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THE OUTLOOK FOR THE ECONOMY IN 2012

February 16, 2012

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2011 – U.S. ECONOMY

- Euro crisis has overshadowed improving U.S. fundamentals.
- Failure of Super Committee relative to debt contagion contributed to halting a fragile recovery.
- Unemployment dropped to 8.2% from 9%. Primary driver was the contraction of the work force reflecting people leaving the work force once unemployment benefits exhausted.
- Vehicle sales at highest level since “cash for clunkers” in August 2009.
- Consumer confidence surged in November, rising 15 points to 56.

2011 – GREATER WASHINGTON REGION

- Jobs increase of 13,000 down from 40,000 in 2010.
- Unemployment 5.4% for the MSA and 4.2% in NOVA.
- Sectors increasing most jobs:
 - Professional Services +7.4%
 - Financial Services +5.8%
 - State and Local Government +3.5%
 - Hospitality +3.5%
- Sectors decreasing most jobs:
 - Retail -5.6%
 - Manufacturing -3%
 - Federal Government -2%

Source: GMU Center for Regional Analysis

2011 – GREATER WASHINGTON REGION

(continued)

- Consumer Confidence

	<u>GWR</u>	<u>NOVA</u>	<u>MD</u>	<u>DC</u>
Dec. 2011	55	54	54	62
Dec. 2010	58	57	55	66
Nov. 2009	60	58	55	67
Dec. 2008	49	53	46	51

Source: Clarus Research Group

DRIVERS OF GROWTH 2012

- Rebound from temporary shocks: inflation surge; quake-related supply chain disruption; Eurozone uncertainty declining (albeit erratically).
- Business profits at highest share of GDP since 1950. Strong case for investment spending and hiring. Side benefit accrues to confidence as equity portfolios improve and housing values improve, household sense of wealth improves and willingness to spend increases.
- Investment spending due to rising capacity utilization. Residential surge driven by new construction and rehabilitation of multi-family properties. Cap rates in Arlington corridor low 4% range in recent sale transactions.

Source: RDQ Economics

THREATS TO GROWTH 2012

- Continued Eurozone turmoil. Global Contagion.
- Sharper slowdown in China. Real estate bubble risk.
Construction currently 13% of China's GDP.
- Oil & Geopolitics – IRAN
Each \$10 on a barrel of oil is the equivalent income shock to the U.S. of $\frac{1}{4}\%$ of GDP.
- Core CPI 2.5% to 2.9%.
- Tax policy after elections.
- Failure to tackle entitlements. Will U.S. face its Greek moment?

Source: RDQ Economics

2012 OUTLOOK

GREATER WASHINGTON'S ECONOMY

- Following two years of declining consumer confidence, a three point uptick recorded between July 2011 (52) to December 2011 (55).
- Consumers are slightly more hopeful about the future than they were July 2011 based on expectations for the region's overall economy, the employment situation and their personal finances.
- Variables that are negatively affecting confidence:
 - Eurozone debt situation
 - Natural disasters interrupting the supply chain
 - Lack of positive leadership in Washington

Source: Clarus Research Group

2012 OUTLOOK

GREATER WASHINGTON'S ECONOMY

(continued)

- Widening of Panama Canal will change the dynamic of trade between Asia and the U.S. East Coast benefitting regional ports in Baltimore and Hampton Roads.
- Federal spending will continue to grow albeit at a rate below GDP.
- Airports are our “Crown Jewels” and economic engines.
 - For every job – 10 airline tickets sold annually.
 - 18% of adults travel to Europe once every 3 years.
 - 90% of voters use one of the region's 3 airports each year.
 - 12% of region's jobs are concerned with international trade.

2012 OUTLOOK FOR GREATER WASHINGTON'S ECONOMY

(continued)

- Dulles attractive regional hub for shipping and receiving “belly” freight. Implications for the development of warehouses and logistics operations/freight forwarders in NOVA.

Source: Washington Airports Task Force

SECTOR OUTLOOK 2012

- **Government Contractors**
 - Mixed bag. Depends on contract space. Wait and see.
 - Administration clear about budget cuts, particularly DOD. NOVA's federal spend is 42% DOD.
 - Bucking trend: those with DHS, Cyber security and USAID contracts "follow the money."
 - Considerable interest in determining EV and M&A options.
 - Proceed with caution with respect to forward commitments of office space and new hires. Specialized skills and security clearances attractive differentiators.
 - Overall federal spend should continue growing next 3 to 5 years, but at 50% of GDP growth.

SECTOR OUTLOOK 2012

(continued)

- **Construction: Commercial**
 - Site contractors are seeing a slight increase in work. -
 - General contractors expect another tough year.
 - Over capacity continuing to put pressure on margins.
 - CAPEX minimal
 - Not hiring.

- **Construction: Residential**
 - Cannot find firm footing due to distressed shadow inventory and sales.
 - Bright spots: In-fill projects with price points between \$400K-\$500K and multi-family as many traditional renters return to the apartment market.

SECTOR OUTLOOK 2012

(continued)

- **Construction: Residential** *(continued)*
 - Finished lot inventory below equilibrium in close-in counties.
 - 4Q run rate of residential permits above full year 2011.
- **Wholesale Distribution**
 - Building supplies experiencing slight uptick led by surging multi-family new construction and rehabilitation. In-fill new residential single family and townhouse construction providing opportunities.
 - Margins remain low and there are minimal plans for CAPEX or new hires.

SECTOR OUTLOOK 2012

(continued)

- **Retail**
 - Rent concession requests abated late in 2010.
 - Vacancy rates are at normalized levels.
 - New construction along major transportation routes and near Metro stations.

Example:

Frozen dessert retailer opened five new locations in 2011 and planning a similar number in 2012. CAPEX \$300K plus five new jobs per store. Owner's comment: "People are out spending money again."

SECTOR OUTLOOK 2012

(continued)

- **Not-for-Profit, Education and Healthcare**
 - Continued pressure on fund-raising and top line revenue while maintaining services to members.
 - No jobs creation.
 - Selected activity to take advantage of debt refundings in the low interest rate environment.
 - Private schools and universities investing as a competitive advantage.
 - Competition for students is focused on new and rehabilitated dorms and student activity centers.
 - Some land acquisition where available.
 - Large hospitals are investing in physical plant projects that will provide services to attract the discretionary spend and private pay patients.
 - Little investment where there is dependence on state and federal program reimbursement.

GENERAL OBSERVATIONS

GREATER WASHINGTON REGION

- Unemployment is ½ of U.S. rate.
- Well educated work force. More college and advance degrees than any other metropolitan area.
- Diverse knowledge based economy.
- World class tourism destination.
- Excellent airports.
- Excellent K-12 and higher education choices.
- Housing prices stable to improving.
- Jobs and population growth.
- Moderate climate.
- *2½ hours to mountains and beaches.*

The logo for BB&T, featuring the letters 'BB&T' in a white, serif font on a dark red square background.

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OUR BEST DAYS ARE AHEAD!