

Economic Update

Minority Depository Institutions Advisory Committee
April 7, 2015

Richard Nisenson, Director, Industry
and Regional Analysis

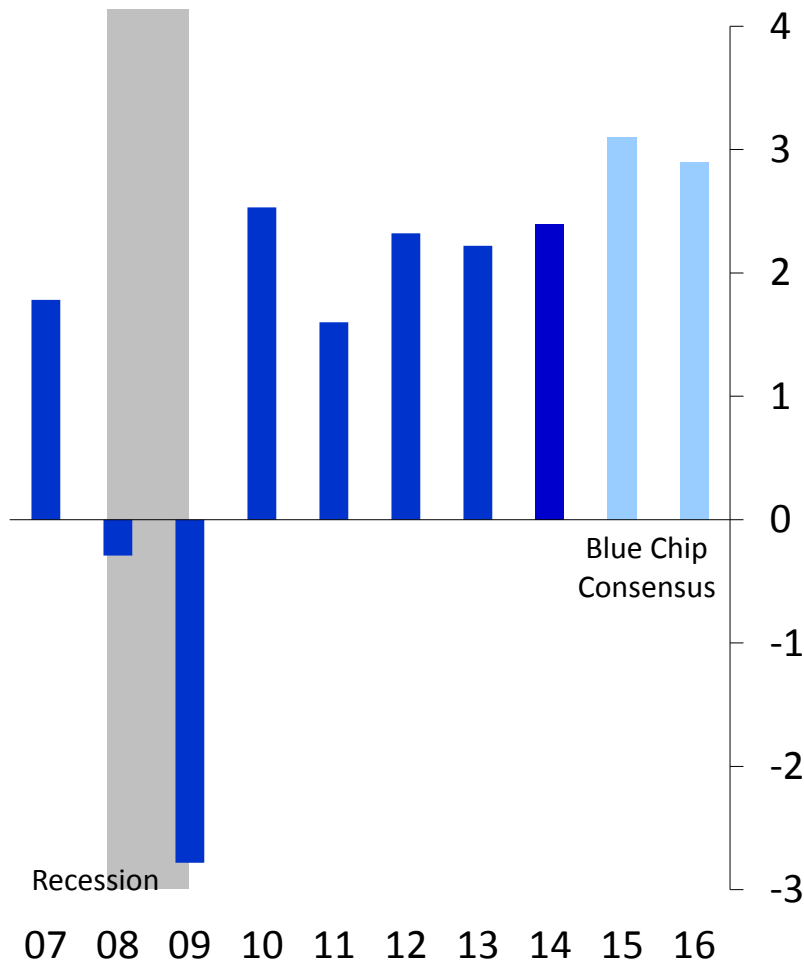


Agenda

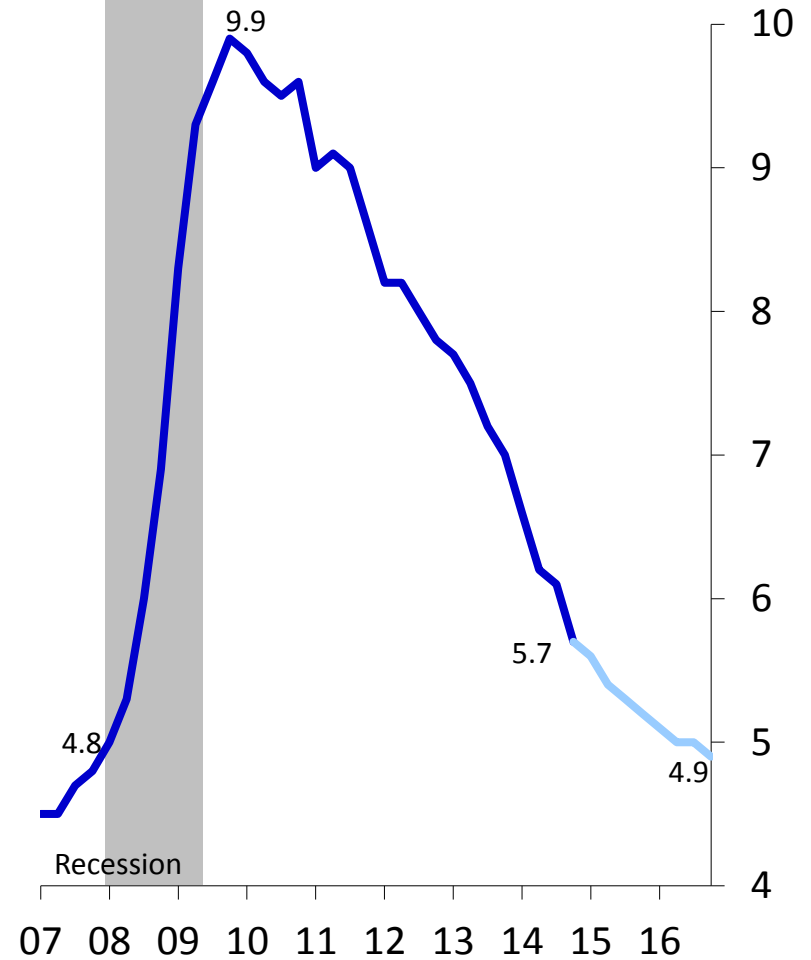
- U.S. economy strengthening; others weak or slowing
 - U.S. labor market
 - Potential rise in U.S. interest rates
 - Drop in oil prices
- Real estate markets continue to recover; extent of recovery varies across markets and property type
 - Home prices and affordability
 - Residential and commercial construction

Real GDP growth forecast for 2015 above 3%, driving unemployment towards 5%

Real GDP, annual % change



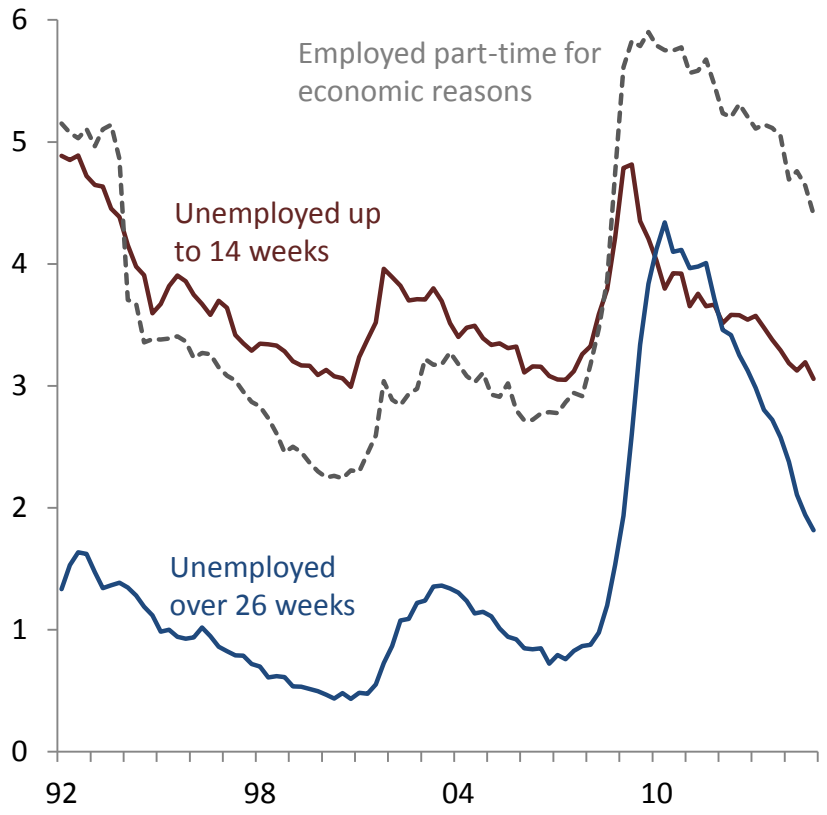
Quarterly average unemployment rate, %



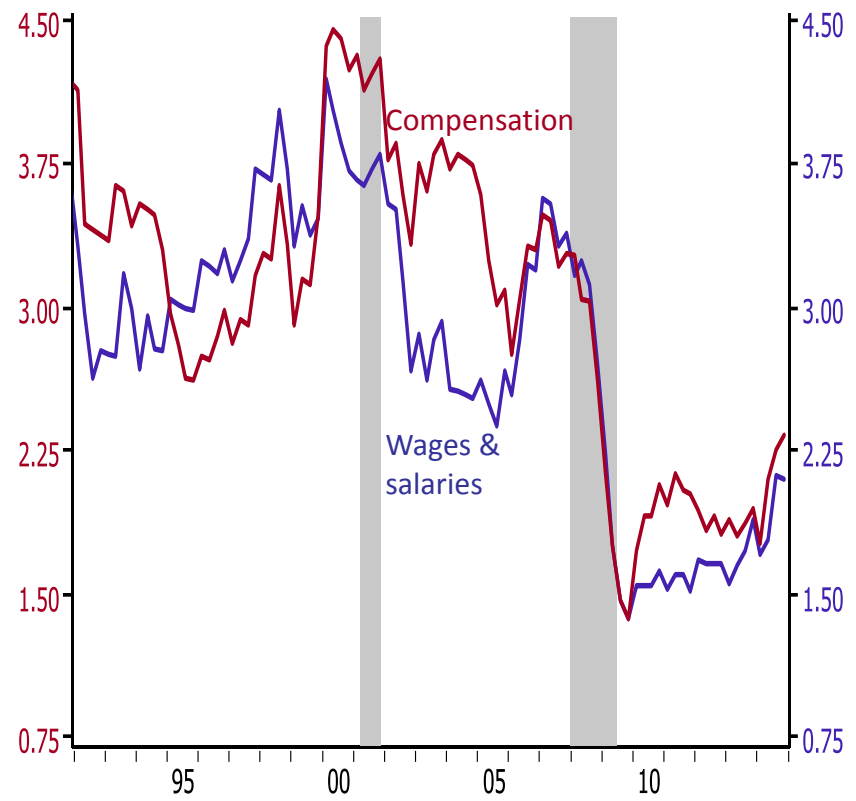
Sources: BEA, BLS, Blue Chip Economic Indicators (March 2015)

As long-term unemployment and part-timers being absorbed, earnings growth edging higher

Measures of labor underutilization, percent of labor force



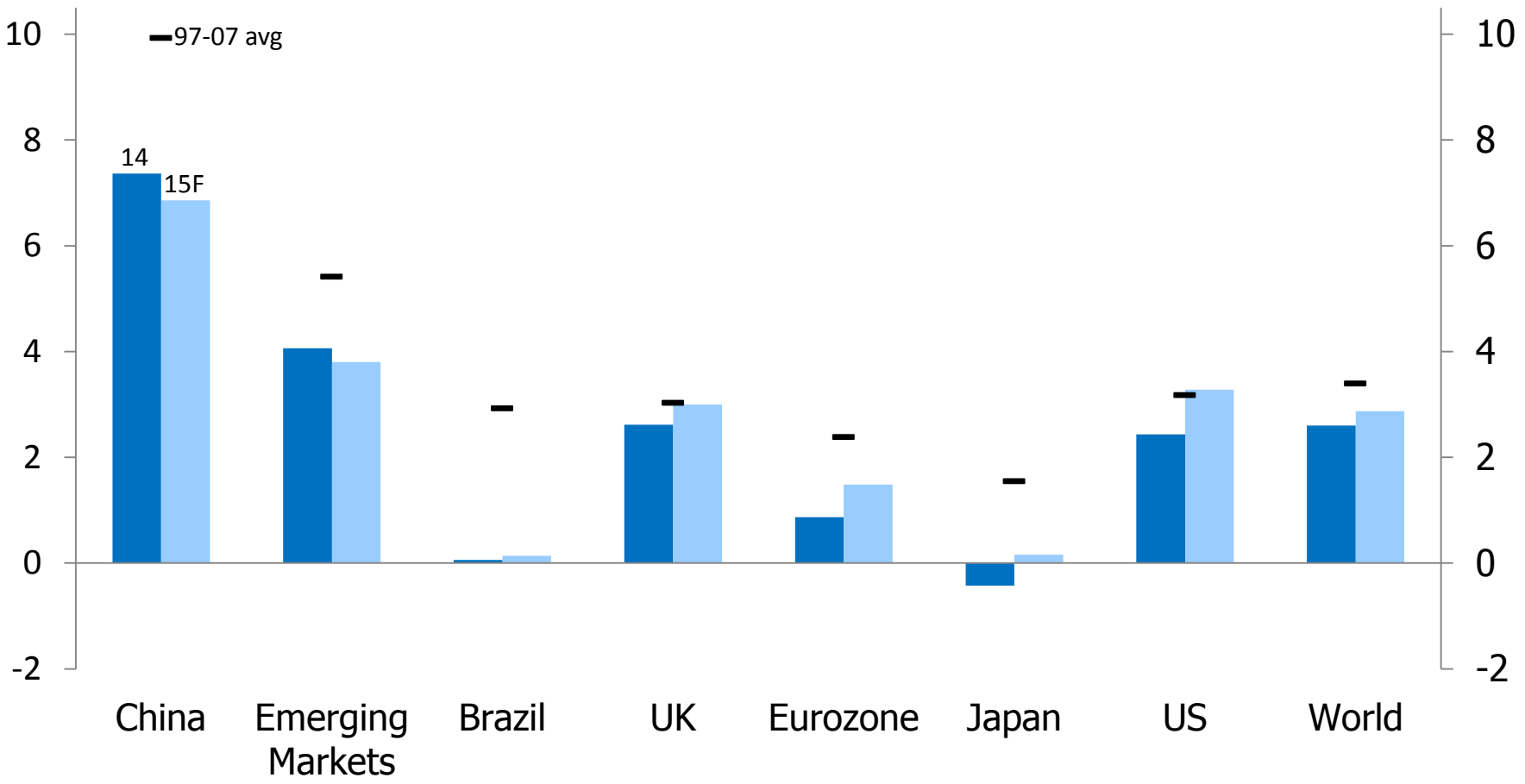
Employment Cost Index: year-to-year change, percent



Source: BLS (data through 4Q:2014)

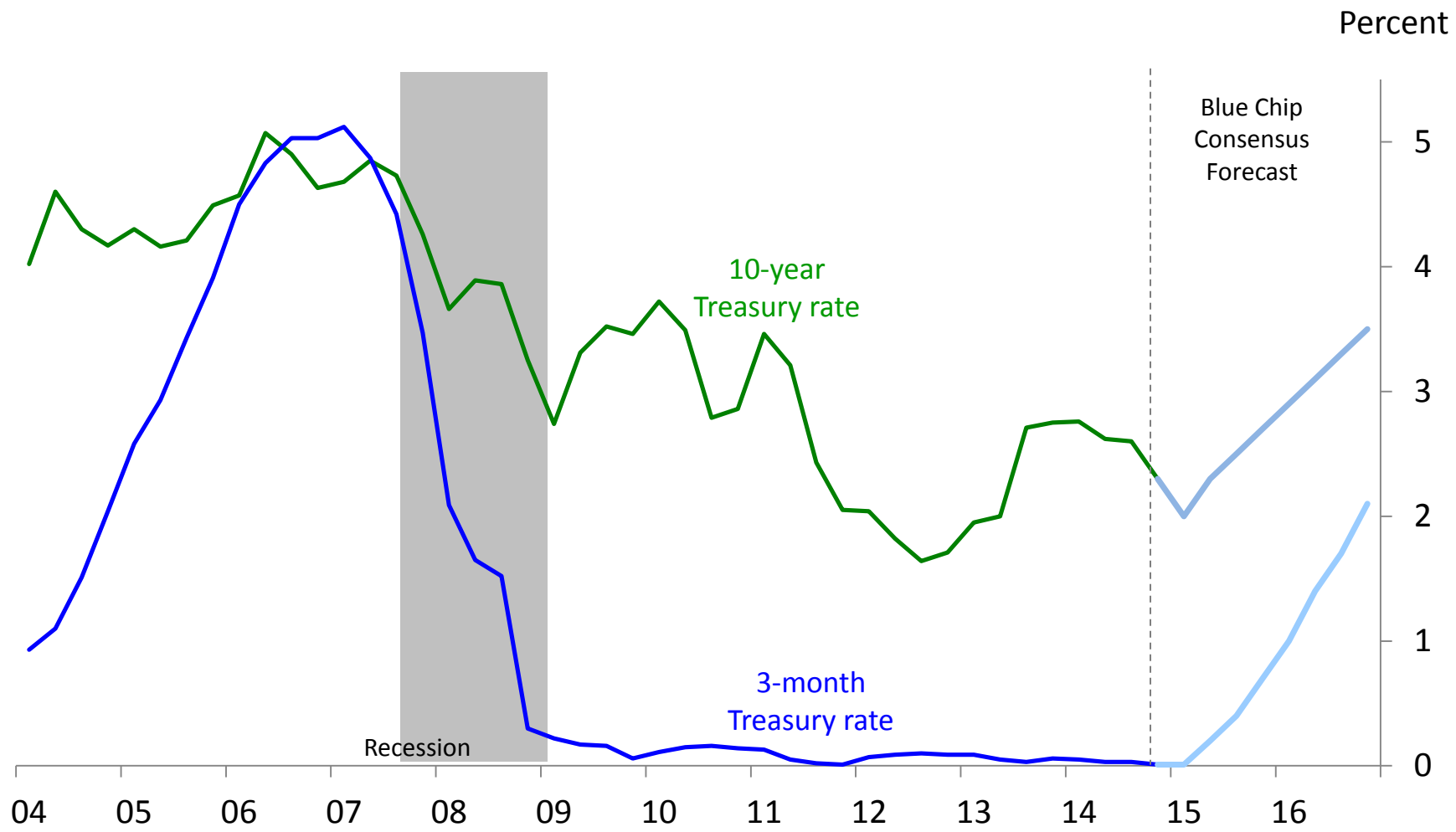
U.S. growth accelerating while EU and Japan struggle and emerging markets slow

Real GDP, annual % change



Source: Oxford Economics; January 2015 forecast

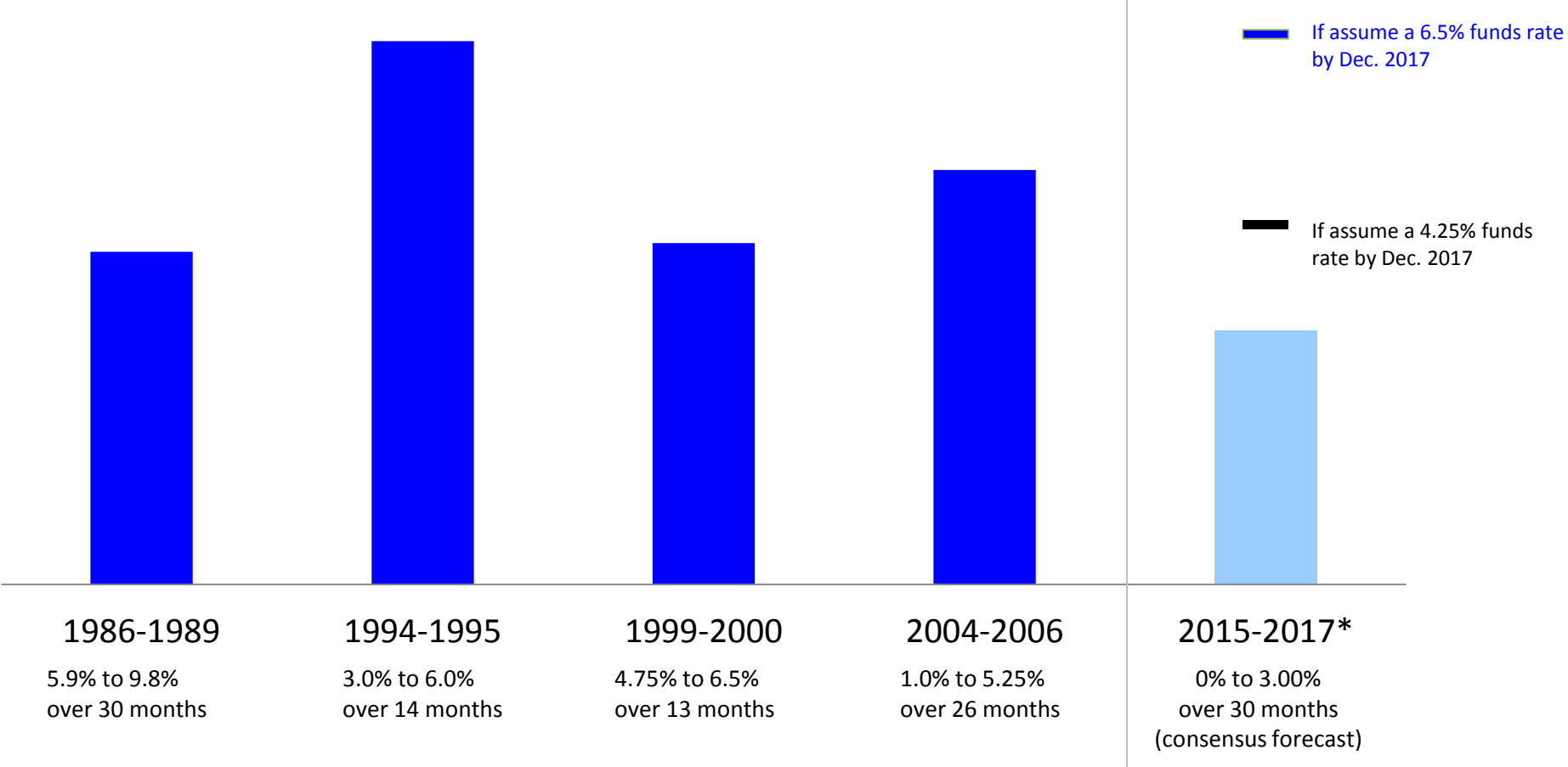
Treasury yield curve expected to flatten through 2015 into 2016



Sources: FRB, Blue Chip Consensus Forecast (March 2015). Historical data through 4Q:2014.

Coming rate increase cycle expected to be mild from a historical perspective

Intensity of federal funds rate increases
(basis point increase / # months from trough to peak)

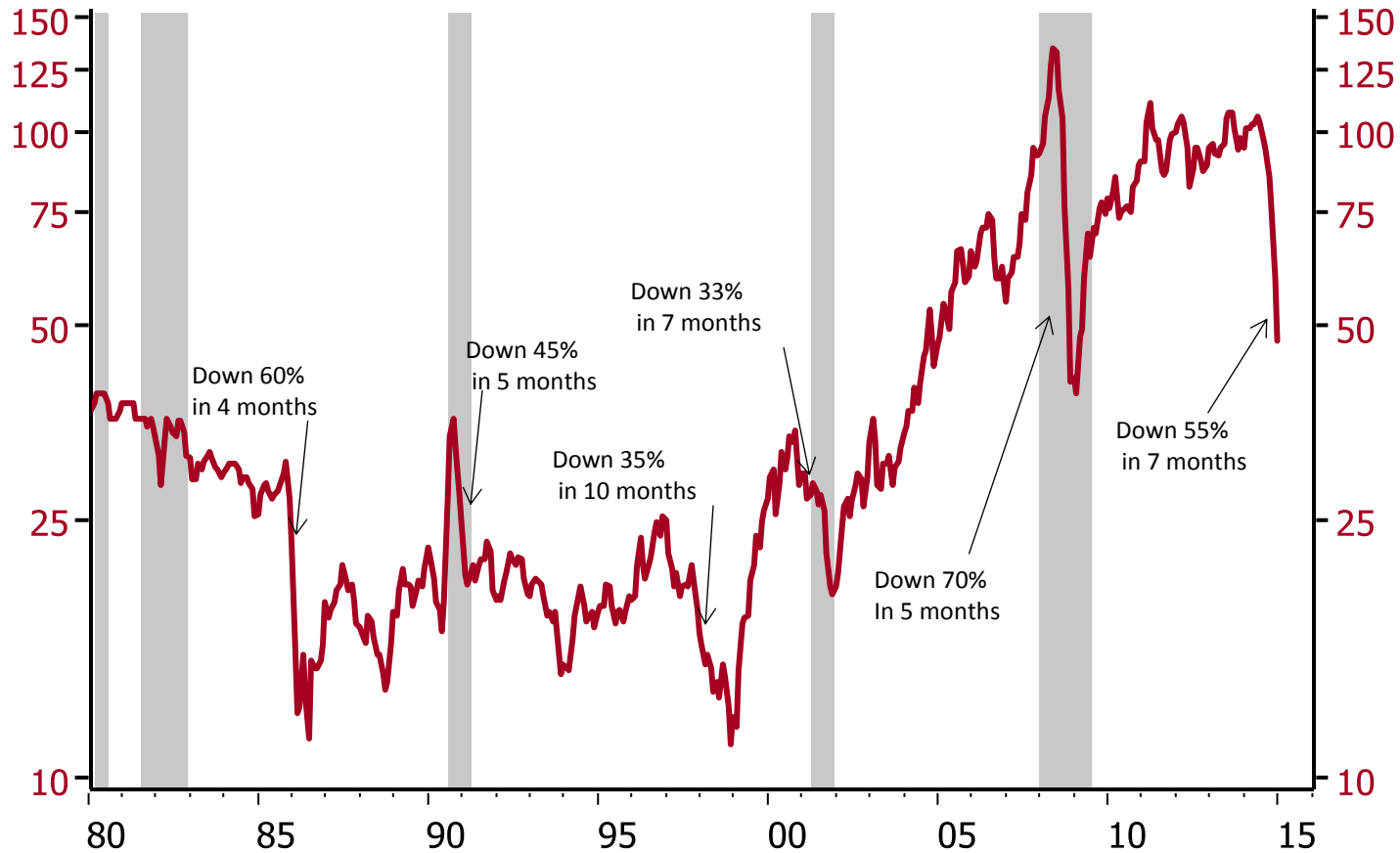


Source: FRB, OCC Econ calculations

* 2015-17 cycle assumes first rate increase at July 2015 FOMC meeting, rising to a peak fed funds rate target by December 2017. Assumption of a 3% fed funds rate target by December 2017 aligns with several baseline rate forecasts as of December 2014. Assumption of a 4.25% fed funds rate target by December 2017 reflects highest FOMC member forecast as of December 2014 (median forecast = 3.63%).

Sharp drops in oil prices are not uncommon; current cycle largely driven by supply growth

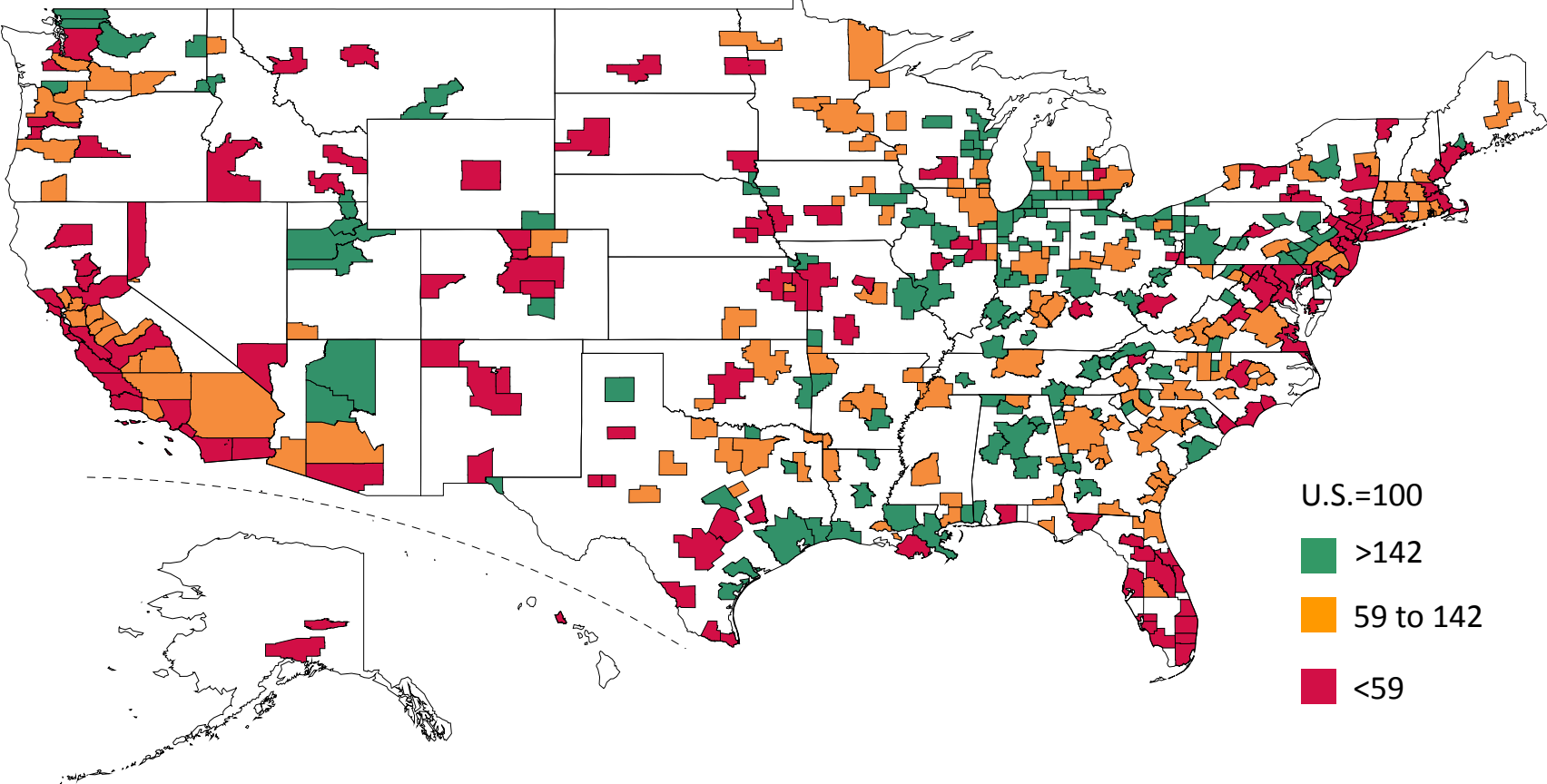
Price West Texas Intermediate Oil, \$/barrel (log scale)



Sources: EIA, WSJ, Haver Analytics (data through January 2015)

Manufacturers, particularly in Midwest and South, benefit from lower oil prices...

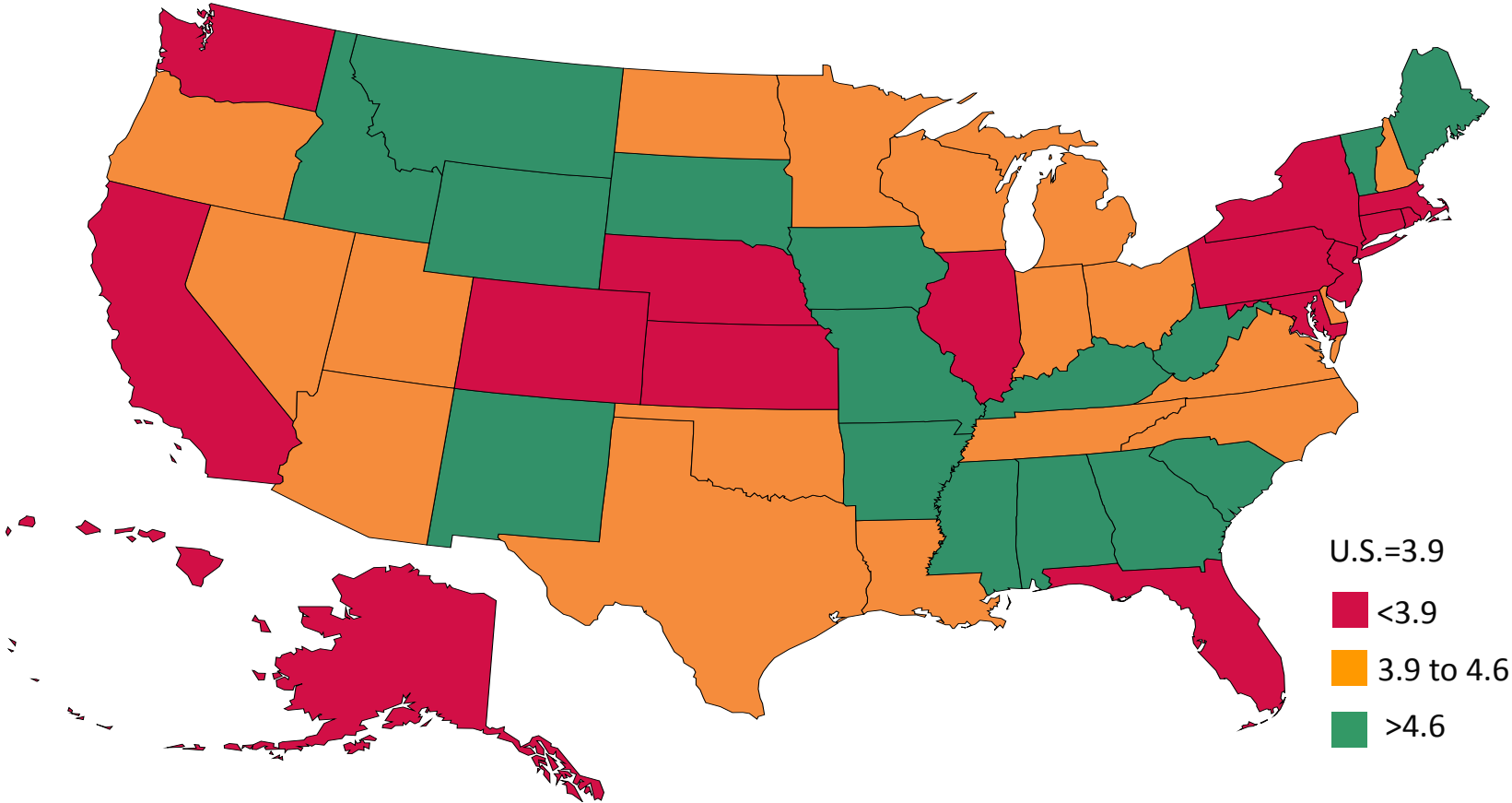
Petroleum used by manufacturing sector per dollar of output, 2013



Sources: Census Bureau, EIA, Moody's Analytics

...as do consumers, particularly in non-oil South and mountain states...

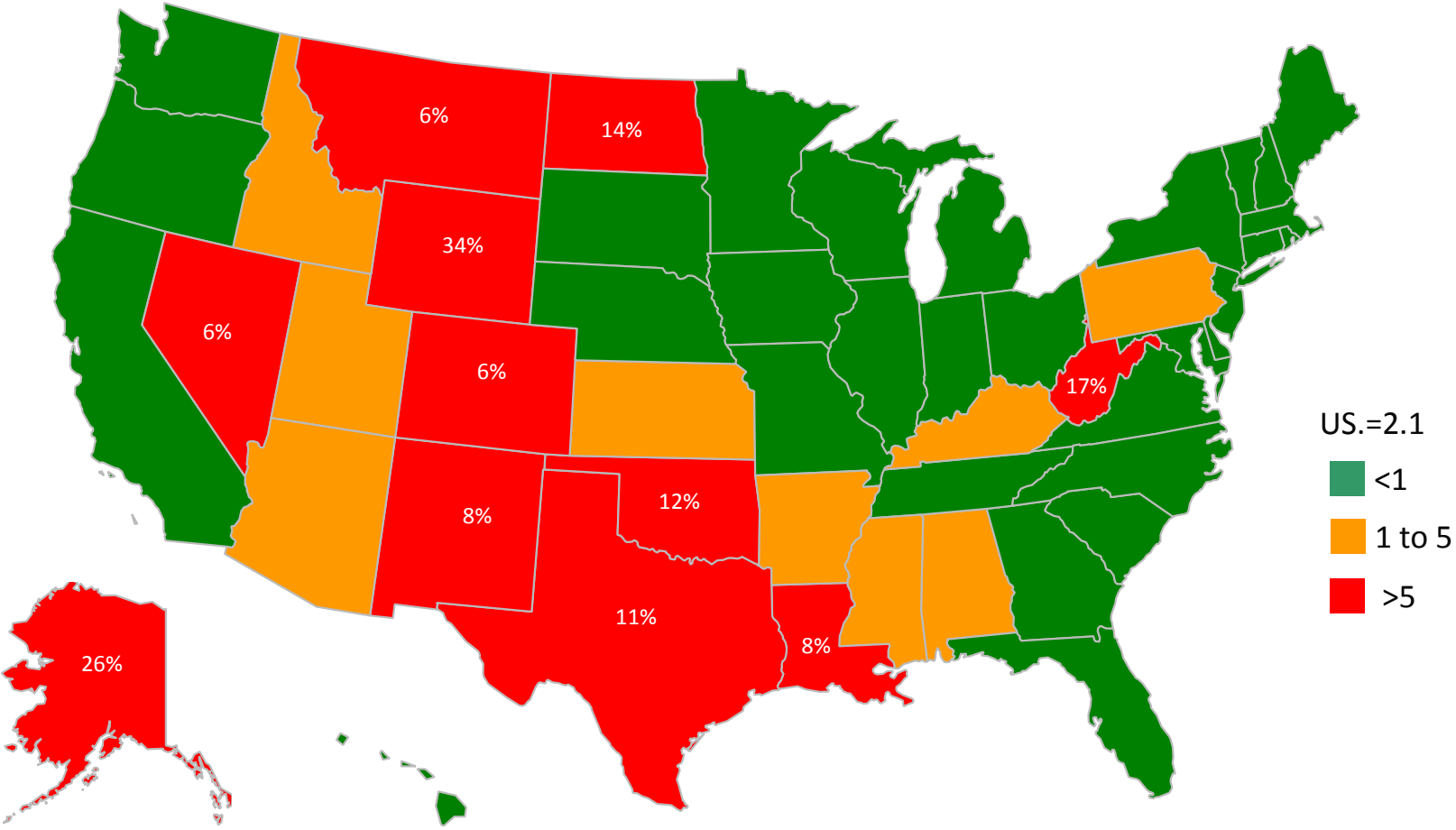
Gasoline expenditure share of disposable income, %, 2012



Sources: BEA, EIA, Moody's Analytics

...but energy-producing states hurt by lower oil prices

Mining and extraction share of real GDP, %, 2013

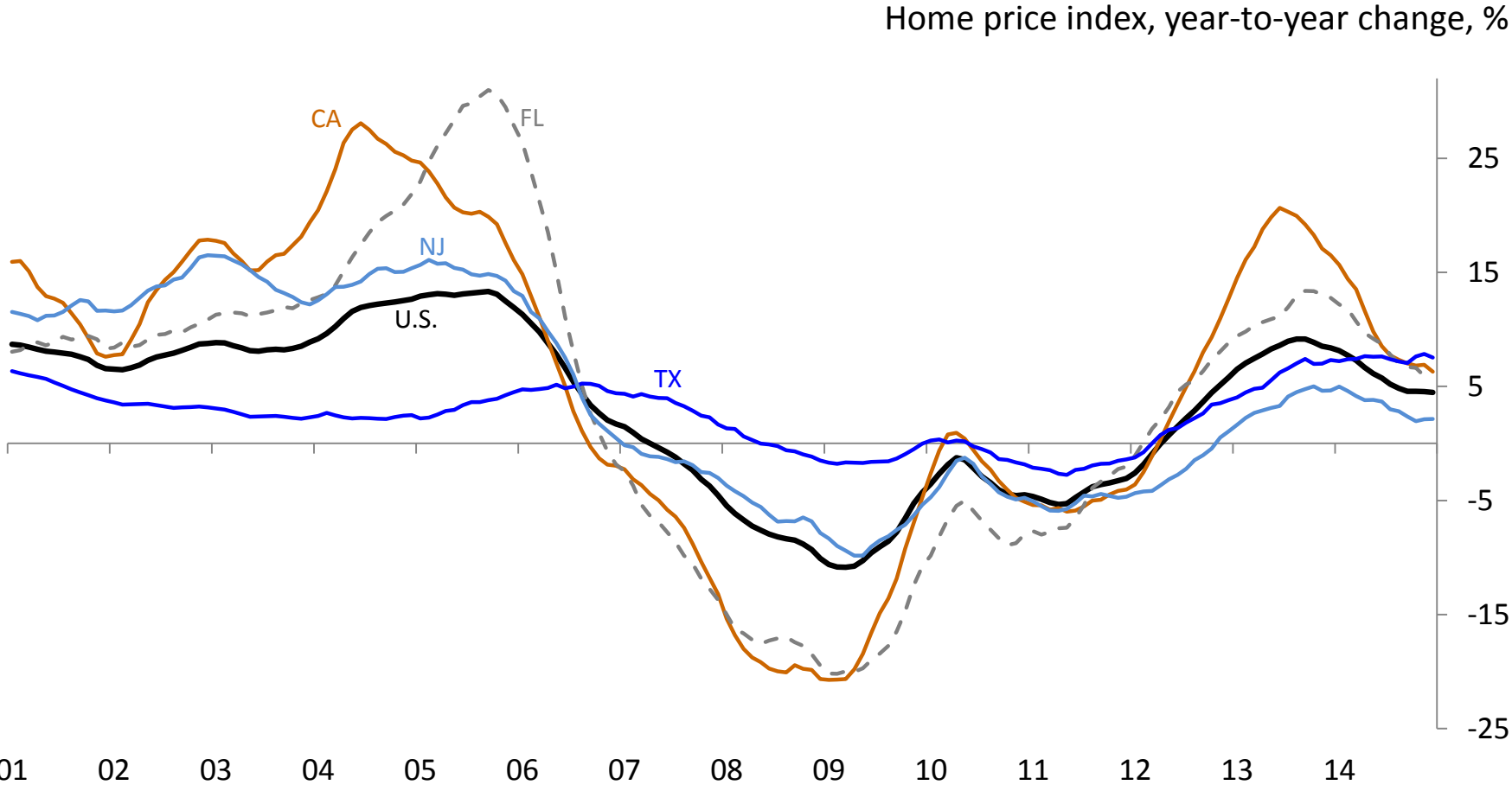


Sources: Census Bureau, EIA, Moody's Analytics

Agenda

- U.S. economy strengthening; others weak or slowing
 - U.S. labor market
 - Potential rise in U.S. interest rates
 - Drop in oil prices
- Real estate markets continue to recover; extent of recovery varies across markets and property type
 - Home prices and affordability
 - Residential and commercial construction

Home price appreciation slowing in most states

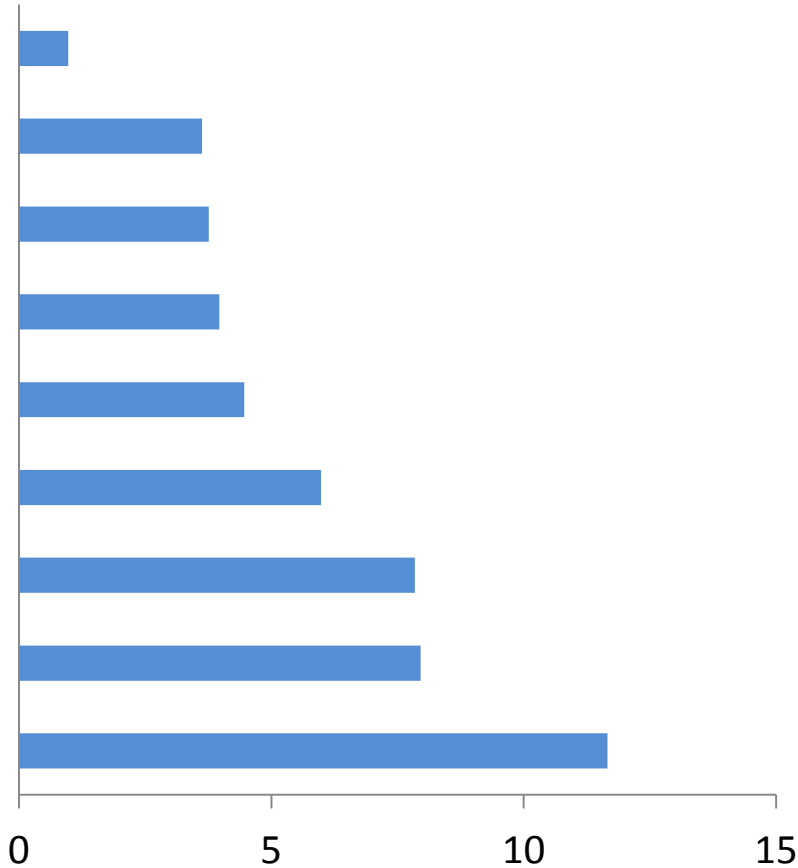


Source: Black Knight (formerly LPS), through December 2014

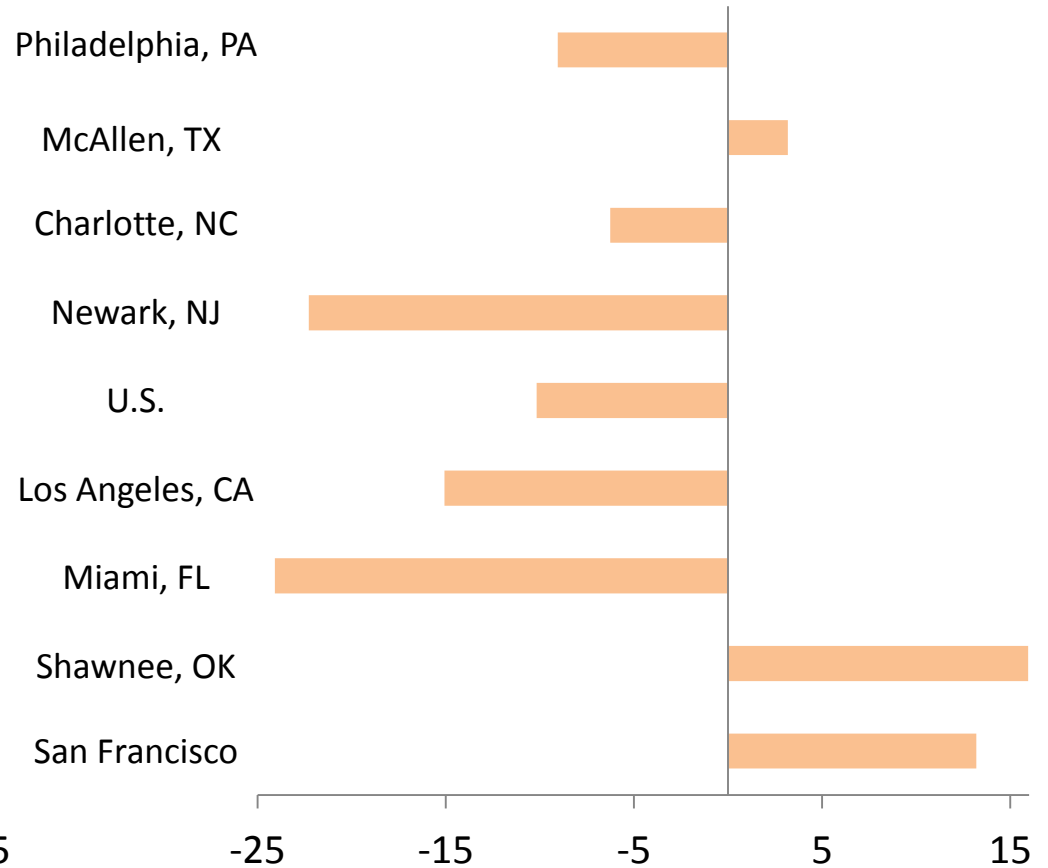
Note: Black Knight data represents prices of non-distressed transactions; they compute discount-corrected REO and short sale prices and combines them with non-distressed sale prices.

Home prices are rising, but remain below prior peak in some metros

change (%) Dec:13-Dec:14



change (%) prior peak to Dec:14

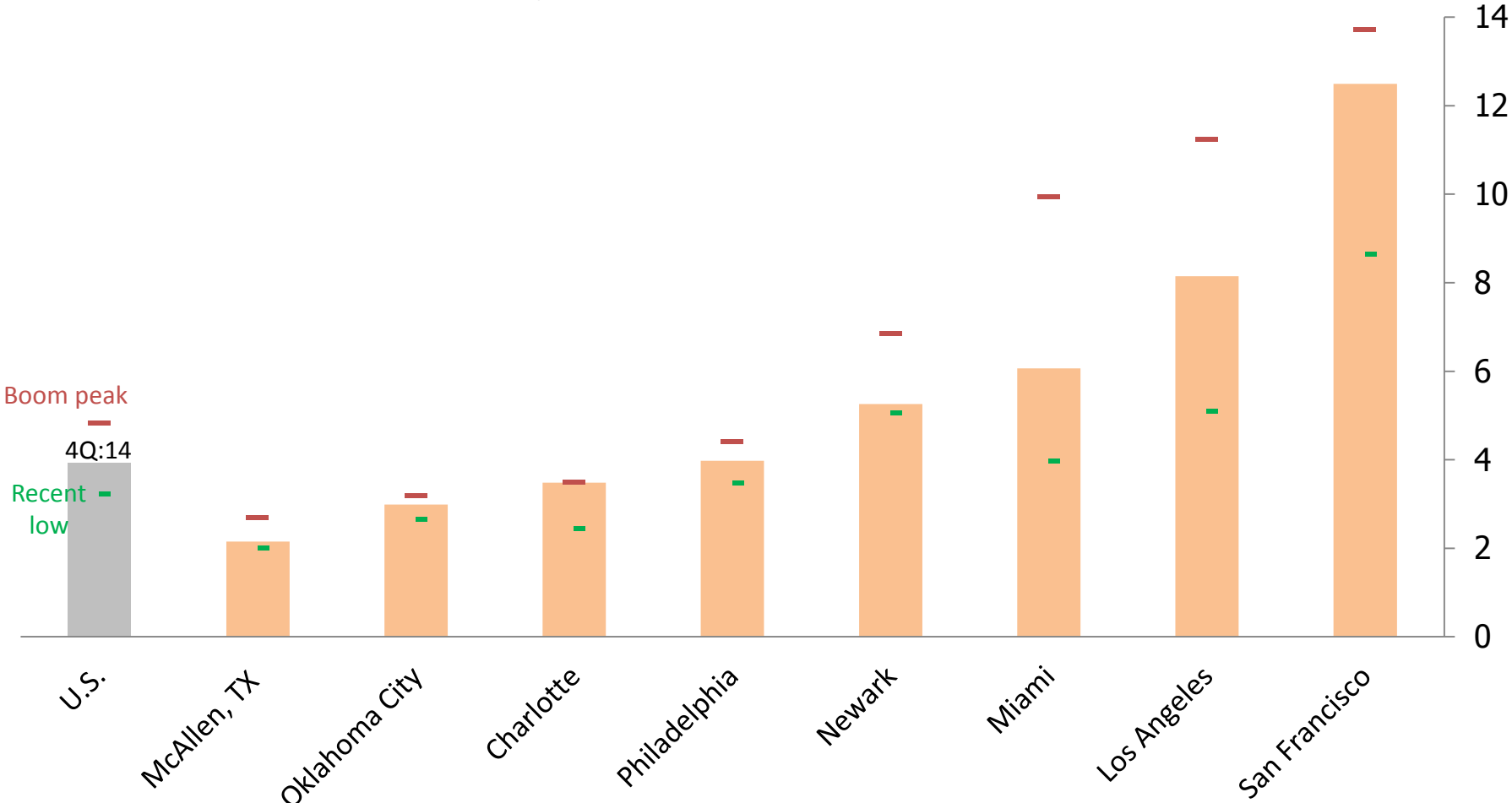


Source: Black Knight (formerly LPS), data through December 2014 at the metro division level.

Note: Represents prices of non-distressed transactions; Black Knight computes discount-corrected REO and short sale prices and combines them with non-distressed sale prices.

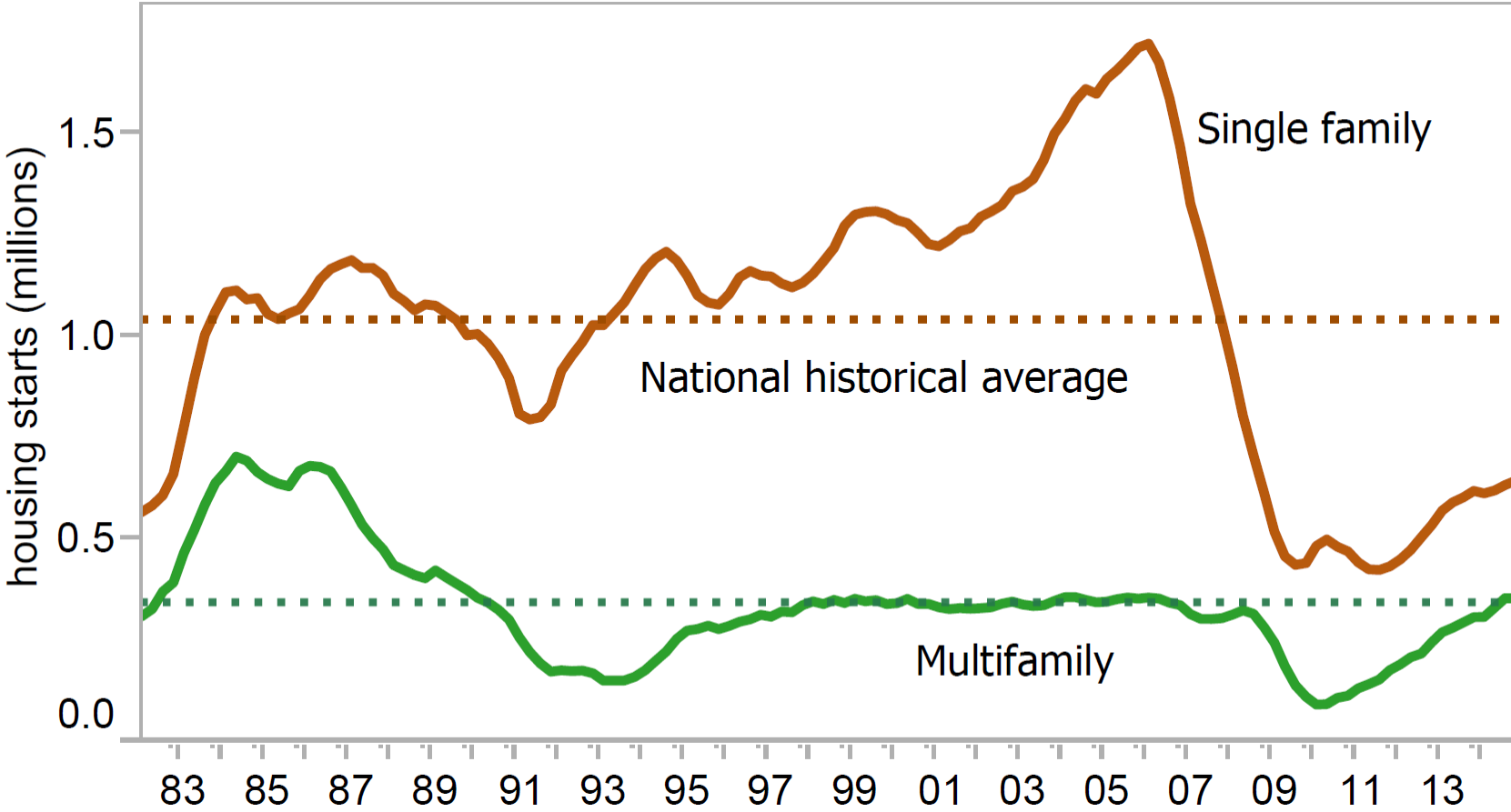
Relationship between home prices and income varies widely across local markets

Median home price to median household income ratio



Source: NAR, Census Bureau, Moody's Analytics; data at the metro division level

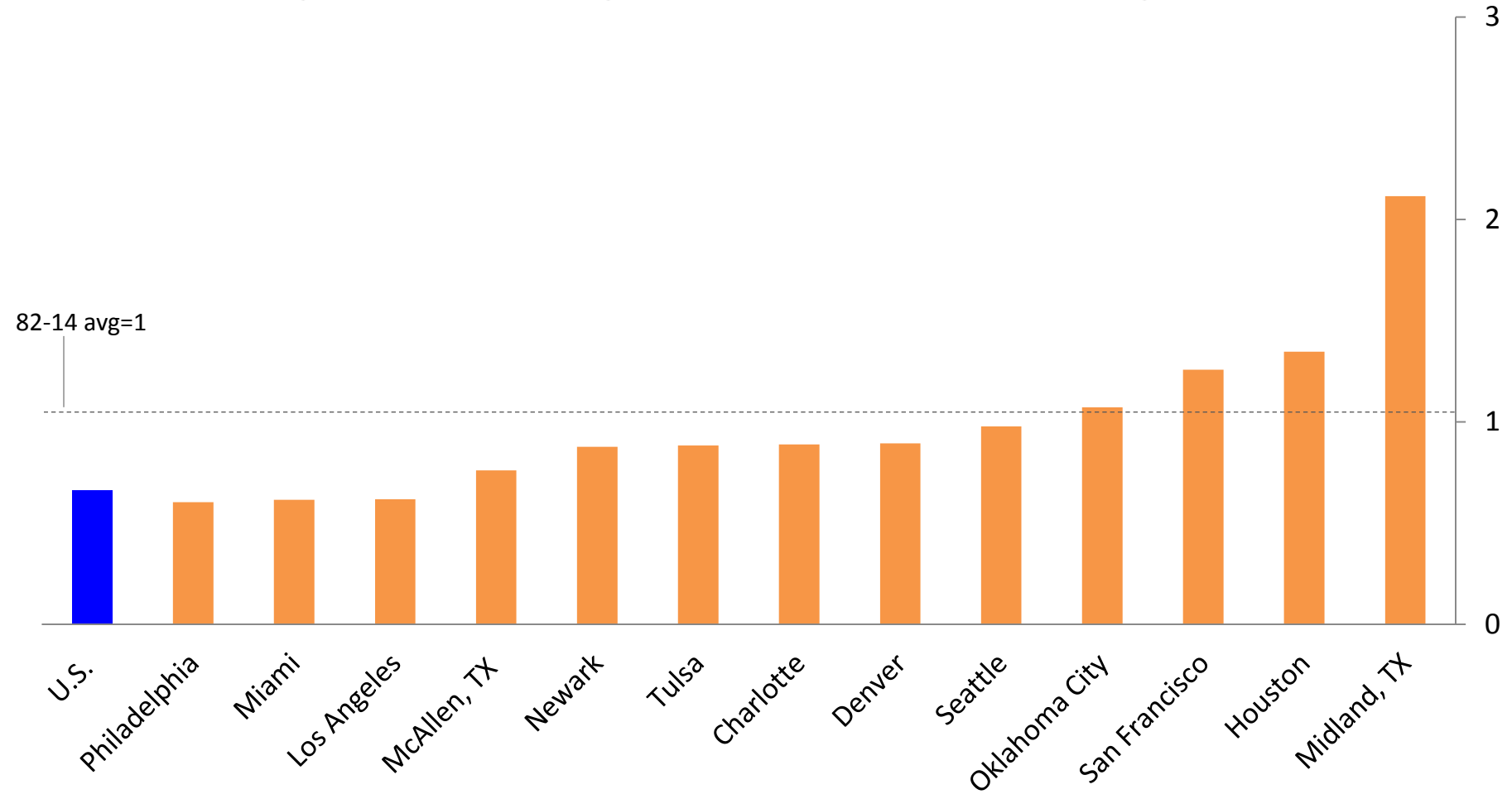
Multifamily starts back to historical averages; single-family starts remain subdued



Source: Black Knight (formerly LPS), through December 2014
Note: Black Knight data represents prices of non-distressed transactions; they compute discount-corrected REO and short sale prices and combines them with non-distressed sale prices.

Housing construction relative to area trend has recovered fastest in tech and energy areas

2012-2014 average annual housing starts index (1 = 82-14 average)

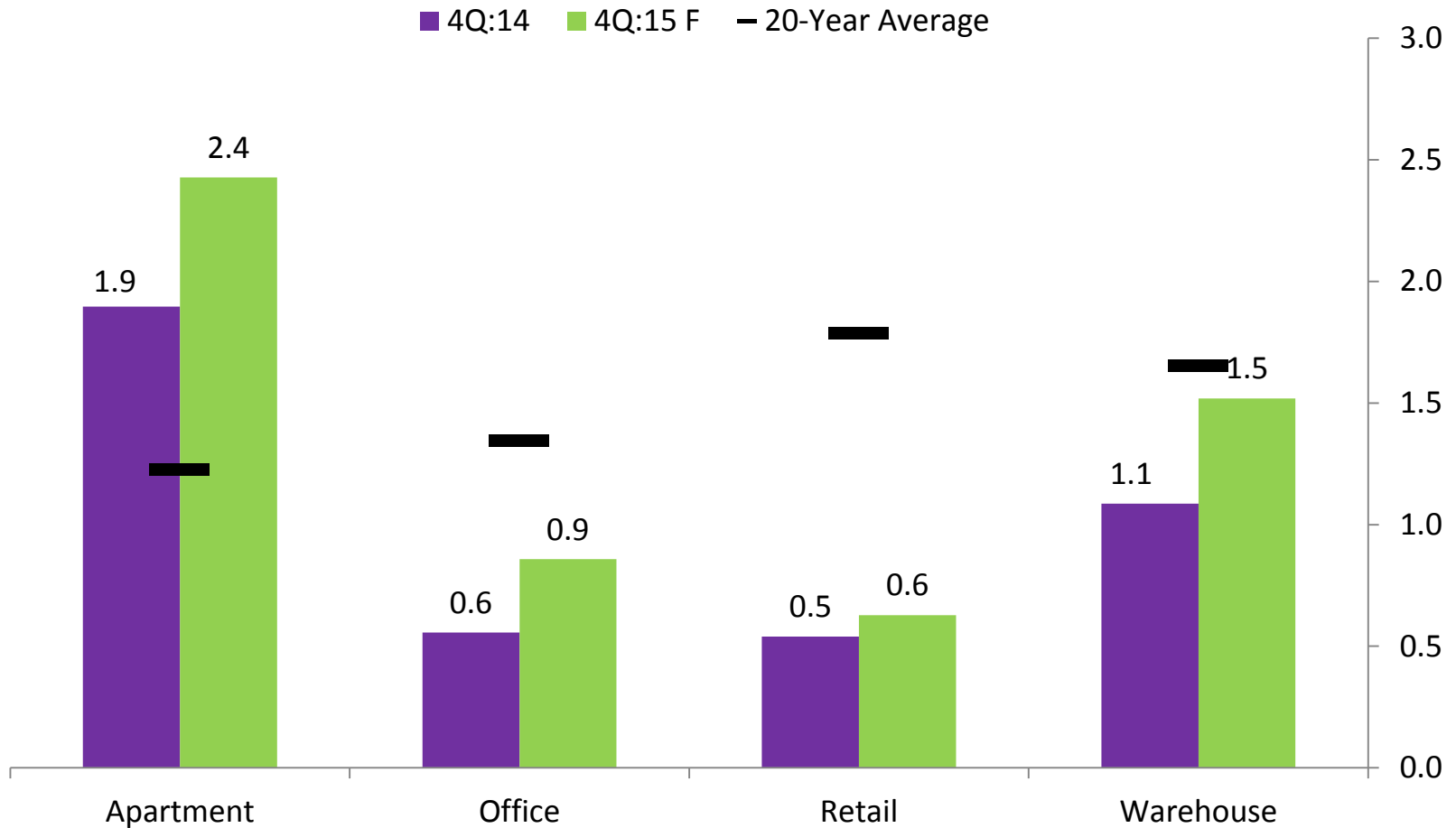


Source: Census Bureau, Moody's Analytics; note: housing starts includes multifamily units; data at the metro division level

Apartment construction surges while other property types remain below historical norms

Growth in existing CRE space by property type

y/y supply growth %



Summary

- U.S. economy strengthening; others weak or slowing
 - U.S. labor market tightening
 - Rise in U.S. interest rates complicated by international factors
 - Both gainers and losers from drop in oil prices
 - Real estate markets continue to recover; extent of recovery varies across markets and property type
 - Home price growth slowing and affordability varies widely across U.S.
 - Housing in tech and energy-reliant areas and apartments seeing fastest growth in construction