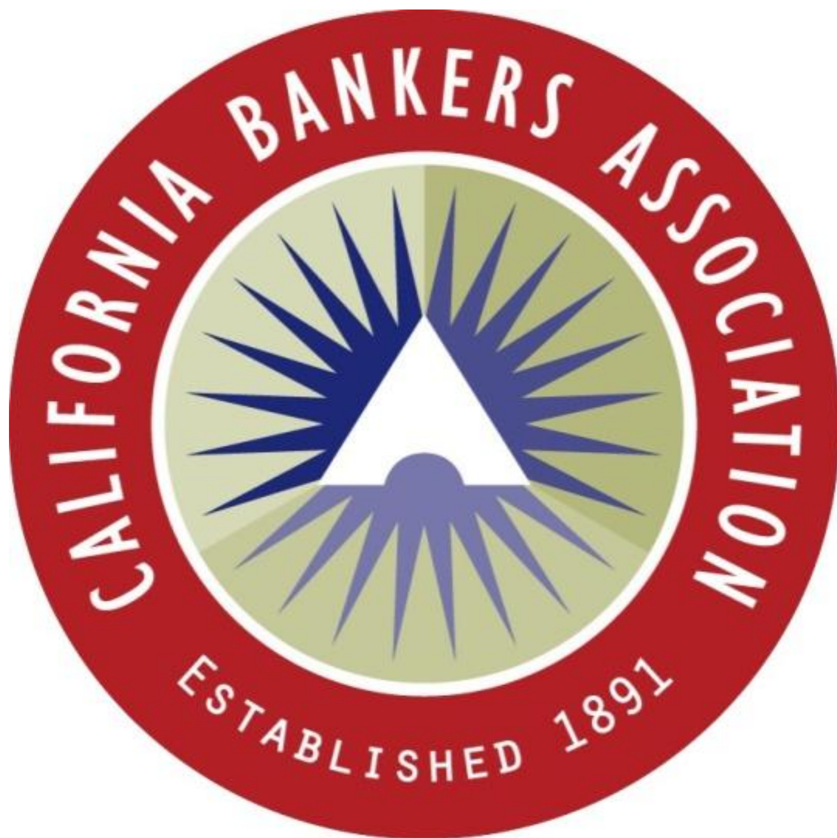
September 2011

Banking and Economic Update



BEACON ECONOMICS

Created for the
California Bankers Association

Authored by
Beacon Economics, LLC

A Message from the California Bankers Association

The California Bankers Association (CBA) is pleased to have engaged Beacon Economics to produce this report examining topical issues of importance to California's banking industry and overall economy. This edition studies elements of California's foreclosure crisis, housing inventory and recovery, and also takes a look at how California compares economically to Texas, a state often thought to be more business friendly than California.

This edition also offers the authors' insights into the national and state economic landscape, by analyzing a number of statistics including GDP growth, unemployment, real estate and housing starts, and consumer income and spending. Finally, the report provides banking statistics such as data on banking activities in California, including gross loans by categories, delinquencies, capitalization and charge-offs. The CBA encourages policy makers, members of the media and the general public to use the data, analyses and insight contained in this report to guide future discussions on these critically important issues.

Rodney K. Brown
President & CEO
California Bankers Association

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California Bankers Association

This document was prepared for the California Bankers Association. The views expressed in this report are the opinions of the authors and do not necessarily reflect the views of California Bankers Association or its members.

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Foreclosures and the California Housing Recovery

Since the housing bubble began to deflate in 2007, California–like much of the U.S.–has experienced an unprecedented wave of home foreclosures. To try to slow foreclosure activity numerous governmental programs have been put into place. These include short-term moratoriums, loan modification programs, and longer grace periods for unemployed homeowners. While some homeowners have surely been helped by such efforts, the pace of foreclosures still remains at a high level, although down from the peak reached in 2009.

There have been numerous calls for more extreme policy measures to slow the pace of foreclosures even further–calls that have been reinvigorated of late given the slowing economic recovery and the lack of a substantial recovery in home prices. These measures include modifications to the U.S. Treasury's Home Affordable Modification Program (HAMP) to make the application process largely mandatory for servicers, loss mitigation assessments that would remove the foreclosure option for banks if the process would “cost” more than some loan modification, or, in the extreme, plans to allow bankruptcy court judges to have legal authority over the foreclosure process.

No one likes to see a family lose their home. But regardless, the one underlying fact is that foreclosures occur because the owner isn’t paying the mortgage debt that has been secured against the house. To simply forgive such debt not only violates the basic rules that guide our financial system, but also has terrible implications for consumer lending markets. Thus many of the pundits calling for broader controls over the foreclosure process have instead touted macro policy goals as the reasons for such reforms. In general these arguments can be boiled down to the following:

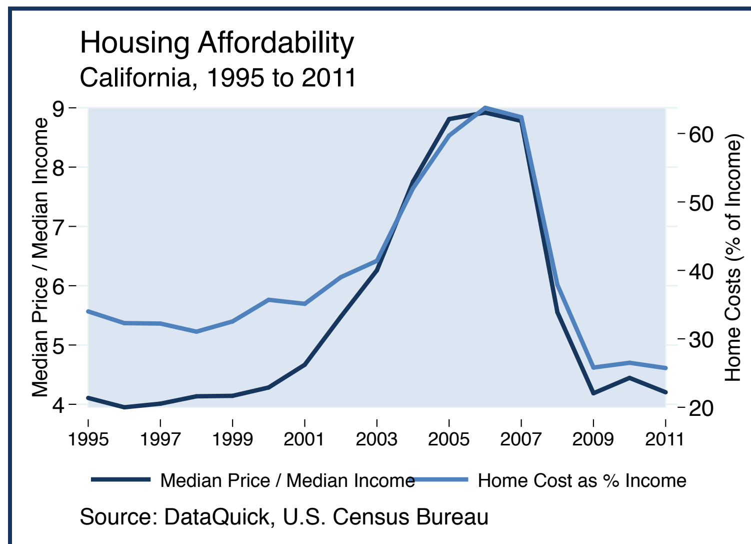
1. Foreclosures are preventing the housing market from recovering.
2. The lack of a housing recovery is what is hampering the U.S. economy.

It seems simple–stop foreclosures and the U.S. economy will magically heal. Unfortunately, these two bits of conventional wisdom are not nearly as clear cut as they would appear to be. Indeed, once examined carefully they quickly fall apart. Such changes in policy will not accomplish their promised short-term outcomes. And ultimately, such fundamental reforms are likely to carry substantial long-run costs for the housing market in terms of higher interest rates and reduced credit availability.

Take the idea that foreclosures are the problem that is preventing a housing market recovery. Right up front, it is unclear what is implied by the term “recovery.” We would have to presume

that the statement is meant to imply that prices should be rising after the record declines. But the declines in home prices seen in California and elsewhere are not the result of foreclosures as is commonly presumed. Quite the opposite–one can argue that the wave of foreclosures was largely driven by falling prices, putting people underwater on their mortgages and preventing them from refinancing or flipping their properties to get out from under mortgage payments that they couldn't afford. And the reason that prices fell was simply because they had become unsustainably high over the course of the last housing bubble.

The following chart shows the ratio of median home prices to median household incomes in the state. From 2000 to 2006, home prices grew by 123% in the state while median household incomes grew by a mere 17%. This pushed the price-to-income ratio from its long-run ratio of 4 to 1 up to 9 to 1. At the peak, if a household with the median income in California attempted to buy a median-priced house, they would have had to use almost two-thirds of their total gross household income to service the cost of the mortgage and property taxes. This basic calculation presumes that they were able to pay the $100,000 down payment necessary to cover the standard 20% needed to avoid principal mortgage insurance (PMI) and be able to obtain a standard 30-year fixed-rate mortgage–other wise the mortgage costs would have been even higher. Such prices were simply unsustainable over any period of time.

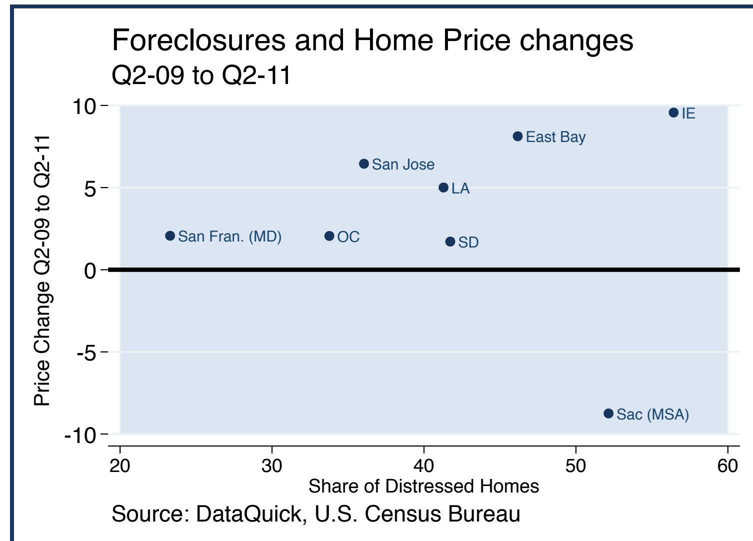


Since the bubble came to an end, home prices have fallen back to their historical 4 to 1 price-to-income ratio in the state. From an affordability standpoint, things are slightly better because interest rates have fallen to record low levels. But here in California the median household would still have to use more than 30% of their income–right at the edge of what most housing economists agree is the highest burden households should bear. Its hard to argue that prices have fallen to levels that are 'too low'.

Of course, it might be argued that looking at the state in the aggregate covers up problem areas where foreclosures have pushed prices far below their natural levels. It is true that there is a strong correlation between price declines over the past few years and the overall share of foreclosed properties in the region. Sacramento and the Inland Empire stand out as two examples of regions with the largest price declines and the highest shares of distressed sales. But this basic relationship is explained by a number of other facts.

First, distressed units sell at a discount in relation to nondistressed sales. This is typically because of the condition of the property and there is risk for prospective buyers given the potential for delays and issues with title. As such, the higher the share of foreclosures, the lower overall prices look. Additionally, those places that have had the biggest price declines are also the ones that saw some of the largest increases in prices during the credit-fueled bubble. Thus, prices have needed to fall farther to get back in line with the fundamentals. Lastly, these economies have been hardest hit overall in terms of job losses and in terms of increases in the unemployment rate. Take these into account and the foreclosure effect is not there.

One simple test is to look at the recovery. The following chart shows the increase in median prices by major California urban economies from the second quarter of 2009 to the second quarter of 2011, comparing these increases to the share of distressed sales in their markets over the same period of time. As can be seen, there is little relationship between these two factors. Indeed, with the exception of Sacramento, there seems to be a positive relation–those economies with the most foreclosures have seen the strongest growth in prices during the last two years.



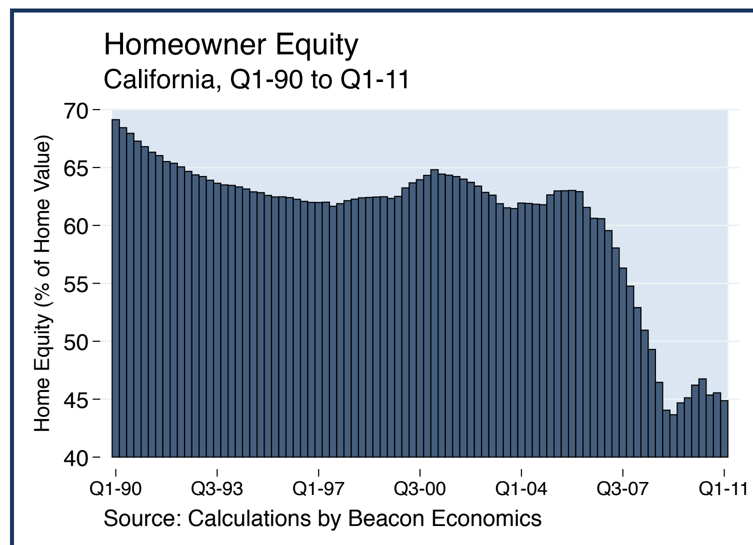
When we look across states, we do get a slightly different picture. States such as Michigan, Nevada, Florida, and Arizona are still seeing falling prices along with high foreclosure rates. This stark difference illustrates one of the primary drivers of price declines— oversupply of housing units. Unlike these other four states, California does not have an over-supply problem. Indeed, according to the most re-

cent numbers from the 2010 census, California has the second-lowest housing vacancy rate in the nation.

One argument is that foreclosures add to the excess supply–but this doesn't logically follow. California stands out as one of the best arguments against such flawed logic. Unless a foreclosure causes someone to move out of a region, it does not impact aggregate housing demand. It may shift demand from the ownership to rental markets–but in California this has in turn simply led to investors buying up available housing units and renting them out.

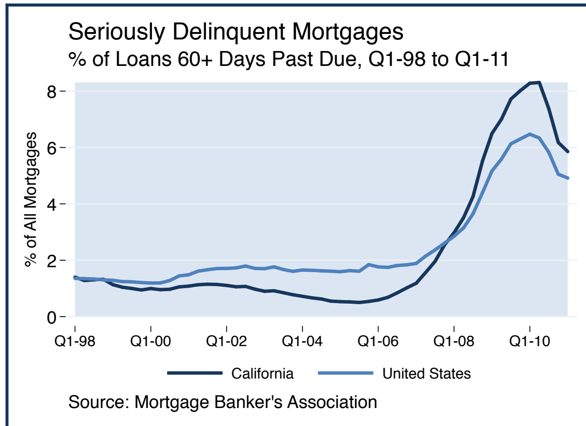
As for these other areas–some vastly over-produced housing during the bubble and in the case of Michigan the population base is shrinking for other economic reasons. Lower prices are exactly what these oversupplied markets need–since the record high levels of affordability encourage investors with a longer-term vision to step in to buy excess housing units. This is a long-term process; there is little that can be done in the short run outside of tearing down the excess supply of units. These states are all rapidly growing states–driven by the migration of Americans from the Midwest and Northeast to the South and West. These units will eventually be used. The bigger problems are in the Midwest–problems stemming not from overproduction but from the shrinking demand.

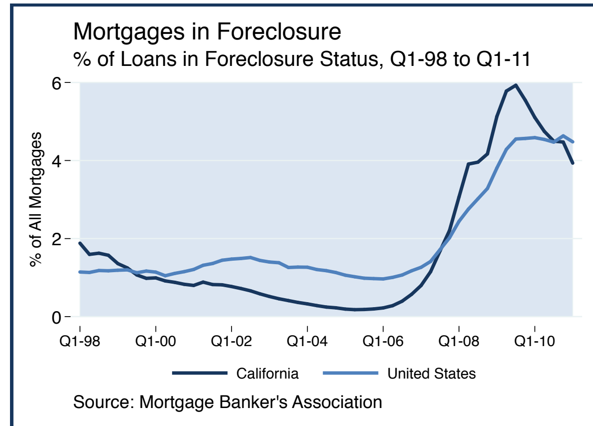
So, if California is housing-constrained, why hasn't price appreciation been more dramatic during the past two years? The answer here, as in much of the U.S., is the second major problem with the housing market today: equity. During the run-up in home prices, Americans saw the aggregate value of the housing stock increase by $17 trillion. At the same time, Americans took on roughly $7 trillion in new mortgage debt. When the bubble collapsed, most of the new value left while most of the mortgage debt remained. The net result is that Americans now have the lowest level of equity in the housing stock ever. Equity in the current home is often used as the down payment for purchasing a larger home, not



to mention covering the costs of moving. Because so many Americans have little or no equity, there simply isn't much demand for move-up buying. There is little that can cure this but time.

Even if foreclosures are not a problem now, with respect to housing supply, what about the shadow inventory that is about to come crashing down onto the market? Well–even here the rhetoric seems to largely outstrip reality. The most recent data available from the Mortgage Bankers Association show that while the number of units in the foreclosure process has stayed stubbornly high in the U.S., the number of seriously delinquent mortgages has fallen sharply in the past two years. The logjam has mainly to do with the overwhelmed court system in the judicial foreclosure states, along with the slowdown in the foreclosure process. Here in California the process has been much more dramatic. Not only have the number of delinquent loans fallen sharply, but so too have the number of units currently in the foreclosure process. In short, the shadow inventory that folks are worried about is burning off.





The foreclosure problem is settling out–the market is working. But we are still left with the oversupply of units and the undersupply of equity. How might policymakers fix these problems? The right answer is that they shouldn't try. The bubble in home prices, as well as in financial assets that occurred in the middle of the last decade, did spur growth in the U.S.–but it did so on a bad foundation. The false sense of wealth enjoyed by Americans caused savings rates to fall and the U.S. economy to open up an unsustainable trade deficit. Trying to spike asset prices now to grow U.S. consumption ignores the basic fact that overconsuming Americans led to the imbalance that ultimately shoved the U.S. economy into a recession in the first place. Better that policymakers should instead focus their efforts on business investment, infrastructure, and exports. Over time, equity will build up and population growth will use up excess housing stock. When this happens, the market will start to grow again on its own. Patience.

As for California policymakers–rather than wish for higher home prices, they may want to look beyond the current slump in the market and focus instead on the long-run competitiveness of the state. While the market here is clearly improving faster than in many other places, the state is still saddled with the second-lowest housing affordability in the U.S. Lately it has become de rigueur to compare California to Texas in terms of regulations and tax structures. But the impact of regulations and tax structures on long-run growth are typically overblown. Housing, on the other hand, is often completely ignored, and here is where the Lone Star State truly has us beat.

The most expensive housing market in the state of Texas is Austin, where the median price is currently under $200,000, while for the overall state it is slightly over $100,000–40% of the median price in our state. It is hardly surprising, then, that Texas can have more public workers than California as a share of their overall workforce but still have a smaller government. When housing is this cheap, you can pay public employees a third less and still offer them a better standard of living. It makes it a place that young families who become the core of long-term growth go to for raising families. And best of all–better affordability encourages home ownership–a favorite goal for many of those same pundits who paradoxically want to see home prices rise.

If California policymakers really want to drive housing prices up, there is a simple solution: outlaw the construction of any and all new residential units. Prices would immediately shoot up and many homeowners in trouble would be bailed out almost immediately by being able to refinance or sell. But of course this would completely end the state's ability to grow. Instead, policymakers should allow the market to work through its current problems on its own, focusing on what's really important for the state's long-run health–finding out why housing is so darn expensive in the Golden State.

California: Have the Golden Bears Been Trampled by Longhorns?

After a major downturn like the Great Recession of 2008-2009, it is natural to turn to self-reflection. For California, it is healthy to take stock of what happened during the downturn, why the Golden State was disproportionately affected, and whether any actions might be taken to improve our economic climate and avoid severe downturns in the future. However, many have interpreted the cyclical effects of this recession as a signal of larger structural problems in California's economy over the long-run. Some have called California's economy "broken" and have pointed to the performance of other states–most notably Texas–as evidence that California is losing a competitive battle with other states.

As is often the case, the media has seized on a few select statistics showing strong growth in Texas as evidence of California's decline. Headlines such as "Texas adds jobs while California taxes them away," were suddenly filling daily newspapers across the state. This has added to the paranoia that has existed for some time that California's poor business climate is forcing firms to pack their bags and leave the state in droves. Even our newly elected lieutenant governor headed to Texas to see how they've managed to get things so "right."

While it is true that Texas has outgrown California in nominal terms since 1994, much of this can be explained by a stronger bout of inflation during this time period rather than rapidly expanding production and output. In real terms, California has tracked economic growth (in terms of real state GDP) in Texas quite closely, despite contentions to the contrary. Both Texas AND California have consistently out-paced the rest of the nation in terms of economic growth.

Part of the California vs. Texas narrative has focused on philosophical issues: Texas believes in small government while California is a big government state. Indeed, in the first half of this year a flurry of articles described how, "Low-tax Texas beats big-government California." When viewed as a percentage of the overall economy, it is true that California does maintain a "larger" government than Texas. However, when viewed in terms of employment, Texas actually has a larger government than California. Since 1997, state and local government employment as a share of all workers has been consistently larger in Texas than in California.

So what does this mean? Texas doesn't actually have small government, they have inexpensive government. While California expends a larger chunk of its economy on state and local government, the state of Texas has proportionally more government workers. The cost of a government worker on average is roughly 54% higher in California than in Texas after accounting for benefits provided. This comes back to the central difference between California and Texas: cost of living, something that is significantly higher in California.

United States: Look for Second Half Acceleration in GDP Growth

The last GDP release had all sorts of surprises. The 1.3% growth rate was not one of them. There were plenty of indications that the U.S. growth was slowed in the second quarter as a result of a pullback in consumer spending, in turn driven by the spike in oil prices and the supply chain disruptions caused buy the Japanese tsunami not to mention the weather issues in the Midwest and subsequent flooding.

What did change was the history of recession and recovery. First—we learned that the U.S. dipped deeper in the recession than originally estimated. The peak-to-trough decline in output was bumped from 4.1% to 5.1%. Second, the recovery was, at first, stronger than thought. The U.S. economy grew at close to a 4% rate through the first half of 2010. It then began to slow in the second half of the year, ending with what looks now to have been a near zero growth first quarter of 2011.

U.S. Real GDP Growth

Component	Q1-10	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11
Real GDP Growth	3.90	3.80	2.50	2.30	0.40	1.30
Personal Consumption Expenditures	1.92	2.05	1.85	2.48	1.47	0.07
Durable Goods	0.70	0.56	0.63	1.20	0.85	−0.35
Nondurable Goods	0.75	0.30	0.47	0.67	0.25	0.02
Services	0.47	1.18	0.75	0.61	0.36	0.40
Gross Private Domestic Investment	3.25	2.92	1.14	−0.91	0.47	0.87
Nonresidential	0.56	1.62	1.04	0.82	0.20	0.61
Structures	−0.76	0.18	0.10	0.26	−0.40	0.20
Equipment and software	1.32	1.45	0.94	0.56	0.60	0.41
Residential	−0.41	0.50	−0.76	0.06	−0.06	0.08
Change in Private Inventories	3.10	0.79	0.86	−1.79	0.32	0.18
Net Exports	−0.97	−1.94	−0.68	1.37	−0.34	0.58
Exports	0.86	1.19	1.21	0.98	1.01	0.81
Imports	−1.83	−3.13	−1.89	0.39	−1.35	−0.23
Government	−0.26	0.77	0.20	−0.58	−1.23	−0.23
Federal	0.23	0.71	0.26	−0.26	−0.82	0.18
National Defense	0.03	0.33	0.31	−0.34	−0.74	0.39
Nondefense	0.21	0.38	−0.05	0.09	−0.08	−0.21
State and Local	−0.49	0.05	−0.06	−0.33	−0.41	−0.41

Source: Bureau of Economic Analysis

Combine this with the issues surrounding the debt ceiling and it's easy to understand why the equity markets have ended their winning streak with a giant thud. Suddenly 'double dip' is back in the headlines even as policy makers have rushed to assure the public that the recovery

is not threatened. So which is it? Is the economy slipping back into a downturn, or are the shocks to the system transitory, as suggested by Federal Reserve Chairman Ben Bernanke and other policy makers?

We think the second. First, the slowdown in the recovery in the second half of 2010 was largely driven by the sharp slowing in the pace of inventory accumulation, combined with weaker numbers for business investment. Consumer spending and exports were actually bright spots in the economy—and the good news is that these forces, as long as they don't go away, should start to offset these other issues.

Consumers became the big negative in the first half of 2011, for the reasons already noted. But the forces that weighed so heavily on consumers are already starting to reverse themselves. Businesses are quickly catching up with orders after the disruptions, with an added economic impact from the rebuilding process. Oil prices, which created a drag on consumer spending, have already fallen from their April peak. Prices at the pump are starting to follow. This implies that consumers will be able to spend more on non-energy goods. And ultimately even if oil stays in the $100 range, the shock will diminish over time as American's forego gas guzzling pickups and SUV's for smaller cars and hybrids.

On top of this is the positive trade picture. Inflation in the developing world is making U.S. products cheaper abroad by contributing to the decline in the real value of the U.S. dollar. As such we expect that U.S. exports will continue to add to economic growth in a solid way.

The biggest issue really has been around the issue of the federal budget deal that has just passed. In general, the federal deficit needs to start to close—and this implies that federal spending will be a necessary drag on the economy for the near term. But—with the chaos of the battles over raising the ceiling hopefully behind us, the uncertainty will be reduced and businesses can get back to planning for the future through hiring and business investment.

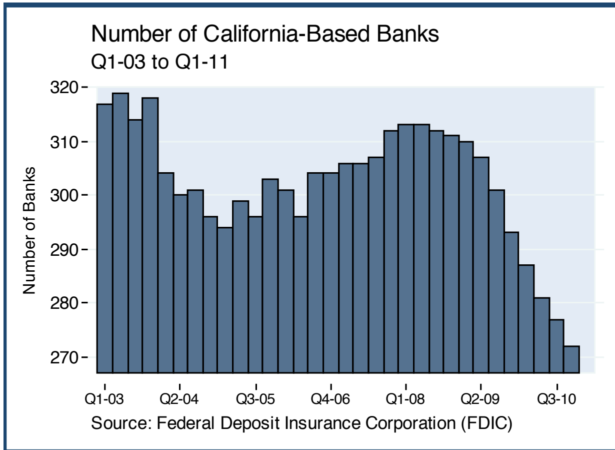
Add it up and Beacon Economics expects growth in the second half of the year to be in the 3% to 4% range—short of some unlikely turn of events. It could end up being even more robust if oil prices continue to fall. We also expect this momentum to carry into 2012, and that job growth will pick up again after a weak May and June showing, causing the unemployment rate to start to fall again, albeit slowly.

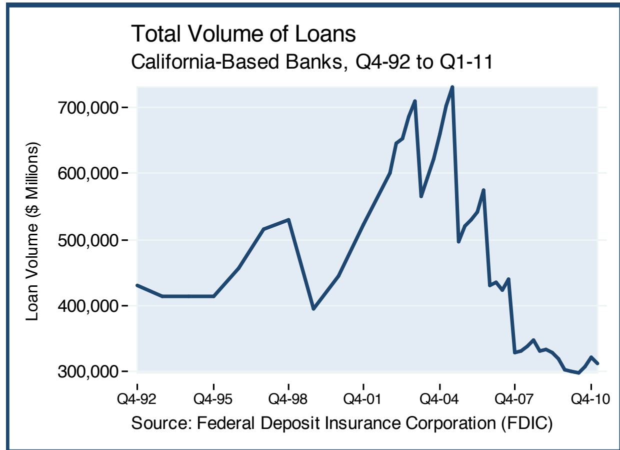
The U.S. isn't completely out of the woods, and frankly the gap between where the economy is and should be will likely close at best slowly. But its worth noting that for all the glum news, American's still enjoy one of the highest standards of living in the world. Once in a while its worth counting your blessings rather than tallying your curses.

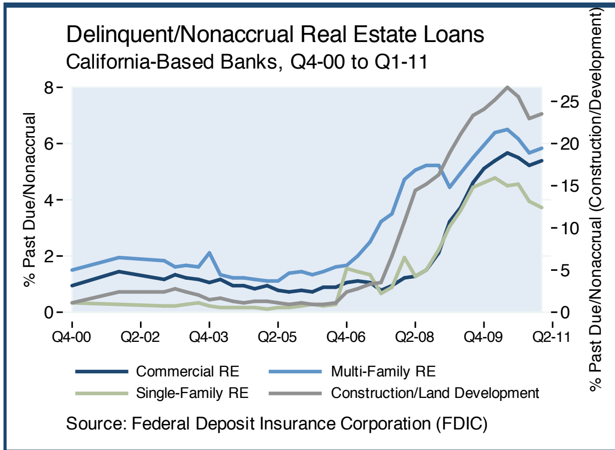
Data Appendix

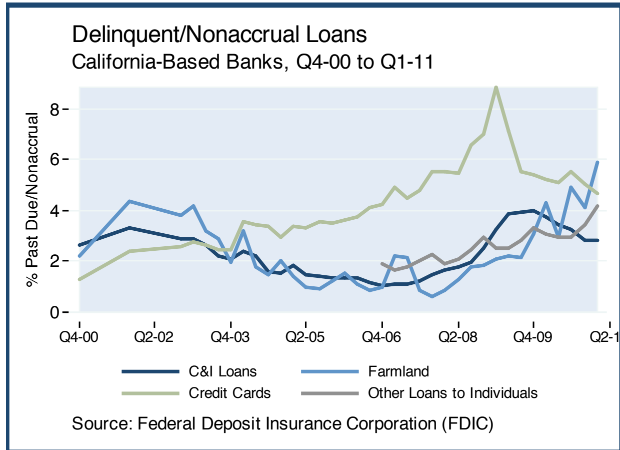
- The volume of loans made by California-based banks are down substantially since peaking in the 2005 timeframe. Part of this is due to poor demand and a shortage of creditworthy borrowers, but this trend is also due to the loss of several banks in the state. This loss of nearly 40 California-based banks is due to closures and to consolidation with other banks.
- Although delinquent and non-accrual real estate loans remain high, they are down from peaks across all four major types of real estate loans in California. Delinquent/non-accrual credit cards and C&I loans are trending downward as well, though Farmland and Other Loans to Individuals continue to see rising delinquency.
- Real estate loan delinquencies should continue to improve as well, which will help to improve the balance sheets of many California-based banks. According to the Mortgage Bankers' Association, the number of loans that are seriously delinquent or in the foreclosure process have been trending downward for several quarters consecutively.
- While growth in the labor markets have left something to be desired, there are clear indications that the state's economy is on the mend. Since hitting bottom, California *has* added back more than 226,000 jobs. Clearly, this is not enough to repair the 1.3 million job hole left in the wake of the "Great Recession," but it is a far cry from the "stalling economy" that we've been hearing so much about in the media lately.
- Unemployment does remain stubbornly high in the state. This is not necessarily *bad* if it indicates increased confidence in job prospects. However, the unemployment rate remains high because more unemployed residents continue to drop out of the labor force rather than a re-entry of previously discouraged workers. Still, with weekly hours of work holding steady, moderate growth in total nonfarm employment, exports performing particularly well, and an agricultural sector bolstered by relatively high commodity prices, the unemployment rate is expected to begin to fall modestly in coming quarters.
- In comparison to the U.S. overall, California's economy is lagging behind the recovery in some important ways. First, U.S. GDP is nearly back to its peak levels reach before the recession—a recovery of nearly 5% from trough levels, while California has added back 3.5% according to the Philadelphia Federal Reserve's coincident index of economic activity. However, the U.S. has added back roughly the same proportion of its jobs (1.3%)—slightly less than the 1.32% in California, although California fell further and has a bigger hill to climb.

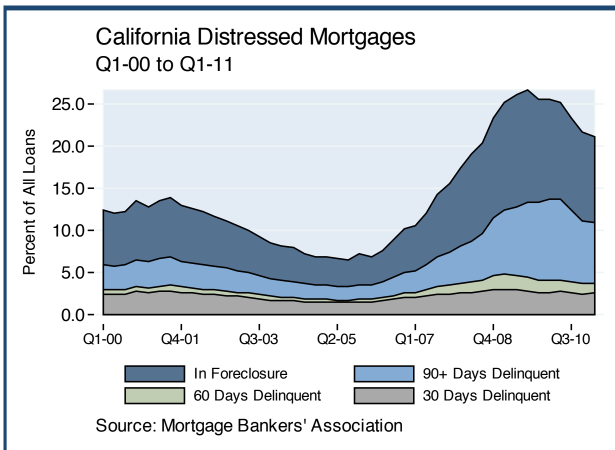
California Data Appendix

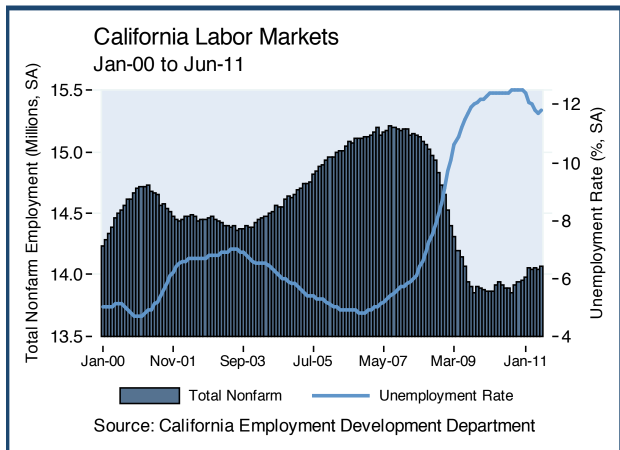












Loans/Leases by Type
All California-Based FDIC-Insured Institutions - Loans in $Million

Type	Q1-08	Q1-09	Q1-10	Q2-10	Q3-10	Q4-10	Q1-11	Change (%)	Share (%)
Number of Banks	313	310	287	281	277	272	267	−7.0	0.0
Total Loans/Leases	330,536	333,214	300,257	297,106	307,634	320,710	311,269	3.7	100.0
Real Estate (Domestic)	247,840	245,781	225,305	223,415	232,774	243,454	234,175	3.9	75.2
Construction/Land Development	41,681	32,464	17,478	15,618	14,376	12,586	11,399	−34.8	3.7
Commercial	78,528	85,213	79,758	80,194	81,568	81,325	80,552	1.0	25.9
Multi-Family	21,012	21,131	18,998	19,028	21,140	21,978	22,238	17.1	7.1
1-4 Family	103,064	102,771	104,634	104,011	111,085	122,874	115,415	10.3	37.1
Farmland	3,554	4,202	4,438	4,564	4,605	4,691	4,570	3.0	1.5
Real Estate (Foreign)	402	490	168	159	126	123	127	−24.4	0.0
Farmland	3,341	3,614	3,713	3,894	3,920	4,147	3,886	4.7	1.2
Commercial/Industrial	54,286	58,217	48,011	46,750	47,295	48,989	48,694	1.4	15.6
Loans to Individuals	17,094	15,976	14,806	14,791	15,180	15,149	15,034	1.5	4.8
Credit Cards	318	344	345	347	334	333	312	−9.5	0.1
Other Revolving Loans	806	938	714	709	694	796	756	5.9	0.2
Automobile Loans	0	0	0	0	0	0	3,925	*N/A*	1.3
Other Individual Loans	15,969	14,694	13,747	13,735	14,151	14,020	10,041	−27.0	3.2
Total Other Loans	7,746	9,290	8,384	8,231	8,470	8,980	9,497	13.3	3.1

Source: Federal Deposit Insurance Corporation (FDIC)

30-89 Days Past Due Loans/Leases by Type
All California-Based FDIC-Insured Institutions - Delinquency in %

Type	Q1-08	Q1-09	Q1-10	Q2-10	Q3-10	Q4-10	Q1-11
Total Loans/Leases	1.29	1.74	1.53	1.32	1.16	1.06	1.14
Construction/Land Development	2.89	4.78	2.77	2.65	2.48	1.72	2.53
Commercial Real Estate	0.52	1.39	1.13	0.97	0.80	0.89	1.02
Multi-Family Real Estate	0.89	1.30	1.17	0.77	0.97	0.98	0.99
1-4 Family Real Estate	1.67	1.79	1.95	1.72	1.44	1.27	1.25
Farmland	0.41	1.00	1.70	0.52	1.44	0.35	2.14
Real Estate (Foreign)	0.00	0.00	0.08	0.00	0.34	0.32	0.00
Commercial/Industrial	0.73	0.84	0.95	0.81	0.63	0.62	0.57
Loans to Individuals	1.59	2.00	2.02	1.85	1.84	2.00	1.76
Credit Cards	3.18	4.44	2.89	2.66	2.55	2.40	2.08
Automobile Loans							1.26
Other Individual Loans	1.64	2.07	2.10	1.92	1.91	2.10	2.08
Total Other Loans	0.38	0.24	0.34	0.86	0.67	0.13	0.73

Source: Federal Deposit Insurance Corporation (FDIC)

90+ Days Past Due Loans/Leases by Type
All California-Based FDIC-Insured Institutions - Delinquency in %

Type	Q1-08	Q1-09	Q1-10	Q2-10	Q3-10	Q4-10	Q1-11
Total Loans/Leases	0.24	0.13	0.25	0.40	0.60	0.43	0.48
Construction/Land Development	0.80	0.45	1.34	3.08	4.31	3.46	3.75
Commercial Real Estate	0.20	0.09	0.18	0.33	0.66	0.43	0.52
Multi-Family Real Estate	0.60	0.03	0.80	0.77	0.88	1.02	0.97
1-4 Family Real Estate	0.08	0.02	0.03	0.06	0.16	0.08	0.09
Farmland	0.02	0.03	0.07	0.09	0.30	0.34	0.30
Real Estate (Foreign)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Commercial/Industrial	0.09	0.24	0.14	0.14	0.27	0.18	0.18
Loans to Individuals	0.14	0.18	0.61	0.82	0.79	1.01	1.21
Credit Cards	2.32	4.41	2.33	2.38	2.15	1.91	1.60
Automobile Loans							0.04
Other Individual Loans	0.10	0.10	0.59	0.82	0.79	1.04	1.74
Total Other Loans	0.15	0.03	0.01	0.16	0.41	0.07	0.07

Source: Federal Deposit Insurance Corporation (FDIC)

Nonaccrual Loans/Leases by Type
All California-Based FDIC-Insured Institutions - Nonaccrual in %

Type	Q1-08	Q1-09	Q1-10	Q2-10	Q3-10	Q4-10	Q1-11
Total Loans/Leases	2.14	3.16	4.61	4.69	4.31	3.93	3.88
Construction/Land Development	7.08	13.59	20.91	20.82	18.69	17.70	17.22
Commercial Real Estate	0.49	1.71	4.07	4.38	4.06	3.90	3.87
Multi-Family Real Estate	0.44	1.76	2.84	2.95	2.72	1.96	1.78
1-4 Family Real Estate	2.97	2.61	4.41	4.74	4.57	4.31	4.47
Farmland	0.43	1.05	2.52	2.36	3.15	3.44	3.47
Real Estate (Foreign)	0.03	0.02	1.53	1.49	3.14	2.94	2.71
Commercial/Industrial	0.87	2.17	2.67	2.51	2.34	2.03	2.04
Loans to Individuals	0.14	0.34	0.32	0.21	0.27	0.30	0.29
Credit Cards	0.00	0.00	0.00	0.09	0.83	0.76	0.99
Automobile Loans							0.12
Other Individual Loans	0.15	0.37	0.35	0.23	0.27	0.30	0.36
Total Other Loans	0.44	1.08	1.11	1.31	1.26	0.96	0.78

Source: Federal Deposit Insurance Corporation (FDIC)

Charge-Offs by Type
All California-Based FDIC-Insured Institutions - $000s

Type	Q1-08	Q1-09	Q1-10	Q2-10	Q3-10	Q4-10	Q1-11
Construction/Land Development	316,595	474,196	300,205	180,916	136,138	133,796	71,033
Farmland	174	3,939	2,720	2,785	645	8,258	2,124
1-4 Family Real Estate	173,103	187,828	191,207	206,500	230,720	206,804	249,458
Multi-Family Real Estate	2,800	15,185	34,162	43,946	40,697	36,871	14,288
Commercial Real Estate	4,553	50,202	278,978	326,457	235,460	323,398	149,321
Real Estate (Foreign)	0	0	-65	-67	-84	-501	-306
Commercial/Industrial	83,899	387,693	258,475	236,749	213,462	166,814	70,695
Loans to Individuals	112,477	206,880	101,602	63,331	69,060	69,447	55,090
Credit Cards	6,085	10,335	9,812	9,092	8,817	8,272	6,992
Automobile Loans	0	0	0	0	0	0	2,703
Total Other Loans	4,116	6,843	9,337	13,085	10,154	10,730	13,266

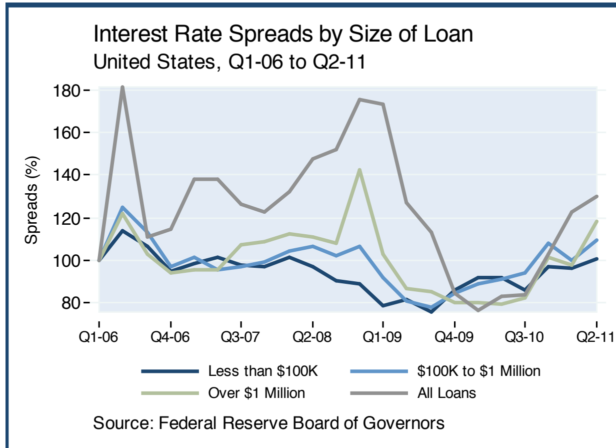
Source: Federal Deposit Insurance Corporation (FDIC)

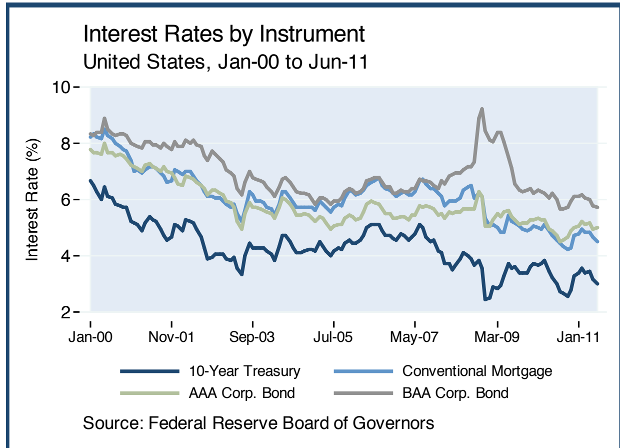
California Economic Snapshot

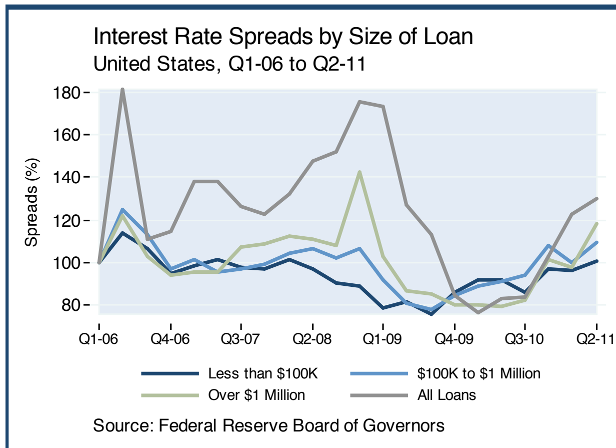
Indicator	Q1-08	Q1-09	Q1-10	Q1-11
Labor Markets				
Farm Employment (000s)	383.6	377.6	377.0	382.5
Total Nonfarm Employment (000s)	15,140.6	14,413.0	13,863.3	14,027.7
Goods Producing	2,307.8	2,047.6	1,842.7	1,848.3
Service Providing	12,832.8	12,365.4	12,020.6	12,179.4
Unemployment Rate	6.0	10.1	12.4	12.2
Residential Real Estate				
Existing SFR Median Prices	386,971	227,748	255,764	251,186
Existing SFR Sales	53,882	91,779	85,538	84,779
Condo Median Prices	365,030	227,091	257,812	235,756
Condo Sales	10,225	14,923	18,547	18,752
New Home Median Prices	379,679	328,019	339,773	345,695
New Home Sales	15,409	8,338	8,603	6,556
Defaults	98,444	124,987	75,936	64,882
Foreclosures	48,603	45,067	44,589	44,784
Building Permits				
Total Residential	18,357	8,732	11,893	10,871
Single-Family Units	9,512	5,155	7,293	5,734
Multi-Family Units	8,845	3,577	4,599	5,137
Total Nonresidential ($000s)	5,565,666	2,933,147	2,732,444	3,041,095
New Commercial ($000s)	2,169,867	624,139	474,045	410,369
New Offices ($000s)	666,044	98,903	177,432	108,812
New Retail ($000s)	692,365	292,644	191,970	206,797
New Hotel ($000s)	198,914	95,329	38,634	8,926
New Industrial ($000s)	310,423	61,443	132,801	152,366
Nonresidential Alterations ($000s)	2,317,363	1,744,859	1,675,006	1,800,871
Other Nonresidential ($000s)	843,855	480,999	403,912	592,986
Consumer Spending and Income				
Personal Income ($Billions)	1,594.4	1,566.1	1,593.3	1,665.5
Taxable Sales ($Millions)	138,129.2	115,576.5	117,860.8	127,668.2

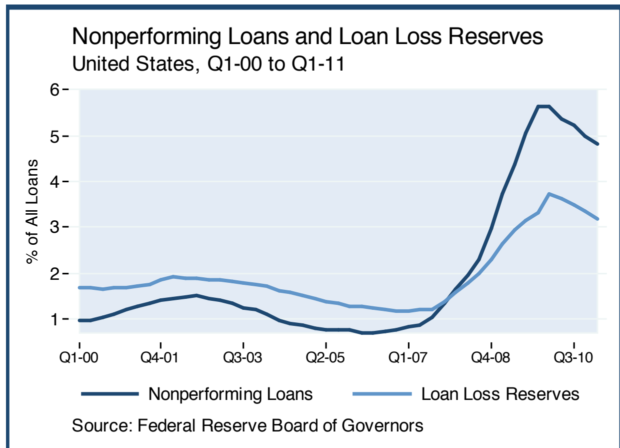
Source: Various Sources

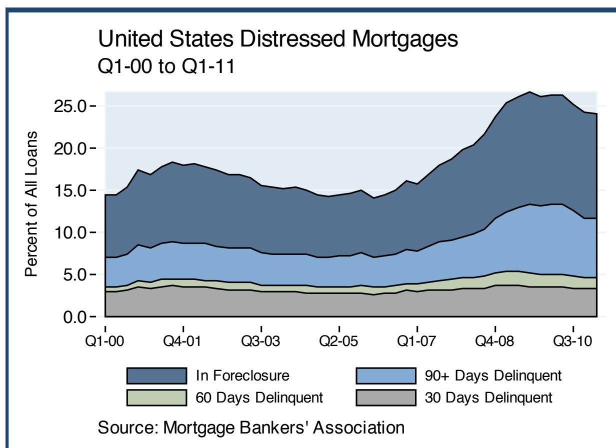
United States Data Appendix

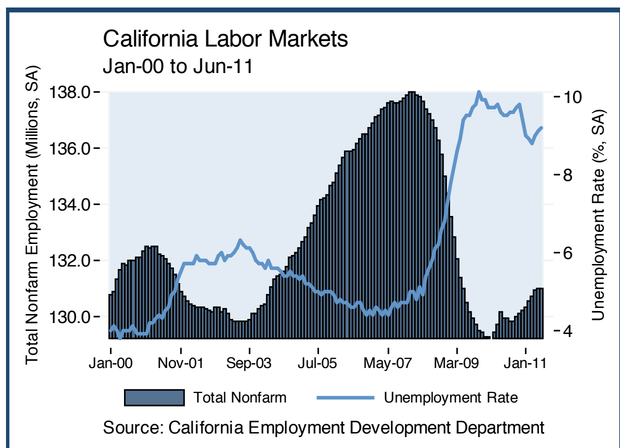












Senior Loan Officer Survey

Type	Q1-08	Q1-09	Q1-10	Q2-10	Q3-10	Q4-10	Q1-11
Net Percentage of Banks Reporting Stronger Demand for:							
Prime Mortgage Loans	-24.5	36.7	-13.2	9.1	-9.3	-24.1	-34.0
Non-Traditional Mortgage Loans	-29.7	-12.0	-33.3	0.0	-9.5	-13.0	-23.8
Commercial Real Estate Loans	-37.5	-66.0	-7.1	-7.0	1.8	12.3	34.5
C&I Loans From Small Firms	-16.1	-63.5	-9.3	-3.6	-21.4	5.6	9.6
C&I Loans From Large/Middle-Market Firms	0.0	-60.4	-7.1	1.8	-7.0	28.1	27.3
Consumer Loans Ex. Credit Cards/Autos							0.0
Credit Card Loans							-2.8
Auto Loans							25.0
Net Percentage of Banks Increasing Spreads of Loan Rates Over Banks' Cost of Funds to:							
Small Firms	63.6	75.0	9.3	-32.7	-21.4	-29.6	-50.0
Large And Middle-Market Firms	71.0	79.2	-7.1	-49.1	-33.3	-47.4	-54.5
Net Percentage of Banks Tightening Standards for:							
Prime Mortgage Loans	62.3	49.0	1.9	-5.5	9.3	1.9	0.0
Non-Traditional Mortgage Loans	75.6	64.0	4.8	4.5	9.5	13.0	10.0
Commercial Real Estate Loans	78.6	66.0	12.5	5.3	3.6	0.0	-5.5
C&I Loans To Small Firms	51.8	42.3	0.0	-9.1	-7.1	-1.9	-13.5
C&I Loans To Large/Middle-Market Firms	55.4	39.6	-7.1	-8.8	-10.5	-10.5	-16.4
Consumer Loans Ex. Credit Cards/Autos							-7.7
Credit Card Loans	32.4	58.1	9.1	-7.9	-10.0	-10.0	-20.5
New And Used Auto Loans							-14.6

Source: Federal Reserve Board of Governors

About Beacon Economics, LLC

Beacon Economics, LLC is an independent economic research and consulting firm with offices in Los Angeles and the San Francisco Bay Area. We deliver economic analysis and data sites that help our clients make informed, strategic decisions about investment, growth, revenue, policy, and other critical economic and financial issues. Our nationally recognized forecasters were among the first to predict the collapse of the housing market and foretell the onset and depth of the economic downturn that followed. Our core areas of expertise include economic and revenue forecasting, market and industry analysis, economic impact studies, economic policy analysis, and international trade analysis.

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