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2011 Economic Outlook: Texas to Ride Higher in the Saddle



Keith Phillips, Sr. Economist and Advisor

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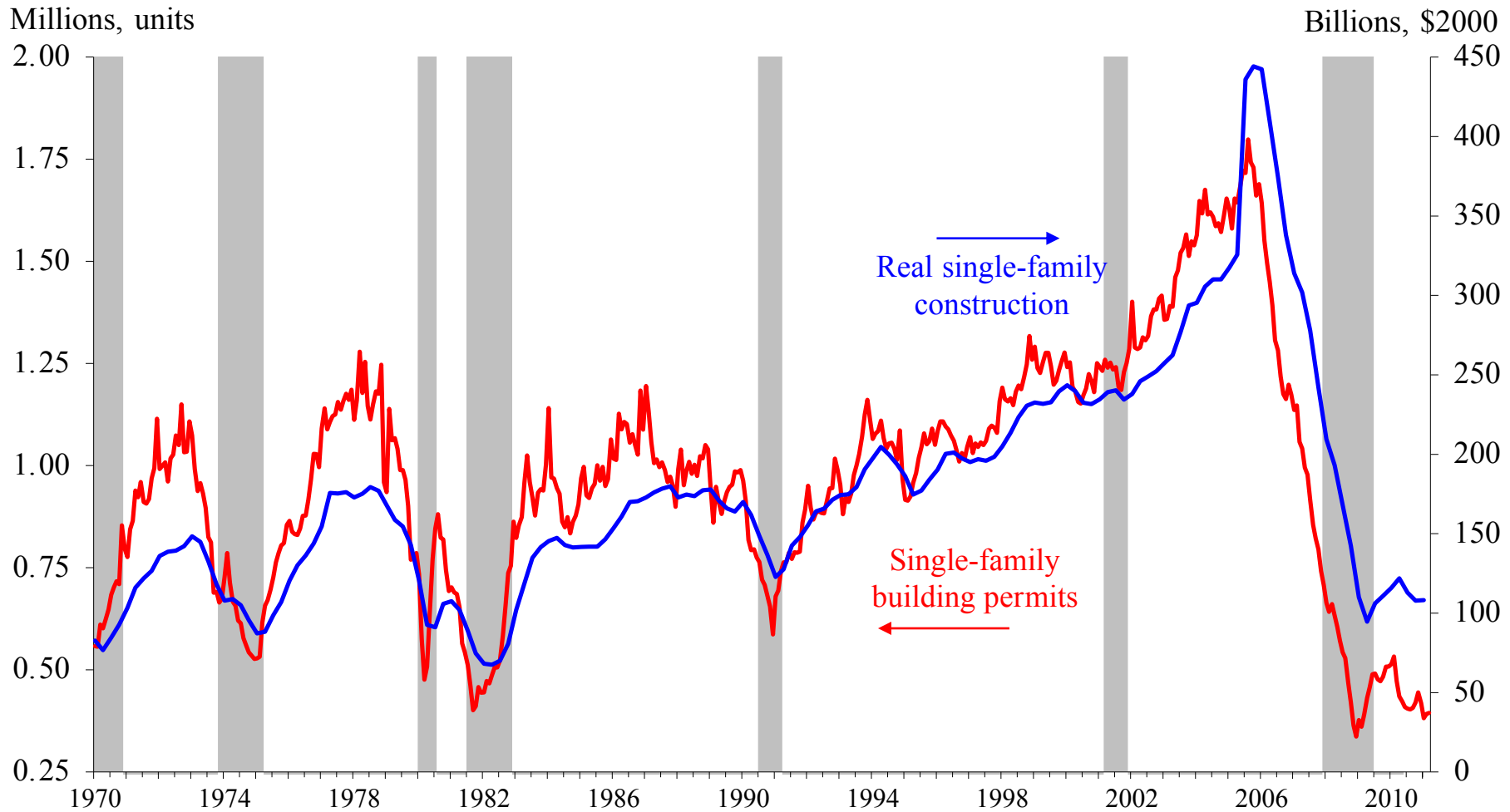
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National Economic Overview



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Home Construction Generally Neutral

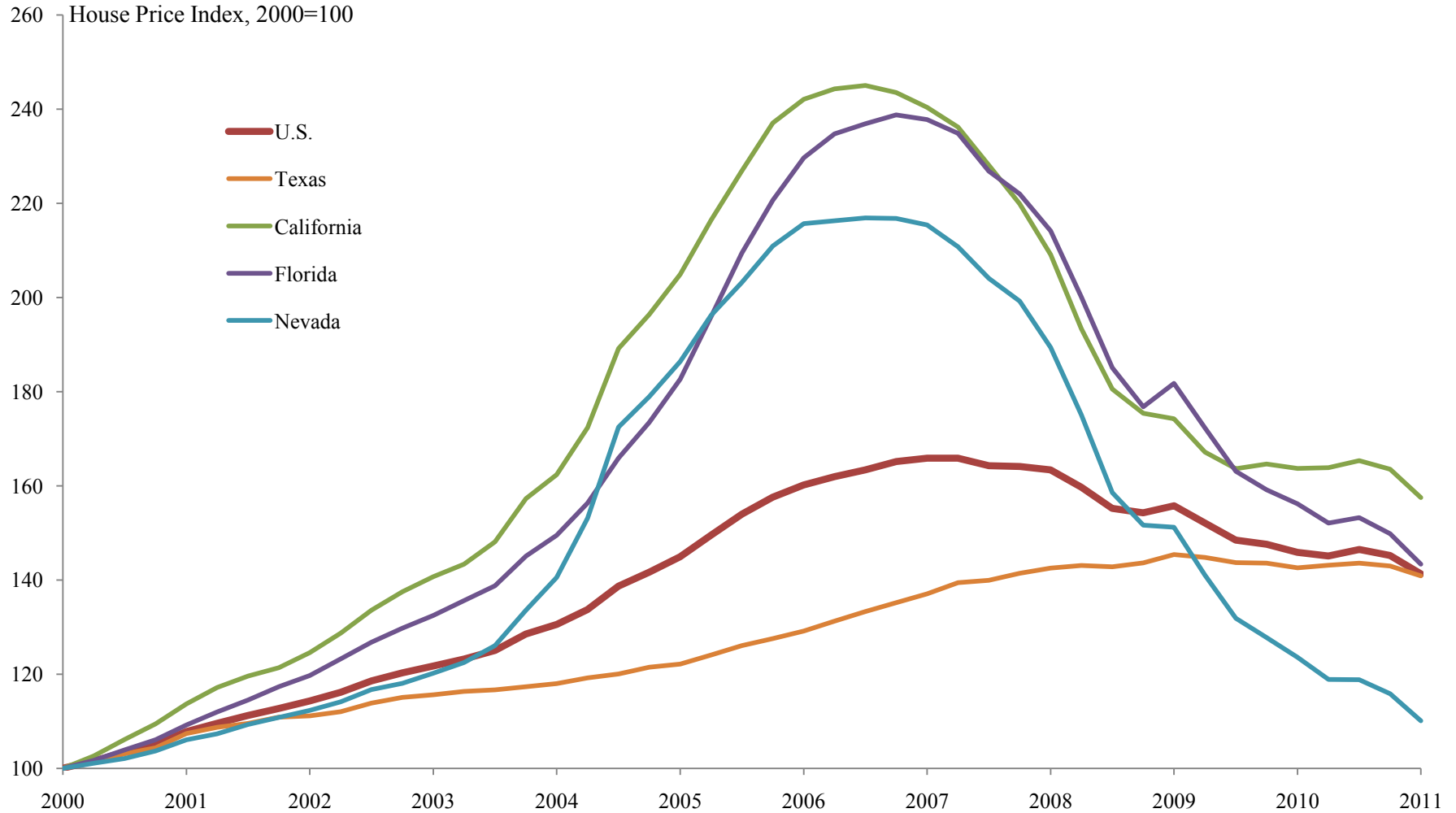


Source: Bureau of Economic Analysis, U.S. Census Bureau and author's calculations.



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Home Prices Still Falling After Boom and Bust in Many Markets



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Source: Federal Finance Housing Agency.

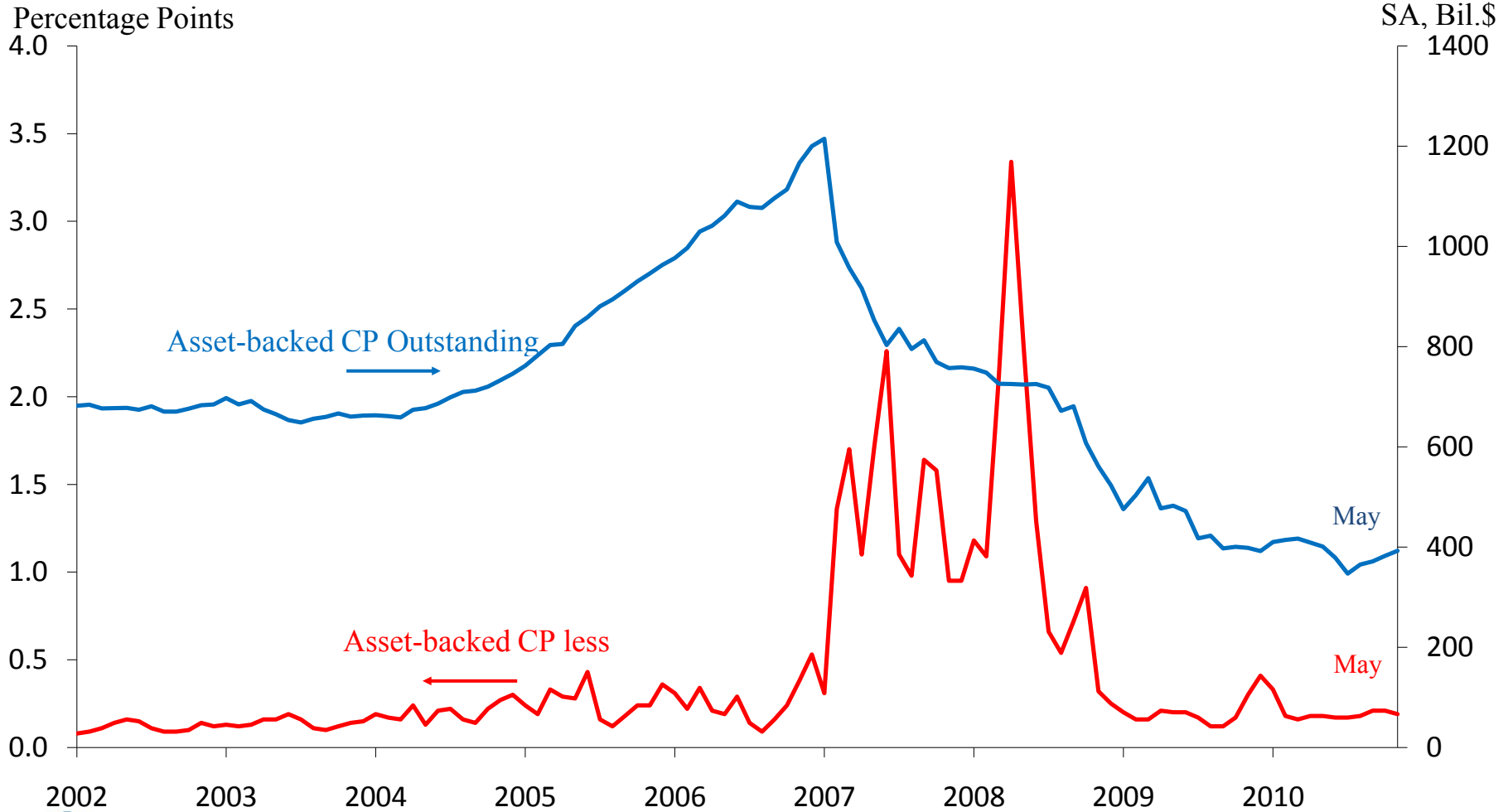
Lower Prices and Interest Rates Helping Housing Affordability

(Percent of homes sold for which the median family income could qualify)

	1999:Q4	2011:Q1	Low Point	Date of Low Point
United States	64	75	40	2006 : Q3
Los Angeles	43	43	2	2006 : Q1/Q2/Q3
New York	55	24	5	2006 : Q3/Q4
Miami	59	69	10	2007 : Q1
Austin	56	74	50	2000 : Q4
Dallas	64	69	54	2007 : Q3
Houston	66	72	47	2007 : Q3
San Antonio	64	70	47	2006 : Q3



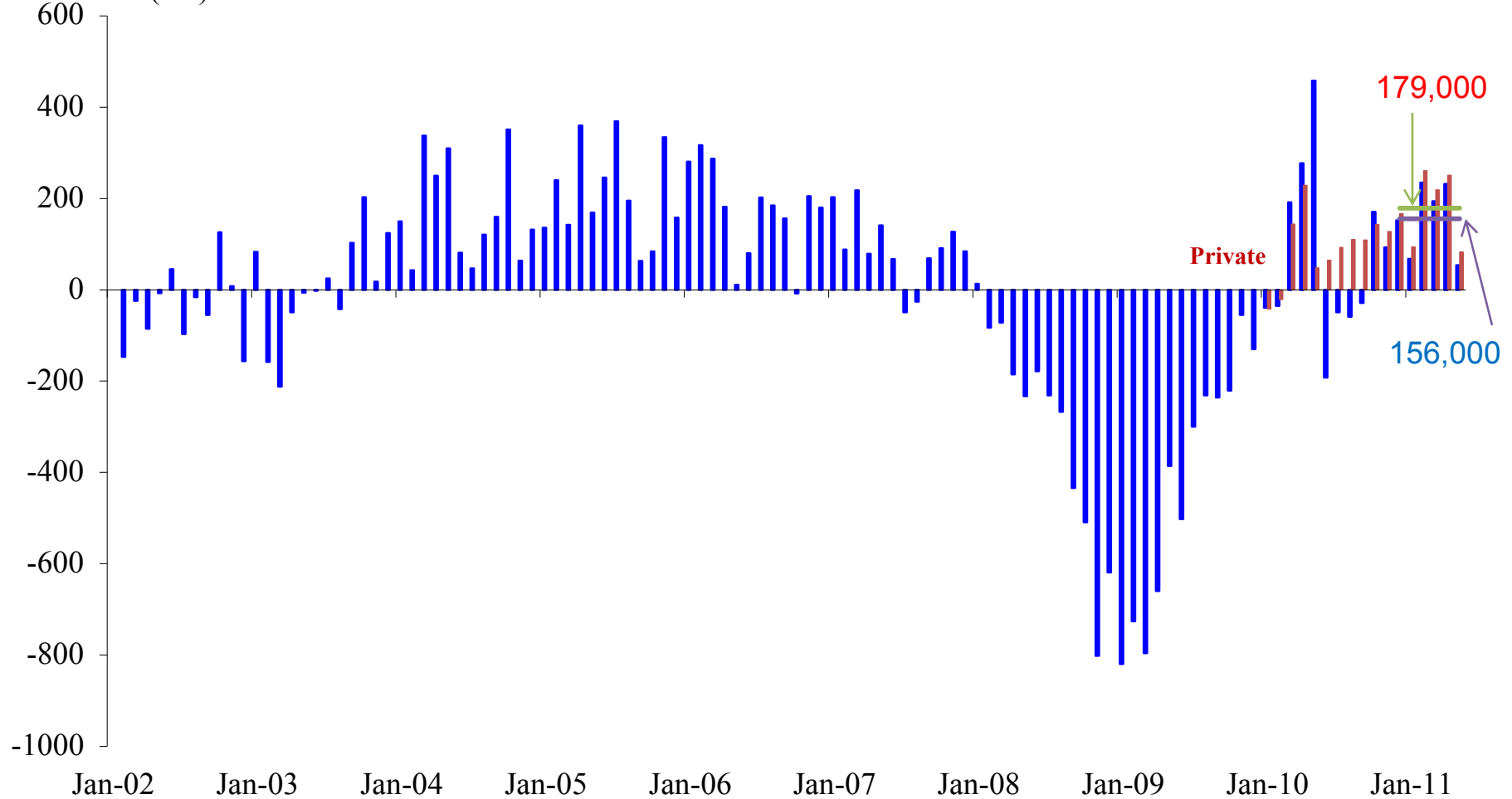
Asset-backed Commercial Paper Market Stabilized



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Jobs Increasing Mildly but Persistently

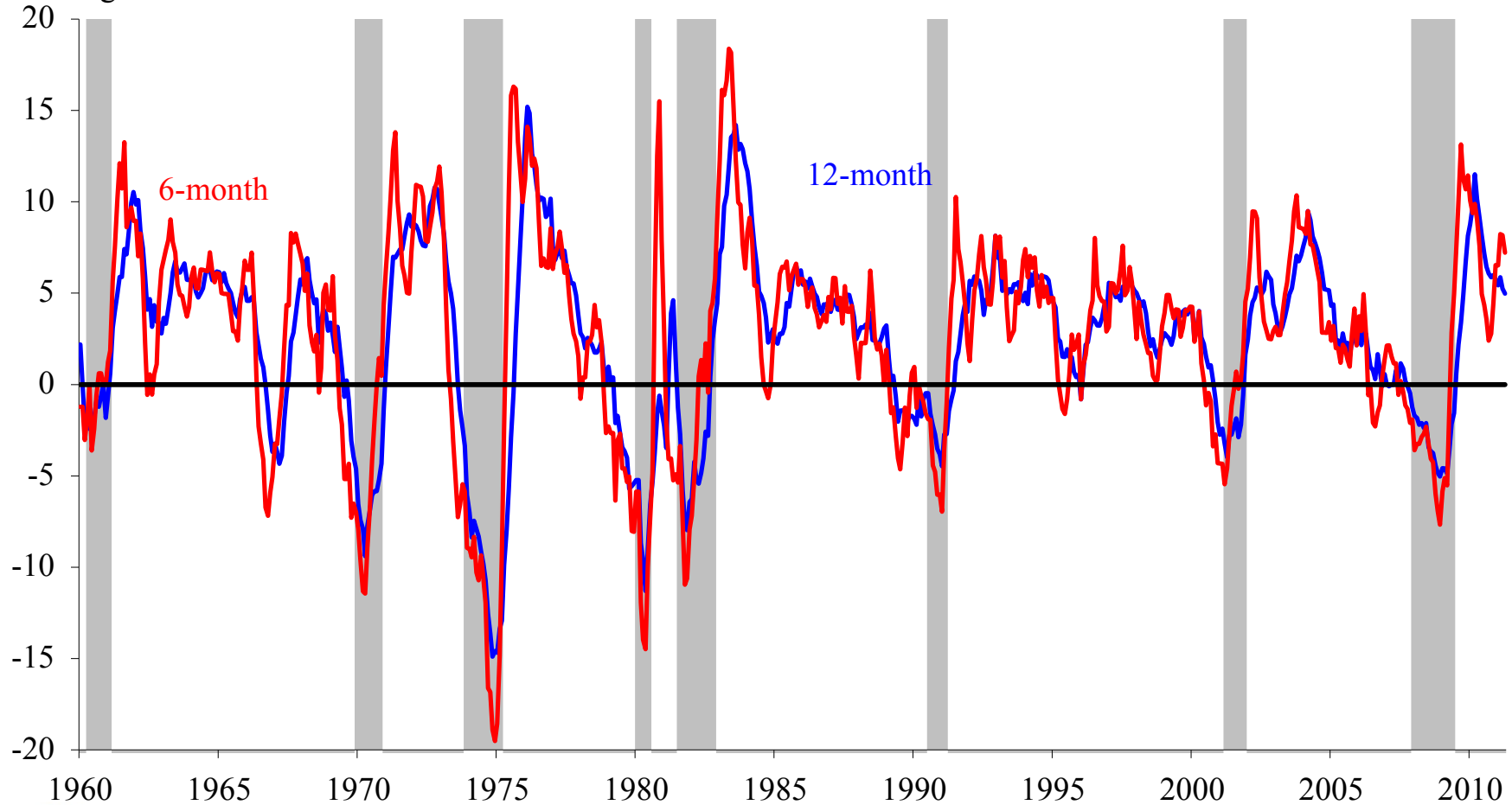
Thousands (SA)



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U.S. Leading Index Suggesting Recovery Likely to Continue

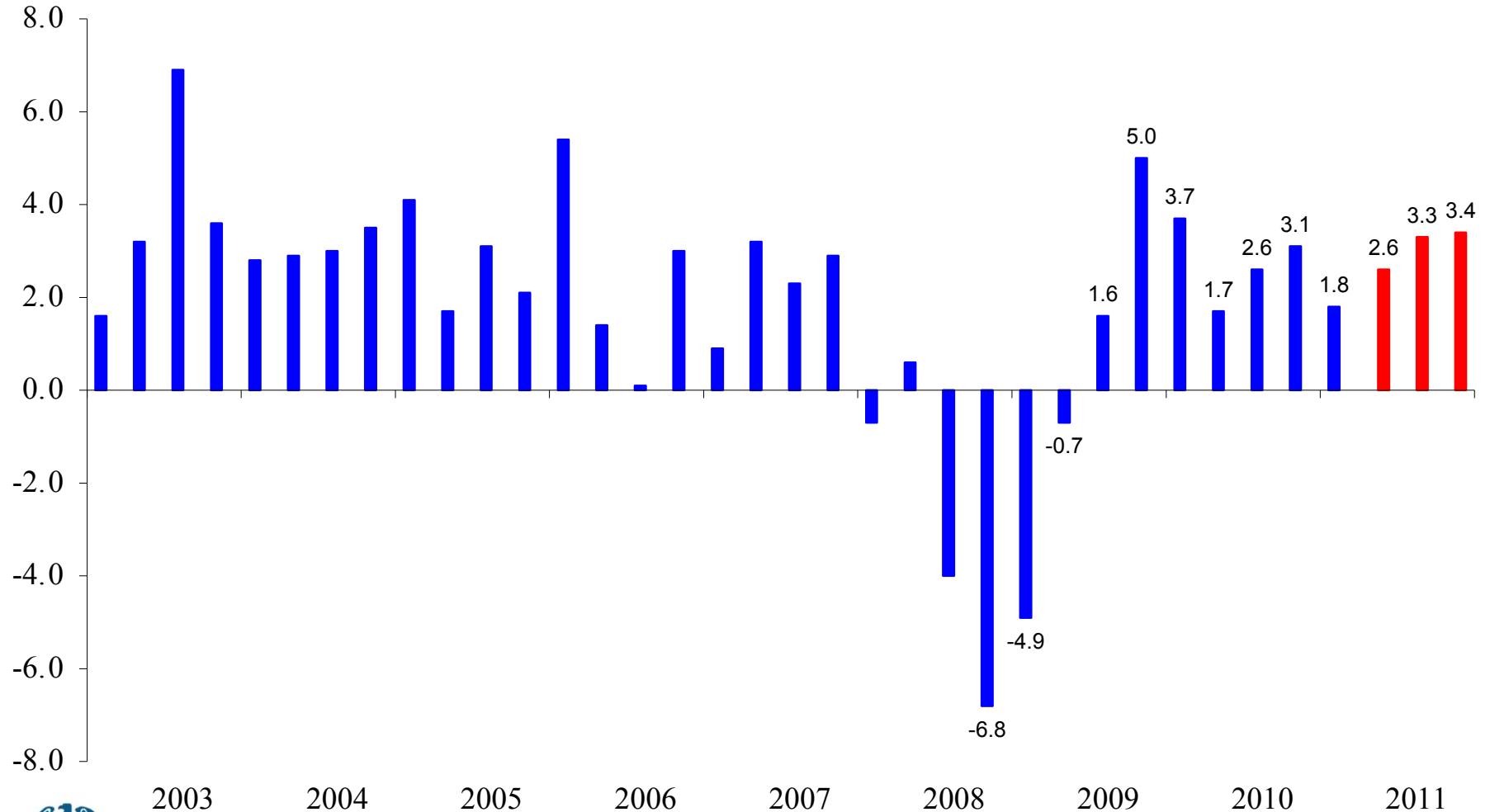
Annualized
% change



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June Blue Chip Survey Projects Positive RGDP Growth to Continue

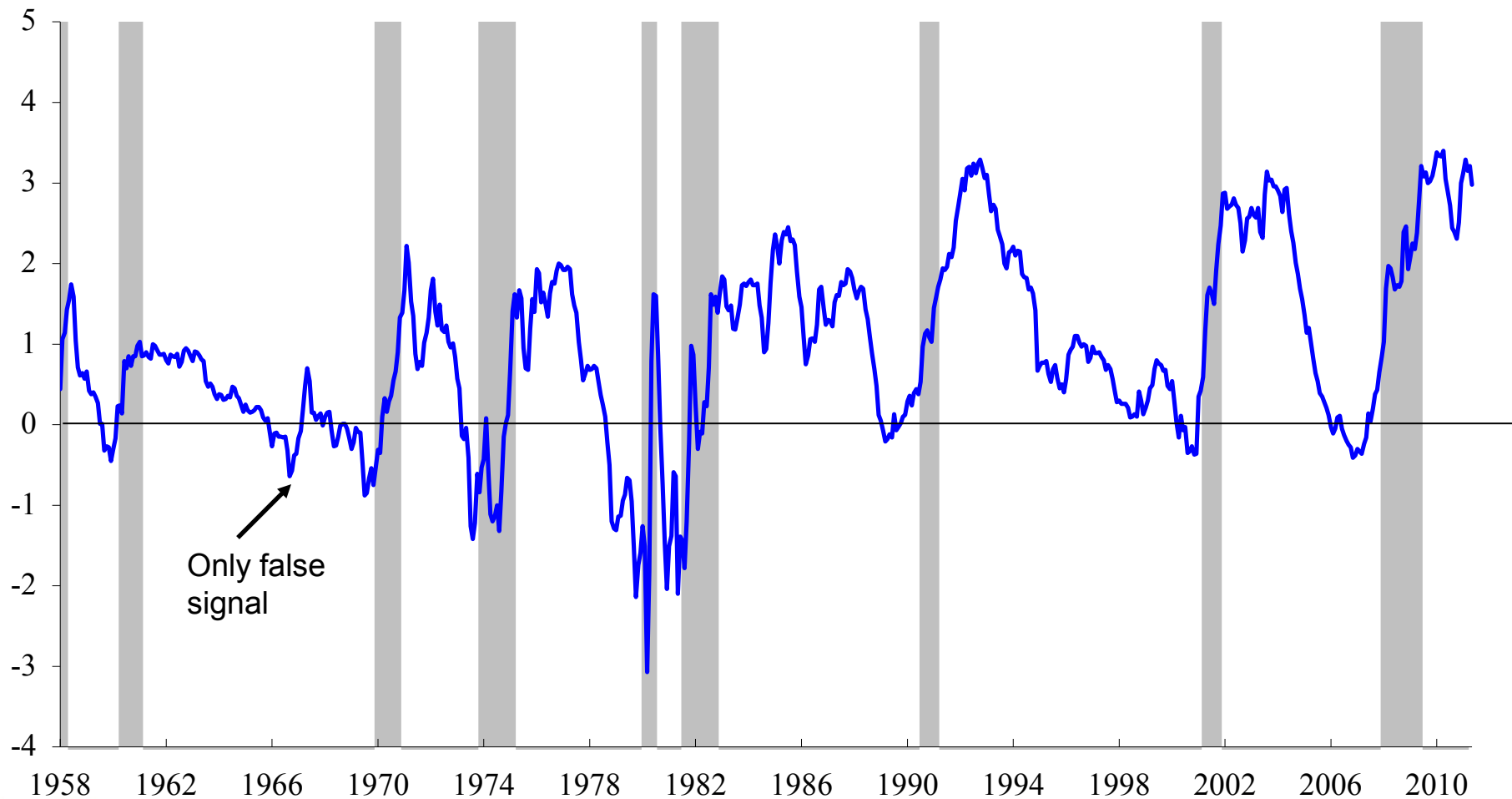
SAAR, Percent



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10-yr./1-yr. Yield Spread Suggests Little Chance of Recession Over Next 4 Quarters

Percentage points



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Texas



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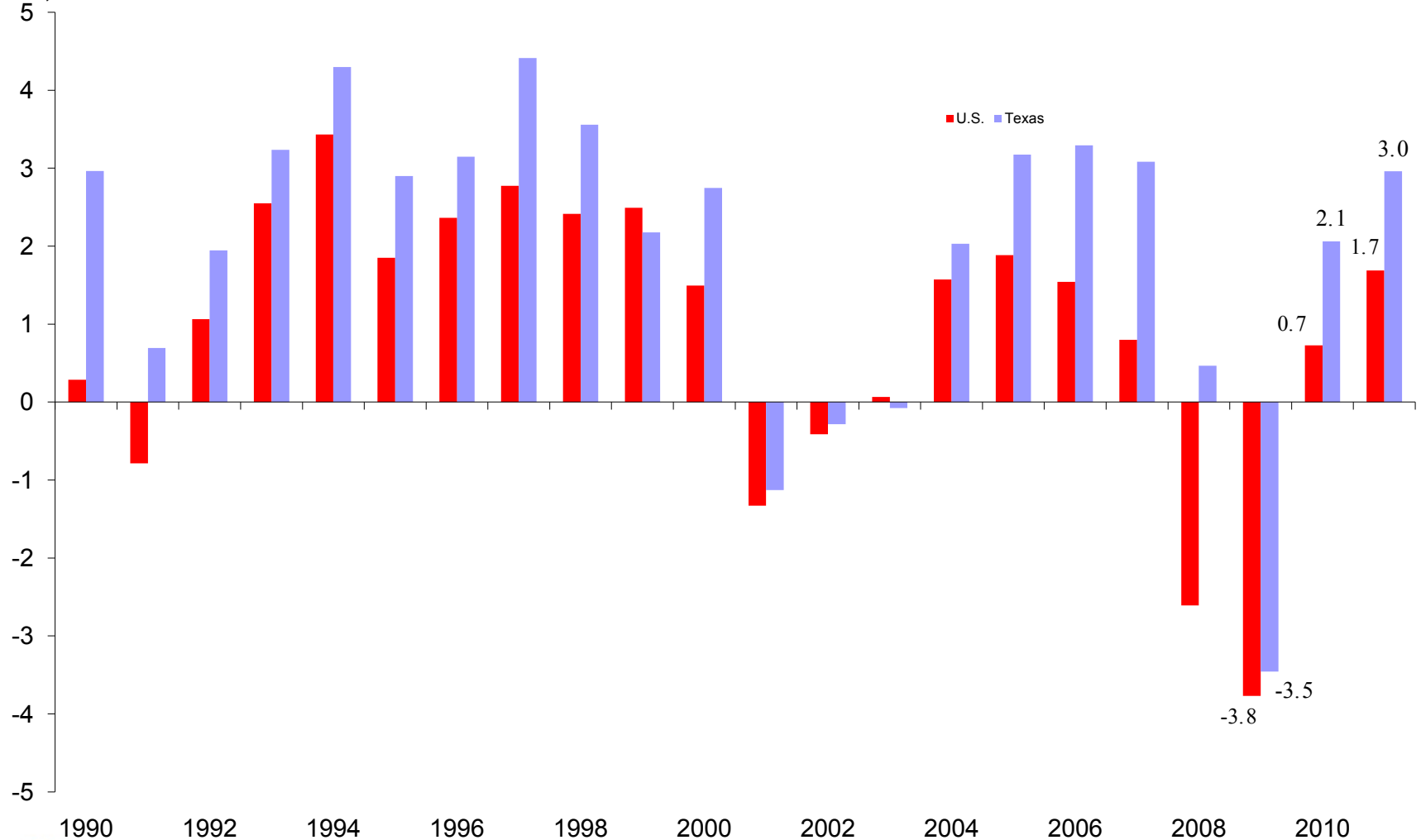
Texas Came Into Recession Late – Has Rebounded Stronger

- Texas began a recession in the second half of 2008 due to a deepening financial crisis, and a decline in energy prices and in high-tech.
- Texas jobs declined about 3.5 percent (about 366,000 net job loss) in 2009.
- Rebounds in energy and high–tech provided a stimulus to Texas in 2010. Housing market less of a drag than nationally. Job growth was about 2.1 percent in 2010.
- This year Texas job growth picking up as consumer and business optimism increases. For the year, job growth will likely be about 3.0 to 4.0 percent.



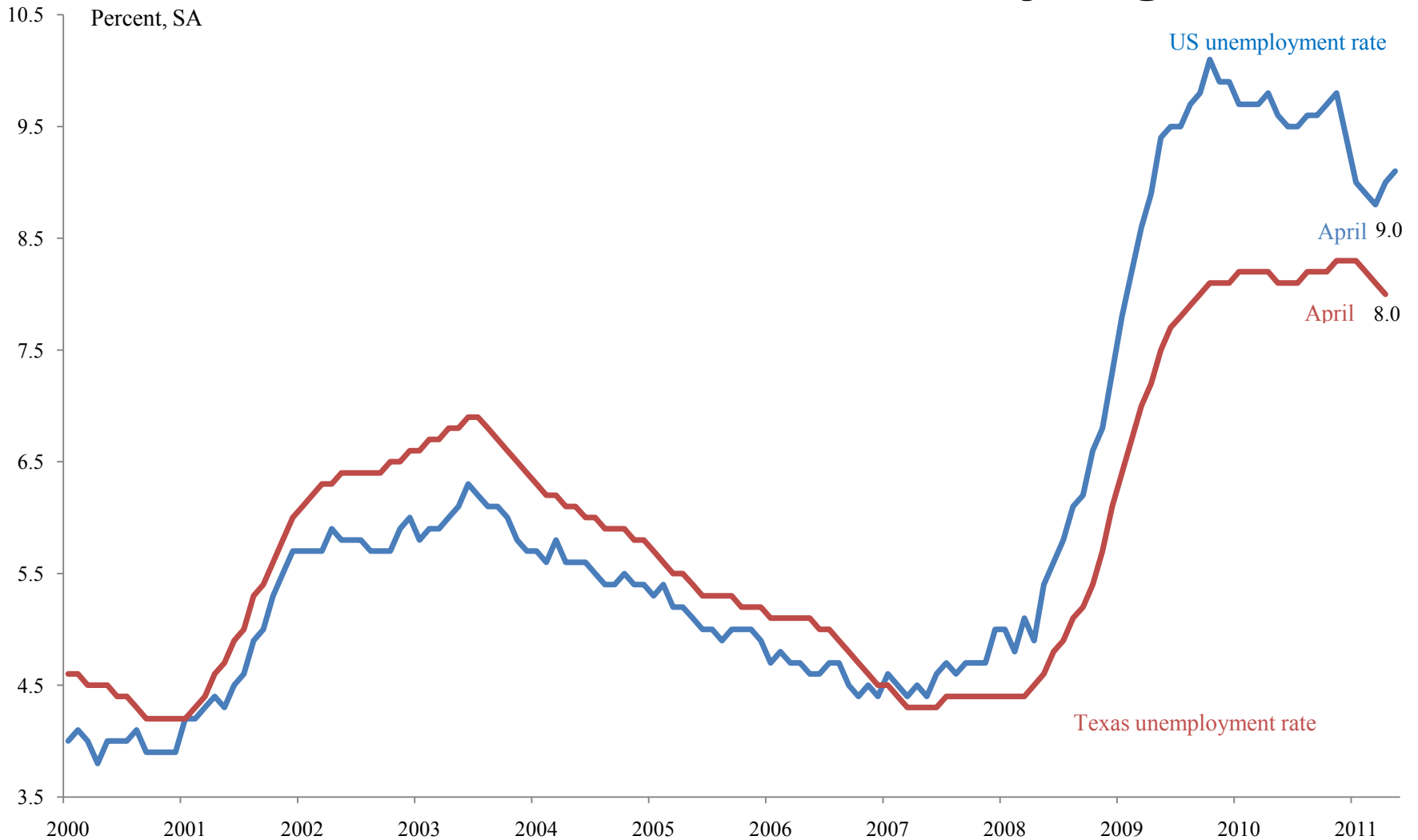
Texas Jobs Growing Faster Than Nation's

Y/Y, Percent



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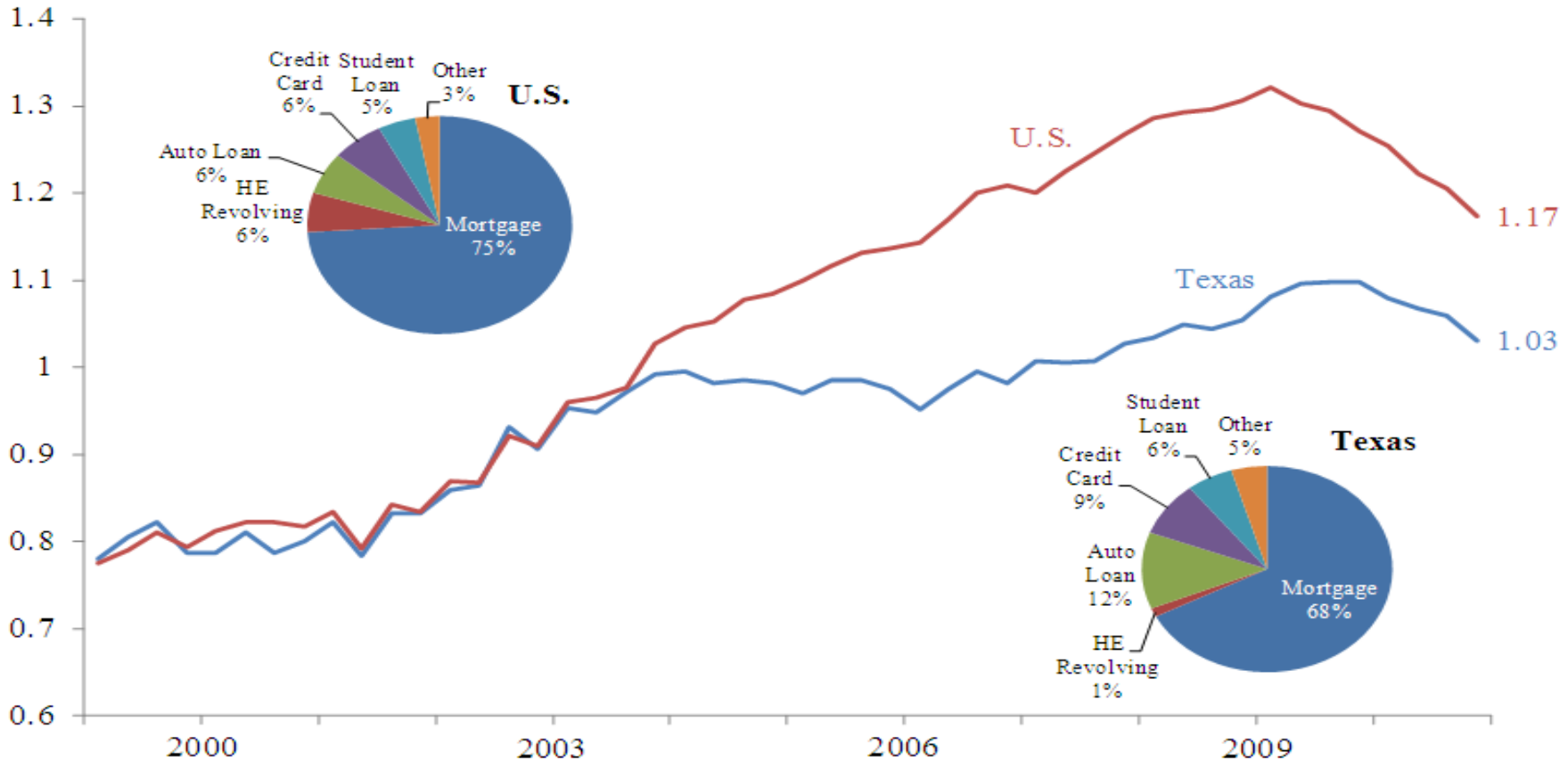
Texas UR Has Remained Stubbornly High



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Household's Deleveraging – Good for Long-Term but Weakens Spending in Short-Term

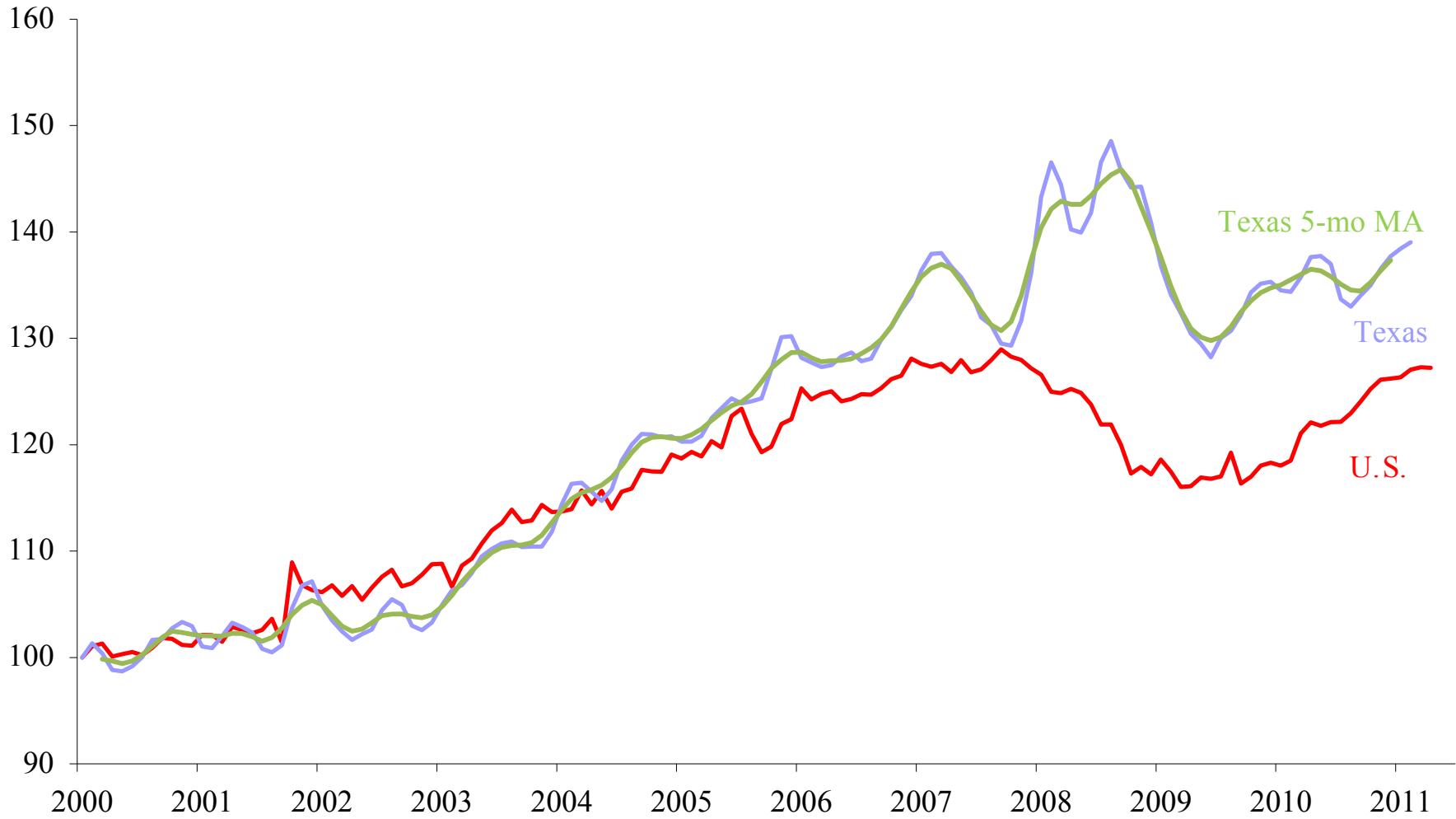
Ratio, personal debt per capita/personal income per capita



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Texas Real Retail Sales Gradually Picking Up

Index, SA, Real \$



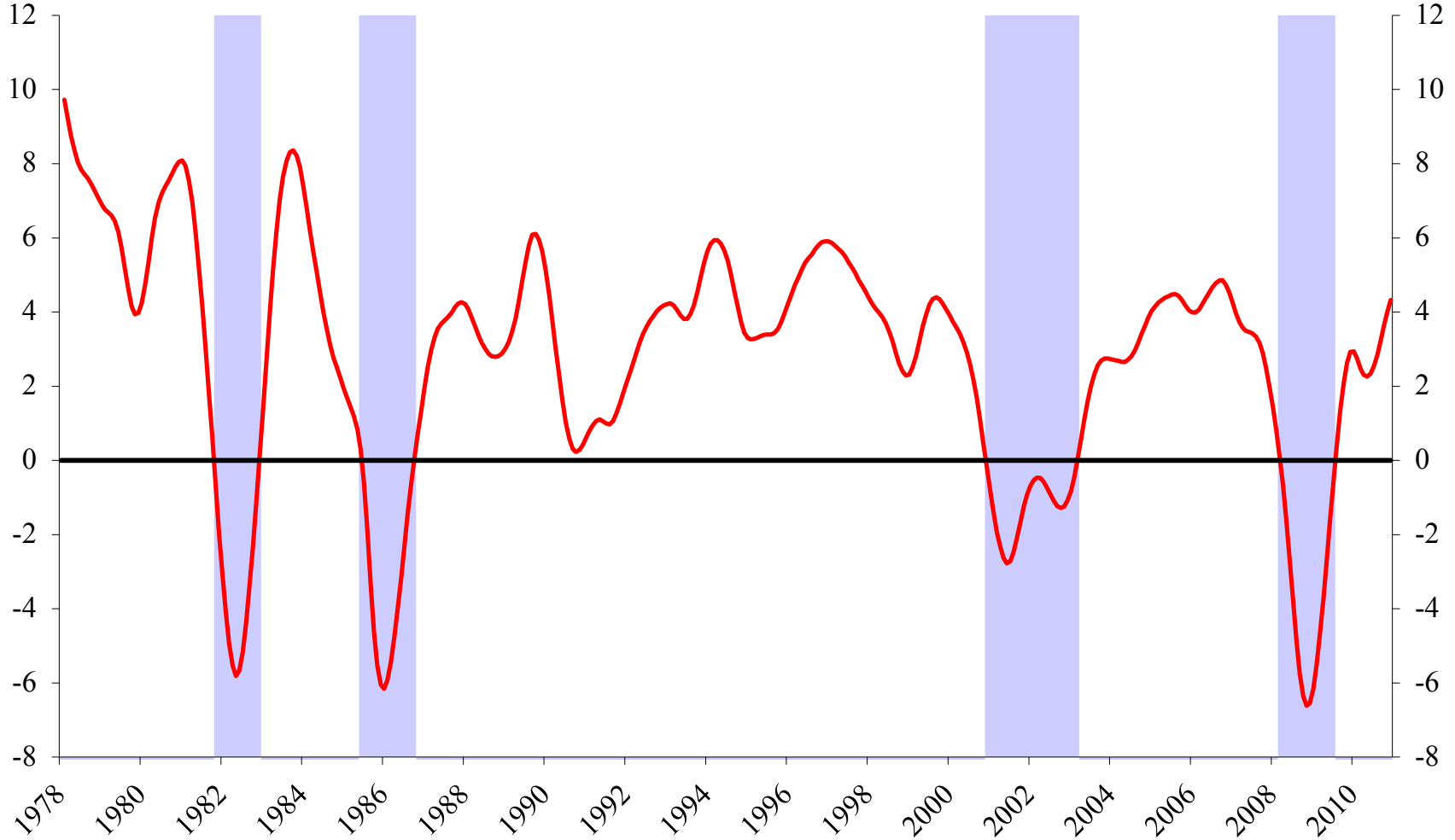
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Texas Economy Growing Moderately to Strongly

M/M SAAR

(Texas Business Cycle Index)

M/M SAAR



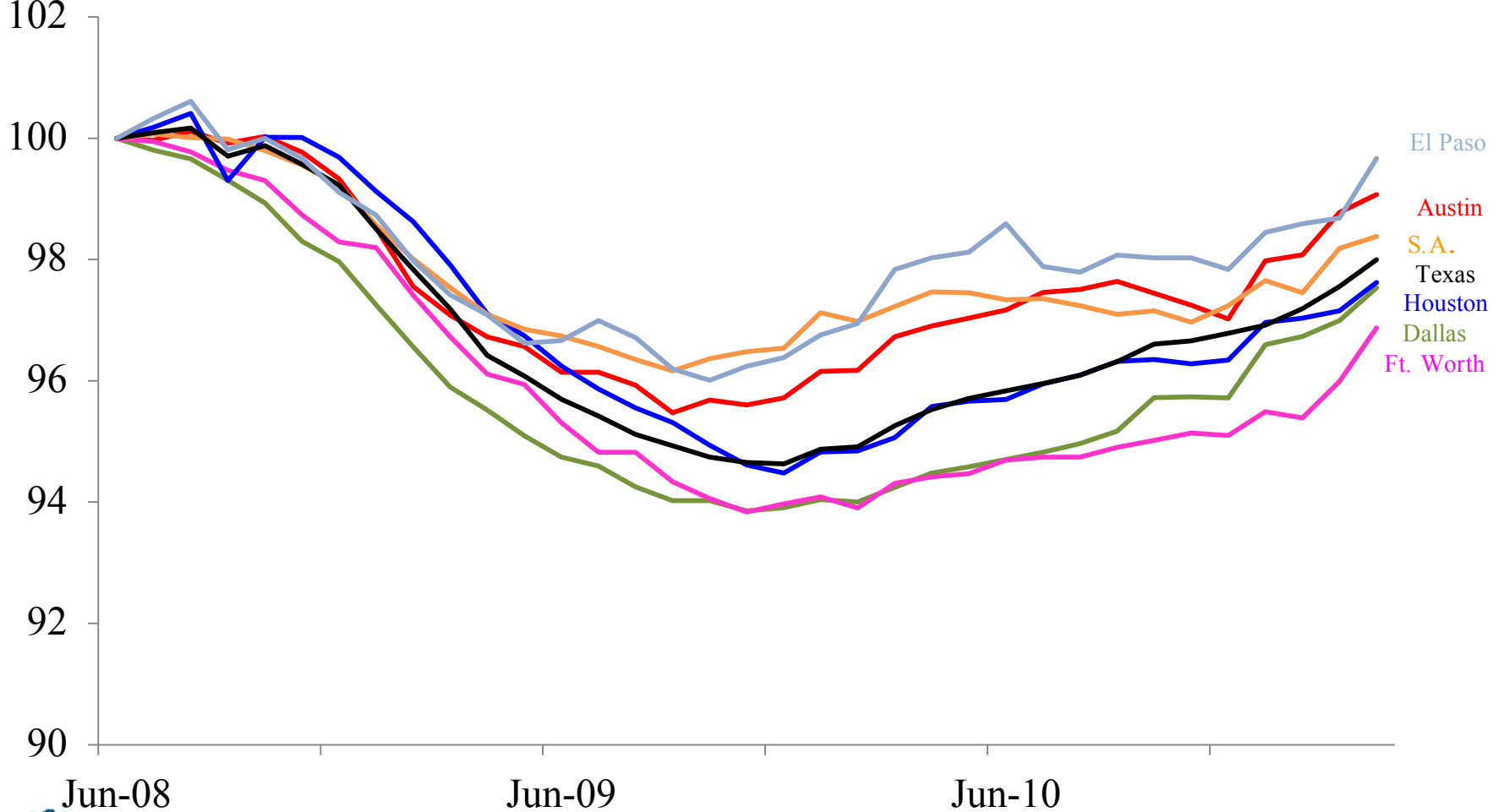
NOTE: Shaded areas represent Texas recession.



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Business Cycle Pattern Similar Across Metros

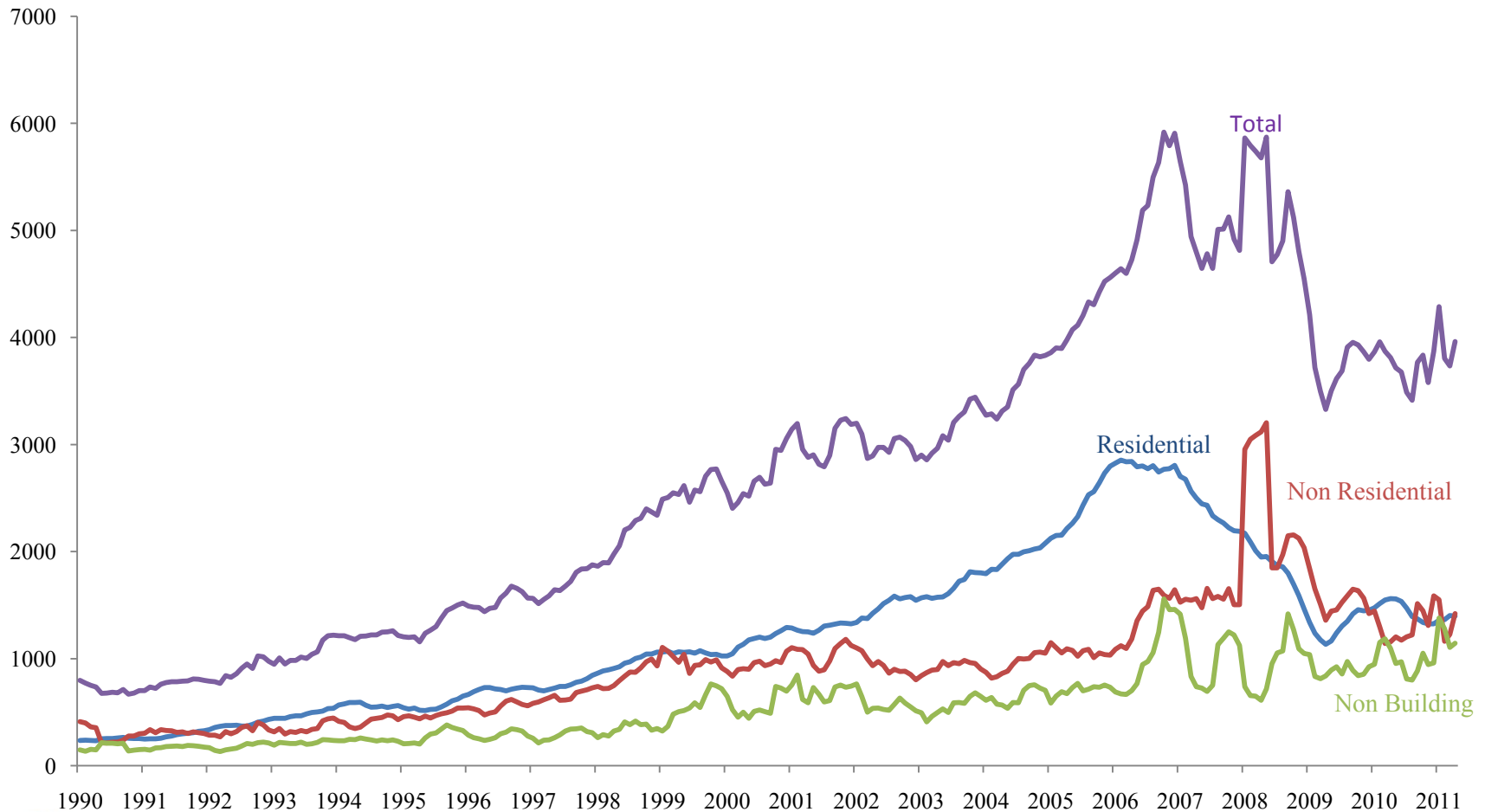
Private Employment
Index Jun. 2008= 100



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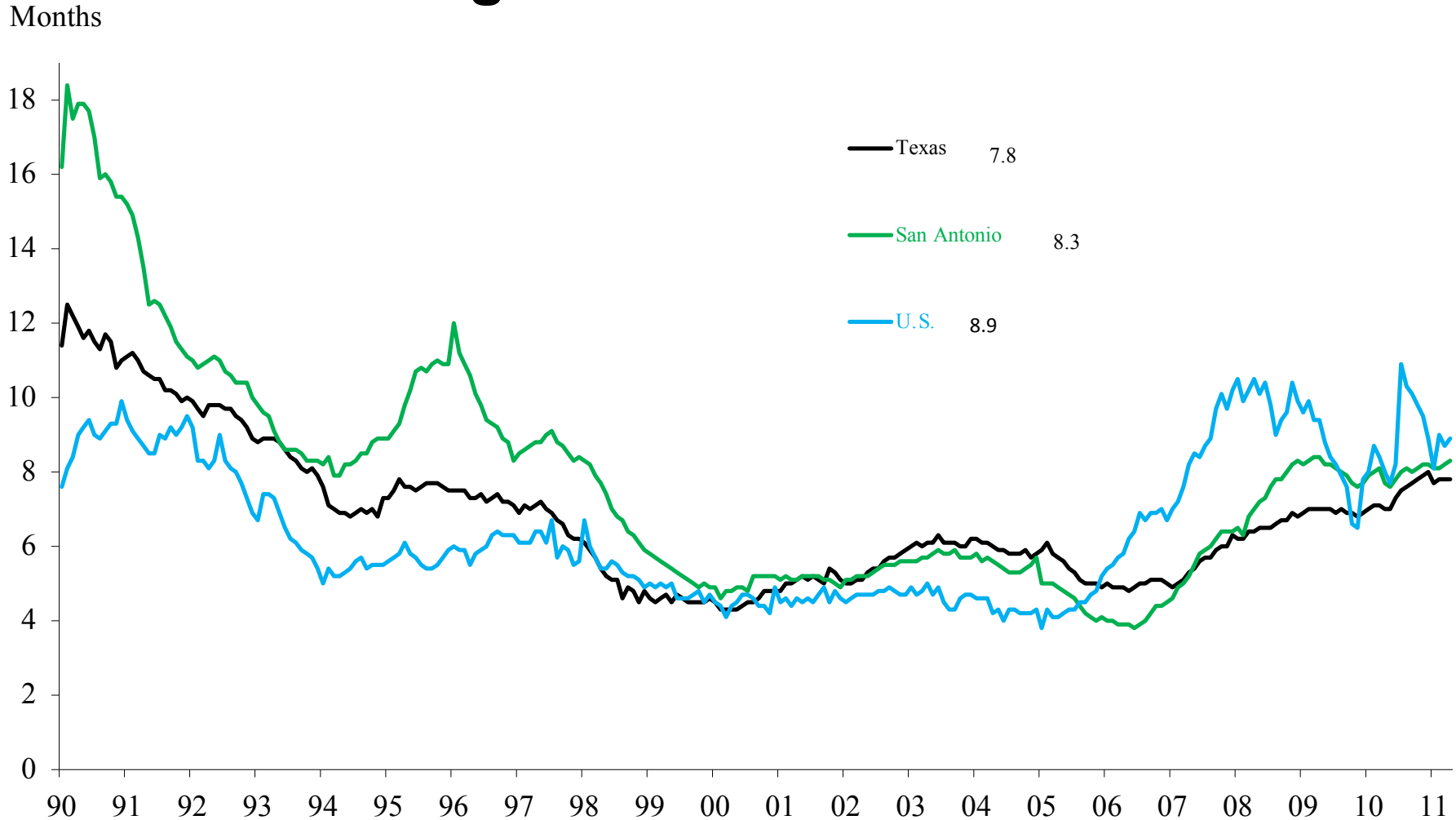
Texas Construction Contract Values Generally Flat

Real \$, Mil 5MMA, SA



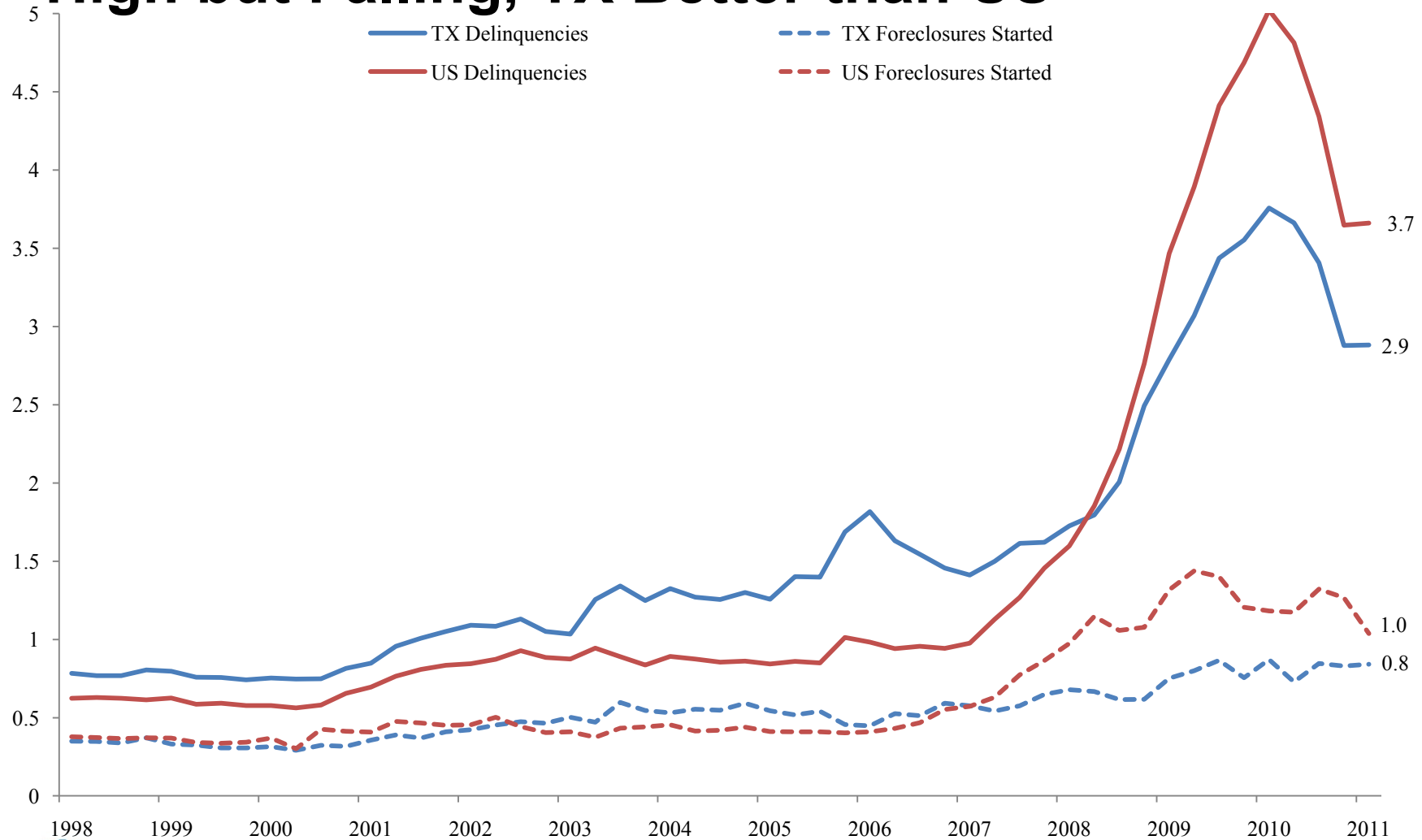
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Home Inventories Relative To Sales Below National Average



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Mortgage Foreclosures Flat, Delinquency Rate High but Falling, TX Better than US



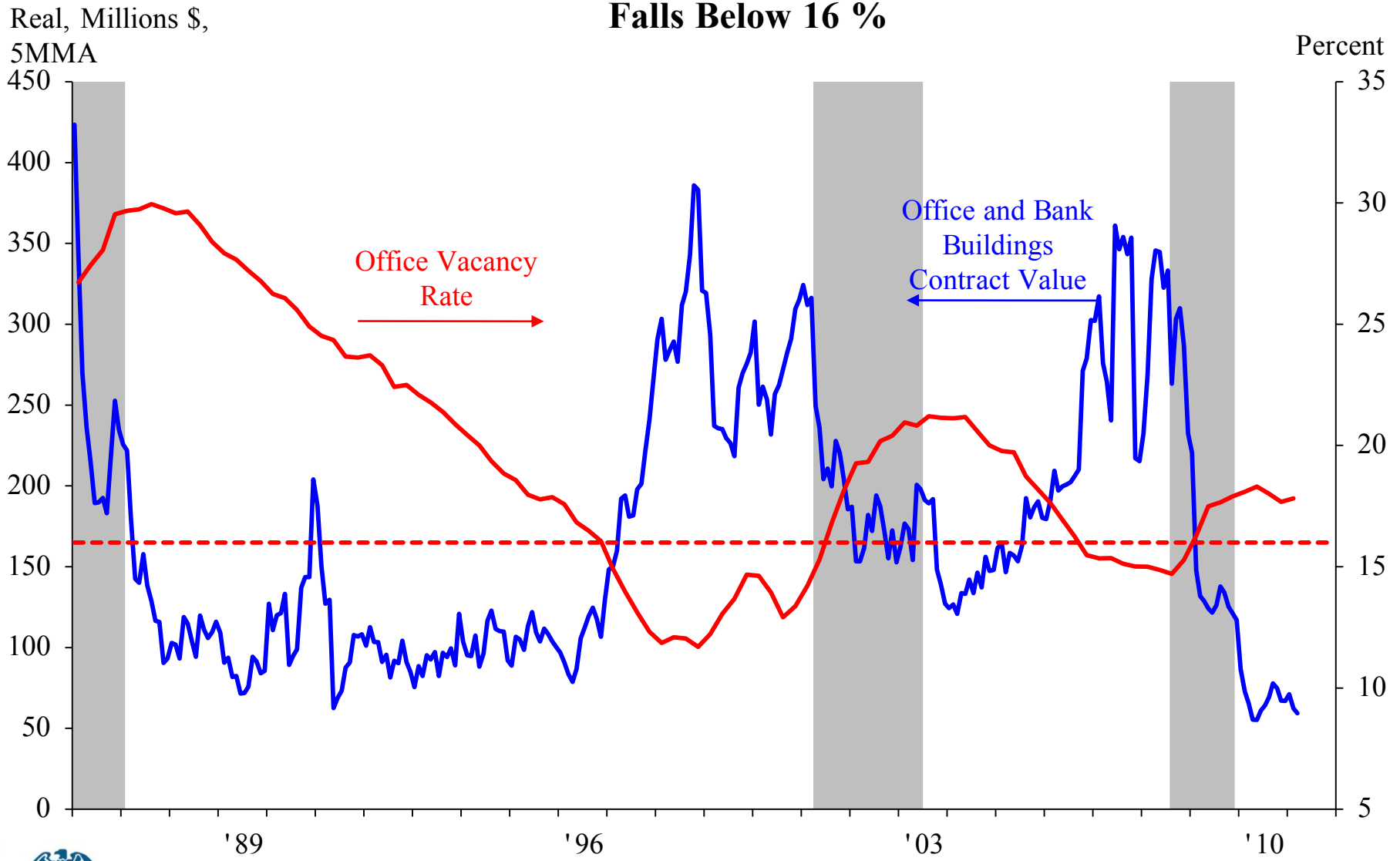
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Commercial Real Estate Remains Weak

- Banks headquartered in the Eleventh District have 22% share of gross assets in commercial RE loans vs. 12% in nation
- In Q1, 4.3% of CRE loans in Eleventh District banks were noncurrent vs. 6.3% in nation
- Vacancies and rents flattening out after falling
- Growing signs that prices are close to bottom, sales are increasing, but significant new construction not expected until at least the end of 2011



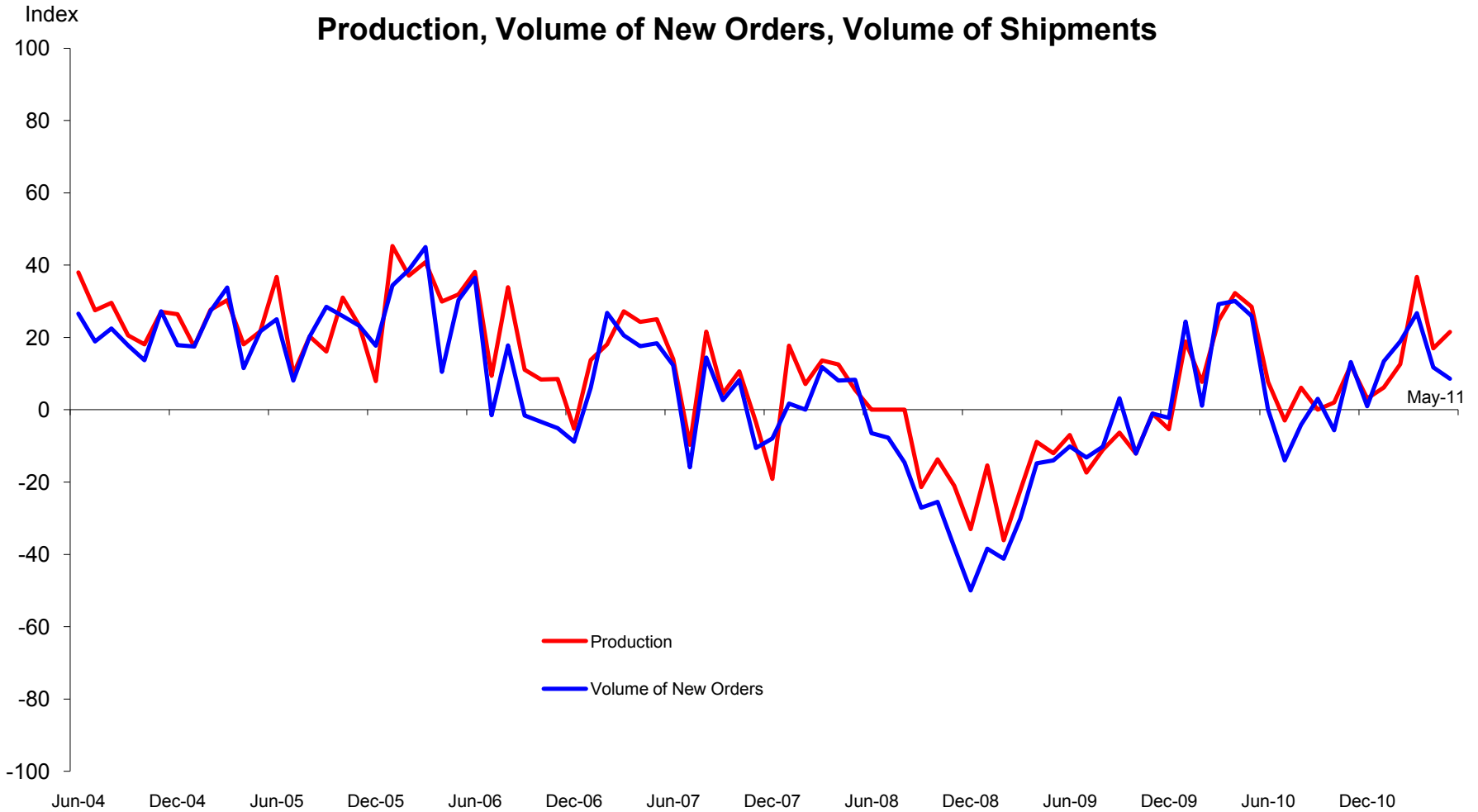
Office Construction Not Likely to Increase until Vacancy Rate Falls Below 16 %



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Source: F.W. Dodge, CBRE Econometric Advisors, Haver Analytics.

TX Manufacturing Production and Orders Continue to Increase

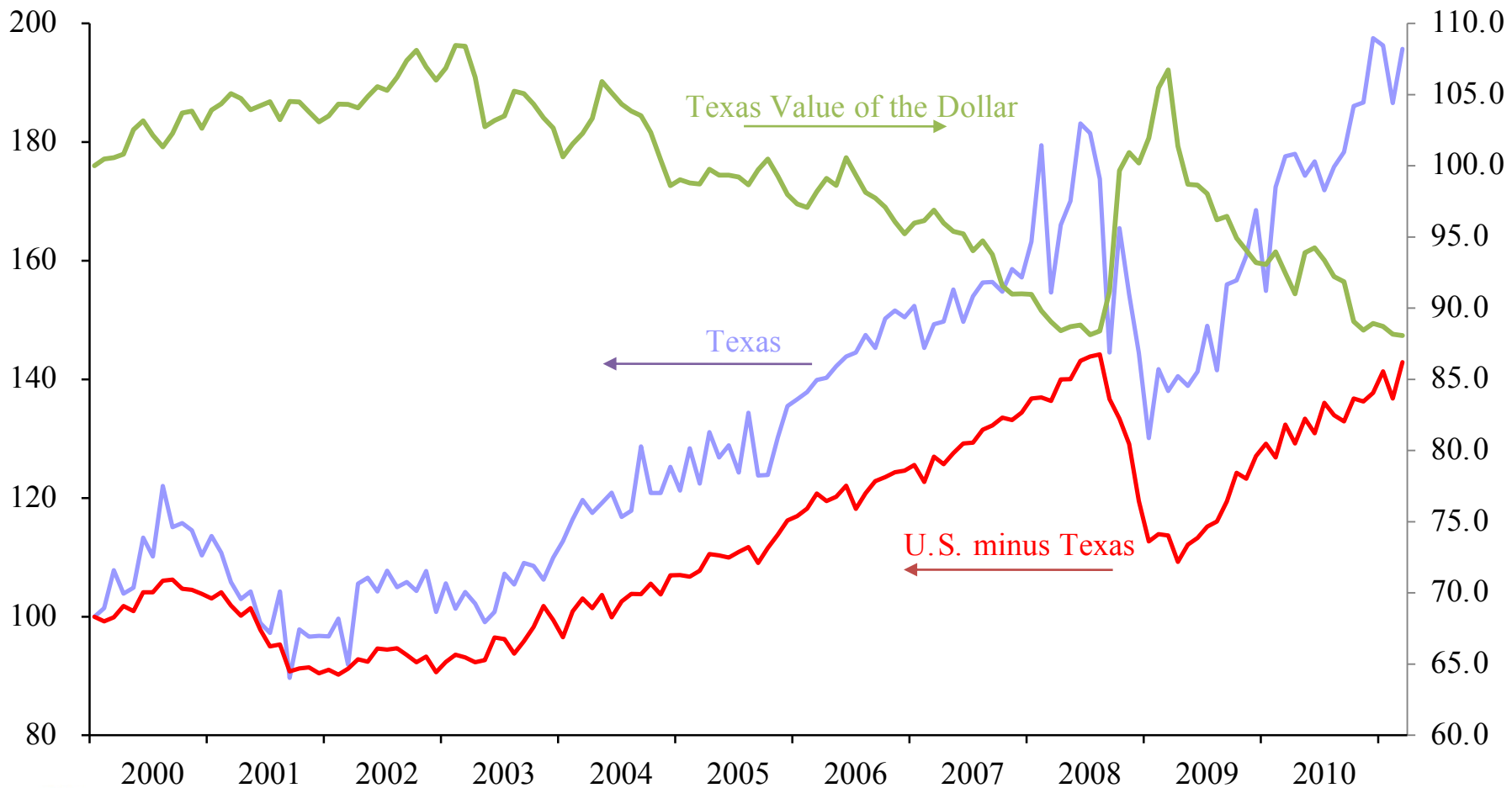


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Texas Exports Surpass Pre-Recession Level

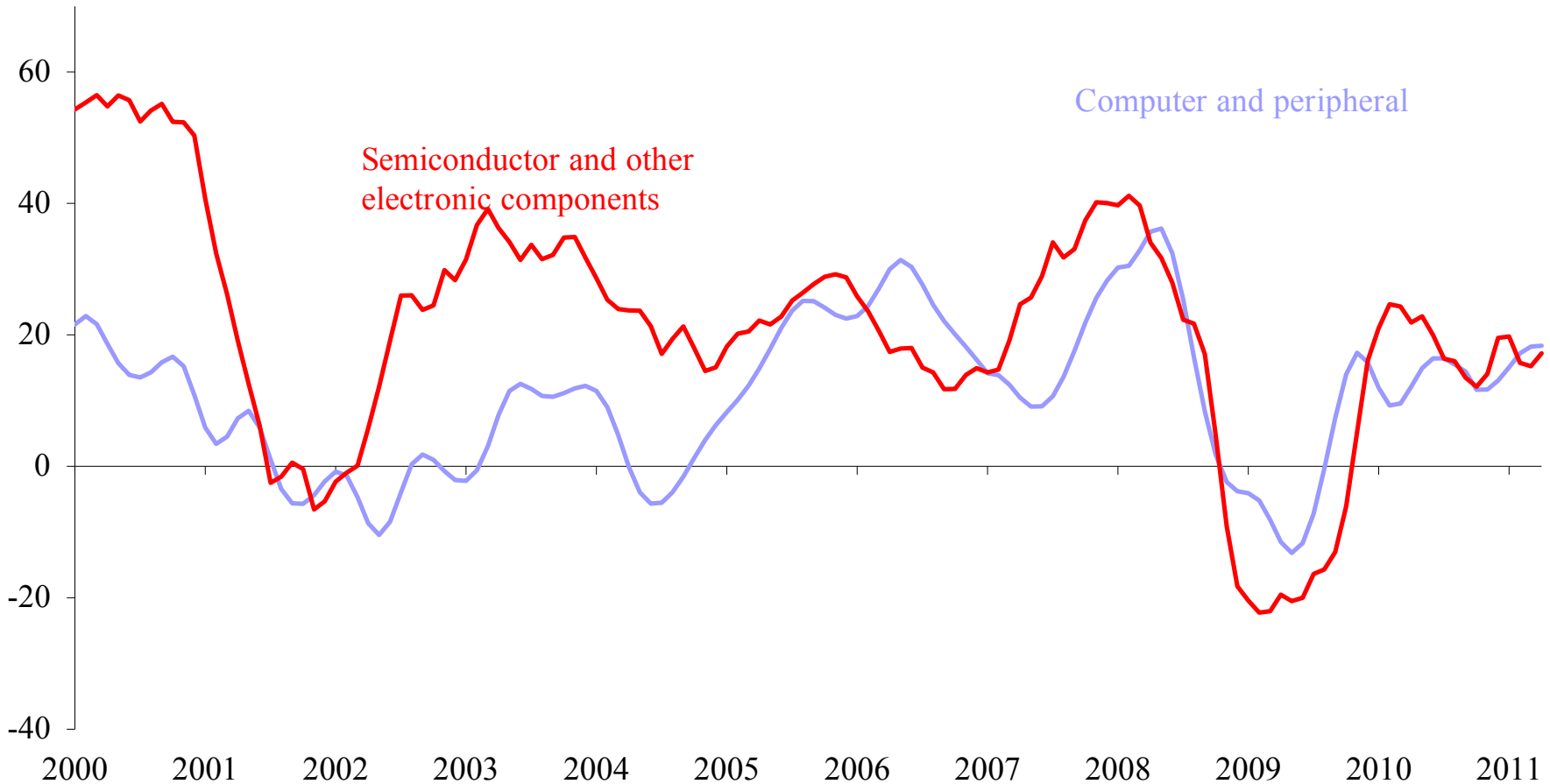
Index, SA Real
Jan. 2000= 100



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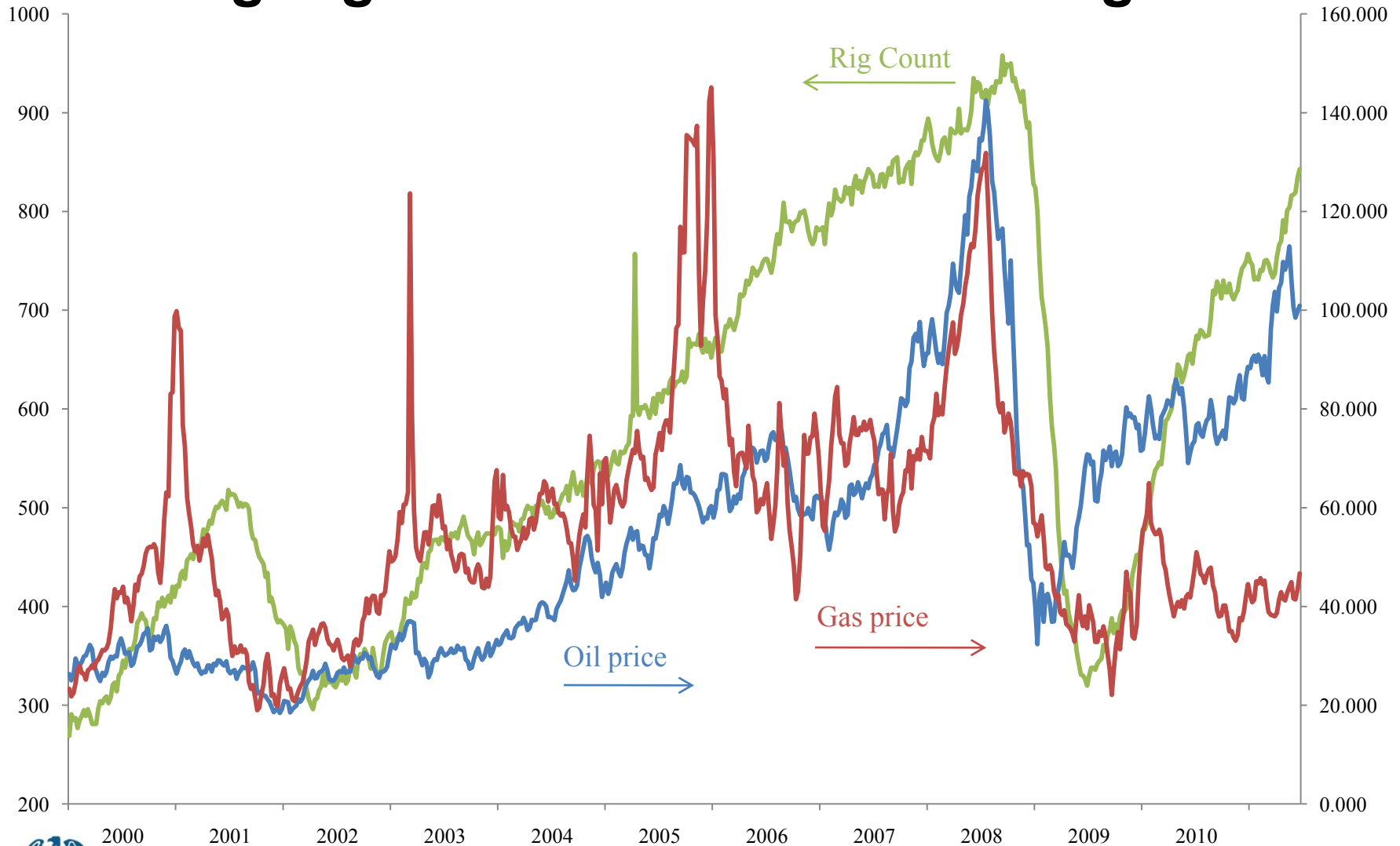
High-Tech Output Plunged in During Recession, Now Growing Strongly

Percent, Y/Y



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Drilling Rig Count has Returned to High Levels

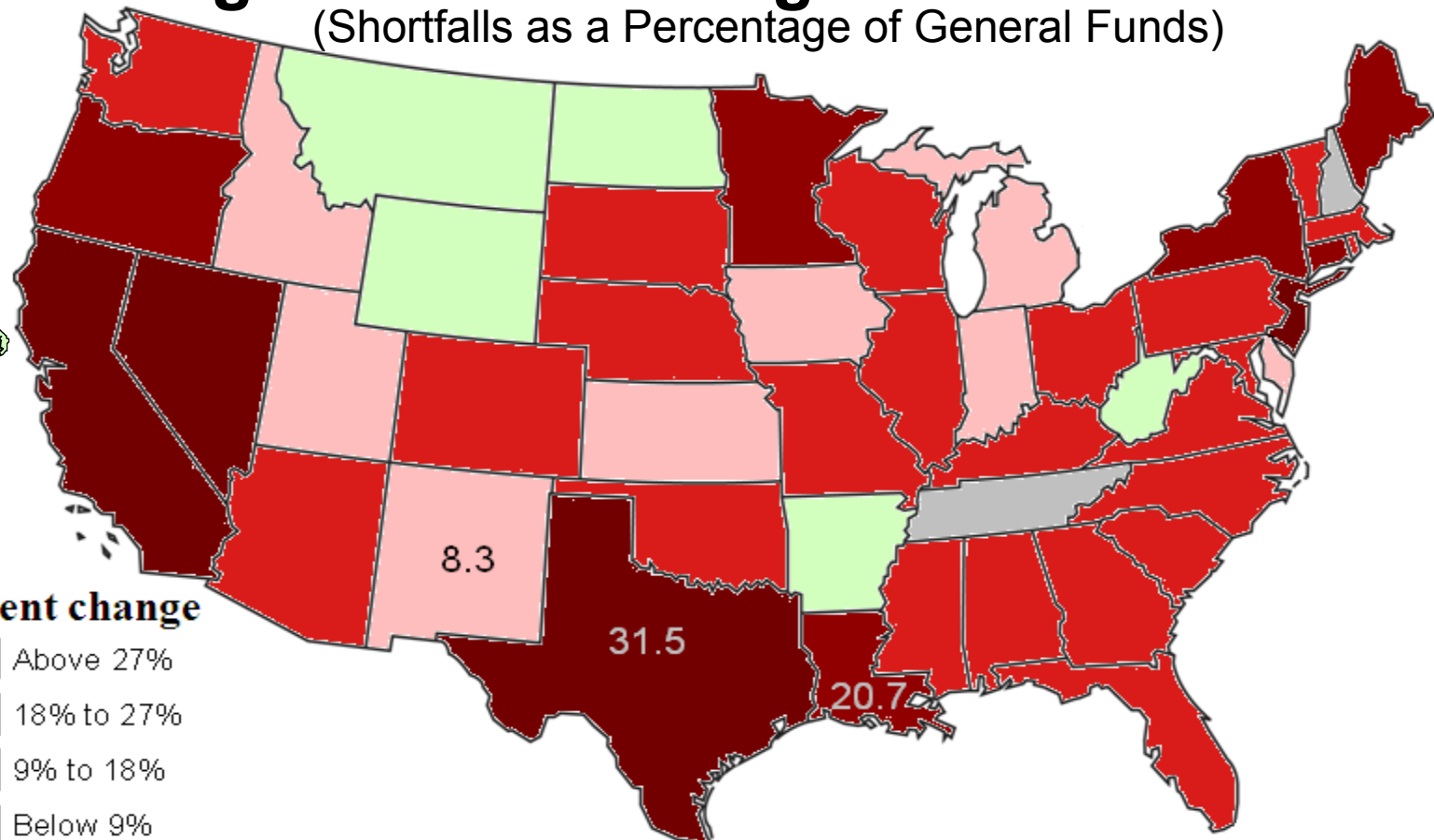
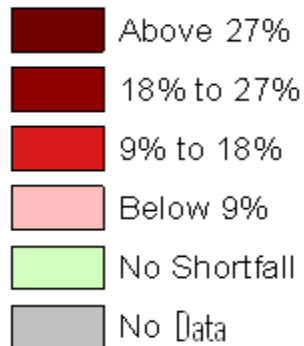


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Projected 2012 State Budget Shortfalls Remain a Significant Challenge

(Shortfalls as a Percentage of General Funds)

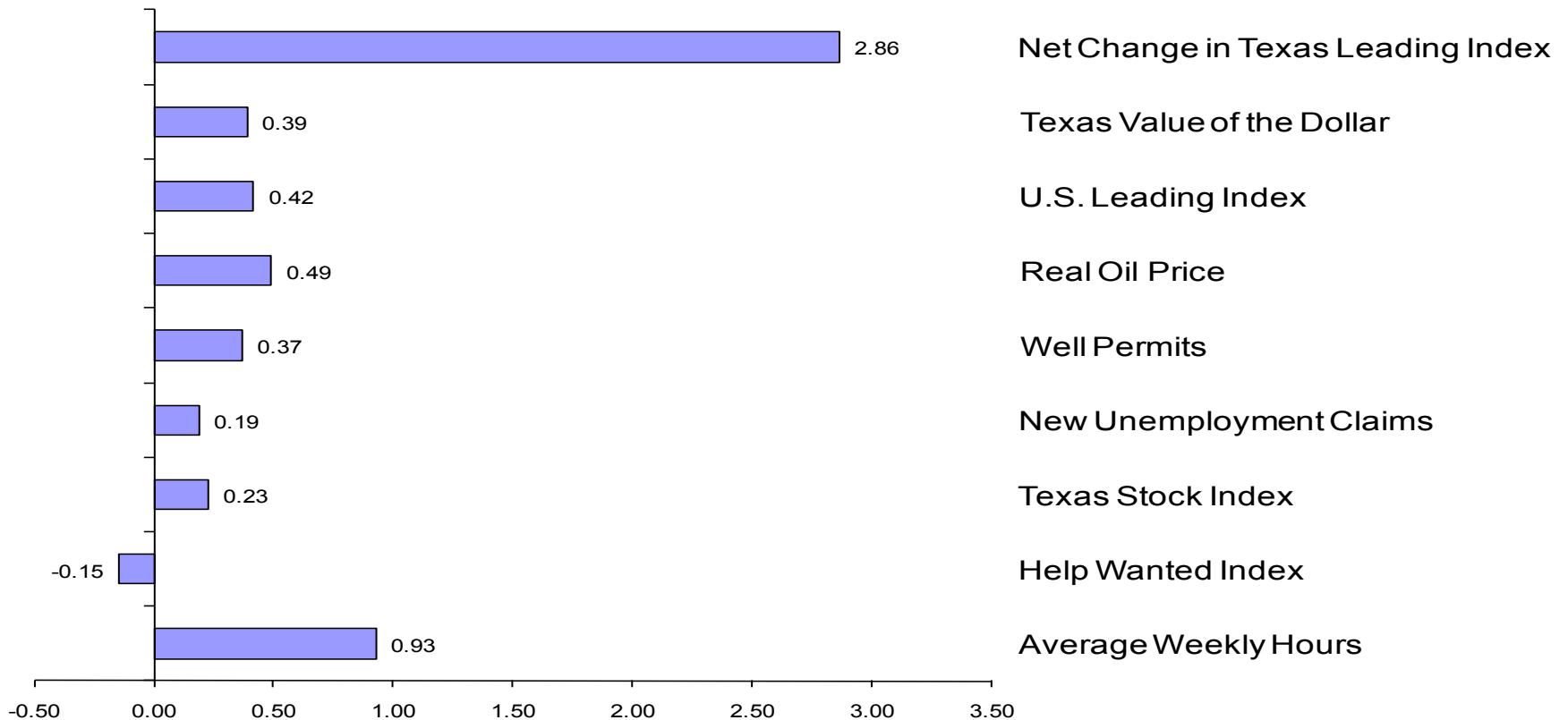
Percent change



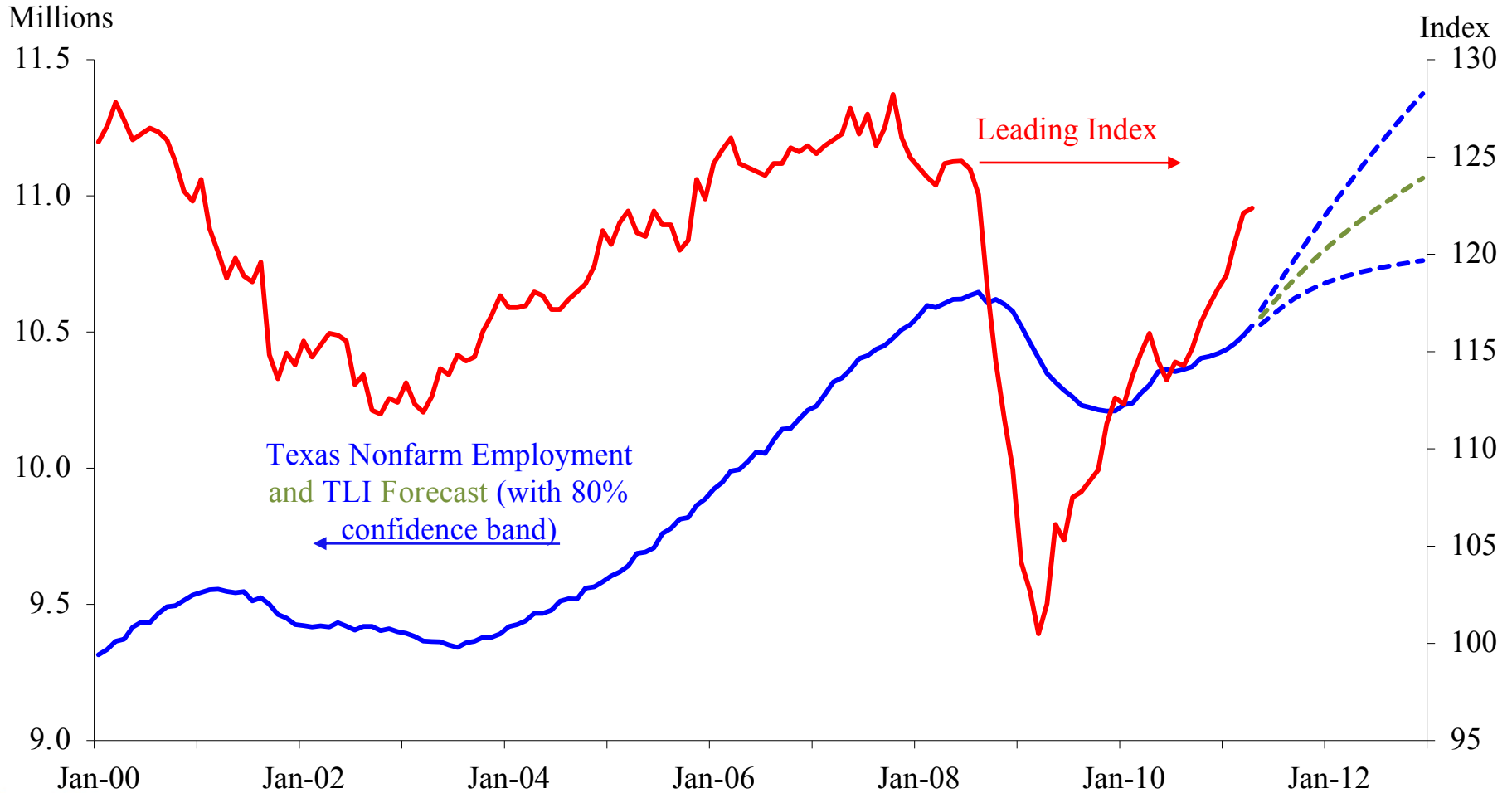
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Recent Broad-based Increase in TLI Components

**Texas Leading Index Components, 3 month change
(February-April)**

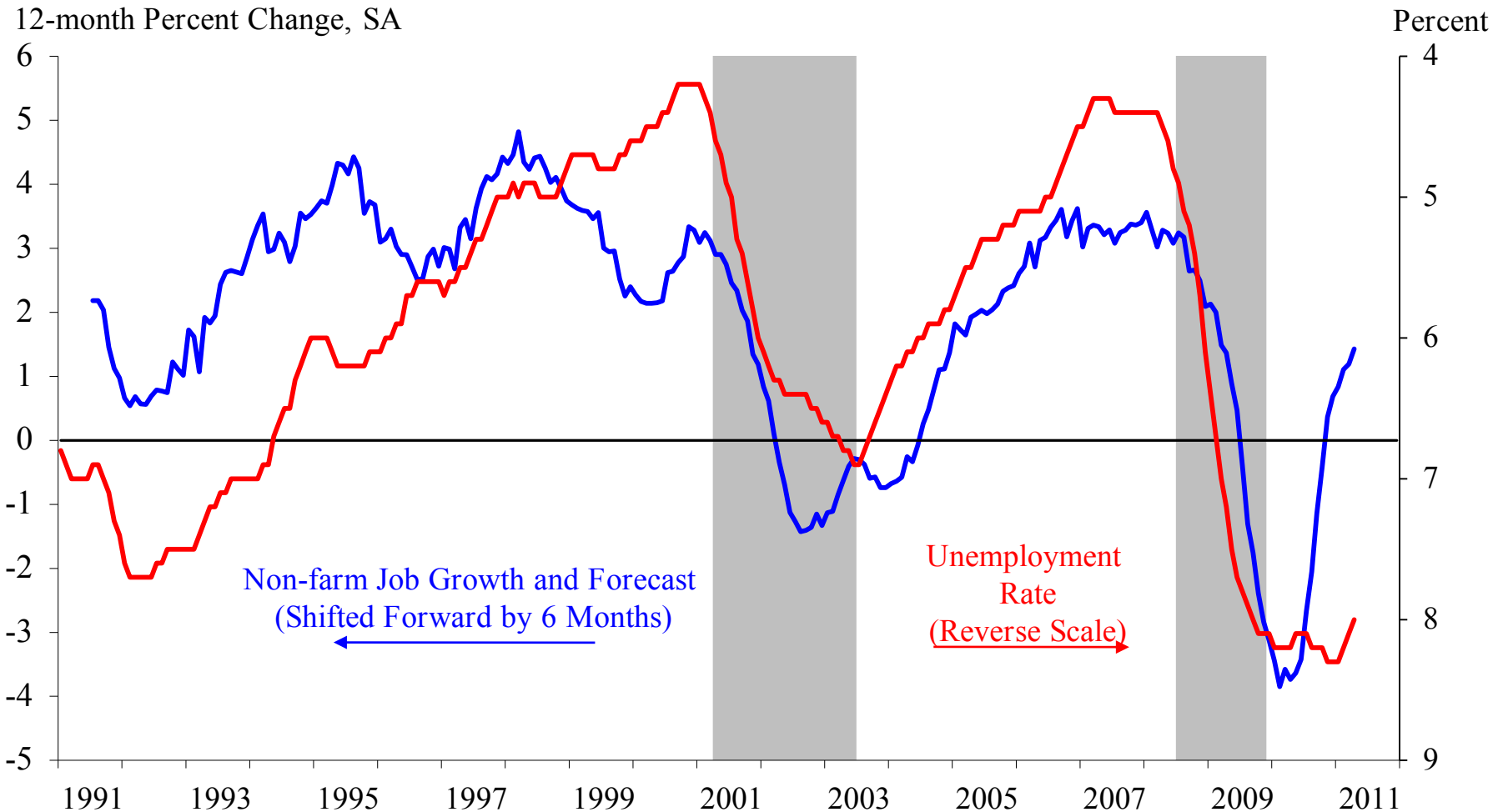


Texas Jobs Likely to Grow about 3.5% in 2011 – Surpass Previous Peak before end of Year



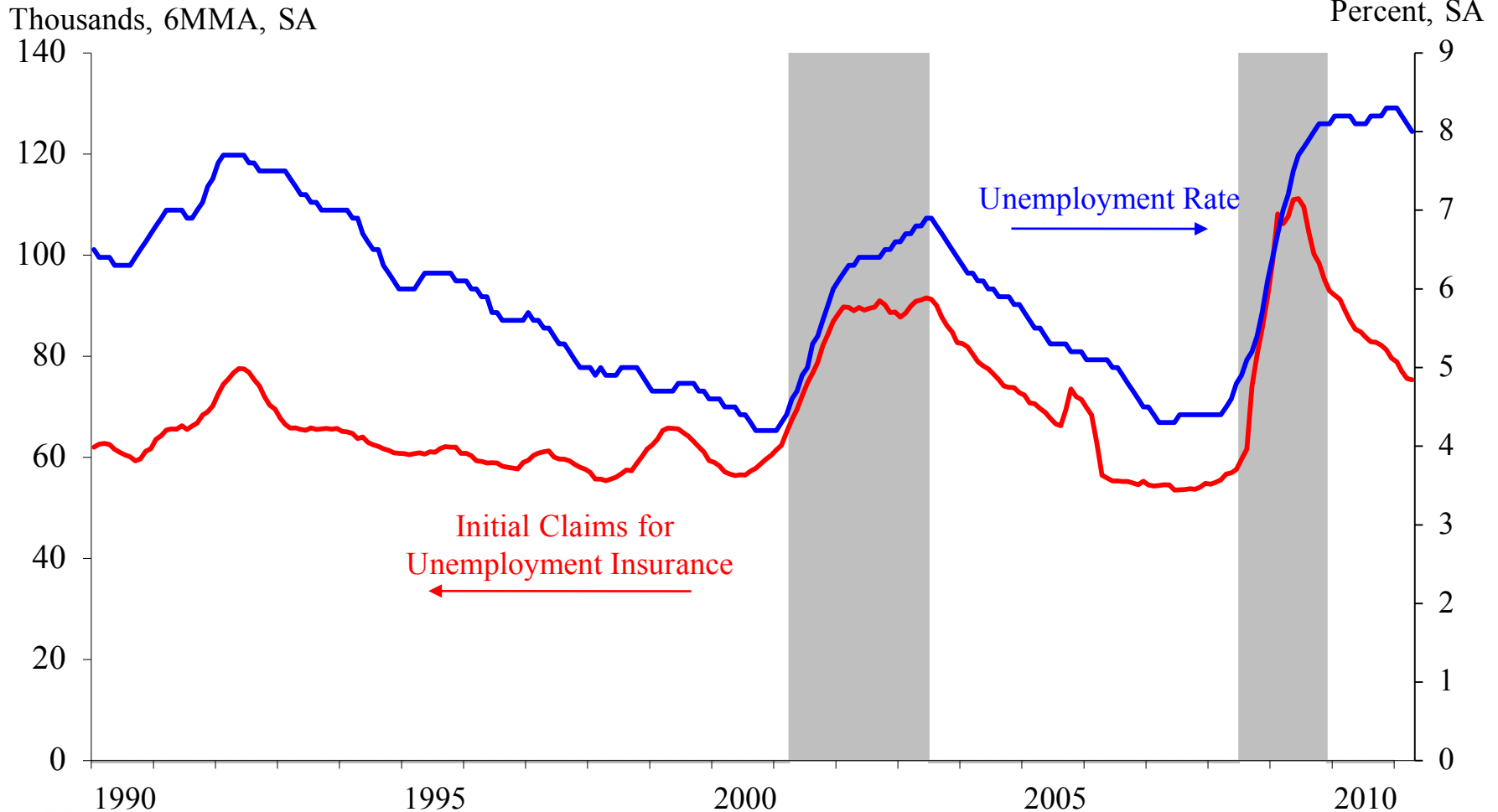
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Recent Job Growth Suggest Declines Likely to Occur in TX UR in 2011



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Fall in Initial Claims for Unemployment Insurance also Suggests UR Drop





2011 San Antonio Job Growth Rate Likely Close to TX

- 2010 job growth (1.0 percent) less than state average – reduction in construction at end of year due to BRAC
- Brookings study found that San Antonio suffered least of top 50 US metros during recession (32 out of 150 world-wide)
- Strong sectors in 2010 were health care (4.2%) and manufacturing (3.0%).
- Recent strength - Medical Military, Health Care, Call Centers, Finance/Insurance, Toyota, Eagle-Ford
- Low cost of living important to growth
- Jobs grew at annual rate of 2.6 percent in first four months of 2011 (22,000 jobs)
- 2011 job growth likely about 3.0 – 4.0 percent (25,300 – 33,700 job)



Summary

- Texas entered the recession late and has come out of it at a stronger pace than most states
- Texas job growth will likely pickup from about 2.0 percent in 2010 to about 3.0 to 4.0 percent in 2011.
- The Texas unemployment rate likely to fall from about 8.0 percent to about 7.0 percent.
- San Antonio likely to grow about same pace as the state.
- Risks to the outlook include political uncertainty in the Middle East, European Debt issues, State and Local Government Spending, U.S. Fiscal Crisis, inflation.

