



**Comptroller of the Currency
Administrator of National Banks**

Economic and Banking Outlook

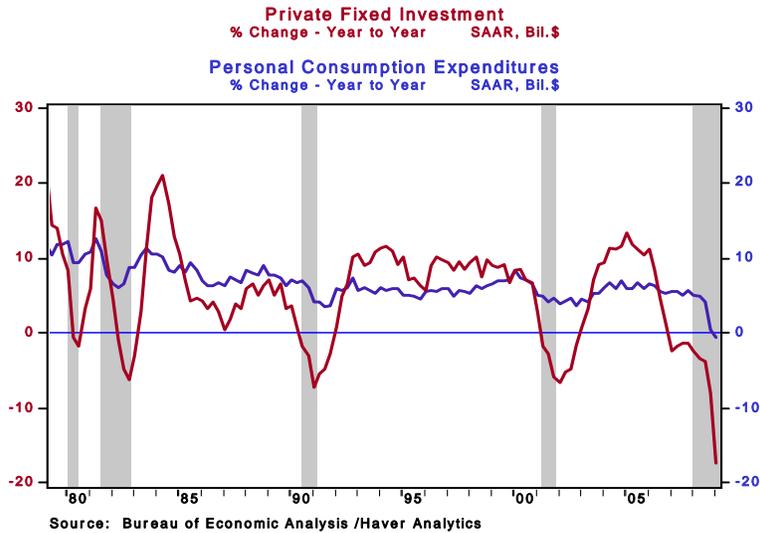


May 2009

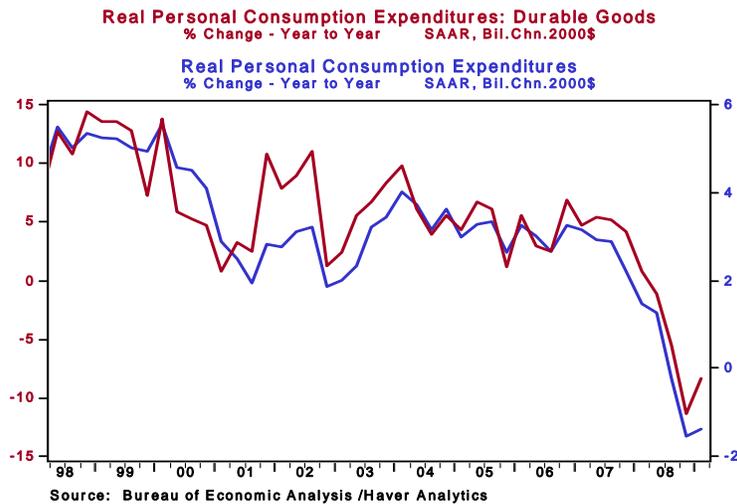
Major issues

- Consumer spending – recovering?
- Investment spending – lagging?
- Housing inventories will take years to clear
- Bank credit losses will remain high through 2011

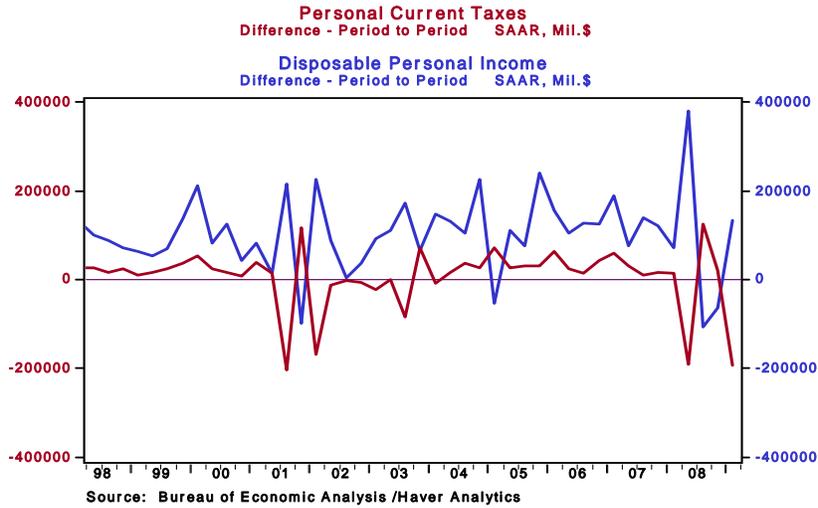
Real GDP growth sagging on all sides



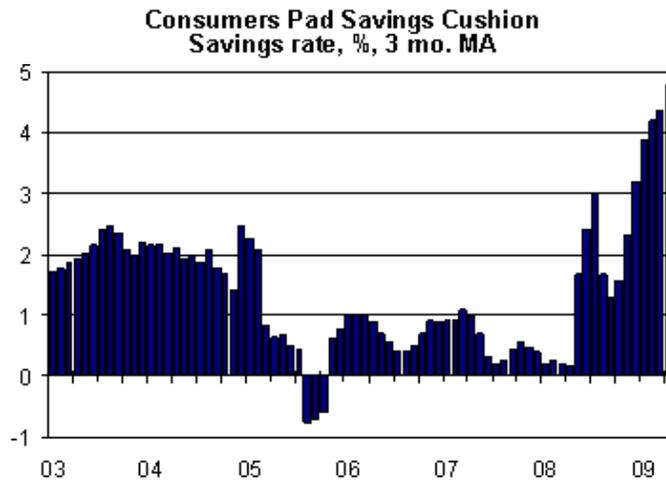
Consumption spending showing signs of life



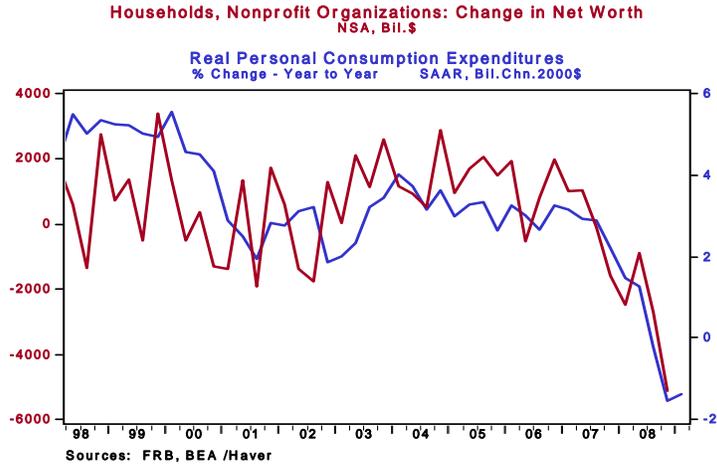
Consumption supported by increase in personal income - fall in taxes



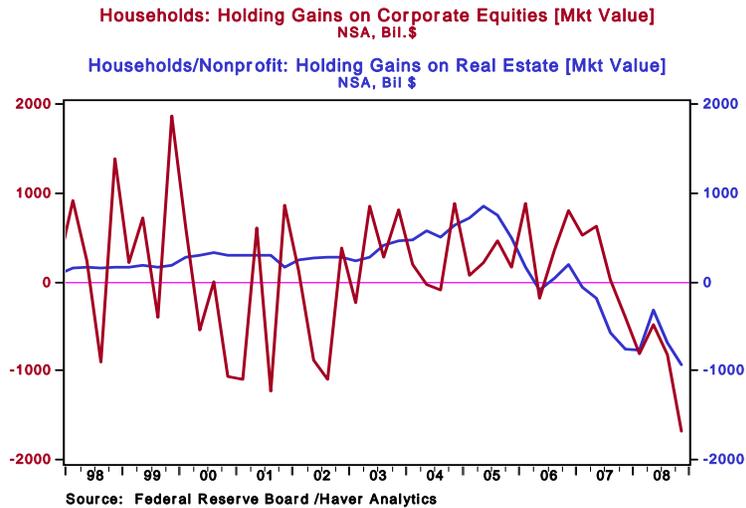
Consumers increase savings rate – temporary or longer-term?



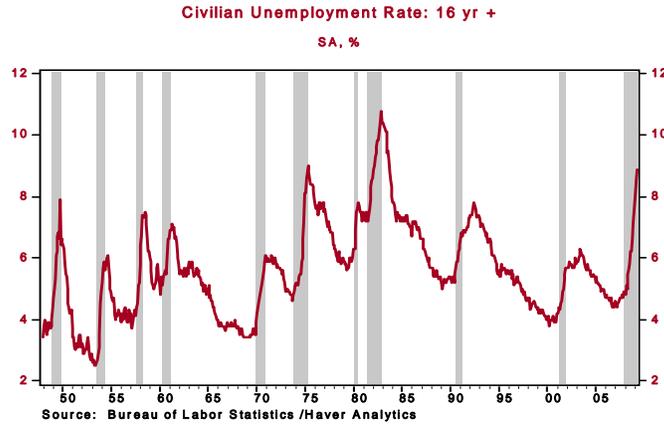
Consumption [savings] tracks changes in wealth in this recession



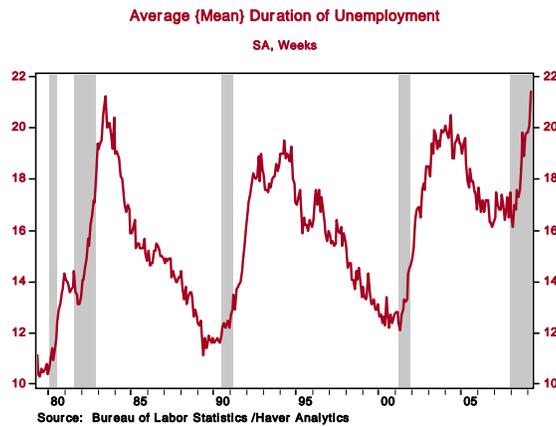
Sustained gains in stock market may recoup some wealth loss



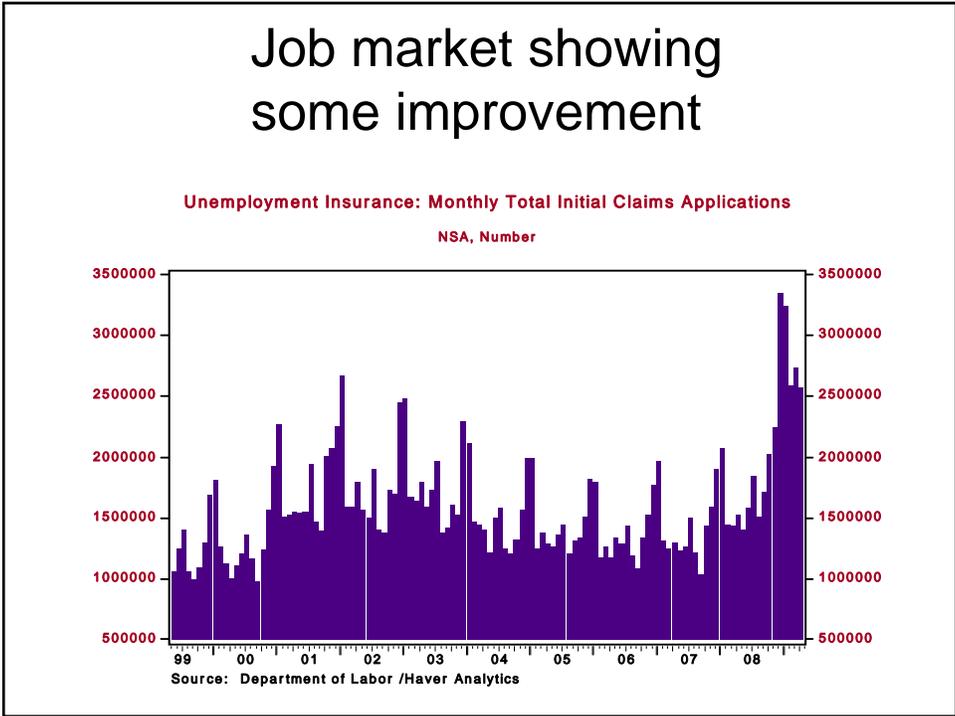
Unemployment will remain a major concern through 2010



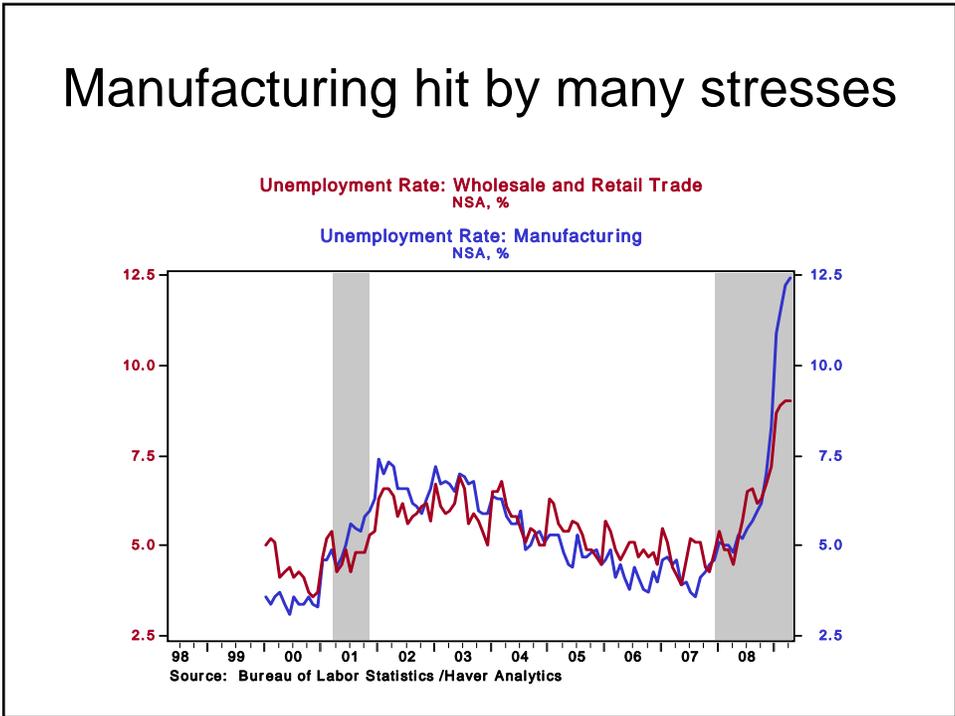
And average unemployment duration is high



Job market showing some improvement

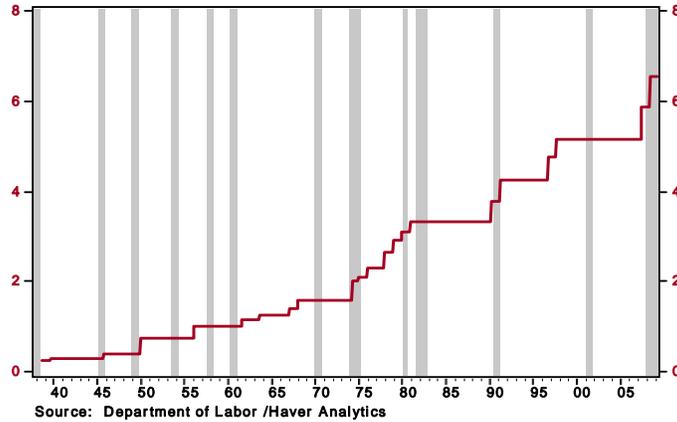


Manufacturing hit by many stresses



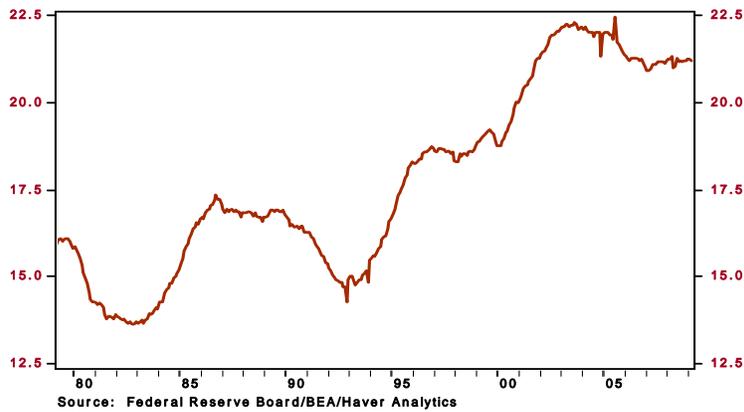
Structural changes will dampen job market improvements for some

Minimum Hourly Wage Rate: Nonfarm
Dollars

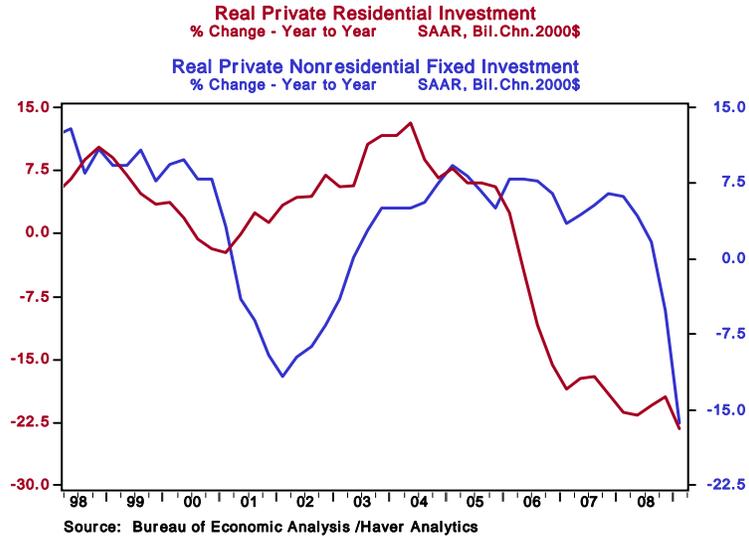


US household debt levels declining but still relatively high

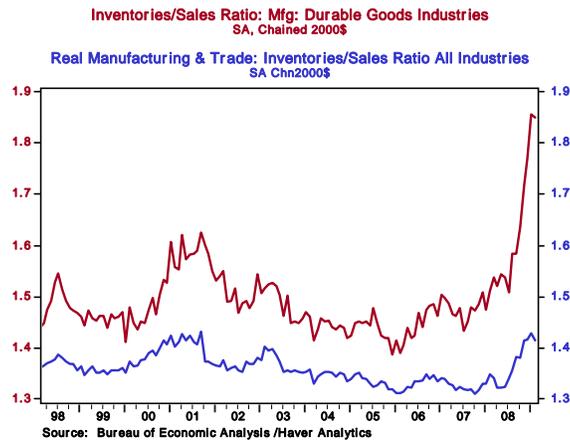
Ratio: Consumer Installment Credit to Personal Income
SA, %

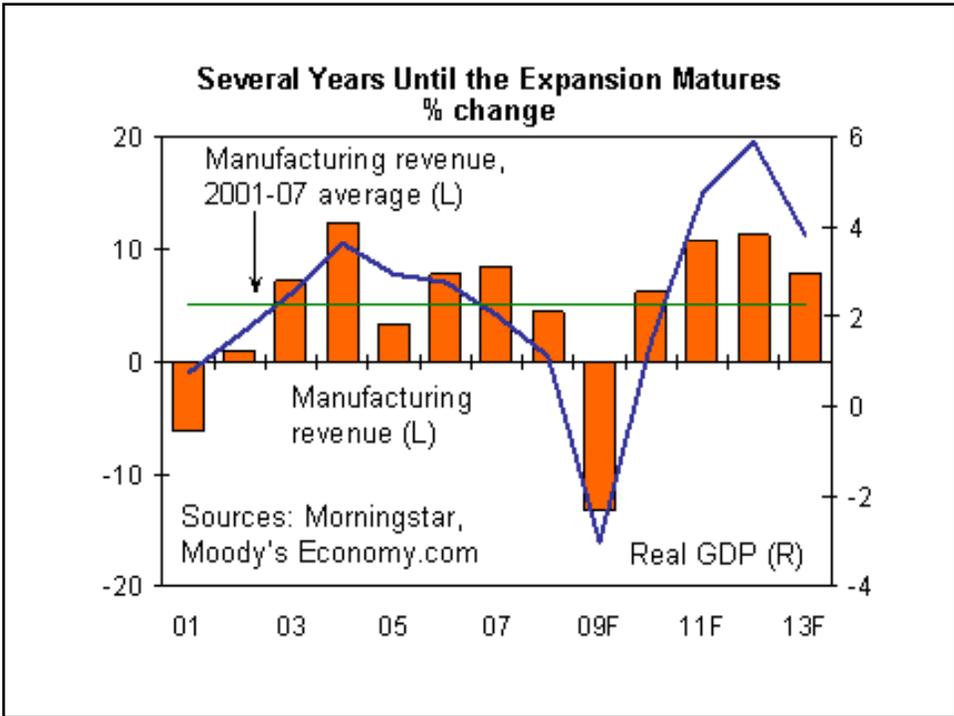
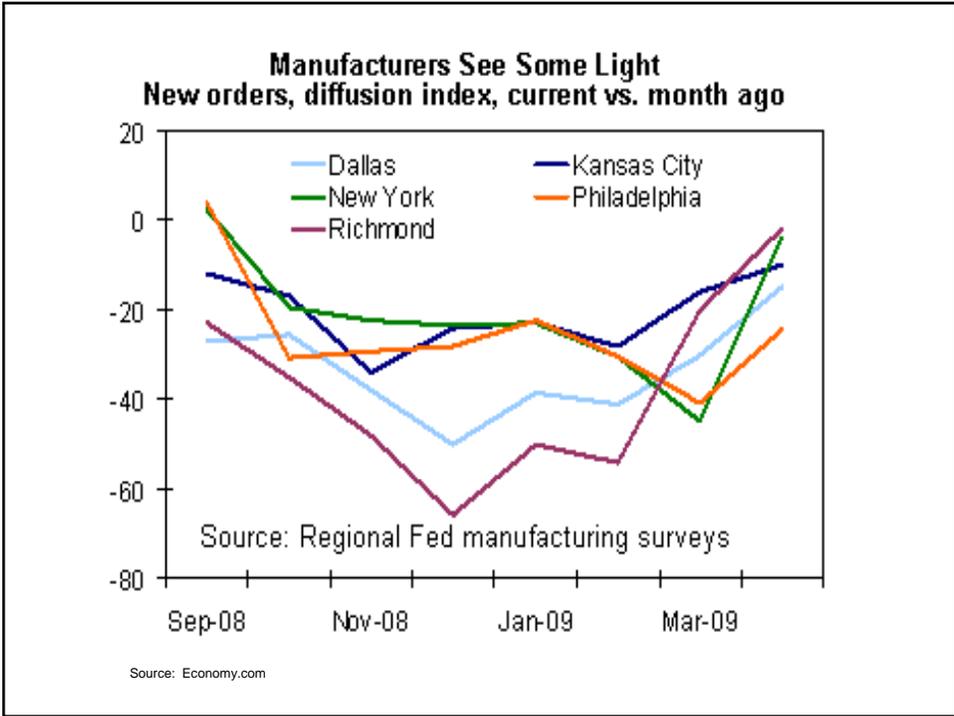


Investment spending remains drag

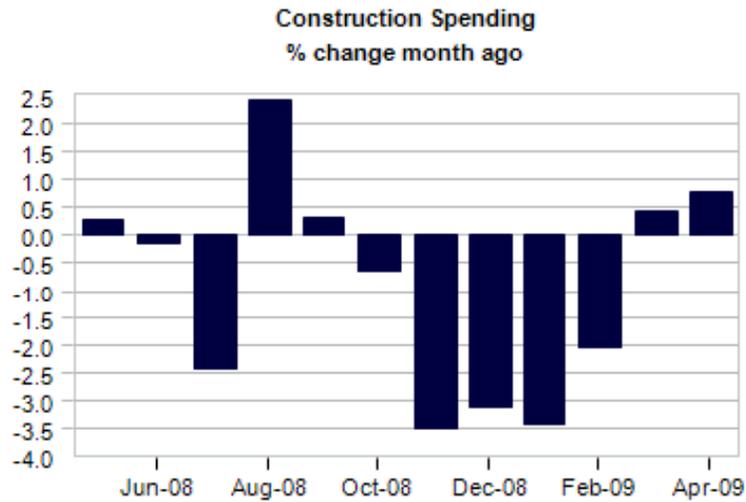


Inventory levels in durables need high spending to run off





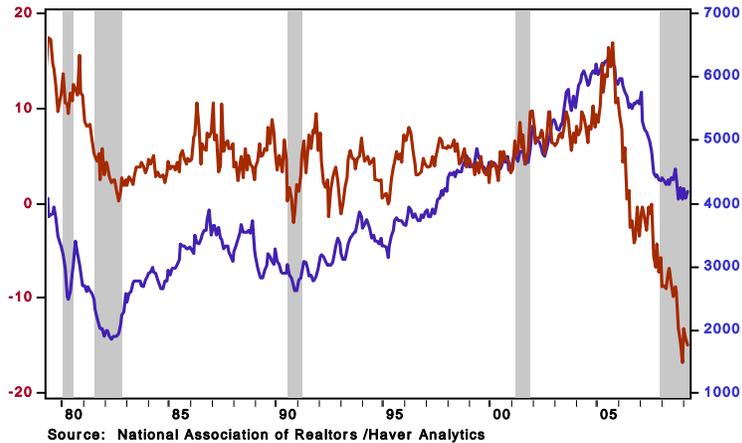
Some boost from construction spending



Housing continues to plague

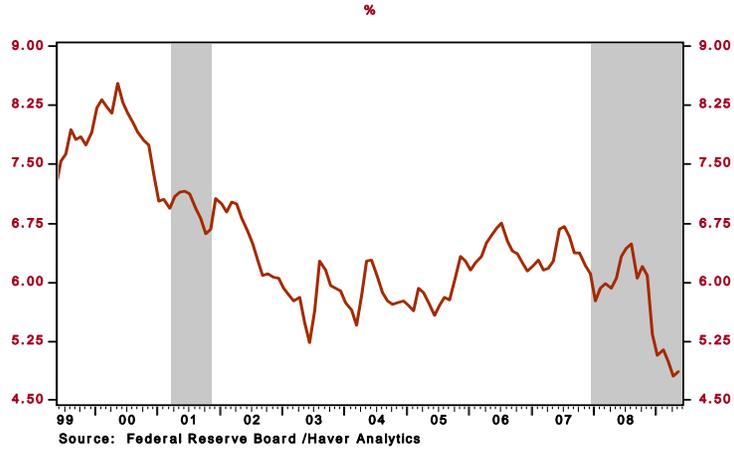
NAR Median Sales Price: Existing 1-Family Homes, United States
% Change - Year to Year \$

Existing 1-Family Home Sales: United States
SAAR, Thous



Mortgage rates key ingredient to housing market recovery

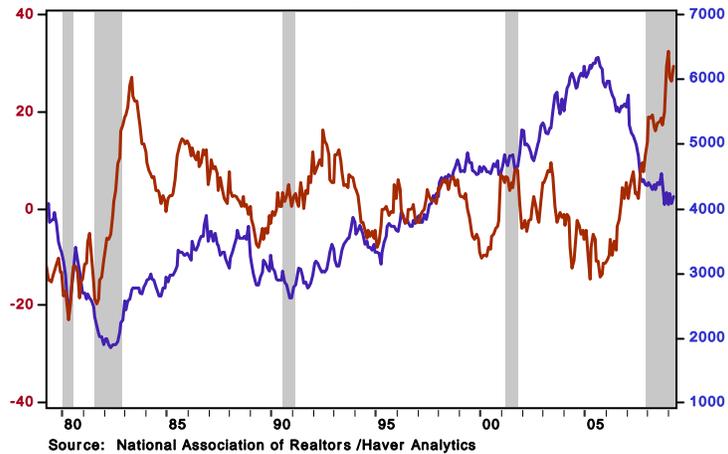
Contract Rates on Commitments: Conventional 30-Yr Mortgages, FHLMC



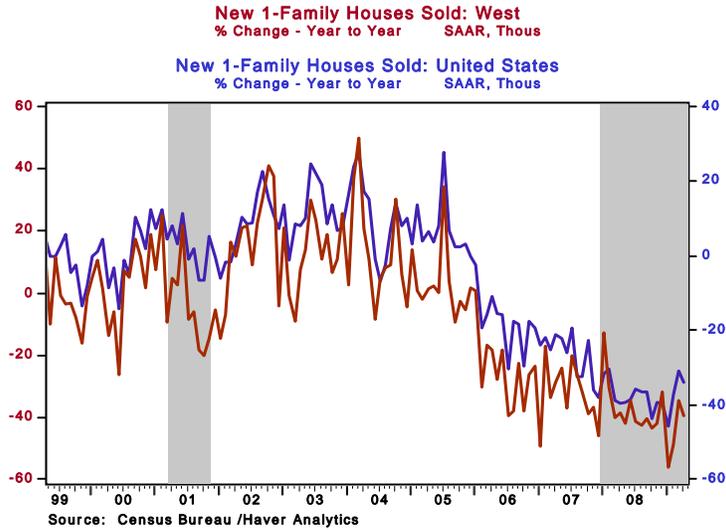
Affordability at all time high

Composite Housing Affordability Index
% Change - Year to Year Median Inc=Qualifying Inc=100

Existing 1-Family Home Sales: United States
SAAR, Thous

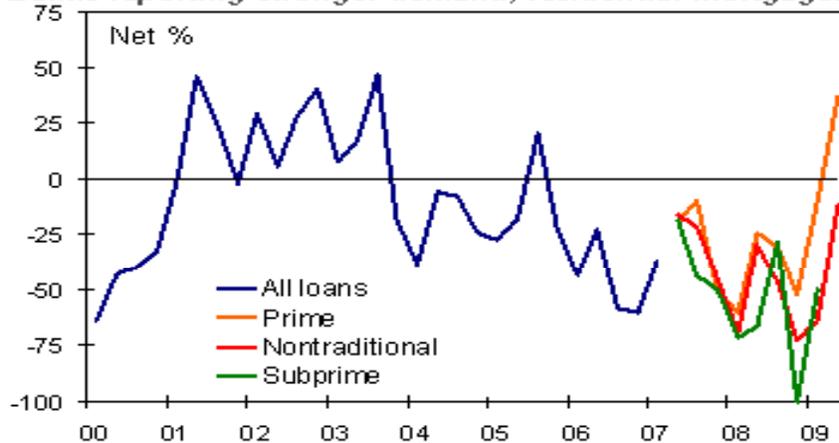


Some signs of life in housing sales

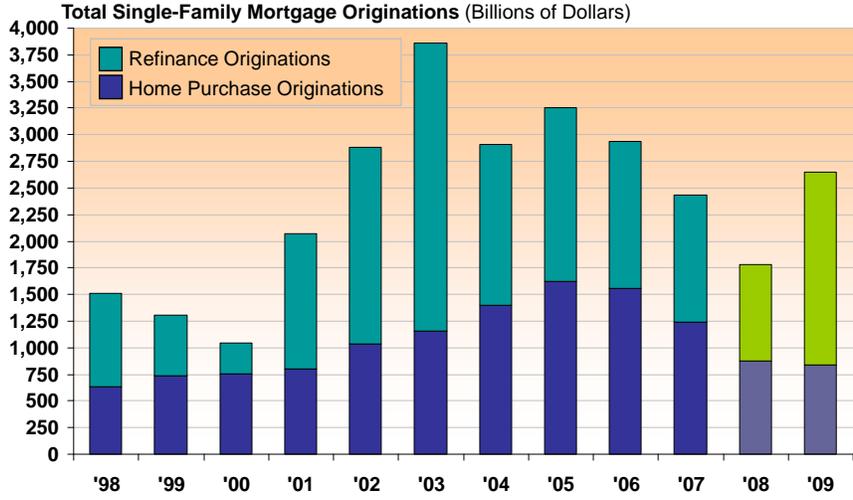


Loan demand up

Improving loan demand is a hopeful sign for housing
Banks reporting stronger demand, residential mortgages

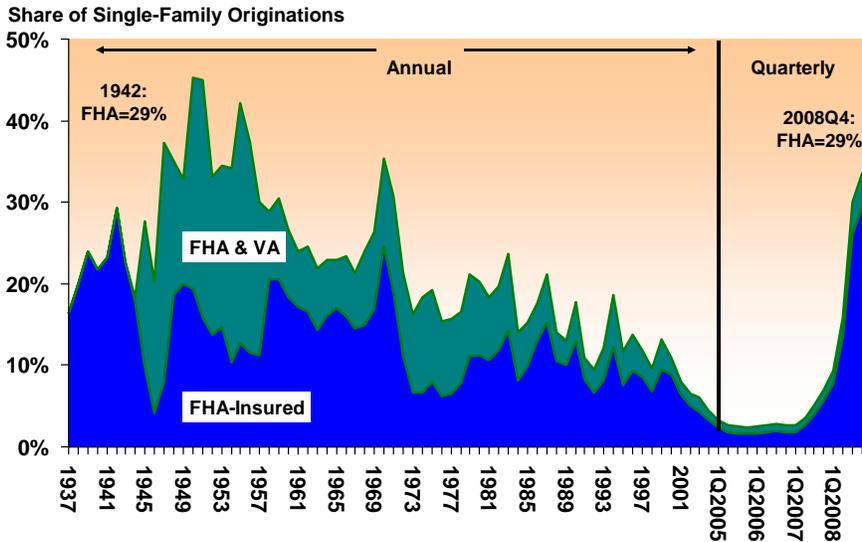


Low Rates, GSE Streamline Refis Result in Origination Rebound in 2009



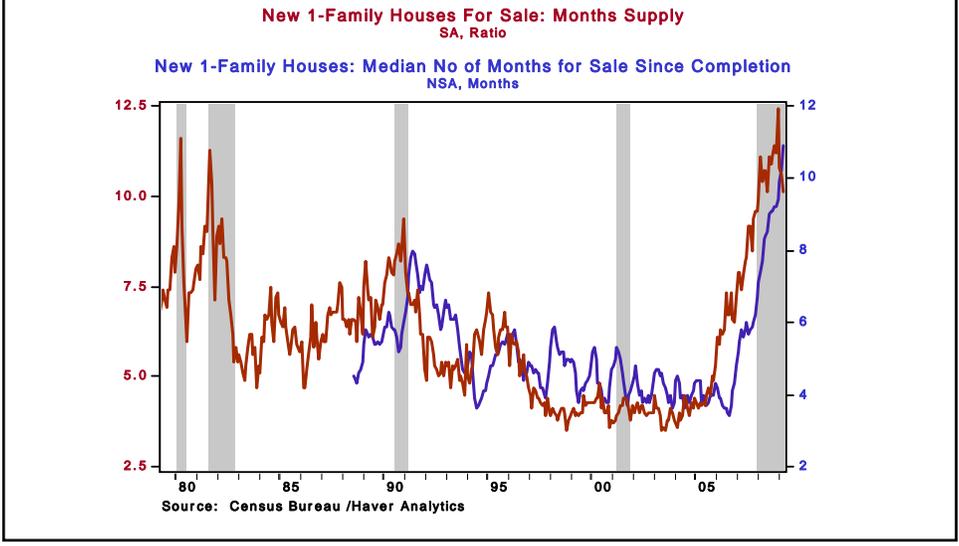
Sources: Freddie Mac

FHA Lending Is Up Sharply: Largest Share Since 1942

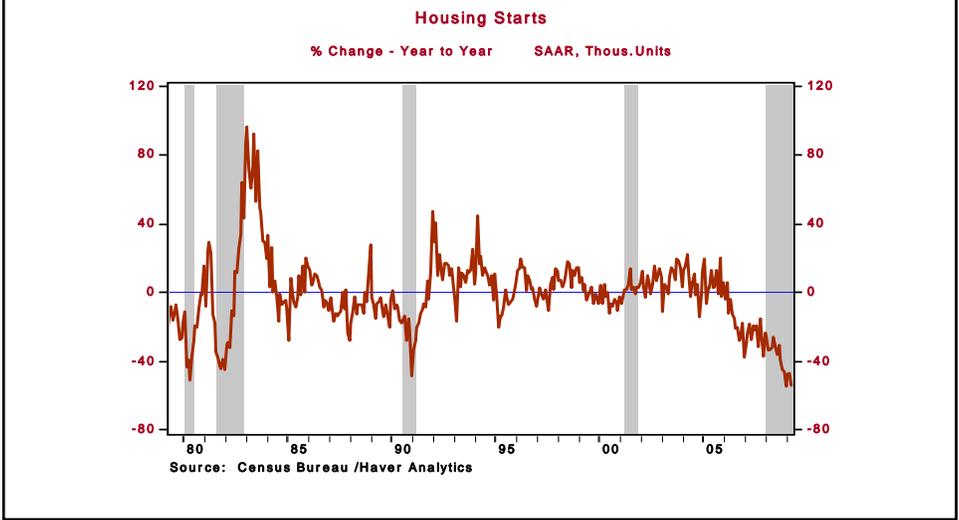


Sources: HUD (1935-1997), Freddie Mac & Inside Mortgage Finance (1998 - Present)

But housing inventories are enormous



Housing starts will remain sluggish through 2010

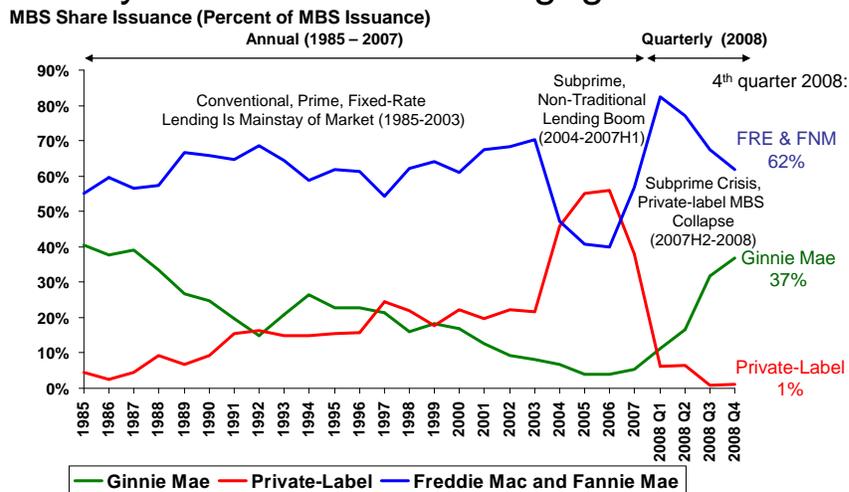


Job Loss Main Hardship Reason Among Delinquent Prime Borrowers

Hardship Reason	2007
Unemployment or curtailment of income	43.0%
Illness or Death in the Family	25.5%
Excessive obligation	16.2%
Marital difficulties	6.6%
Property problem or casualty loss	2.0%
Extreme hardship	0.4%
Inability to sell or rent property	1.7%
Employment transfer or military service	0.9%
All other reasons	3.7%

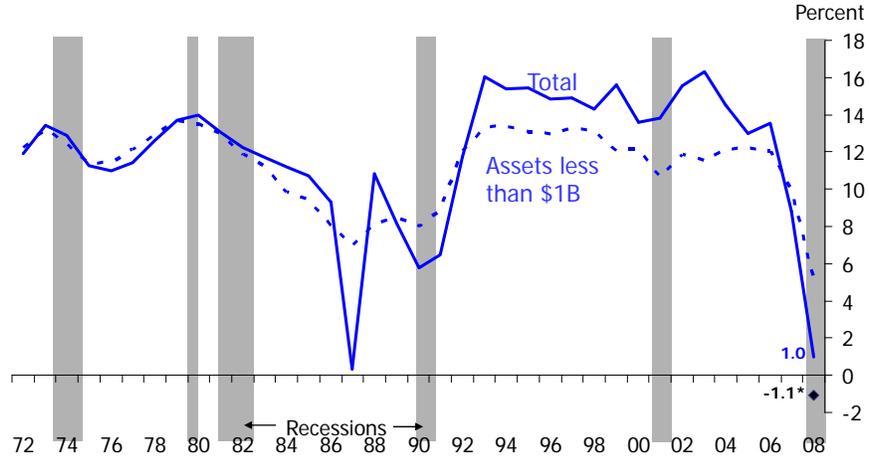
Source: Freddie Mac; data exclude delinquent loans in Louisiana and Mississippi due to hurricane effects. Data cover only prime conventional conforming loans.

GSE & GNMA Market Share Fell When Subprime Boomed; Today Main Source of Mortgage Funds



Source: Inside MBS & ABS (The 2008 Mortgage Market Statistical Annual - Volume II), Inside MBS & ABS (April 25, 2005, July 11, 2008 issues, and January 9, 2009).

National bank profitability near its 1987 low point National banking company ROE



*Excludes effects of purchase accounting at Wachovia and National City

Source: Integrated Banking Information System (OCC)

Data for all bank and thrift charters in companies where national bank assets represent at least 50% of total assets. Data are merger-adjusted and held constant on a 1-year rolling basis. Data include Citibank 4Q:08 goodwill restatement.

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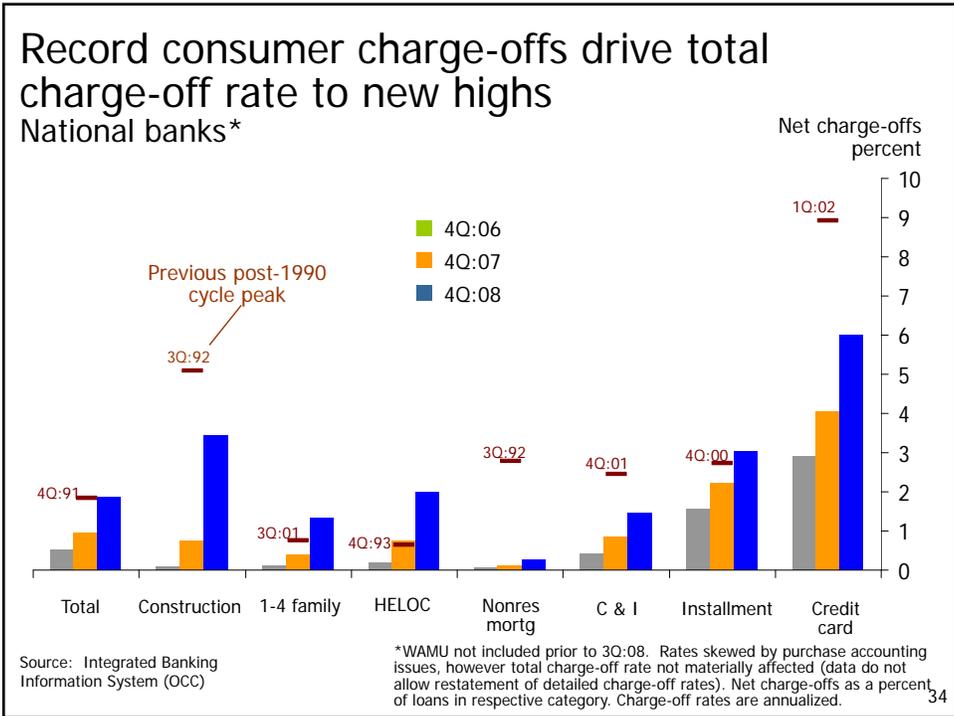
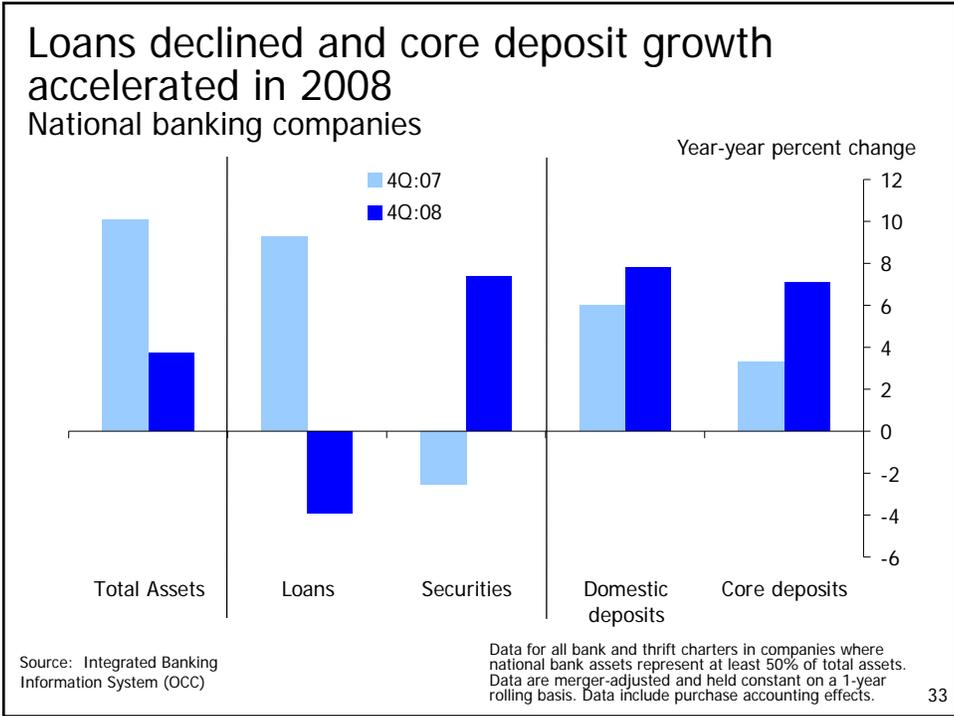
Reserves continue to decline as a share of noncurrents National banking companies



Source: Integrated Banking Information System (OCC)

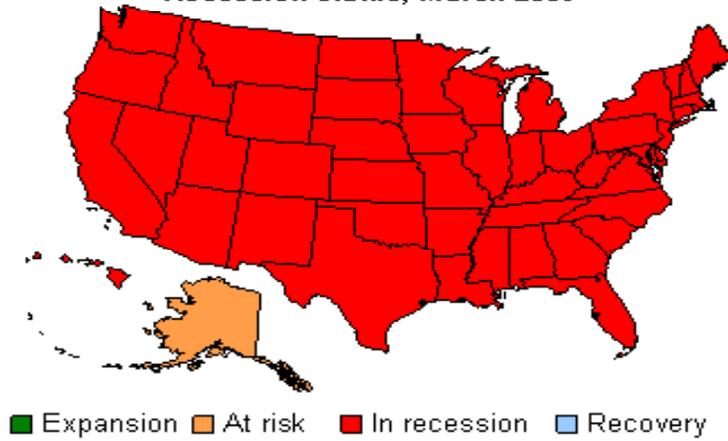
Data for all bank and thrift charters in companies where national bank assets represent at least 50% of total assets.

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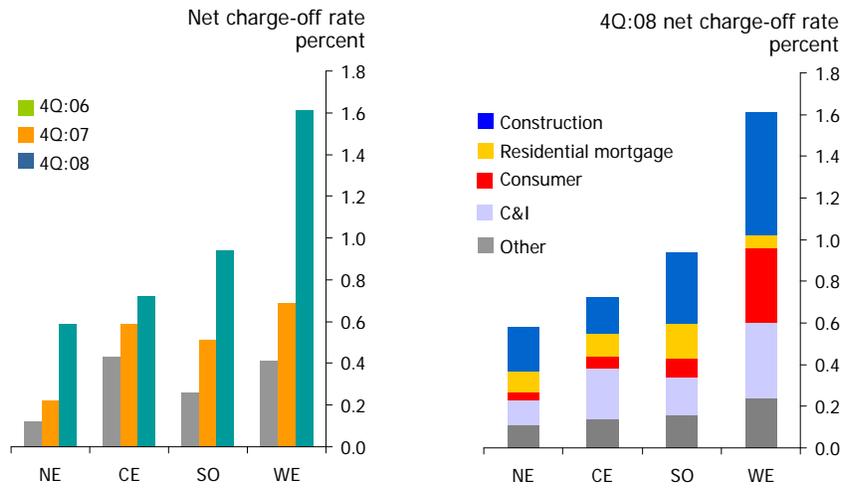
Recession everywhere but in Caribouland

...To the Point Where No Area Is Untouched
Recession status, March 2009



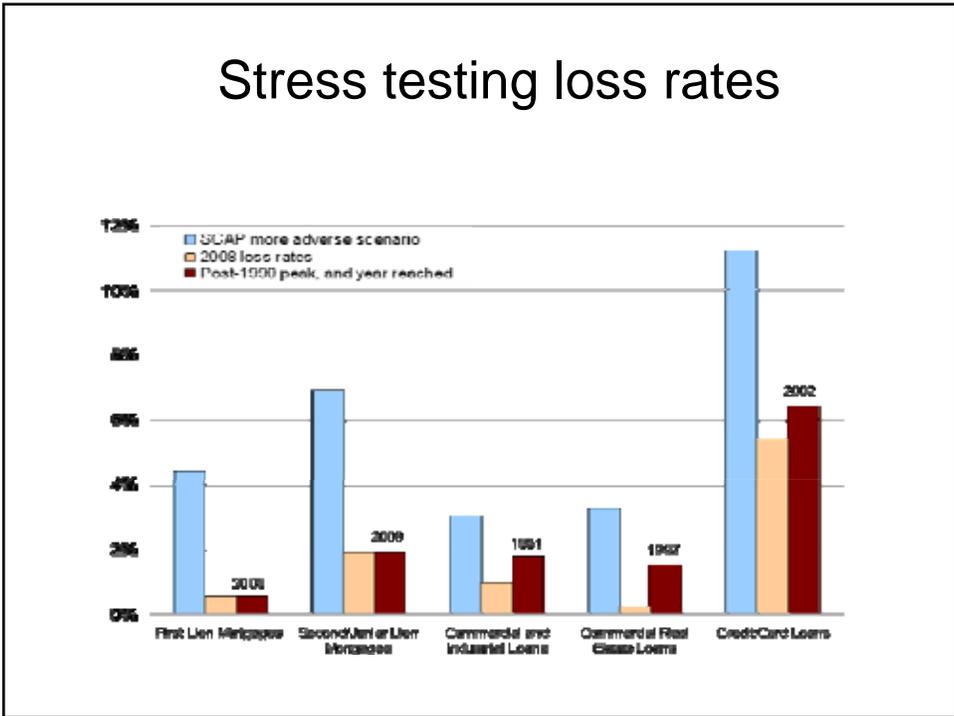
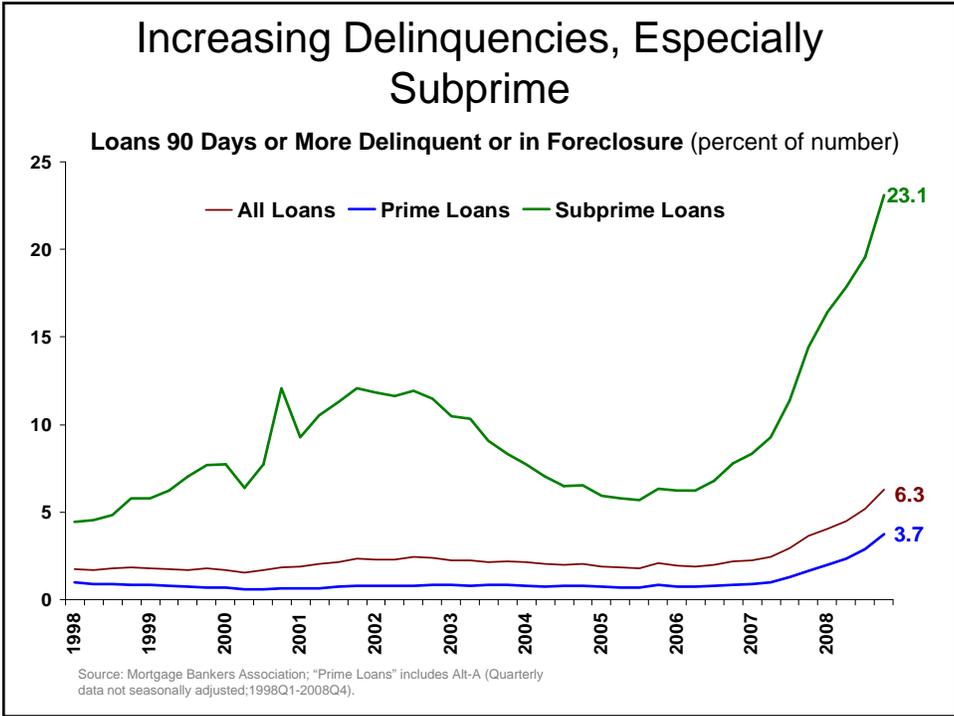
District charge-offs rising sharply, especially in the West

National non-specialty community banks

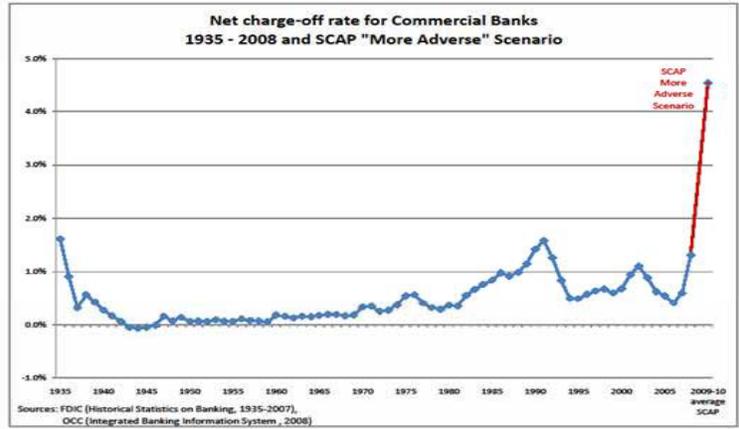


Source: Integrated Banking Information System (OCC)

National non-specialty community banks have assets less than \$1 billion and exclude credit card and trust banks. Data are merger-adjusted and held constant for banks in constant operation from 1Q:05 to 4Q:08.

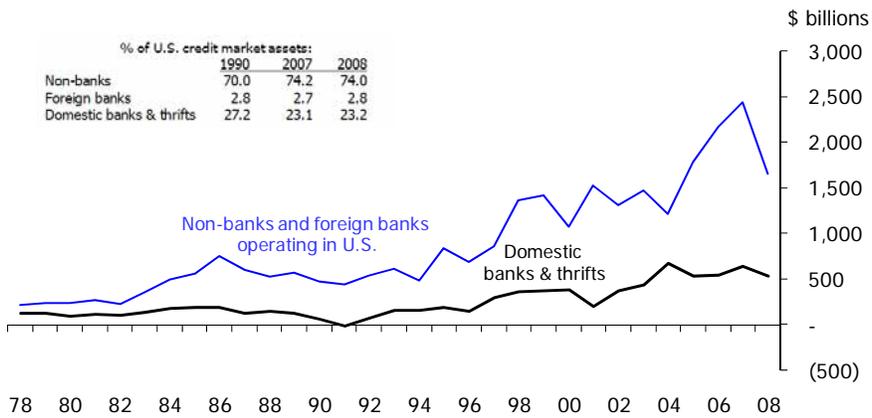


Comparison to 30s



Asset growth fell off more sharply outside the banking system last year

U.S. credit market assets held, year-year change



Source: Federal Reserve

Calculations exclude Federal Reserve assets.