



# Economic Update

**Economic Insights: Conversations with the Dallas Fed**

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The views expressed are those of the speaker and should not necessarily be attributed to the Federal Reserve Bank of Dallas or the Federal Reserve System.

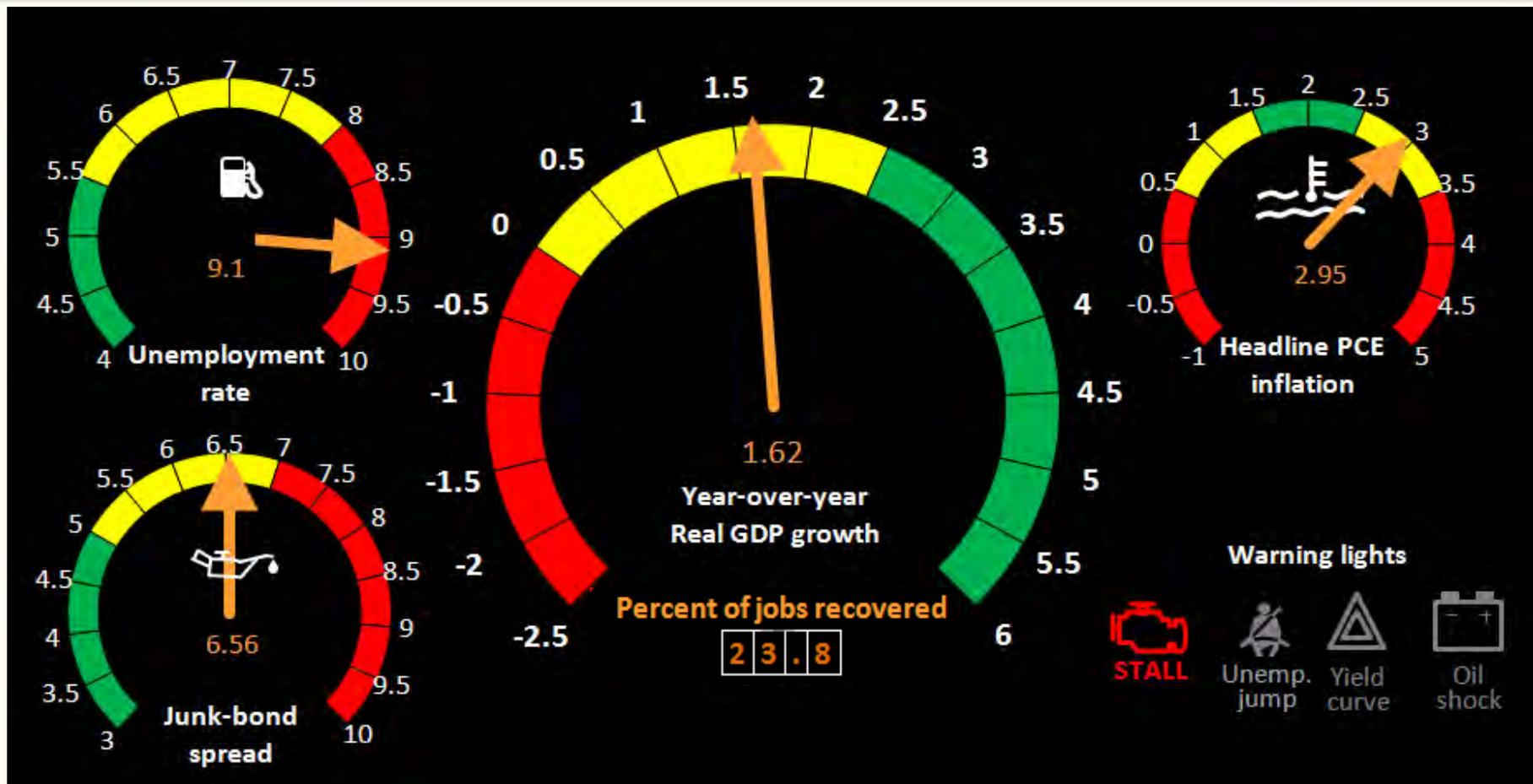


# Overview

- **Inching along a knife's edge:  
one edge, *growth*;  
on the other, *contraction***
- **Texas outperforms**
  - **But is still vulnerable to national weakness**
- **Banks in focus**
  - **Hopefully avoiding a “Lehman moment”**



# Gauging Our Concern: Nothing in the Green





## Stall Speed Suggests...

- **...sluggish four-quarter real GDP growth (1.6%) leaves economy vulnerable**
  - Nearly every sub-2% four-quarter growth since 1970 has been followed by recession (1986 and 1995 are the exceptions)
  - These recessions had other signals that are currently “off” (oil shock, inverted yield curve, deteriorating labor market)
  - Maybe “stall speed” means only vulnerable to a “push”
  - Evidence: Q3 indicators held up surprisingly well
  - U.S. not in position to withstand European “push”



# Parsing the Data

## Encouraging

- ✓ **Q3 GDP** better than previous slower growth quarters
- ✓ **Retail sales** holding up
- ✓ **Housing data** suggests some stabilization
- ✓ Hope for **resolution** of Europe's sovereign debt woes

## Still discouraging

- Meager income growth
- Consumer confidence languished to low levels
- Labor market yet to show much positive momentum
- Not completely out of the woods yet in Europe



# Why Does it Not Feel Like a Recovery?

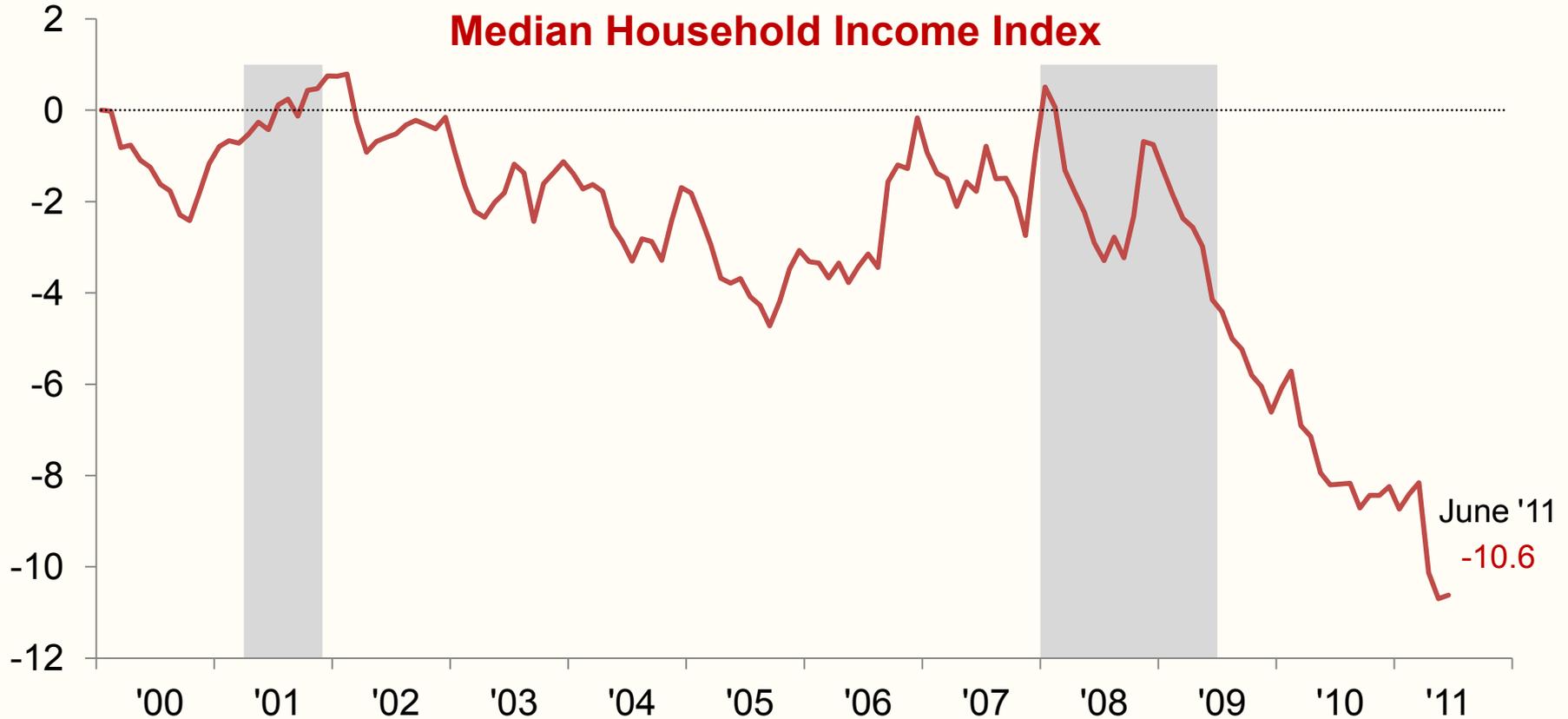
- Median household income continues to fall despite “recovery”
  - down 6.7% since the recession ended
- Persistently high unemployment and increasing duration of unemployment pushing down incomes
  - Median duration of unemployment rose to 40.5 weeks in September, highest in 60 years
  - Many that do find jobs, accept a much lower wage
- Nominal incomes not keeping up with high headline inflation – real wages and incomes flat or falling
- **Crisis in confidence**



# Why Does it Not Feel Like a Recovery?

% change from Jan 2000

## Median Household Income Index



Source: Sentier Research





# Breaking Out of Recession: Gauging Texas' Response to Fed Stimulus

## Texas outperforms

- *Healthier banking system*
- *Very modest housing cycle (no boom and bust)*
- *Strong exports*

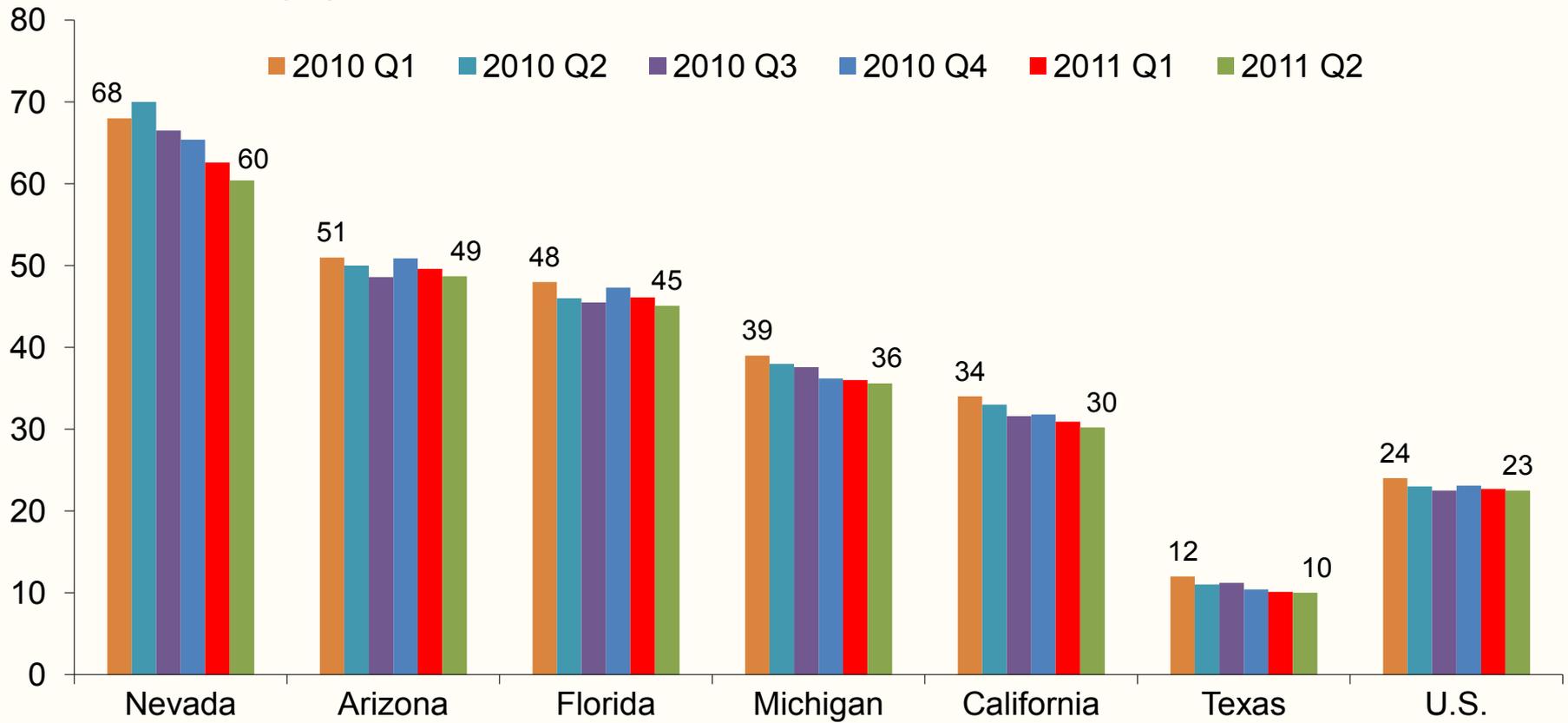


**3 out of 4 channels of monetary policy worked well**



# Underwater Mortgages Remain Elevated in Many States

Percent of mortgages with balance > home value



Source: Core Logic



# Europe's Lehman Moment?

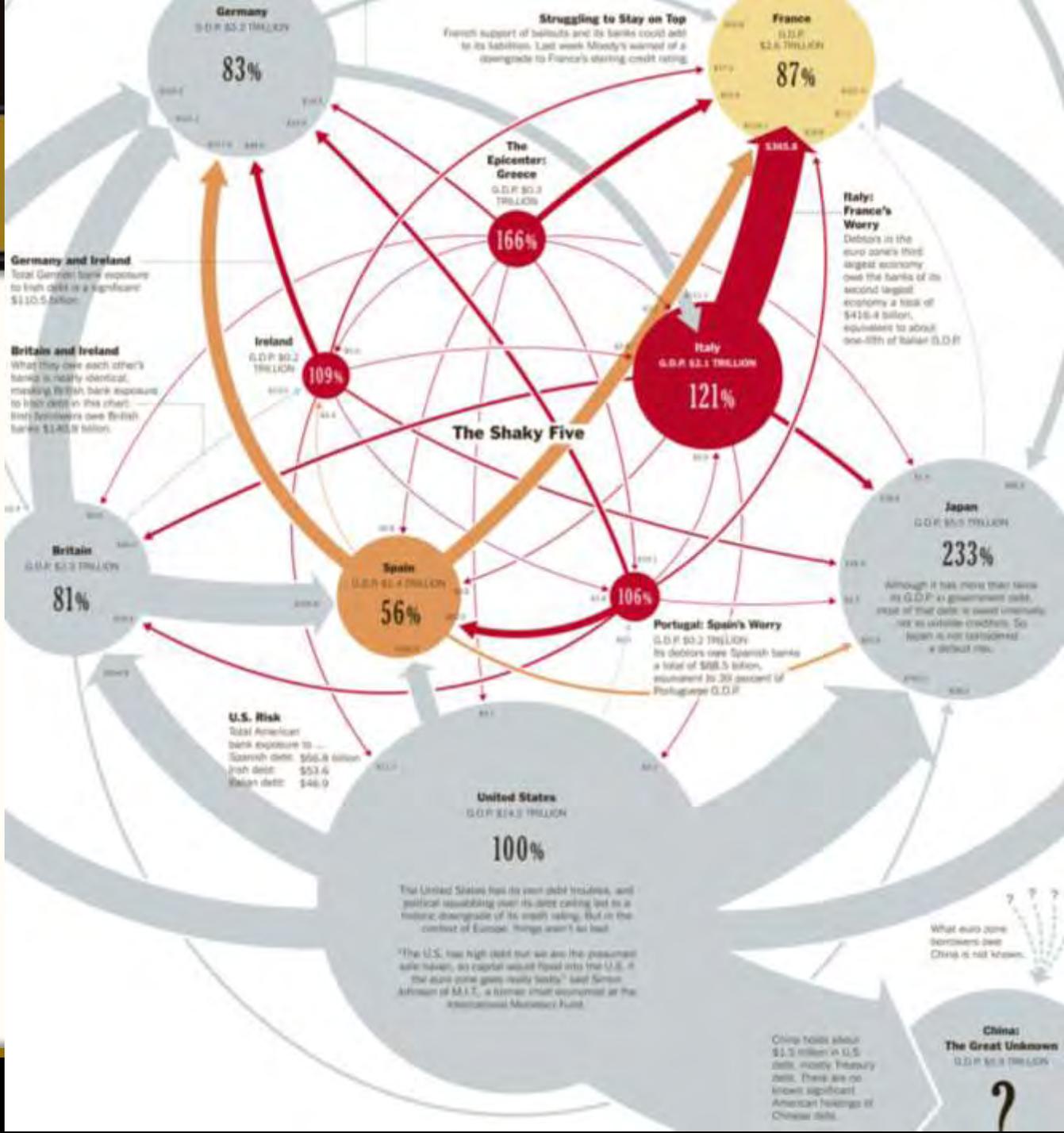
“Many investors and policymakers speak about a possible ‘*Lehman Moment*’—a shock so severe that it would cause banking crises and domino bankruptcies throughout Europe.”

– Dixon and Unmack: “Avoiding Greece’s Lehman Moment,” *NYT*, May 10, 2011, B2

Geithner’s *Lehman Moment*:

“You need to know,” Geithner told the CEOs, “that if we (the Fed and Treasury) are unable to work out some solution, we do not have the capacity to insulate you or the system from the consequences.”

– David Wessel: *In Fed We Trust*, p.18



**The New York Times**  
Sunday Review OpEd,  
Data Points, Bill Marsh  
Oct. 22

**It's All Connected:  
An Overview of the  
Euro Crisis**



## Takeaways

- **Sluggish growth, increasingly vulnerable to (foreign) shocks**
- **Texas has fared better than the nation but is still vulnerable to national economic weakness**
- **There is hope for resolution in the Euro-area, but all the provisions are not yet finalized**