



**The Current Status and Outlook for the  
Economies, Housing, and Mortgage Markets  
of Selected States and MSAs**

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**Specially Prepared for:**

**American Association of Individual Investors,  
Silicon Valley Chapter**

**Presented by:  
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Senior Director, Market Economics and Risk Analysis  
The PMI Group, Inc.**

**April 25, 2009**

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# Presentation Outline

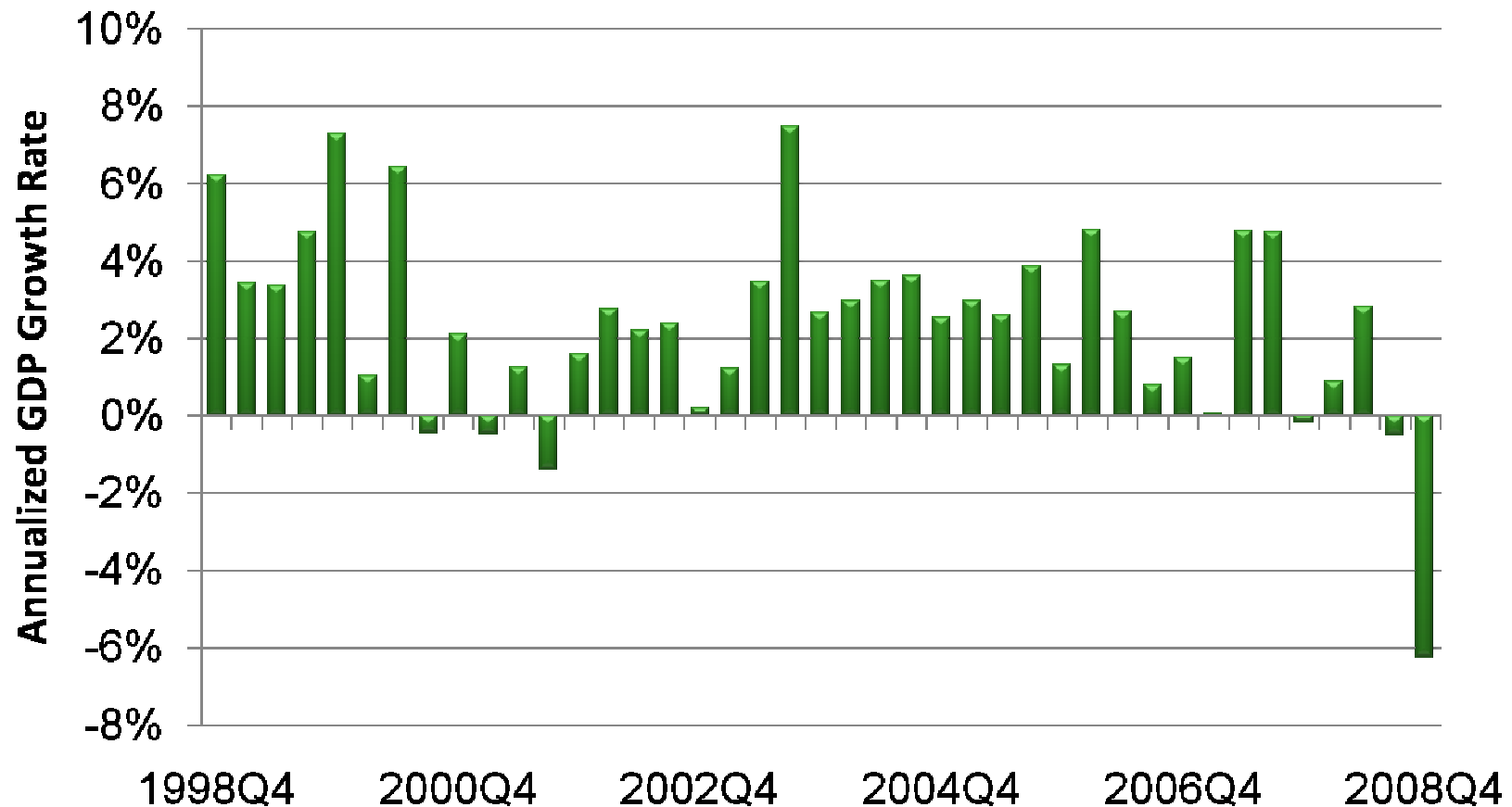
- **Overview of National Economic Conditions**
  - **The Forecast for House Price Appreciation**
  - **Detailed Consideration of the Conditions of Selected State and MSA Housing Markets**
    - California (San Diego and San Francisco)
    - Florida (Jacksonville)
    - Arizona (Phoenix)
    - Nevada (Las Vegas)
    - Texas (Austin)
    - Illinois (Chicago)
  - **Summary**
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# Overview of National Economic Conditions

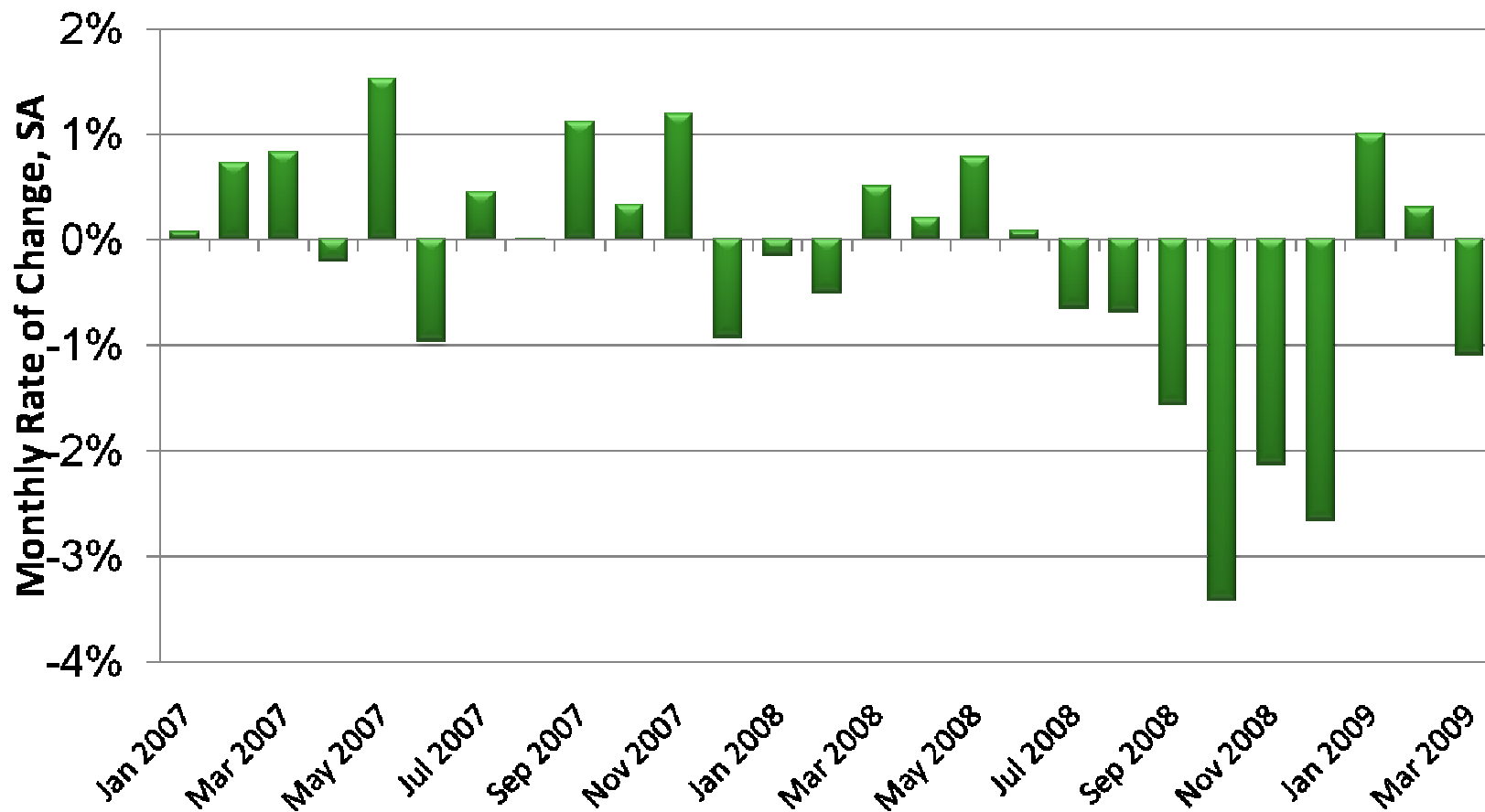
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## GDP remains under pressure as inventories plunge, consumers contract, and payrolls continue to decline...



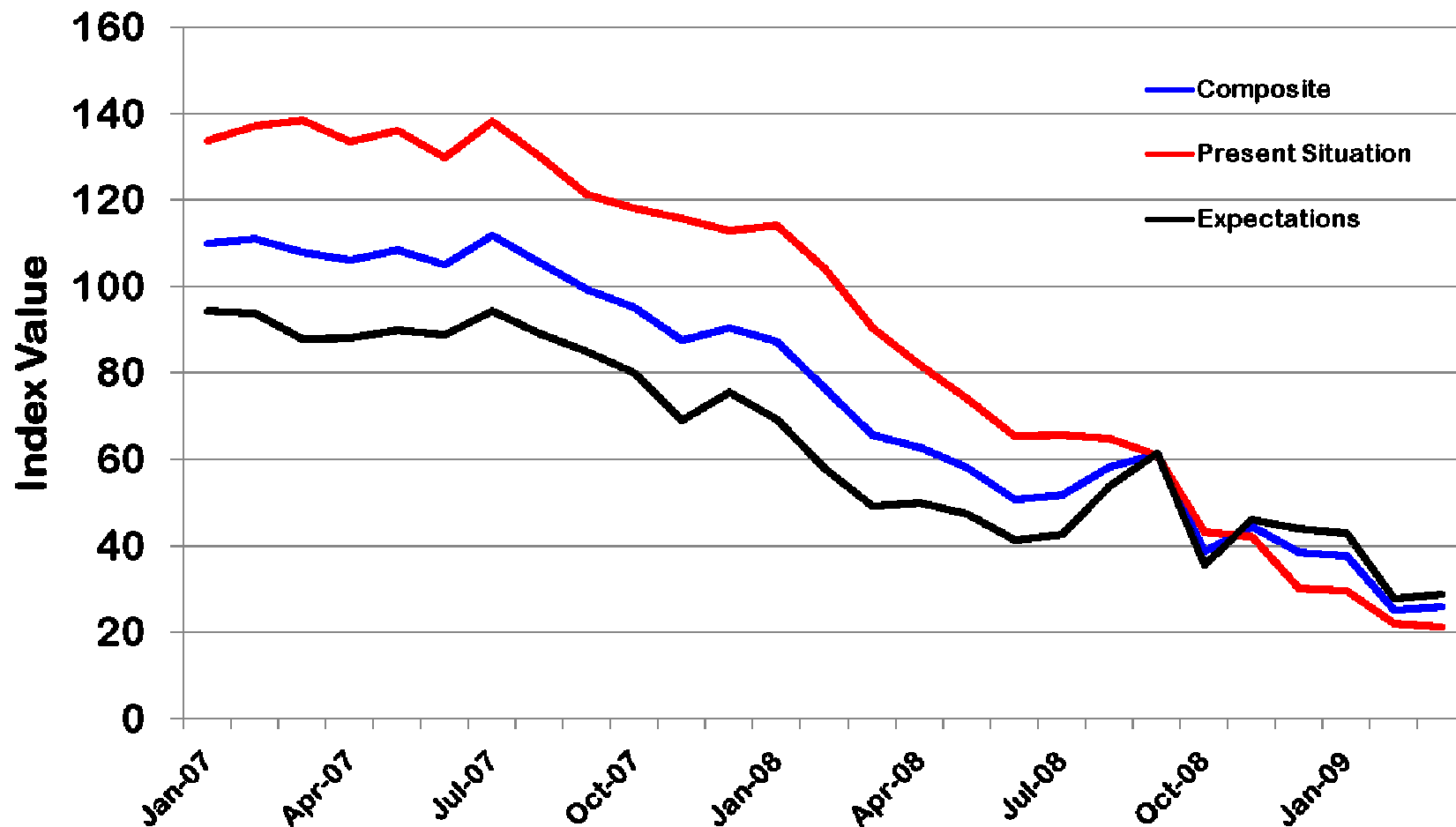
Source: Bureau of Economic Analysis

## After increasing for the first two months, Retail Sales unexpectedly dropped again in March...



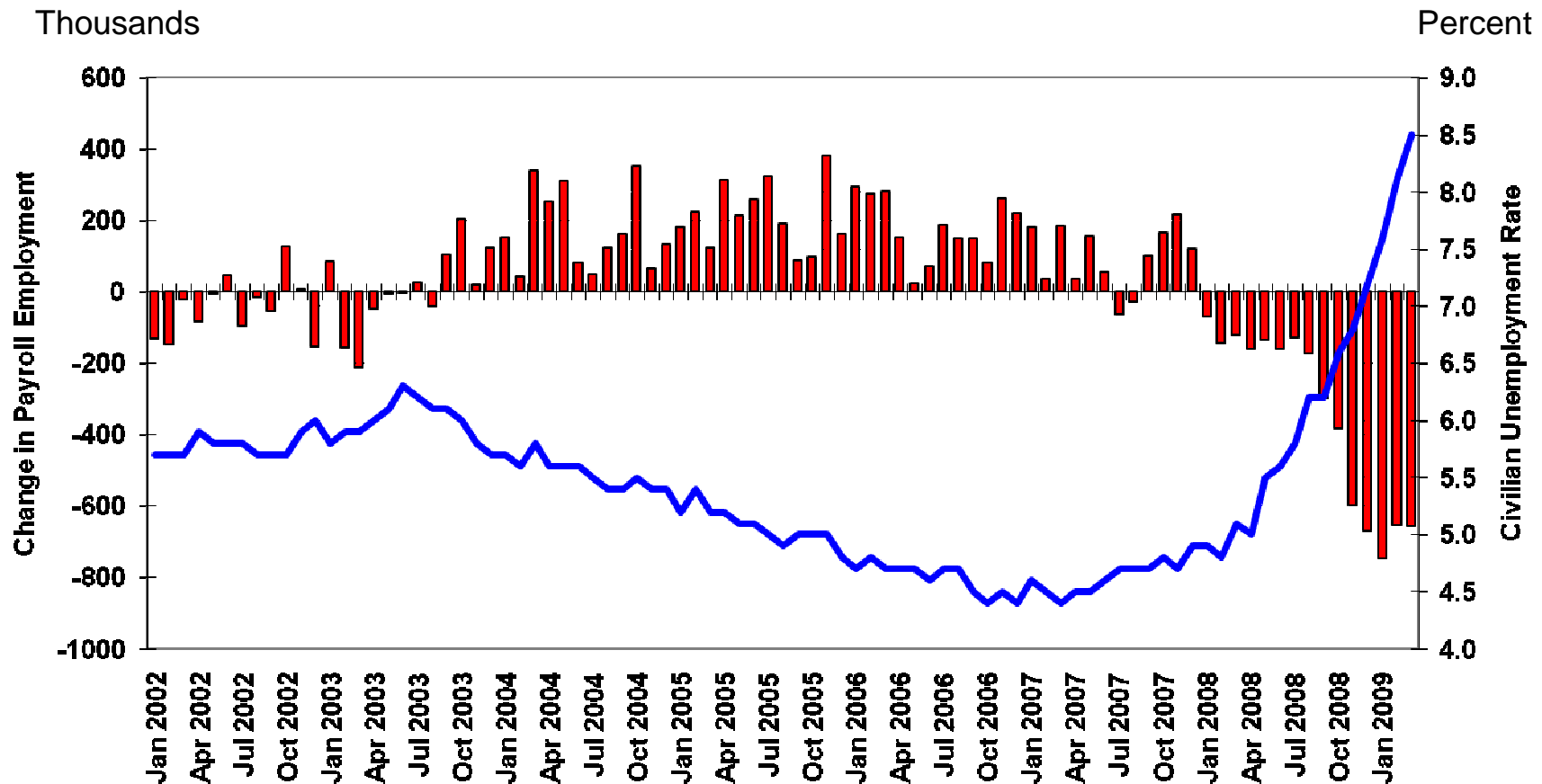
Source: U.S. Census Bureau

## Consumer Confidence remains at historically low levels, and is little changed in recent months...



Source: U.S. Conference Board

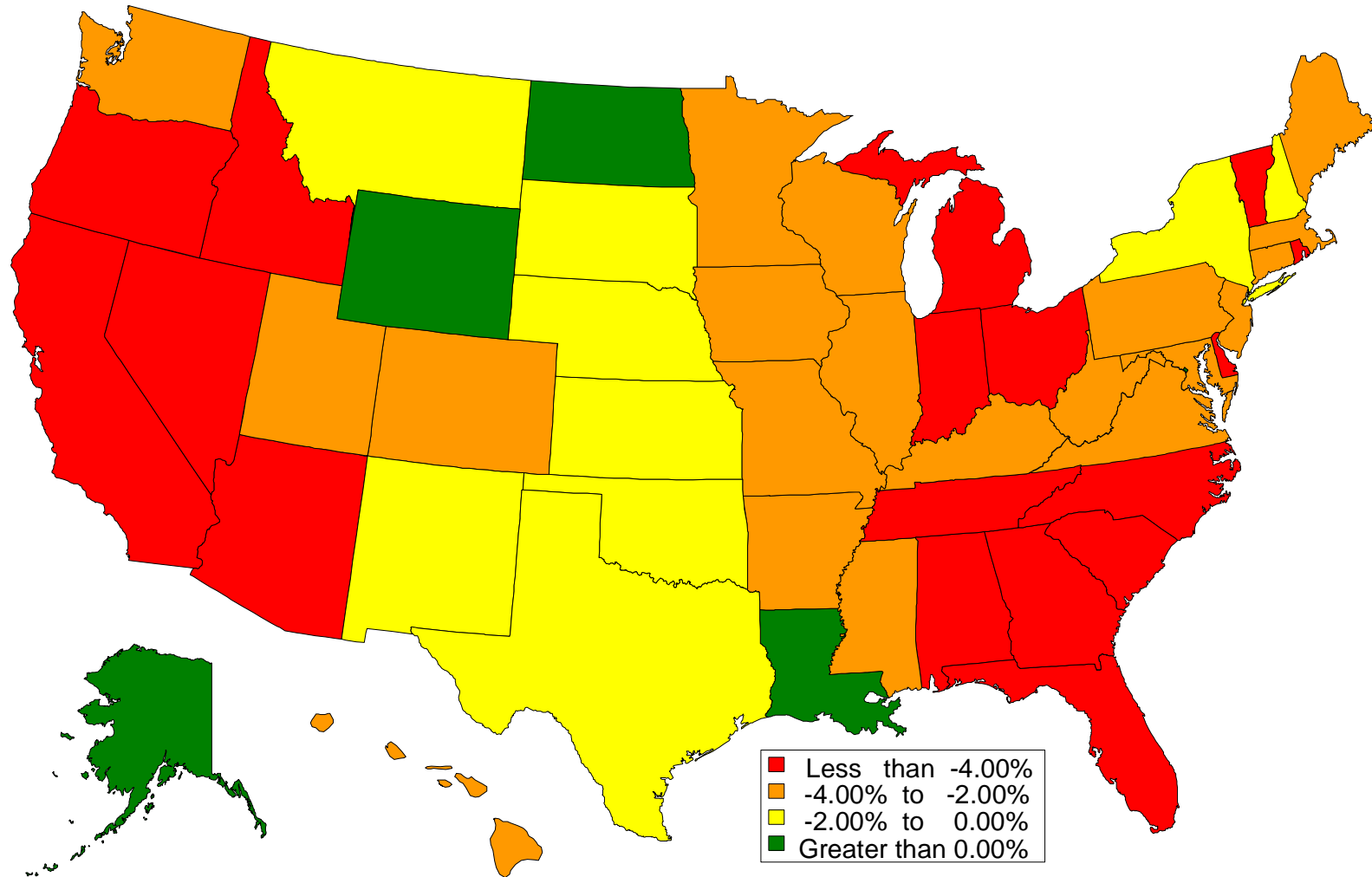
In response to falling sales and expectations, employers have continued to cut their payrolls, thus driving up unemployment rates.



Source: Bureau of Labor Statistics

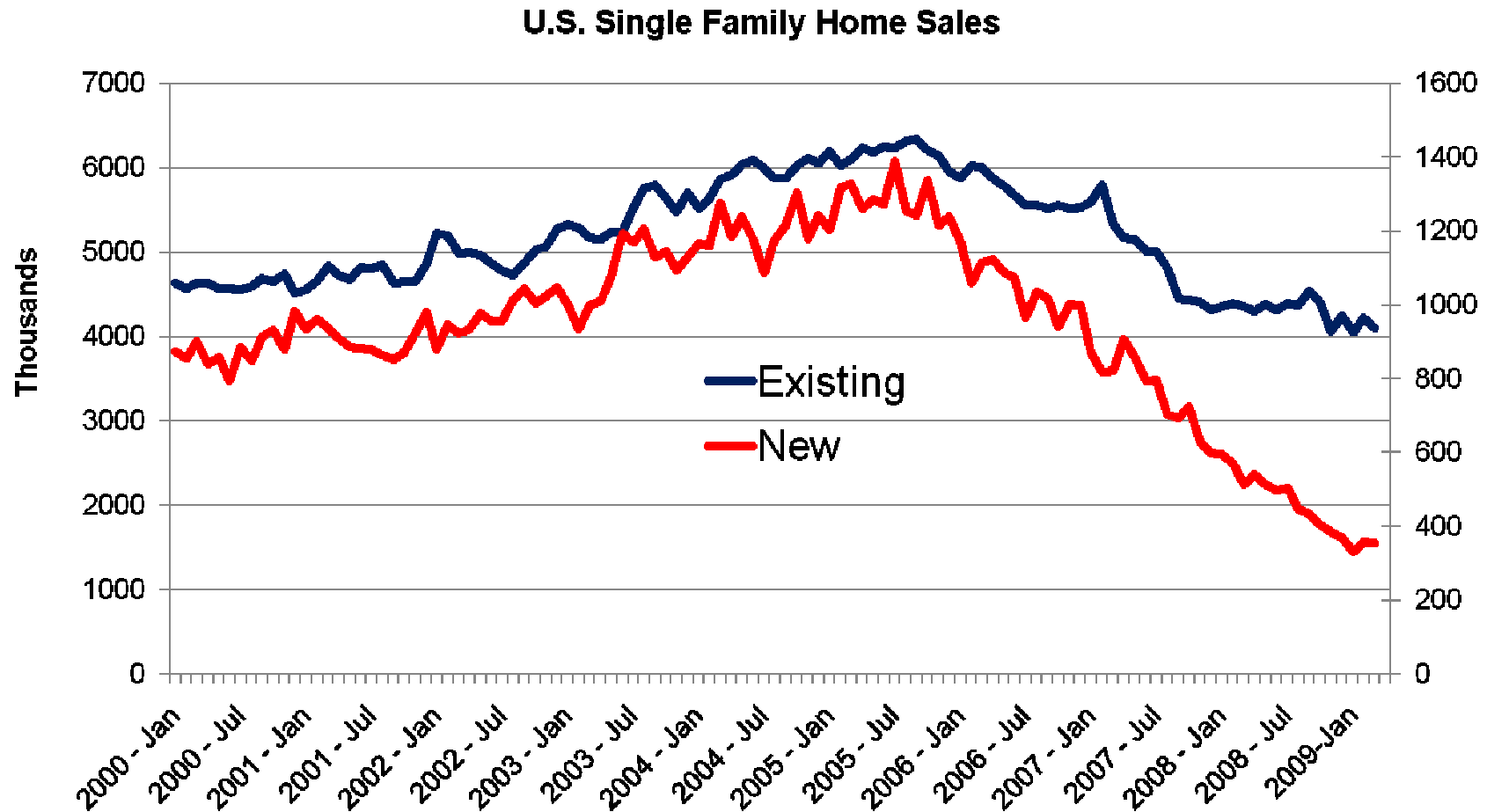
# Change in Payroll Employment

## March 2008 to March 2009



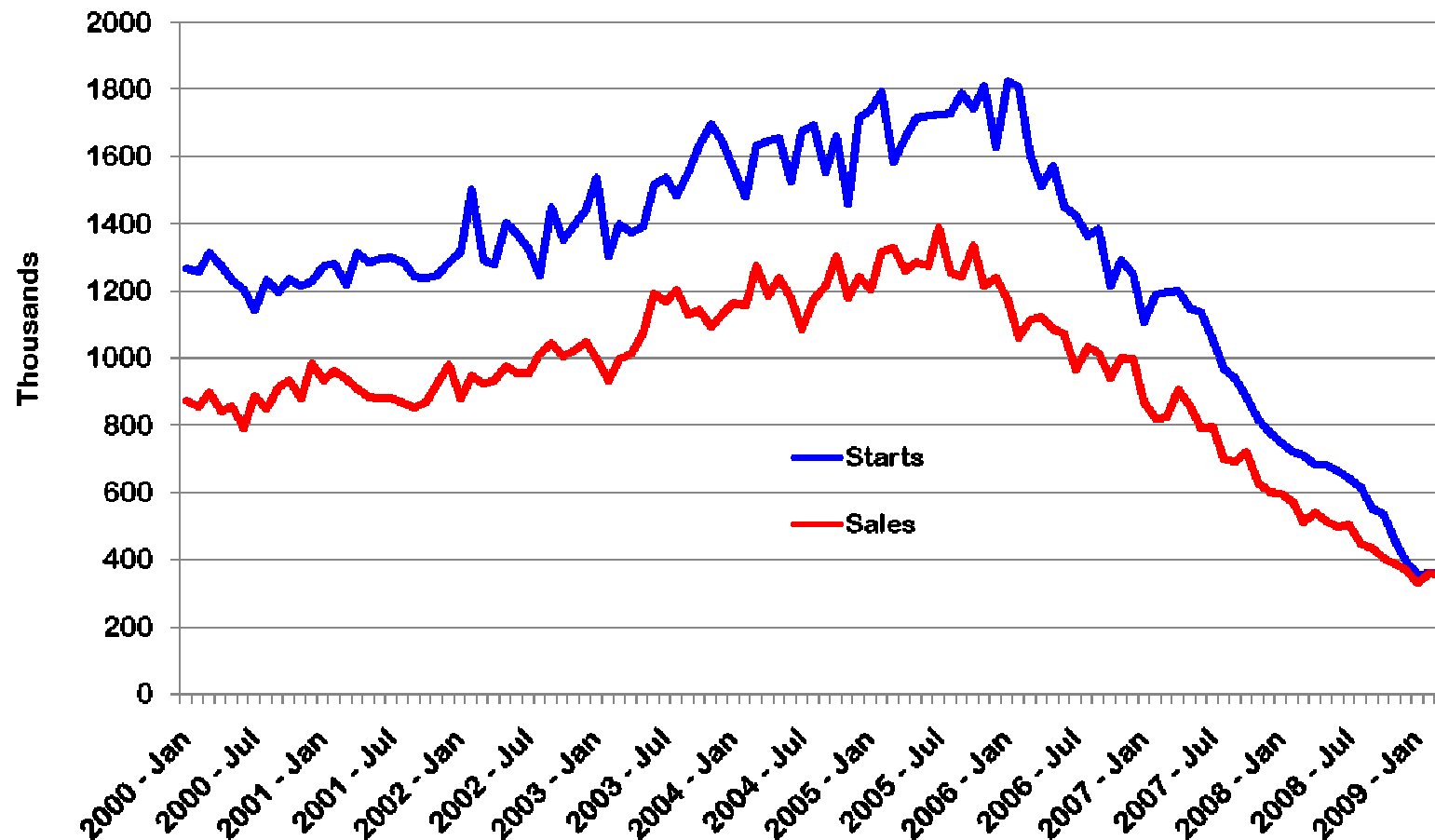
Source: Bureau of Labor Statistics / Haver Analytics

**Growth in Home Sales remains low, although has risen slightly as prices have continued to decline...**



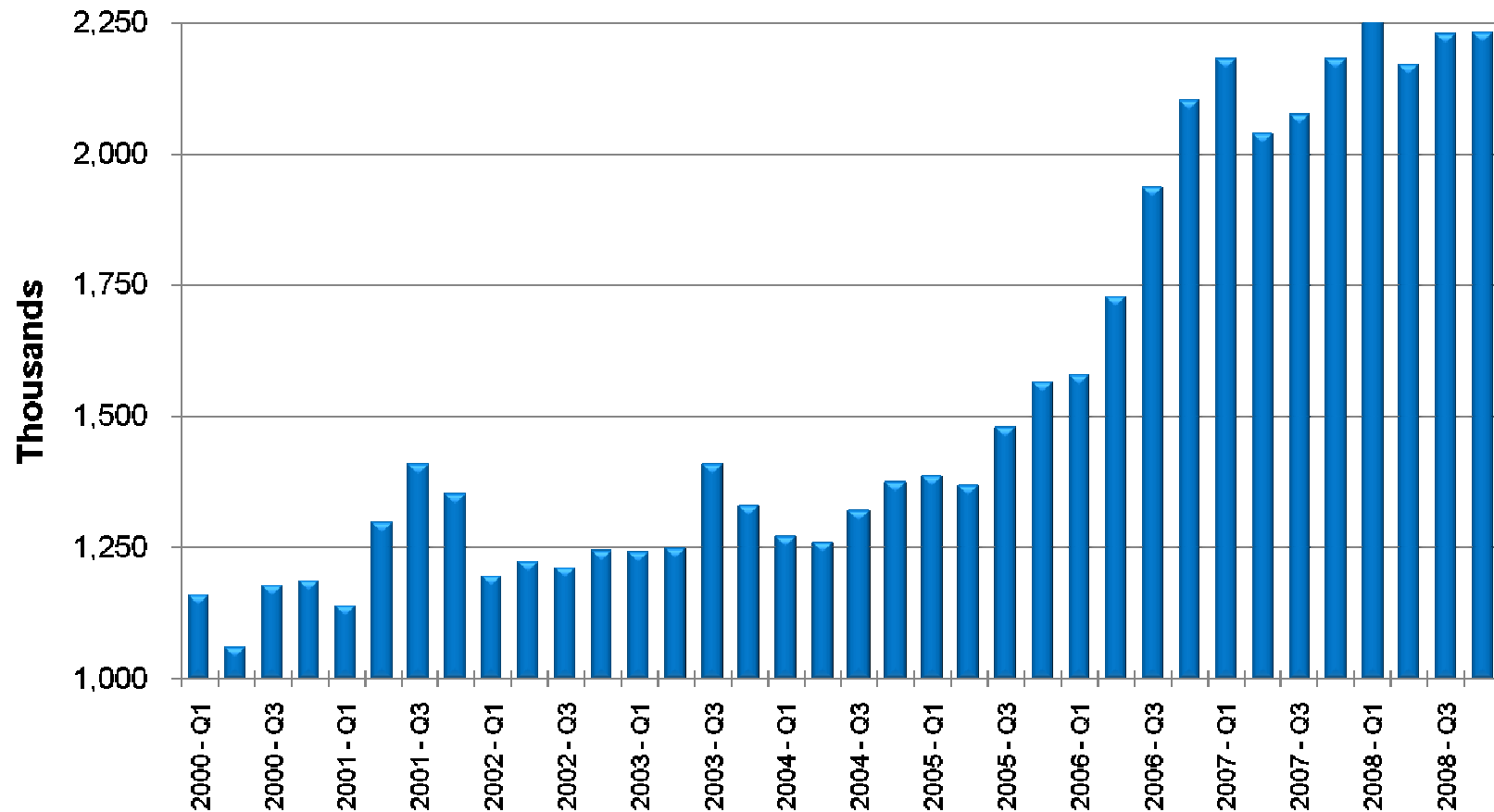
Source: National Association of Realtors / U.S. Census Bureau

...with the New Home Market still undergoing significant retrenchment.



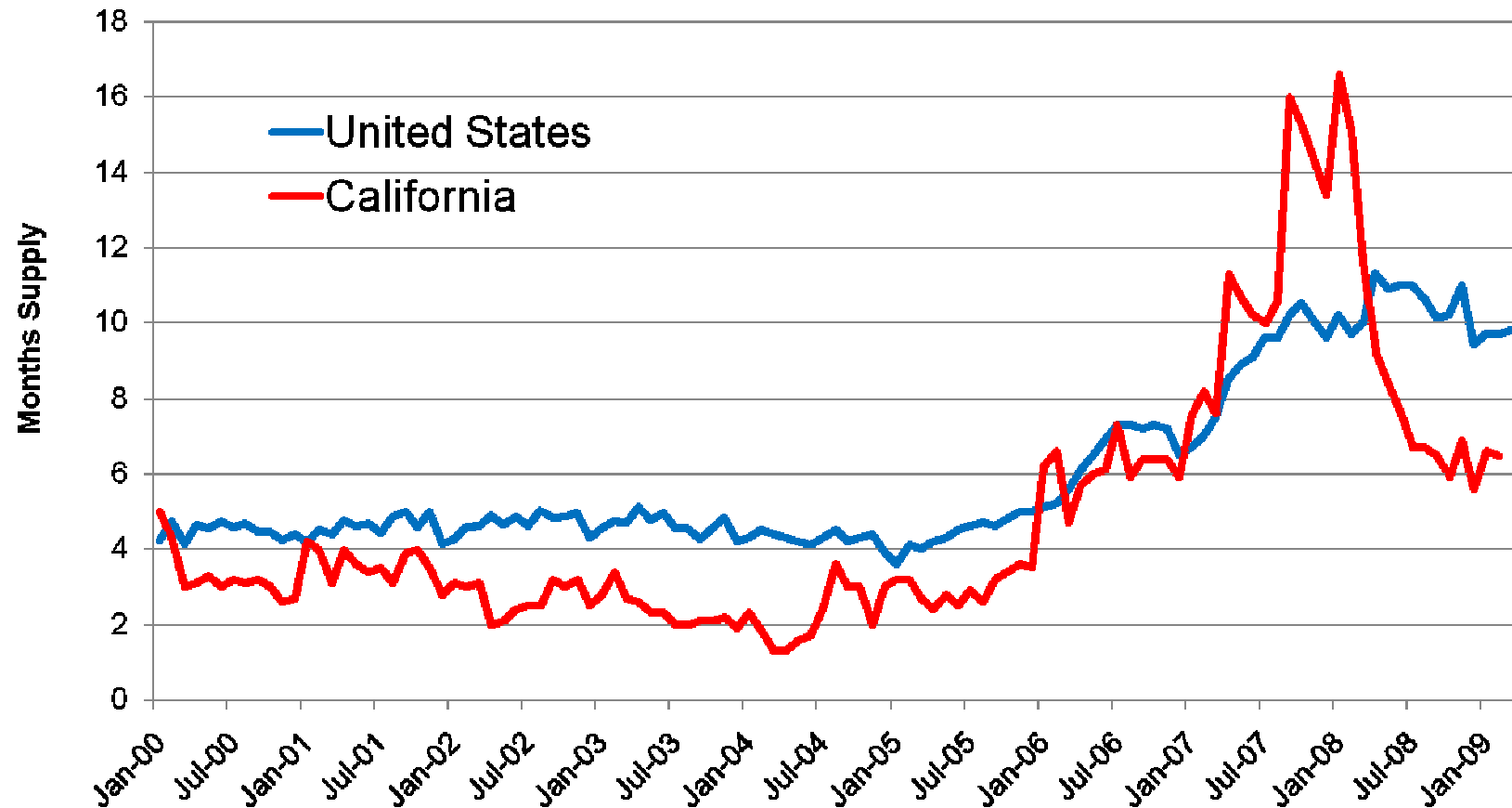
Source: NAR / U.S. Census Bureau

However, housing inventory seems to have peaked as the number of vacant homes has stopped rising.



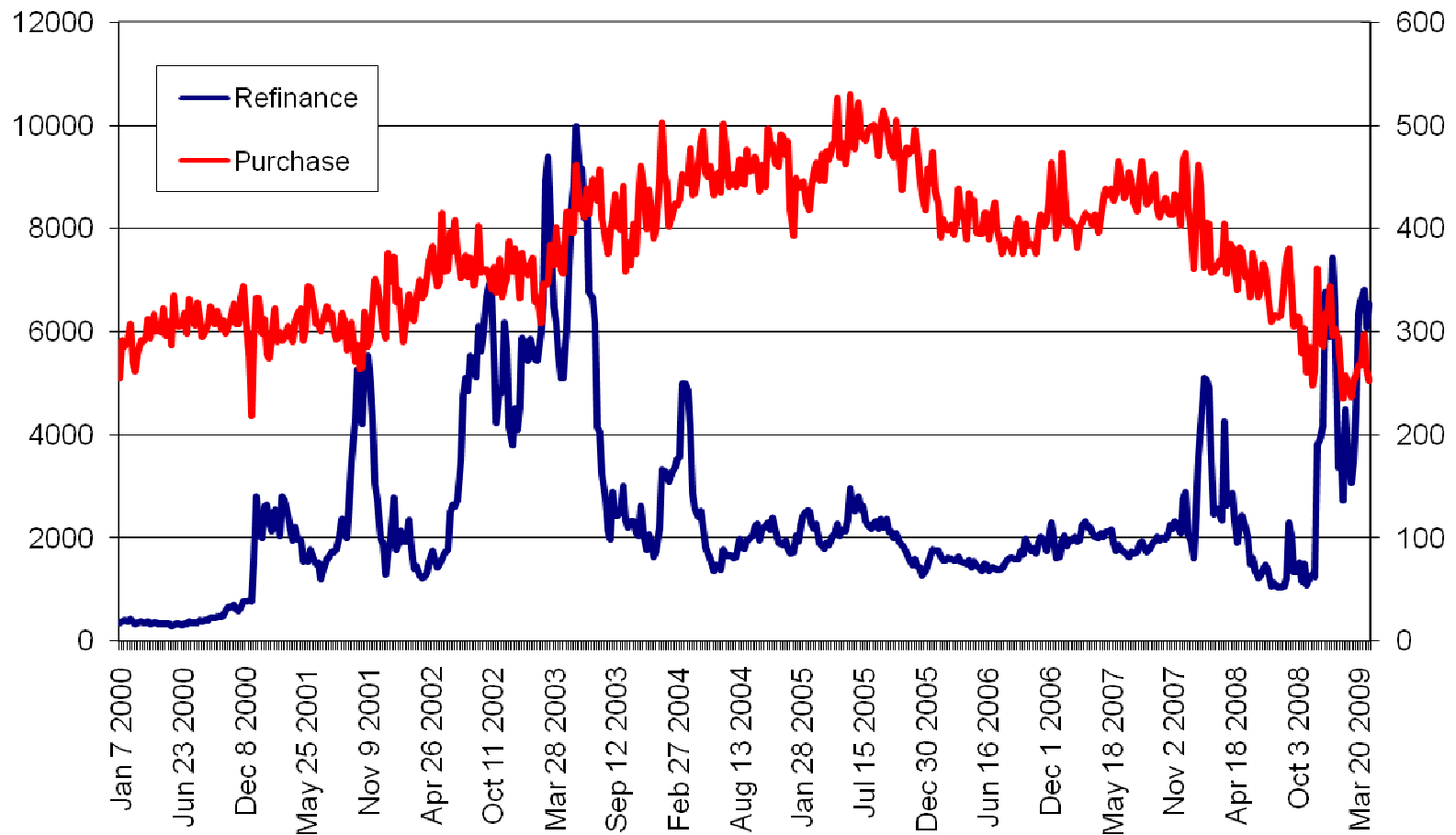
Source: U.S. Census Bureau / Moody's Analytics

# The Months Supply of Existing Housing is declining faster in California relative to the Nation...



Source: National Association of Realtors / California Association of Realtors

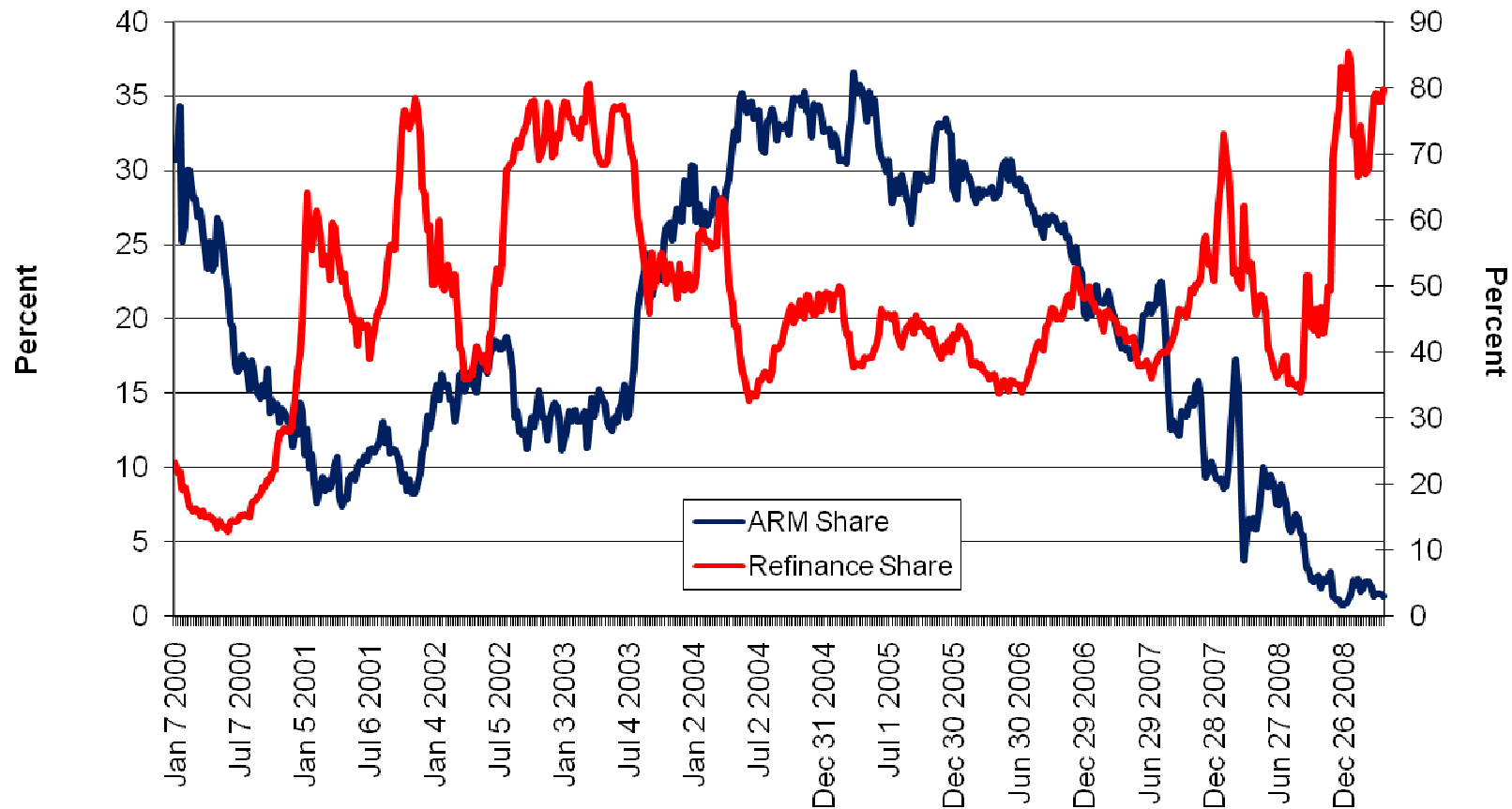
## Applications for Mortgage Loan refinancing are growing and have stabilized for purchases...



March 16, 1990 = 100

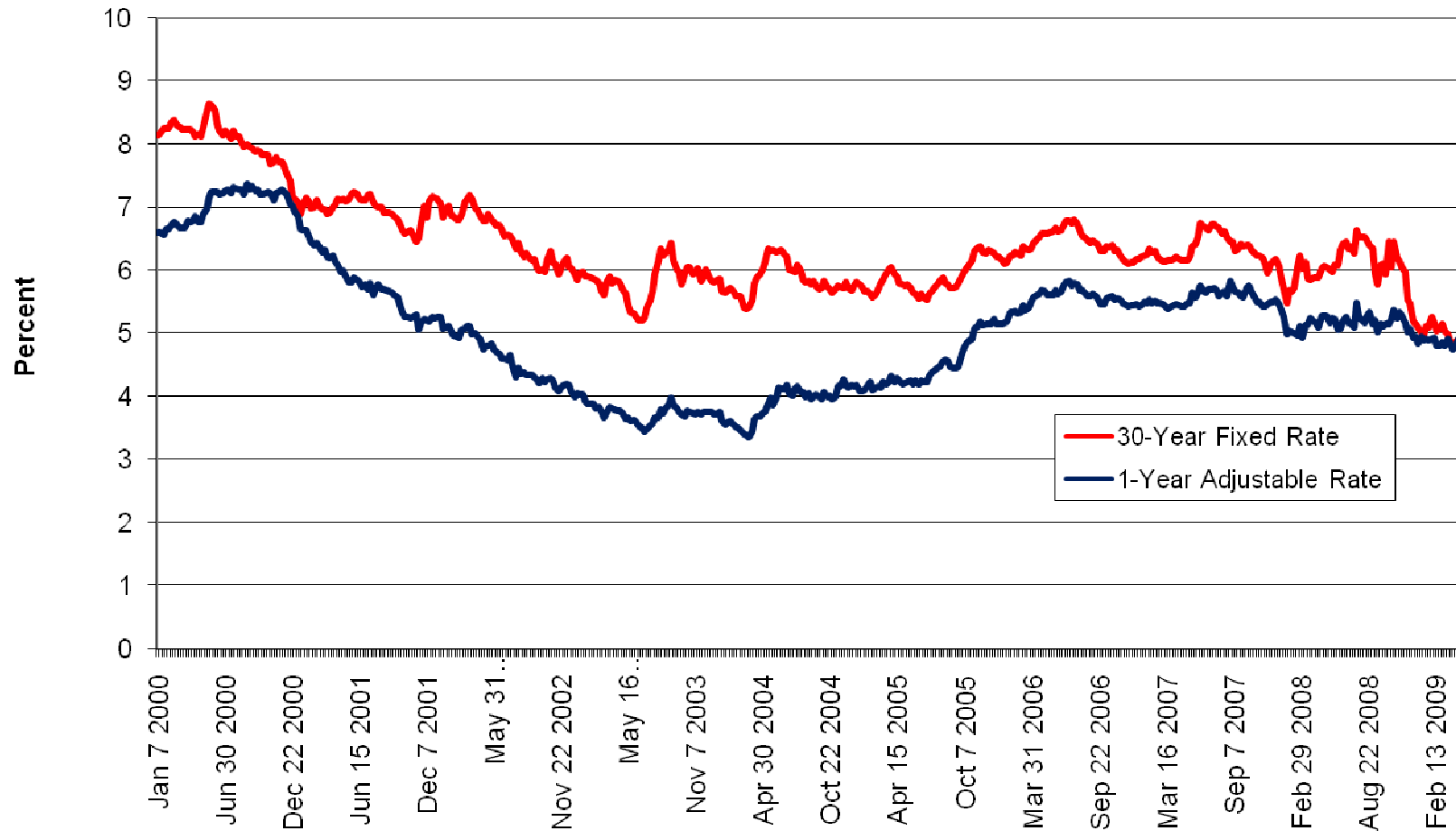
Source: Mortgage Bankers Association / Haver Analytics

**New Mortgage Activity is almost fully concentrated now in refinancing of adjustable rate product into fixed rate product...**



Source: Mortgage Bankers Association / Haver Analytics

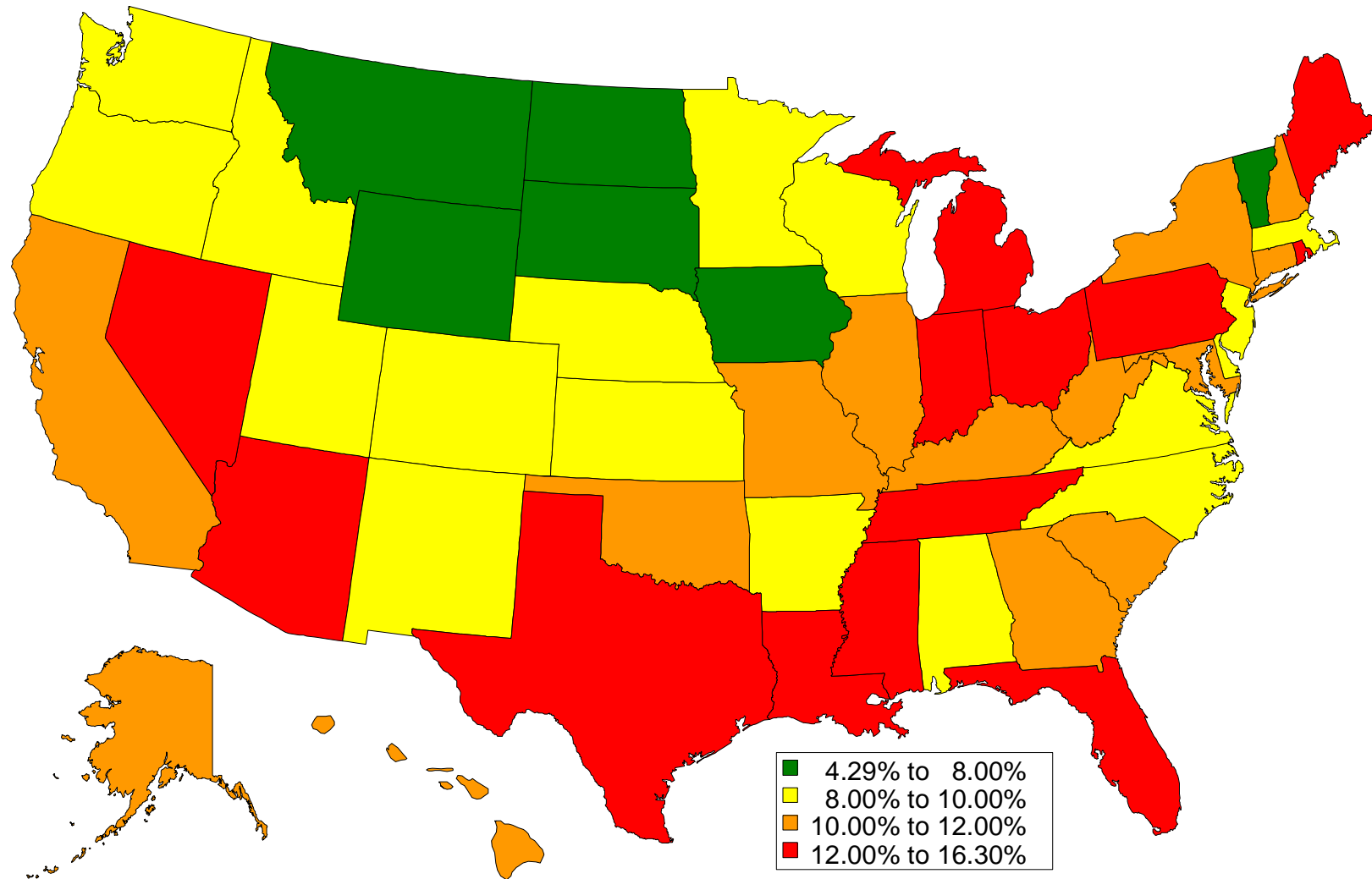
## Mortgage Rates remain at historic lows encouraging refinancing and new home buyers...



Source: Freddie Mac / Haver Analytics

# Subprime Share of Mortgages

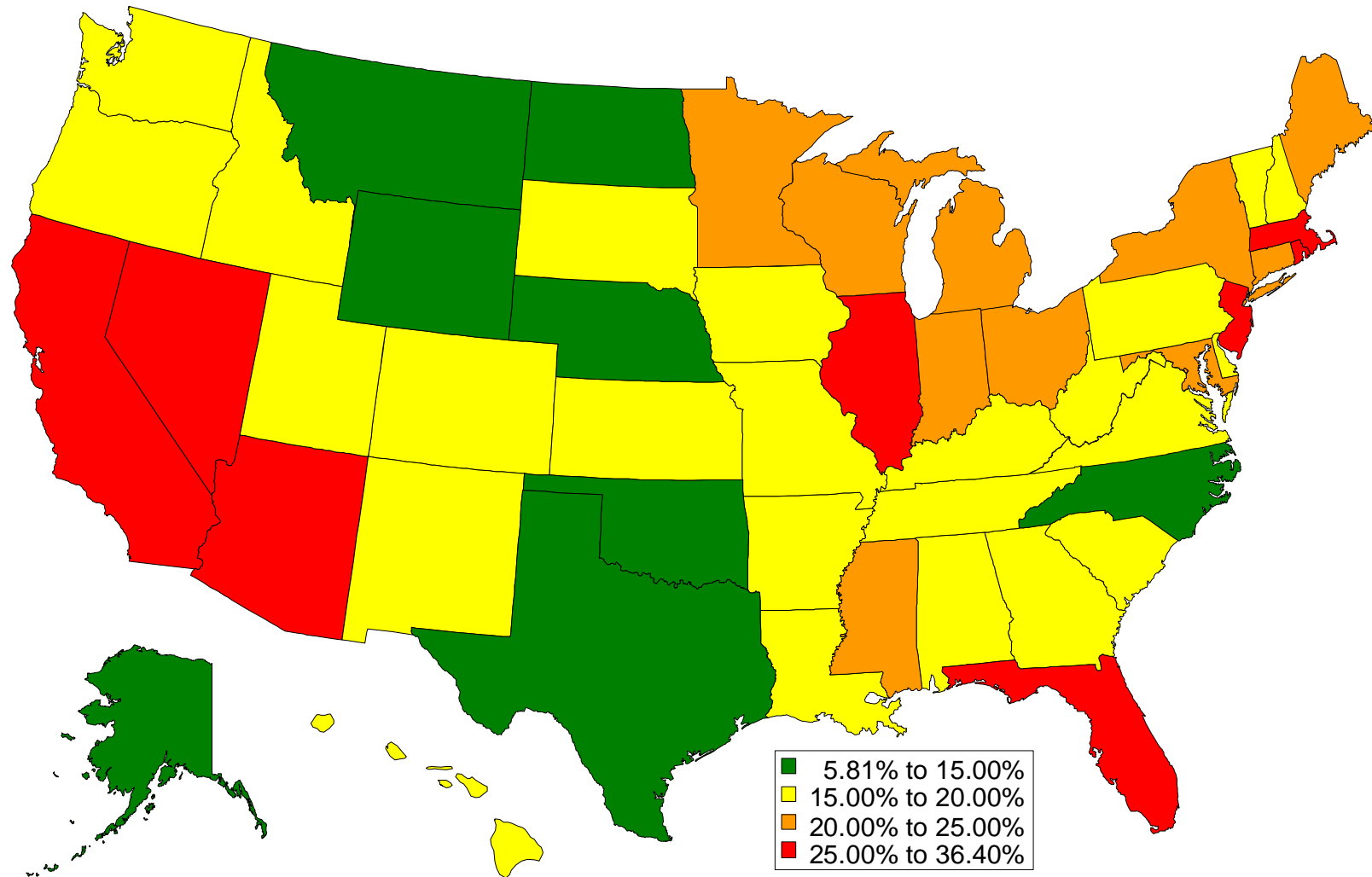
## 4<sup>th</sup> Quarter 2008



Source: Mortgage Bankers Association / Haver Analytics  
Note: Subprime share is the ratio of subprime loans to total loans in a state.

# Seriously Delinquent Subprime Mortgages

## 4<sup>th</sup> Quarter 2008



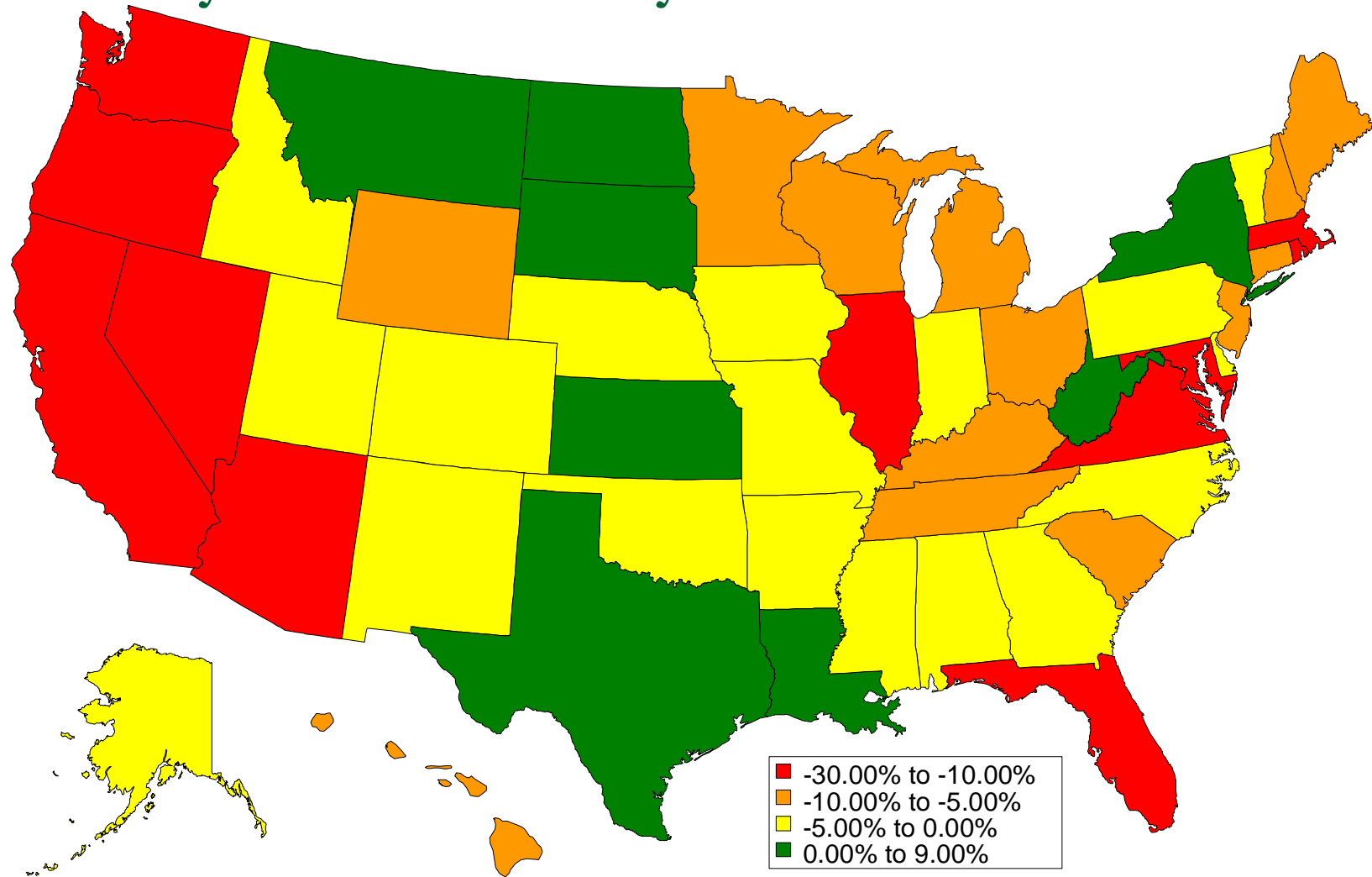
Source: Mortgage Bankers Association / Haver Analytics

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# The Forecast for House Price Appreciation

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# Rate of House Price Appreciation February 2008 to February 2009



Source: First American CoreLogic, LoanPerformance HPI

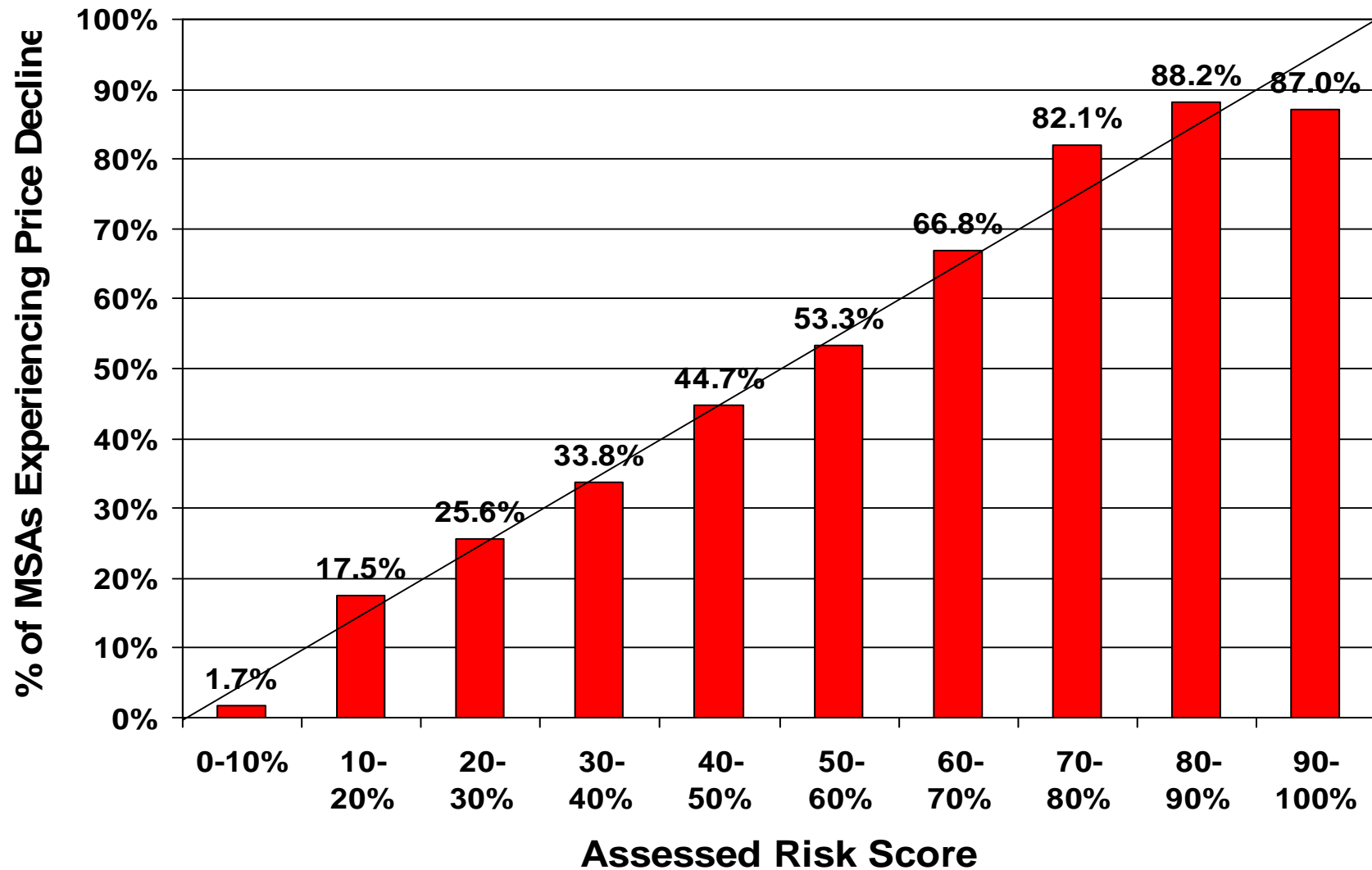
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# Model Description of PMI's U.S. Market Risk Index

- Estimates represent a series of probabilities ranging from 0 to 100 representing the likelihood that a given metropolitan statistical area or division will experience a cumulative decline in price two years forward from the date of the estimate.
  - Functional form is logistic and based on approximately 36,500 observations of MSA and quarterly combinations across 10 various explanatory variables.
  - Covers the period 1985Q1-2008Q4.
  - Considers factors including price movement, housing affordability, interest rates, local employment conditions, excess housing supply and foreclosures.
  - All of the Model's Primary Econometric Determinants are Statistically Significant at the 99% level or greater
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## Historical Accuracy Rate of the PMI Risk Index

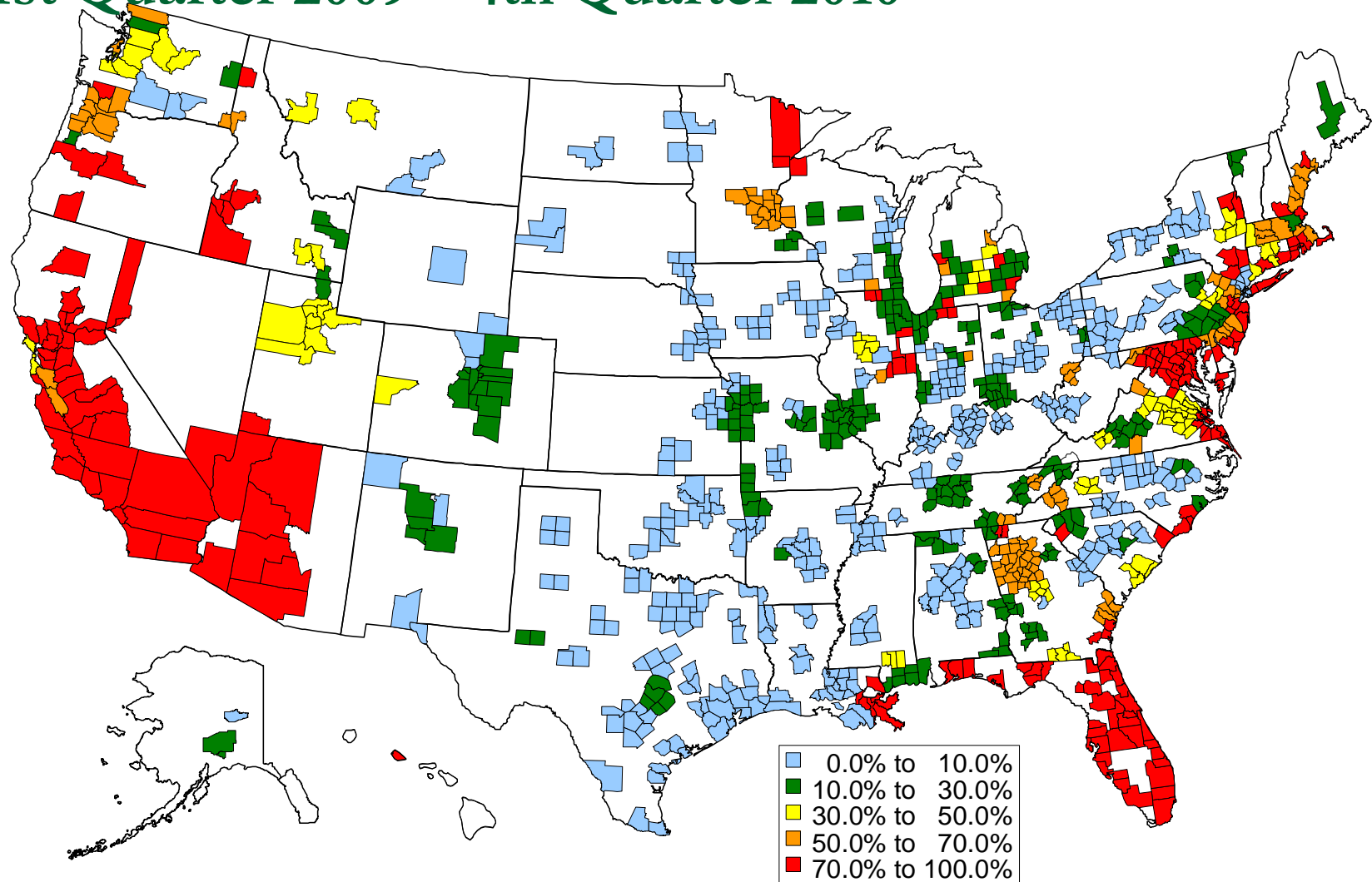
Sample Period: 1<sup>st</sup> Quarter 1985 – 3<sup>rd</sup> Quarter 2006



Source: The PMI Group, Inc.

# Geographic Distribution of House Price Risk

## 1st Quarter 2009 – 4th Quarter 2010



Source: The PMI Group, Inc.

## PMI U.S. Market Risk Index - 4th Quarter 2008

MSA	State	Risk Rank	RISK INDEX	
			4th Qtr '08	3rd Qtr '08
Bakersfield CA	CA	High	98.7	98.1
Chico CA	CA	High	97.0	91.6
El Centro CA	CA	High	99.5	99.4
Fresno CA	CA	High	98.4	92.9
Hanford-Corcoran CA	CA	High	92.8	81.1
Los Angeles-Long Beach-Glendale CA	CA	High	99.9	99.8
Madera CA	CA	High	98.4	94.5
Merced CA	CA	High	99.4	98.5
Modesto CA	CA	High	99.4	98.9
Napa CA	CA	High	82.9	65.9
Oakland-Fremont-Hayward CA	CA	High	80.7	68.2
Oxnard-Thousand Oaks-Ventura CA	CA	High	98.0	95.5
Redding CA	CA	High	99.3	98.1
Riverside-San Bernardino-Ontario CA	CA	High	100.0	99.9
Sacramento--Arden-Arcade--Roseville CA	CA	High	97.9	95.0
Salinas CA	CA	High	91.4	78.4
San Diego-Carlsbad-San Marcos CA	CA	High	97.2	95.7
San Francisco-San Mateo-Redwood City CA	CA	Moderate	31.6	19.5
San Jose-Sunnyvale-Santa Clara CA	CA	Elevated	51.4	30.9
San Luis Obispo-Paso Robles CA	CA	High	96.5	94.6
Santa Ana-Anaheim-Irvine CA	CA	High	99.0	98.3
Santa Barbara-Santa Maria-Goleta CA	CA	High	91.5	82.1
Santa Cruz-Watsonville CA	CA	High	73.7	46.5
Santa Rosa-Petaluma CA	CA	High	76.8	60.6
Stockton CA	CA	High	99.2	98.1
Vallejo-Fairfield CA	CA	High	93.5	90.5
Visalia-Porterville CA	CA	High	95.6	89.8
Yuba City CA	CA	High	99.5	98.3

Source: The PMI Group, Inc.

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# Detailed Consideration of the Conditions of Selected States and MSAs

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# California (San Francisco): Summary of Economic Conditions

PMI U.S. Market Risk Index - 4th Quarter 2008				
MSA	State	Risk Rank	RISK INDEX	
			4th Qtr '08	3rd Qtr '08
Los Angeles-Long Beach-Glendale CA	CA	High	99.9	99.8
Riverside-San Bernardino-Ontario CA	CA	High	100.0	99.9
Santa Ana-Anaheim-Irvine CA	CA	High	99.0	98.3
San Diego-Carlsbad-San Marcos CA	CA	High	97.2	95.7
Oakland-Fremont-Hayward CA	CA	High	80.7	68.2
Sacramento--Arden-Arcade--Roseville CA	CA	High	97.9	95.0
San Jose-Sunnyvale-Santa Clara CA	CA	Elevated	51.4	30.9
San Francisco-San Mateo-Redwood City CA	CA	Moderate	31.6	19.5

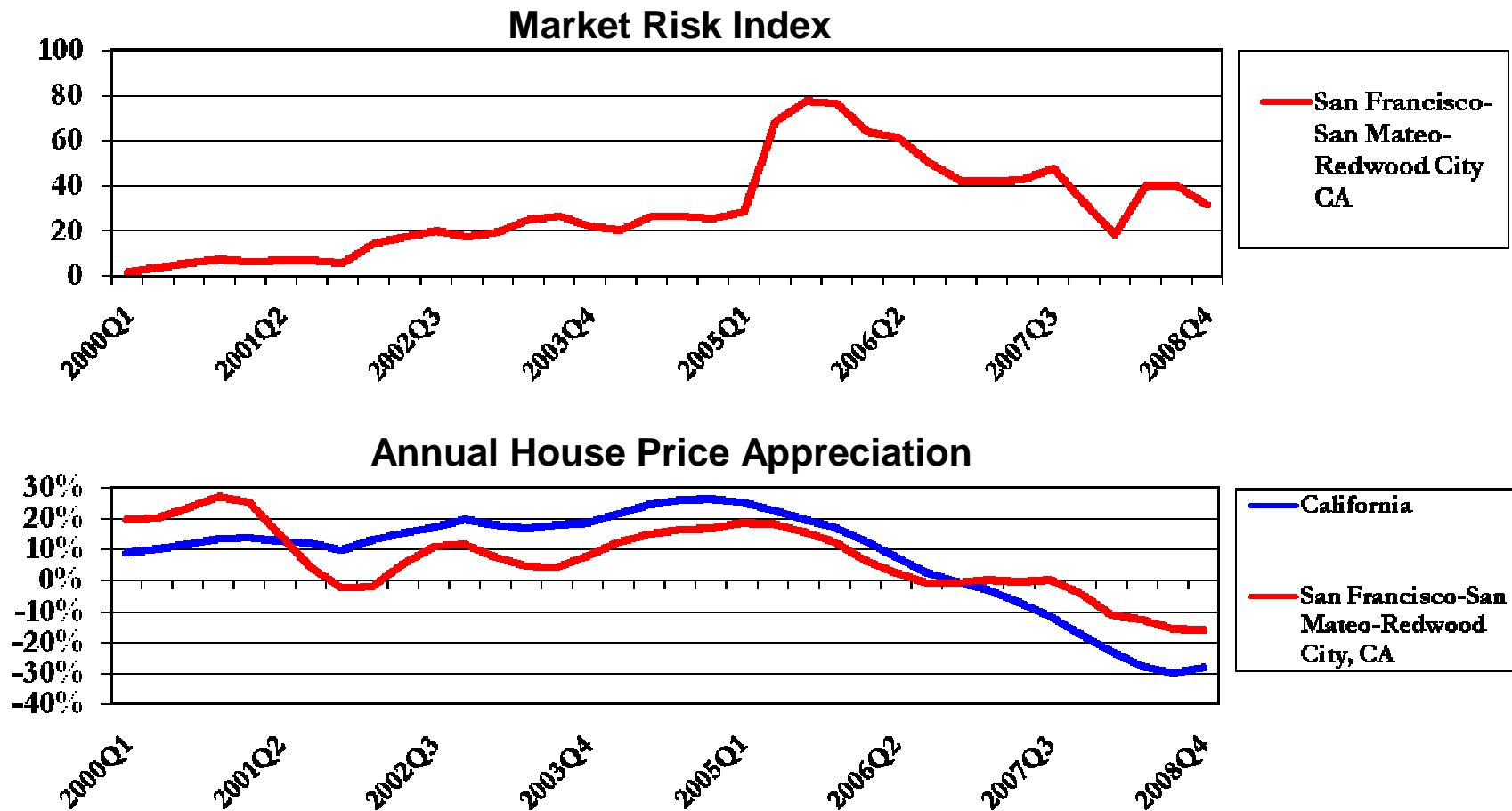
## California

California is in a deep recession as both the housing and labor markets are rapidly deteriorating. Employment has been falling since the middle of 2007 but the pace has accelerated over the past several months. The unemployment rate is at its highest in 14 years and is the third highest nationwide. The housing market is deteriorating as prices are rapidly declining. The terrible state of housing is contributing to a sharp downturn in both consumer spending and government tax revenues. Rising joblessness and declining household wealth are taking a toll on consumer credit conditions. Overall, conditions vary across CA, with the Bay Area the most stable and the Central Valley and the Inland Empire the weakest.

## San Francisco, CA

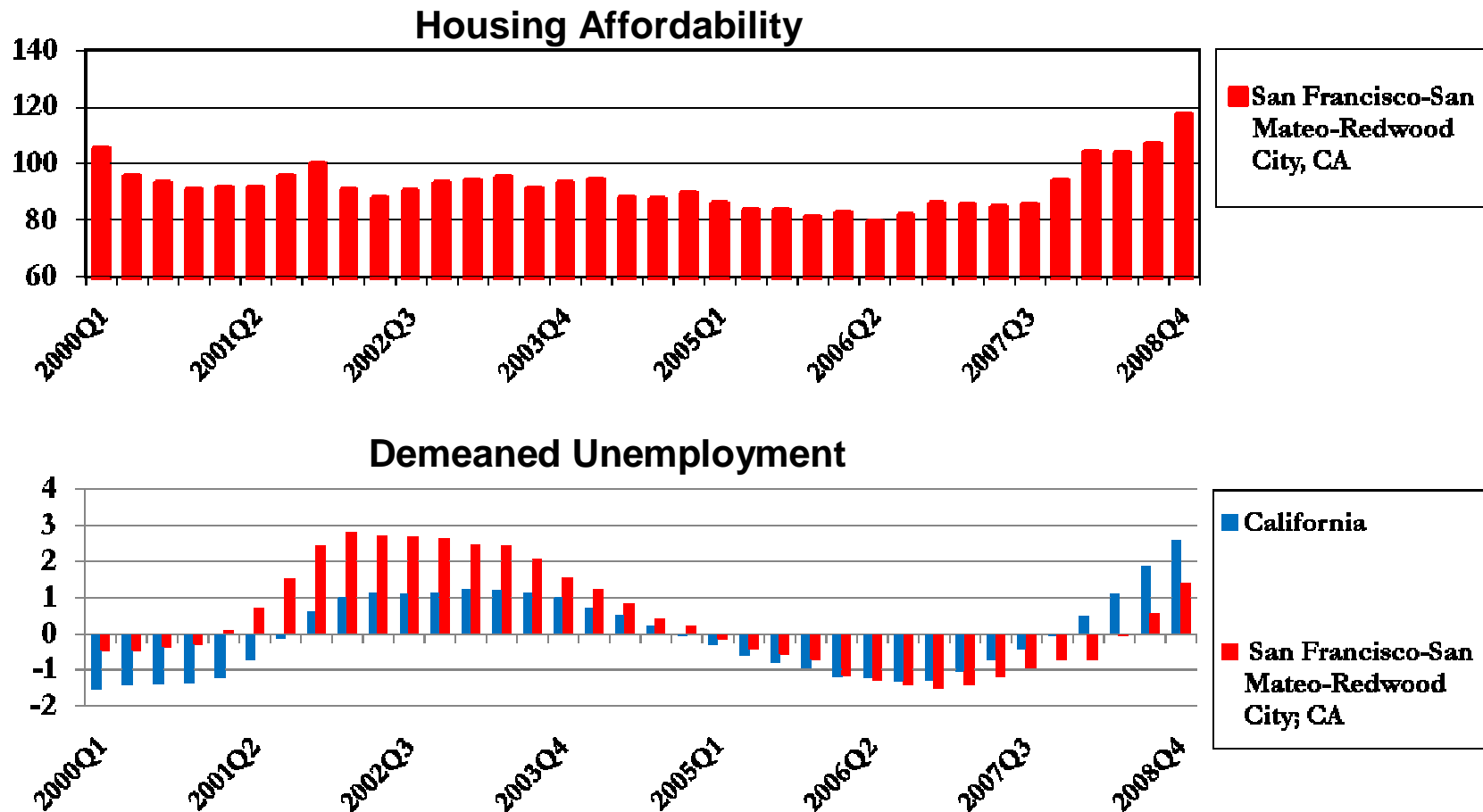
Falling employment and declining consumer and business spending have tipped San Francisco into recession. Payroll employment fell in the third quarter for the first time since 2004 and the unemployment rate has risen one and a half percentage points since January. So far, the downturn for San Francisco has been much milder compared with other areas in California and the U.S. However, a deepening U.S. recession, expected cutbacks within financial services, and worsening budget woes for state and local government will increase the economic pain for San Francisco.

# California (San Francisco): PMI's Risk Index and Annual House Price Appreciation



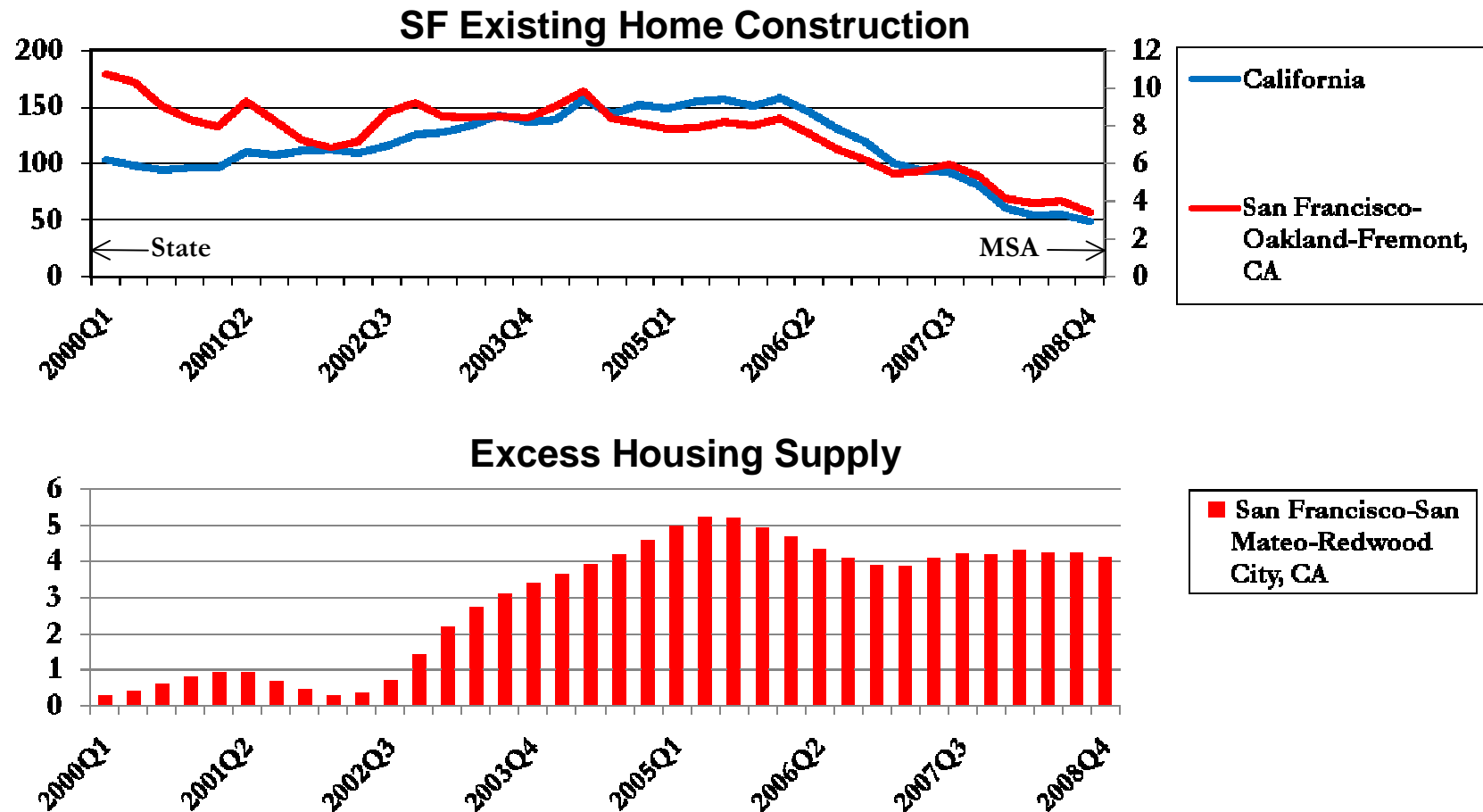
Source: The PMI Group, Inc. / Loan Performance

# California (San Francisco): Housing Affordability and Demeaned Unemployment



Source: The PMI Group, Inc. / Bureau of Labor Statistics

# California (San Francisco): New Home Construction and Excess Housing Supply



Source: Moody's Economy.com / The PMI Group, Inc.

# California (San Diego): Summary of Economic Conditions

PMI U.S. Market Risk Index - 4th Quarter 2008				
MSA	State	Risk Rank	RISK INDEX	
			4th Qtr '08	3rd Qtr '08
Los Angeles-Long Beach-Glendale CA	CA	High	99.9	99.8
Riverside-San Bernardino-Ontario CA	CA	High	100.0	99.9
Santa Ana-Anaheim-Irvine CA	CA	High	99.0	98.3
San Diego-Carlsbad-San Marcos CA	CA	High	97.2	95.7
Oakland-Fremont-Hayward CA	CA	High	80.7	68.2
Sacramento--Arden-Arcade--Roseville CA	CA	High	97.9	95.0
San Jose-Sunnyvale-Santa Clara CA	CA	Elevated	51.4	30.9
San Francisco-San Mateo-Redwood City CA	CA	Moderate	31.6	19.5

## California

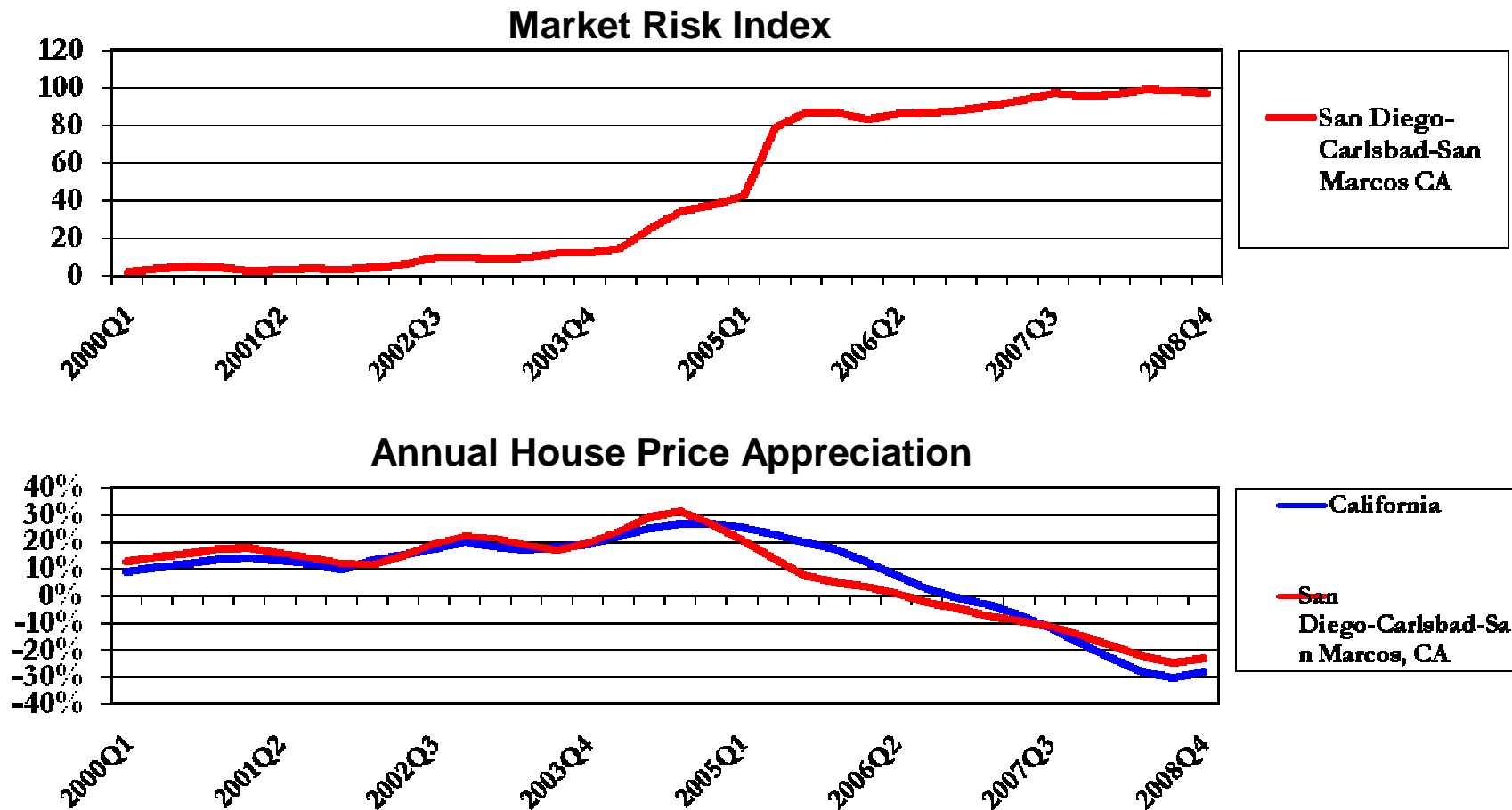
California is in a deep recession as both the housing and labor markets are rapidly deteriorating. Employment has been falling since the middle of 2007 but the pace has accelerated over the past several months. The unemployment rate is at its highest in 14 years and is the third highest nationwide. The housing market is deteriorating as prices are rapidly declining. The terrible state of housing is contributing to a sharp downturn in both consumer spending and government tax revenues. Rising joblessness and declining household wealth are taking a toll on consumer credit conditions. Overall, conditions vary across CA, with the Bay Area the most stable and the Central Valley and the Inland Empire the weakest.

## San Diego, CA

Job losses, slowing business activity, and a deteriorating housing market are pushing San Diego further into recession. The unemployment rate is rising rapidly, by 1 percentage point since midyear and by 2 points over the past year. Key industries such as hospitality and technology are faltering amid the U.S. and global recession and are shedding jobs. Temporary employees and administrative workers are being hit hard as well. The weak labor market is compounded by house prices that continue to fall at an astounding rate, weakening household balance sheets, limited consumer spending, and worsening consumer credit conditions. Despite the current stability of defense-related industries, the economic weakness has spread broadly in recent months.

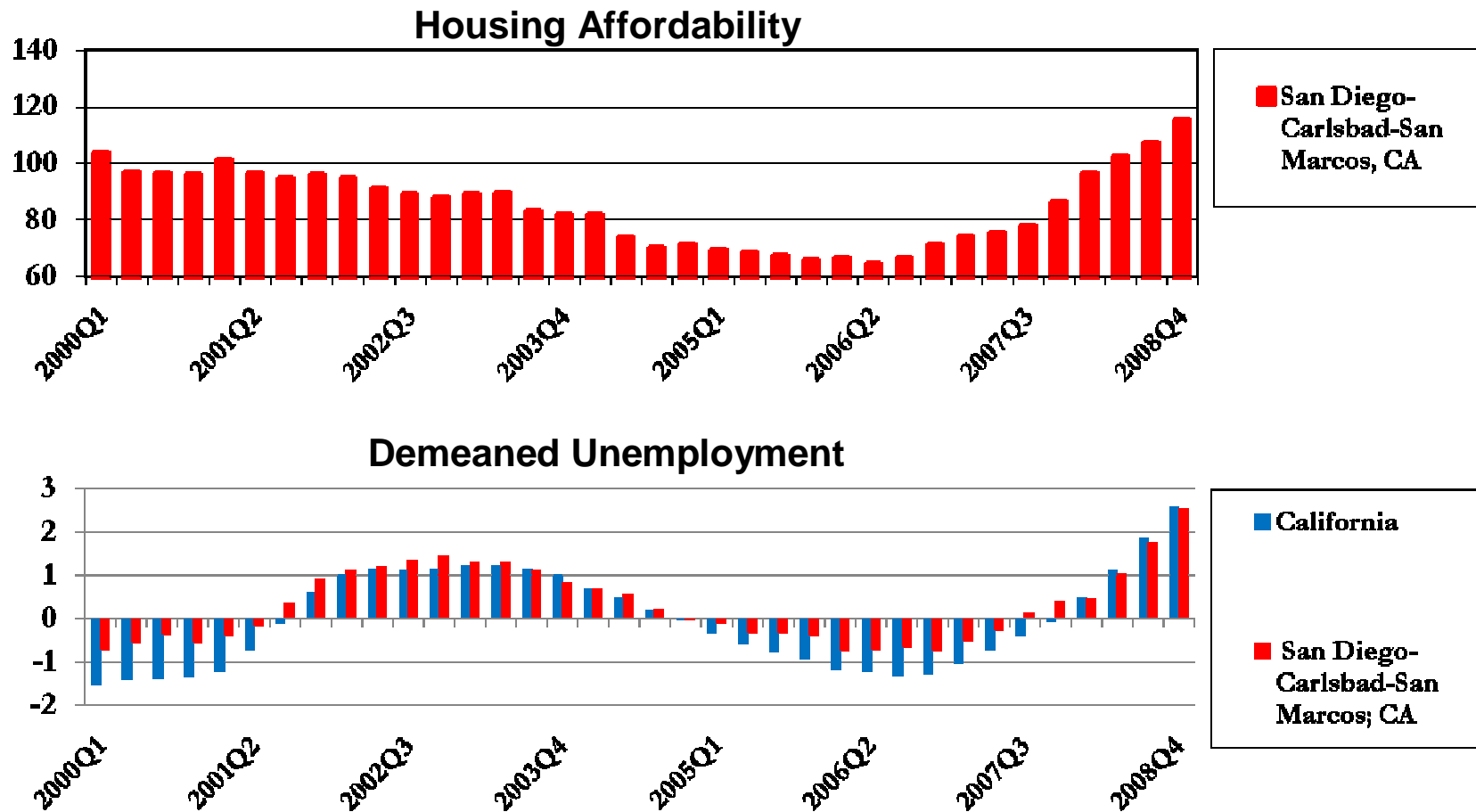
Source: The PMI Group, Inc. / Moody's Economy.com

# California (San Diego): PMI's Risk Index and Annual House Price Appreciation



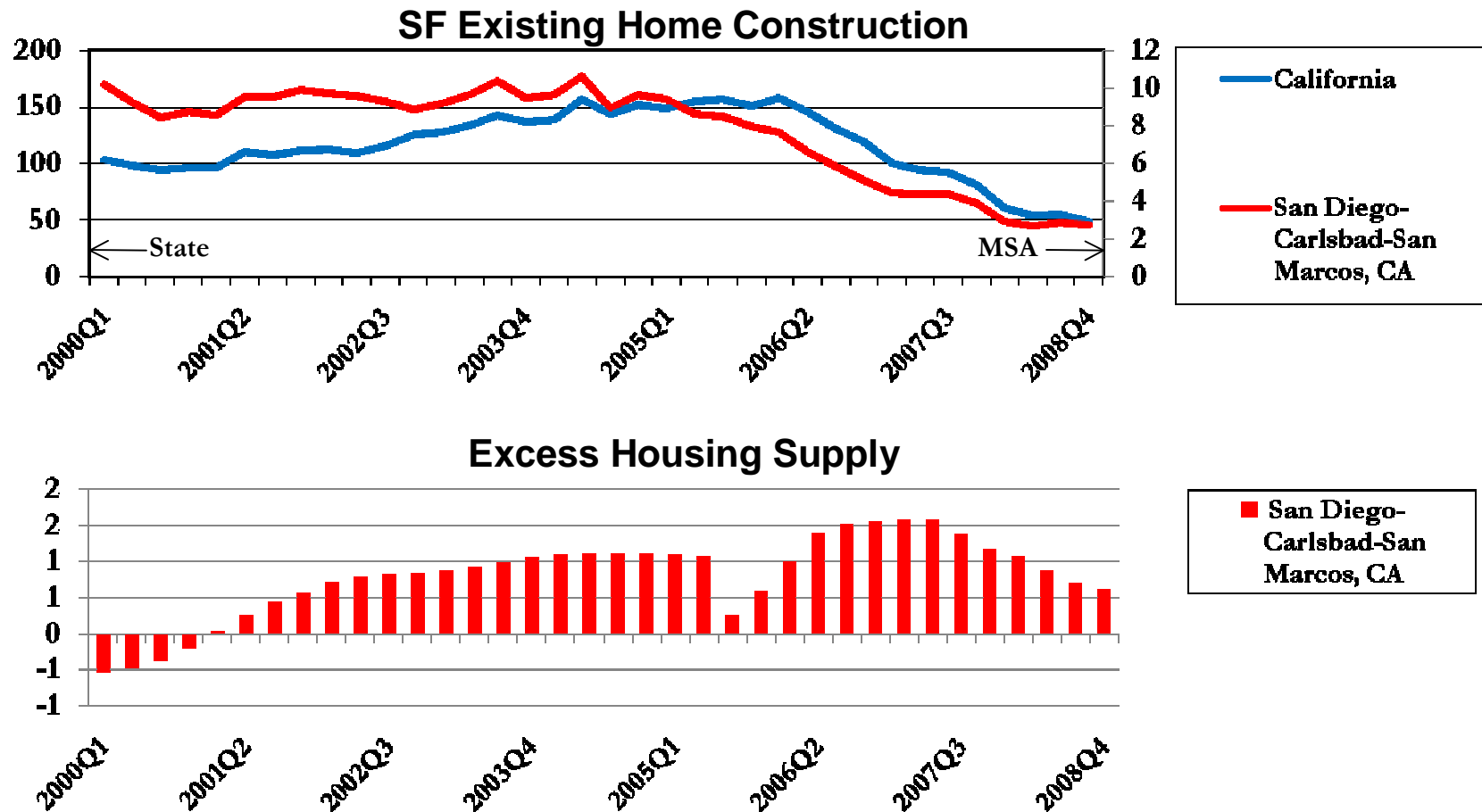
Source: The PMI Group, Inc. / Loan Performance

# California (San Diego): Housing Affordability and Demeaned Unemployment



Source: The PMI Group, Inc. / Bureau of Labor Statistics

# California (San Diego): New Home Construction and Excess Housing Supply



Source: Moody's Economy.com / The PMI Group, Inc.

# Florida (Jacksonville): Summary of Economic Conditions

PMI U.S. Market Risk Index - 4th Quarter 2008				
MSA	State	Risk Rank	RISK INDEX	
			4th Qtr '08	3rd Qtr '08
Tampa-St. Petersburg-Clearwater FL	FL	High	99.7	99.2
Miami-Miami Beach-Kendall FL	FL	High	100.0	99.9
Orlando-Kissimmee FL	FL	High	99.6	98.7
Fort Lauderdale-Pompano Beach-Deerfield Beach FL	FL	High	99.9	99.8
Jacksonville FL	FL	High	98.9	97.3
West Palm Beach-Boca Raton-Boynton Beach FL	FL	High	99.8	99.6

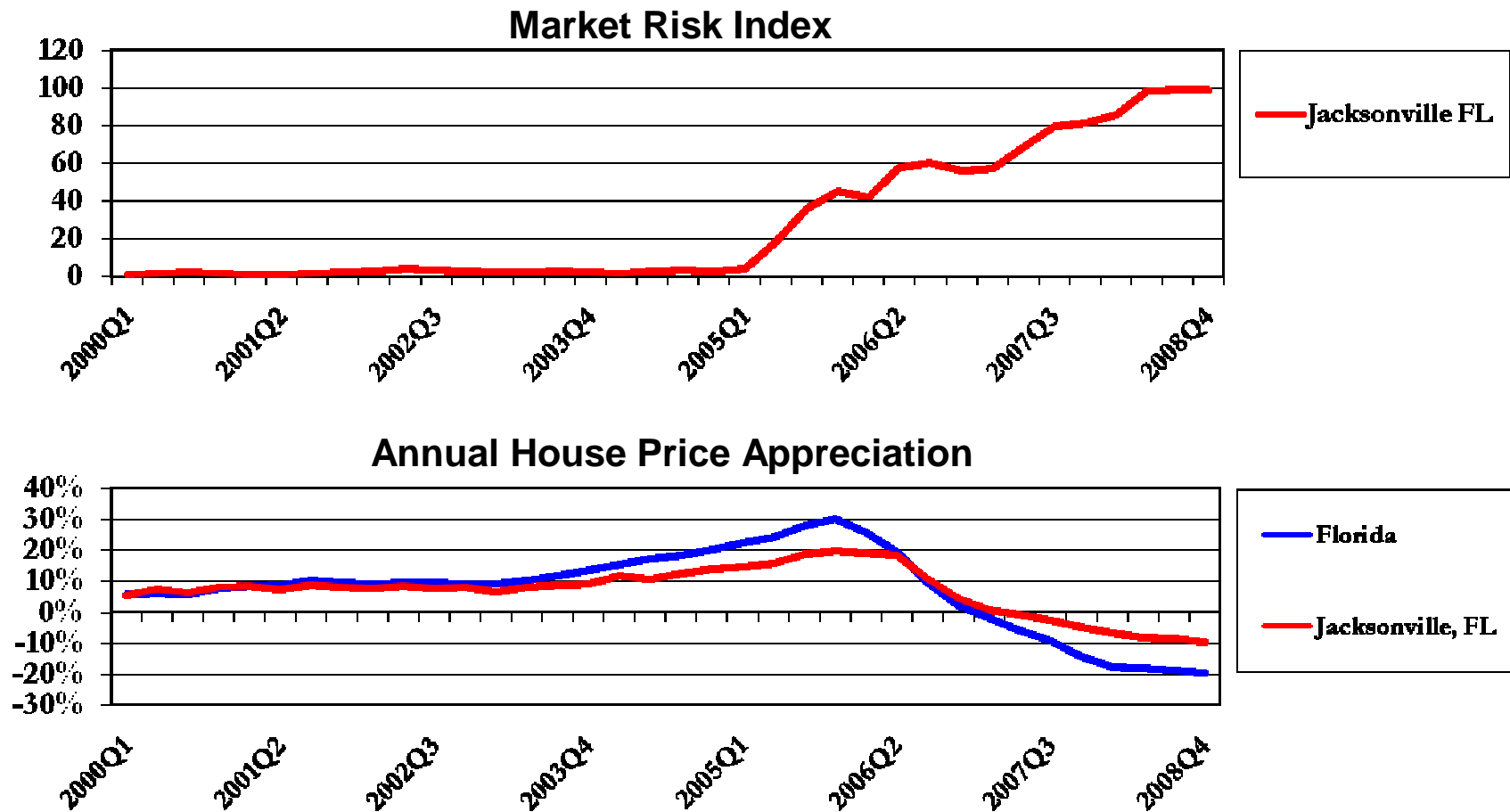
## Florida

Florida is experiencing its worst recession since the Great Depression. The unemployment rate has risen an incredible six percentage points from its cycle low to 9.4%, a multi-decade high. Testament to the widespread nature of the downturn, nearly all of the state's industries are contracting, and every metro area is in recession. Falling wages, wealth destruction, and a lack of confidence underpin the severe contraction in consumer spending that is evidenced by declining state sales tax receipts. While existing-home sales have risen appreciably over the past few months, there is little indication that the brutal decline in house prices has ended.

## Jacksonville, FL

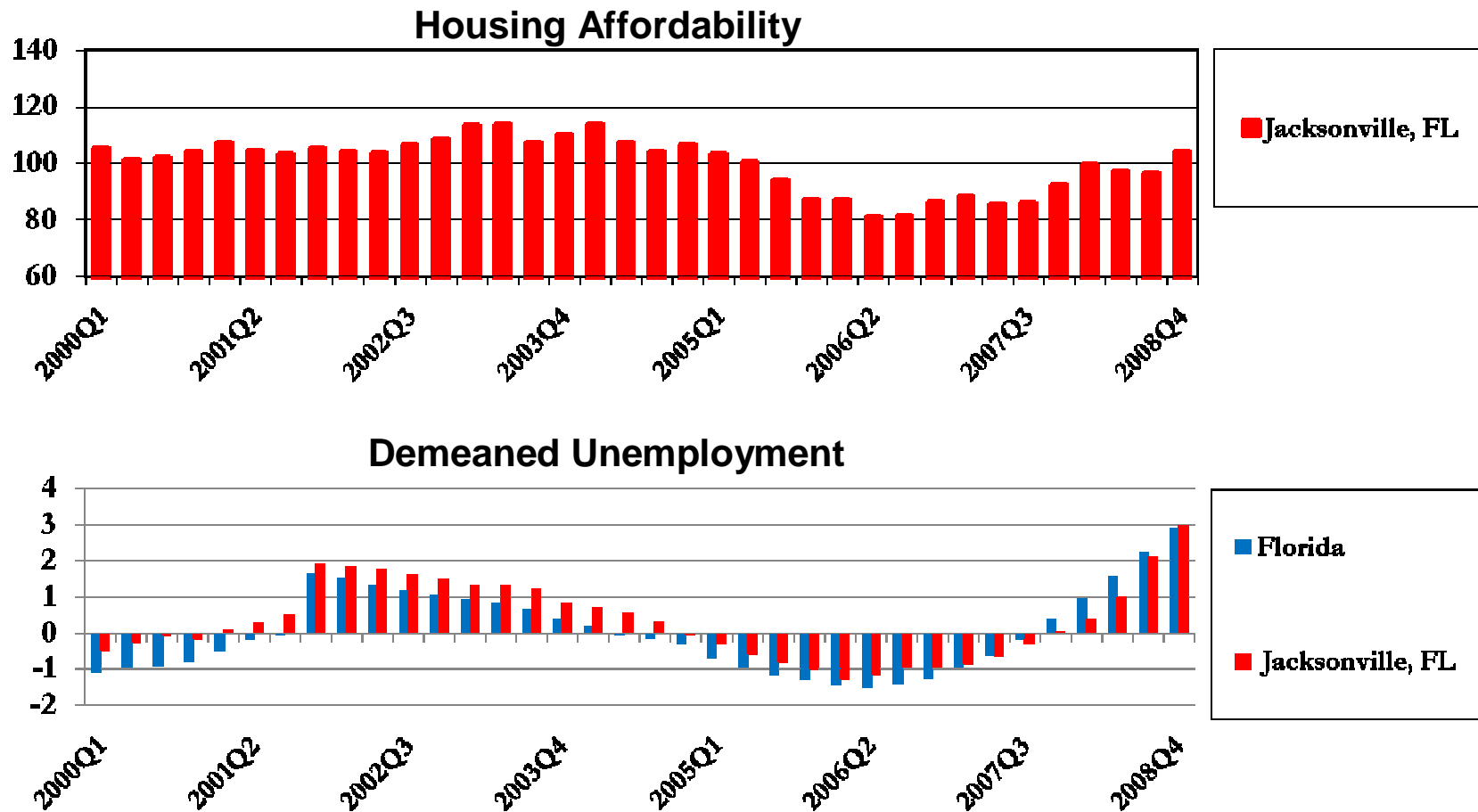
The Jacksonville economy is contracting at an accelerating rate as an increasing number of industries are retrenching. Testament to the remarkably widespread nature of the recession, all of Jacksonville's industries, with the exception of tourism and healthcare, are now contracting. From poultry processors to paper producers, local manufacturers are in full retreat. Financial employment is declining as asset prices continue to fall and major players consolidate. Retailers have been hit especially hard by the sharp decline in consumer spending. Underscoring the severity of the recession, the unemployment rate has risen by 5.2 percentage points from its cyclical low, to 8.4%, which is the highest rate on record.

# Florida (Jacksonville): PMI's Risk Index and Annual House Price Appreciation



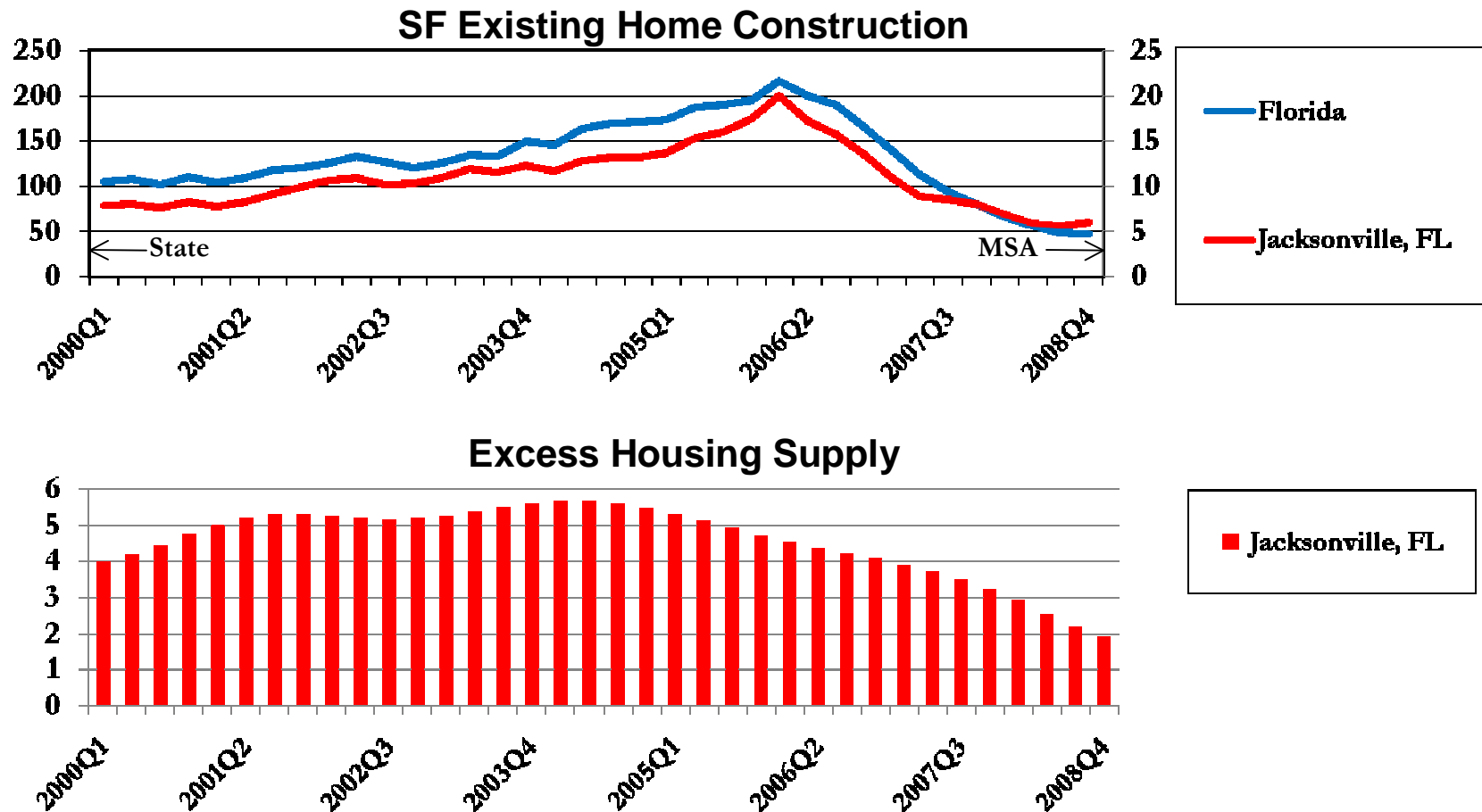
Source: The PMI Group, Inc. / Loan Performance

# Florida (Jacksonville): Housing Affordability and Demeaned Unemployment



Source: The PMI Group, Inc. / Bureau of Labor Statistics

# Florida (Jacksonville): New Home Construction and Excess Housing Supply



Source: Moody's Economy.com / The PMI Group, Inc.

# Arizona (Phoenix): Summary of Economic Conditions

PMI U.S. Market Risk Index - 4th Quarter 2008				
MSA	State	Risk Rank	RISK INDEX	
			4th Qtr '08	3rd Qtr '08
Flagstaff AZ	AZ	High	88.7	65.6
Lake Havasu City-Kingman AZ	AZ	High	100.0	99.9
Phoenix-Mesa-Scottsdale AZ	AZ	High	98.8	96.8
Prescott AZ	AZ	High	99.4	97.6
Tucson AZ	AZ	High	95.3	91.4
Yuma AZ	AZ	High	99.8	99.0

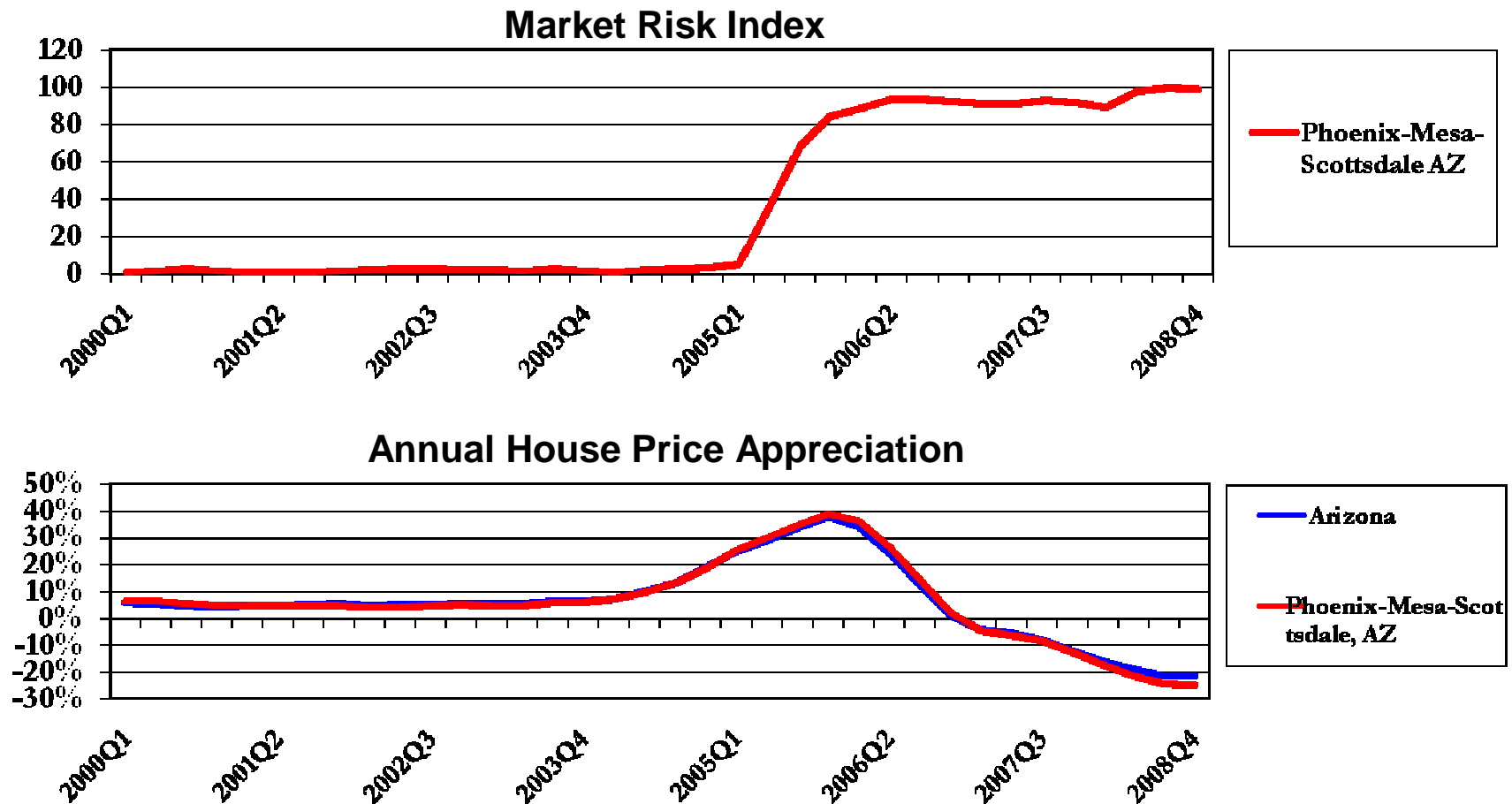
## Arizona

Arizona is in a deep recession as the housing downturn intensifies. Employment has steadily declined since late 2007, with losses predominately in housing-related industries. The construction industry continues to retrench, as single-family permitting is at multi-decade lows. Construction employment has fallen sharply over the past three years and is back to its pre-boom level. The unemployment rate has increased 2.2 percentage points over the past year to reach 6.3%, its highest since the early 1990s.

## Phoenix, AZ

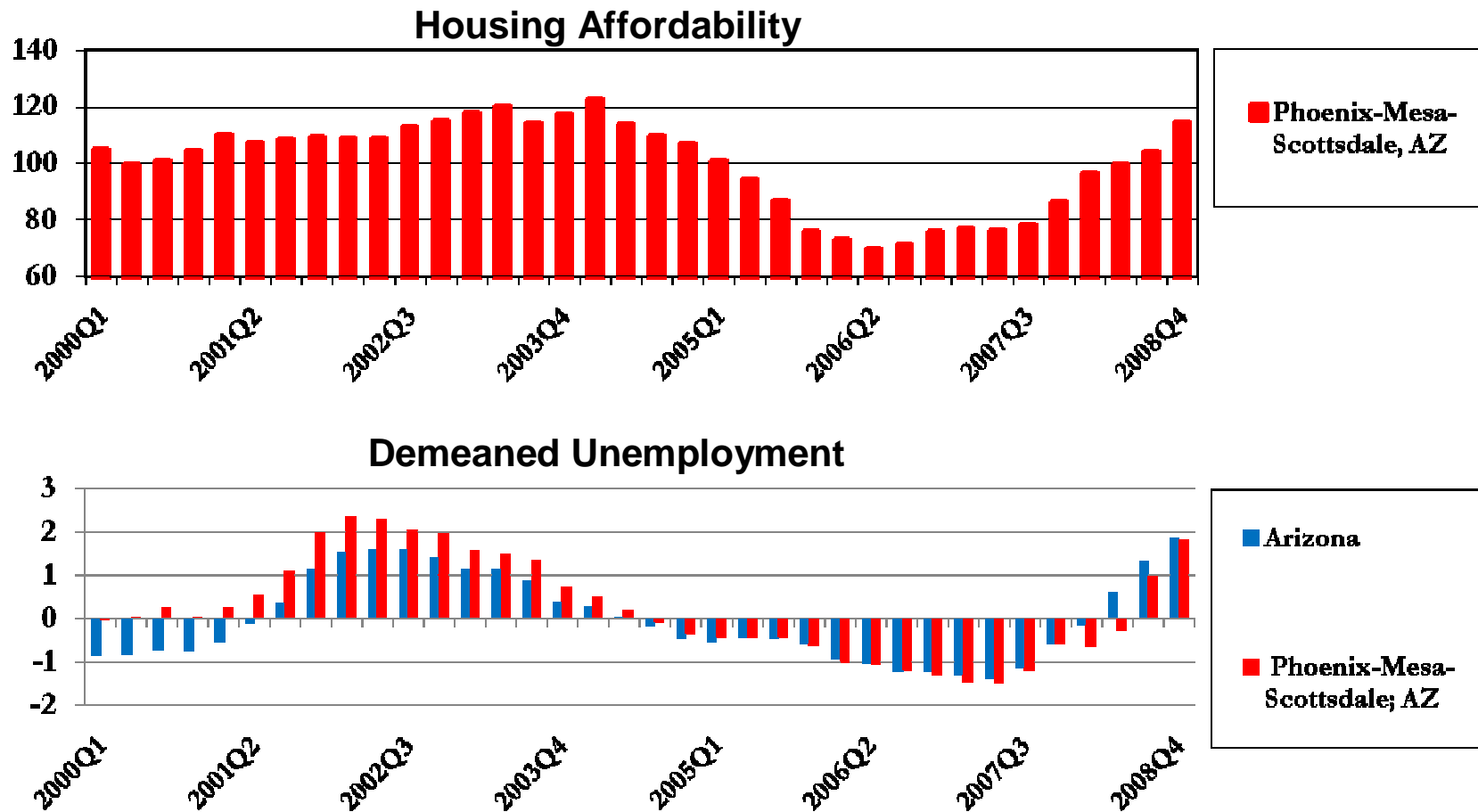
There is little reprieve for Phoenix-Mesa-Scottsdale, which continues to suffer from a housing-driven recession. The weakness stems from the unwinding of one of the largest housing bubbles in the nation. Job losses in housing-related industries have been ongoing for two years now. Their significant share of the economy has caused spillover effects. Retail and leisure/hospitality jobs began to decline in the summer and the losses are accelerating. Weak consumer spending creates problems for the state's fiscal situation, because a large portion of revenues are from sales taxes. State government employment is off of its peak.

# Arizona (Phoenix): PMI's Risk Index and Annual House Price Appreciation



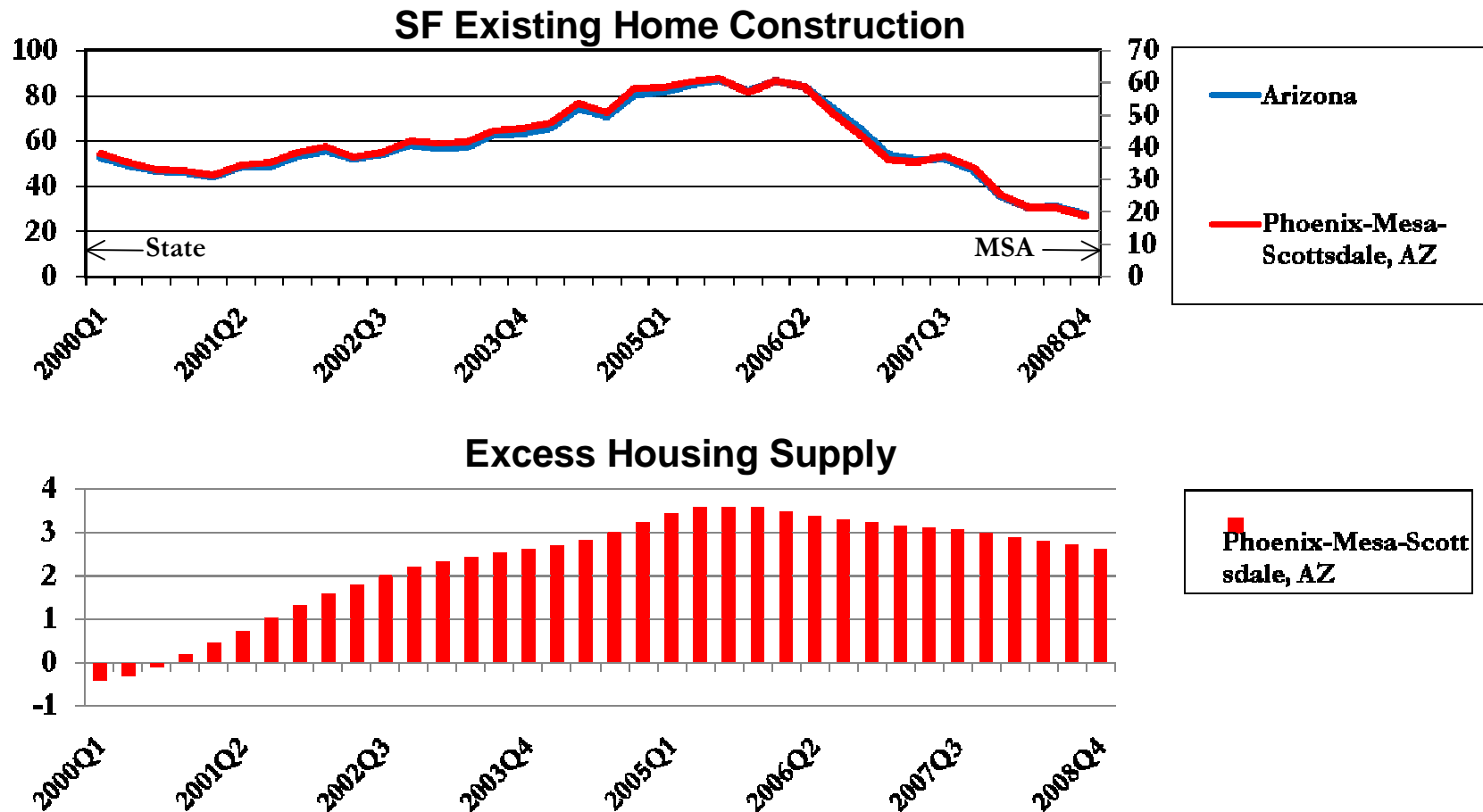
Source: The PMI Group, Inc. / Loan Performance

# Arizona (Phoenix): Housing Affordability and Demeaned Unemployment



Source: The PMI Group, Inc. / Bureau of Labor Statistics

# Arizona (Phoenix): New Home Construction and Excess Housing Supply



Source: Moody's Economy.com / The PMI Group, Inc.

# Nevada (Las Vegas): Summary of Economic Conditions

PMI U.S. Market Risk Index - 4th Quarter 2008				
MSA	State	Risk Rank	RISK INDEX	
			4th Qtr '08	3rd Qtr '08
Carson City NV	NV	High	96.8	94.0
Las Vegas-Paradise NV	NV	High	99.8	99.4
Reno-Sparks NV	NV	High	98.9	96.8

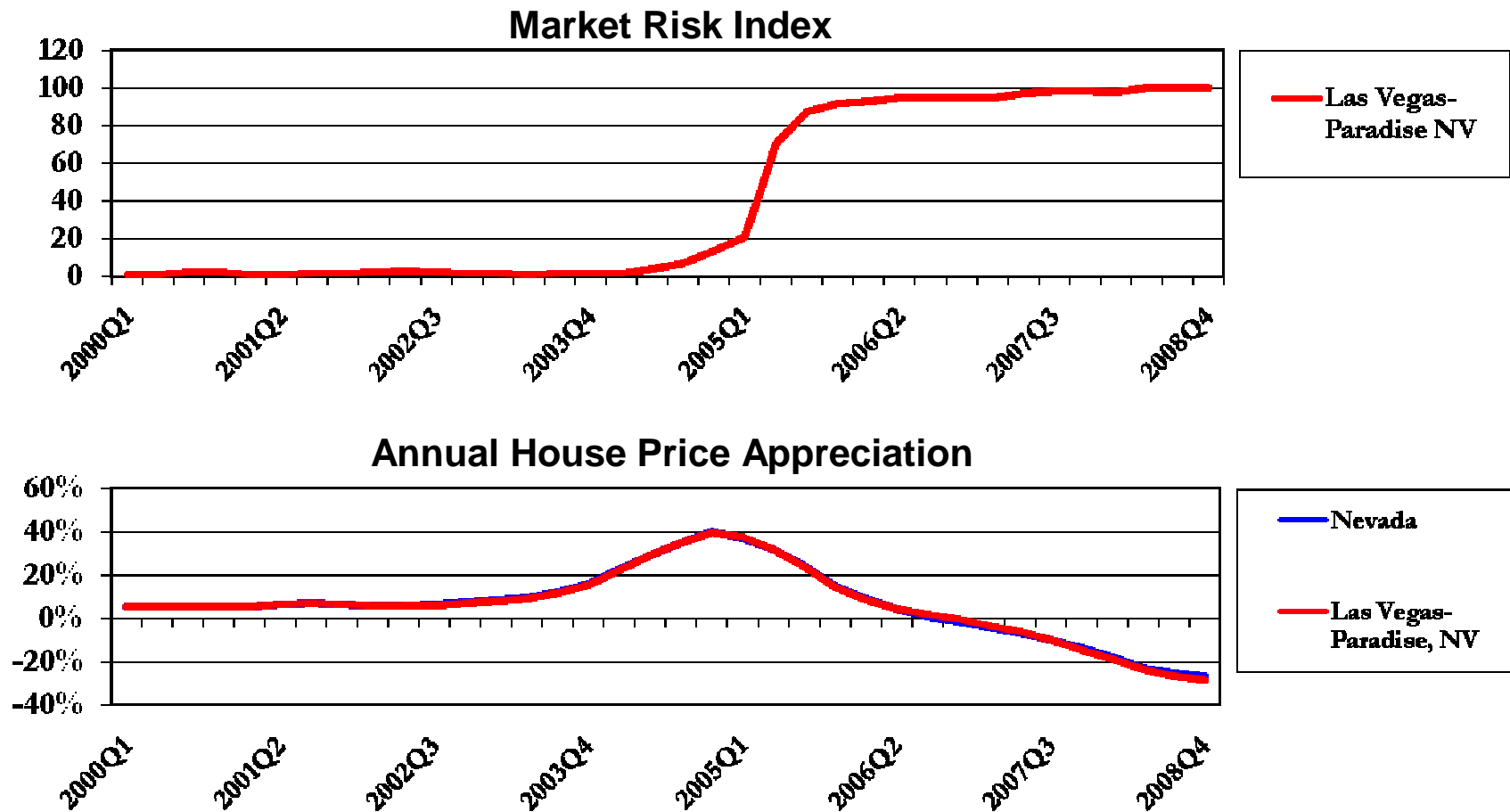
## Nevada

Nevada's economy magnifies the dismal economic condition in the rest of the country. The high dependence on tourism and gaming means the decline in national consumer spending on nonessential items is reflected in the state's weakening job market. The state is also exposed to the weakening global economy. The spreading recession is reducing the number of visitors and the amount of money spent on tourism and gaming. Additionally, NV's small manufacturing industry is geared toward electronic gaming machines. Previously increasing demand for gaming equipment in other parts of the world temporarily slowed with the broadening recession. The contraction in the state's job base accelerated since February, with the unemployment rate rising 2.5 percentage points since then, and at 8% is now nearly double the low rate of April 2006. NV's housing market remains among the weakest in the nation as prices are plummeting following unsustainable increases in previous years.

## Las Vegas, NV

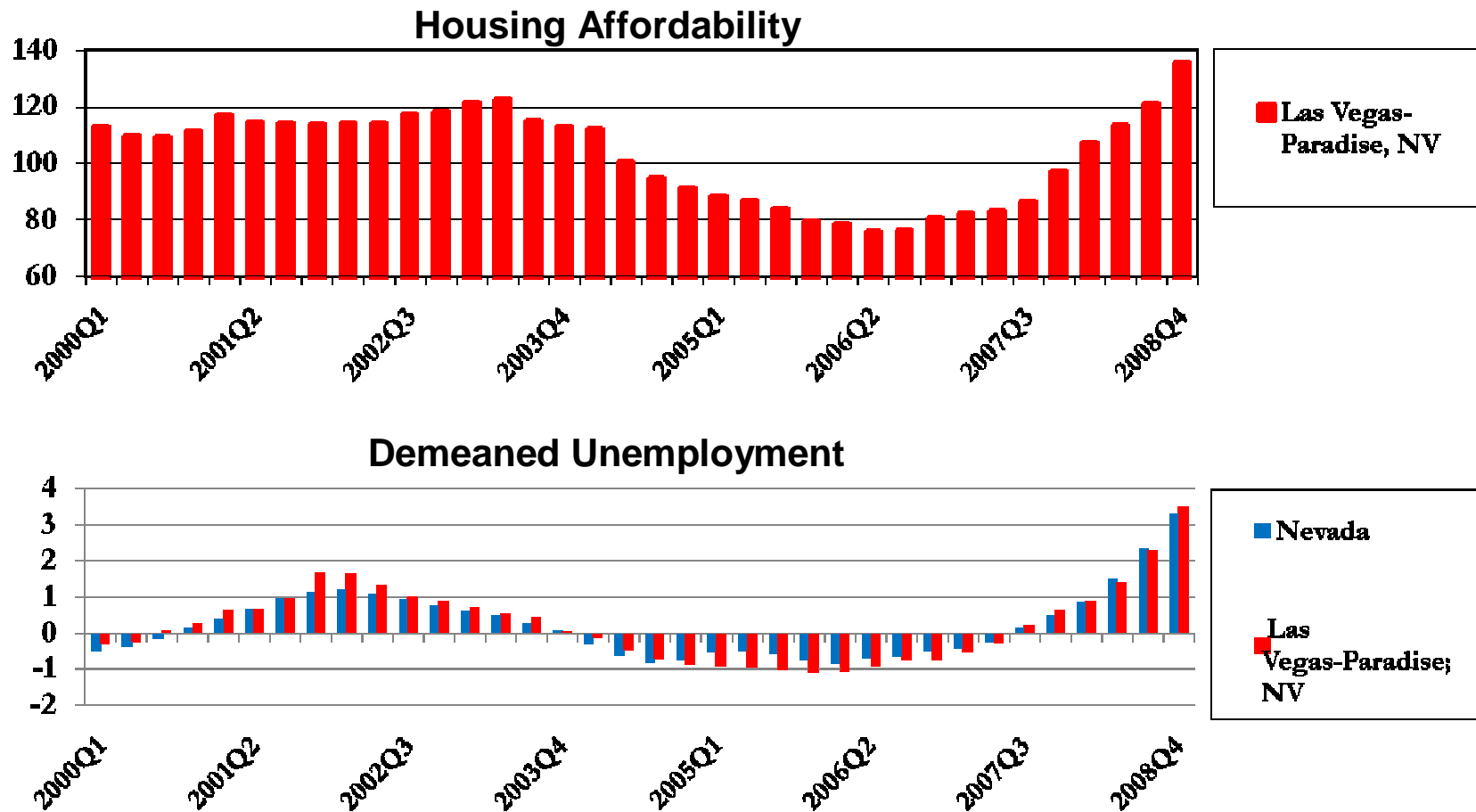
The recession gripping Las Vegas is firmly established in nearly all private industry groups. Job losses are mounting in construction, finance and professional/business services. Leisure/hospitality is stagnant, at best, as visitation is down appreciably in the past few quarters. Education/healthcare is the only notable private industry that is still expanding. The largest reason for the apparent offset of much of private industry losses is government growth, specifically local government, leading to suspicion of data inaccuracy. Even if local government has expanded recently, such expansion is not sustainable with this year's lower tax revenues. Labor force growth remains strong, however, pushing the jobless rate to 7.6%, an increase of 2.2 percentage points just since January. The dismal housing market is no longer in a nosedive in terms of sales, but extreme weakness persists.

# Nevada (Las Vegas): PMI's Risk Index and Annual House Price Appreciation



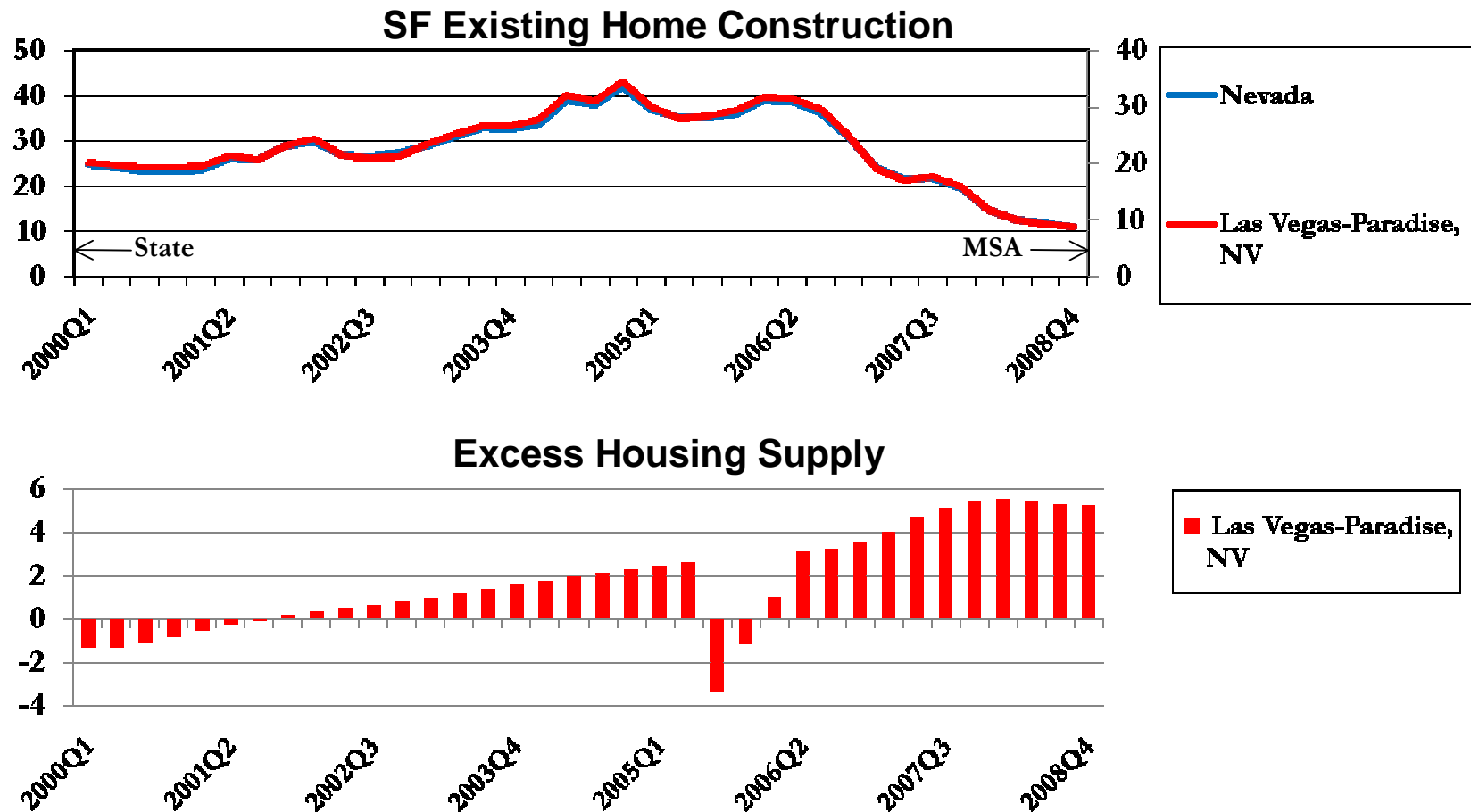
Source: The PMI Group, Inc. / Loan Performance

# Nevada (Las Vegas): Housing Affordability and Demeaned Unemployment



Source: The PMI Group, Inc. / Bureau of Labor Statistics

# Nevada (Las Vegas): New Home Construction and Excess Housing Supply



Source: Moody's Economy.com / The PMI Group, Inc.

# Texas (Austin): Summary of Economic Conditions

PMI U.S. Market Risk Index - 4th Quarter 2008				
MSA	State	Risk Rank	RISK INDEX	
			4th Qtr '08	3rd Qtr '08
Austin-Round Rock TX	TX	Low	17.4	5.4
San Antonio TX	TX	Minimal	3.8	1.0
Houston-Sugar Land-Baytown TX	TX	Minimal	2.7	0.9
Fort Worth-Arlington TX	TX	Minimal	2.5	0.7
Dallas-Plano-Irving TX	TX	Minimal	2.5	0.6

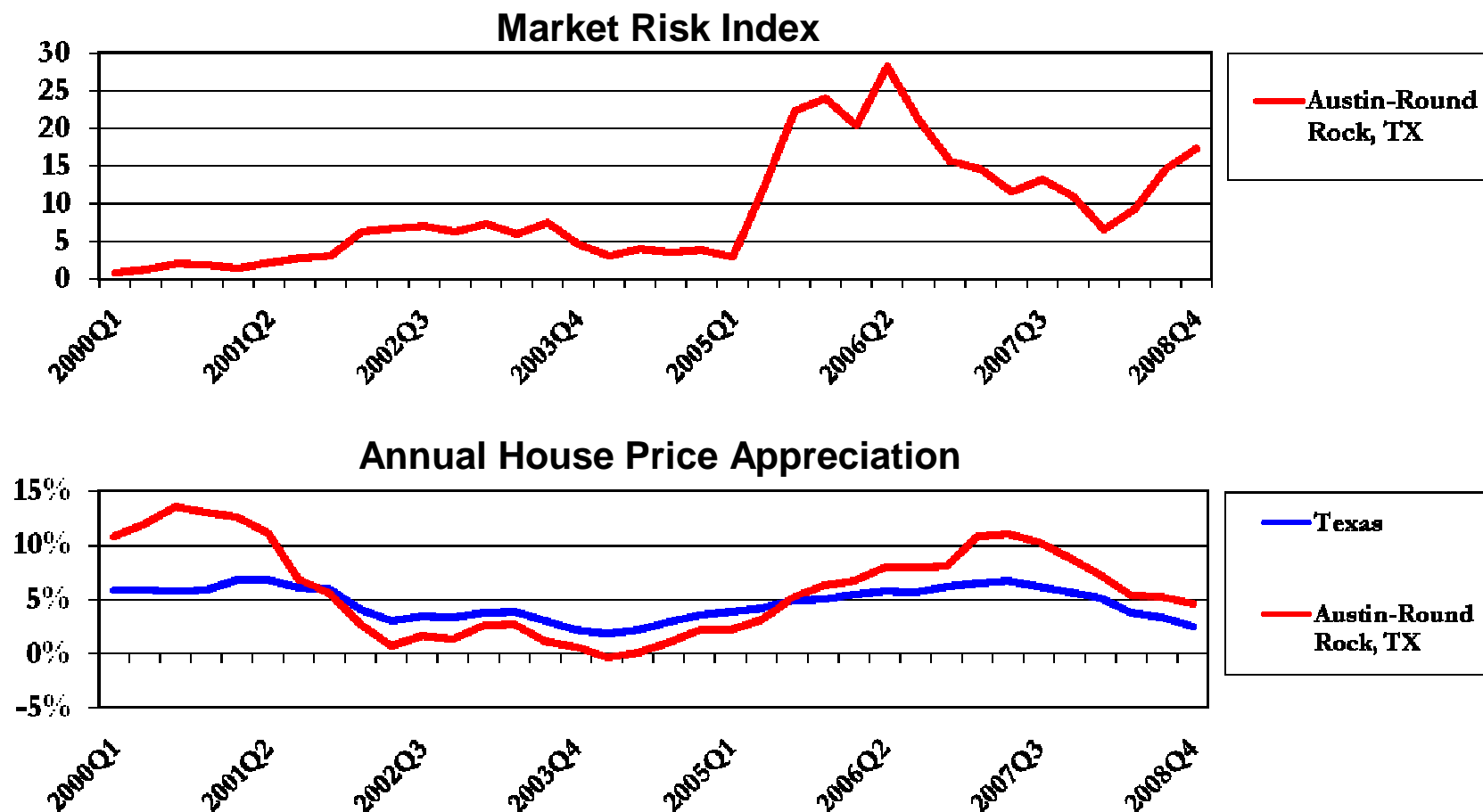
## Texas

The Texas economy is weakening and is at risk of falling into recession. Payroll employment has fallen for four consecutive months, with cumulative declines of more than 1%. The unemployment rate has risen 2 percentage points over the past year to reach 6.5% in February. Although this remains far below the national average, the increase in the jobless rate reflects the impact of the deepening national recession. State government revenue projections are also deteriorating as its economy softens. A budget deficit is not projected by the state, and the rainy day fund will post a healthy balance at the end of the fiscal year in August. TX exports have begun to decline because of the global recession, and cross-border sales dropped sharply in the fourth quarter of 2008. Reduced foreign demand for petrochemicals, machinery and electronics will put additional downward pressure on the state's manufacturing.

## Austin, TX

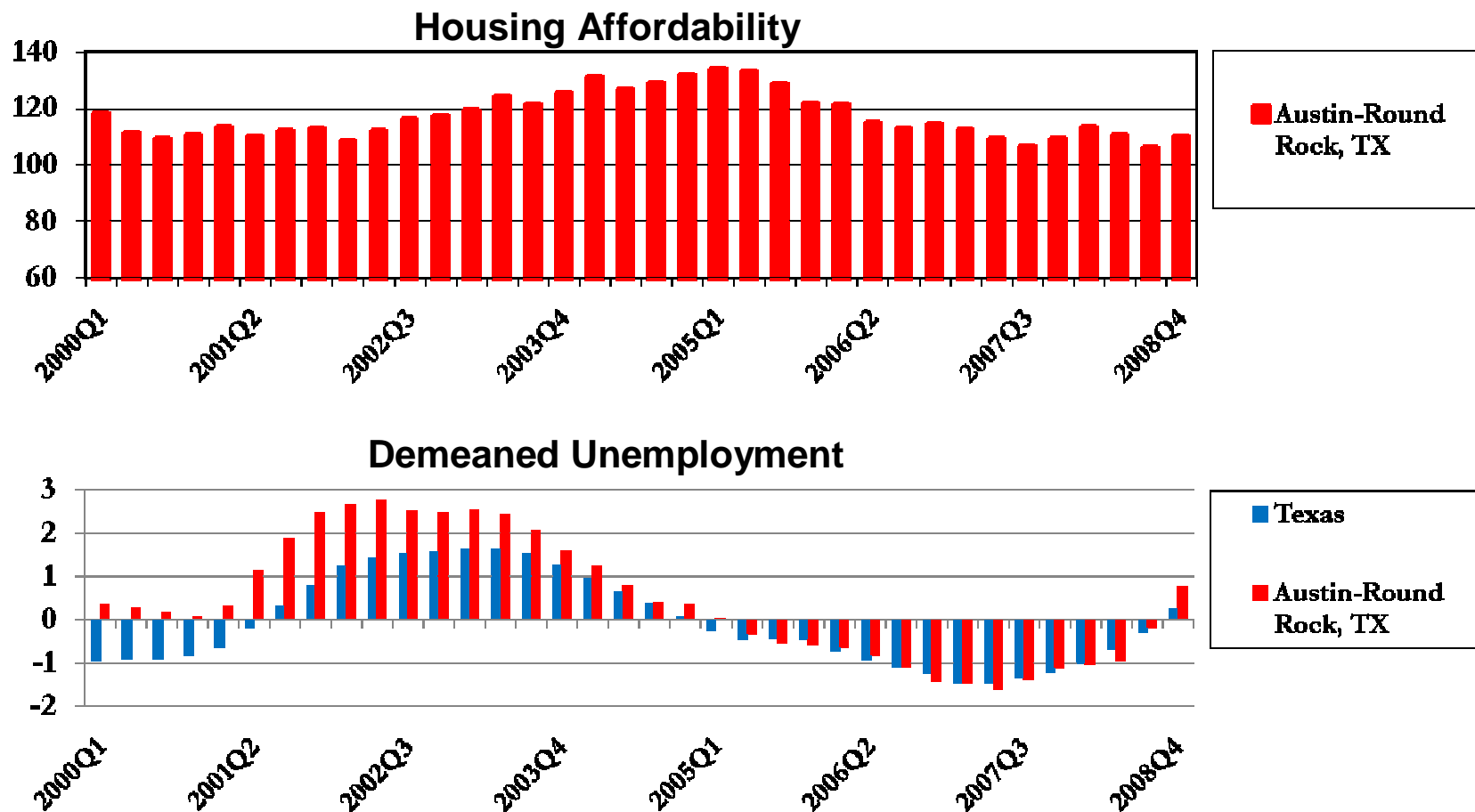
The worsening of the national recession has taken its toll on Austin, which resisted the downturn until late in 2008. Payroll employment has been declining since November, conforming to the downward trend seen in the household survey over the past half year. Weakness in retail services joined the ongoing decline in manufacturing in the key computer and components industries. The unemployment rate rose 2½ percentage points over the past year, to 6%. New permits for single-family homes have shrunk steadily for three years and are now about one-fourth the 2005 peak. New permits for multifamily units are well off their torrid pace of 2007. Sales of existing single-family homes have fallen by one-third, and house prices have begun to decline. One bit of positive news is credit quality, as delinquency rates have increased much more slowly than the national average.

# Texas (Austin): PMI's Risk Index and Annual House Price Appreciation



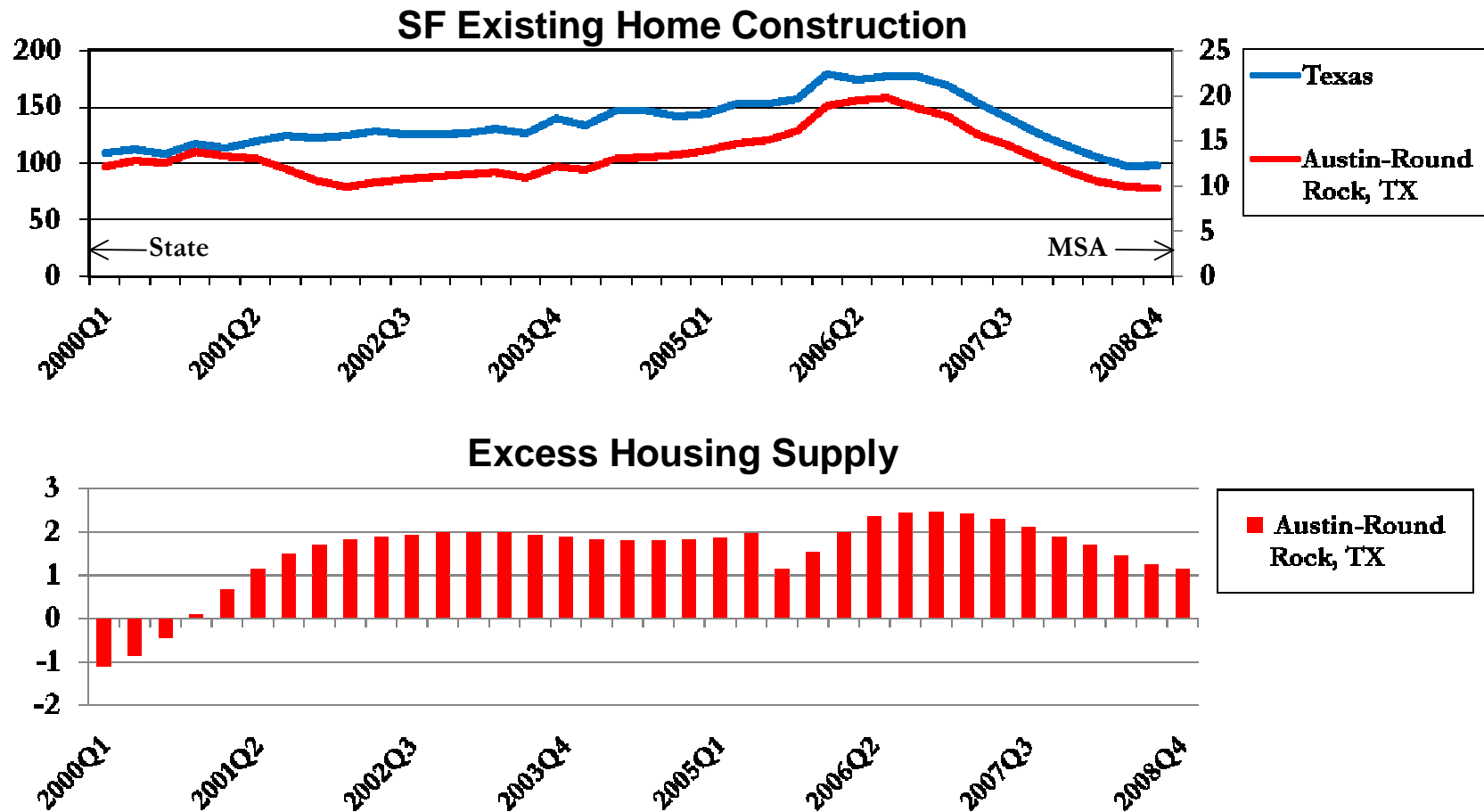
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Source: The PMI Group, Inc. / Bureau of Labor Statistics

# Texas (Austin): New Home Construction and Excess Housing Supply



Source: Moody's Economy.com / The PMI Group, Inc.

# Illinois (Chicago): Summary of Economic Conditions

PMI U.S. Market Risk Index - 4th Quarter 2008				
MSA	State	Risk Rank	RISK INDEX	
			4th Qtr '08	3rd Qtr '08
Chicago-Naperville-Joliet IL	IL	Low	13.7	10.0
Lake County-Kenosha County IL-WI	IL	Low	20.1	9.4
Peoria IL	IL	Moderate	45.9	89.7
Rockford IL	IL	High	97.6	92.4
Champaign-Urbana IL	IL	High	82.5	60.0

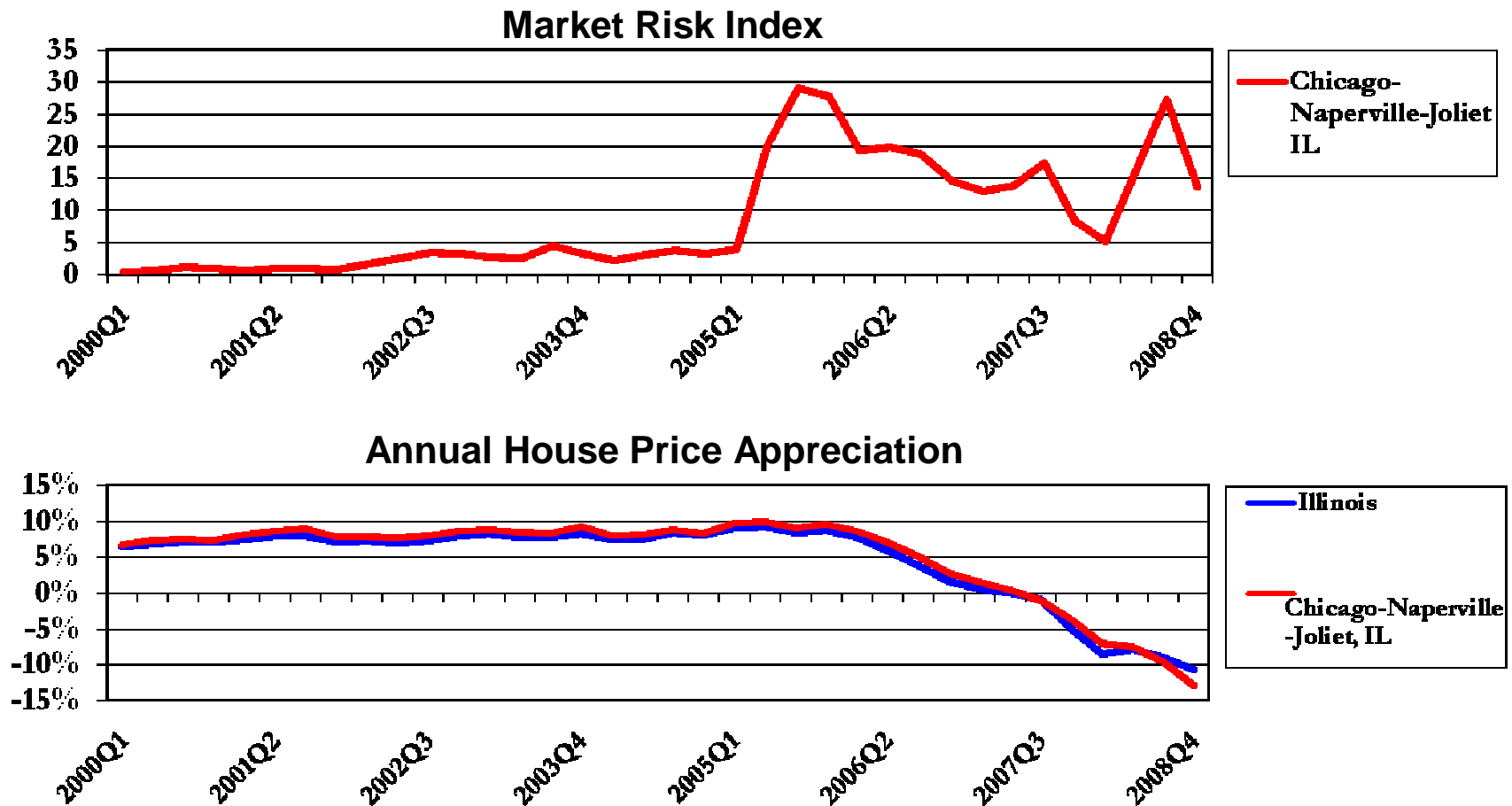
## Illinois

The Illinois economy deteriorated during the second half of 2008 after having fared somewhat better than the U.S. in the first half. Just about every industry shed jobs more quickly than the nation, and the unemployment rate exceeded the U.S. rate at year end.

## Chicago, IL

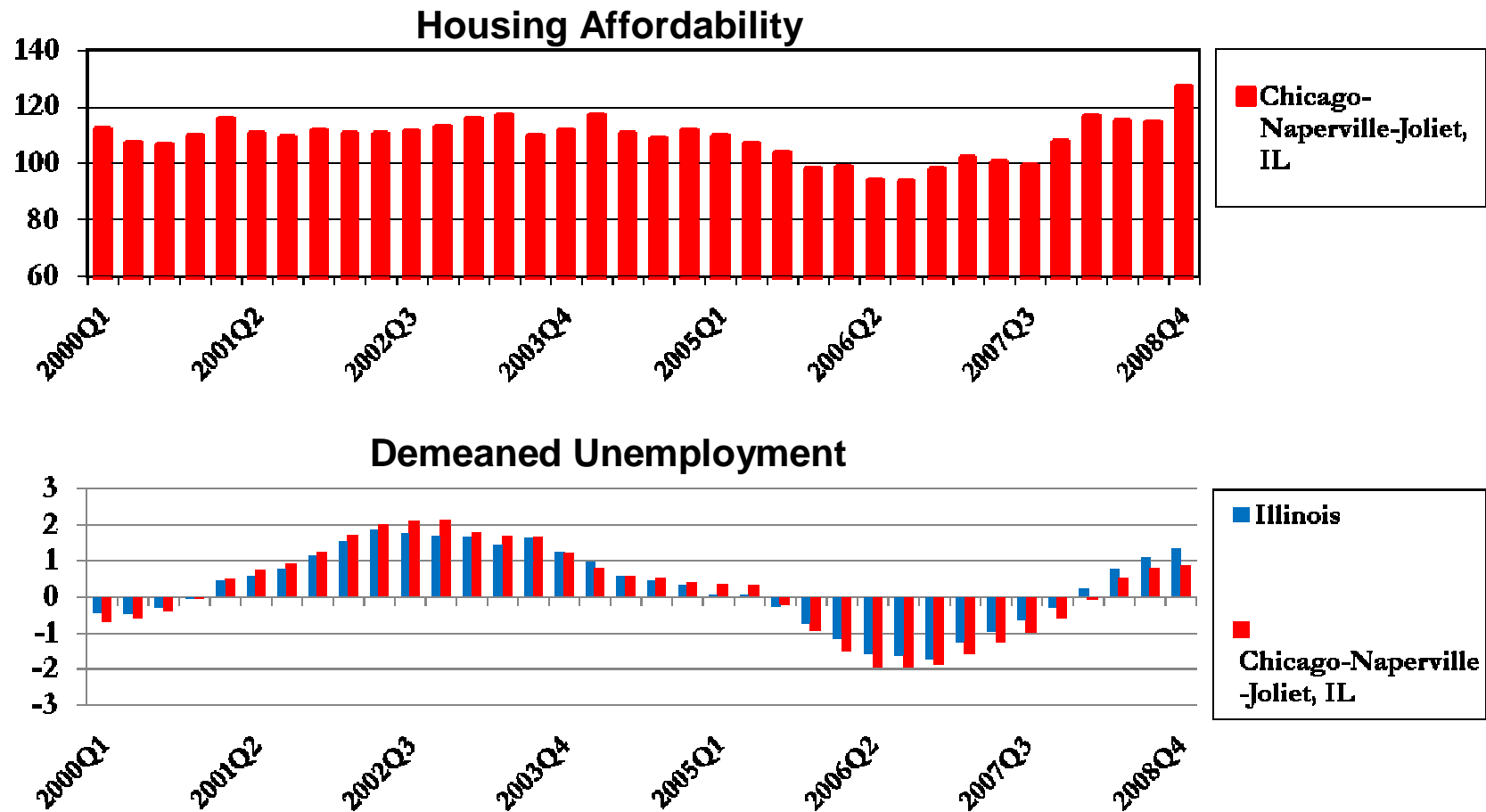
The downturn of the Chicago-Naperville-Joliet economy accelerated during the fourth quarter in step with the U.S. economy, although job losses have been slightly milder than average. The contraction is broad-based, with especially steep cuts in construction, manufacturing and business services. The number of unemployed residents is up by 50% from the end of 2007 and the unemployment rate ended the year at 7.3%, about equal to the national average.

# Illinois (Chicago): PMI's Risk Index and Annual House Price Appreciation



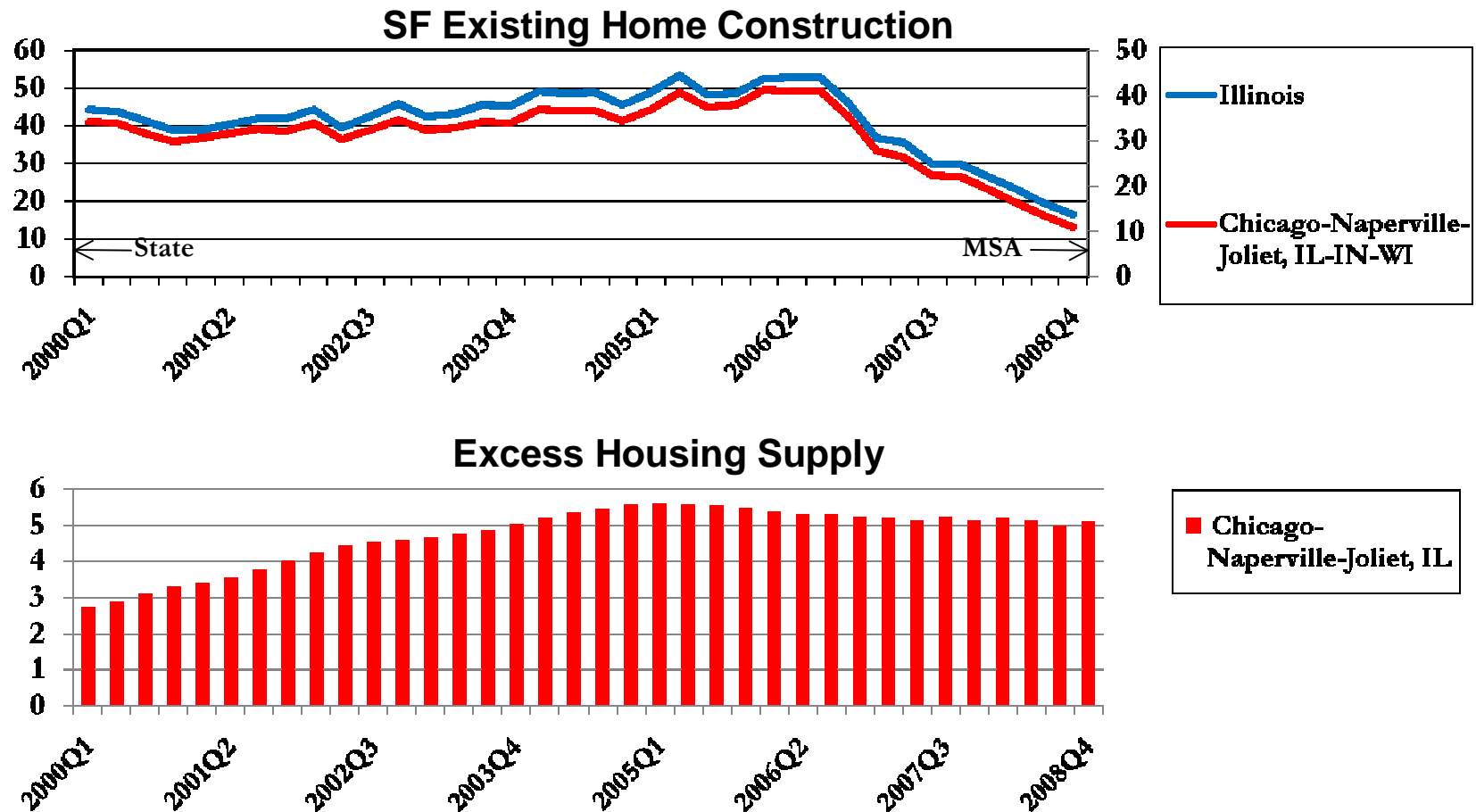
Source: The PMI Group, Inc. / Loan Performance

# Illinois (Chicago): Housing Affordability and Demeaned Unemployment



Source: The PMI Group, Inc. / Bureau of Labor Statistics

# Illinois (Chicago): New Home Construction and Excess Housing Supply



Source: Moody's Economy.com / The PMI Group, Inc.

