Consumer/Banking Outlook

Federal Reserve Bank of Chicago
Economic Outlook Symposium
December 2006

Carl Tannenbaum
Chief Economist
Household Spending
Year-Over-Year Percent Change in Nominal Total Retail Sales

Source: Department of Commerce
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
Expected Drop In Home Prices
Case-Shiller Home Price Index Futures, August 2007 Maturity

Source: Bloomberg
Share of non-conforming mortgage originations

Source: LoanPerformance
Reset Risk: Limited?

- At Risk
- Long Lockout
- Past Big First Reset
- Will Refi to Fixed
- Wealthy Households
Home Equity Withdrawal
Difference Between Net Change in Home Mortgages and Residential Investment

Source: Federal Reserve, Flow of Funds
Home Equity Loans
On Banks’ Balance Sheets

Source: Federal Reserve
When Housing Will Bottom?

NABE Outlook Survey, November 2006

- It has already bottomed
- Early 2007
- Midyear 2007
- Year-End 2007
- Later
Employment Trends

Source: Bureau of Labor Statistics
Income and Hourly Earnings
Year-Over-Year Percent Change

Source: Bureau of Labor Statistics, BEA
National Average: Regular Gasoline

Source: Bloomberg
Stocks: A Nice Recovery

Dow Jones Industrial Average

Source: Bloomberg
Household Balance Sheets
In Billions of Dollars

Real Estate  Stocks & Mutual Funds  Others (*)  Net Worth (Right Scale)


(*) 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
Percentiles* of Income Distribution
2004 Dollars

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
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
Ratio of Debt Payments to Household Income
By Percentile of Income

Bottom 20%
20% - 39.99%
40% - 59.99%
60% - 79.99%
80% - 89.99%
Top 10%
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
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
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
Net Percentage of Respondents Tightening Standards for C&I Loans

Source: Federal Reserve
Credit Spreads

Corporate Bonds vs. 10-yr Treasuries

Source: Bloomberg
Credit Default Swaps
125 company composite, five year maturity

Source: Bloomberg
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

![Graph showing historical private equity activity from 2000 to 2005 and YTD 9/30/2006. The graph indicates a significant increase in funds raised in 2005 with $183 billion compared to previous years.]

Source: Buyouts

Private Equity Funds Raised ($ in blns)
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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