



Comptroller of the Currency
Administrator of National Banks

The Economic Outlook

Community Development Forum

Salt Lake City July 19, 2012

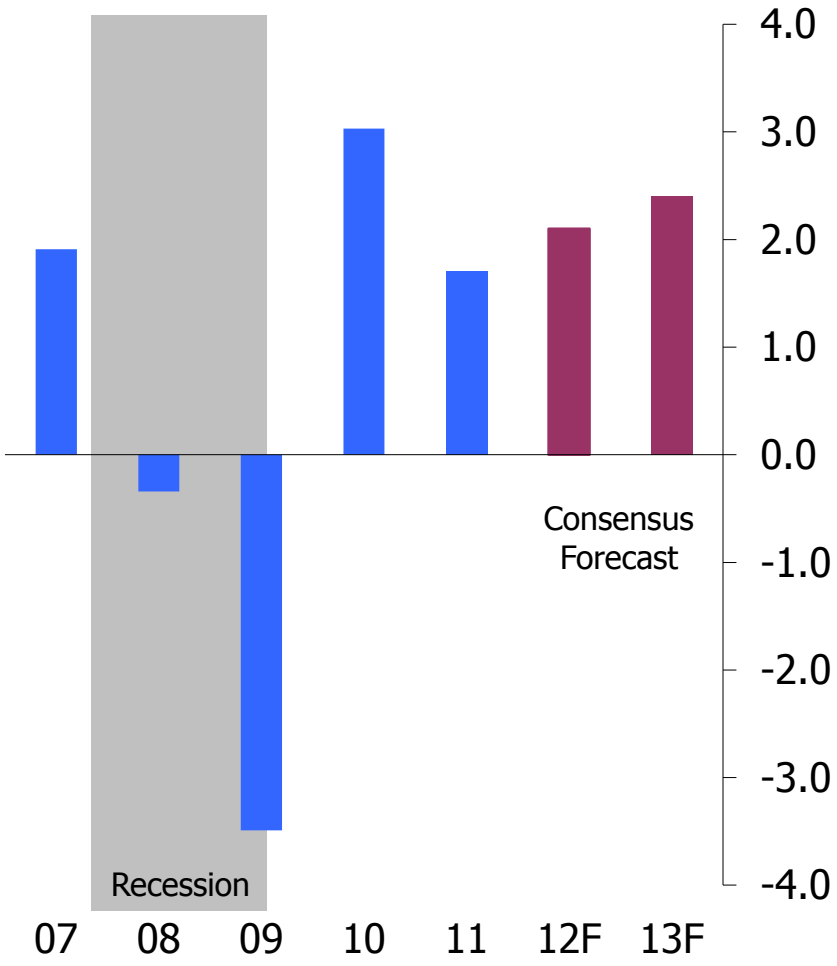
Ray Squitieri
Economic and Policy Analysis, OCC

Summary—US economy

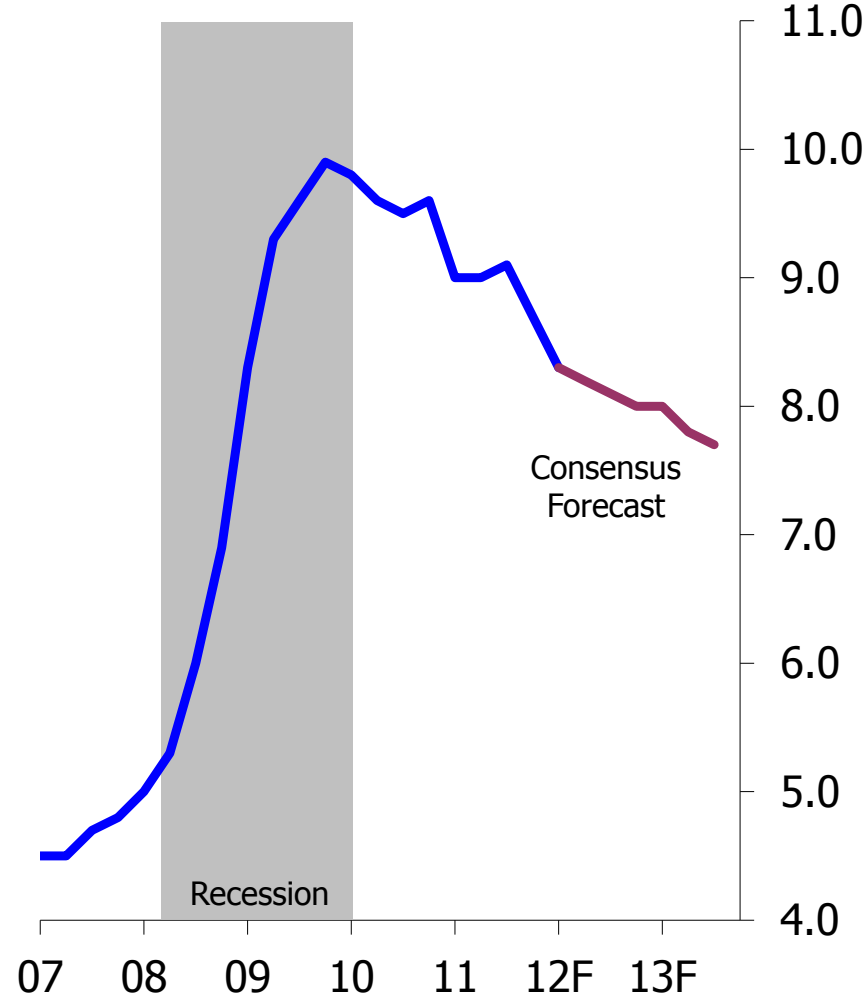
- Slow growth to persist, but US likely to avoid recession
- Slow growth means slow improvement in unemployment
- Housing has yet to turn around
- Europe now a big risk to US economy
- Positives: lower energy prices, continued low interest rates

Recovery plods along

Real GDP, % change annual rate

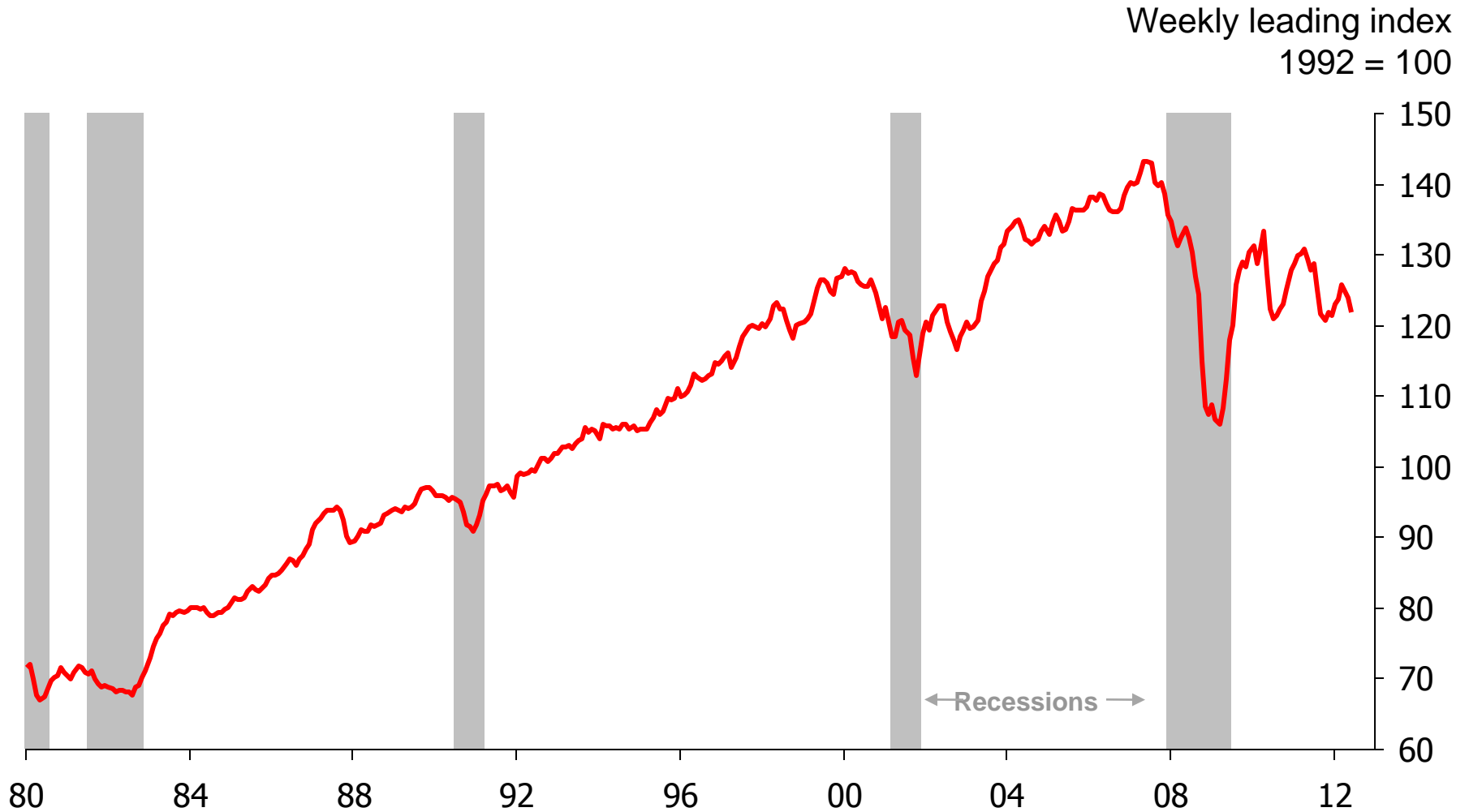


Quarterly average unemployment rate, %



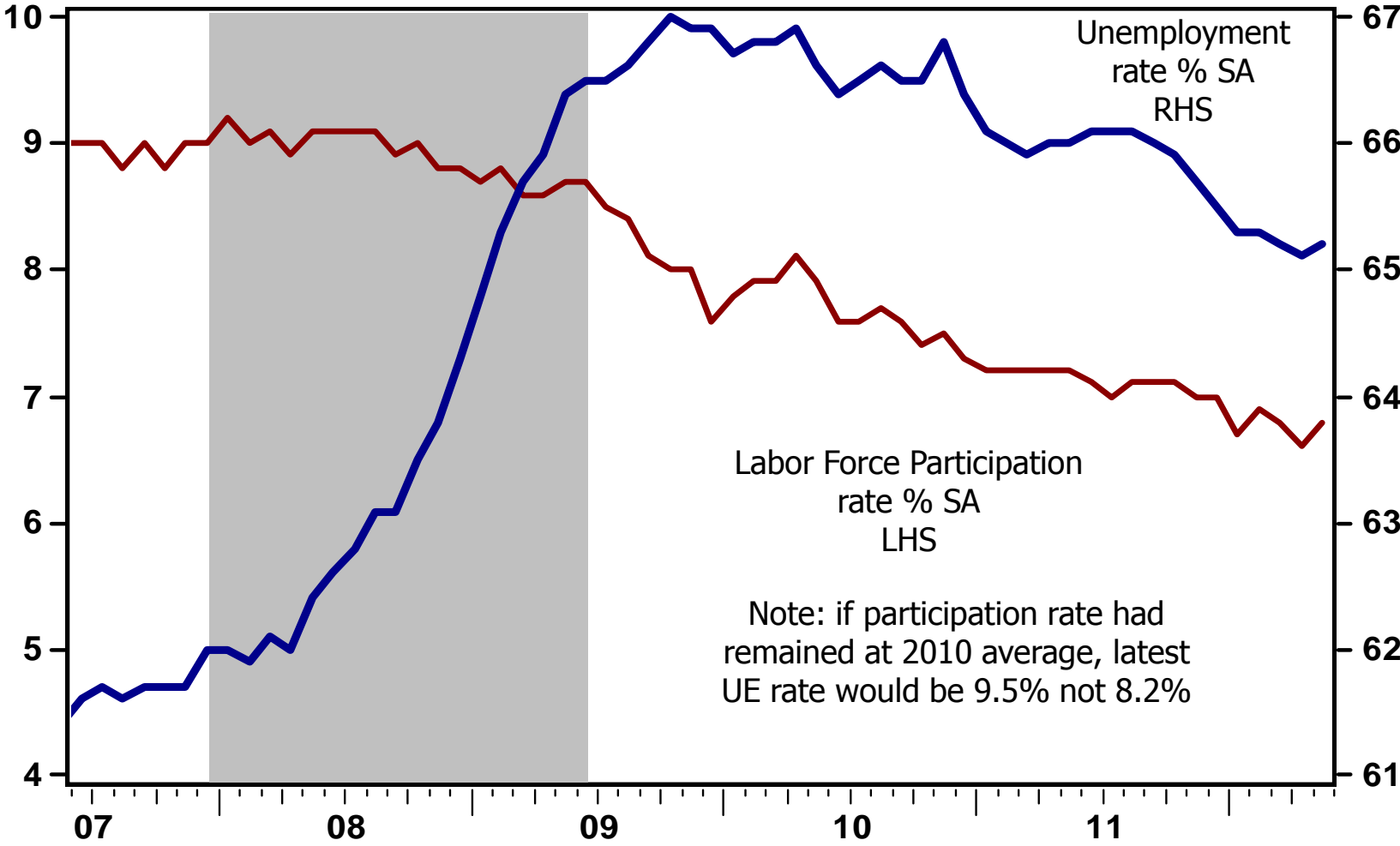
Sources: BEA, BLS, Blue Chip Indicators (June 2012)

Weekly leading index has waffled since end of recession, unlike steady gains in past expansions



Source: Economic Cycle Research Institute (ECRI)

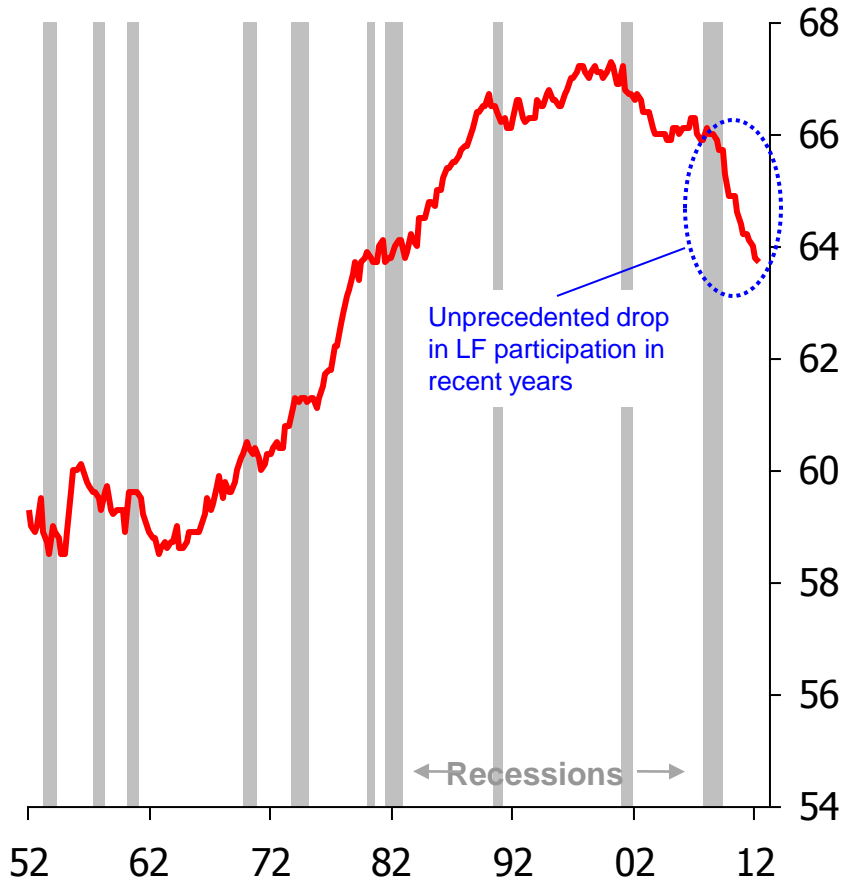
Much of the improvement in unemployment rate due to drop in labor force participation rate



Source: Bureau of Labor Statistics / Haver Analytics

If labor force exits had remained unemployed, the statistics would look a lot worse today

Labor force participation rate
% of civilian population

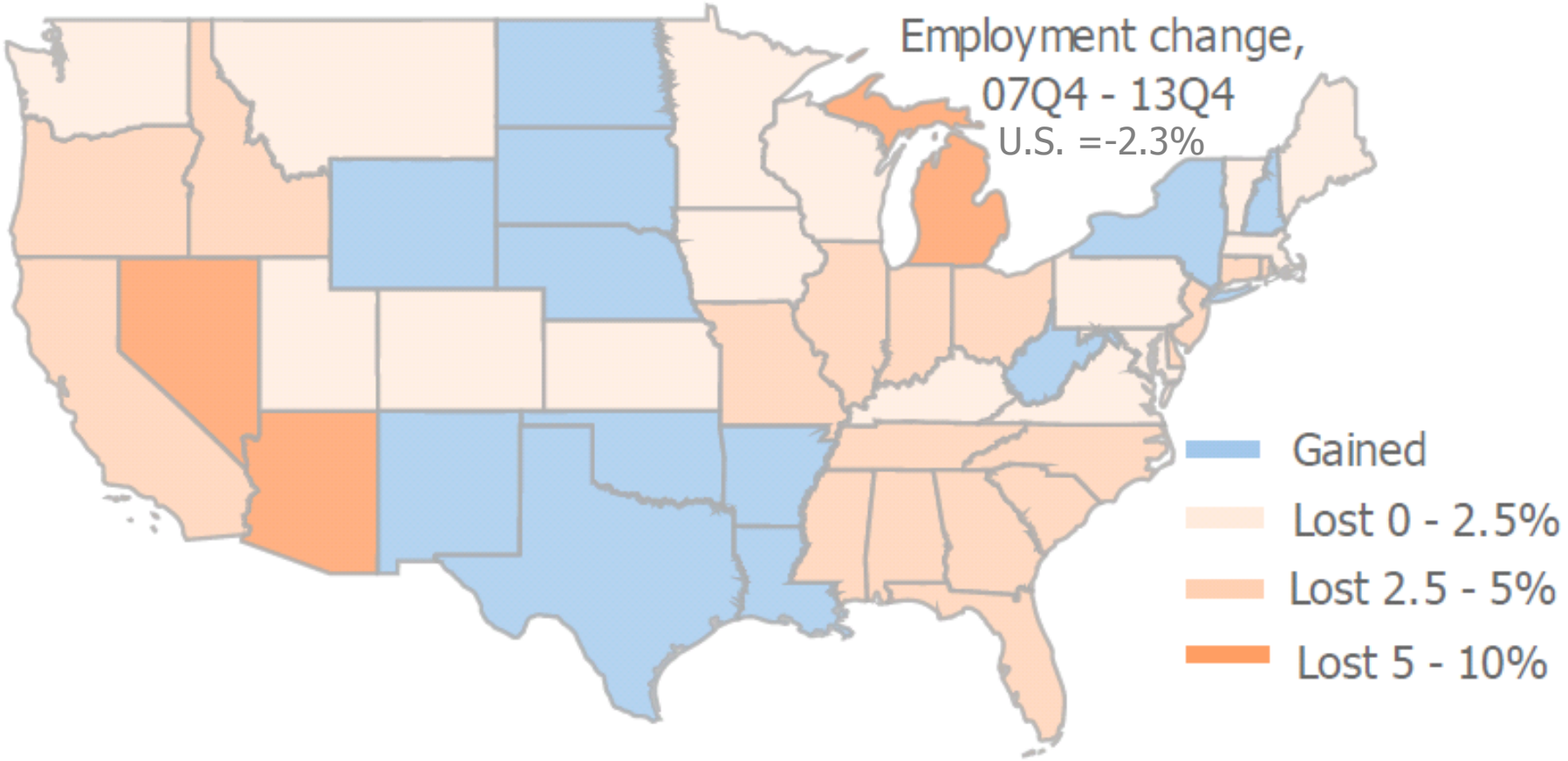


Unemployment rate
share of labor force



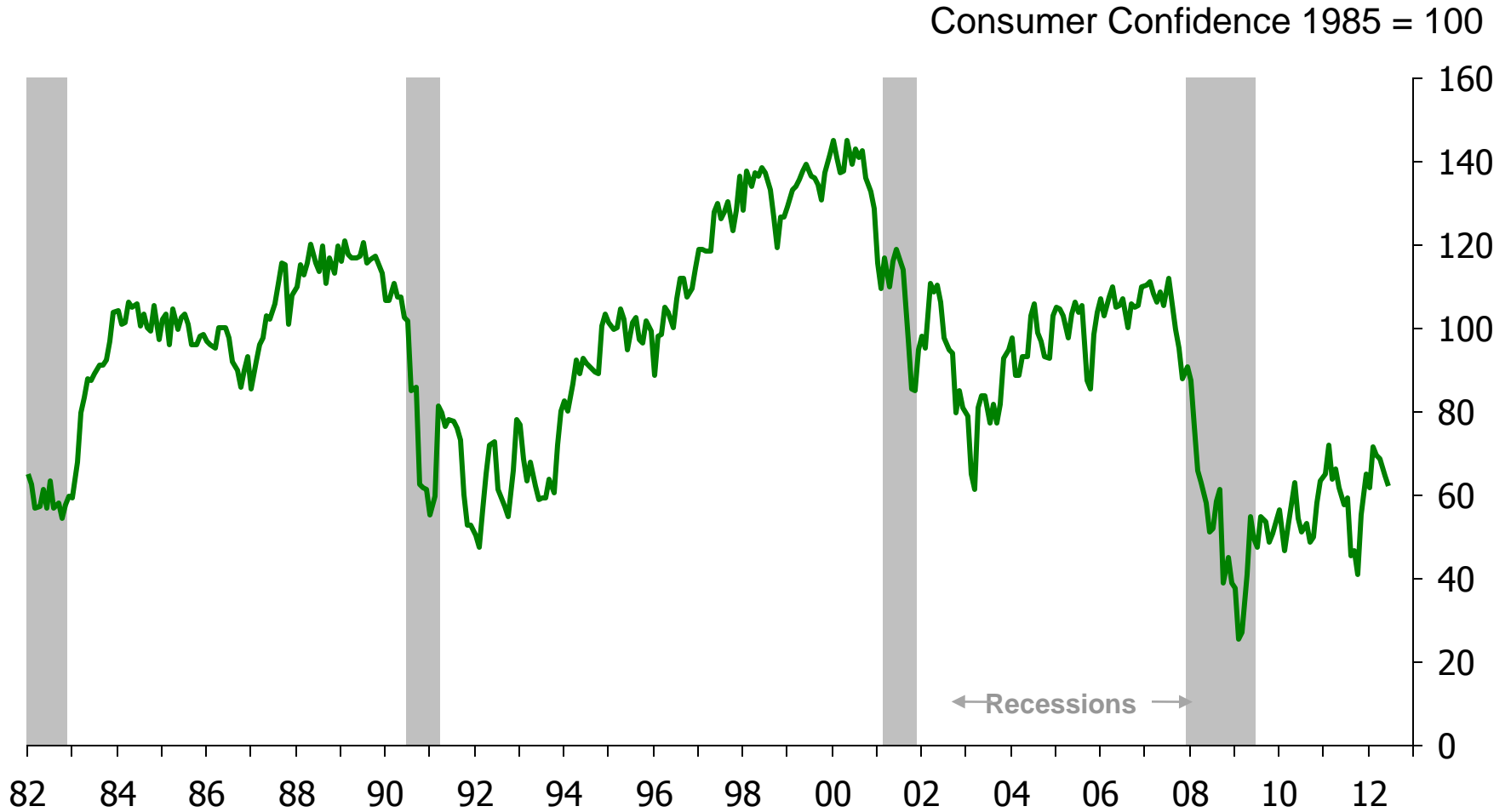
Source: BLS

For most states, employment likely to remain below pre-recession levels through 2013



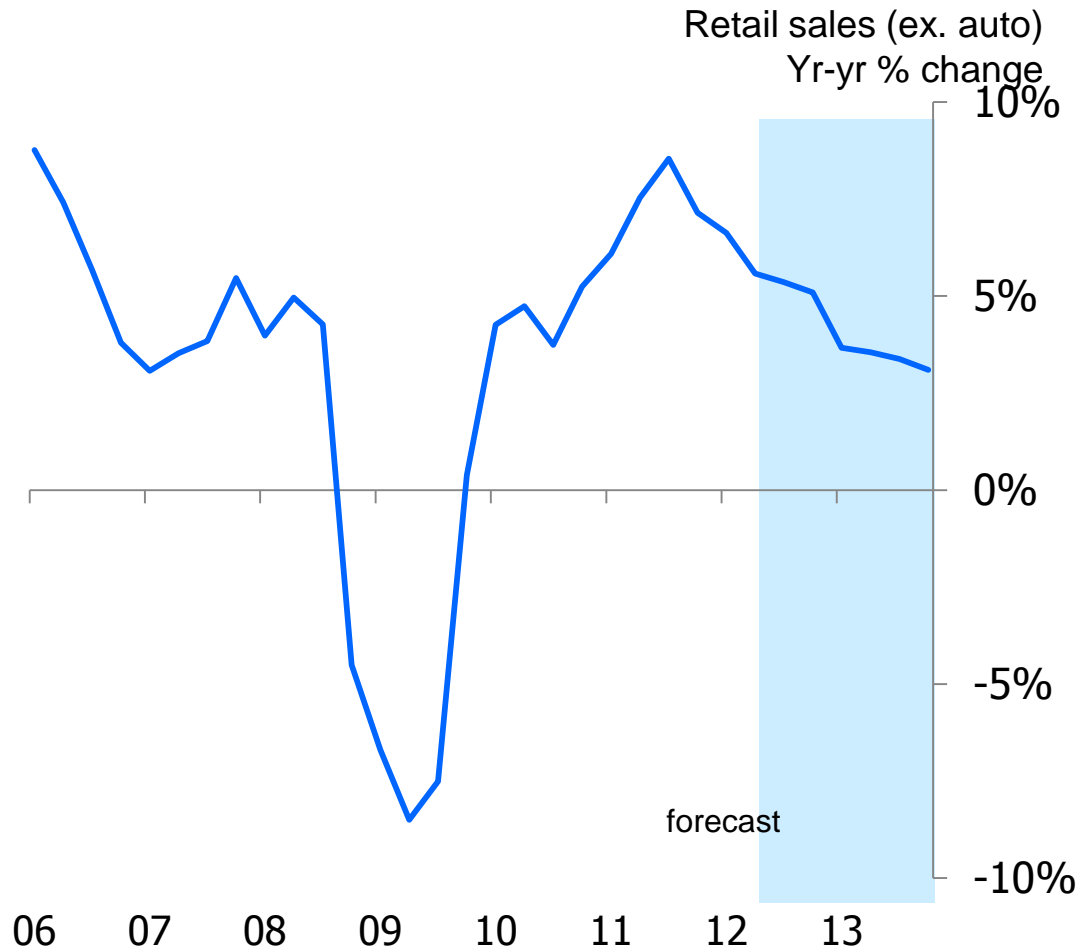
Source: Moody's Analytics; Federal Reserve Board Supervisory Stress-Test Baseline

Consumer confidence remains historically low



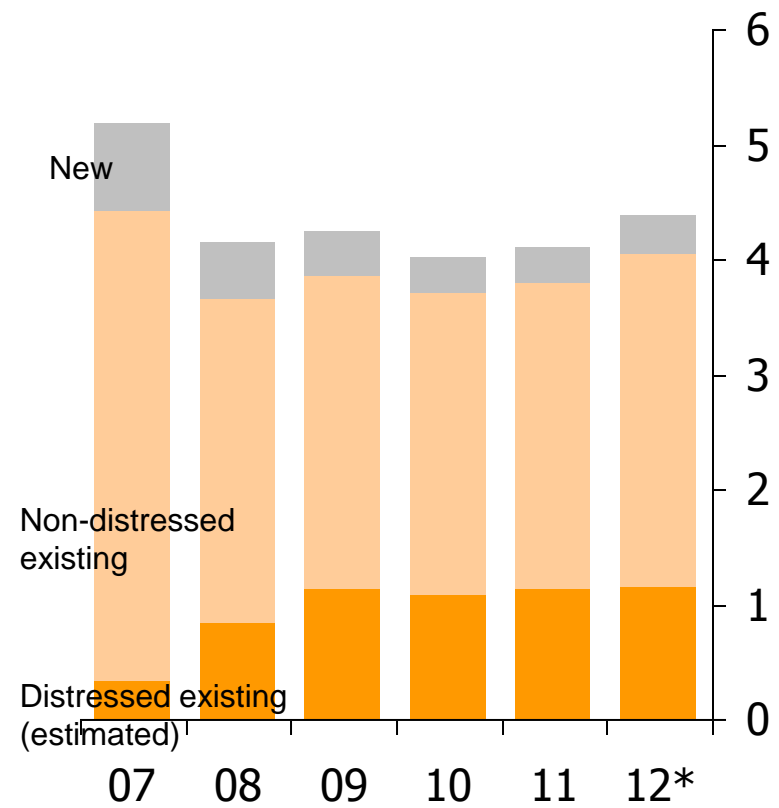
Source: Conference Board

... though shoppers are gradually returning to the stores

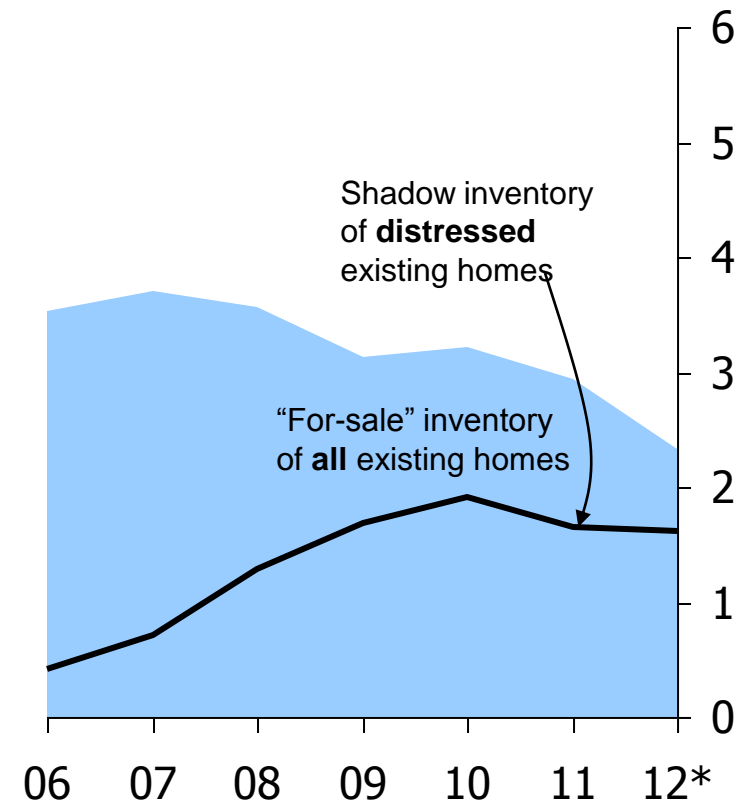


Inventory of distressed properties still weighing on housing market

Single-family home sales millions



"For-sale" and shadow inventory millions

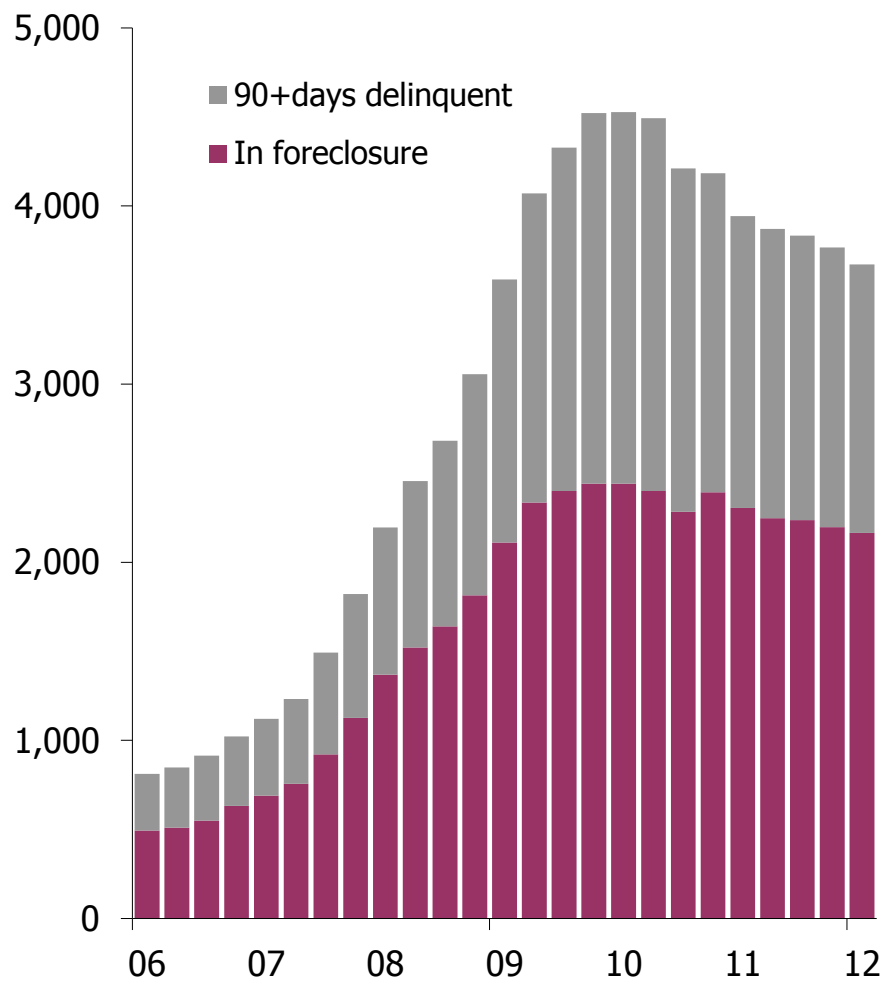


Sources: CoreLogic; NAR; S&P; Fiserv; E&PA calculations

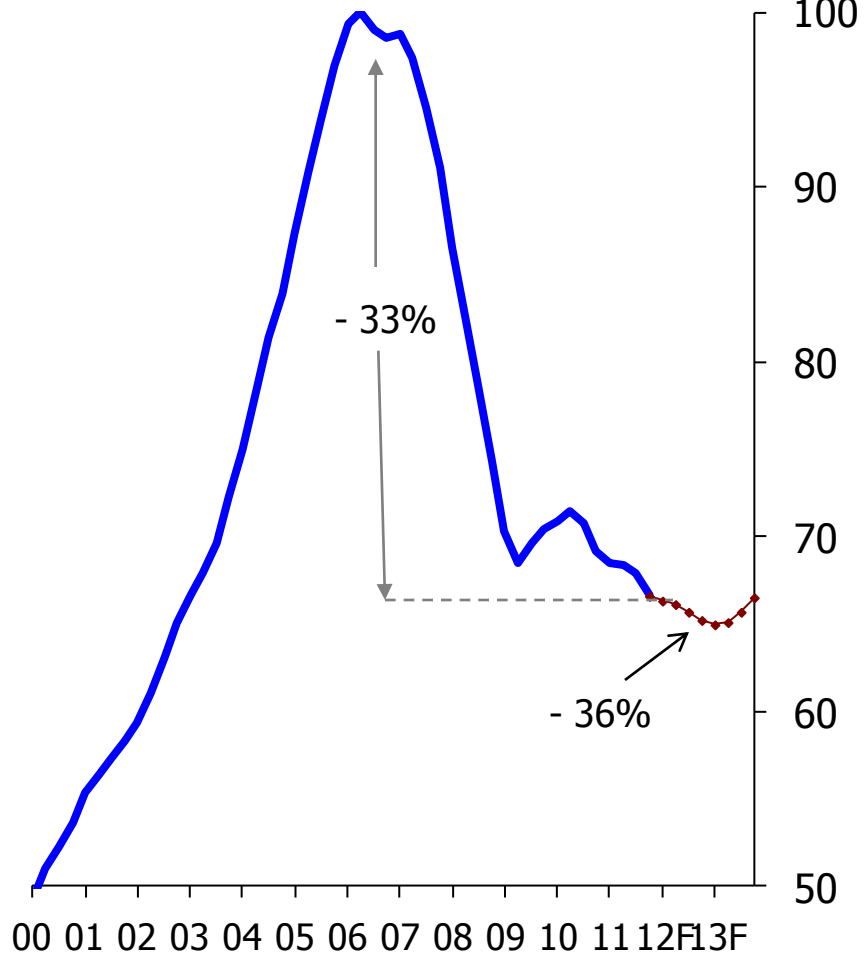
*2012 sales data are first quarter at annualized rate. 2012 inventory data are through January. Distressed existing home sales estimates include short-sales and sales from REO inventory; latter is two-thirds of volume. Shadow inventory includes all properties in serious

Inventory of distressed properties still weighing on house prices

First mortgage loans (number)



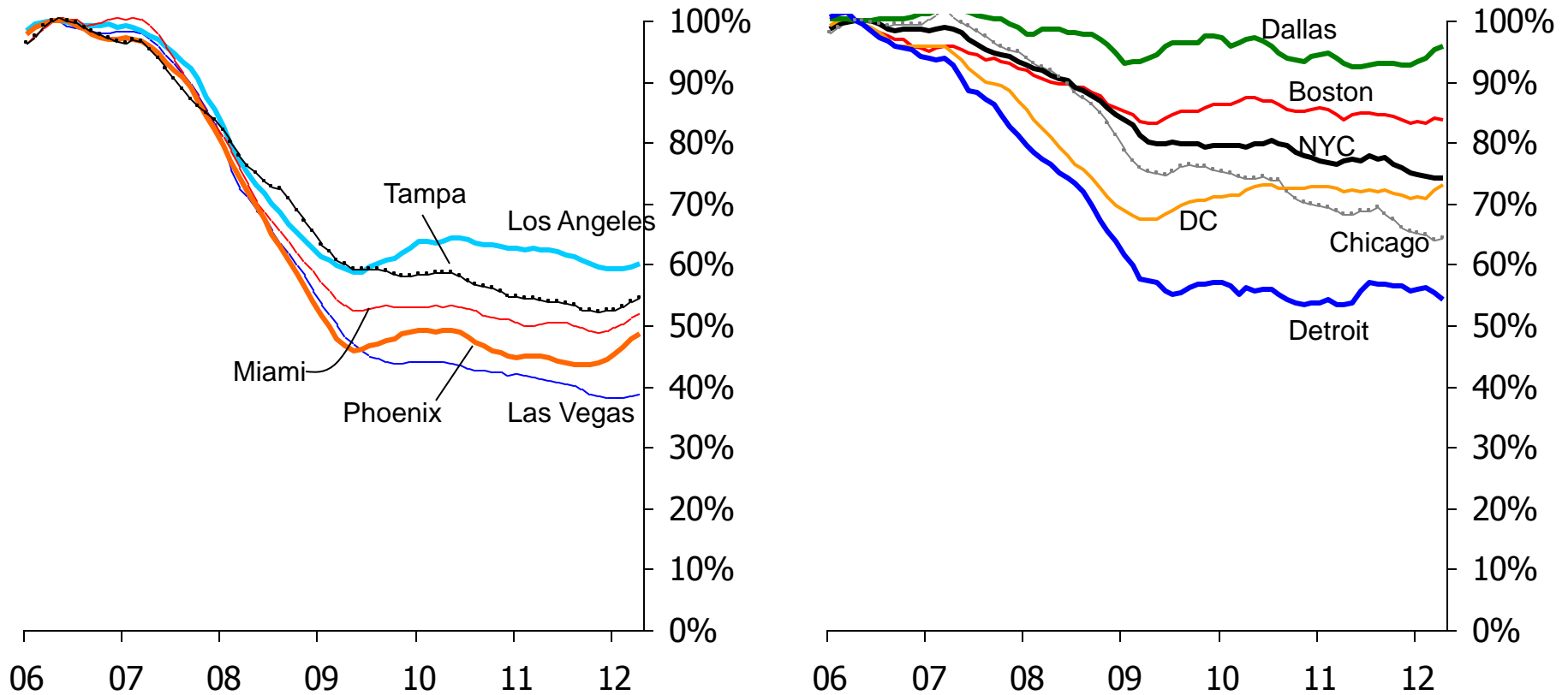
Case-Shiller 20-Metro Home Price Index, SA, 2006Q2=100



Sources: Equifax/Moody's Analytics , Fiserv/Moody's Analytics (May 2012 baseline forecast)

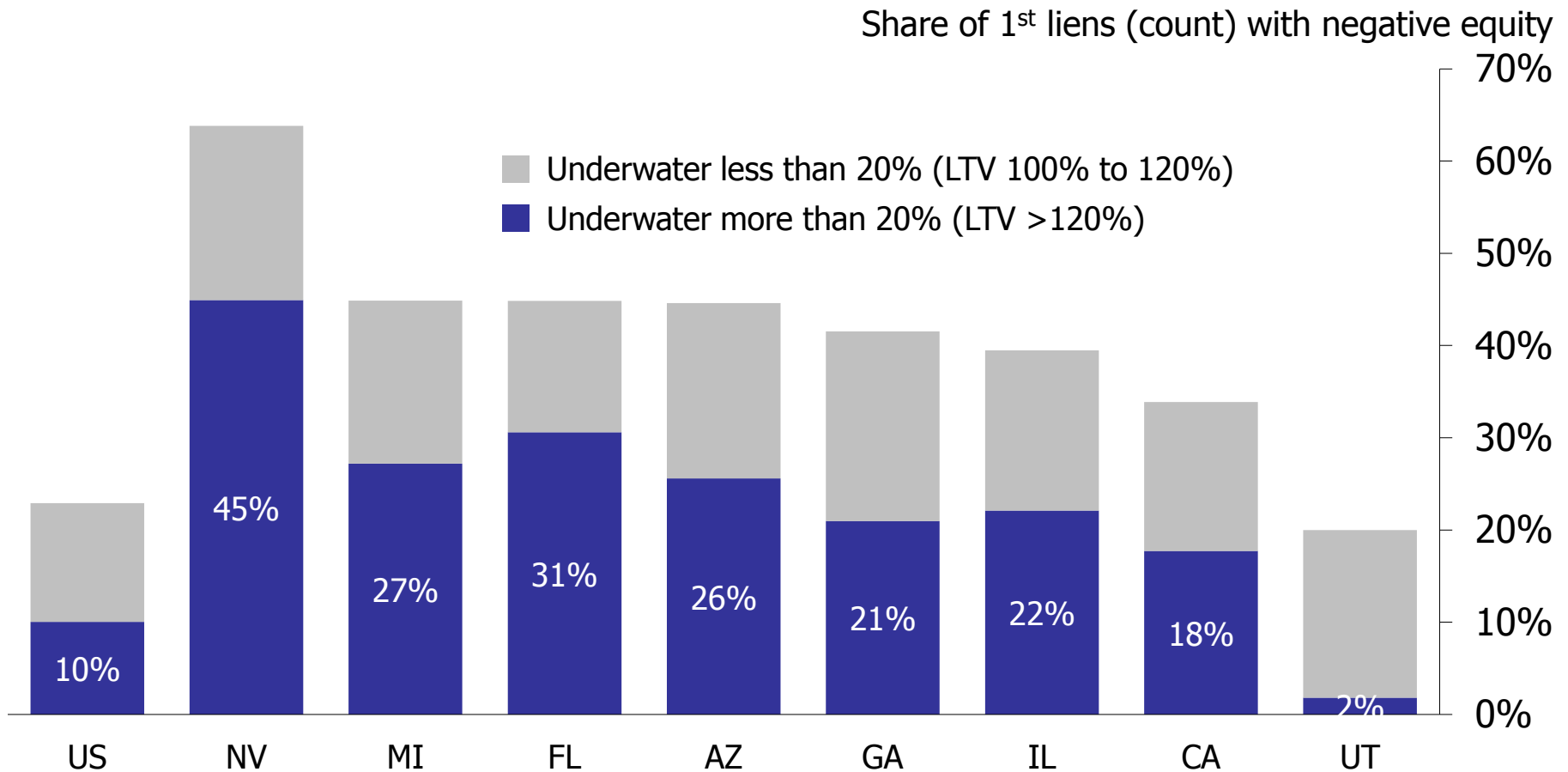
Few housing markets are showing much price appreciation yet

Existing single-family (constant quality) home price indexes
Index April 2006 peak = 100



Source: S&P Case-Shiller
monthly data through April
2012

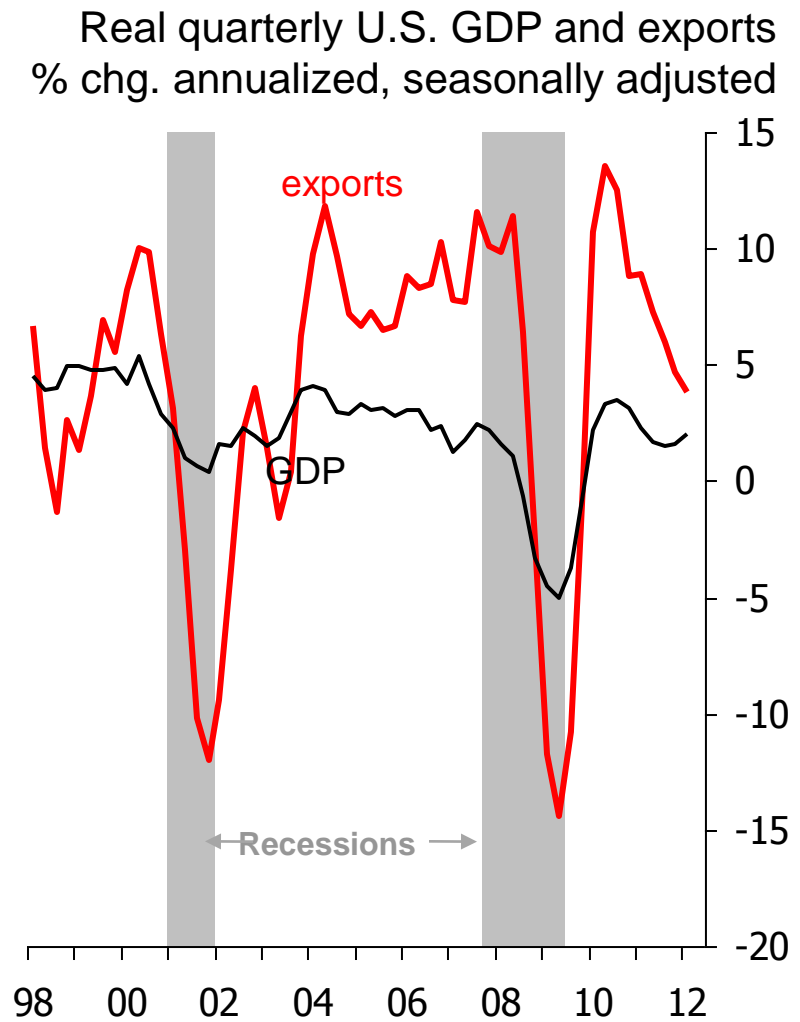
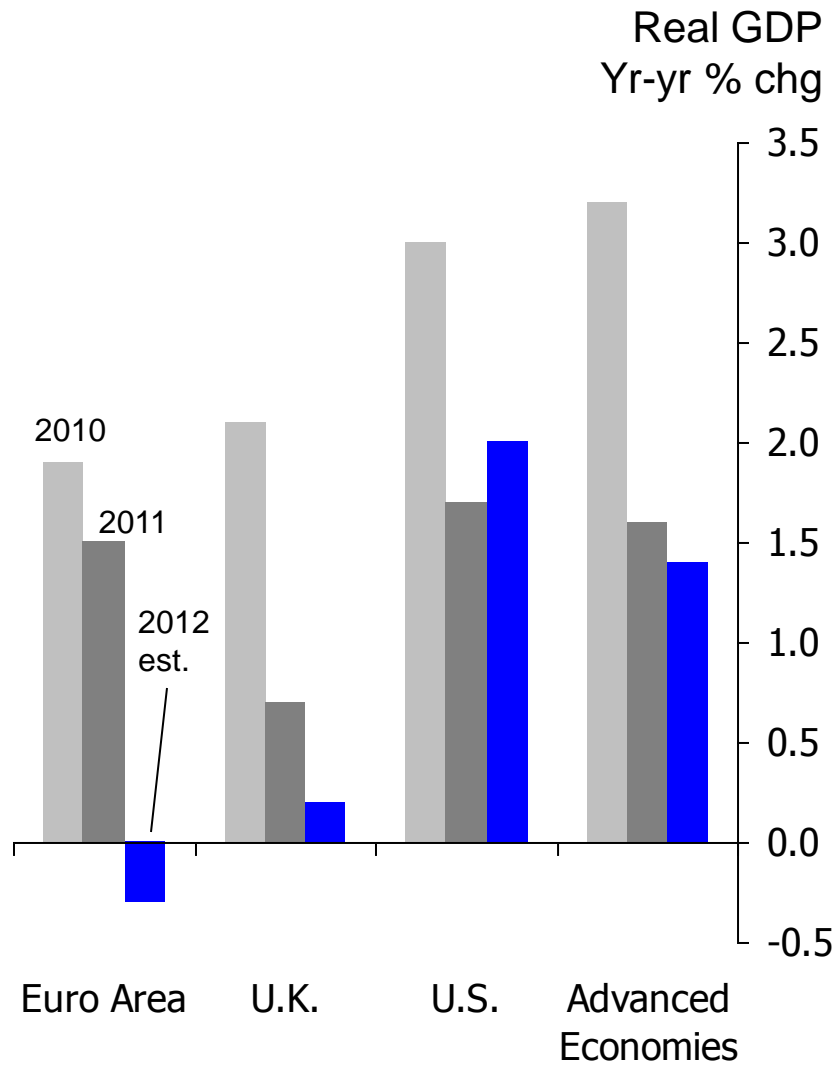
Mortgages with negative equity will keep RES RE loss rates high in some states



Sources: OCC Mortgage Metrics; LPS Home Price Index; data as of January 2011

Data are for 9 large servicers. Data reflect both loans held in portfolio and serviced for others. Data include FHA/VA mortgages but exclude 1st liens without a refreshed LTV.

Euro area slowdown weighing on U.S. export growth



Sources: IMF July 2012 World Economic Outlook update; BEA

Obstacles to growth still outweigh positives

Negatives

- Weak housing market
- Fiscal drag
- Continued deleveraging
- Generally tight credit
- Low consumer and business confidence
- Risk from Europe

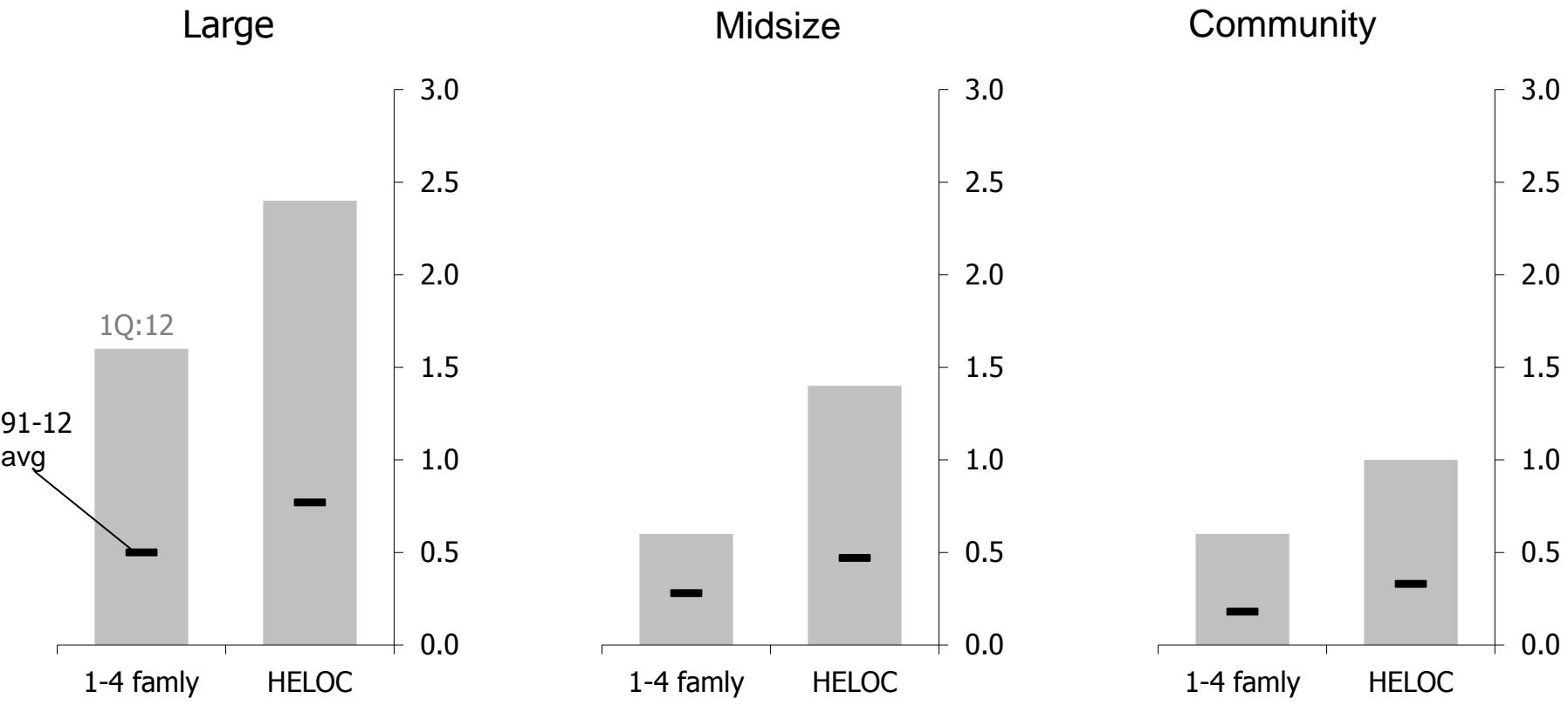
Positives

- Signs of life in construction
- Stronger household balance sheets
- Lower energy prices
- Some credit easing; low interest rates and inflation
- Better US competitiveness

Loss rates still high for residential real estate

National banks and federal thrifts

Annual net charge-off rates, %



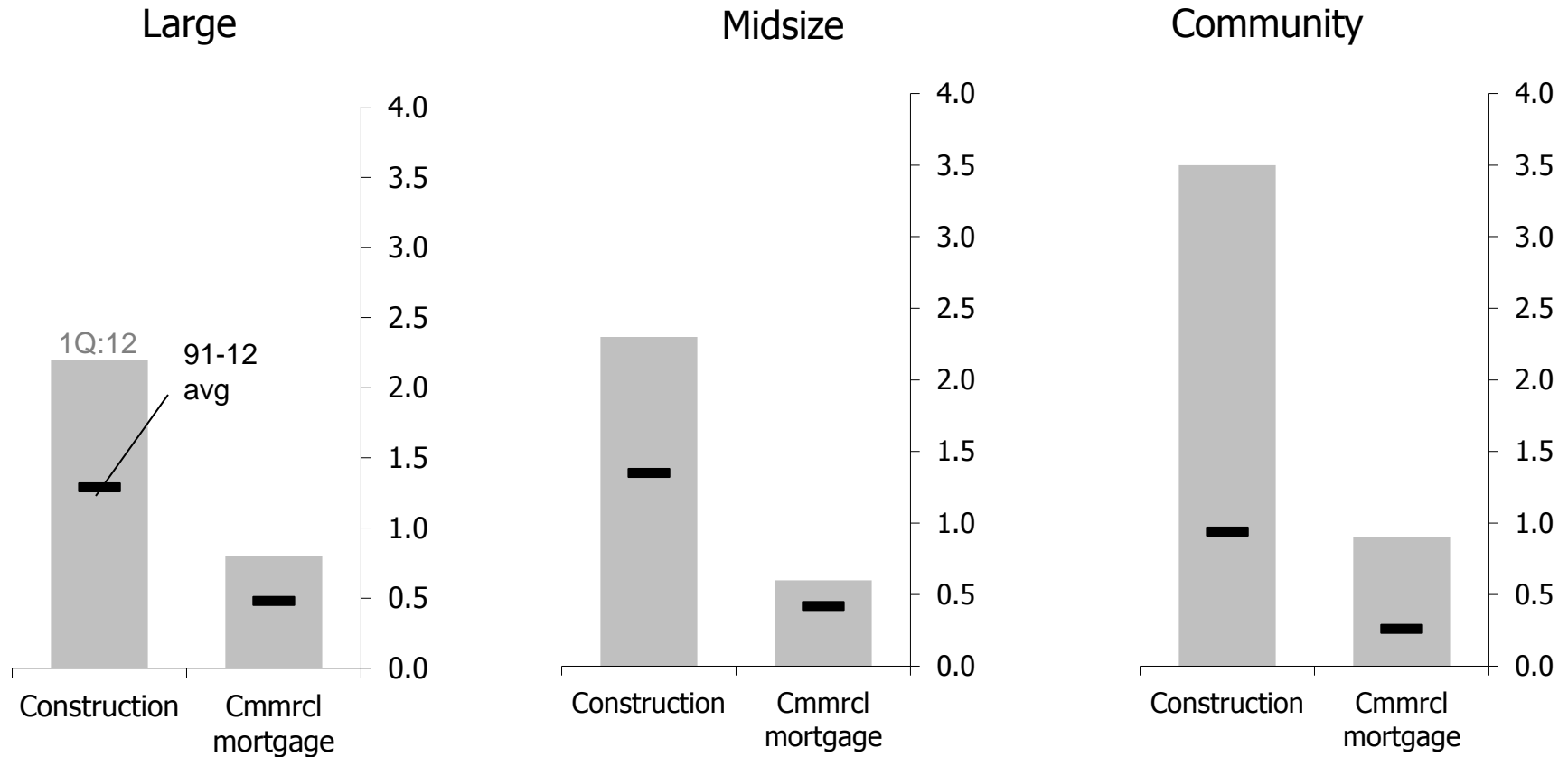
Source: Integrated Banking Information System (OCC)

Data are merger adjusted as of 1Q:2012 and use the current supervision designation.

Loss rates well above average on CRE loans at community banks

National banks and federal thrifts

Annual net charge-off rates, %



Source: Integrated Banking Information System (OCC)

Data are merger adjusted as of 1Q:2012 and use the current supervision designation.

Risks to economy: What did we say last year?

[From March 13, 2011 presentation to Utah Bankers' Roundtable]

Downside risks



- Soft job market keeps unemployment rate high
- Housing falls again as foreclosure crisis drags on
- Weak housing and job market further stresses banks
- Overseas: Mid East turmoil, Japan disaster, European debt crisis
- State and local fiscal woes intensify



Upside risks

- Emerging market growth accelerates
- Strong business sector drives hiring
- Self-sustaining growth cycle kicks in

Risks to economy: This year's story

US (high-impact, low probability)

- Economy falls off fiscal cliff

US (lower-impact, higher-probability)

- Housing falls again as foreclosure crisis drags on

Global (high-impact, low probability)

- War in Persian Gulf, European financial meltdown

Global (lower-impact, higher-probability)

- Long slump in Europe, Sharp slowdown in China

Upside possibilities

- Emerging markets pick up
- Strong US business sector drives hiring

Summary—US economy

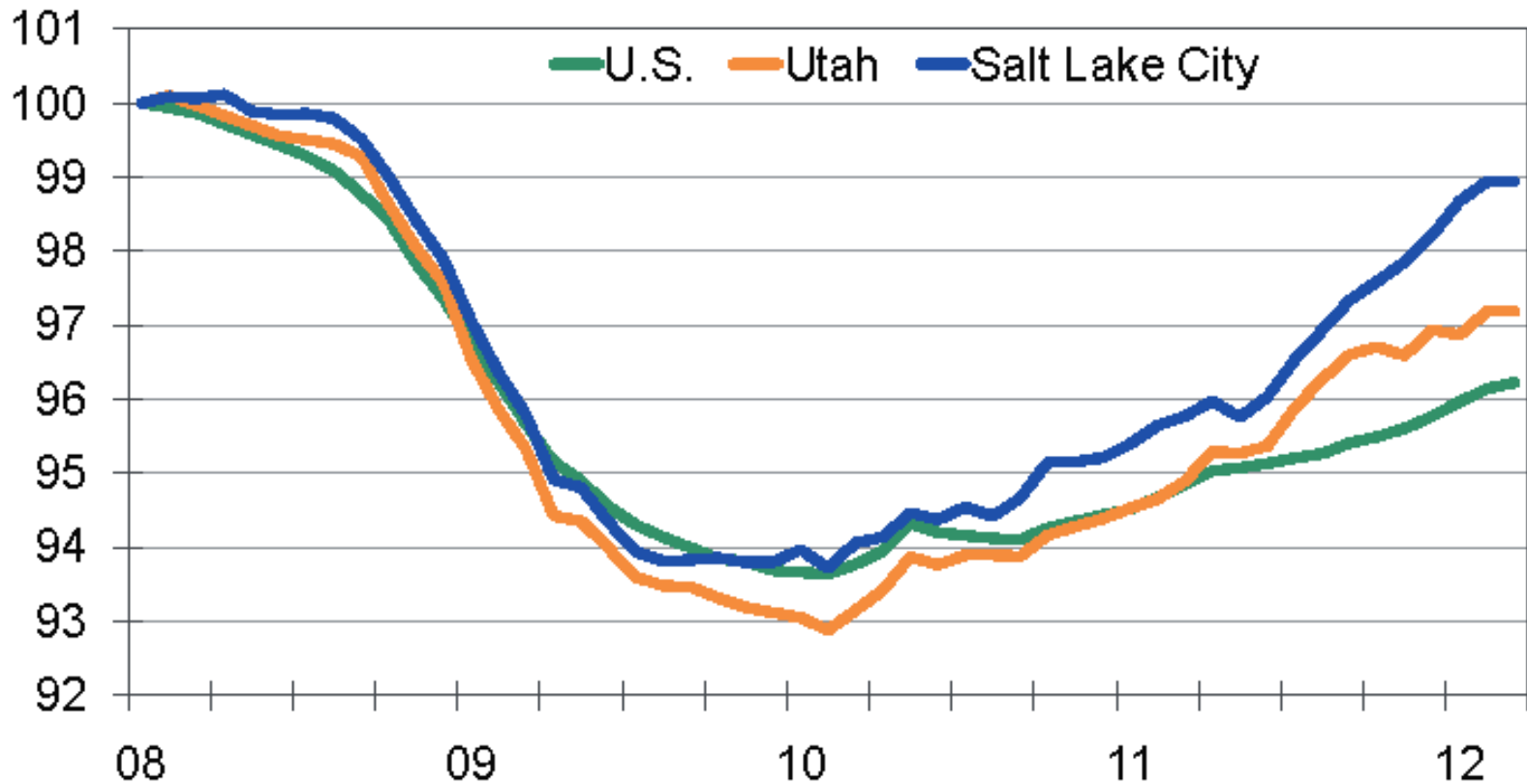
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Outlook for Utah and Salt Lake City

- Moderate growth in jobs, household income
- Positive signs in housing market, though house prices have yet to turn around

SLC leads Utah and the U.S. in job growth

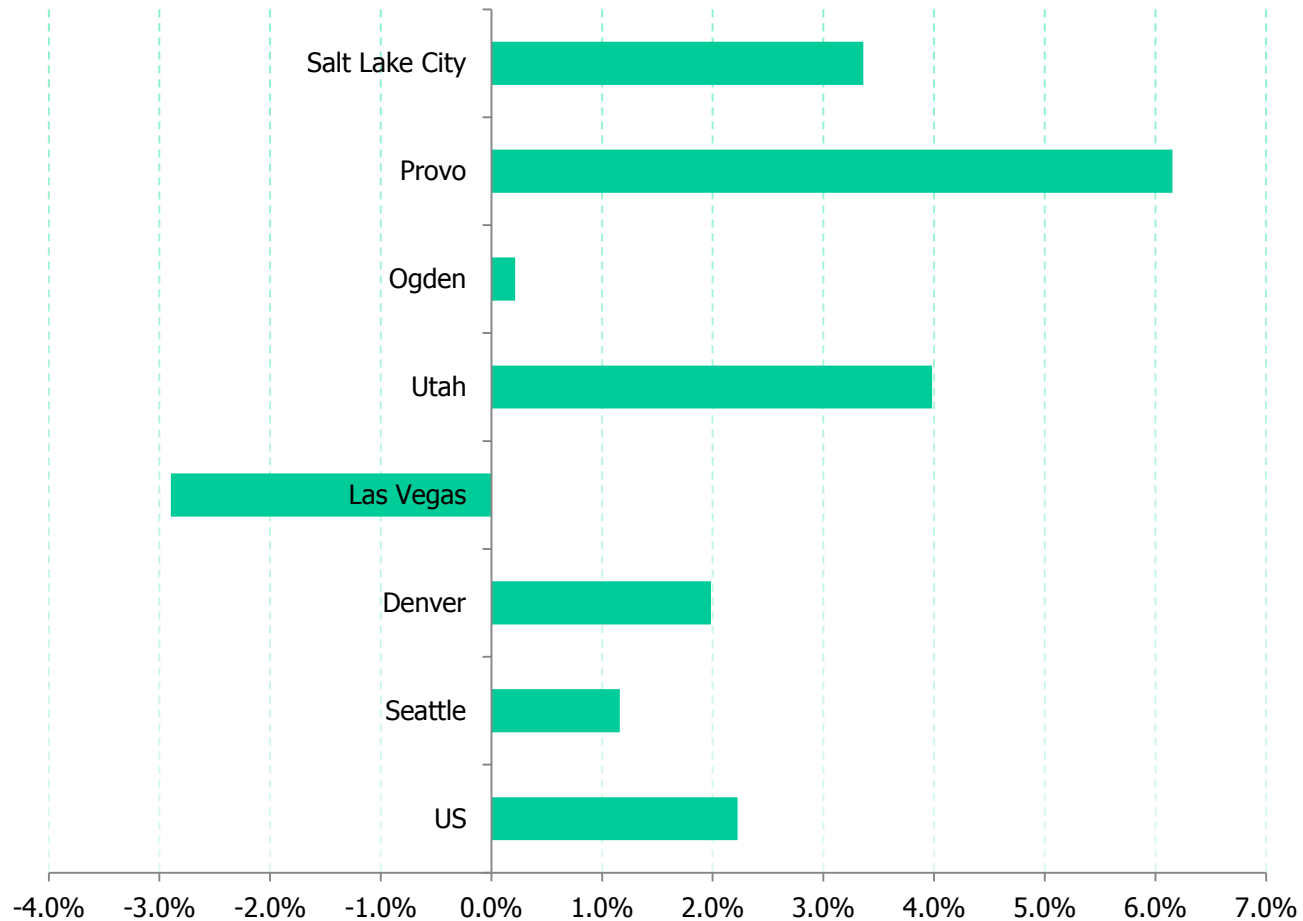
Employment, Jan 2008=100



Sources: BLS, Moody's Analytics

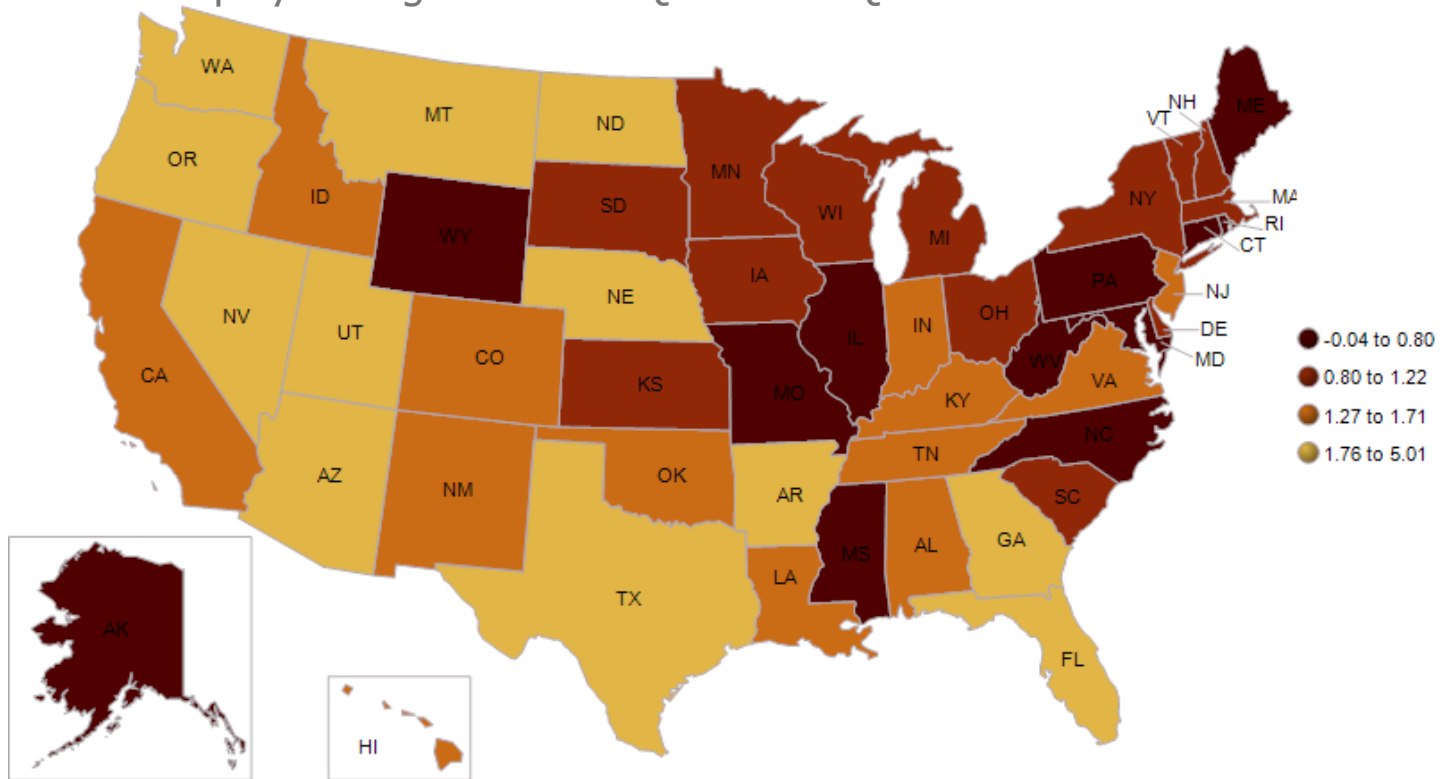
Office jobs increasing in Utah

Office-using employment 2011Q1 to 2012Q1



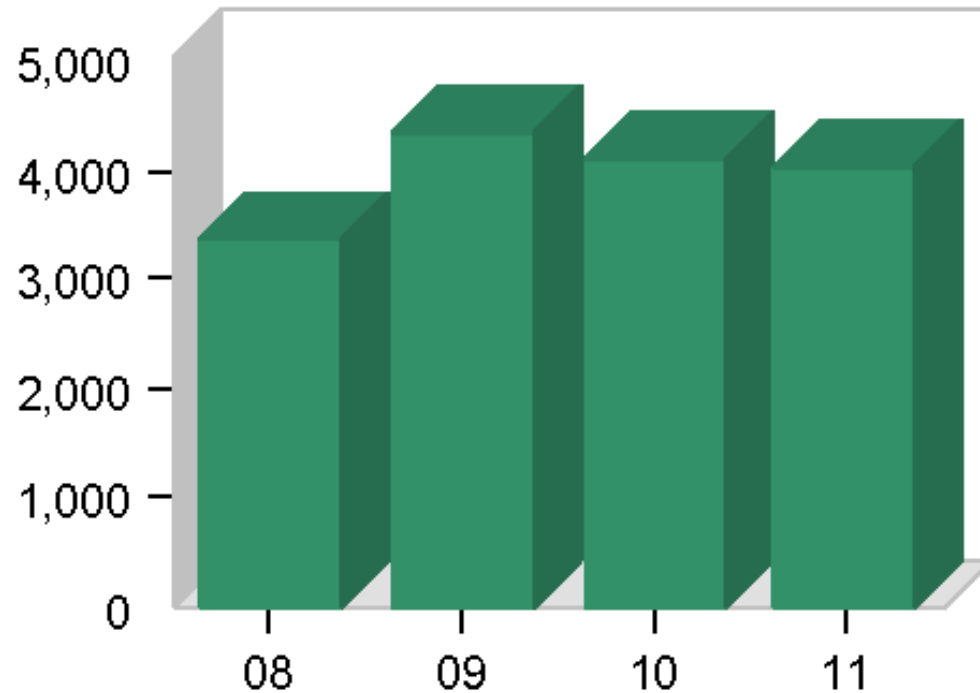
Utah will show solid job growth over next 12 months

Forecast employment growth 2012Q1 to 2013Q1



Sources: BLS, Moody's Analytics (July 2012 forecast)

Foreign migration dominates in SLC

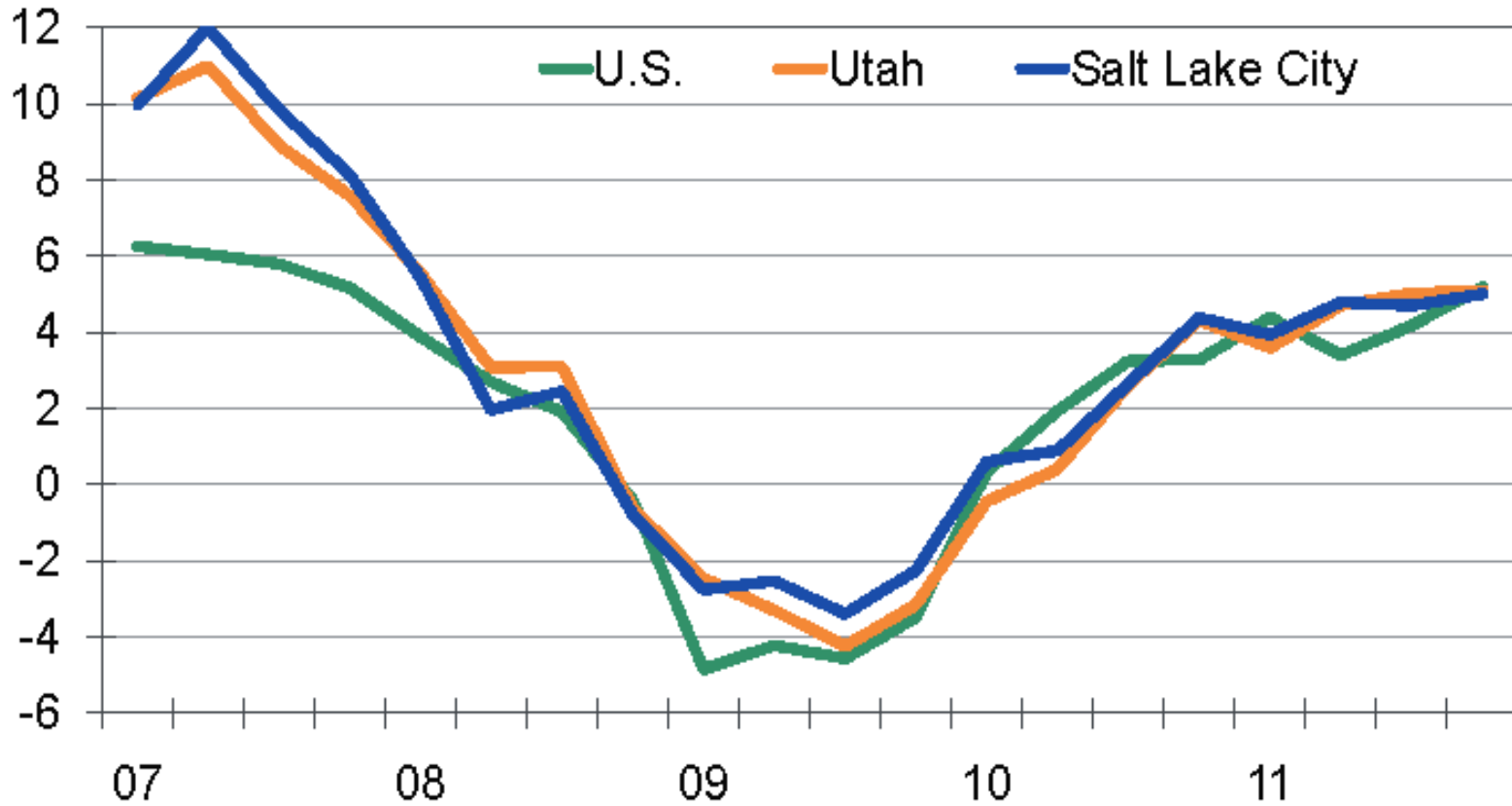


	2008	2009	2010	2011
Domestic	-671	356	273	915
Foreign	4,046	3,989	3,810	3,090
Total	3,375	4,345	4,083	4,005

Sources: Census Bureau/Moody's Analytics

Job gains support income gains in SLC

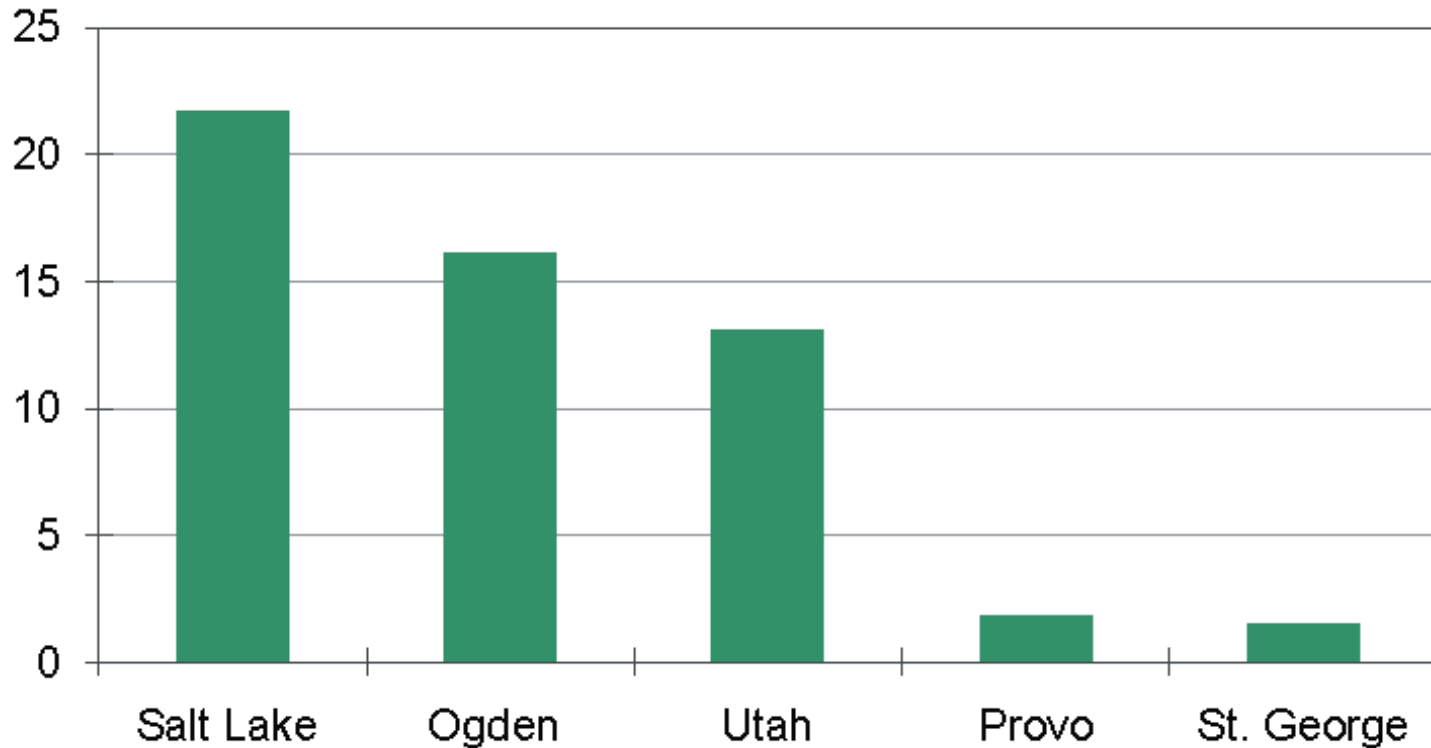
Wage and salary income, % change yr ago



Sources: BLS, Moody's Analytics

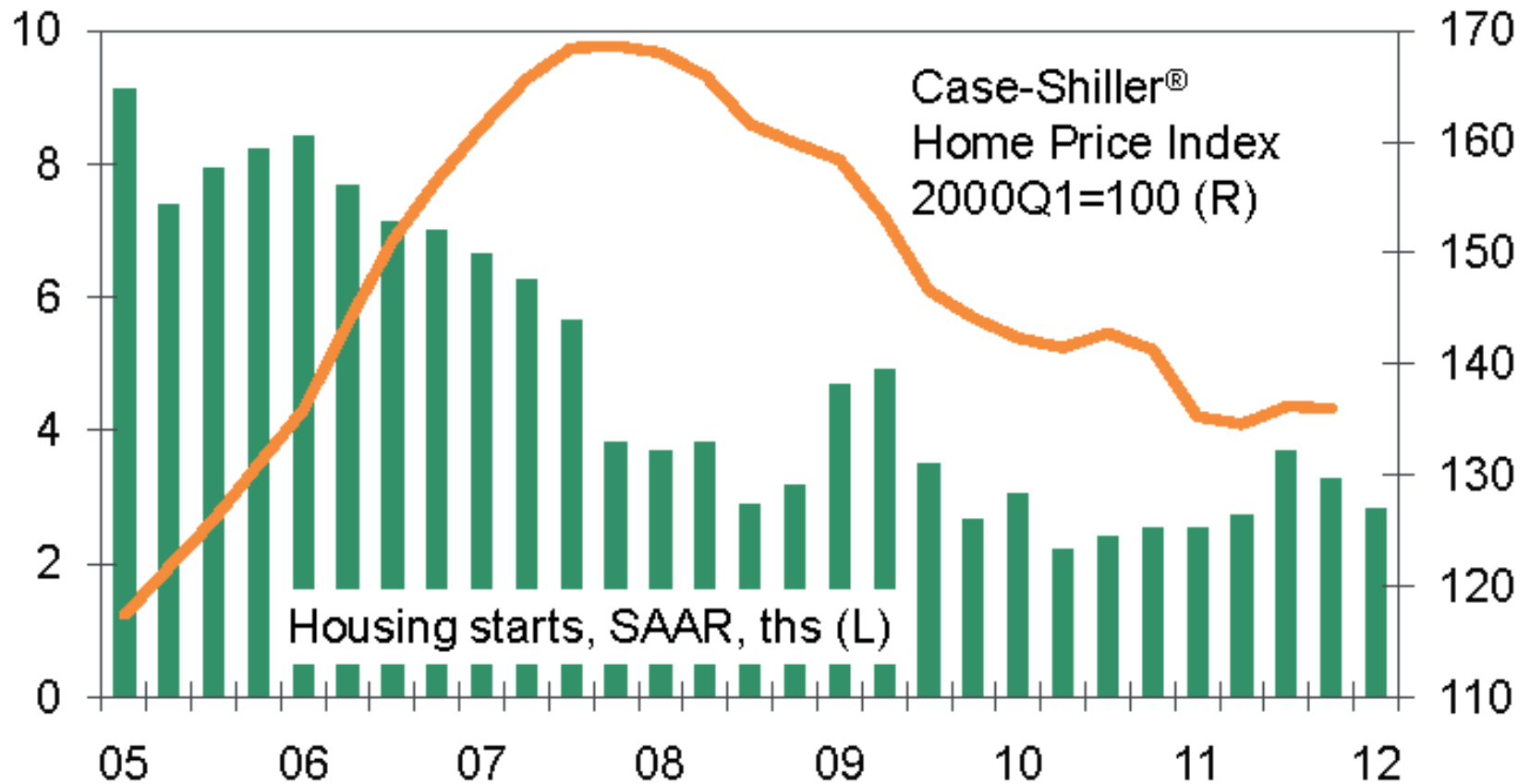
Home sales picking up in SLC ...

Yr-to-date home sales, % change yr ago, Feb 12



Sources: Utah Association of Realtors, Moody's Analytics

... though house prices have yet to turn back up



Sources: Fiserv, Census Bureau, Moody's Analytics



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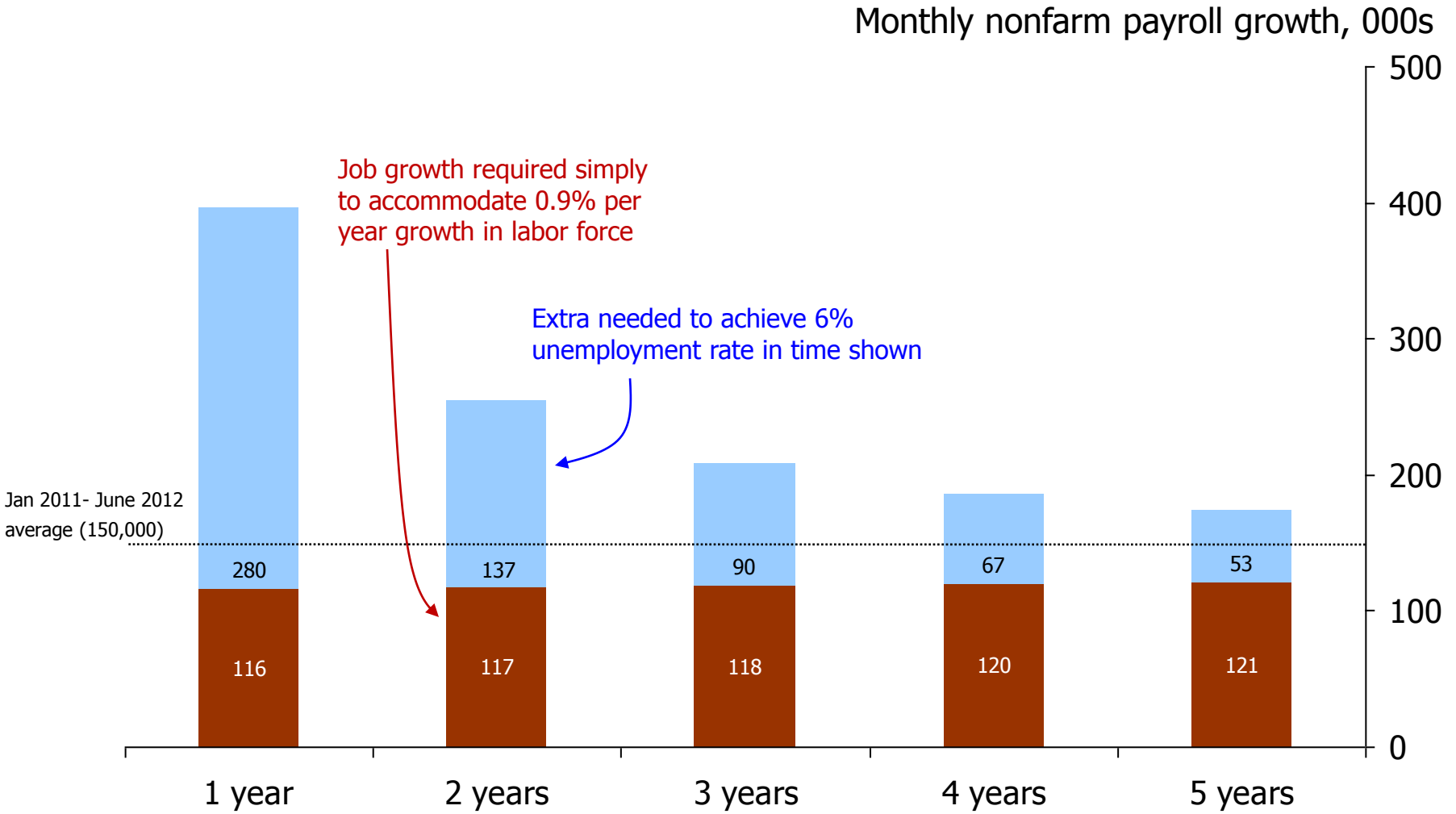
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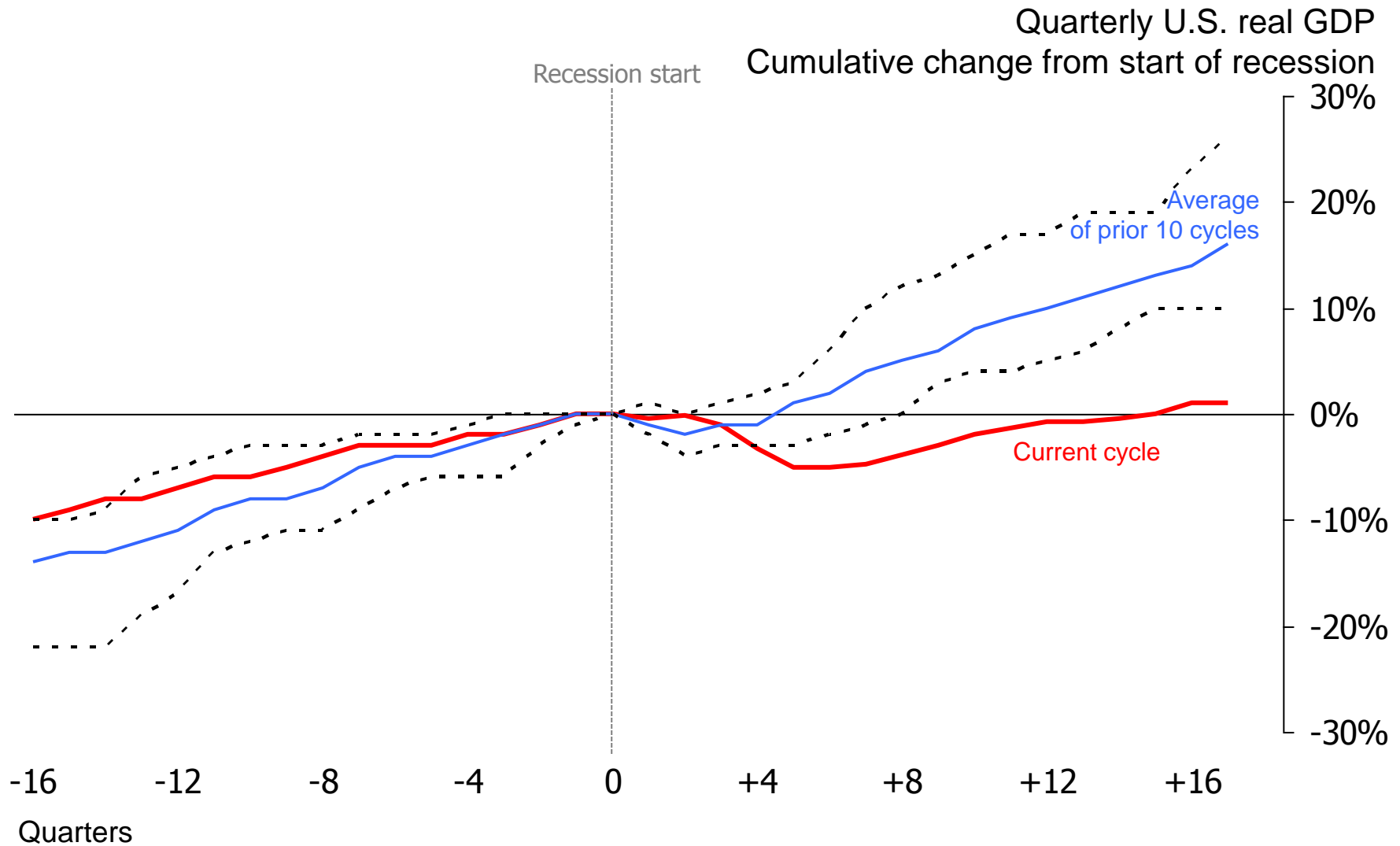
Monthly job gains over the past 18 months have barely exceeded new labor force growth



Sources: BLS; E&PA calculations

Assumes no change in current labor force participation rate of 63.8% and overall population growth of 0.9% per year.

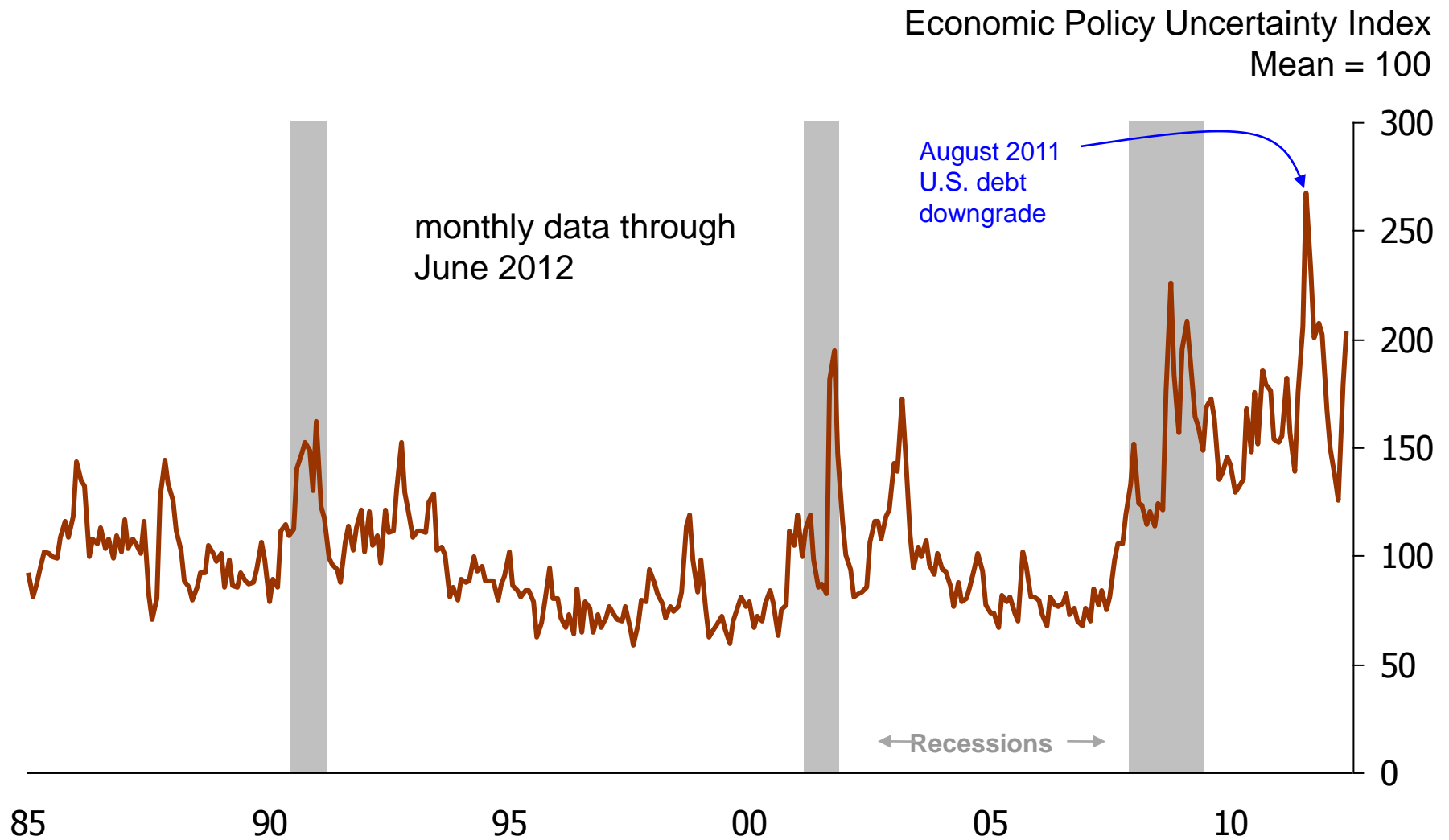
There's no doubt that since the recession, growth has been well less than average



Source: BEA

Dashed lines are minimum and maximum values for each month across the 10 pre-2007 cycles.

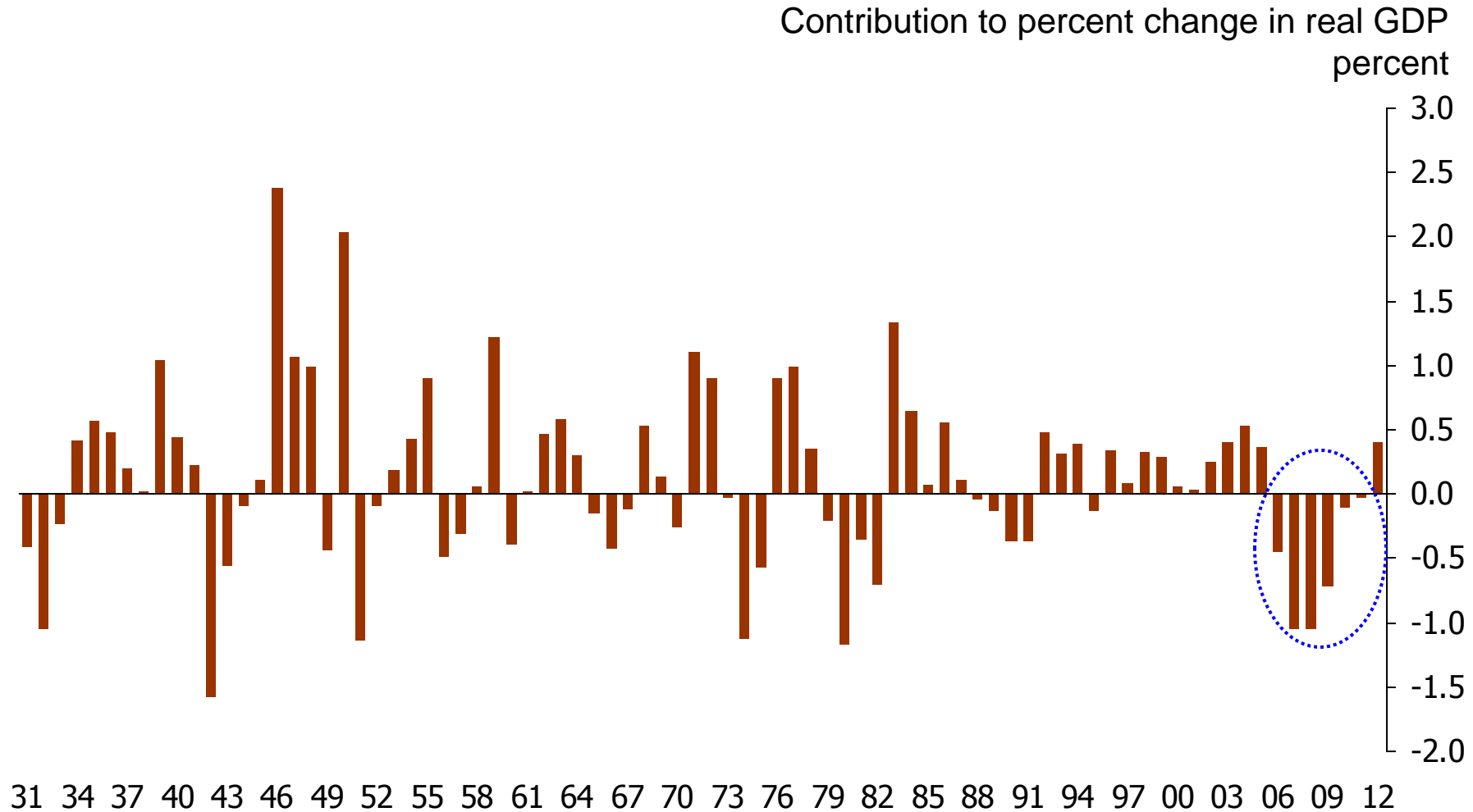
U.S. economic policy uncertainty is rising again, ahead of “fiscal cliff” concerns for 2013



Source: Haver Analytics (index developed by Scott Baker and Nicholas Bloom of Stanford University and Steven Davis of the University of Chicago)

Index measures the frequency of references to economic uncertainty and policy in Google news media catalog, the number of federal tax code provisions set to expire in future years, and the extent of disagreement among economic forecasters over future government purchases and the CPI.

After six years, new home construction is no longer weighing on overall economic growth

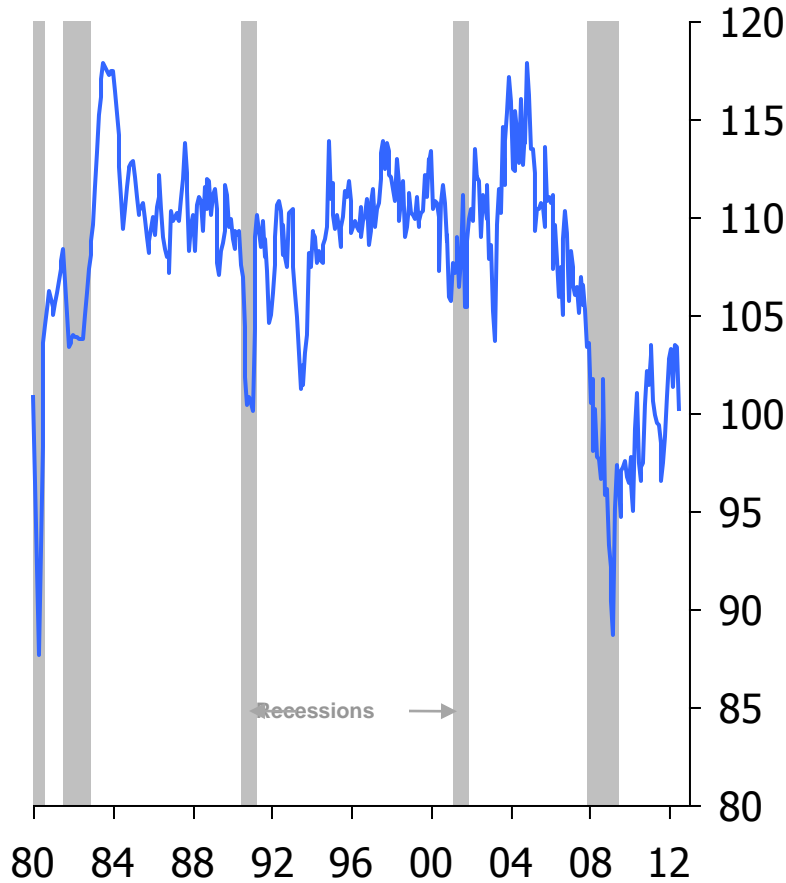


Source: BEA

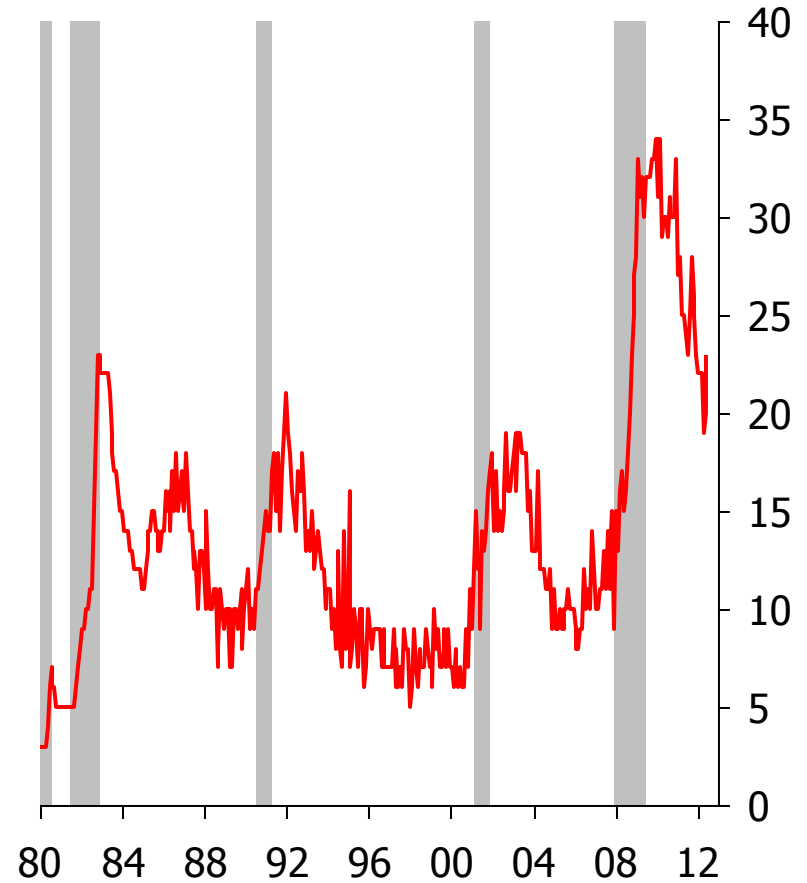
Despite some improvement, small business optimism remains low, and sales concerns high

NFIB small business survey

Optimism Index



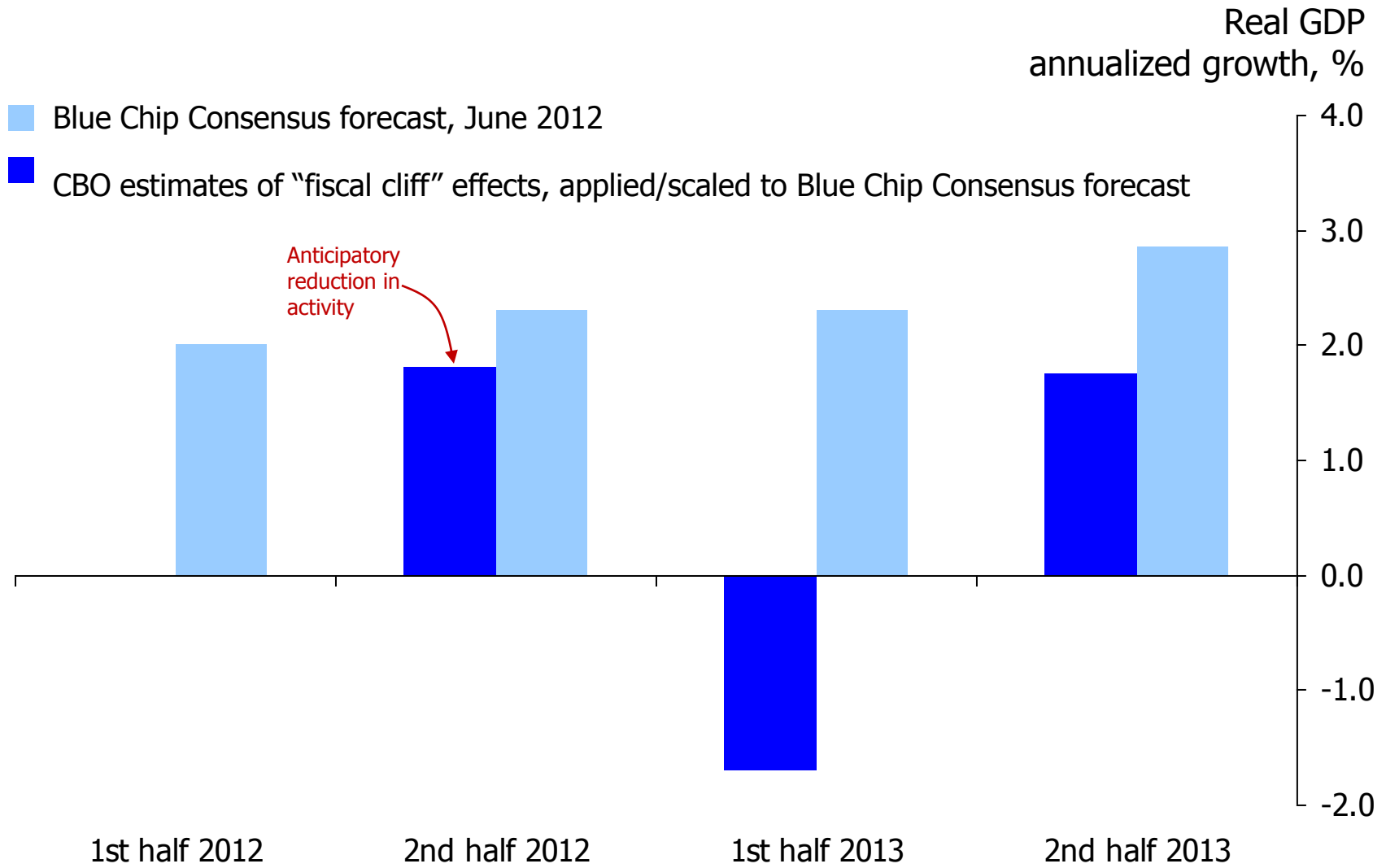
Reporting poor sales as most important problem



Sources: Federal Reserve, BEA

NFIB members responding to survey typically employ 10 people with annual sales of \$0.5 million.

Growth could be significantly reduced if U.S. falls off the "fiscal cliff"

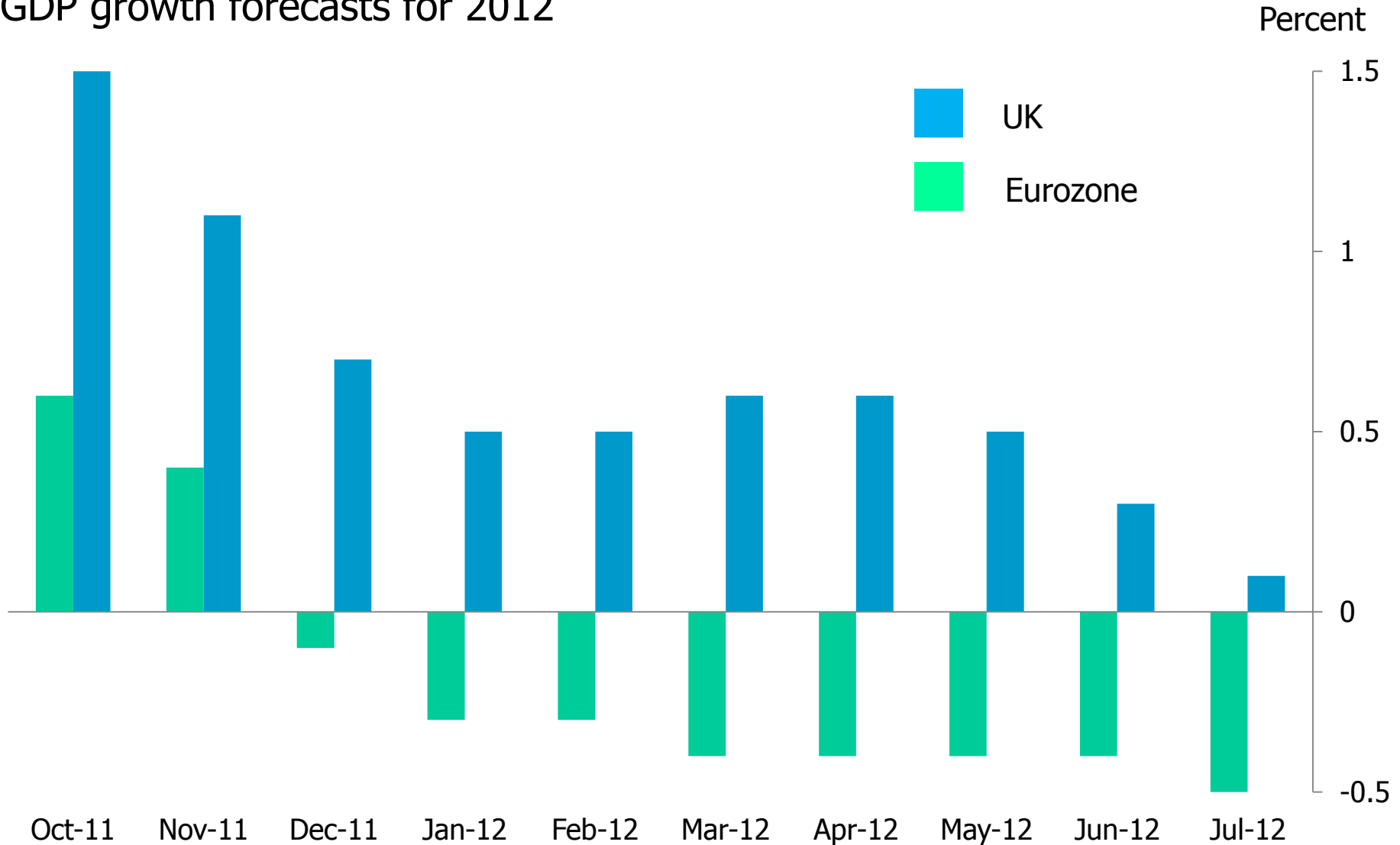


Sources: Blue Chip Consensus Forecasts June 2012; CBO analysis May 2012; E&PA calculations

"Fiscal Cliff" refers to expiration of various tax rate reductions, extended unemployment benefits, and other fiscal programs, as well as sequestration (mandatory reductions) in federal government spending set to begin in calendar year 2013. For details see: http://www.cbo.gov/sites/default/files/cbofiles/attachments/FiscalRestraint_0.pdf

Forecasts for Europe have steadily weakened, adding risk for U.S. economy and banks

GDP growth forecasts for 2012



Source: Consensus Forecasts