VGFOA Central Region Chapter

Market Update

September 14, 2009

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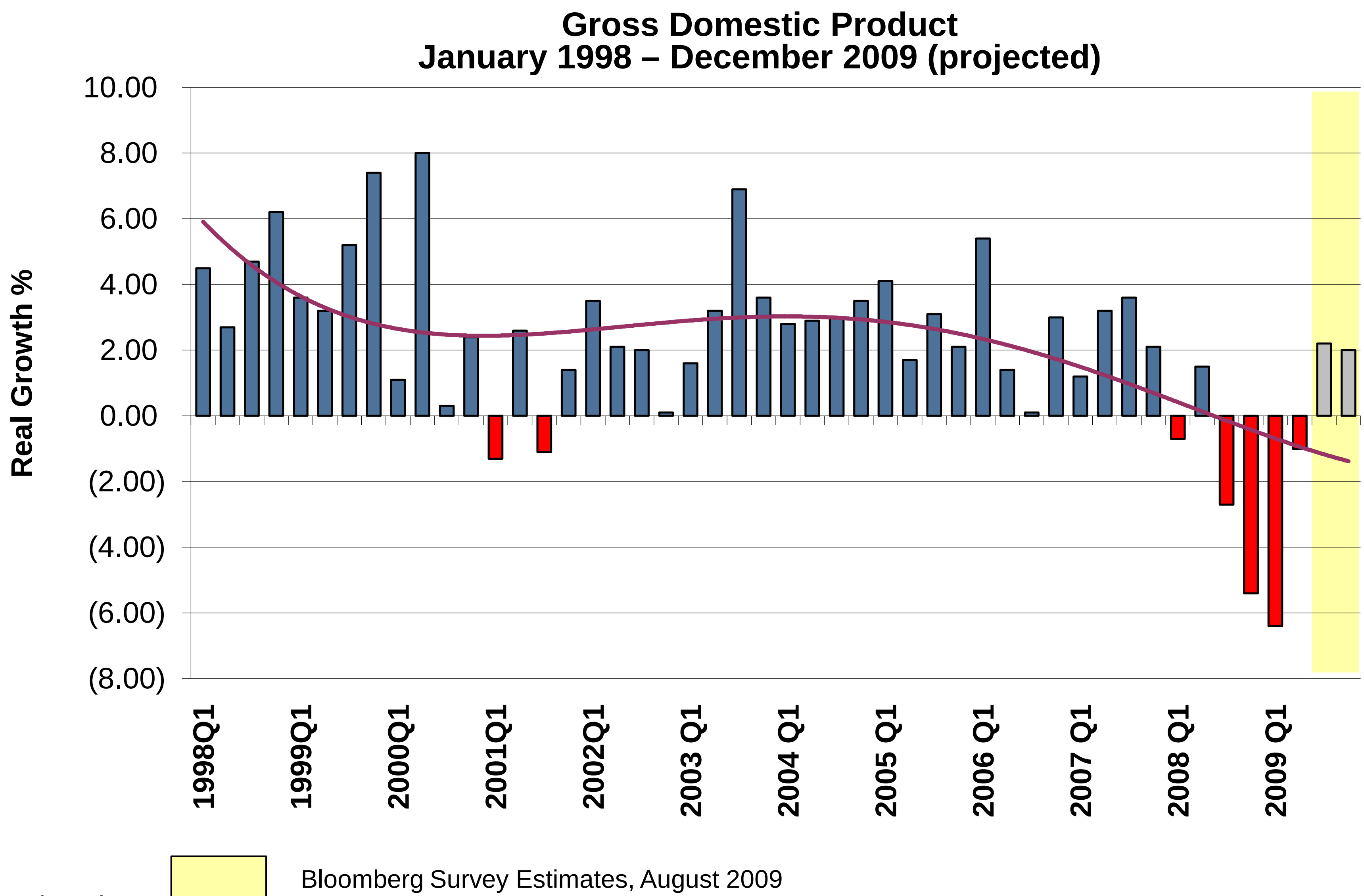
Economy Remains Stagnant

"Things went from bad to worse, but we're hopeful now that things are going badly again."

Source: www.andertoons.com

Gross Domestic Product

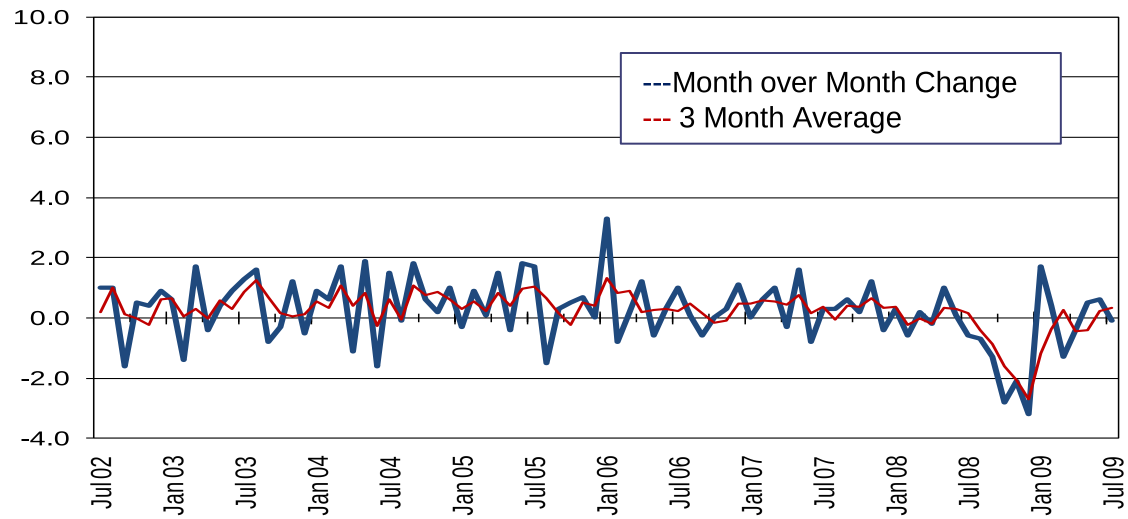


Source: Bloomberg

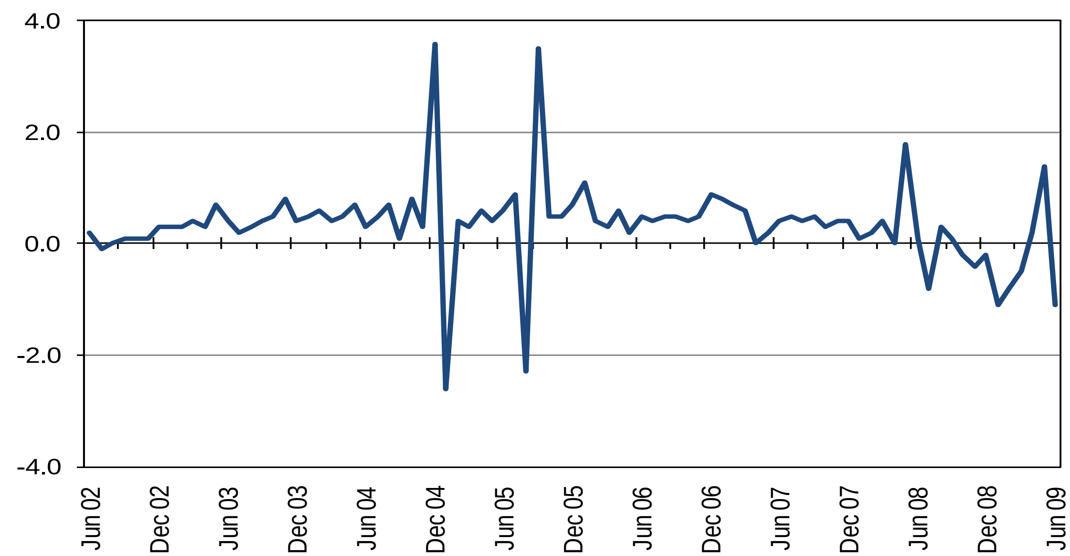
Retail Sales Show Modest Rebound

- Overall sales declined in July after two monthly increases
- Sales remain down 8% year over year
- Personal income growth is down 3.4% vs. last year
- Consumer Confidence remains weak

Retail Sales (Monthly Change)
July 2002 –July 2009



Personal Income (Monthly Change)
June 2002 – June 2009

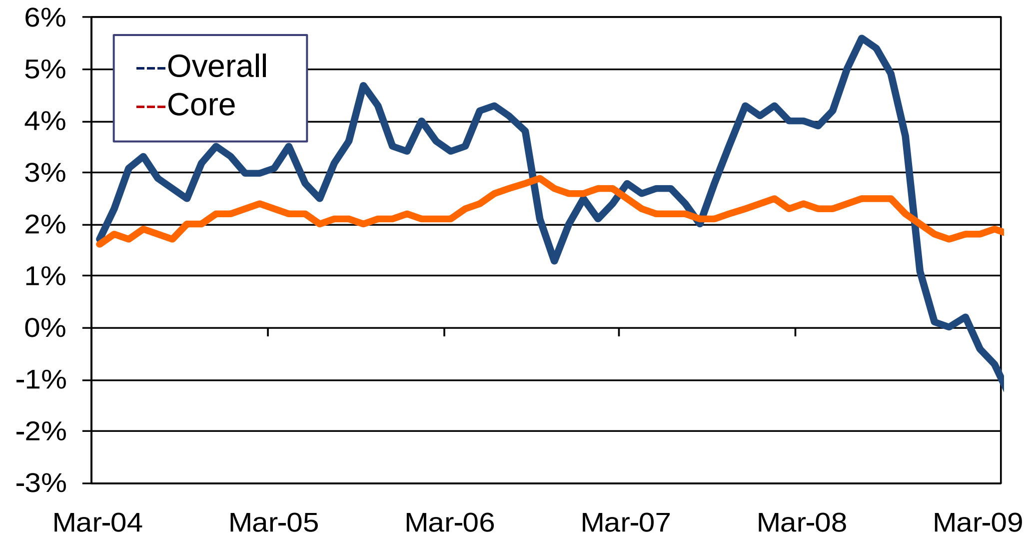


Source: Bloomberg

Core Inflation Is Well Within Fed's Preferred Range; Food and Energy Remain Volatile

- Core prices still within the Fed's 1.5% - 2.0% target
- Broad consumer price indicators (CPI) down 2.1% from July 2009
- Volatility in oil and commodity prices clouds picture
- Oil price rebound may reverse the softness in overall CPI

Consumer Prices (Year-Over-Year)
March 2004 – July 2009



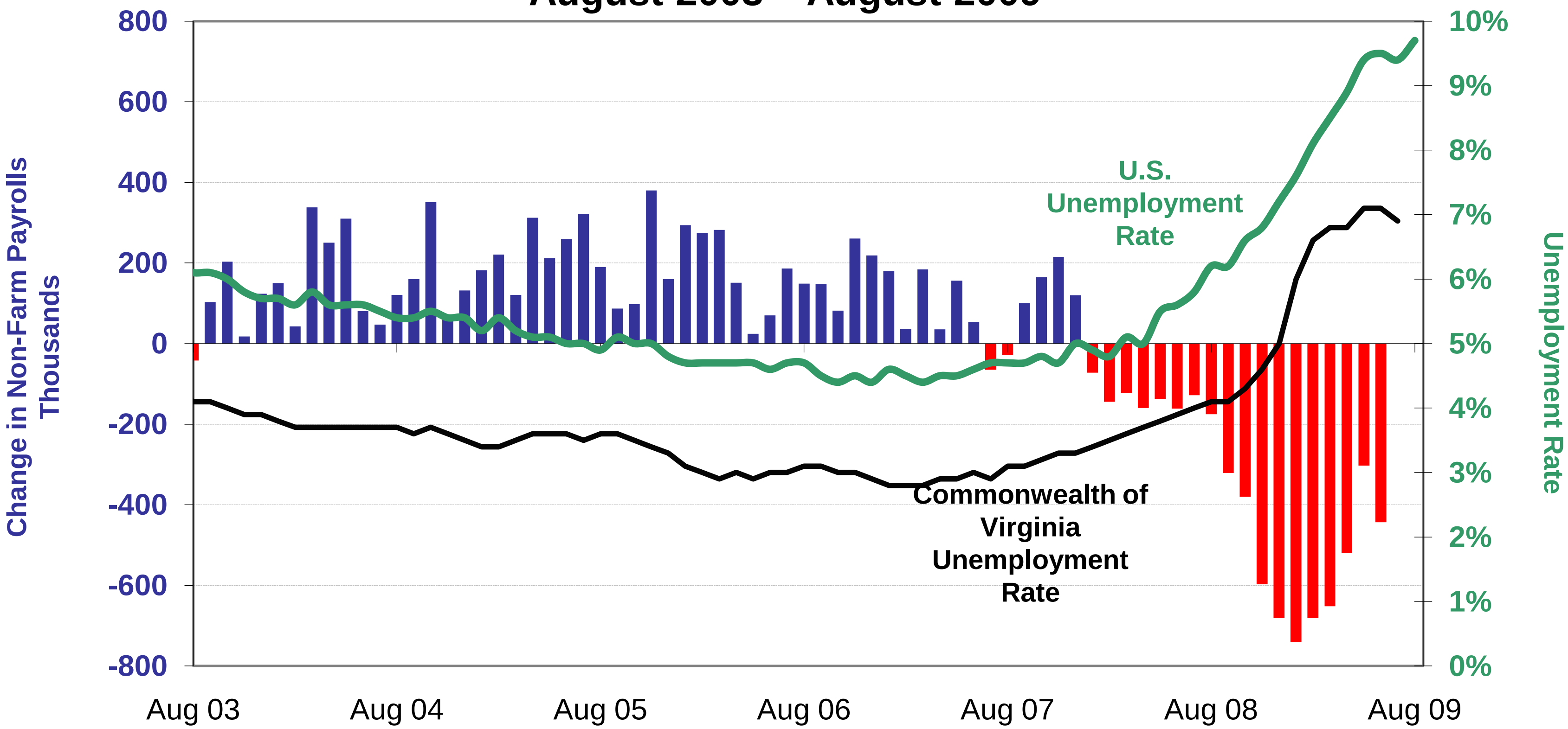
Crude Oil Future Contract, Near Month
February 2006 – August 2009

Source: Bloomberg

Job Losses

- The national economy has lost nearly 7 million jobs since December 2007.
- Job losses have significantly exceeded jobs created during the preceding expansion.
- The preliminary statewide unemployment rate stands at 6.9%, notably lower than the national rate of 9.7%.

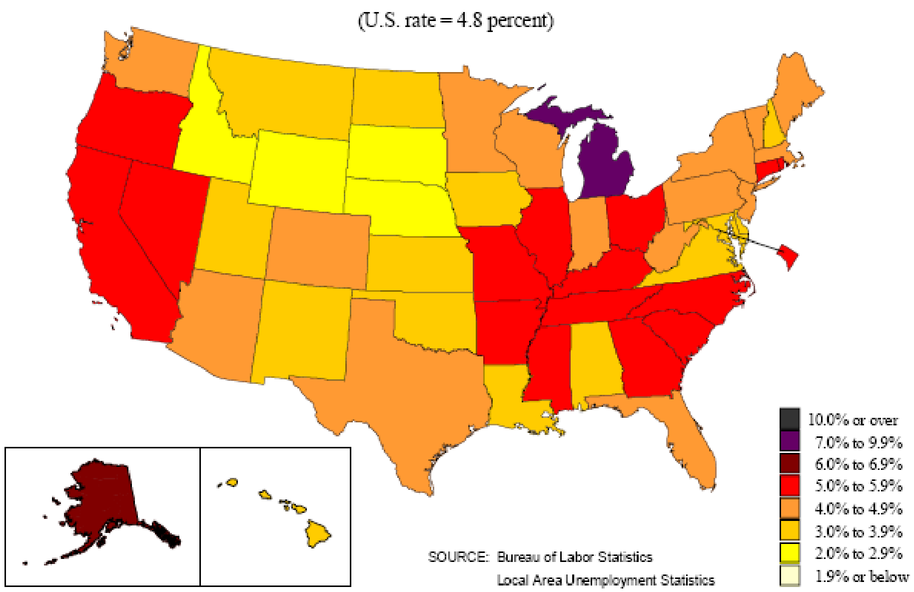
Change in Non-Farm Payrolls vs. Unemployment Rate
August 2003 – August 2009



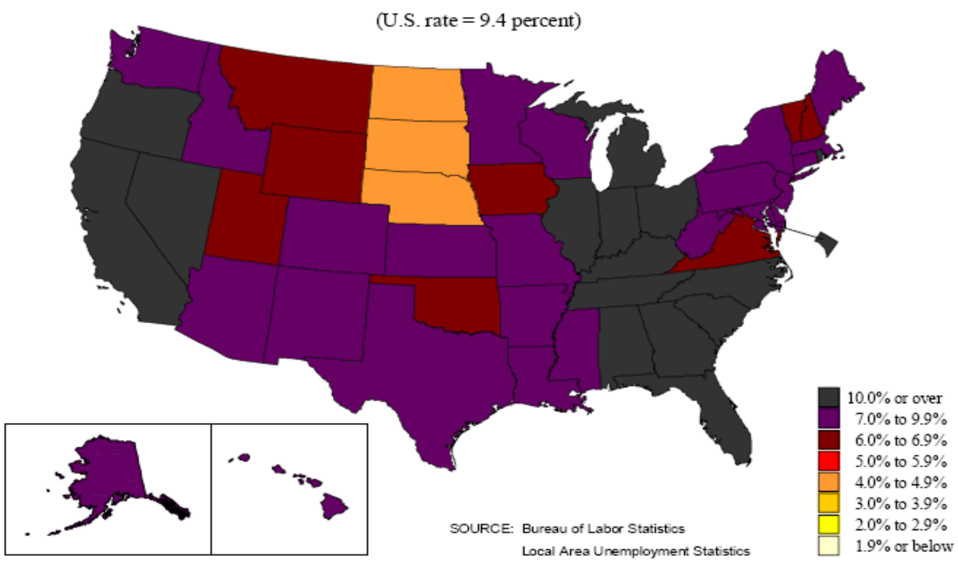
Source: Bloomberg, Bureau of Labor Statistics

Rising Unemployment

Unemployment Rates by State April 2008



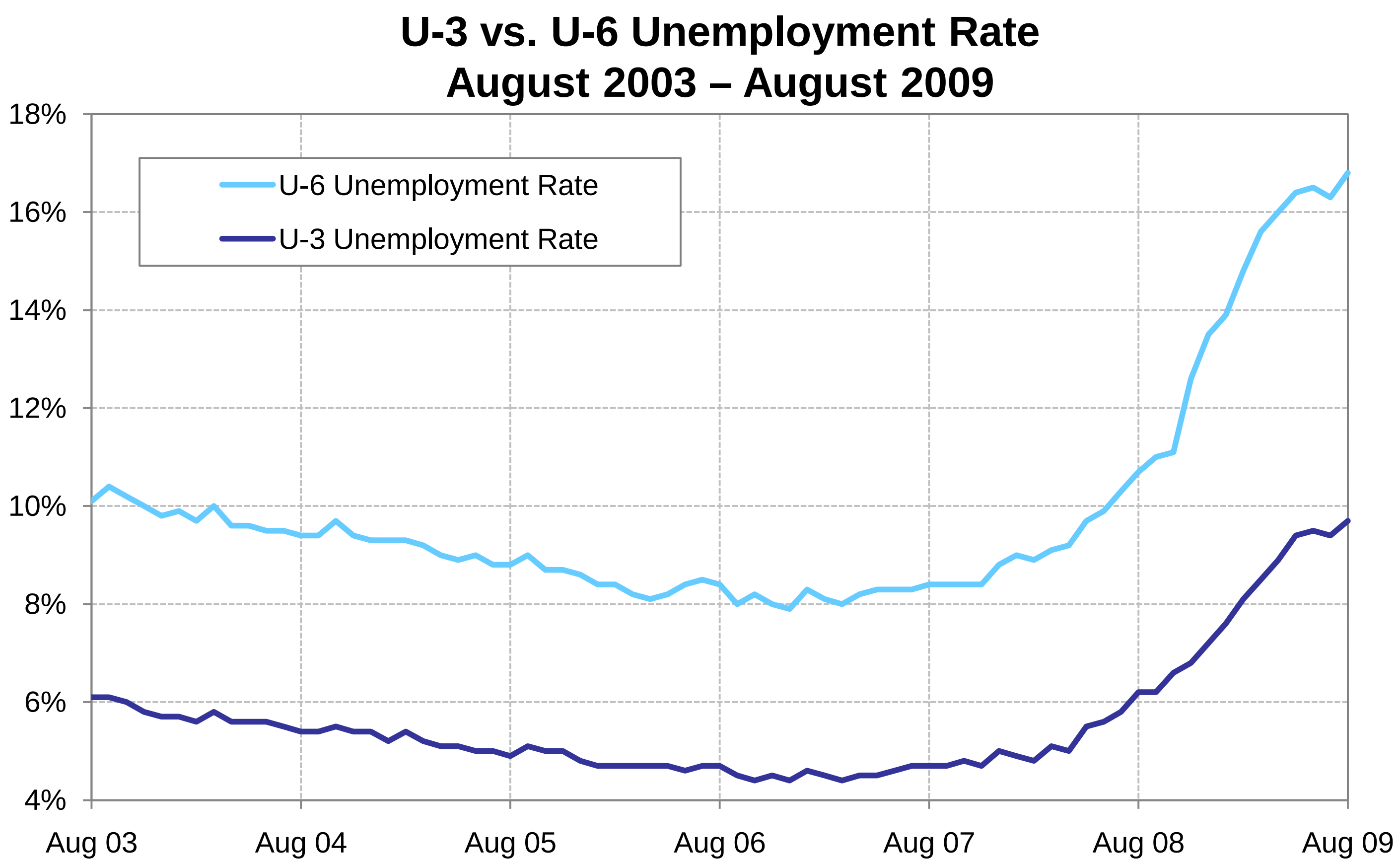
Unemployment Rates by State July 2009



Source: Bureau of Labor Statistics

What Is the True Unemployment Rate?

- While U-3, the most widely reported measure of unemployment, registered at 9.7% in August, the U-6 rate of unemployment reached an incredible 16.8%.
- U-6 includes the total unemployed (U-3), plus “all marginally attached workers, plus total employed part time for economic reasons.”



Source: Bureau of Labor Statistics, U.S. Department of Labor

Housing Slump Continues

- Although home sales have experienced a slight up-tick in recent months, levels are still down over 30% from the height of the housing boom in August 2005.
- Sales volume is likely to remain low until declining home values begin to stabilize.

Existing Home Sales
June 2004 – June 2009

Source: National Association of Realtors

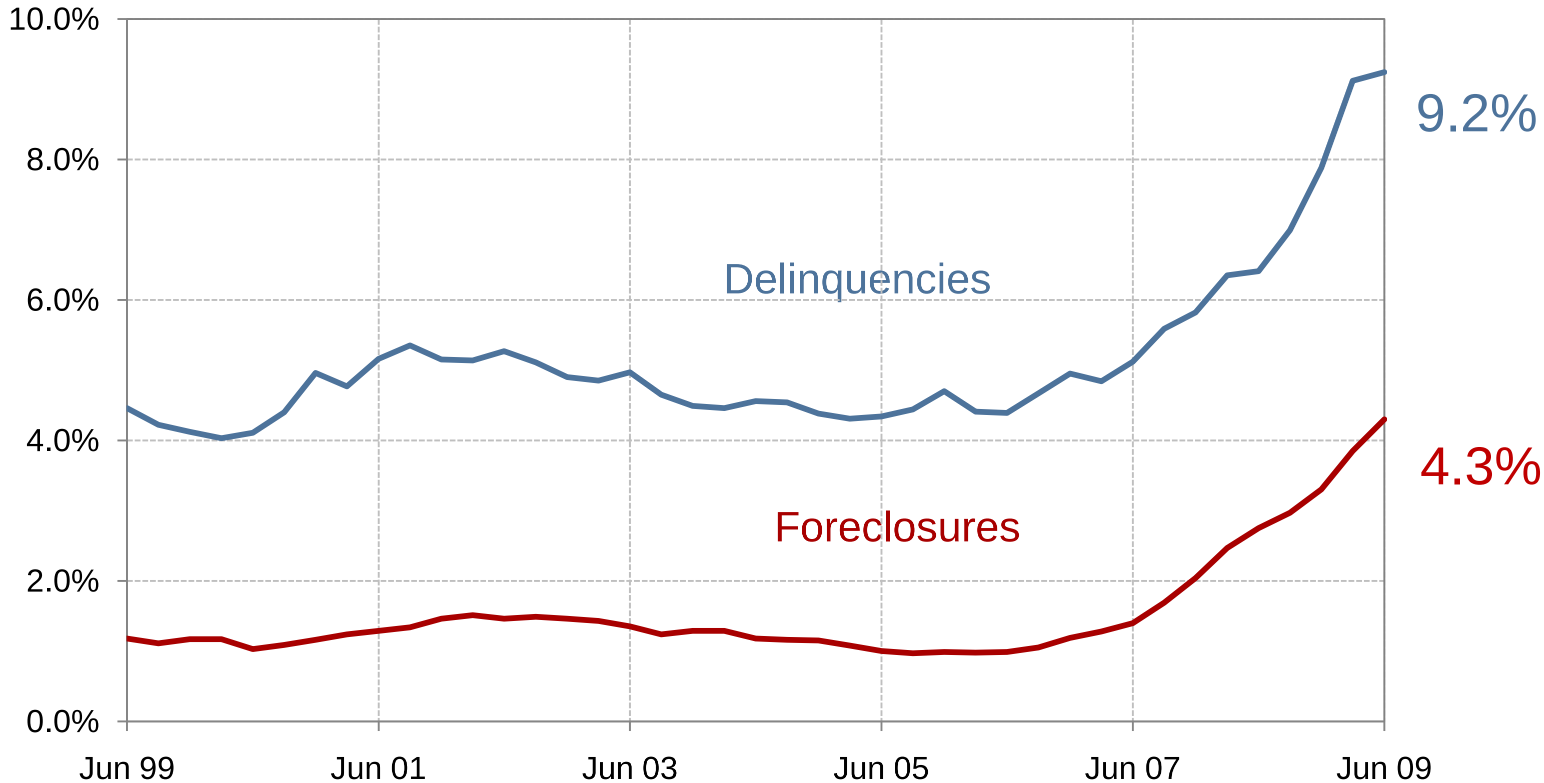
New Homes Sales
July 2004 – July 2009

Source: National Association of Realtors

Foreclosures, Delinquencies at Record Highs

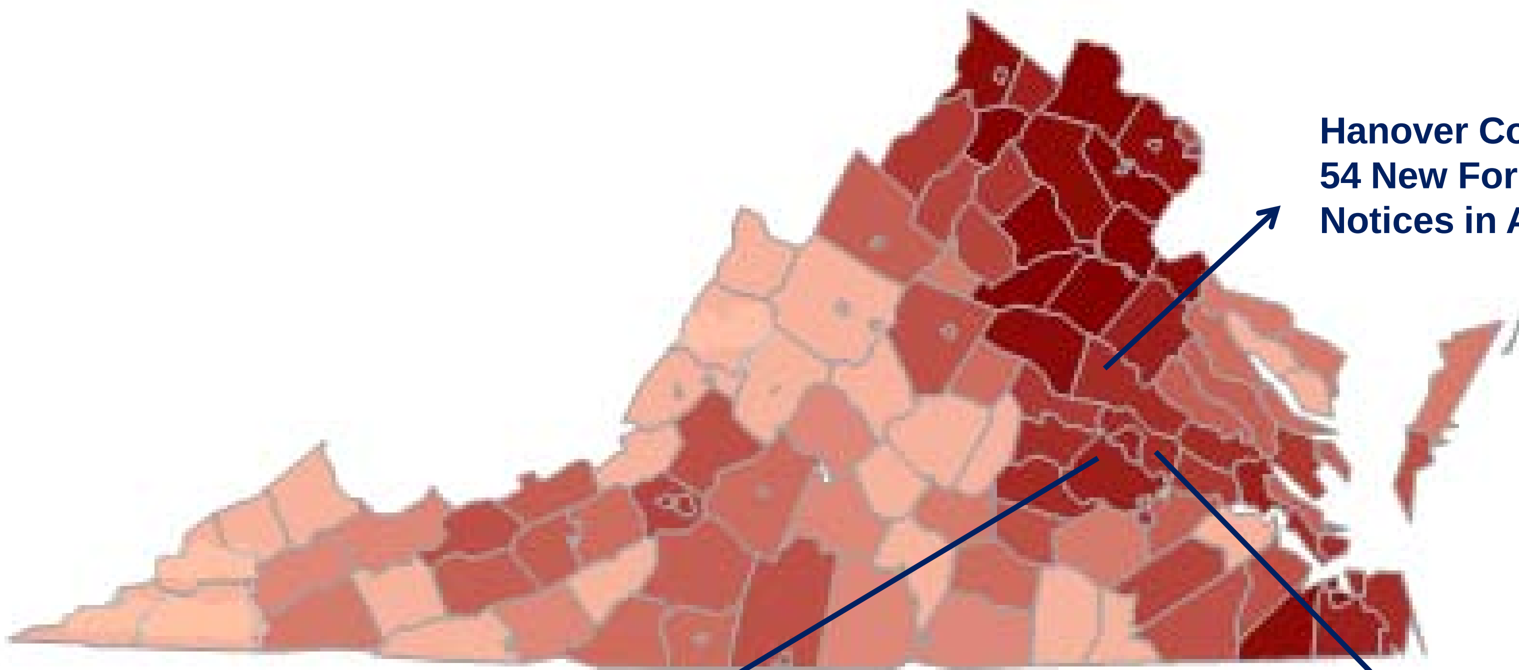
- As of June 2009, 13% of all mortgages were either delinquent or in foreclosure.
- The rising rate of mortgage delinquencies is an early indicator of future foreclosures and signals continued weakness in the housing sector.

U.S. Mortgage Delinquencies / Foreclosures
Second Quarter 1999 – Second Quarter 2009



Source: Mortgage Bankers Association

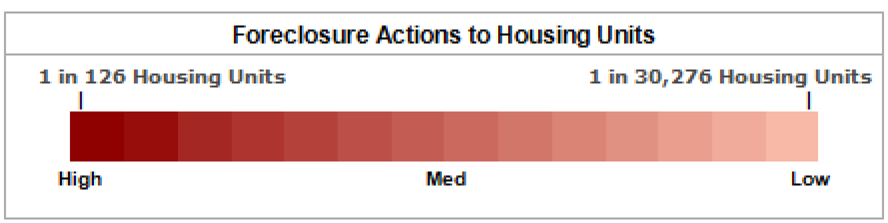
New Foreclosure Activity August 2009



Hanover County
54 New Foreclosure Notices in August 2009

Chesterfield County
211 New Foreclosure Notices in August 2009

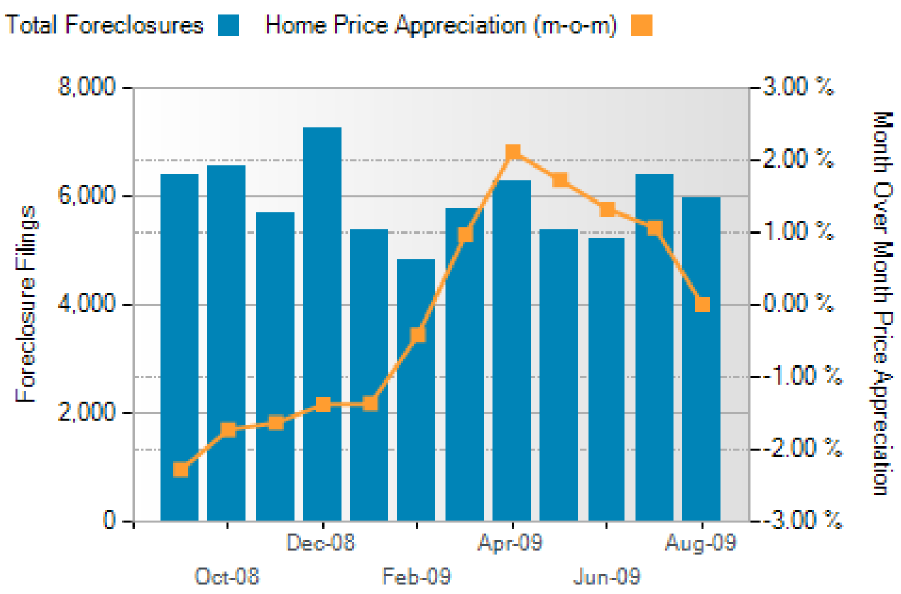
Henrico County
186 New Foreclosure Notices in August 2009



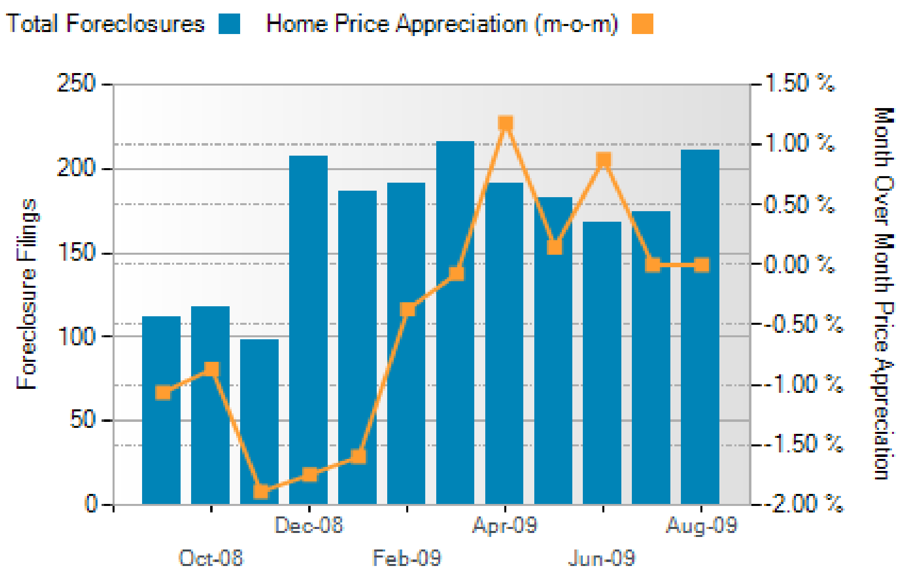
Source: RealtyTrac

Historical Foreclosure Activity in Virginia

Statewide Foreclosures vs. Home Price Appreciation September 2008 – August 2009



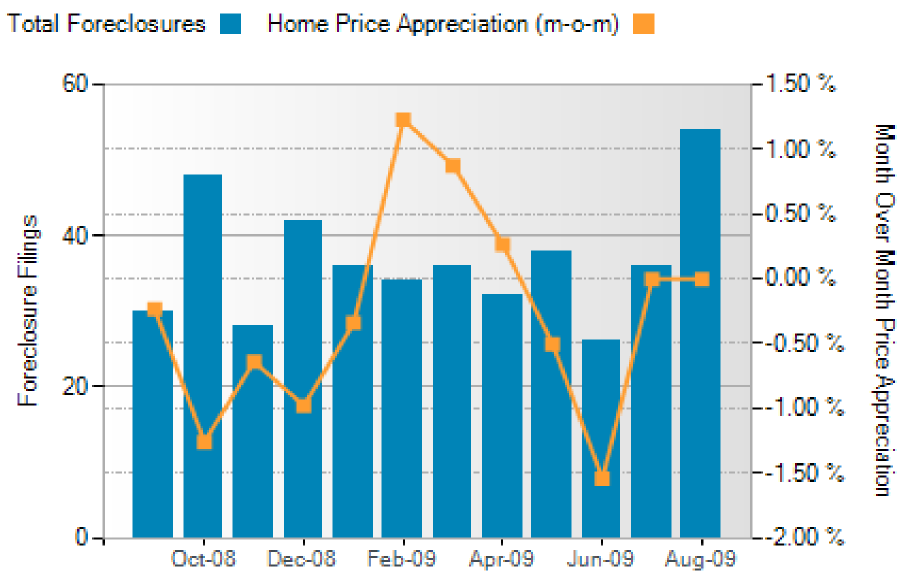
Chesterfield County Foreclosures vs. Home Price Appreciation August 2008 – August 2009



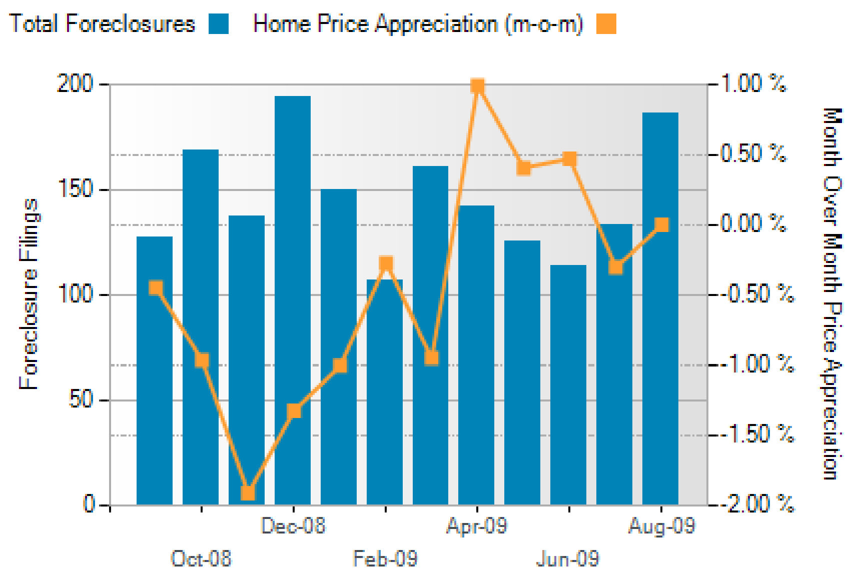
Source: RealtyTrac

Historical Foreclosure Activity in Virginia

Hanover County Foreclosures vs. Home Price Appreciation September 2008 – August 2009



Henrico County Foreclosures vs. Home Price Appreciation August 2008 – August 2009

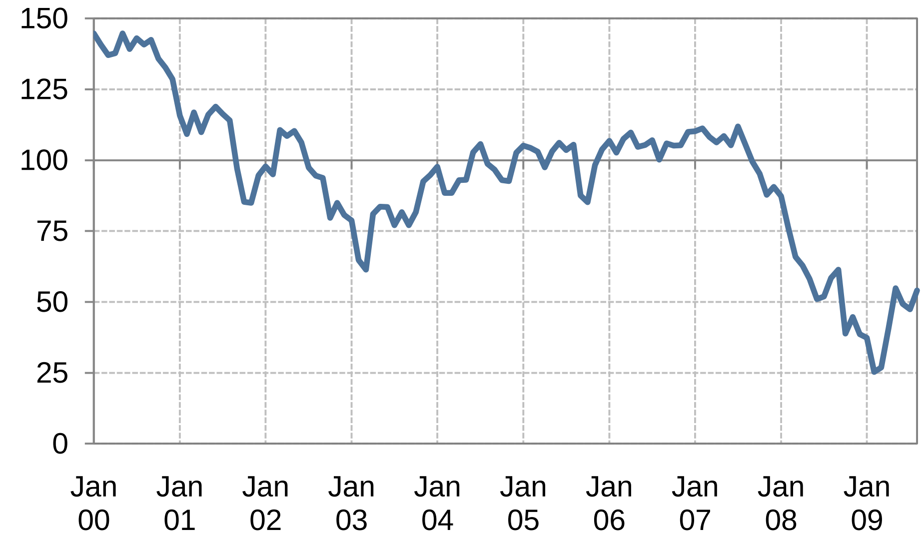


Source: RealtyTrac

"Green Shoots are Almost Evident"

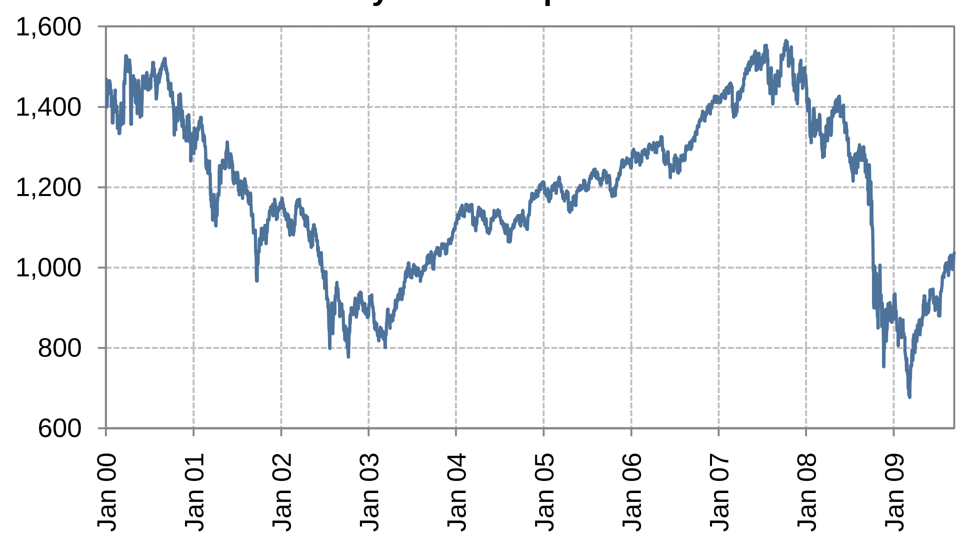
- In February, consumer confidence hit a low of 25.3, lowest level reported since the creation of the index in 1967.
  - Previous trough was a low of 43.2 set in December 1974.
  - Current level – 54.1

Consumer Confidence
January 2000 – August 2009



- Since setting a low on March 9th, the stock market has rebounded by nearly 53%.

S&P 500 Index
January 2007 – September 2009

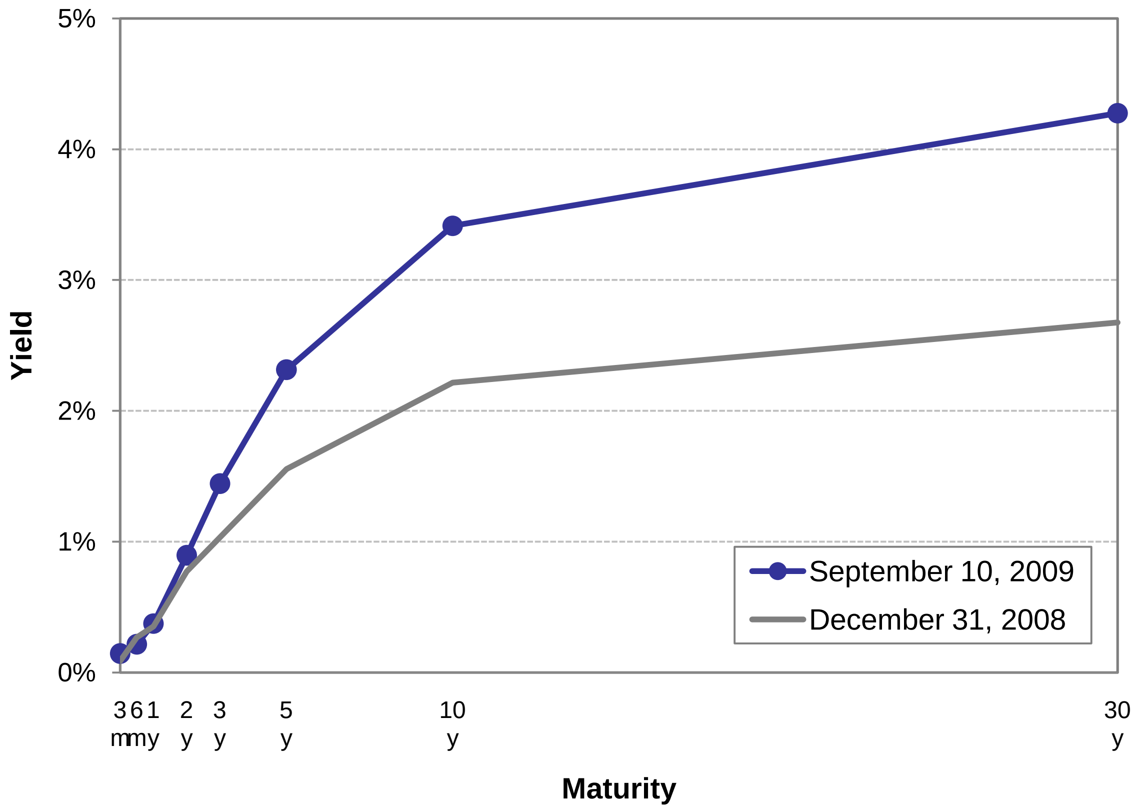


Source: Bloomberg

Yield Curve Steepens

- After a "flight-to-quality" in the 4th quarter, U.S. Treasury yields have increased sharply.
- Short-term rates, which are generally tied to the Federal Funds target rate, remain near record lows.

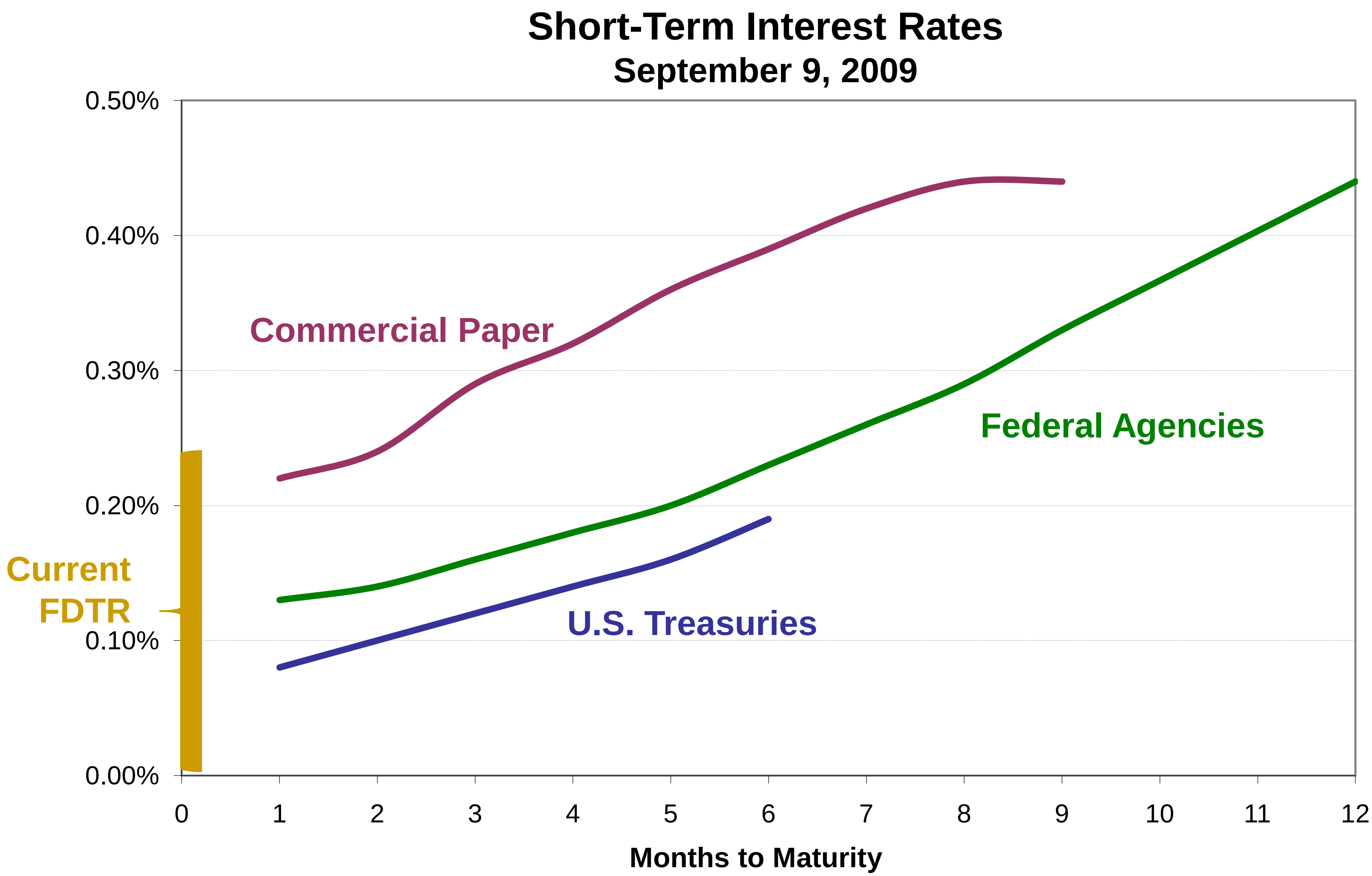
U.S. Treasury Yield Curve
December 31, 2008 versus September 10, 2009



	12/31/08	9/10/09	Change
3 month	0.08%	0.15%	+ 0.06%
6 month	0.26%	0.22%	- 0.05%
1 year	0.34%	0.37%	+ 0.02%
2 year	0.77%	0.90%	+ 0.12%
3 year	0.97%	1.44%	+ 0.47%
5 year	1.55%	2.32%	+ 0.76%
10 year	2.20%	3.41%	+ 1.20%
30 year	2.66%	4.28%	+ 1.60%

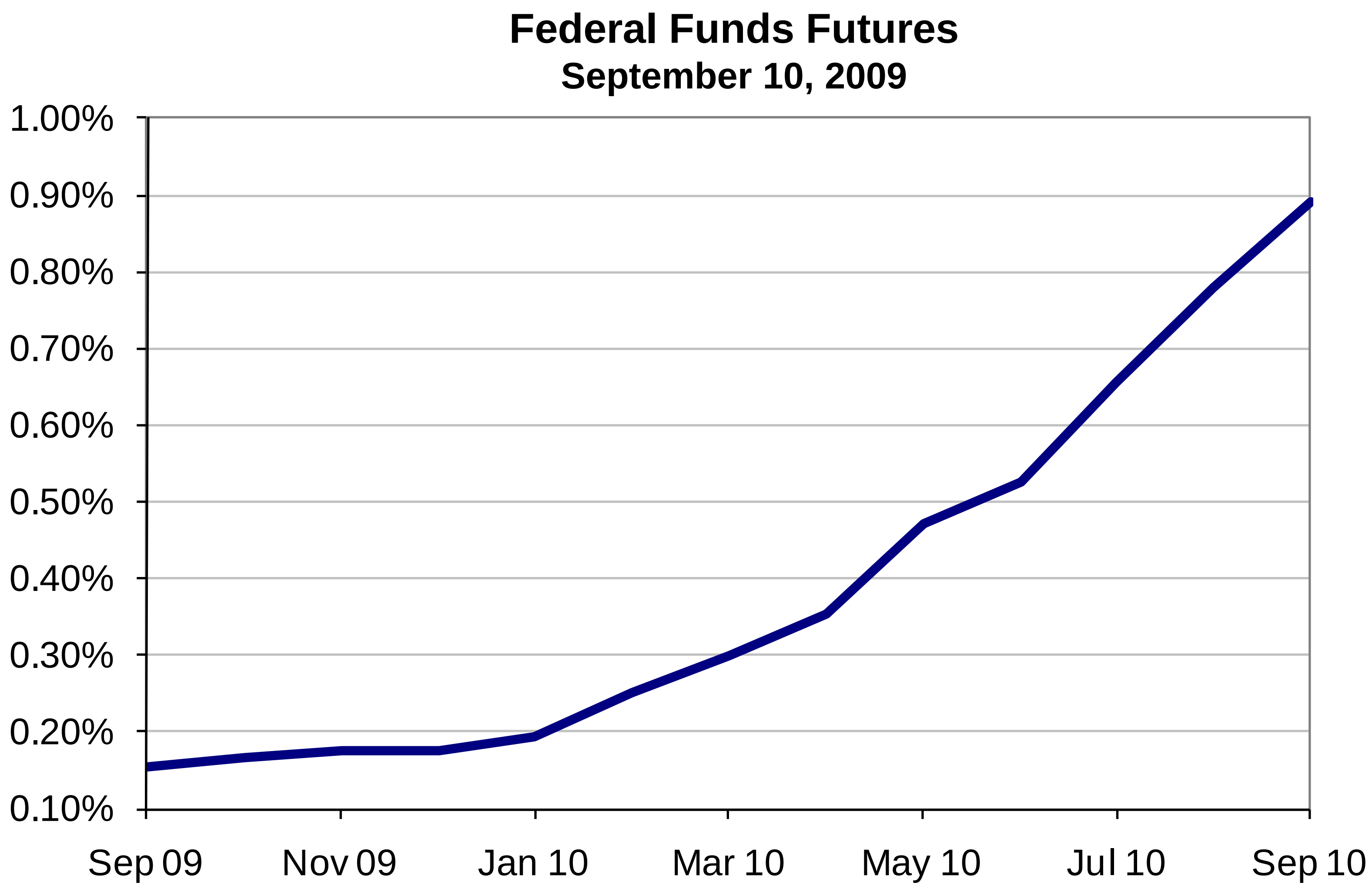
Source: Bloomberg

Current Interest Rate Environment



Source: Bloomberg

Short Term Rates are Expected to Remain Low



Source: Bloomberg

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