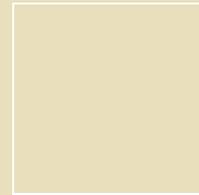


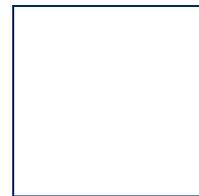
# Economic Outlook

R. Andrew Bauer, Ph.D.

Regional Economist



**Baltimore Neighborhood Collaborative**  
**December 7, 2009**



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# Economic Outlook

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The views expressed here are those of the author, and do not necessarily represent those of the Federal Reserve Bank of Richmond or the Federal Reserve System.





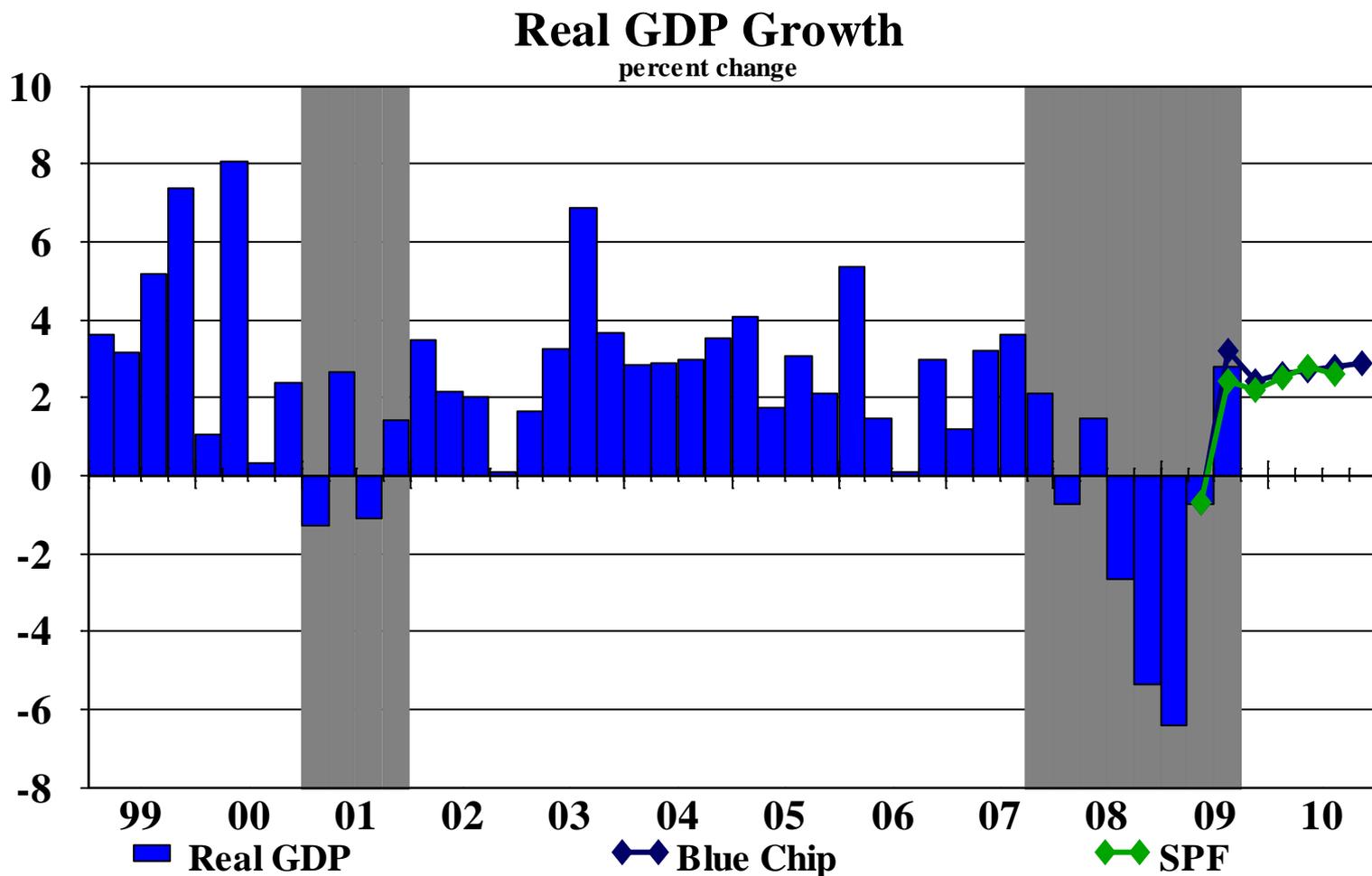
# Overview

- How strong of a recovery should we expect?
- Outstanding risks to the economy
  - Weak domestic demand
    - Cautious consumer
    - Risk-adverse businesses
  - Ongoing correction in housing market
  - Commercial real estate
  - Energy prices
- Monetary & fiscal policy supporting growth



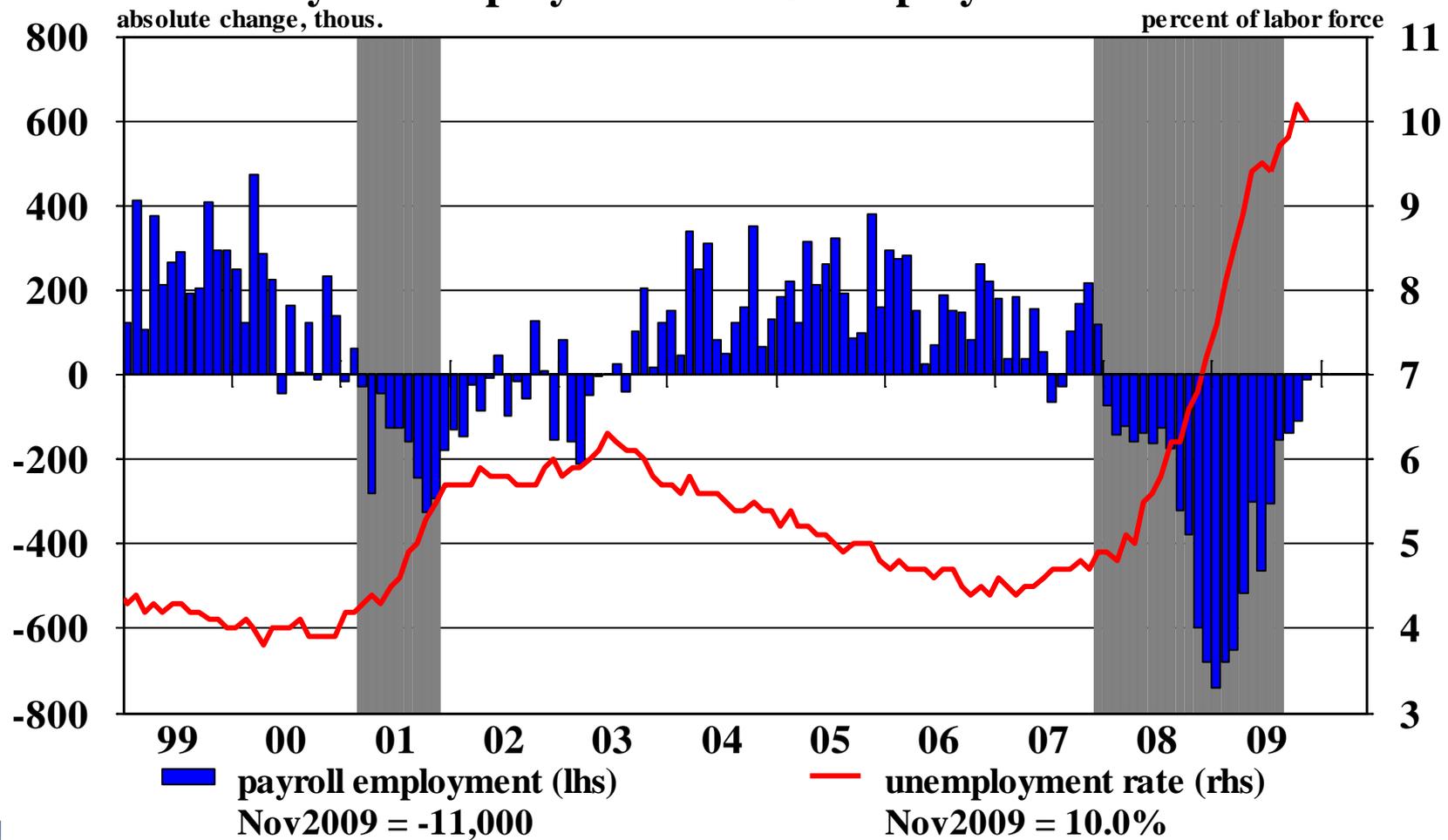


# Expectations for a modest recovery



# Labor market improving but remains weak

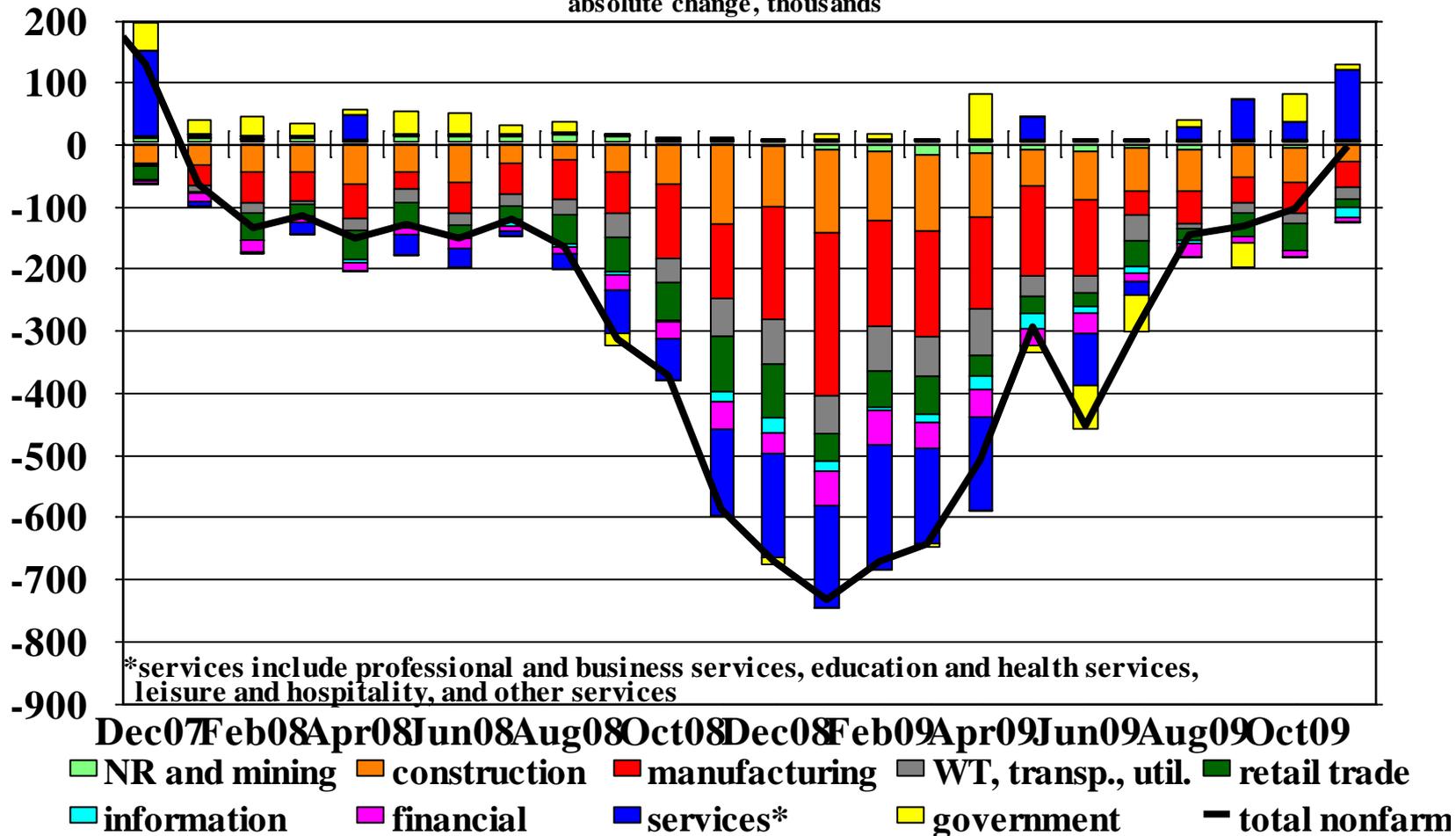
## Payroll Employment and Unemployment Rate



# Job losses moderate and less widespread

## Contributions to Change in Nonfarm Payroll Employment

absolute change, thousands





# Outlook for Baltimore

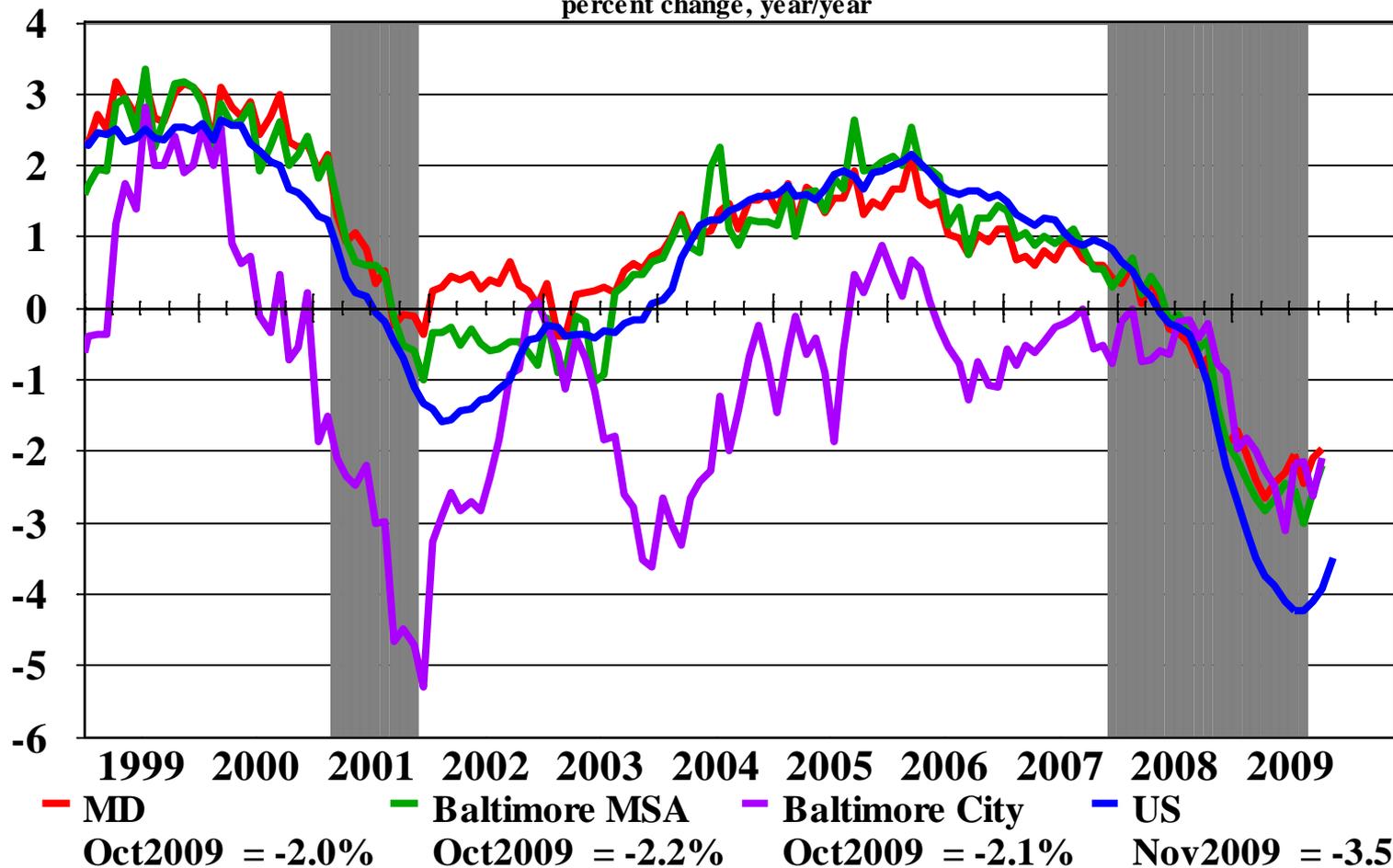
- Region performing better than nation
- Employment mix more favorable
- Proximity to Federal government
- Housing market hit hard
  - High foreclosures & declining values
  - But, does not have the inventory problems that other areas have
- Commercial real estate will be weak (as with rest of nation) but federal spending & BRAC should mitigate the decline



# MD labor market outperforms nation

## Payroll Employment Growth

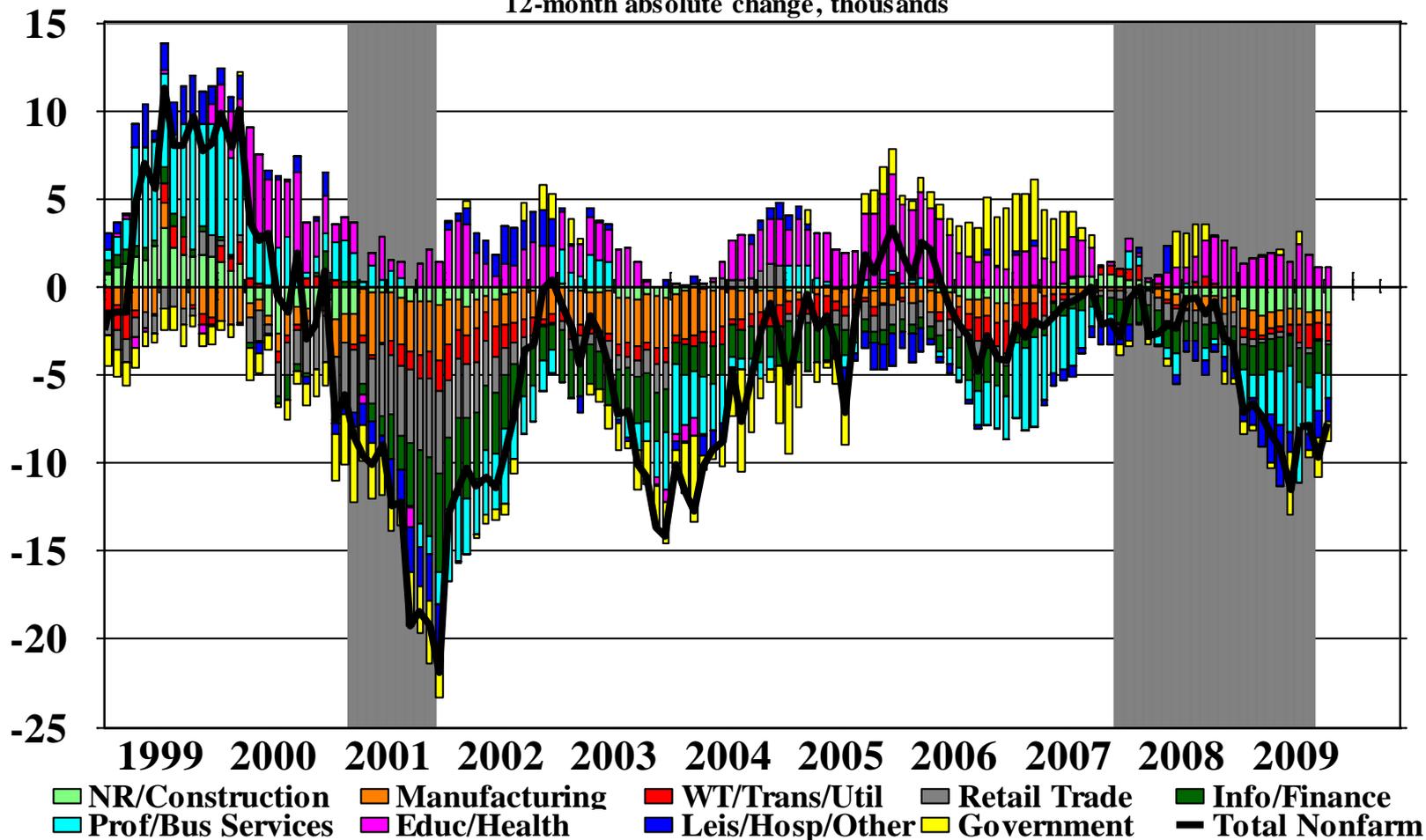
percent change, year/year



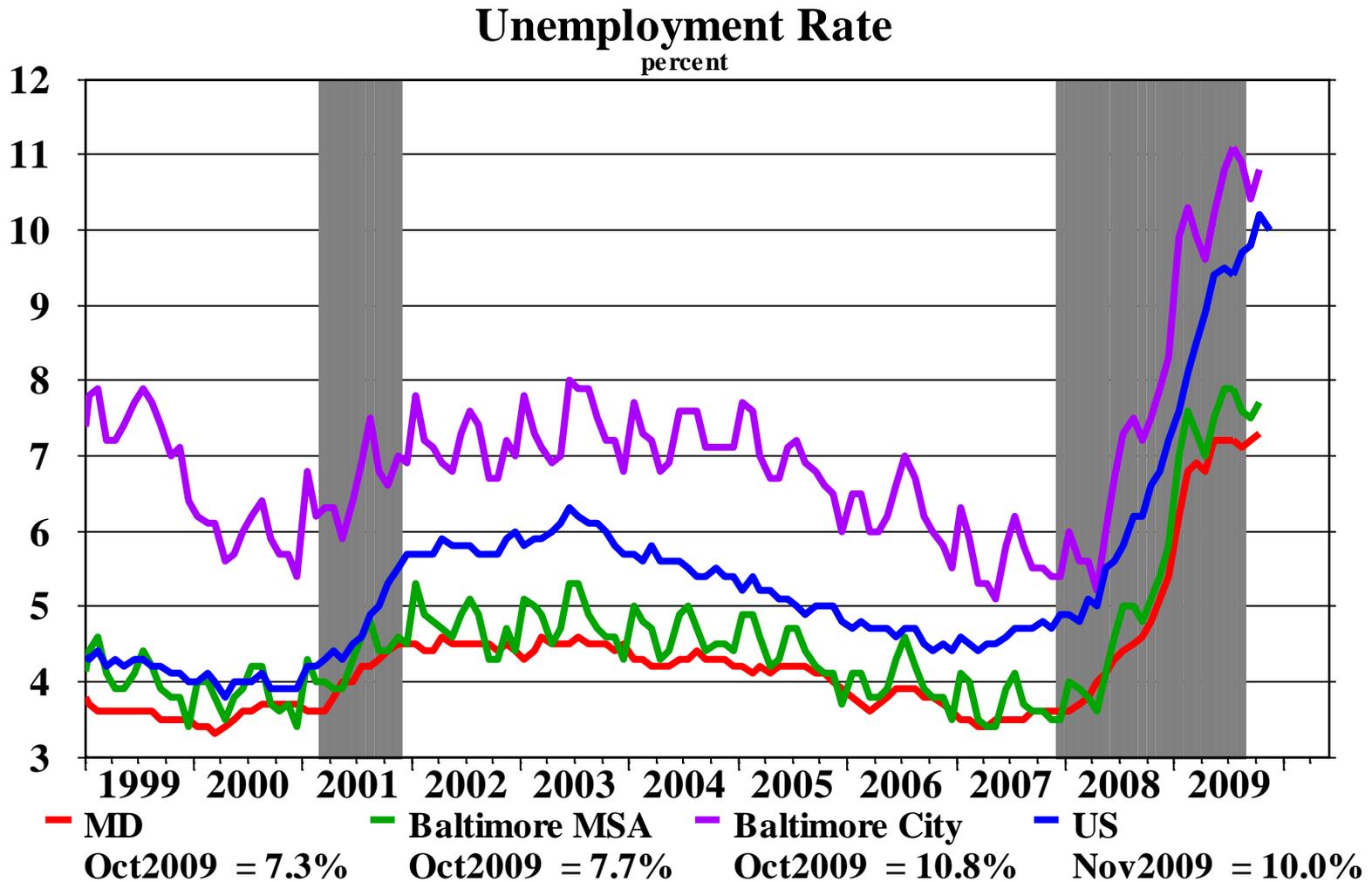
# Baltimore City employment detail

## Baltimore City Payroll Employment

12-month absolute change, thousands



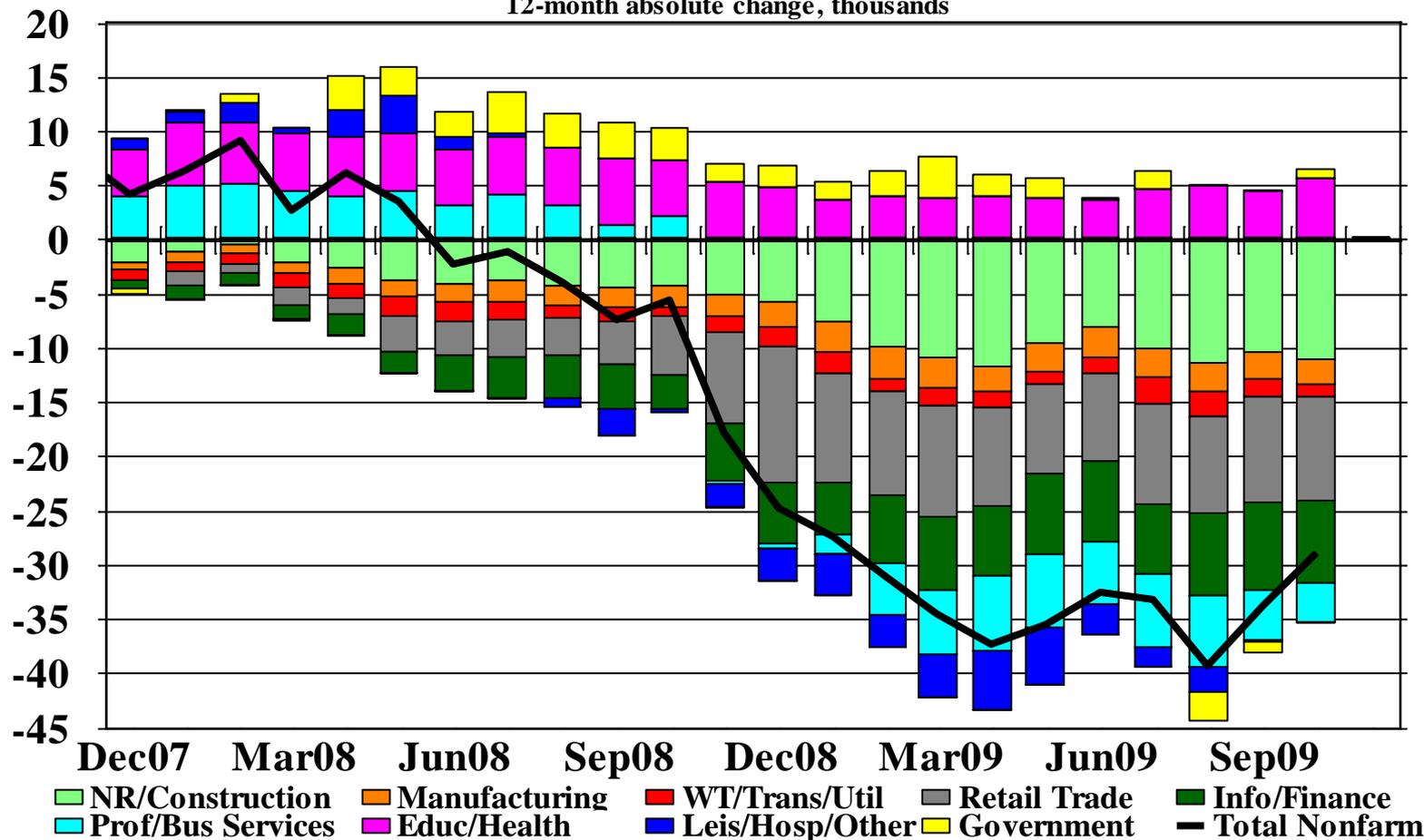
# Unemployment rates may have peaked



# Job losses widespread

## Baltimore-Towson MSA Payroll Employment

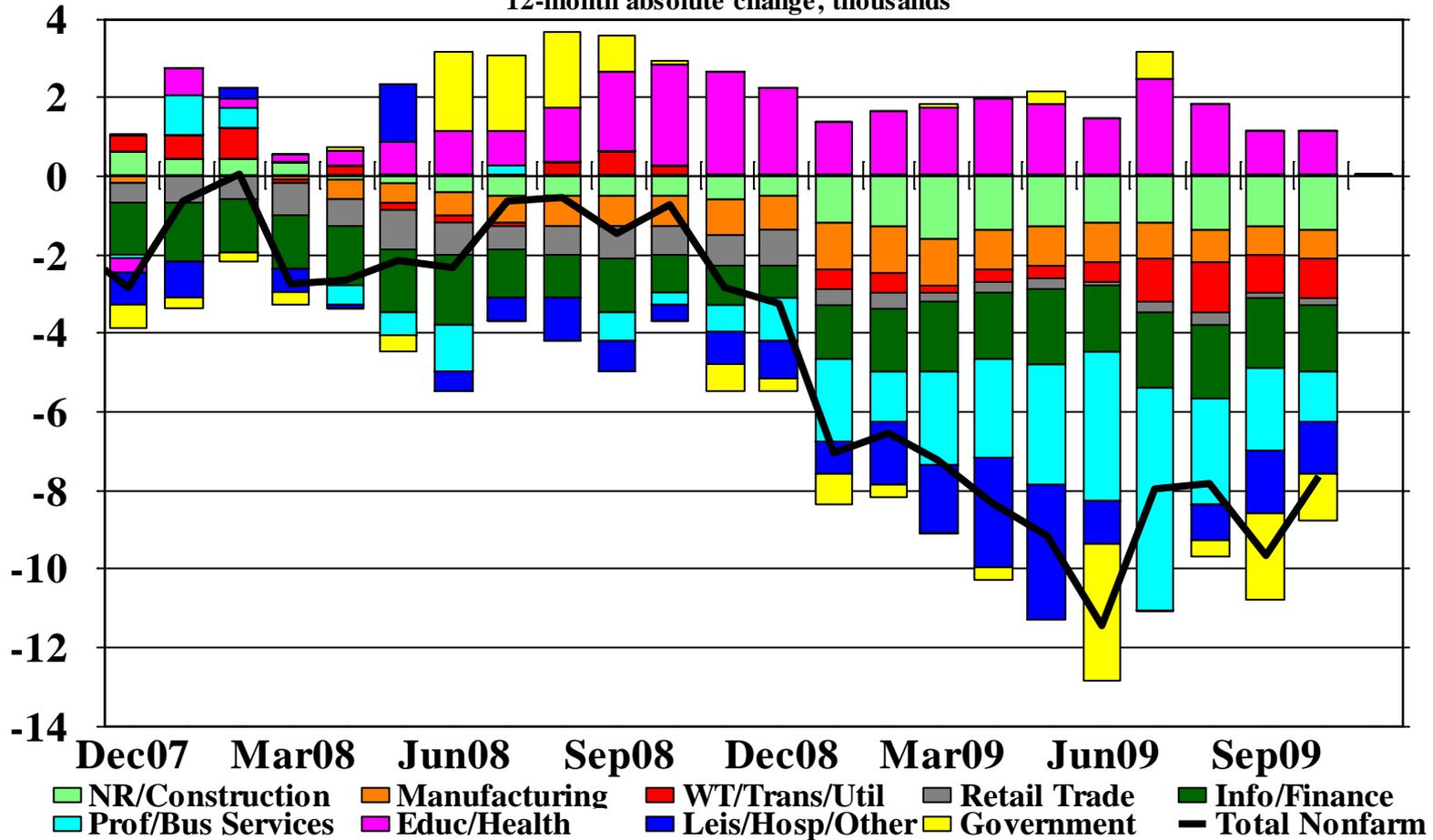
12-month absolute change, thousands



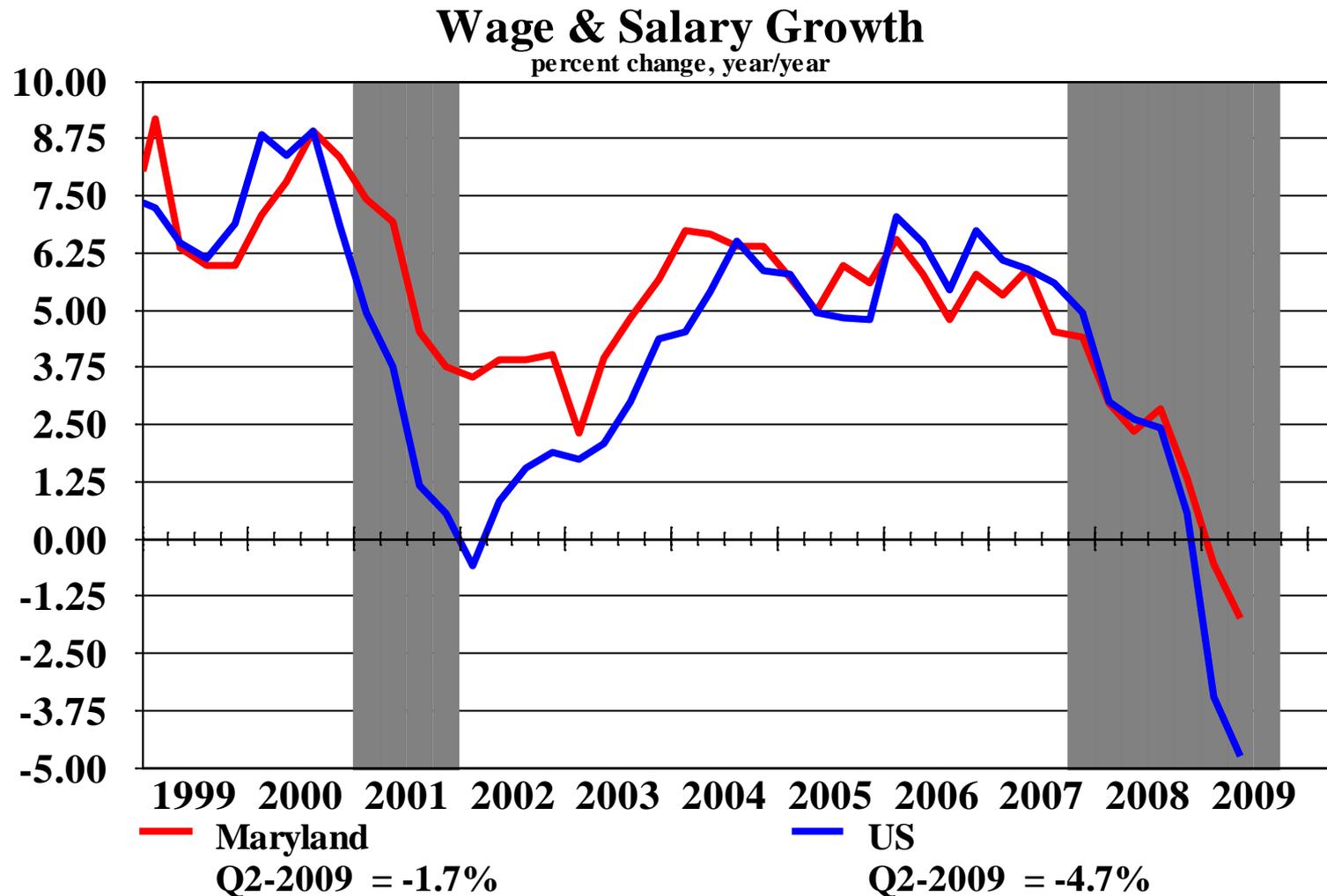
# Job losses widespread

## Baltimore City Payroll Employment

12-month absolute change, thousands



# Weak labor market impacts labor income





# Consumer sector

- Retrenchment in consumer spending second half in 2008
  - Accelerated job losses – loss of aggregate income
  - Cumulative declines in household wealth
  - Heightened economic uncertainty
- Flat in the first half of 2009 & picked up in Q3
  - Consumers have responded to incentives for both the cash for clunkers and first-time homebuyers programs
- A shift in consumer sentiment?
  - Decline in consumer credit
  - Less demand for bank loans
  - An increase in personal savings rate
- Tighter credit conditions





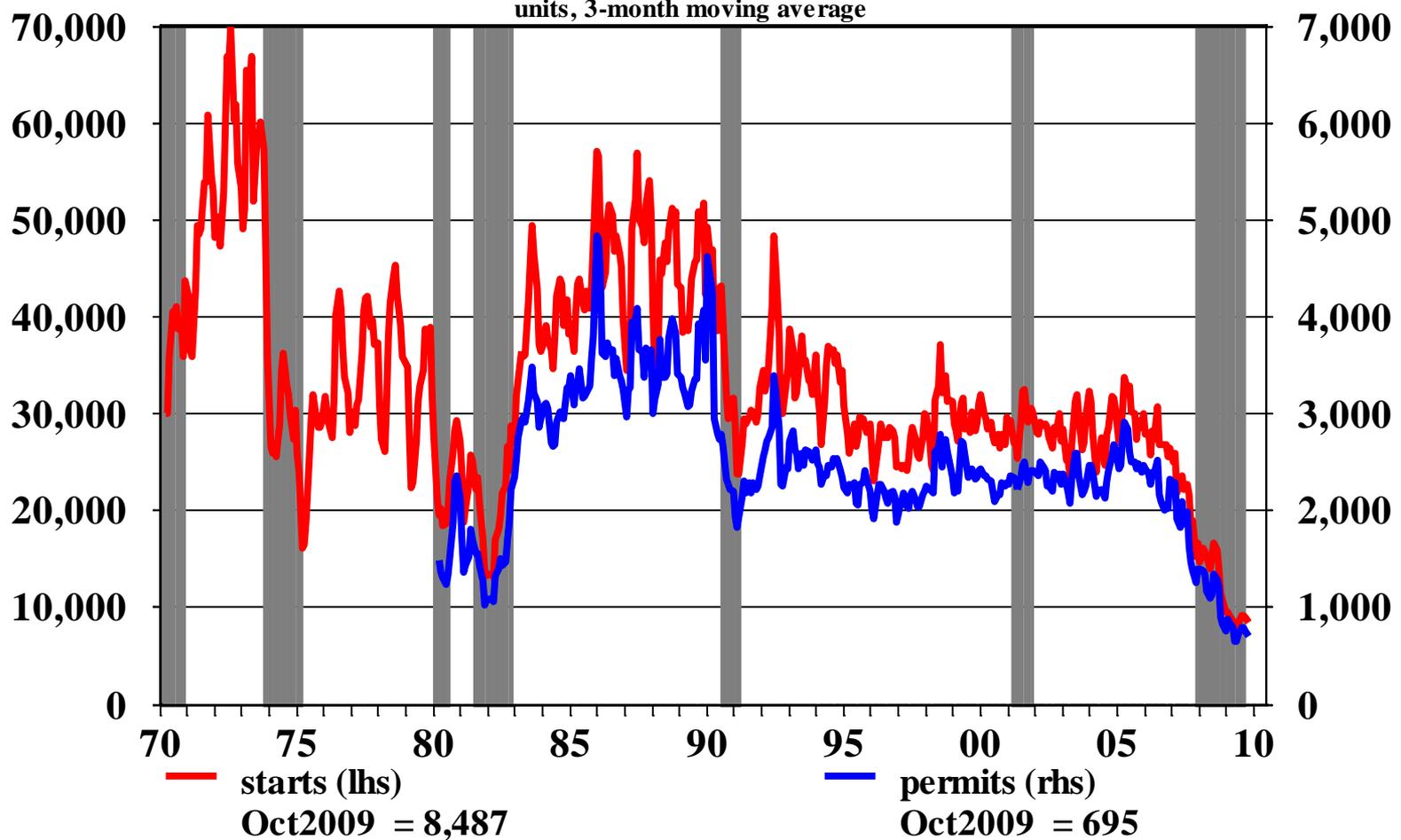
# Housing Sector

- Data on sales & construction have been positive in 2009
  - Single-family starts & permits have bottomed & moved higher
  - Existing home sales & new home sales also higher YTD
  - High inventory levels are beginning to decline despite ongoing rise in foreclosures
- Home price declines are moderating
  - Increases in home prices in recent months
- Delinquencies & foreclosures still rising rapidly without indication of peaking in the near term
  - Combination of home price declines and rising unemployment



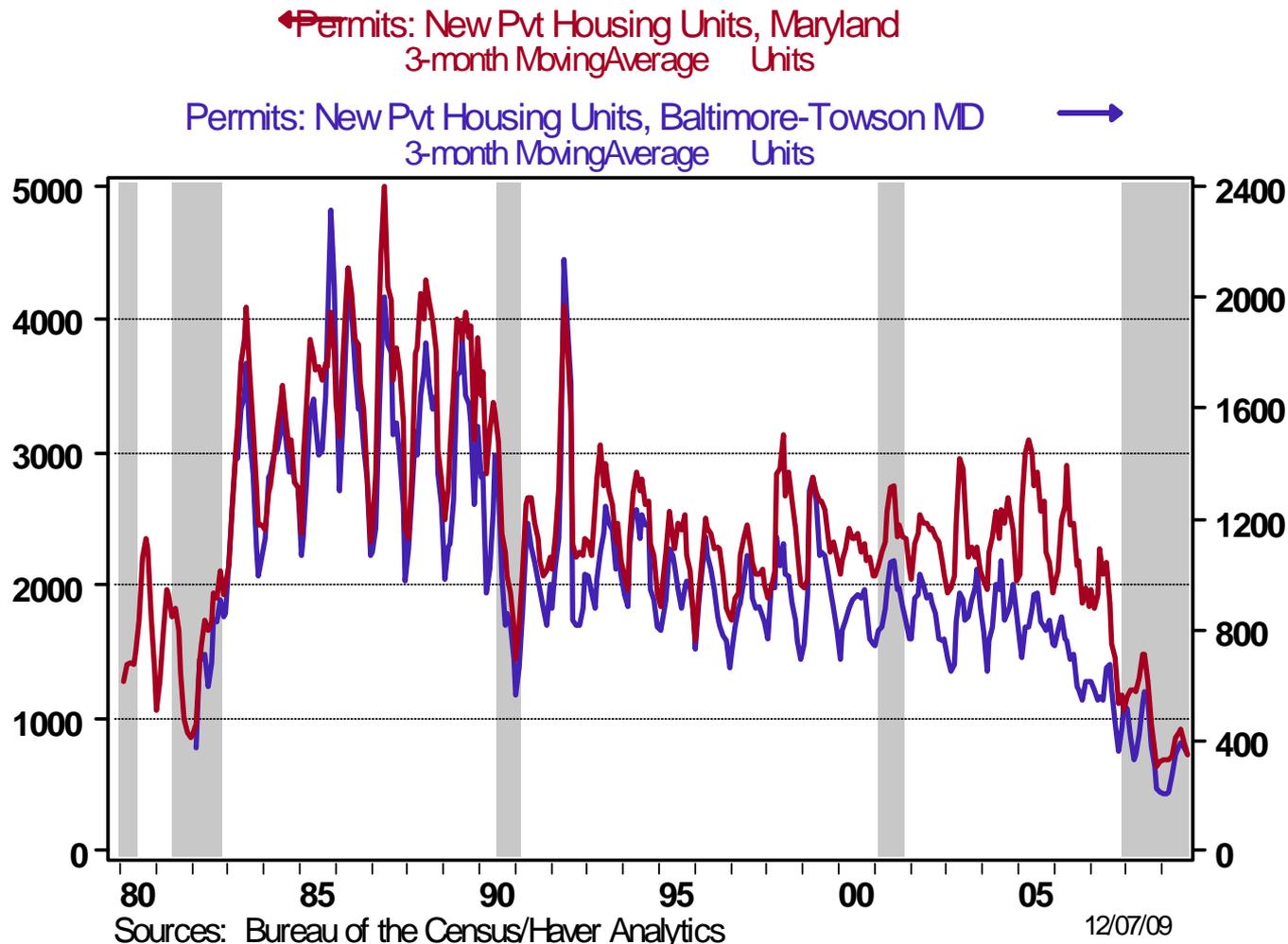
# Construction activity at historic lows

## Maryland Housing Starts & Permits





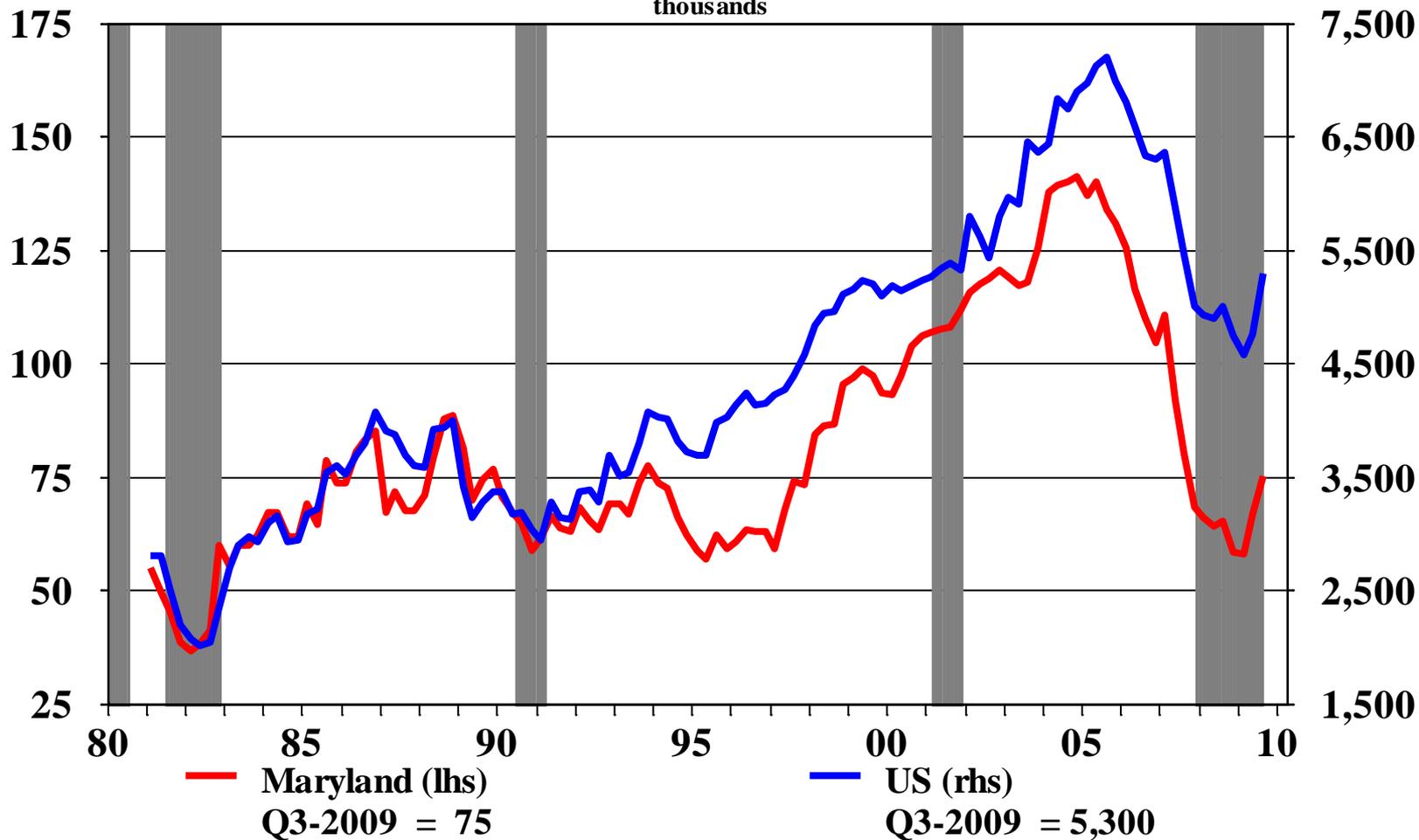
# Construction activity at historic lows



# Home sales have improved in 2009

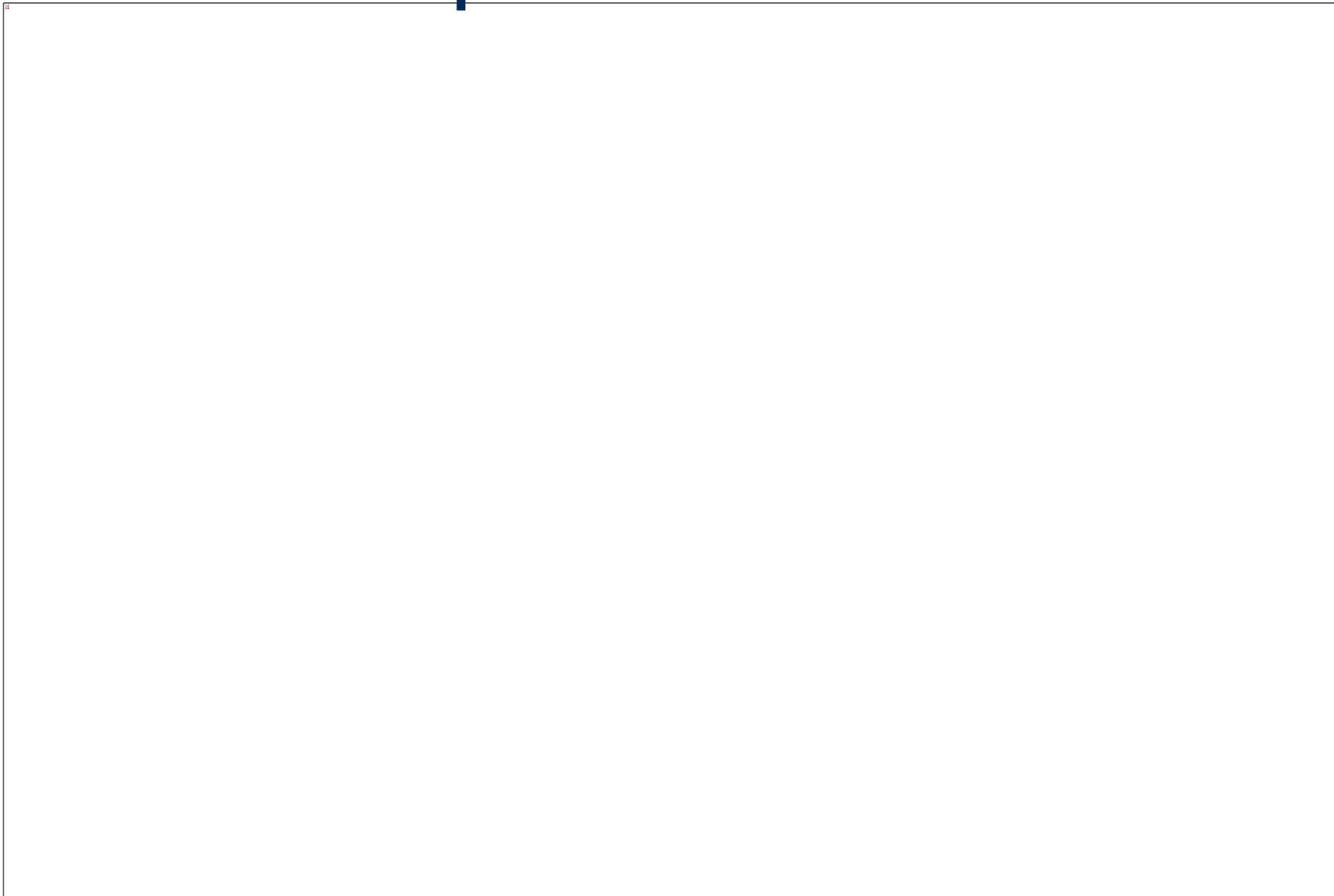
## Total Existing Home Sales

thousands



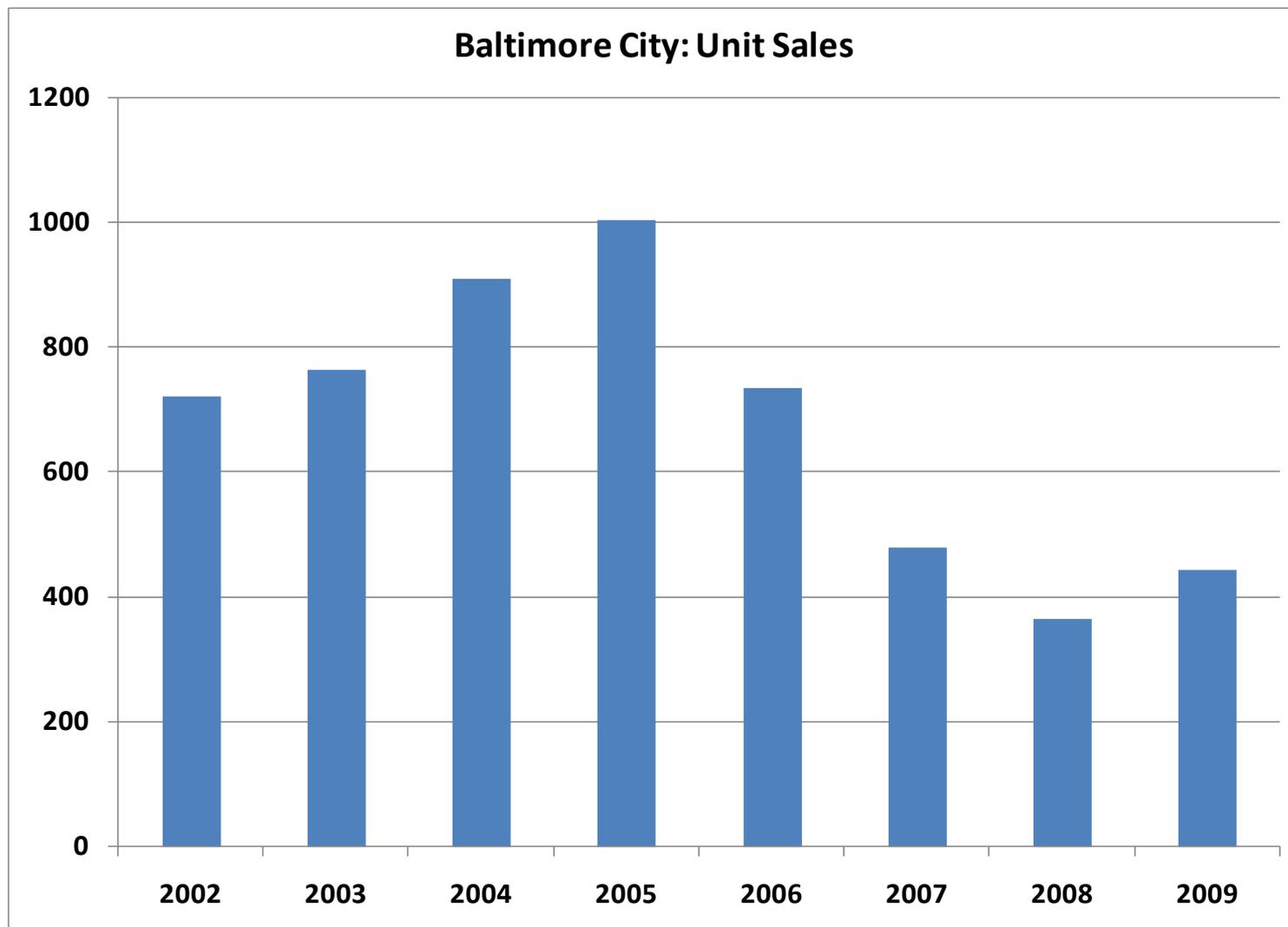


# Price outlook improved in recent months



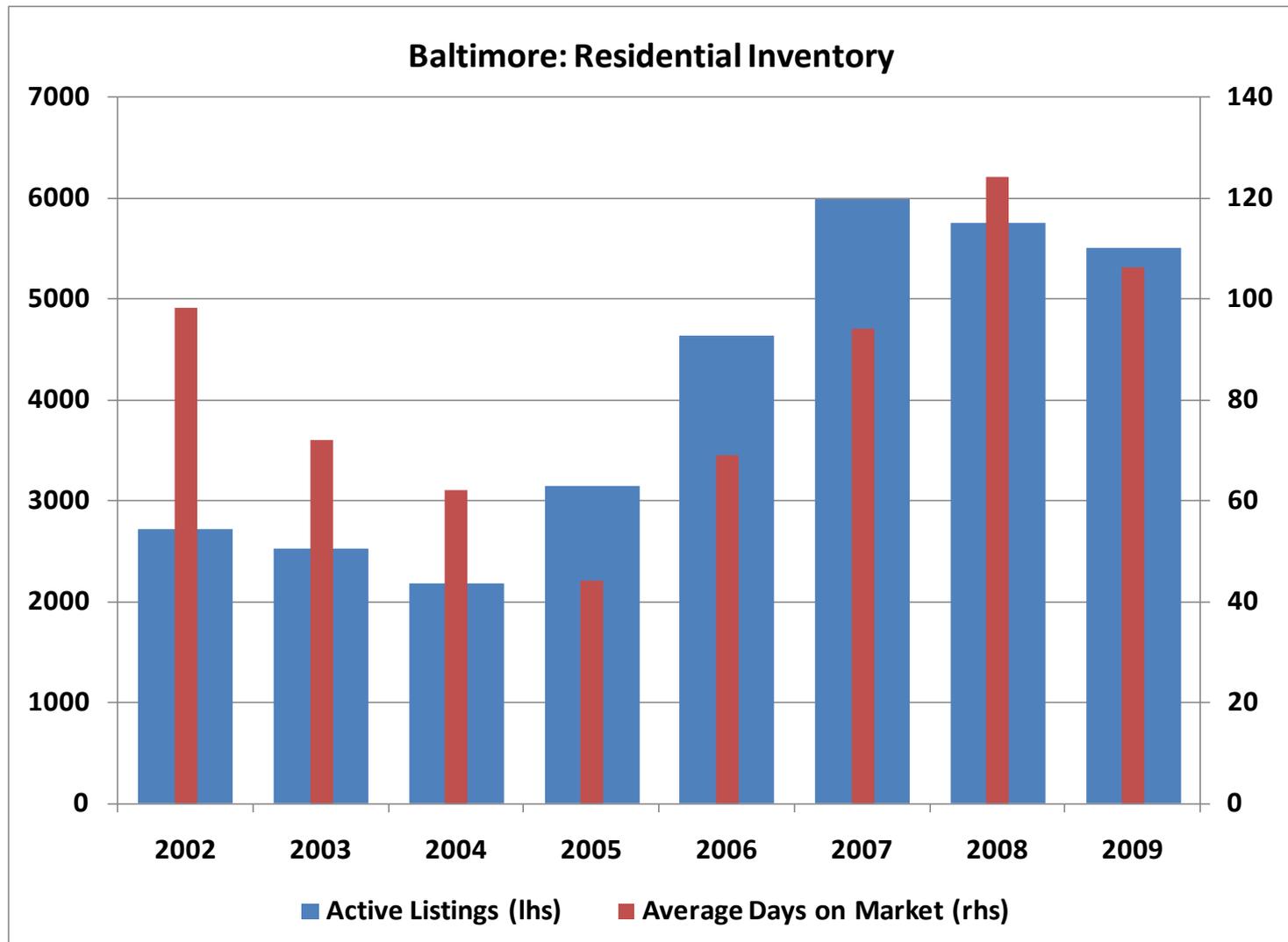


# Sales in Baltimore have leveled off

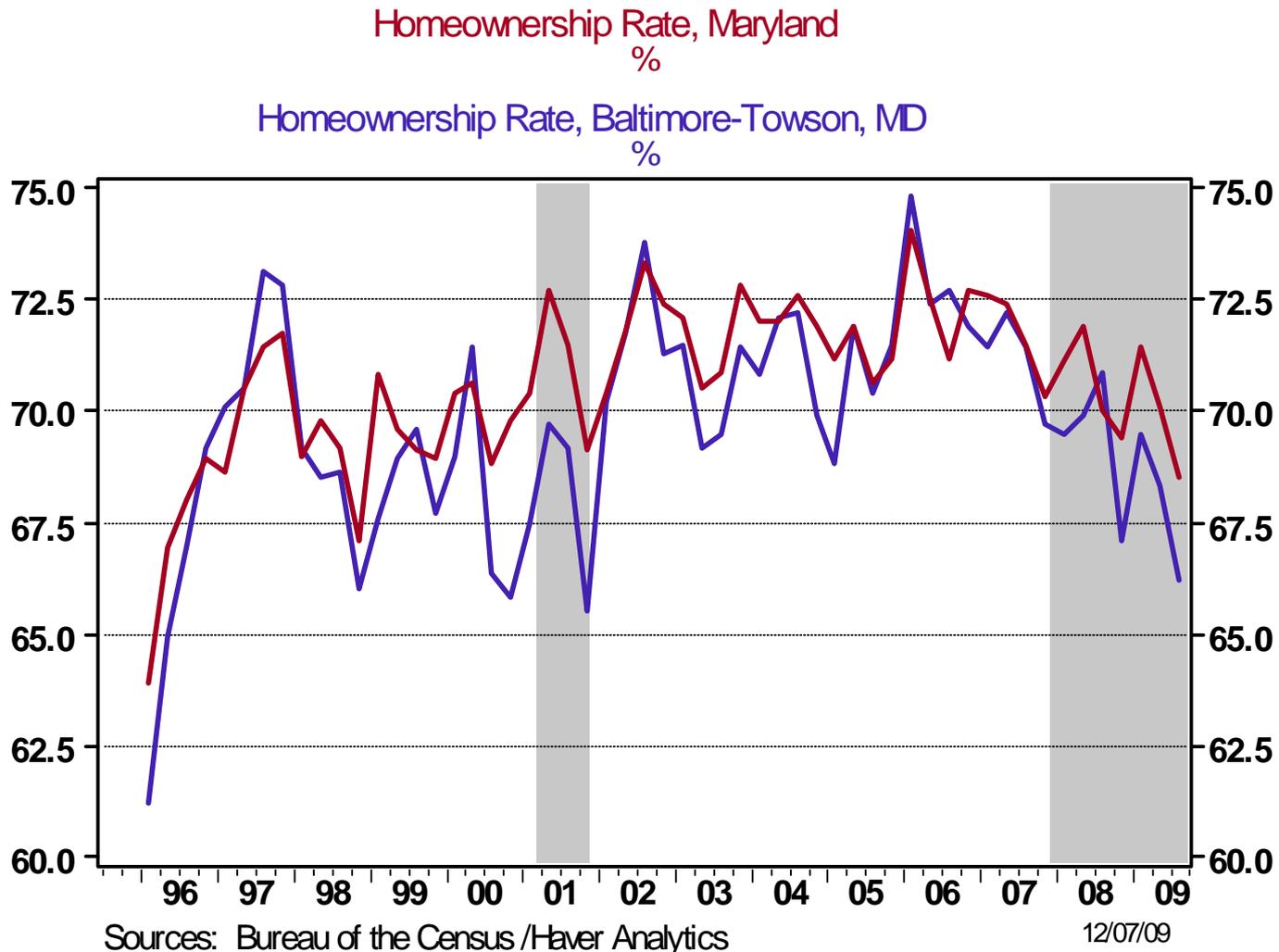




# Inventory-sales ratios remain high

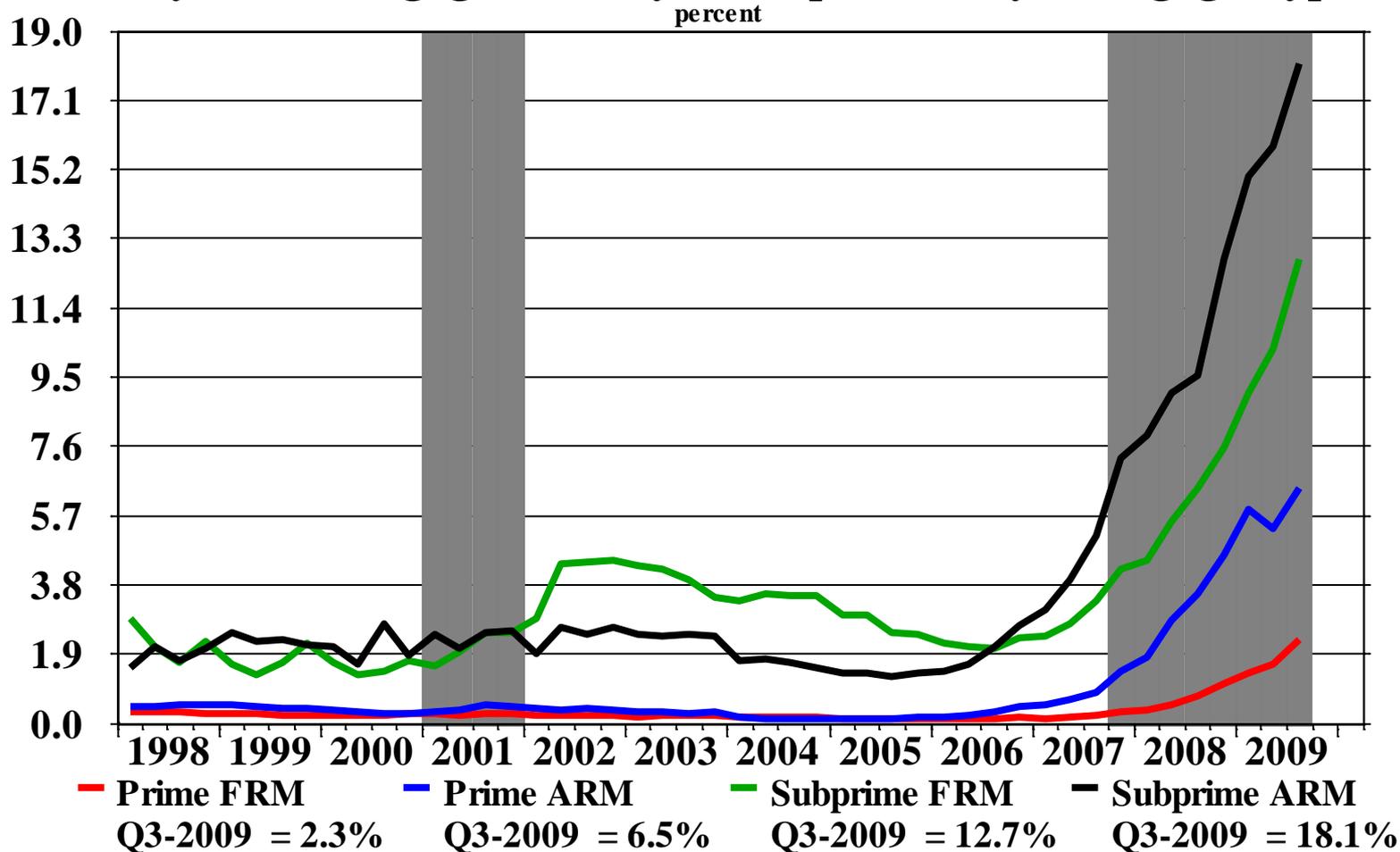


# Homeownership retreats to pre-boom levels



# Mortgage situation continues to deteriorate

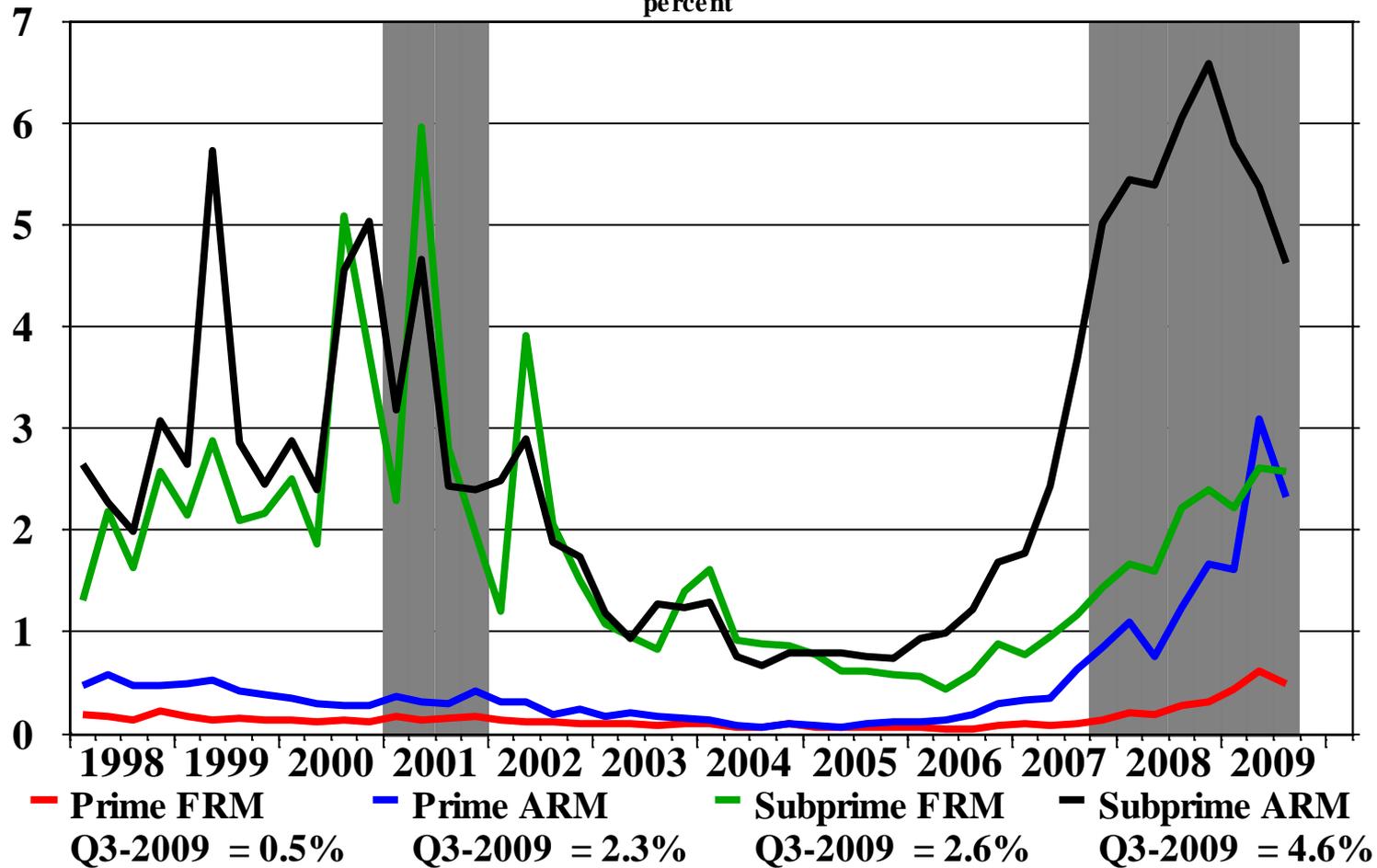
## Maryland Mortgage 90+ Day Delinquencies by Mortgage Type



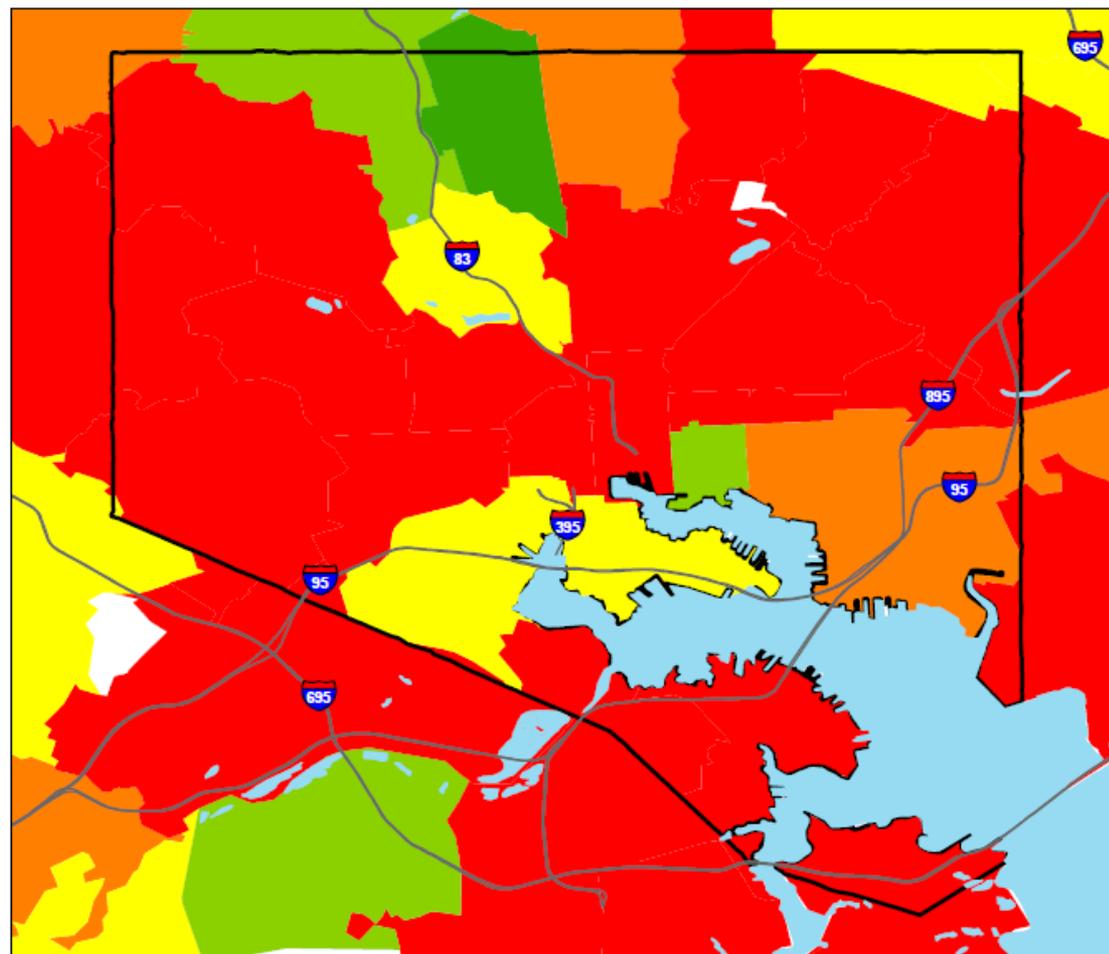
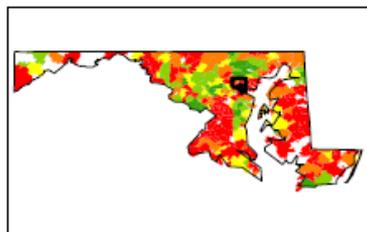
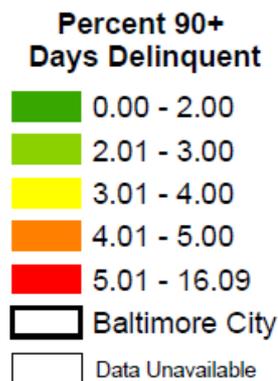
# Some improvement in foreclosure starts

## Maryland Mortgage Foreclosures by Mortgage Type

percent



# Percentage of Owner-Occupied Homes with Mortgages 90+ Days Delinquent



Source: Mortgage data estimates are from the Federal Reserve Bank of Richmond and based on September 2009 data. Data is provided by McDash Analytics, LLC, a wholly owned subsidiary of Lender Processing Services, Inc., and third quarter 2009 Mortgage Bankers Association data. Uncategorized zip codes have fewer than one hundred loans or no available data.



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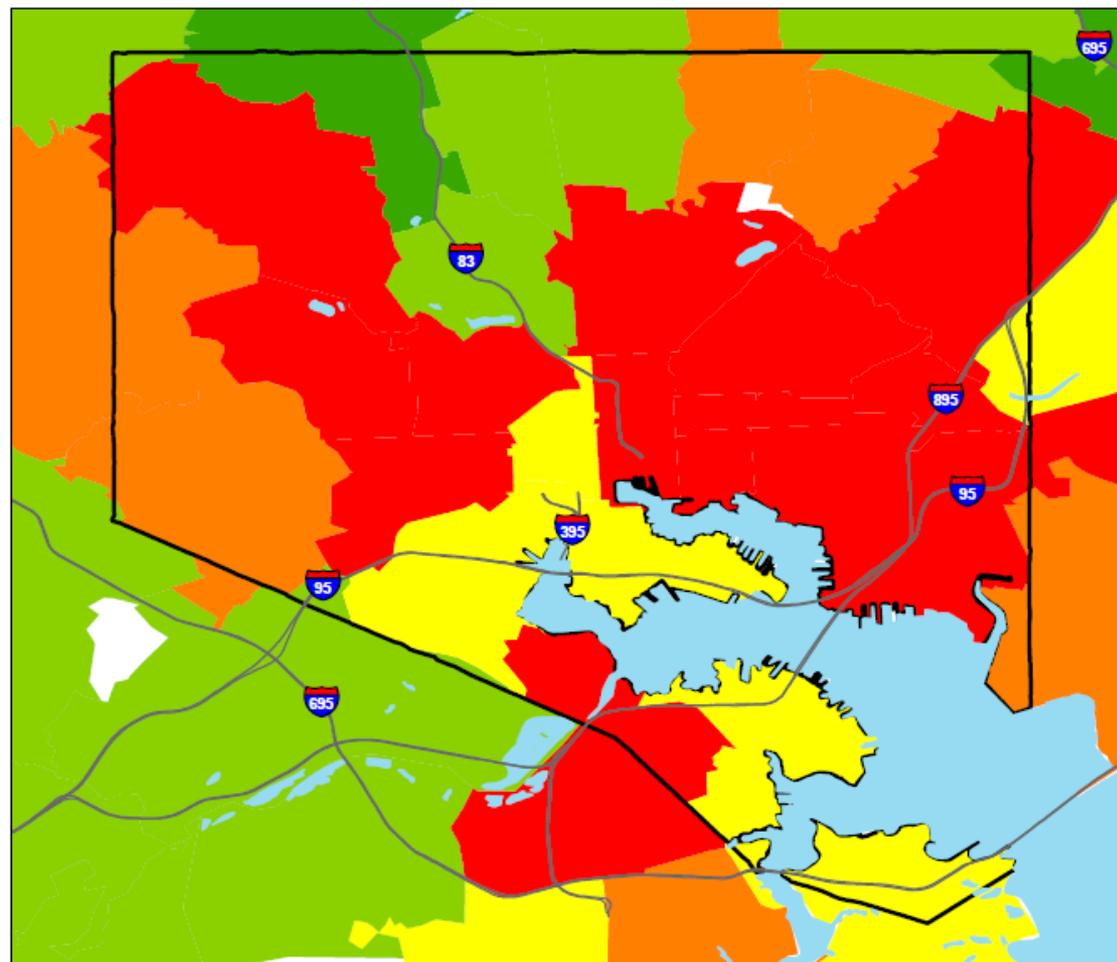
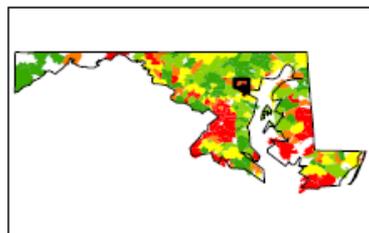


# Percentage of Owner-Occupied Homes in Foreclosure or Real Estate Owned (REO)

## Percent in Foreclosure or REO

- 0.00 - 2.00
- 2.01 - 3.00
- 3.01 - 4.00
- 4.01 - 5.00
- 5.01 - 14.86

- Baltimore City
- Data Unavailable



Source: Mortgage data estimates are from the Federal Reserve Bank of Richmond and based on September 2009 data. Data is provided by McDash Analytics, LLC, a wholly owned subsidiary of Lender Processing Services, Inc., and third quarter 2009 Mortgage Bankers Association data. Uncategorized zip codes have fewer than one hundred loans or no available data.



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## In Conclusion

- Although the recession has ended, questions remain regarding the strength of the recovery
- Current expectations are for a moderate recovery
  - Ongoing adjustment in real estate - residential & commercial
  - Credit markets have improved but remain tight
  - Potential for weak consumer spending
- What areas of the economy will lead us out?
  - High-technology sectors & higher-skilled employment (professional business services) to likely begin to expand first
  - Retail, real estate, commercial real estate, financial services, wholesale trade & other goods-producing industries likely to experience weak job growth in the near term





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