



FEDERAL RESERVE BANK *of* DALLAS
SAN ANTONIO BRANCH

2011 Economic Outlook: Texas to Ride Higher in the Saddle



Keith Phillips, Sr. Economist and Advisor

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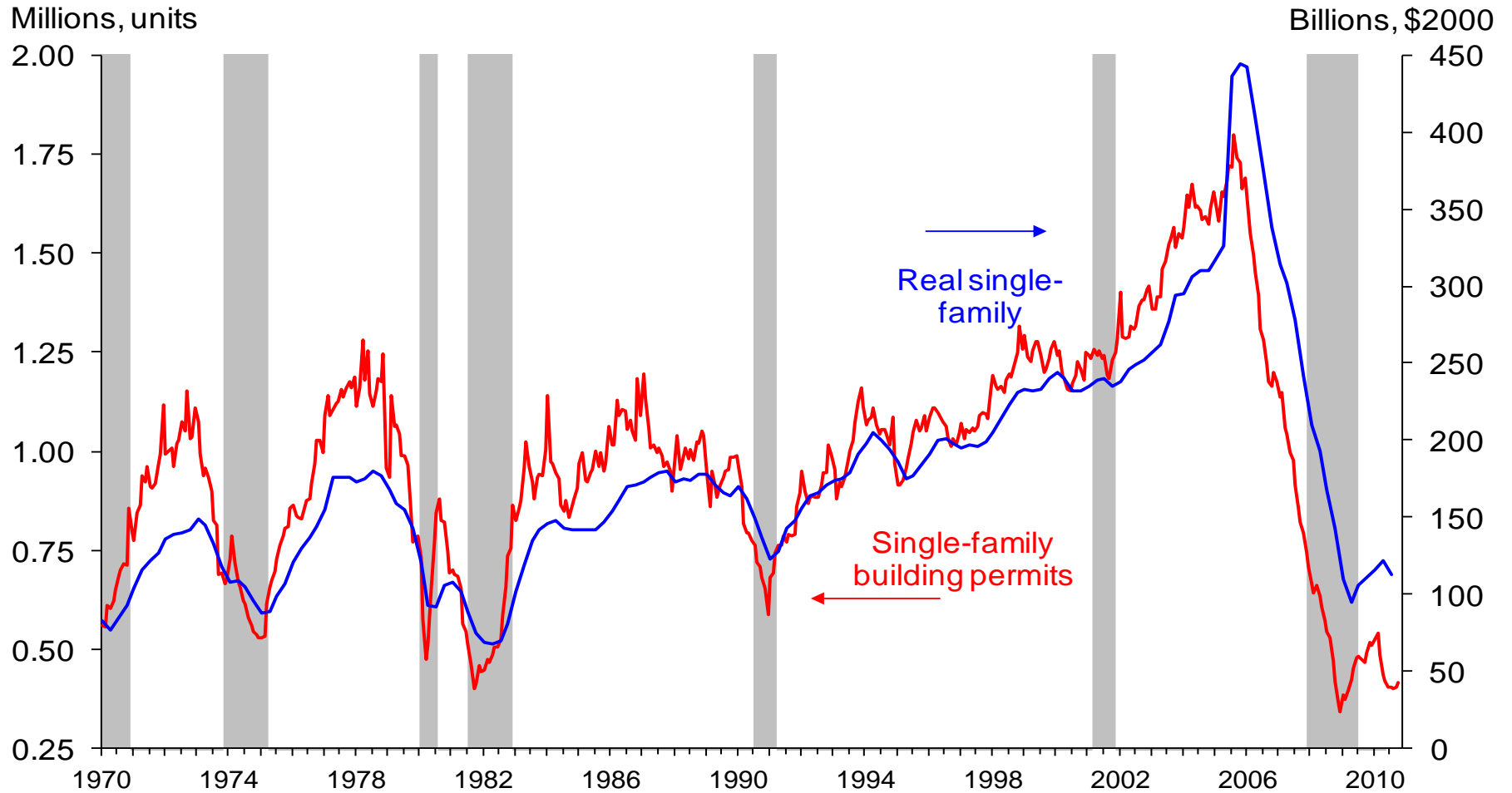
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National Economic Overview



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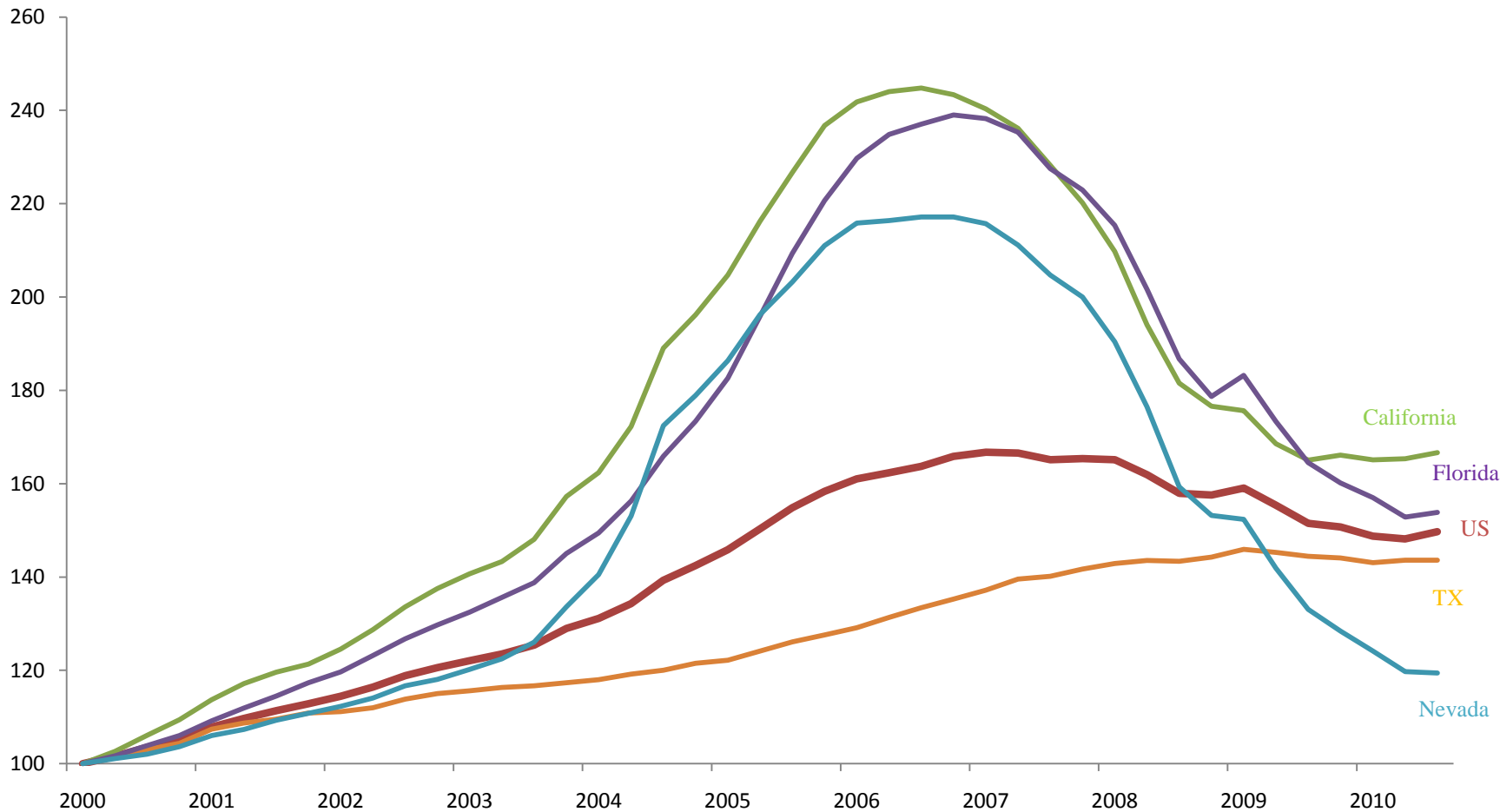
Home Construction Generally Neutral



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

Home Prices Inching Up After Boom and Bust in Many Markets

House Price Index, 2000=100



Source: Federal Finance Housing Agency.

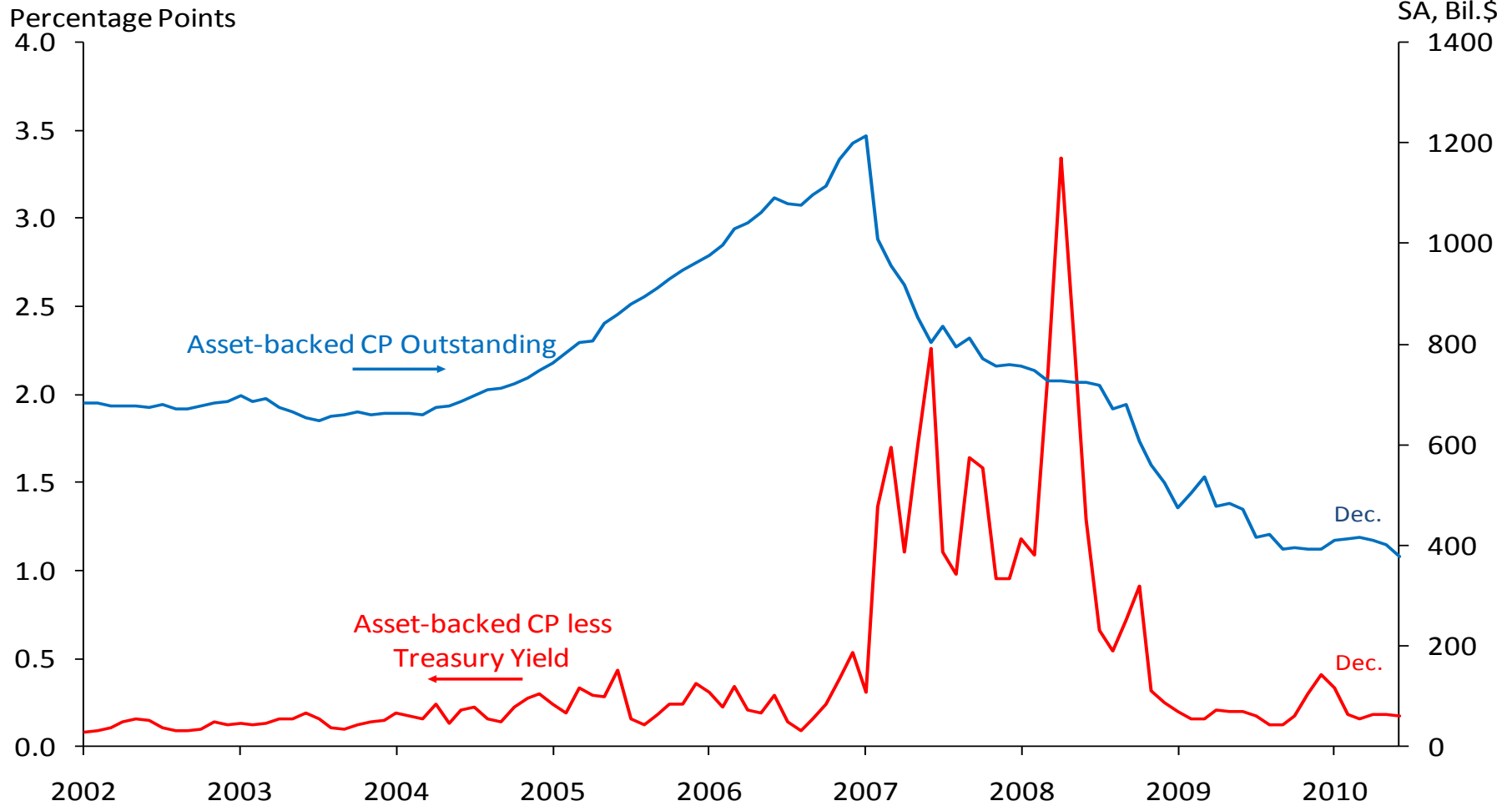
Lower Prices and Interest Rates Helping Housing Affordability

(Percent of homes sold for which

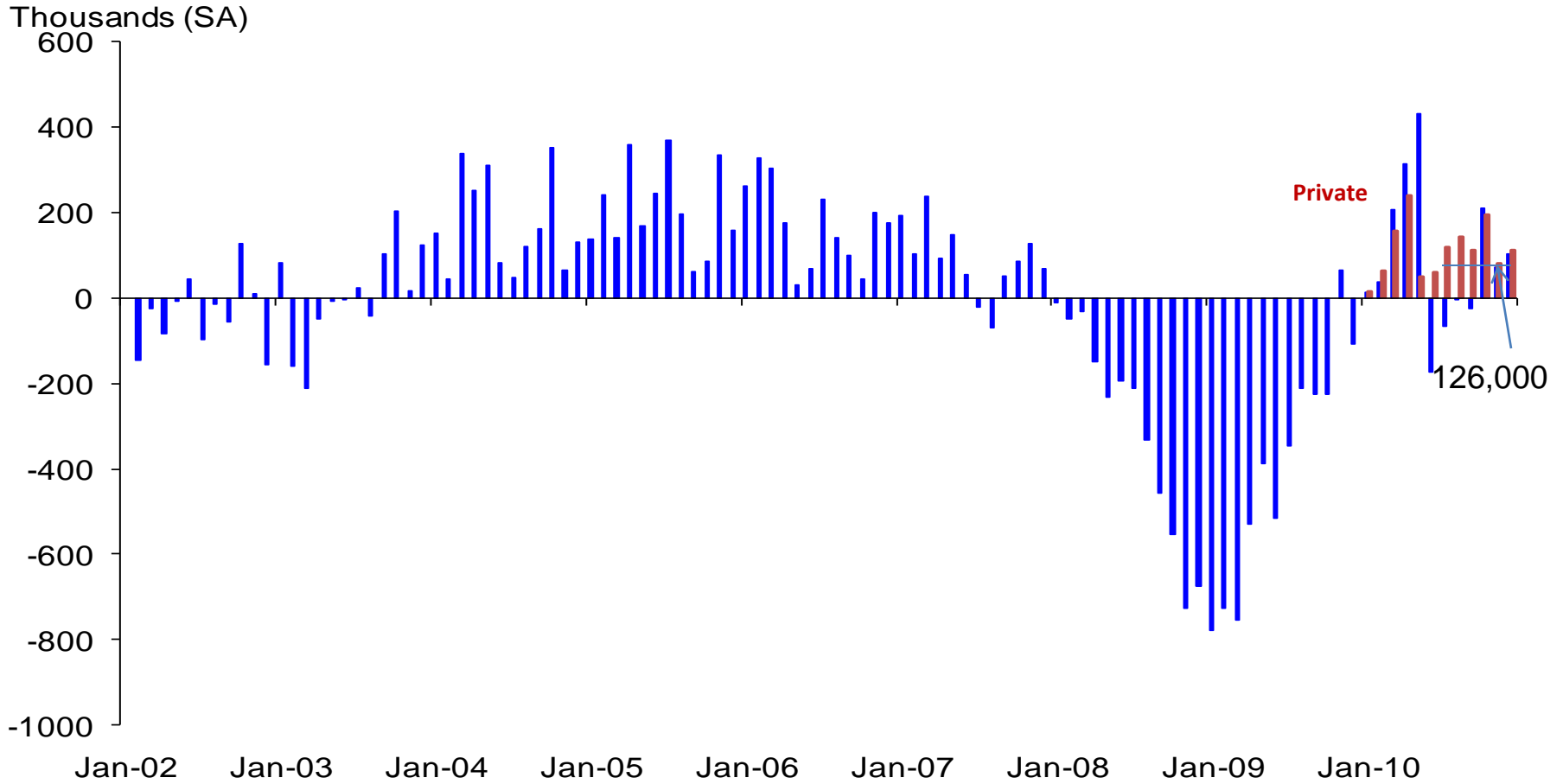
	1999:Q4	2010:Q3	Low Point	Date of Low Point
United States	64	72	40	2006 : Q3
Los Angeles	43	40	2	2006 : Q1/Q2/Q3
New York	55	23	5	2006 : Q3/Q4
Miami	59	70	10	2007 : Q1
Austin	56	74	50	2000 : Q4
Dallas	64	72	54	2007 : Q3
Houston	66	73	47	2007 : Q3
San Antonio	64	69	47	2006 : Q3

Source: NAHB - Wells Fargo Housing Opportunity Index

Asset-backed Commercial Paper Spread Back to Normal

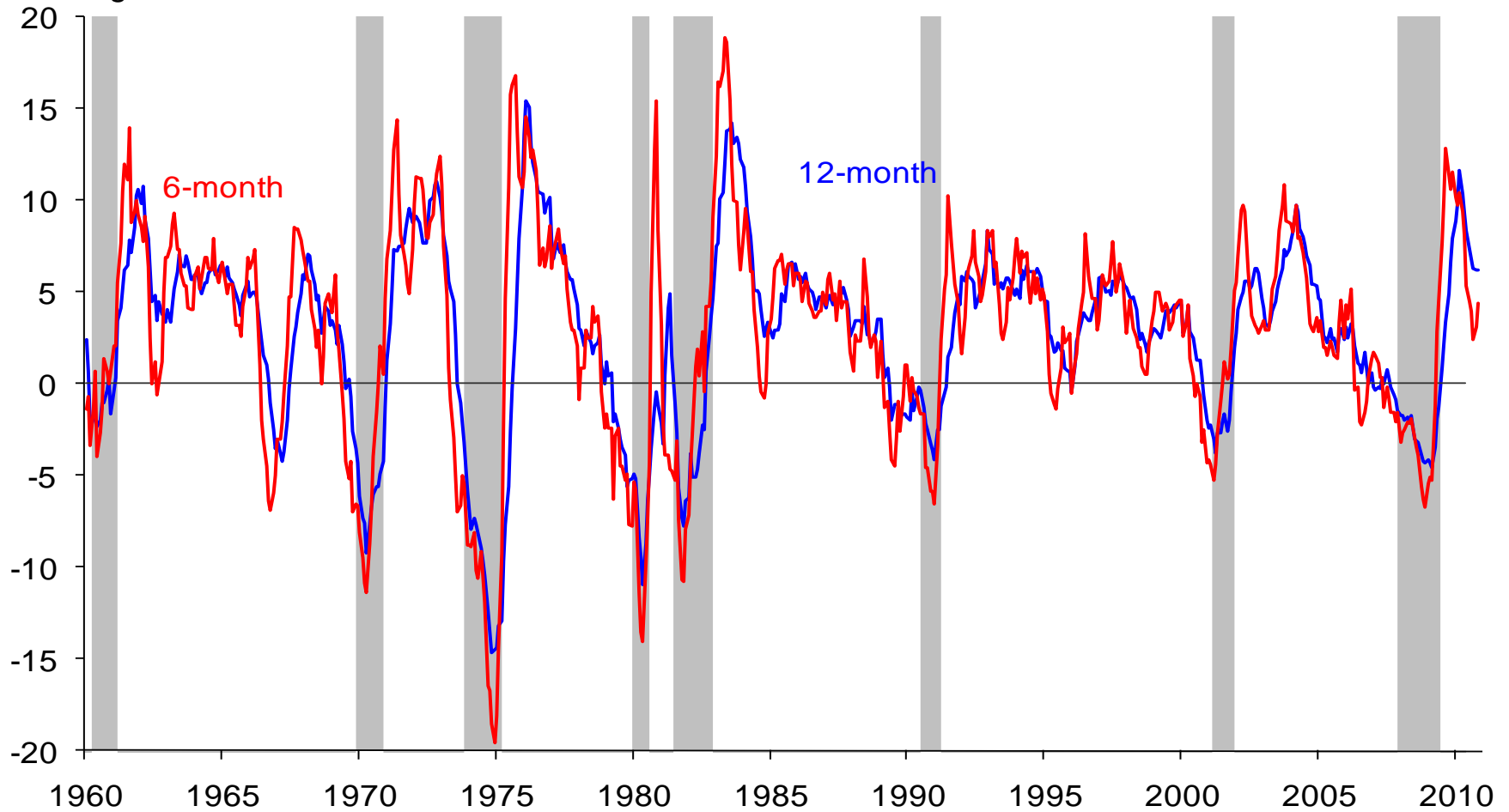


Jobs Increasing Mildly but Persistently



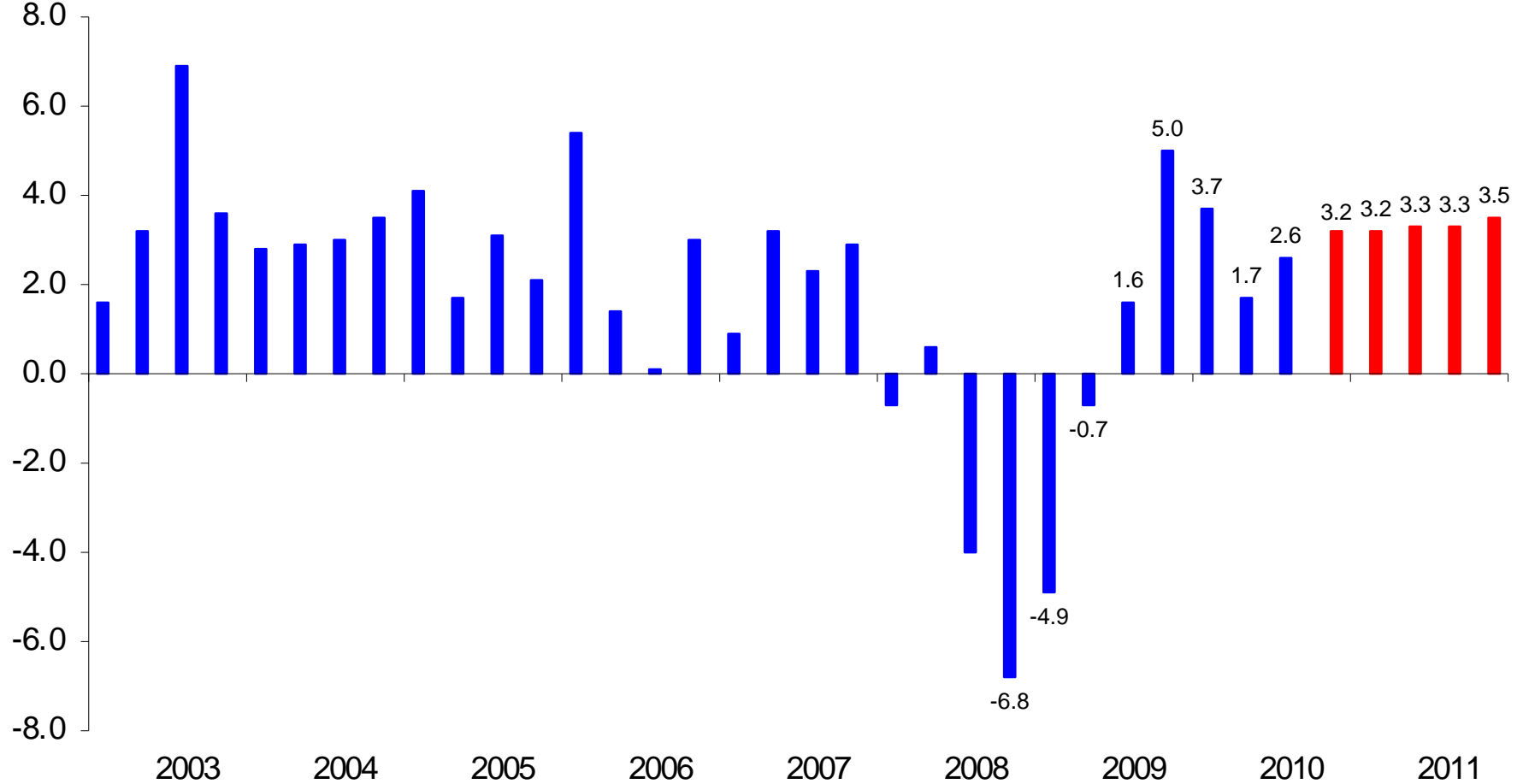
U.S. Leading Index Suggesting Recovery Likely to Continue

Annualized
% change



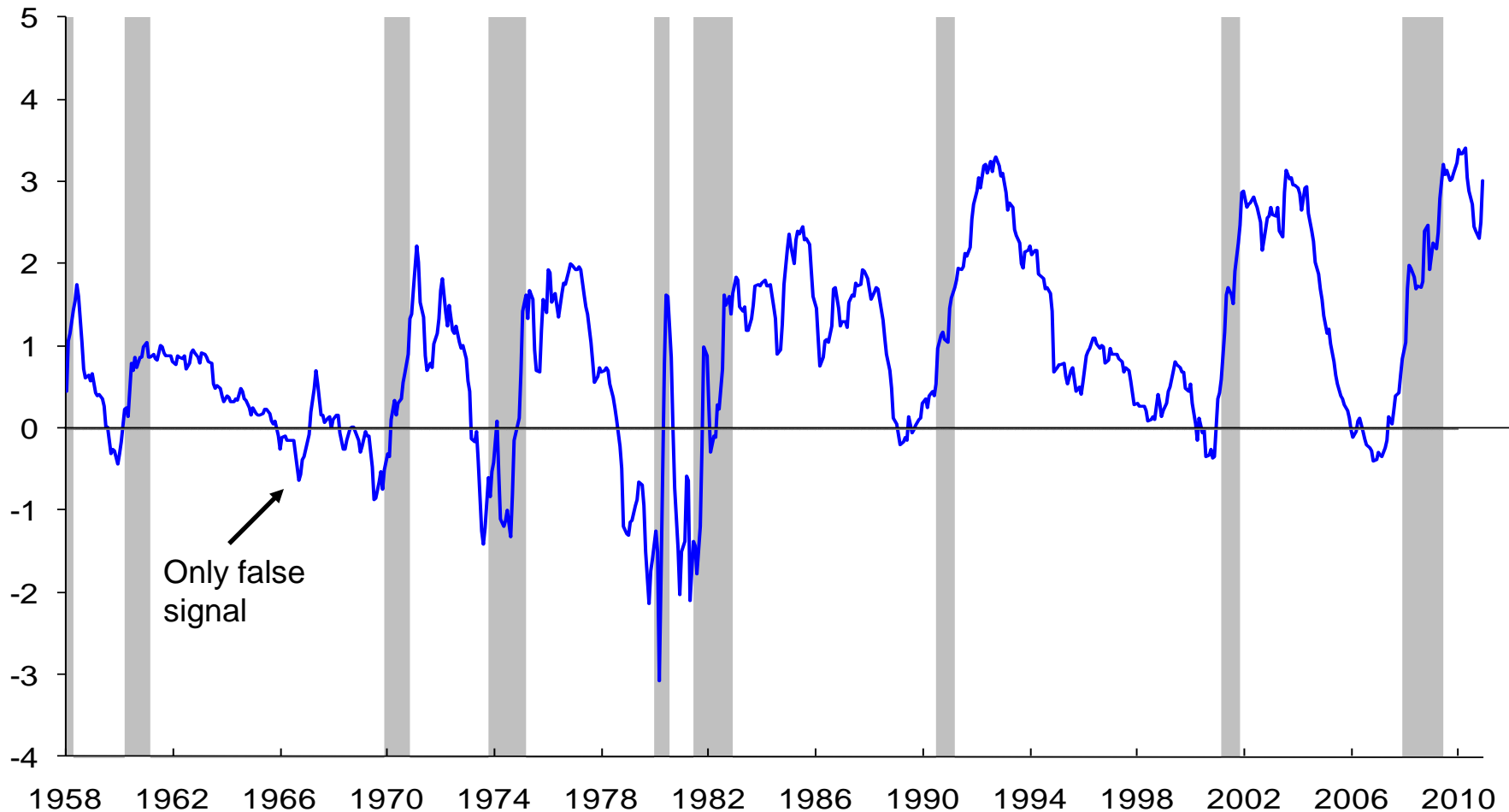
January Blue Chip Survey Projects Positive RGDP Growth to Continue

SAAR, Percent



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

Percentage points





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Texas



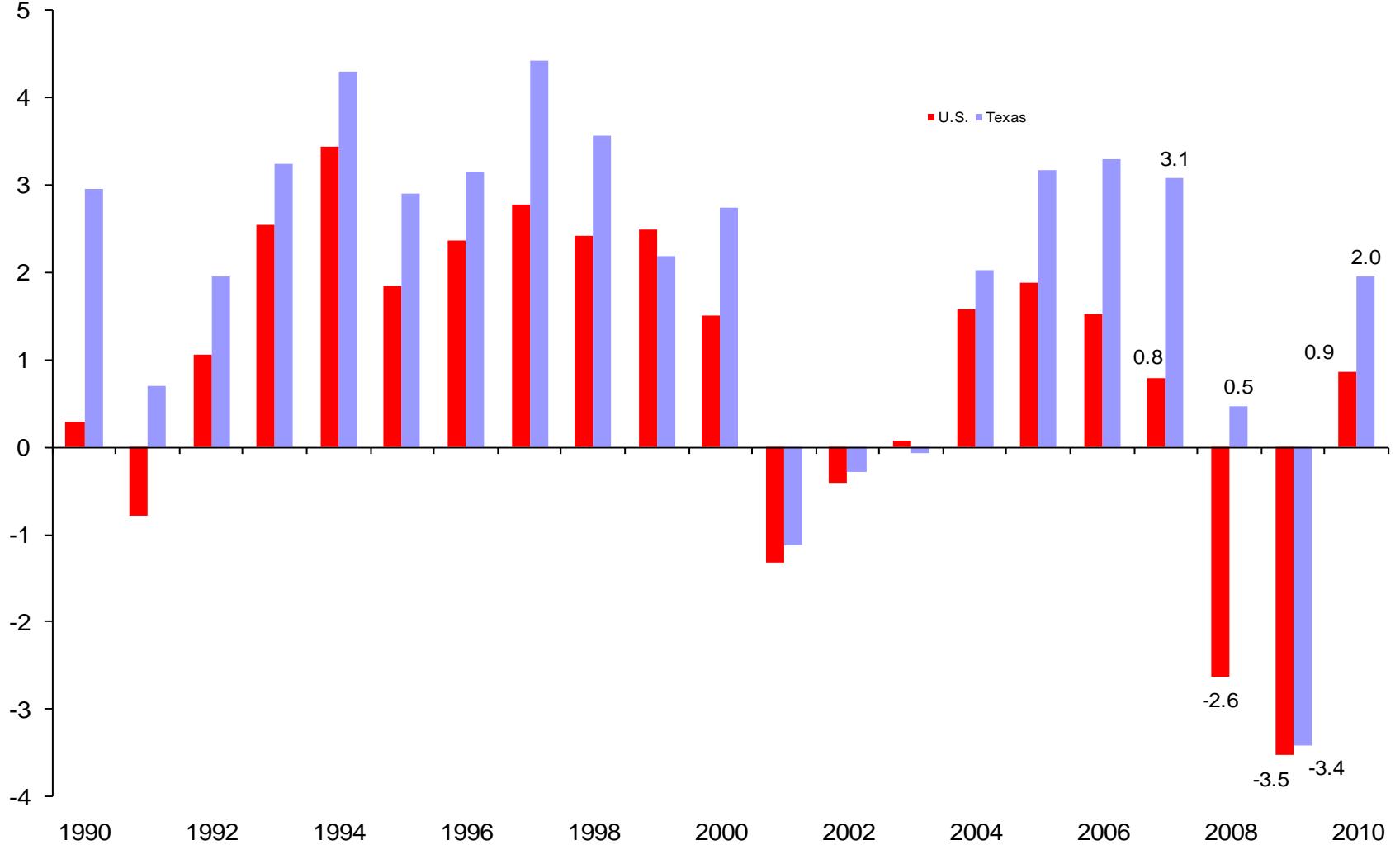
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Texas Came Into Recession Late – Has Rebounded Stronger

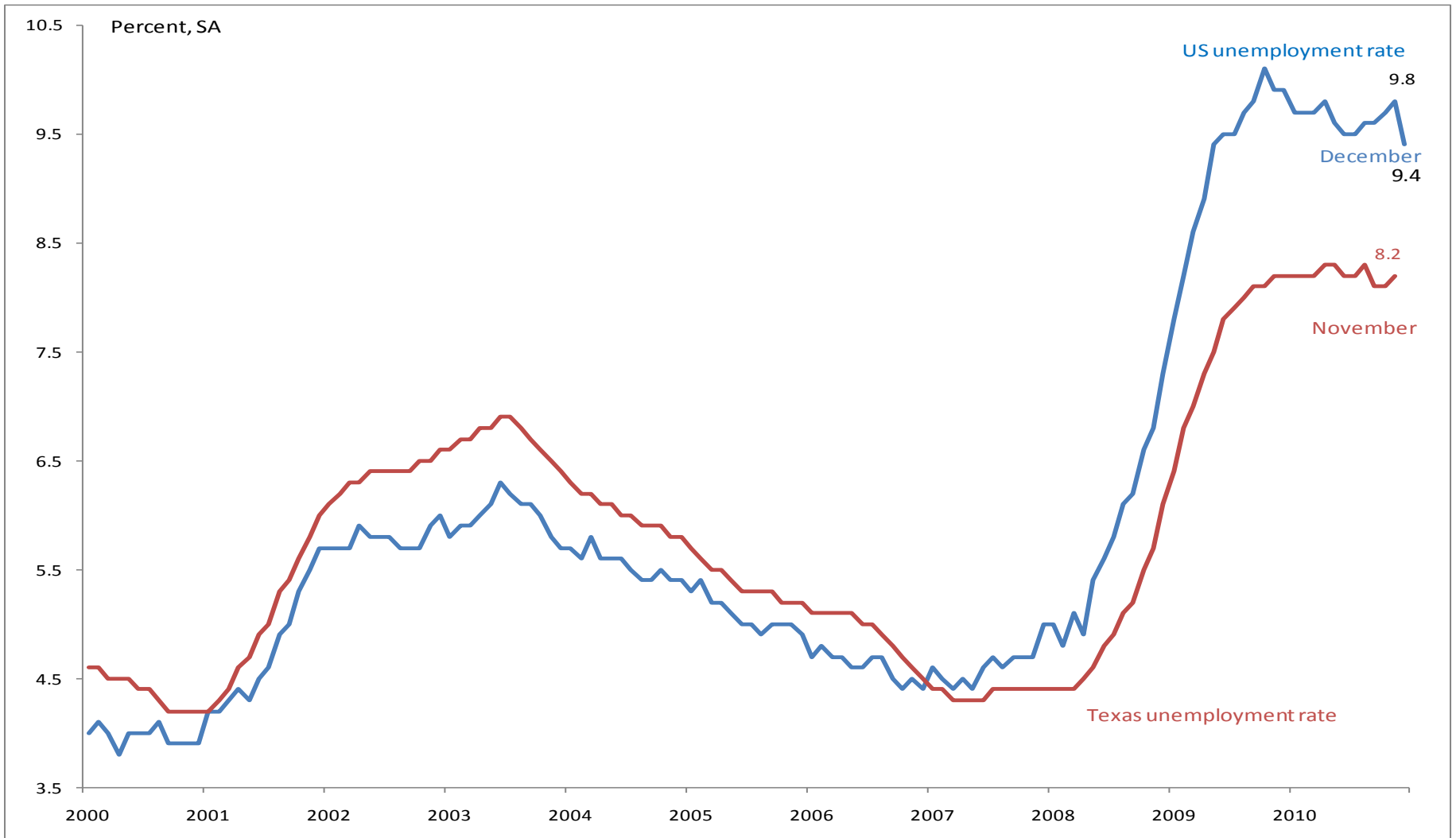
- Texas began a recession in the second half of 2008 due to a deepening national and international financial crisis, and a decline in energy and high-tech.
- Texas jobs declined about 3.4 percent (about 364,000 net job loss) in 2009.
- Rebounds in energy and high-tech provided a stimulus to Texas in 2010. Housing market less of a drag than nationally. Job growth was likely about 2.0 percent in 2010.
- This year Texas jobs likely to pickup as consumer and business optimism increases. For the year, job growth will likely be about 2.5 to 3.0 percent.

Texas Jobs Growing Faster Than Nation's

Y/Y, Percent

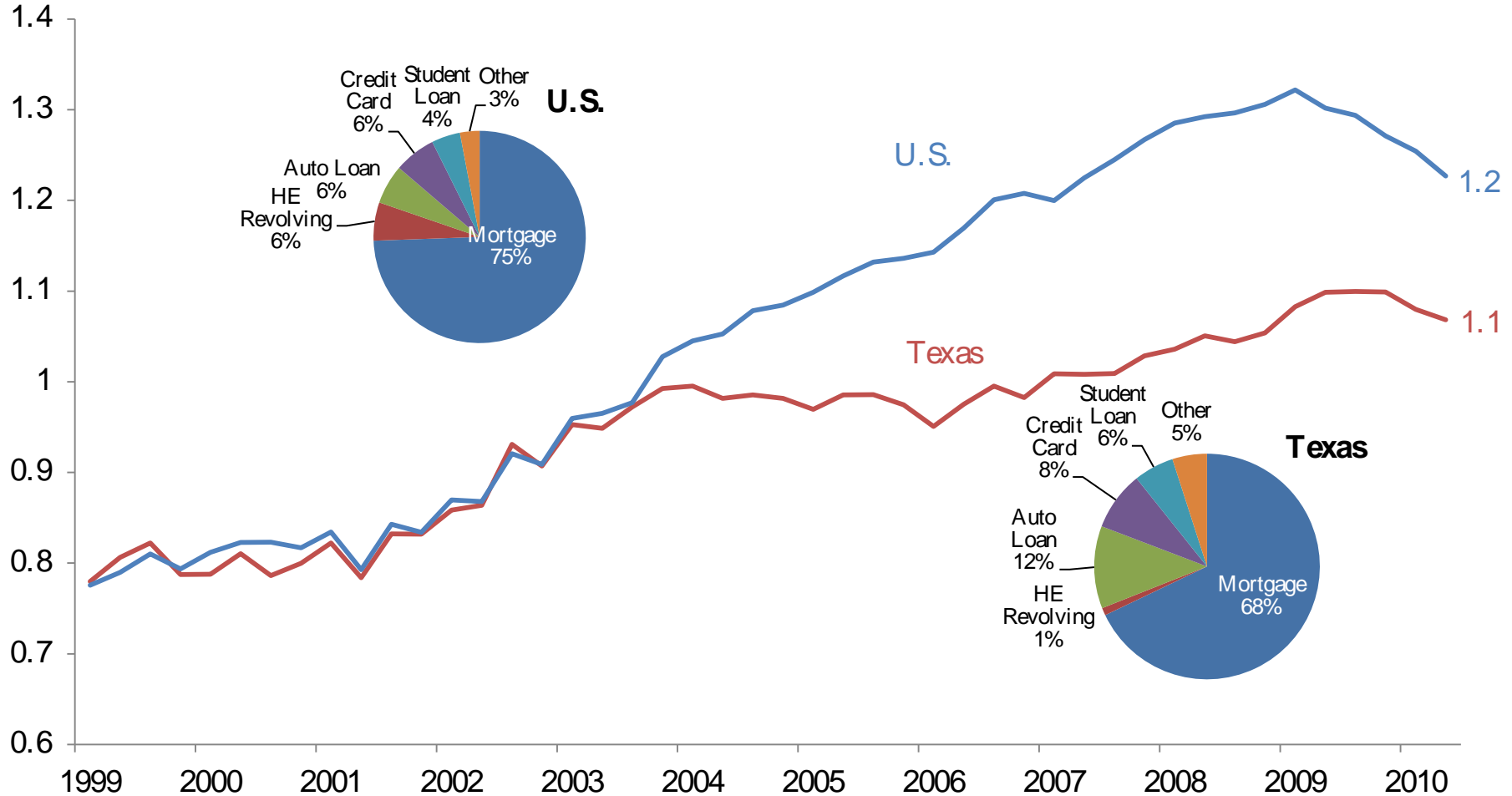


Texas UR Has Flattened – But Remains High



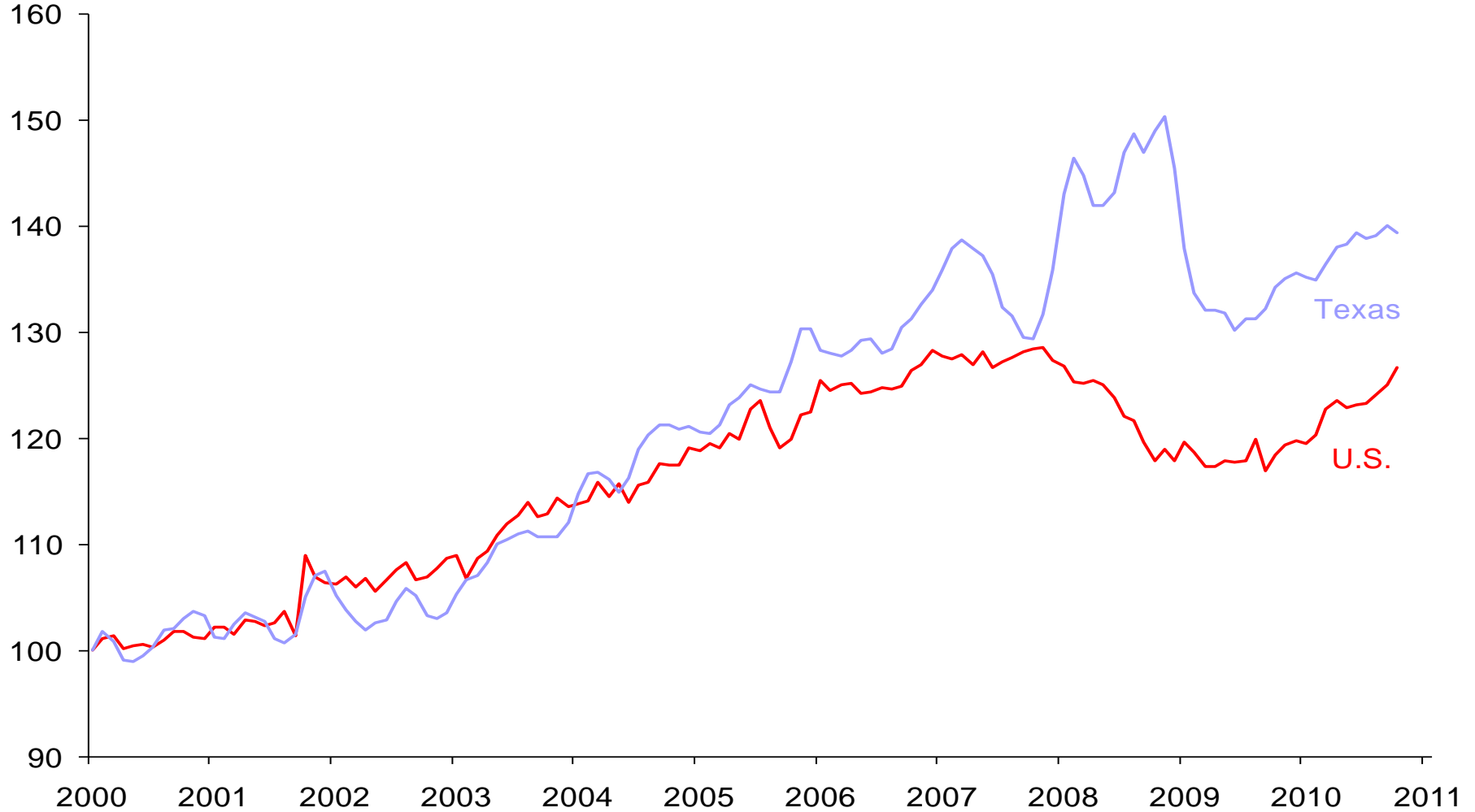
Household's Deleveraging Continues

Ratio, personal debt per capita/personal income per capita



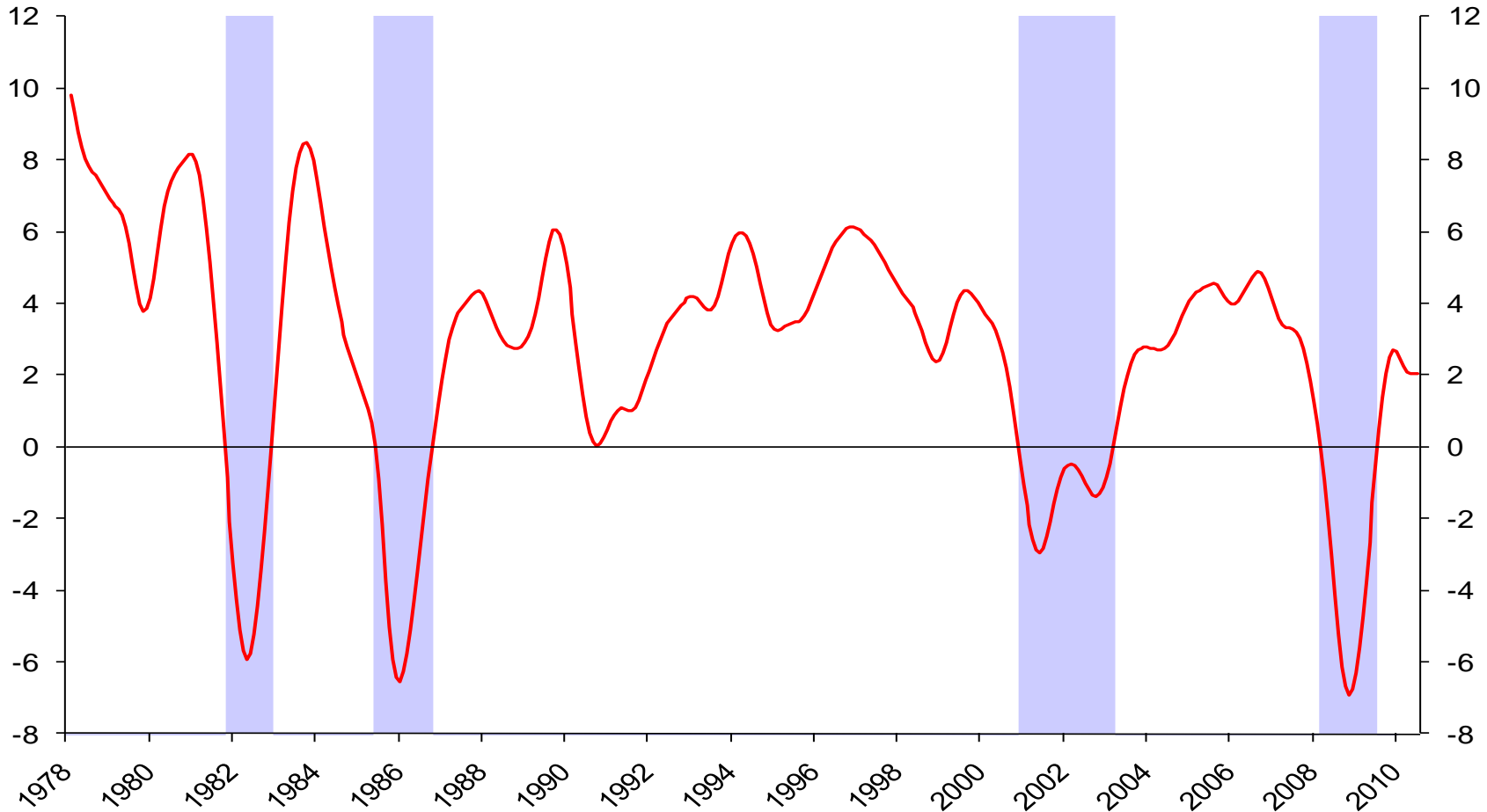
Texas Real Retail Sales Gradually Picking Up

Index, SA, Real \$
Jan. 2000=100



Texas Recession Started Near Mid-2008 and Likely Ended in Second Half of 2009

M/M SAAR

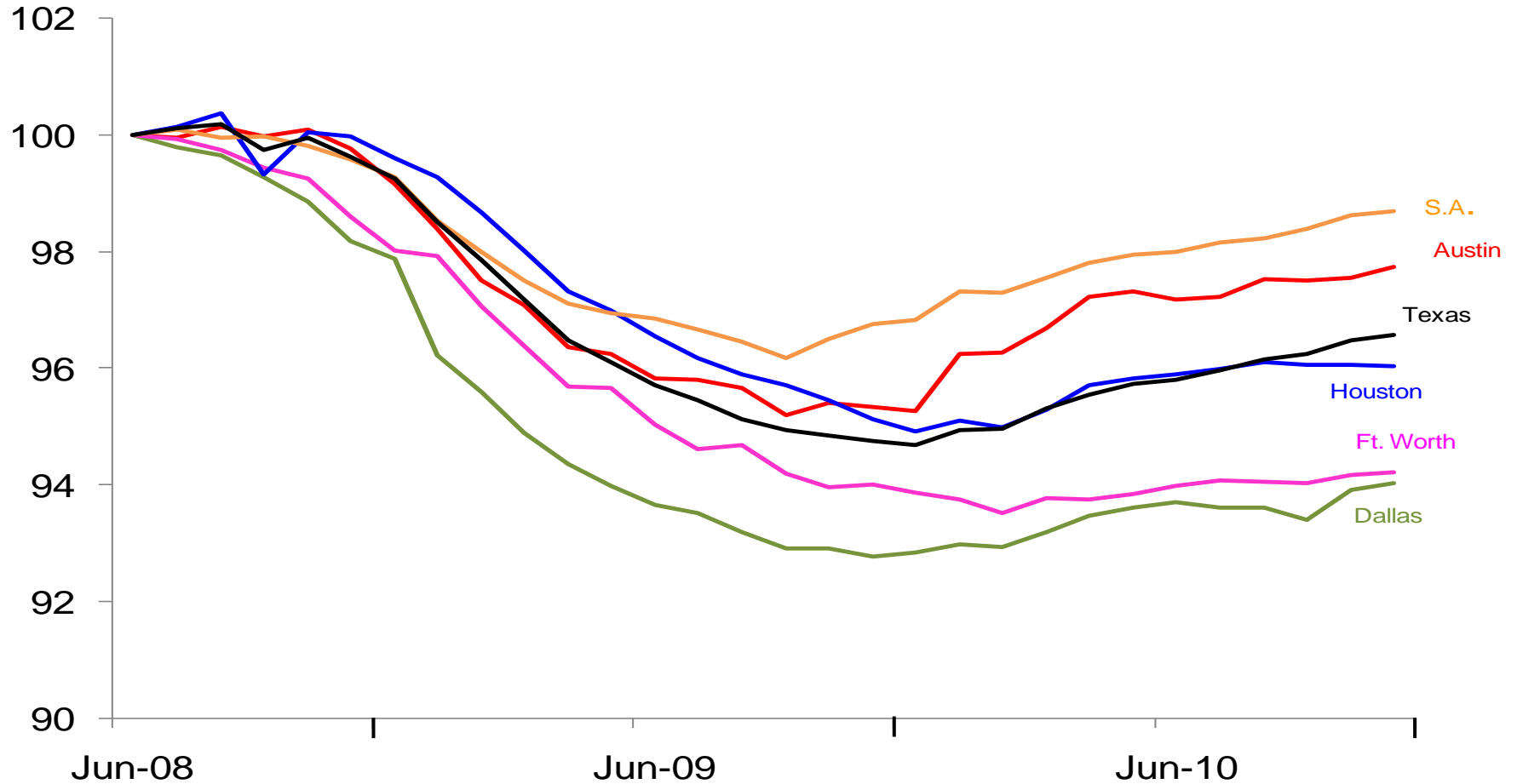


M/M SAAR

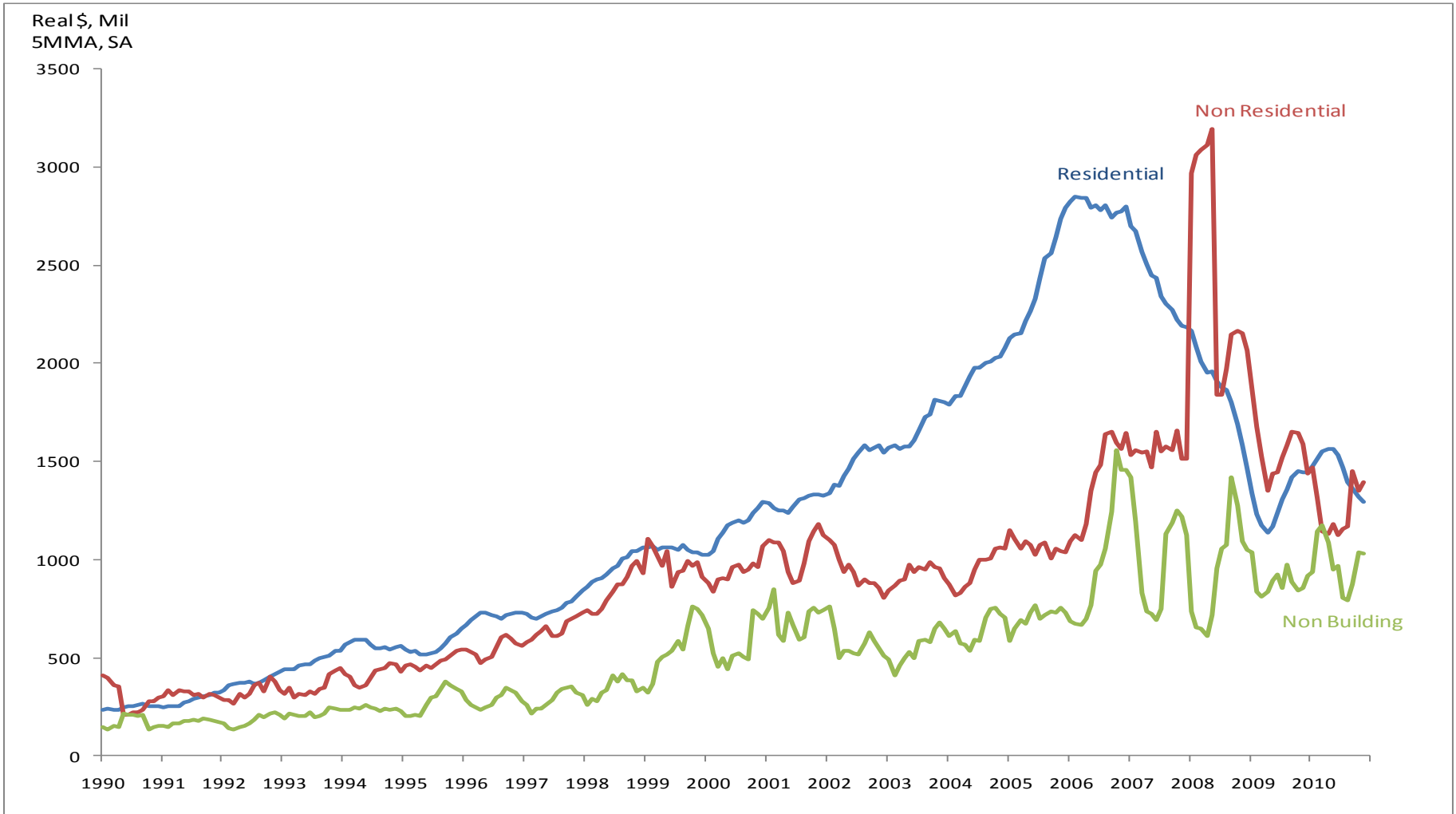
NOTE: Shaded areas represent Texas recession.

Business Cycle Pattern Similar Across Metros

Private Employment
Index Jun. 2008=100

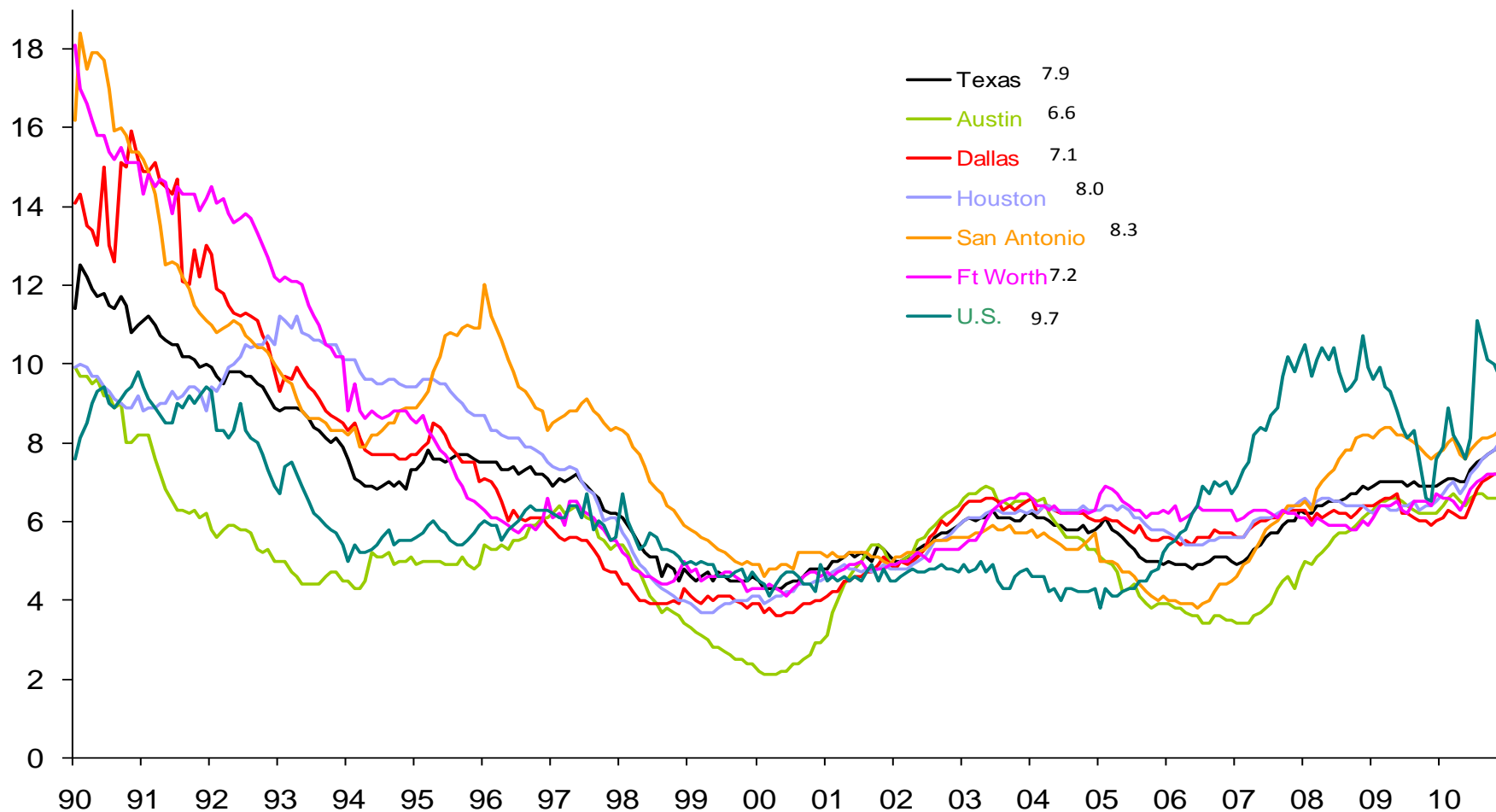


Texas Residential Construction Contract Values Show Recent Weakness

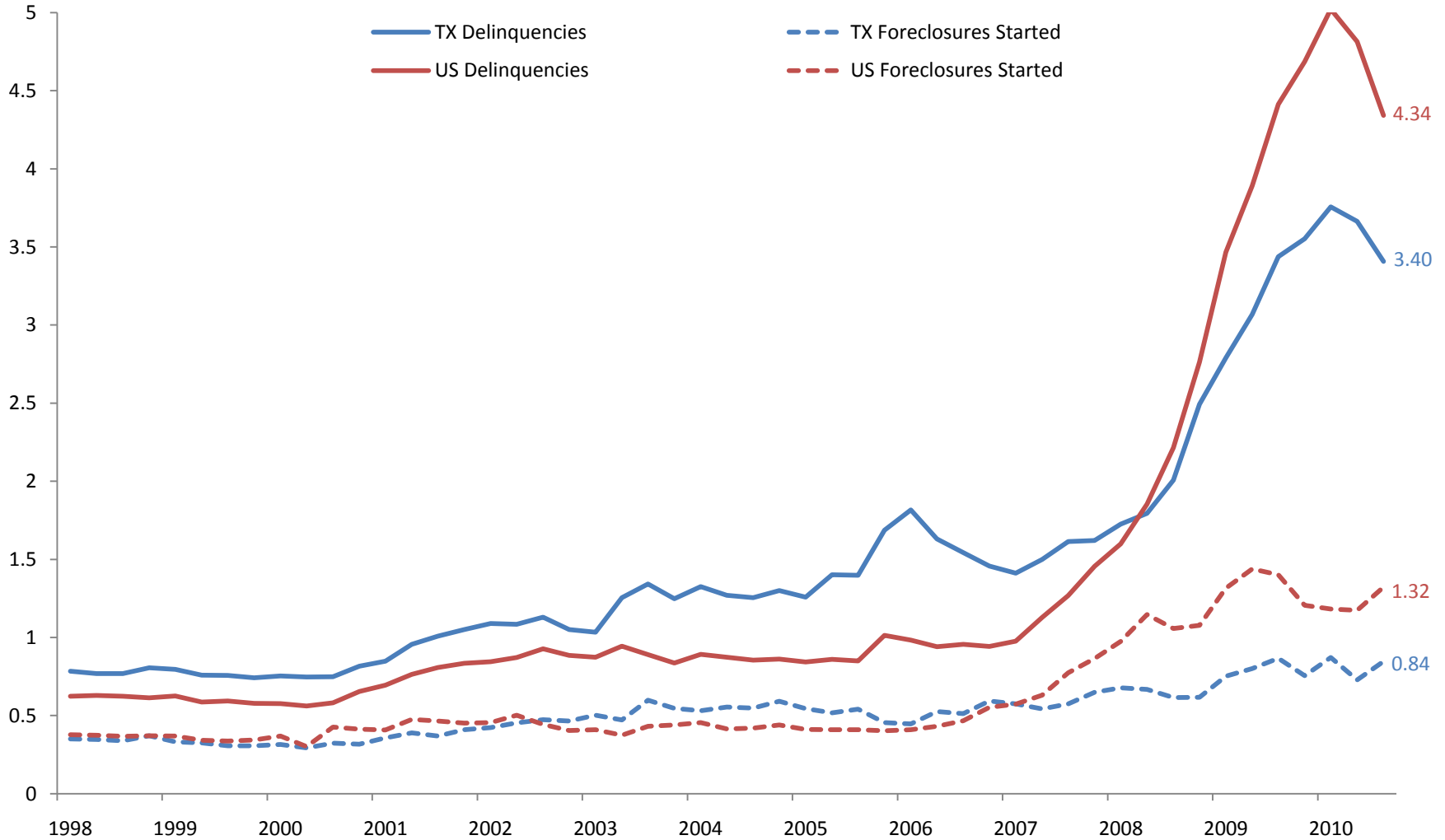


Home Inventories Relative To Sales Well Below National Average

Months



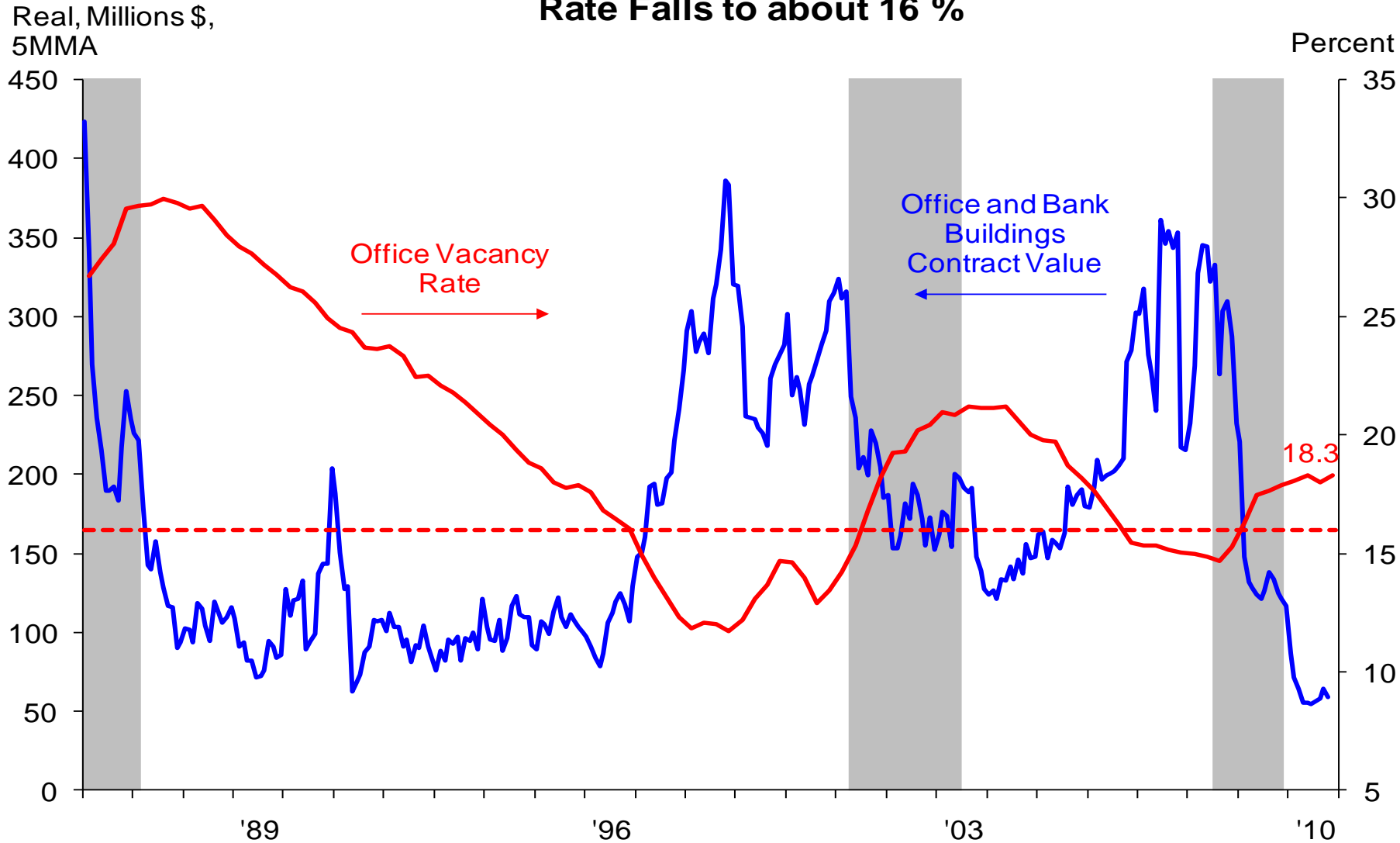
Mortgage Foreclosures Flat, Delinquency Rate Remains High, TX Better than US



Commercial Real Estate Remains Weak

- Banks headquartered in the Eleventh District have 23% share of gross assets in commercial RE loans vs. 12% in nation
- In Q3, 4.5% of CRE loans in Texas banks were noncurrent vs. 7.0% in nation
- Vacancies are rising and rents are falling – although these changes have narrowed since Q4 2009
- Growing signs that prices are close to bottom, sales are increasing, but significant new construction not expected until at least the end of 2011

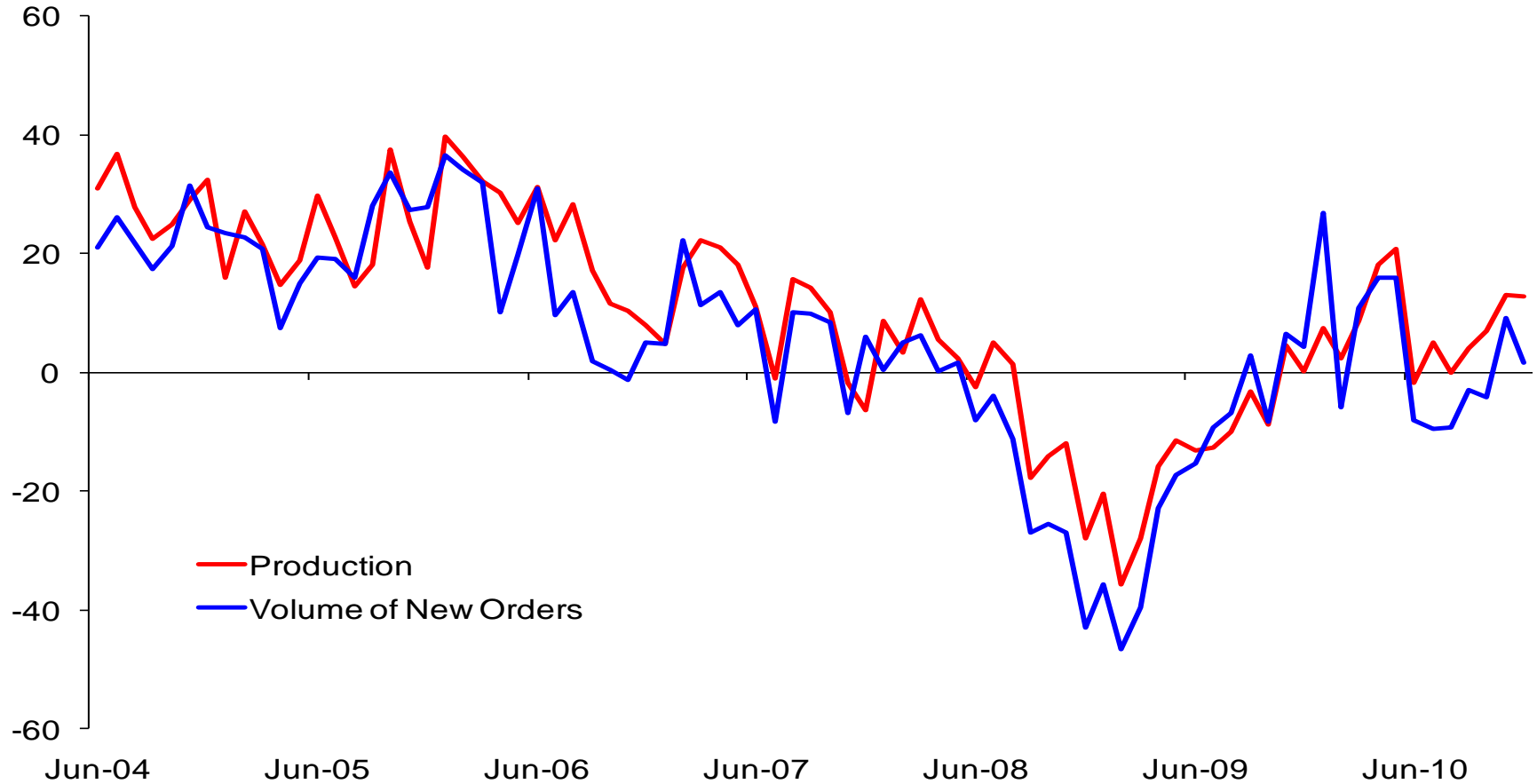
Office Construction Not Likely to Increase until Vacancy Rate Falls to about 16 %



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

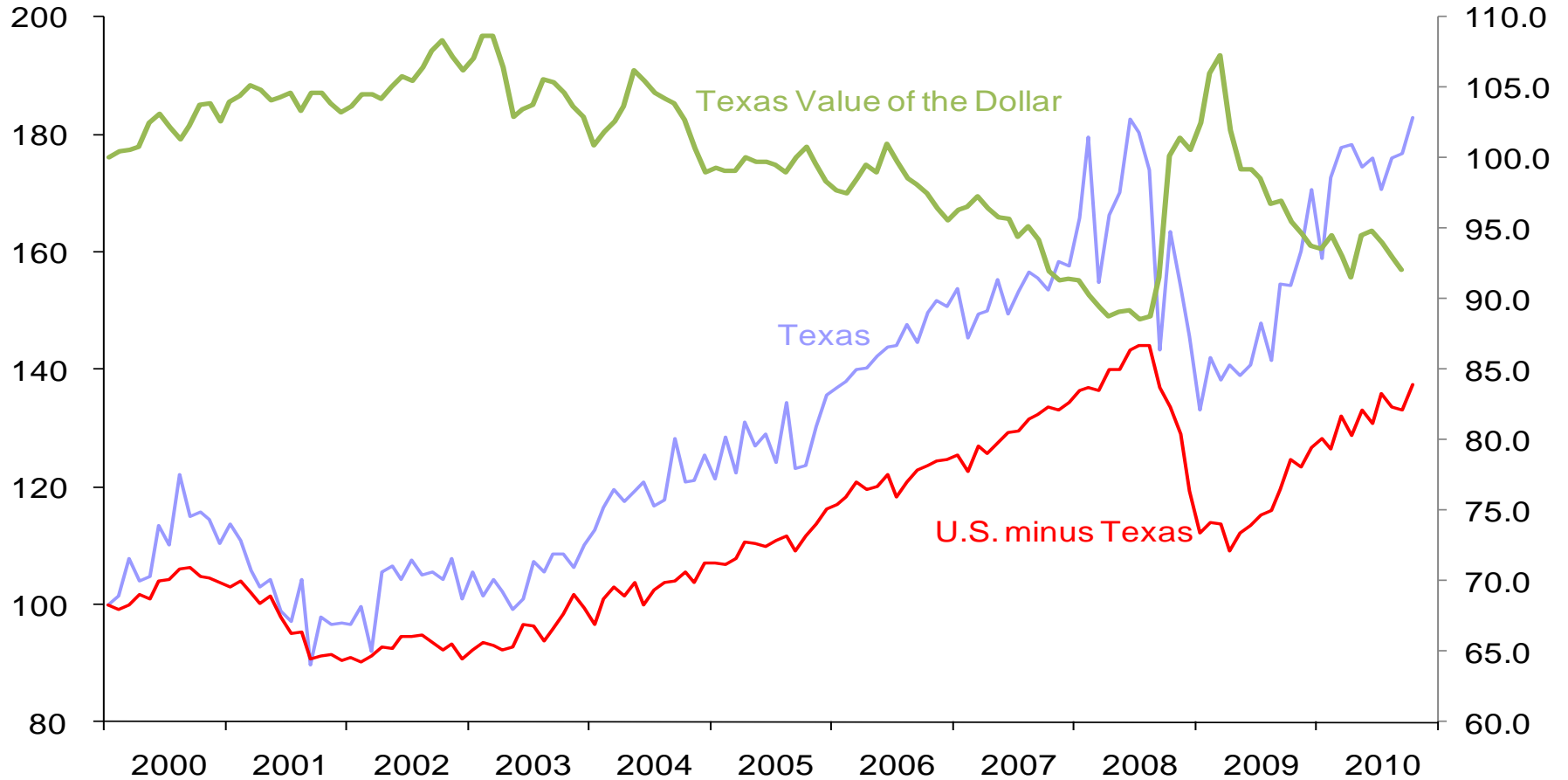
Manufacturing Output Picked Up in Nov. and Dec.

TMOS
Index, SA



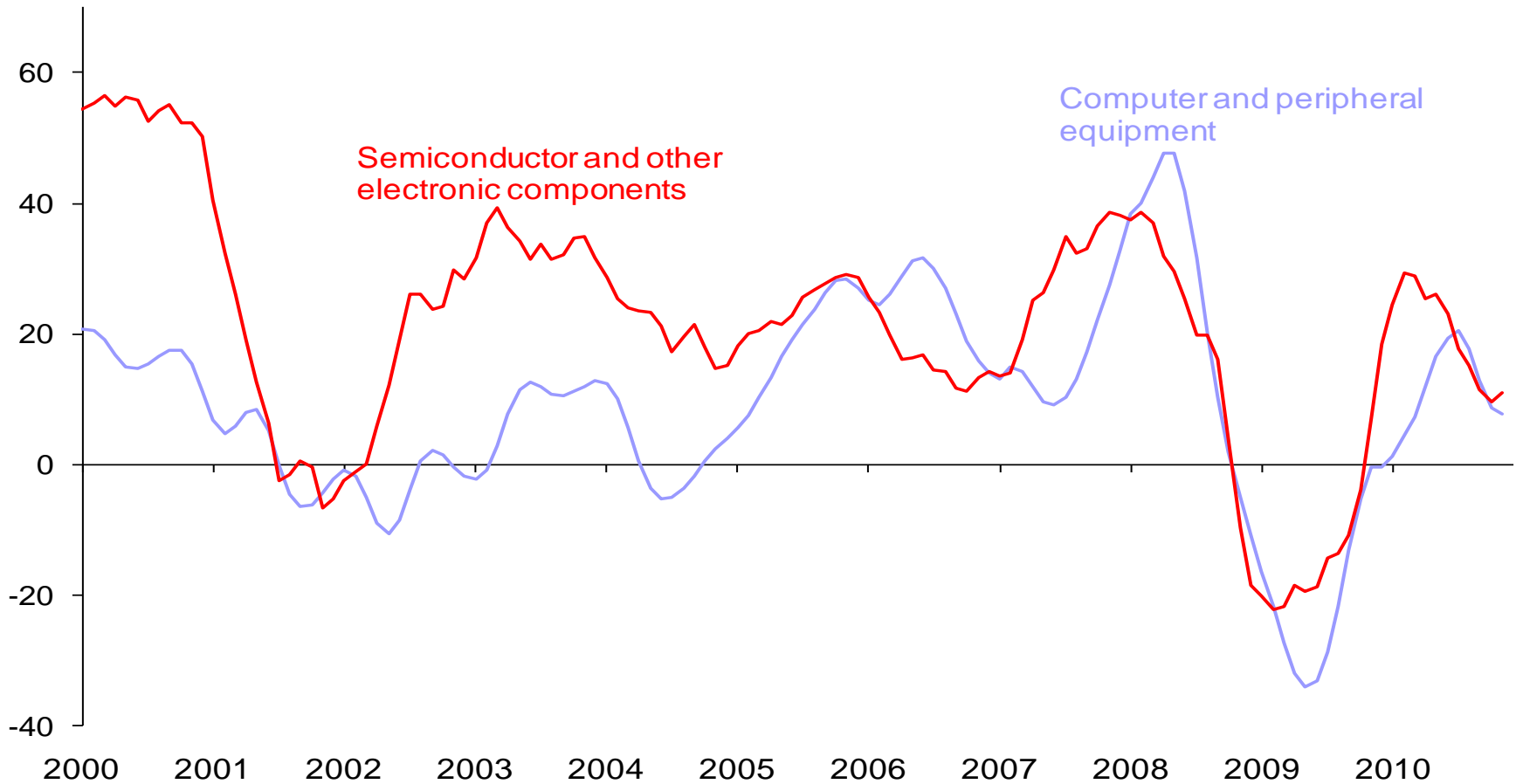
Exports Surpass Pre-Recession Level

Index, SA Real
Jan. 2000=100

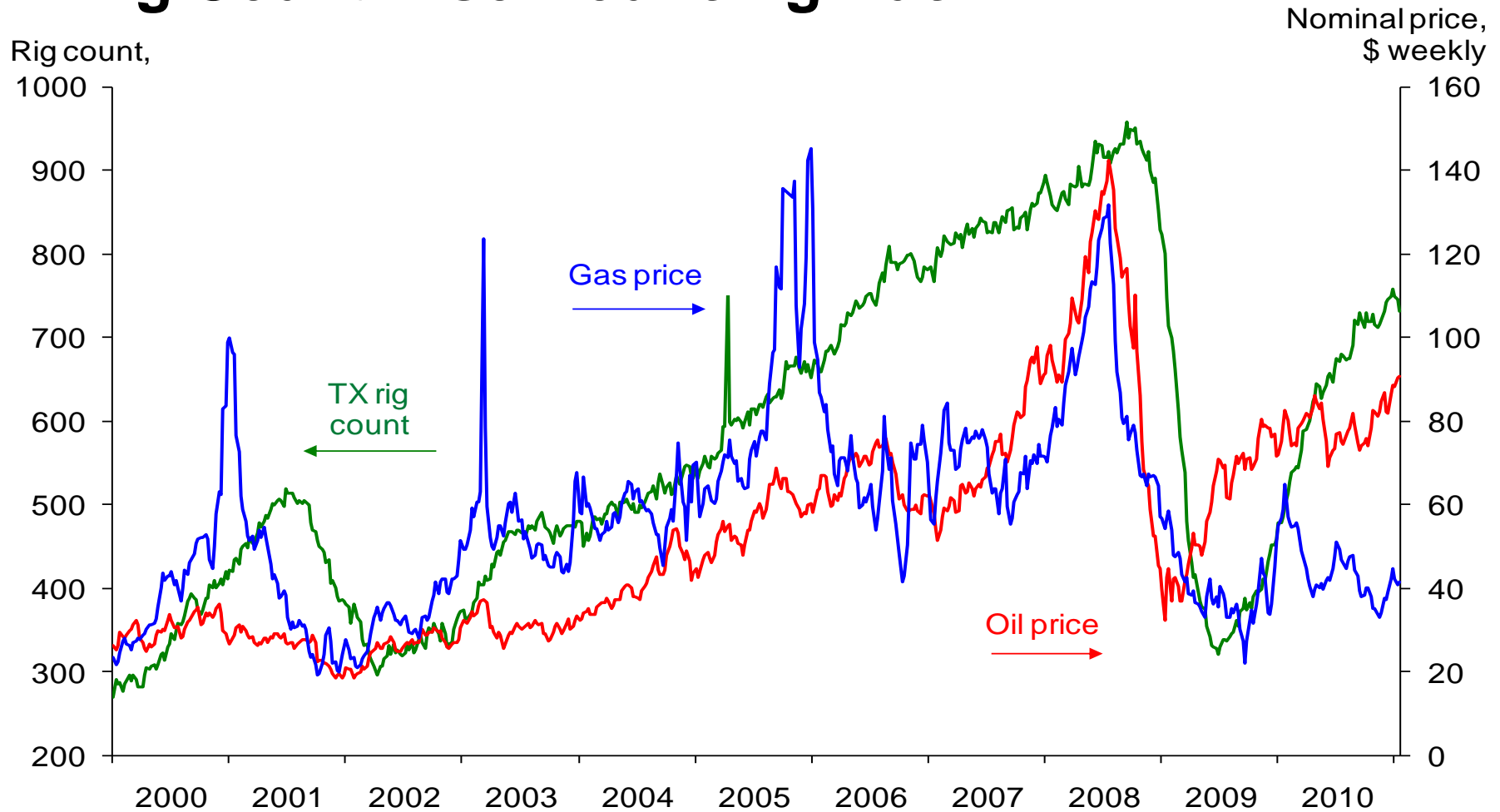


High-Tech Output Plunged in 2009 – Rebounded Strongly, Now Slower but Positive

Percent,
Y/Y



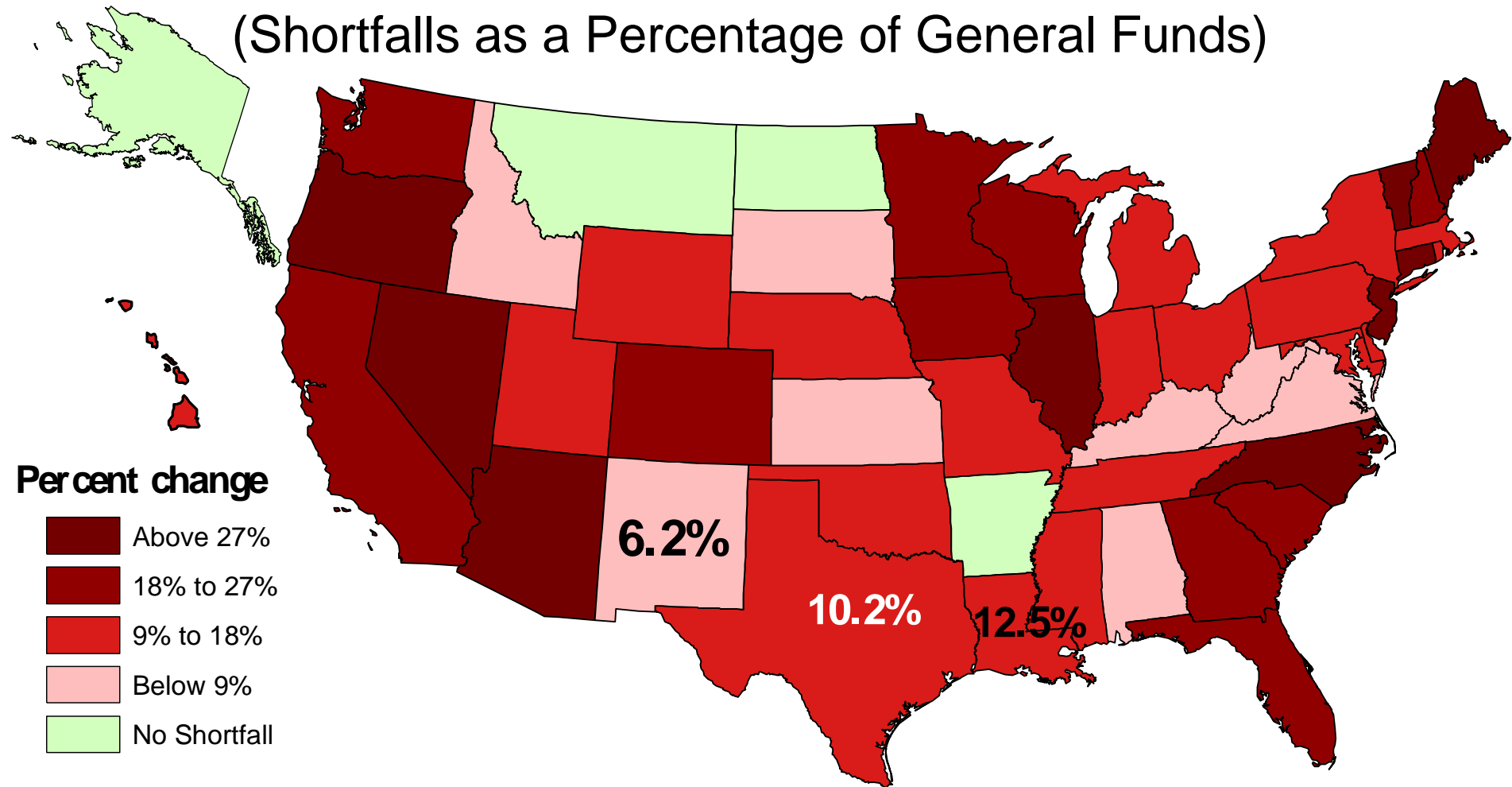
Rig Count Also Bouncing Back



Note: Gas price is multiplied by 10

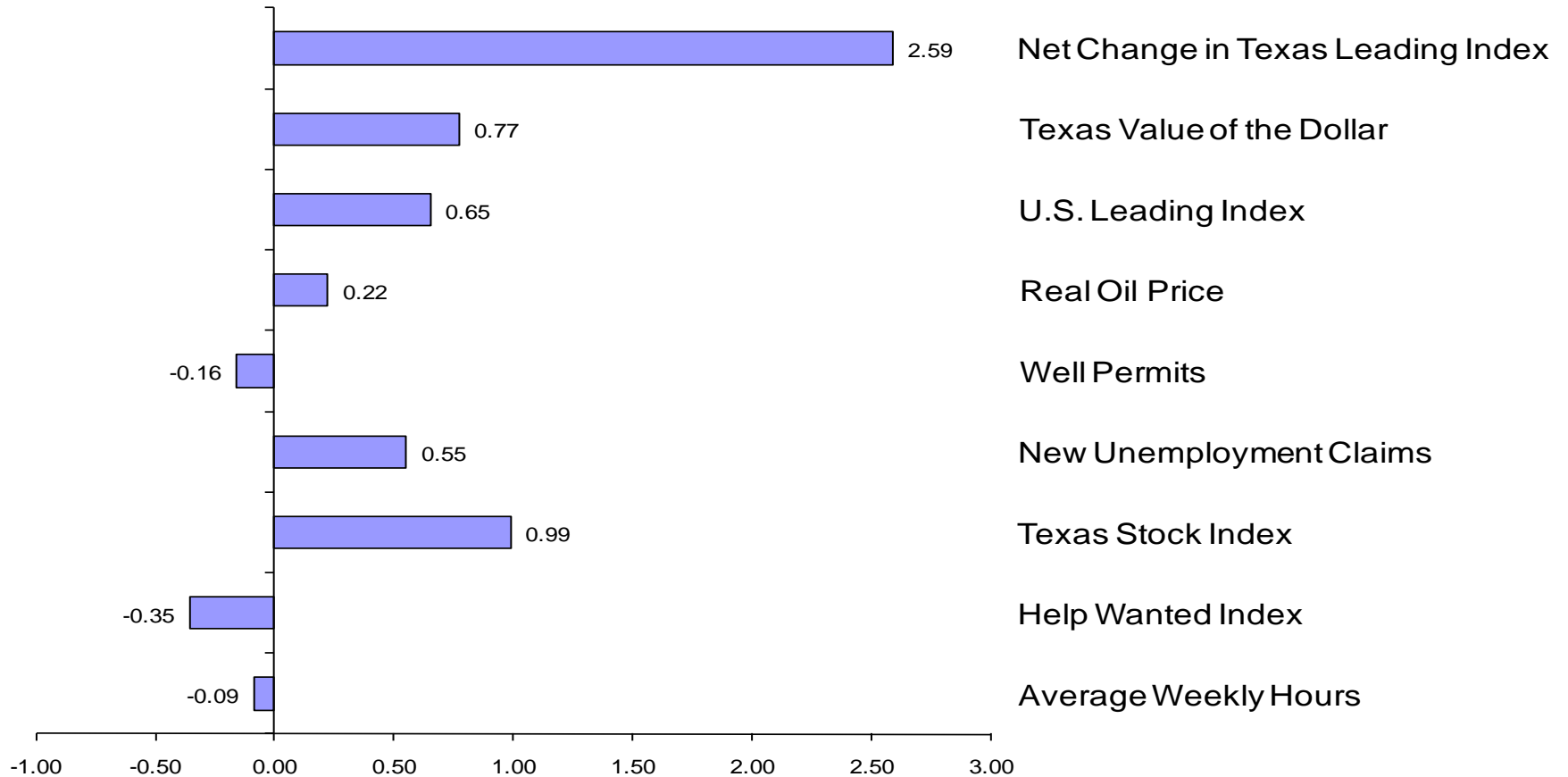
Projected 2011 State Budget Shortfalls Remain a Significant Challenge

(Shortfalls as a Percentage of General Funds)

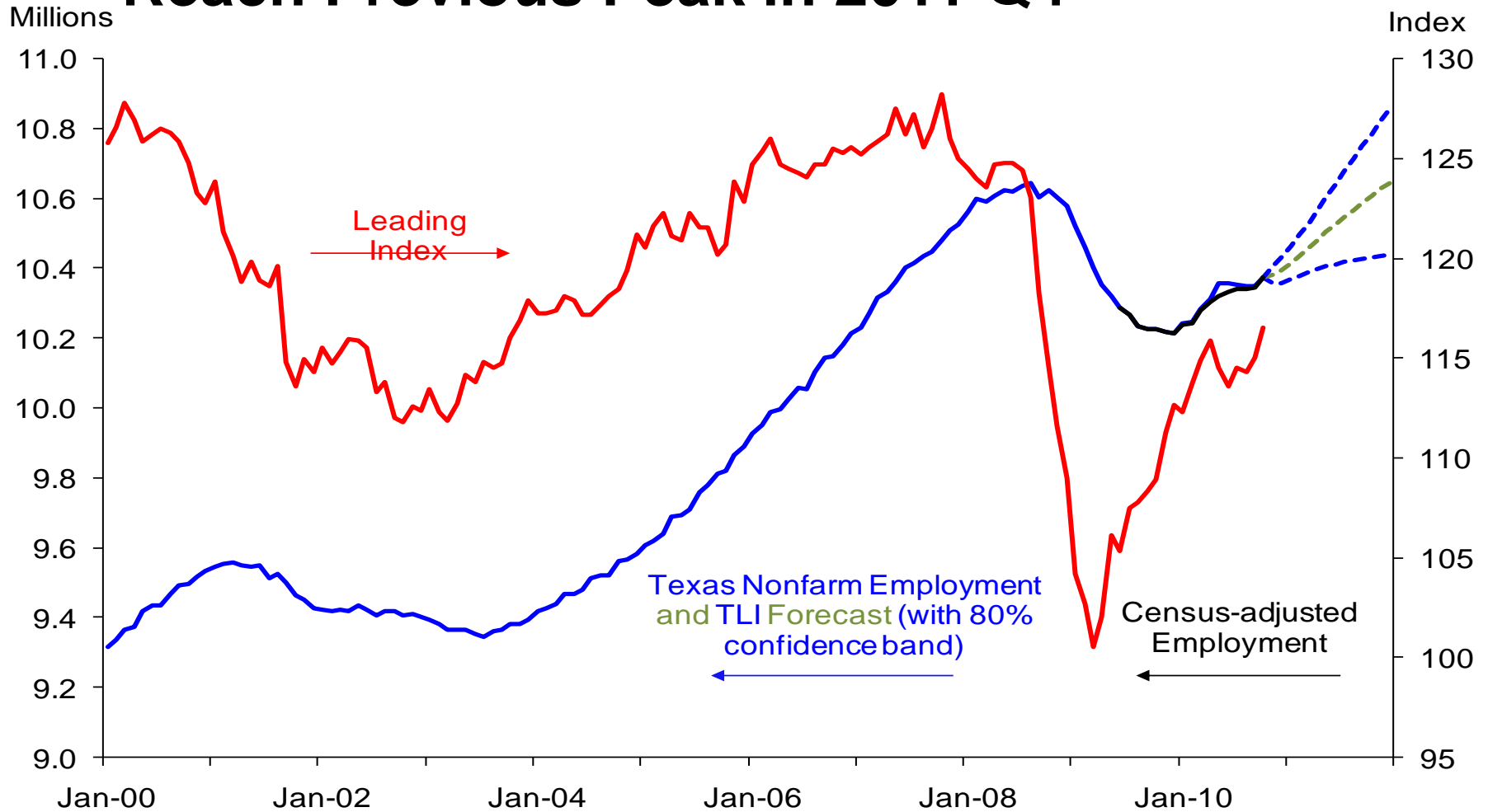


Recent Broad-based Increase in TLI

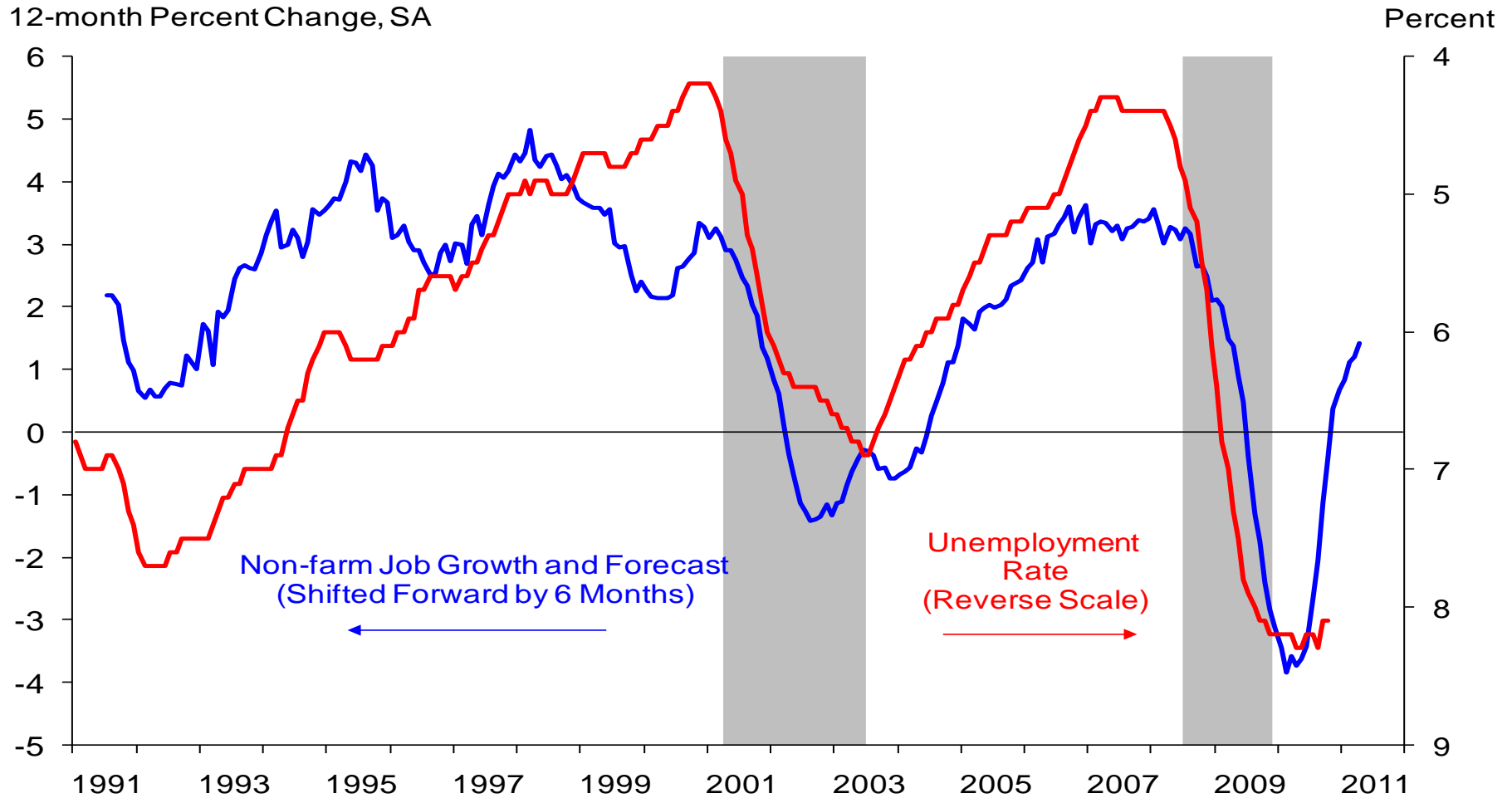
Texas Leading Index Components, 3 month change
(September-November)



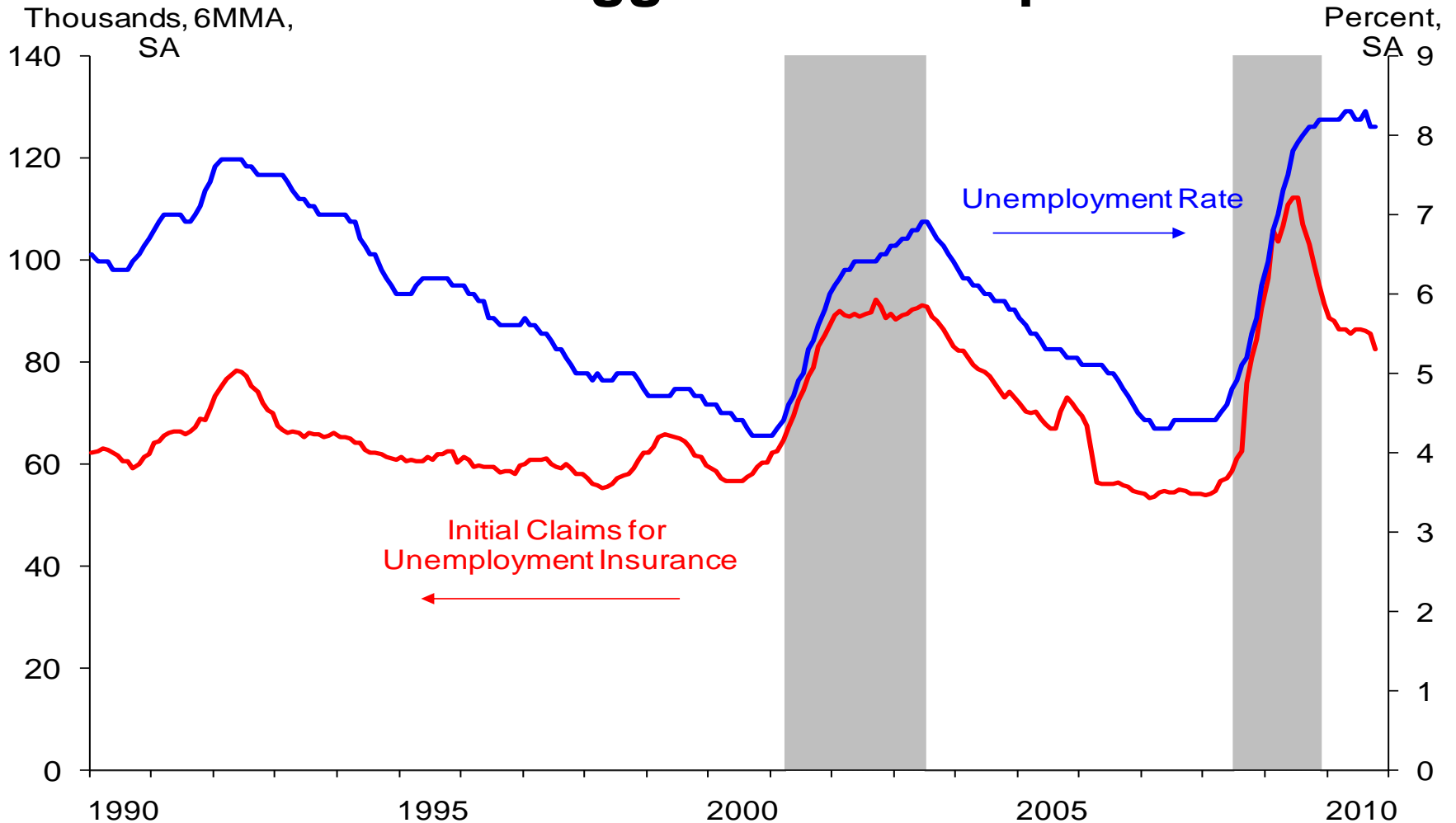
Texas Jobs Likely to Grow about 2.7 % in 2011 – Reach Previous Peak in 2011 Q4



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



Fall in Initial Claims for Unemployment Insurance also Suggests UR Drop



San Antonio Job Growth Likely to be Slightly Faster than TX in 2011

- 2010 job growth (2.1 percent) very close to state average
- Recent 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 (4.5%) and manufacturing (3.9%). Govt., trade and finance grew moderately (about 2.0%).
- Recent strength - Medical Military, Health Care, Call Centers, Finance/Insurance, Toyota, Eagle-Ford
- Low cost of living important to growth
- 2011 job growth likely about 3.0 – 3.5 percent

Eagle Ford Shale Formation – Mostly South of Line from Del Rio to Houston

- In 2010, 1,018 drilling permits were issued through November, up from 94 the year before, and output of crude oil, condensate and other liquids nearly quadrupled to 3.9 million barrels, according to Texas Railroad Commission data.
- About 115 rigs are working in the area now, and companies so far have drilled several hundred wells.
- “The Eagle Ford Shale in 2011 will really hit its stride,” said Ralph Eads, head of Jefferies’ energy investment banking group in Houston
- “The economics in the Eagle Ford are probably better than in almost any other play in the world,” Eads said. “The returns are stunning.” – Fuel Fix online January 3, 2011

Summary

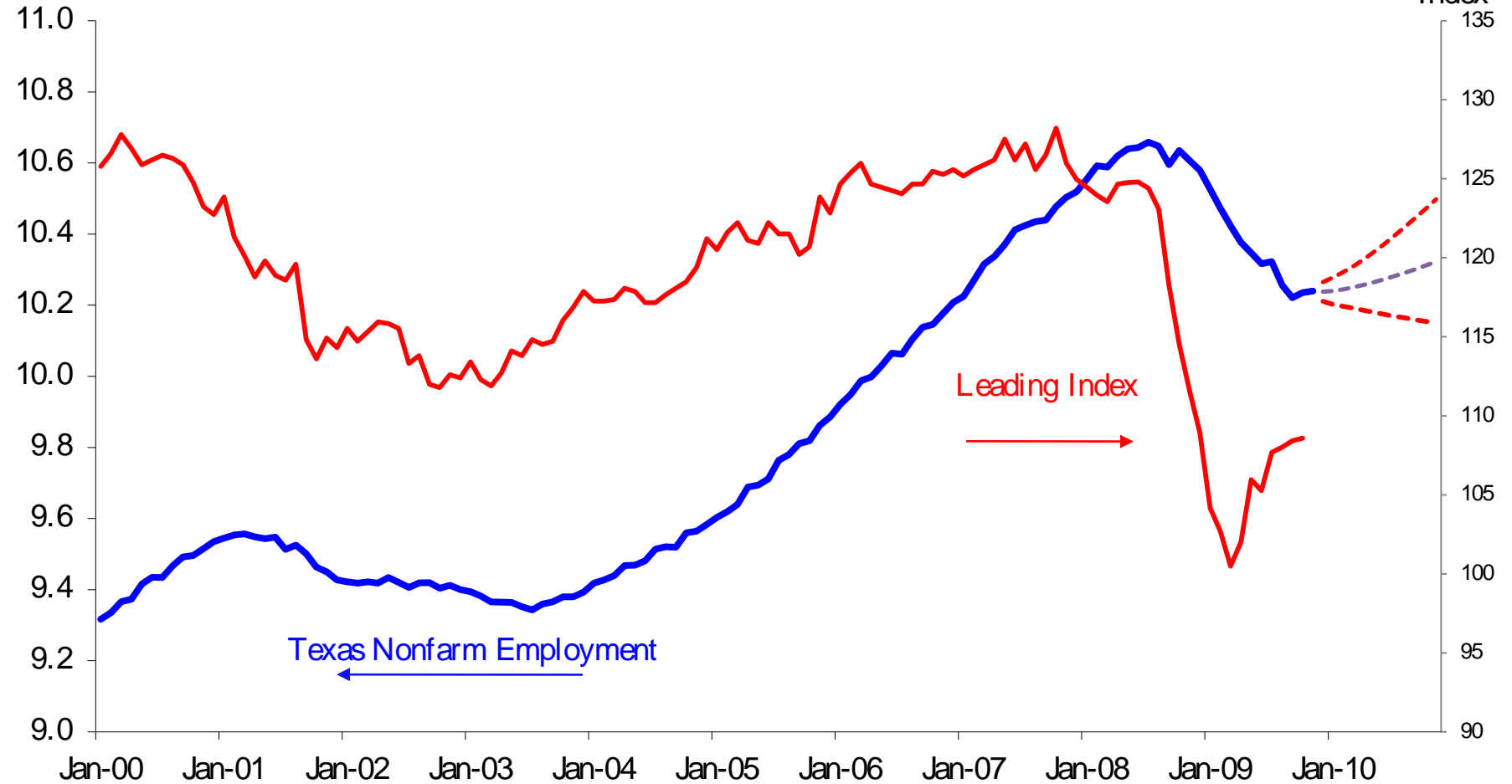
- Texas entered the recession late and has come out of it at a stronger pace than most states. High-tech, energy and home prices key sources of relative strength. Jobs grew at a moderate pace of about 2.0 percent in 2010.
- Main concerns going forward are weak construction activity, uncertain consumer spending, and state and local government budget cuts. Long-term: US government debt.
- Texas job growth will likely pickup from about 2.0 percent in 2010 to about 2.7 percent in 2011. The Texas unemployment rate likely to fall from about 8.0 percent to about 7.0 percent.
- San Antonio job growth likely to be about 3.2 percent in 2011

Last Year's Forecast Slide

Increases in Leading Index Suggest Jobs Will Increase About 1%

in 2010

Millions





St. Mary's University • San Antonio Hispanic Chamber of Commerce

Economics in the know.

2011 Economic Forecast

January 13, 2010

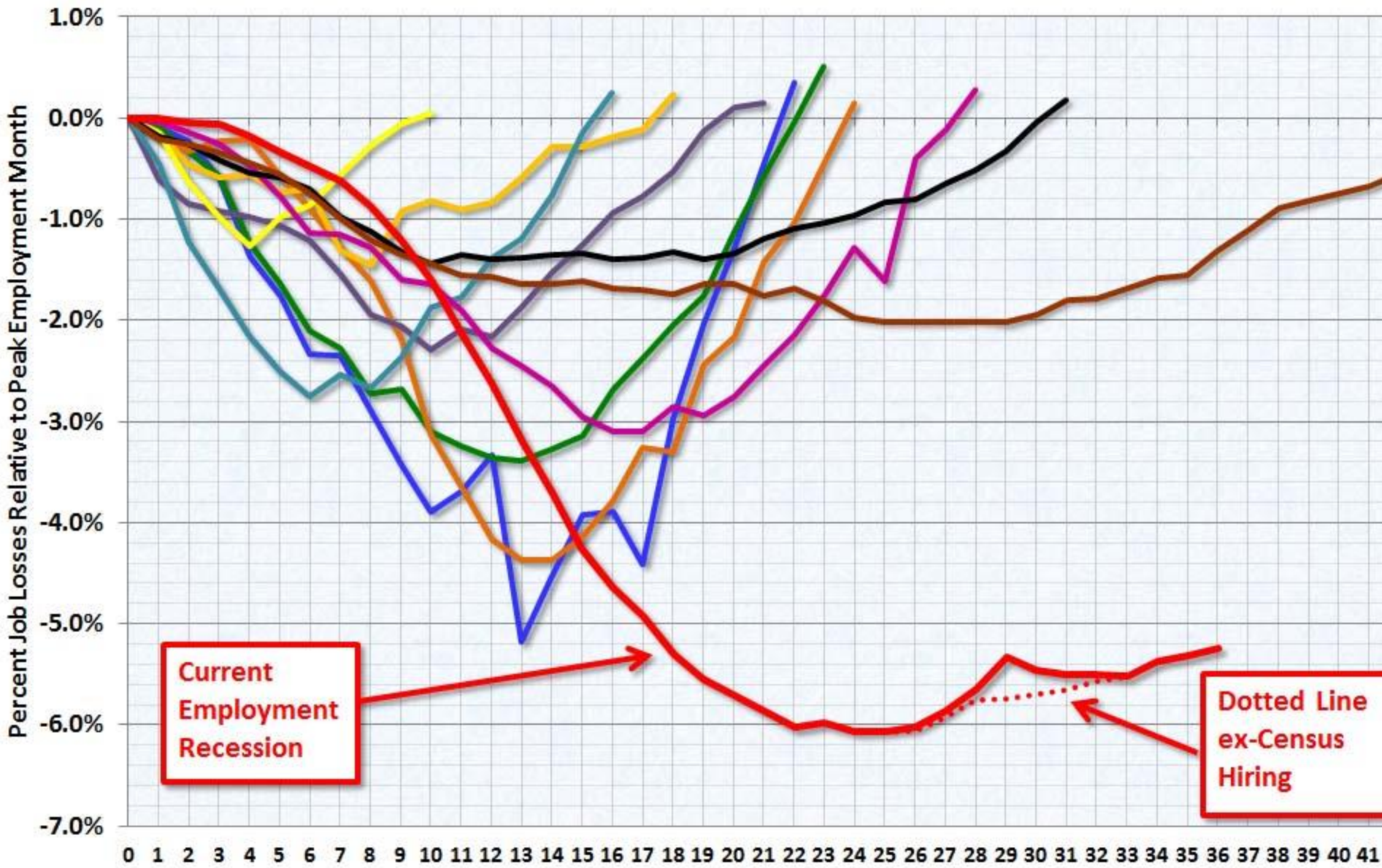
Presented by:

Steve Nivin, Ph.D.

Director and Chief Economist

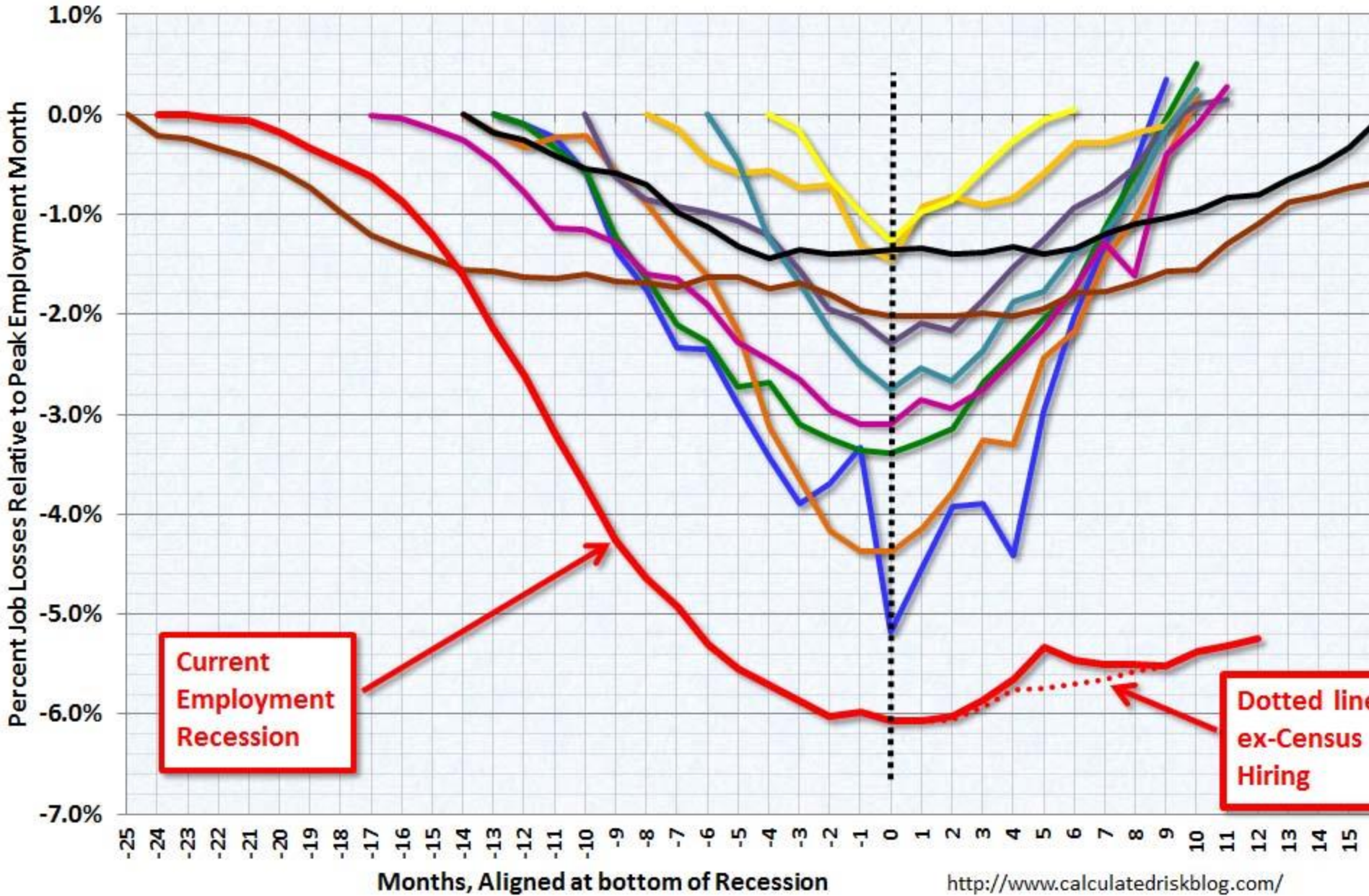
Percent Job Losses in Post WWII Recessions

1948 1953 1958 1960 1969 1974 1980 1981 1990 2001

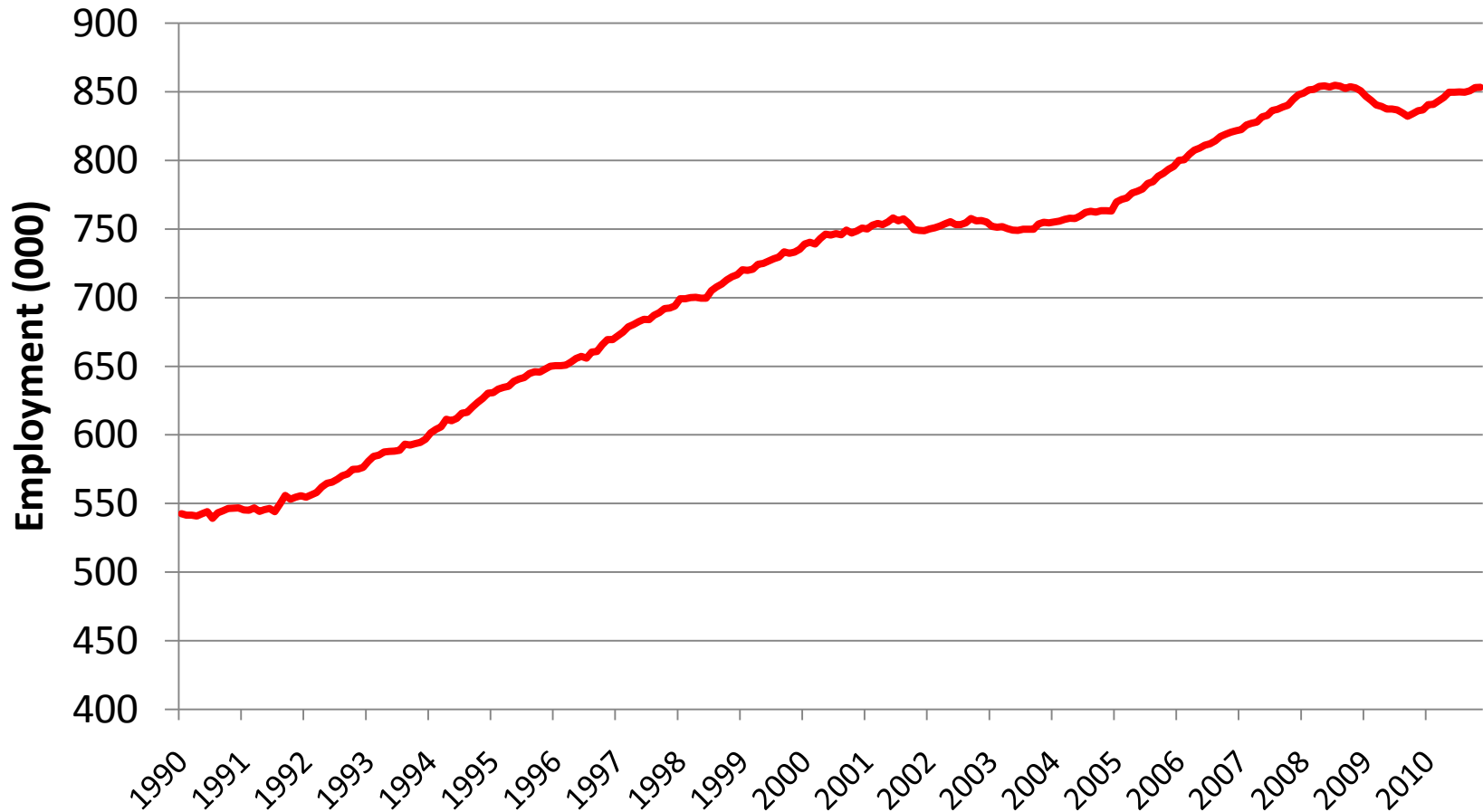


Percent Job Losses in Post WWII Recessions, aligned at maximum job losses

1948 1953 1958 1960 1969 1974 1980 1981 1990 2001 2007



San Antonio MSA Employment



Source: Federal Reserve Bank of Dallas; US BLS

Comparative Depth & Length of Recessions in San Antonio Per Employment Levels

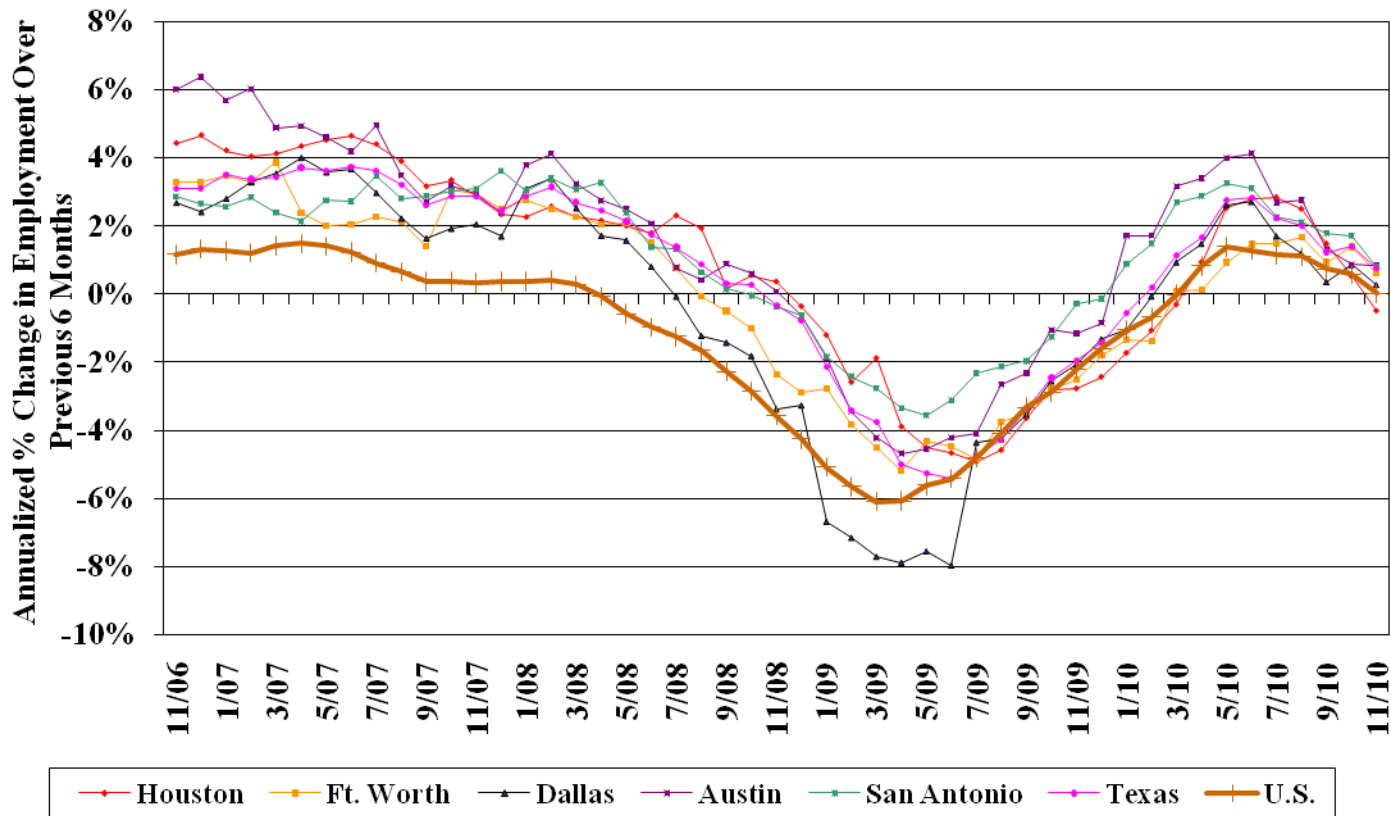
Cycle Peak		Cycle Trough		Jobs Lost	Back To Peak	
Date	Employment	Date	Employment		Date	# Months
6/01	758.1	12/01	748.9	9,200	7/04	40
7/08	854.7	10/09	832.2	22,500	?	29+**

**Nov. employment at 853.2

Employment Growth

November 2006 – November 2010

Seasonally Adjusted



As of November 2010

Houston = -0.49%

Ft. Worth = 0.62%

Dallas = 0.27%

Austin = 0.83%

San Antonio = 0.80%

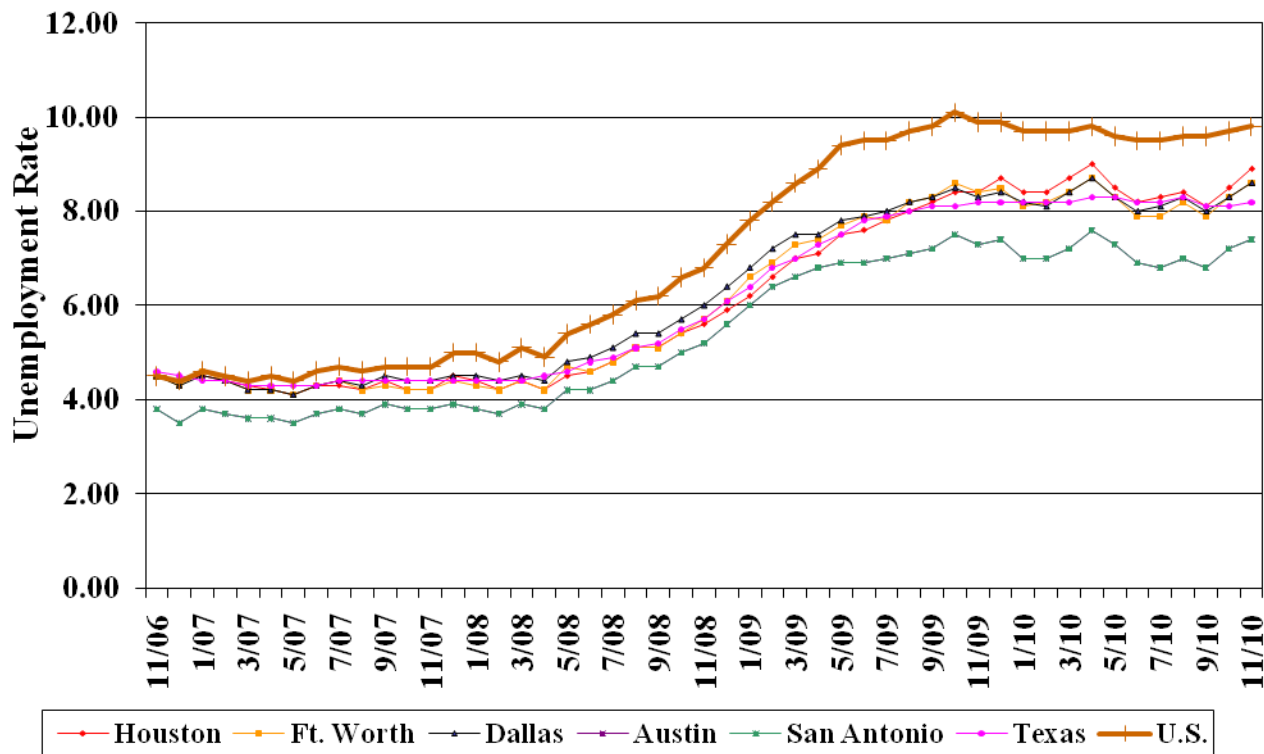
Texas = 0.75%

U.S. = 0.02%

Monthly Unemployment Rate

November 2006 – November 2010

Seasonally Adjusted



As of November 2010

Houston = 8.9%

Ft. Worth = 8.6%

Dallas = 8.6%

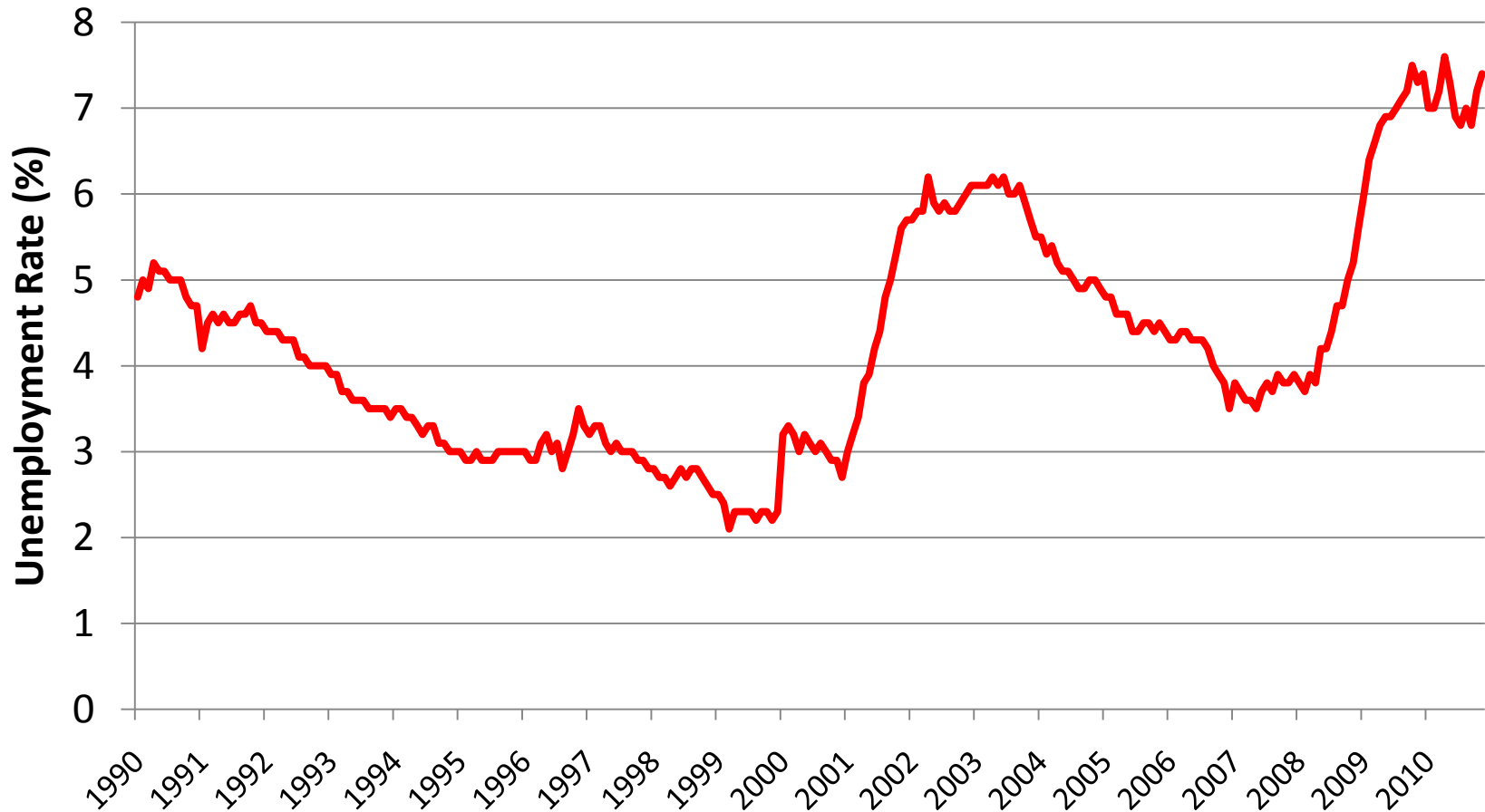
Austin = 7.4%

San Antonio = 7.4%

Texas = 8.2%

U.S. = 9.8%

Unemployment Rate San Antonio MSA



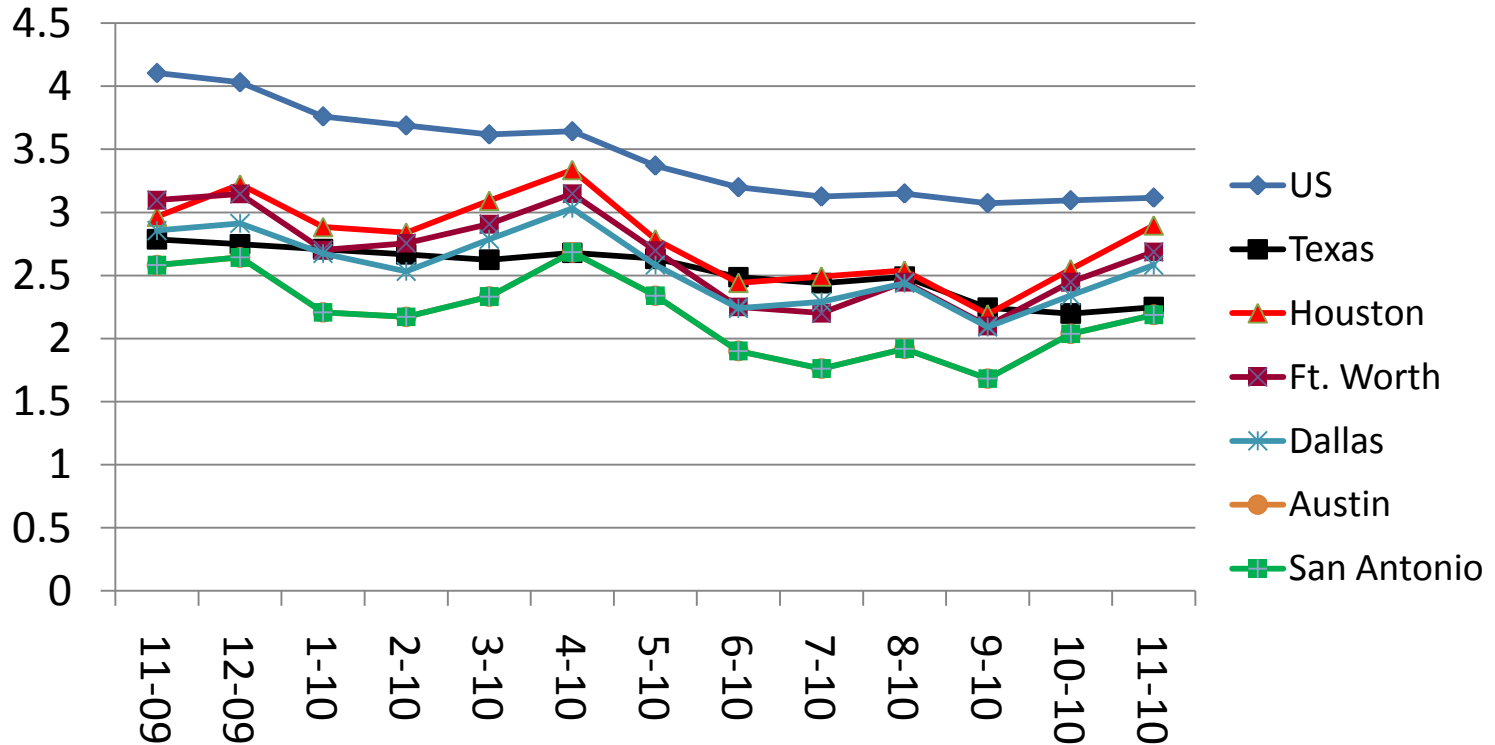
Source: Federal Reserve Bank of Dallas; US BLS

Comparative Depth & Length of Recessions in San Antonio Per Unemployment Rate

Cycle Peak		Cycle Trough		% Point Difference	# Months to Next Low	
Date	Unemployment Rate	Date	Unemployment Rate		Date	# Months
3/99	2.1%	6/03	6.2%	4.1	12/06	36 (3.5%)
5/07	3.5%	4/10	7.6%	4.1	?	7+

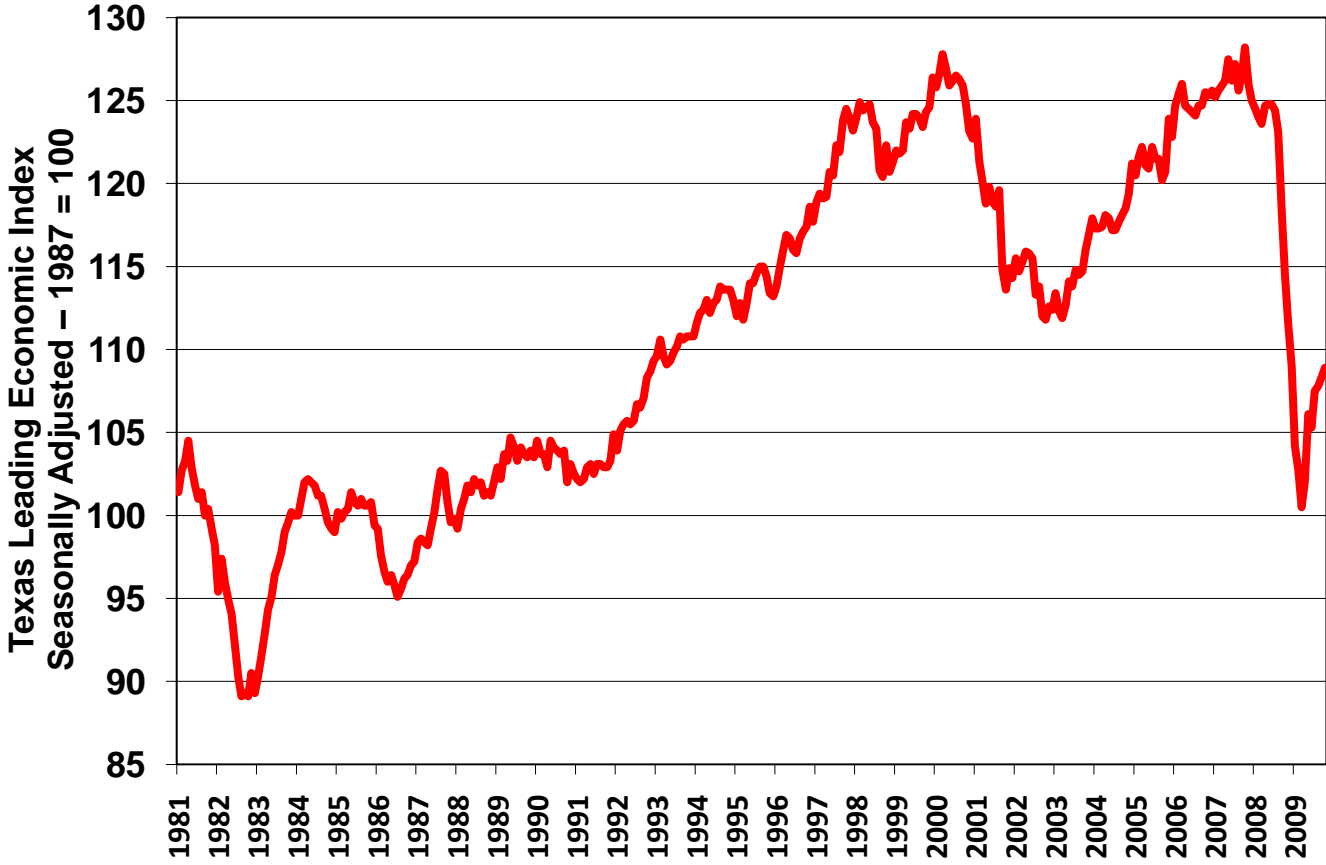
5-Year Demeaned Unemployment Rate

(Difference Current Unemployment Rate
Less Five-Year Rolling Average Unemployment Rate)



Source: SABER Institute

Leading index shows an upward trend

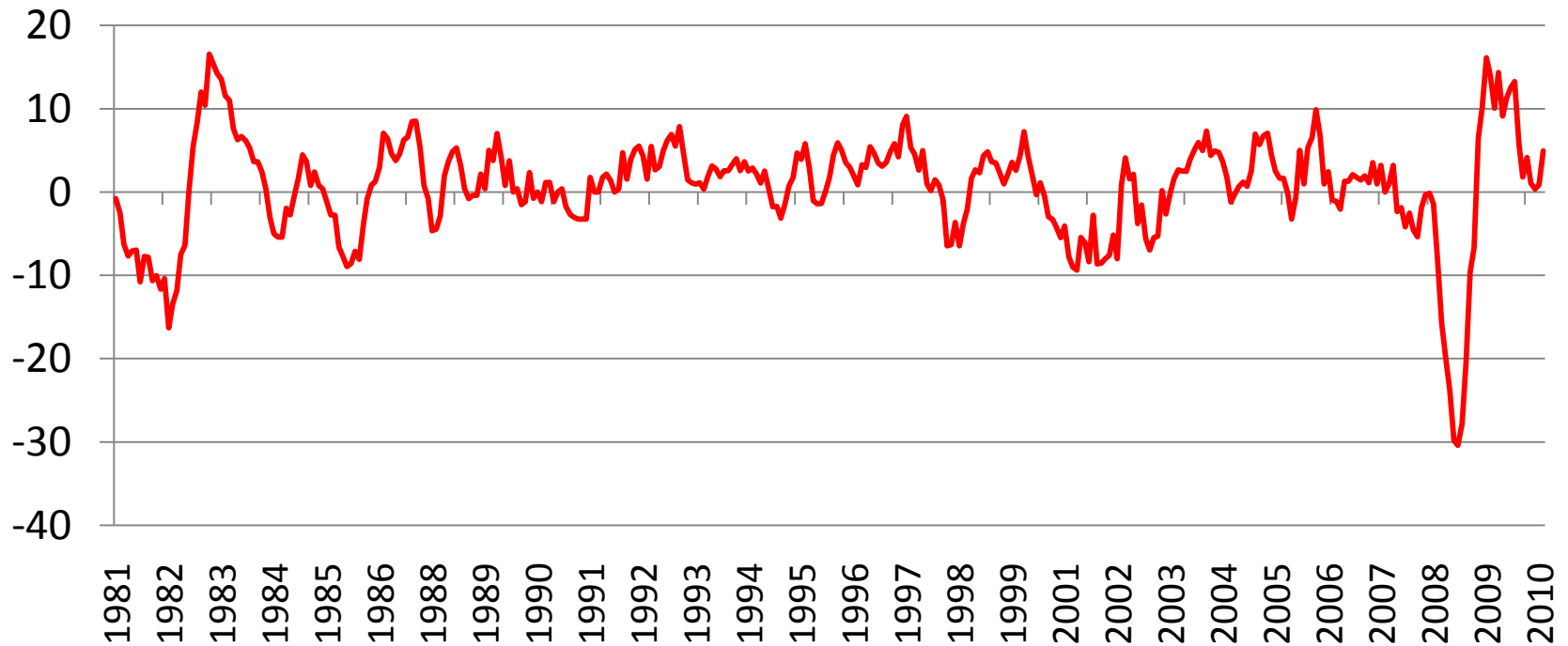


The index increased in November to 117.3 from 116.4 in October, continuing the overall upward recent trend.

Source: Federal Reserve Bank of Dallas

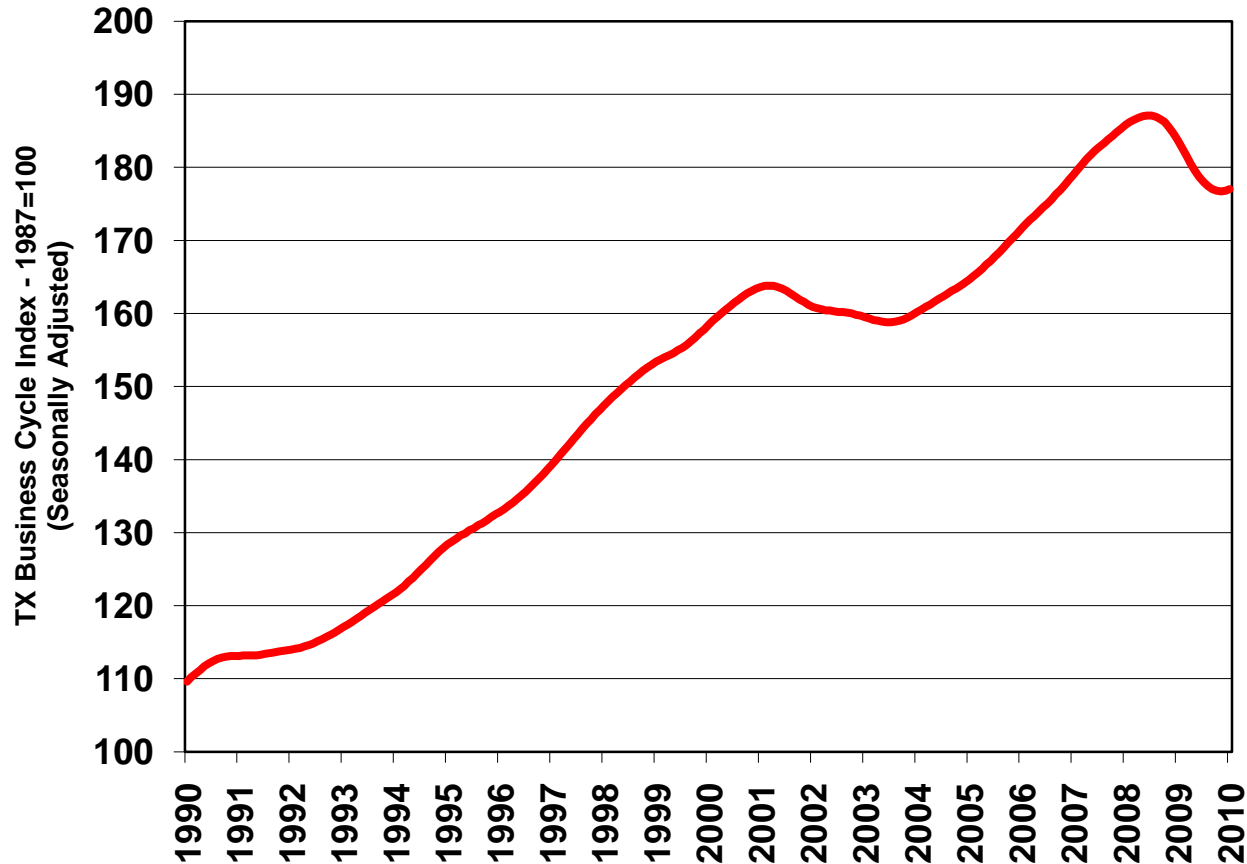
The Texas leading index continues to show growth with a big jump in November

**Texas Leading Index
Six-month Annualized Percent Change**



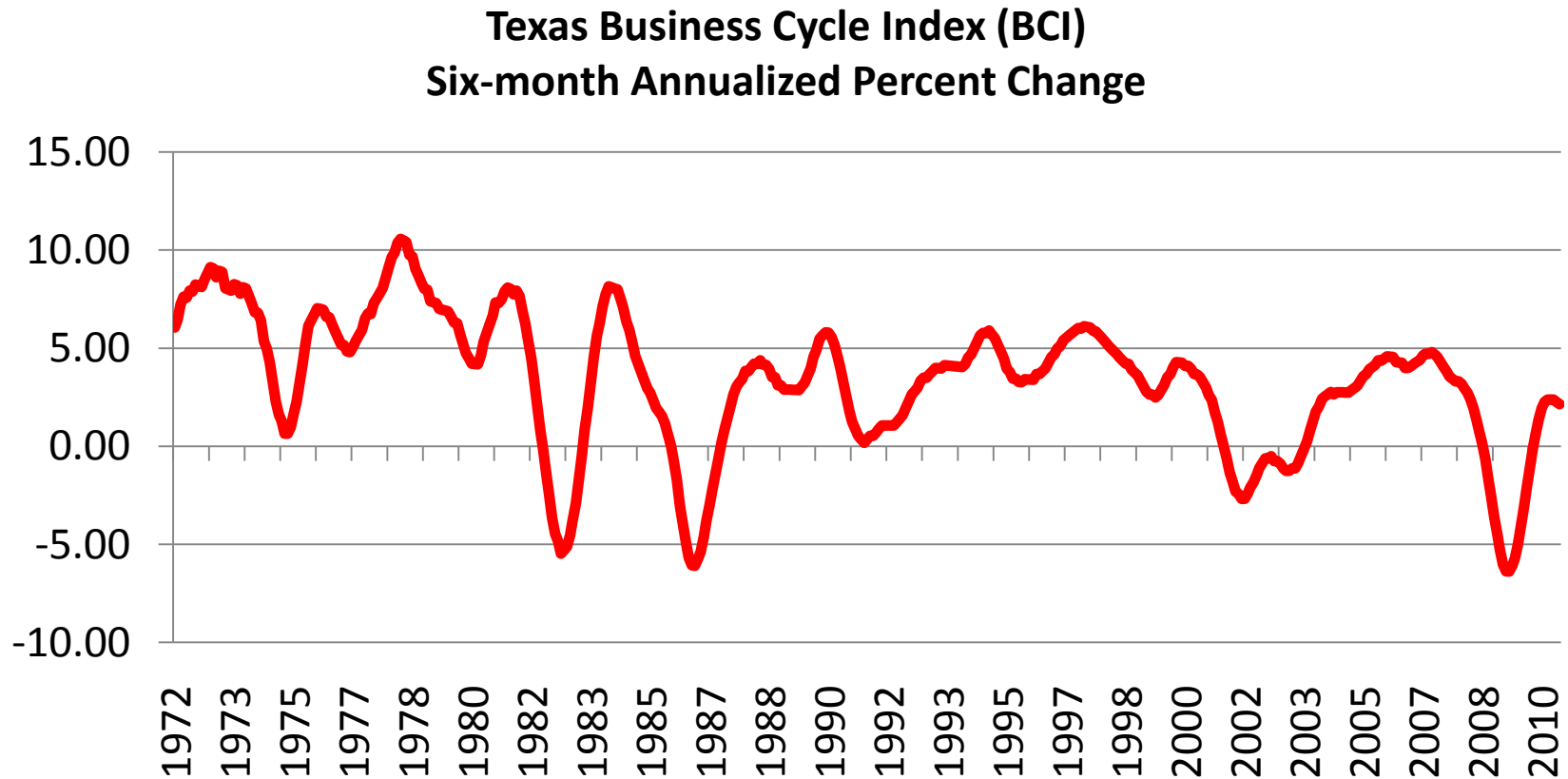
Source: Federal Reserve Bank of Dallas; Annualize percent change calculated by SABER Institute

The Texas Business Cycle Index has shown small increases in each month this year indicating the Texas economy has turned the corner.



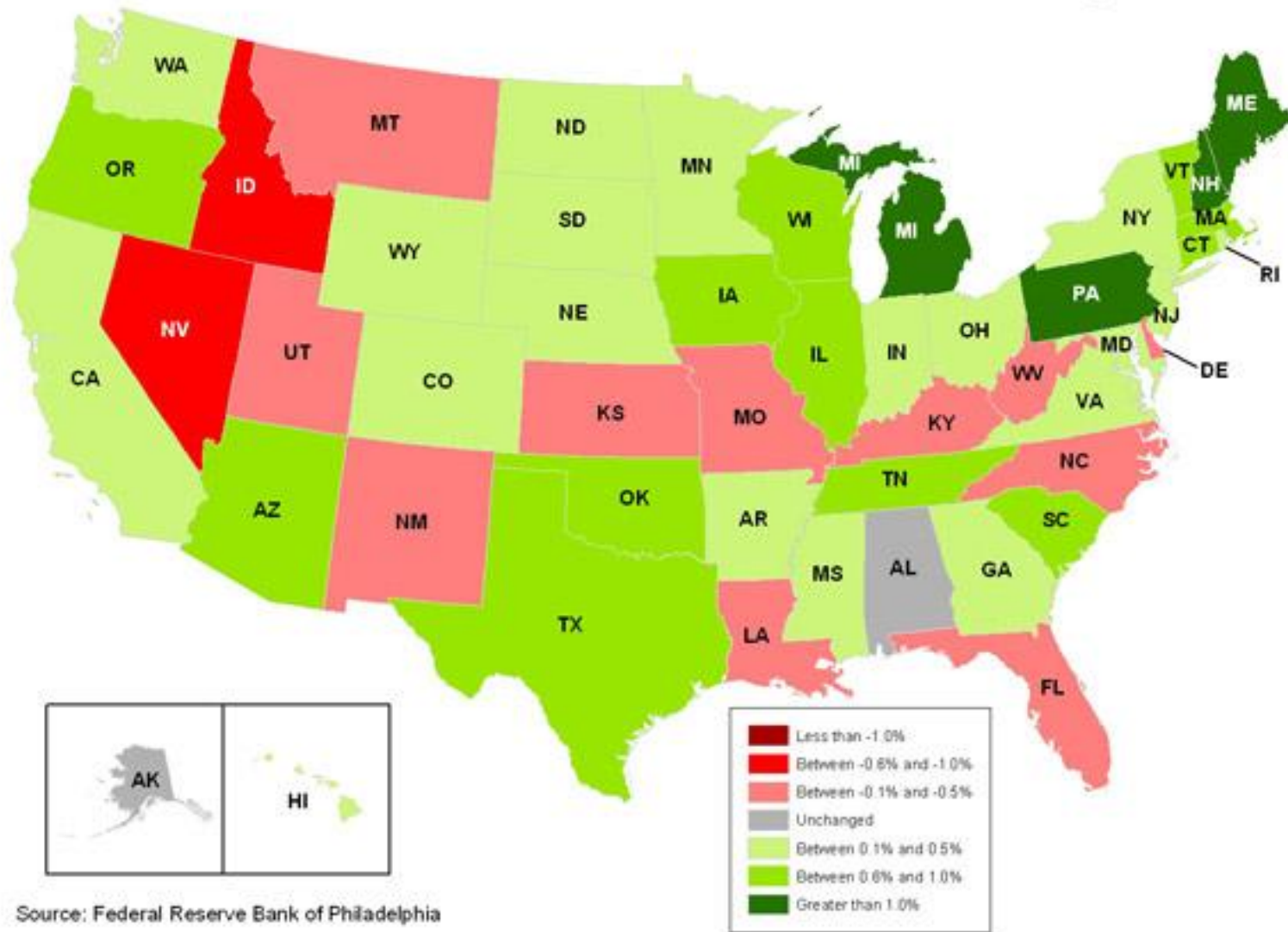
The index increased from 180.0 in October to 180.3 in November.

While the Texas BCI has shown growth in each month since March, the rate is slowing.



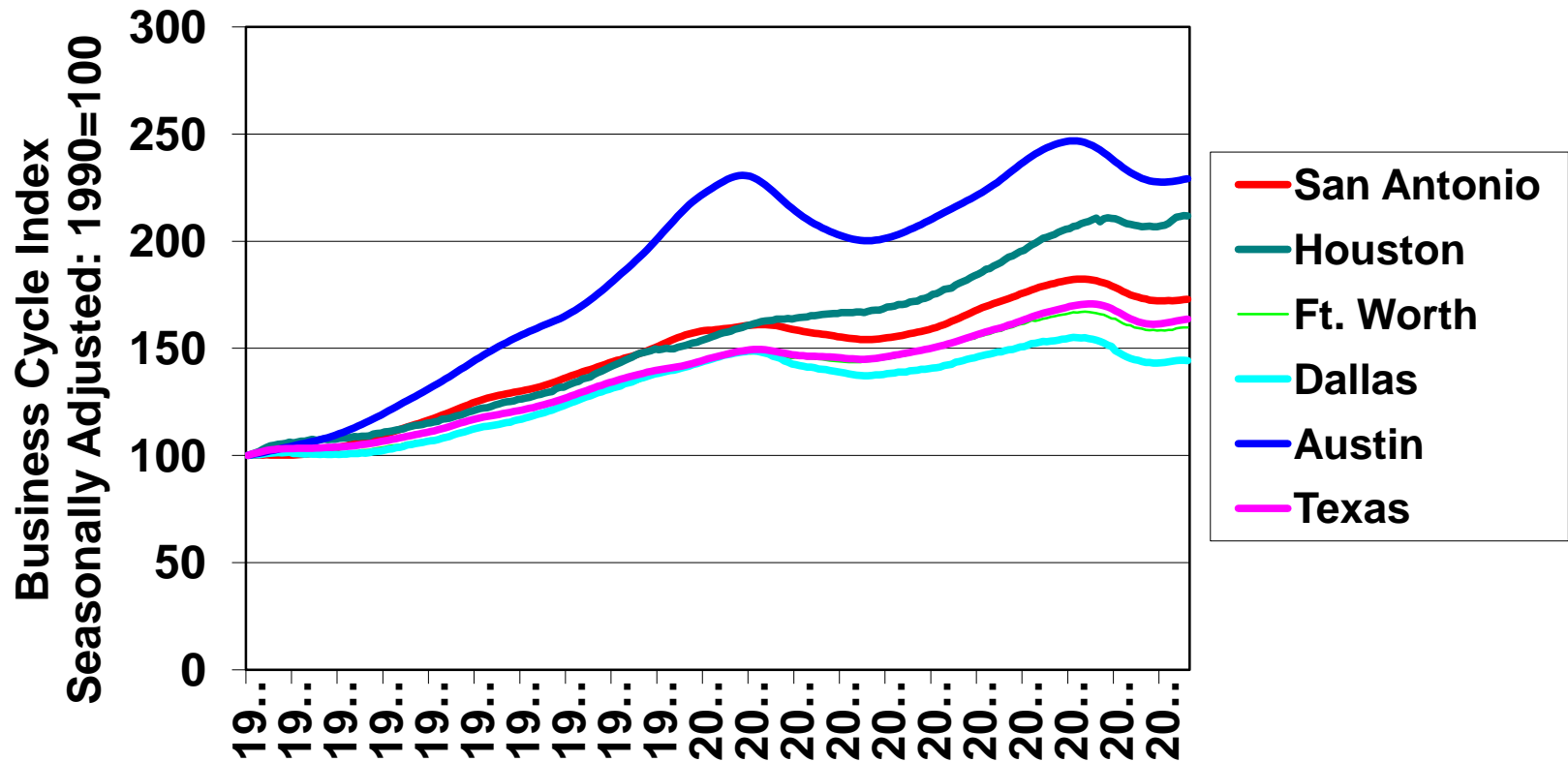
Source: Federal Reserve Bank of Dallas; Annualized percent calculated by SABER Institute

November State Coincident Indexes: Three-Month Change

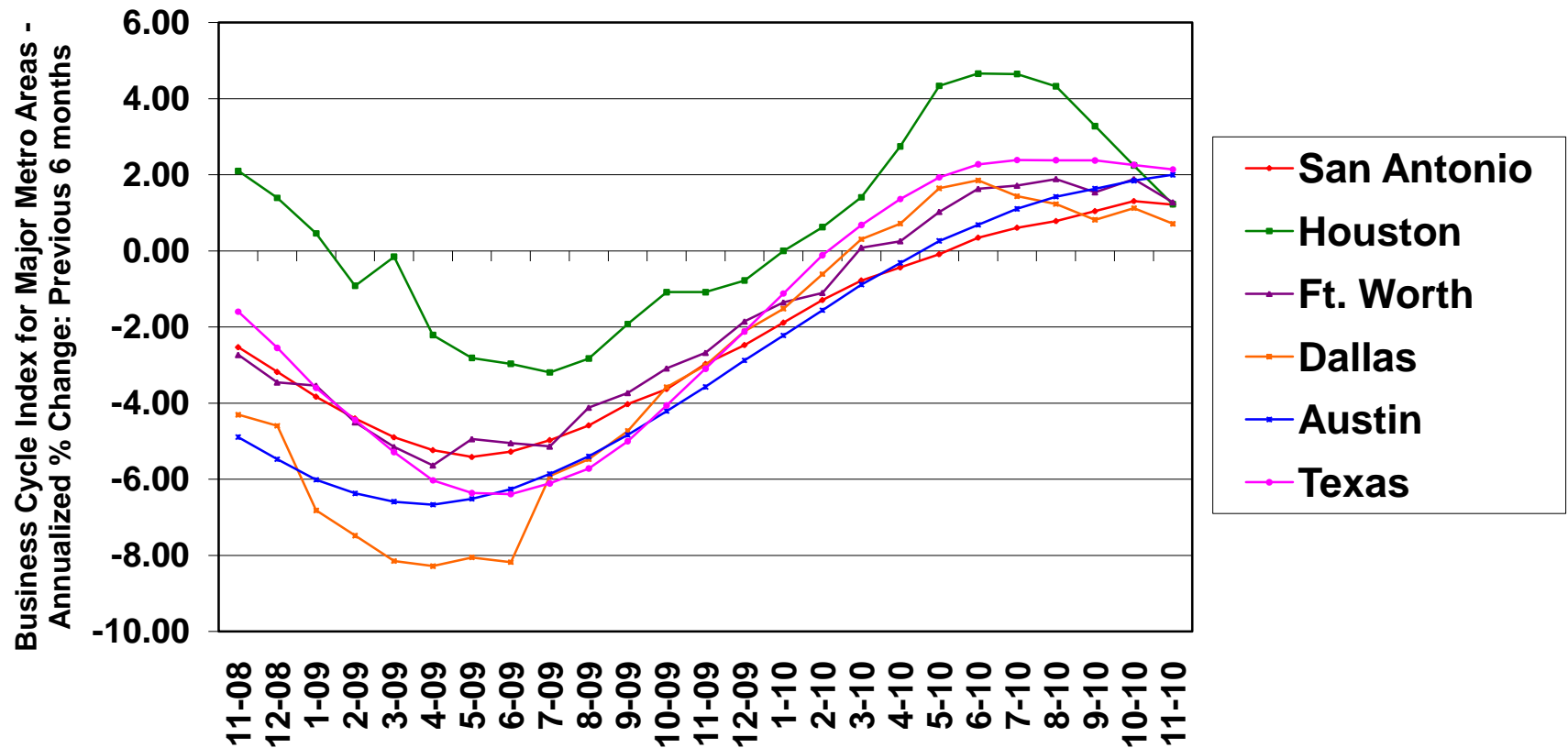


Three-month change through November 2010

According to the Business Cycle Index, it appears the Texas metro economies are turning the corner.



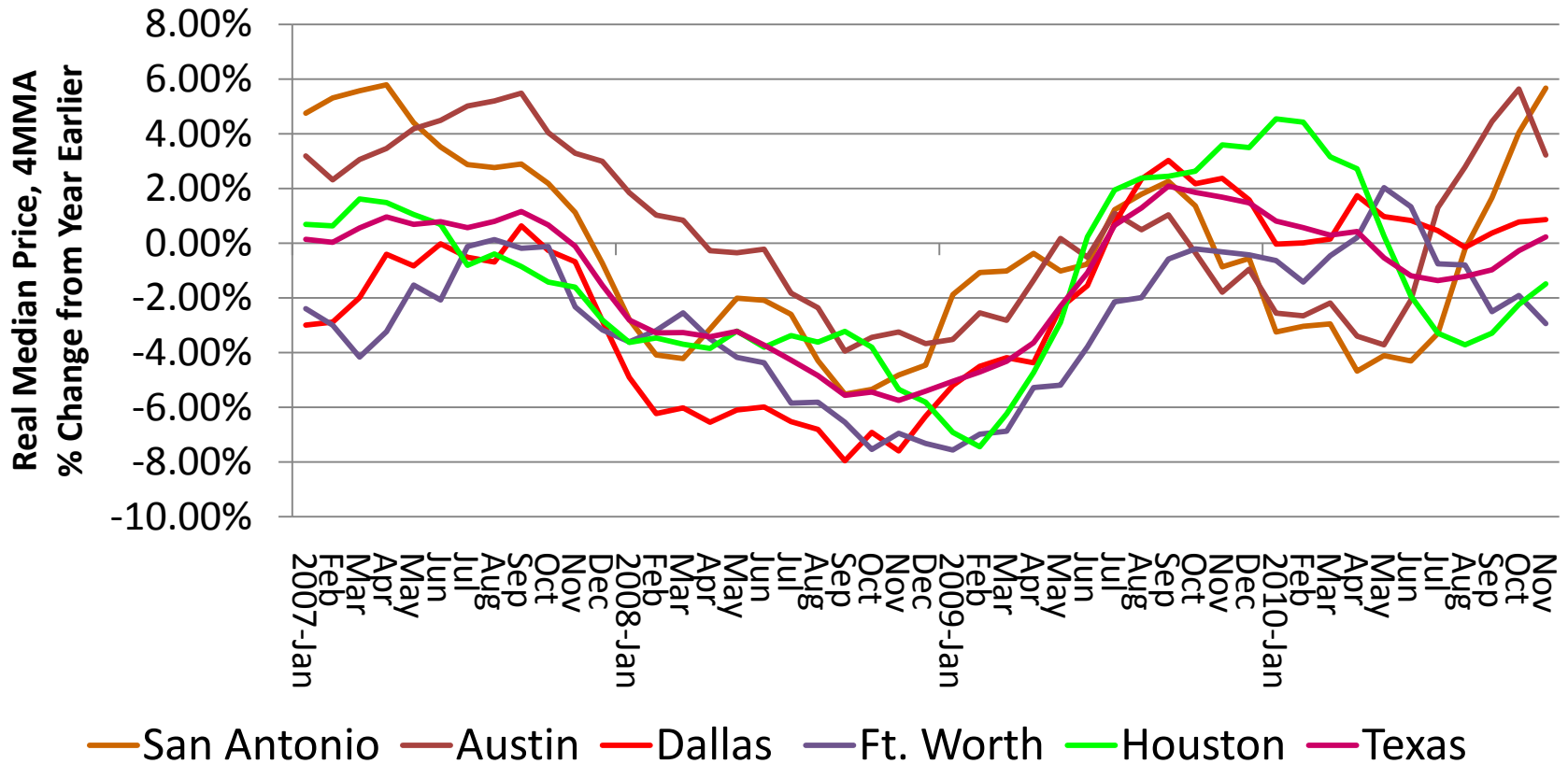
The major metropolitan economies are showing growth, with the indicator for Houston slowing quite dramatically.



Source: Federal Reserve Bank of Dallas; Annualized percent change calculated by SABER Institute

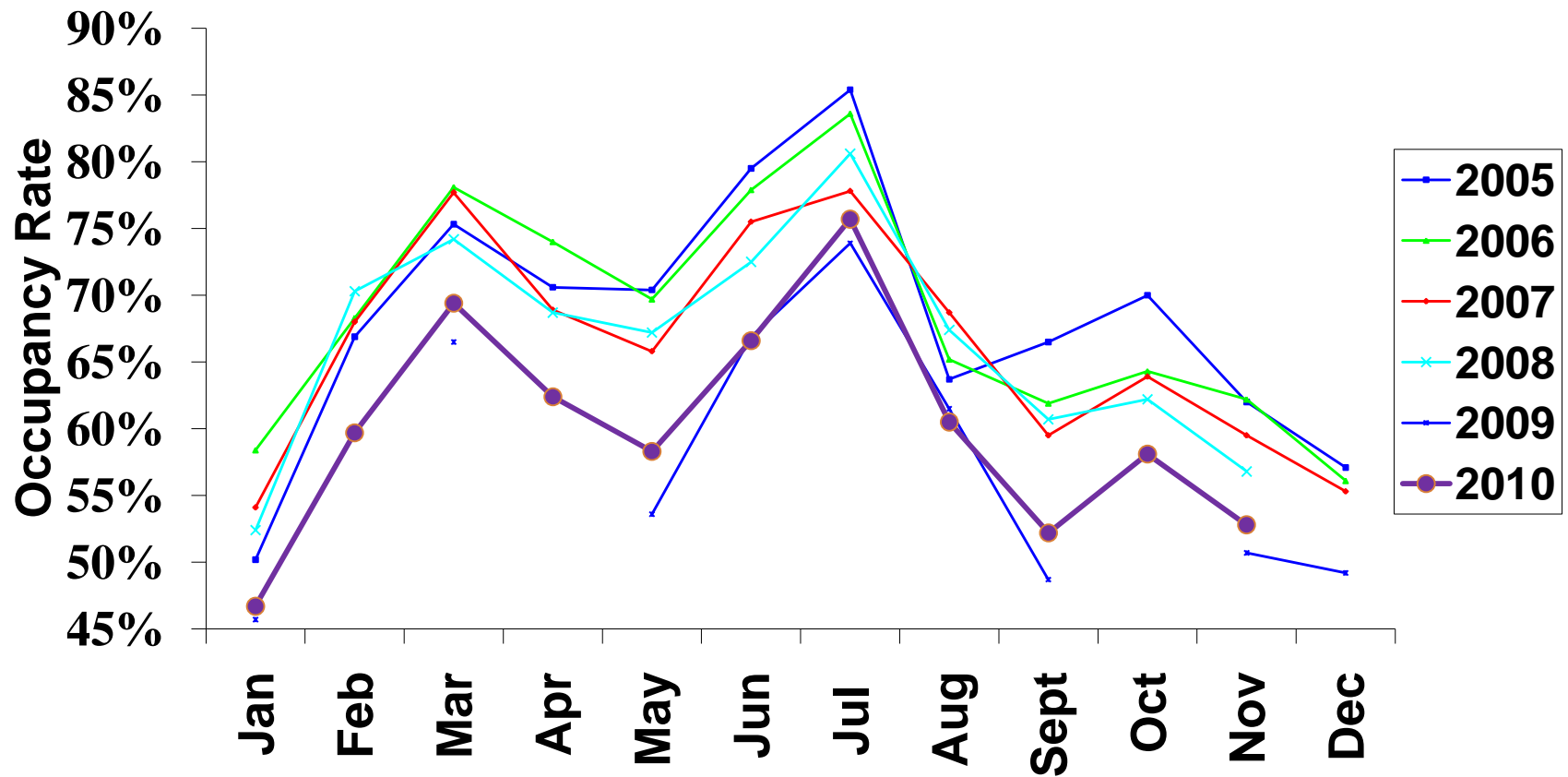
Data is seasonally adjusted.

Houston (-1.49) and Ft. Worth (-2.94) were the only major metropolitan housing markets that saw declines in home prices on a 4MMA basis in November.

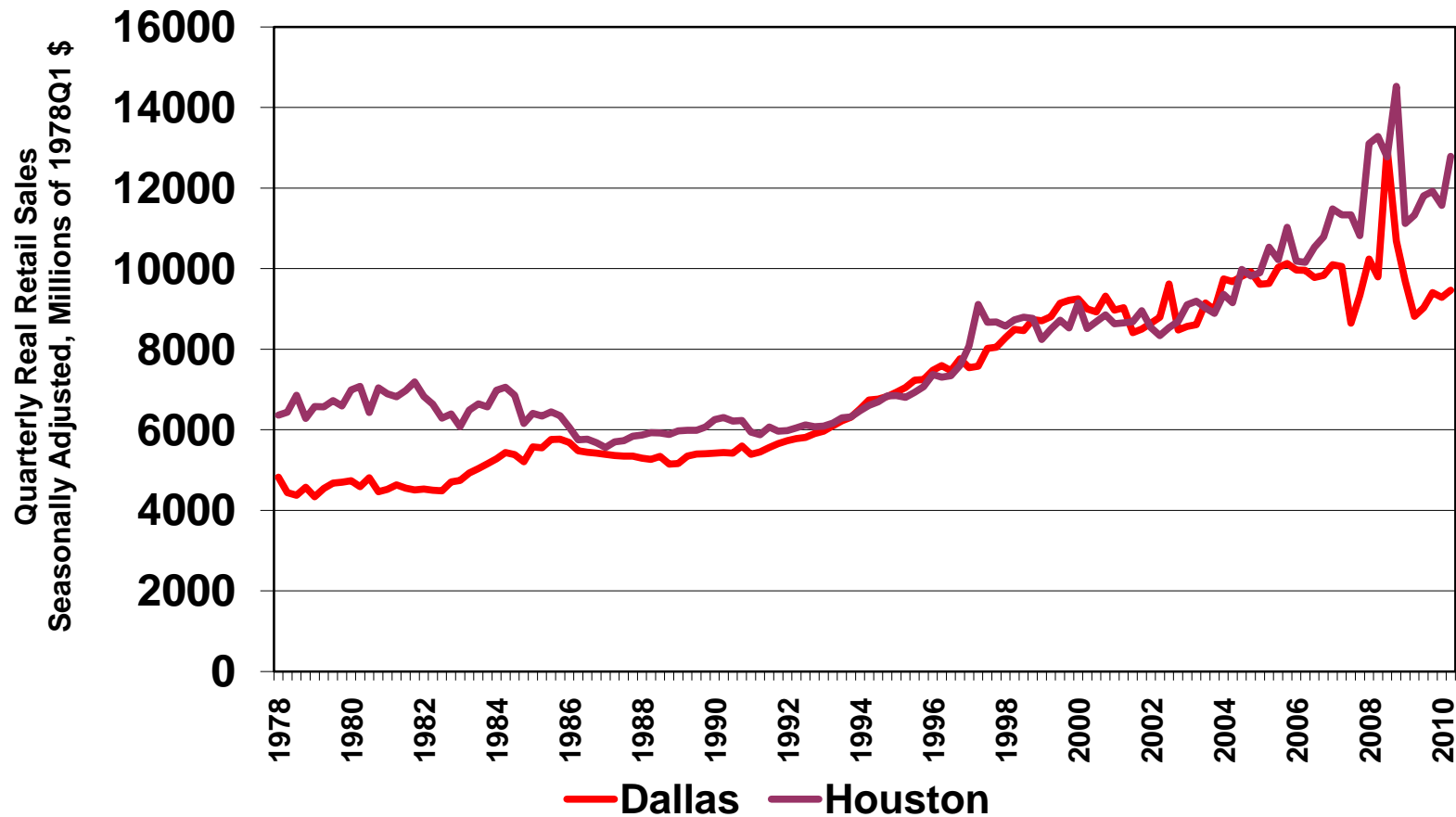


Source: Texas A&M Real Estate Center; Change calculated by SABER Institute

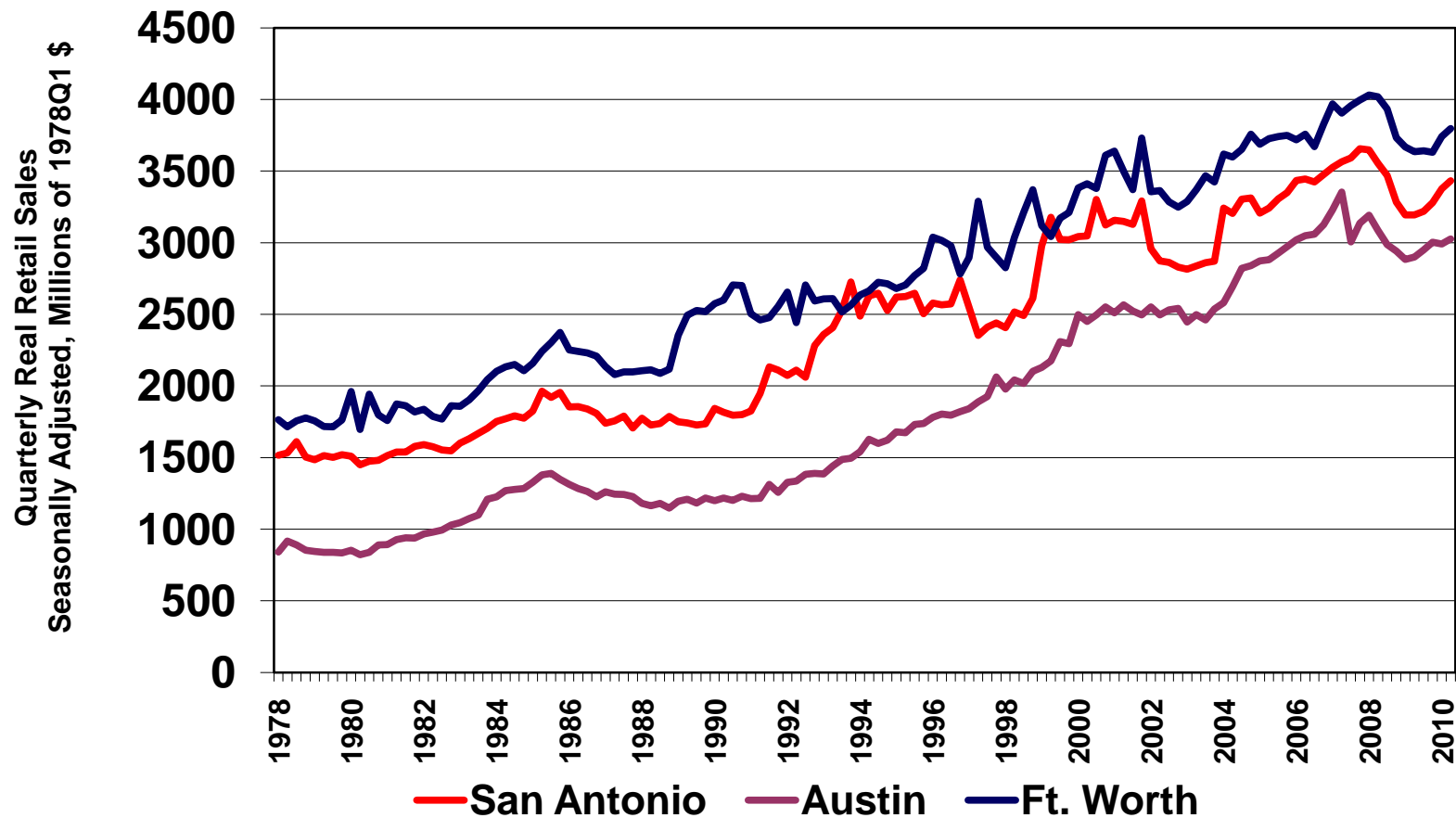
San Antonio MSA monthly hotel occupancy rates show improvement over last year.



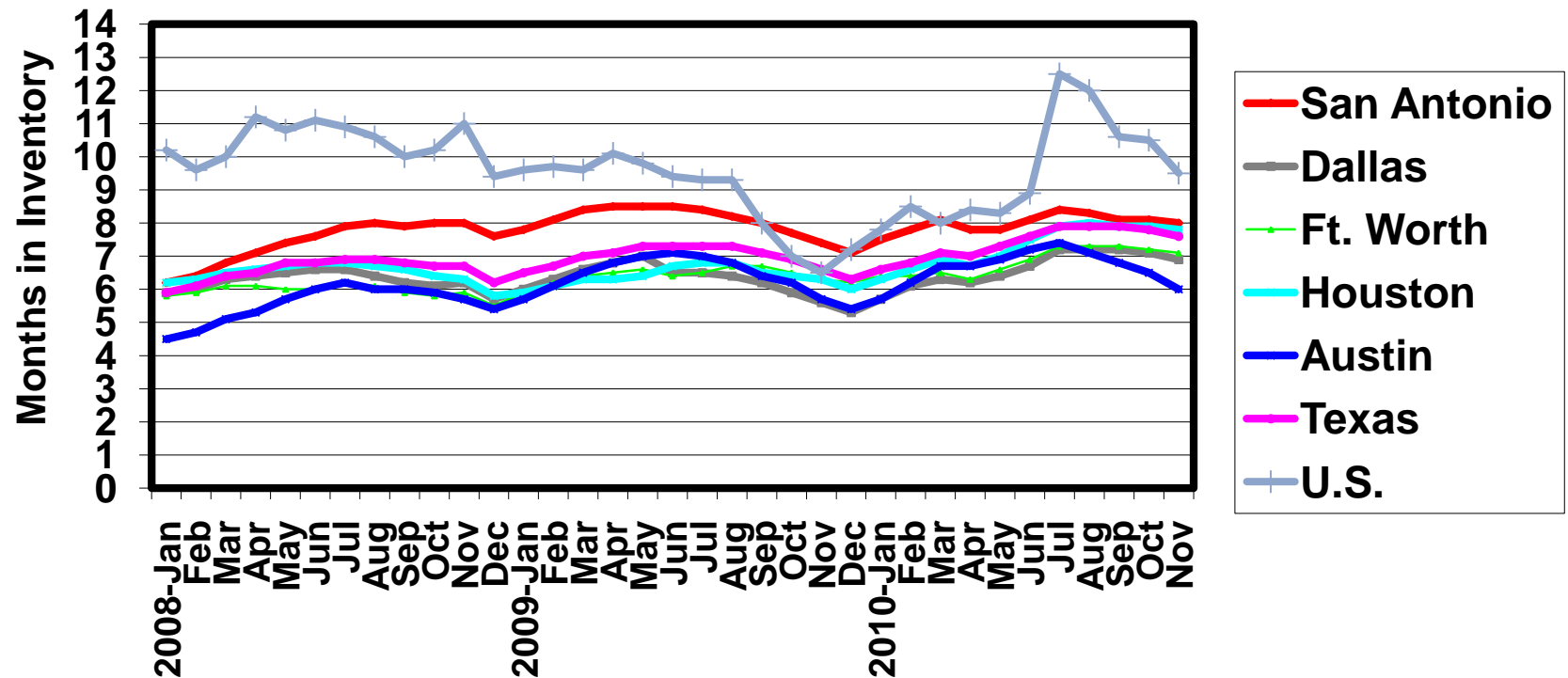
Real retail sales appear to have turned the corner in Dallas and Houston.



Real retail sales appear to have picked up in San Antonio, Austin, and Ft. Worth.



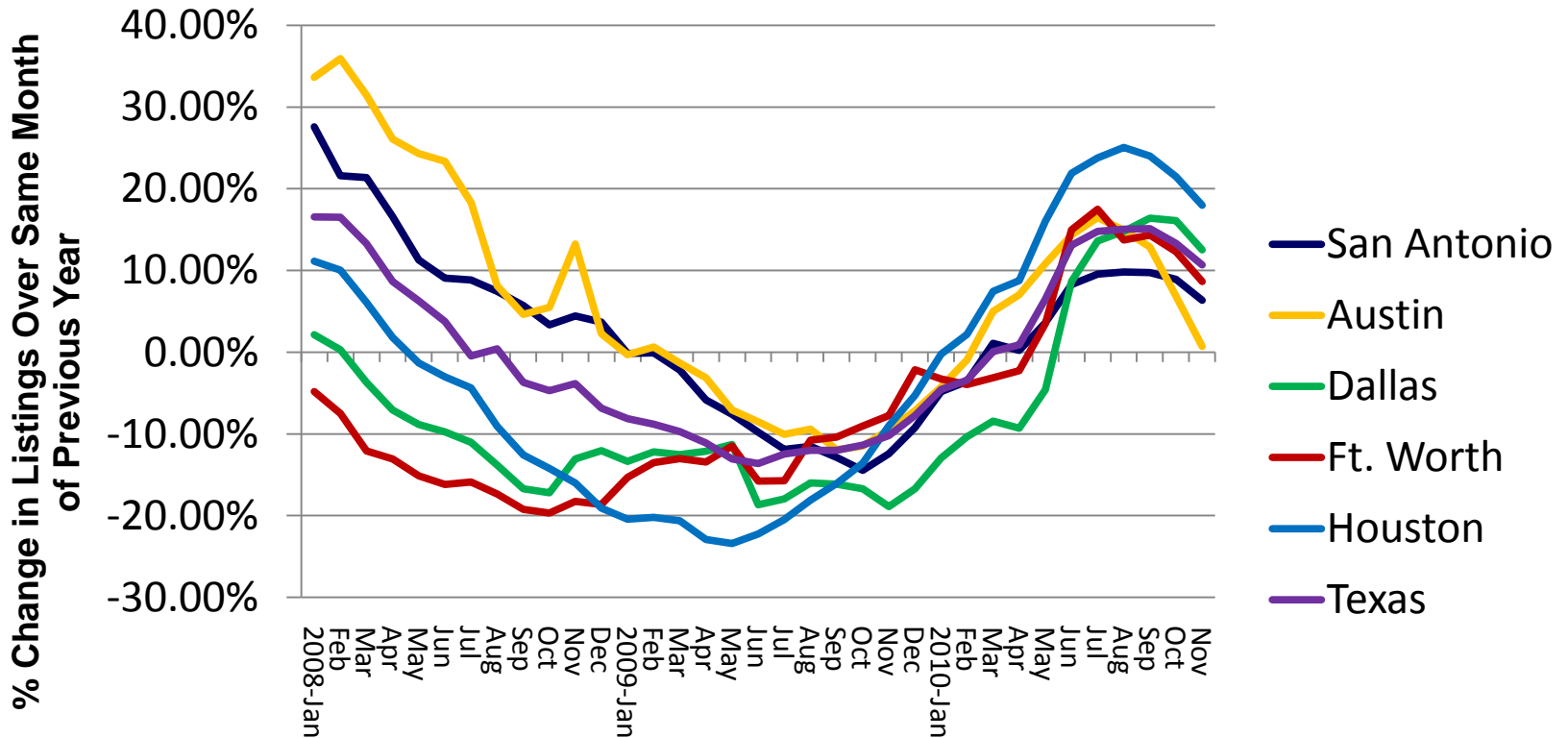
All areas saw their months in inventory decrease in November with Austin experiencing the largest drop.



Source: Texas A&M Real Estate Center

Months in inventory measures how many months will take to sell the current inventory, based on the average number of sales per month in the previous year.

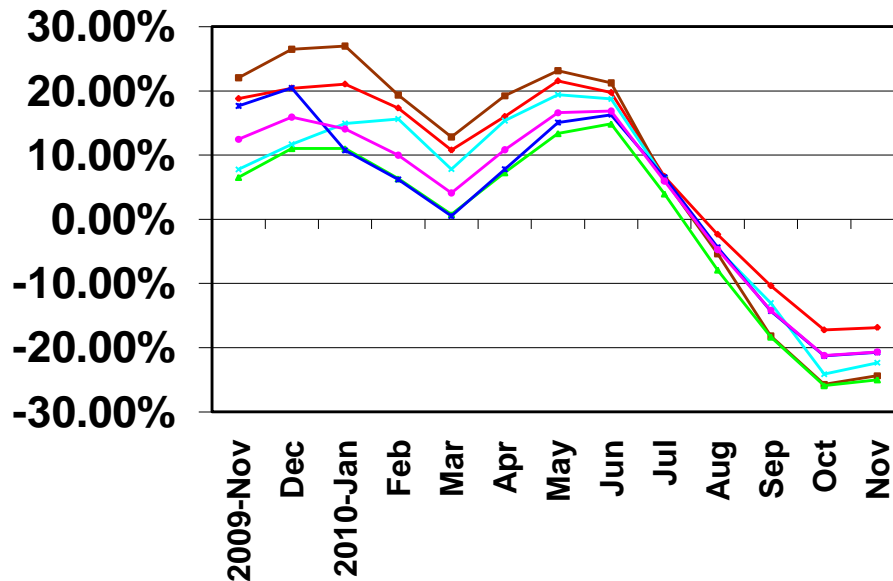
Listings growth has been positive since at least the middle of last year, but growth is slowing.



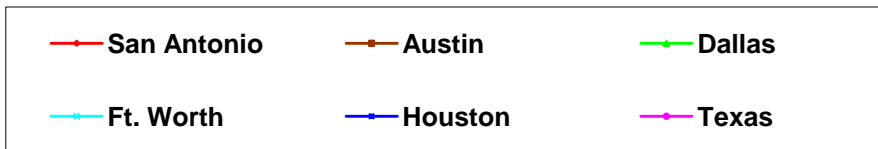
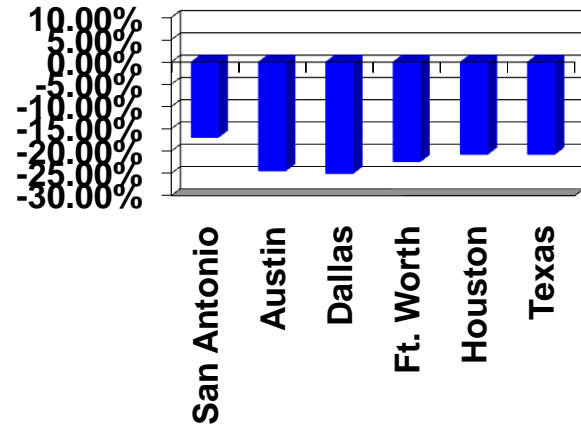
Source: Texas A&M Real Estate Center; National Association of Realtors; SABER Institute

The decline in home sales across the major metropolitan areas appears to have flattened.

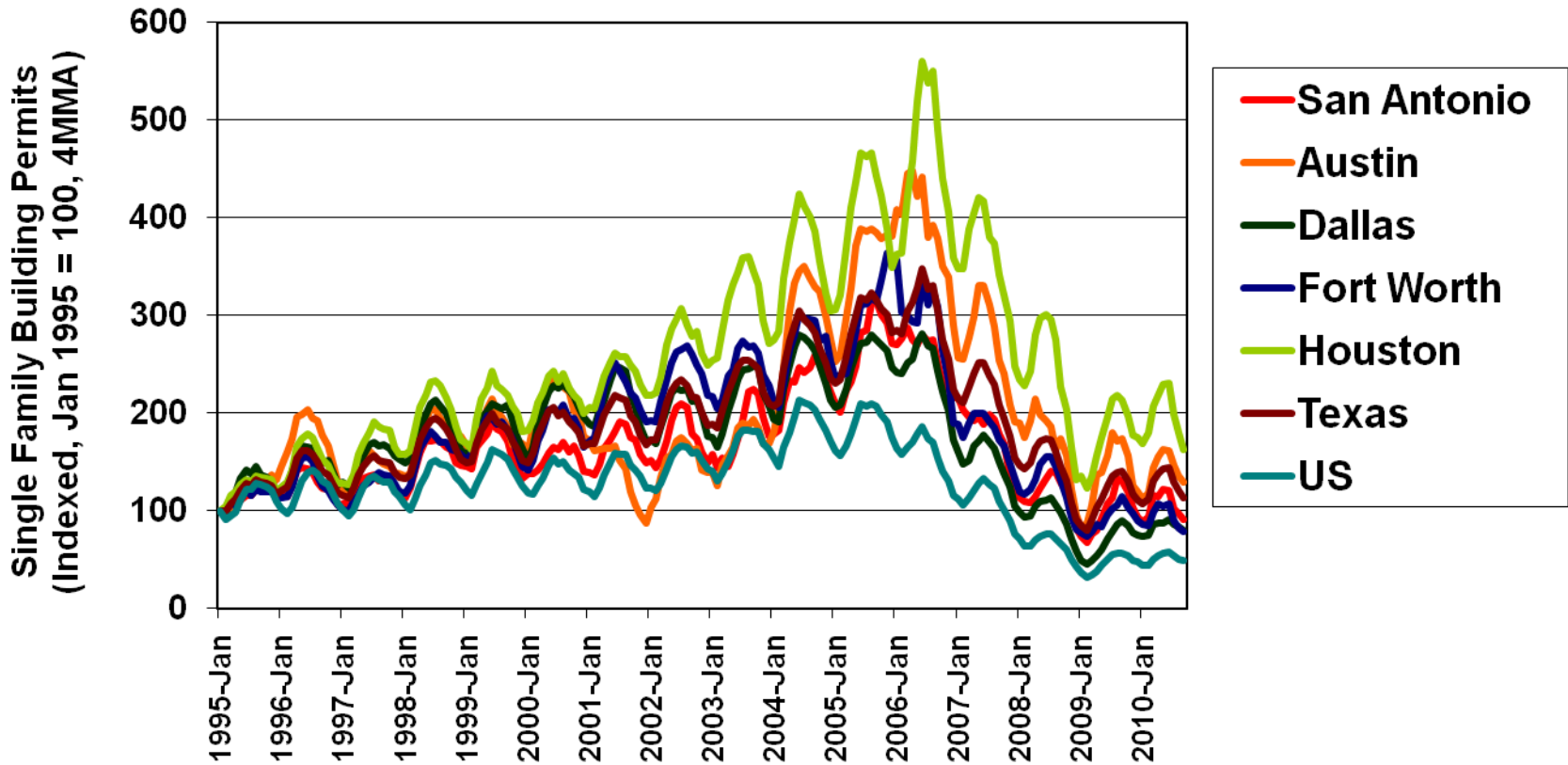
**MLS Home Sales
Year-over-Year % Change
4MMA**



**Year-over-Year % Change (4MMA)
November 2009-November 2010**



The decline in building permits may be reaching a bottom.



Summary

2010 Mid-Year Economic Update

- Consumer activity locally may be turning around
- Tourist activity improving over last year
- Local housing market showing signs of improvement...will it continue?
- Employment growth lagging in San Antonio but January's forecast of 2-2.5% growth for the year still within reach – about the same for 2011
 - **2010 San Antonio employment growth was 2.02% from November 2009 to November 2010**
- Risks:
 - Policy uncertainty
 - U.S. economic recovery (don't see double dip recession)
 - International factors (EU sovereign debt; China housing bubble)

2011 San Antonio Forecast

- Positives
 - Consumer and business confidence continues to build
 - Small business lending picks up? (If policy uncertainty reduced)
 - Large federal stimulus package
 - Texas/San Antonio still relatively attractive investment
 - Unique economic boosters
 - Tourist activity increases
 - Instability in Mexico
- Risks
 - Housing market
 - Policy uncertainty – Financial and healthcare reform
 - State/local budgets
 - EU sovereign debt
 - Instability in Mexico
- Positives continue to improve over negative drags on economy leading to improved growth but not what economy typically yields after a recession.
- 2.75-3.25% employment growth in San Antonio in 2011