

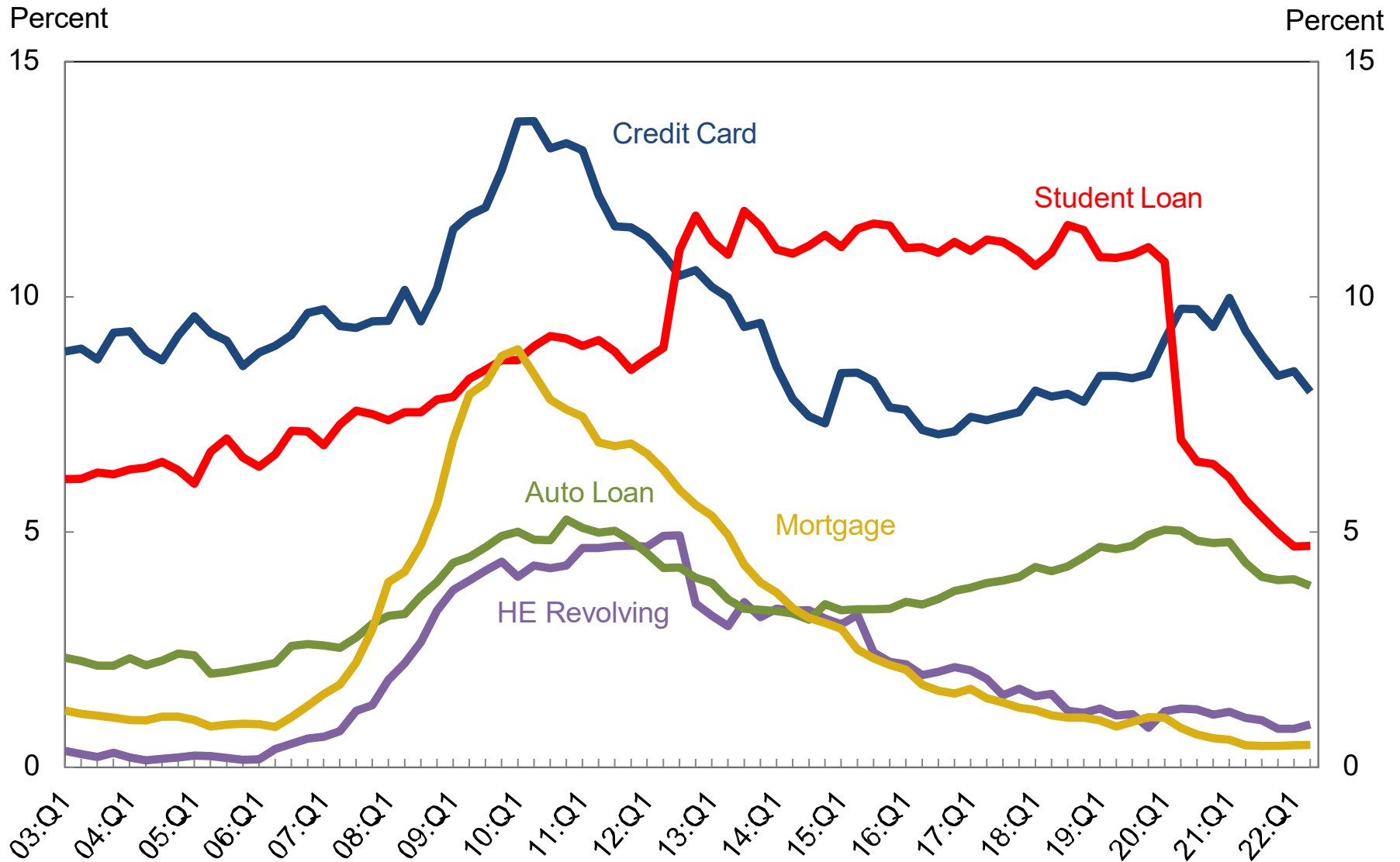
On the Economic, Business & Political Landscape

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***AARMR
Annual Regulatory Conference
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90+ Days Delinquent by Loan Type

(source: Federal Reserve Bank of New York Credit Panel/Equifax)



Three Questions that Dominate the Economics

What are the **dynamics of the infection**? Another surge?
Can we get re-infected? Will COVID-19 mutate?

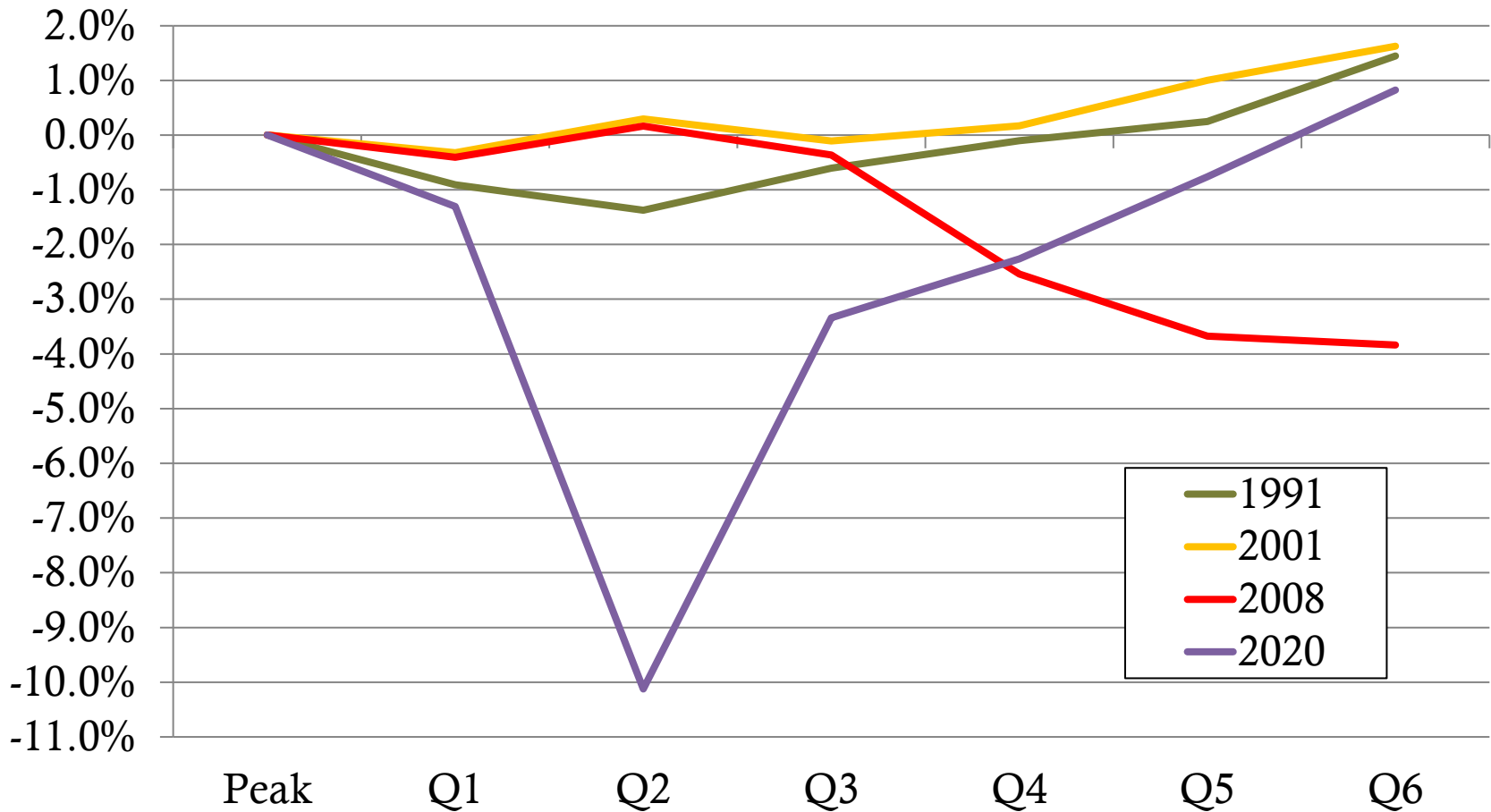
How do we **separate the effects** of voluntary behaviors
from government mandated behaviors?

How do we respond when **government supports end**?
What about the **expiration of forbearance agreements**?

Topic #1:

After 10 years of growth, COVID-19 sidelined the economy . . . But for how long . . . And what parts of the “new normal” will remain?

Tale of 4 Recessions



(Source: Bureau of Economic Analysis)

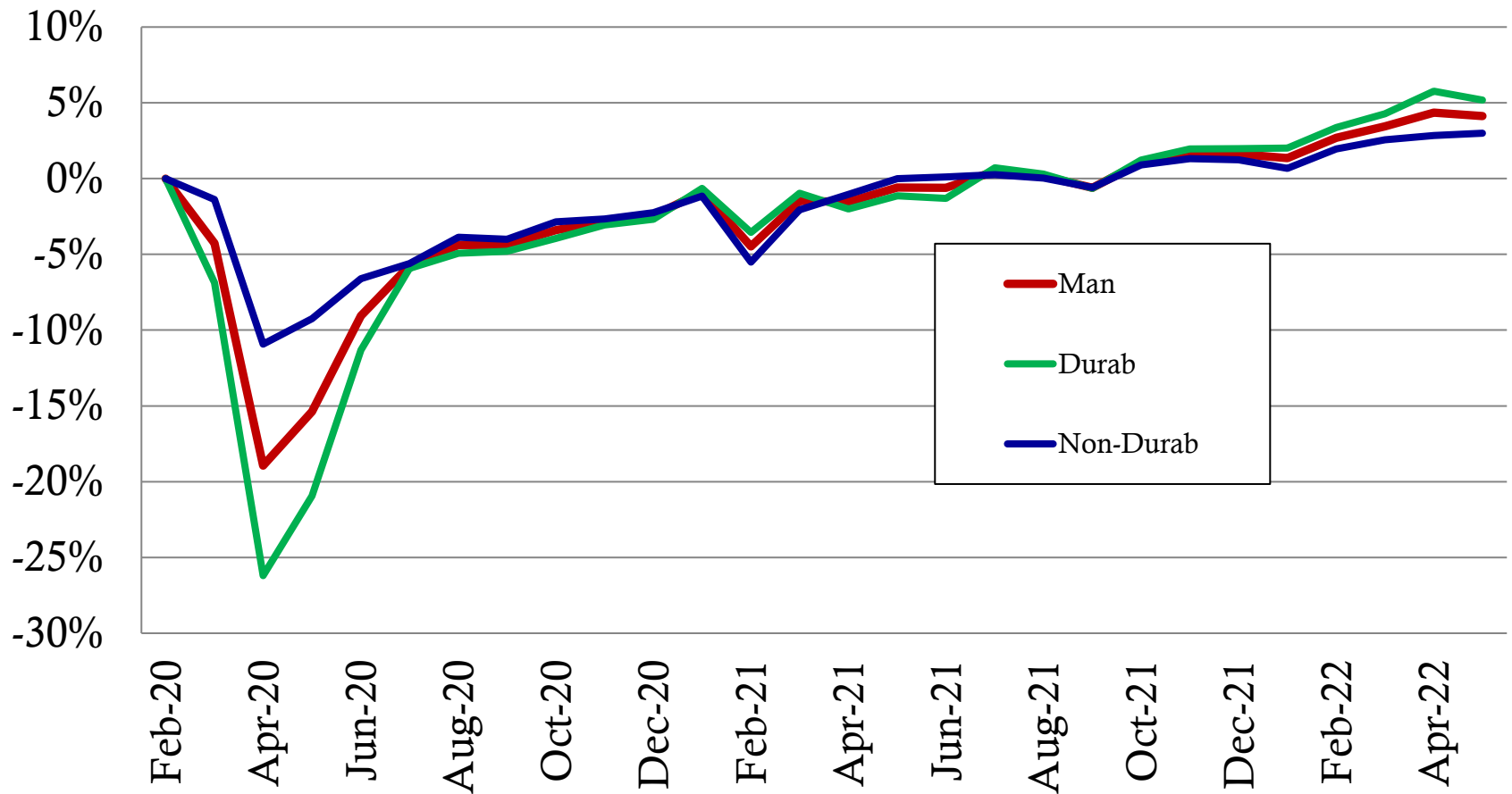
Contributions to GDP Growth

(Source: Bureau of Economic Analysis)

	GDP =	Consumption	Gross Investment	Net Exports	Government
2020: Q1	-5.10%	-4.79%	-0.92%	-0.05%	0.63%
2020: Q2	-31.20%	-24.10%	-9.64%	1.53%	0.97%
2020: Q3	33.80%	25.51%	11.71%	-3.25%	-0.19%
2020: Q4	4.50%	2.26%	4.01%	-1.65%	-0.09%
2021: Q1	6.30%	7.44%	-0.37%	-1.56%	0.77%
2021: Q2	6.70%	7.92%	-0.65%	-0.18%	-0.36%
2021: Q3	2.30%	1.35%	2.05%	-1.26%	0.17%
2021: Q4	6.90%	1.76%	5.82%	-0.23%	-0.46%
2022: Q1	-1.60%	1.24%	0.92%	-3.23%	-0.51%
2022: Q2	-0.9%	0.70%	-2.73%	1.43%	-0.33%

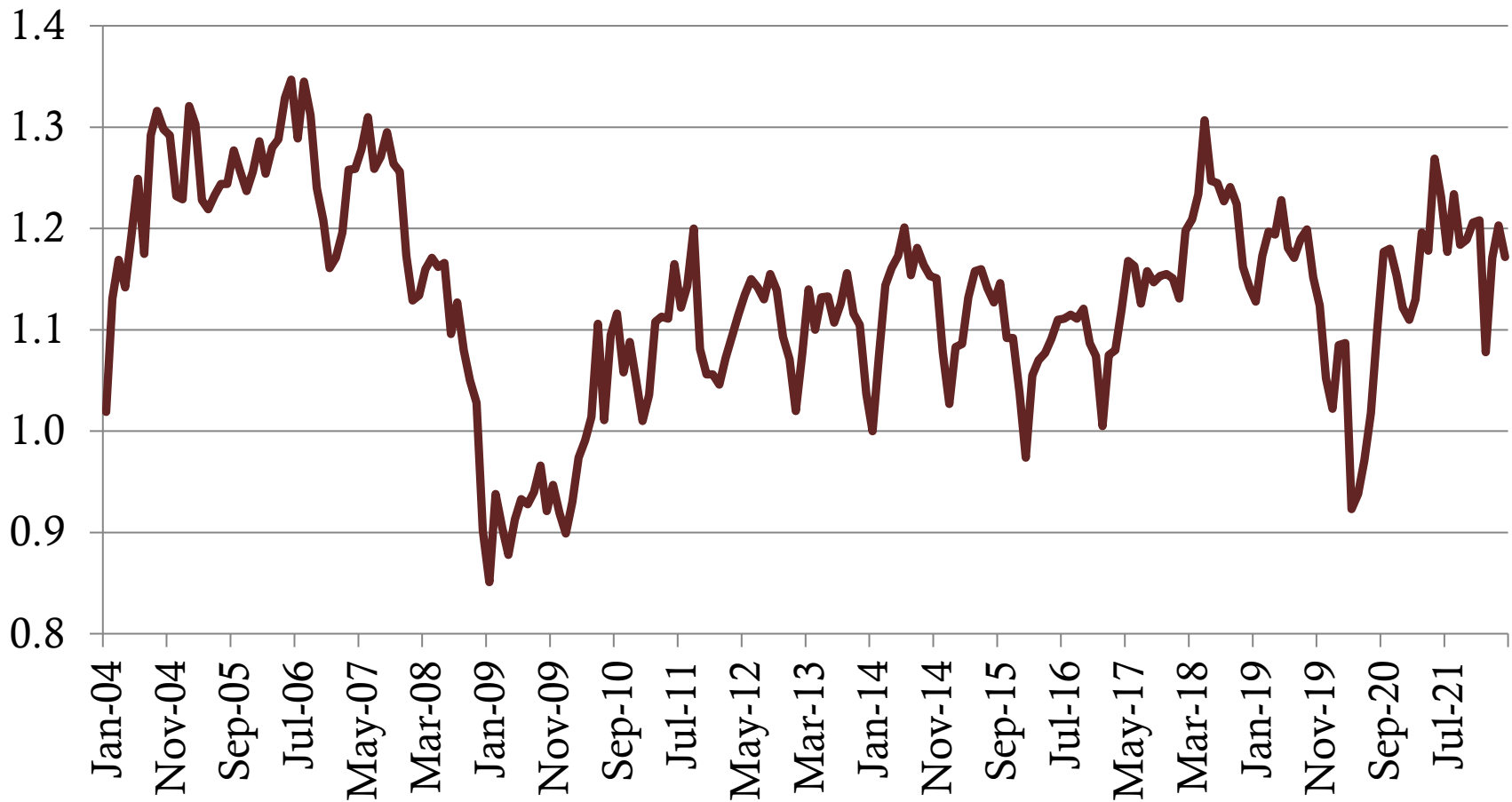
	Gross Investment	Nonresidential	Residential	Inventory
2020: Q1	-0.92%	-1.14%	0.73%	-0.51%
2020: Q2	-9.64%	-4.28%	-1.36%	-4.01%
2020: Q3	11.71%	2.72%	2.16%	6.84%
2020: Q4	4.01%	1.57%	1.34%	1.10%
2021: Q1	-0.37%	1.65%	0.60%	-2.62%
2021: Q2	-0.65%	1.21%	-0.60%	-1.26%
2021: Q3	2.05%	0.22%	-0.38%	2.20%
2021: Q4	5.82%	0.40%	0.10%	5.32%
2022: Q1	0.92%	1.28%	0.02%	-0.35%
2022: Q2	-2.73%	-0.01%	-0.71%	-2.01%

Industrial Production: From Peak



(source: Federal Reserve Board of Governors)

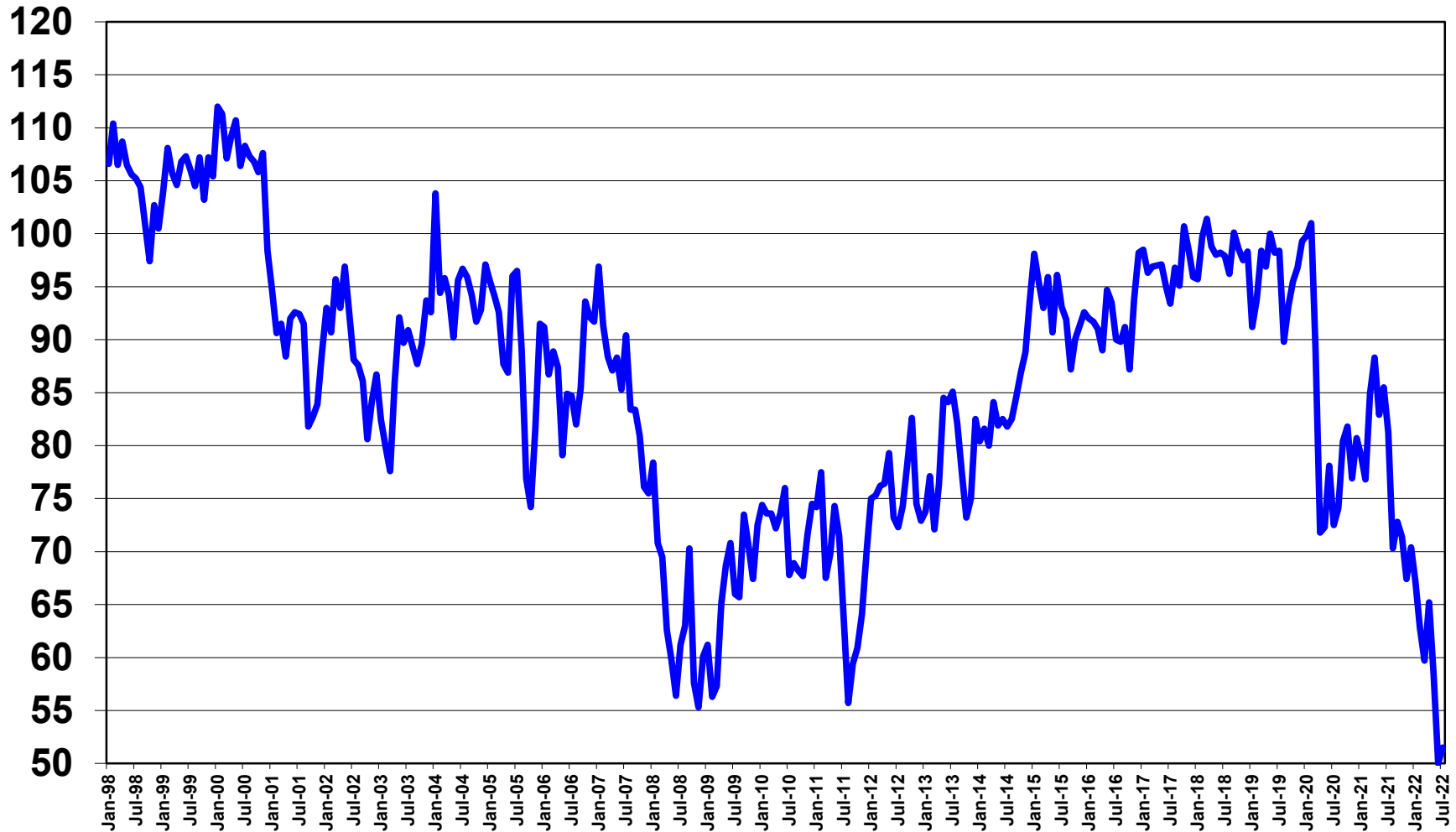
Freight Shipments



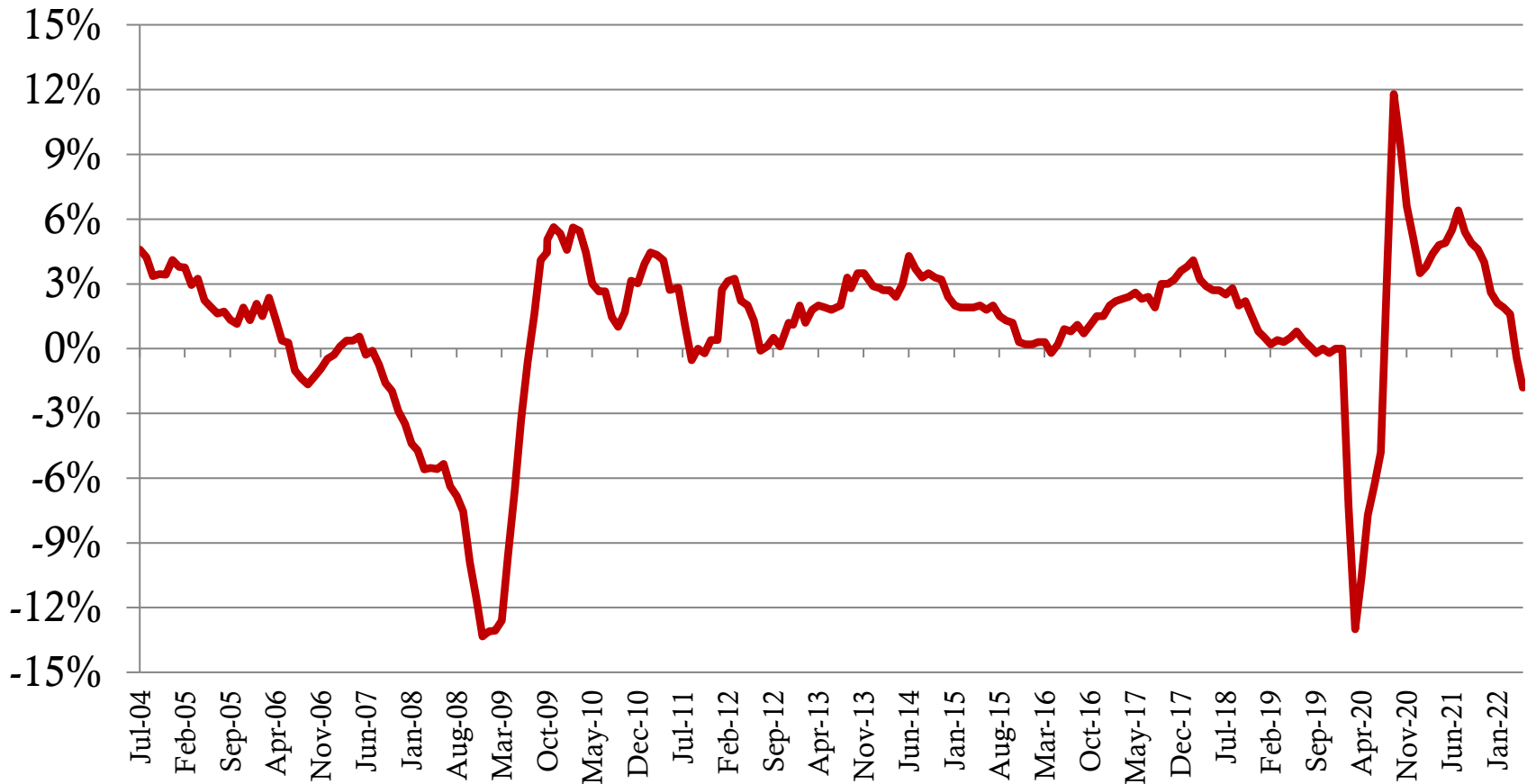
(Source: Cass Freight Index)

Consumer Sentiment

(source: University of Michigan, Survey Research Center)



Leading Economic Indicators



(source: Conference Board, % change in last 6 months)

Topic #2:

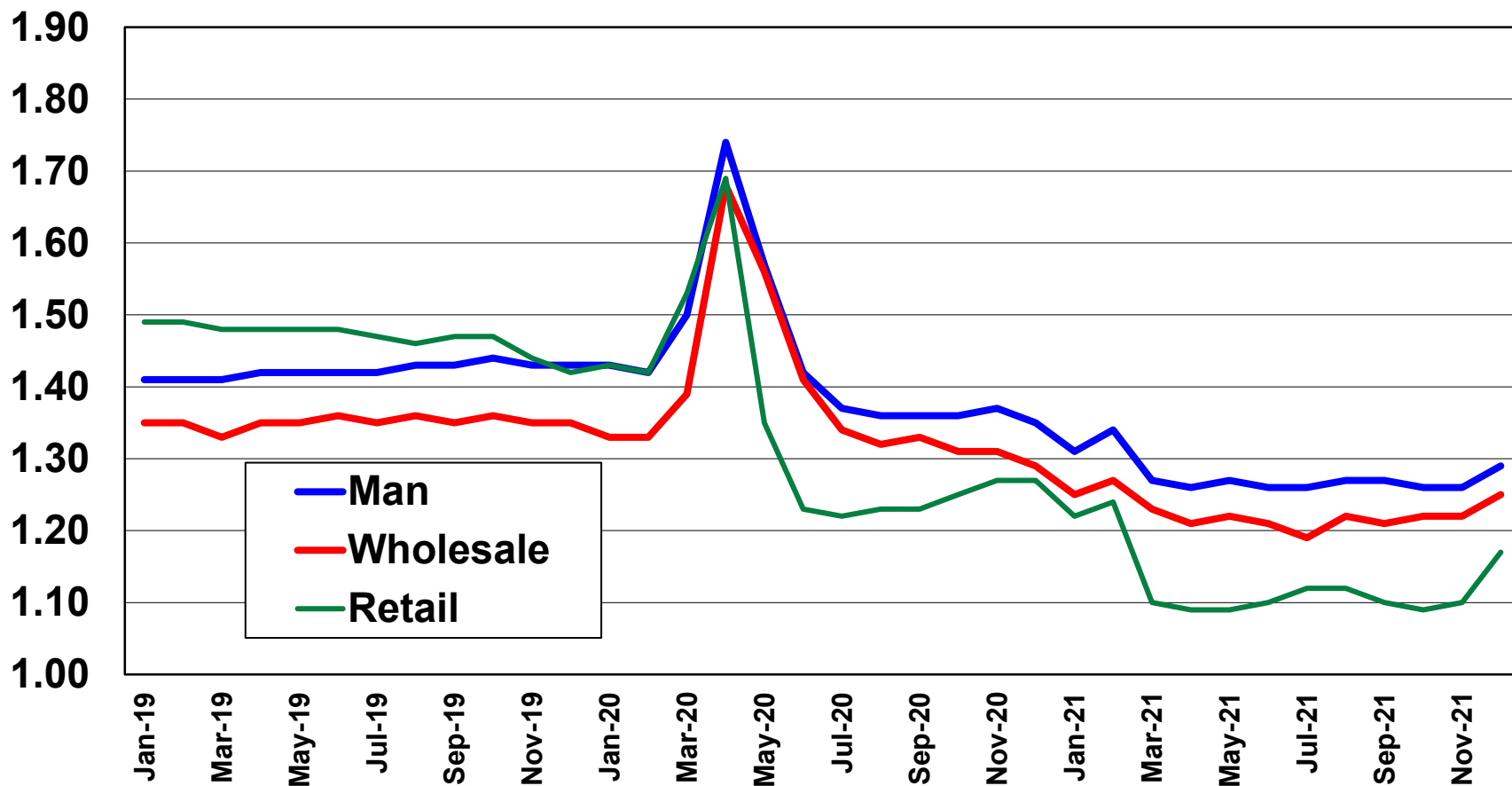
One of the Big 3 challenges – *supply chain disruptions*

Inventory/Sales Ratio

(Source: Department of Commerce, in months)



Inventory/Sales Ratio

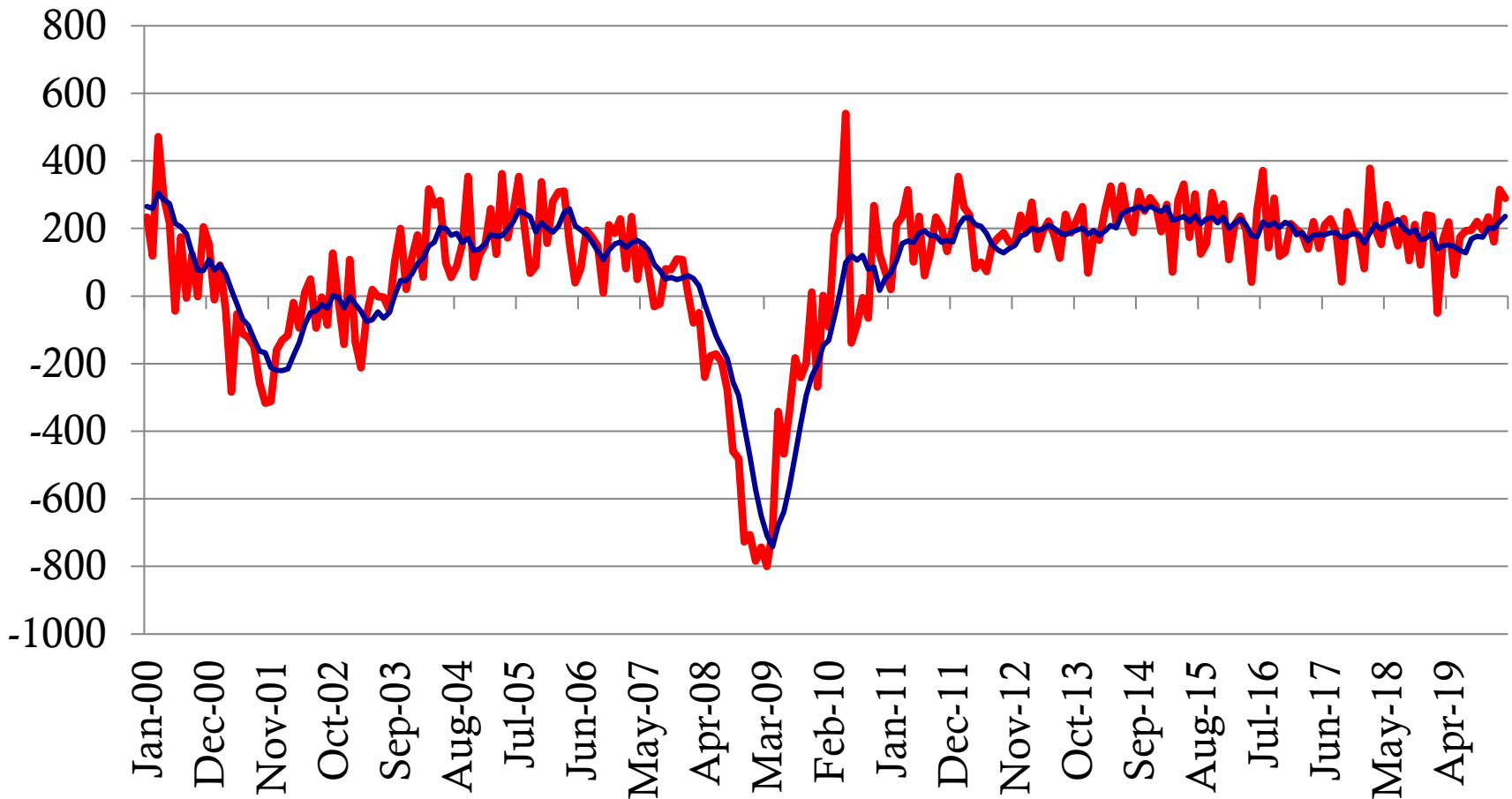


(Source: Department of Commerce, in months)

Topic #3:

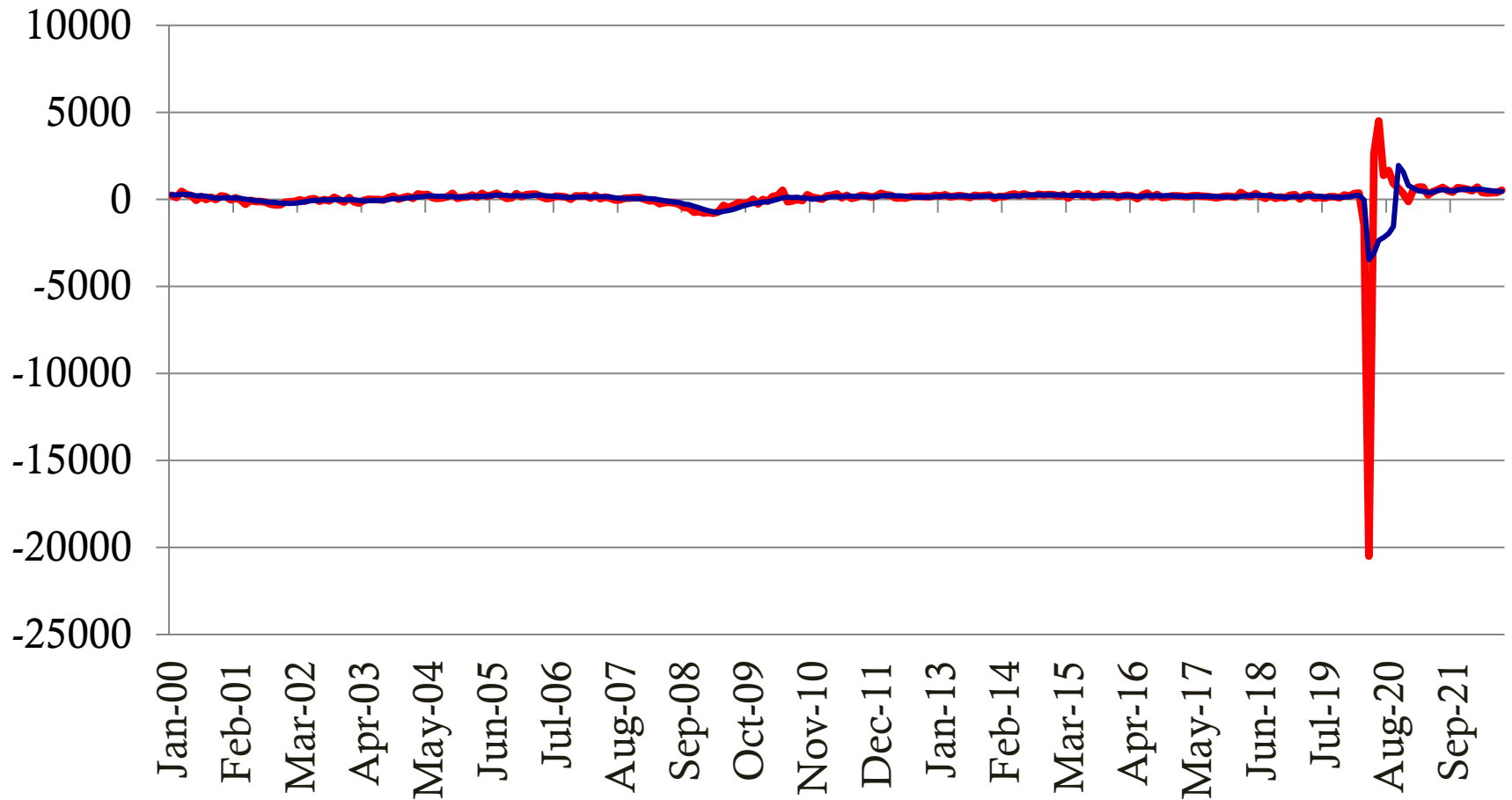
2nd major challenge – *tight labor markets!*

Change in Payroll Employment



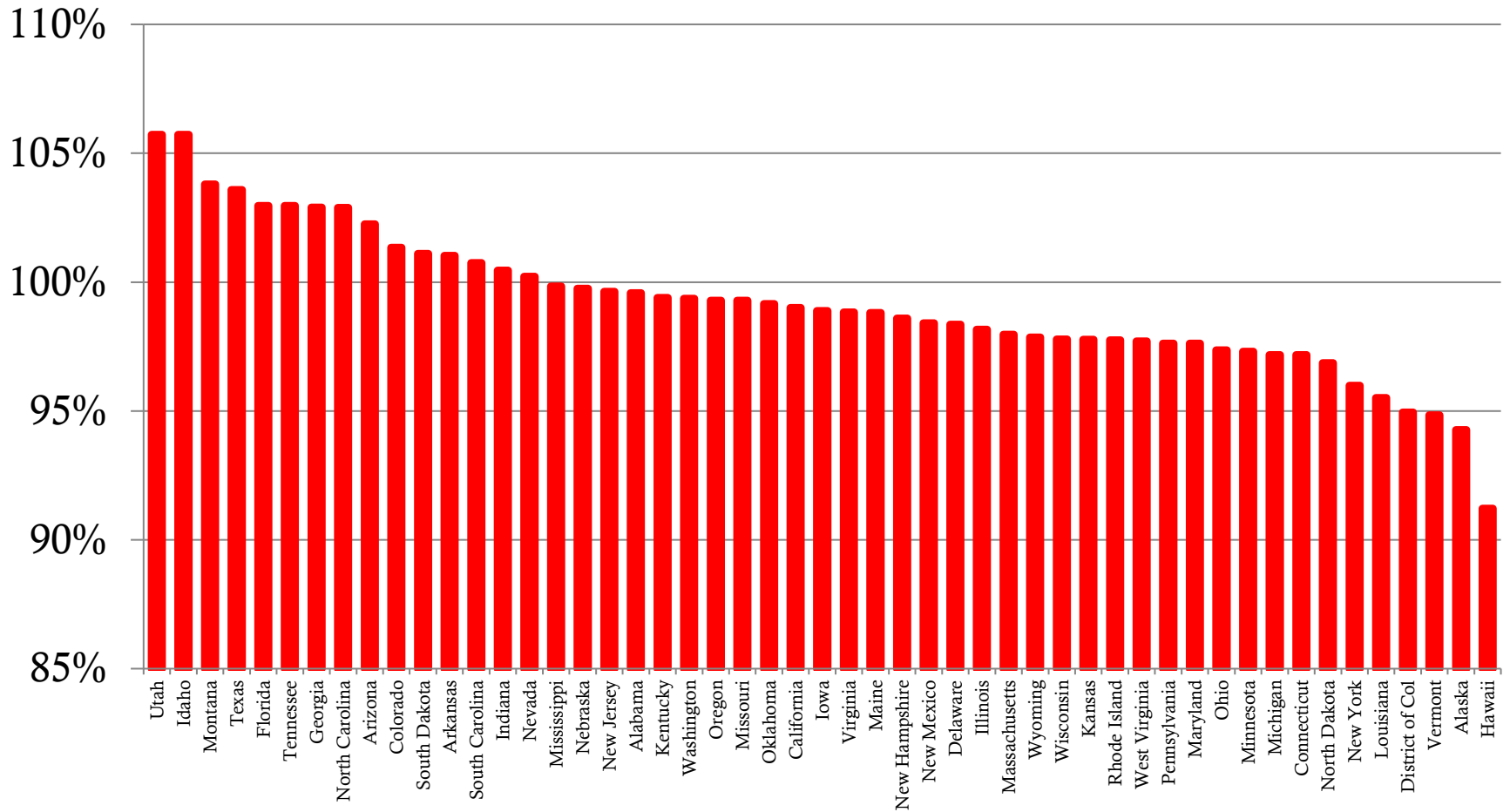
(Source: Bureau of Labor Statistics, in thousands)

Change in Payroll Employment



(Source: Bureau of Labor Statistics)

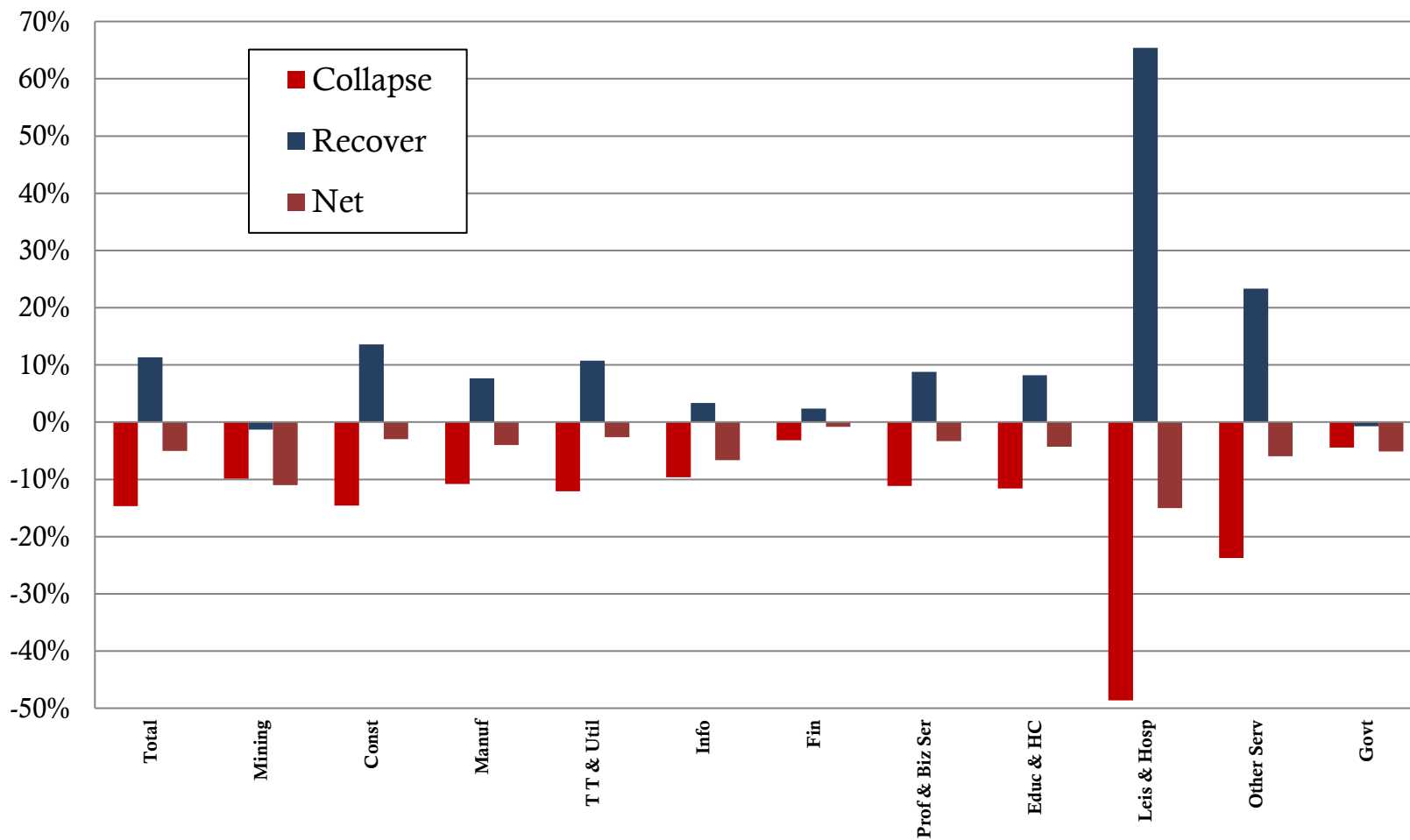
Recovery from Bottom



(Source: Bureau of Labor Statistics)

US Employment by Sector (post-Covid)

(Source: Bureau of Labor Statistics)



Labor Force Participation



(Source: Bureau of Labor Statistics)

Topic #4:

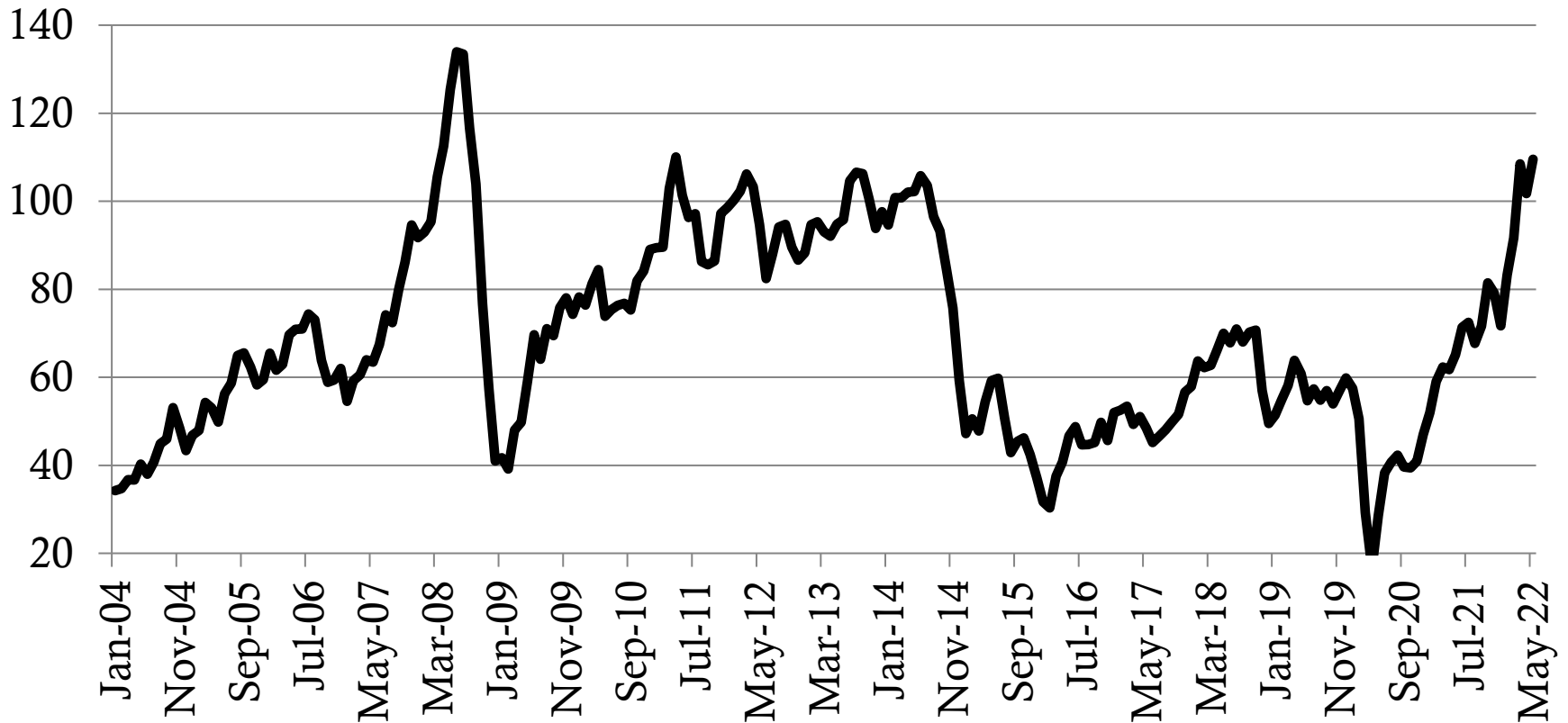
Challenge #3 . . . *the return of inflation!!!*

Inflation: Transitory or Persistent?

- CPI was up 1.3% in June – after being up 1.0% and 0.3% in May and April.
- Core CPI up 0.7% in May – after being up by 0.6% and 0.6% in May and April.
- Overall CPI up 9.1% over last 12 months. Core up 5.9% over same period.
- Supply chain disruptions, hoarder behavior was at play in food prices in early 2020, easing some.
- Energy component up by 41.6% over the last 12 months.

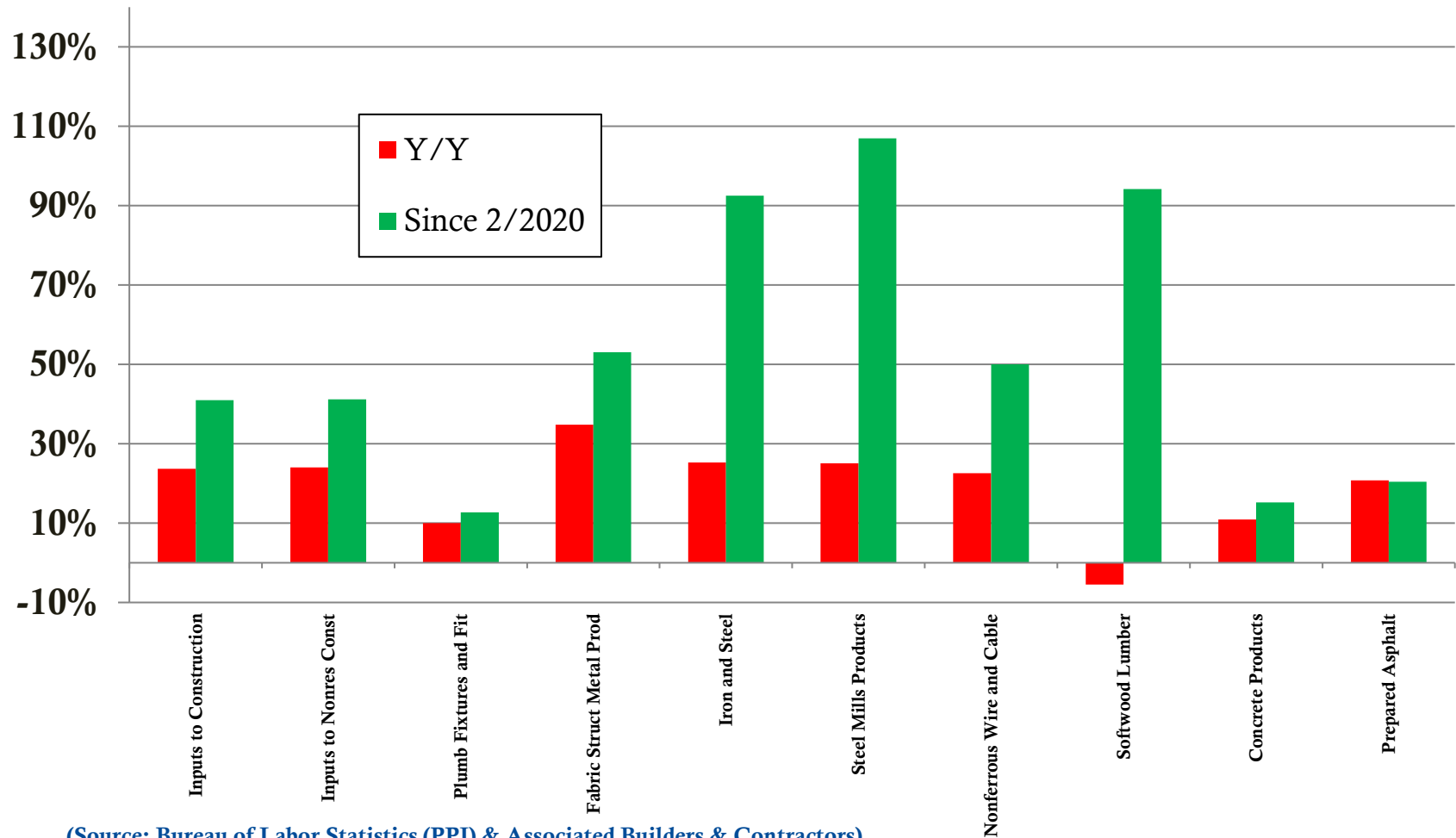
(source: Bureau of Labor Statistics)

Crude Oil: West Texas Intermediate



(Source: US Energy Information Administration)

Construction Cost w/o Energy



(Source: Bureau of Labor Statistics (PPI) & Associated Builders & Contractors)

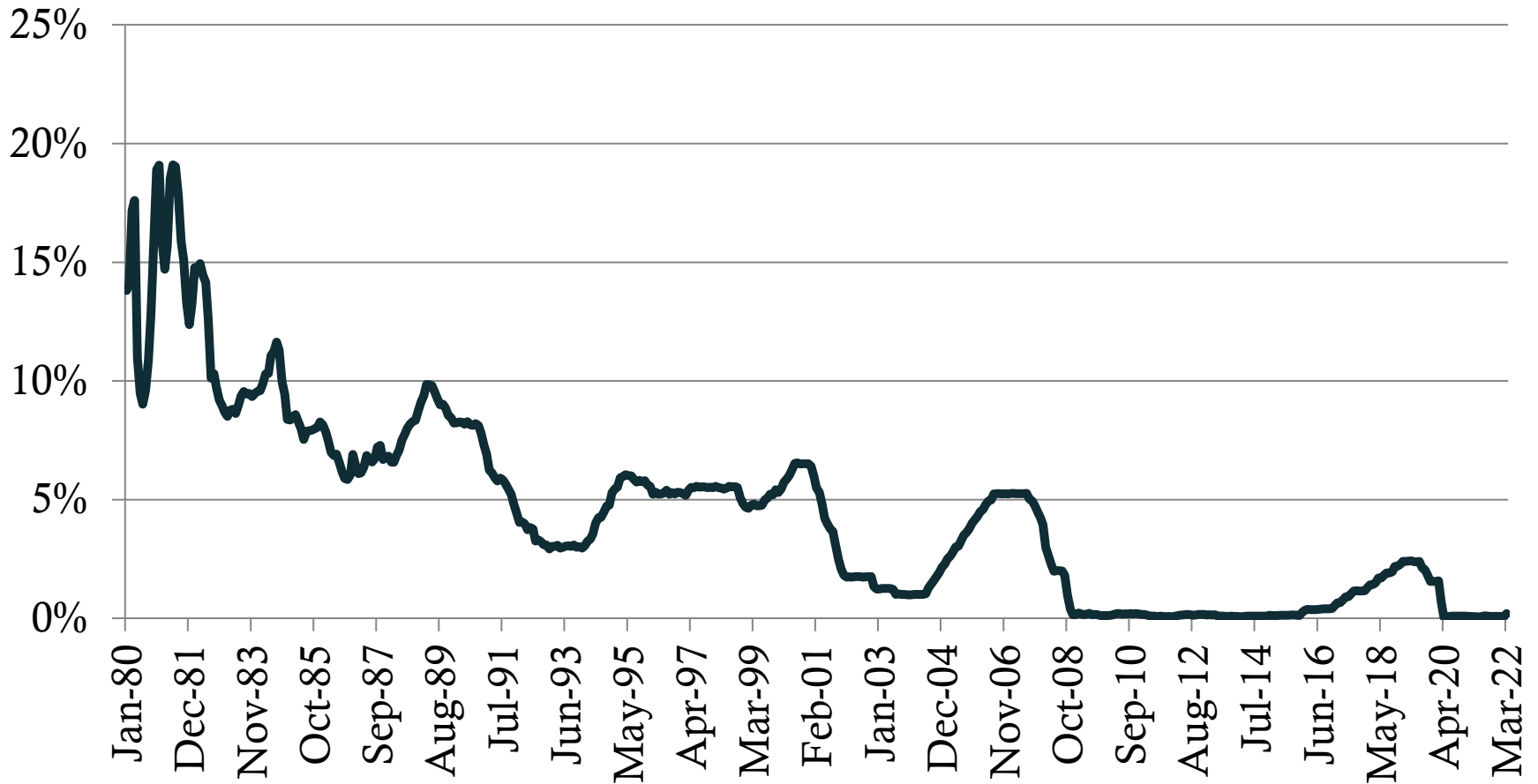
Topic #5:

After starting to unwind three rounds of QE
... we went to zero in March 2020.

... now, taper, rate hikes & QT?

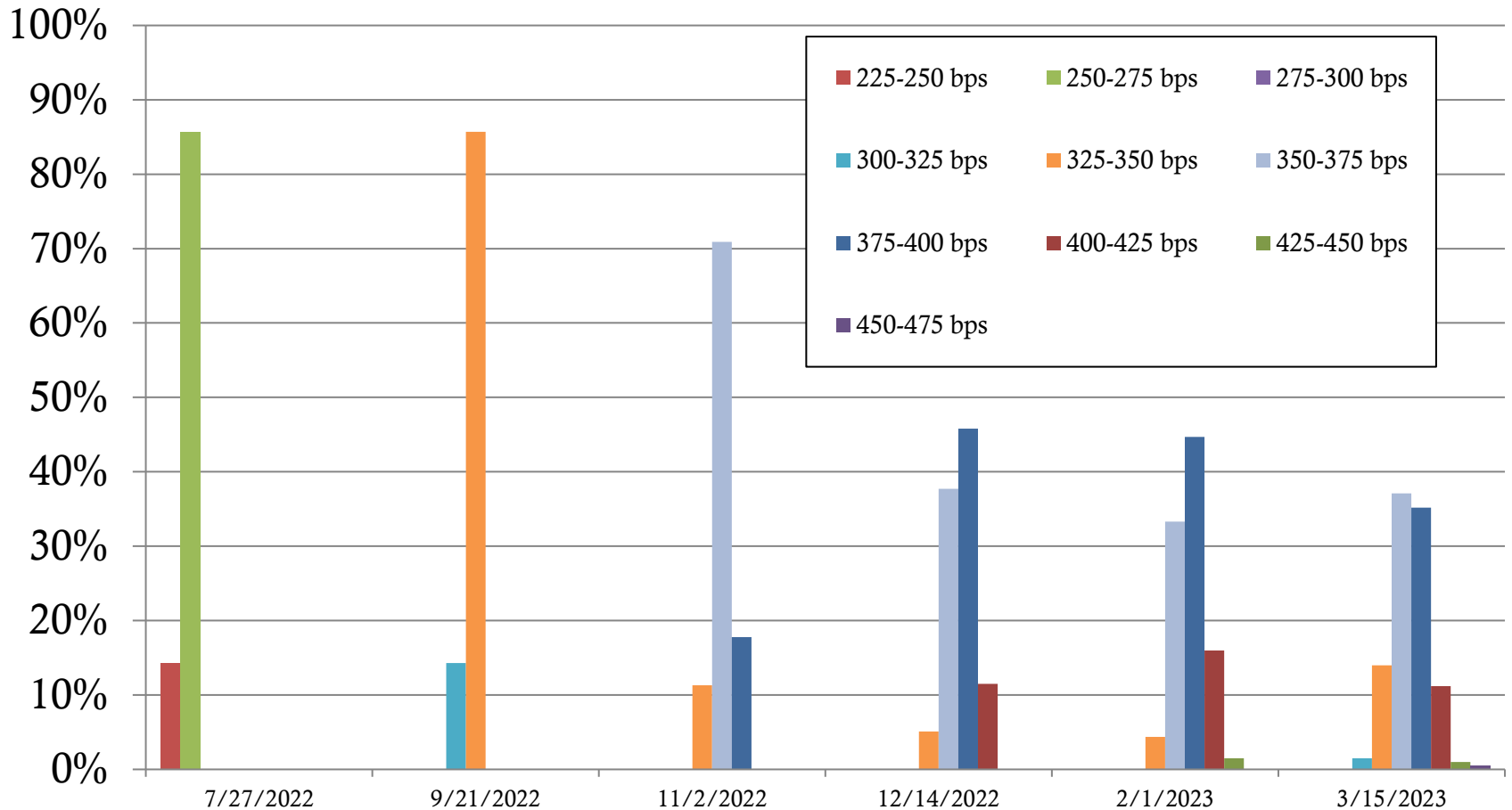
Federal Funds Rate

9 Up, 3 Down, back to ZLB – Now head back up?



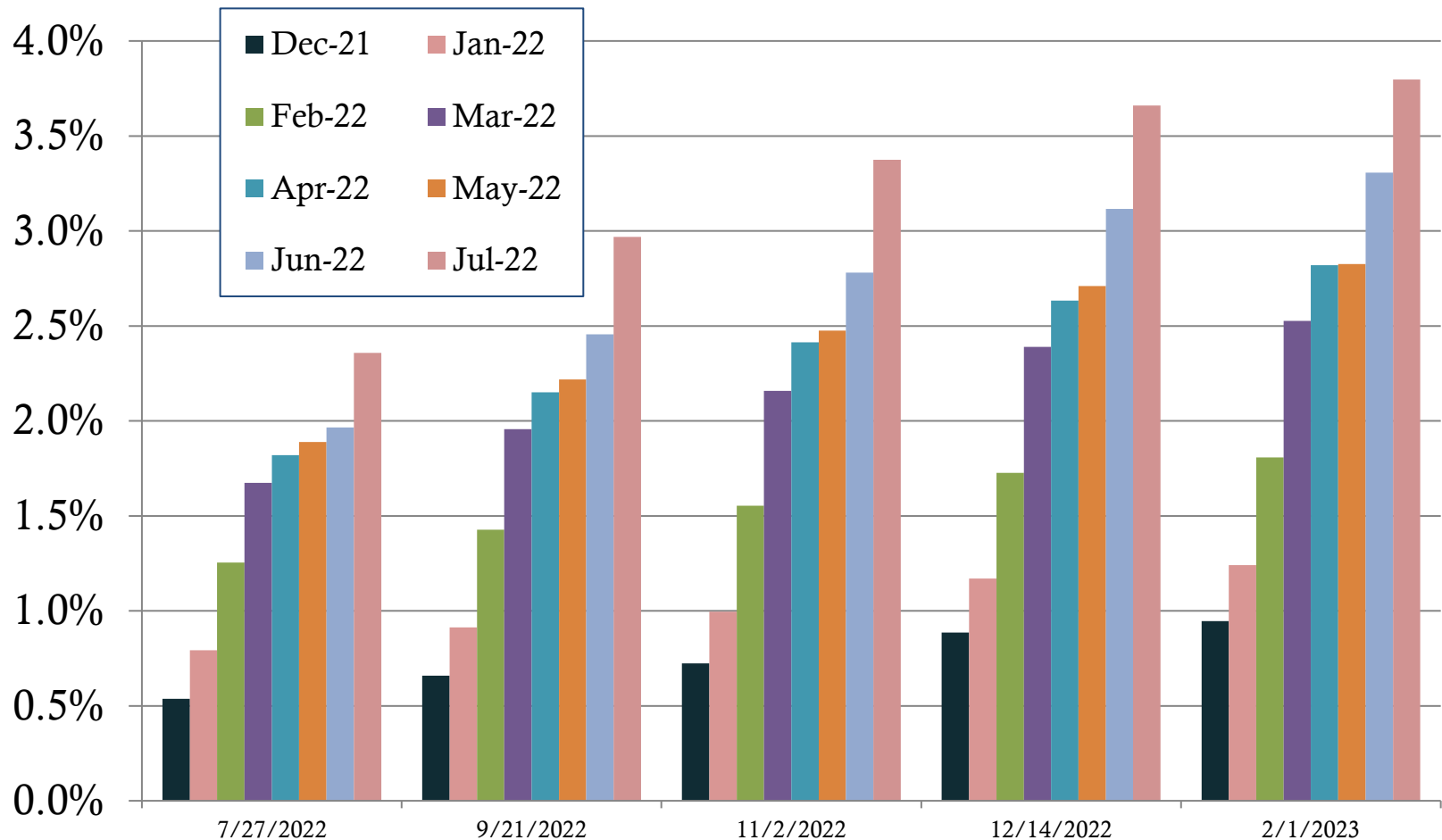
(Source: Board of Governors of Federal Reserve System)

Market's FFR Outlook



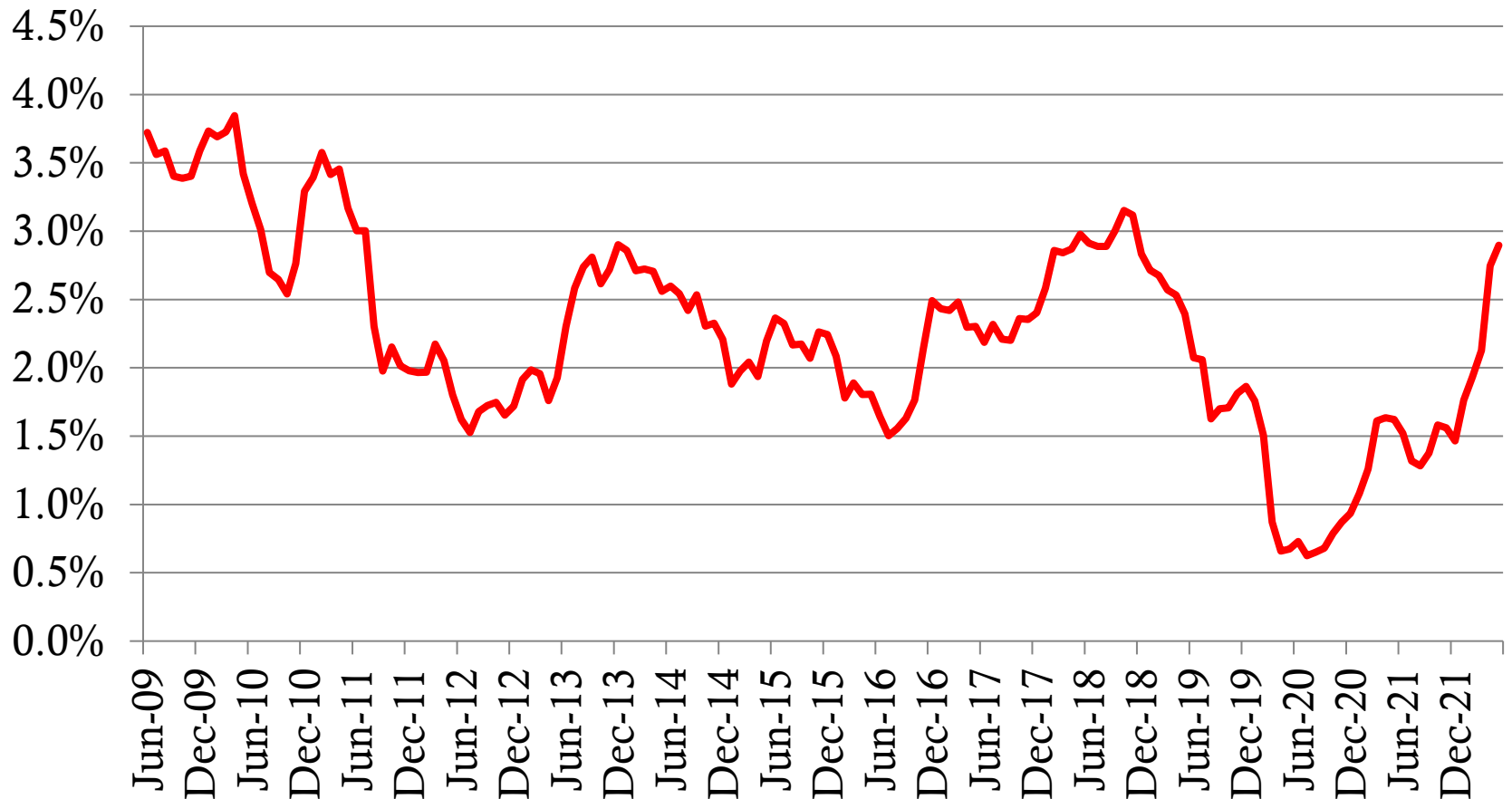
(Source: CME Group)

Market's "Expected FFR"



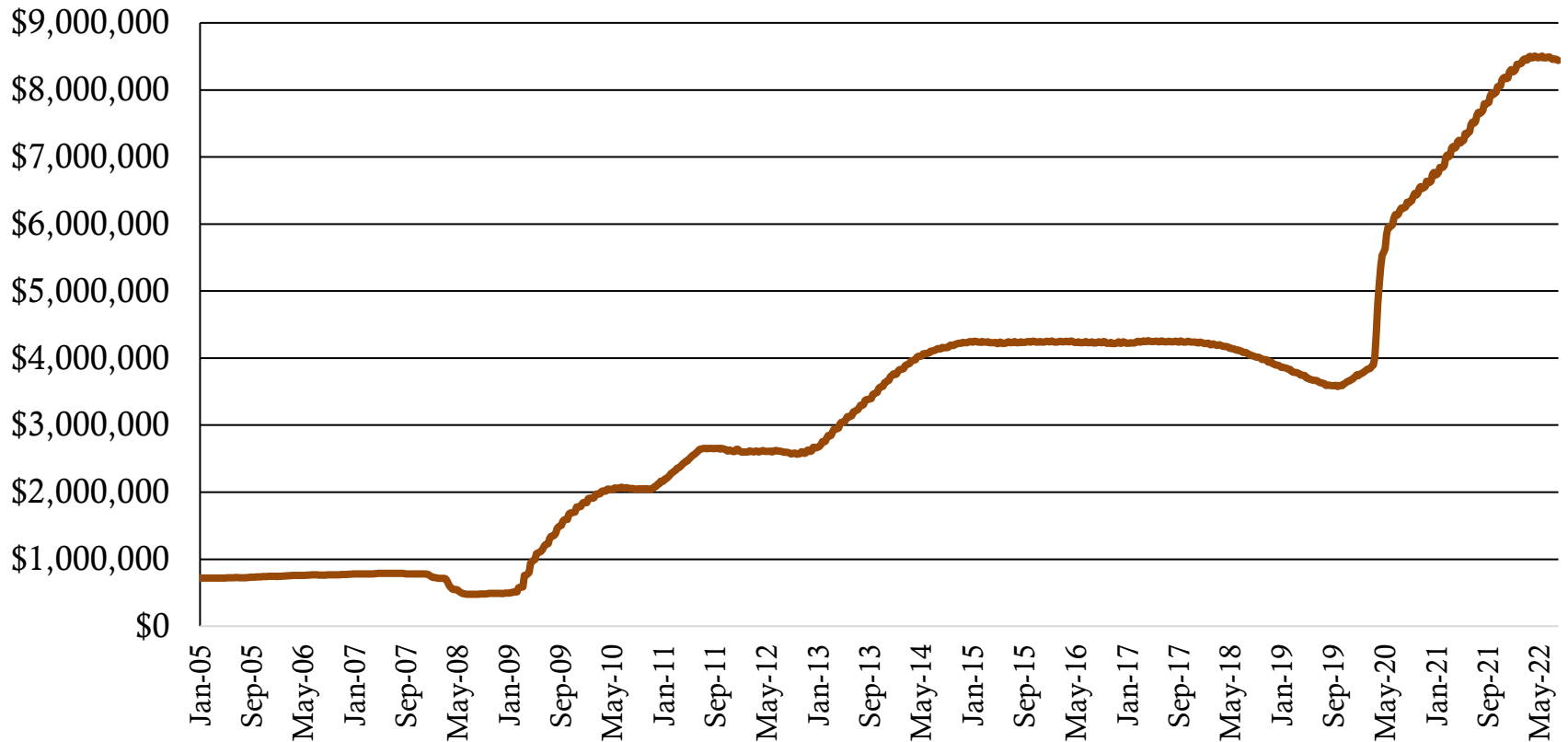
(Source: CME Group)

10-Year Treasury Bonds



(Source: Board of Governors of Federal Reserve System)

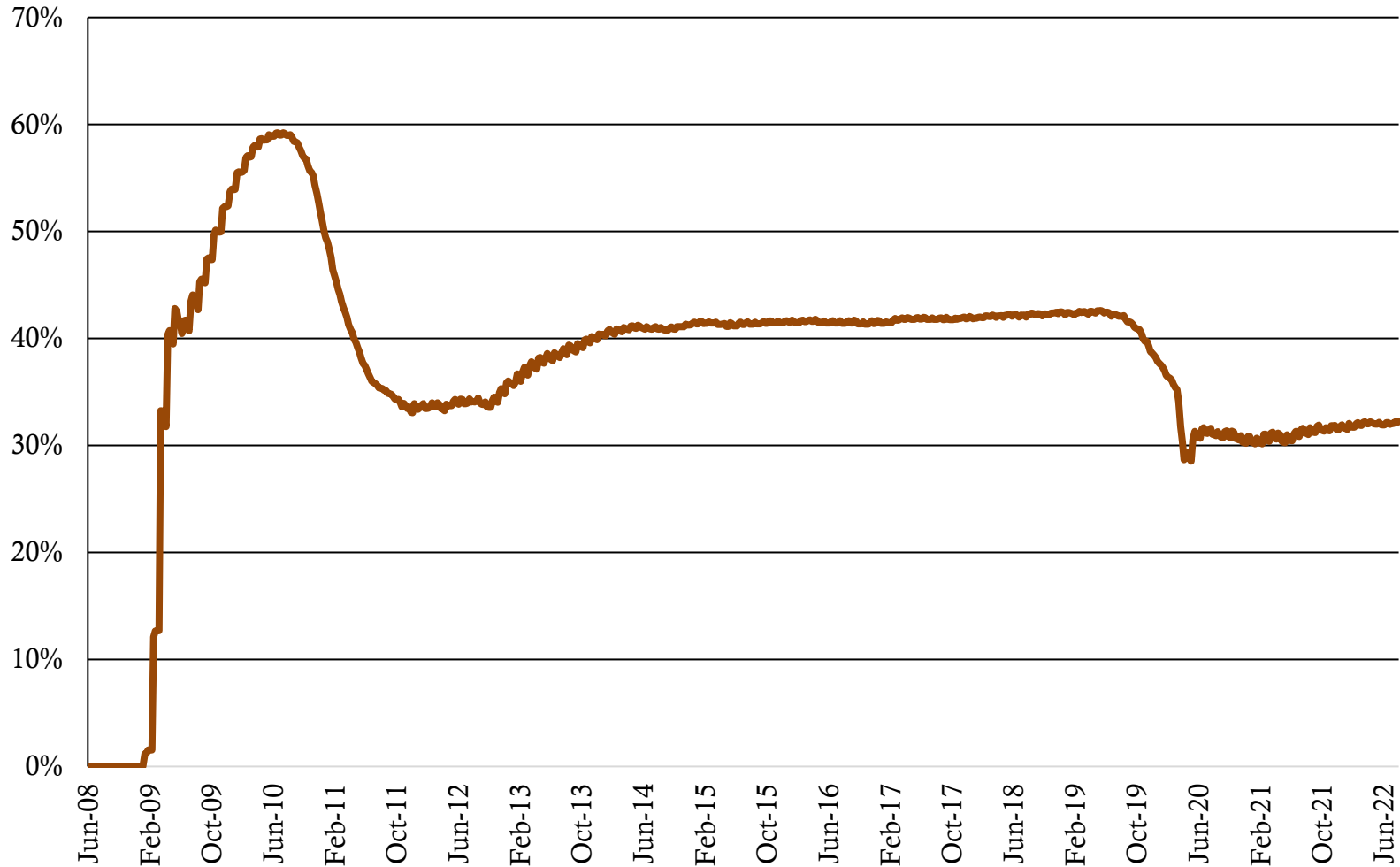
Fed: Securities Held Outright



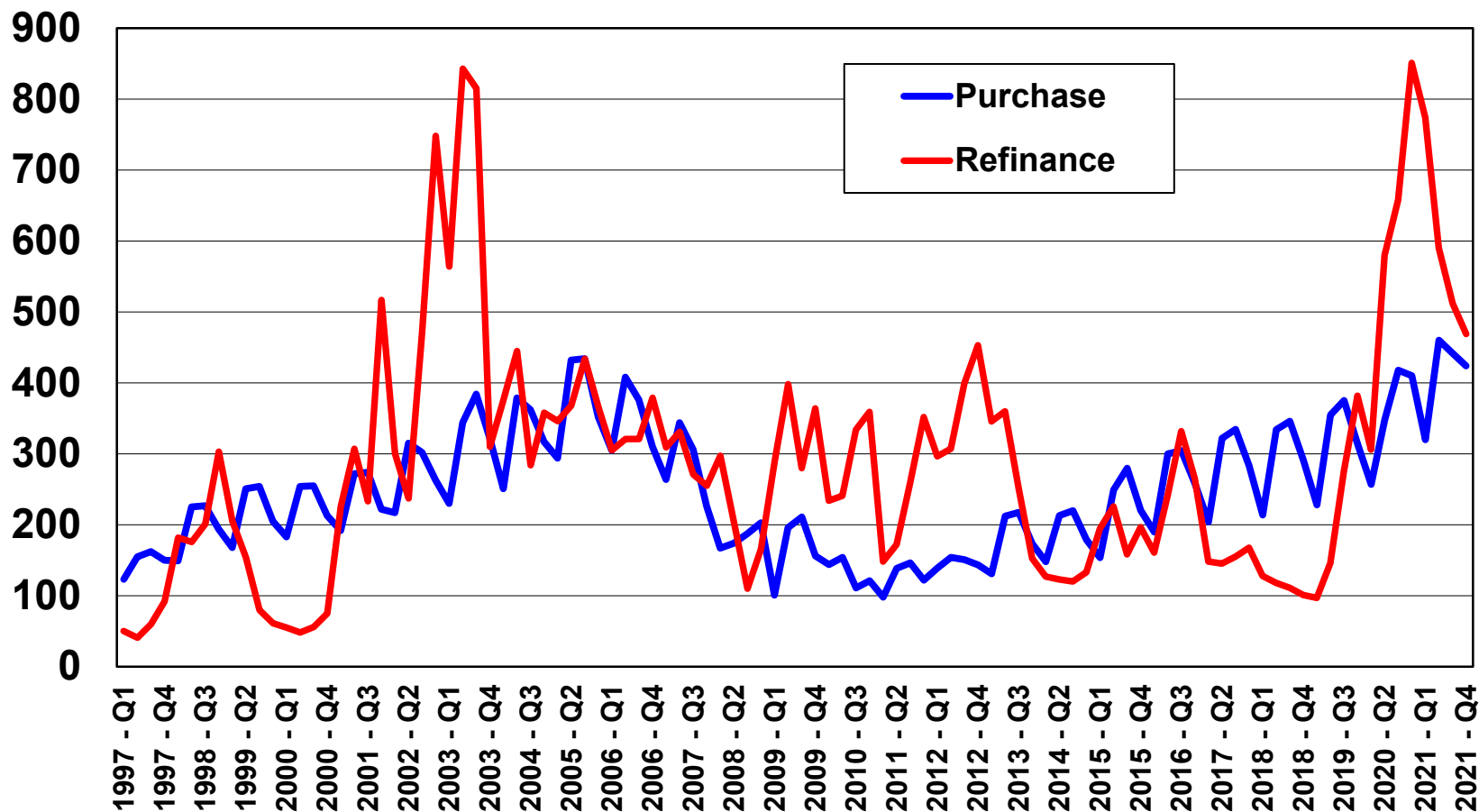
(source: Board of Governors of the Federal Reserve System; in billions)

Fed: MBS as % of Holdings

(source: Board of Governors, Federal Reserve System, in \$MM)



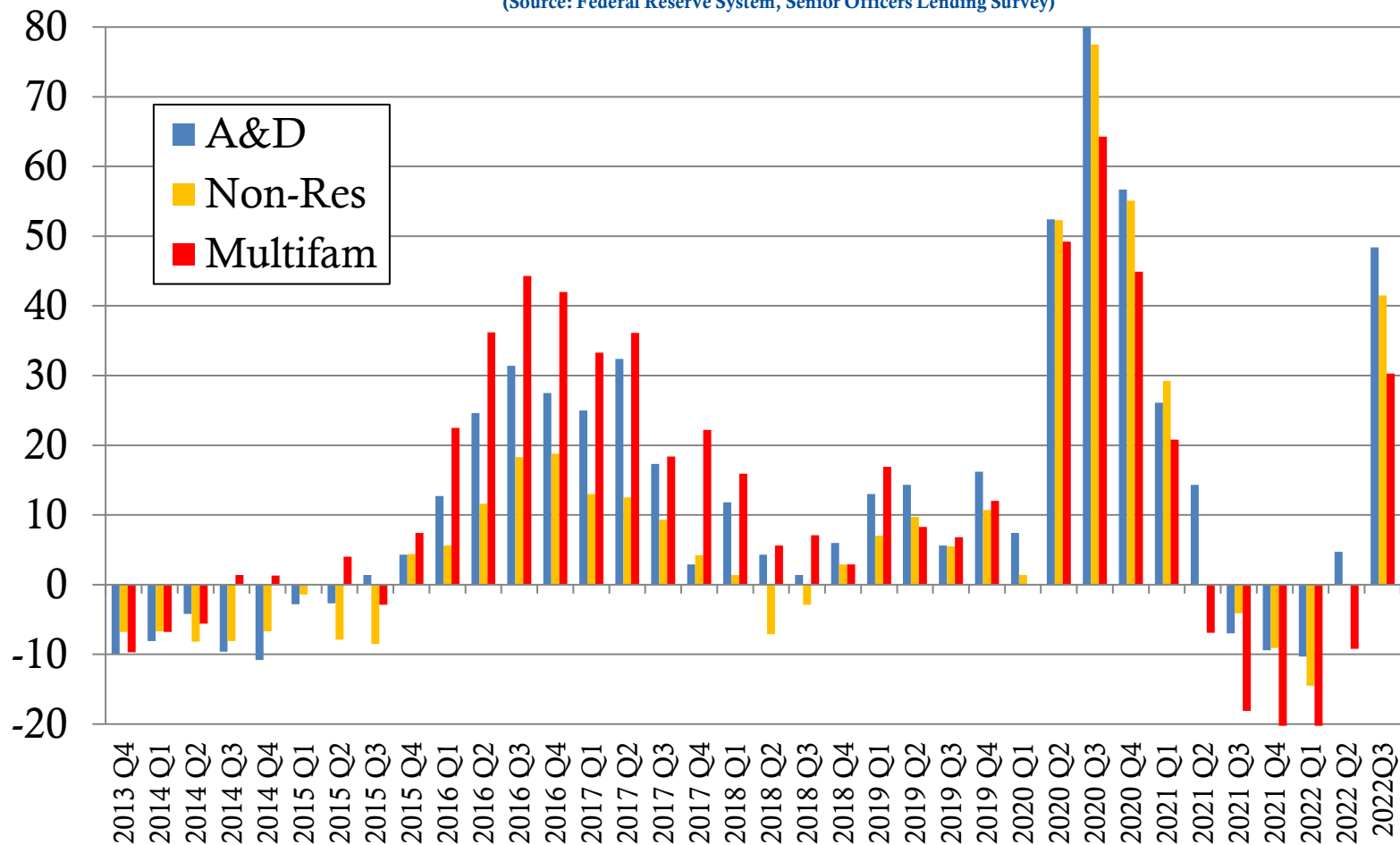
Mortgage Activity: Purchase & Refinance



(Source: Mortgage Bankers Association)

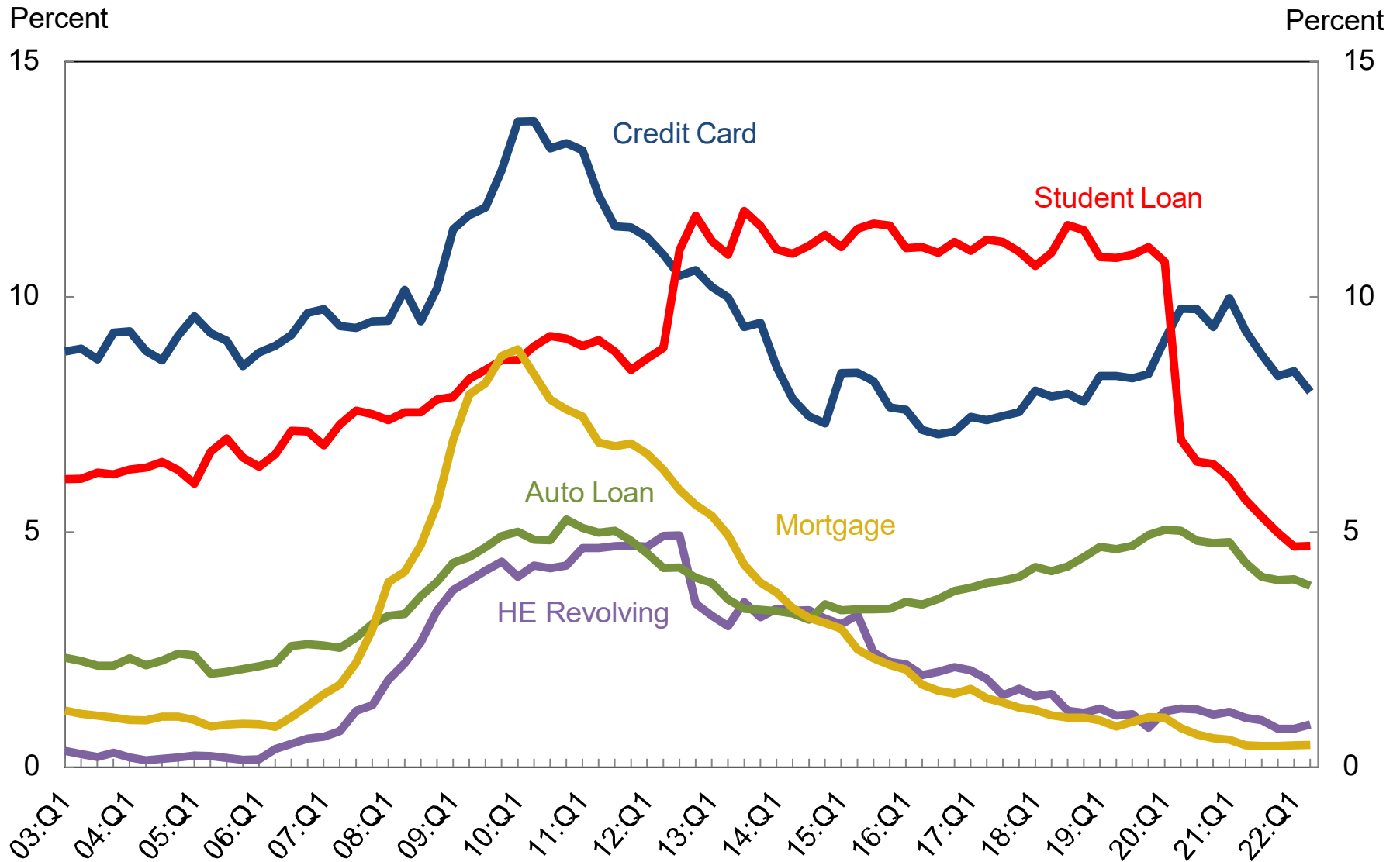
CRE Loan Standards: Net Tightening

(Source: Federal Reserve System, Senior Officers Lending Survey)

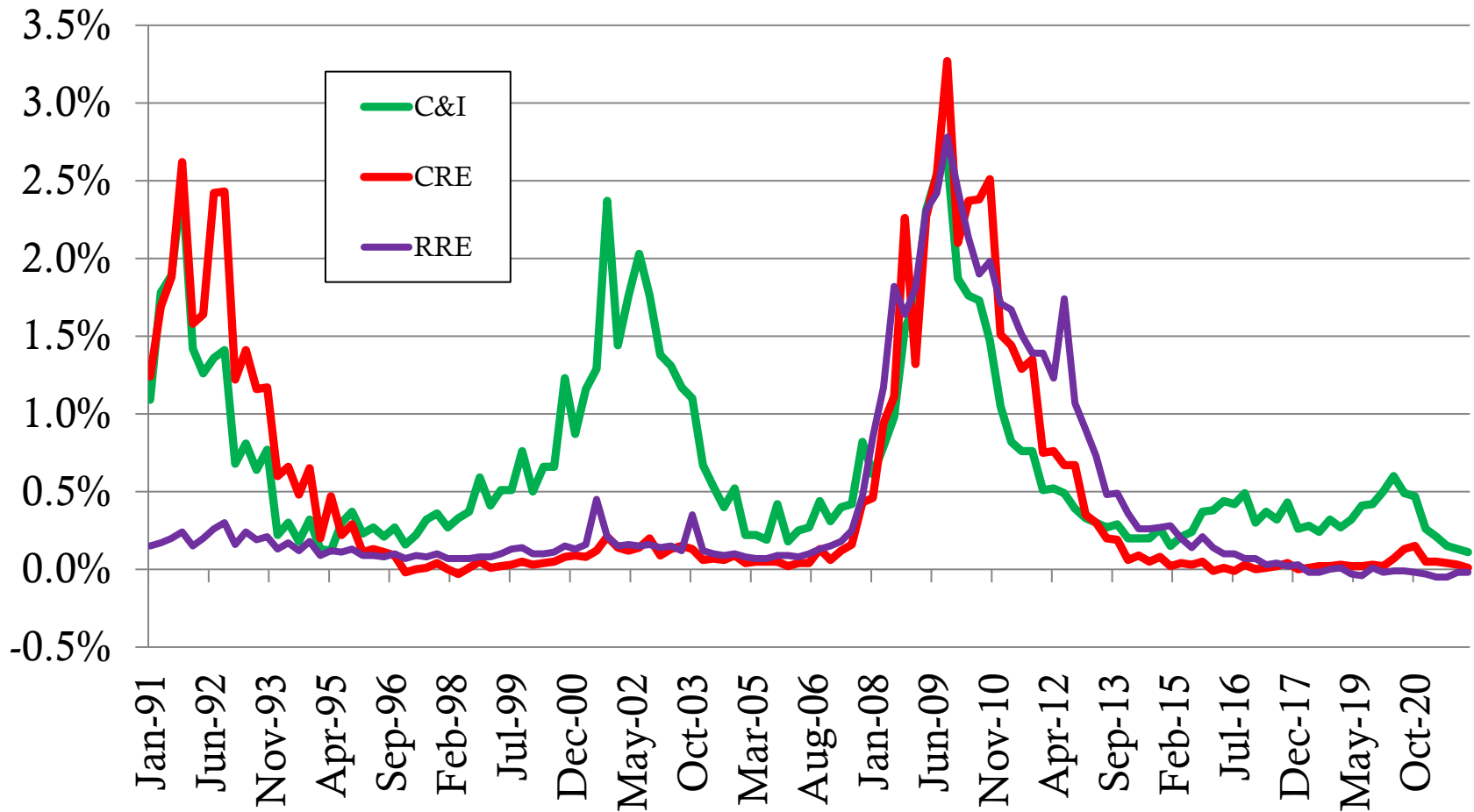


90+ Days Delinquent by Loan Type

(source: Federal Reserve Bank of New York Credit Panel/Equifax)

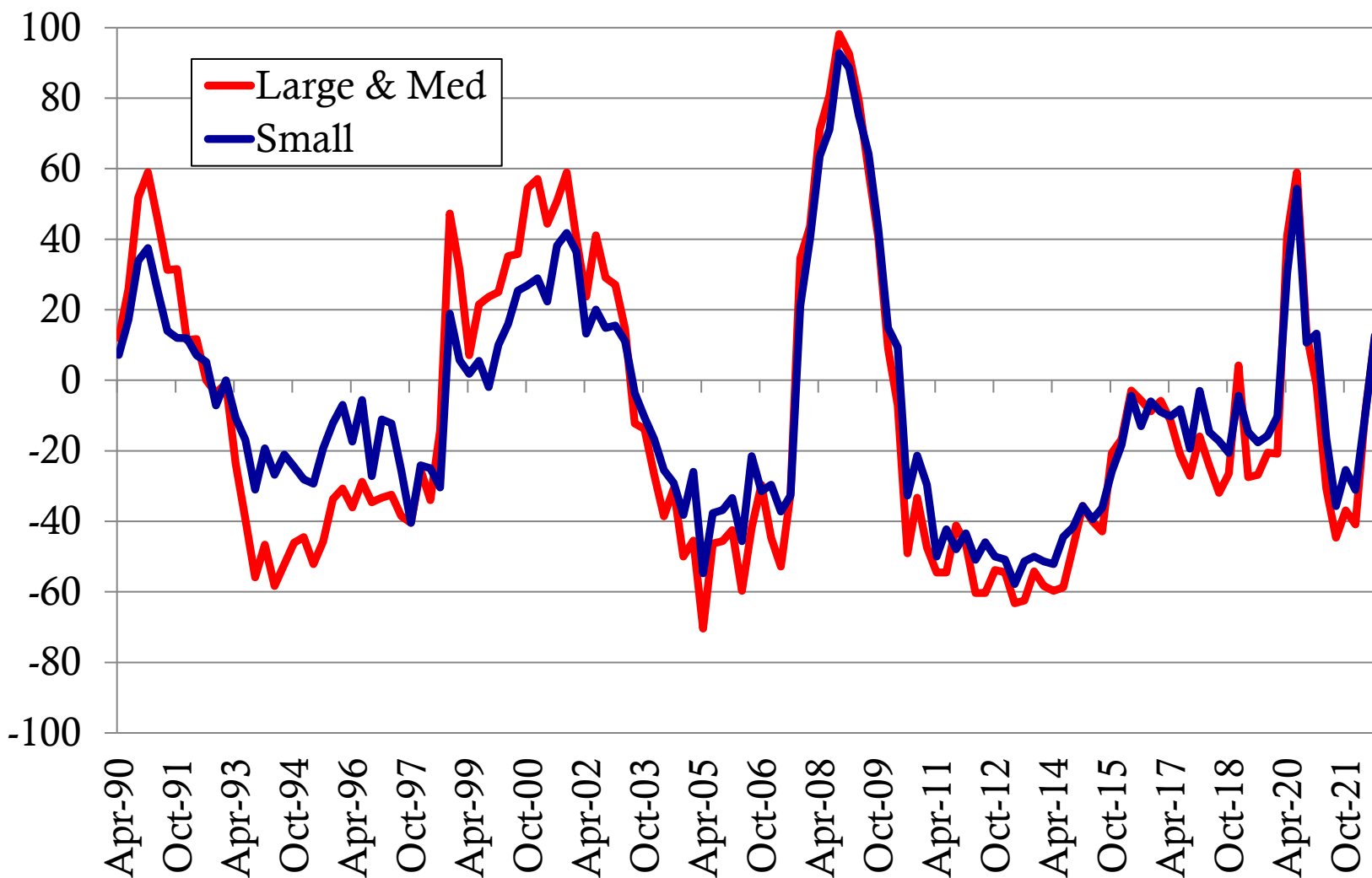


Charge Off Rates at Banks



(source: Board of Governors of the Federal Reserve System)

Loan Spread over COF Widening?

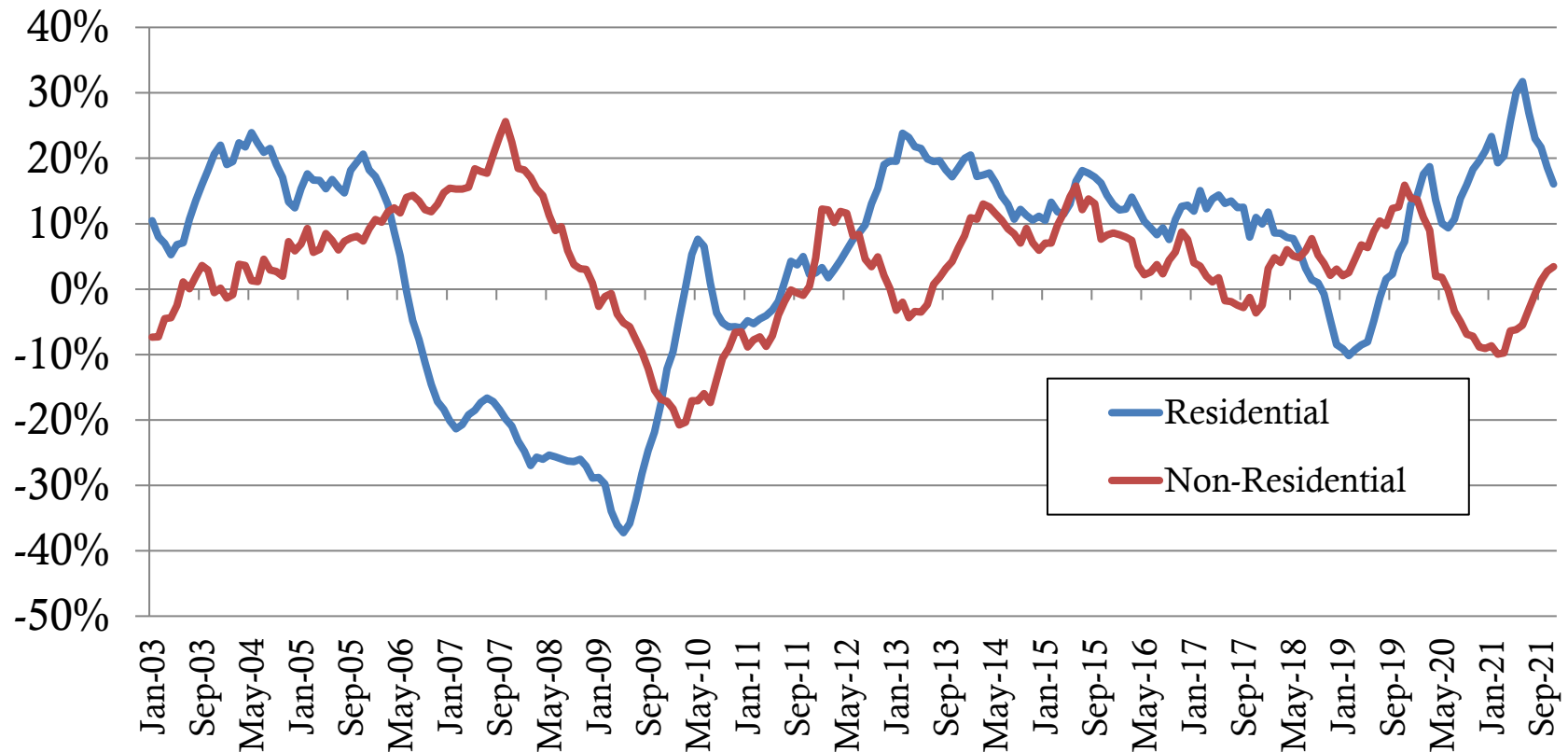


Topic #6:

Did Covid signal the death of “big box” and office?

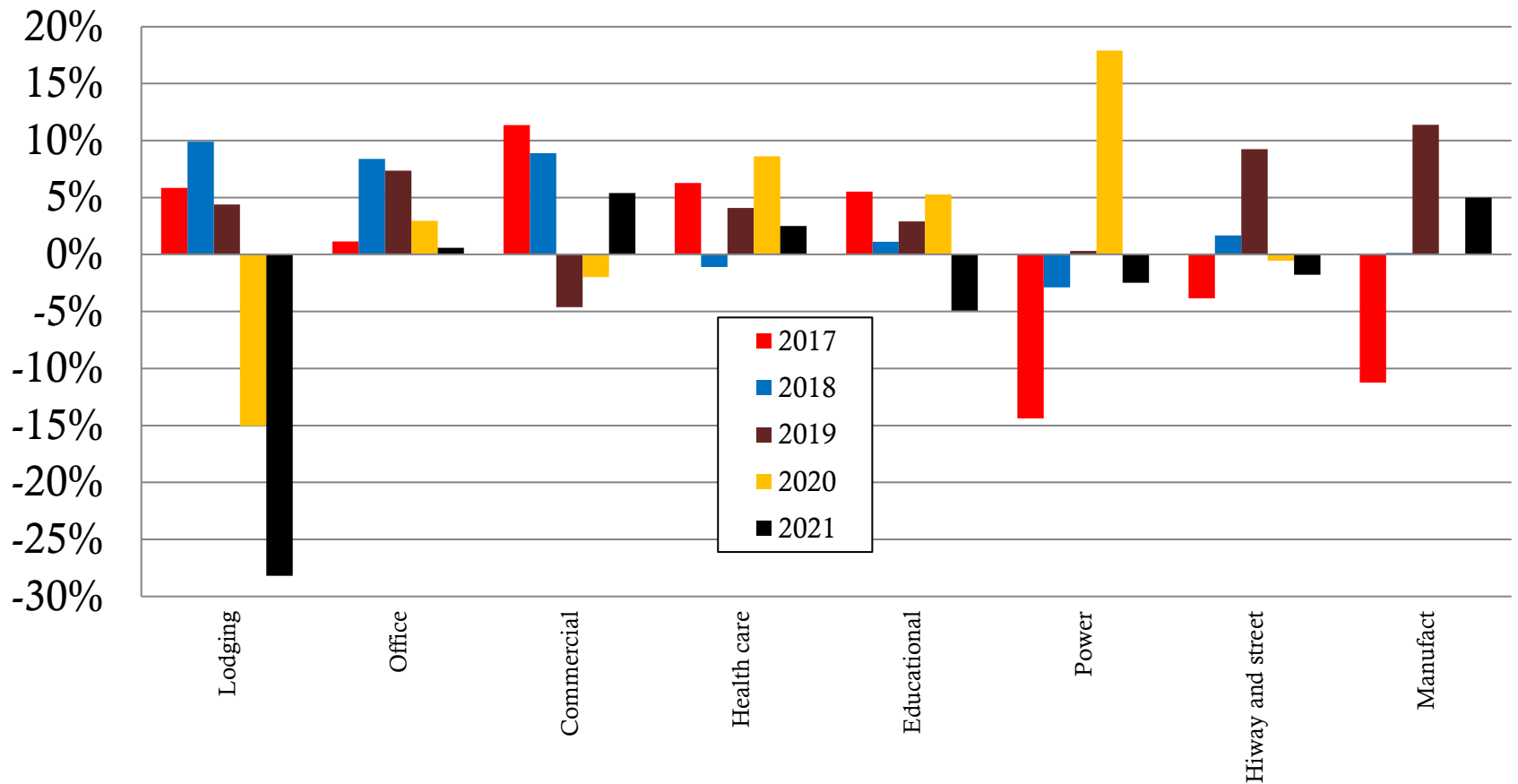
And is housing market getting “frothy” again?

Construction Spending



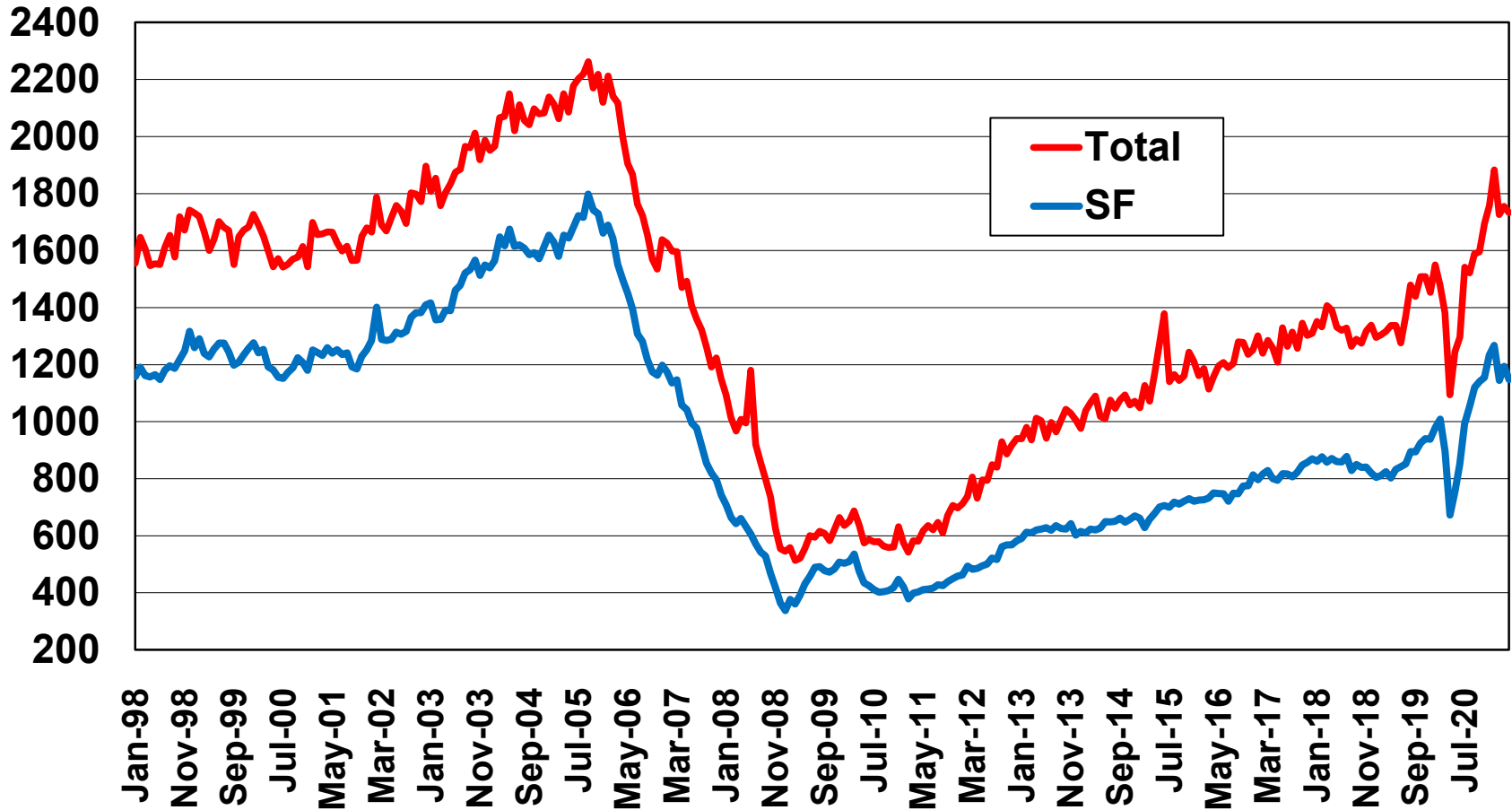
(Source: U.S. Bureau of Census)

Non-Residential Construction



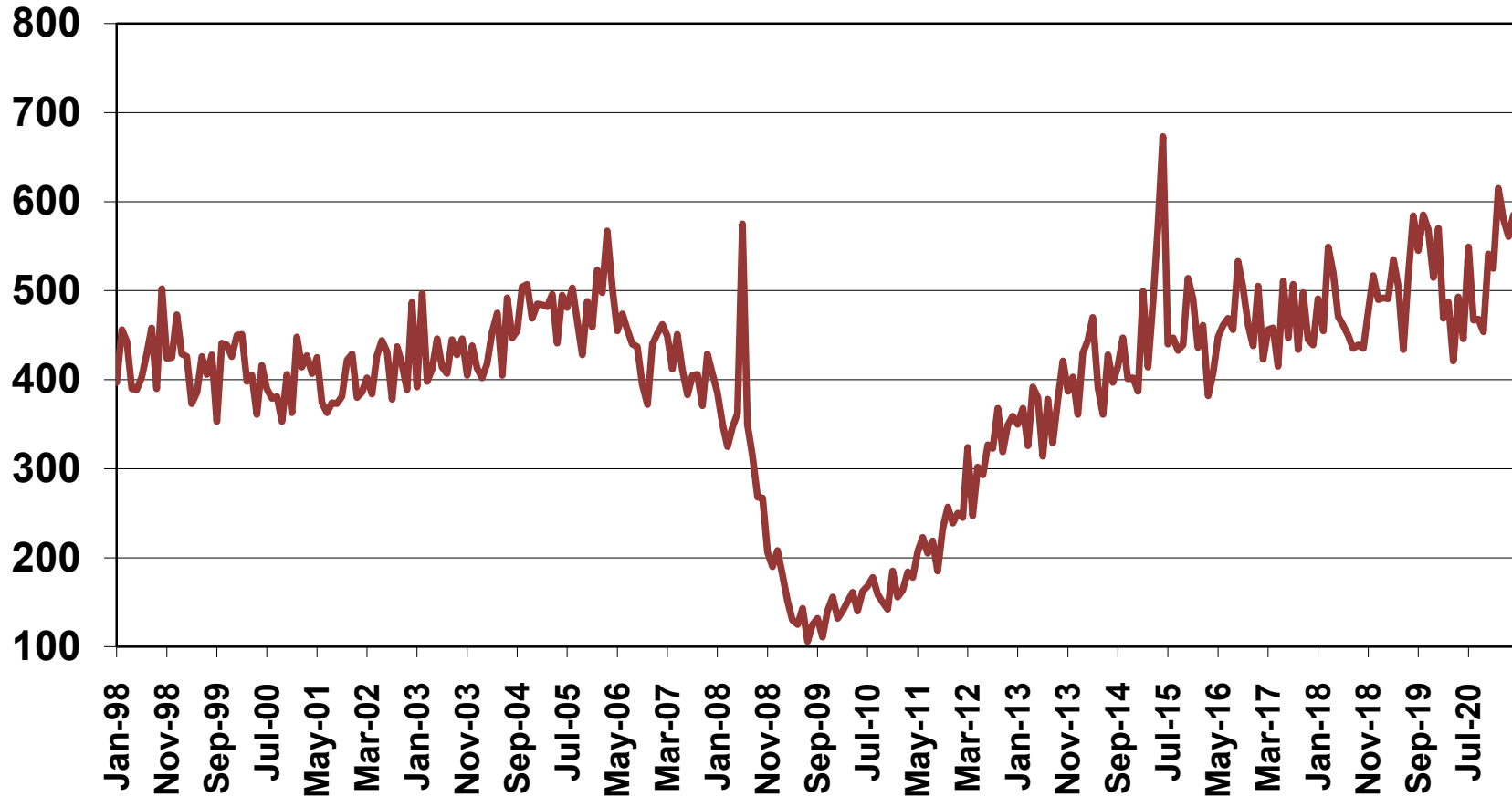
(Source: U.S. Bureau of Census)

US Housing Permits: SF and Total



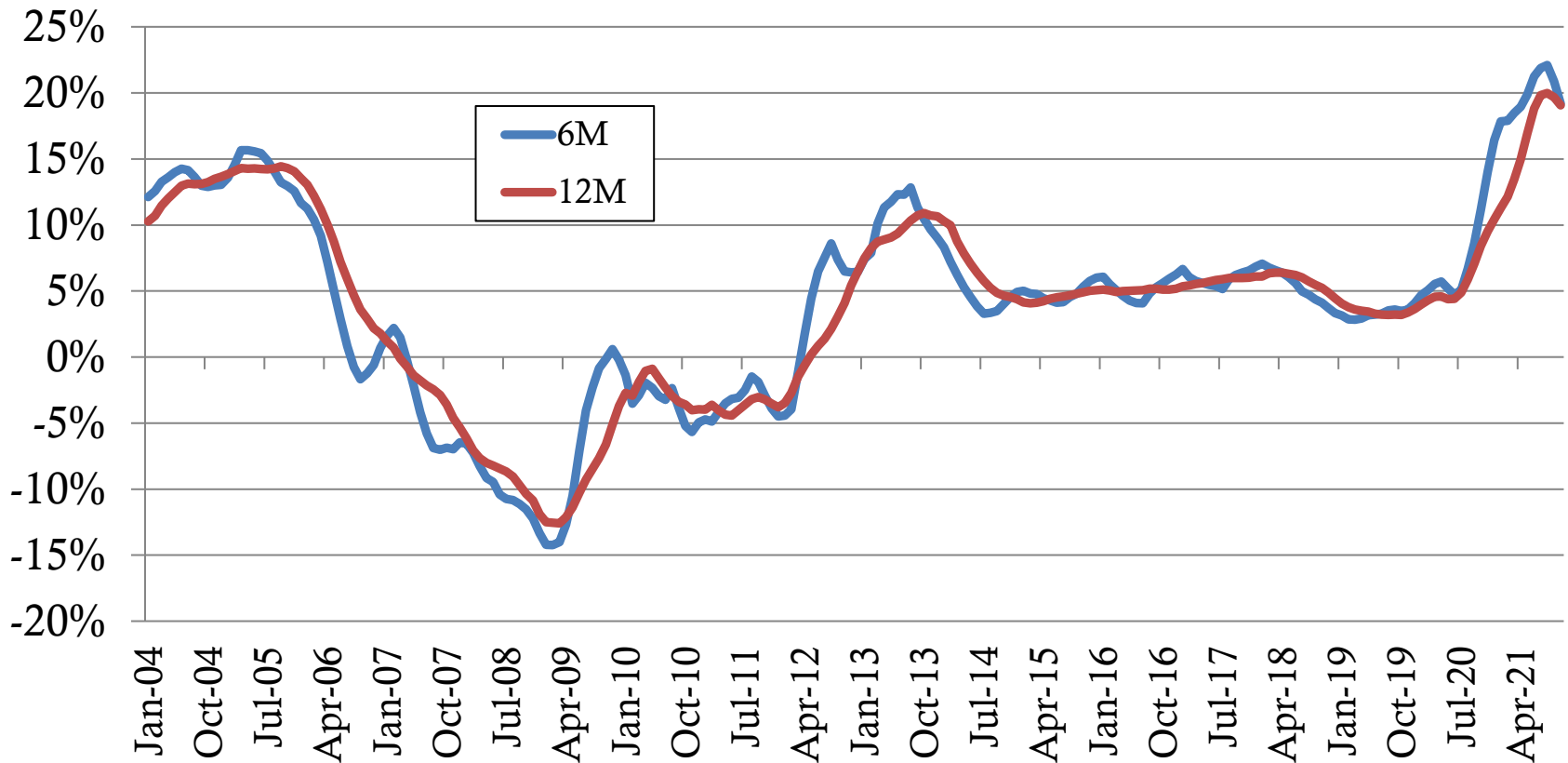
(source: U.S. Census Bureau; Seasonally Adjusted Annual Rate in thousands)

US Housing Permits: Multi-family



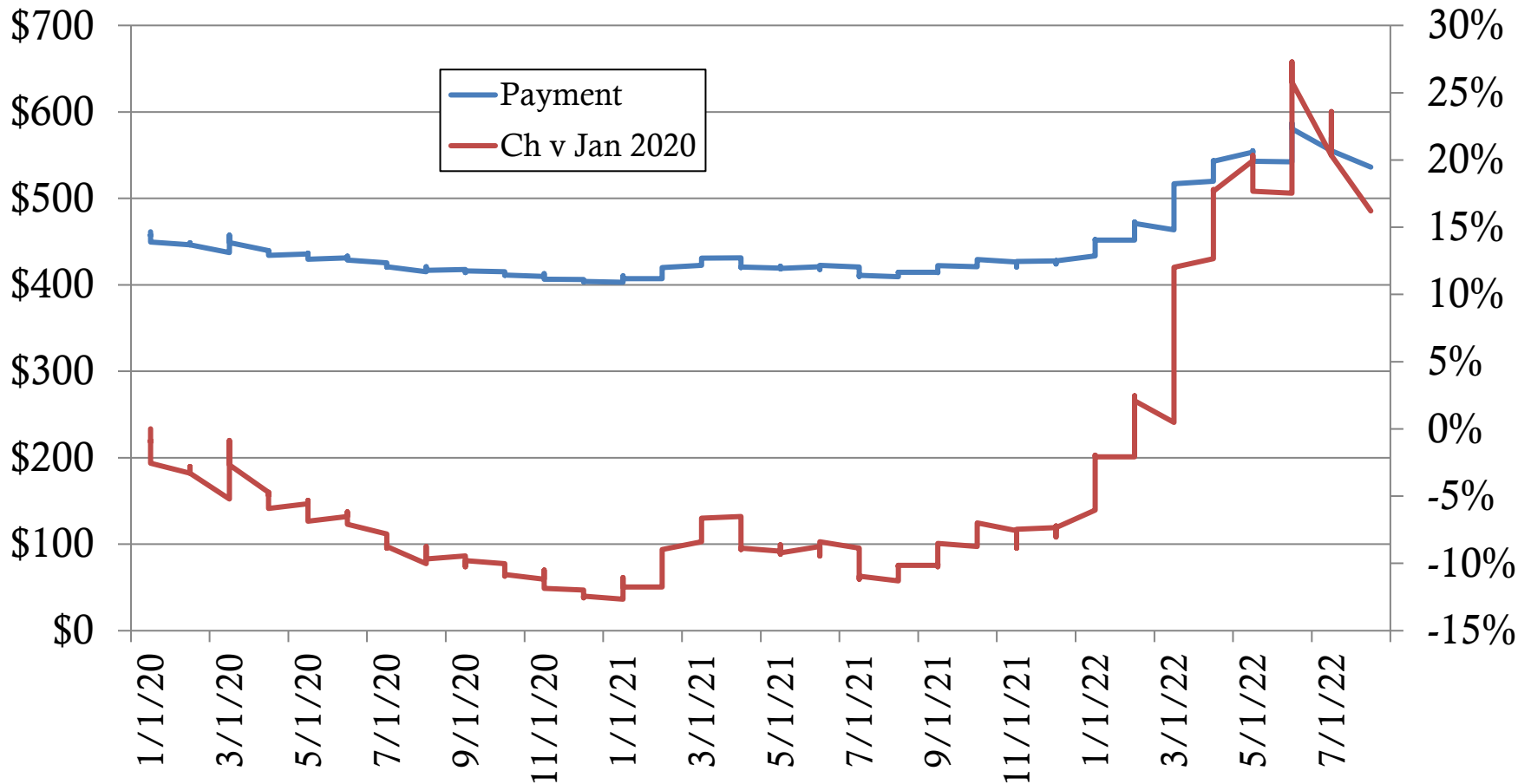
(Source: U.S. Census Bureau; Seasonally Adjusted Annual Rate in thousands)

Case Shiller: National Index



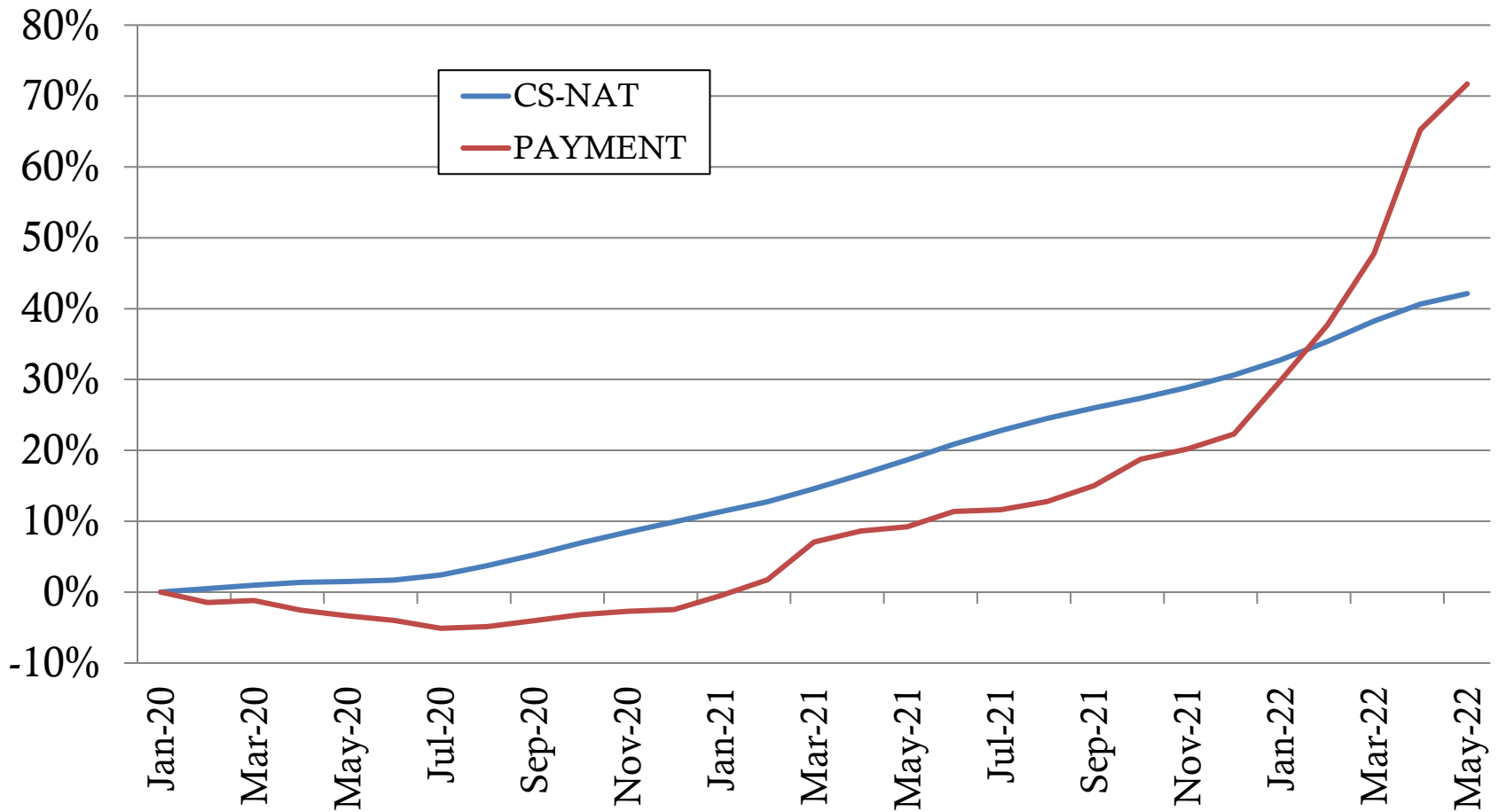
(source: Standard & Poor's Case-Shiller)

Affordability: Mortgage Rate Effect



(source: Freddie Mac)

Affordability: Mortgage Rate Effect



(source: Freddie Mac, Case-Shiller)

Topic #7:

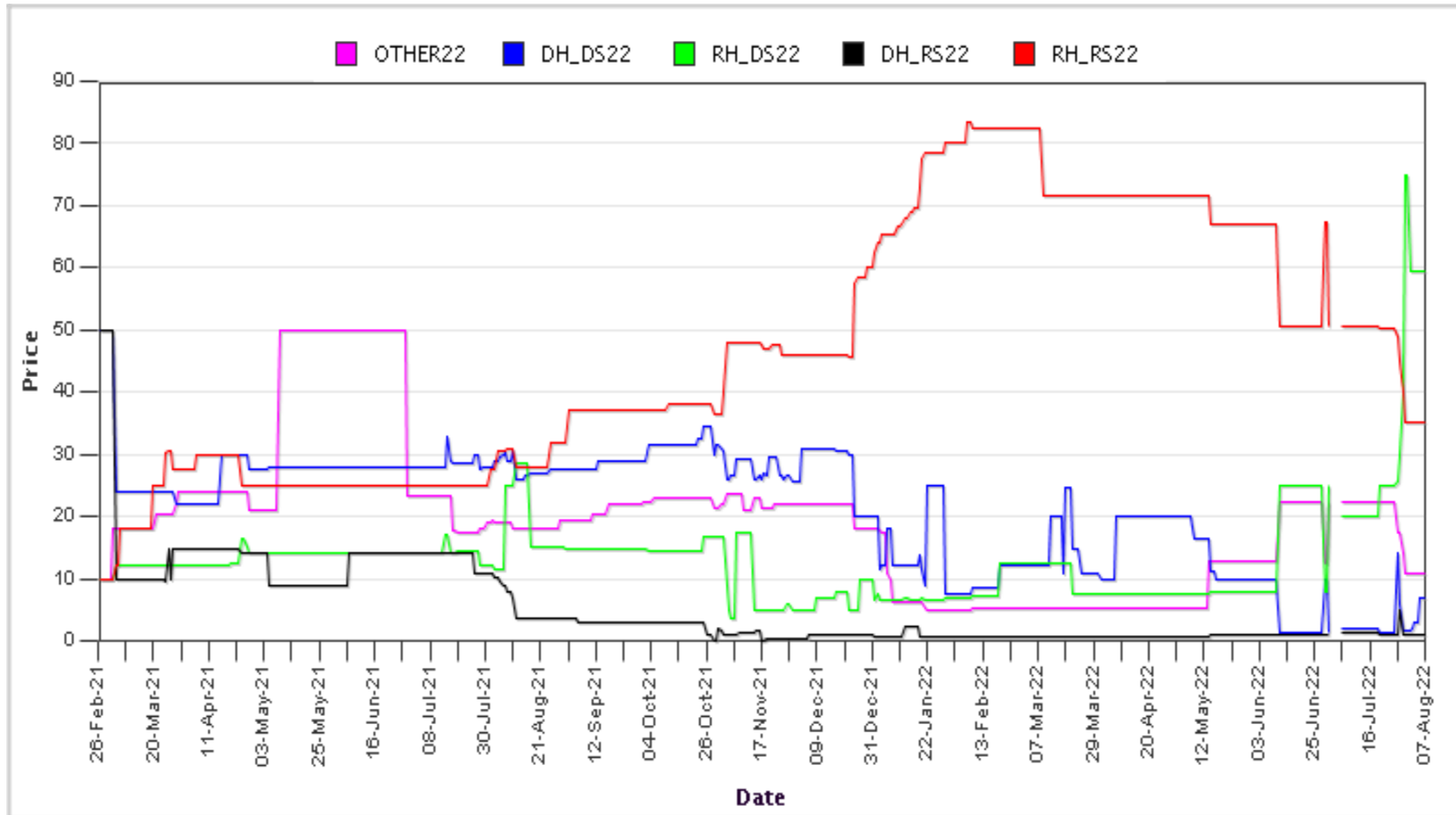
COVID-19 opened the flow on spending – where do we go from here? How will we pay for it?

And what about the demographics – friend or foe?

Currents Issues in Fiscal Affairs

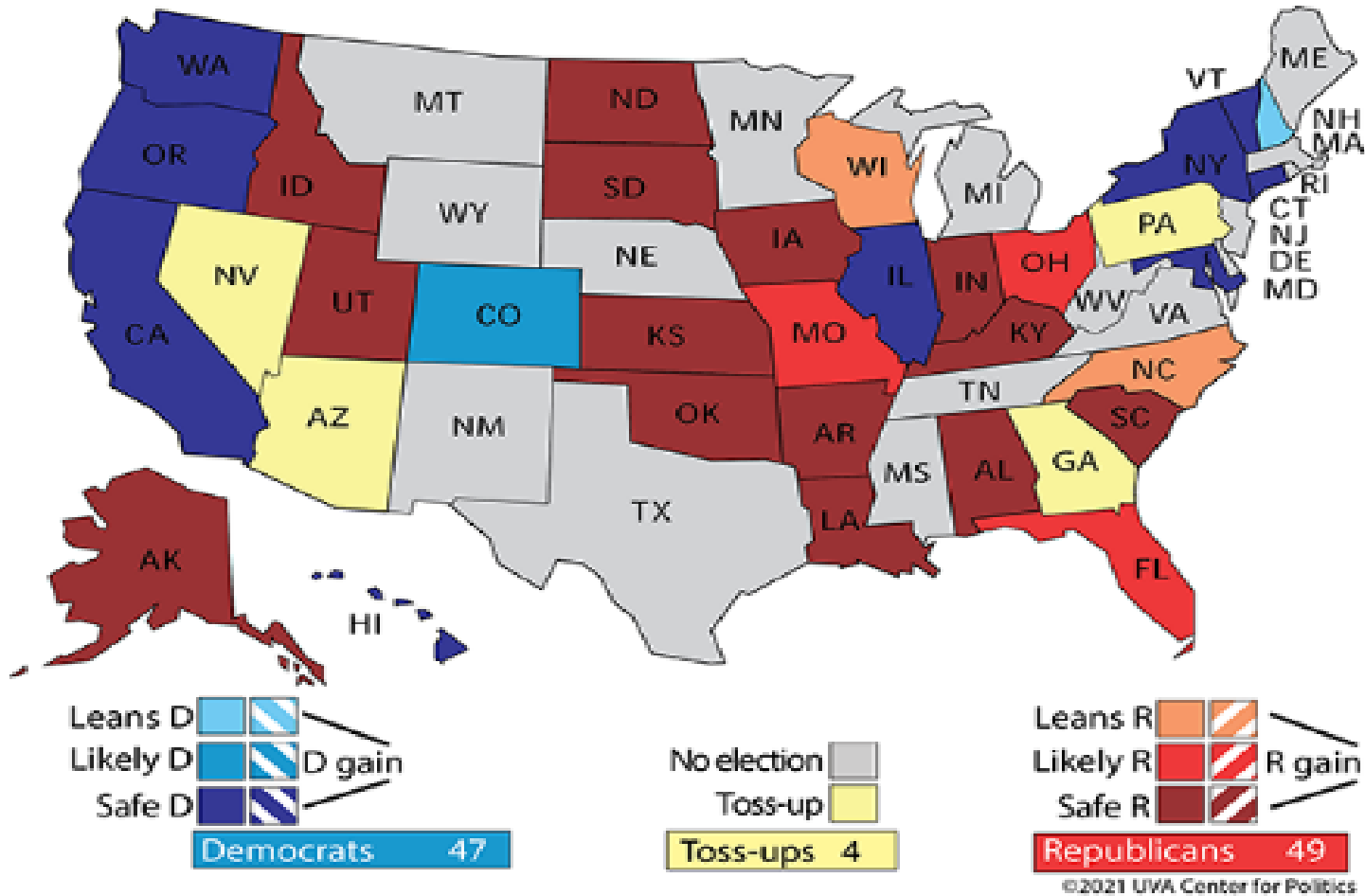
- **Federal:**
 - Fiscal Outlook fundamentally shifted back by COVID**
 - Next in Play: Infrastructure, Tax Changes: Rates & SALT**
 - Always in Play: SCOTUS, “GREEN” ISSUES**
 - Ongoing Play: Revising Trade – Little focus since 2020**
- **States:**
 - Income and Sales Tax revenue plunge, then rebound.**
 - Some State Revenues in Surplus**
 - Deferred Income Tax collection shifts state revenues**
 - Tax Reform Initiatives in other States slow, but SALT consideration weigh in**
 - SE states domination biz location ranking, but not exclusive.**
- **Local:**
 - RE valuation rising = tax revenues, fiscal distress moderating**
 - Federal bailout of Municipals with over 1MM in population**
- **The ZOOM Economy – implication for location!!**

Iowa Electronic Markets: Congress



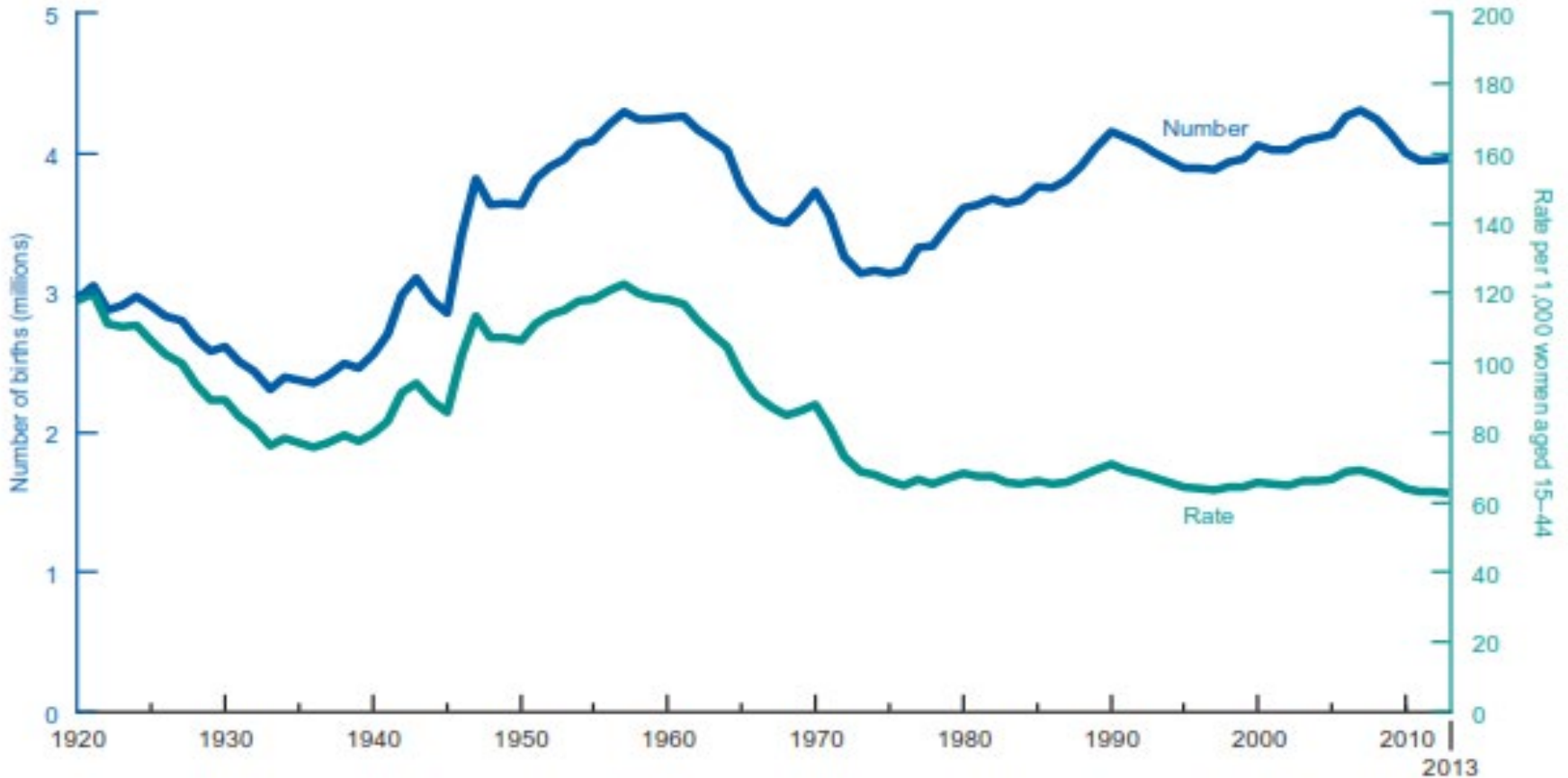
(source: University of Iowa)

Crystal Ball: Senate



(Source: Larry Sabato's Crystal Ball)

The Demographics: Boom & Bust



(Source: CDC, US Bureau of Census)

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