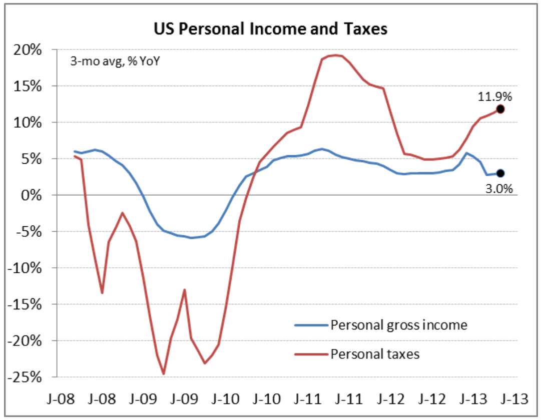
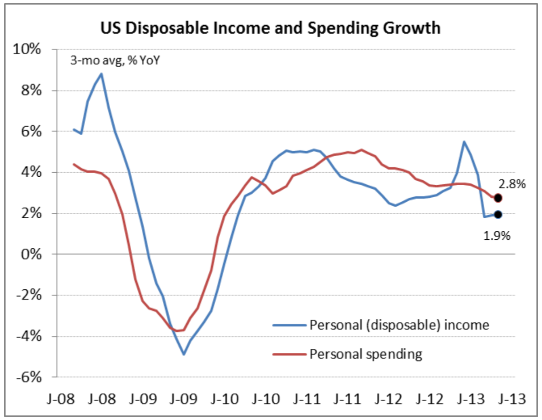
iii. Consumer and Retail

Fiscal drag keeps income & spending contained … for now

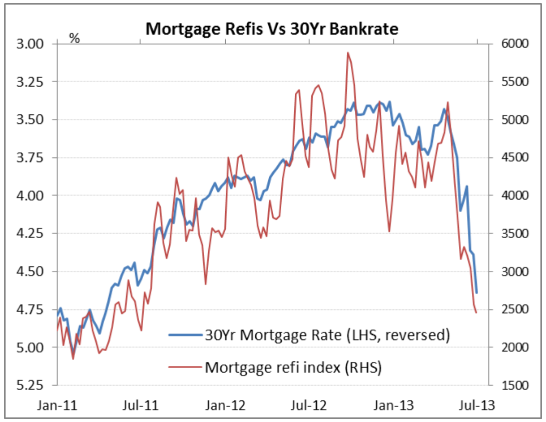
- Private sector wages and salaries now growing 4% +, but there are drags from gov't workers, reduced benefits and higher taxes.



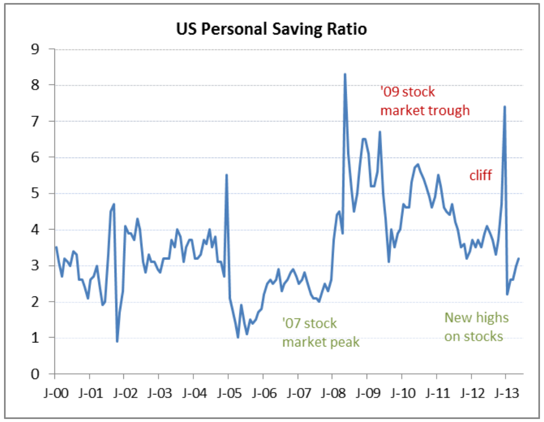
- Disposable income growing only 2% as fiscal drag hits. This has modestly suppressed spending growth to below 3%.



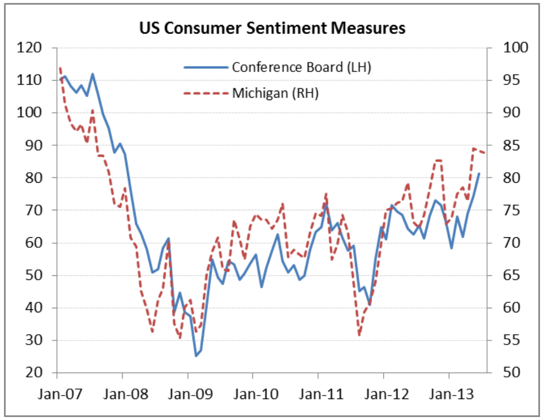
- Higher mortgage rates mean that less new households are getting the benefits of refinancing their mortgages.



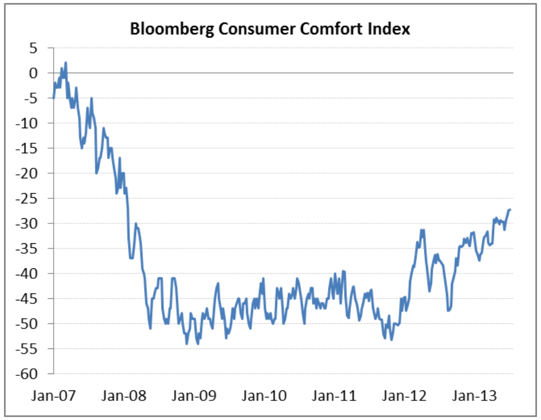
- Personal savings rate is up 1pts this year , showing that households are not frittering away their wealth gains.



- Consumers are less worried about Fed 'tapering' than are the markets



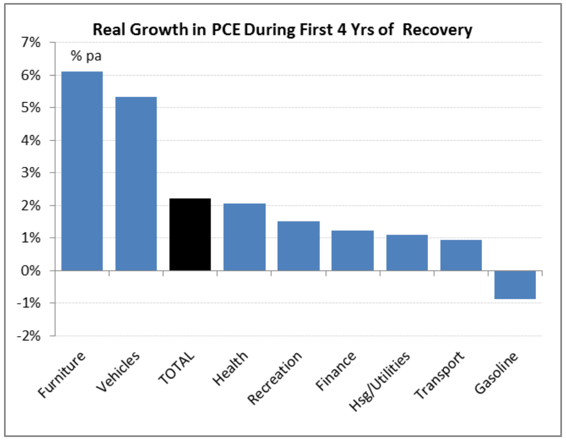
- Bloomberg's weekly consumer comfort measure also makes new cycle high



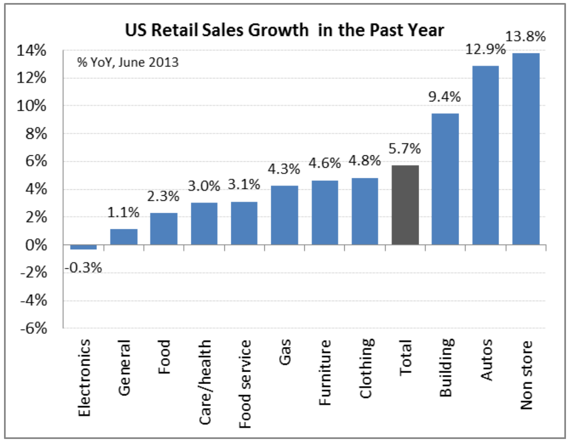
CalPERS Investment Office Asset Allocation

Consumer still cautious, some categories stronger than others

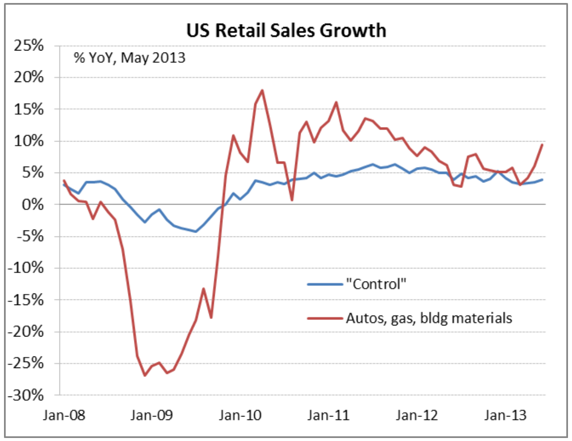
- From the GDP report: Consumer spending recovery slow as households economize: energy, finance and healthcare



- Retail sales growth improved to 5.7% YoY in June, partly on base effects. Quite divergent yearly growth between components.

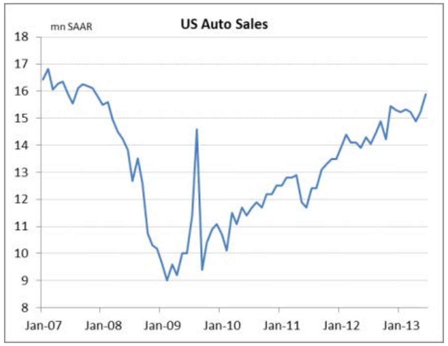


- Despite a softer than expected June retail sales the nominal growth in the qtr was OK (2.4% saar for core, 4.6% for non-core).

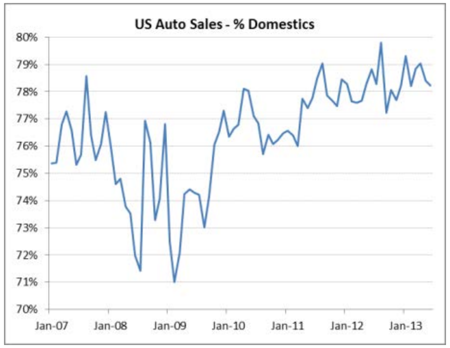


- Chain stores sales growing 2.2% YoY, a little below average

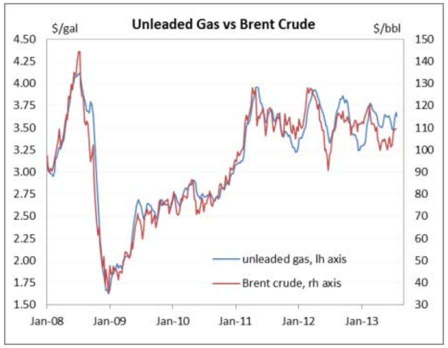
- Car unit sales jump at end 2Q



- Domestics' share stabilizes



- Gas prices steady.

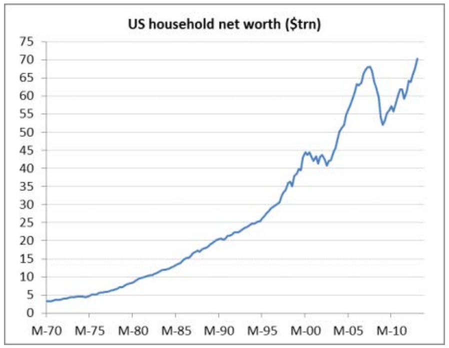


CalPERS Investment Office
Asset Allocation

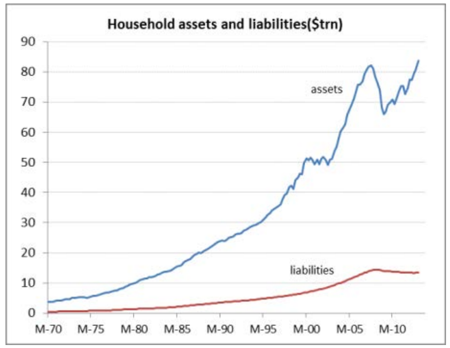
Household balance sheet data through 1Q13

- While consumers have been cautious during this recovery, their flexibility to respond to stronger economic conditions has improved.

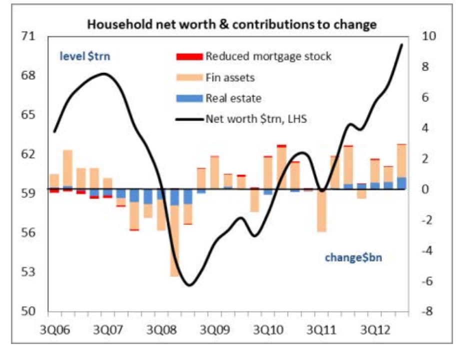
- Another strong gain in net worth



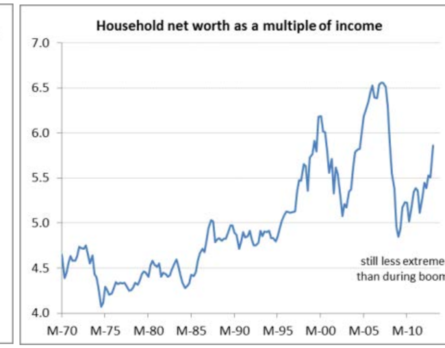
- Rising assets and stagnant liabilities



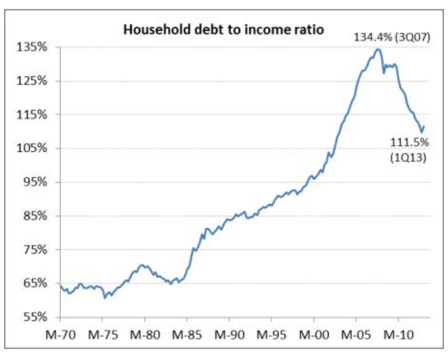
- Both financial assets and housing



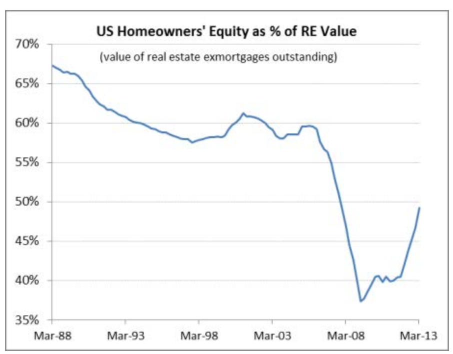
- Rebound still not extreme



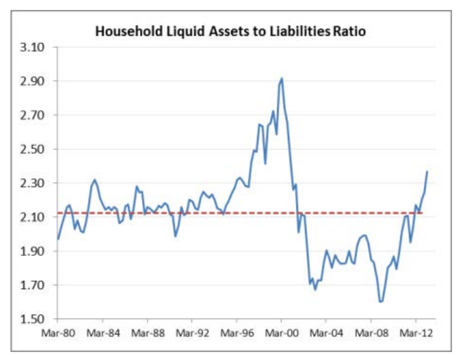
- W/1Q tax hike, debt/income *rose*



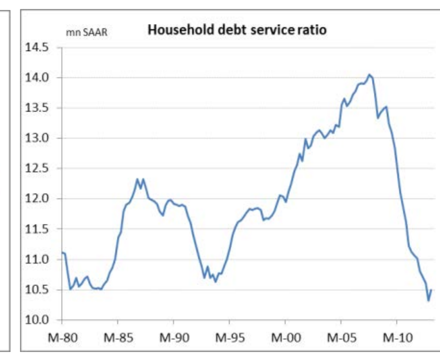
- Further rebound in home equity



- Householders more liquid

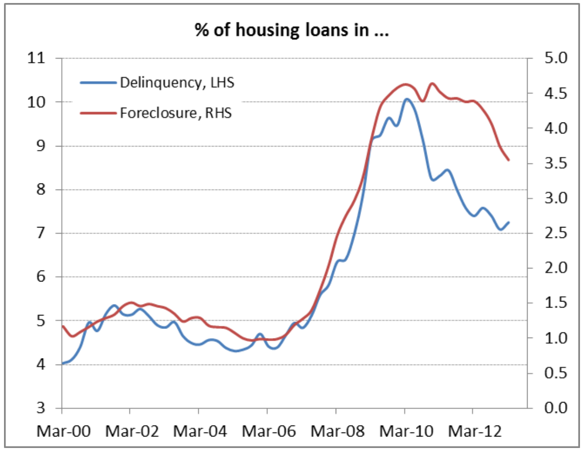


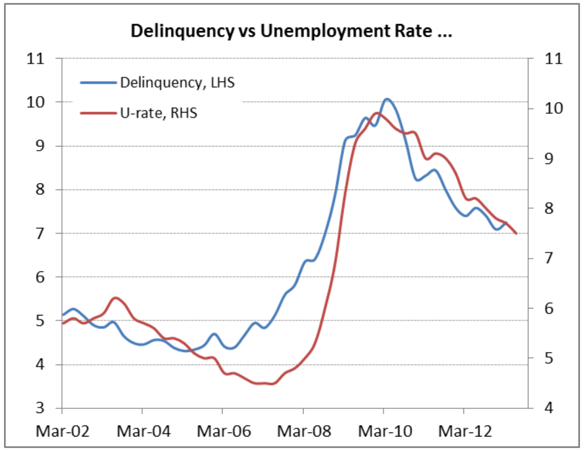
- And debt servicing burden low

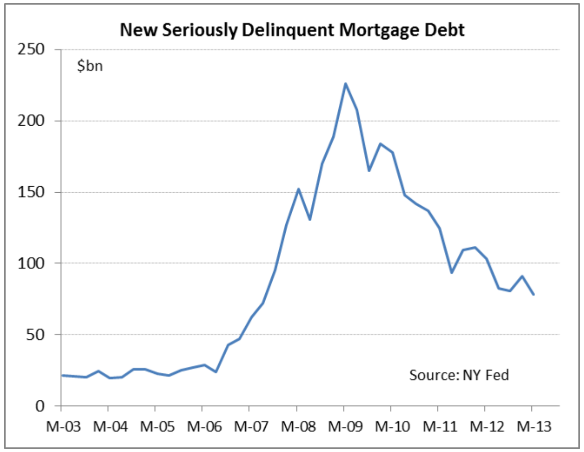


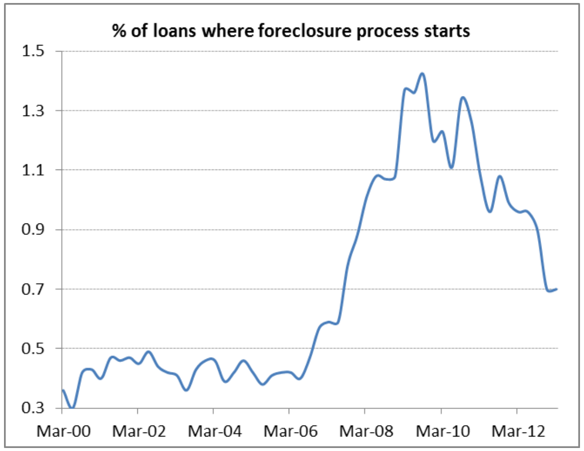
… and less mortgage stress

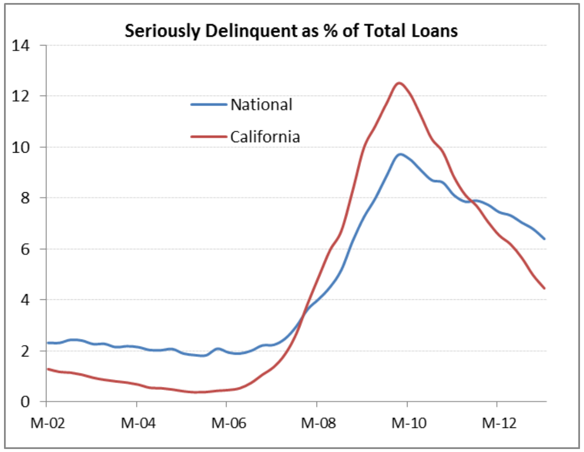
- Higher prices and a stronger jobs market have dissipated part of this problem.

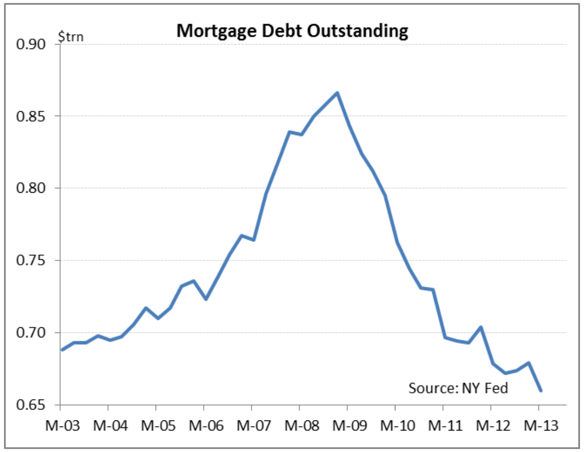








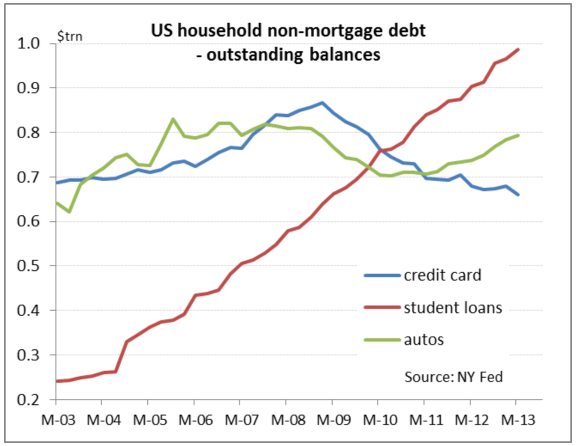




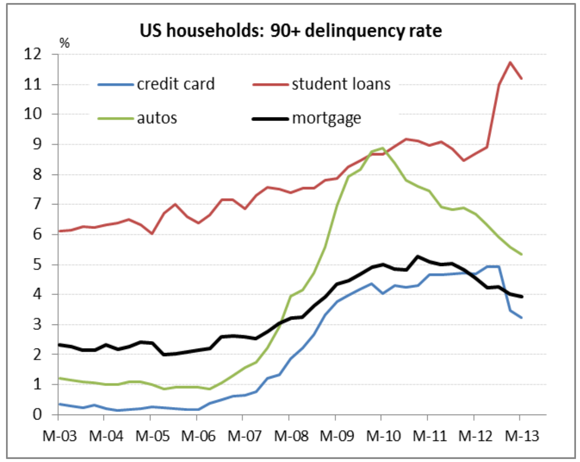
Investment Office
Asset Allocation

Student loan cohort is the exception

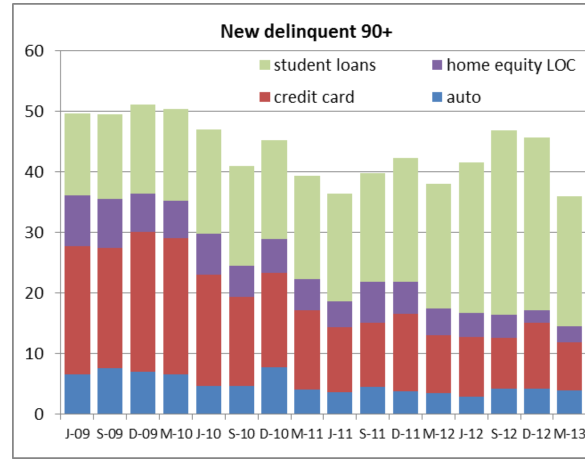
- Student debt approaches $1trn



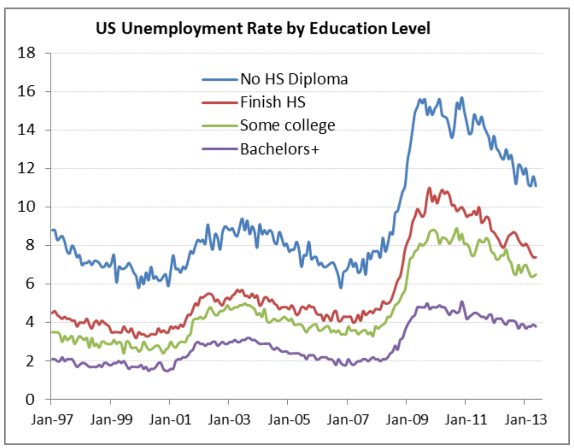
- delinquency rate has eased a little



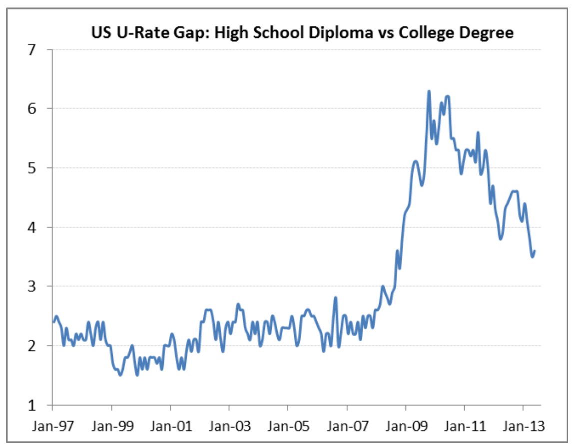
- … but still -disproportionate share



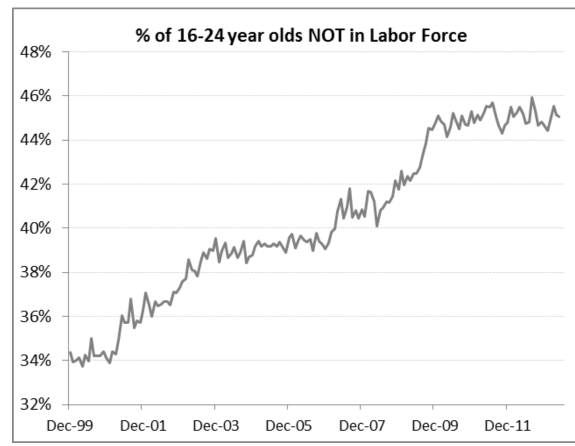
- Education surge motivated by much better job prospects for degree earners.



- Although the gap has narrowed recently



- … and % of 16-24 year olds not opting to enter the workforce has leveled out



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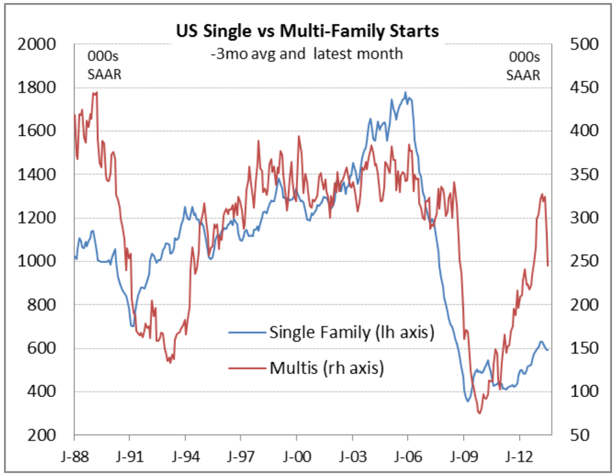
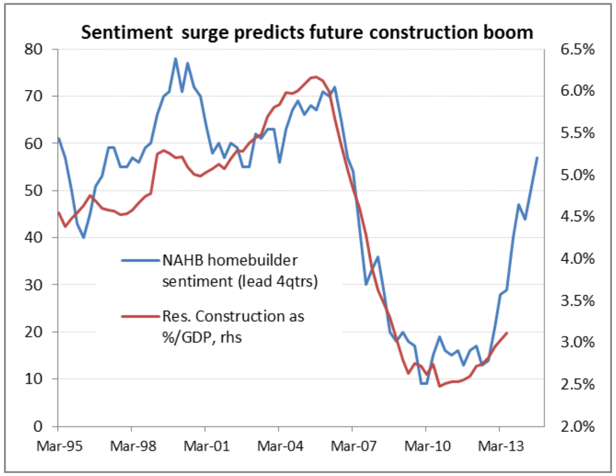
Asset Allocation

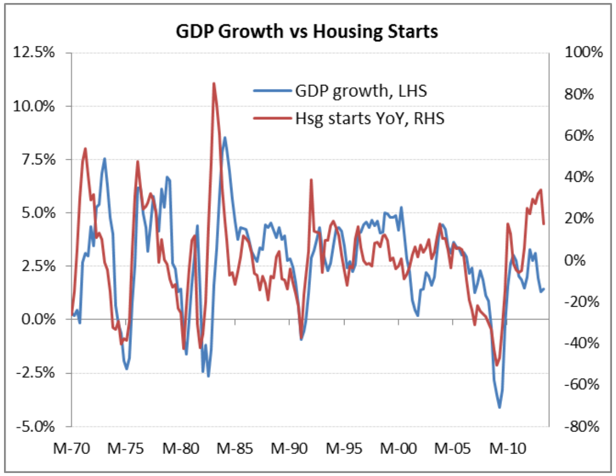
iv. US housing market

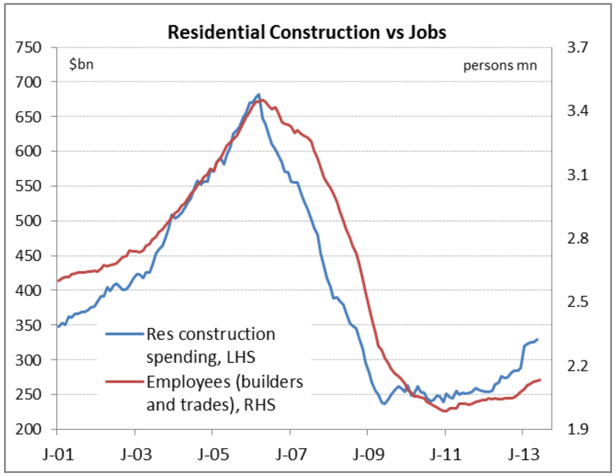
Housing market recovery still in early stages

- Starts growth remains mostly in multi unit dwellings.
- Strength in housing has a good read-through for jobs and GDP in past cycles, although residential construction/GDP (3.1%) remains muted at only half its GDP contribution vs the end of the last boom.



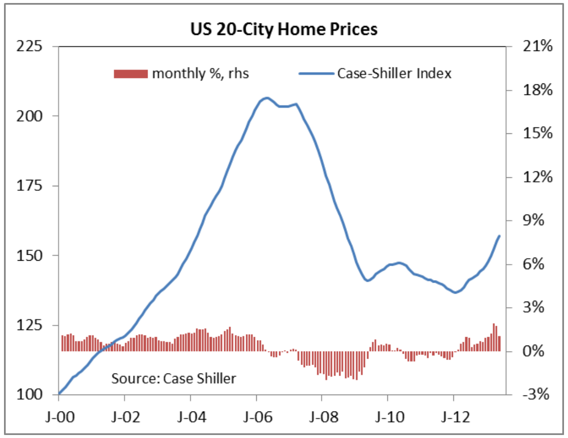




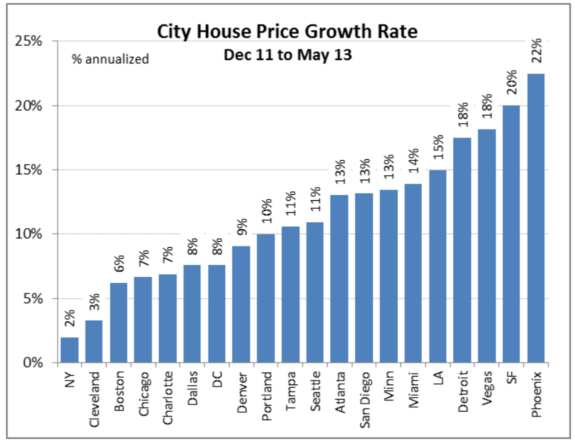


House price appreciation likely to cool off

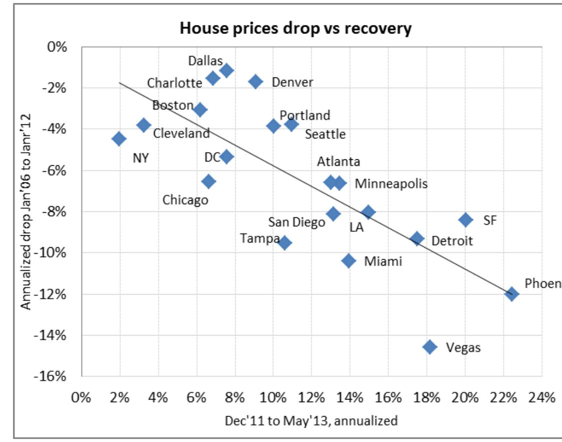
- The Case-Shiller 'repeat sales' house price measure is +15% since end 2011



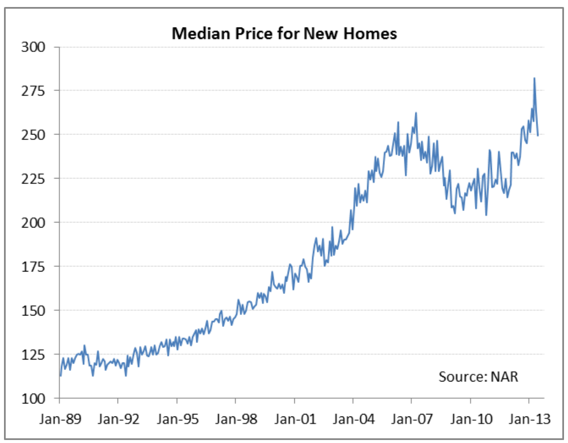
- Phoenix and SF have been the strongest markets.



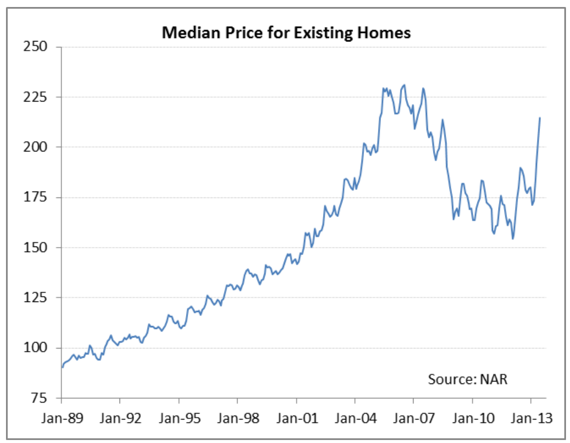
- Depth of decline correlated with subsequent recovery.



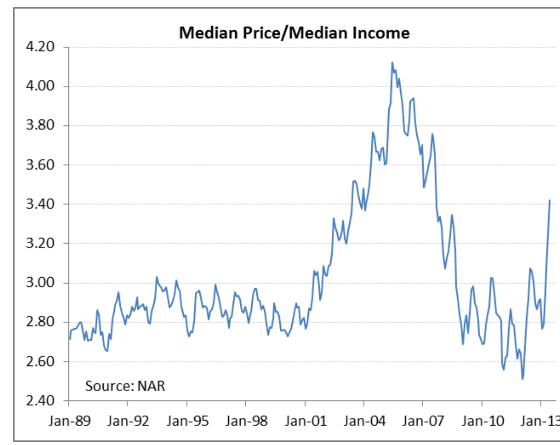
- Slow supply response reflected in higher *new* home prices than last peak



- NAR measure of existing home median sales price has recovered 79% of drop..



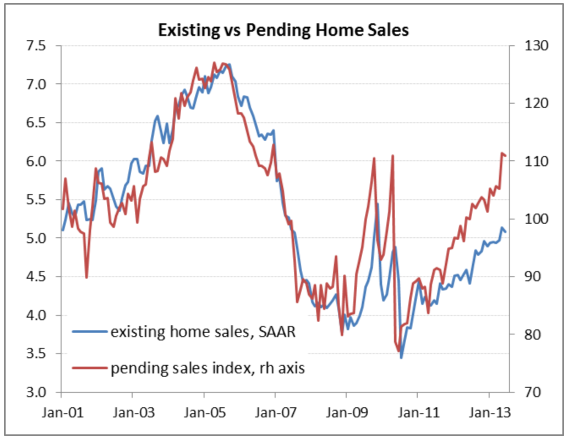
- Price to income more difficult to sustain as mortgage rates rise.

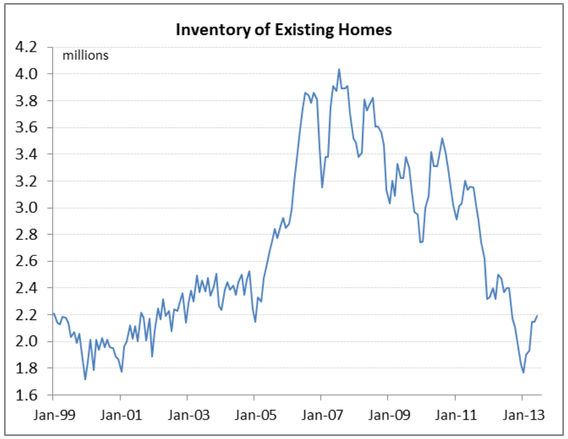


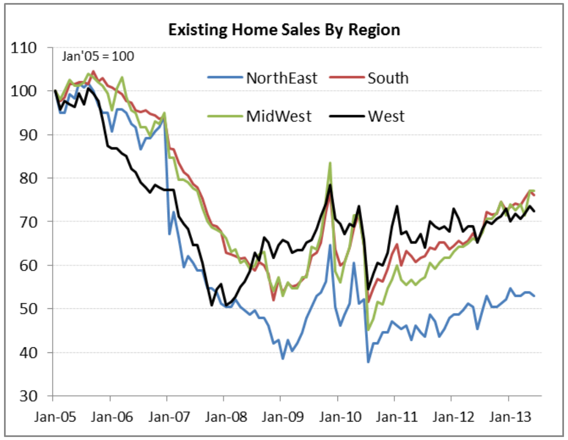
CalPERS Investment Office Asset Allocation

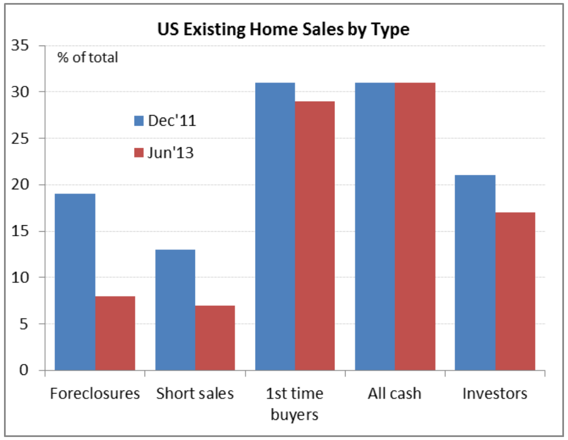
Existing home dynamics

- There are 1.7mn less homes underwater than a year ago, some of which will come to market. Pending sales surged in May.
- In the 18 months of housing market improvement foreclosure and short sales have dropped sharply as %/sales.





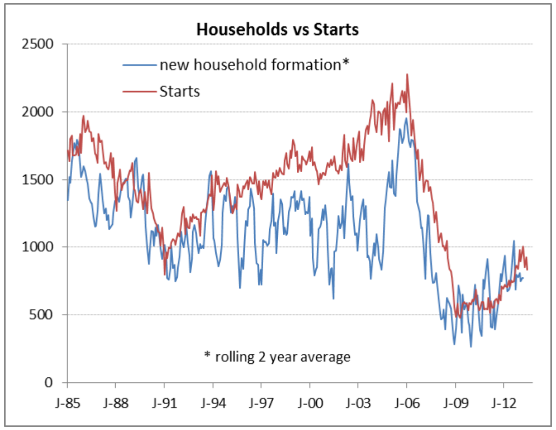




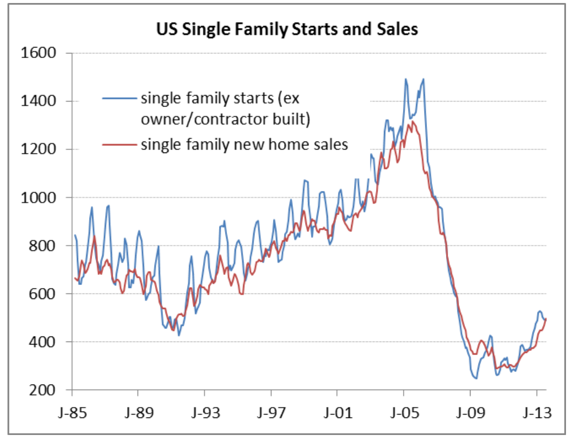
CalPERS Investment Office Asset Allocation

Gradual and orderly recovery, still in early stages

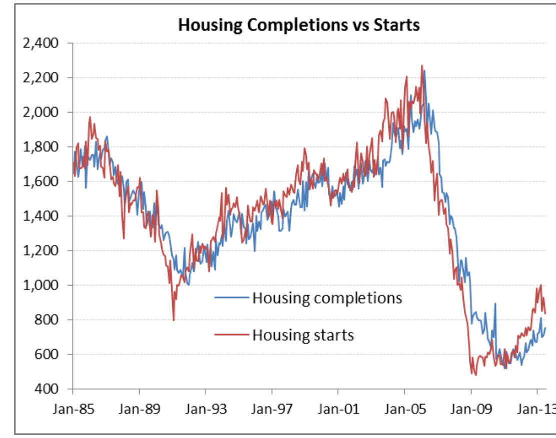
- Starts running a little ahead of household formation, partly as vacancies are restored.



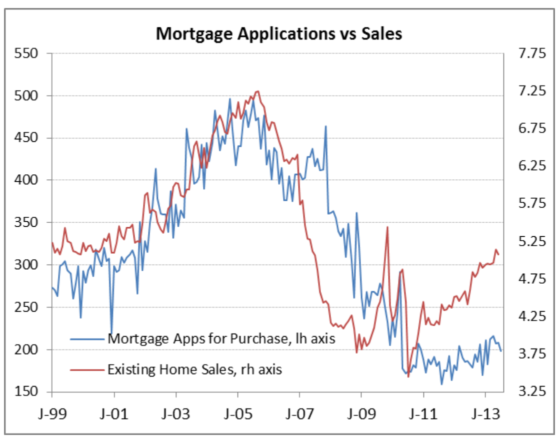
- Activity in single family sector remains low, with shift to renting, larger family sizes



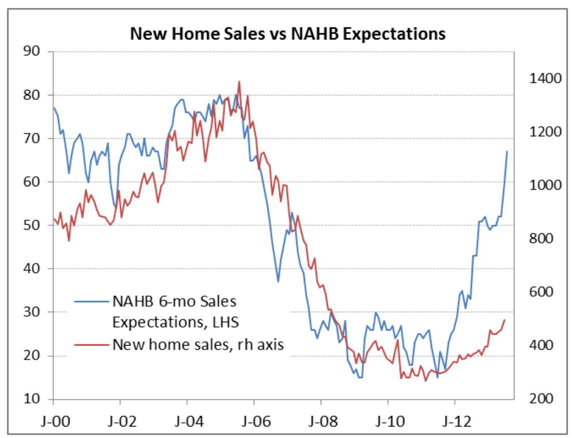
- Starts-to-completion lag has normalized at 6.5 to 11 months (singles vs multis).



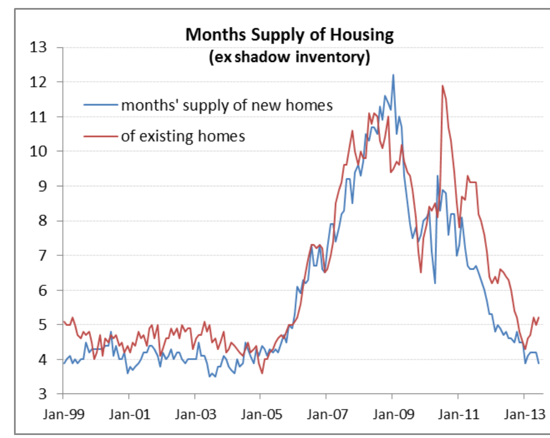
- Mortgage apps for purchase remain low relative to sales



- Builder expectations well ahead of actual sales.



- We might see inventory start to pick up for existing homes.



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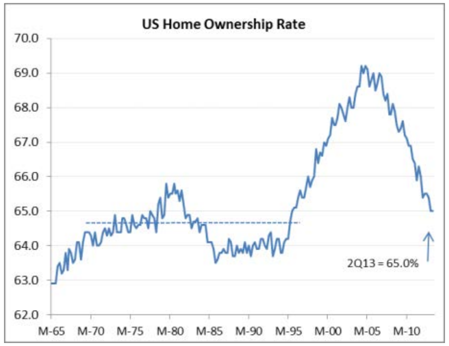
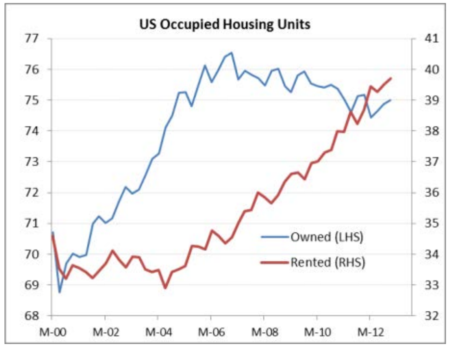
CalPERS Investment Office Asset Allocation

Rentals market dynamics

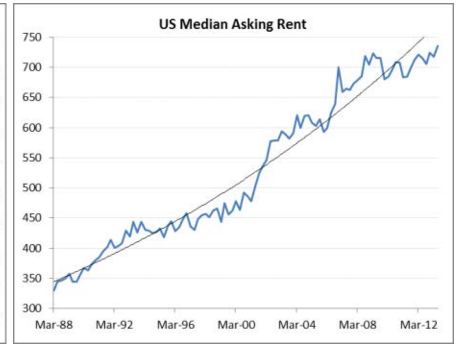
- Ownership gravitates back toward pre-bubble rate.



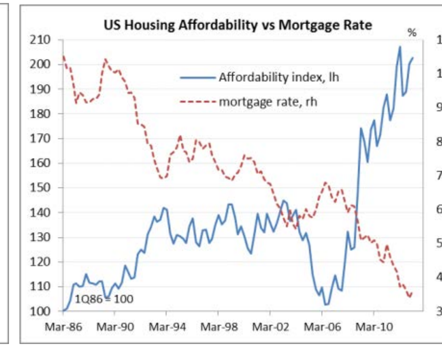
- Occupied rentals growing 2.2% per annum for the past nine years.



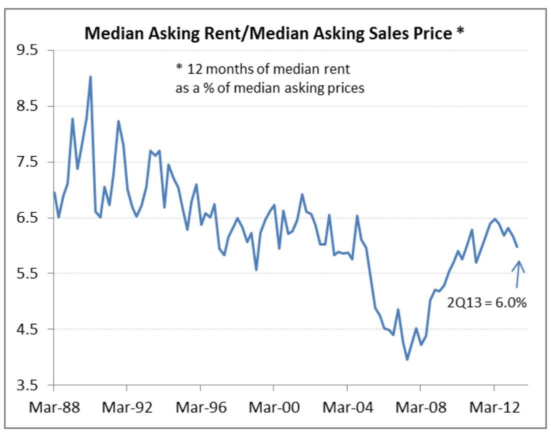
- Rents +7.5% during the past 2yrs but not as aggressive as past spurts.



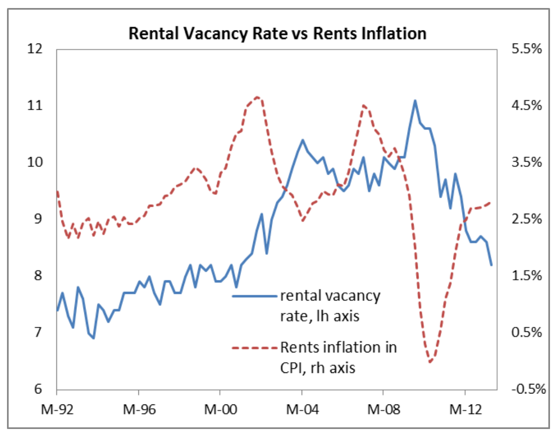
- More affordable to purchase but constraints and tastes have changed.



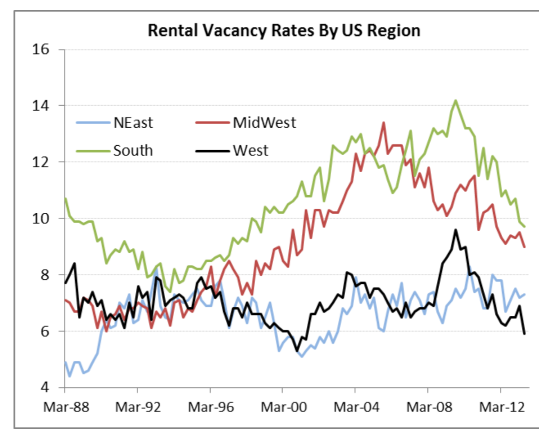
- The median rents to sales price ratio is back in its pre-cycle range



- Rents inflation (in CPI) nudges a little higher in 2Q 2013, to 2.8%.



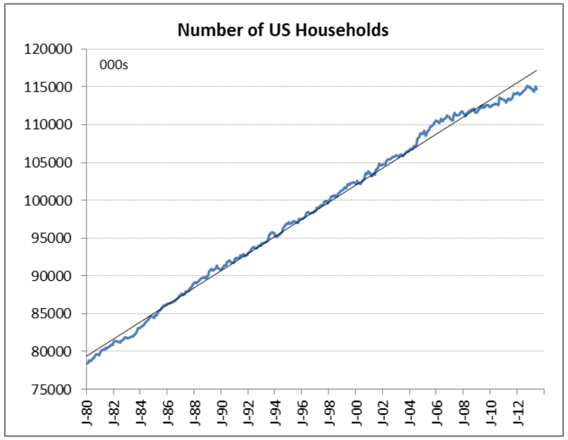
- Rental vacancies are especially tight in the West.



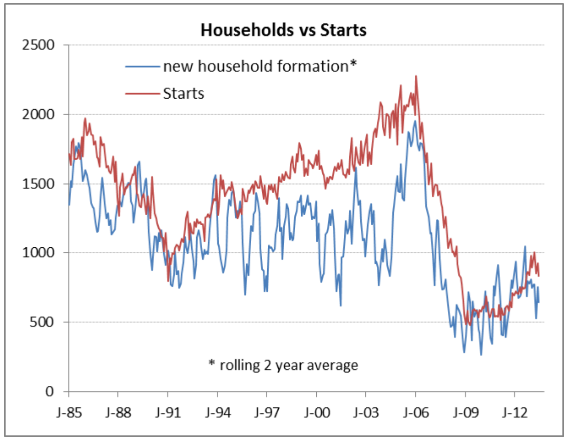
CalPERS Investment Office Asset Allocation

Long term: upside potential for household formation

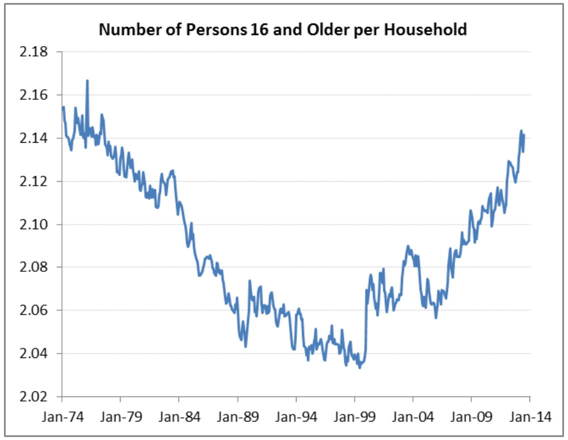
- Household formation is still below trend line



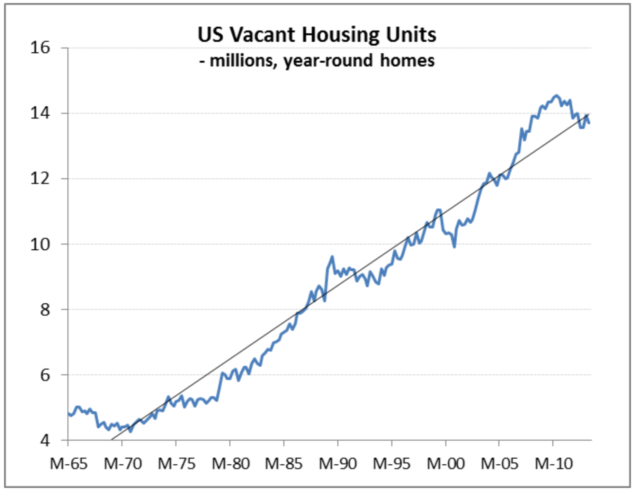
- … as the recovery in starts is still in its infancy



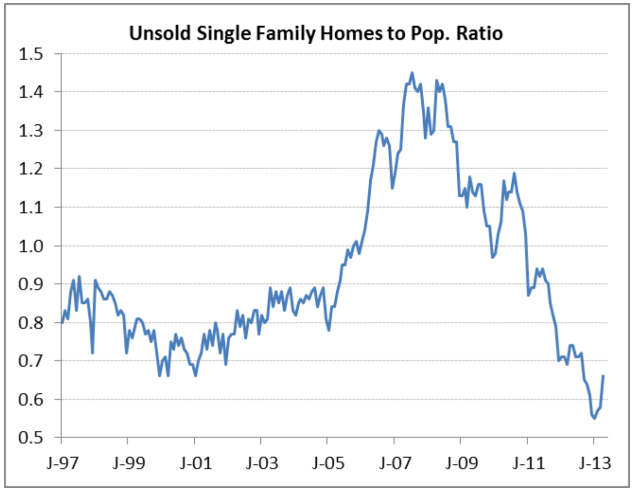
- Rise in # of adults per household is partly cyclical/reversible.



- Vacant year round homes back to trend line

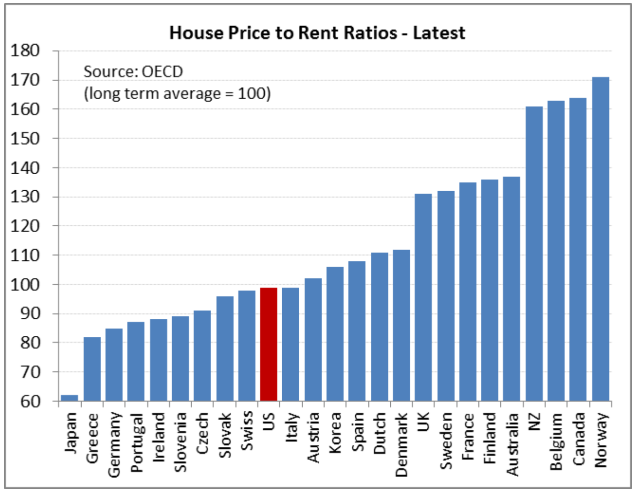


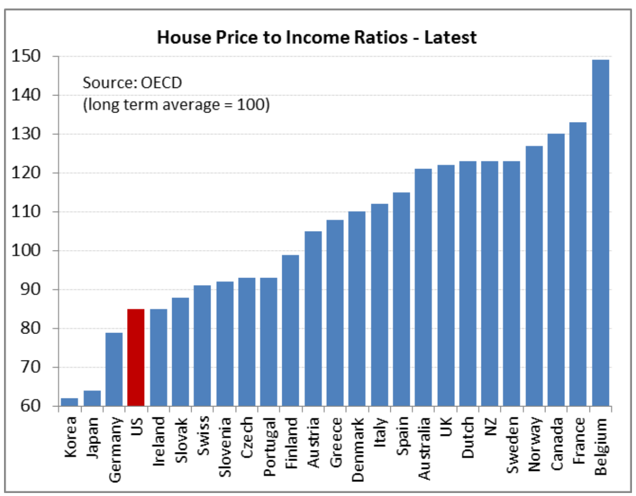
- Slightly more homes coming to market



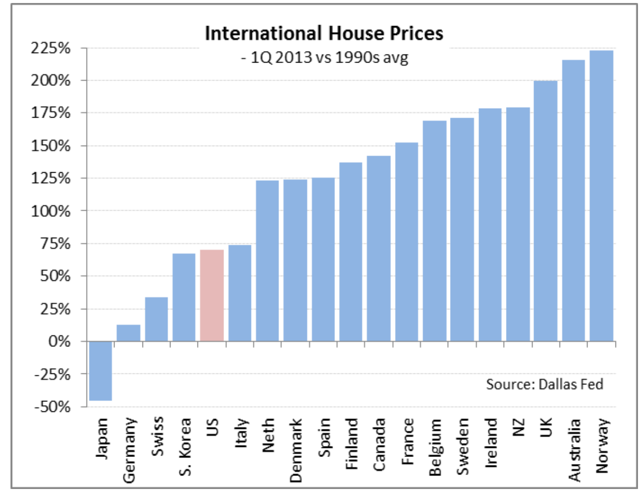
US house prices low by international standards

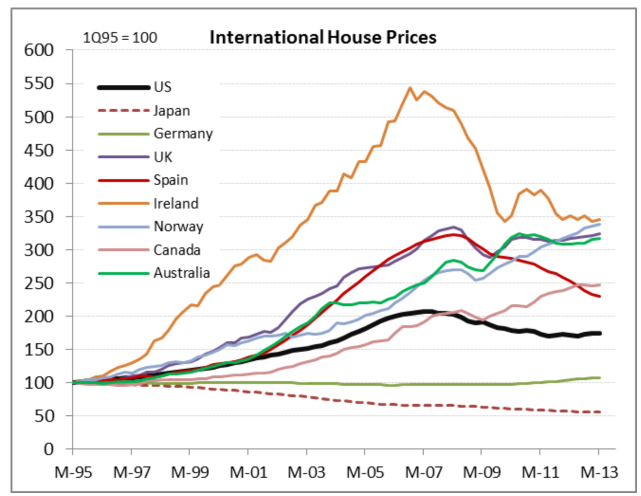
- House prices in the US are relatively low by international standards when measured against rents and income.





- Changes in house prices since the 1990s have been relatively slow in the US.





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