



JUNE 29, 2021 • PRESENTED VIRTUALLY

# Economic Outlook & Industry Performance



## Virtual FDIC/OCC Joint Mutual Forum

June 29, 2021

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# Disclaimer

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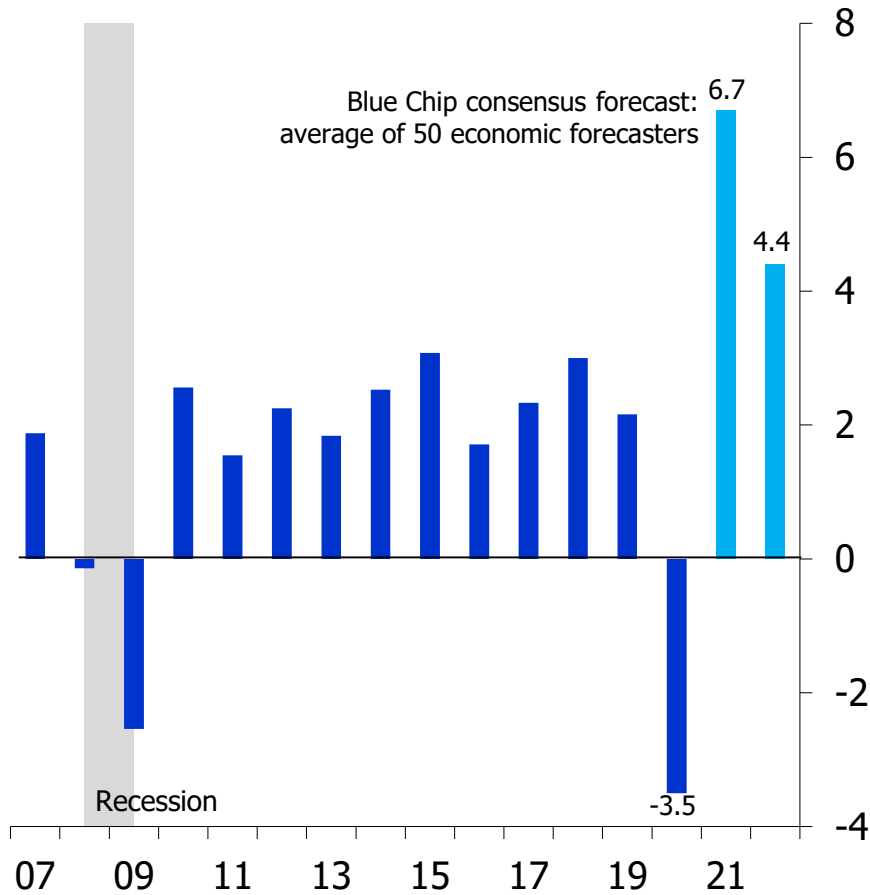
# Highlights

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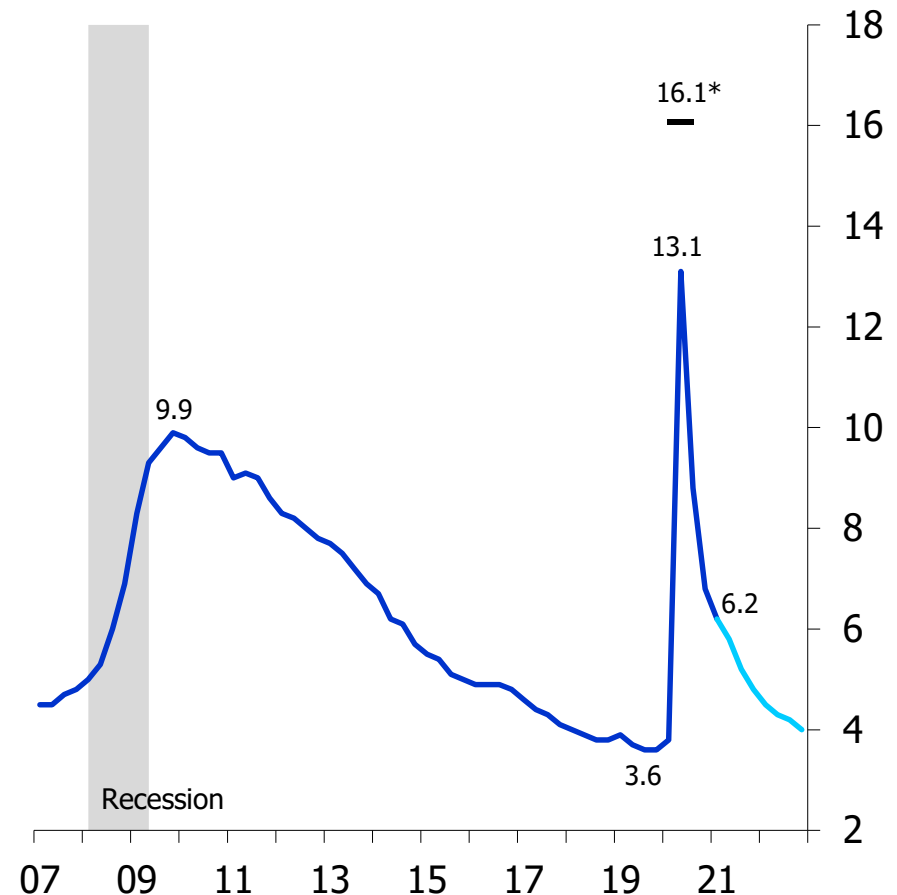
- Significant GDP growth expected this year due to vaccinations, renewed consumer spending, and government stimulus
  - Higher inflation rate is likely temporary, but there is increased risk that it becomes persistent
- Residential real estate forecasted to spike in 2021 as future appreciation is pulled forward—lower home price growth expected in 2022
  - Factors associated with COVID—lower rates and fewer homes for sale—increased prices
- Commercial real estate has been resilient, although uncertainty remains
  - Banks' commercial real estate loan exposure has risen in recent years; COVID brings uncertainty, particularly for large office markets

# Consensus forecasts strongest growth since 1984; unemployment continues to fall

Real GDP, % change annual rate



Quarterly average unemployment rate, %

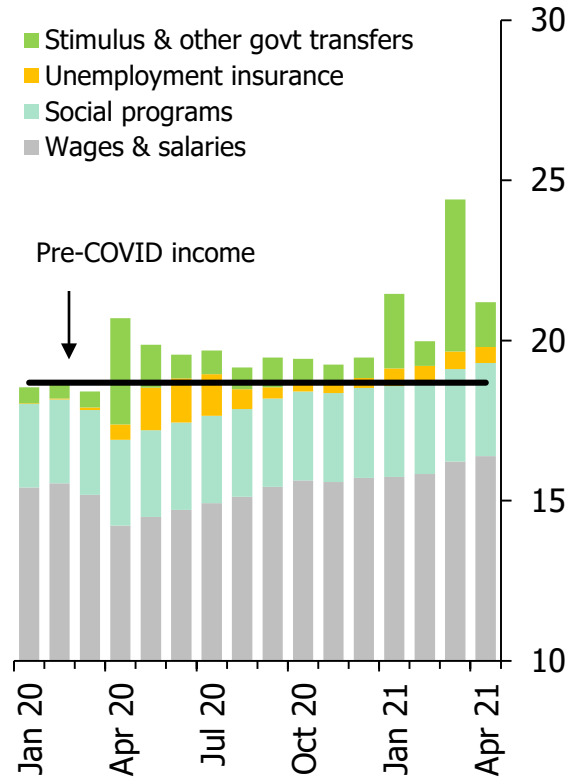


Sources: BEA (data through 4Q:2020); BLS (data through 1Q:2021) Blue Chip Economic Indicators (June 2021)

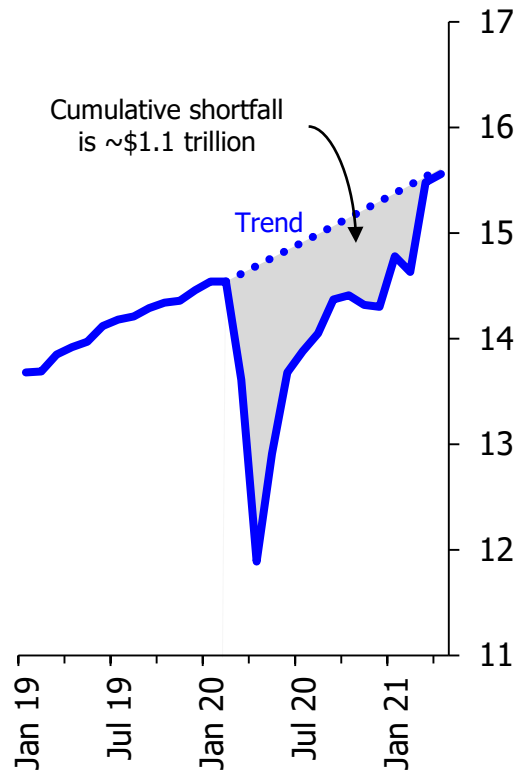
\*Quarterly official U.S. unemployment rate adjusted for misclassification errors noted by BLS.

# Stimulus and decreased consumption boosts household cash balances by \$2 trillion

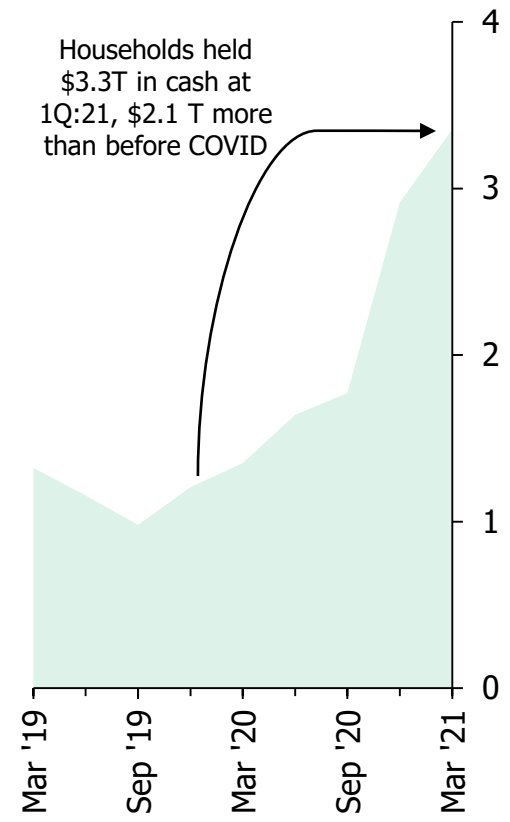
Real personal income by components SAAR, \$ trillions



Real personal consumption expenditures SAAR, \$ trillions



Real household deposit & currency balances, \$ trillions



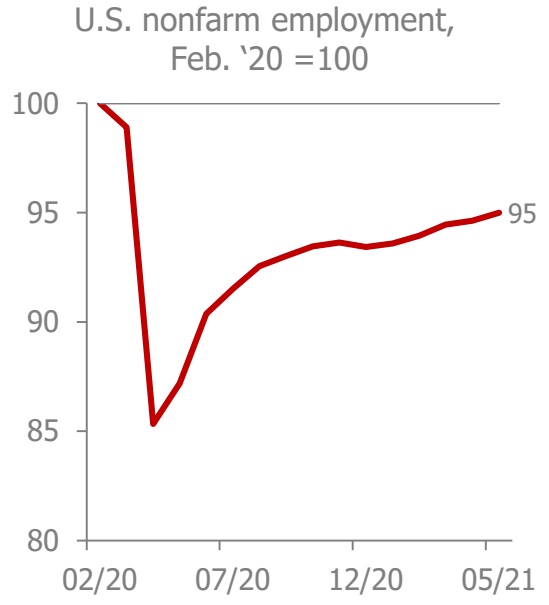
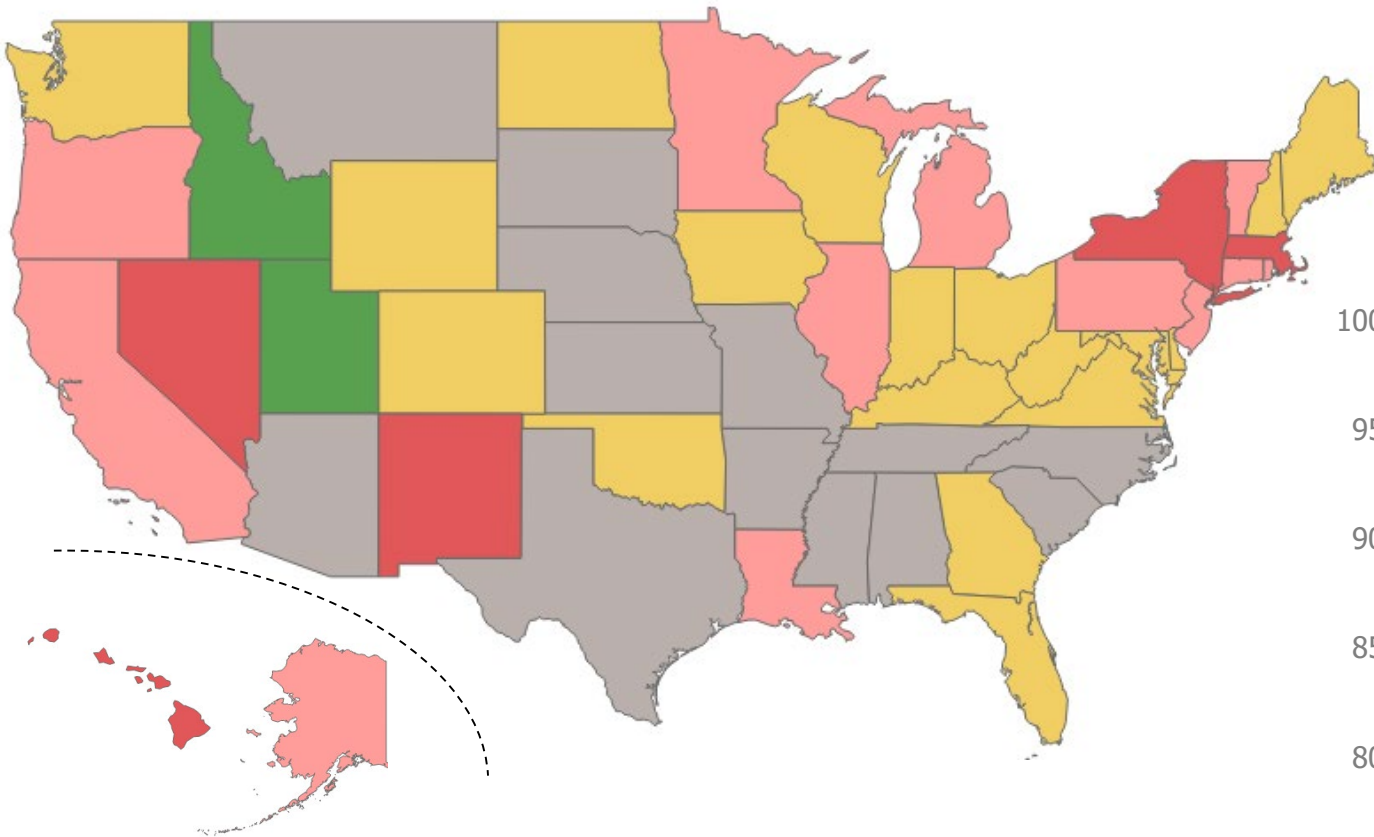
Source: BEA (data through April 2021), Moody's Analytics, FRB

Note: Wages & salaries includes proprietors' income, rental income, and receipts on assets, less contributions for government social insurance. Social programs include Medicare, Medicaid, Social Security, Veterans' Benefits

# Labor market lags broader recovery; 48 states remain below pre-COVID employment levels

Change in nonfarm employment since Feb. 2020, in millions

■ Growth ■ -0.1 to -3.99% ■ -4% to -5.99% ■ -6% to -7.99% ■ Worse than 8%



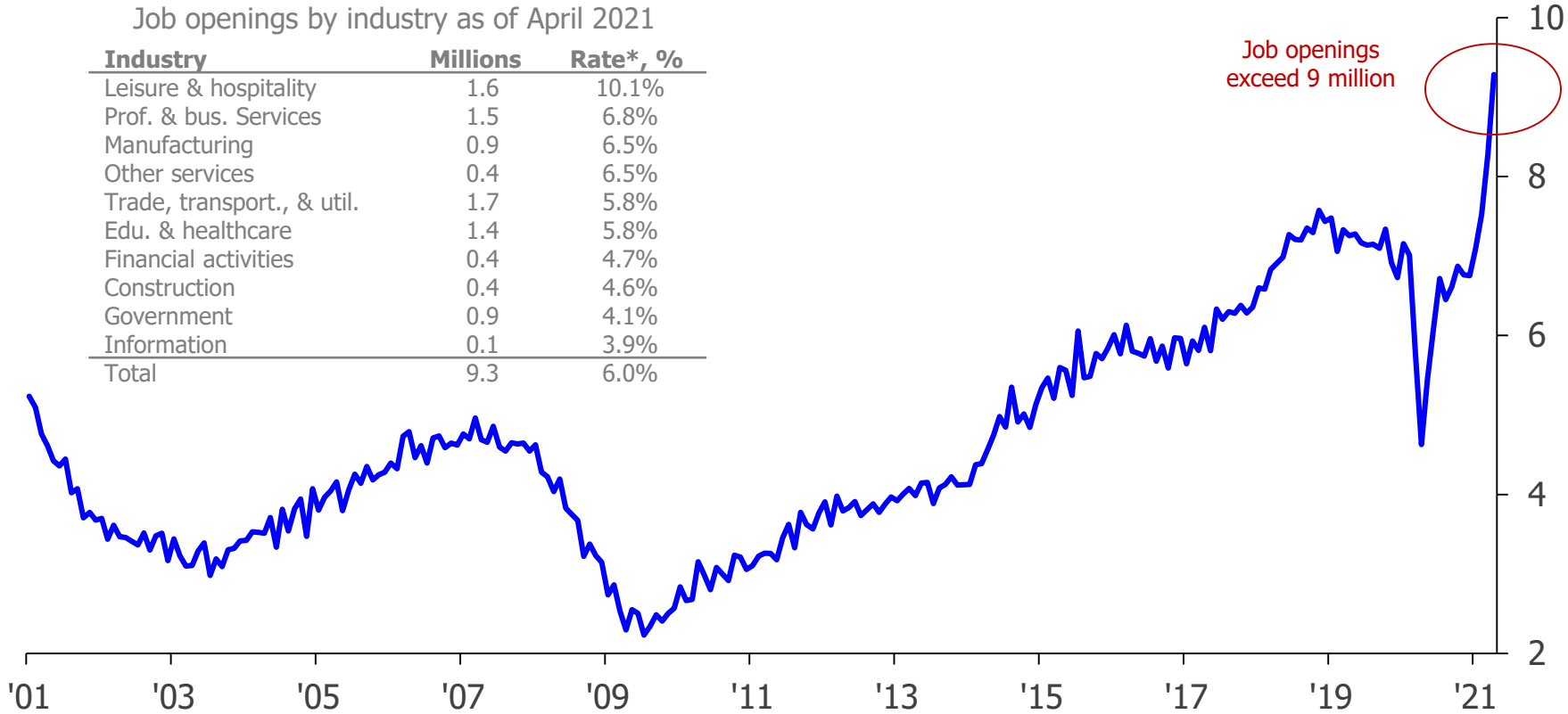
Source: BLS (data through May 2021)

# Record level of job openings in the U.S. suggests businesses are having difficulty hiring

## Total job openings, in millions

Job openings by industry as of April 2021

Industry	Millions	Rate*, %
Leisure & hospitality	1.6	10.1%
Prof. & bus. Services	1.5	6.8%
Manufacturing	0.9	6.5%
Other services	0.4	6.5%
Trade, transport., & util.	1.7	5.8%
Edu. & healthcare	1.4	5.8%
Financial activities	0.4	4.7%
Construction	0.4	4.6%
Government	0.9	4.1%
Information	0.1	3.9%
<b>Total</b>	<b>9.3</b>	<b>6.0%</b>

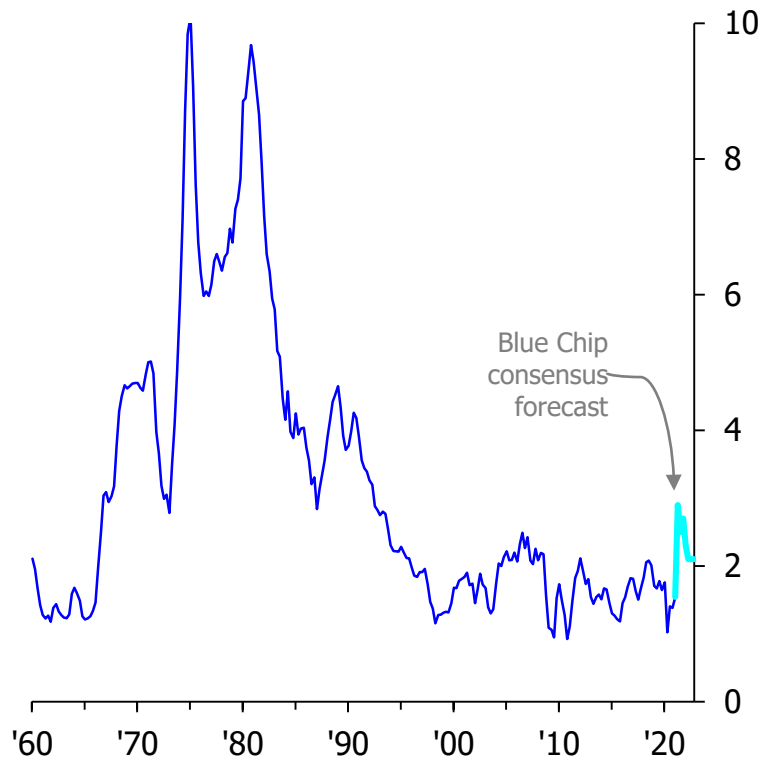


Source: BLS (data through May 2021)

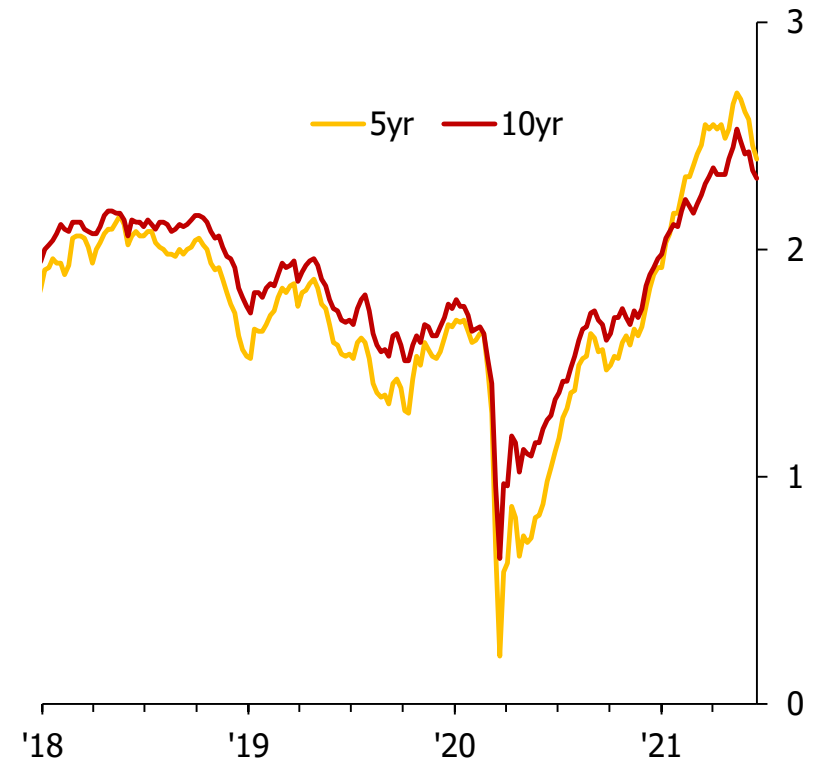
\*The job openings rate is the job openings level as a percent of total employment plus job openings level

# Consensus forecast and financial markets expect inflation to stabilize after increase in 2021

Year-over-year percent change in core personal consumption expenditures, %



5yr & 10yr Treasury breakeven inflation rates, weekly, %



Source: BEA (historical data through 1Q:2021); Blue Chip Economic Indicators (May 2021); FRB

Note: Core PCE excludes food and energy and is the Fed's preferred measure of inflation. Breakeven inflation rates = 5- or 10-year nominal constant maturity Treasury yield minus 5- or 10-year inflation-adjusted constant maturity Treasury yield



# Higher inflation rate expected to be transitory, though risk of more persistent inflation is rising

## *Suggesting increasing inflationary pressures*

- Market indicators of inflation expectations have increased
- Certain indicators suggest a tight job market as businesses try to hire and expand output
- Employment costs rose over the last quarter, particularly in industries hardest hit by pandemic
- Rapid GDP growth could eliminate slack and push economy above potential next year

## *Suggesting transitory inflationary pressures*

- GDP is currently below potential, suggesting slack in the economy
- Supply chain disruptions impacting the goods sector are temporary
- Core inflation largely determined by service sector prices, which have increased a smaller amount than the prices of goods
- Employment remains 7.6 million or 5% below pre-pandemic levels
- Labor force participation is recovering after initial COVID impact
- Productivity improvements limiting impact of wage increases on unit labor costs

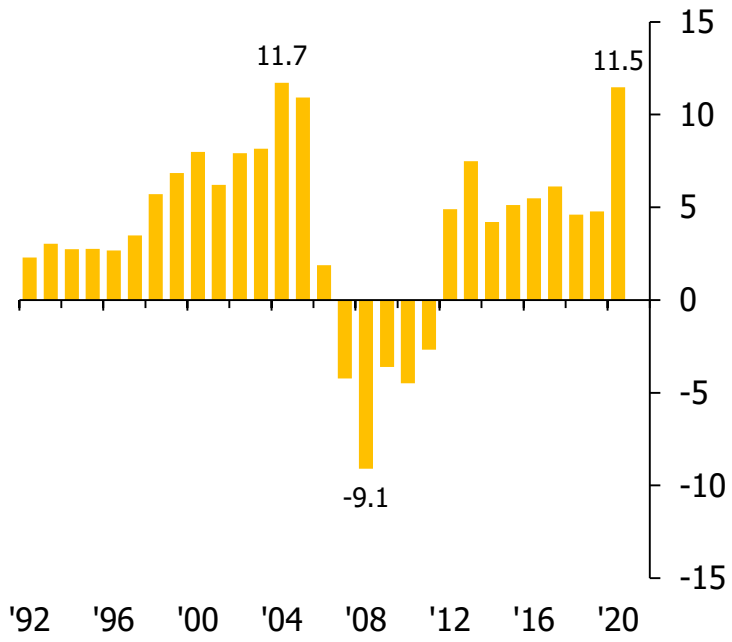
# Agenda

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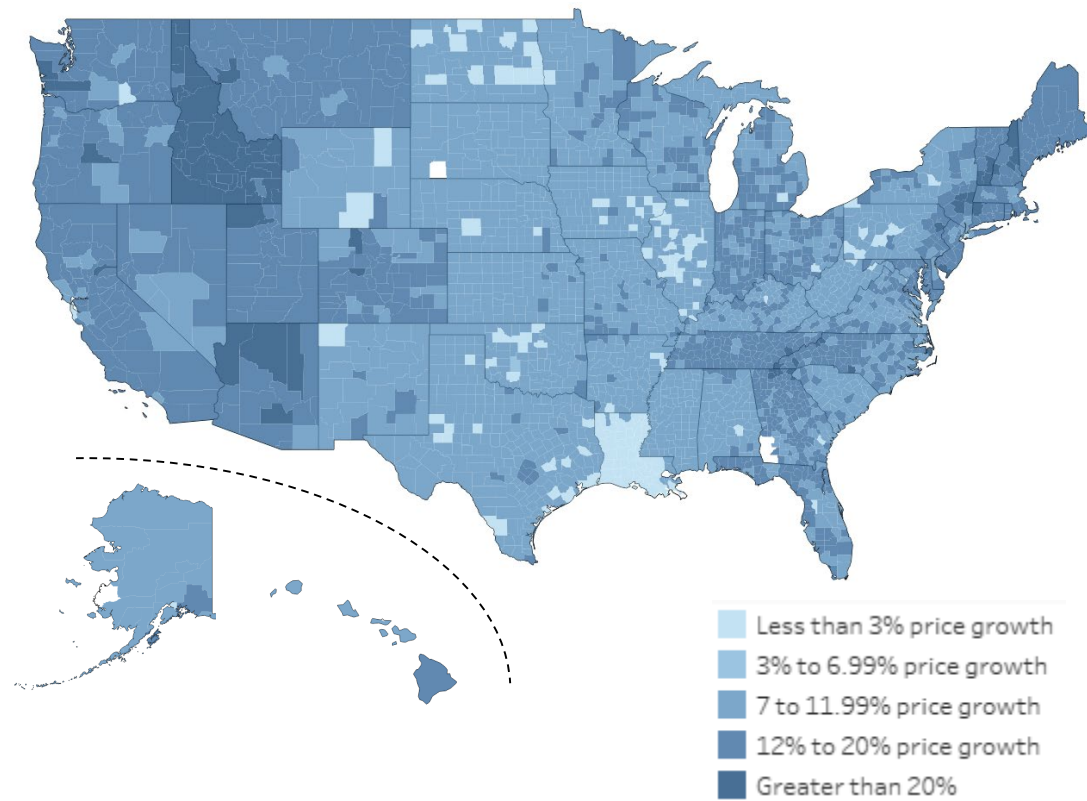
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# Double digit home price appreciation; all but 4 counties register year-over-year growth

Annual home price change by year, %



February 2021 single-family home price year-over-year percent change

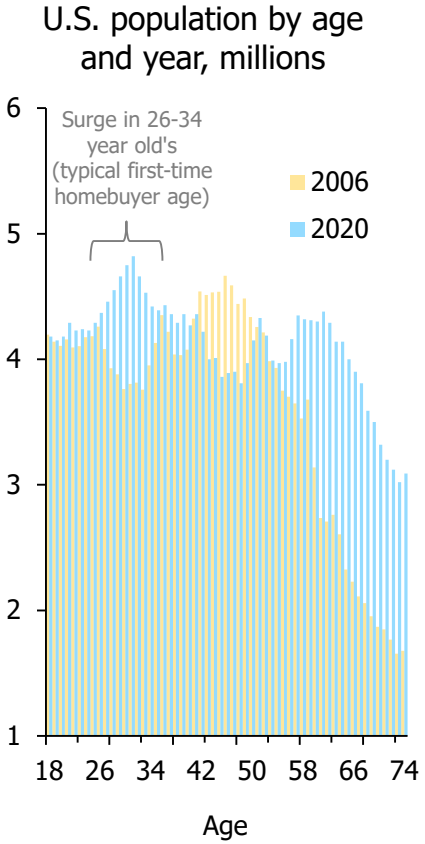


Source: Black Knight (data through February 2021)

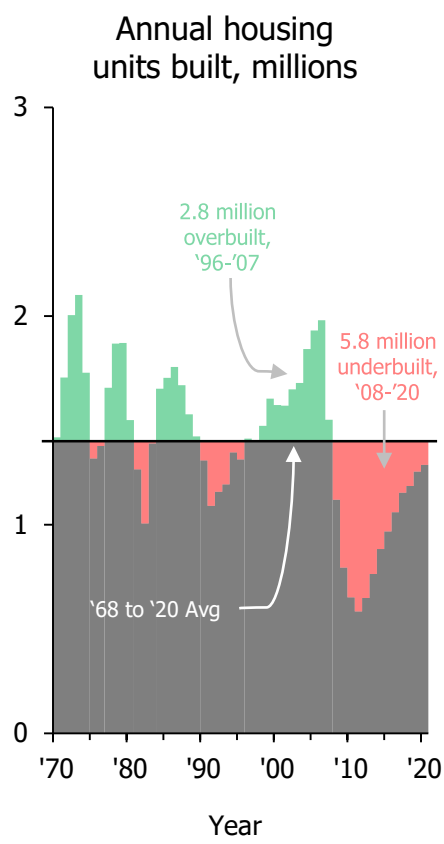
The four counties with price declines were: New York County, NY (-2.4%), Midland County, TX (-1.6%), Ector County, TX (-0.6%), and Mineral County, WV (-0.06%)

# Demographics, underbuilding, and low rates aided home prices over last decade

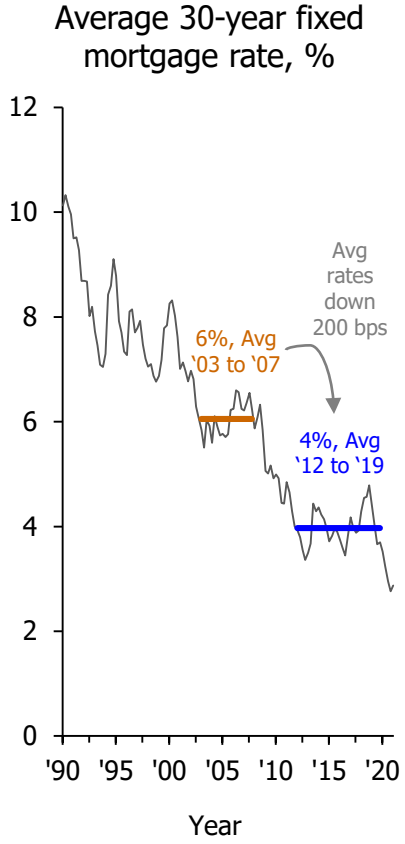
## Demographics



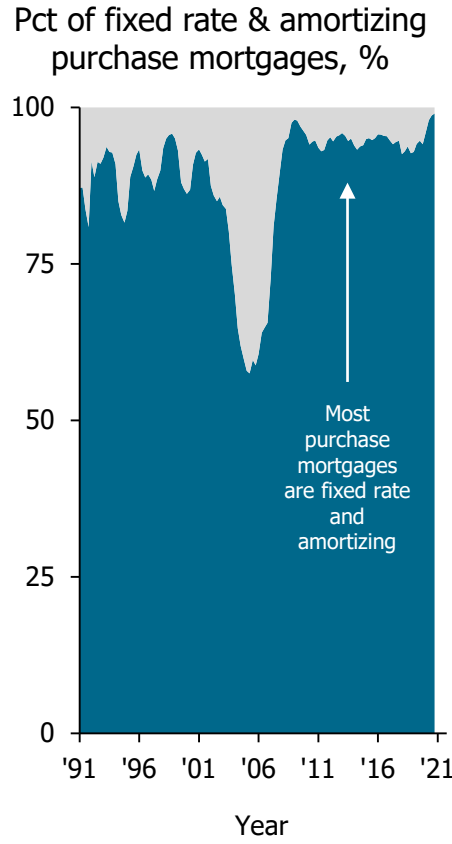
## Housing supply



## Interest rates



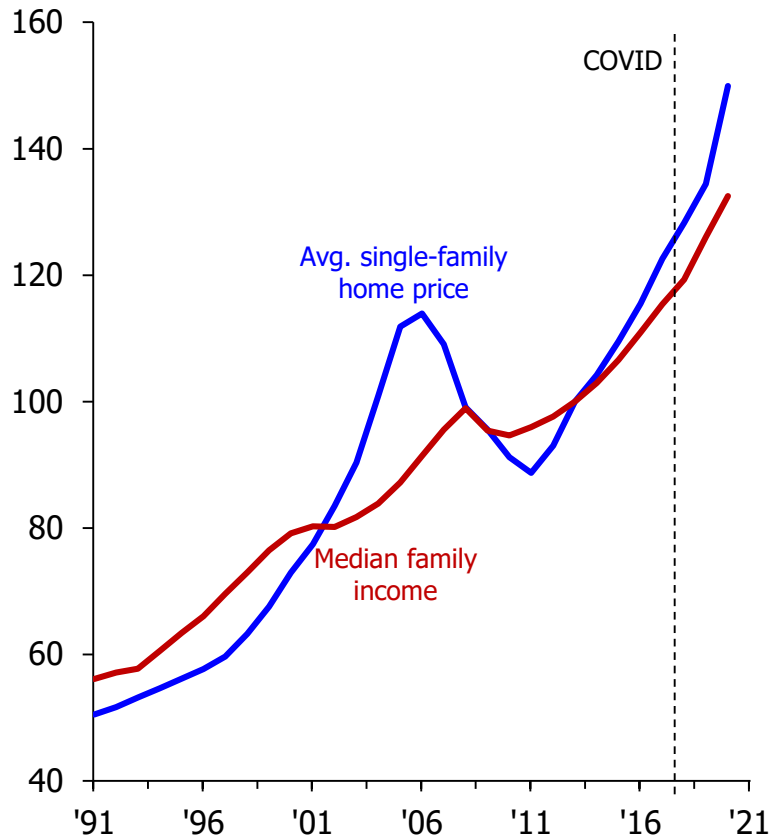
## Financing



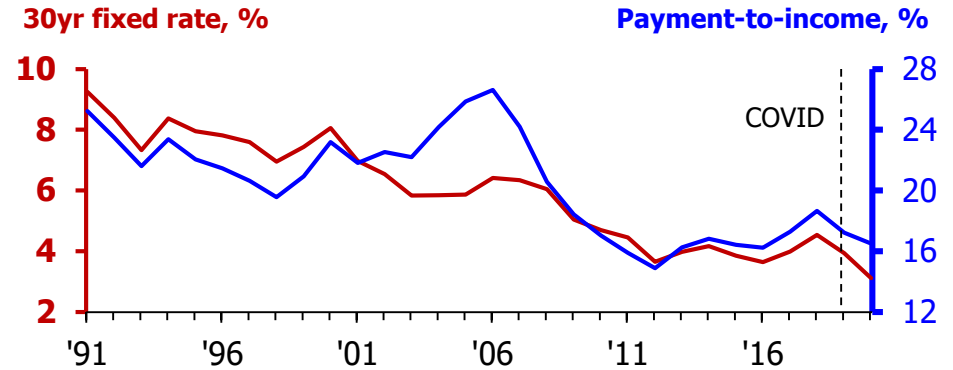
Sources: U.S. Census (data through 2020); Freddie Mac (data through March 2021)

# Home prices tracked incomes until COVID; transitory factors boosting prices in short-term

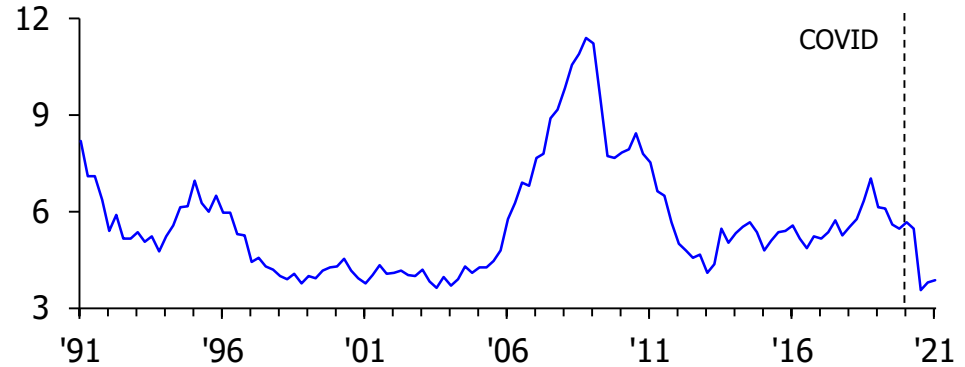
Median family income and average single-family home price, 2013=100



30-year fixed mortgage rate and estimated median payment-to-income ratio



Monthly Supply of Houses in the United States



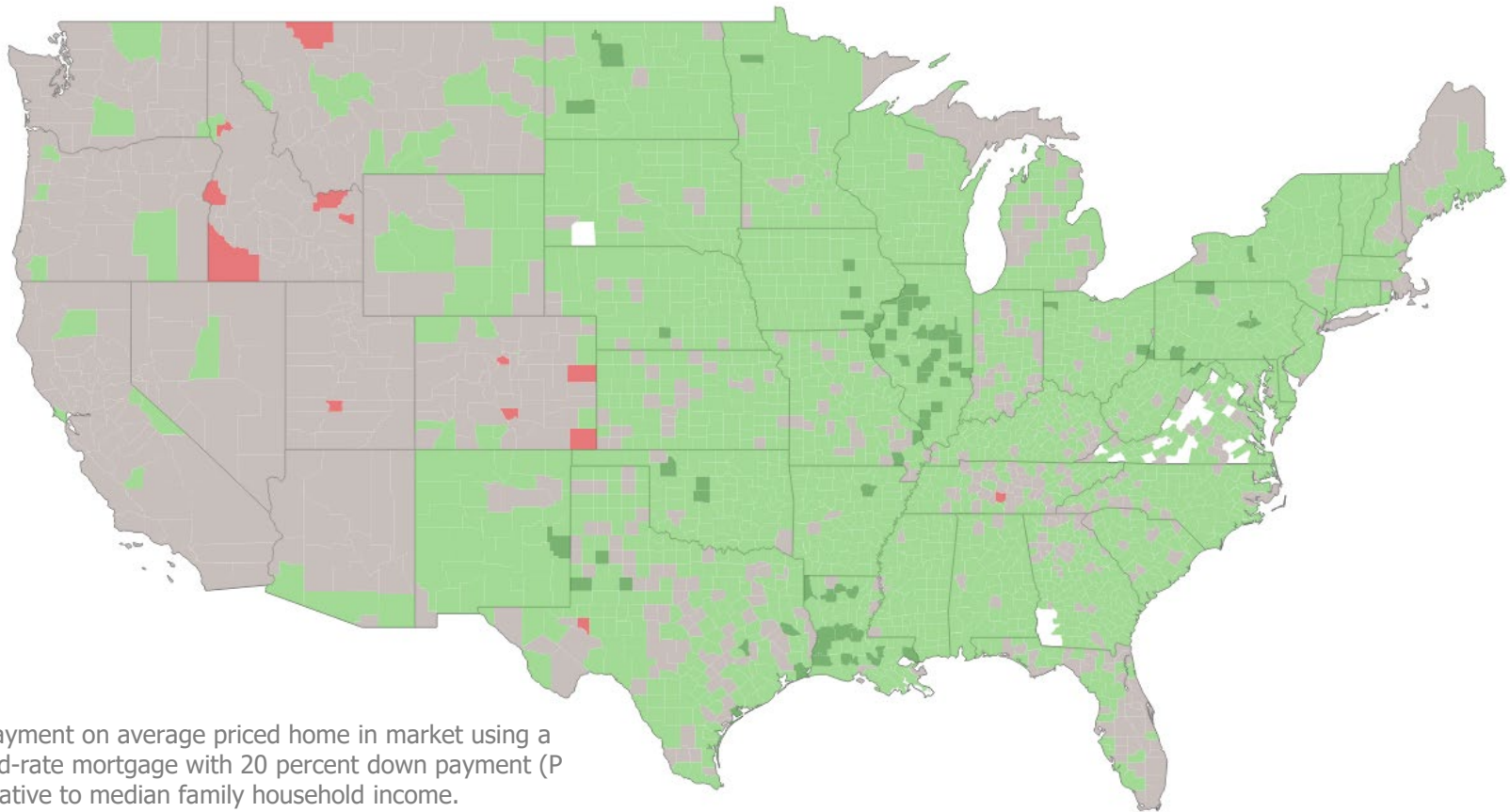
Source: Census; National Association of Realtors; Black Knight (data through 4Q:20); FHFA National Mortgage Database

Estimated median payment-to-income ratio = Mortgage payment on average priced home in market using a 30-year fixed-rate mortgage with 20 percent down payment (P & I only) relative to median family household income.

# Low mortgage rates make housing more affordable across most of U.S. counties

Mortgage payment to median family income, Dec. 2020

■ Significantly more affordable ■ More affordable ■ Near historic affordability ■ Less affordable



Mortgage payment on average priced home in market using a 30-year fixed-rate mortgage with 20 percent down payment (P & I only) relative to median family household income.

Sources: Black Knight; Freddie Mac; Census Bureau, Moody's Analytics (data through 4Q:20)

Significantly more affordable = 2 or more standard deviations more affordable county's 1Q:91 to 4Q:20 history

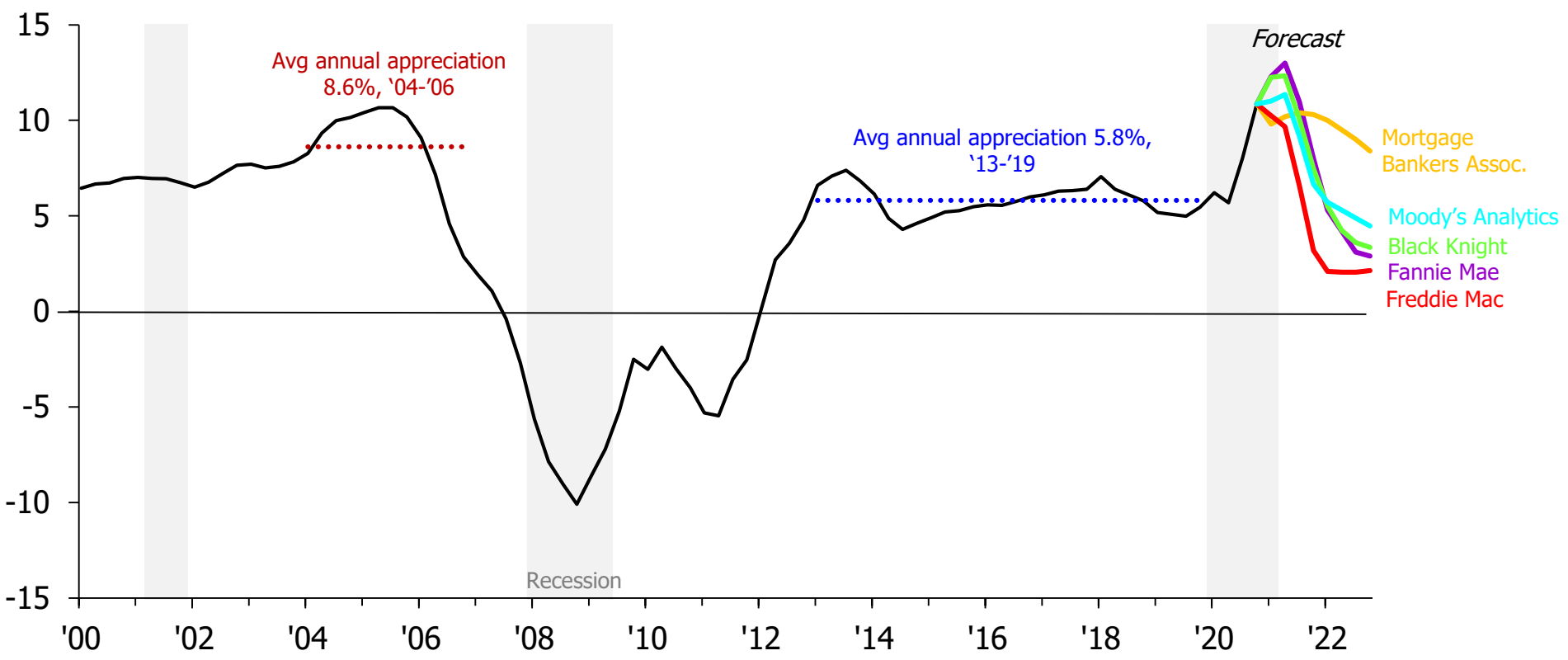
More affordable = 1 to 1.99 standard deviations more affordable

Near historic affordability = Within 1 standard deviation of county's affordability

Less affordable = 1 or more standard deviation less affordable

# Forecasted home price spike due to future appreciation being pulled forward

Forecasted single-family year-over-year home price percent change, %

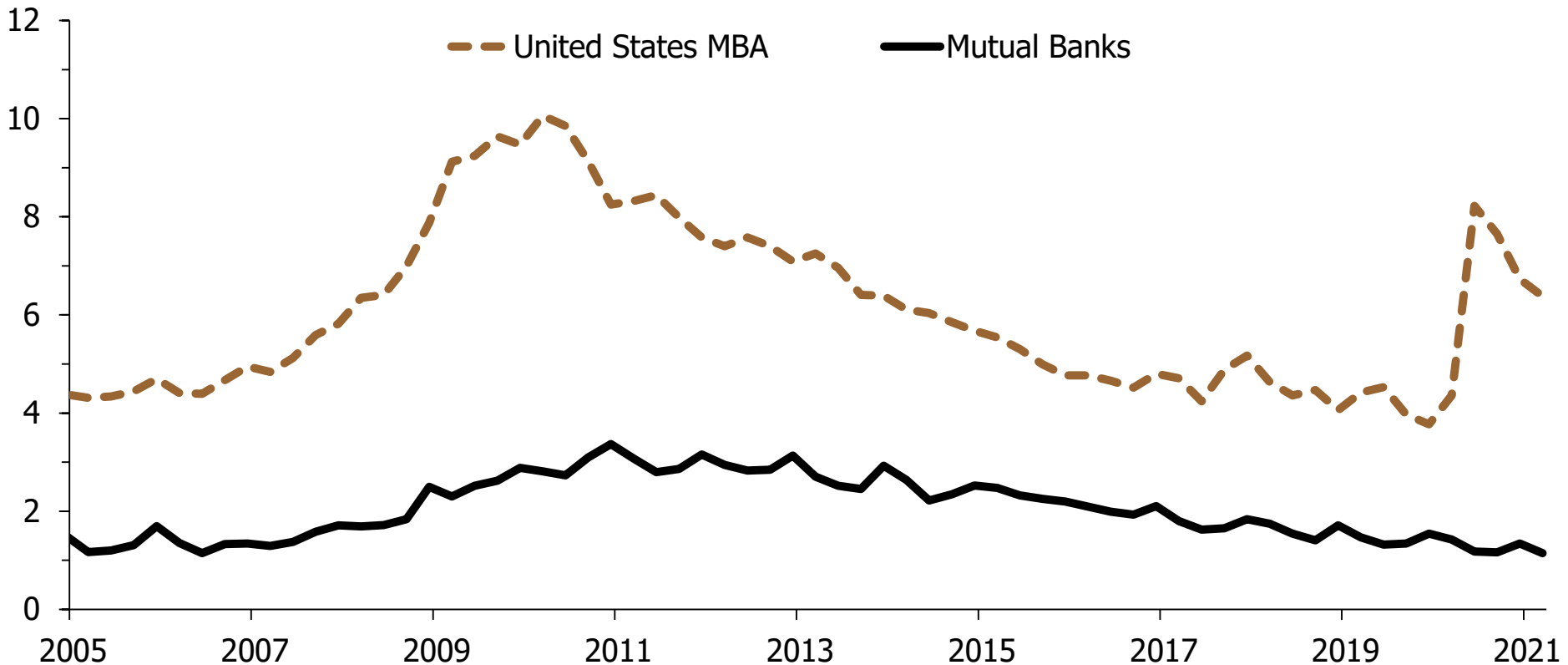


Note: Historical HPI is based on FHFA single-family purchase-only index.

Sources: FHFA; Black Knight; Freddie Mac (April 2021 forecast); Fannie Mae (Housing Forecast: April 2021); National Association of Realtors (May 2021 Economic Outlook); Moody's Analytics (April 2021 Baseline);

# Residential mortgage “delinquencies” have soared

Residential Mortgages Past Due, %

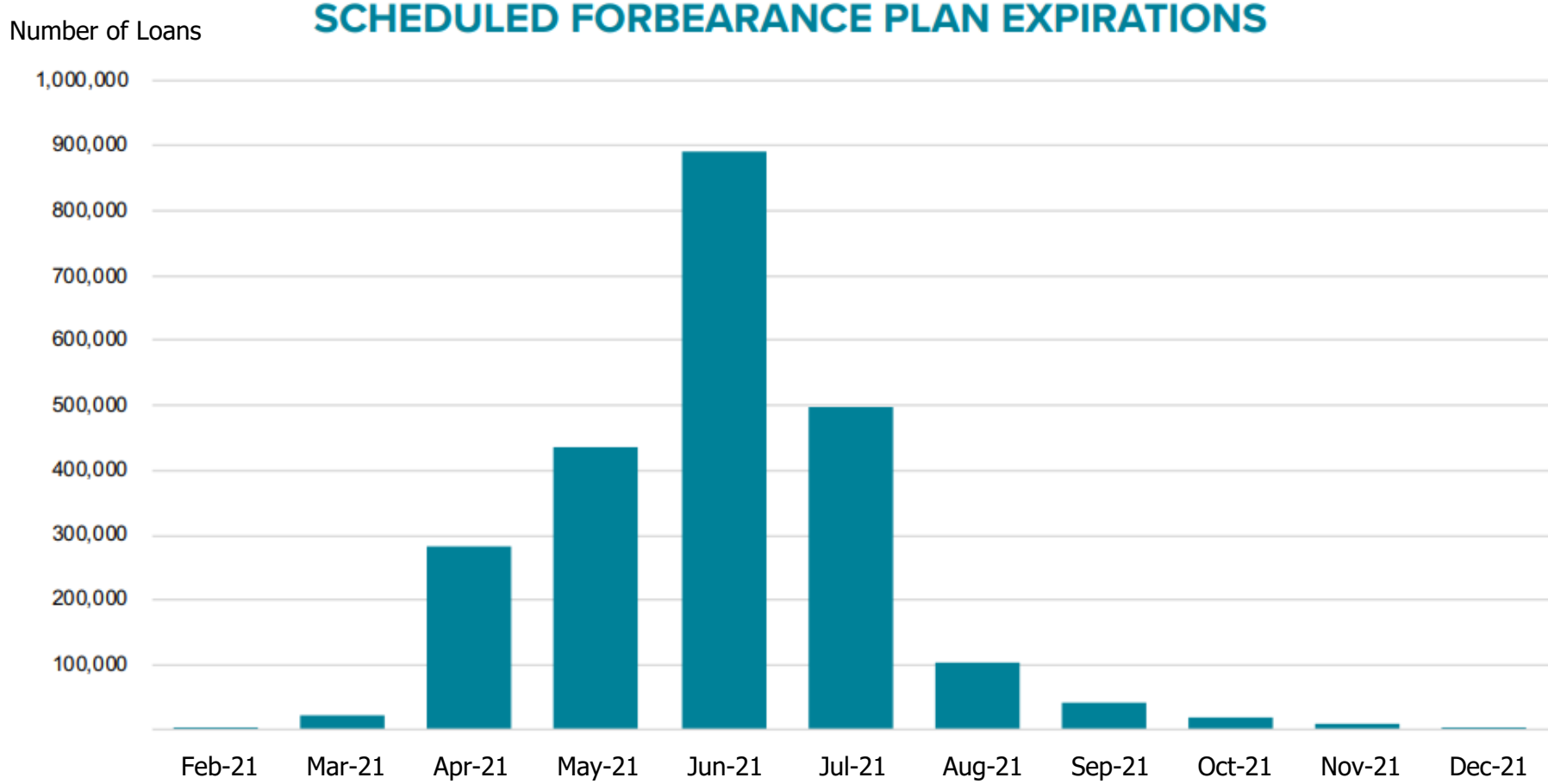


Source: Mortgage Bankers Association (Haver Analytics), FDIC.

Note: Data quarterly figures through first quarter 2021. United States MBA data is servicer reported residential mortgages past due as a percent of residential mortgages serviced. Mutual Bank data is median percent of residential mortgages past due to total residential mortgages.



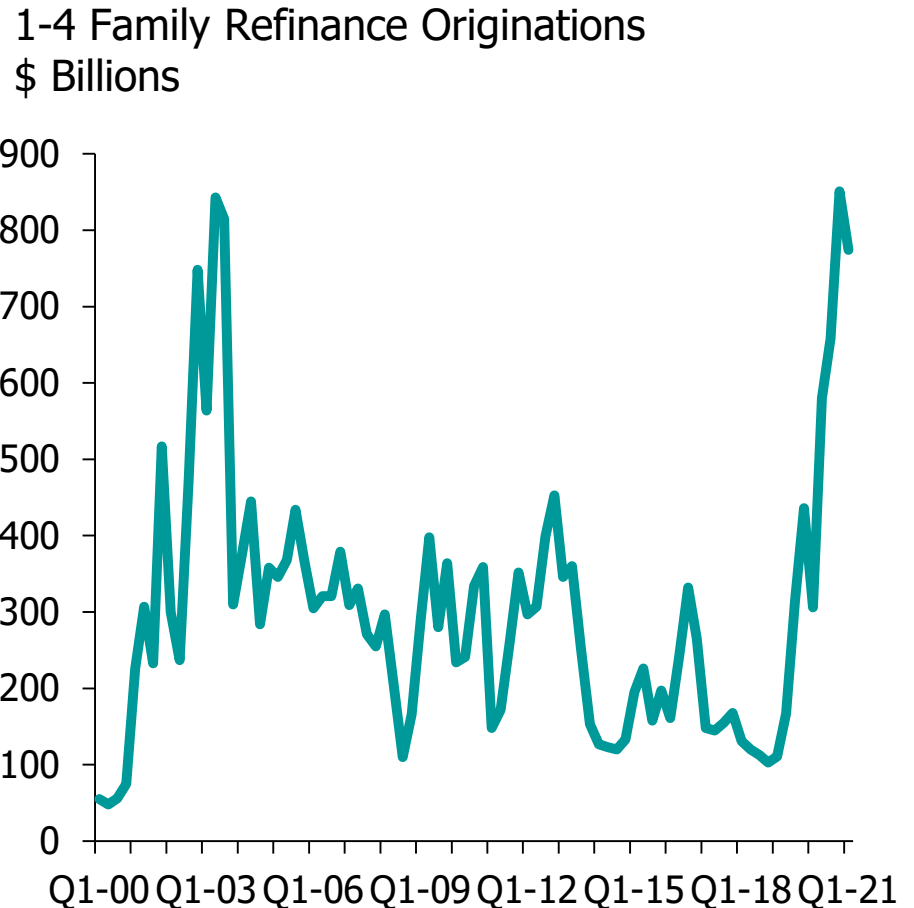
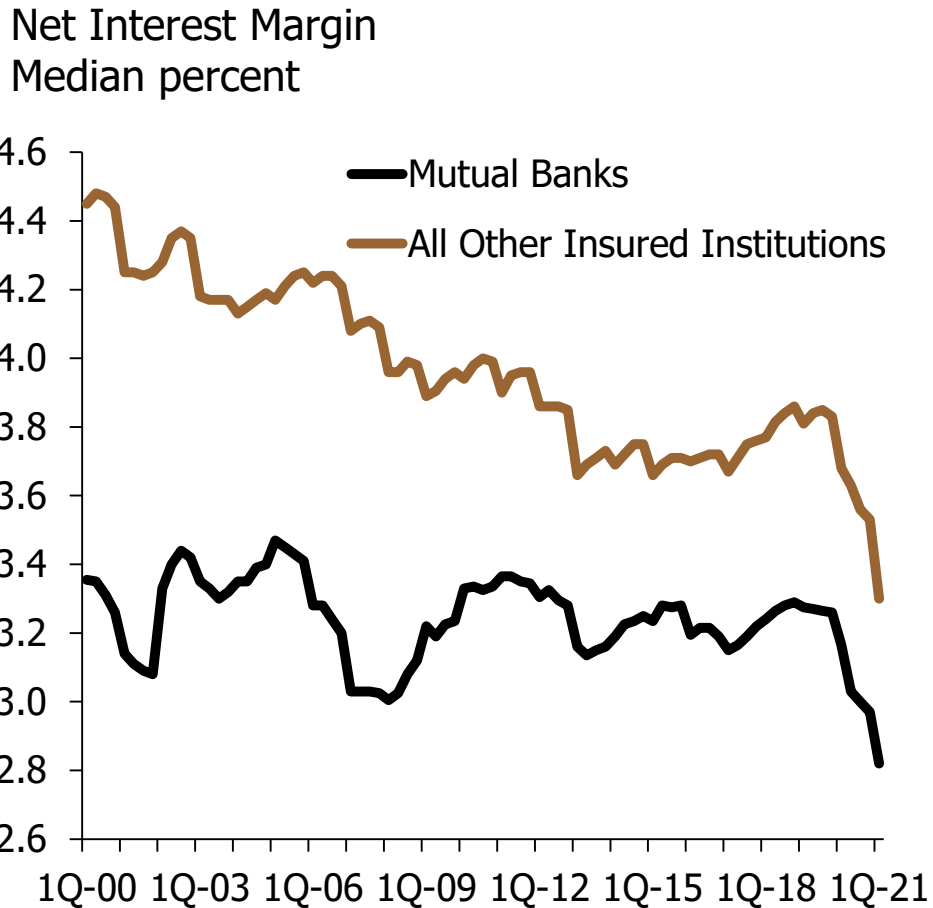
# Residential loans in forbearance are coming due



Source: McDash Flash, Black Knight Inc.

Note: Data projections monthly through December 2021. Forbearance Plan Expirations represent the expiration date listed in the servicing system of record. These dates in many cases represent the next scheduled quarterly review for extensions or removal from forbearance and do not necessarily represent the final expiration of the plan.

# Mutual bank margins tighten along with the rest of the industry; refi boom a continued headwind

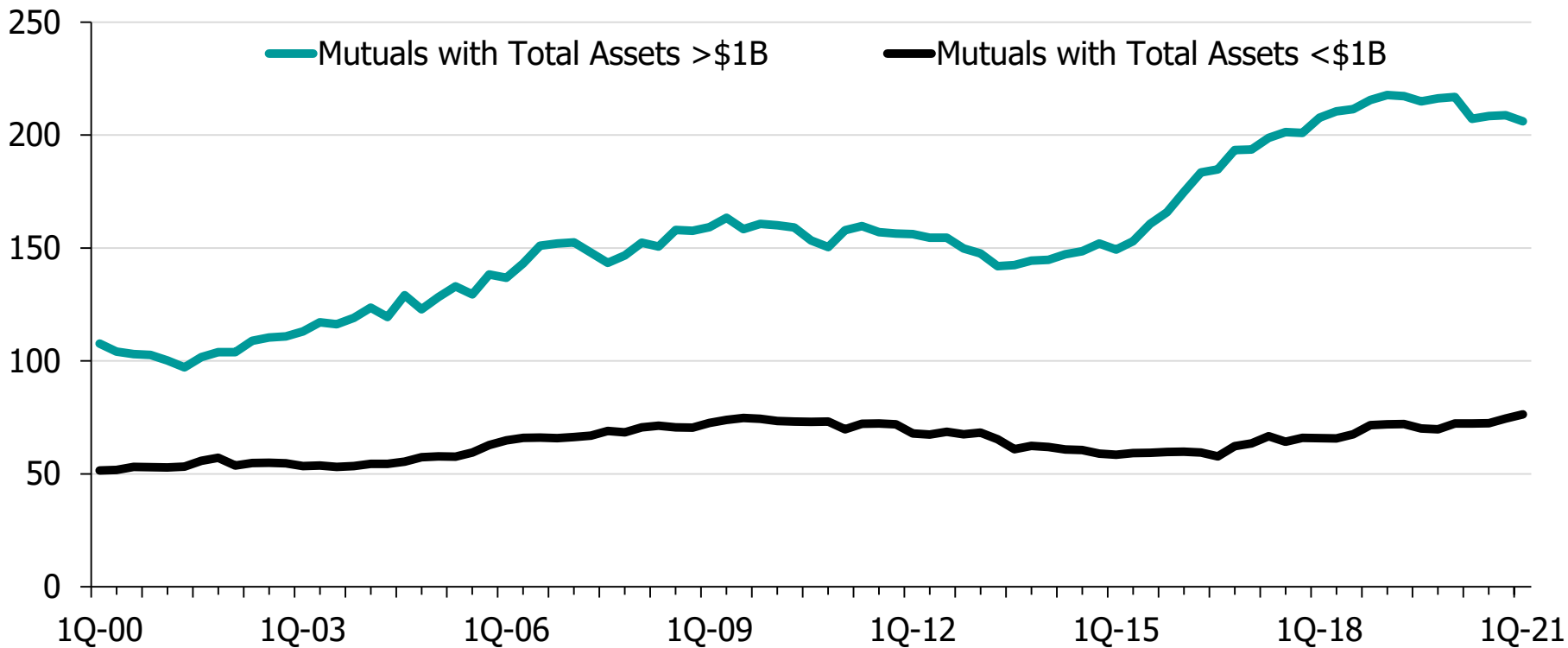


Source: FDIC.  
Note: Data are quarterly figures through March 31, 2021.

Source: Mortgage Bankers Association (Haver Analytics).  
Note: Data are quarterly figures through March 31, 2021.

# CRE lending has grown among larger mutual banks

## CRE Concentration by Asset Size Among Mutual Banks Median Percent

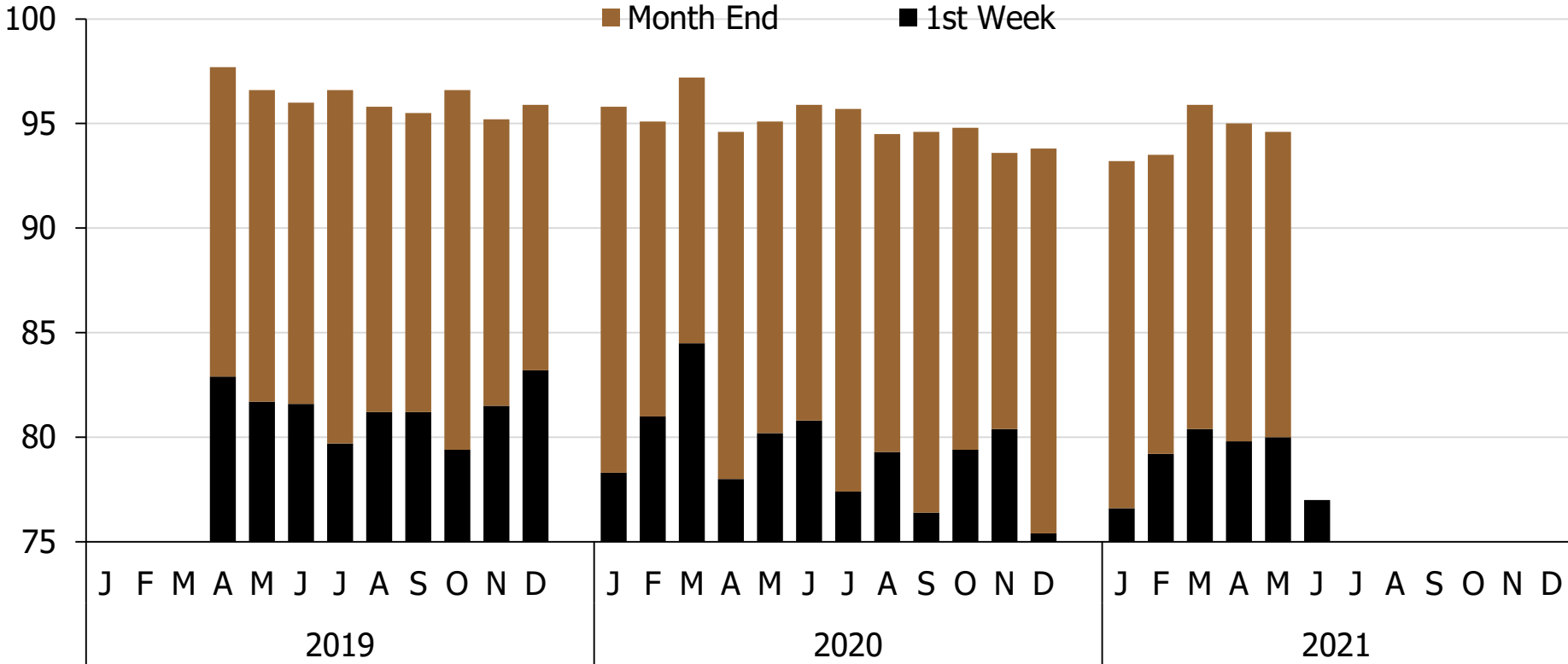


Source: FDIC.

Note: CRE Concentrations are to tier 1 capital and reserves, adjusted for CECL transitions.

# Apartment rental payment performance has held up relatively well in the pandemic

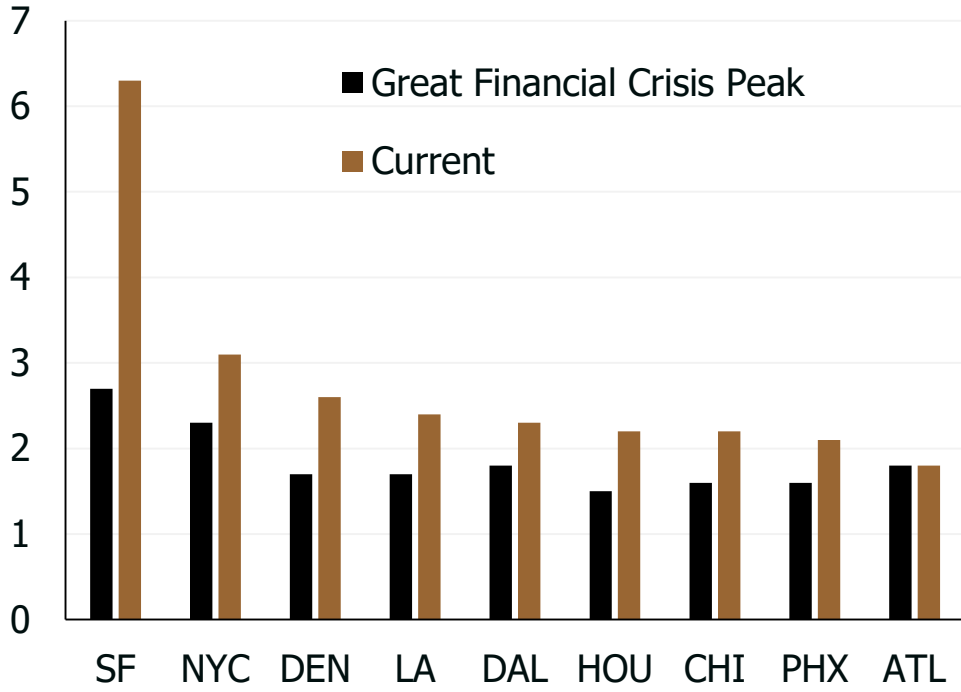
Share of Apartment Renters Making at Least Partial Payment, %



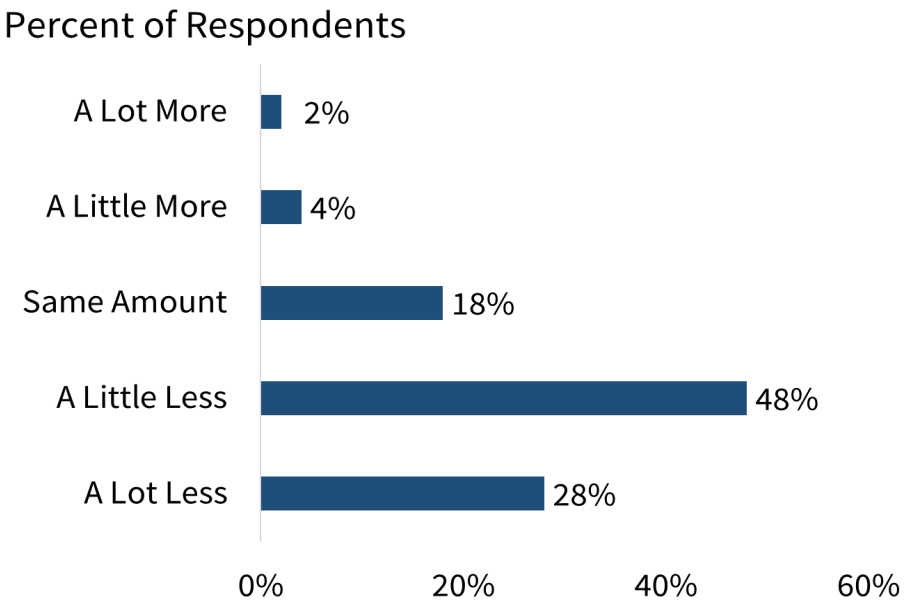
Source: National Multifamily Housing Council.

# The office sector faces softening in demand

Available Sublet Space, Percent of Total Stock



Office Space Required to Meet Future Needs



Source: CoStar.  
 Note: Data are quarterly through first quarter 2021.

Source: Fortune/Deloitte CEO Survey.  
 Note: 171 CEOs surveyed. October 2020.



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