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2010 ECONOMIC FORECAST

**Presented To The Greater Cleveland Mortgage
Bankers Association
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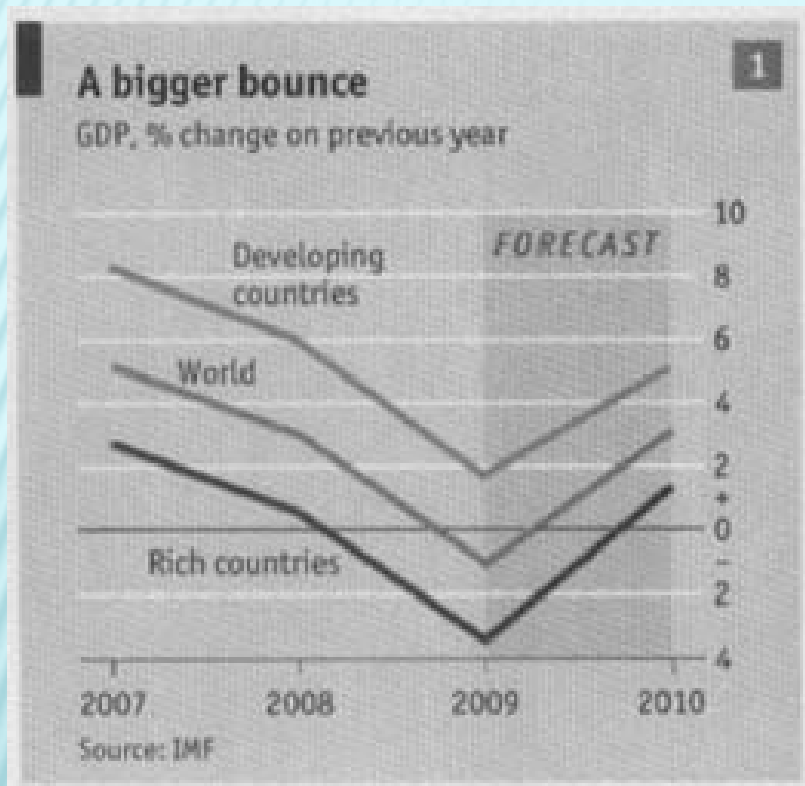
OVERVIEW

- Cleveland metro nested in the State, Nation, and World. Markets are globalized
- Looking back to 1999 and beyond
- Leading and lagging indicators
- Federal Stimulus package
- Indicators GCMBA lenders and builders care about
- 2010 in NE Ohio - bumping along the bottom

CLEVELAND METRO NESTED IN THE STATE, NATION, AND WORLD

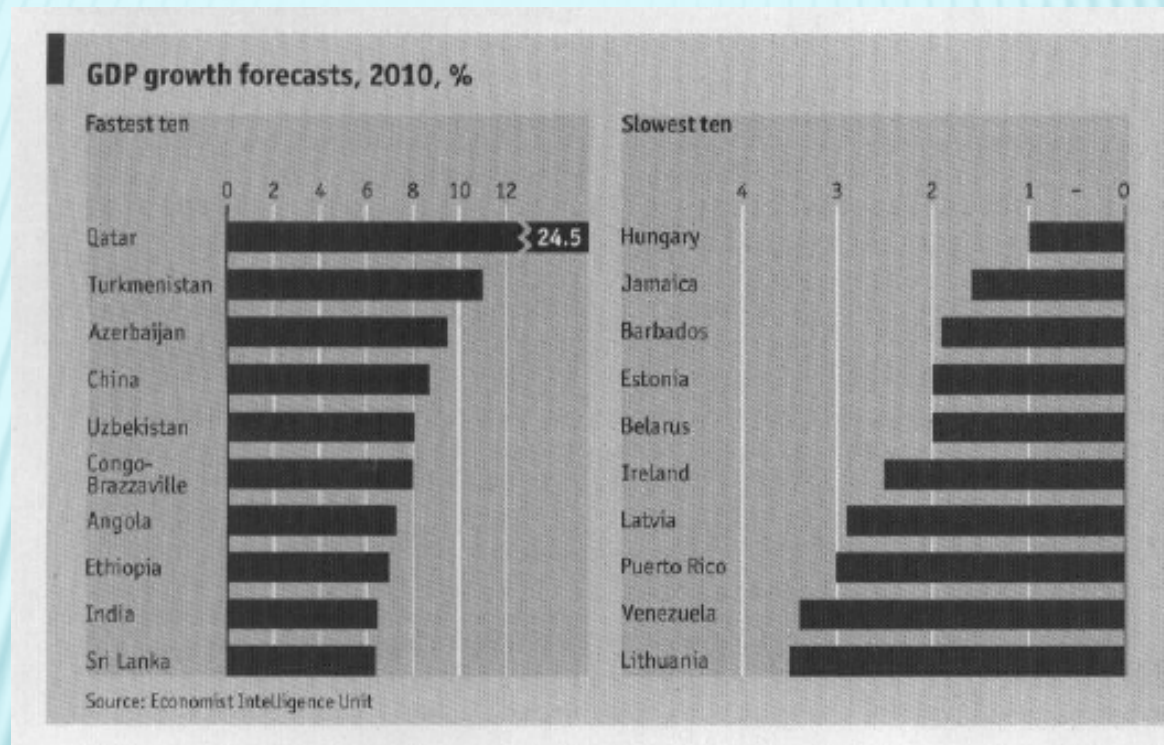
- We are nested in the world economy
- We have 11 fortune 500 companies in NE Ohio
Goodyear, Progressive, Eaton, FirstEnergy, Lubrizol Corp, Parker Hannifin, Sherwin-Williams, KeyCorp, Aleris International, TravelCenters of America, Timken
- Our manufacturing is down
- Our medical is up
- Our housing prices are cheap
- Our bubbles, if we have them, are small
- Our local government is fractionalized and our local tax burden is high
- We tend to lead nation into recession and lag it out

BIG TO SMALL: GLOBAL GDP FORECASTING



- GDPs are expected to have positive increases starting from 2009 as the bottom
- Developing nations are expected to recover quicker (Economist 2010)

GLOBAL GDP FORECASTS (US=2.7%)



(Economist 2010)

INTERNATIONAL COMPARISONS

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production latest	Consumer prices			Unemployment rate [†] , %
	latest	qtr*	2009 [†]	2010 [†]		latest	year ago	2009 [†]	
United States	-2.6 Q3	+2.2	-2.5	+2.7	-5.1 Nov	+1.8 Nov	+1.1	-0.4	10.0 Nov
Japan	-5.1 Q3	+1.3	-5.4	+1.5	-3.9 Nov	-1.9 Nov	+1.0	-1.3	5.2 Nov
China	+8.9 Q3	na	+8.2	+8.6	+19.2 Nov	+0.6 Nov	+2.4	-0.8	9.2 2008
Britain	-5.1 Q3	-1.2	-4.5	+1.3	-8.4 Oct	+1.9 Nov [§]	+4.1	+2.1	7.9 Oct ^{††}
Canada	-3.2 Q3	+0.4	-2.5	+2.4	-12.4 Sep	+1.0 Nov	+2.0	+0.4	8.5 Nov
Euro area	-4.1 Q3	+1.5	-3.8	+1.2	-11.1 Oct	+0.5 Nov	+2.1	+0.4	9.8 Oct

Trade, exchange rates, budget balances and interest rates

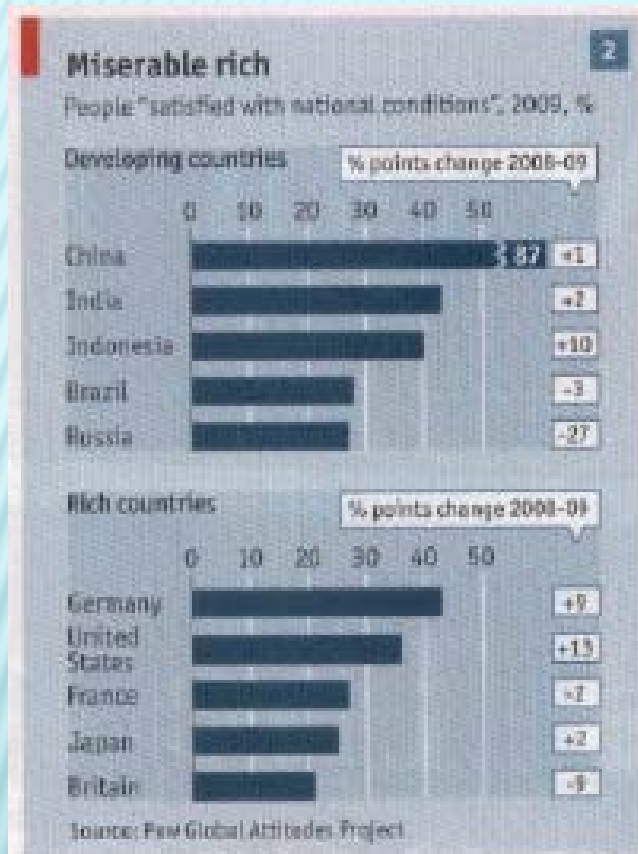
	Trade balance* latest 12 months, \$bn	Current-account balance		Currency units, per \$		Budget balance % of GDP 2009†	Interest rates, %	
		latest 12 months, \$bn	% of GDP 2009†	Dec 29th			3-month latest	10-year gov't bonds, latest
				year ago				
United States	-523.9 Oct	-465.3 Q3	-3.1	-	-	-11.9	0.18	3.81
Japan	+27.9 Oct	+126.5 Oct	+2.7	91.9	90.2	-7.7	0.34	1.27
China	+218.4 Nov	+364.4 Q2	+6.1	6.83	6.84	-3.4	1.83	3.70
Britain	-126.8 Oct	-28.2 Q3	-1.9	0.63	0.69	-14.5	0.66	4.17
Canada	-3.4 Oct	-34.8 Q3	-2.7	1.04	1.22	-2.4	0.19	3.80
Euro area	+14.5 Oct	-109.6 Oct	-0.9	0.69	0.71	-6.5	0.71	3.36
Austria	-6.4 Sep	+9.2 Q2	+1.0	0.69	0.71	-5.7	0.72	3.81
Belgium	+16.6 Oct	-11.8 Jun	-2.0	0.69	0.71	-6.0	0.73	3.64

Markets

	Index Dec 29th	% change on		
		Dec 31st 2008		
		one week	in local currency terms	in \$
United States (DJIA)	10,545.4	+0.8	+20.2	+20.2
United States (S&P 500)	1,126.2	+0.7	+24.7	+24.7
United States (NAScomp)	2,288.4	+1.6	+45.1	+45.1
Japan (Nikkei 225)	10,638.1	+2.5	+20.1	+21.5
Japan (Topix)	915.9	+1.4	+6.6	+7.9
China (SSEA)	3,368.7	+5.3	+76.2	+76.1
China (SSEB, \$ terms)	250.5	+5.3	+126.0	+125.8
Britain (FTSE 100)	5,437.6	+2.0	+22.6	+39.9
Canada (S&P TSX)	11,701.8	+0.6	+30.2	+51.8

SOURCE: The Economist January 2010

GLOBAL NATIONAL OPINIONS

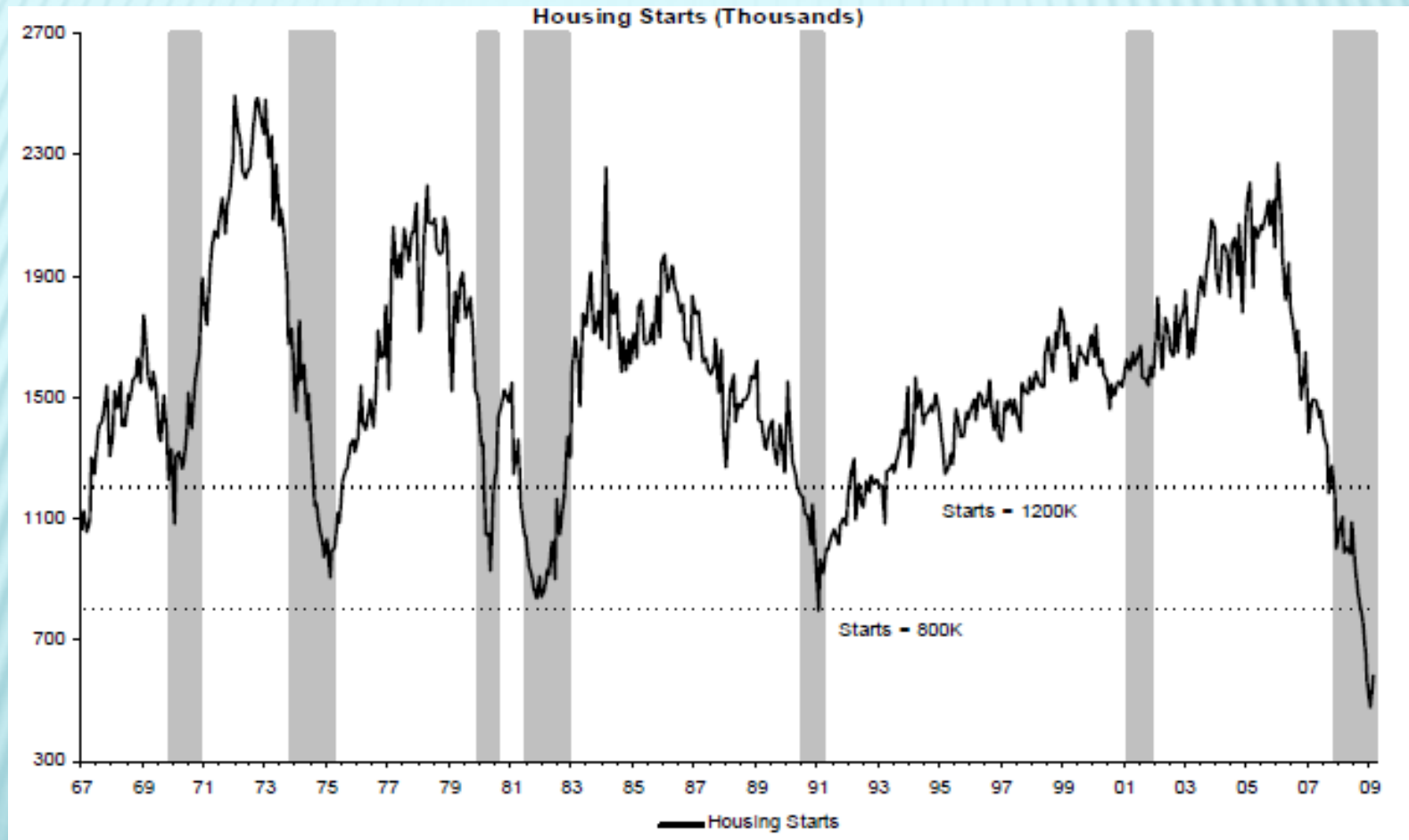


- Developing nations showing the highest percentage of satisfied citizens
- Developed nations showing low scores of satisfaction
- (Economist 2010)

LOOKING BACK TO 1999 AND BEYOND

- Longer view: since @1970; recessions in 1974 (oil shock) 1979-1981 (more oil and stagflation) 1982 (double dip); 1986-1989 (real estate only – tax code driven); 1991 (economic exhaustion) and 2001 (9-11)
- Expansion from 2002 until 2007-2008 recession (Financial rules and liquidity driven, FNMA, FMC, AIG)
- 7 recessions in 42 years=Average of a recession every 6 years
- Data since 1999=average cycle: 2 recessions in 12 years
- Housing construction leads us out of a recession: NOT!
- US Employment Mix: since 1999: MFG.-32%; CONST.-12%; SERV (except education) +4%; LEISURE +12%; GOV'T +9%, HEALTH CARE +30%

HOUSING STARTS AND RECESSION



Source: Decision Economics, Inc.

LEADING AND LAGGING INDICATORS

➤ LEADING INDICATORS

- Stock market DJIA
- New Housing construction
- FED interest rates down
- Consumer confidence

➤ COINCIDENT INDICATORS

- Housing sales price - home asset value, consumption
 - Retail sales/consumption savings rate
 - GDP and Job growth. Employment growth is the underlying factor in income growth, buying power, consumption; No income no mortgages; default leads to foreclosure
 - Mortgage lending and servicing
- Mortgage default/foreclosure is a LAGGING indicator

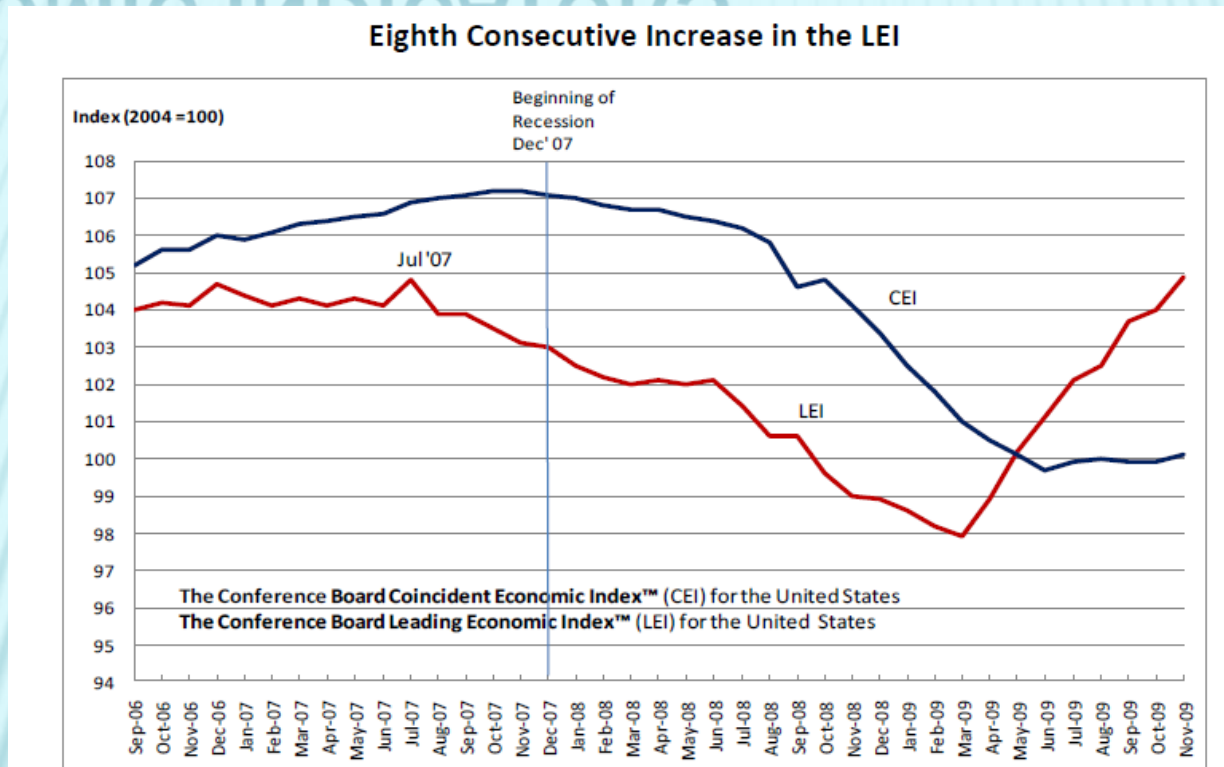
DOW JONES INDUSTRIAL AVERAGE



- The Dow Jones bottomed out in March of 2009
- The Dow Jones has been showing steady gains for the 9 months

SOURCE: Google Finance

ECONOMIC INDICATORS

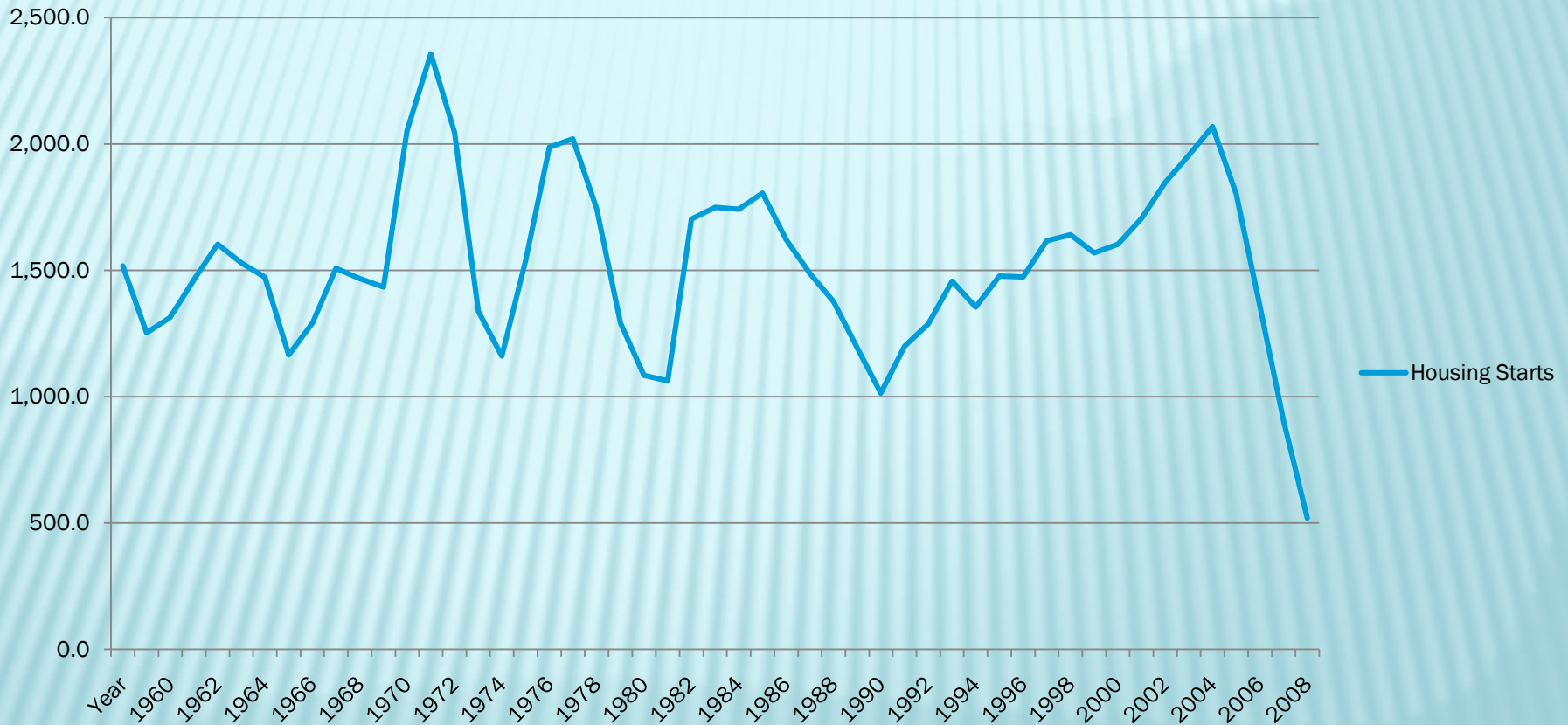


- Leading- these types of indicators signal future events
- Coincident- these types of indicators change at the same time as the economy or stock market

SOURCE: CNN Money

US HOUSING STARTS

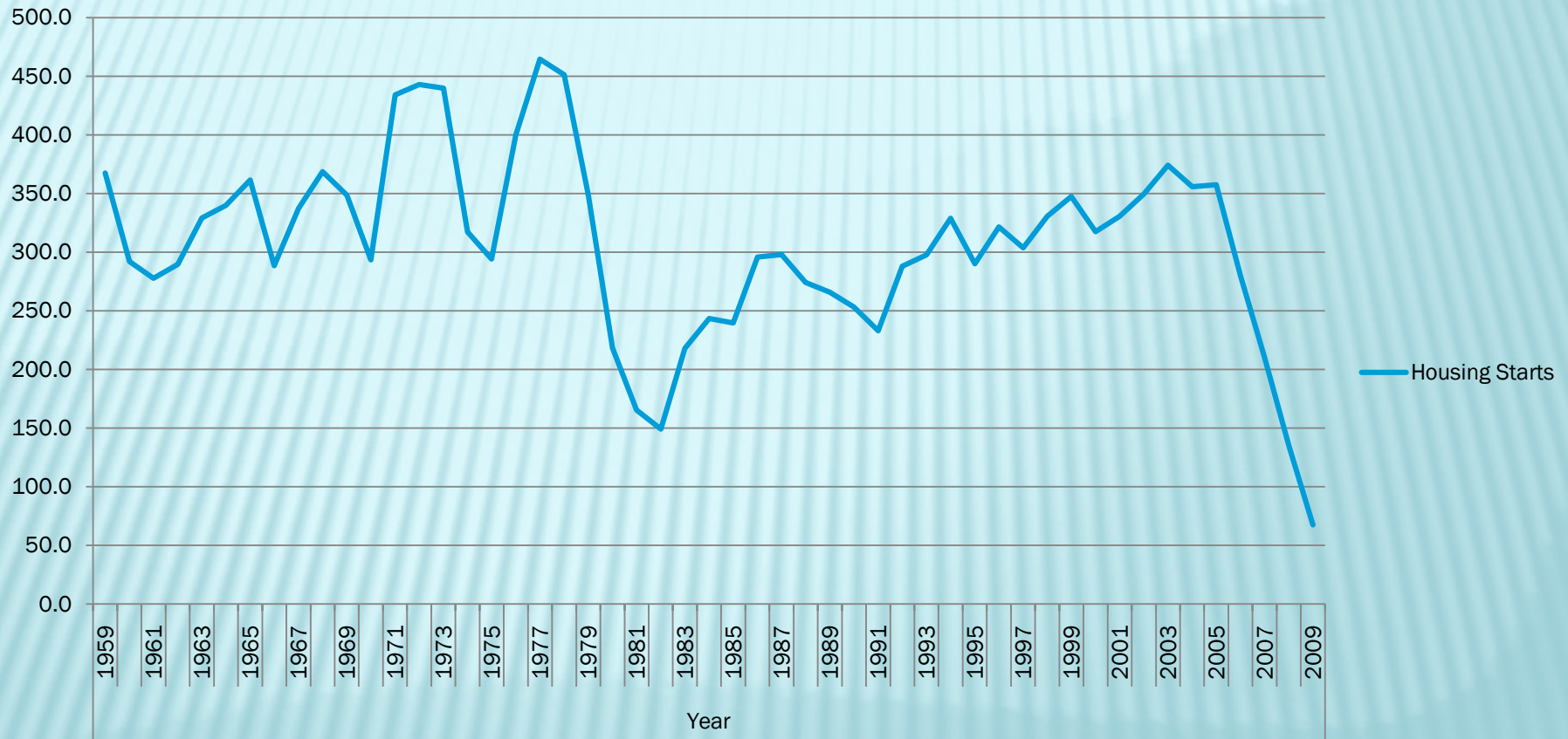
Housing Starts



SOURCE: US Census

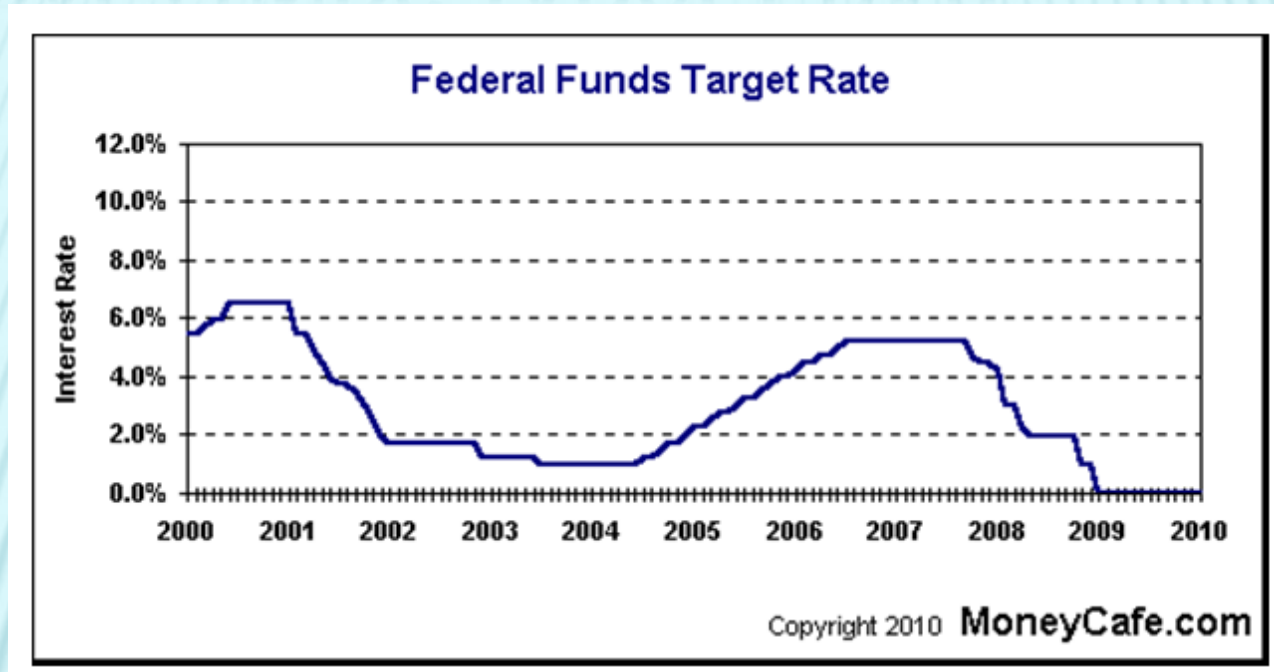
MID-WEST REGION

Housing Starts



SOURCE: US Census

FEDERAL FUNDS TARGET RATE

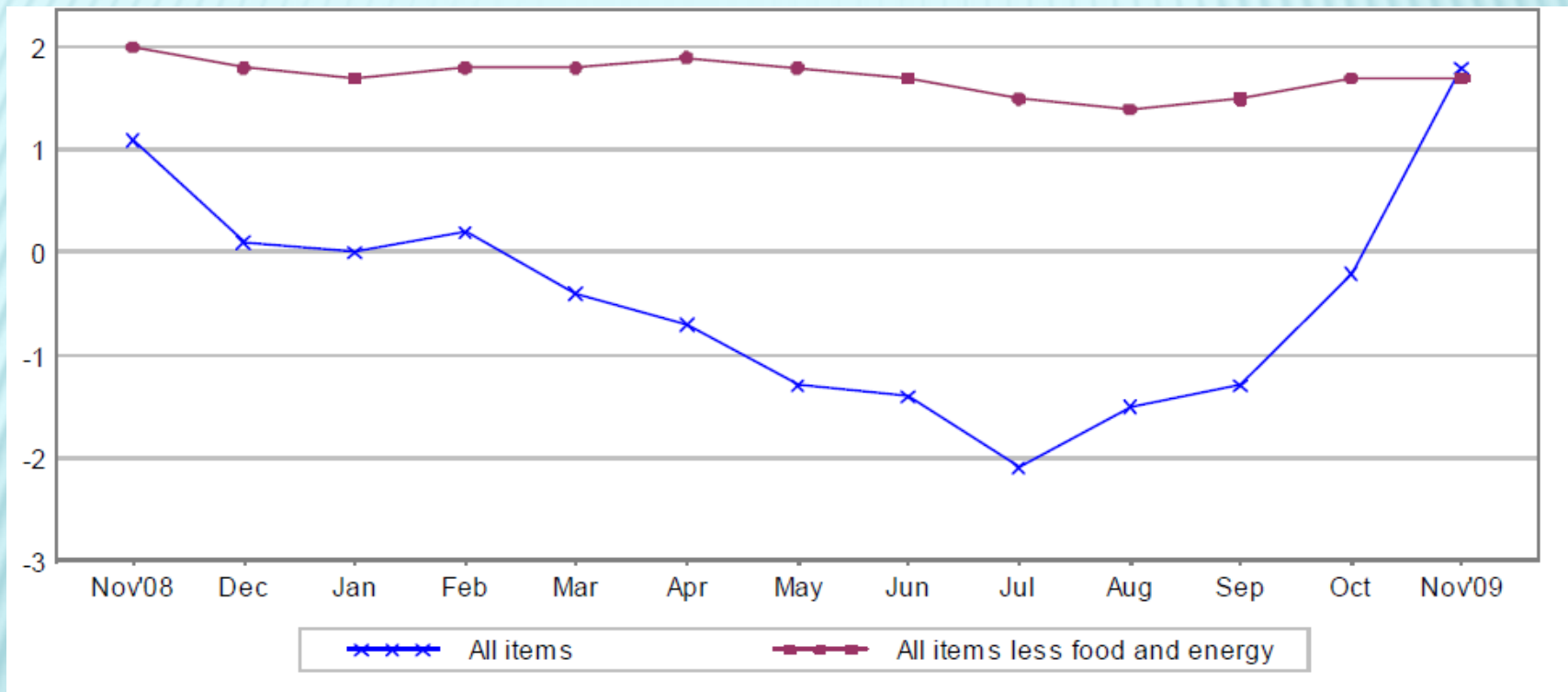


- Fed target rates remain at all time lows
- For how long?

COINCIDENT INDICATORS

- Consumer Prices
- Unemployment rate / Employment
- Domestic migration patterns
- House prices

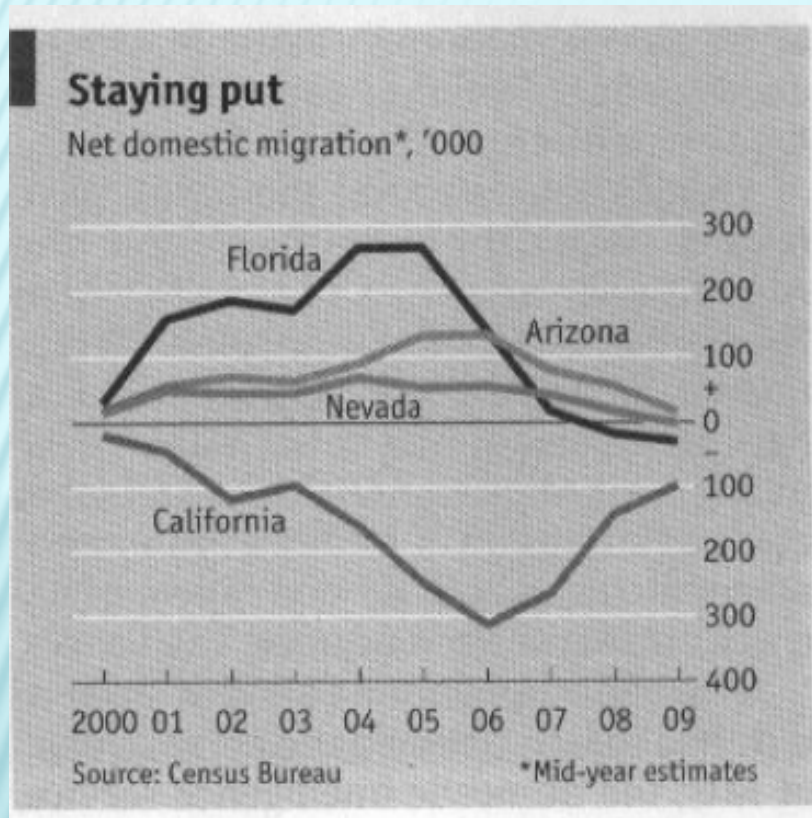
CPI PERCENT CHANGE NOV '08 TO NOV '09



NO SIGN OF AN INTEREST RATE SPIKE BECAUSE OF DEFICIT

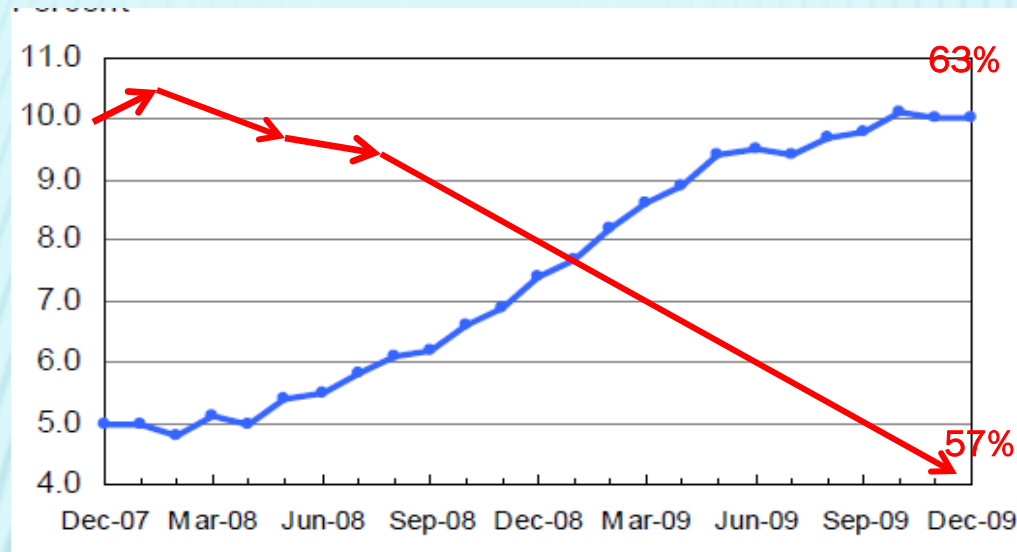
SOURCE: CNN Money

DOMESTIC MIGRATION IS DOWN



- States are seeing a reverse in migration trends since the recession began
- Florida shows the largest decrease in net migration
- California shows the largest increase in net migration
- Michigan was in between
- HOUSING-RELATED IMMOBILITY

US UNEMPLOYMENT RATE, SEASONALLY ADJUSTED, DECEMBER 2007 – DECEMBER 2009



- The US unemployment rate has been increasing substantially since December 2007
- It appears that the unemployment rate has leveled out @10%, which is unpleasantly high

SOURCE: The Bureau of Labor Statistics

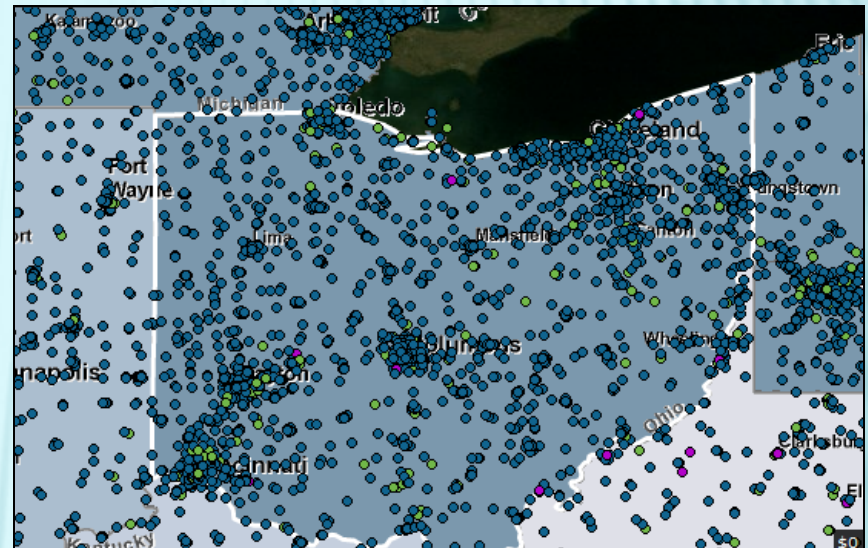
STIMULUS PACKAGES

- TARP \$700 billion, half spent: Liquidity restored, but toxic assets not acquired
- 130 “bank” failures; Bank balance sheets in better shape; winners and losers (PNC/Nat city, AmTrust)
- Limited new lending
- Economic Stimulus infrastructure. Shovel ready projects. Inner belt.
- Just moved up projects. Not much really new for NE Ohio
- \$8,000 “new” home buyer credit: worked very well. Set to expire in April 2010
- Cash for clunkers. Also worked well. discontinued

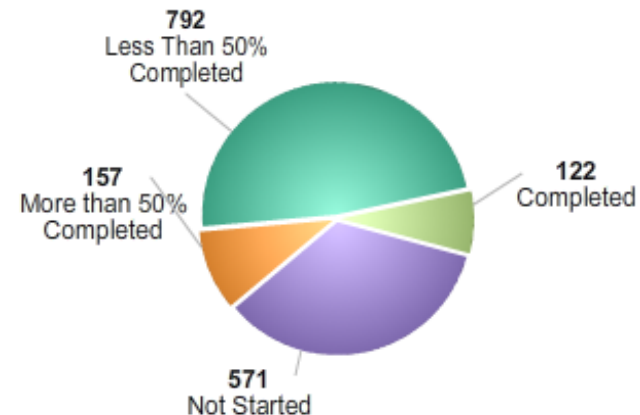
OHIO-FOCUSED AMERICAN RECOVERY AND REINVESTMENT ACT

- 6,020 project awards in Ohio
- \$5,041,060,256 funds awarded
- \$869,814,143 funds received
- \$17,095 jobs created/saved
- \$514,450,000 funds awarded in Cuyahoga County

SOURCE: Recovery.com



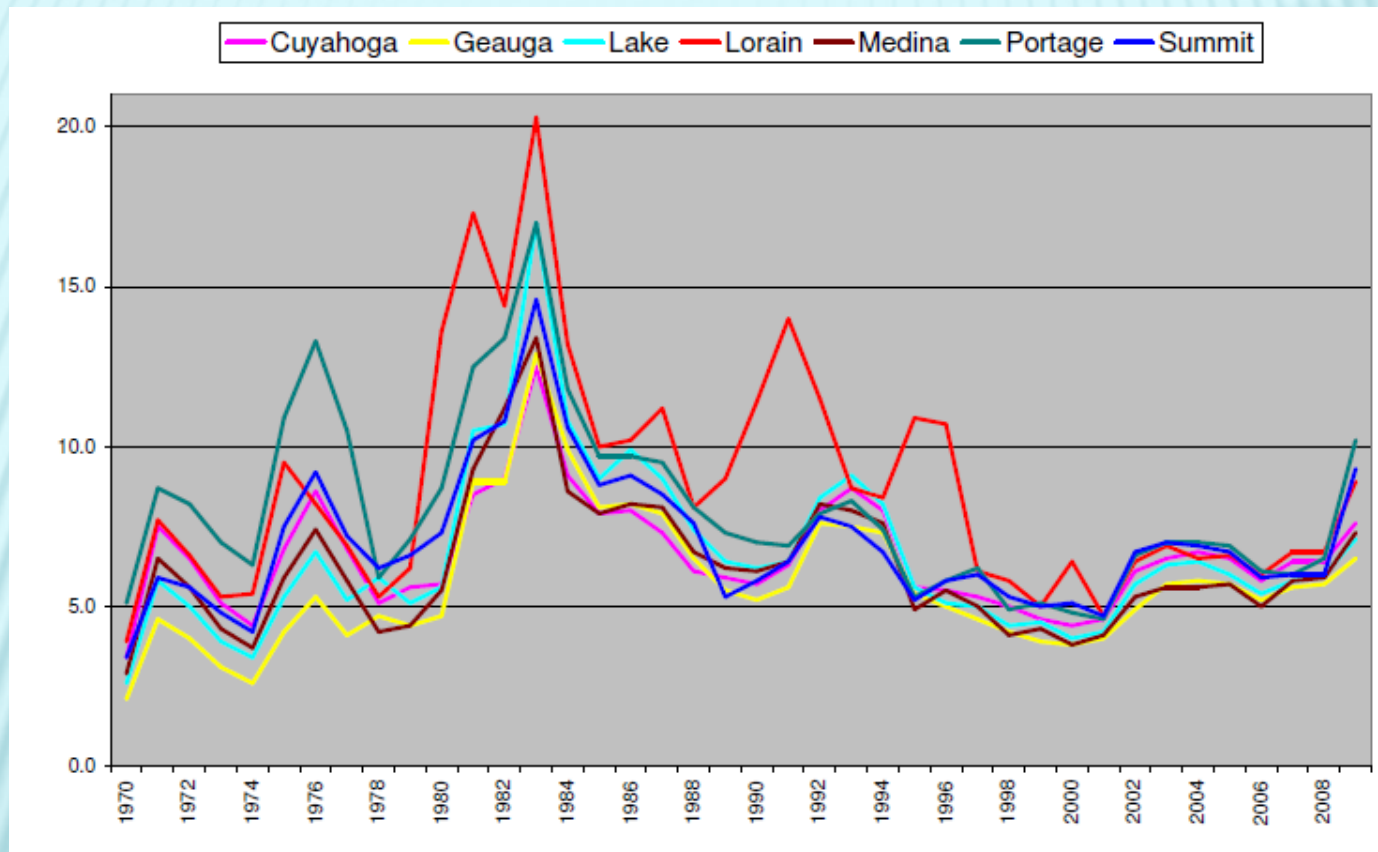
STATE AWARD PROGRESS



INDICATORS THAT GCMBAs LENDERS AND BUILDERS CARE ABOUT

- Financial/bank stocks – very nice rebound in 2009
- Employment trends are about national average-not great
- Construction lending – totally flat- off 80%
- Residential Refinancing – decent. Interest rates low.
- Fannie Mae and Freddie Mac? Federal role coming this coming March?
- Commercial refinancing very sluggish: with poor liquidity, ugly 2010
- Housing sales prices better, but 25% of performing loans upside down
- Mortgage Default/Foreclosure record highs locally, but not bad compared to high growth markets

LOCAL UNEMPLOYMENT RATES



SOURCE: The Plain Dealer 2009

Ranking Report
Ohio Unemployment Rates by County
November 2009

Rank (b)	County	Unemployment Rate	Rank (b)	County	Unemployment Rate
1	Highland County	16.1	45	Logan County	11.5
2	Morgan County	15.5	46	Montgomery County	11.4
3	Pike County	15.3	47	Hocking County	11.3
4	Clinton County	15.0	48	Pickaway County	11.1
5	Noble County	14.8	49	Erie County	11.0
6	Meigs County	14.7	50	Sandusky County	10.9
7	Ottawa County	14.6	51	Darke County	10.8
8	Williams County	14.3	52	Allen County	10.8
9	Adams County	14.1	53	Jackson County	10.7
10	Trumbull County	13.8	54	Tuscarawas County	10.7
11	Huron County	13.7	55	Marion County	10.6
12	Jefferson County	13.7	56	Morrow County	10.5
13	Carroll County	13.5	57	Clark County	10.4
14	Crawford County	13.3	58	Wood County	10.3
15	Van Wert County	13.2	59	Summit County	10.0
16	Mahoning County	13.2	60	Greene County	10.0
17	Monroe County	13.1	61	Auglaize County	10.0
18	Ashtabula County	13.1	62	Putnam County	9.8
19	Fulton County	13.0	63	Portage County	9.8
20	Columbiana County	13.0	64	Clermont County	9.8
21	Perry County	12.9	65	Belmont County	9.7
22	Scioto County	12.7	66	Lorain County	9.5
23	Vinton County	12.5	67	Butler County	9.4
24	Coshocton County	12.4	68	Hamilton County	9.2
25	Henry County	12.3	69	Washington County	9.2
26	Muskingum County	12.3	70	Hancock County	9.2
27	Defiance County	12.2	71	Cuyahoga County	9.2
28	Ashland County	12.2	72	Wayne County	9.2
29	Seneca County	12.2	73	Gallia County	9.2
30	Ross County	12.1	74	Knox County	9.1
31	Richland County	12.1	75	Licking County	8.9
32	Shelby County	12.0	76	Madison County	8.9
33	Paulding County	12.0	77	Warren County	8.8
34	Fayette County	11.9	78	Athens County	8.7
35	Lucas County	11.8	79	Fairfield County	8.6
36	Harrison County	11.6	80	Lake County	8.5
37	Wyandot County	11.6	81	Union County	8.5
38	Guernsey County	11.6	82	Franklin County	8.4
39	Stark County	11.5	83	Medina County	8.0
40	Miami County	11.5	84	Mercer County	8.0
41	Hardin County	11.5	85	Lawrence County	7.9
42	Brown County	11.5	86	Geauga County	7.4
43	Preble County	11.5	87	Holmes County	7.2
44	Champaign County	11.5	88	Delaware County	7.2

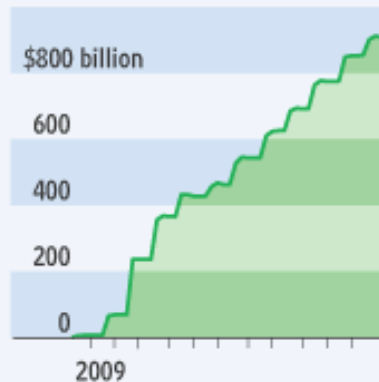
Source: Ohio Department of Job
and Family Services
Office of Workforce Development

Fannie & Freddie

Support System

In January 2009, the Fed began purchasing mortgage-backed securities to help stabilize the housing market and keep mortgage rates down. But mortgage rates could climb as the Fed brings its program to a close.

Mortgage-backed securities held by the Federal Reserve



Fixed rate on 30-year conforming mortgages^a



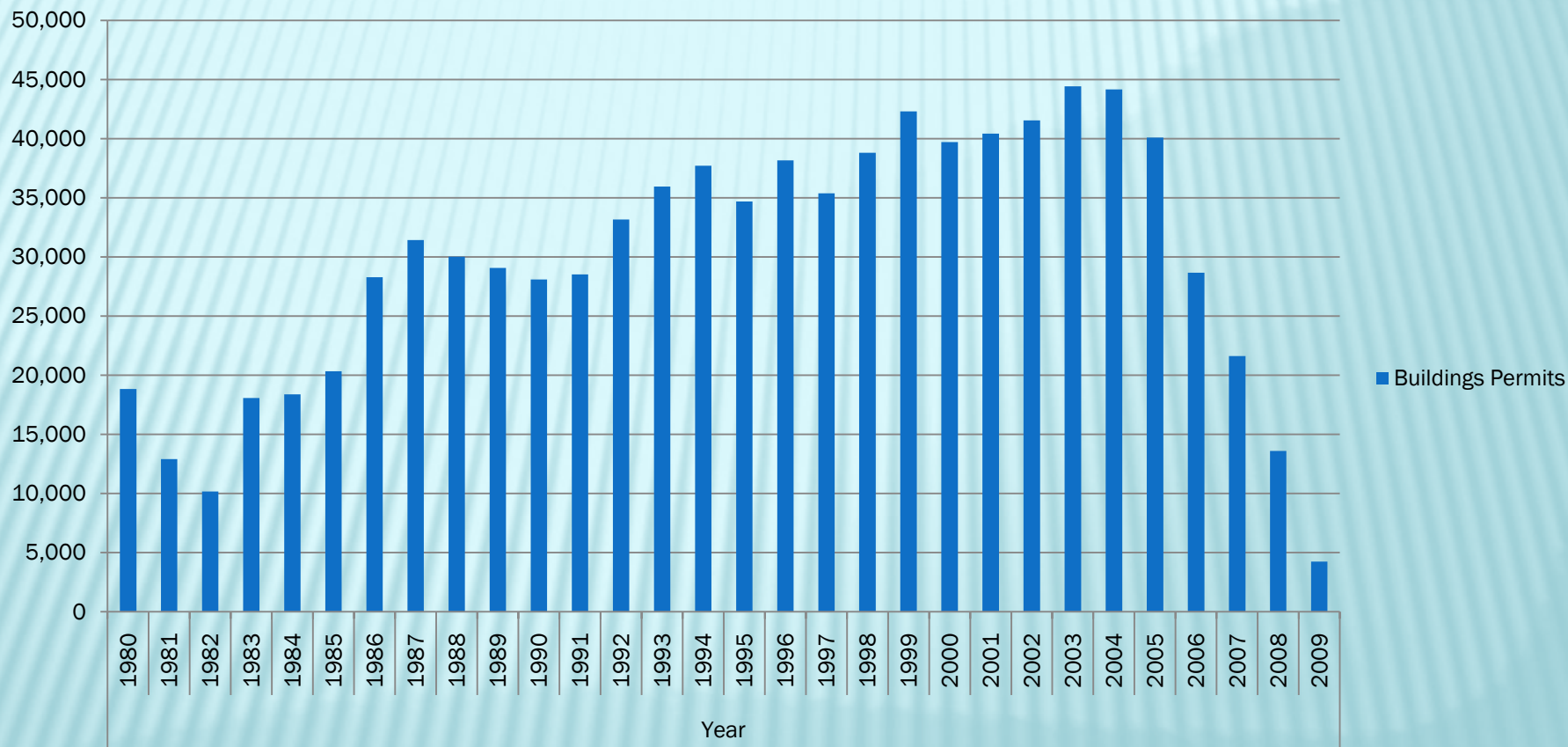
^aLoans that qualify for purchase by Fannie Mae or Freddie Mac.
Note: Weekly data shown for 2008 and 2009; 2010 rate data are daily.
Sources: Federal Reserve (MBS); HSH Associates (mortgages)

- The Fed has acquired over \$800 Billion of mortgages mainly from Fannie and Freddie
- The Fed is preparing to end the program this spring which could have an effect on 30 year mortgage rates
- Unlikely to have a big impact on rates or activity

OHIO RESIDENTIAL BUILDING PERMITS

NEW PRIVATELY-OWNED HOUSING UNITS AUTHORIZED BY BUILDING PERMITS

Building Permits

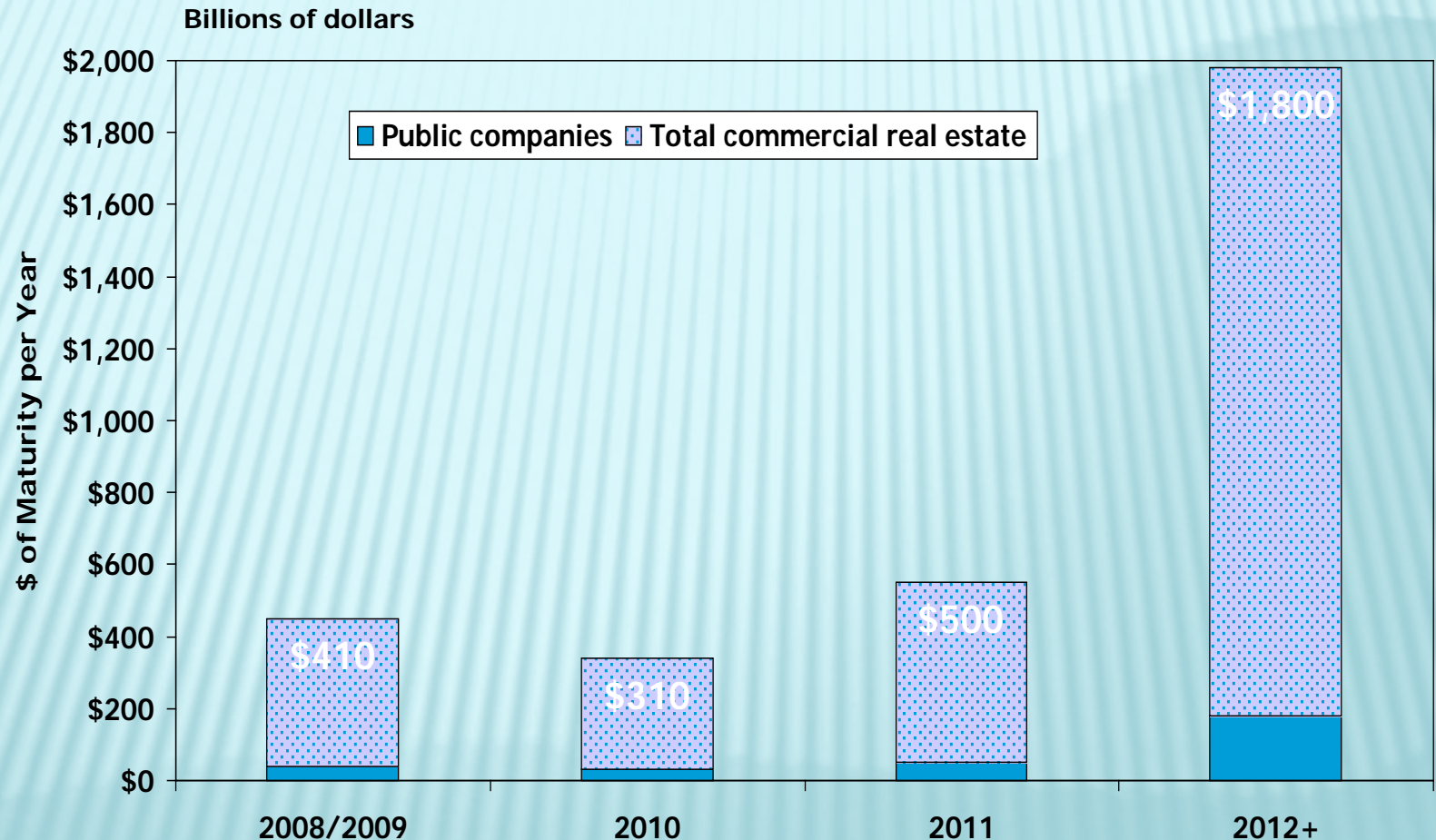


SOURCE: US Census

Commercial Real Estate Debt Maturities

Including secured and unsecured debt

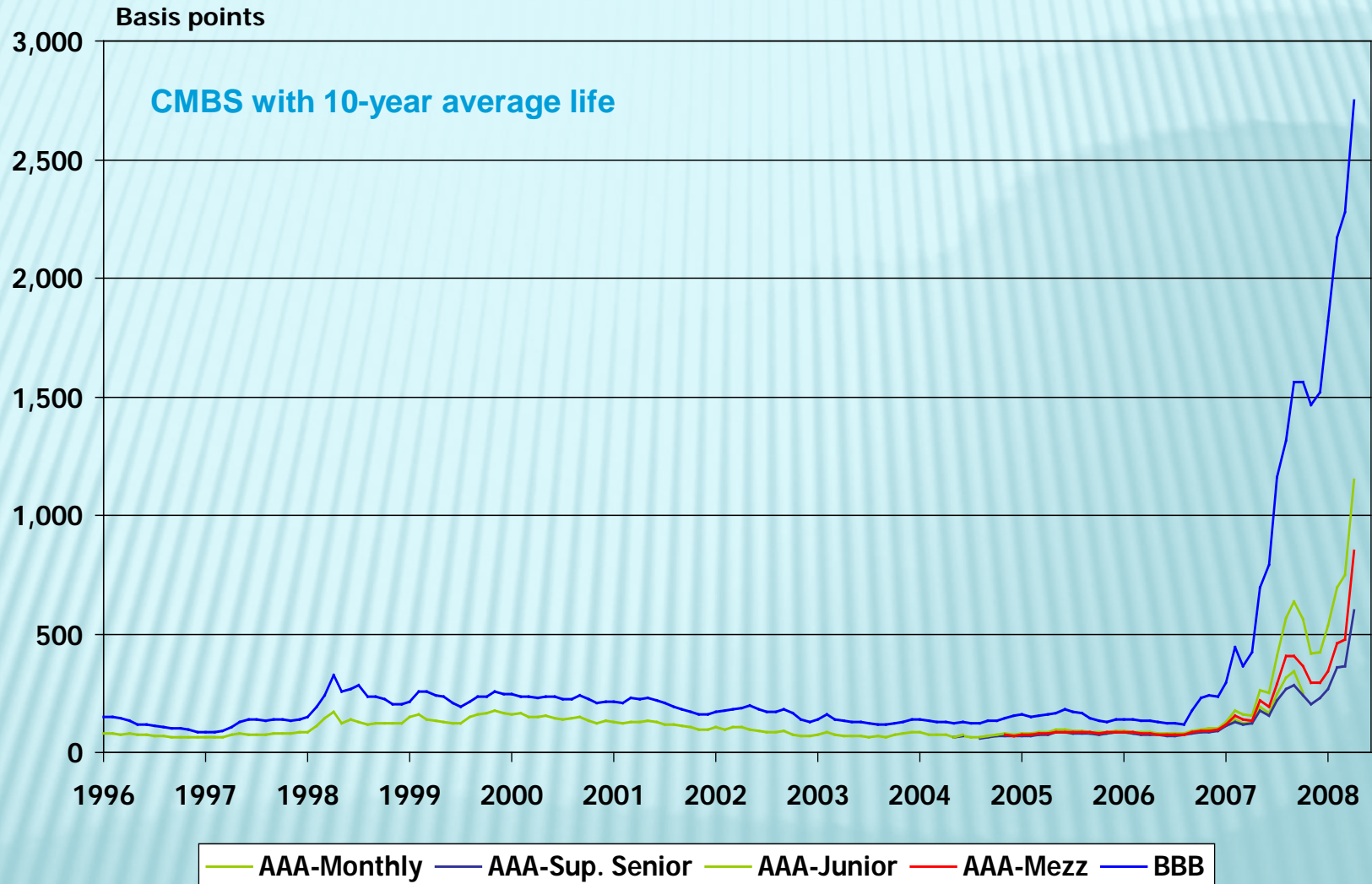
Debt Maturities by Year



Source: Goldman Sachs and REIT filings

CMBS Credit Spreads

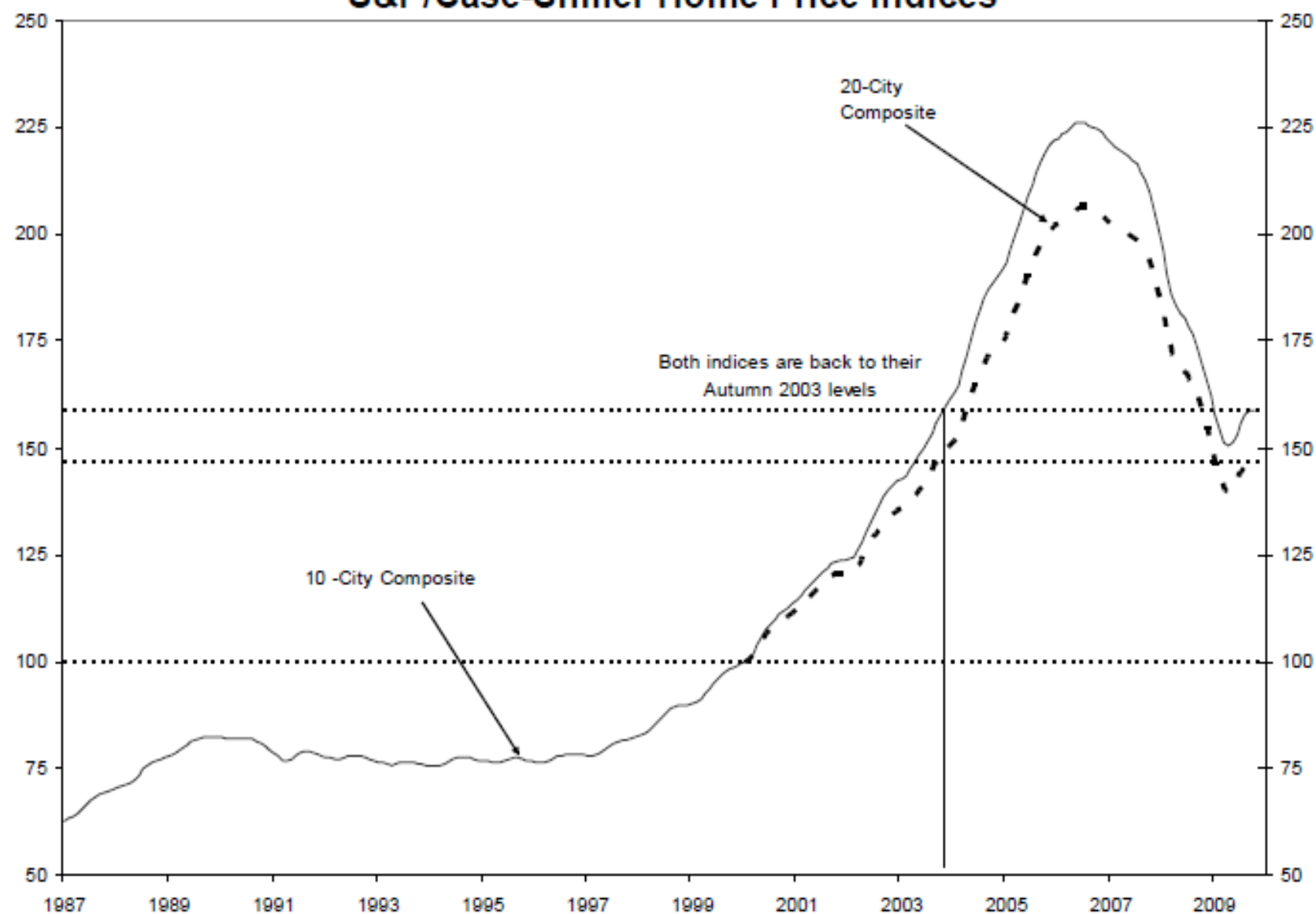
CMBS yield less 10-year Treasury yield



Note: Data through October 31, 2008

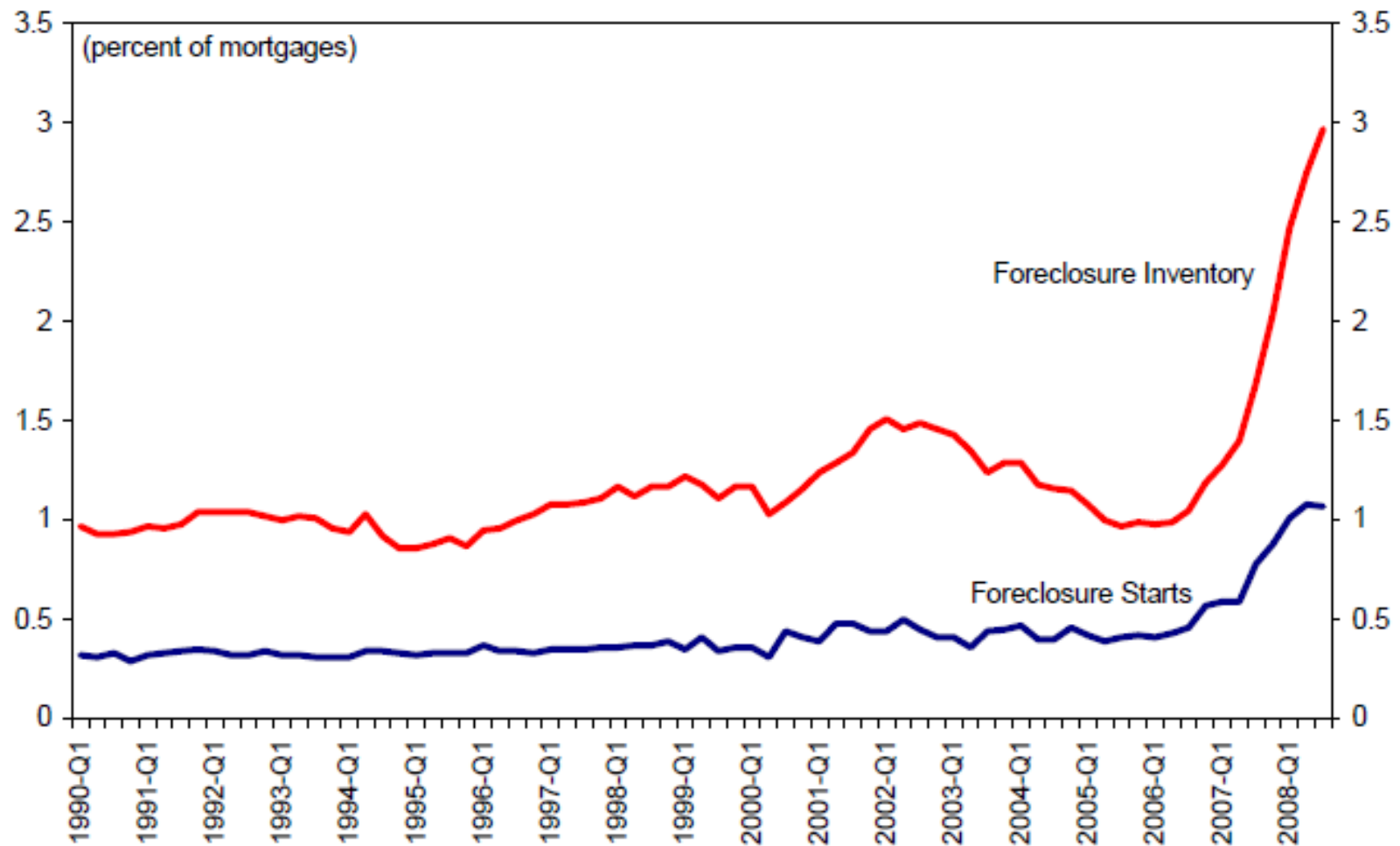
Source: Morgan Stanley

S&P/Case-Shiller Home Price Indices



Source: Standard & Poor's and Fiserv

FORECLOSURE INVENTORY AND STARTS



Source: Mortgage Bankers Association.

U.S. FORECLOSURE MARKET DATA BY STATE – Q3 2009

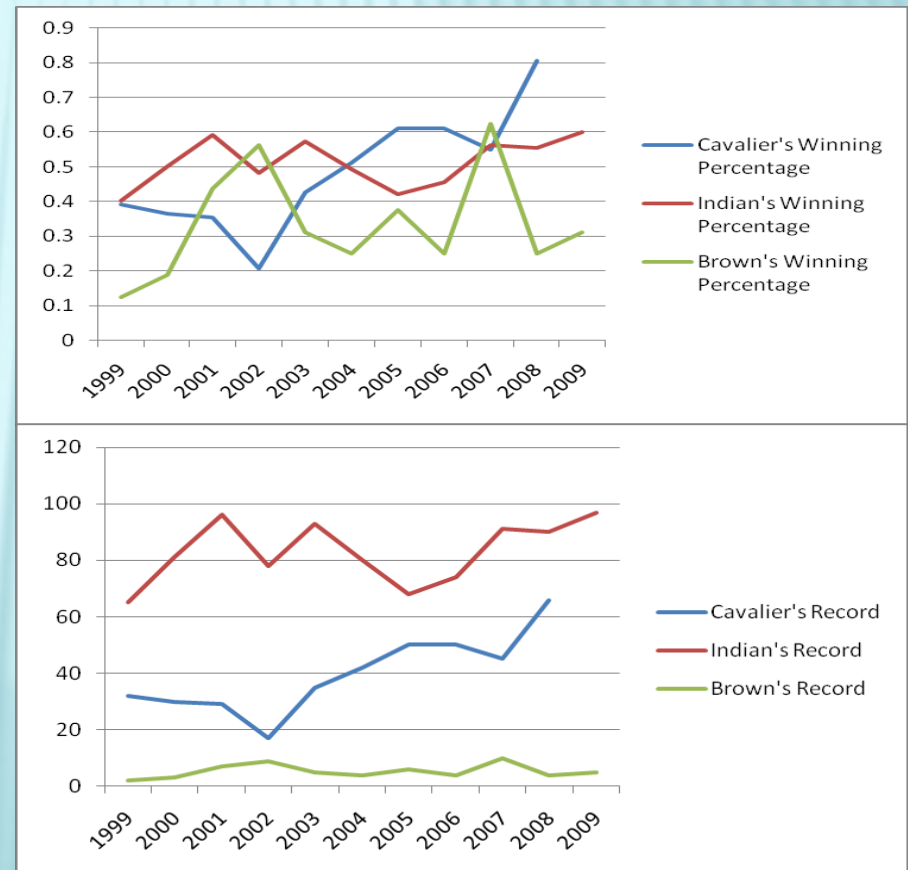
Rate Rank	State Name	NOD	LIS	NTS	NFS	REO	Total	1/every X HH (rate)	%Change from Q2 09	%Change from Q3 08
--	United States	153,255	188,986	263,957	94,590	237,052	937,840	136	5.4	22.5
1	Nevada	19,949	0	16,329	0	11,647	47,925	23	9.68	58.88
2	Arizona	20	0	36,176	0	14,146	50,342	53	5.07	24.55
3	California	111,741	1	87,377	0	50,935	250,054	53	-1.52	18.6
4	Florida	1	95,790	1	39,403	21,729	156,924	56	-0.71	23.27
5	Idaho	2,916	0	3,021	0	594	6,531	97	28.06	153.53*
6	Utah	3,515	0	3,564	0	2,474	9,553	97	13.24	96.28
7	Georgia	53	1	22,088	0	11,243	33,385	119	6.69	25.06
8	Michigan	11,454	0	10,575	0	14,997	37,026	122	9.50**	22.31**
9	Colorado	41	0	11,437	0	4,787	16,265	131	11.43	12.53
10	Illinois	0	18,585	1	8,980	9,704	37,270	141	13.68	30.29
11	Oregon	108	2	7,033	0	3,175	10,318	156	7.09	76.59
12	Maryland	3	6,795	0	5,795	2,210	14,803	157	58.83	85.64
13	Ohio	0	12,137	0	8,707	8,801	29,645	171	-4.73	-11.71
14	Hawaii	449	0	1,499	0	795	2,743	185	29.02	141.46
15	New Jersey	0	11,816	0	3,878	2,414	18,108	193	44.59	1.2
16	Virginia	51	1	10,136	0	6,499	16,687	196	8.24	4.14†
17	Mass.	1	7,779	0	3,159	1,728	12,667	215	17.53	34.81
18	Minnesota	31	0	5,450	0	5,139	10,620	217	16.27	100.26
19	Wisconsin	1	5,899	0	2,661	2,620	11,181	229	11.17	105.16
20	Indiana	0	2,362	0	4,504	5,235	12,101	230	-12.75	-15.77

SOURCE: Realty Trac 2009

MY CRYSTAL BALL FOR 2010

- × MARKET FUNDAMENTALS?
- × EMPLOYMENT GROWTH
- × FORECLOSURE HANGOVER
- × OPTIMISM AND RESILIENCY
- × STRUCTURAL CHANGE TO THE ECONOMY

- × SUNSPOTS?
- × SPORTS TEAMS?



SIMONS 2010 FORECAST

➤ The GOOD:

- International trends show upturn. No depression no double dip recession
- Housing prices and re-sales stabilized at lower levels
- Stock market up, Consumer confidence up
- More savings healthy in long run. Reasonable consumption

➤ The BAD

- Bouncing along the bottom
- Jobless recovery
- Continued foreclosures will hold prices down and compete with existing inventory

➤ The UGLY

- Commercial refinancing issues have not been resolved. Retail sector will be problematic
- Loan originations, servicing, new construction lending will be flat, at low levels. Very little growth, hang on
- 2012 will get us almost back to 2006