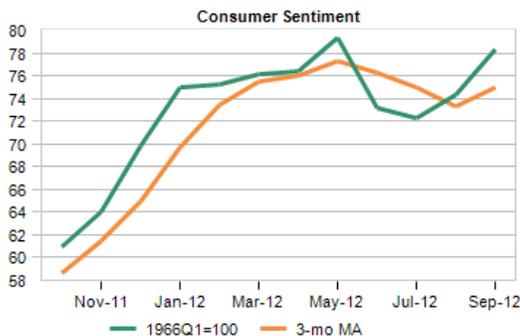


## ECONOCAST™ UPDATE – October 1, 2012

### U.S. Economy – Housing Turns Stronger

Despite the weak recovery and the disappointing pace of job growth, consumer confidence has increased strongly over the last 90-days pushed up by improving expectations for future growth.



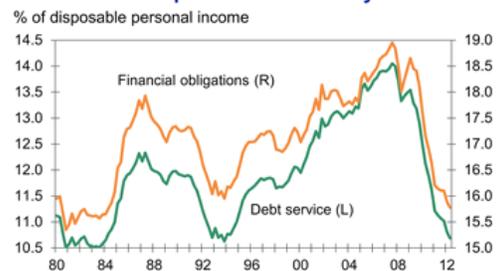
The rebound in confidence seems at odds with weaker growth in the U.S. economy of late. This discrepancy is best explained by the strong recovery in household wealth. The rally in equity markets coupled with the turnaround in housing markets has boosted household net worth to \$62.7 trillion which is well above its level in January 2009. With the political campaign reaching a crescendo there is much talk about whether household are better off today than in January 2009 when President Obama took office. The focus on this comparison may also

be affecting consumer confidence since by a variety of measures households are in fact better off today. While GDP is only growing at a 1.7% pace this is far better than the -3.8% drop in the 1<sup>st</sup> quarter of 2009. Employment is growing slowly compared to falling rapidly and the unemployment rate is lower. Home prices have recovered to their January 2009 levels, but this is in part because the big fall in prices came during 2007 and 2008. All of this is likely to lift consumer spending through the wealth effect.

Better Off U.S.	Jan-09	Aug-12	Better/Worse
Real GDP	-3.8%	1.7%	Green
Unemployment Rate	8.7%	8.1%	Green
Job Growth	-818	96	Red
Median HH Income	\$52,546	\$50,054	Red
Case Schiller Home \$	146	145	Yellow
HH Net Worth	\$50.4	\$62.7	Green

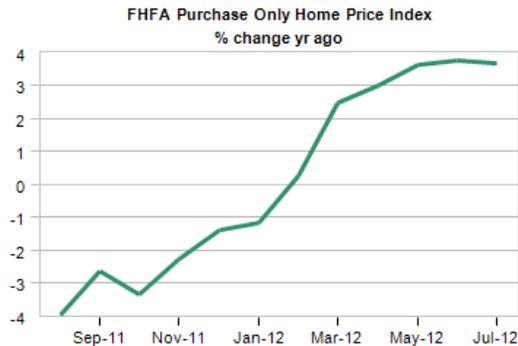
Furthermore, households have re-established their balance sheets by paying down debt reducing the payments to 1992 levels.

### Households Keep More of What They Earn



Sources: Federal Reserve, Moody's Analytics

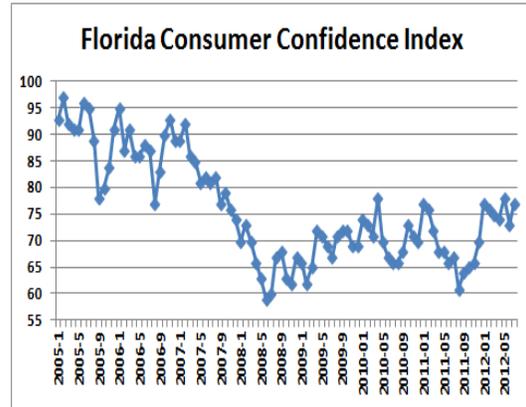
Despite the recent slowdown in momentum, housing markets are recovering. Non-distress home sales are increasing in volume, reducing the downward pull on prices from short and REO sales. As a result, prices are up almost 4% compared to last year.



The rebound in home prices is uneven for the moment, but it should soon start to level out. Monthly growth for the Mountain division is strong due to rebounds in Phoenix, Salt Lake City. The West South Central and West North Central are also showing good growth. However, the Pacific and South Atlantic divisions are showing are weaker because of more softer fundamentals and significant foreclosure inventories, which still lead to high REO. Several areas, notably Florida and some states in the Northeast, still have slight house price declines as remaining foreclosure inventory is cleared, but the U.S. housing market as a whole is past its last price trough.

### Florida Economy: Job Growth Continues Improving Slowly

As was true for the nation, Florida's consumer confidence rebounded to a five-year high in September. This comes despite the weak recovery. Why? The wealth effect is strong in Florida.



Comparing Florida's economy today to conditions in January 2009 are far weaker for Florida than for the U.S. The unemployment rate is higher, and home prices and median household incomes are considerably lower. However, Florida's labor market is much improved with job growth running at 87,500 over the last 12 months compared to the shocking contraction of -473,000 jobs registered for the 12-months ending January 2009.

Better Off Florida	Jan-09	Aug-12	Better/Worse
Unemployment Rate	7.8%	8.8%	
Job Growth YOY	-473,000	85,700	
Median HH Income	\$55,590	\$45,105	
FEHO	198.22	180.37	

The improving job prospects weigh large on Florida households. Furthermore, the recovery in equity markets, back to their 2007 levels, has altered the perception of retirees in Florida who tend to hold large stock positions directly and indirectly through their pensions. Finally, although home prices remain well below their levels of January 2009, prices have stabilized in most metropolitan areas of Florida. This combination appears to have boosted Floridians confidence. Higher levels of confidence are important at this stage of the business cycle to support a sustainable recovery.