



The Pulse of the Valley 2014

CORVALLIS REAL ESTATE FORUM

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Recovery, Rates, Capital & Confidence

We are in economic recovery, although weakest of post-WWII era

Historically low interest rates – should remain low for two more years

Abundant capital available / sitting on sidelines

Business confidence cautiously optimistic

Consumers optimistic but broke

Slow & Steady Recovery

4 ½ years in 'recovery,' we are seeing positive signs locally – revenue growth, improving profitability, job stabilization and renewed capital investment.

Uncertainty around **tax rates, health care costs, political environment** and **regulations** are all holding business owners back from investing & borrowing more.

Industry Improvement

Agriculture



Manufacturing & High Tech



Timber



Government & Education



Healthcare



Restaurants & Bars



Retail



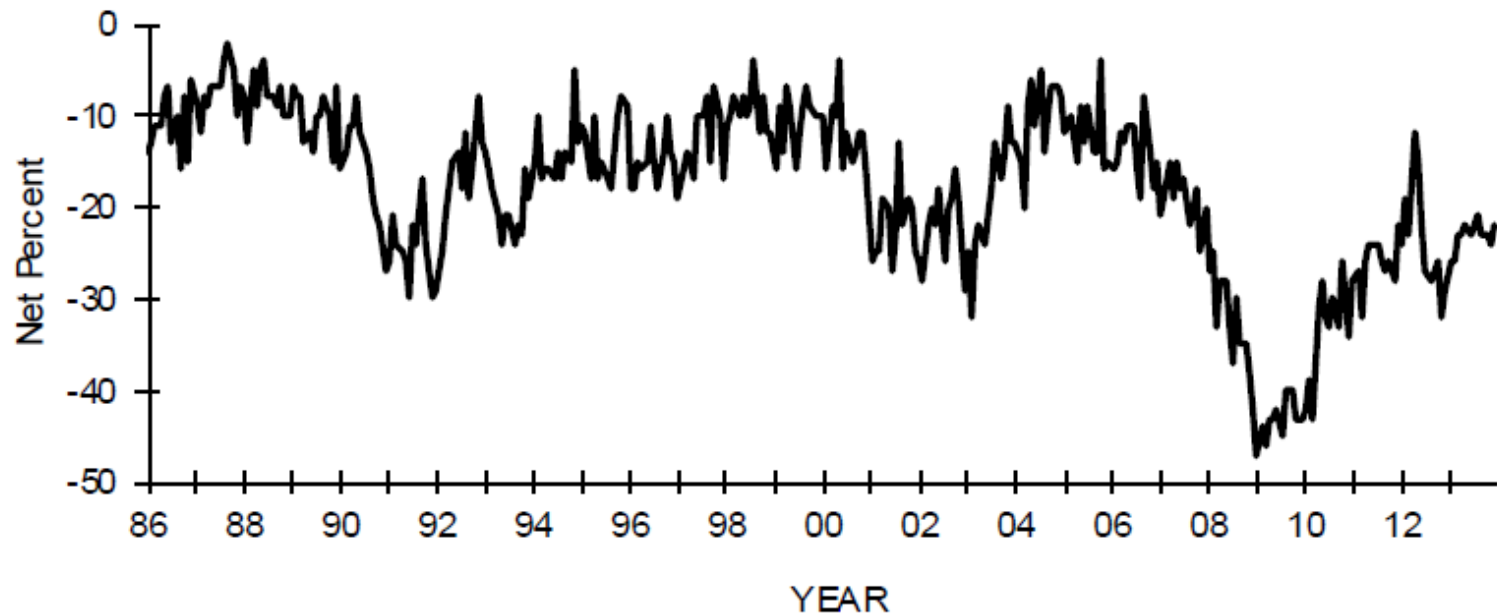
Residential and Commercial
Construction & Real Estate



SMALL BUSINESS EARNINGS

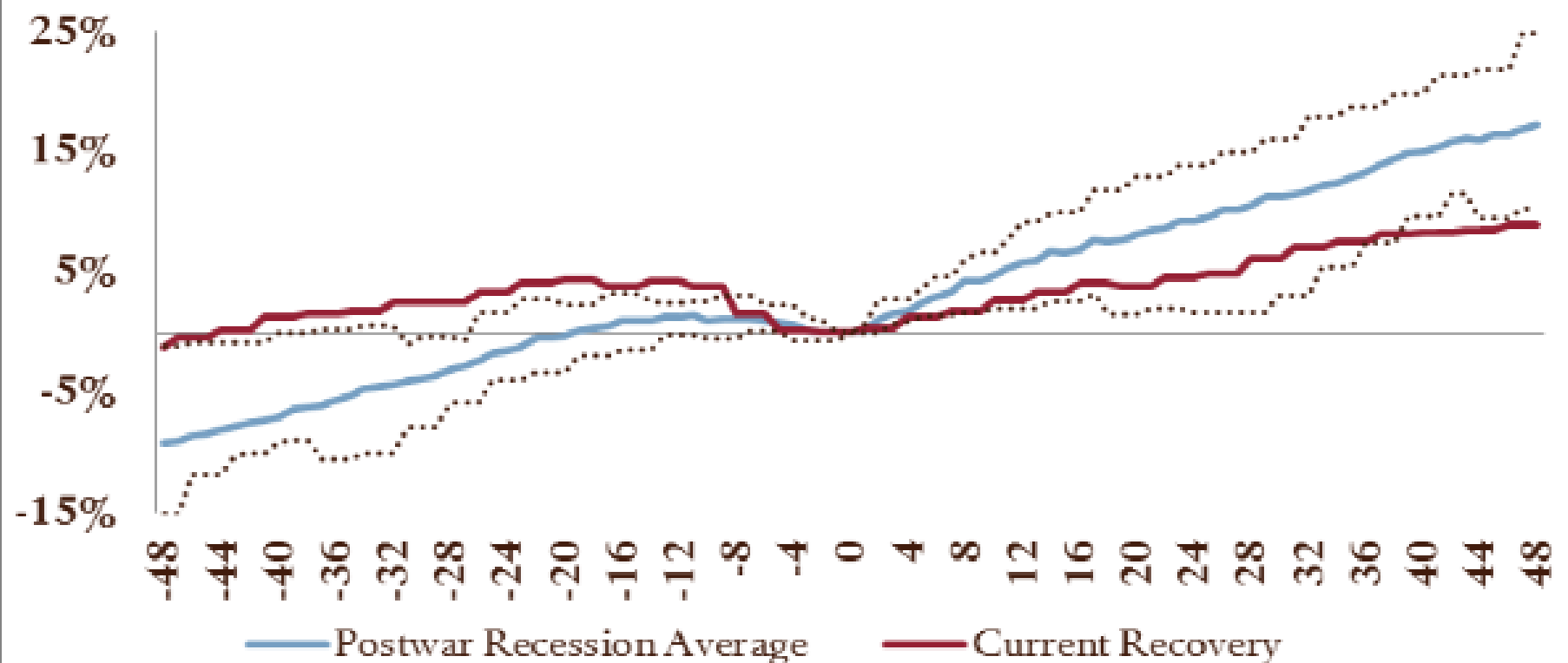
EARNINGS

Actual Last Three Months
January 1986 to December 2013
(Seasonally Adjusted)



Real GDP

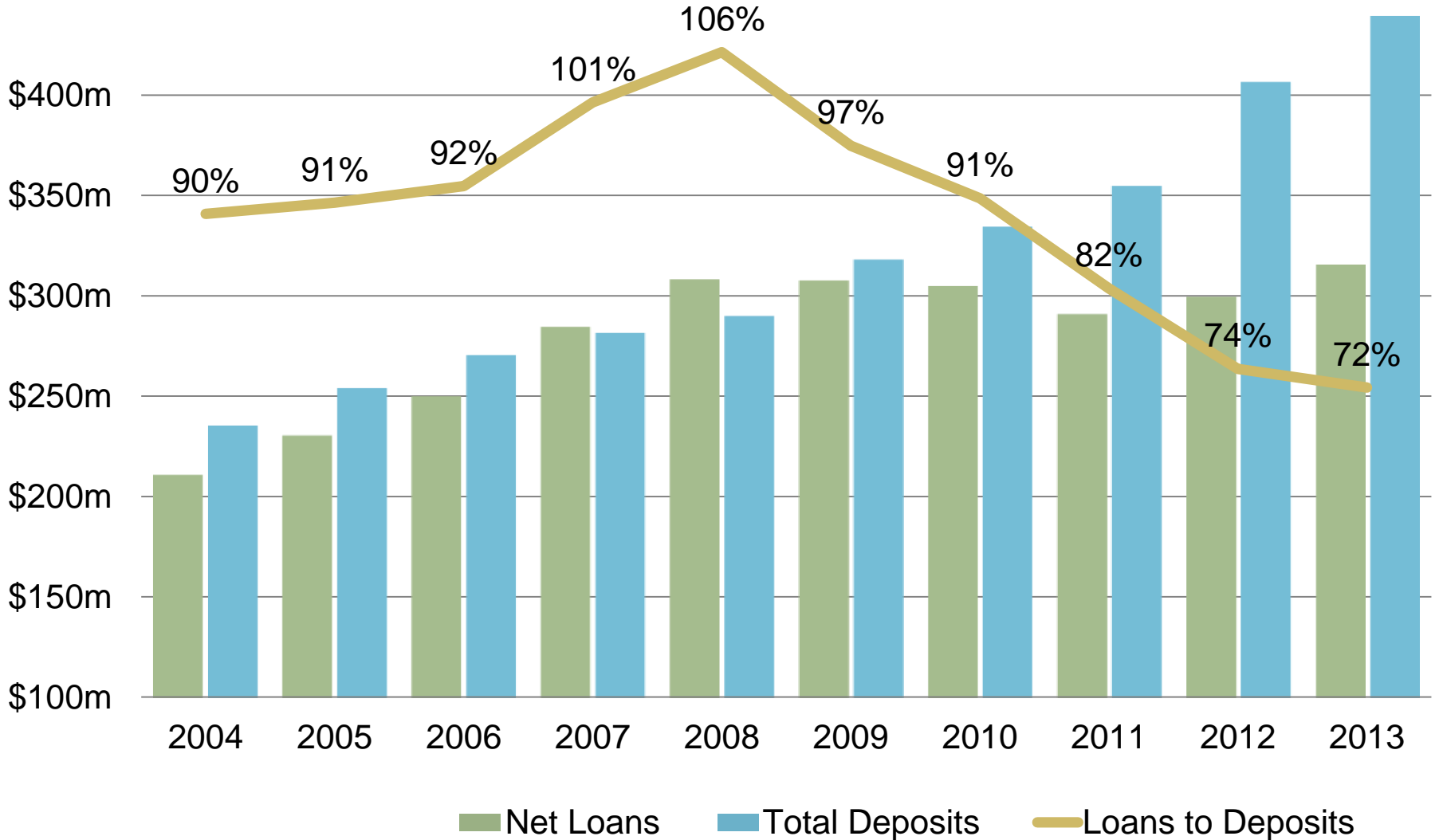
Relative to End of Recession



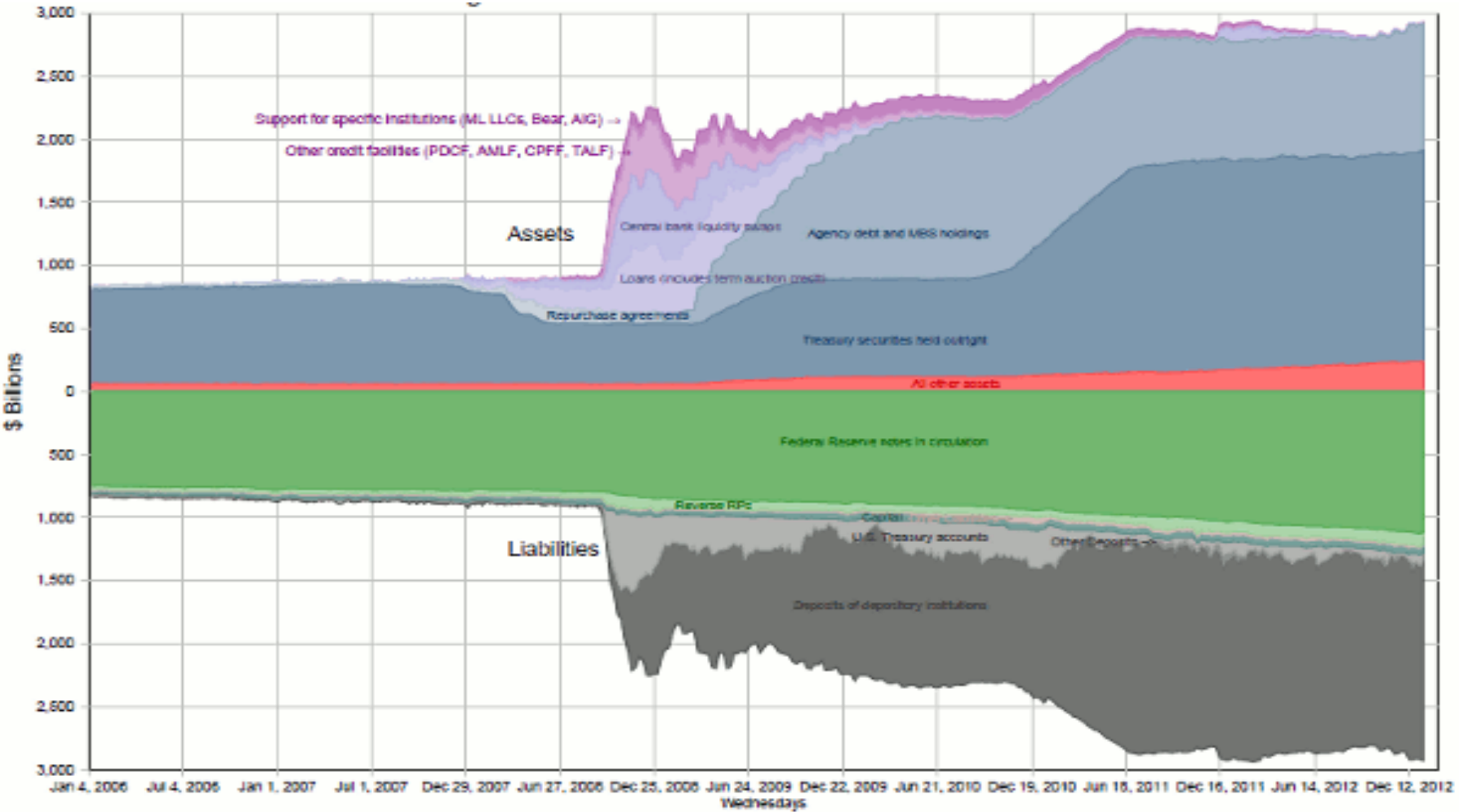
Data Source: Bureau of Economic Analysis

www.cfr.org/cgs

Citizens Bank



Federal Reserve



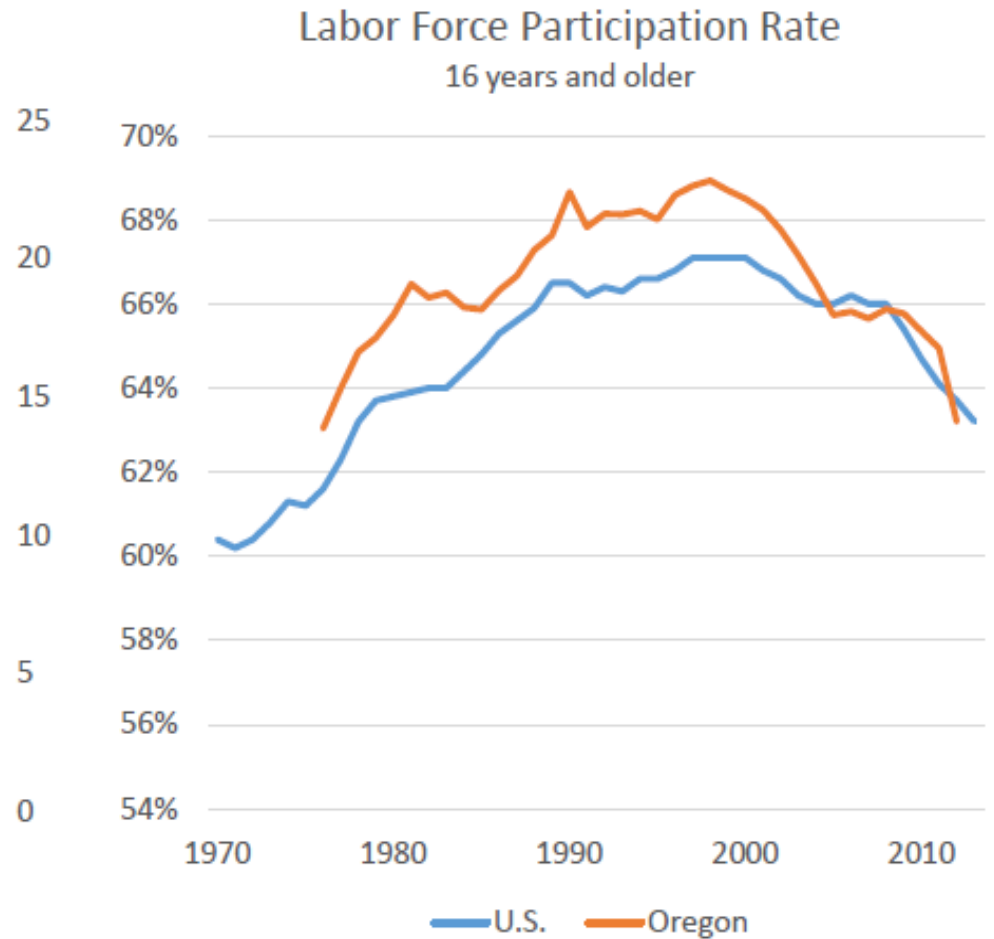
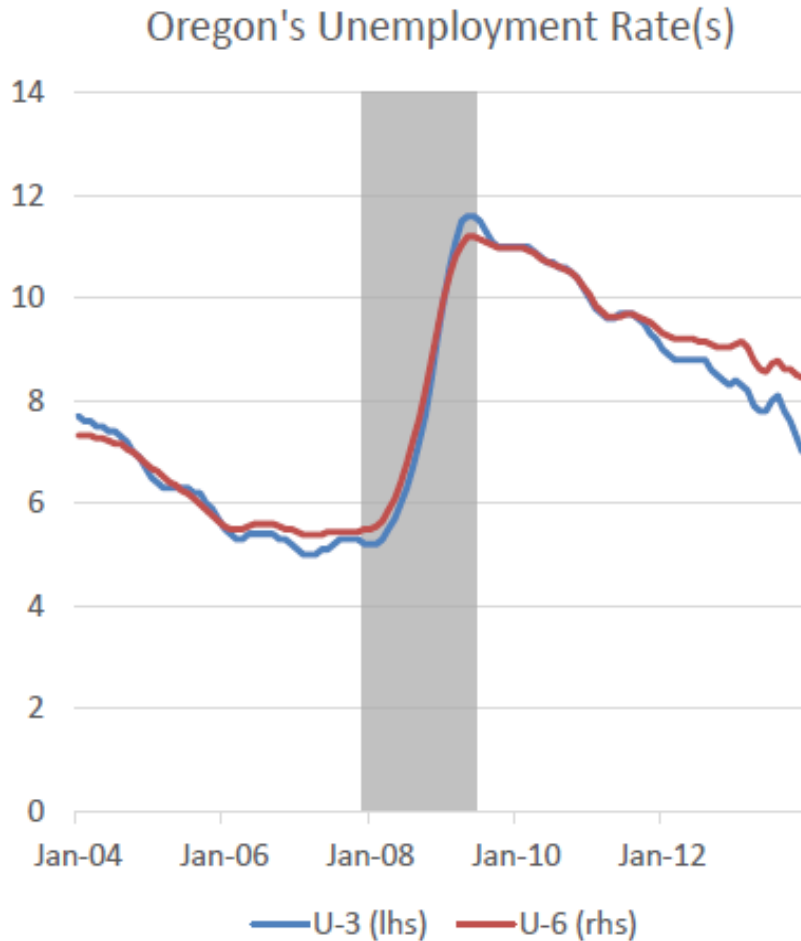
Last updated December 26, 2012.

Historically Low Interest Rates

A Fed study indicates short term rates are not likely to begin rising until 2015, with an optimal timing of 2017.

Key data that will be monitored by incoming FOMC Chair Janet Yellen includes: the **unemployment rate** (currently 6.6% vs. 5.0% at the start of the recession); **labor force** participation rate (62.8% vs. 66.0%); **payroll growth** (204k vs. 93k) and other factors.

Should We Be Concerned?



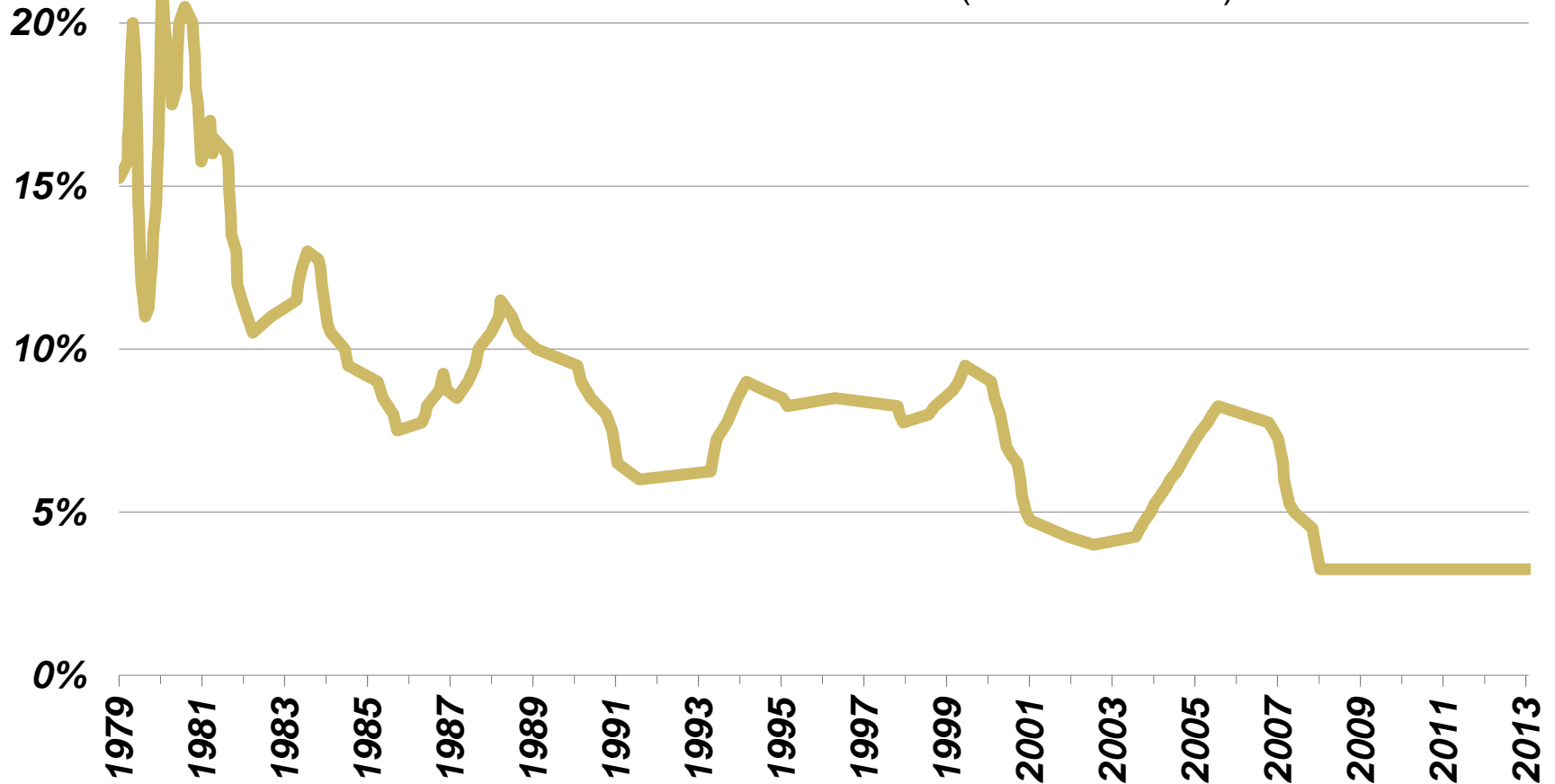
Source: State of Oregon, Office of Economic Analysis, February 2014

Historical U.S. Prime Rate

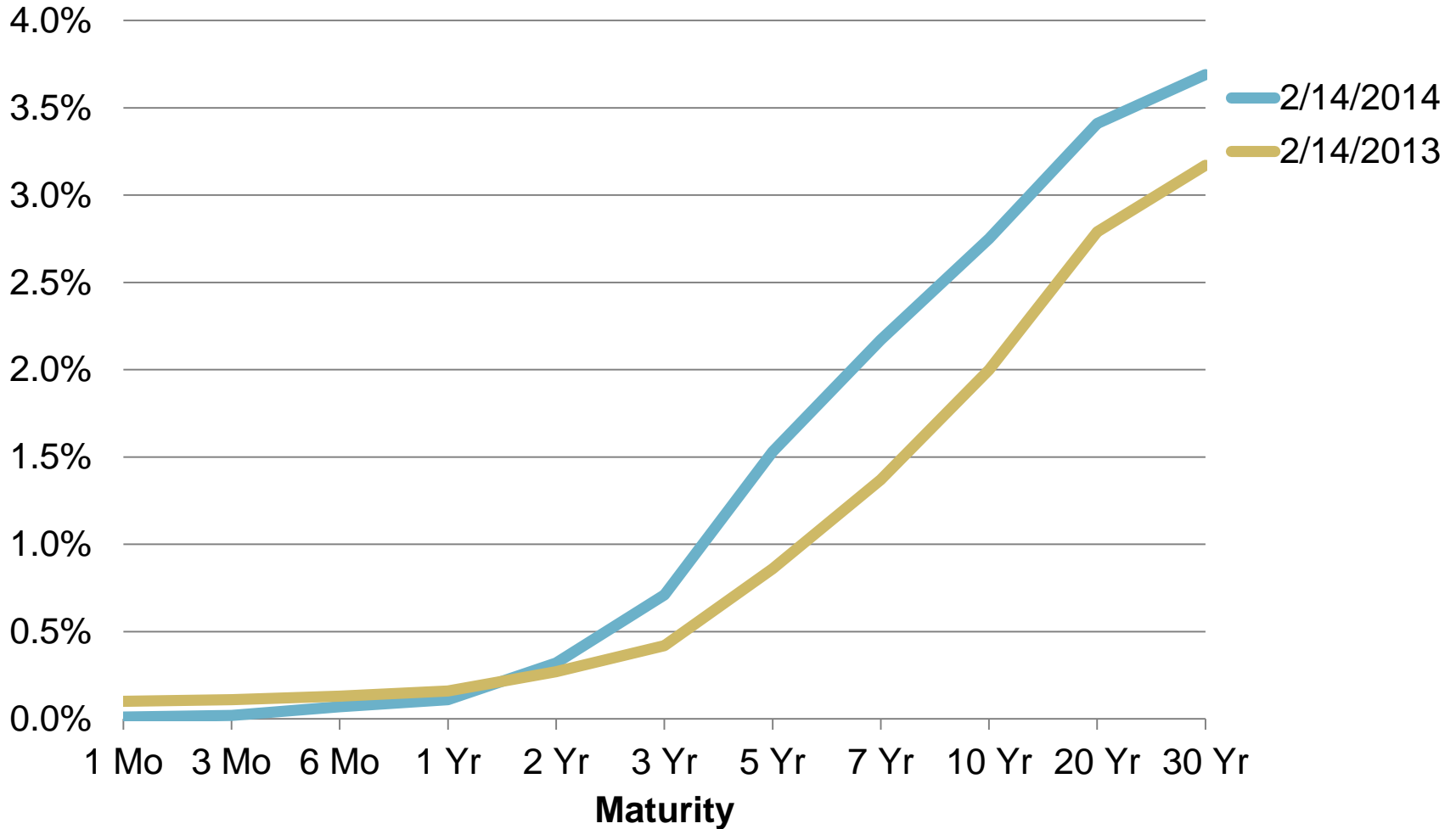
Cumulative **Average** of The U.S. Prime Interest Rate (1947 - Present): **9.84%**

U.S. Prime Rate **Mode** (Most Frequent Value; 1947 - Present): **7.50%**

The **Median** U.S. Prime Interest Rate (1947 - Present): **8.75%**



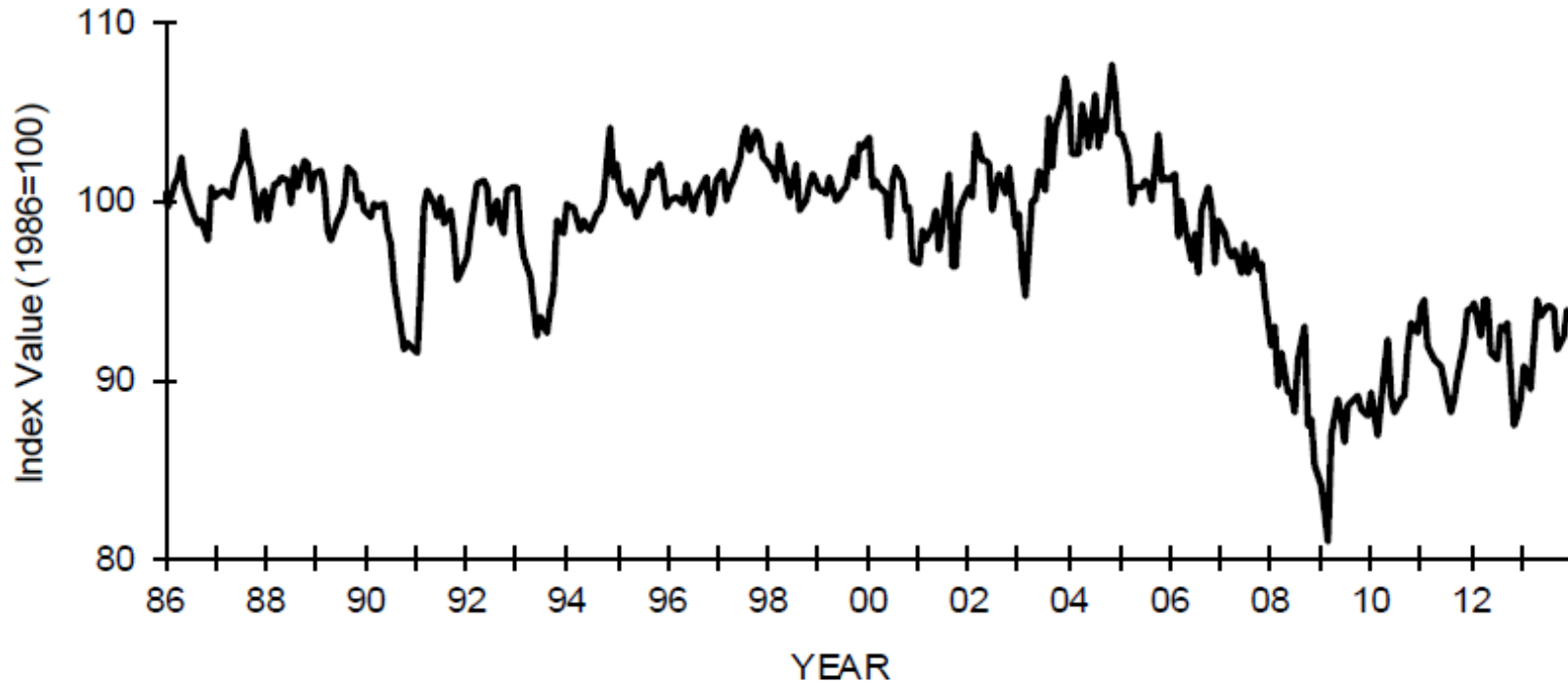
U.S. Treasury Yield Curve



Business Confidence

OPTIMISM INDEX

Based on Ten Survey Indicators
(Seasonally Adjusted 1986=100)



Most Important Small Business Reason for Expansion Outlook

Reason	Good Time	Not Good Time	Uncertain
Economic Conditions	3	35	12
Political Climate	0	16	9
Sales Prospects	3	4	3
Cost of Expansion	0	3	3
Other/Not Available	0	3	2
Fin. & Interest Rates	1	1	1

Consumers

As of January 2014...

U.S. household consumer debt profile:

- Credit card debt: **\$15,270**
- Mortgage debt: **\$149,925**
- Student loan debt: **\$32,258**
- Credit score: 681

In total, American consumers owe:

- \$11.36 trillion in debt (-0.1% from last year)
- \$856.9 billion in credit card debt
- \$7.93 trillion in mortgages
- \$1.15 trillion in student loans (+13% from last year)

Student Loans

In June 2010, total student loan debt surpassed total credit card debt for the first time. As of this writing, the **Student Loan Debt Clock** is ticking at **\$1,145,000,000,000**. This enormous overhanging debt is threatening to become a drag on the economy.

The Federal Reserve Bank recently released a study of how the younger generation is being strangled by student loans. The study found that 43% of 25-year-olds had student debt in 2012 (that is up 27% from 2004), absorbing funds no longer available for home purchases, retirement saving or discretionary purchases to drive the economy. Consider, too, that 17% of student borrowers are now 90 days or more past due on their obligations.

Will student loans be the next asset Bubble?

What does all this mean for you?

The economy is recovering. New economy may not look much like the old economy.

Keep an eye on the Federal Reserve Bank. The Fed is largely financing our recovery through bond purchases.

As they 'taper' this activity, look for rates to go up and increased inflation.

Take advantage of today's low rate environment and abundance of available capital – fix rates for as long as possible.

Plan for inflation, higher cost of capital.

What does all this mean for you?

Clean up your balance sheets.

Help your kids graduate debt free. They will be vital to our economy's future.

Support your community. Shop and do business locally with your friends and neighbors.

Don't go at it alone – develop strong relationships with your professional team of bankers, attorneys, accountants and realtors.

“What I love about Americans is that after they have exhausted every other alternative, they always seem to do the right thing.”

-- Winston Churchill