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# Consumer/Banking Outlook

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*Federal Reserve Bank of Chicago  
Economic Outlook Symposium  
December 2006*

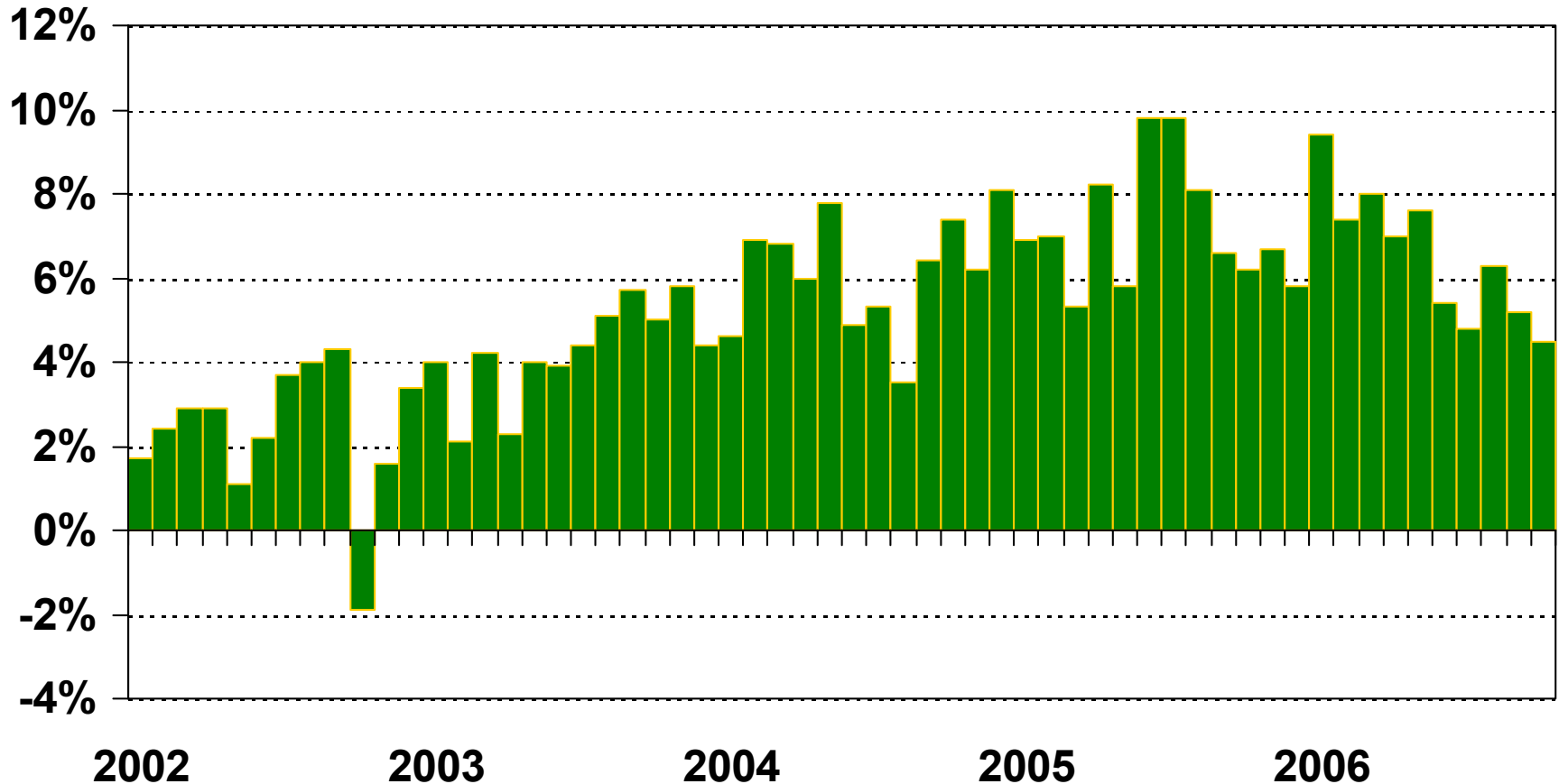
**Carl Tannenbaum  
Chief Economist**



**LaSalle Bank**  
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# Household Spending

## Year-Over-Year Percent Change in Nominal Total Retail Sales

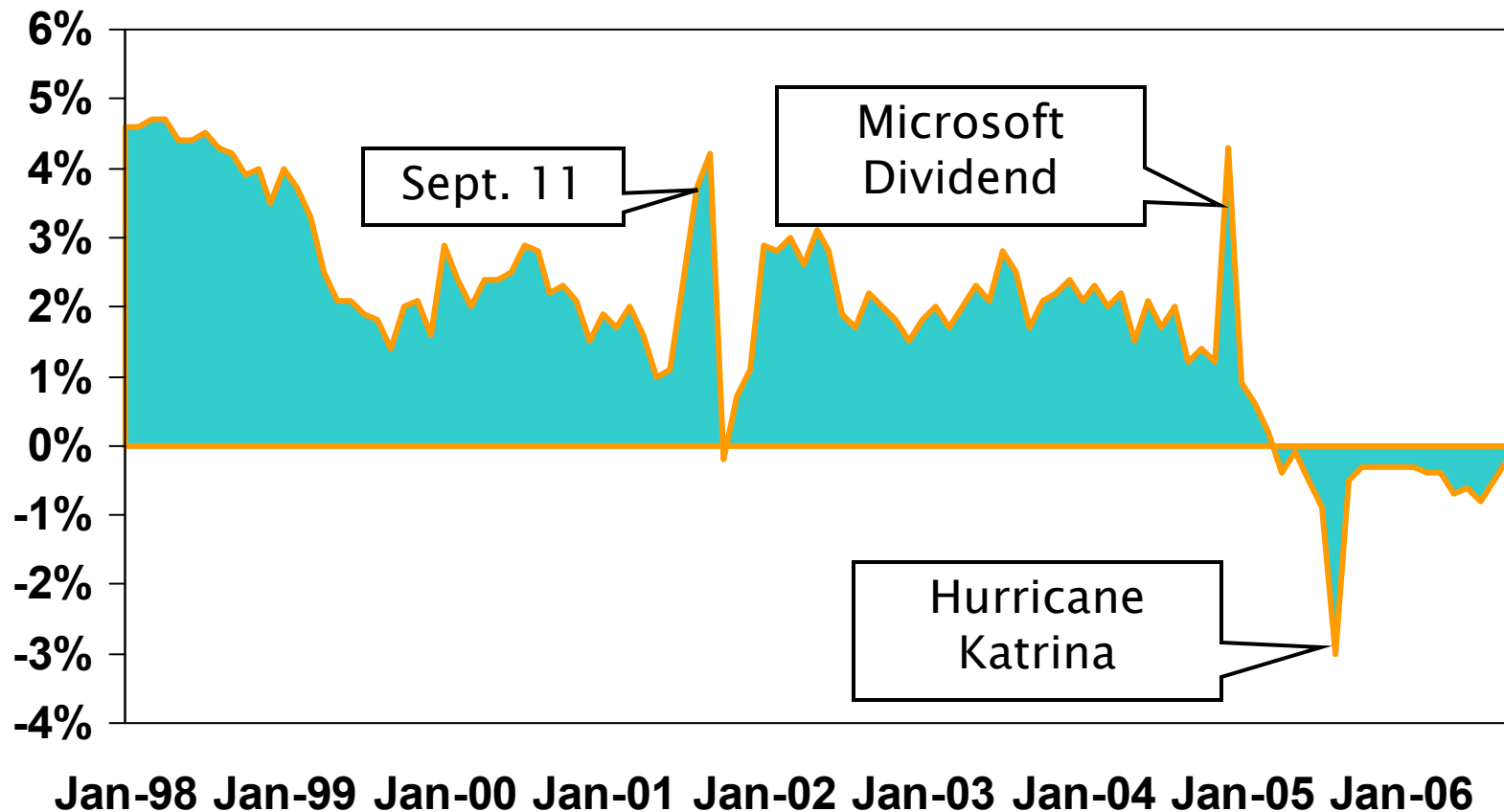


Source: Department of Commerce



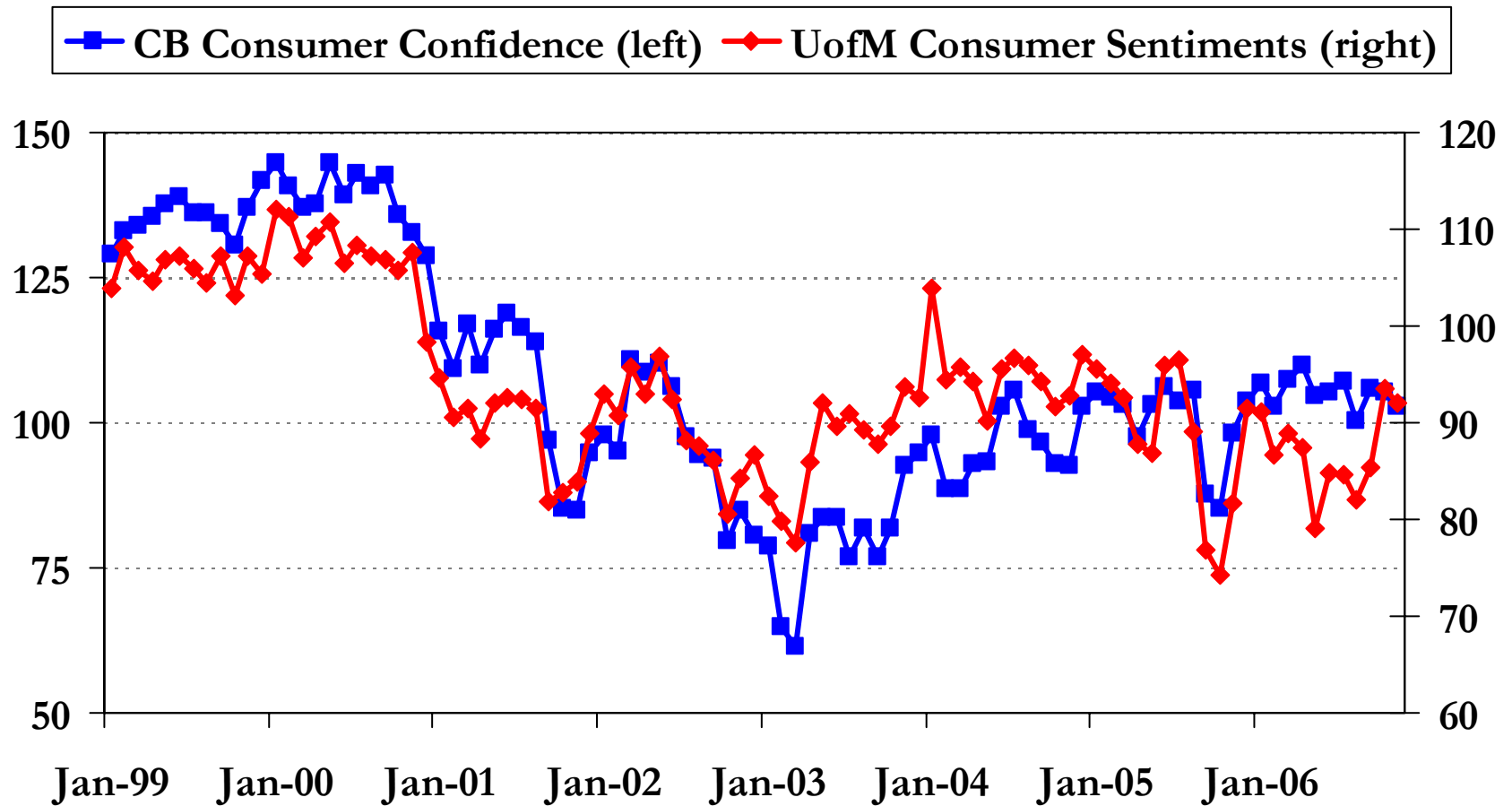
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# Personal Savings Rate as a Percent of Disposable Income



Source: Bureau of Economic Analysis

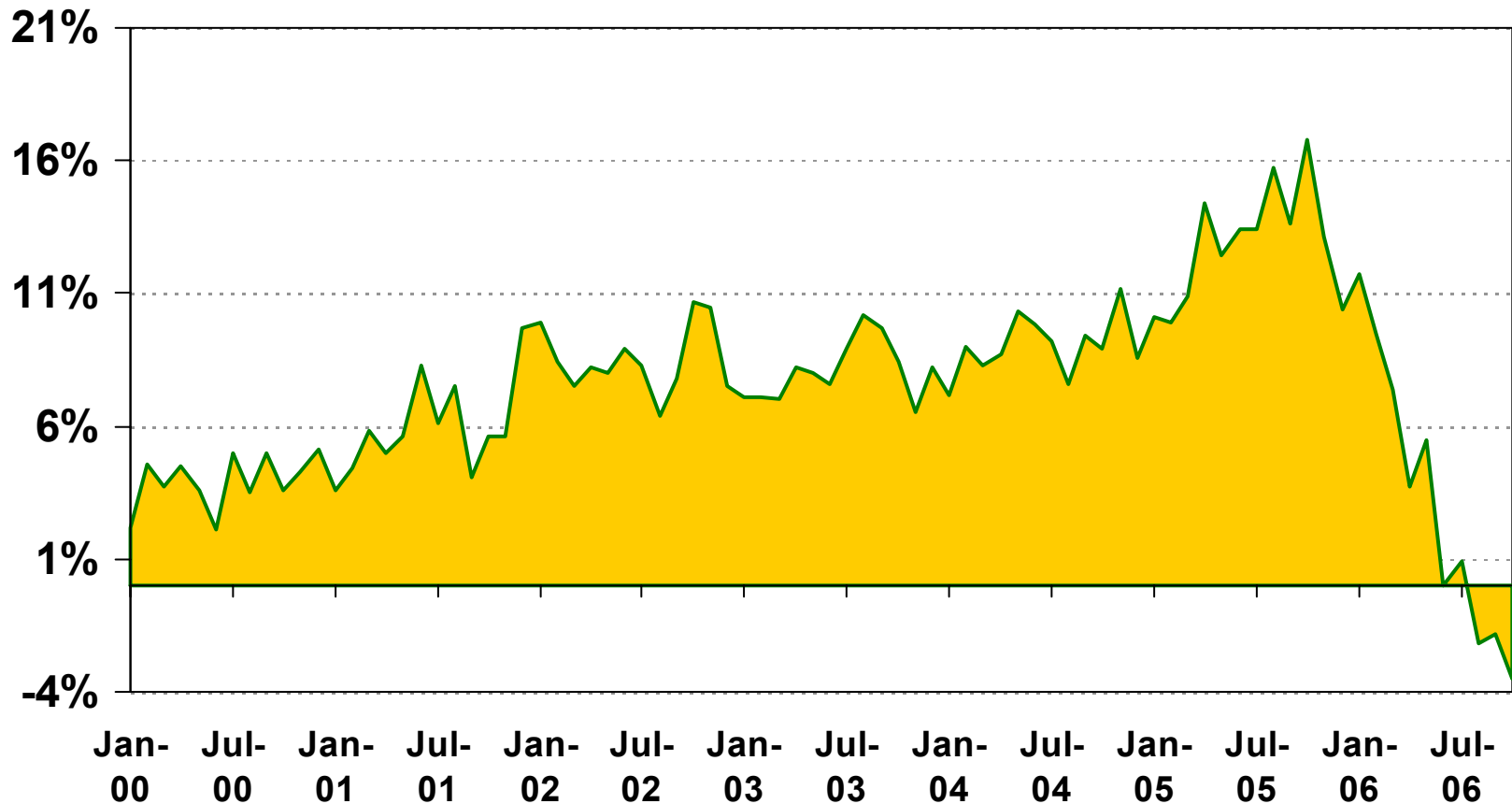
# Consumer Attitudes



Source: University of Michigan, Conference Board

# Existing Home Prices

Year-over-Year Increase in Existing Homes Median Price



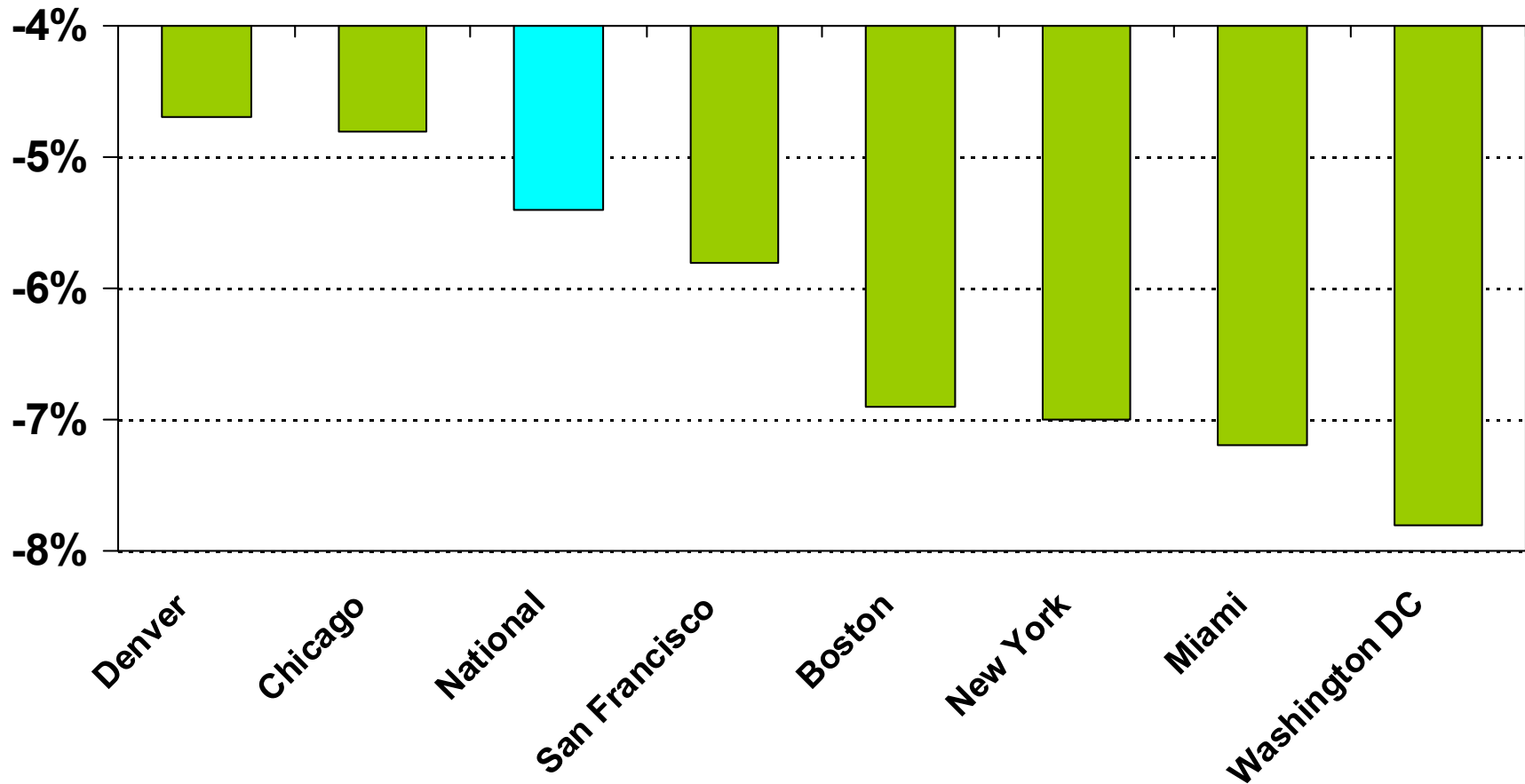
Source: Department of Commerce



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# Expected Drop In Home Prices

Case-Shiller Home Price Index Futures, August 2007 Maturity

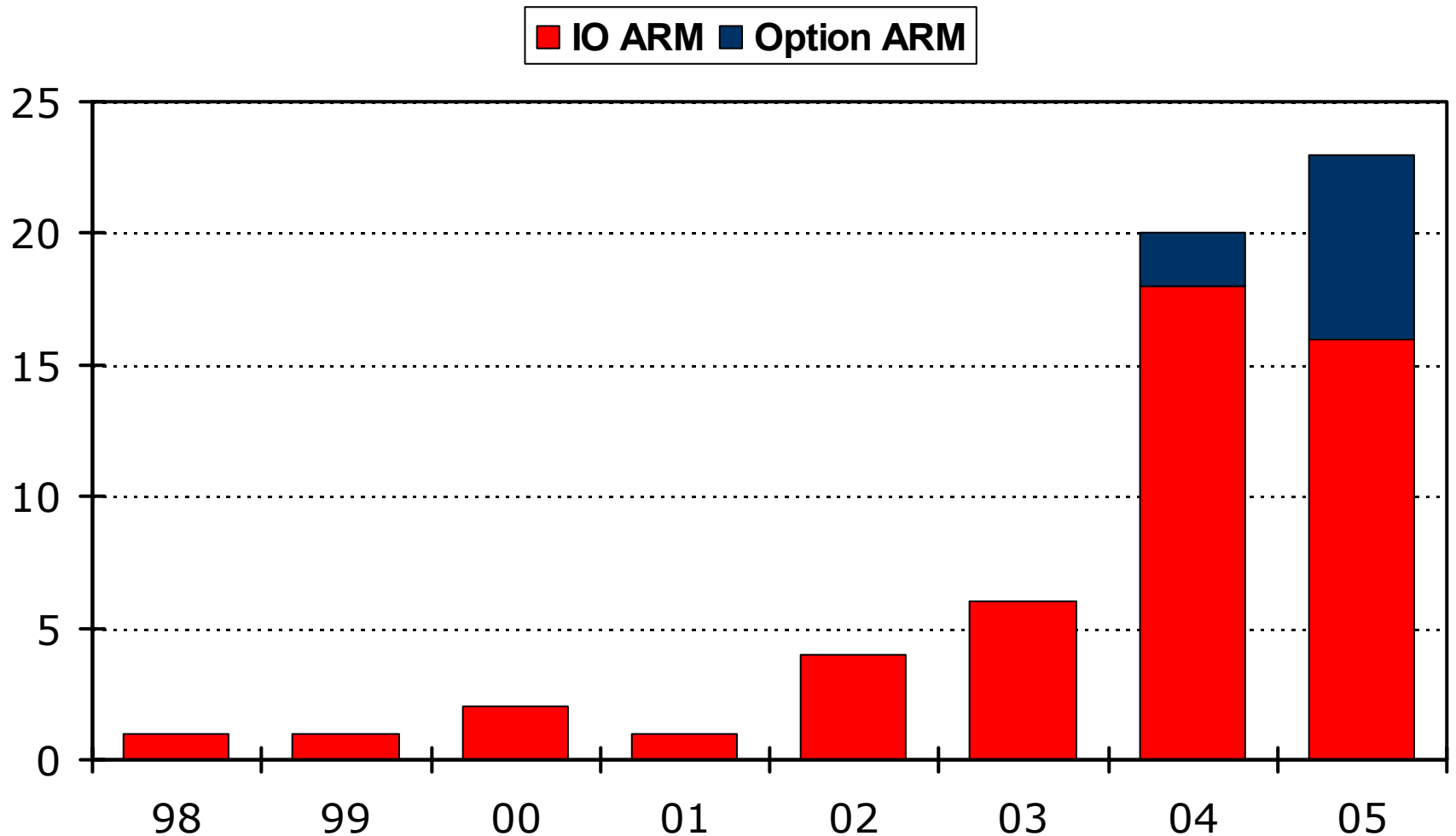


Source: Bloomberg



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# Share of non-conforming mortgage originations

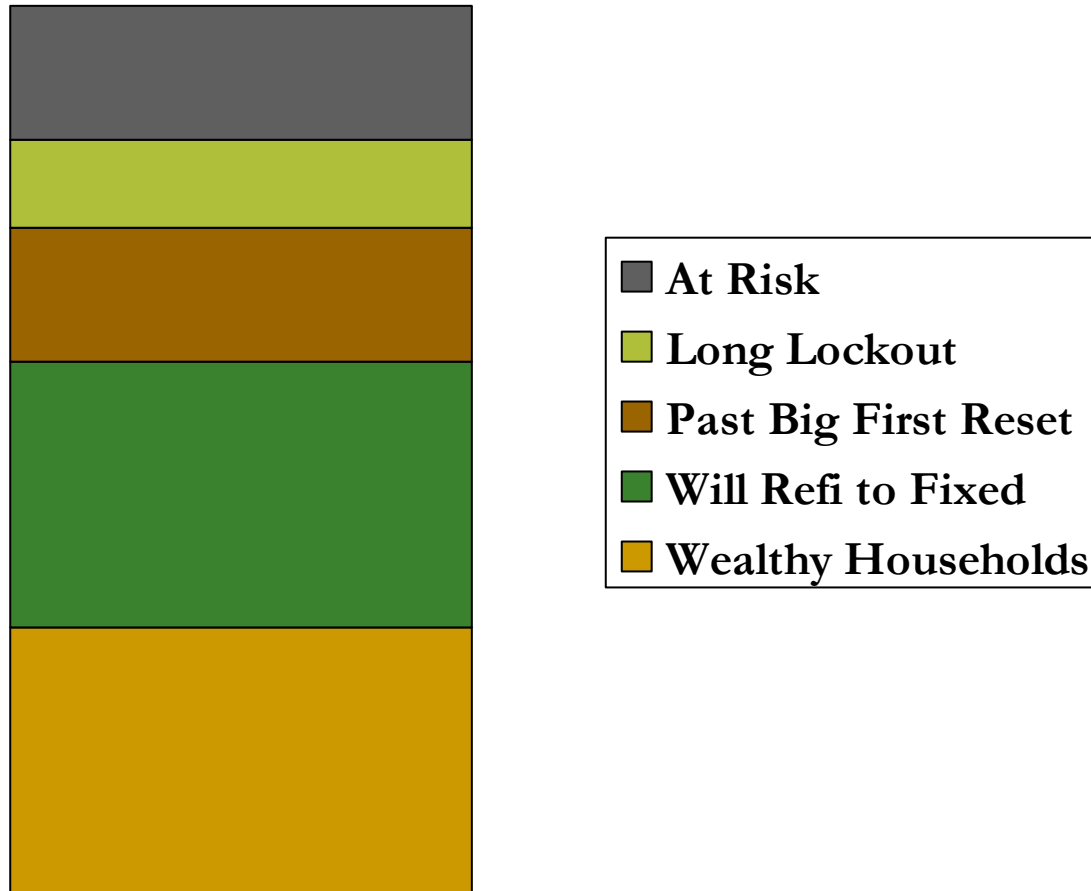


Source: LoanPerformance



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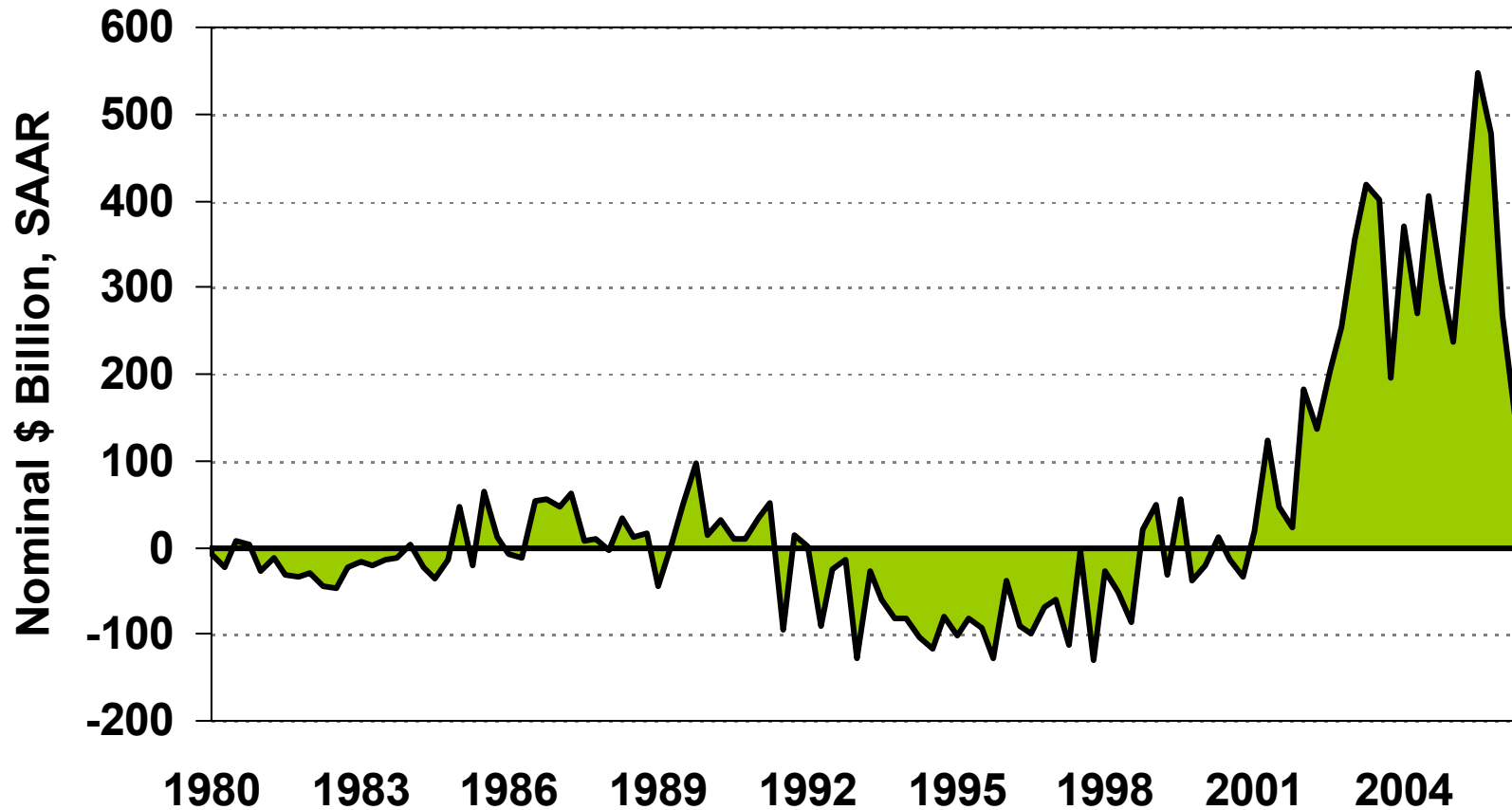
# Reset Risk: Limited?





# Home Equity Withdrawal

Difference Between Net Change in Home Mortgages  
and Residential Investment



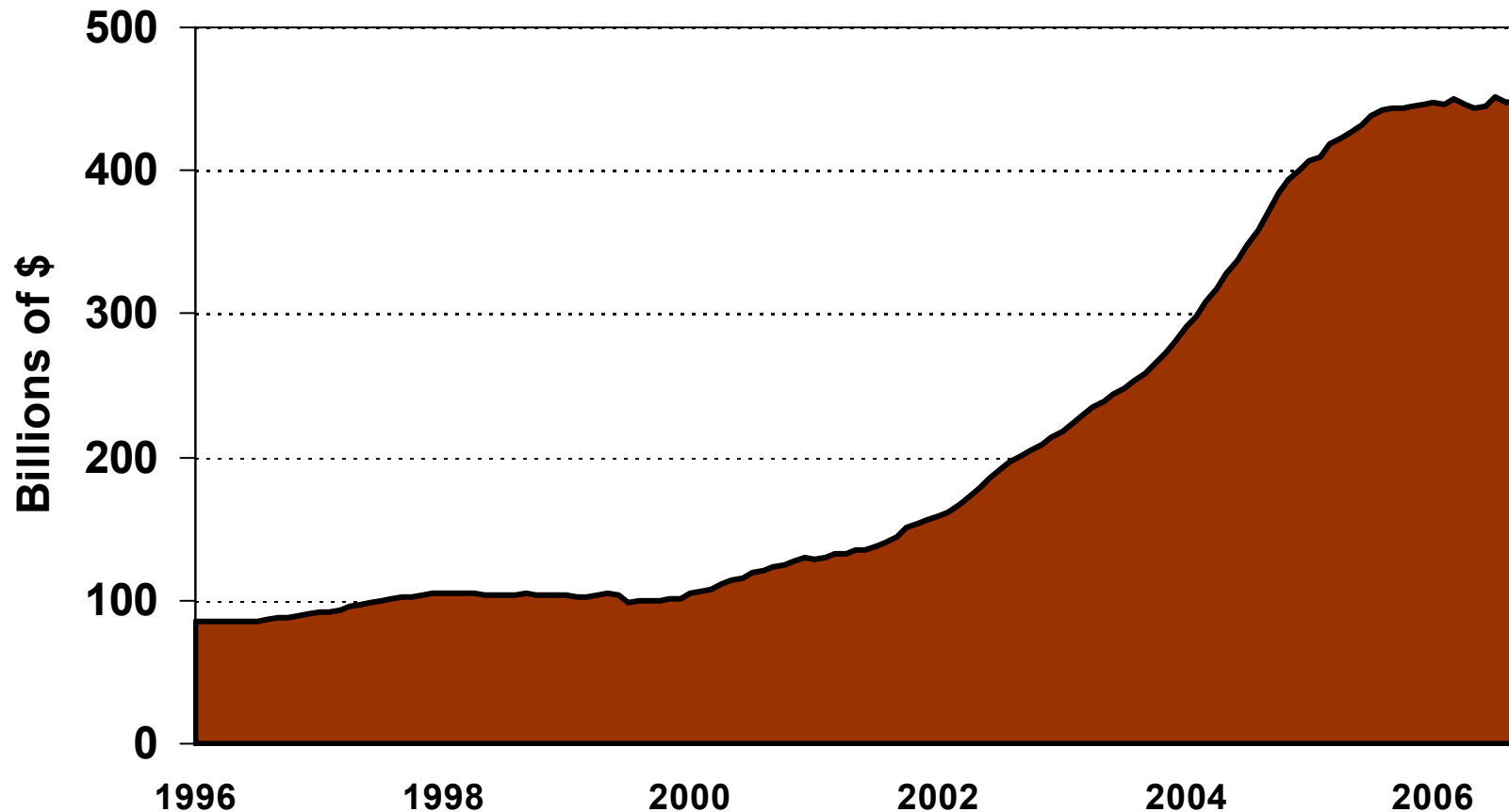
Source: Federal Reserve, Flow of Funds



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# Home Equity Loans

On Banks' Balance Sheets



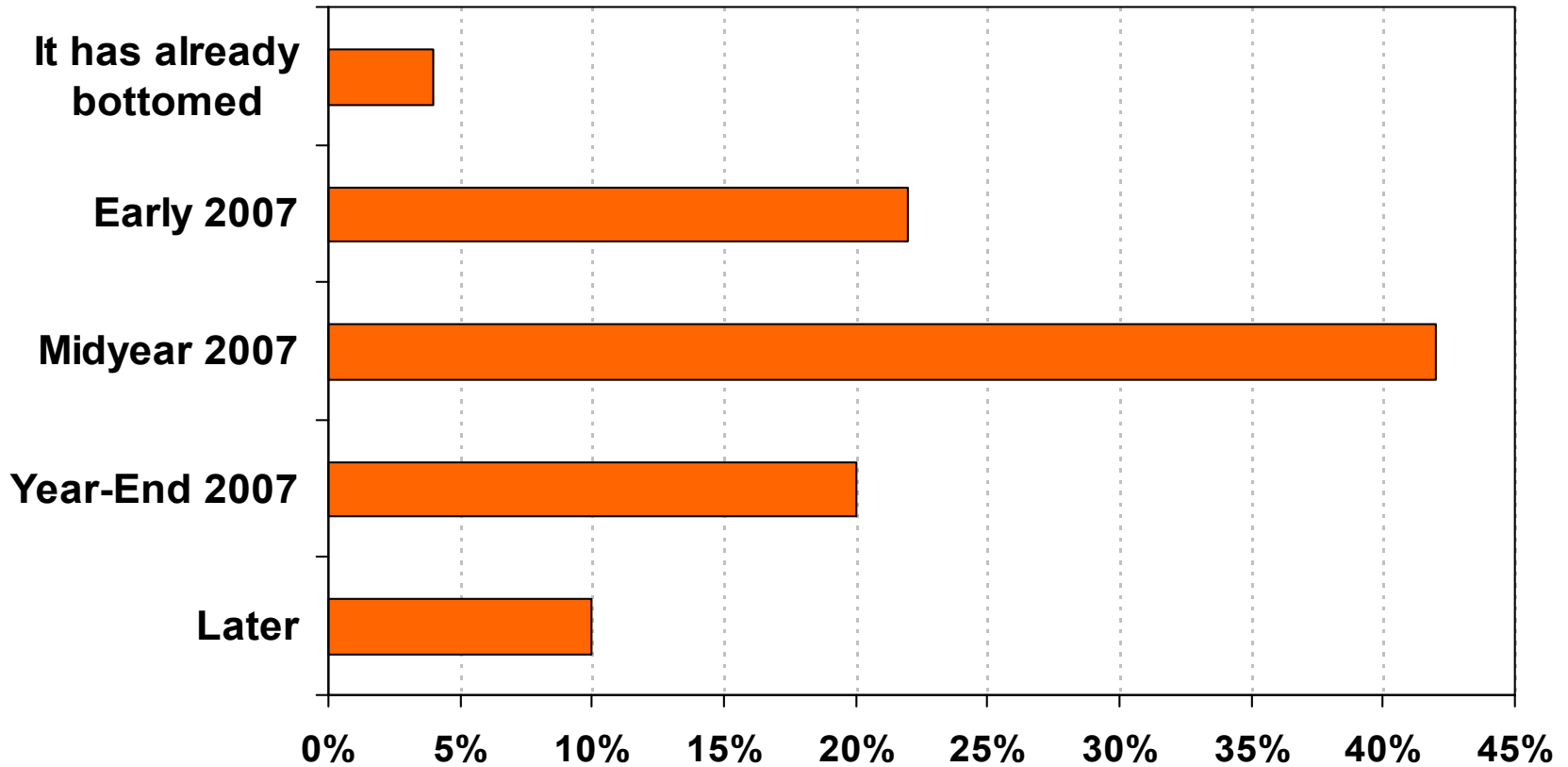
*Source: Federal Reserve*



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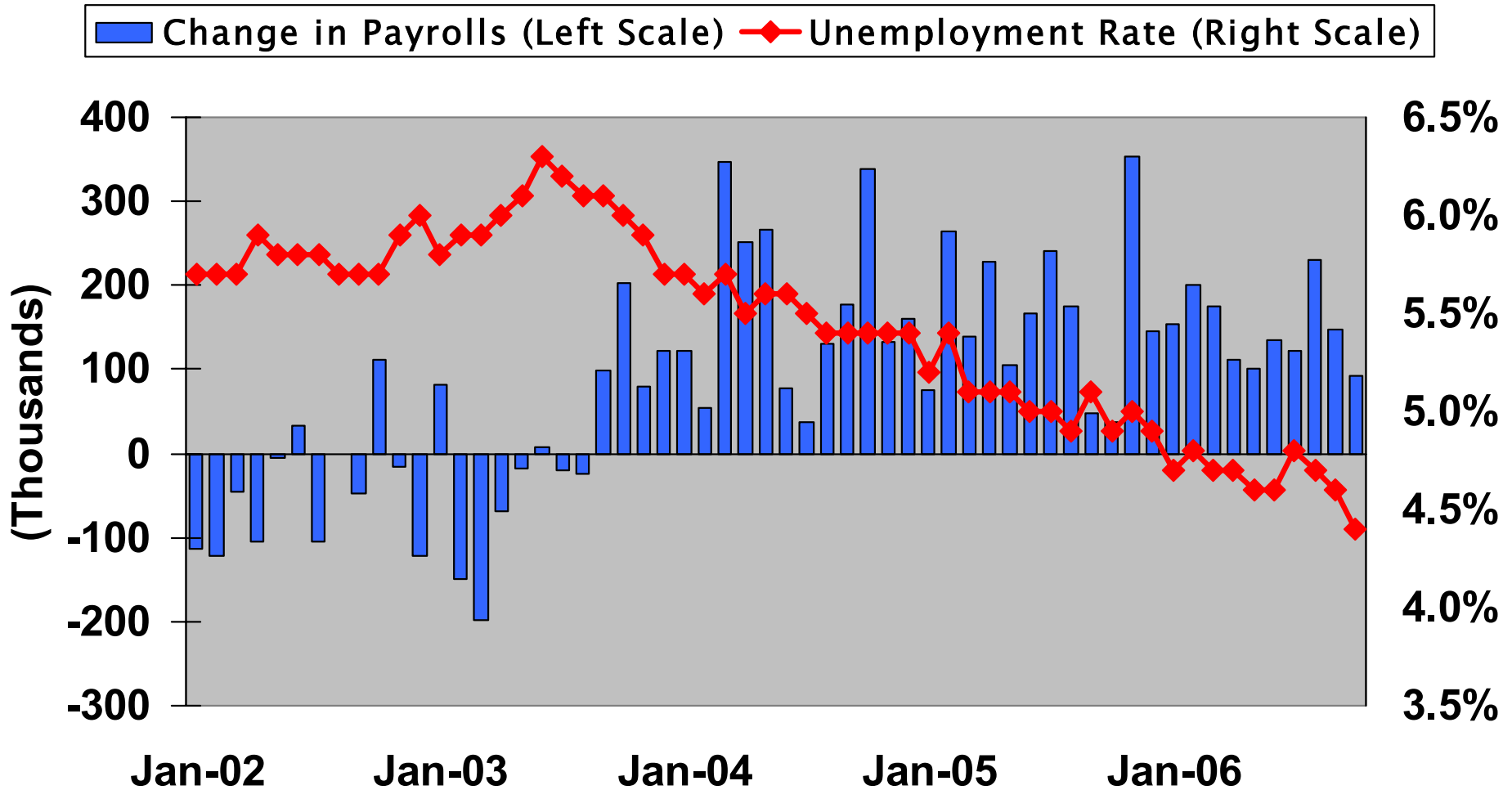
# When Housing Will Bottom?

NABE Outlook Survey, November 2006



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# Employment Trends

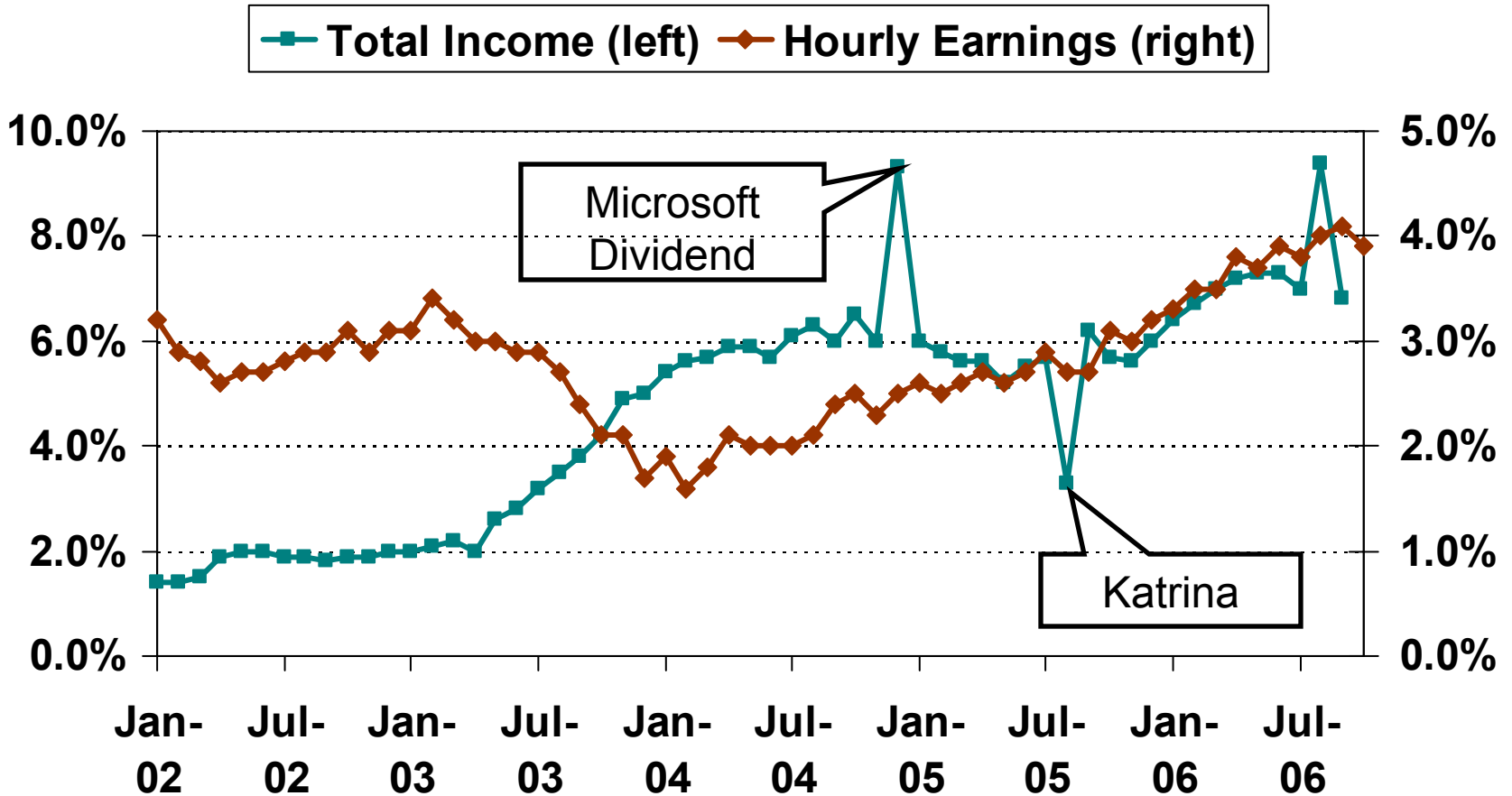


Source: Bureau of Labor Statistics



# Income and Hourly Earnings

## Year-Over-Year Percent Change



Source: Bureau of Labor Statistics, BEA



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# National Average: Regular Gasoline

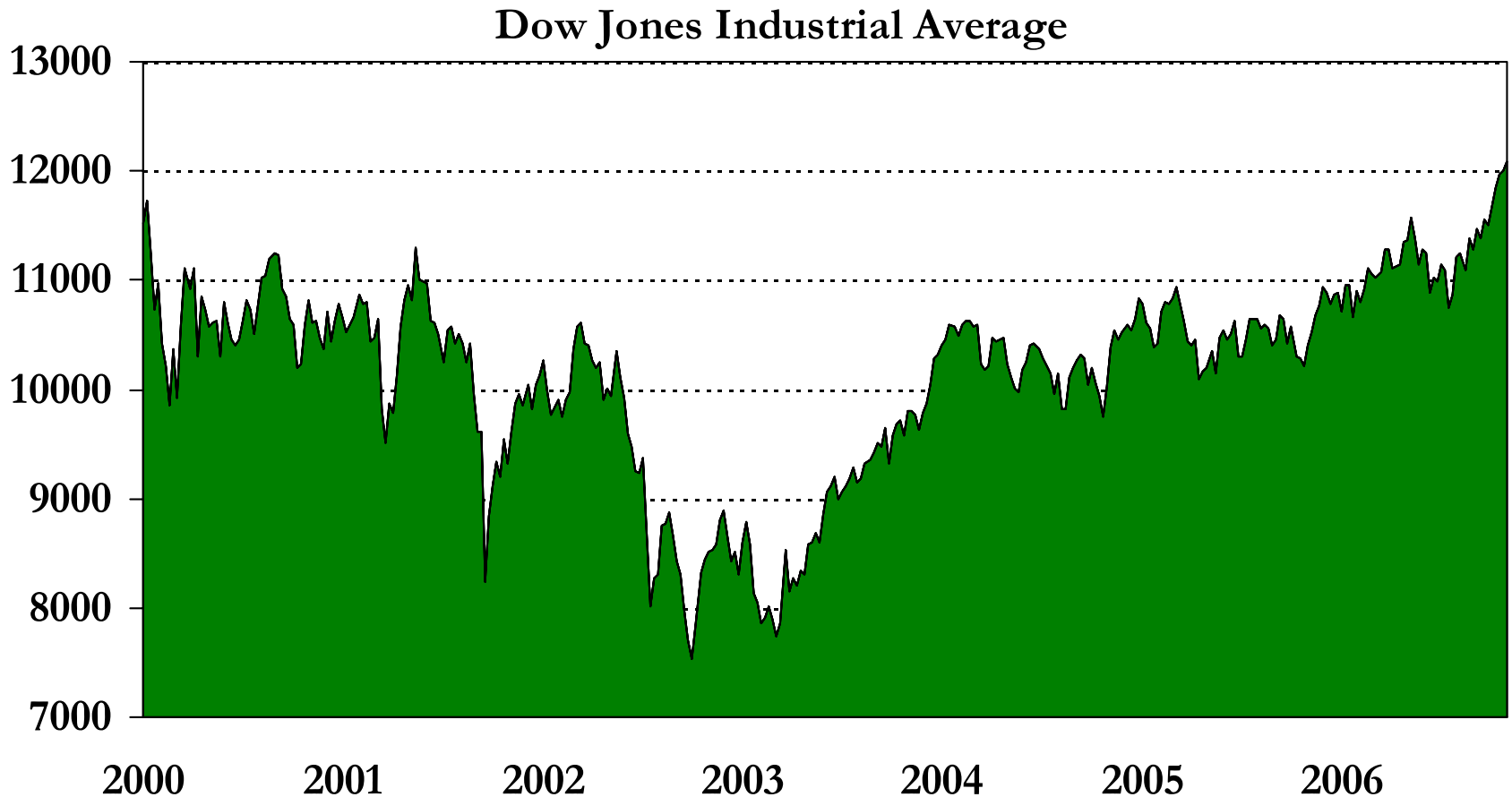


Source: Bloomberg



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# Stocks: A Nice Recovery



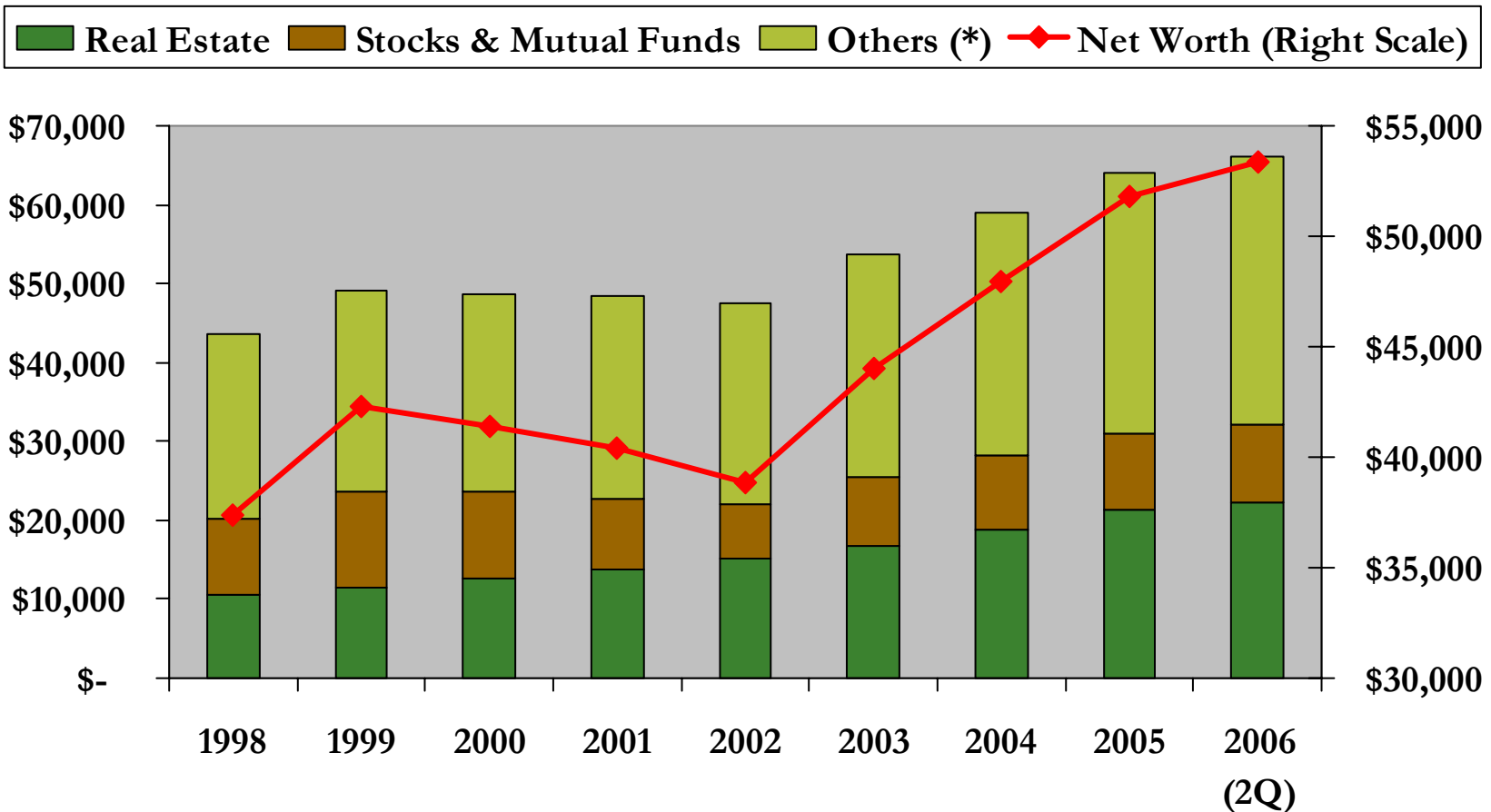
*Source: Bloomberg*



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# Household Balance Sheets

In Billions of Dollars



(\*) Includes other real (consumer durables) and financial assets (deposits, treasuries.)

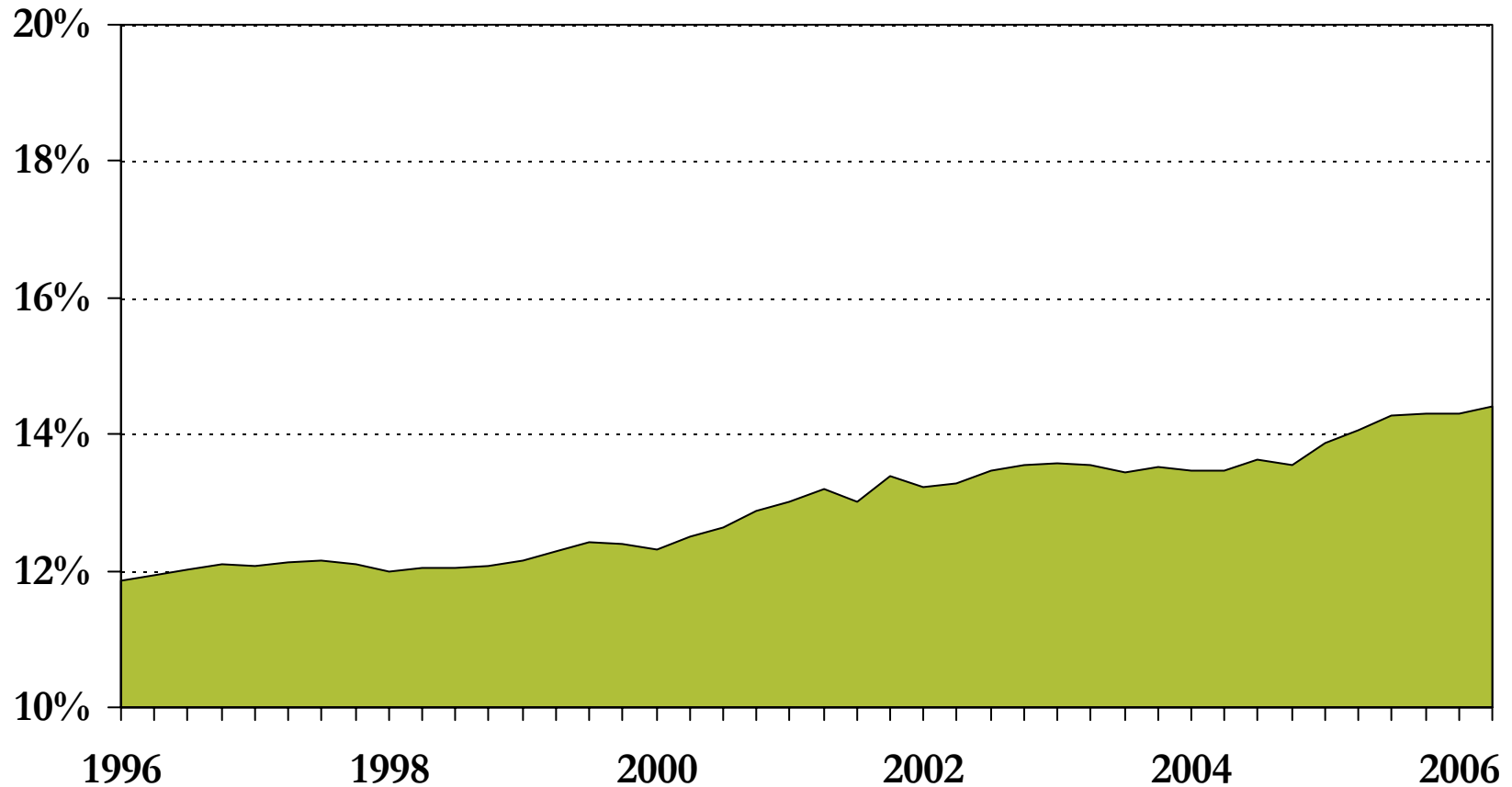
Source: Federal Reserve, Flow of Funds





# Household Debt Service

Household Debt Service As a Percent of Disposable Income, Including Mortgage Payments



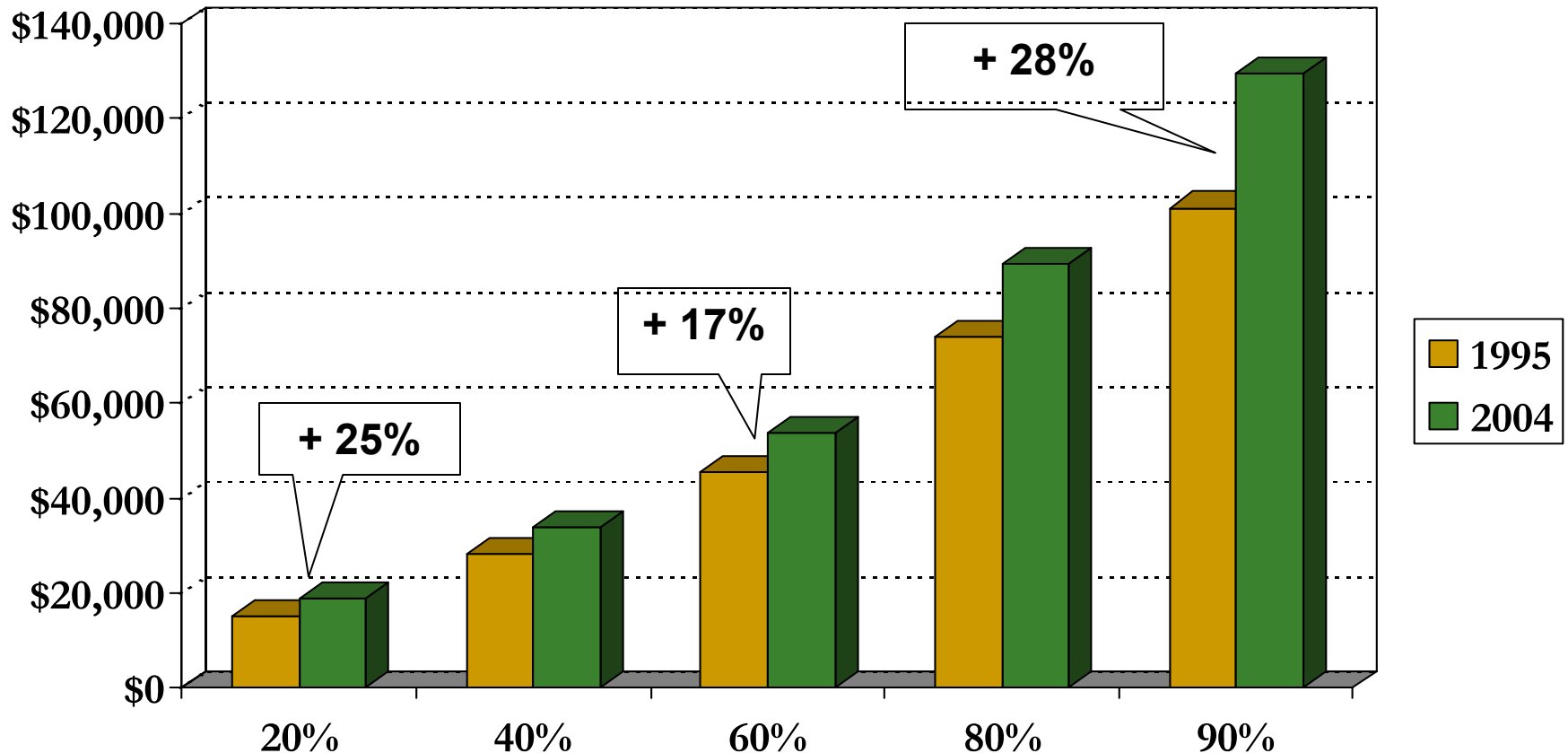
*Source: Federal Reserve*



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# Percentiles\* of Income Distribution

## 2004 Dollars

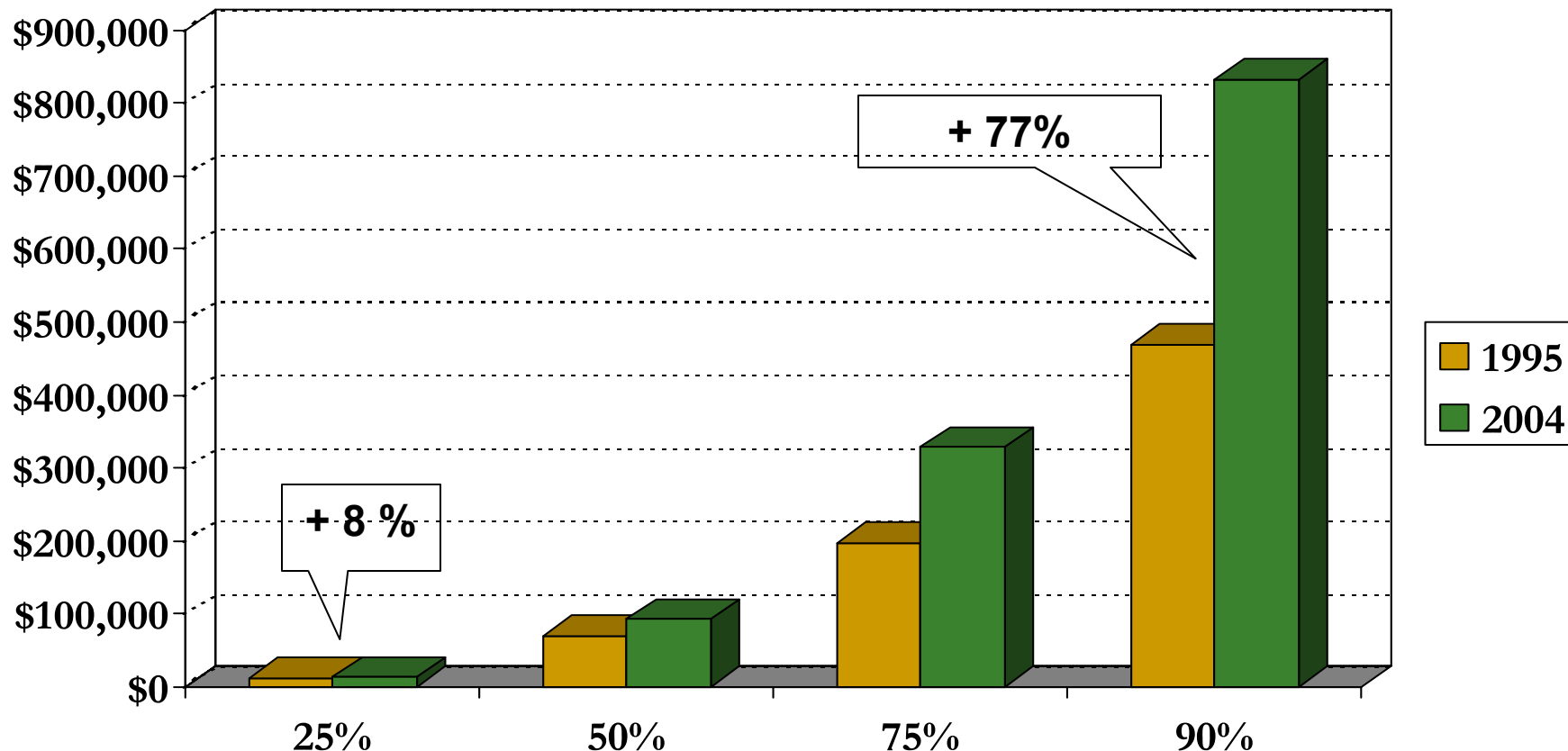


\* Percent of population whose income is equal or lower a given amount

Source: Federal Reserve, Survey of Consumer Finances

# Percentiles\* of Net Worth Distribution

## 2004 Dollars



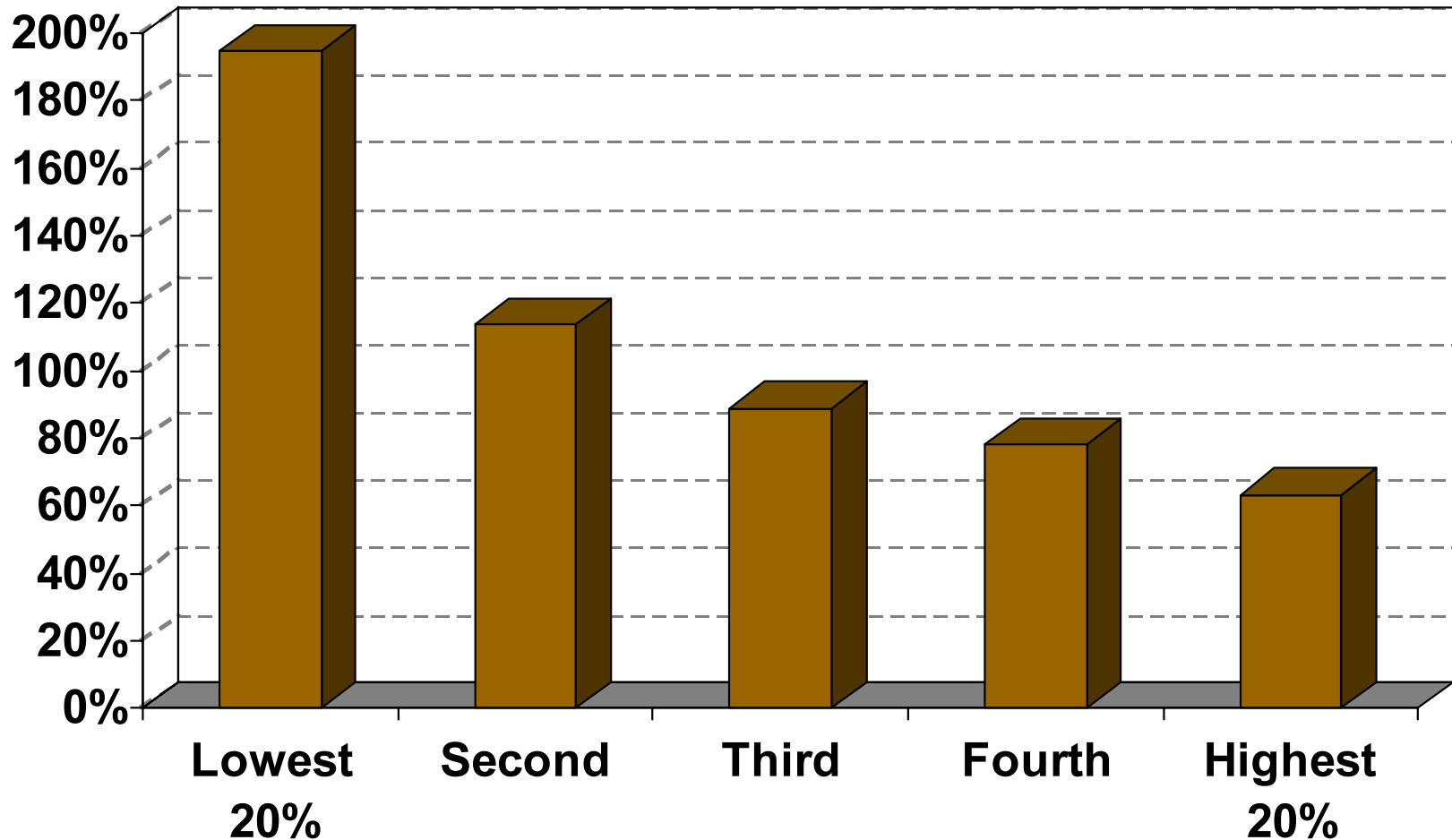
\* Percent of population whose net worth is equal or lower a given amount

Source: Federal Reserve, Survey of Consumer Finances



# Consumption by Income Group, 2004

Average Annual Expenditures As Percent of Average Annual Income



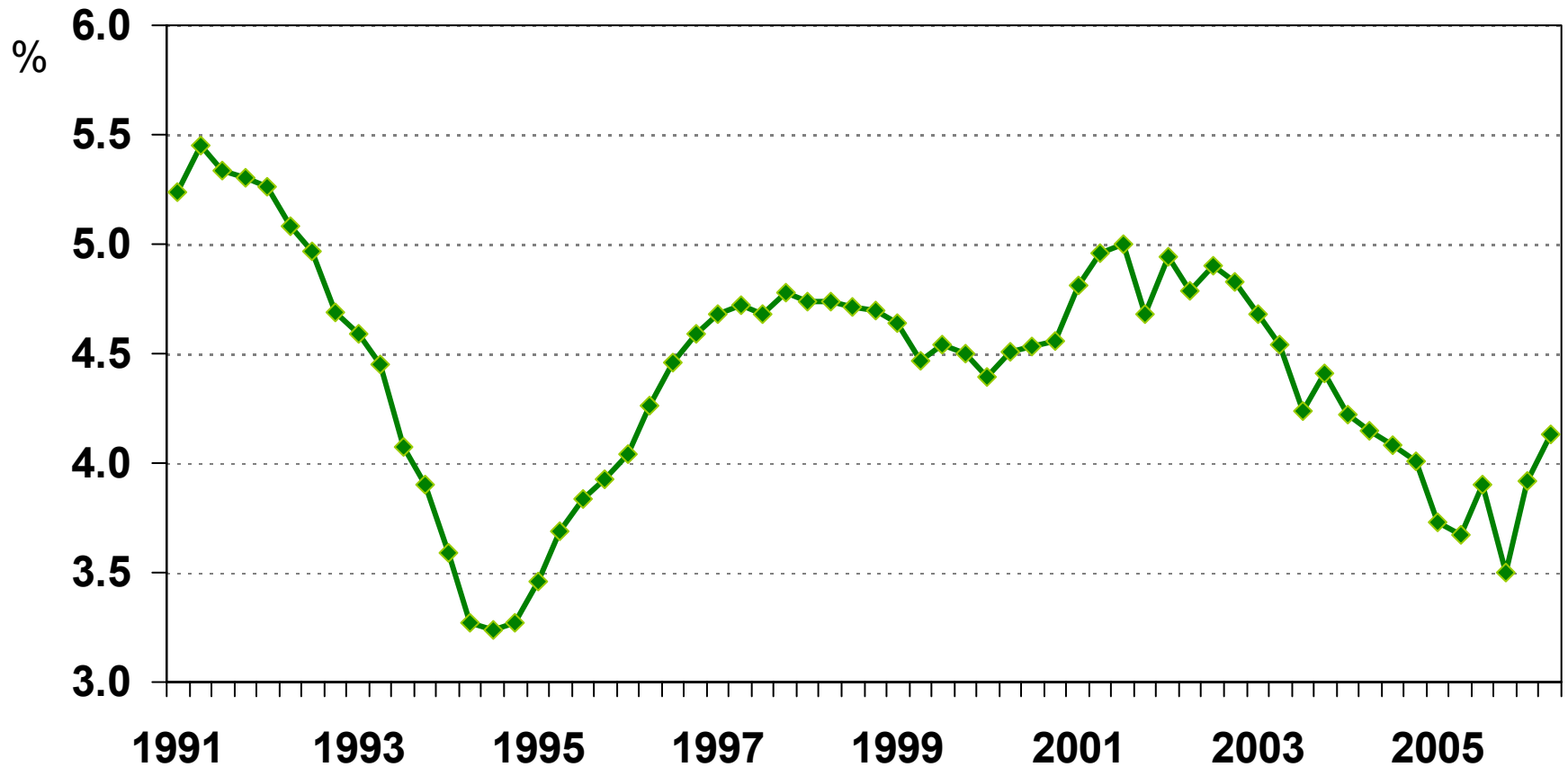
Source: Bureau of Labor Statistics



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# Credit Card Delinquencies

percentage of delinquent loans past due thirty days or more and still accruing interest as well as those in non-accrual status



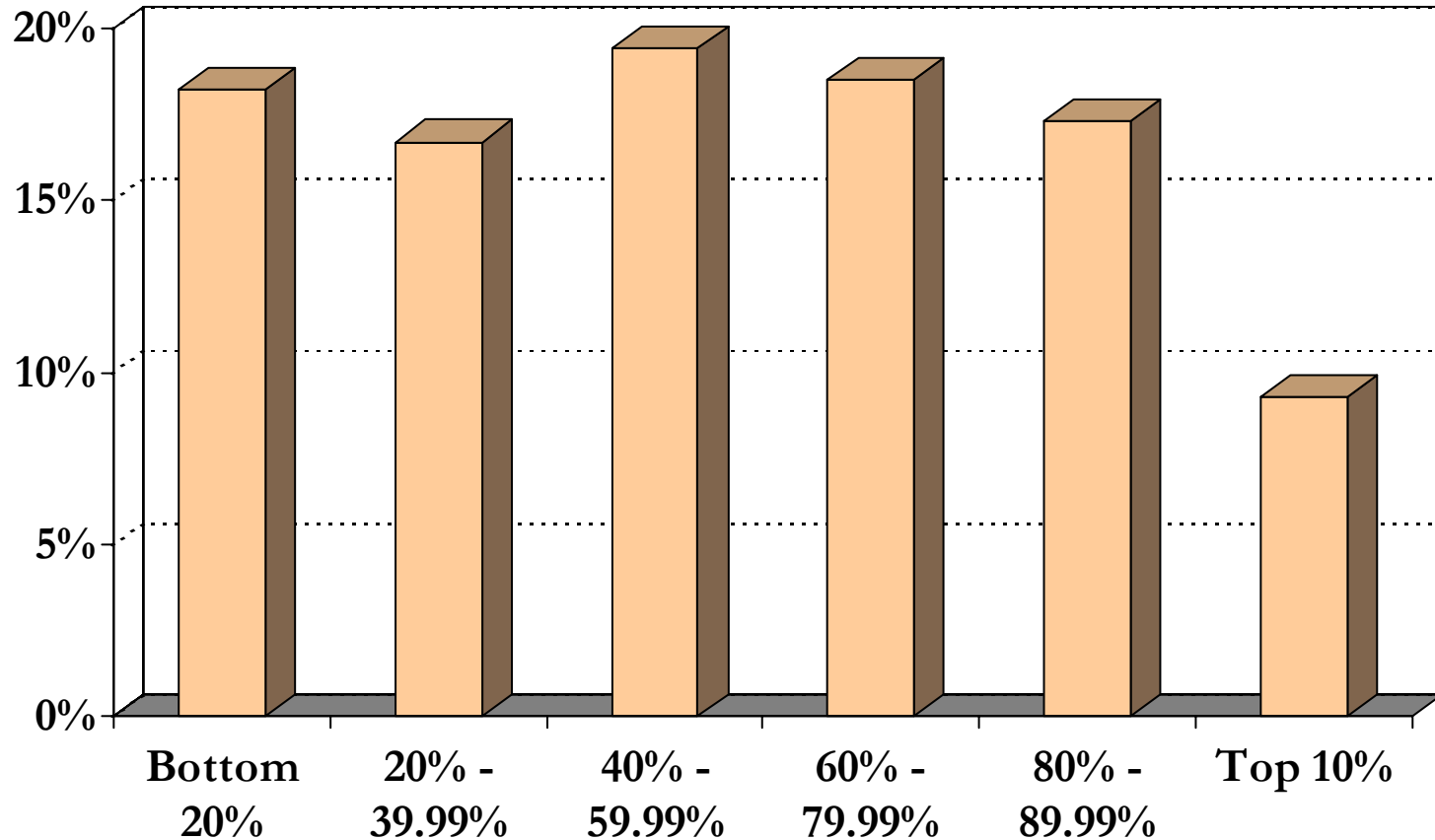
Source: Federal Reserve & FFIEC



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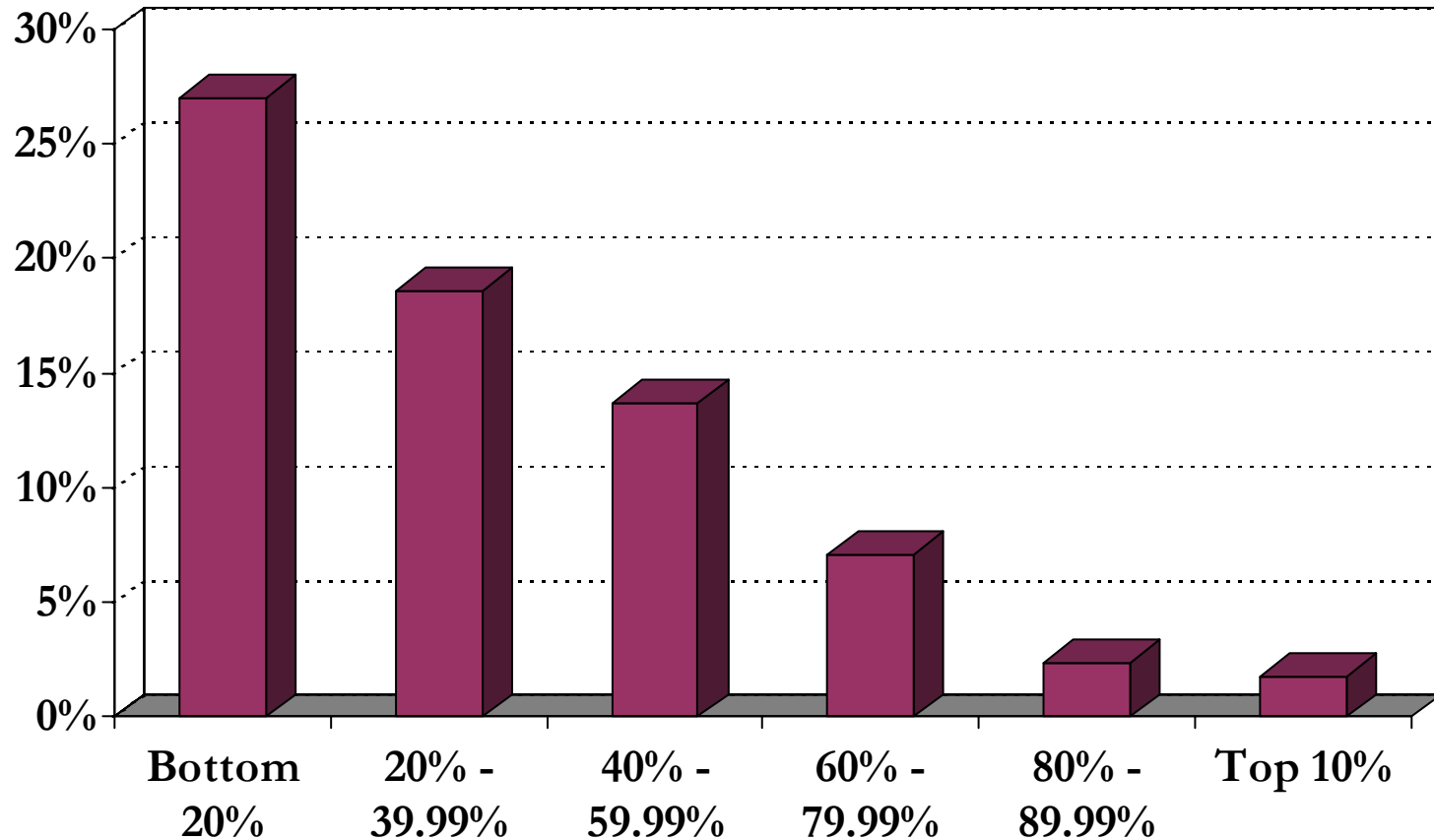
# Ratio of Debt Payments to Household Income

## By Percentile of Income



# Percent of Debtors with Ratio of Debt Payments to Household Income greater than 40%

By Percentile of Income



Source: Federal Reserve, Survey of Consumer Finances



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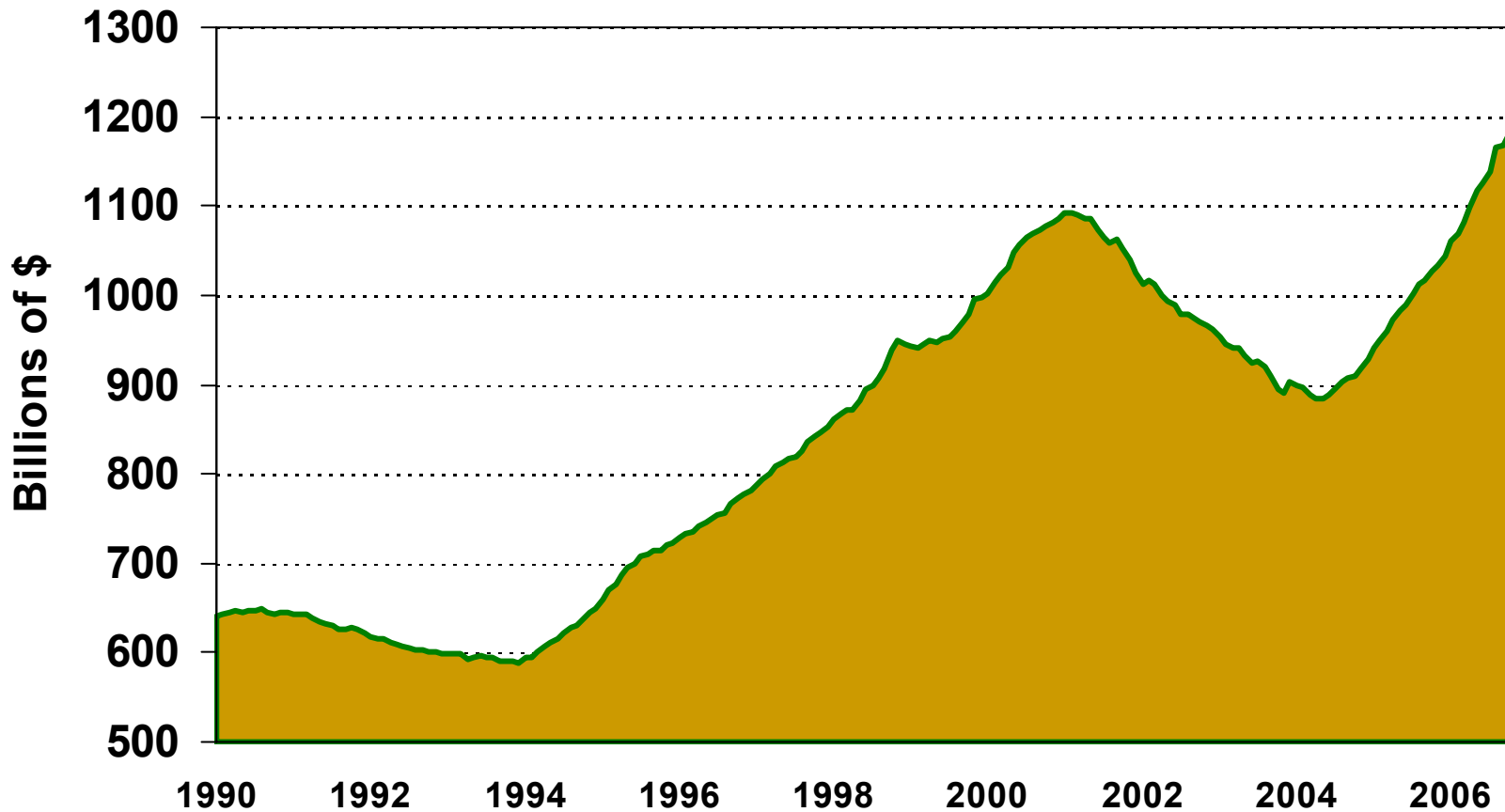
# Summary: Consumers

- **Housing correction continues**
  - Consumers don't seem to be overly damaged, though
- **Other consumer fundamentals are strong**
  - Second-best job market since 1970
  - Rewards to the investor class
  - Credit readily available, and cheap
- **Intriguing questions:**
  - How will income bifurcation affect aggregate spending and credit quality?
  - Why hasn't spending responded more favorably to lower gas prices?
  - What happens to household consumption when a child goes to college?





# Commercial & Industrial Loans



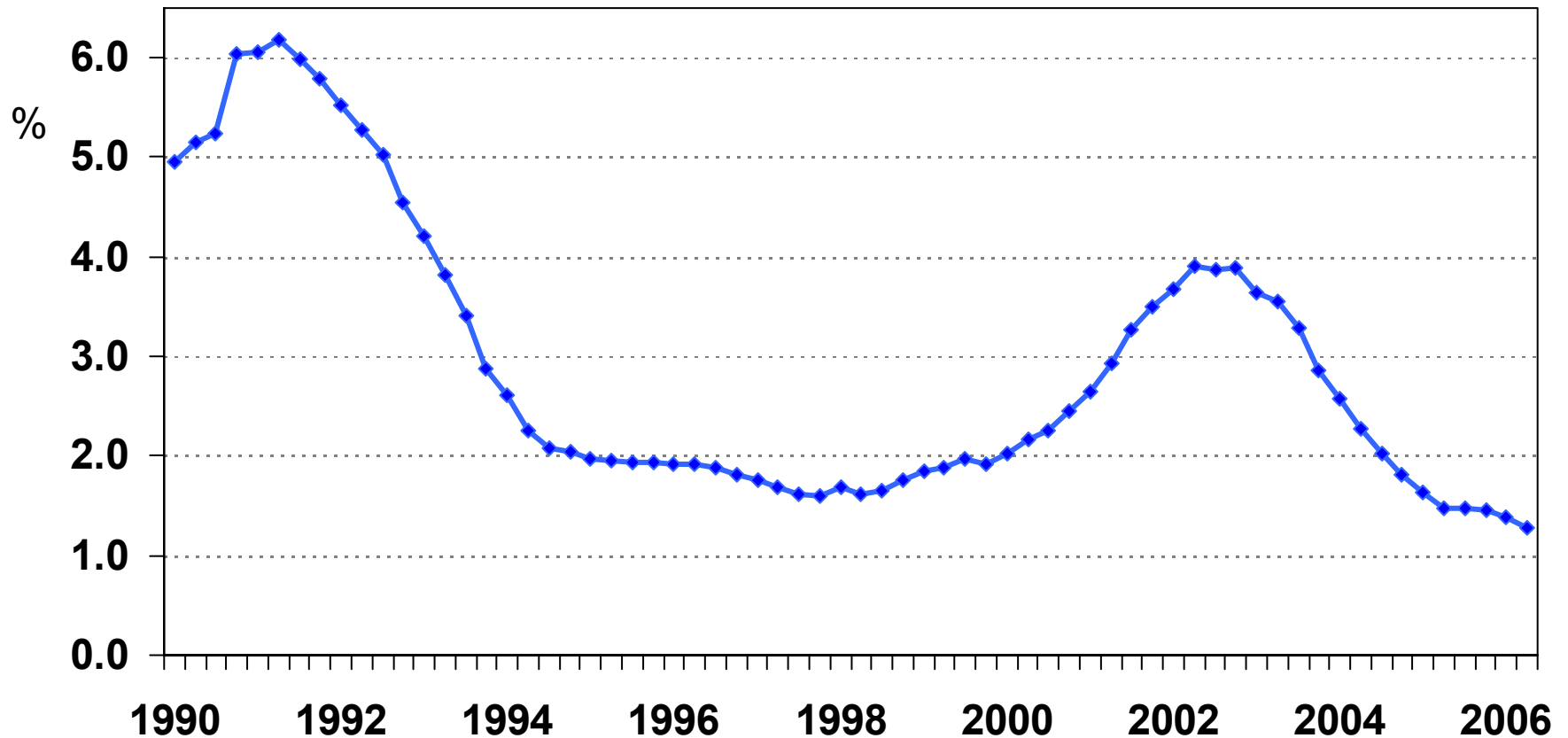
*Source: Federal Reserve*



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# C&I Loan Delinquencies

percentage of delinquent loans past due thirty days or more and still accruing interest as well as those in non-accrual status

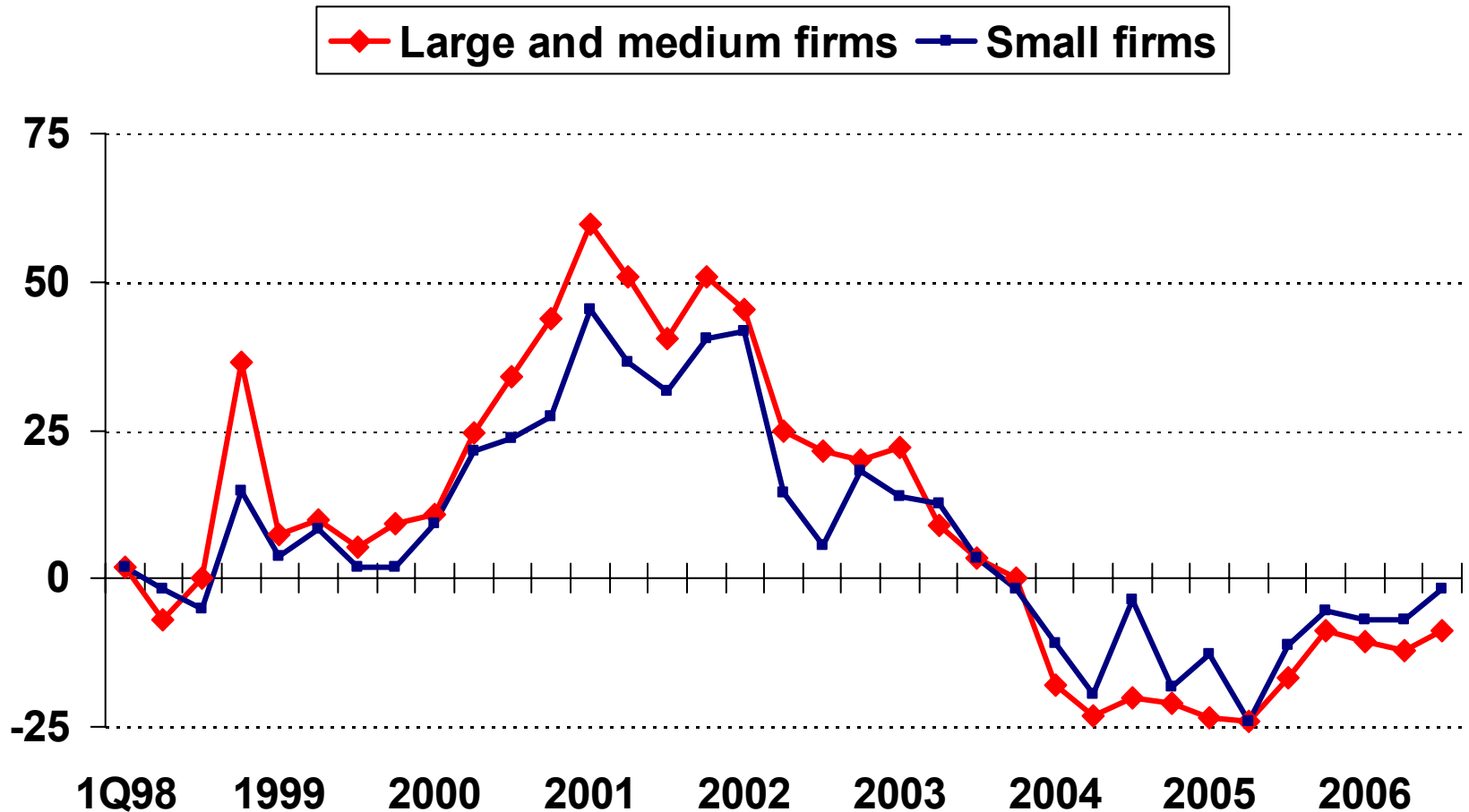


Source: Federal Reserve & FFIEC



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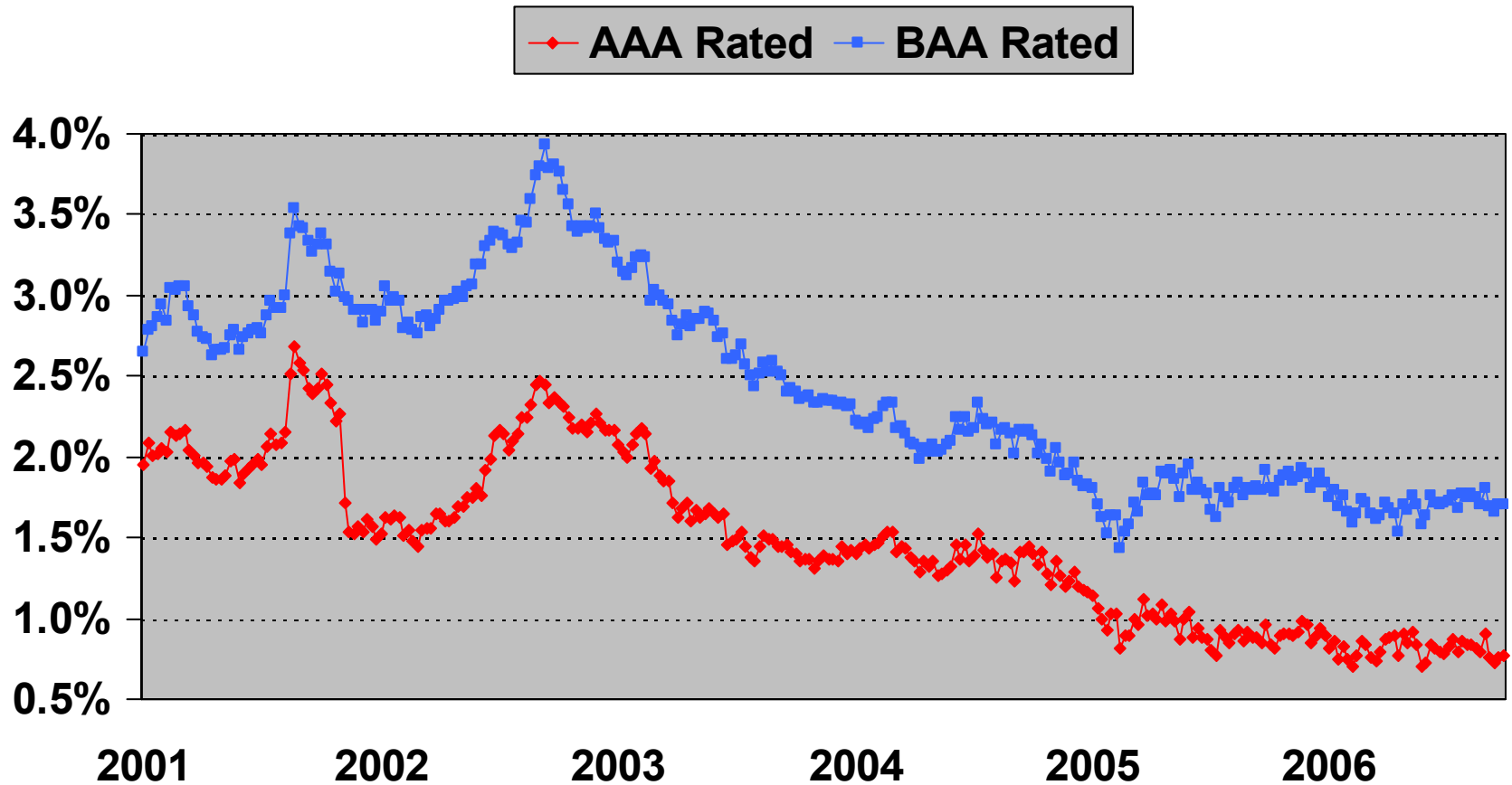
# Net Percentage of Respondents Tightening Standards for C&I Loans



Source: Federal Reserve

# Credit Spreads

## Corporate Bonds vs. 10-yr Treasuries



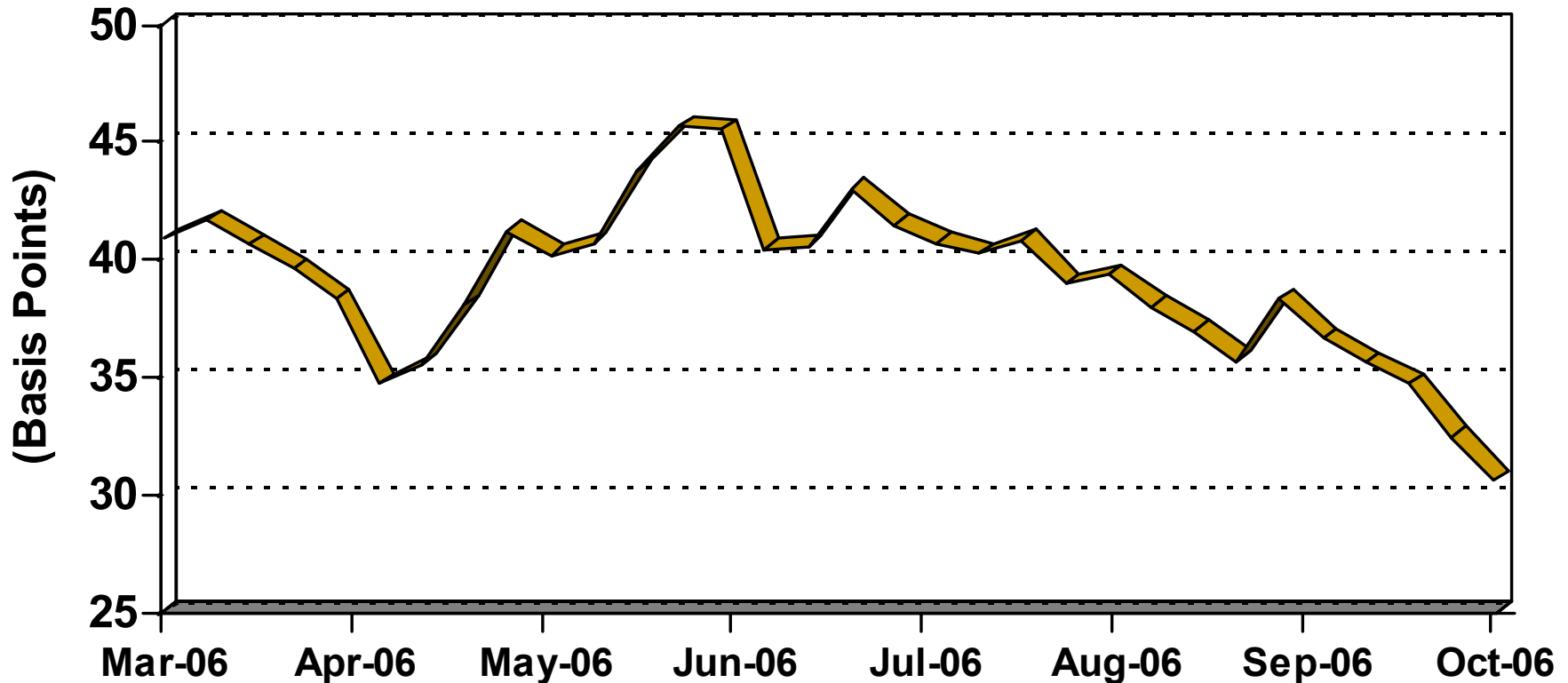
Source: Bloomberg



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# Credit Default Swaps

125 company composite, five year maturity



Source: Bloomberg

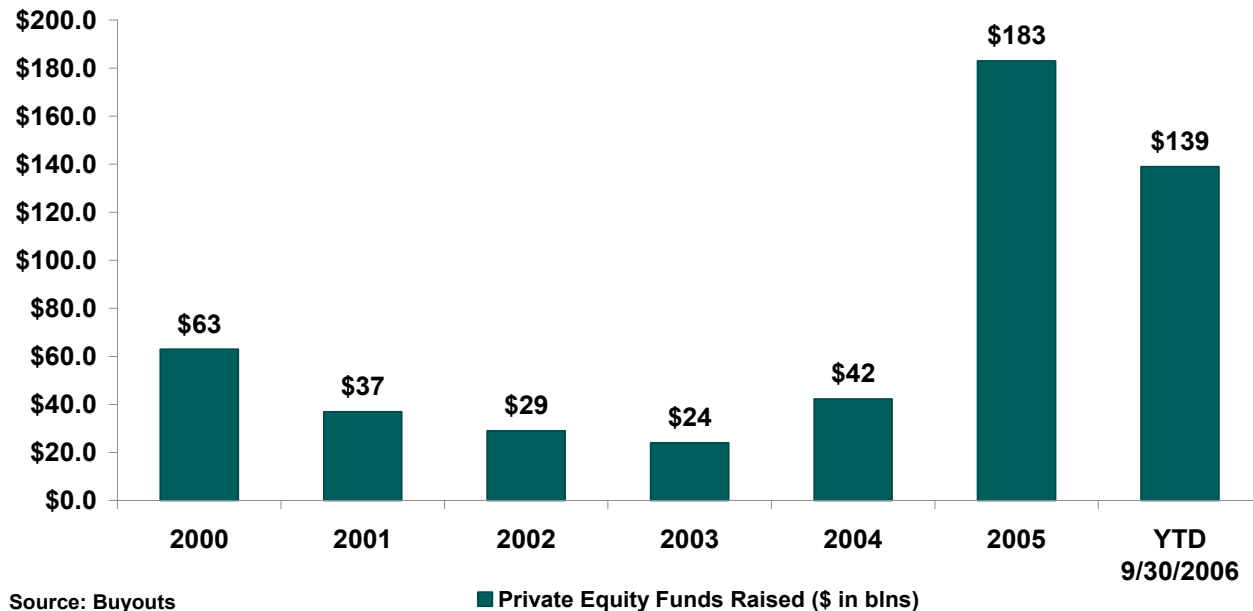


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# The Role of Private Equity

- It is currently estimated that private equity funds have in excess of \$100 billion of committed capital available for investment
- Aggressive acquisition activity is also being driven by the looming expiration of the investment period of funds raised in 1999 and 2000

## Historical Private Equity Activity



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# Summary: Banking

- **Credit quality is steady**
  - Some regional deterioration
- **Earnings under modest pressure**
  - Competition pressures lending and borrowing spreads
  - Flat yield curve
  - Higher rates, strong equities market creates disintermediation
- **Intriguing questions:**
  - Who sets credit standards: banks or investors?
  - Is the new system more or less vulnerable to shocks?
  - Does the presence of new players make it harder for the Fed to manage credit?



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