

Economic & Housing Update

Arizona Affordable Housing Forum
June 18, 2015

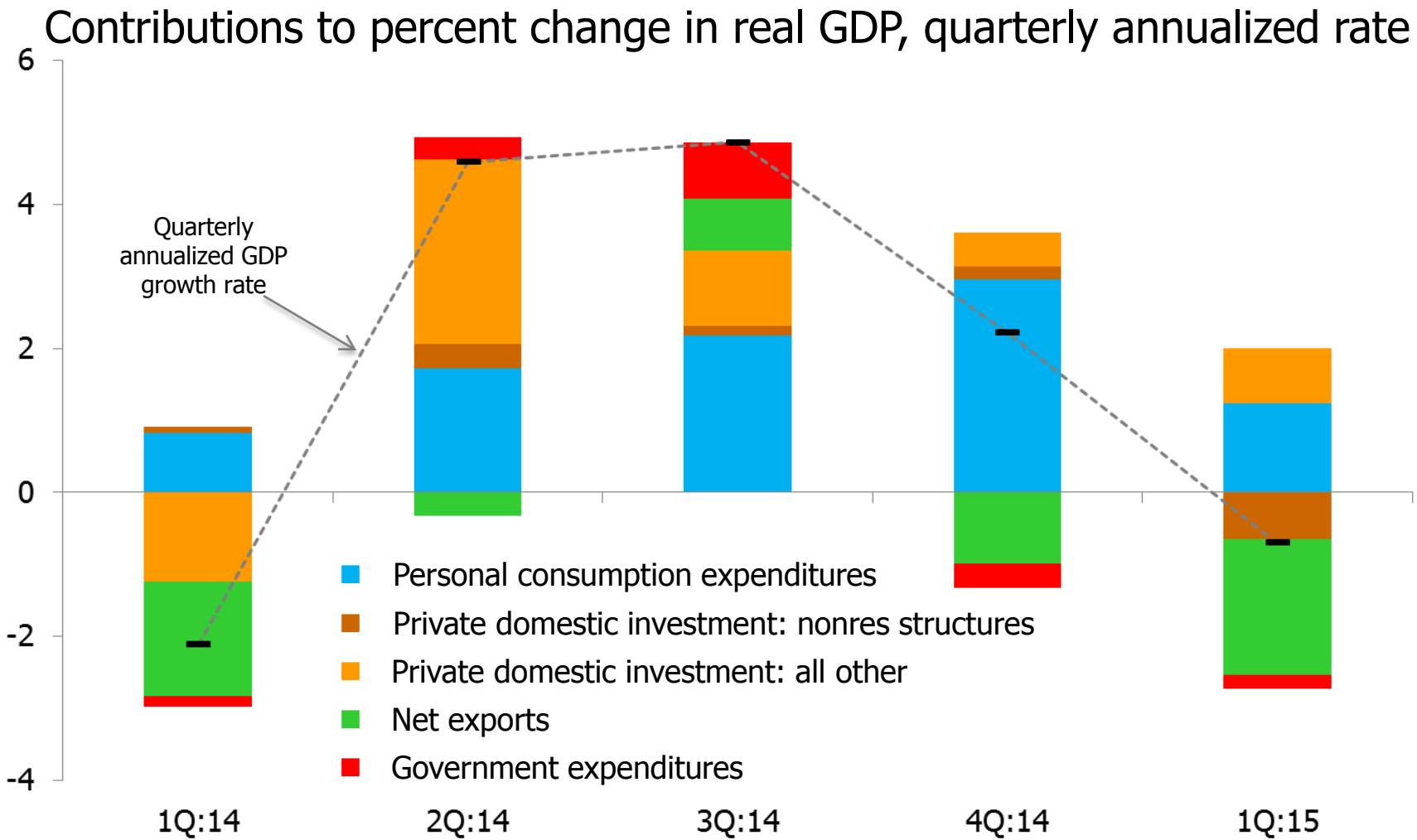
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Economics & Policy Analysis Department
Office of the Comptroller of the Currency



Agenda

- Consensus forecast is for a modest pick-up in U.S. economic growth and interest rates through 2016
- Arizona economy continues to recover from deeper downturn than U.S. average
- Arizona housing recovery still far from complete

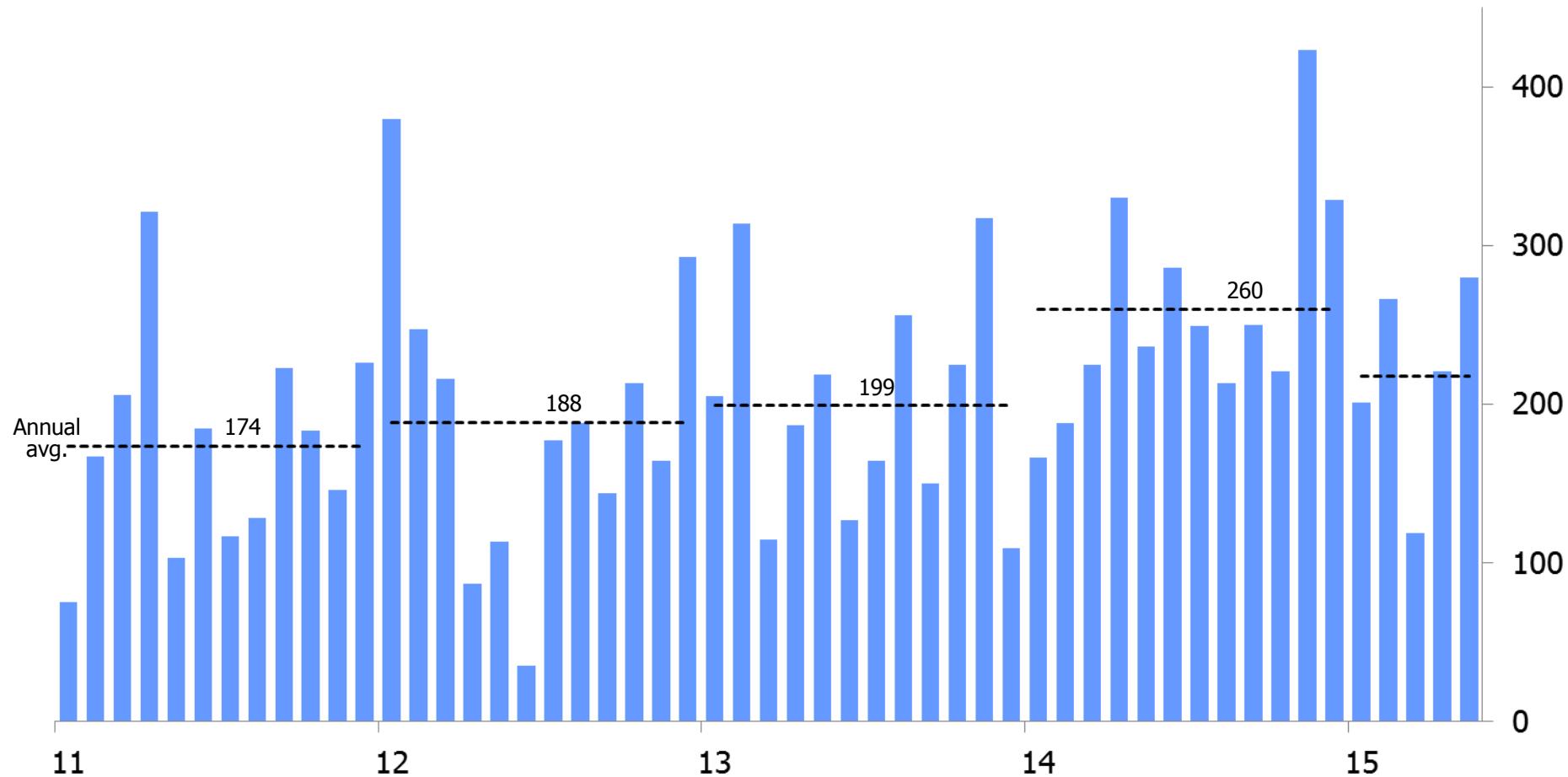
Real GDP growth stalls in 1Q:15 from declining business investment in structures & net exports



Source: Bureau of Economic Analysis (data through 1Q:2015 as of May 29, 2015 release)

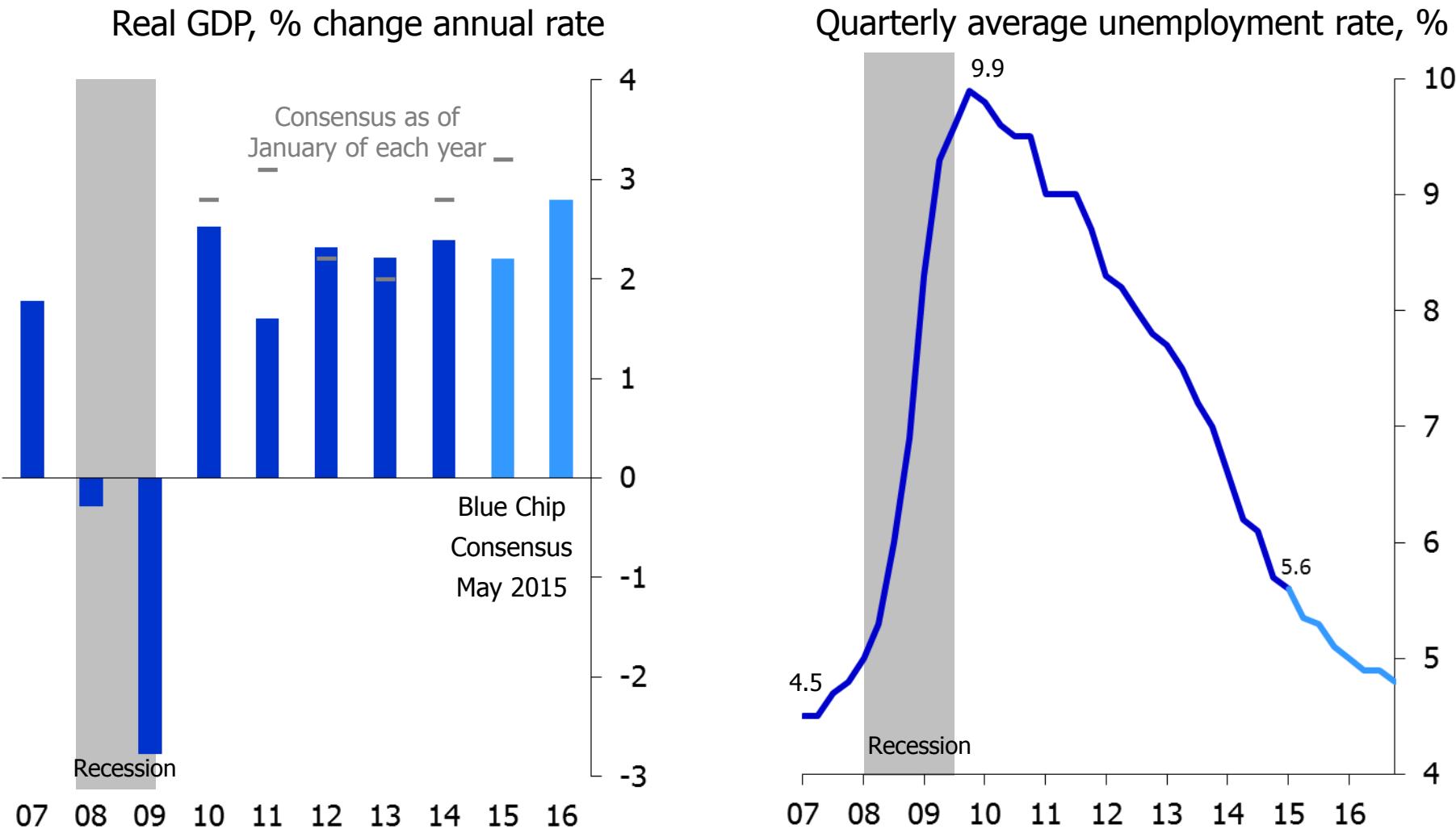
Job growth has not slowed to same extent as GDP

Nonfarm employment, change, thousands



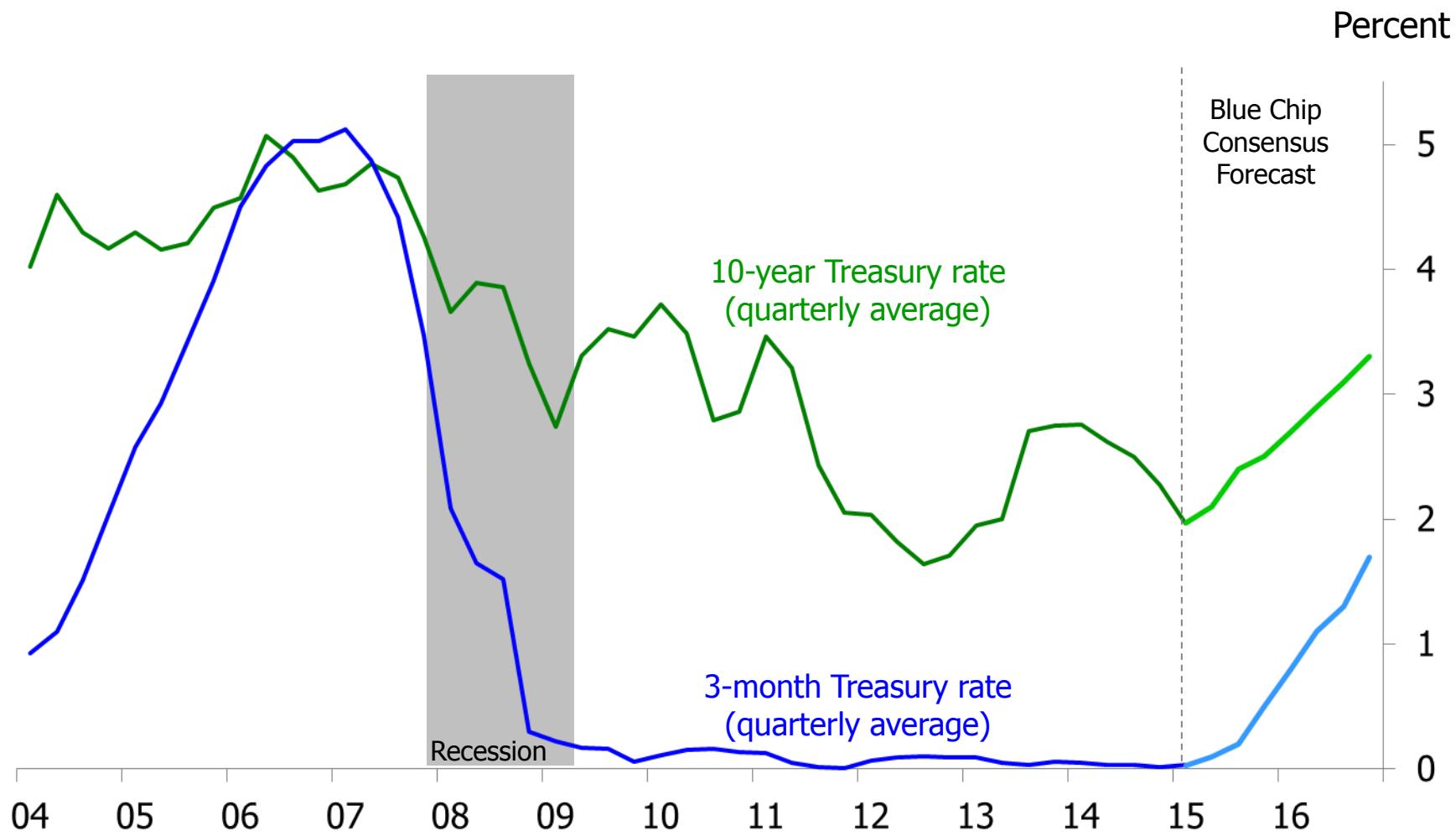
Source: Bureau of Labor Statistics (data through May 2015)

As for much of recovery, consensus GDP growth forecast at start of year likely to be over optimistic



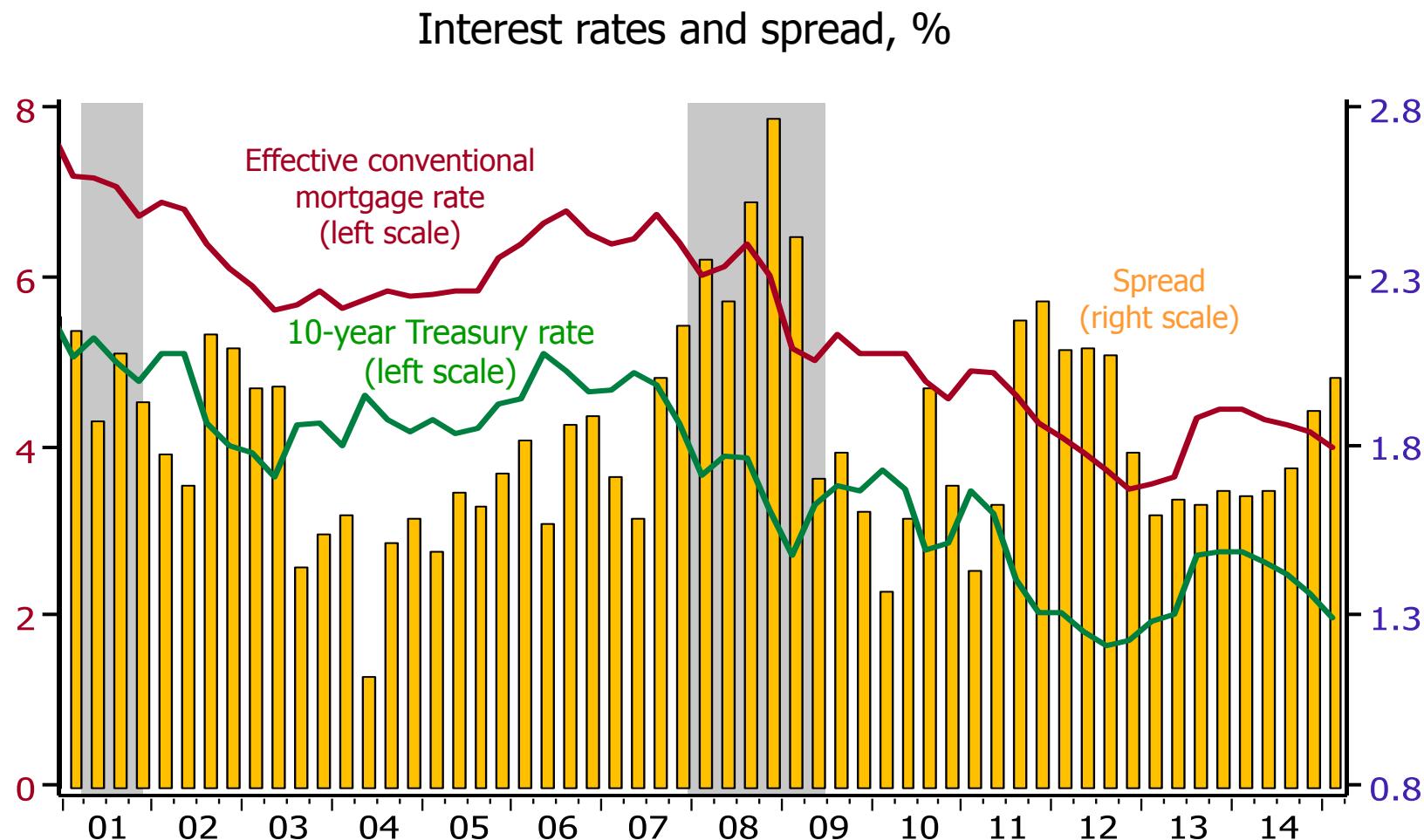
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics (historical data through 1Q:2015), Blue Chip Indicators (June 2015)

Treasury yield curve is expected to flatten over the next two years



Sources: FRB, Blue Chip Consensus Forecast (June 2015). Historical data through 1Q:2015.

Mortgage rates depend on 10-year Treasury rate and spread



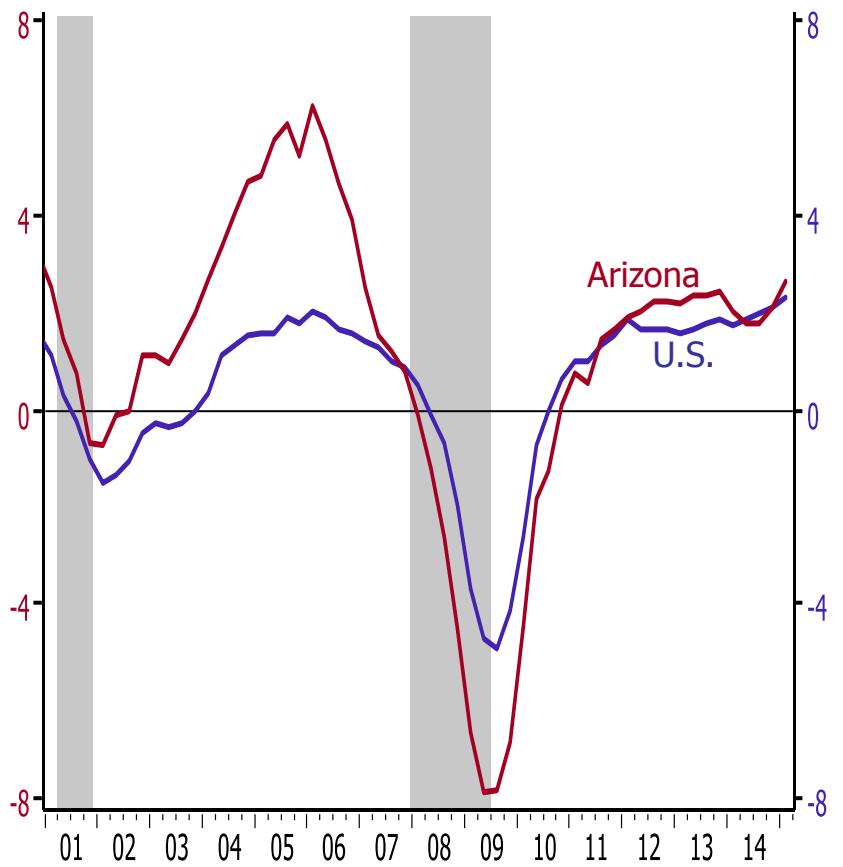
Source: FHFA, FRB /Haver Analytics; quarterly averages through 1Q:2015

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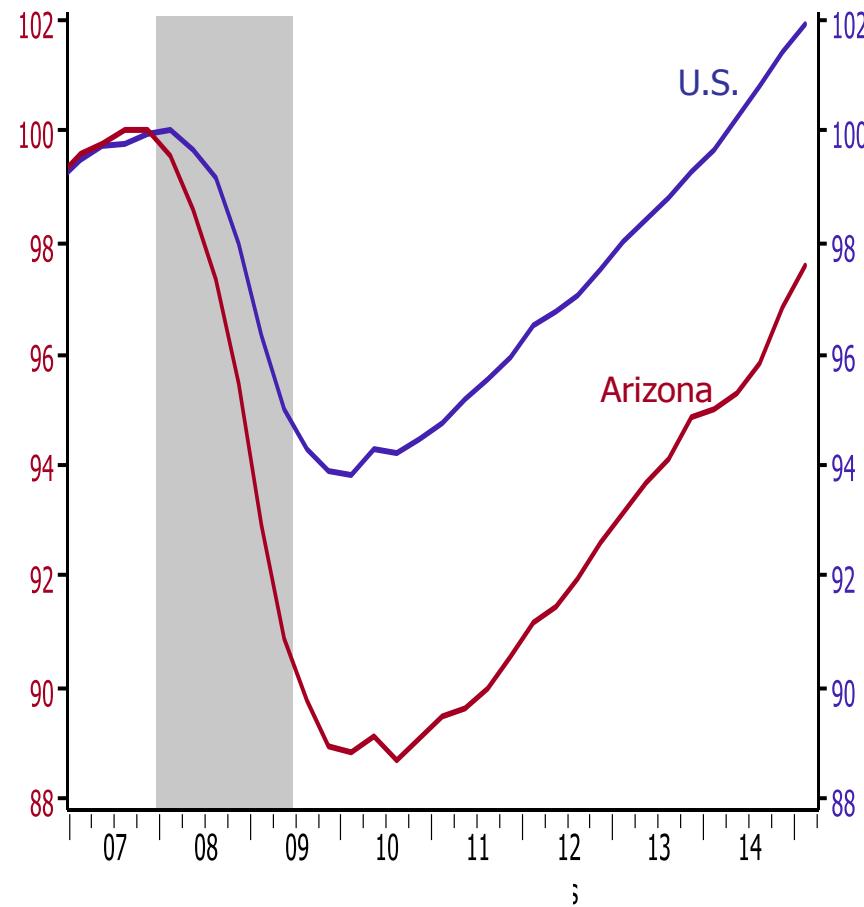
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Arizona job growth once again outpacing U.S.; state has yet to fully recover from the recession

Employment, year-to-year change, %



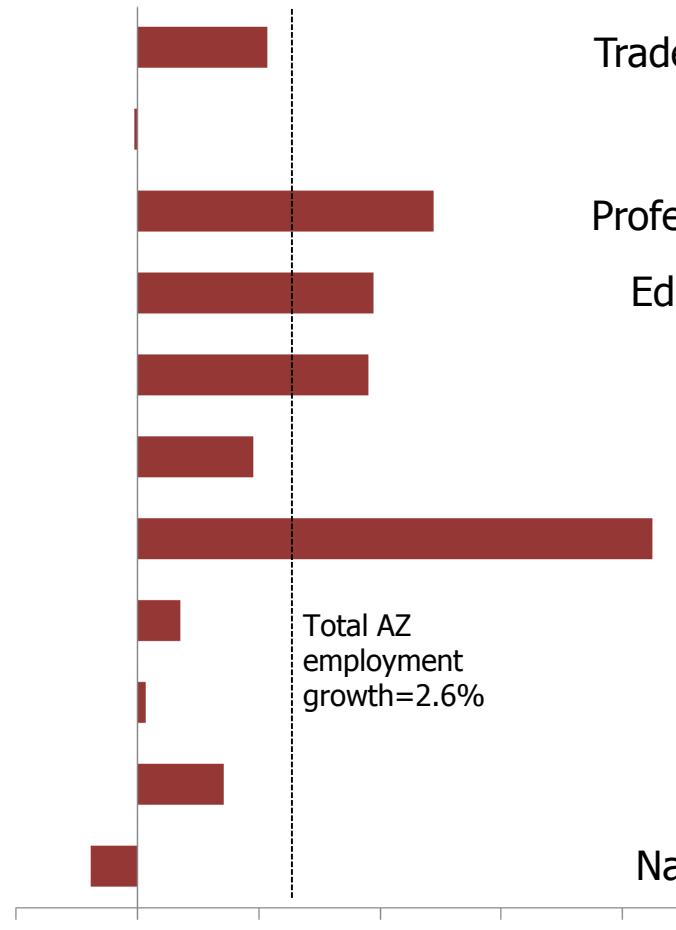
Employment, prior peak=100



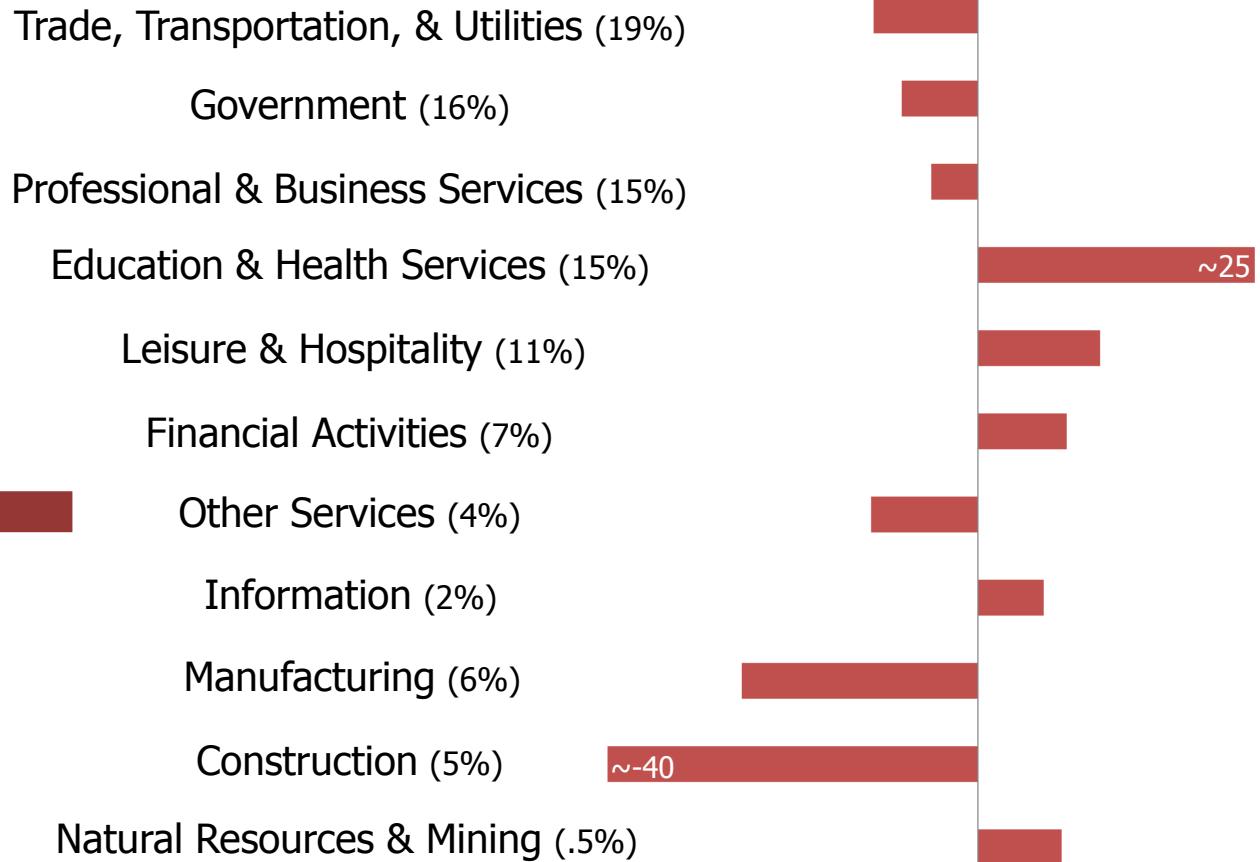
Source: Bureau of Labor Statistics /Haver Analytics (data through 1Q:2015 as of May 2015)

Pace of Arizona job growth varies widely by sector; some still well below pre-recession levels

Change (%) 1Q:14-1Q:15



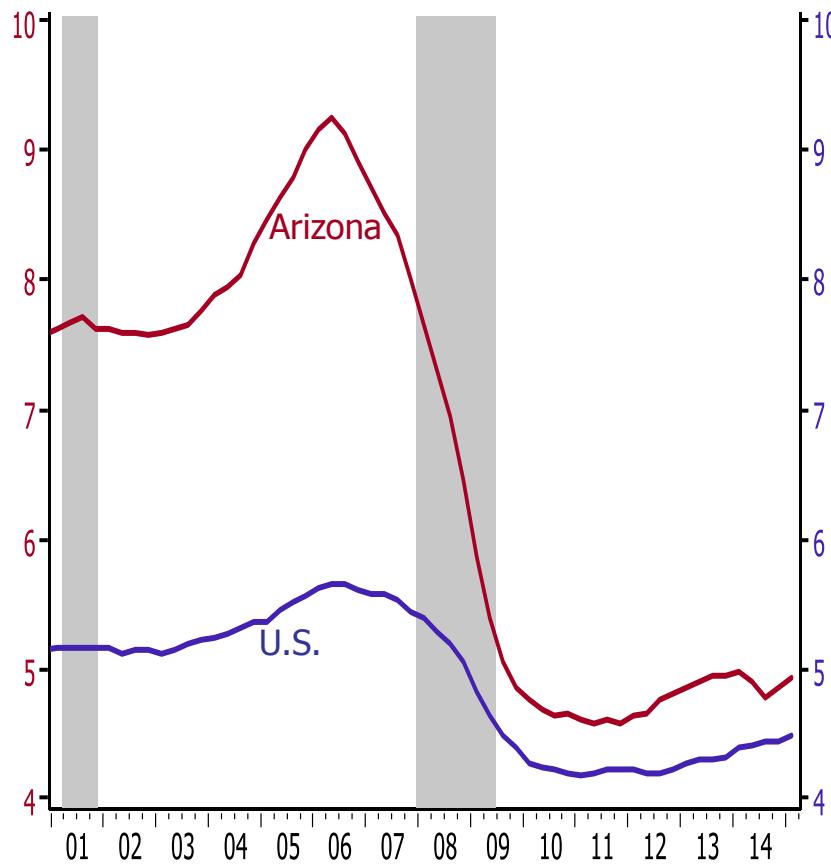
Change (%) 4Q:07-1Q:15



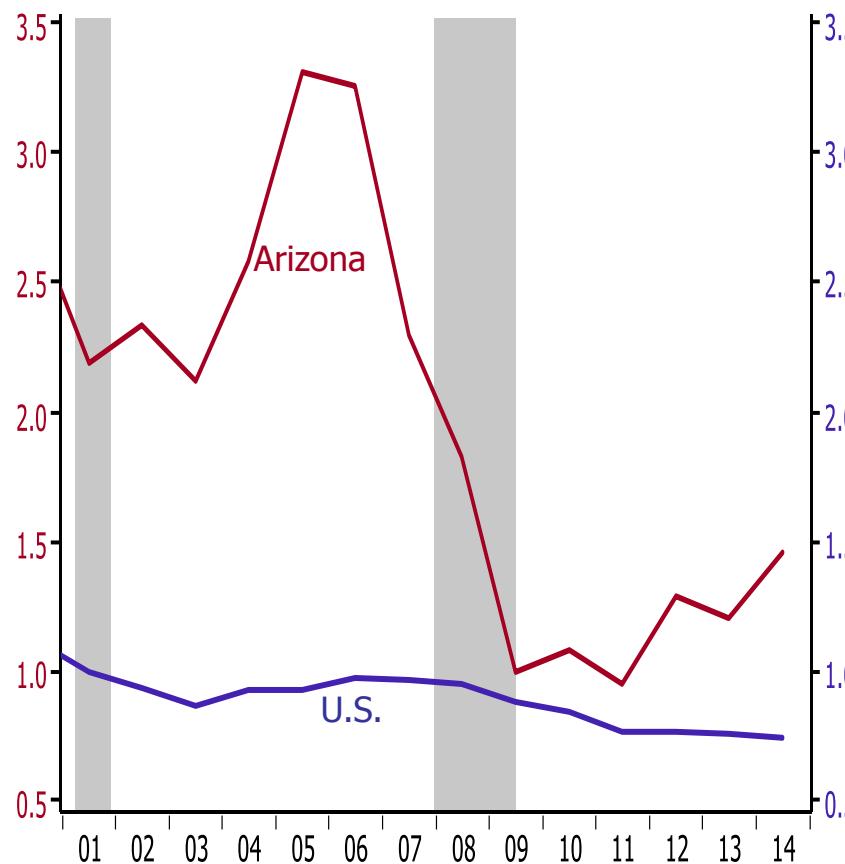
Source: Bureau of Labor Statistics (data as of May, 2015); Sectors are listed by decreasing share of Arizona employment (services sectors first, followed by goods producing sectors); shares do not sum to 100 due to rounding.

Decline in relative size of Arizona construction sector in line with population growth trend

Construction sector share of total employment, %



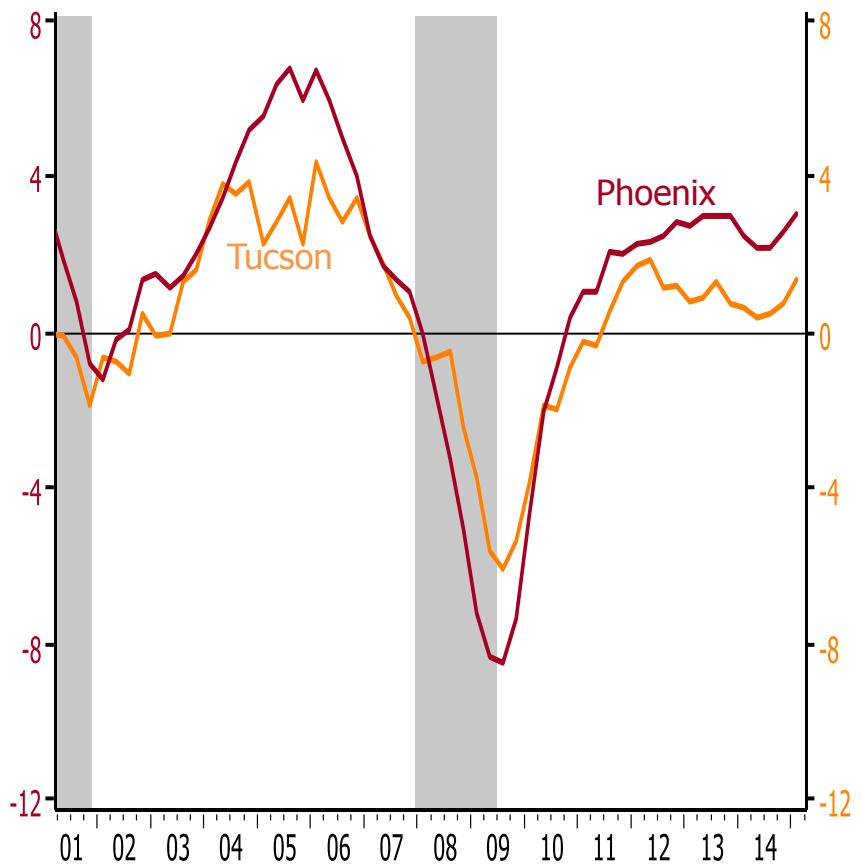
Annual population growth, %



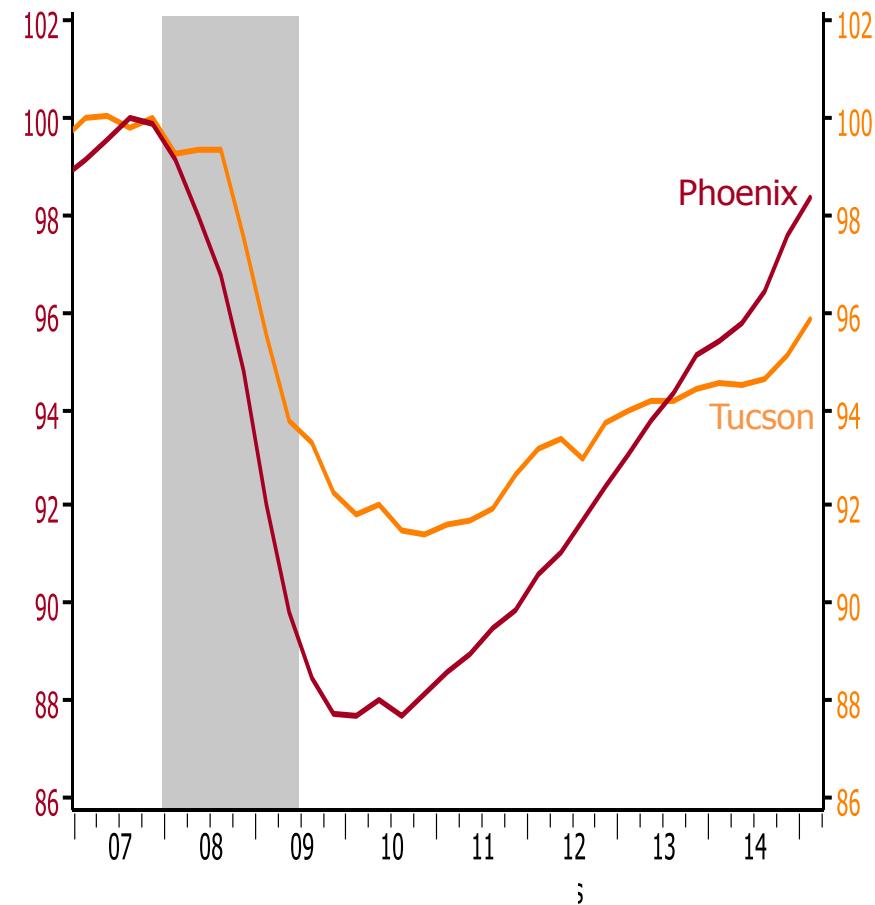
Source: Bureau of Labor Statistics, Bureau of Census /Haver Analytics; employment data through 1Q:2015

Phoenix had deeper job cuts than Tucson, but recovering faster

Employment, year-to-year change, %



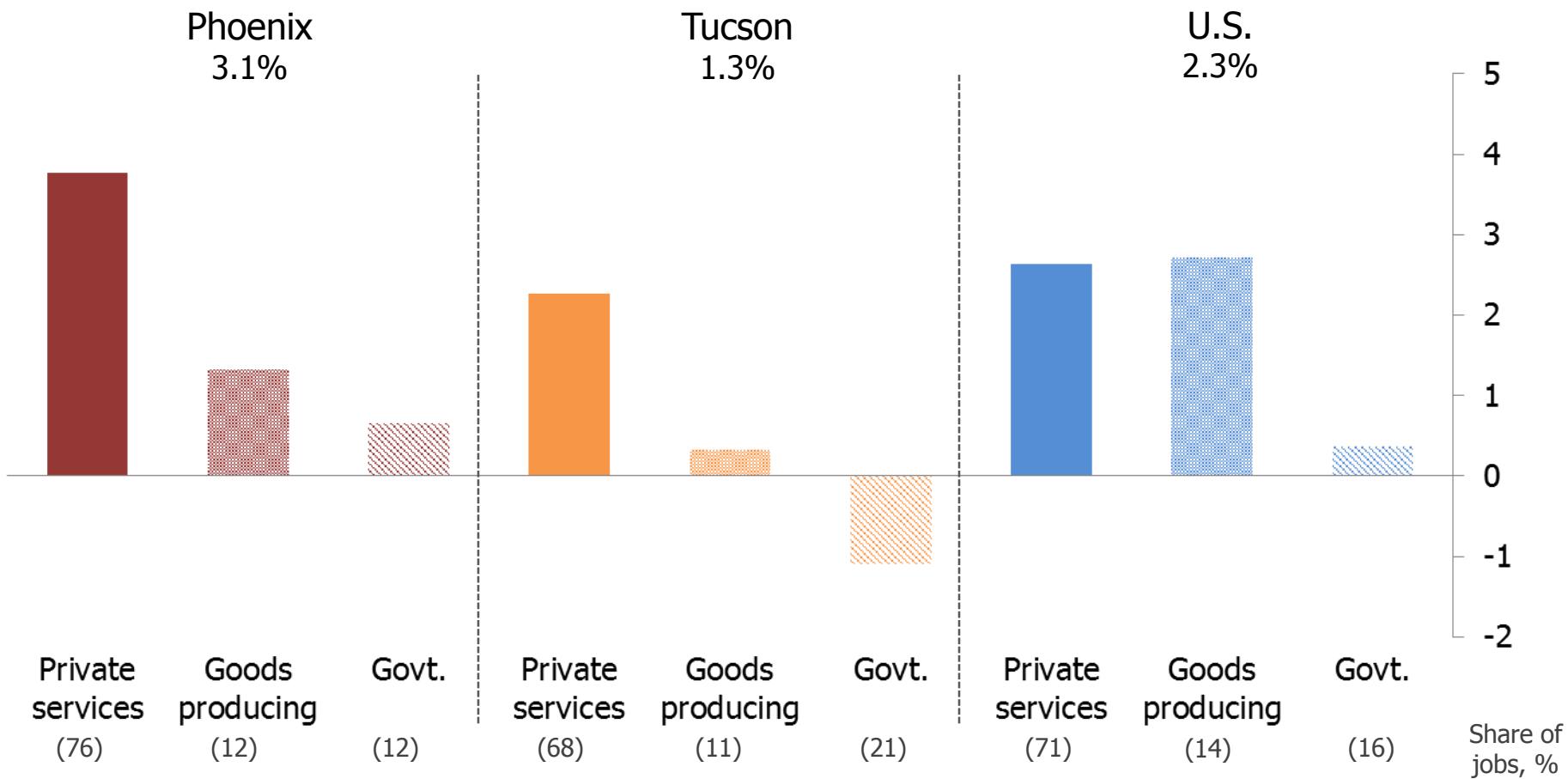
Employment, prior peak=100



Source: Bureau of Labor Statistics /Haver Analytics (data through 1Q:2015 as of May 2015)

Private services sectors fueling Phoenix job growth

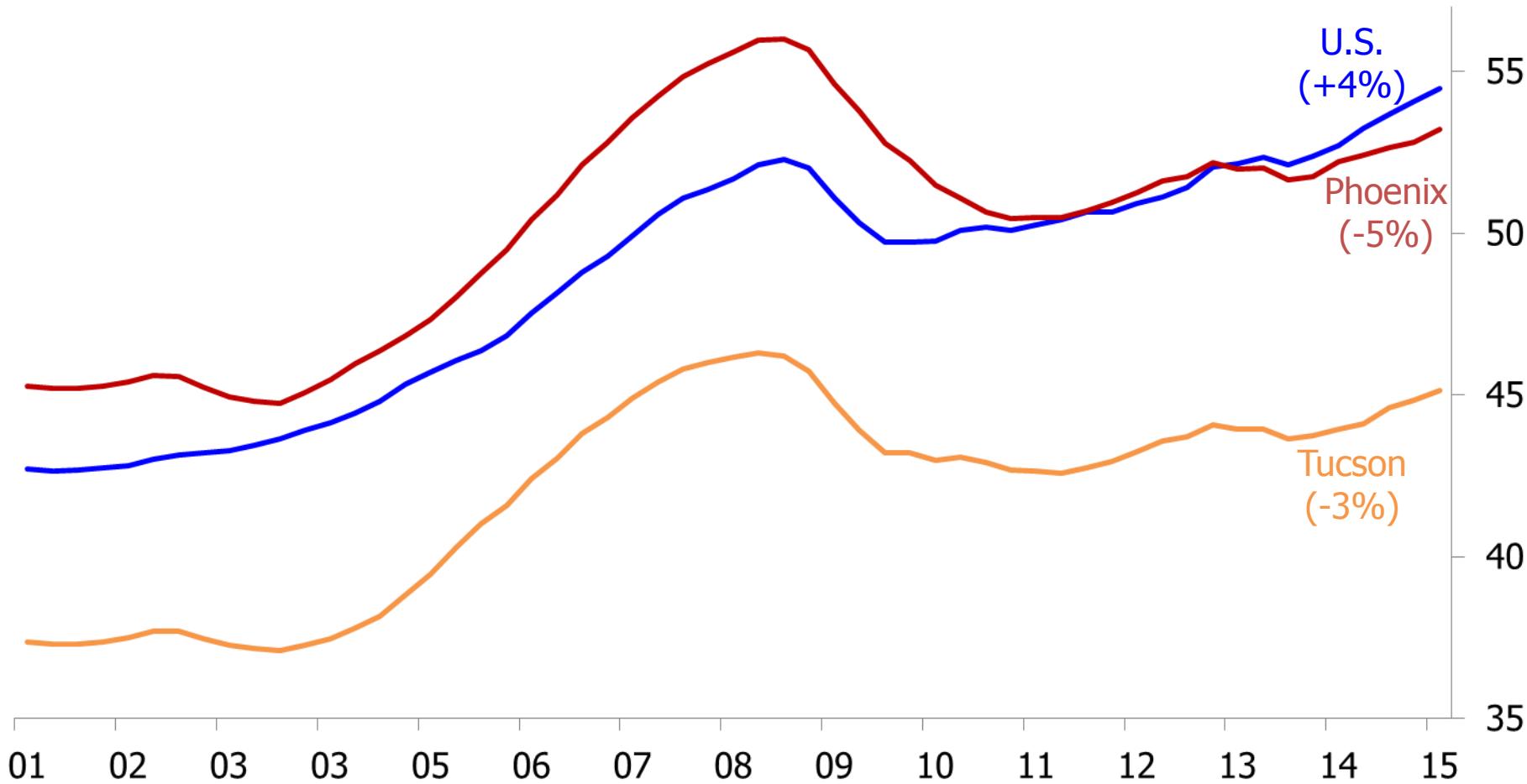
Employment, 1Q:14 to 1Q:15 change, %



Source: Bureau of Labor Statistics, Moody's Analytics (data as of April 2015)

Unlike U.S., median household income still below pre-recession peaks in Phoenix and Tucson

Median household income, thousands



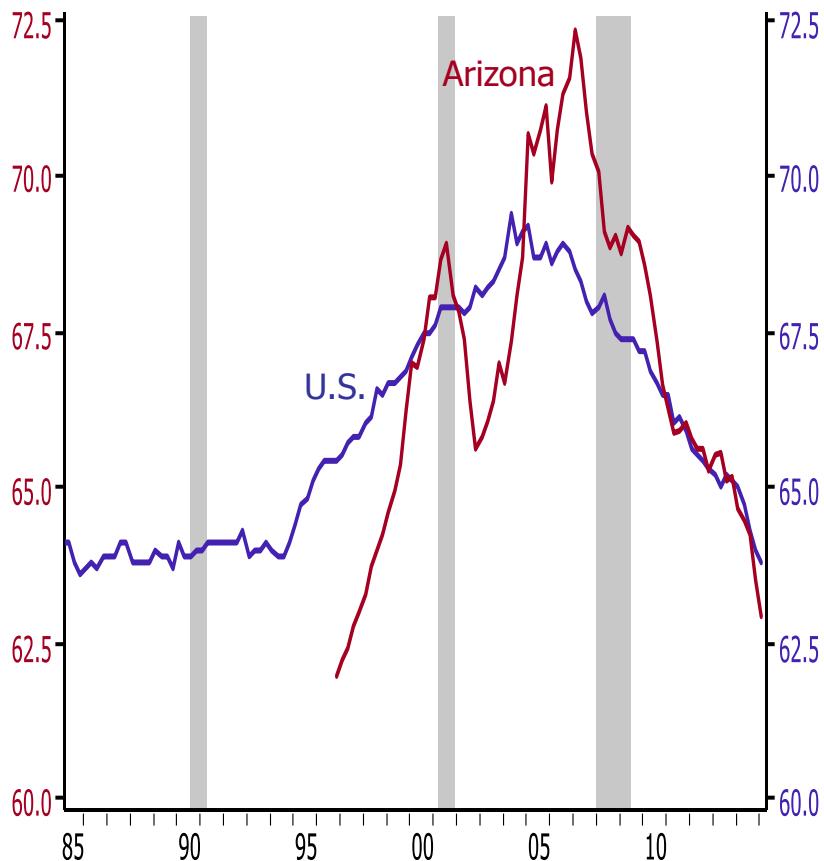
Source: Bureau of Census, Moody's Analytics (data through 1Q:2015)

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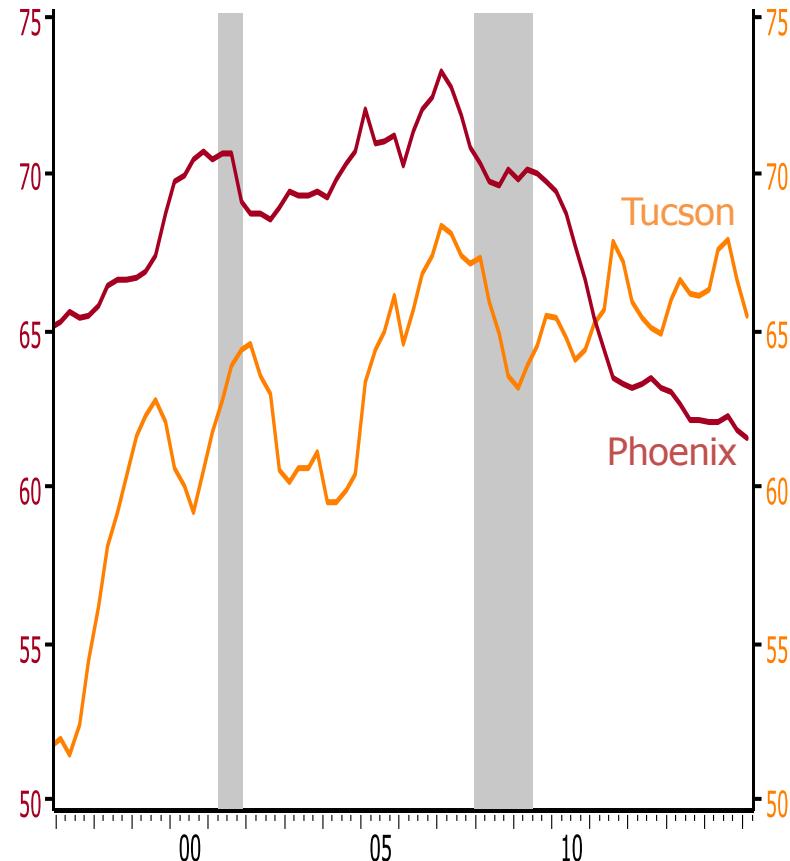
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Home ownership back to pre-boom rate in U.S. and Arizona; metro trend varies

U.S. and Arizona homeownership rate, %



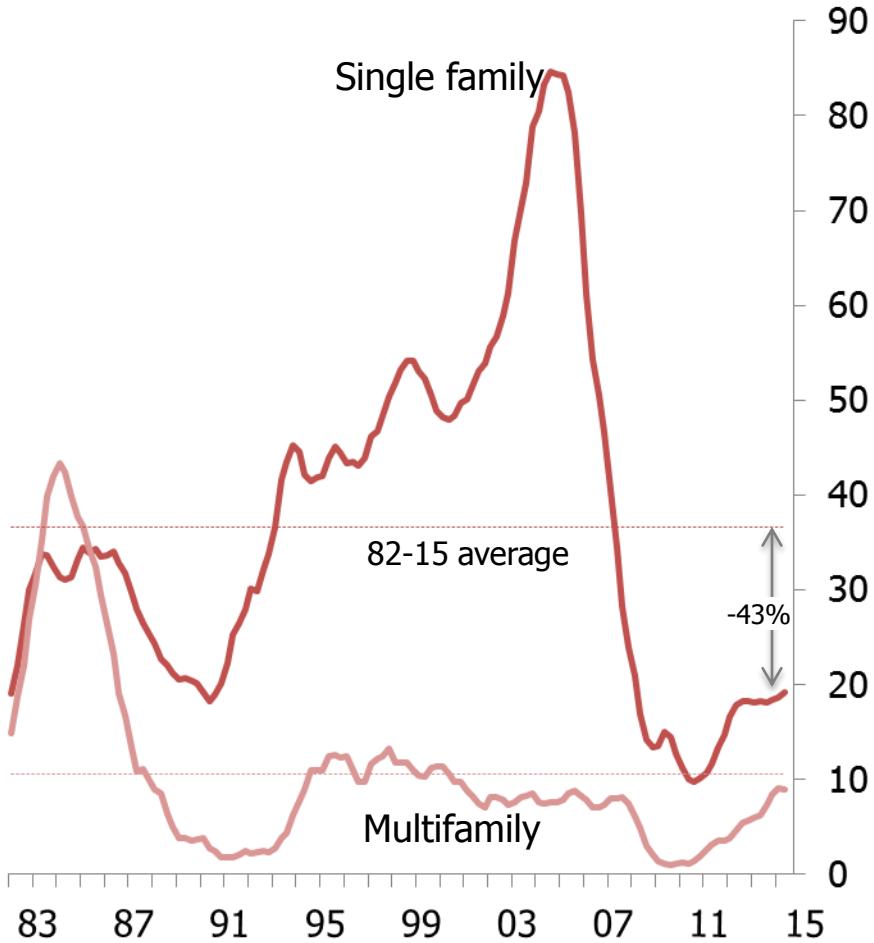
Arizona metros homeownership rate, %



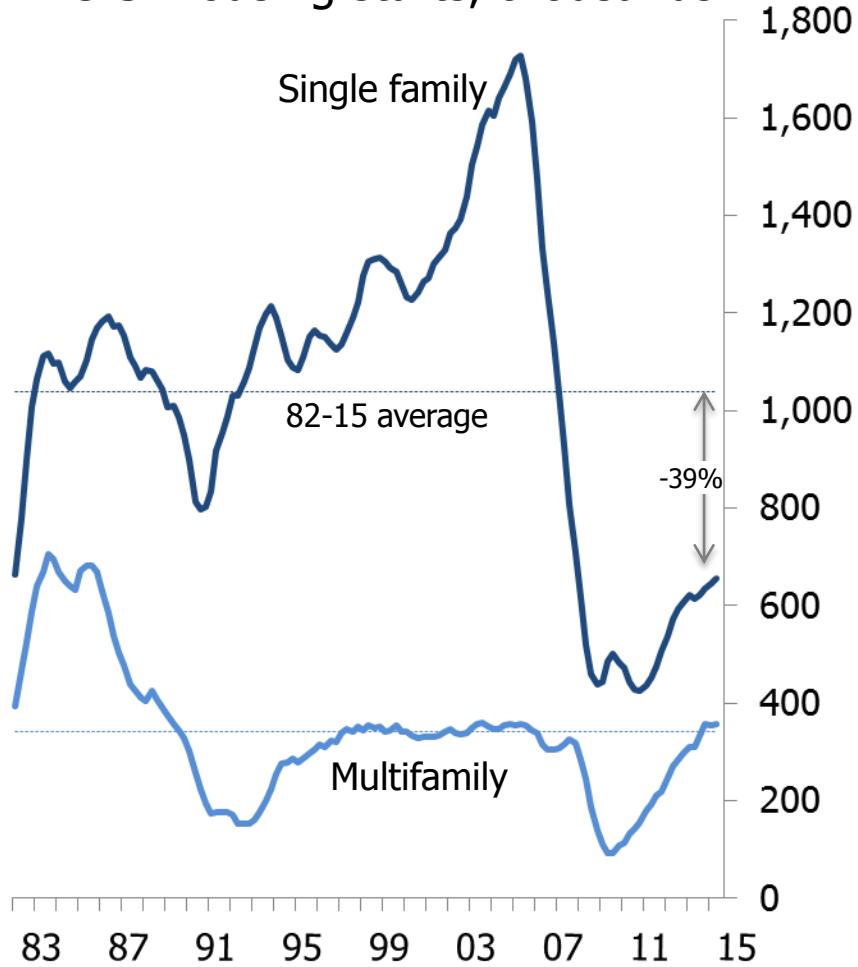
Source: Bureau of Census /Haver Analytics; (U.S. data are seasonally adjusted quarterly data; state and metro data are 4-quarter moving averages of non-seasonally adjusted quarterly data; all data through 1Q:2015)

Single-family housing starts rebounding but still low; multifamily starts near historical avg.

Arizona housing starts, thousands



U.S. housing starts, thousands

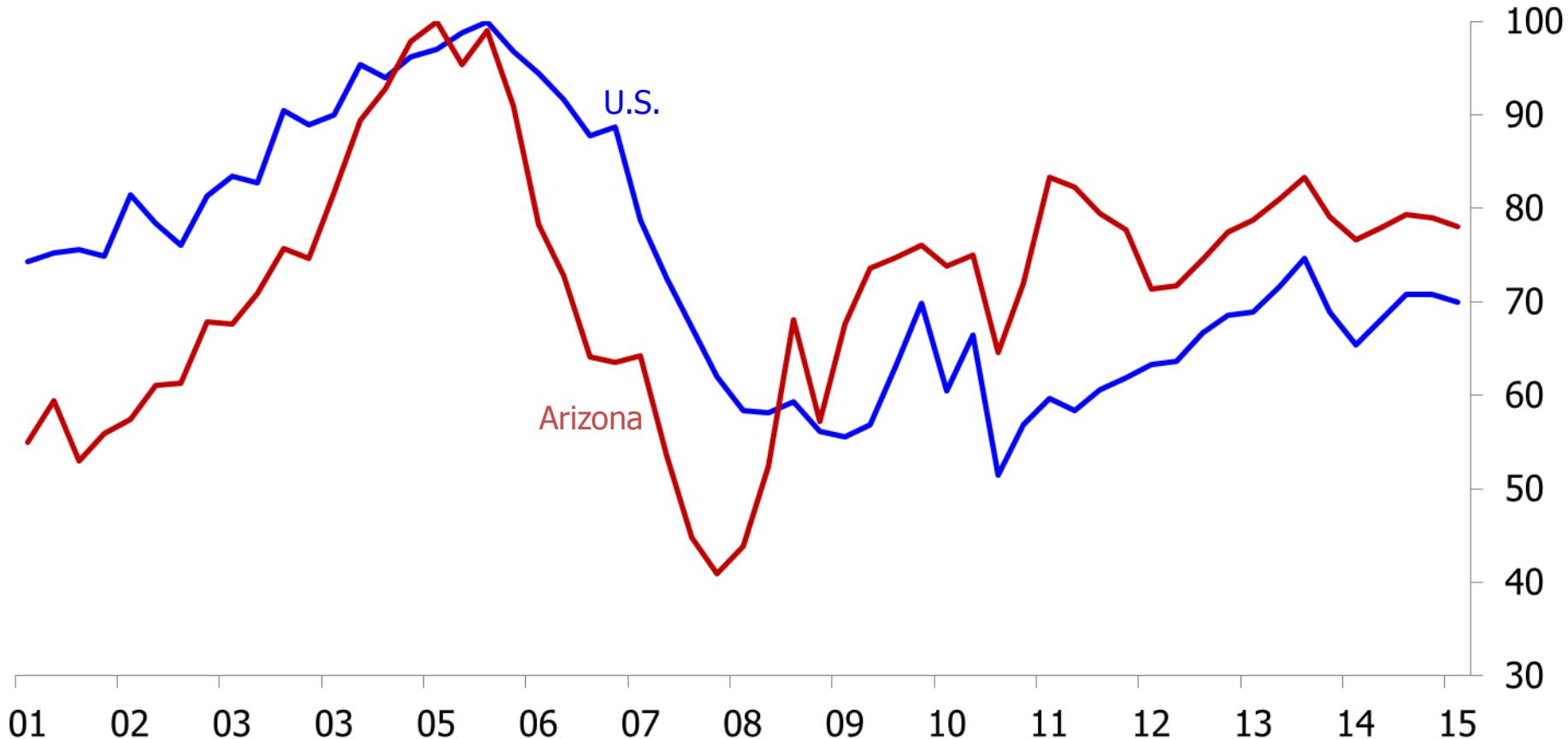


Sources: Census Bureau, Moody's (data through 1Q:2015)

Note: SAAR, 4-quarter moving average

Existing homes sales closer to prior peak in Arizona than U.S.; due in part to investors

Existing homes sales, prior peak=100

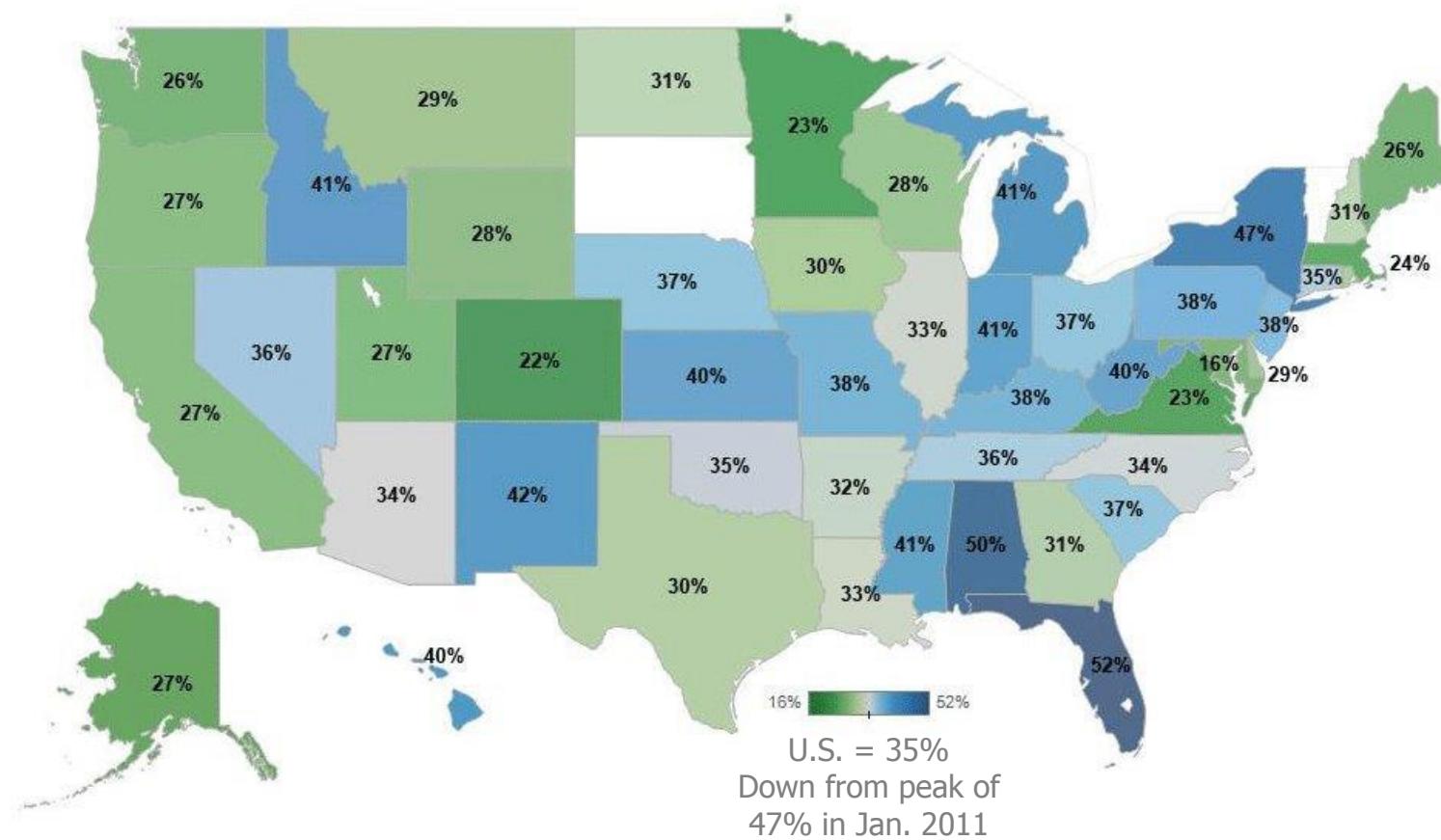


Sources: National Association of Realtors, Moody's Analytics (based on seasonally adjusted, annual rate data through 1Q:2015)

Note: Existing home sales include single-family, apartment condos and co-ops; Arizona data are estimated by Moody's after 3Q:2011

Cash sales share of Arizona home sales now slightly below national average

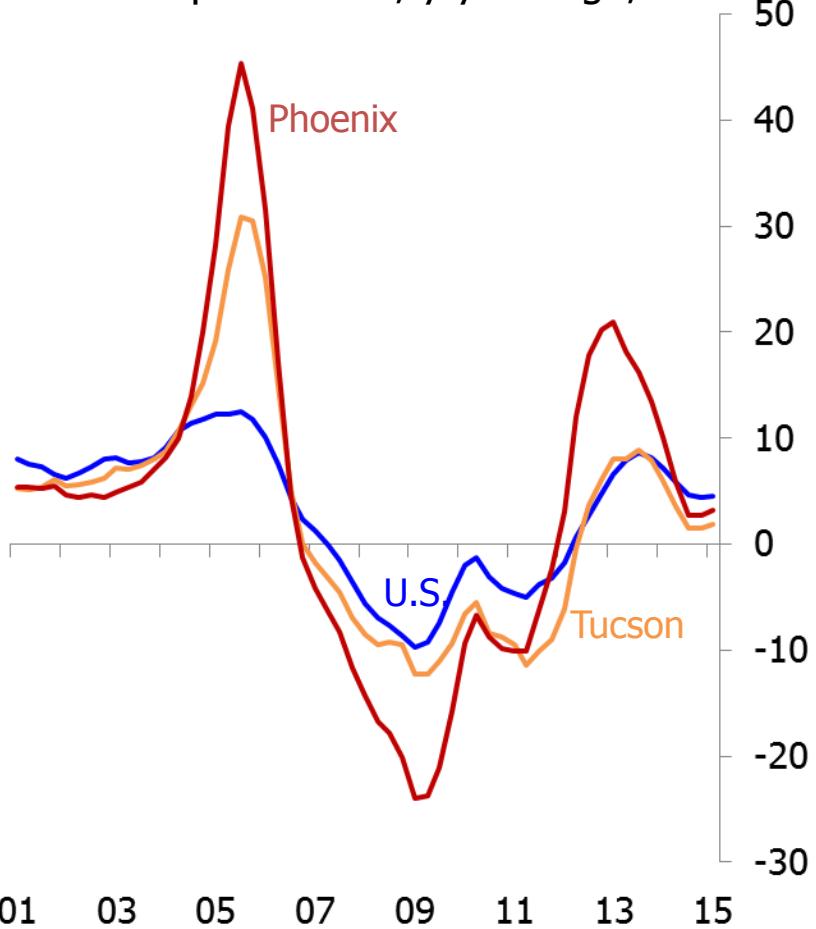
Cash sales share of total sales, March 2015



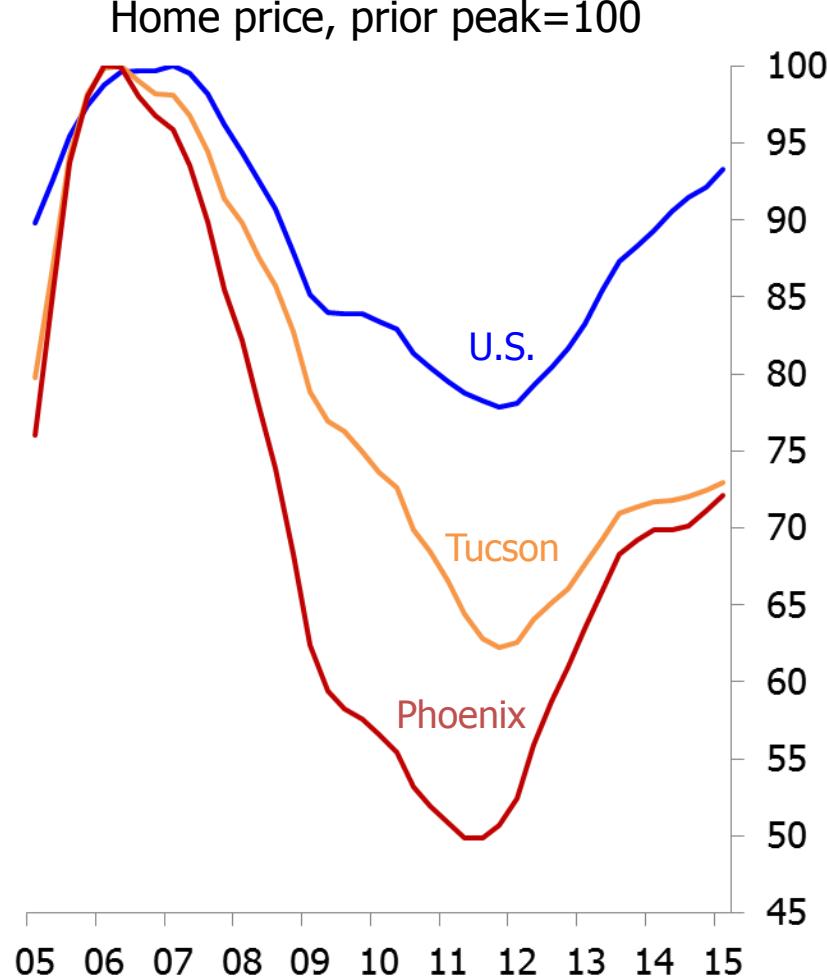
Source: CoreLogic; (White = insufficient data)

Home price appreciation slowed last year in Arizona and most other states

Home price index, y-y change, %



Home price, prior peak=100

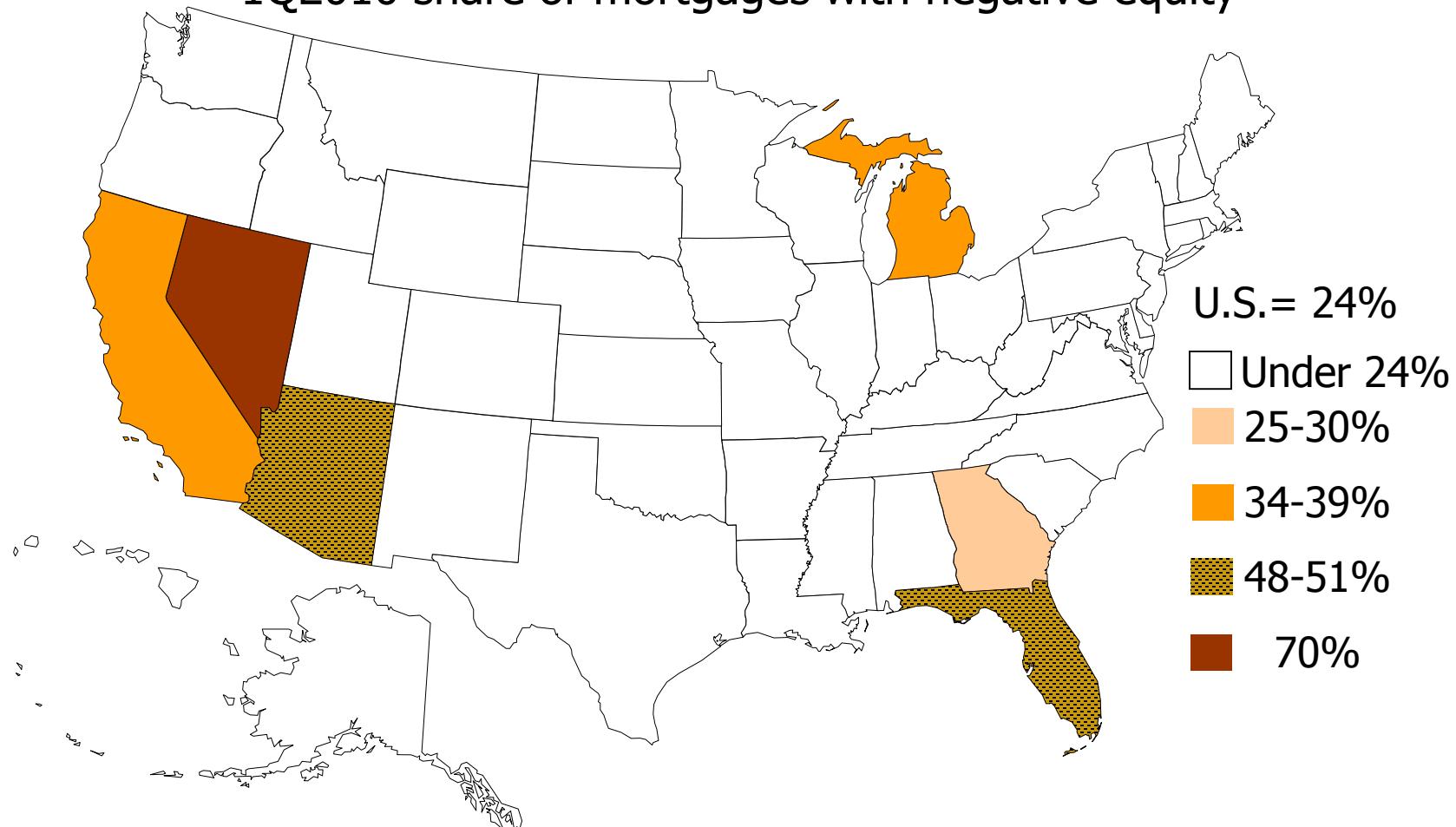


Source: Black Knight (formerly LPS), data through 1Q:2015

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

Nearly half of all Arizona mortgages were underwater in first quarter of 2010

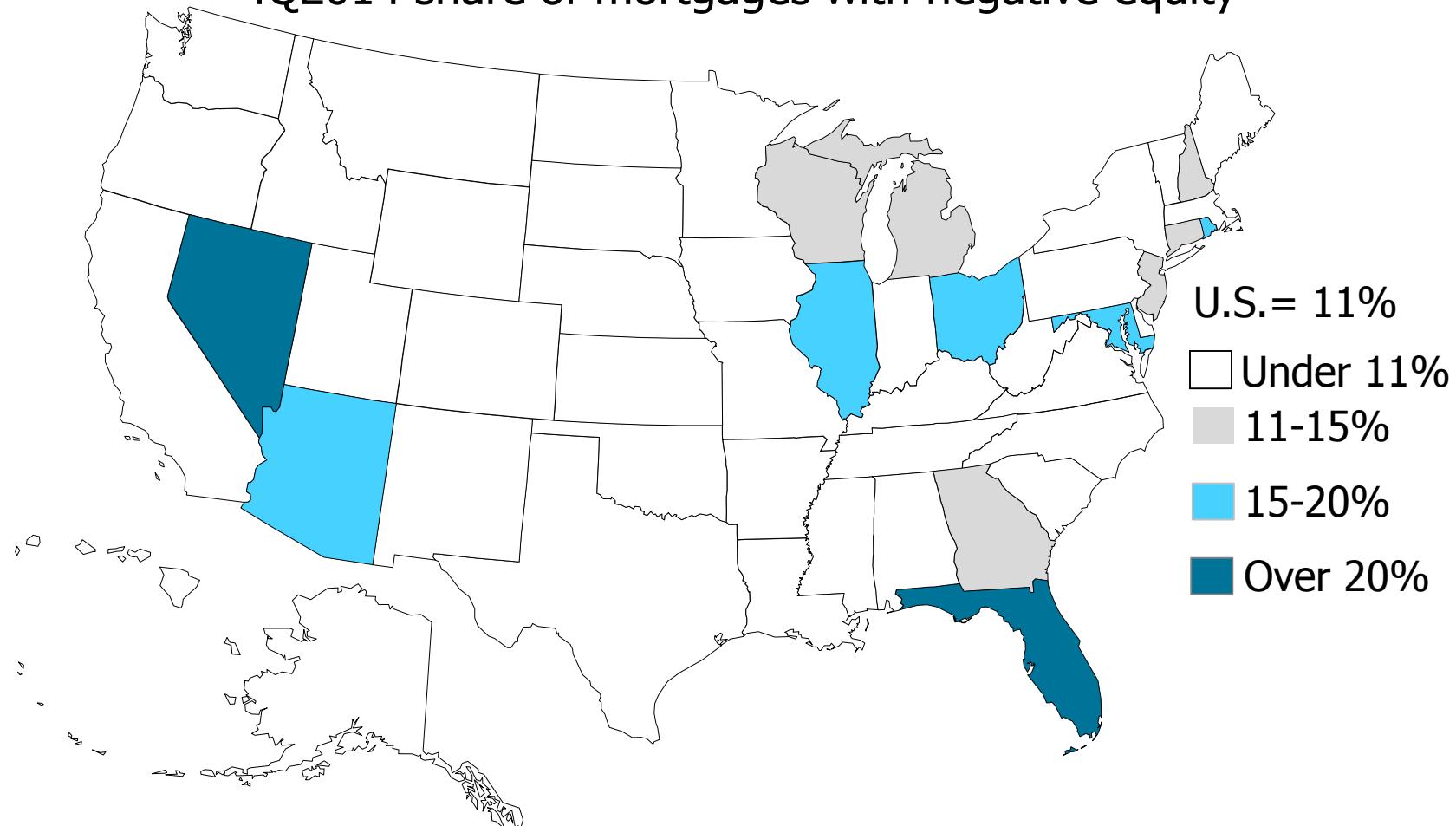
1Q2010 share of mortgages with negative equity



Source: First American CoreLogic (Data as of December 2010)

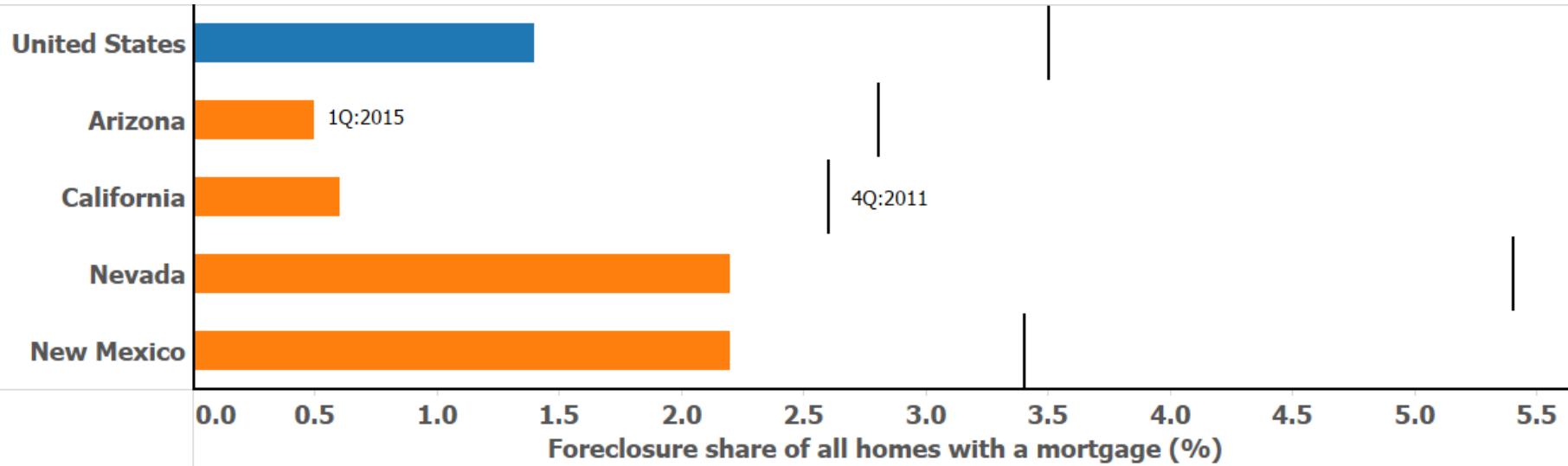
House price rebound has reduced share of negative equity mortgages across the U.S.

4Q2014 share of mortgages with negative equity



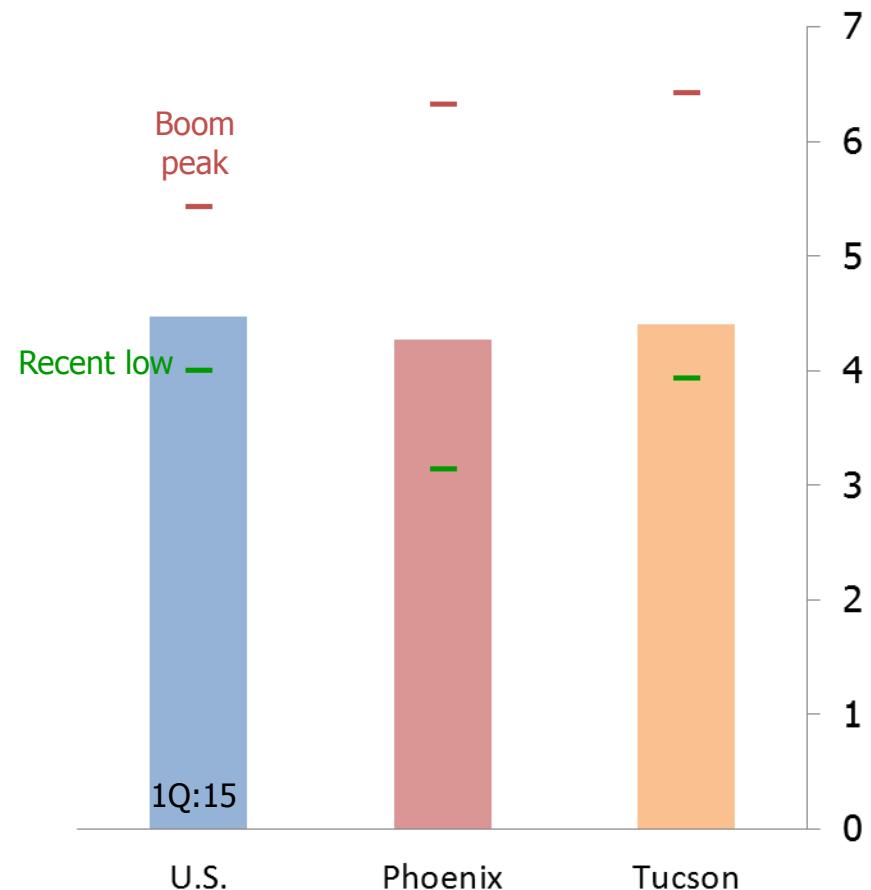
Source: CoreLogic (data as of December 2014)

Foreclosure inventory has declined nationwide; still a substantial drag in some states

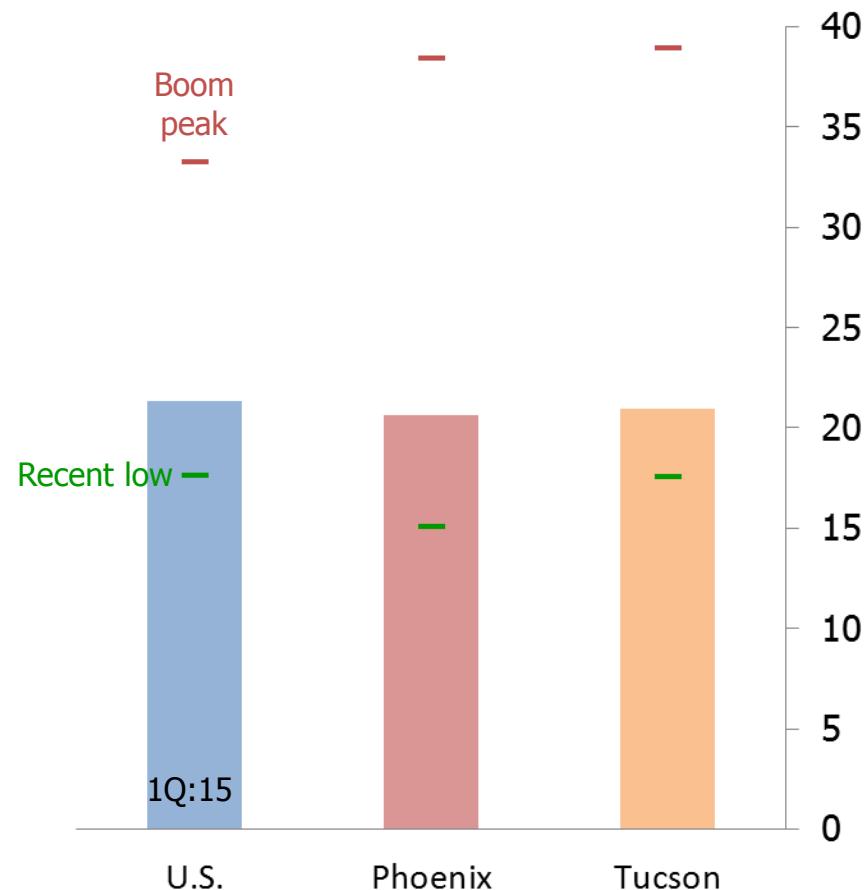


Homeownership still much more affordable for median HH than at height of housing boom

Home price to median household income ratio



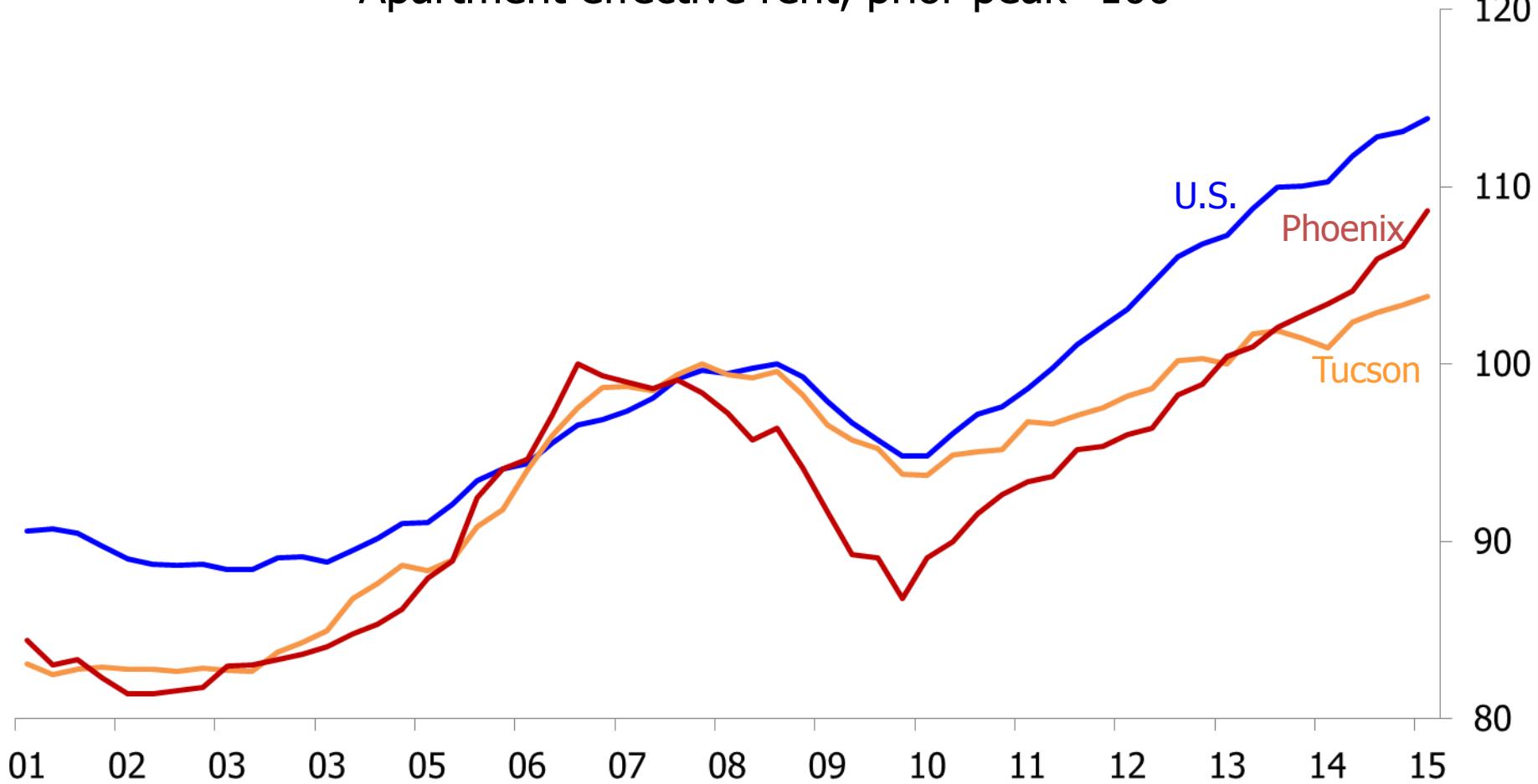
Conventional mortgage payment to median household income ratio



Source: Black Knight, Bureau of Census, FHFA, Moody's Analytics (data through March 2015); home price for single family non-condo units; conventional mortgage payments based on 30-year fixed-rate amortizing mortgage (at all loan composite effective rate at time of origination), with a 20 percent down payment.

Unlike home prices, apartment rents are above pre-recession peaks

Apartment effective rent, prior peak=100



Source: CoStar Group (formerly PPR), data through 1Q:15; U.S. data are average of 54 large metro areas

Summary

- Consensus forecast is for a modest pick-up in U.S. economic growth and interest rates through 2016
- Arizona economy continues to recover from deeper downturn than U.S. average
- Arizona housing recovery still far from complete