STATS TO TRACK

Free economic statistics that community bankers should be watching

BY INGO WINZER

Uncle Sam collects a lot of information that community bankers can get for free to help gauge the economic health of their market areas. Some of this information is straightforward; some is more difficult to interpret.

A crucial requirement for understanding economic statistics is to compare them to something: historical data, data for other markets, or state or national averages. Economic cycles can be very long, so community bankers should typically look at annual data going back at least 10 years and monthly data going back at least 5 years.

Here's a sample of the measures your community bank can use to assess the economic and real estate conditions in the United States and 315 of its local markets. The following details where to get local statistics, what each statistic means and what the data typically look like.

GRAPHIC 1 – POPULATION GROWTH

2001	2002	2003	2004	2005	2006	2007	2008	2009
1.0%	1.0%	0.9%	0.9%	0.9%	1.0%	1.0%	0.9%	0.9%

The U.S. average population growth is a very steady **1%** per year

Economic Growth

Growth is the engine that informs most banking decisions. Lending is different in low-growth and high-growth markets, and as the country saw in recent years, one can be as dangerous as the other.

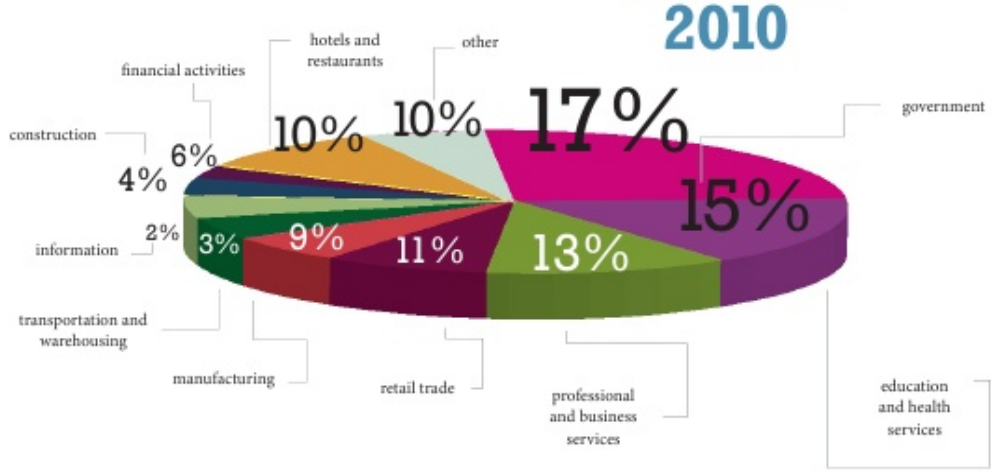
Population growth (Graphic 1)

www.census.gov/popest/metro/CBSA-est2009-annual.html

Markets with strong population growth are good bets for housing and for retail businesses. The U.S. Census makes annual estimates of population in local markets and lets you conveniently download them into a spreadsheet, where you can calculate the annual growth. The data are a year old by the time they're first posted. The typical range when looking at all local markets is -1 percent to +4 percent.

GRAPHIC 2 – JOB-SECTOR CONCENTRATION

Breakdown of U.S. workforce in mid-2010



Population profile

www.factfinder.census.gov

Markets with an older population are friendly to health care businesses. Those with higher income are friendly to financial services. From this page at the Census website, you can get a fact sheet for any local market, down to the ZIP-code level, with comparative U.S. data. I look mainly at the ratio of rental to owner-occupied housing units, percentage of population over age 65, per capita income and median home value, all compared with U.S. averages. For larger markets, the current data are from 2006–08, for ZIP codes from the 2000 census; relative data like these are still useful even from 2000.

Population migration

www.census.gov/popest/states/NST-comp-chg.html

Markets with strong in-migration are favorable for retail businesses and housing. Census population migration information is available only by state. Download the Estimates of Components report from 2008–09. On the right side is net migration; the domestic component is people moving from one state to another. For 2009, you see large numbers of people leaving California, Michigan and New York and moving to Texas. By comparing with state populations (*www.census.gov/popest/states/NST-ann-est.html*), you can see that the percentage of Michigan residents moving to another state was relatively very high (0.9 percent), while the percentage of Colorado residents moving to another state was also high (0.7 percent). These seem to be small percentages, but they have a large effect on real estate markets.

Job growth (Graphic 3)

www.bls.gov/data/home.htm

Economic growth at the retail level depends more on jobs than on industrial output or GDP. Halfway down this Web page you'll find "employment, hours and earnings—state and metro area"; click on "one-screen data search." For any local market, select total nonfarm and all employees. The table you generate can be formatted to show the 12-month percentage change. This is one of the most important statistics to review. The data are only a month old when first posted and clearly show the direction of the local economy.

During the depth of the recent recession, 12-month job losses in some markets were more than 10 percent. In normal times, job growth in most local markets ranges from 0.5 percent to 2.0 percent.

GRAPHIC 3 - JOB GROWTH

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
2.2%	0.0%	-1.1%	-0.3%	1.1%	1.7%	1.8%	1.1%	-0.6%	-4.3%

The U.S. average can change quite a bit from year to year

Job-sector concentration (Graphic 2)

www.bls.gov/data/home.htm

A high concentration of jobs in any sector, especially construction, increases the risk of lending to that sector. Halfway down this Web page find "employment, hours and earnings—state and metro area," and click on the "One-Screen Data Search." This is the same source as for job growth, but this time in Section 3, in addition to "total nonfarm," you can specify such key sectors as construction, manufacturing, financial activities, professional and business services. After you get this data, calculate the percent of total jobs in each sector to see if there are unusual concentrations.

Some markets have job concentrations as high as 30 percent in manufacturing, 14 percent in finance and 40 percent in government. Concentrations in government indicate economic stability; concentrations in other sectors signal risk. Two important statistics to follow in all markets are the concentration of jobs and growth of jobs in construction.

In Las Vegas, as an extreme example, jobs in construction grew at 18 percent in 2004 and accounted for a very high percentage (14 percent) of all local jobs in 2006. This signaled a very high degree of risk in the local real estate market, and the loss of construction jobs that started in late 2006 was an early warning of the end of the real estate boom.

Income growth (Graphic 4)

www.bea.gov/regional/index.htm#state

Both the level of income and how quickly it grows affect the types of retail and financial products most likely to succeed in a local market. Here, click on "interactive tables," then on the table called CA1-3. In Step 2, select "per capita personal income—percent change" and "metropolitan statistical areas" (or "metropolitan divisions"). The data are annual and at least a year old when posted but still valuable in showing the relative structural health of local markets. Always compare with the U.S. average or with other local markets. Sharp increases or decreases will affect housing.

GRAPHIC 4 - INCOME GROWTH

The U.S. average income-growth value is usually above

0%

even during recessions

GRAPHIC 5 – BUILDING PERMITS & HOME PRICES

Real Estate Activity

Real estate may or may not follow the economic cycle. Population flows, land shortages and speculation all can interfere with the leading source of bank profits and problems.

Building permits (Graphic 5)

www.census.gov/const/www/permitsindex.html

The risk of lending in the housing market is highest when permits are very high or very low. Click on "permits by metropolitan area," and choose "monthly data," "units" and "current month." It's most revealing to collect the monthly data in a graph. Also track annual data for the past 10 years.

Unfortunately, the Census doesn't give you a spreadsheet with historical data, so you have to get the months and years one by one. The data are two months old when posted. Building permits don't always translate into actual construction, but they show the sentiment of local homebuilders, who are often the first to know if homes are selling well or not. The number of new permits fell well before prices did during the recent bust.

Residential vacancy rates

www.census.gov/hhes/www/housing/hvs/rates/index.html

Lending opportunities in the housing market increase as vacancy rates rise. Look at Tables 4 and 5 to get rental and homeowner vacancy rates in 75 local markets. The data are quarterly and are posted a month after the end of each quarter. Despite some quibbles, "rental" means apartments and "homeowner" means single-family. Markets can't always be compared with one another or the national average: Some always have high vacancy rates, others always low ones. It's the changes in rates that matter.

Home prices (Graphic 5)

www.fhfa.gov/Default.aspx

Sharply rising or sharply falling home prices indicate high risk in lending to the local housing market. Near the top of the page, click on "house price index," then on "downloadable data." The "all-transactions index—metropolitan statistical areas" shows quarterly pricing information for local markets in a spreadsheet. The data are quarterly and posted two months after the end of the quarter. These are indexes, not actual prices, but you can turn them into actual prices by applying the median home value listed as part of the population profile for local markets.

Risk

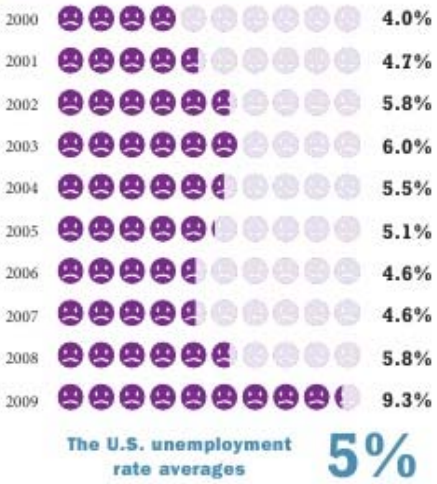
Many of the statistics described so far influence the risk of lending in local markets: It's higher when job growth falls, population stagnates, construction shrinks and vacancies rise. Here are some additional statistics that specifically determine risk.

Unemployment rates (Graphic 6)

www.bls.gov/data/home.htm

Rising unemployment is bad for housing markets and retail businesses. Towards the bottom of the page, find "unemployment" and click on the "one-screen data search." During periods of prosperity, local unemployment rates rarely go below 4 percent, but during recessions they can rise into the mid-teens.

GRAPHIC 6 – UNEMPLOYMENT RATES



Delinquency rates

www.federalreserve.gov/releases/chargeoff

Delinquencies are a measure of the financial health of individuals and businesses. Lending is riskier when they are high. They are reported quarterly and only for the U.S. as a whole but are important measures of the health of the national economy. Market Monitor Inc. looks at delinquency rates that are not seasonally adjusted and for the 100 largest banks, where problems are more evident. The current delinquency rates on mortgages are shocking. Delinquencies for credit cards are fairly moderate only because banks have aggressively taken charge-offs on those loans.

Do-it-yourself Equilibrium Home Price

When are local home prices too high? One main measure of the risk in local real estate markets, which proved highly accurate during the boom and crash, is the equilibrium home price, a calculation Local Market Monitor developed to tell what the average home prices would be in a local market if there were no sources of instability. The difference between the actual average home price in a market and the local equilibrium price shows how much risk the local market contains. Market Monitor Inc. hopes you'll buy this information from us, but you can do your own shorthand version that's almost as useful.

Starting in 2000, a year when most local markets in the United States were roughly in balance (except in Michigan and Utah, where home prices were booming), use the data on income growth and home prices to track the total percentage change, year by year. For many markets, you will find that prices grew much faster than income. When the total price change was more than 15 percent over the total income change, the market was overpriced, and the more overpriced it was, the greater the risk of an eventual crash.

Now that the boom is over, the nation is almost back in the same situation it faced in 2000: Most markets are roughly in balance, and you can start tracking income and home prices in the same way.

Ingo Winzer (info@localmarketmonitor.com) is founder and president of Local Market Monitor in Cary, N.C., a company that provides home price forecasts and risk analysis metrics for banks, real estate investors and homebuilders.

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