
The U.S. Economic Outlook

Presented by:

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Senior Economist

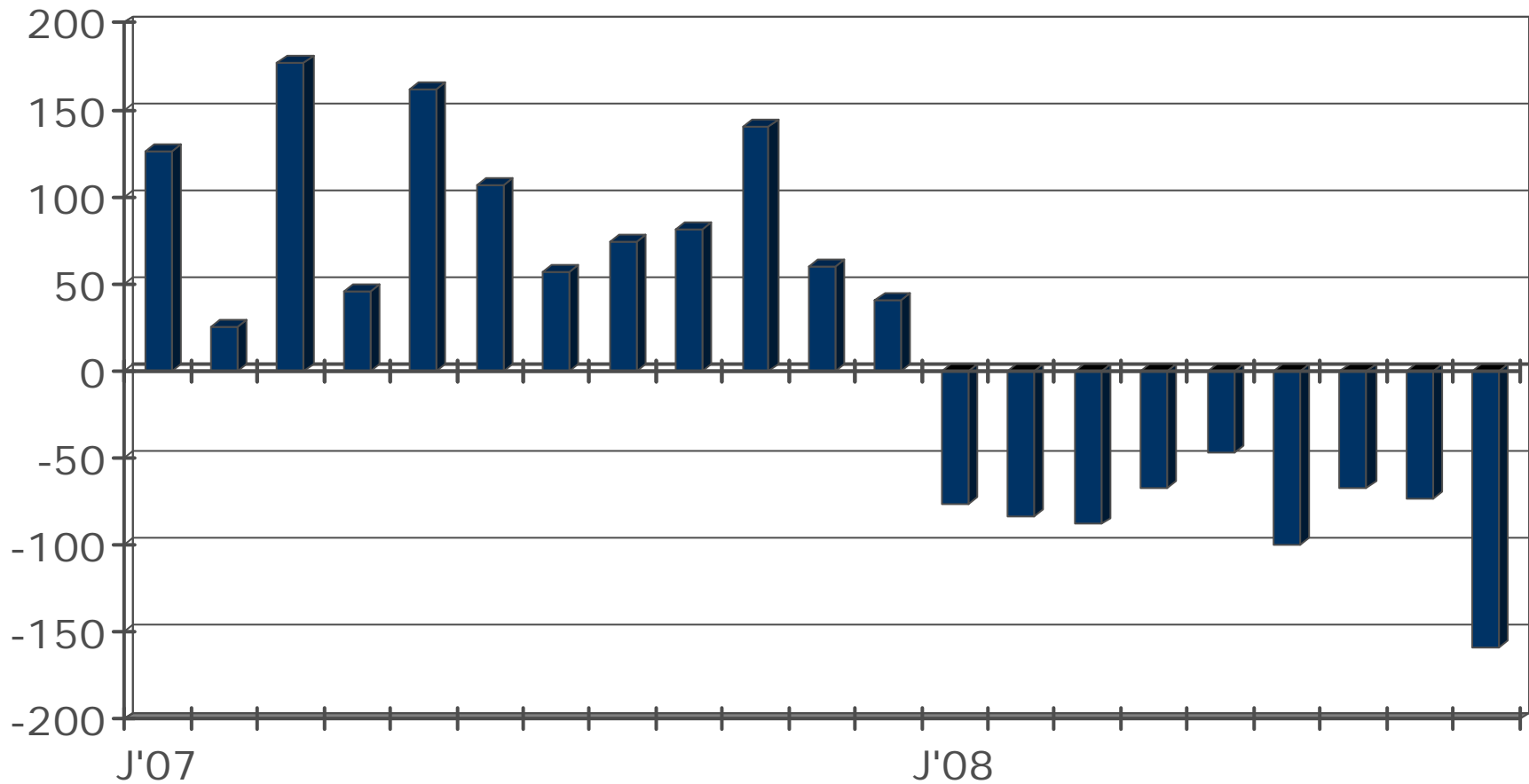
October 14, 2008

 **Moody's** | **Economy.com**

Current Conditions

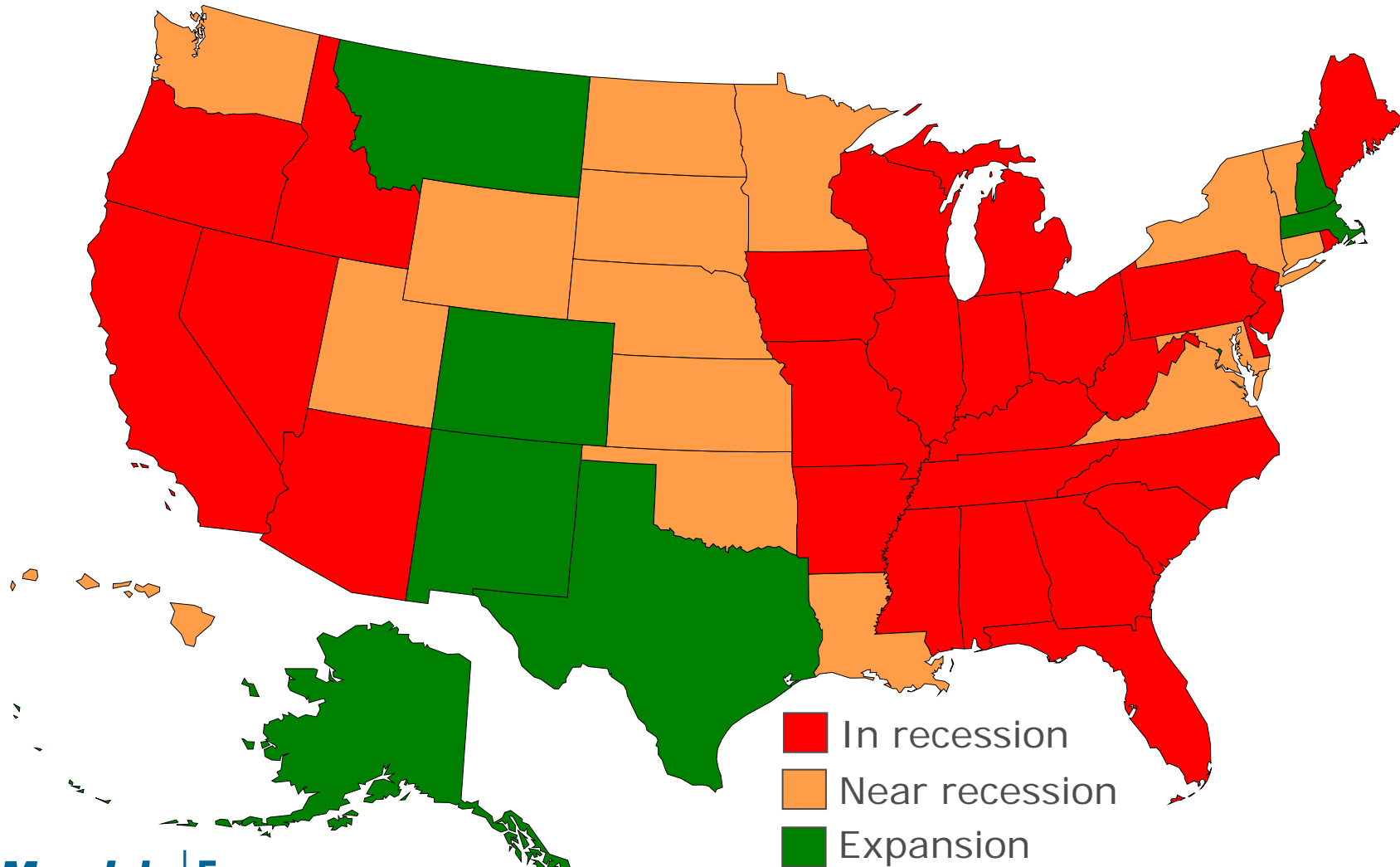
The Economy Is Contracting...

Change in payroll employment, ths



...In Many Places

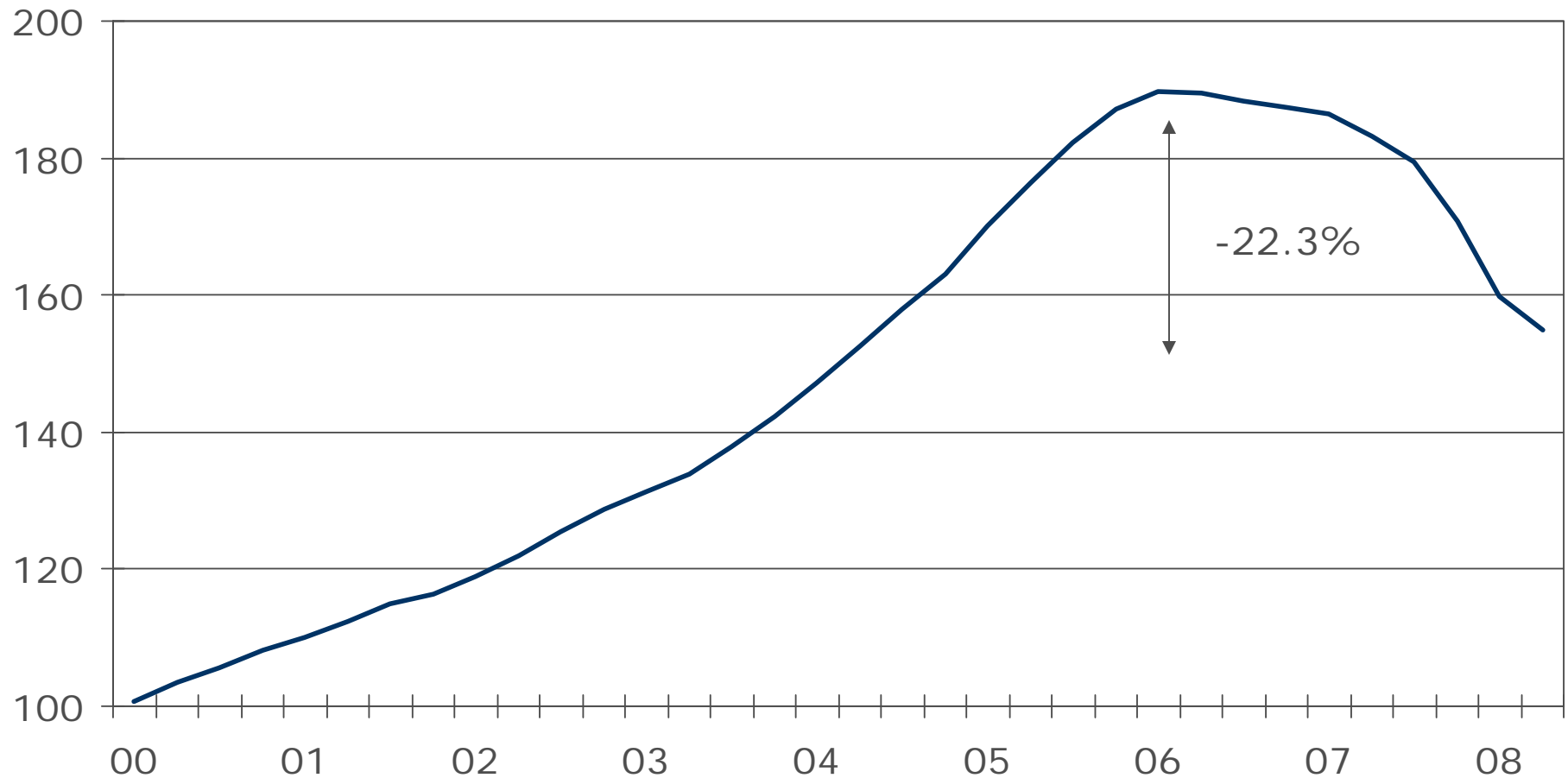
Based on employment and industrial production, August 2008



How Did We Get Into This Mess?

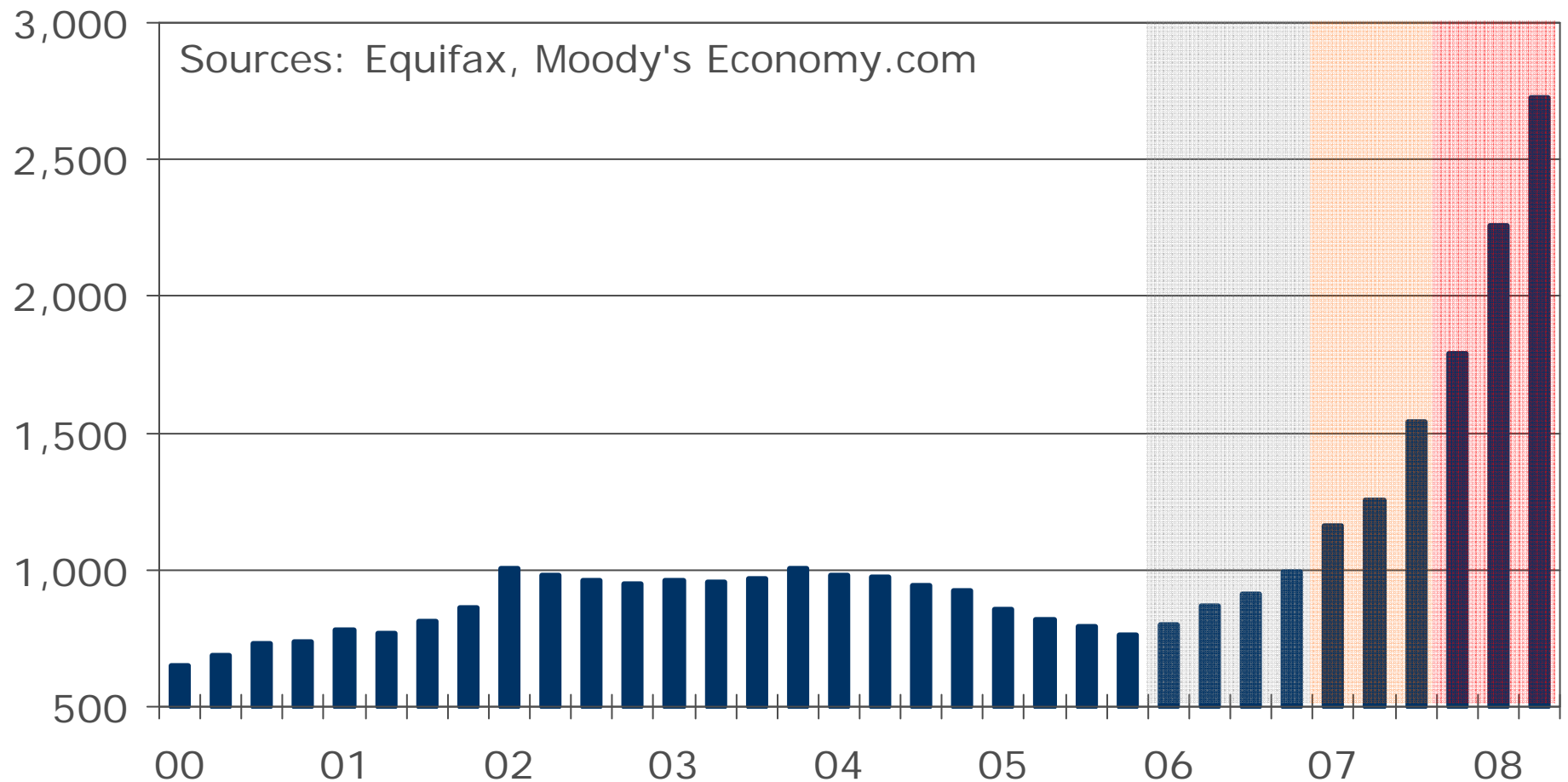
The Bursting Housing Bubble...

Fiserv Case-Shiller National House Price Index, 2000Q1=100



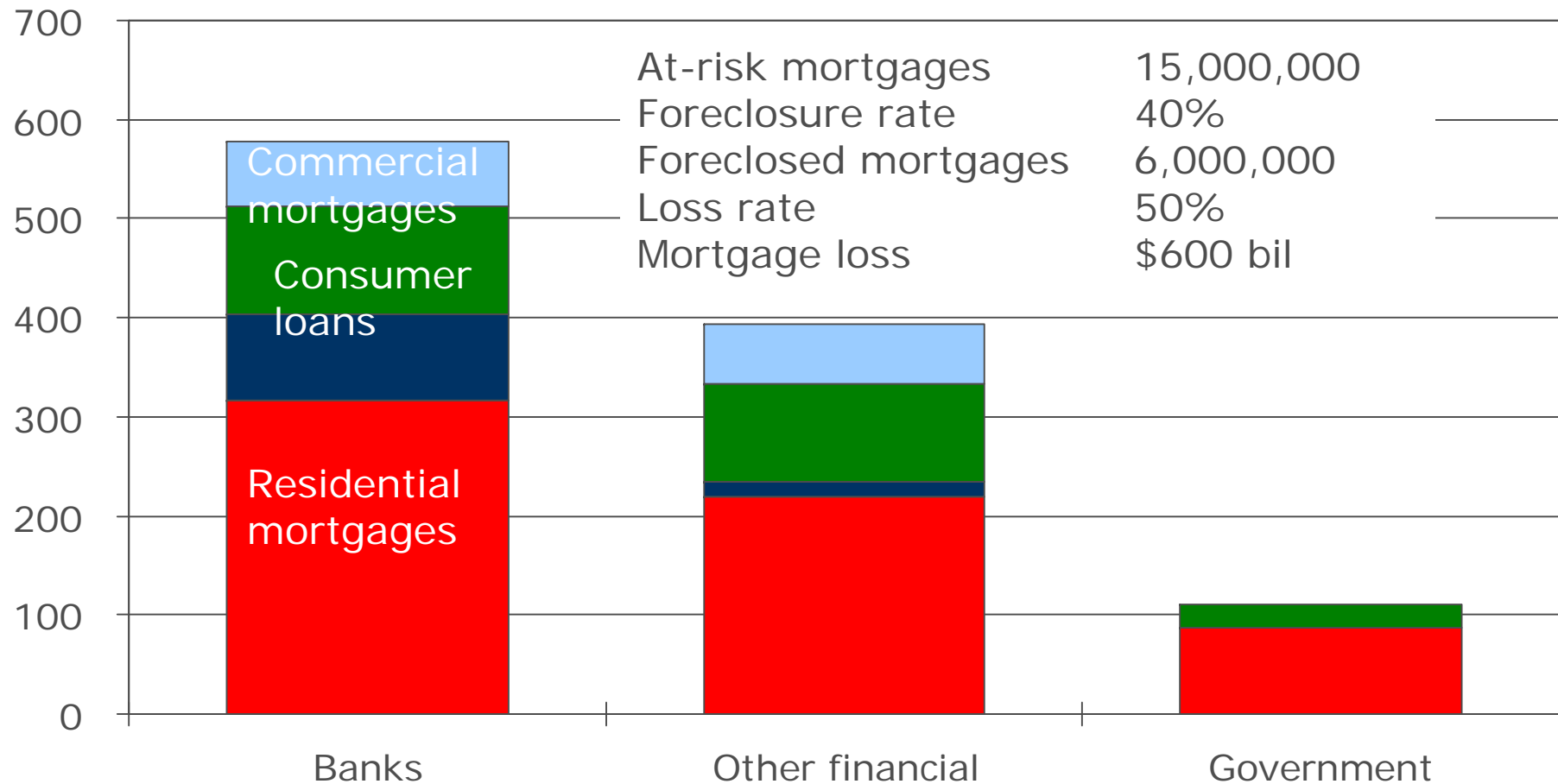
...Ignites a Mortgage Crisis...

First mortgage loan defaults, ths, SAAR



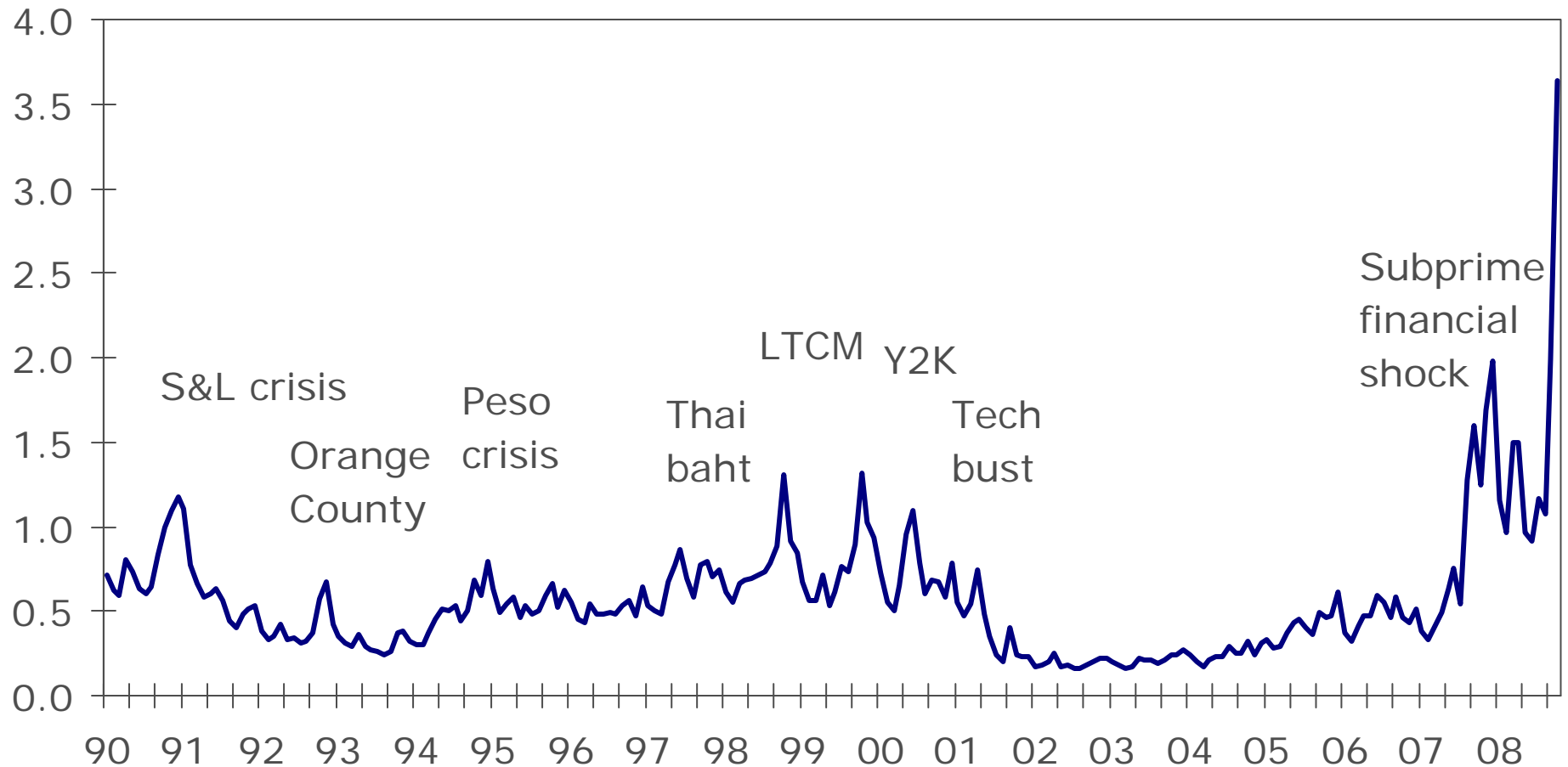
...Undermining the Financial System...

Projected losses on assets originated 2005Q1-2007Q4, \$ bil



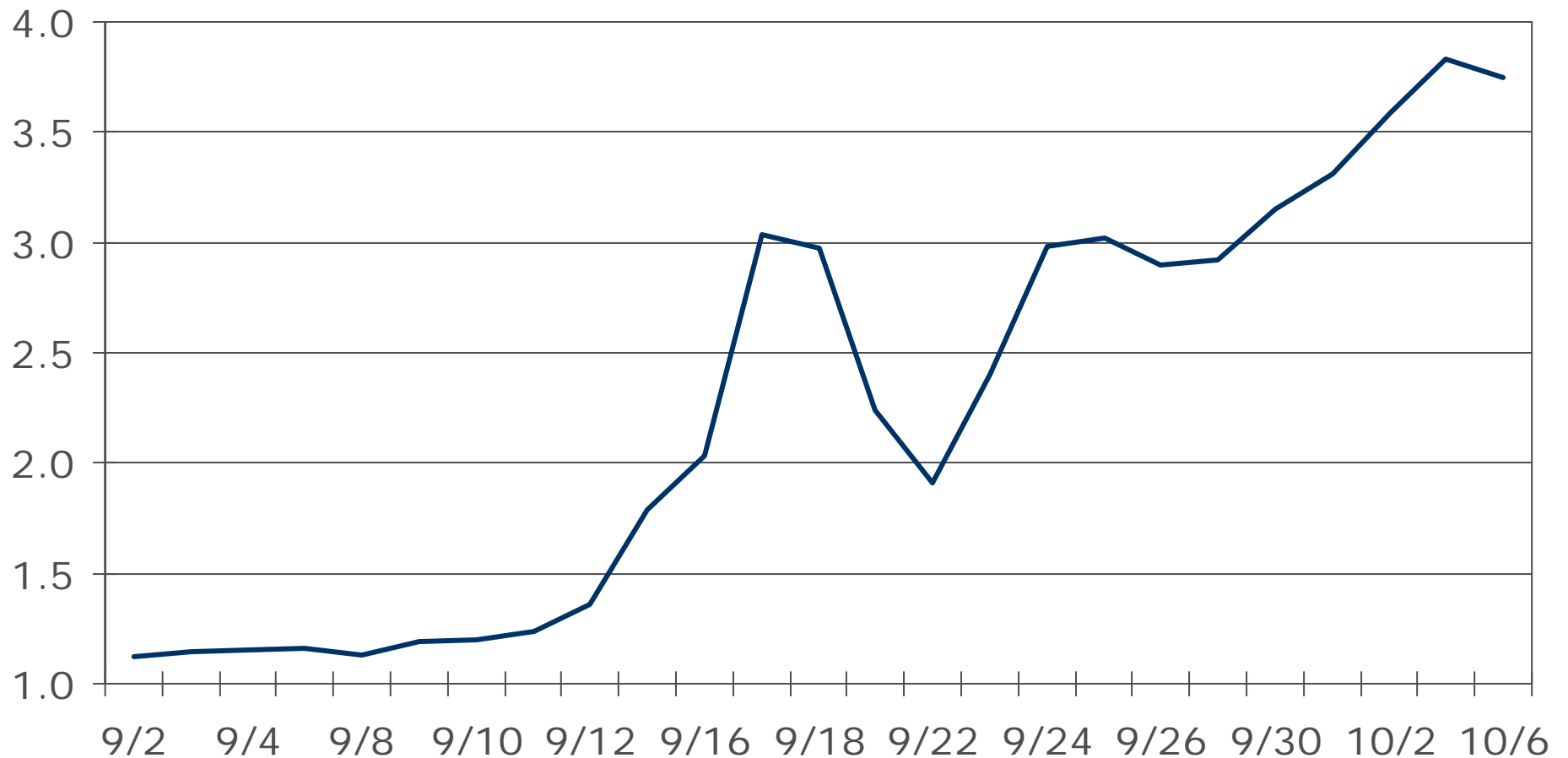
...For More Than One Year...

Difference between 3-month Libor and Treasury bill yields



...And Pushing It to the Precipice of Collapse

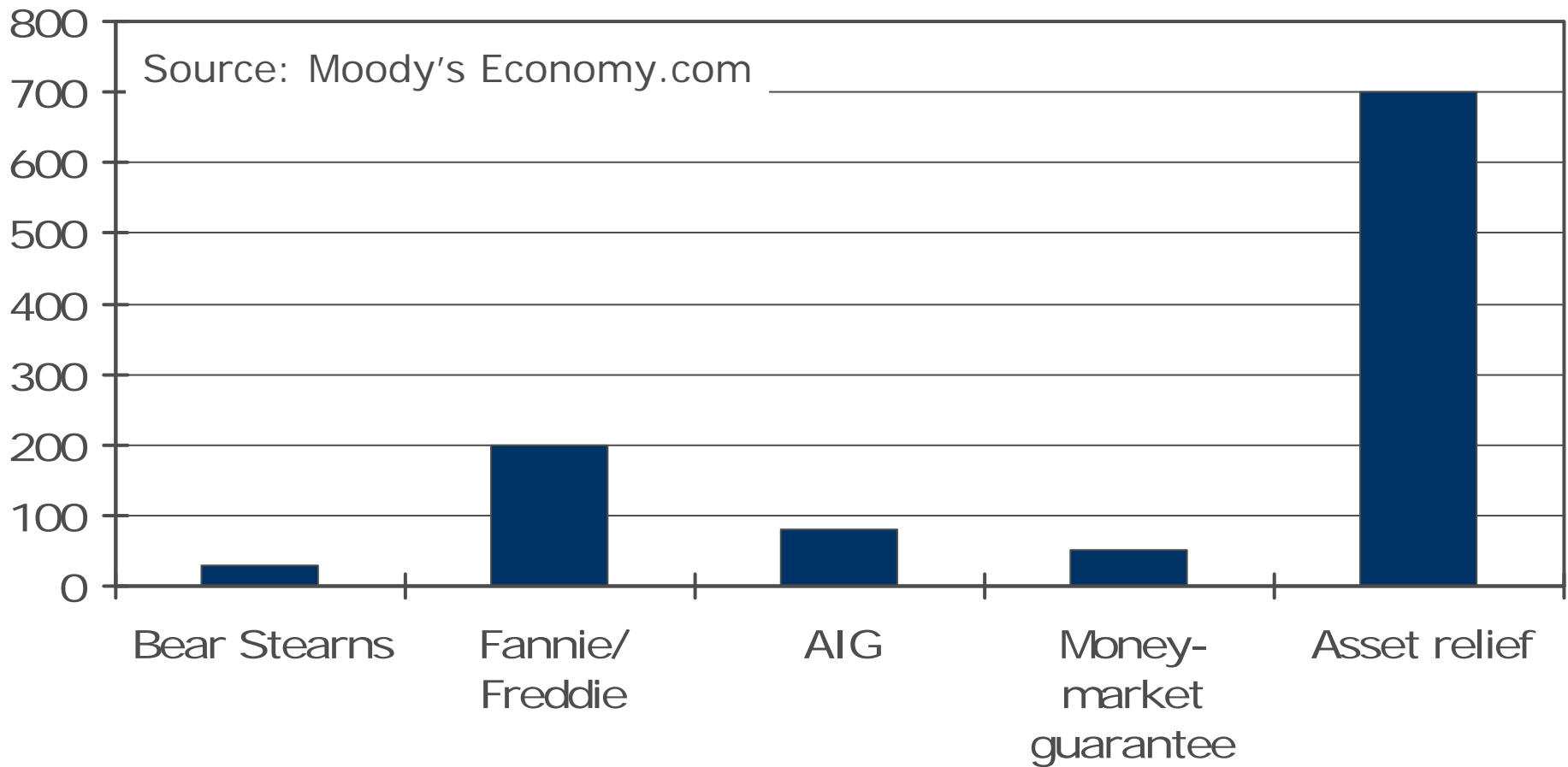
Difference between 3-month Libor and Treasury bill yields



Is the Policy Response Appropriate?

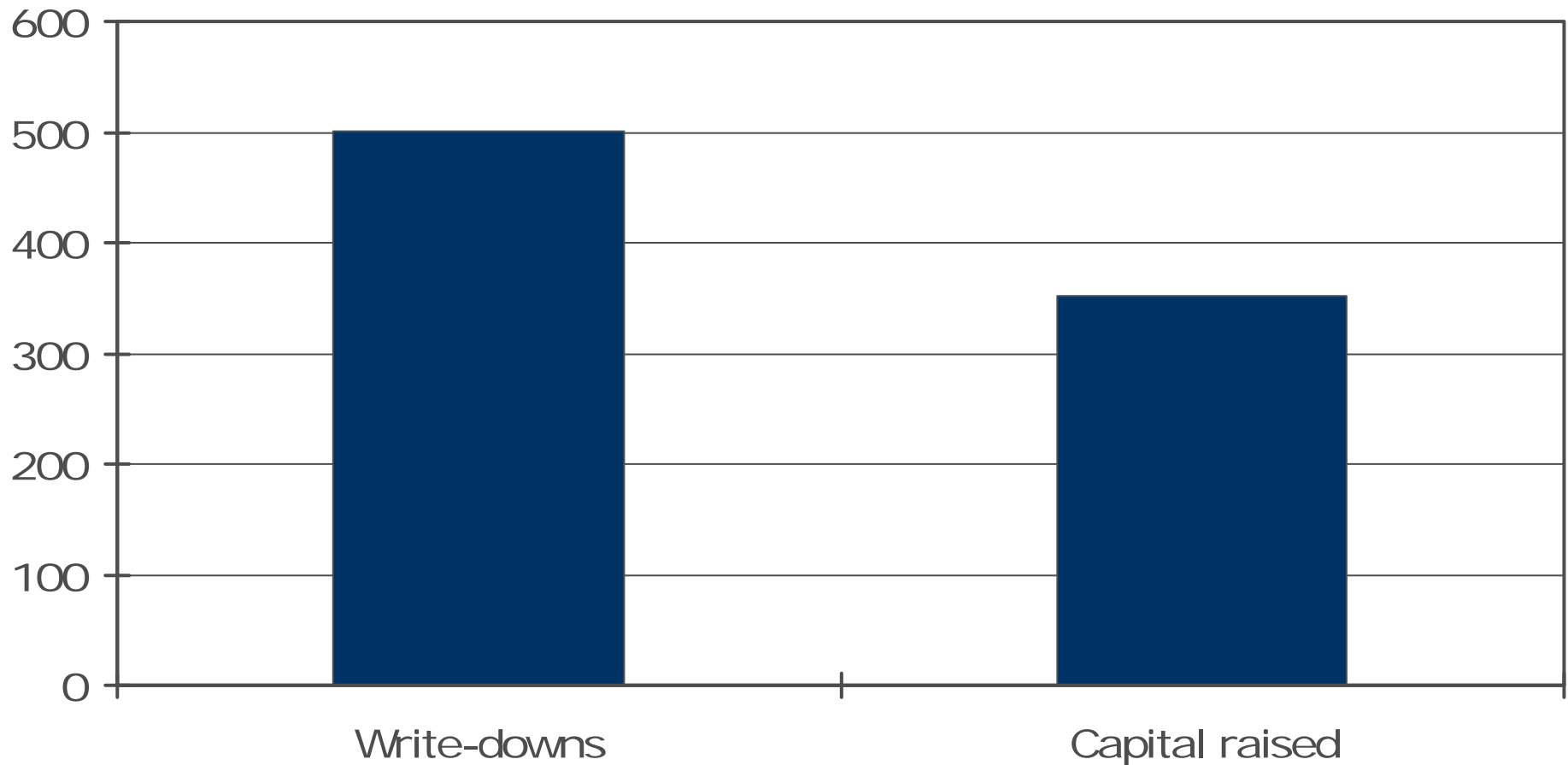
An Unprecedented Response...

Potential cost, \$ bil



...That Will Be Costly, but Not a Trillion Dollars

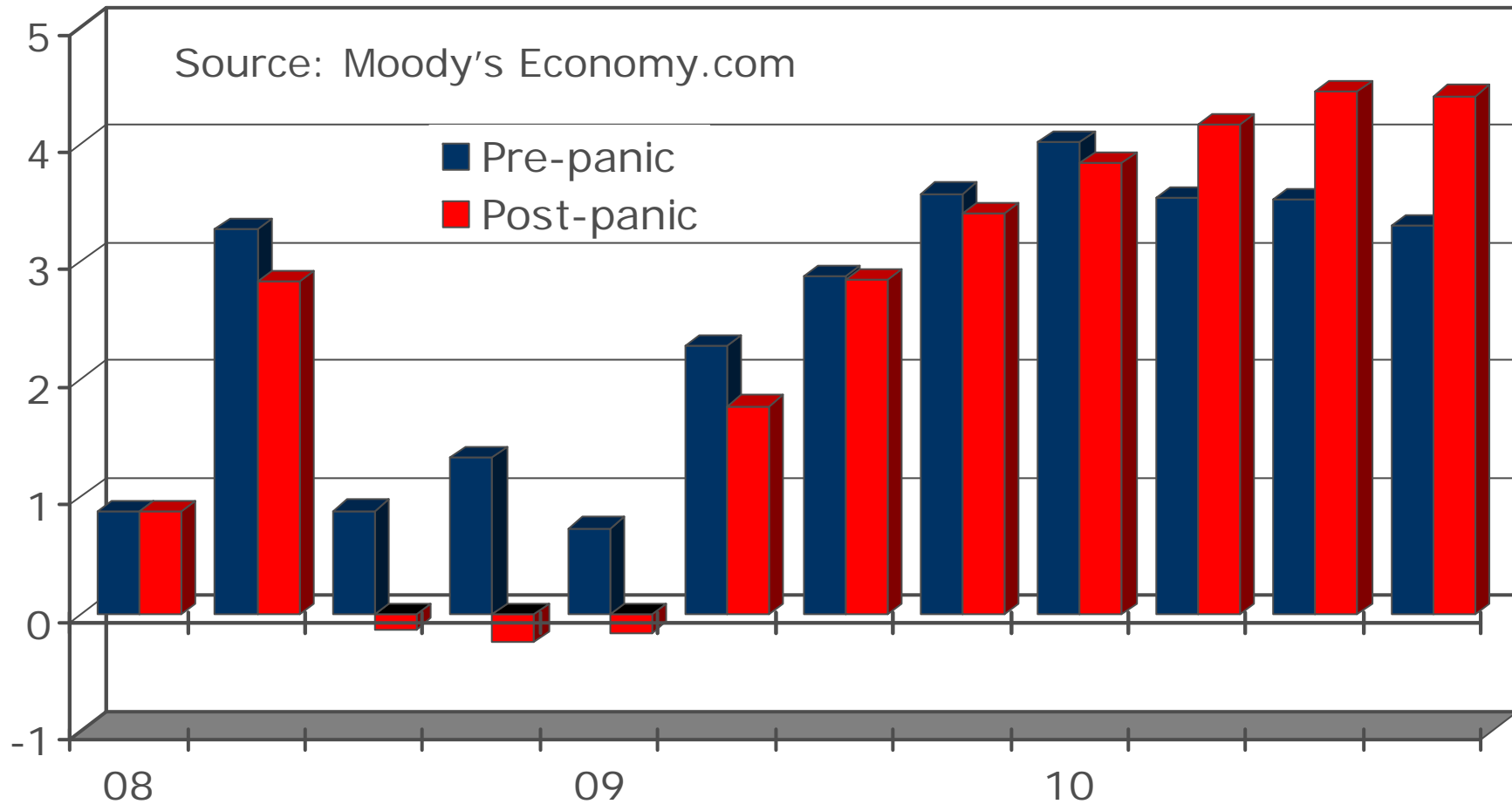
Public financial companies as of early September, \$ bil



What Is the Economic Fallout?

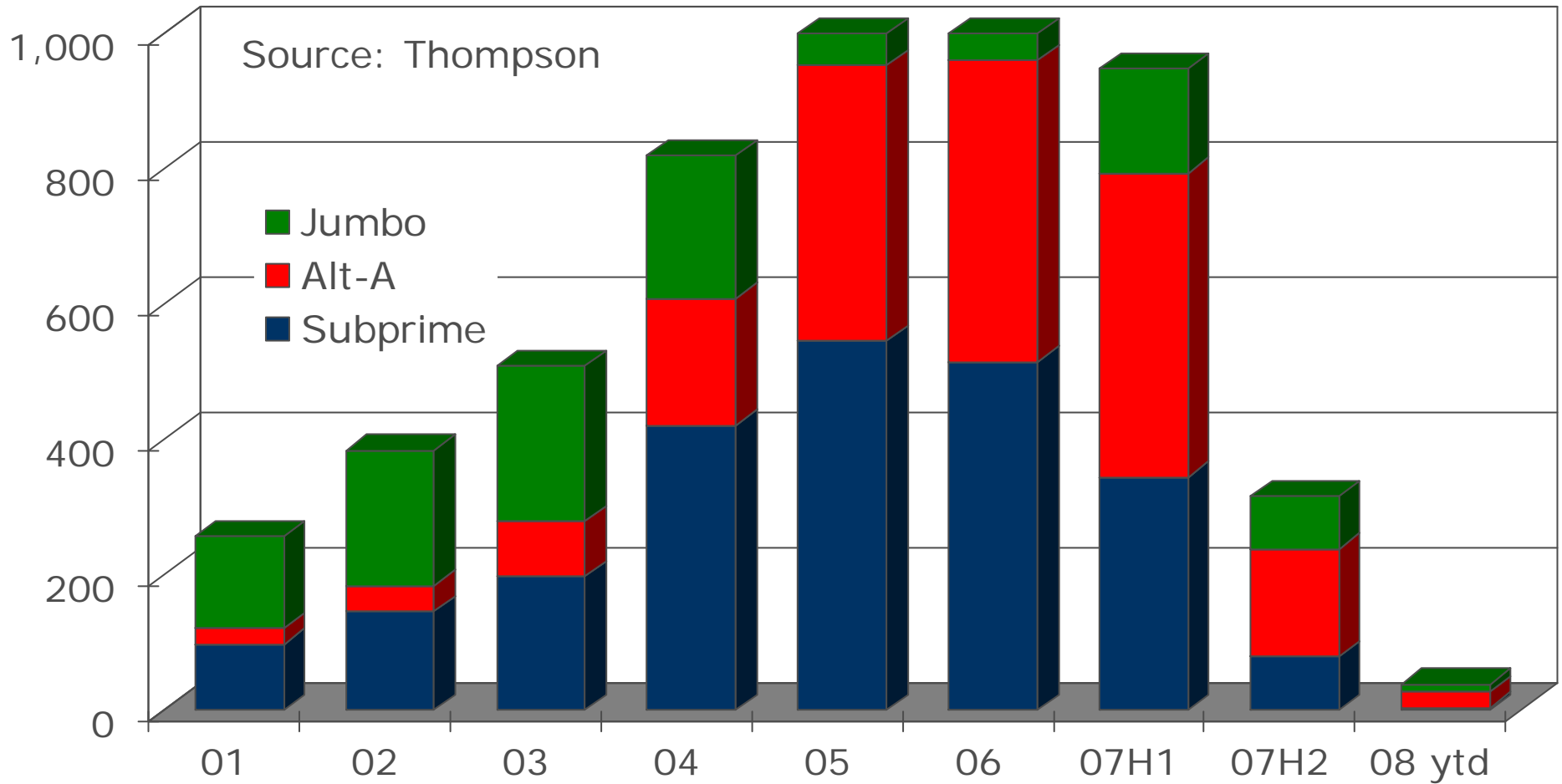
Hit to Real Economy Is Very Significant...

Real GDP growth, annualized % change



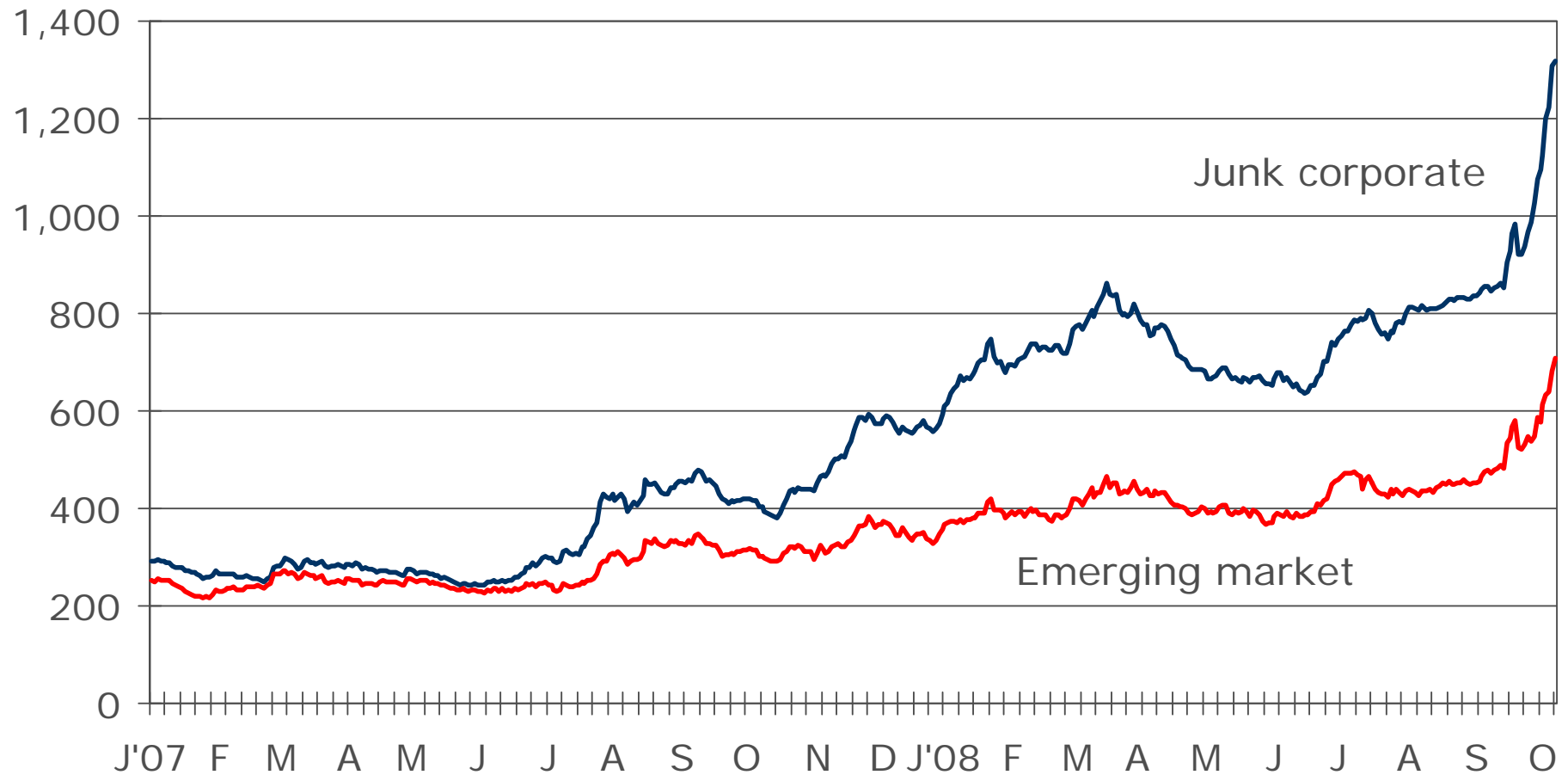
...As Credit Markets Remain Frozen...

Bond issuance, annualized \$ bil



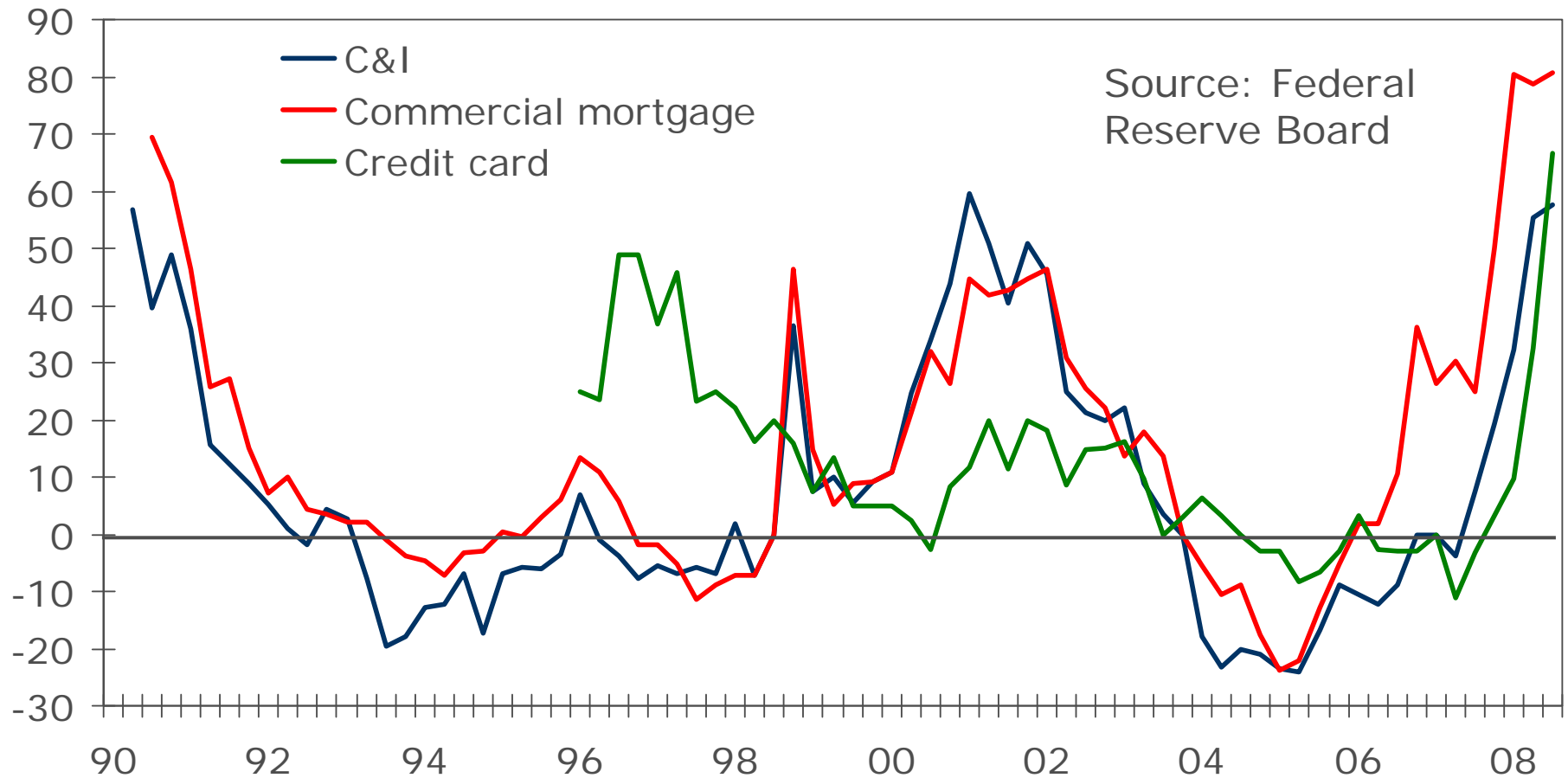
...Credit Spreads Have Ballooned...

Difference with 10-yr Treasury rate, basis points



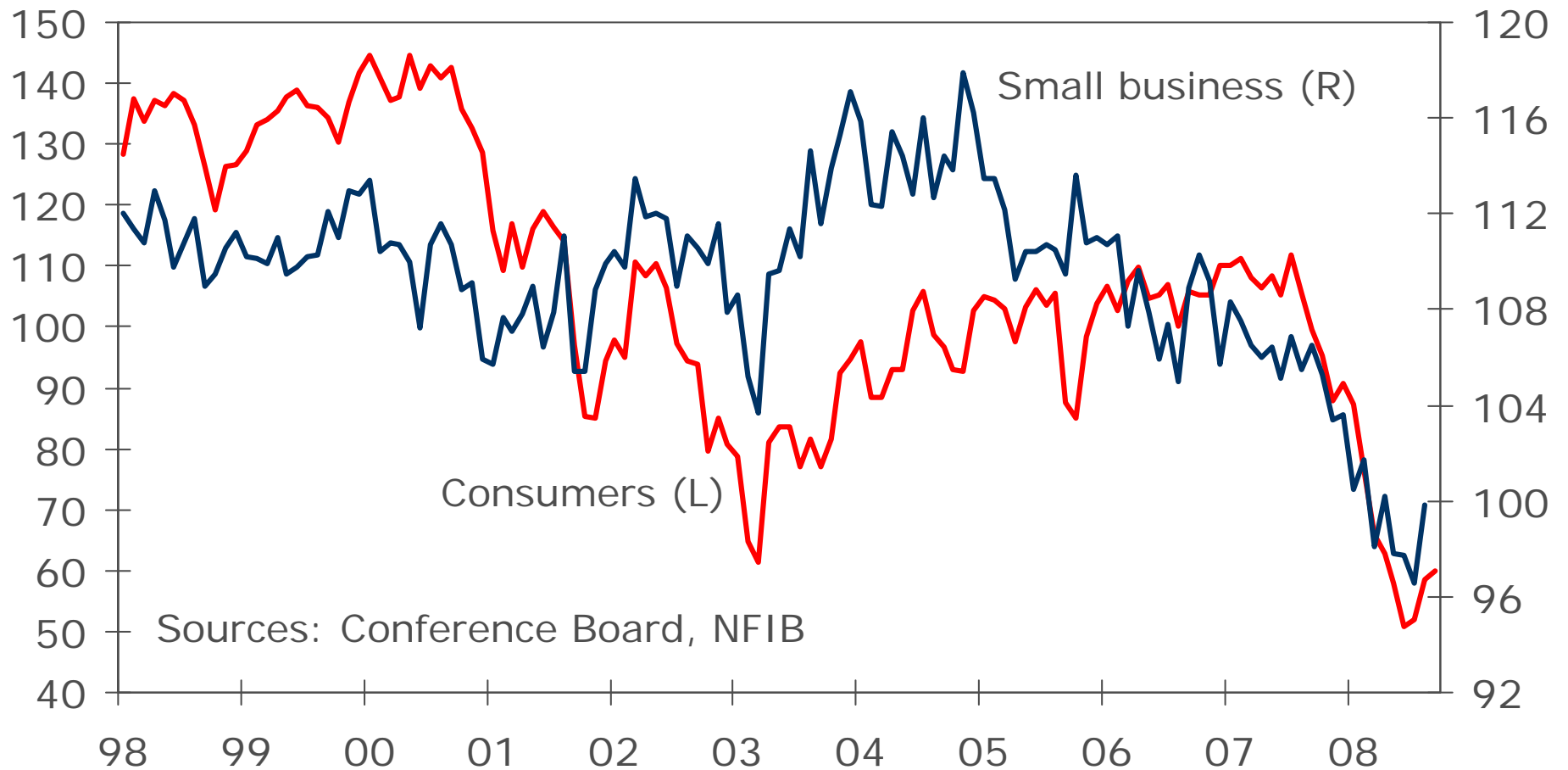
...And Banks Will Continue to Tighten

Net % tightening standards



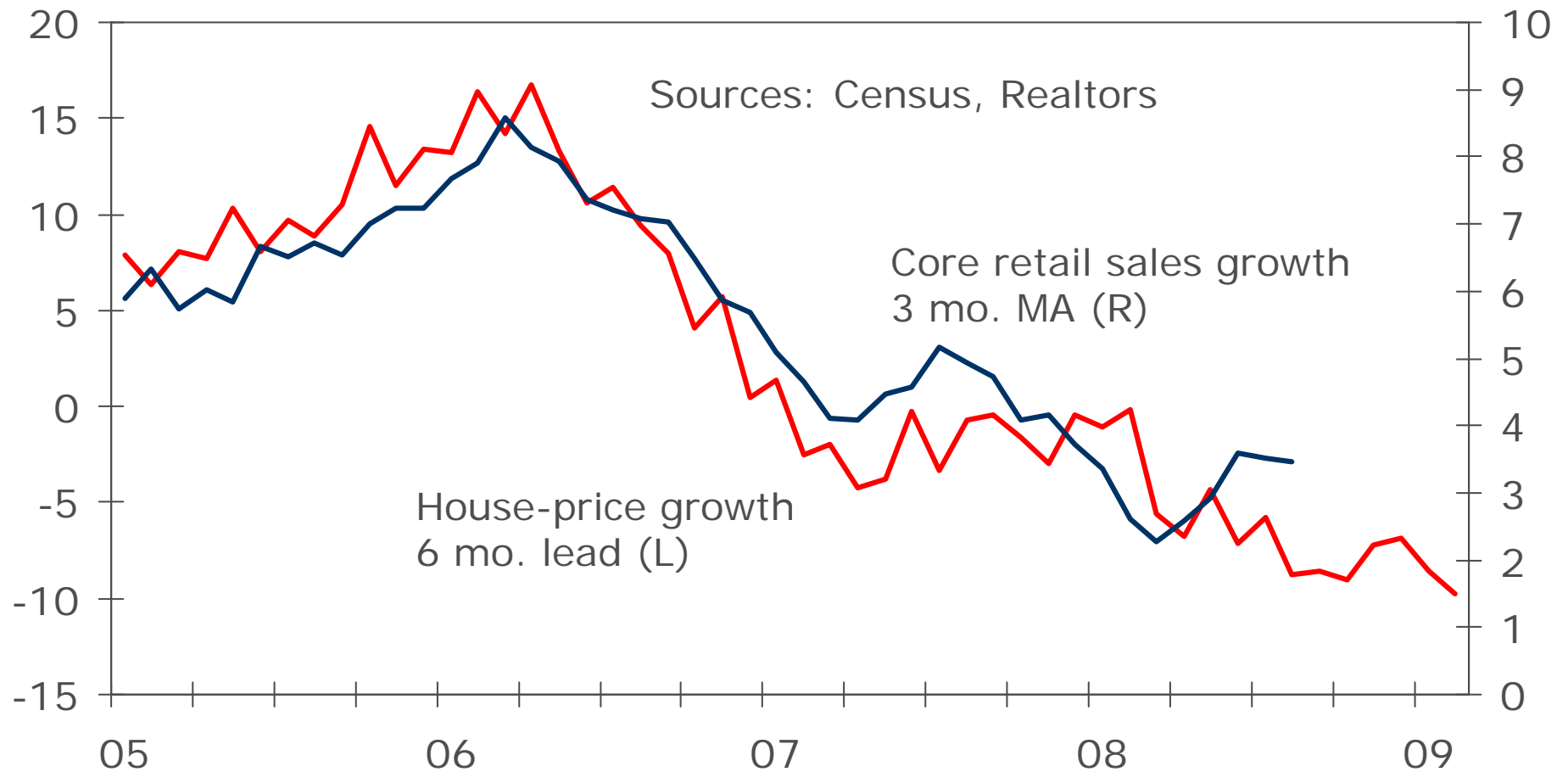
Confidence Is at Rock Bottom...

Consumer Confidence Index and Small Business Optimism



...And the Wealth Effect Is Kicking in

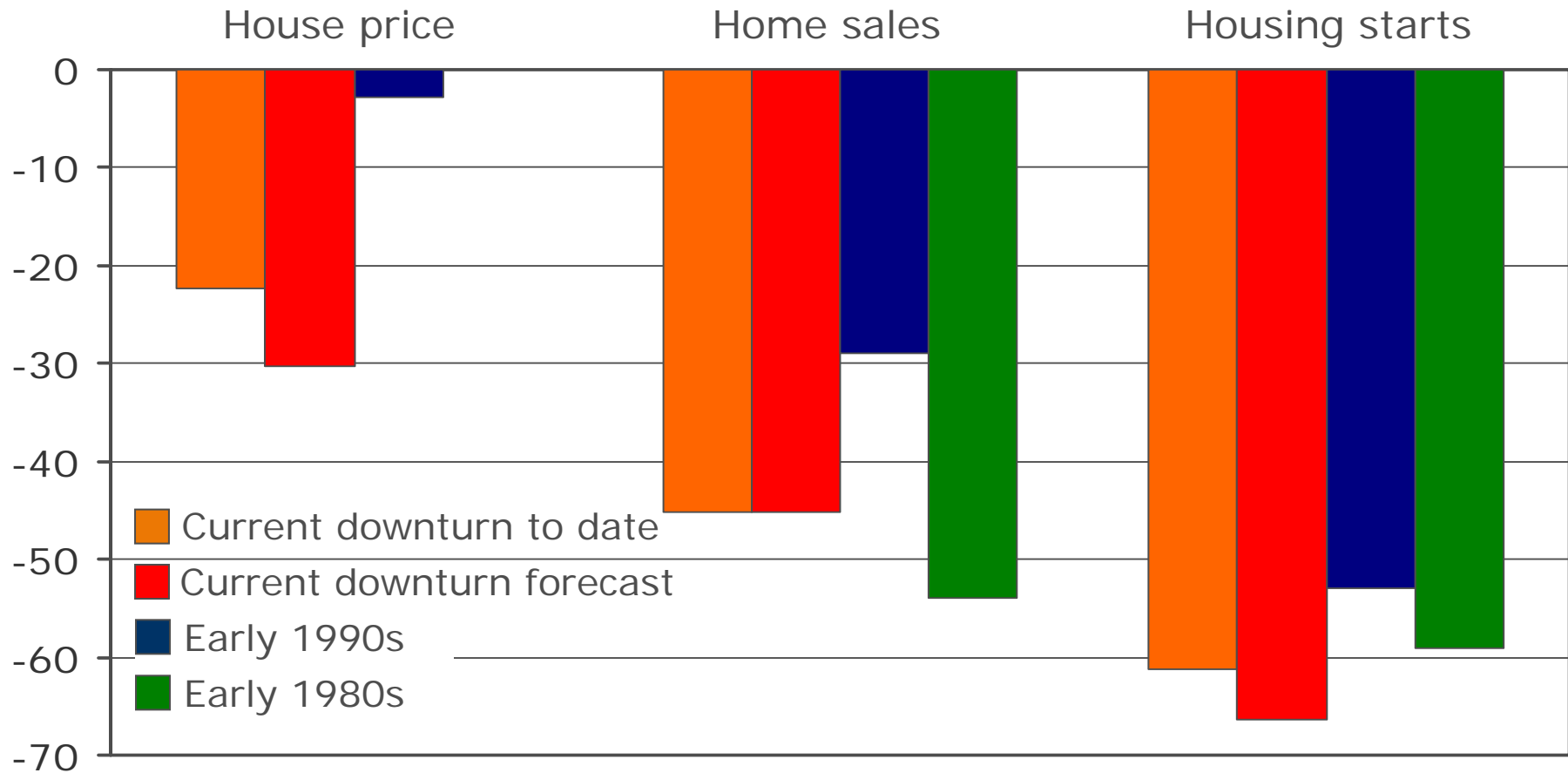
% change year ago



When Will It End?

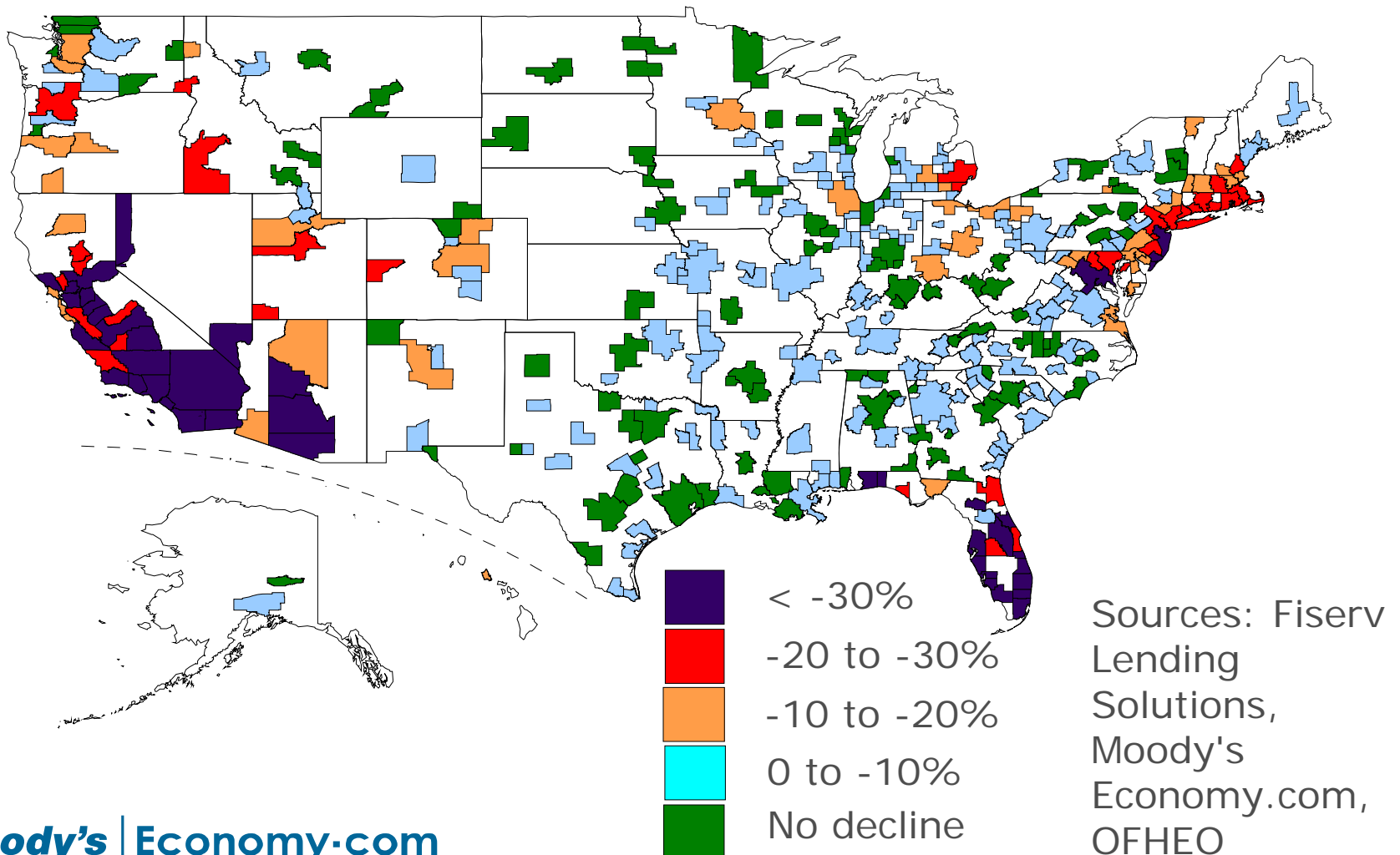
Another 10% to Go...

% change from peak, Sources: Fiserv Lending Solutions, Census, Moody's Economy.com

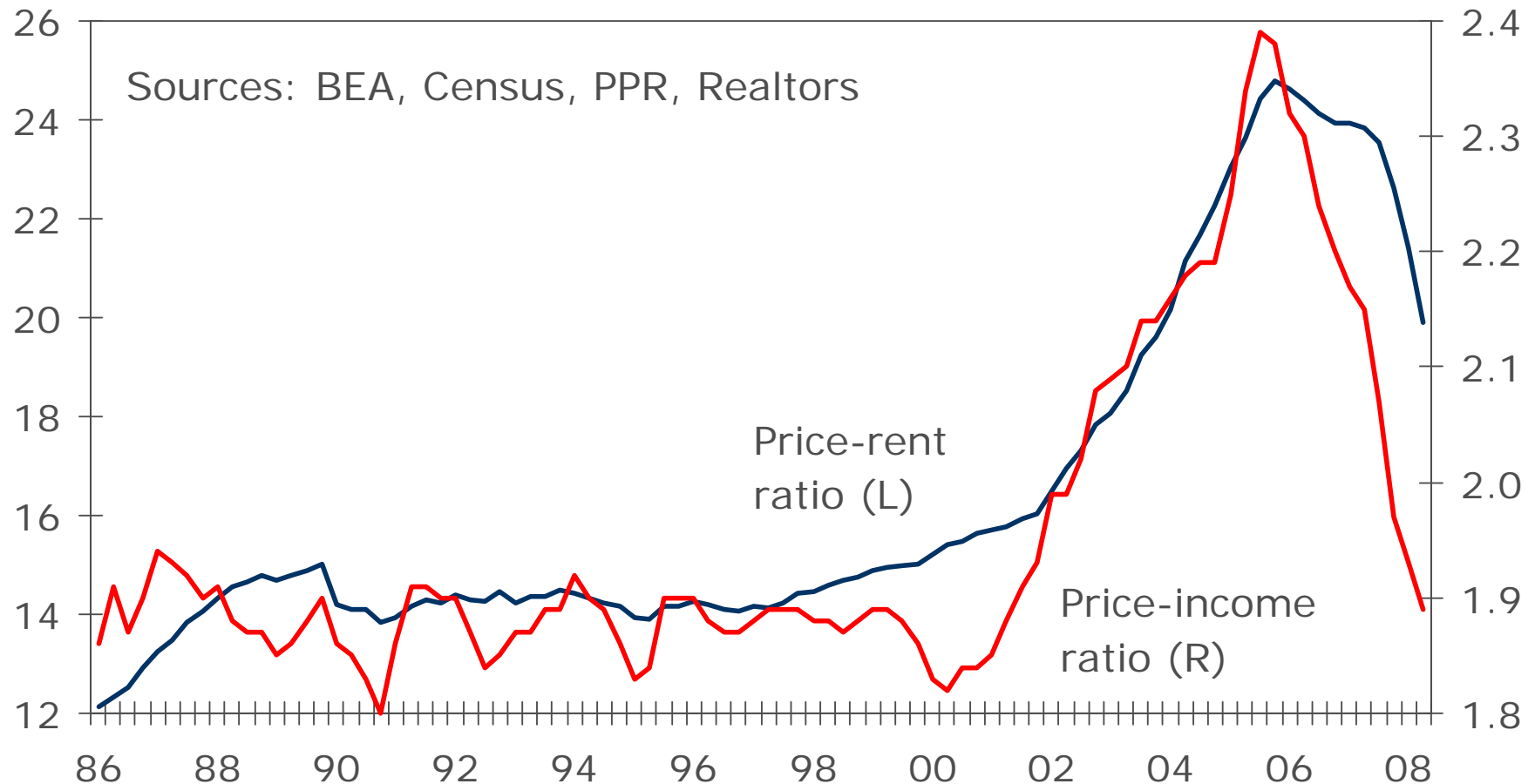


...With Big Differences Across the Country

Projected peak-to-trough house price decline

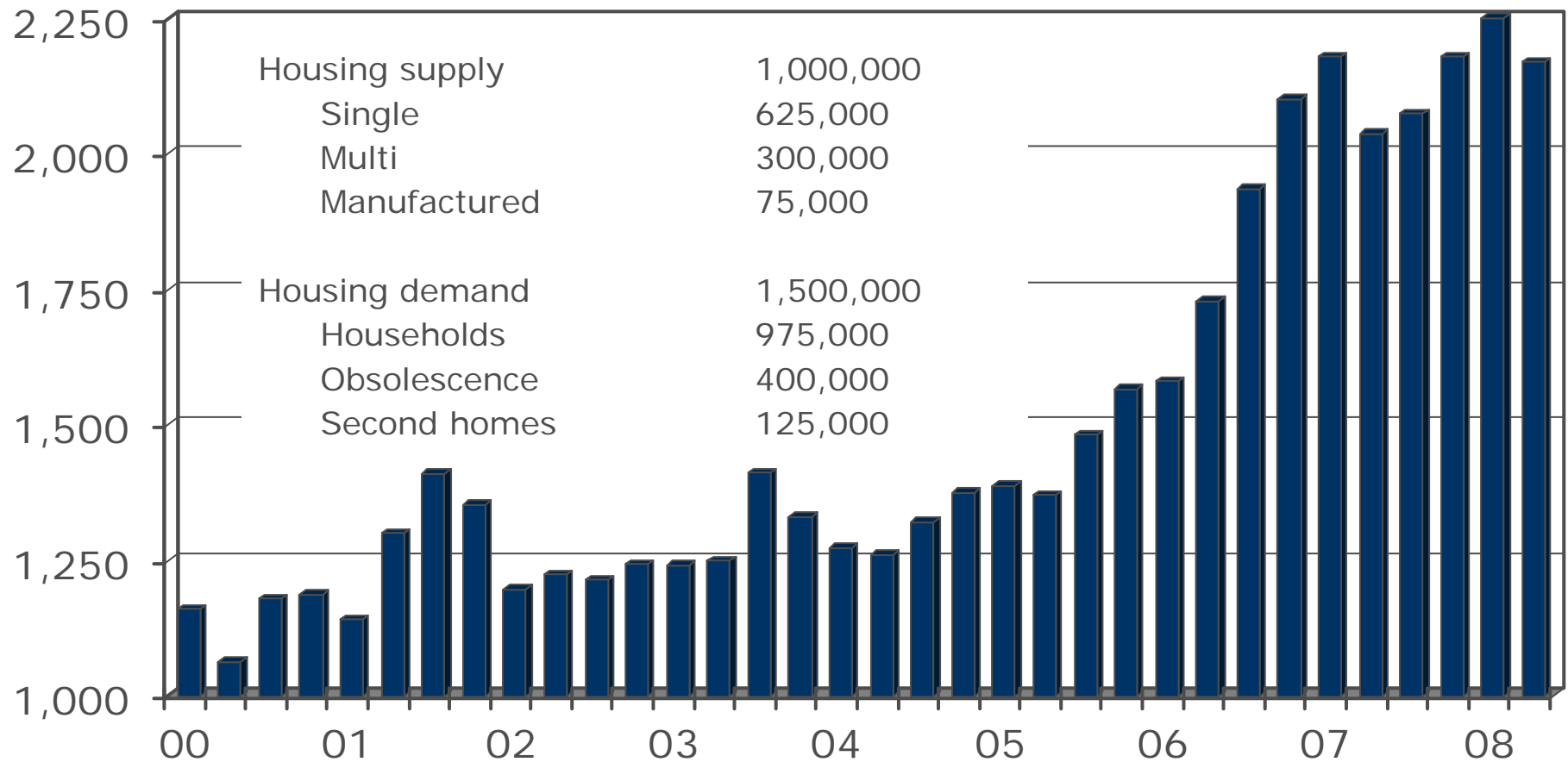


Housing Is Becoming More Affordable...



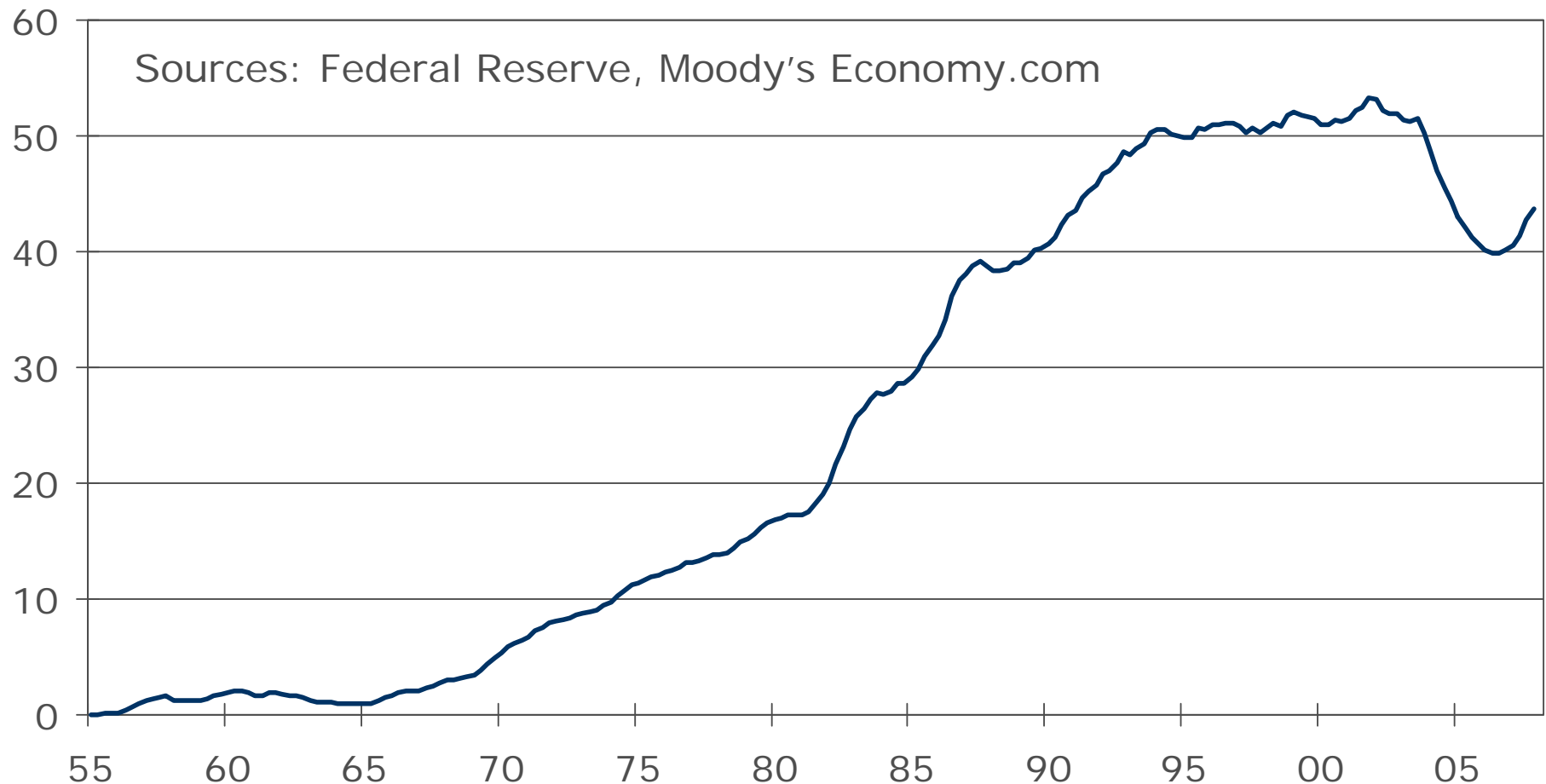
...Inventories Are Peaking...

Number of vacant homes for sale, ths, Source: Census



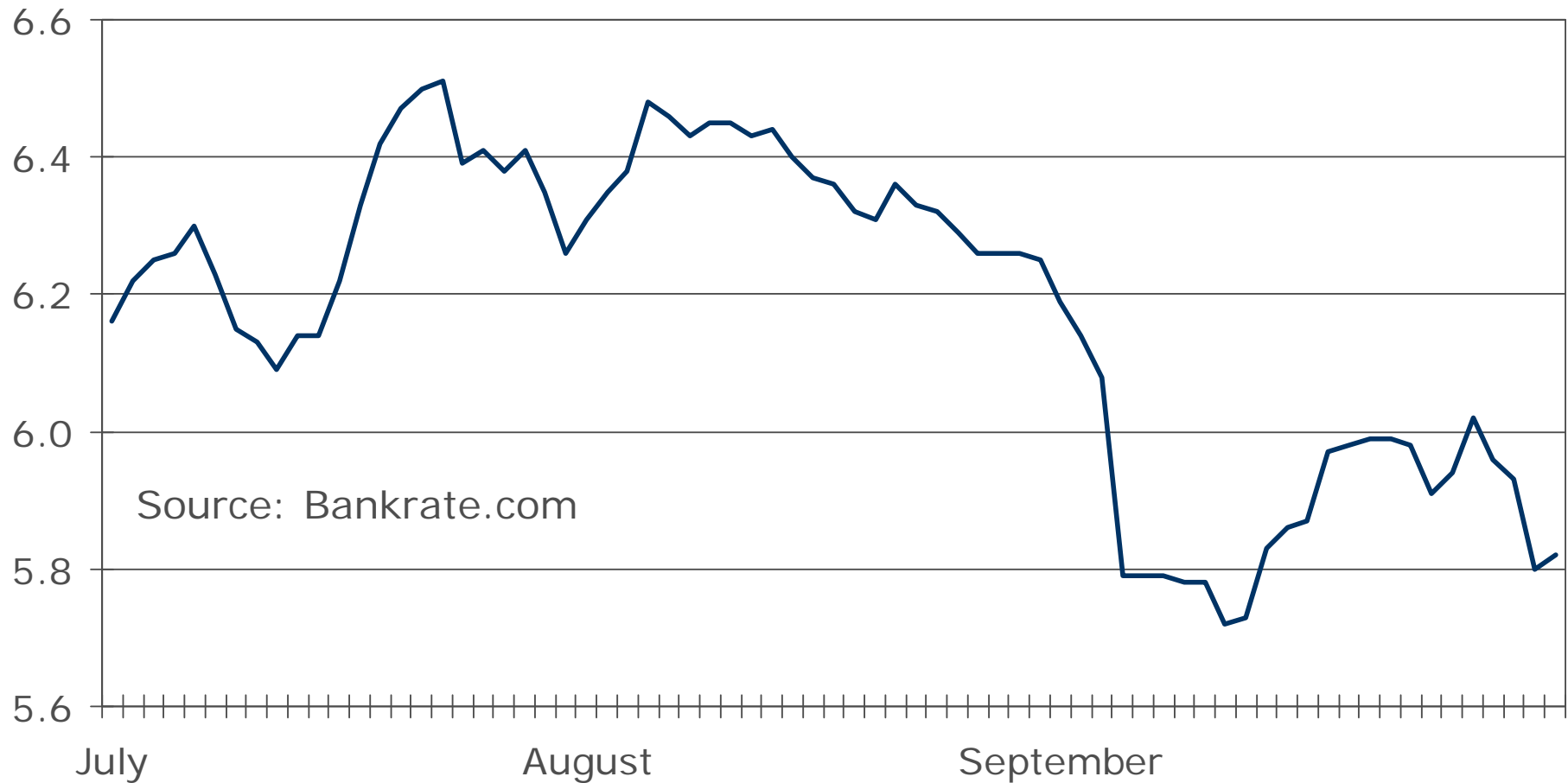
...Fannie/Freddie Help Is Key...

Share of residential mortgages outstanding owned and insured by Fannie and Freddie

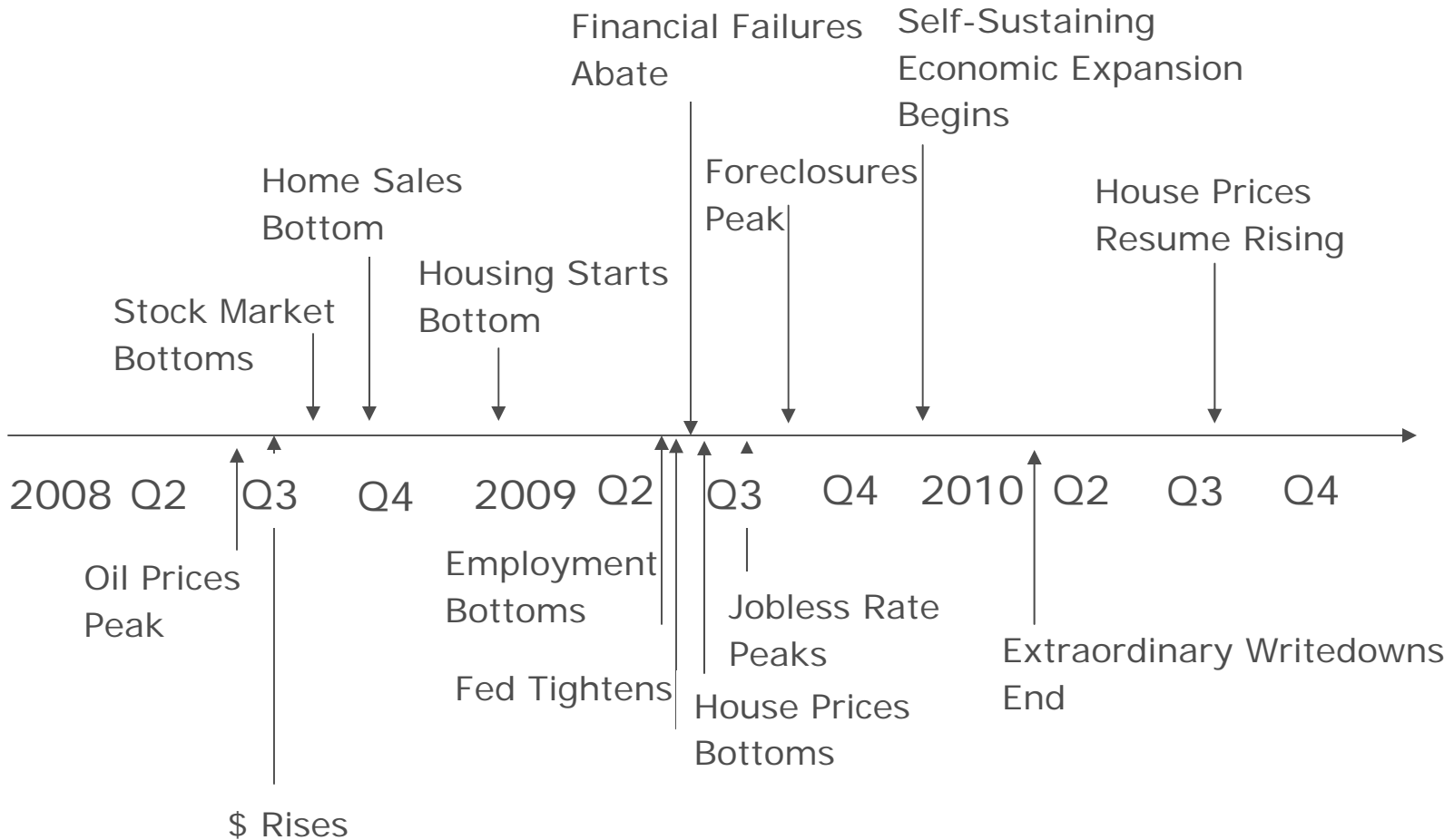


...And Nationalization Is a Plus

30-year fixed mortgage rate, %



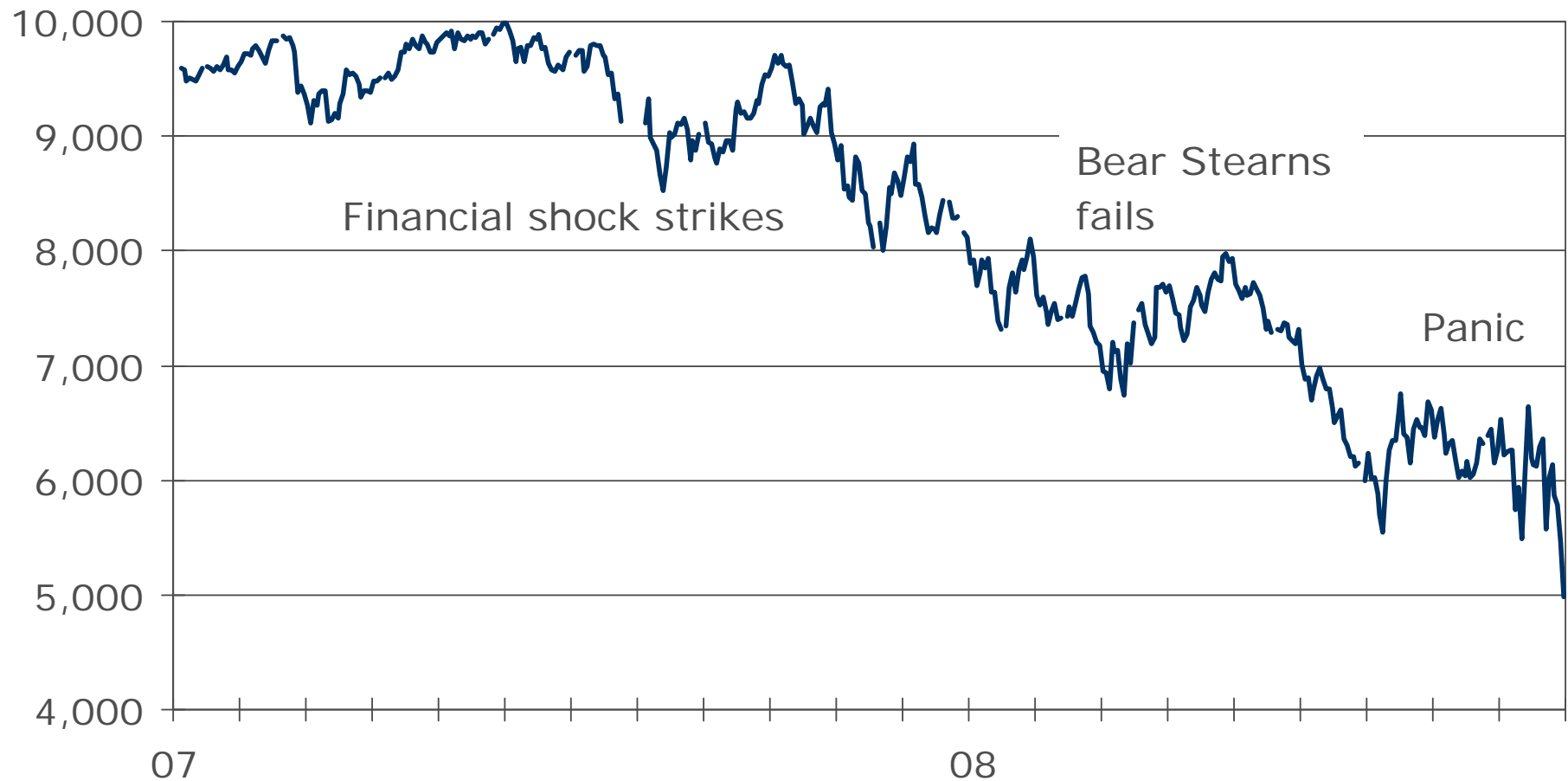
A Timeline to Recovery



Serious Threats Remain

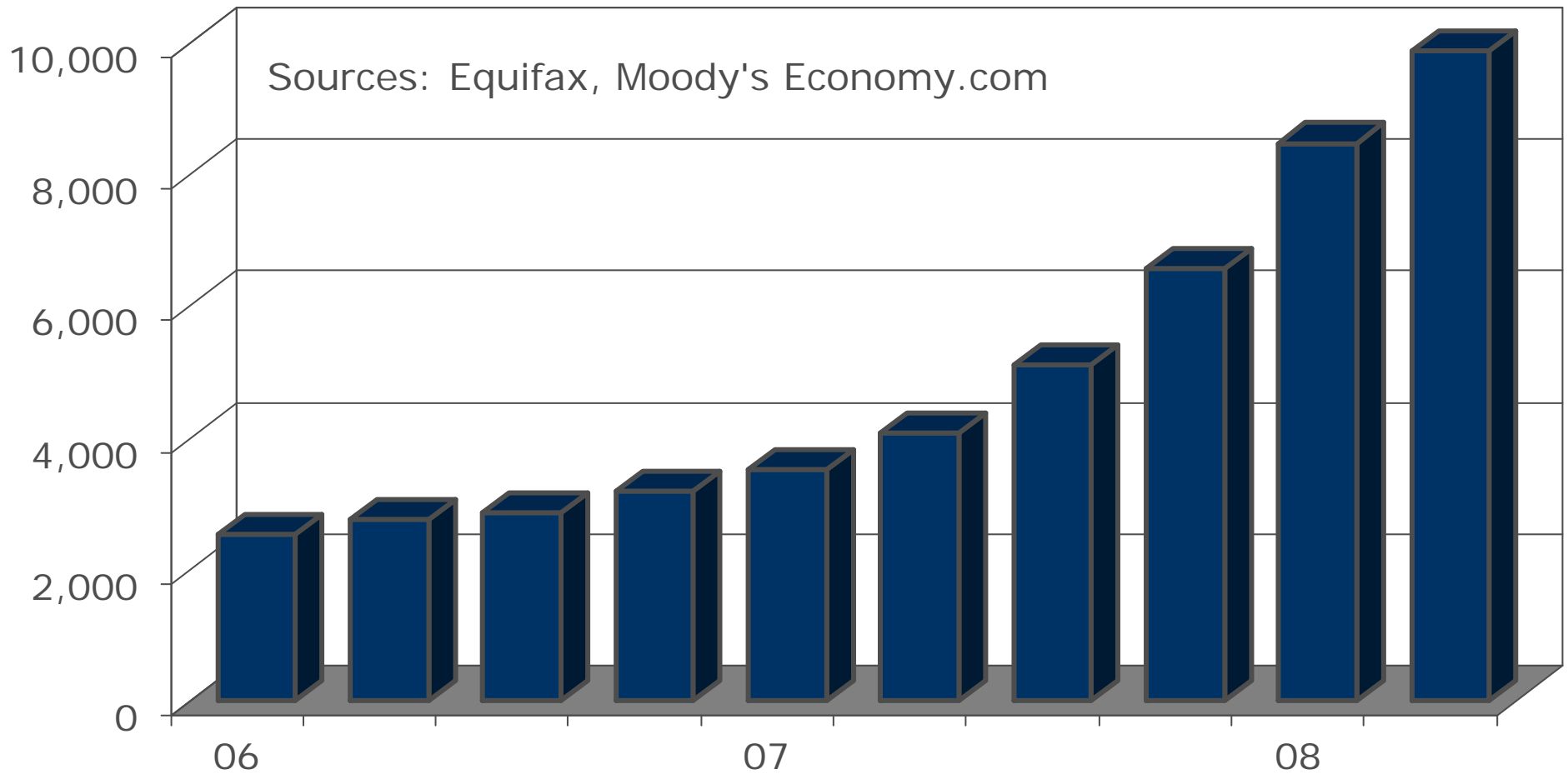
The Financial System Remains Very Fragile...

Financial stock index, Source: NYSE

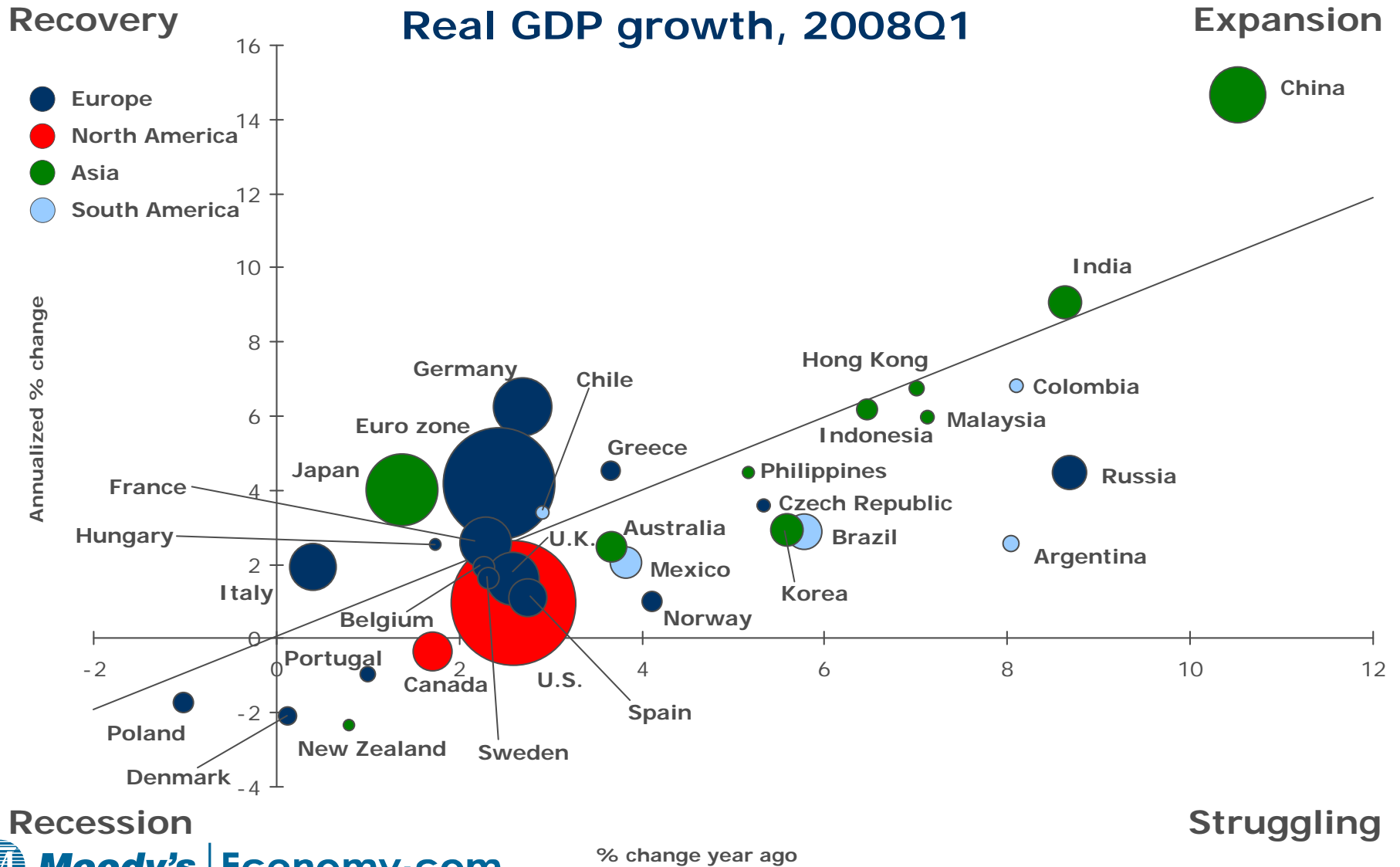


...And House Price Declines Threaten to Overshoot

Number of underwater homeowners, ths



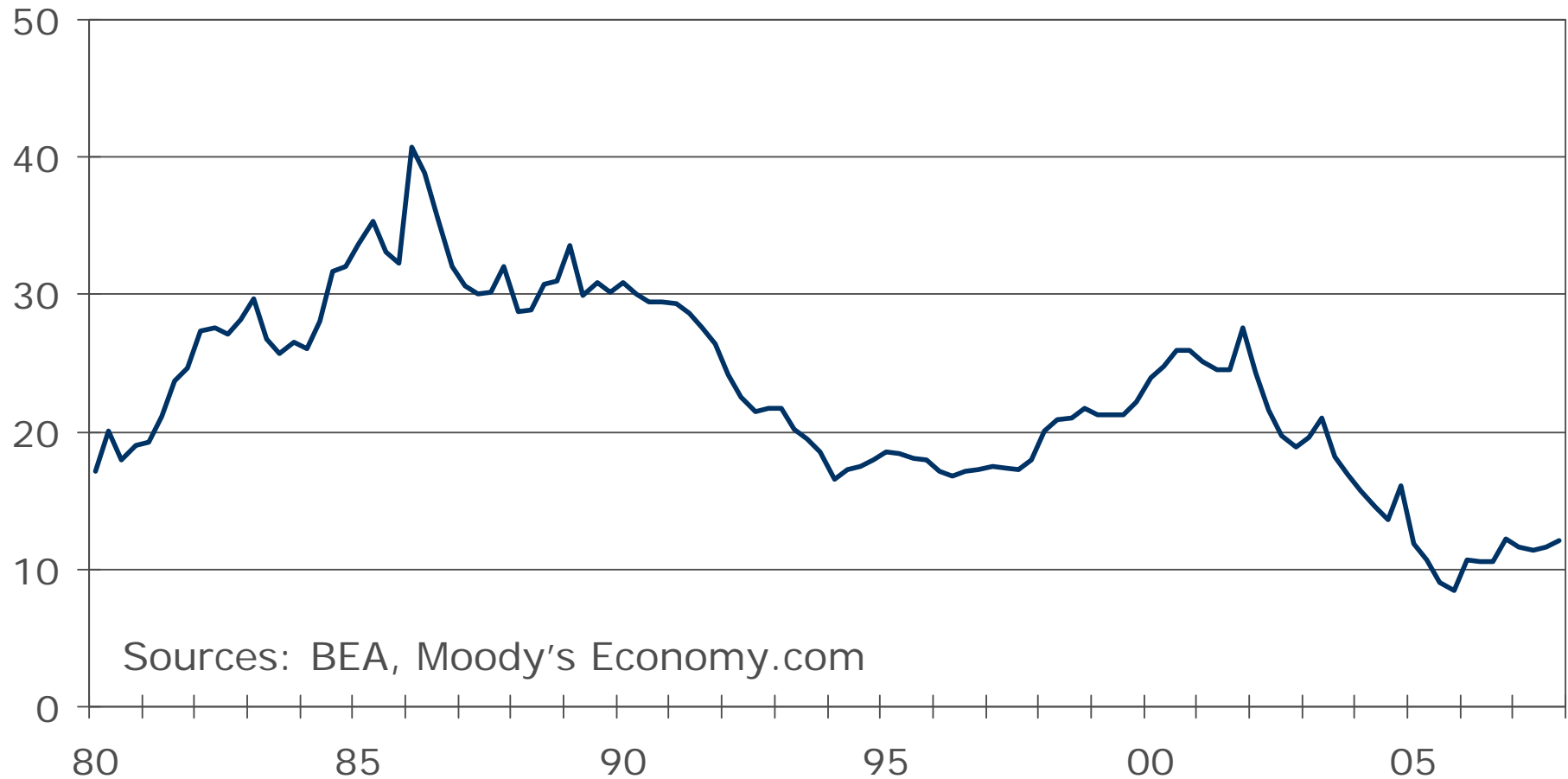
Will the Global Economy Hold Up?



There Are Some Positives

Corporate Balance Sheets Are Strong

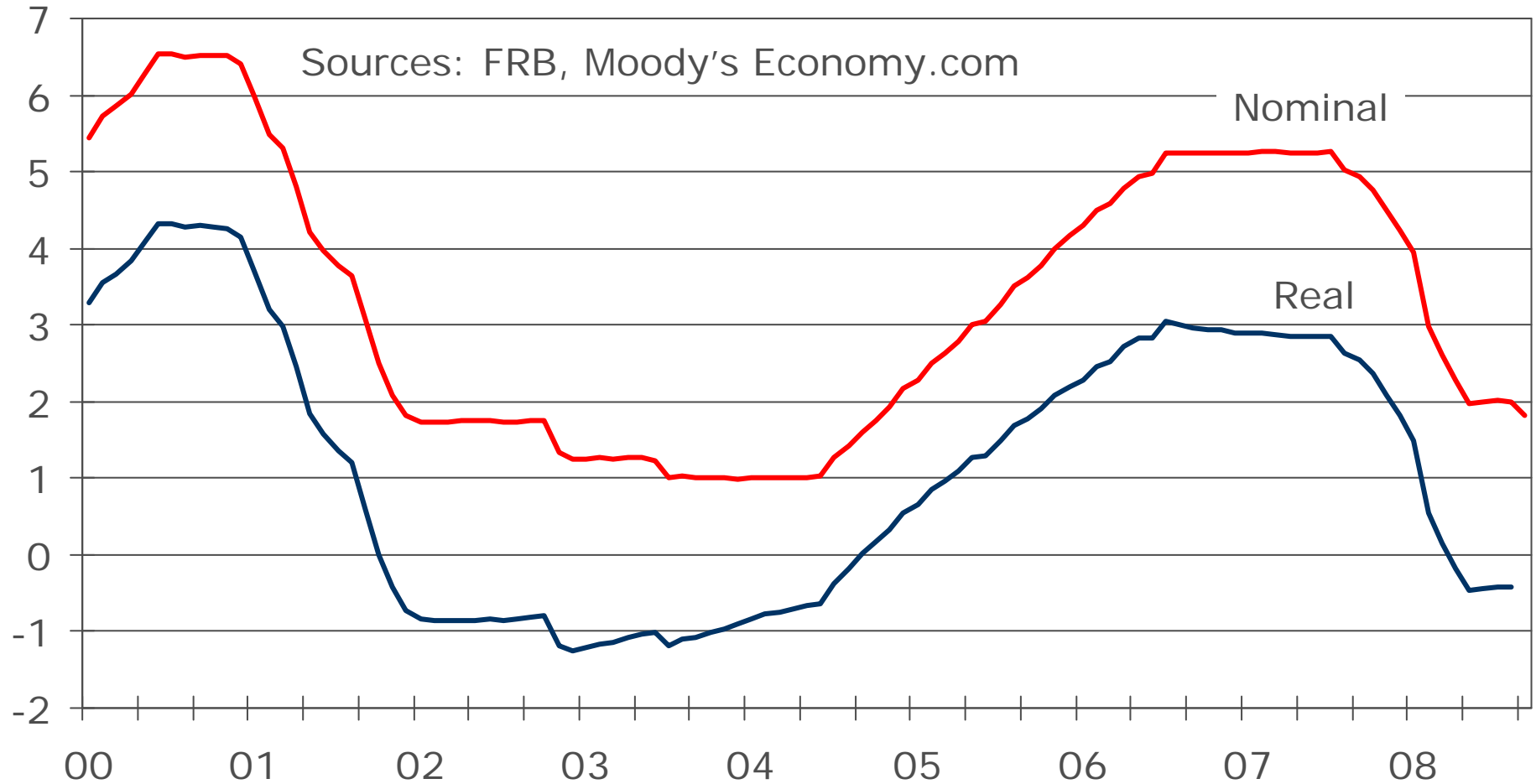
Interest coverage ratio for nonfinancial corporations



Sources: BEA, Moody's Economy.com

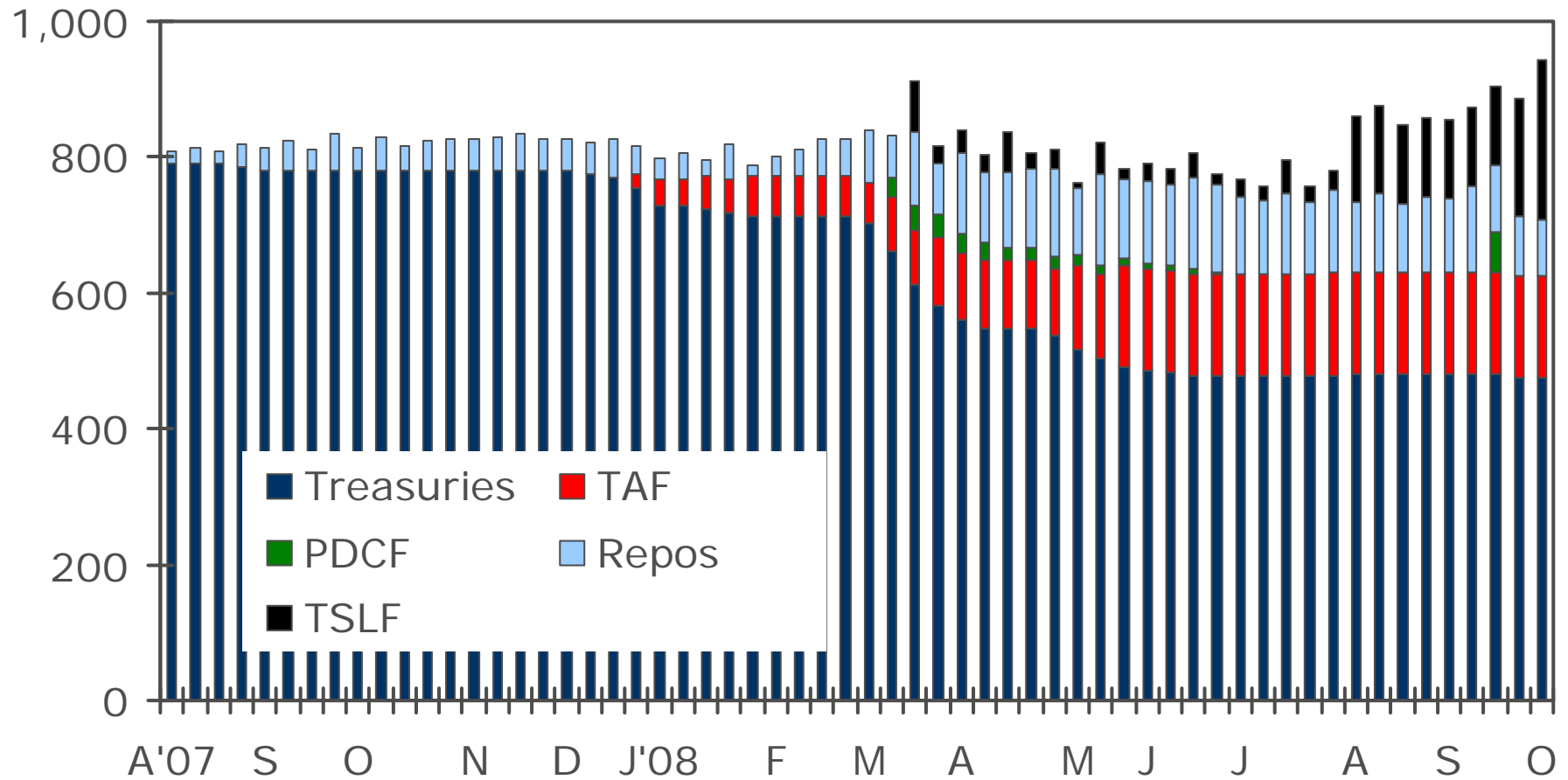
Low Rates Should Help...

Federal funds rate



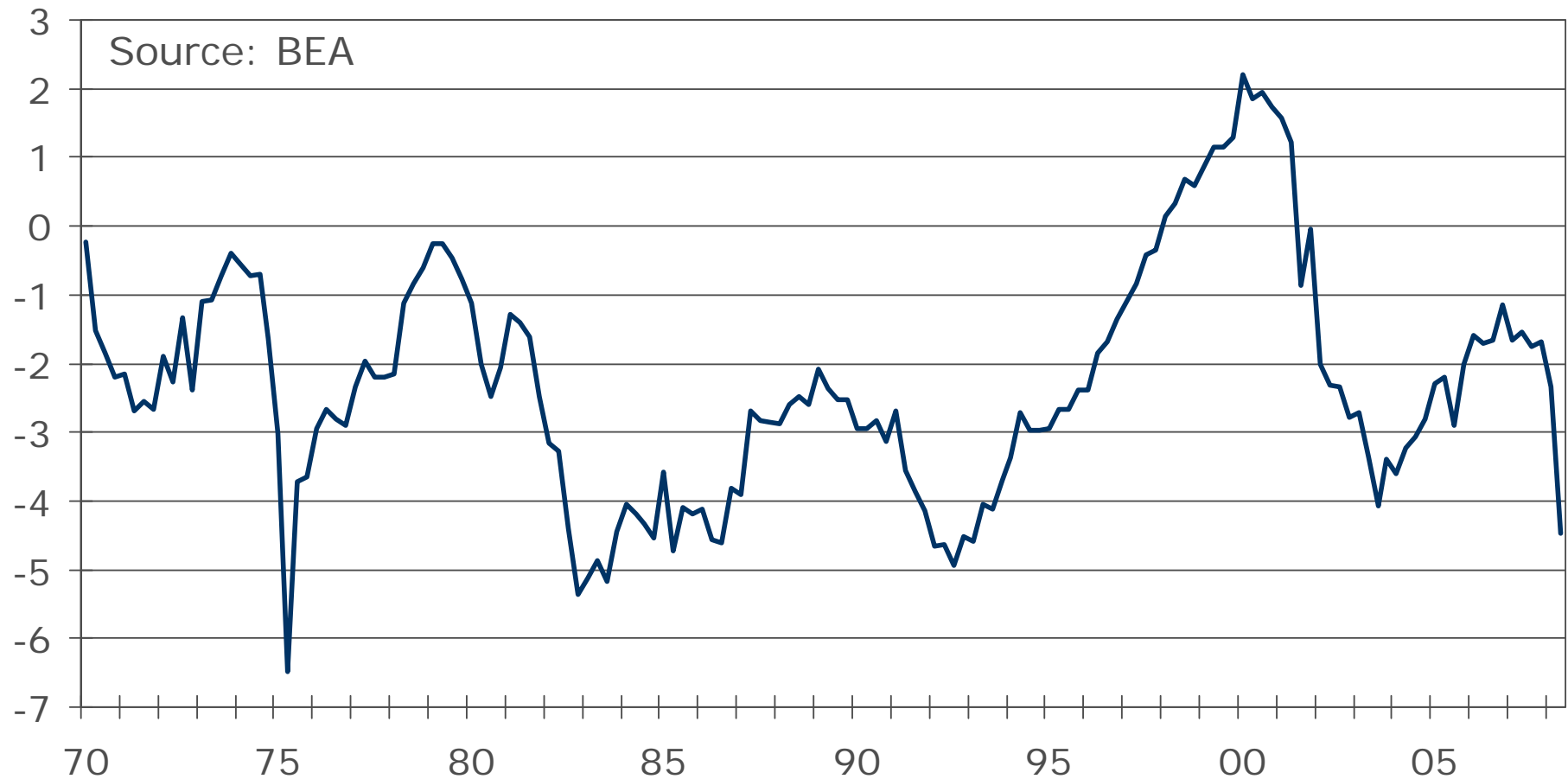
...And Fed Continues to Add Liquidity

Federal Reserve balances, \$ bil



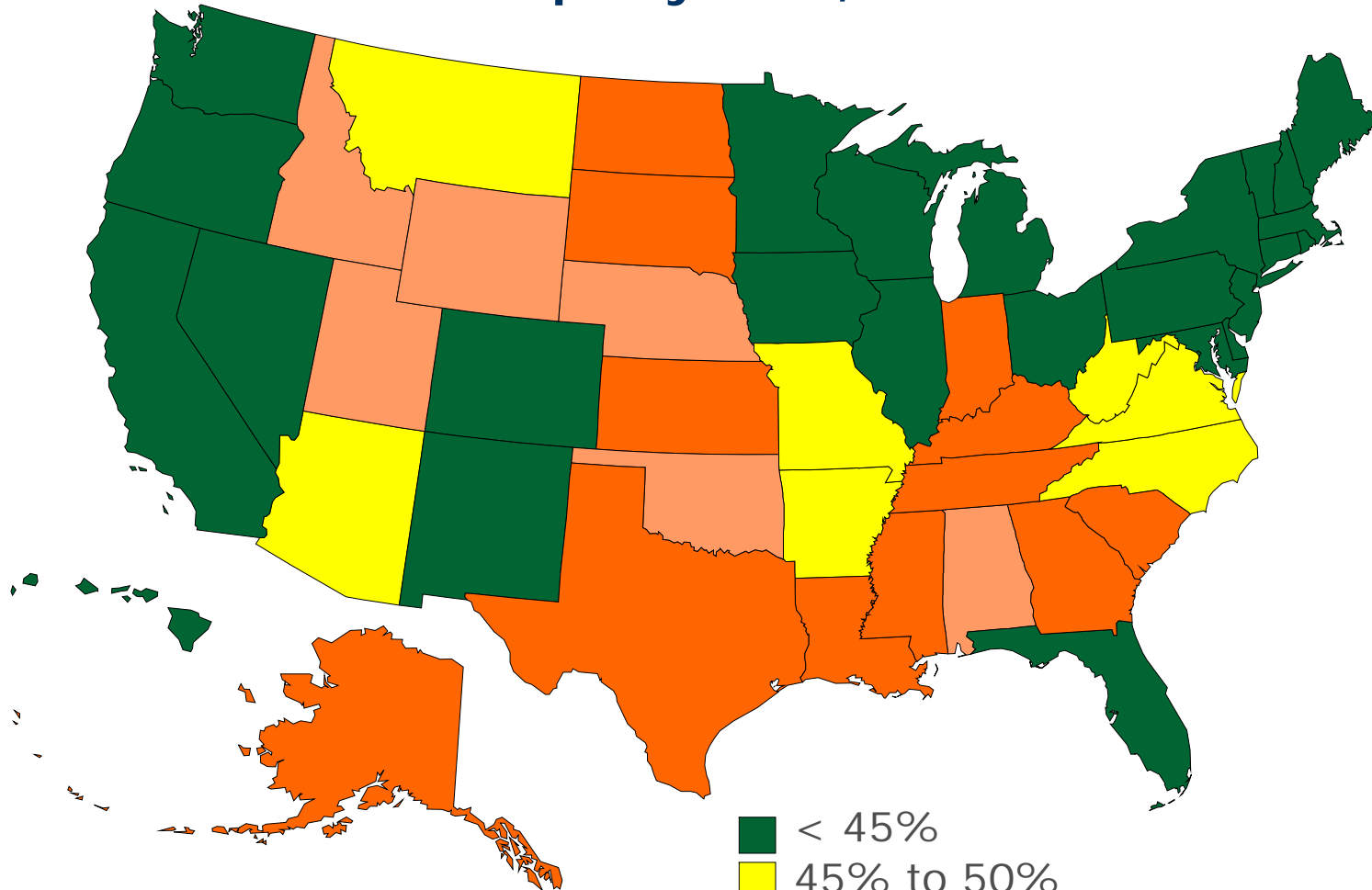
Fiscal Policy Is Highly Stimulatory

Federal budget deficit as a share of GDP

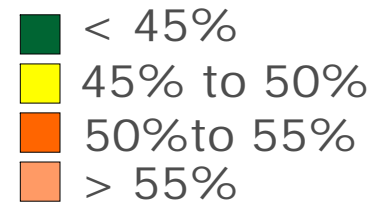


A Big Democratic Year?

Republican share of two-party vote, %



Source: Moody's Economy.com



D.C. < 45 %



New York on the Edge of Recession

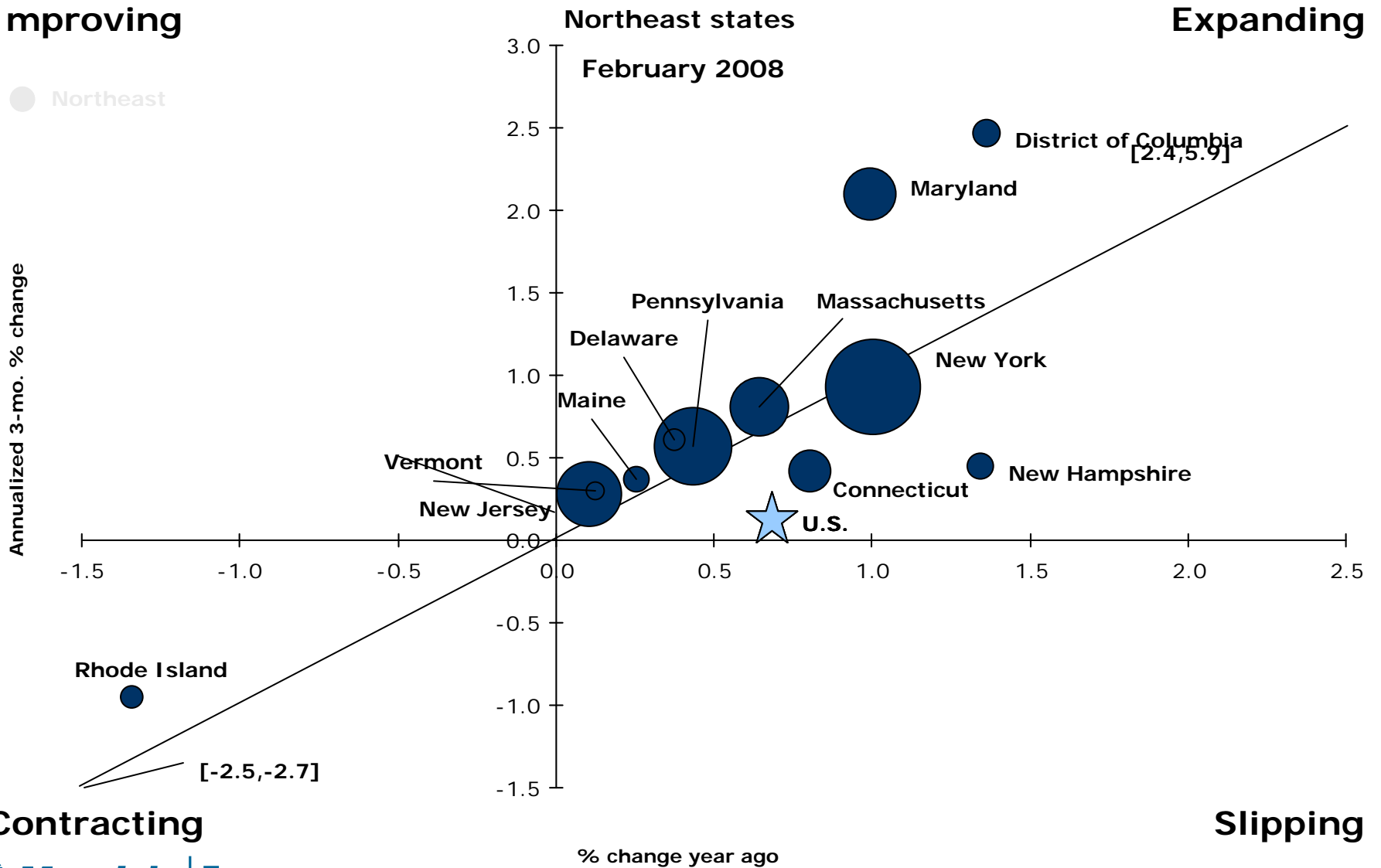
Northeast States—Payroll Employment

One-year vs. 3-month performance (3 mo. MA)

Improving

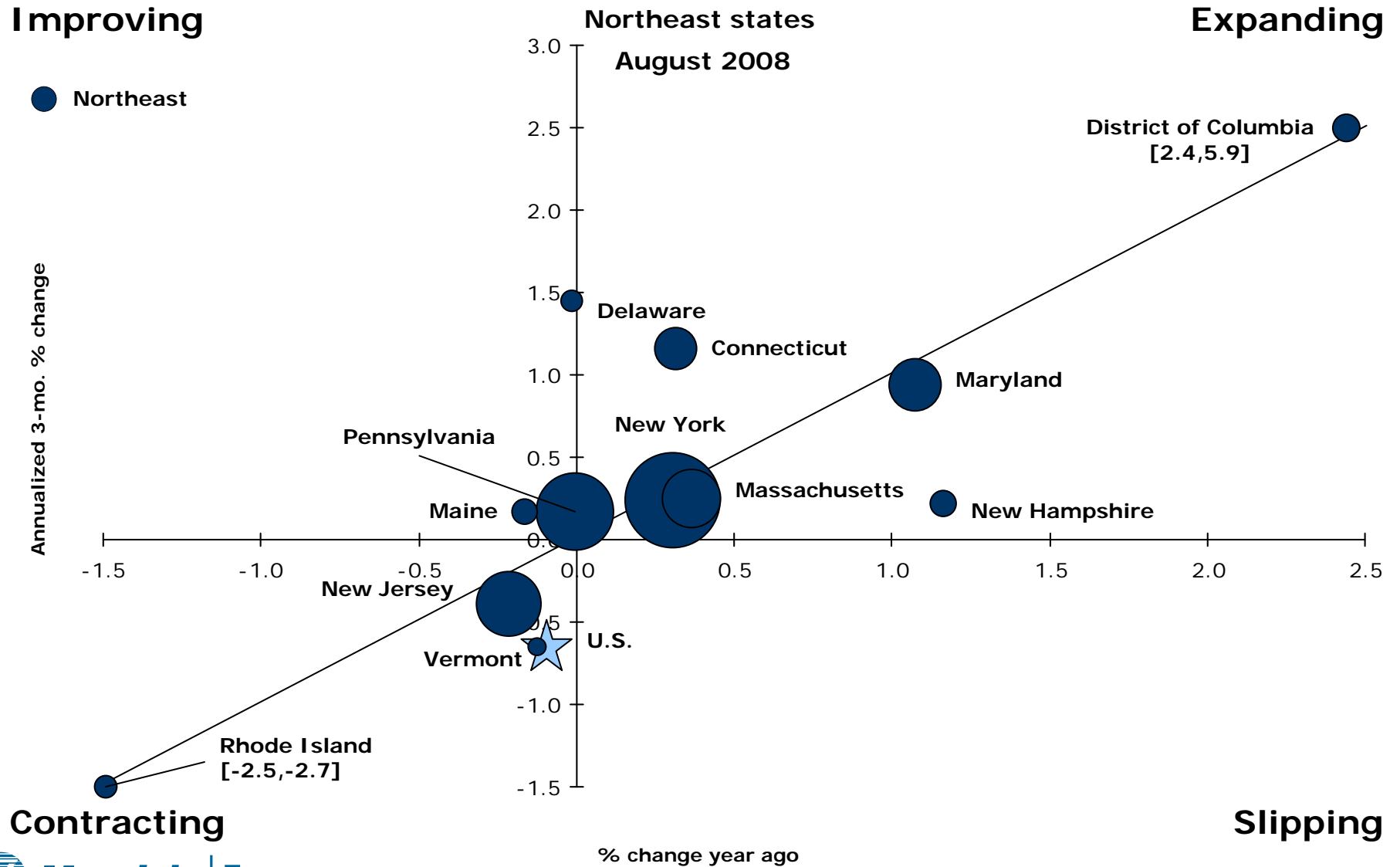
Expanding

● Northeast



Northeast States—Payroll Employment

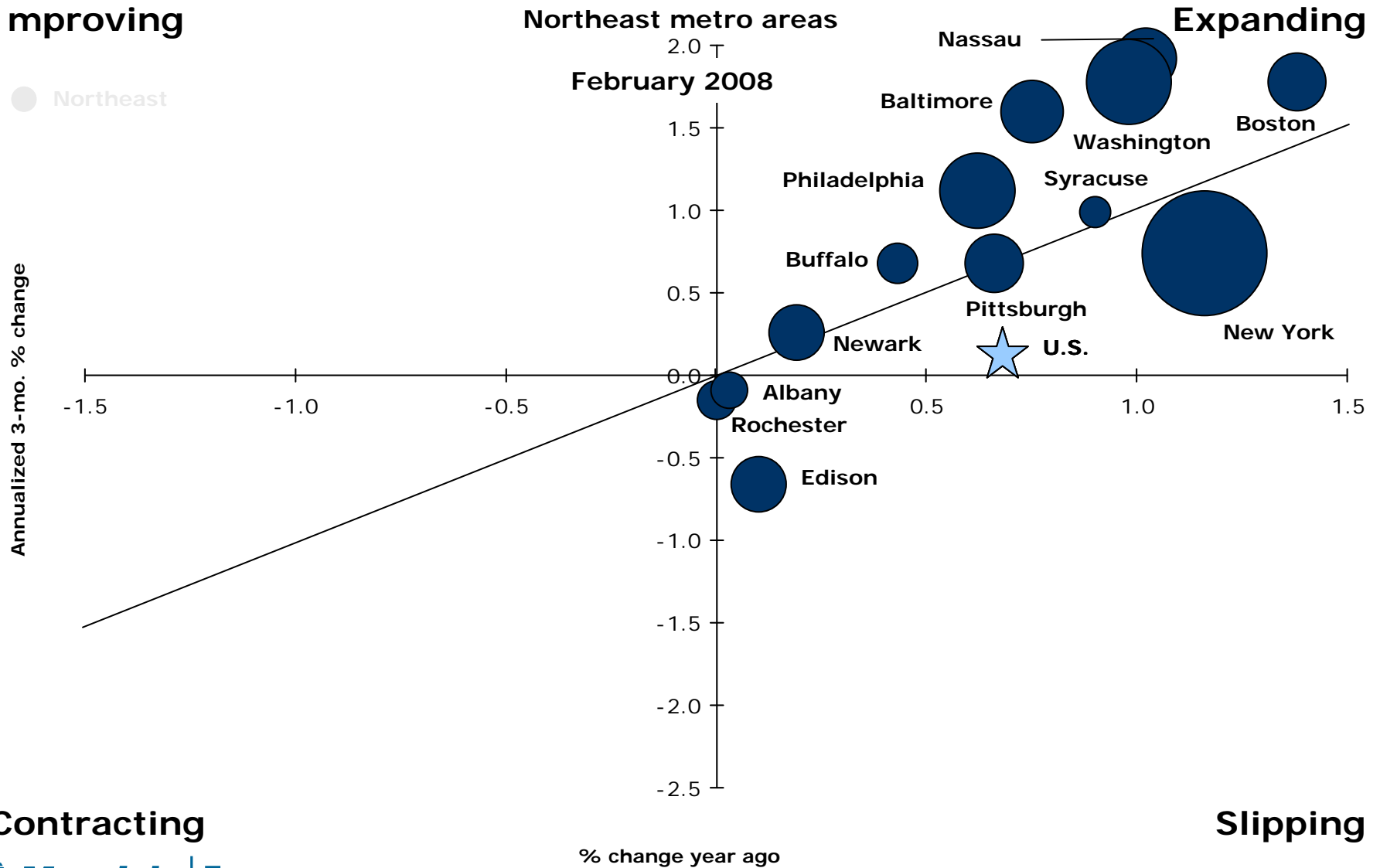
One-year vs. 3-month performance (3 mo. MA)



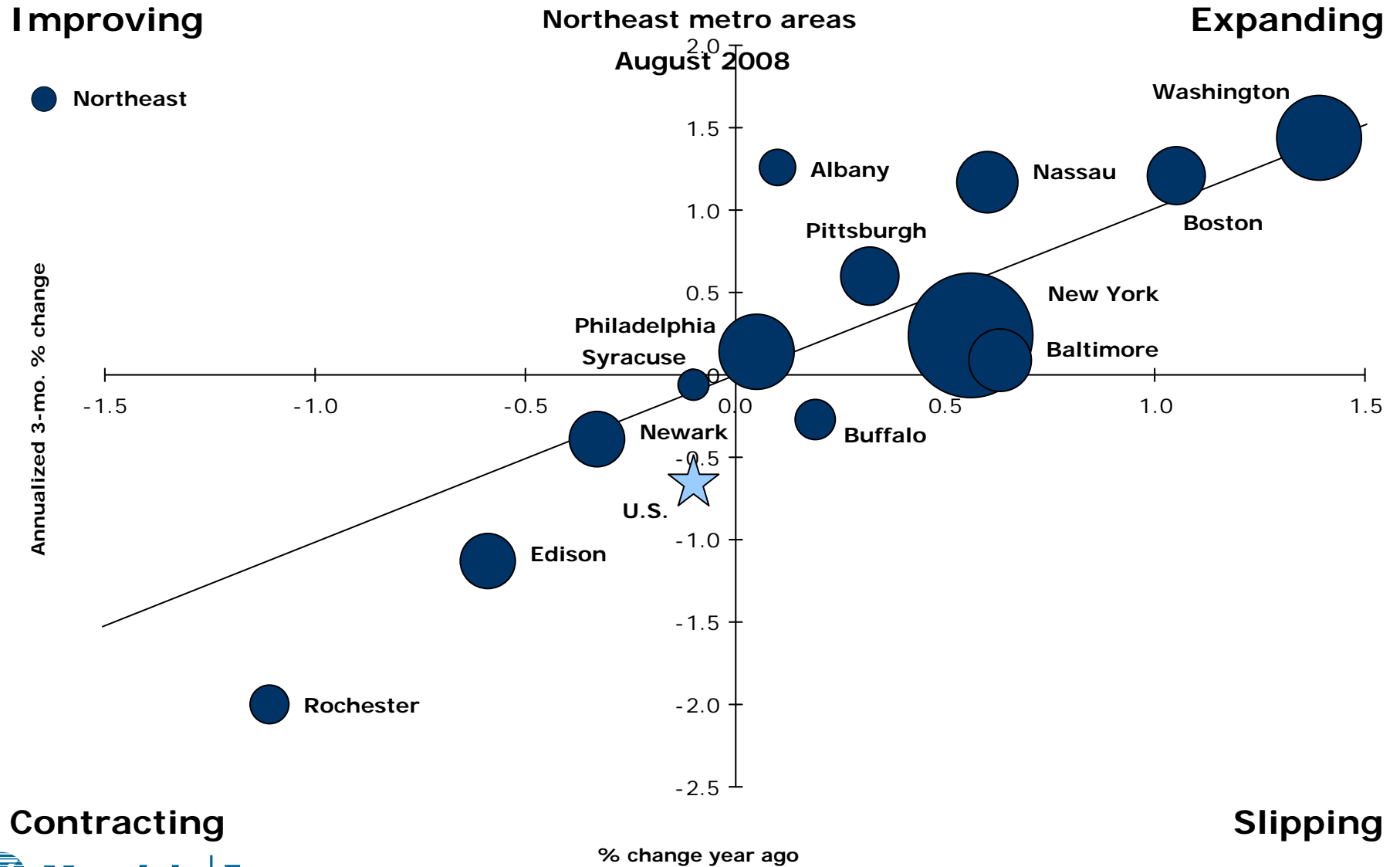
Northeast Metro Areas—Payroll Employment One-year vs. 3-month performance (3 mo. MA)

Improving

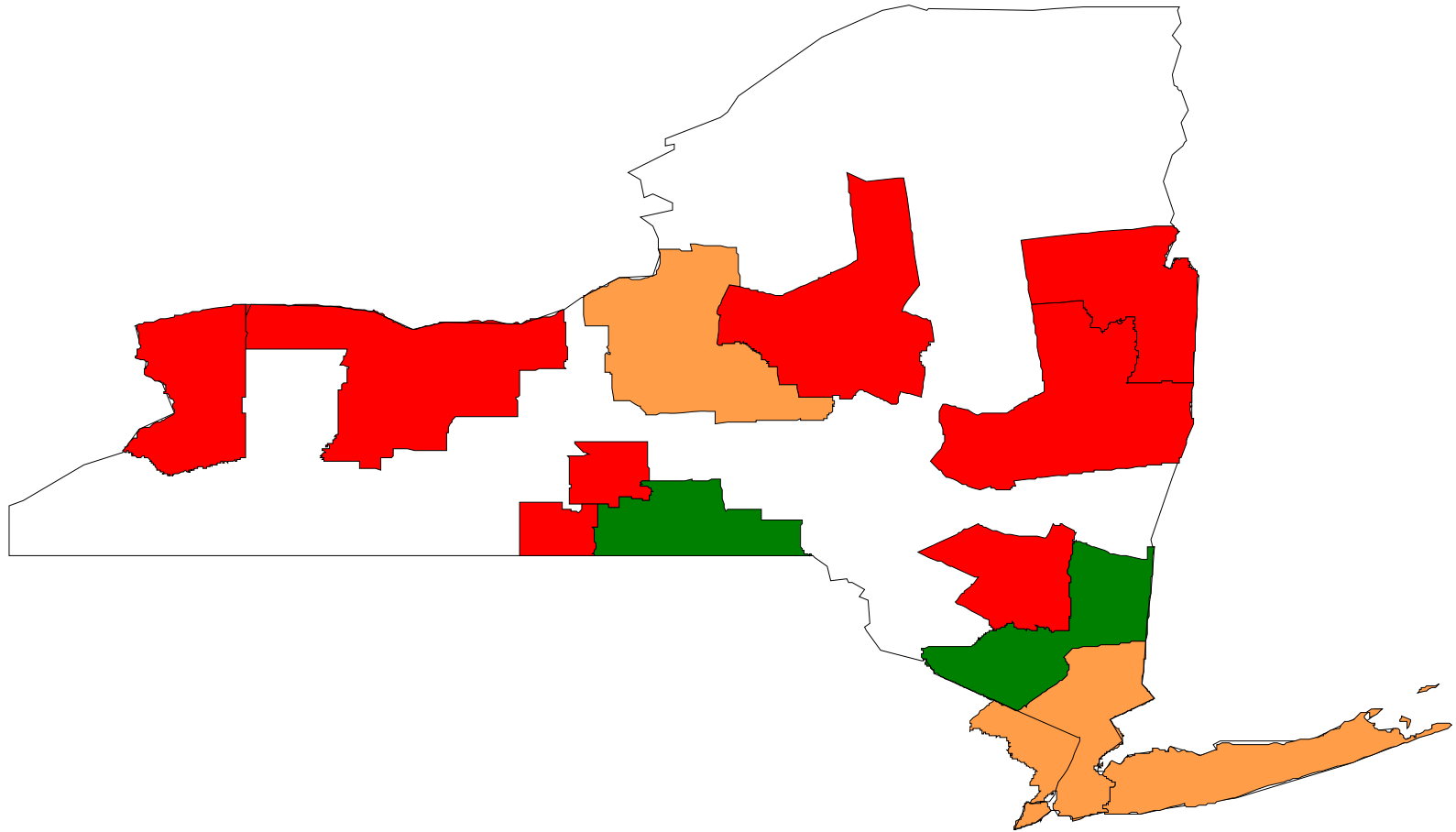
● Northeast



Northeast Metro Areas—Payroll Employment One-year vs. 3-month performance (3 mo. MA)



Most of the State's Metro Areas in Recession

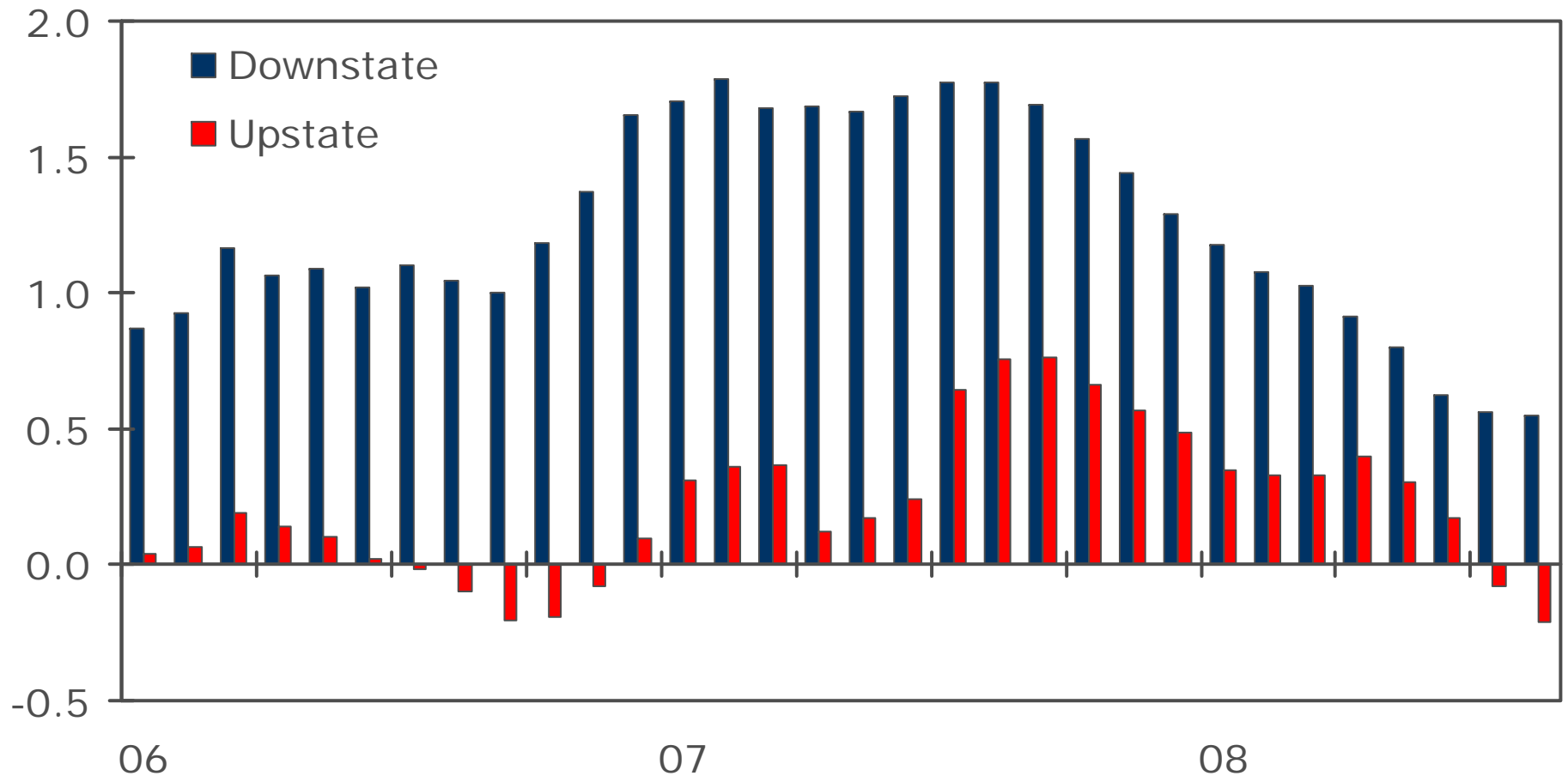


Based on employment and industrial production, August 2008

- Expansion
- At risk
- Recovery
- In recession

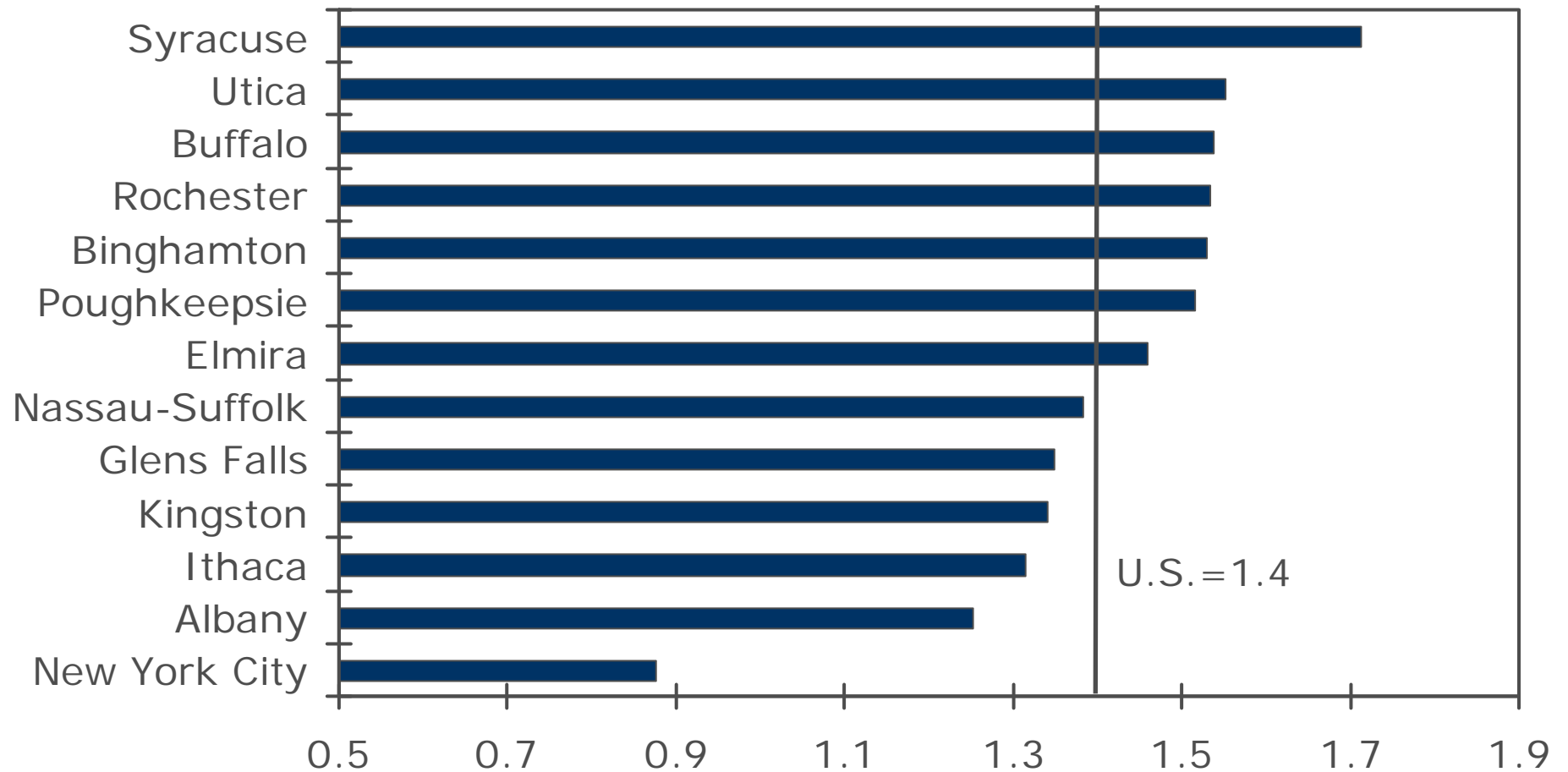
Downstate Is Still Expanding...for Now

Employment, % change year ago, 3 mo. MA



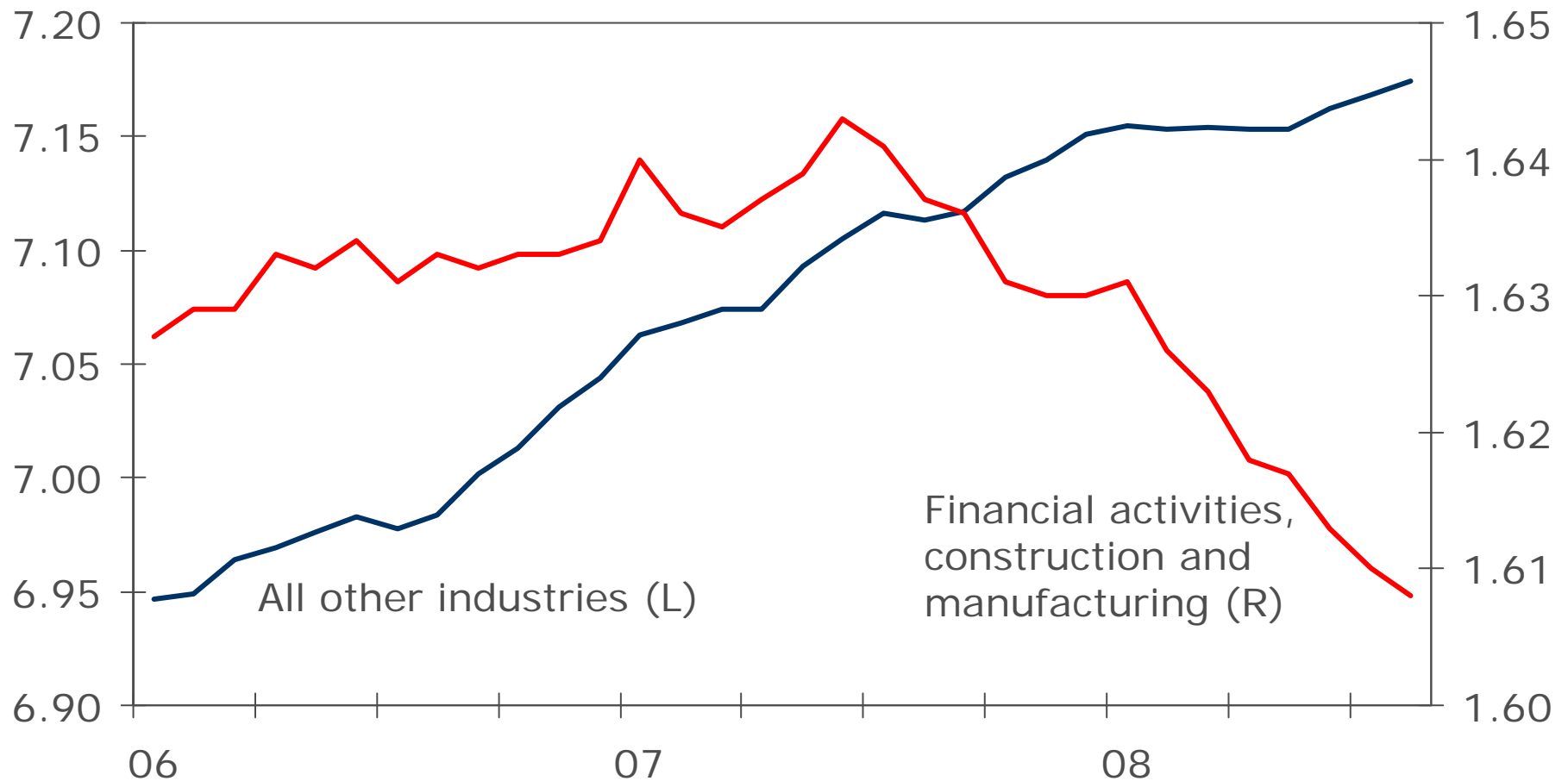
Downstate Labor Markets More Resilient

Unemployment rate, year-ago diff, ppt, August 2008



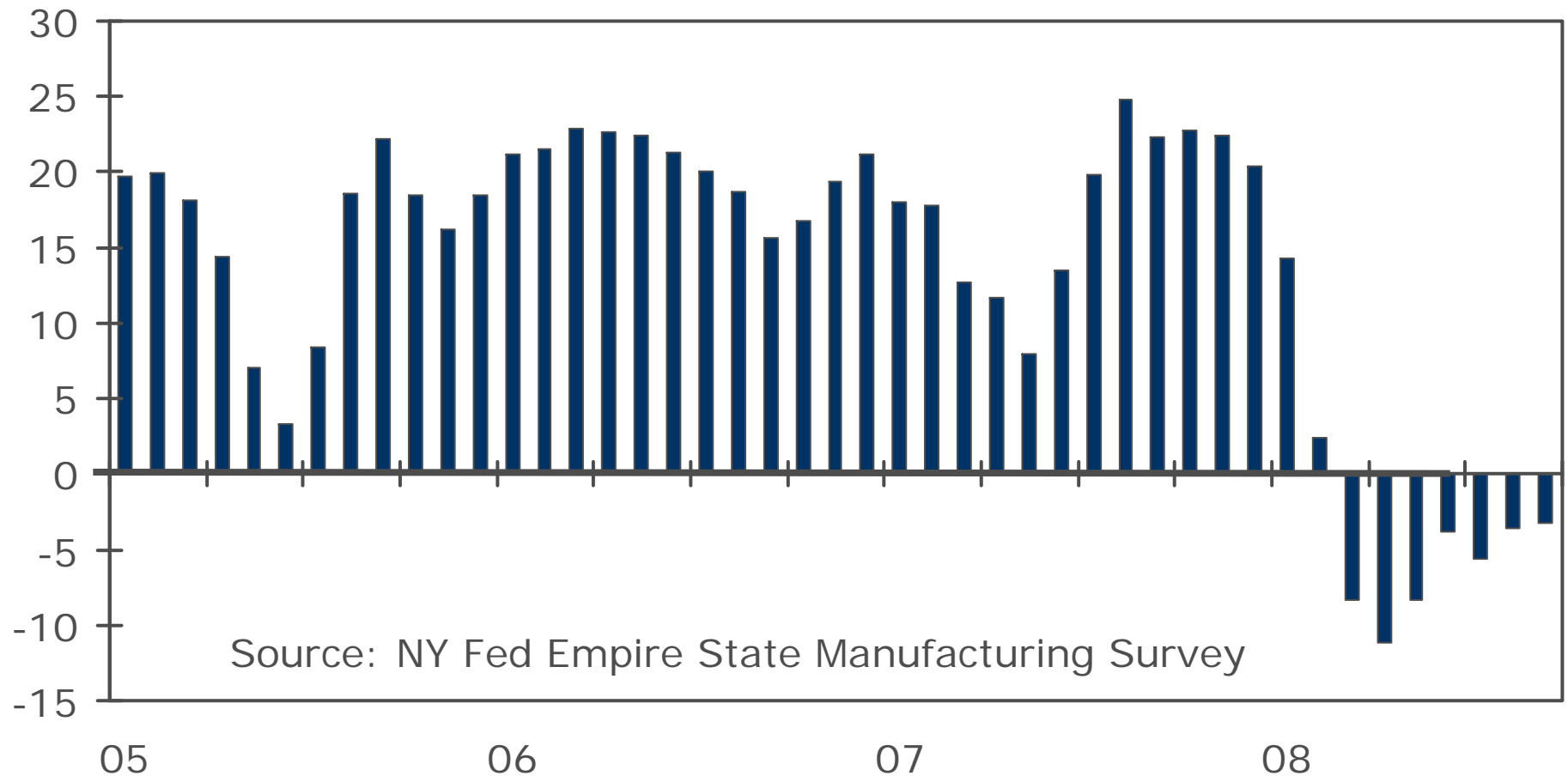
A Few Industries Are a Large Drag

Employment, mil



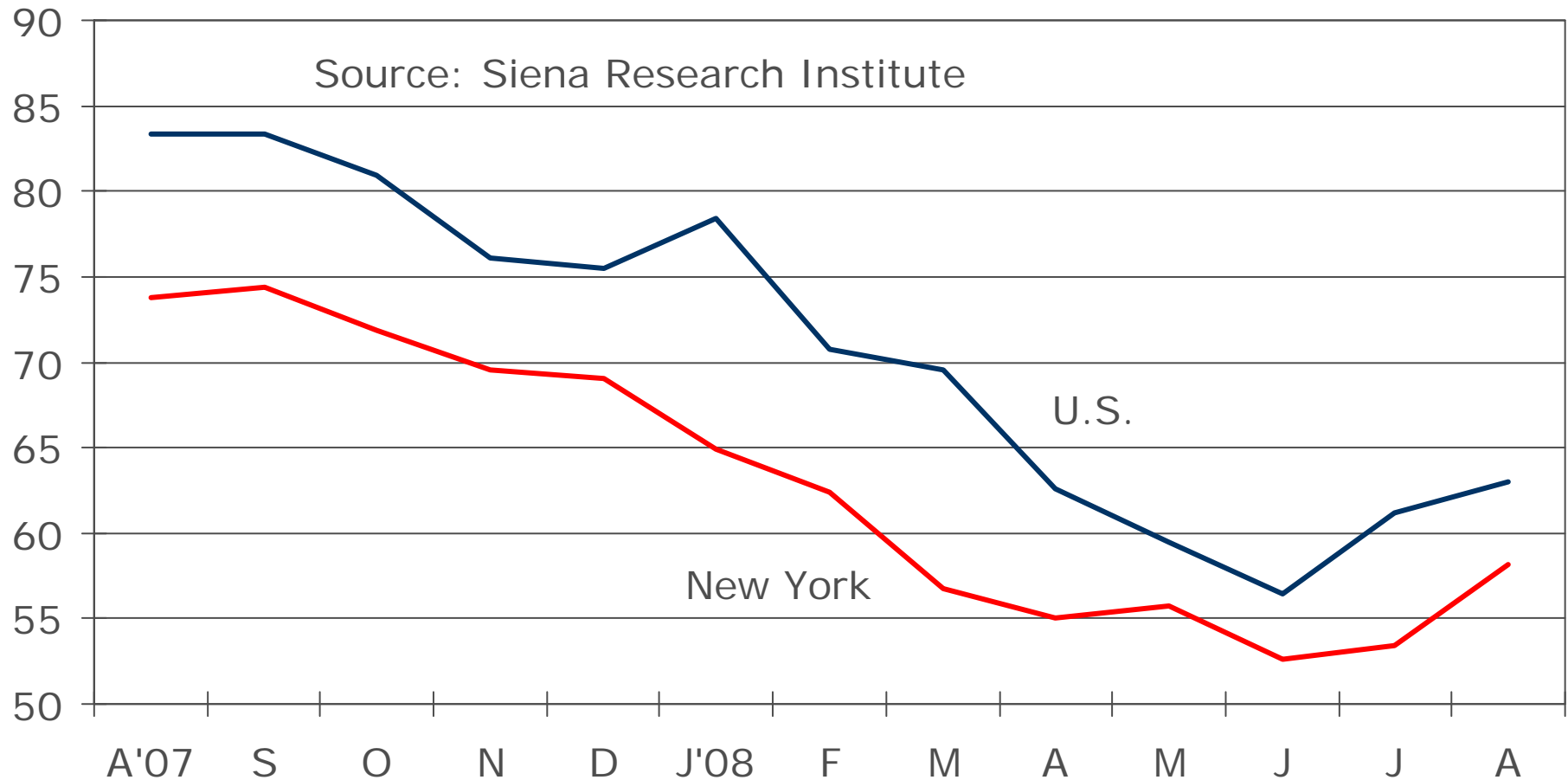
Manufacturing Conditions Are Contracting Sharply

Diffusion index, 3 mo. MA

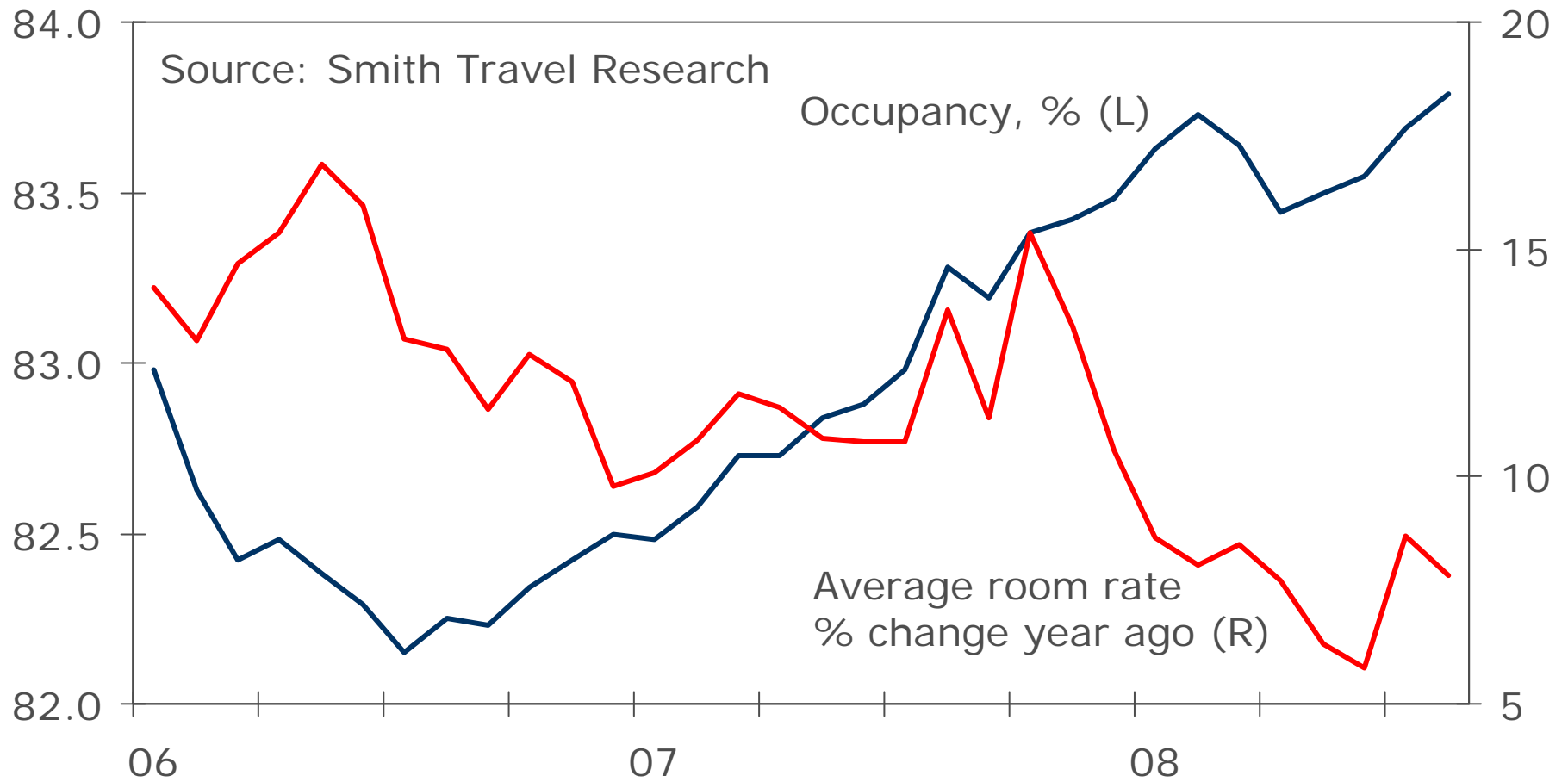


Consumer Confidence Nears All-Time Lows

Consumer Confidence Index

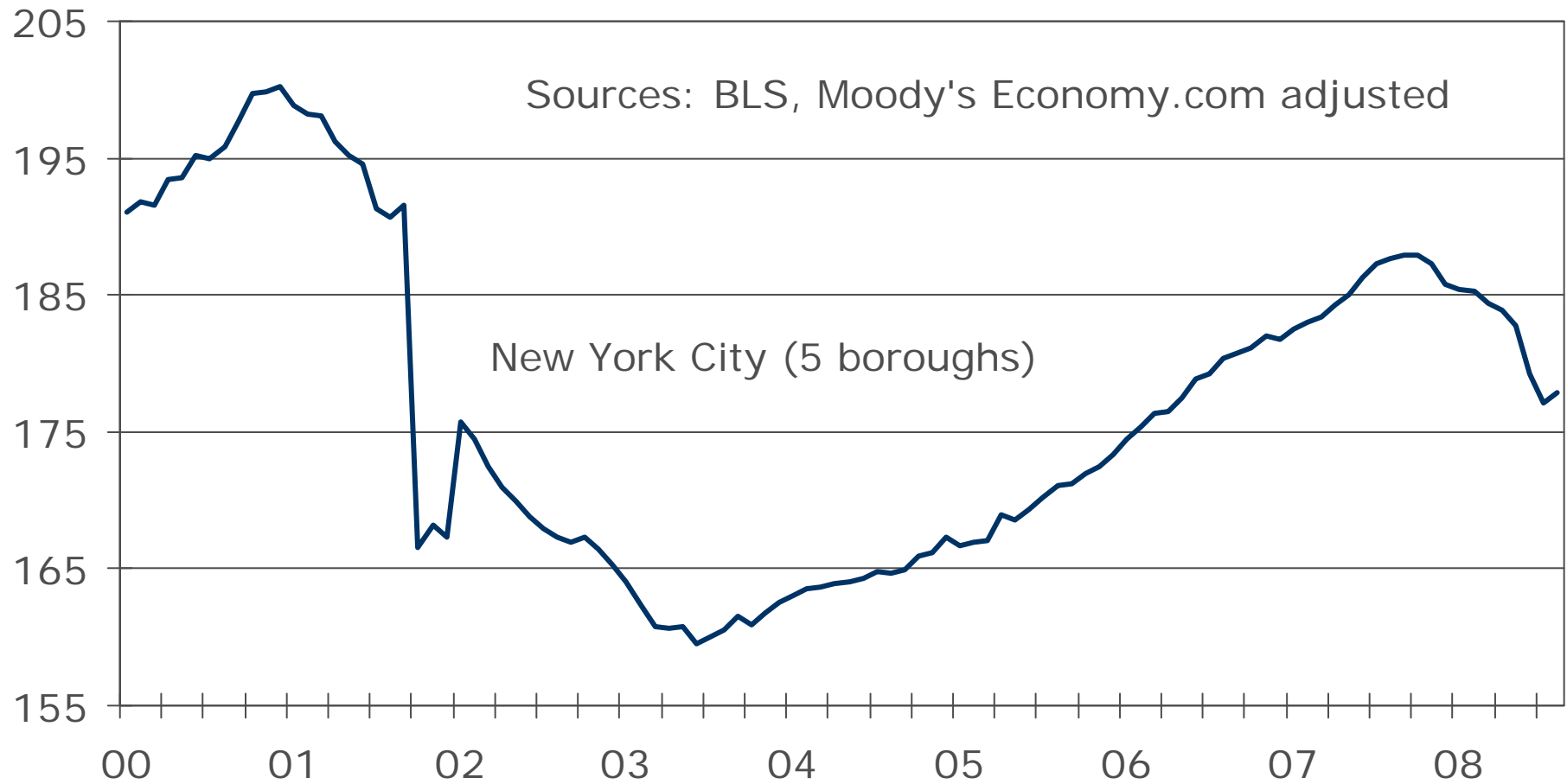


Tourism Still Strong but Slowing in New York City



Wall Street Layoffs Have Yet to Fully Hit NYC

Securities, commodity contracts employment, ths



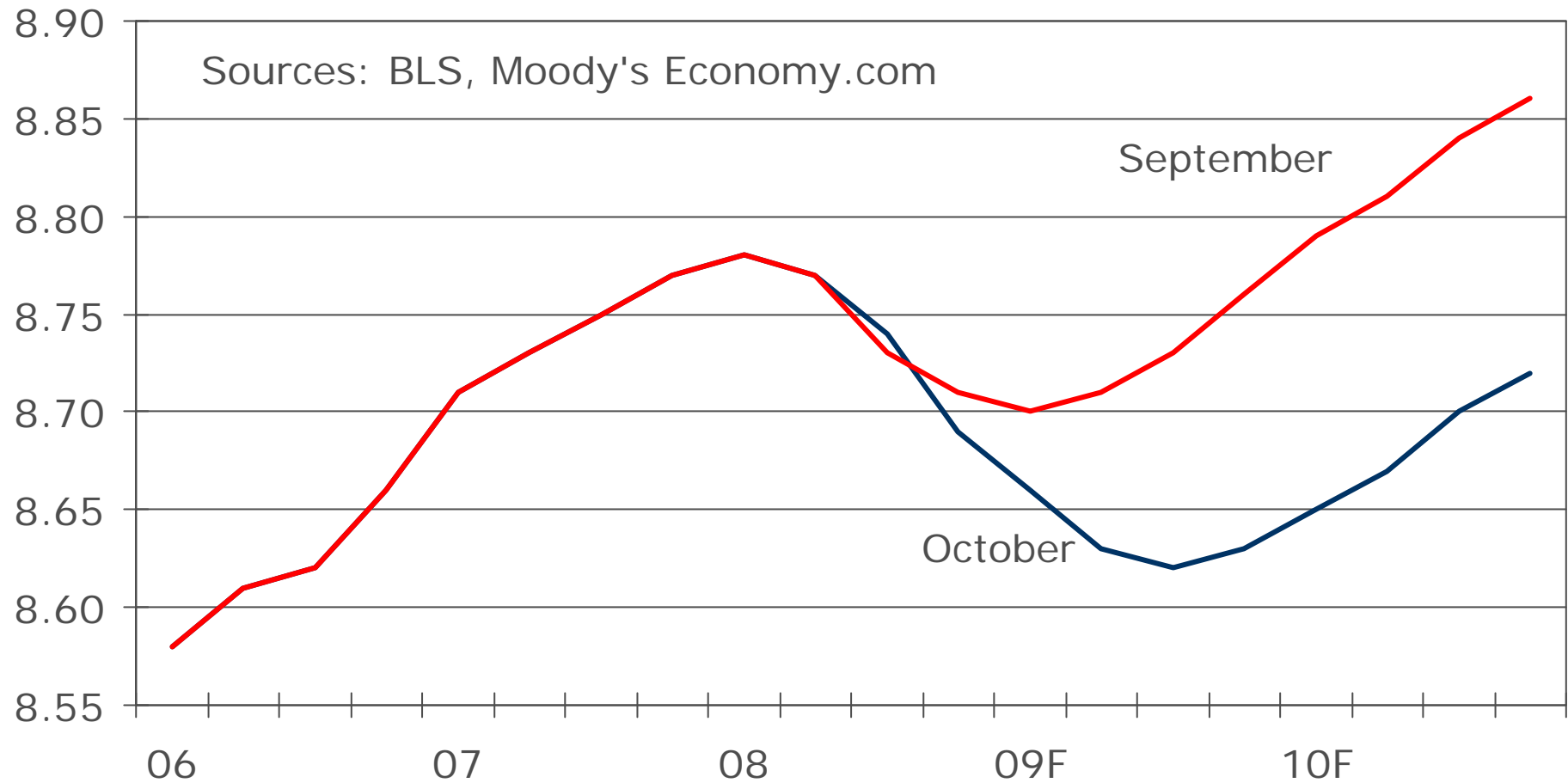


The Recession



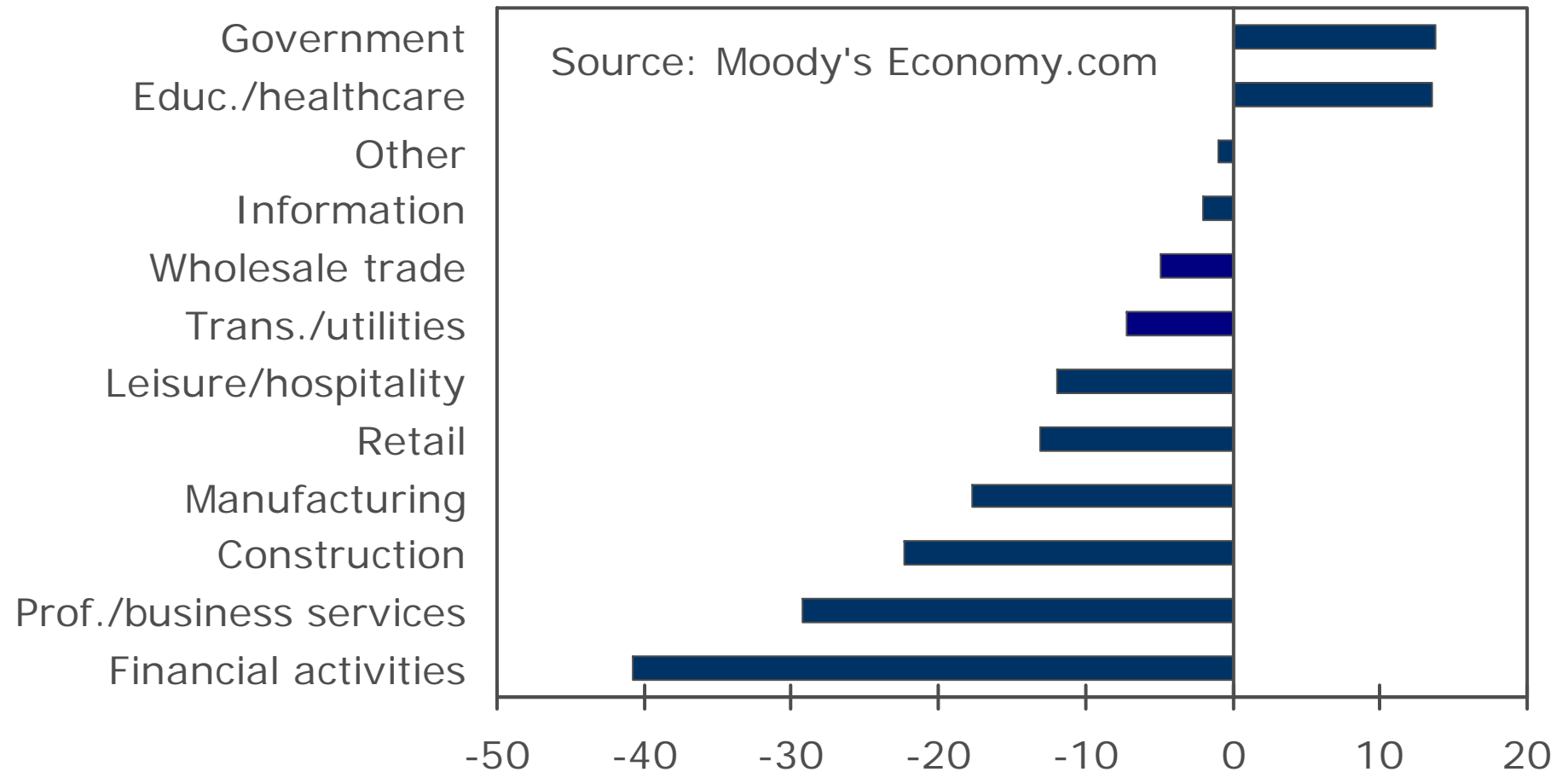
A Worsening Outlook

New York employment, mil



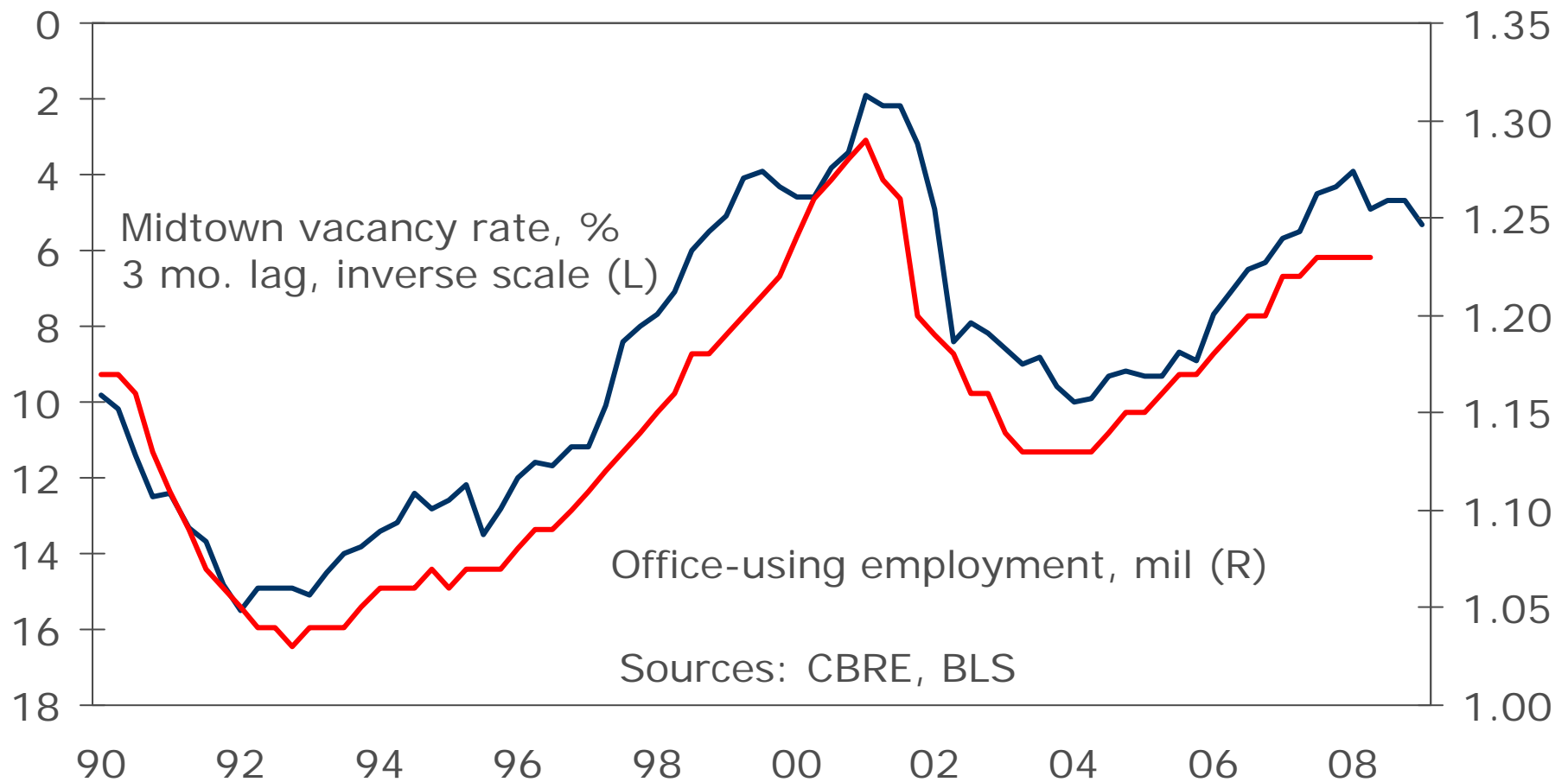
Goods-Producing & Finance Will Drag Growth

New York employment, change year ago, ths, 2009Q3



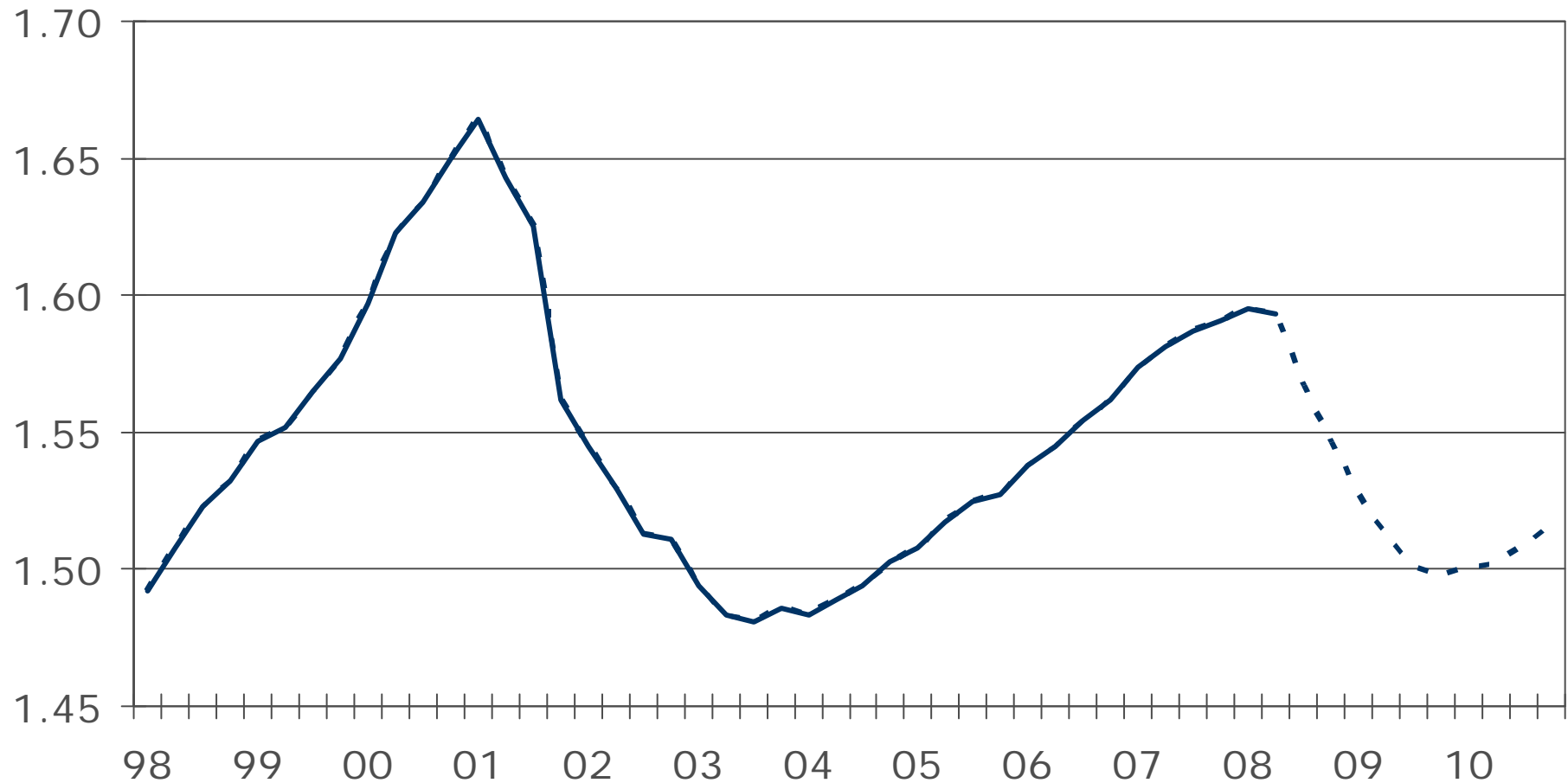
Office Jobs Outlook Is Key to Office Market

New York City



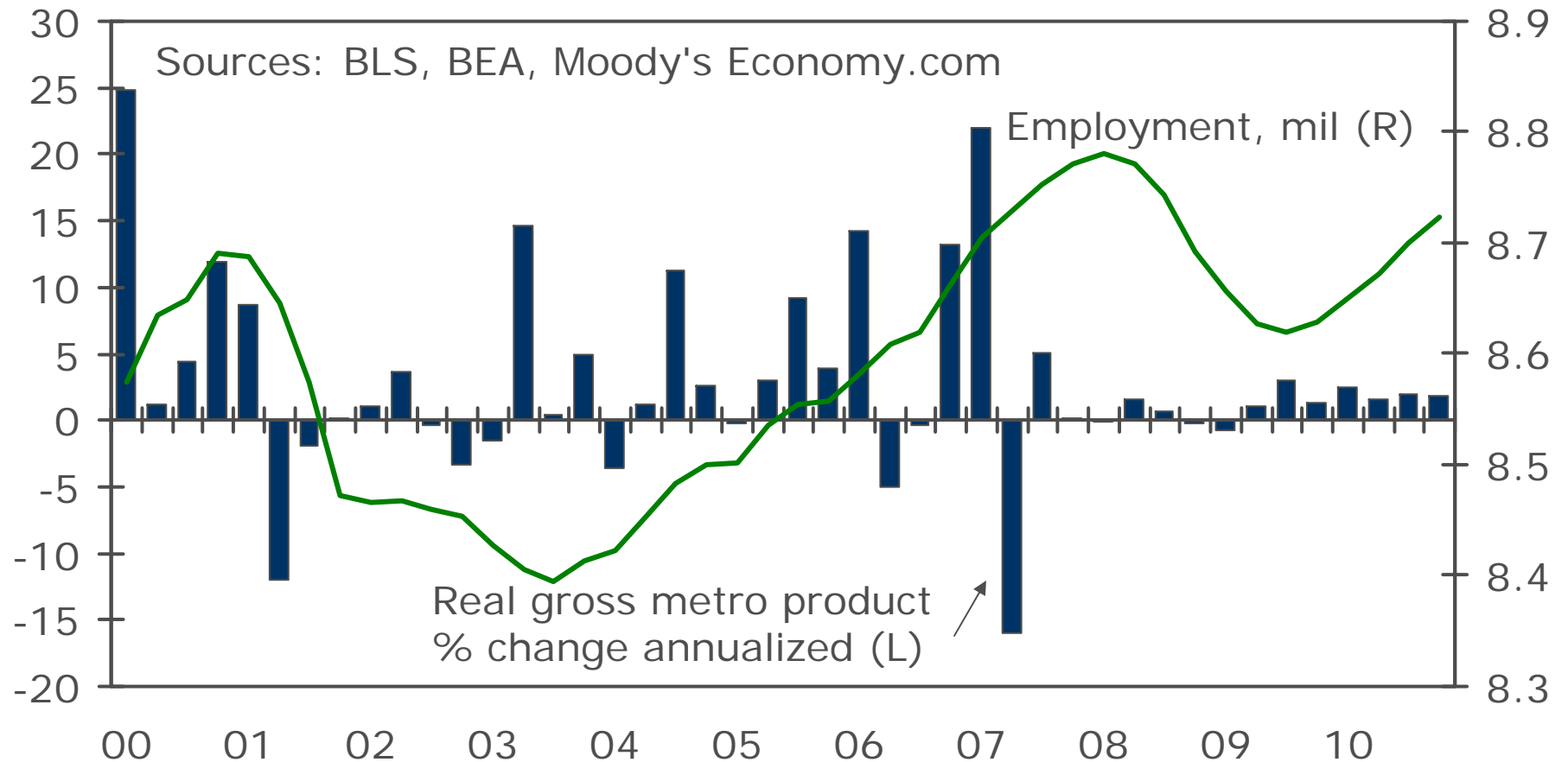
Office-Using Job Losses Will Be Substantial

New York City metro division office employment, mil



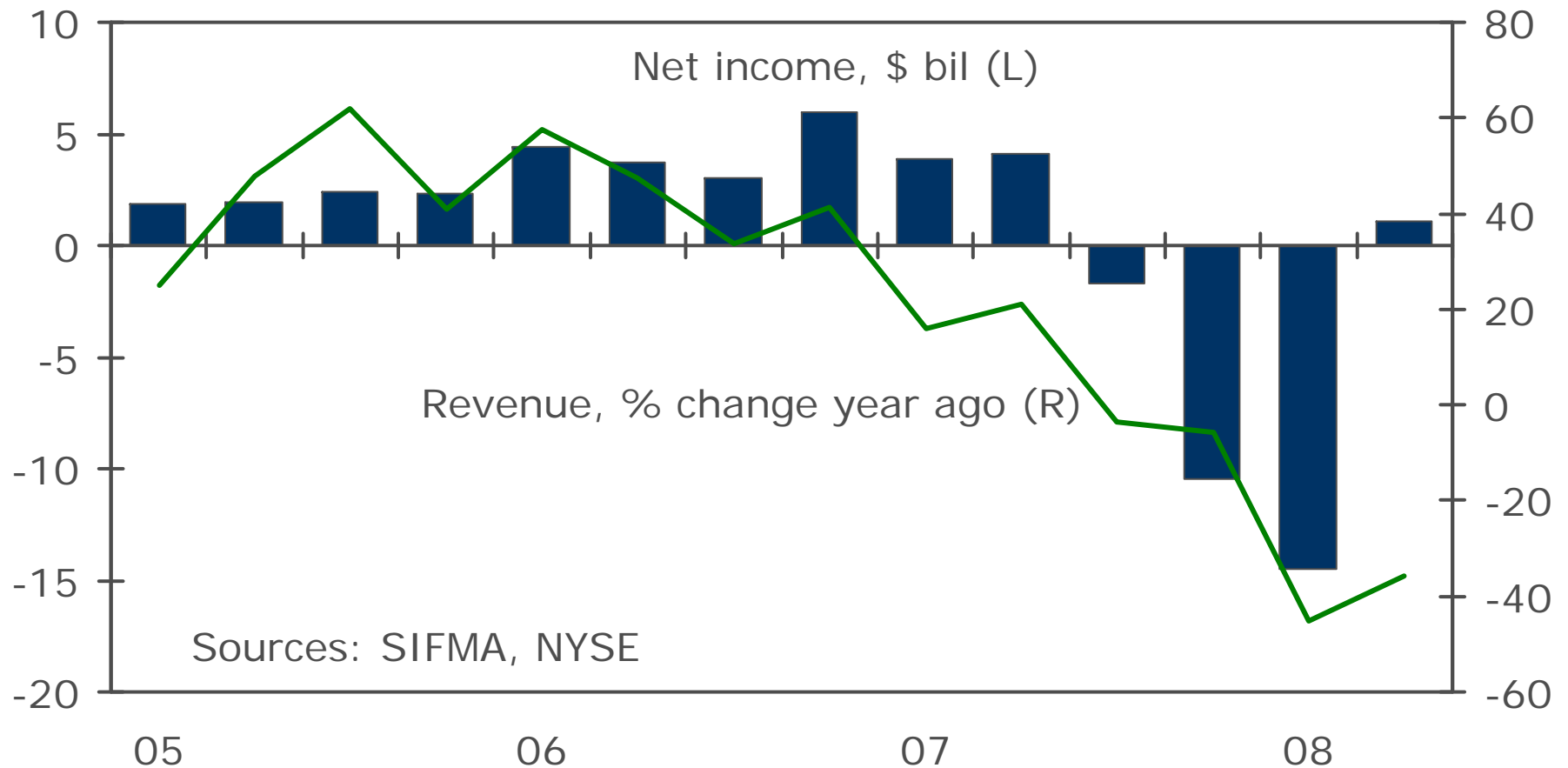
This Recession Will Be Milder Than the Last

New York state



A Small Glimmer of Hope?

Securities brokerage industry



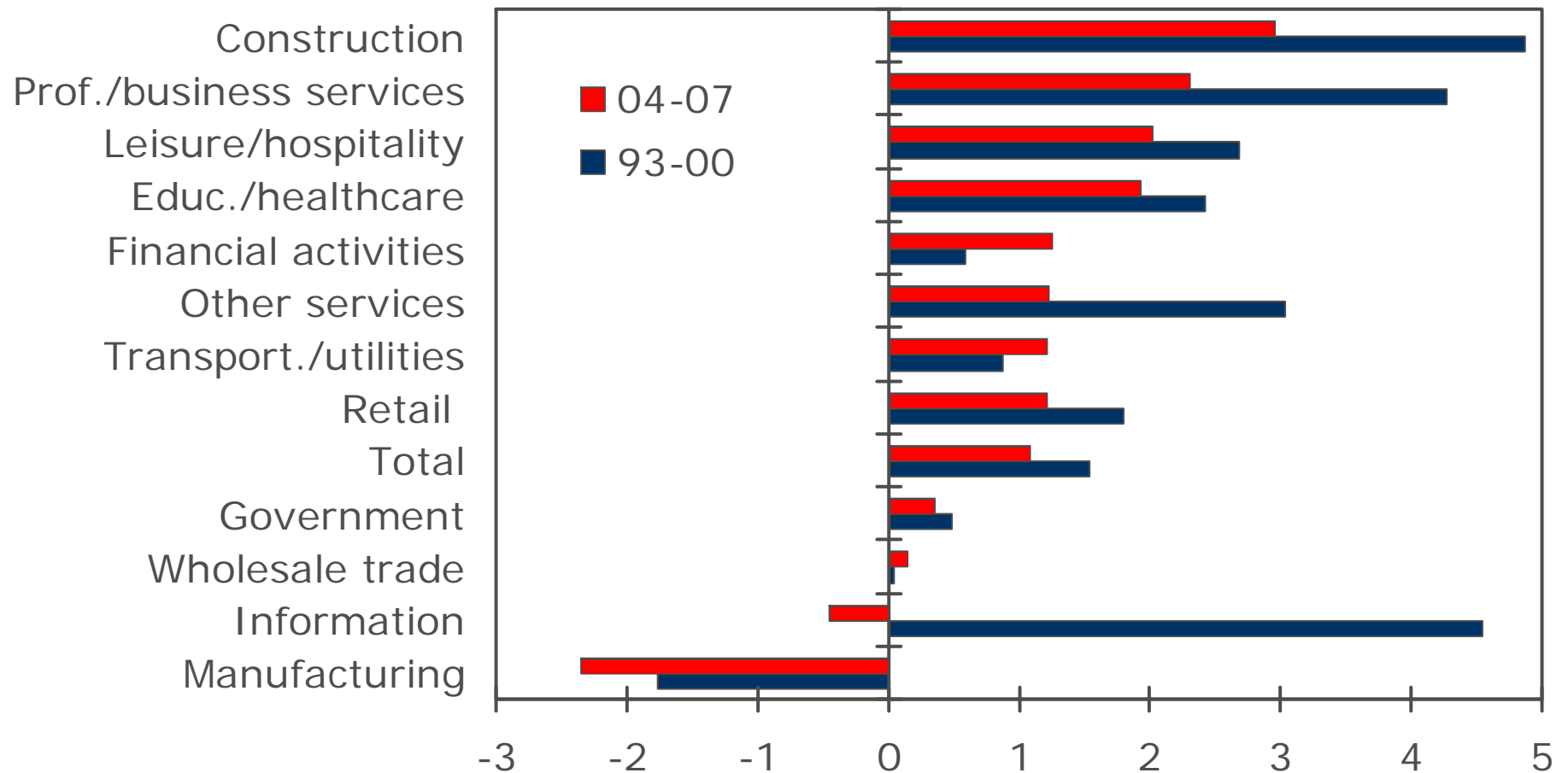


Why Less Severe?

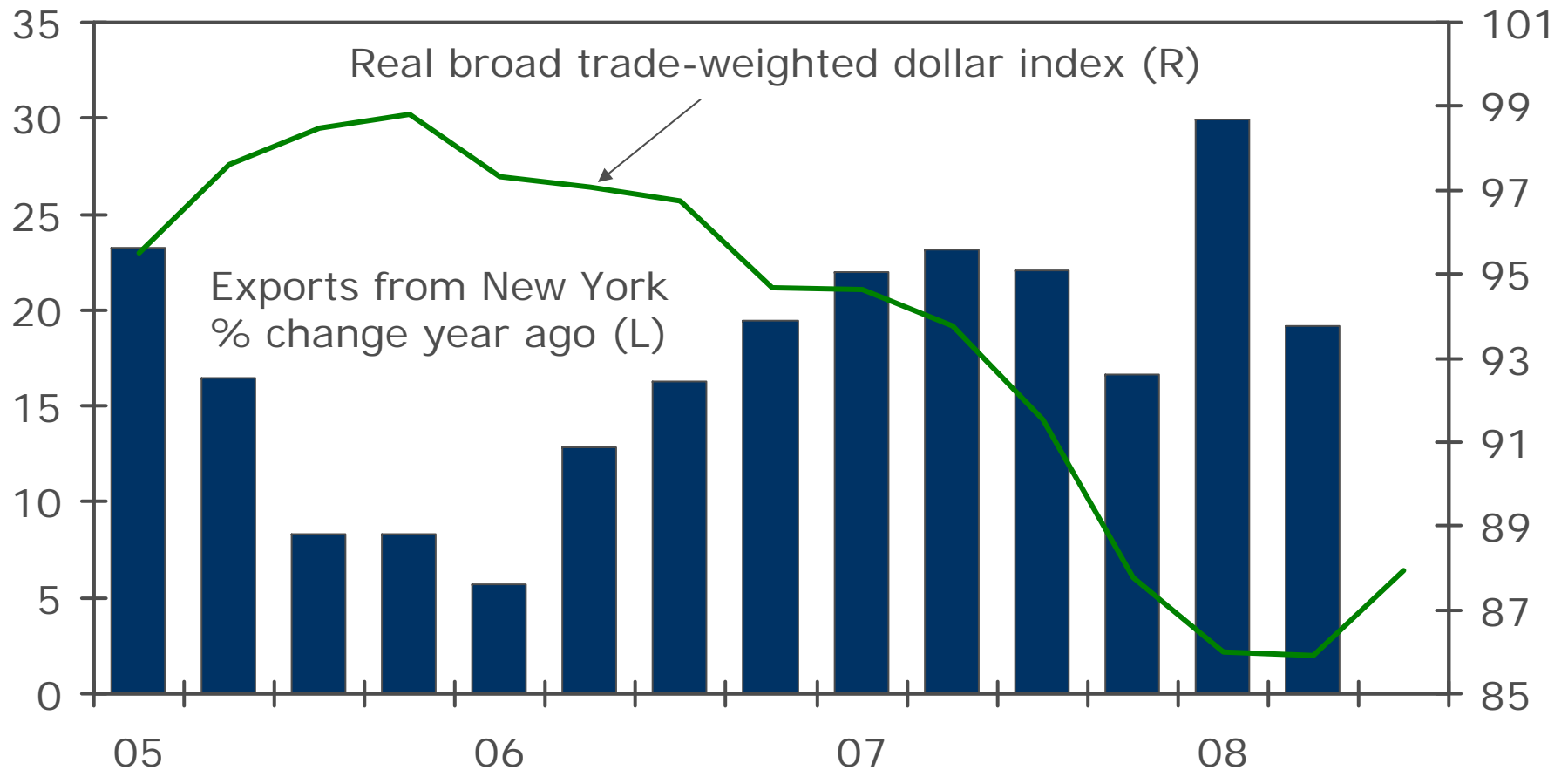


More Modest Hiring Means Fewer Jobs to Shed

Average monthly job growth, % change annualized

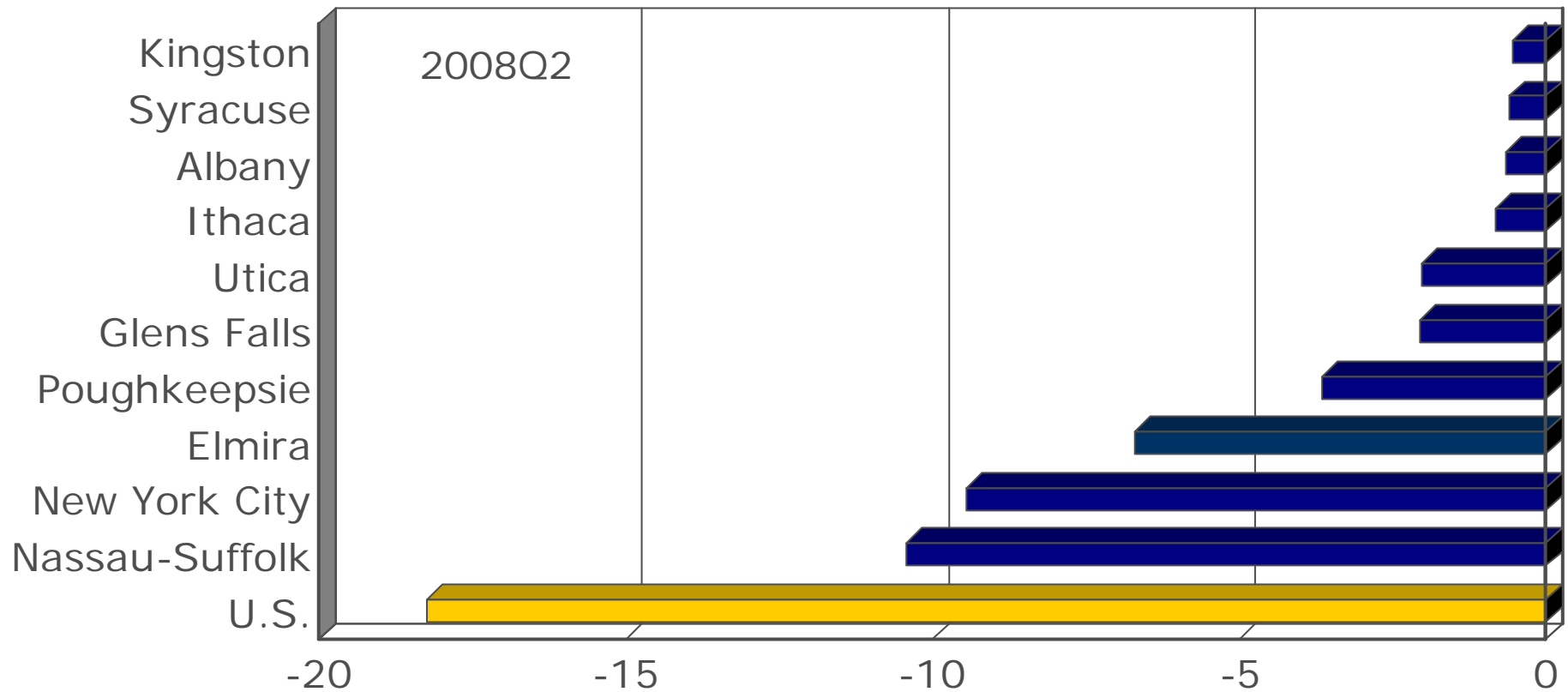


Weak Dollar and Global Growth Provide Support



House Price Declines Not as Severe as Nationally

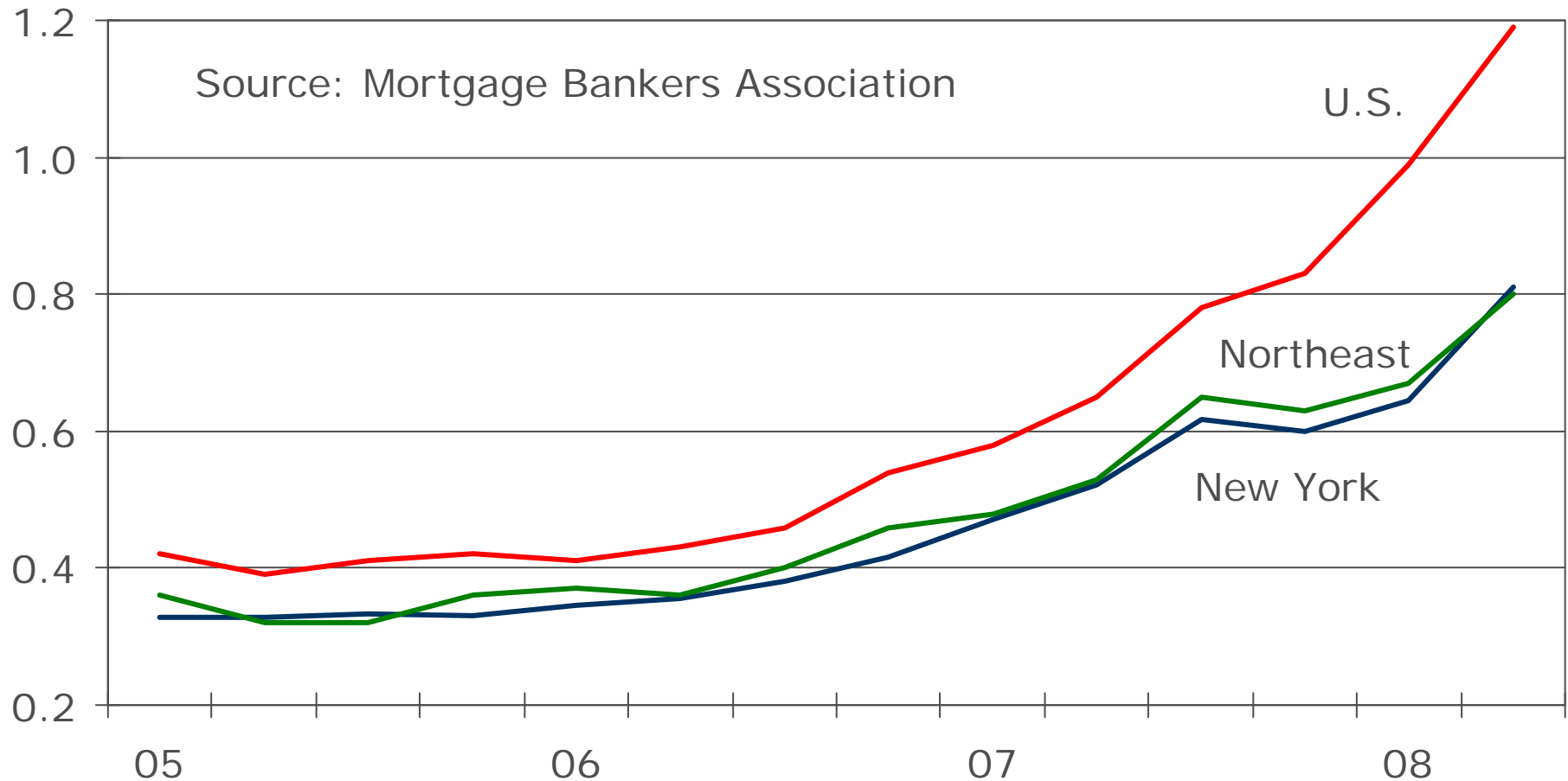
Case-Shiller home price index, % change from peak



*Binghamton, Buffalo, Rochester still appreciating

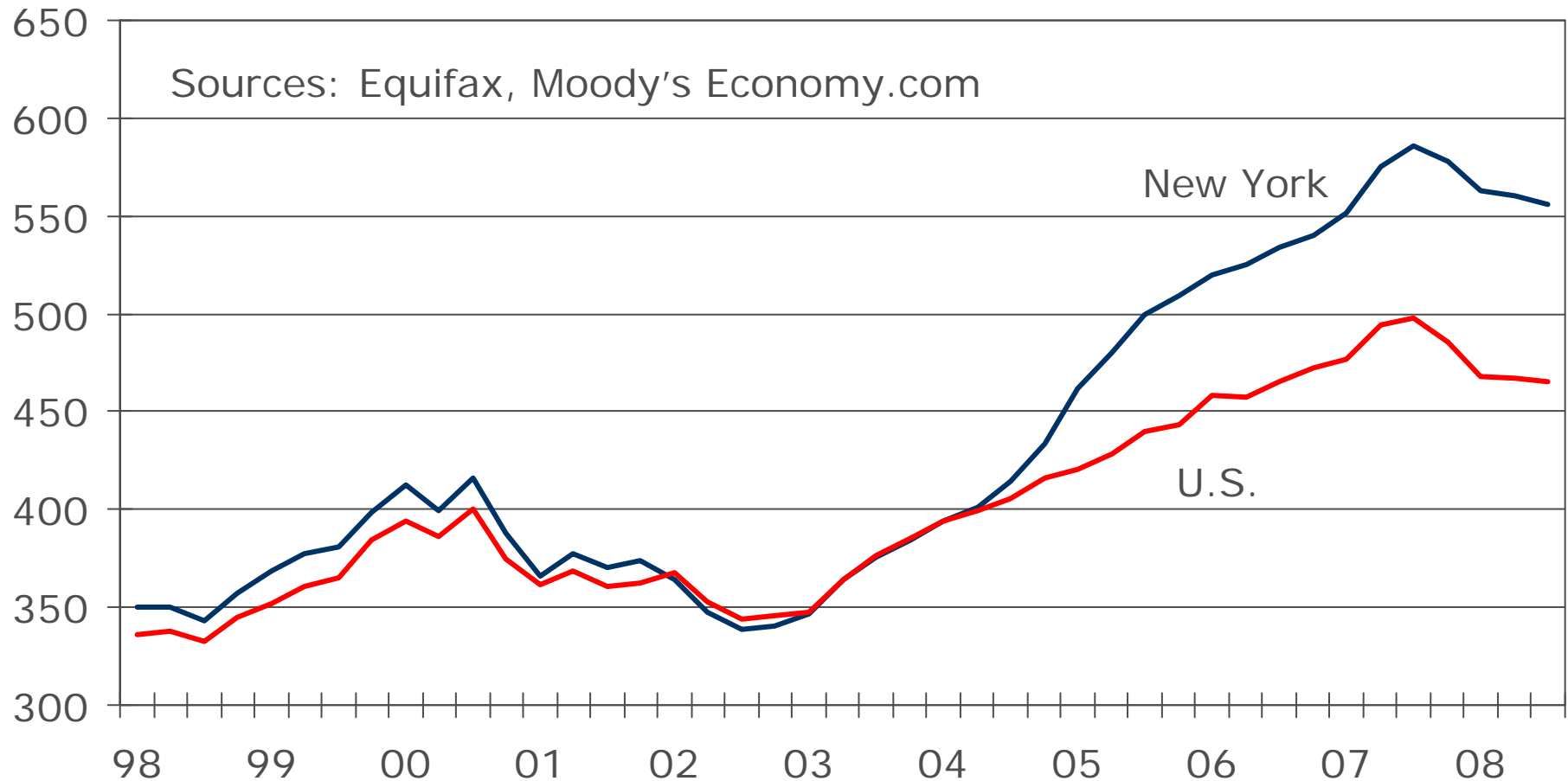
Foreclosures Rising, but Slowly, in New York

Mortgage loans, % in foreclosure started during quarter



New Yorkers Have Some Cushion

Household net worth, \$ ths



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