

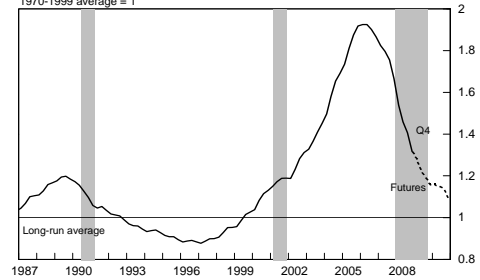
Key Issues

- Adverse Feedback Loop
- V-Shaped or U-Shaped Recovery?
- The Risk of Deflation

House Prices Closing in on "Normal" Level

Ratio of House Prices to Rent

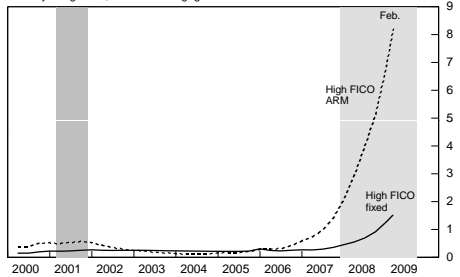
10-City Case-Shiller Index divided by Owner's Equivalent Rent;
1970-1999 average = 1



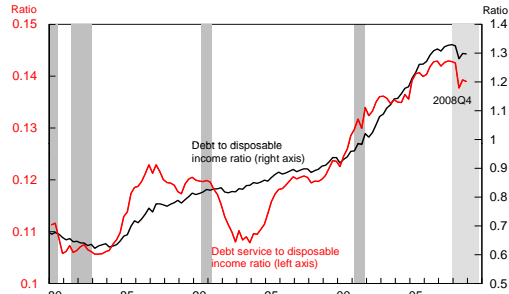
It Started with Subprime, then Spread to Prime

Mortgage Delinquency Rates

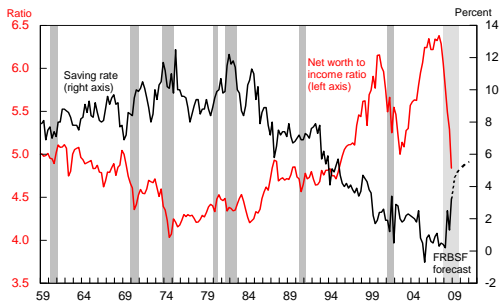
60-days or greater, First-lien mortgage



Households Deep in Debt...



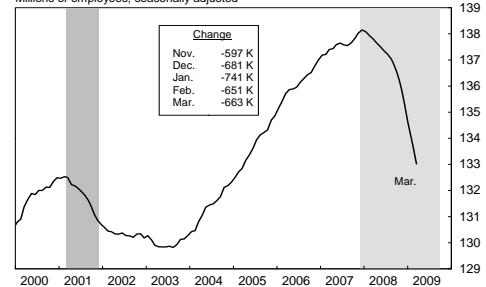
and Suffering from Fall in Wealth



Over 5 Million Jobs Lost So Far

Nonfarm Payroll Employment

Millions of employees; seasonally adjusted



V-Shaped or U-Shaped Recovery?

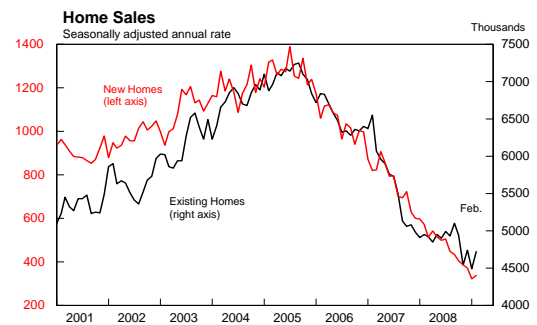
Arguments for V-Shaped Recovery

- Typical pattern of past severe recessions
- Pent-up demand for housing and cars, and inventory rebuilding
- Sizable monetary and fiscal stimulus

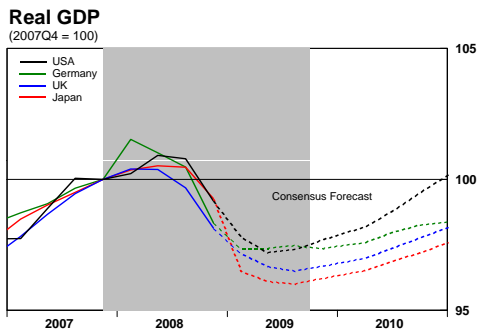
Arguments for U-Shaped Recovery

- Banking/financial crises followed by slow recoveries; healing of banks will take time
- Heightened uncertainty exerts drag on investment
- Global recession
- Monetary policy limited by zero bound

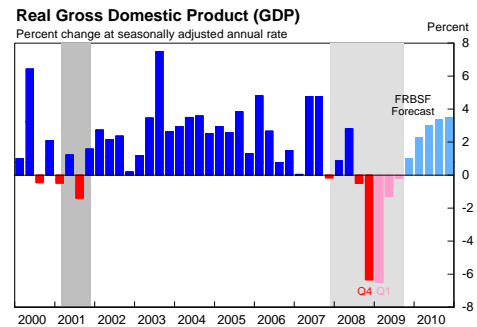
Has Housing Hit Bottom (Again)?



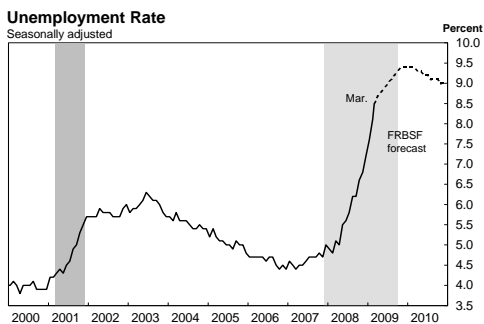
Global Recession



Gradual Recovery



Unemployment Continues to Rise



The Risk of Deflation

