index: 2000Q1 = 100

Recent changes to HAMP foreclosure mitigation effort are constructive

Sources: Fiserv, Moody’s Analytics
The Federal Reserve Will Remain Aggressive

More quantitative easing is likely beginning late this year.

Sources: Federal Reserve, Moody’s Analytics
Profits Surge and Jobs Should Follow

Sources: BLS, BEA
Household Debt Burdens Are Falling Fast

% of disposable income

At the current rate of deleveraging and interest rates, debt service will be back to early 90’s lows by this time next year.

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, ths

<table>
<thead>
<tr>
<th>Housing supply</th>
<th>= 600,000</th>
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<tbody>
<tr>
<td>Single-family</td>
<td>= 450,000</td>
</tr>
<tr>
<td>Multifamily</td>
<td>= 100,000</td>
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<tr>
<td>Manufactured</td>
<td>= 50,000</td>
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</table>

<table>
<thead>
<tr>
<th>Housing demand</th>
<th>= 1,350,000</th>
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</thead>
<tbody>
<tr>
<td>HH formations</td>
<td>= 800,000</td>
</tr>
<tr>
<td>Obsolescence</td>
<td>= 350,000</td>
</tr>
<tr>
<td>Second homes</td>
<td>= 200,000</td>
</tr>
</tbody>
</table>

Sources: Census, Moody’s Analytics
Consumers Will No Longer Lead the Way…

Personal saving rate, 5-year MA

Lower and middle income households can no longer borrow and dis-save; high income households aren’t prepared for retirement

Sources: BEA, Moody’s Analytics
…But Exports Will Pick-Up the Slack

Unit labor costs in euros, % chg, past decade

-10%  0%  10%  20%  30%

Greece  Italy  Ireland  Spain  France  Euro area  Germany  OECD  U.K.  U.S.

Sources: OECD, Moody’s Analytics
Policymakers Must Change This Outlook

The average federal debt-to-GDP ratio since WWII is 40%
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

Las Vegas
Phoenix
Miami
NY (Midtown)
Detroit
Boston
NY (Downtown)
Tampa
Los Angeles
Atlanta
Houston
Minneapolis
San Francisco
Chicago
D.C.

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

House prices

CRE prices

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

$1.1 trillion increase, 2004-08

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

Moody's Analytics
Recession Weighed on Population Growth

Population, % change (R)

Net migration, ths (L)

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

- Total
- Office rent
- Energy
- State and local taxes
- Unit labor costs

Source: Moody's Analytics
Above Average Income Is Also a Support

Per capita income indexed to...

Source: BEA