



Economic Outlook for 2012

Economic Insights: Conversations with the Dallas Fed
Federal Reserve Bank of Dallas
February 1, 2012

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



Economic Outlook for 2012

Harvey Rosenblum

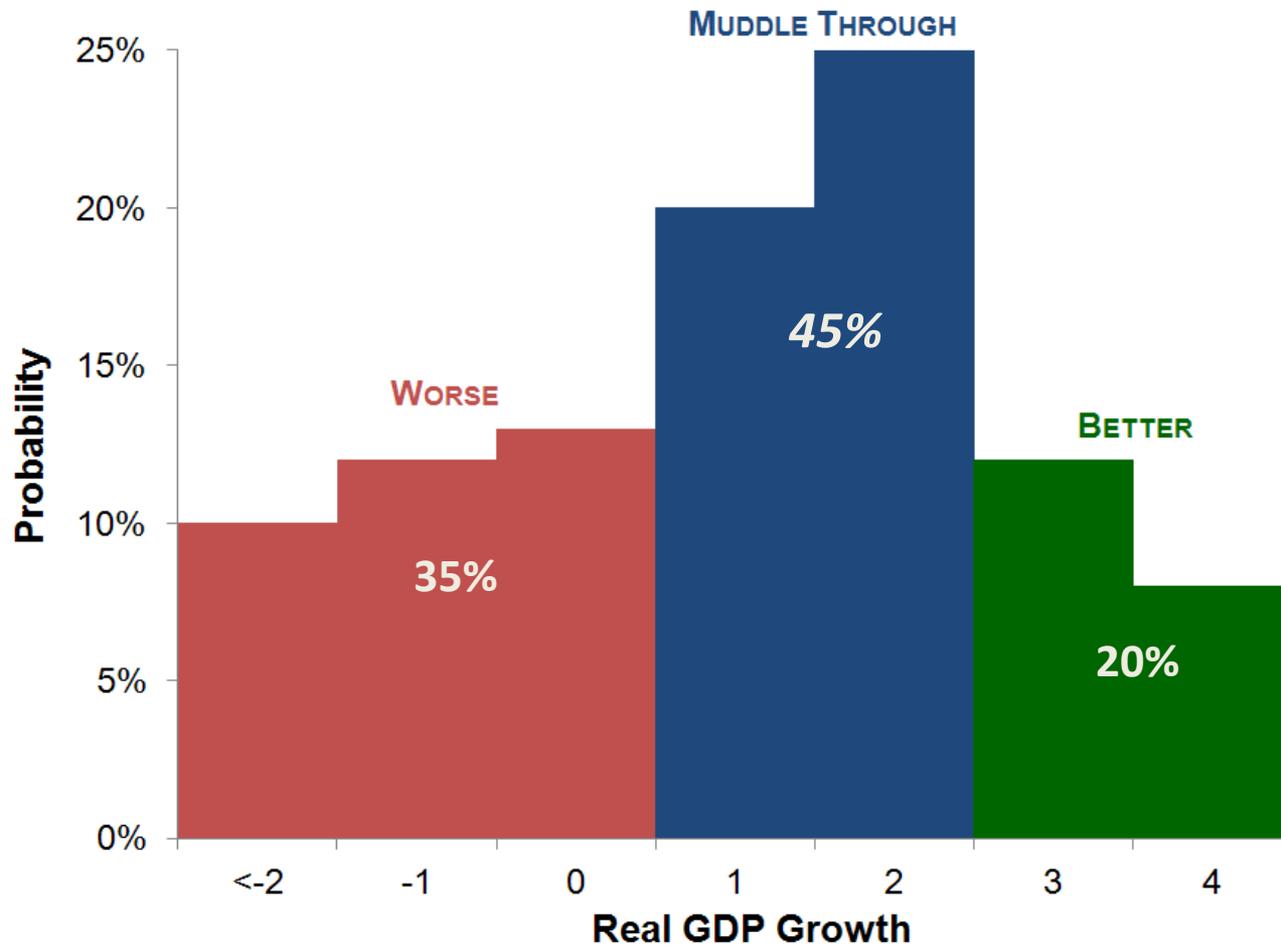
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2012 Outlook





2012 Outlook



	<u>MUDDLE THROUGH</u>	<u>WORSE*</u>	<u>BETTER</u>
GDP GROWTH	2%	0 OR -	3%+
INFLATION (TREND)	2%	1%	2.5%
PAYROLL GROWTH (AVG. MO.)	175k	75k	225k

***Under WORSE scenario: globally, as many as 20 TBTF banks might need extraordinary government assistance (i.e.– *failure*)**



Impediments to Stronger Growth

Domestic

- Weak income growth
- Underemployed workforce
- Large overhang of unsold/ foreclosed homes & vacant CRE
- Monetary policy constrained by *zero lower bound*

Abroad

- Slowing global economy
- European sovereign debt problems with soaring gov't and private sector borrowing costs; financial market spillover

Uncertainties

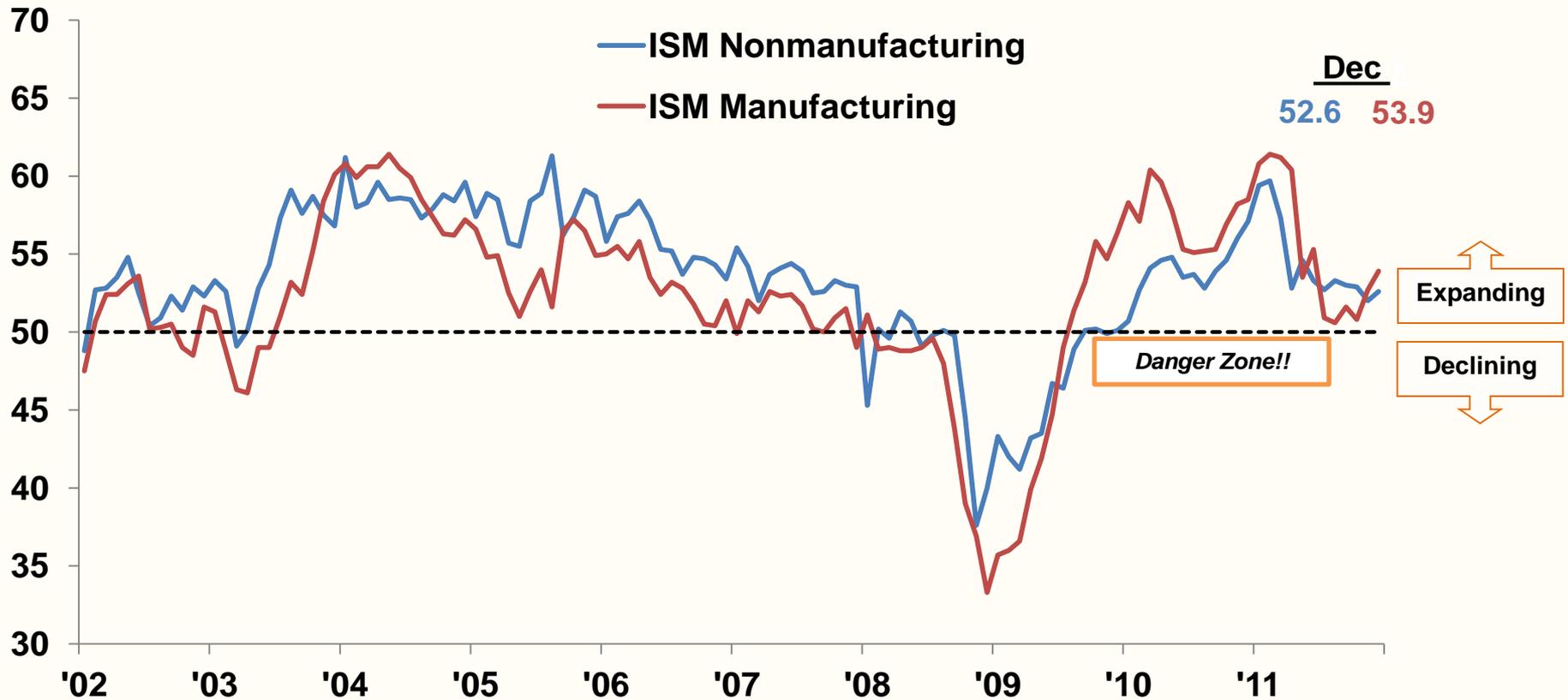
- U.S. Presidential election cycle adds to already abundant tax/regulatory concerns

BOTTOM LINE: NOTHING NEW, NOTHING DIFFERENT



U.S. ISM's Show Modest Growth

Diffusion Index, 50+=Increasing

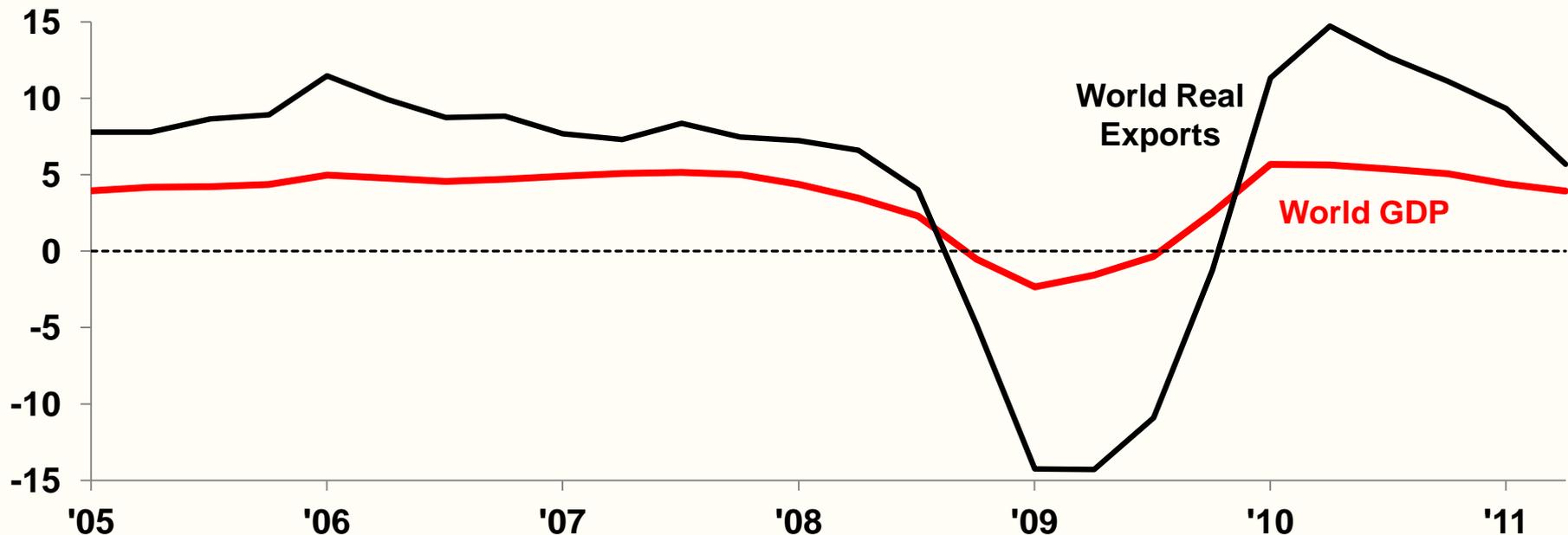




Global Growth Cools

- **Slowing manufacturing activity and a Eurozone recession could quickly impact global export growth**

% change, year-over-year

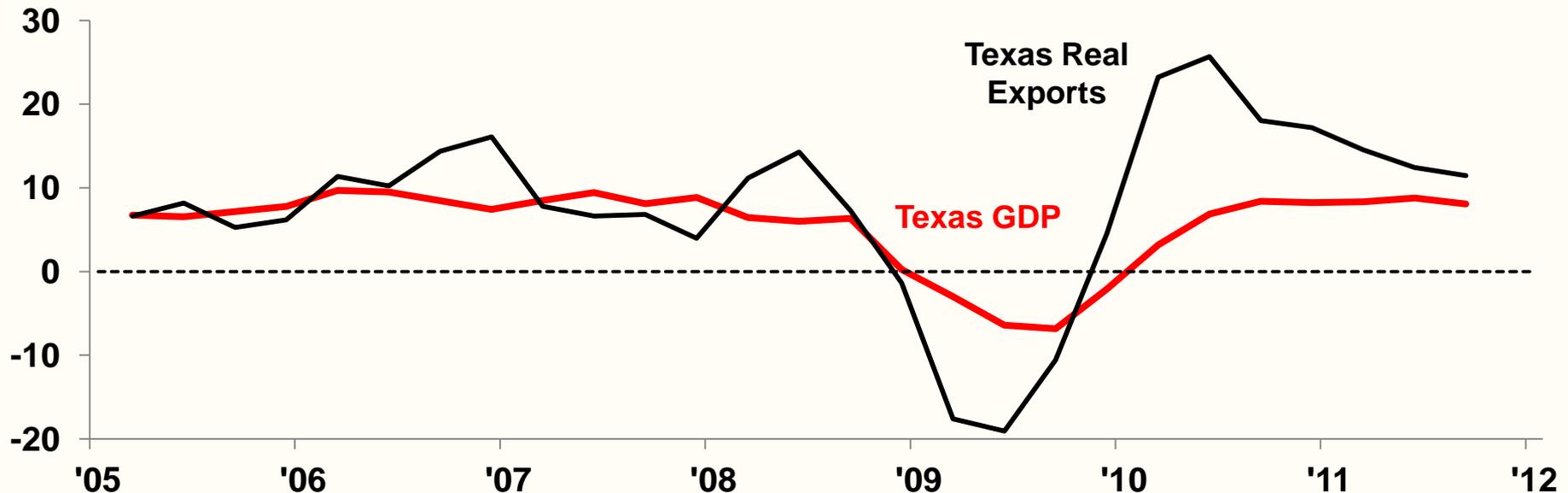




Side-bar: Dubious Distinction of TX

- **Texas is the leading U.S. exporter**
 - Texas is a “high beta” state with a lot to lose from a decline in global trade

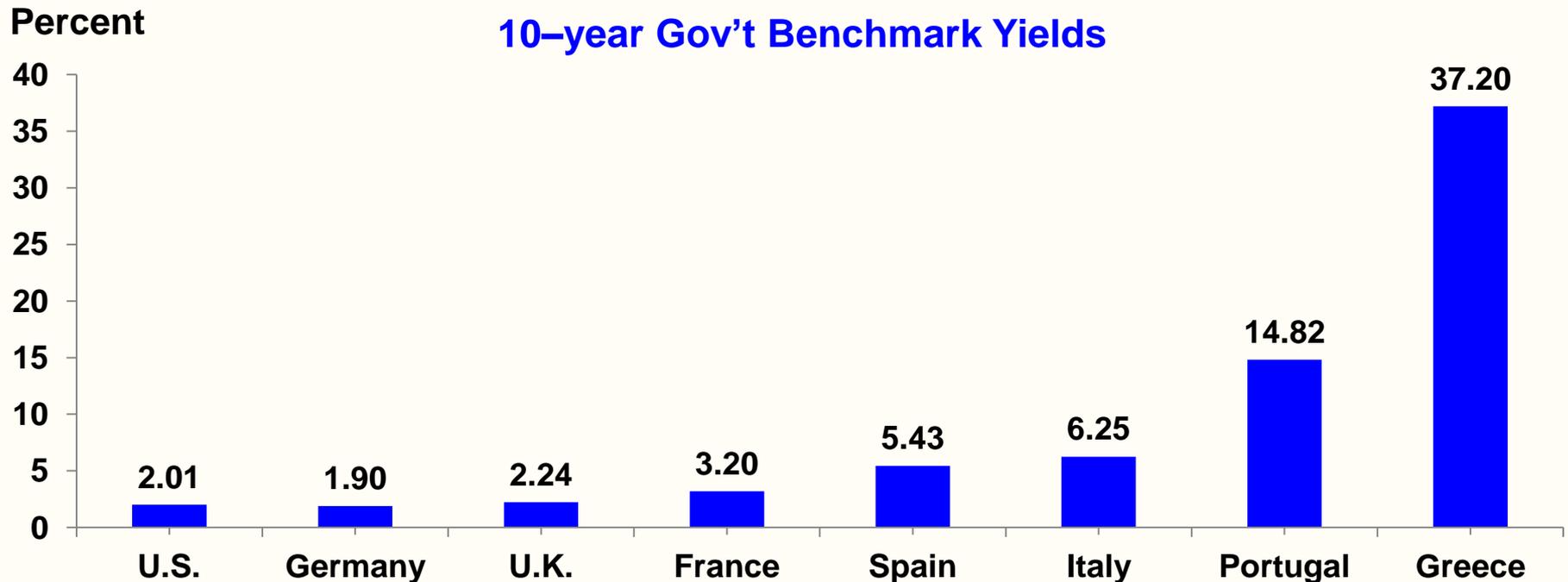
% change, year-over-year





Horses in the Glue Factory

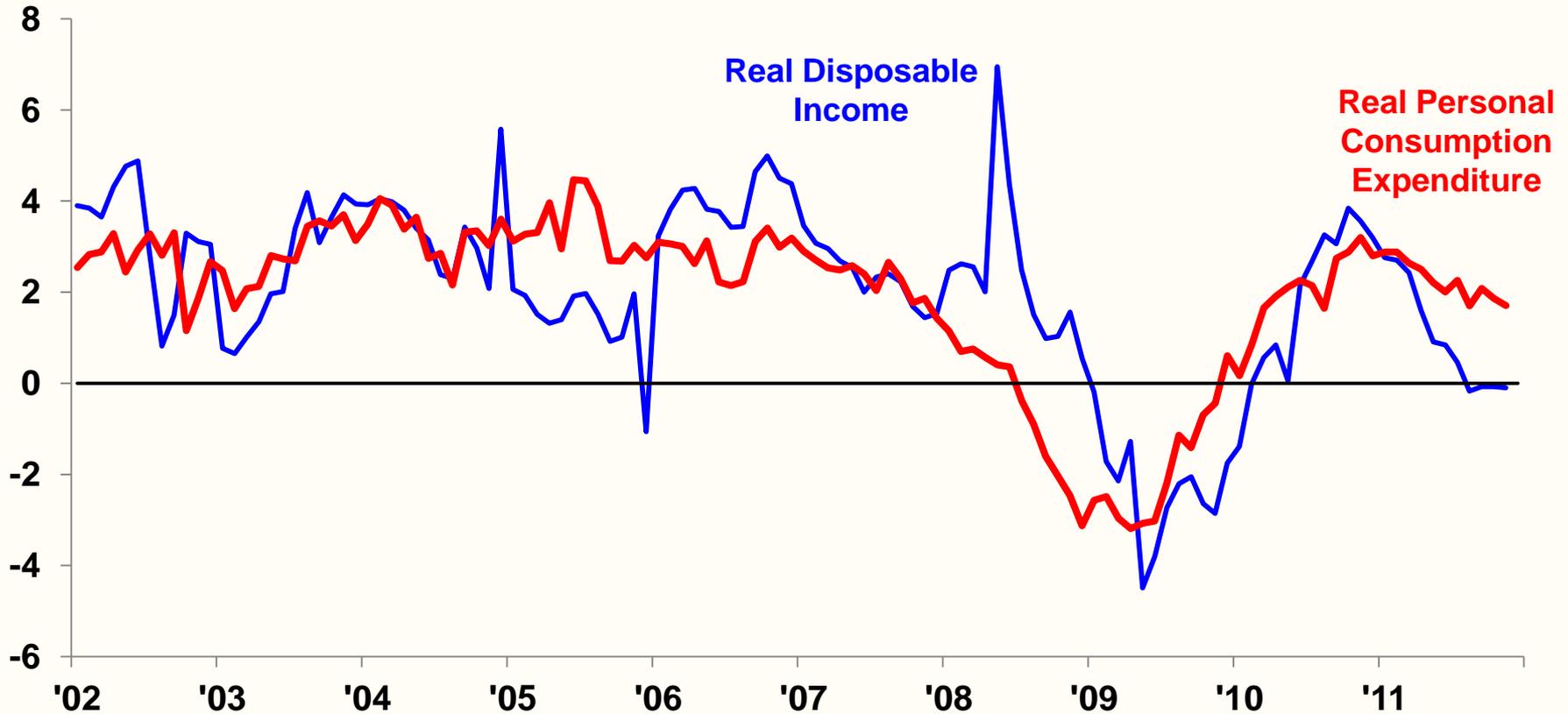
- The bond market has differentiated between U.S., Germany, U.K, France... and the rest





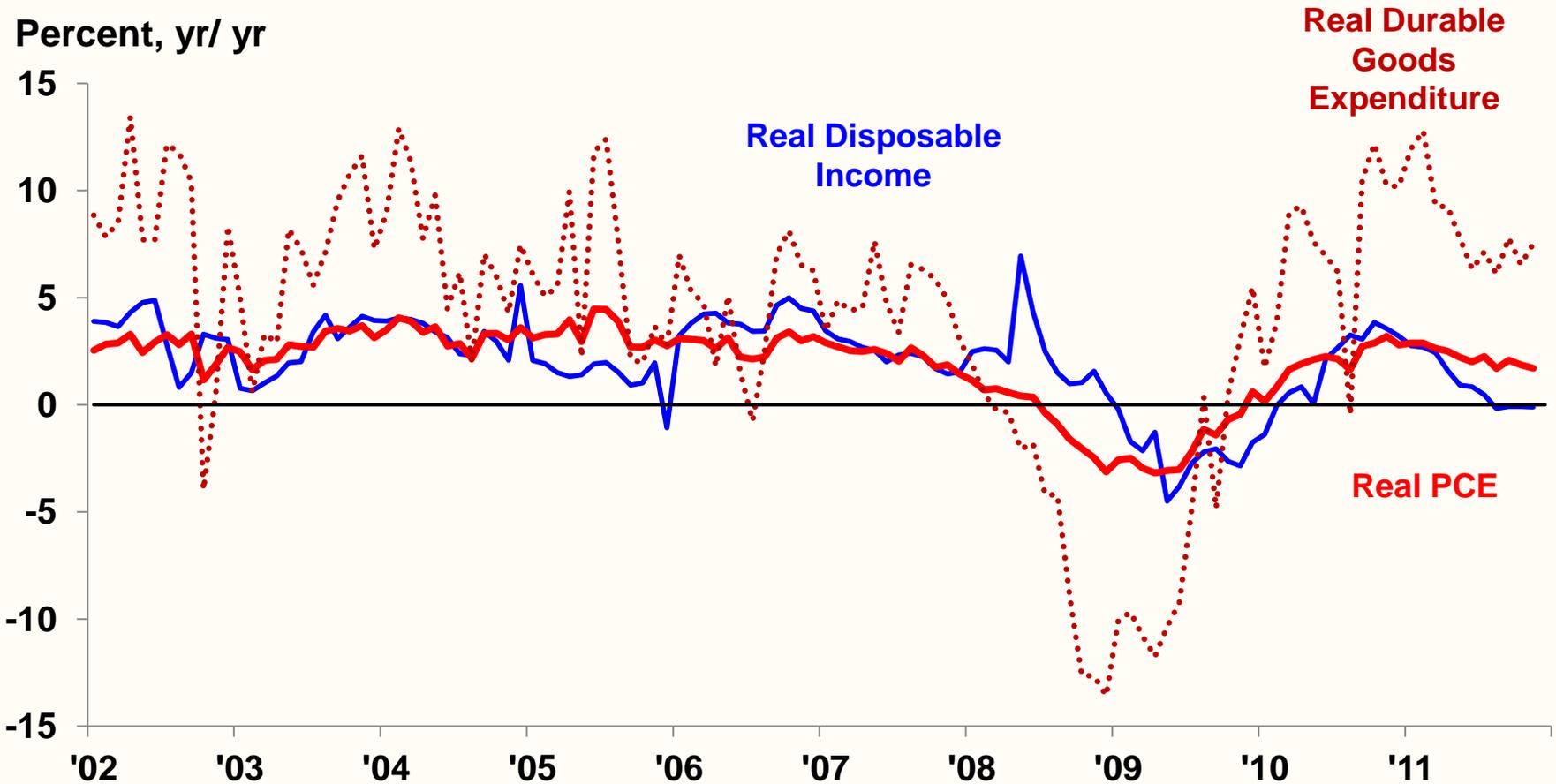
Spending Outpaces Earning

Percent, yr/ yr





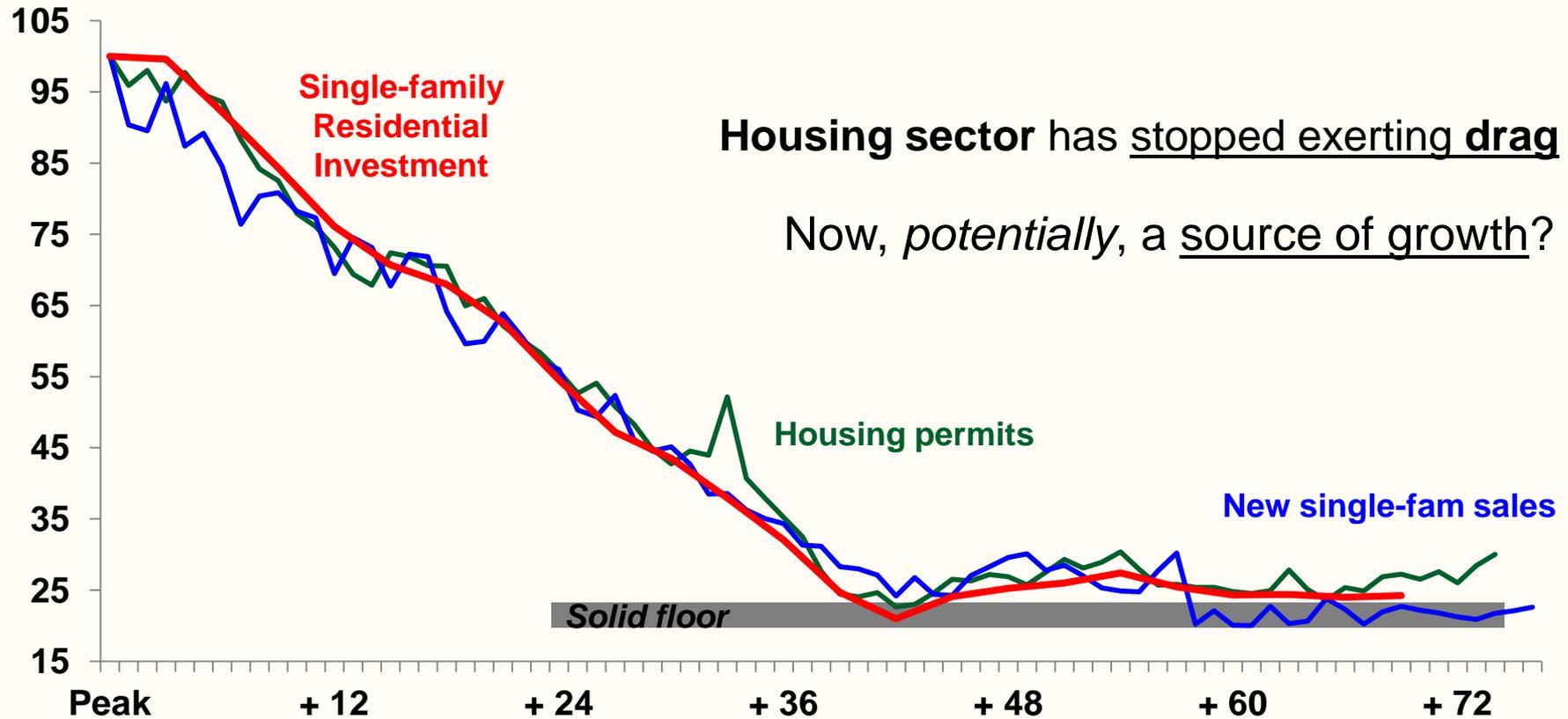
Spending Outpaces Earning





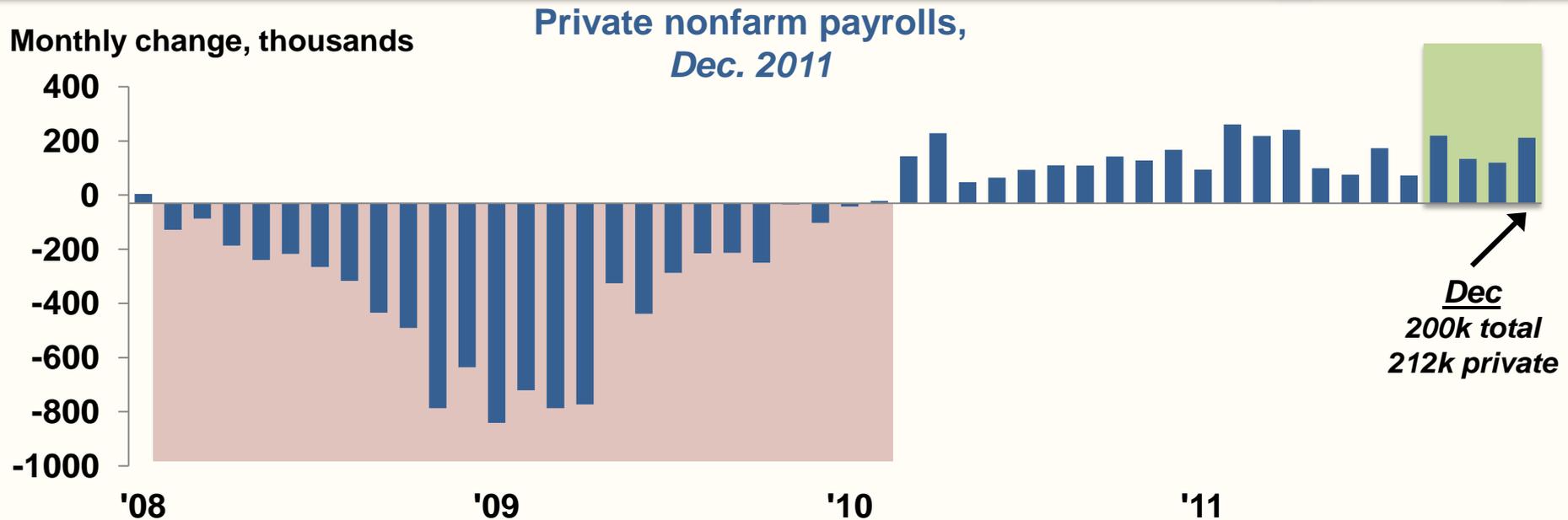
Housing Stabilizes

Index, 100=peak





Improving Employment Picture

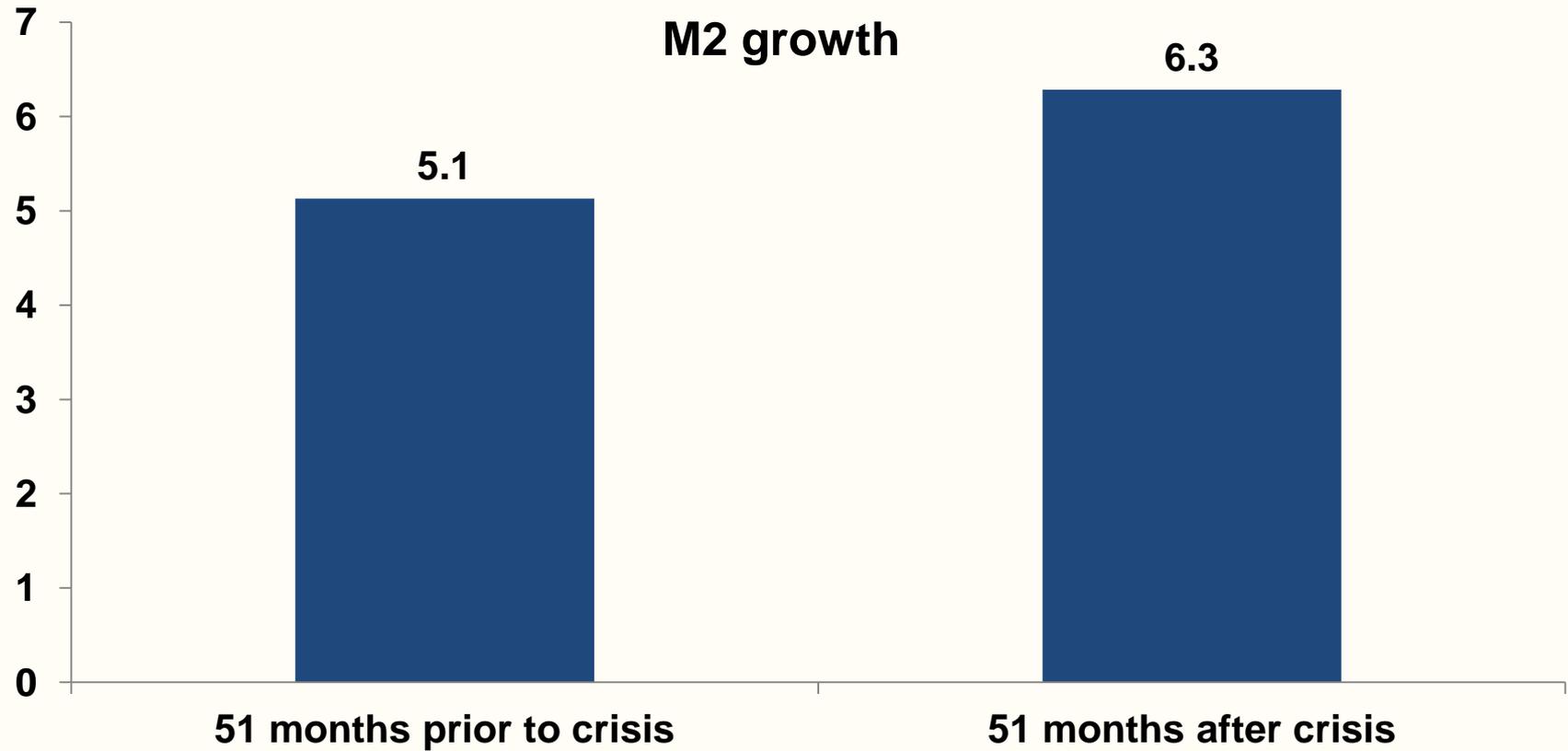


- 22 months of steady private sector job gains; ~3.2M jobs gained
- Unemployment rate at 8.5%, lowest since Feb. 2009
- Initial jobless claims below 400k for 10 of the last 12 weeks



Money Growth

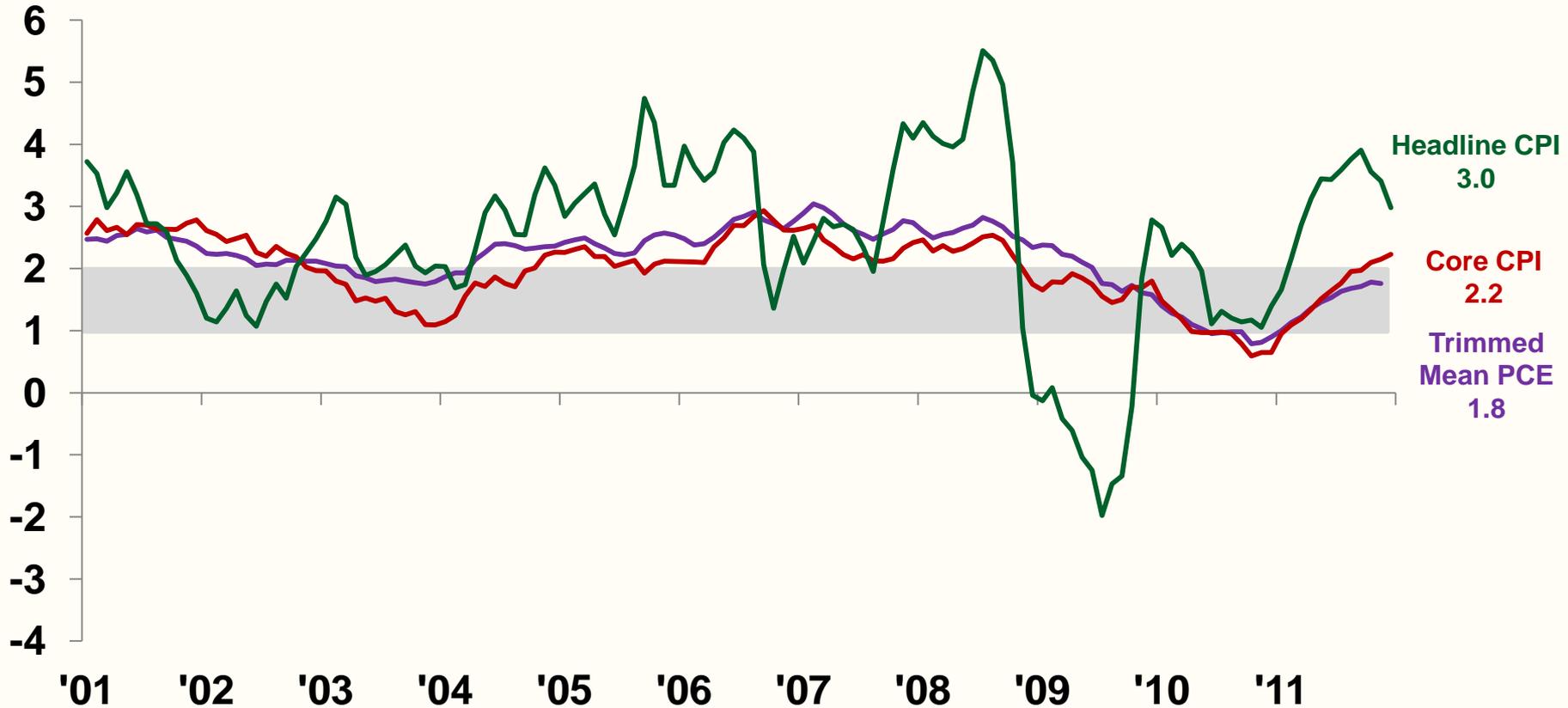
Ann. M2 growth, %





Will Price Pressures Remain “Modest”?

Percent, yr/yr





Takeaways

- **2012: MUDDLE THROUGH most likely scenario**
- **U.S. growth is OK, but looming and large downside risks necessitate humility in making forecasts**



**A pre-requisite for being a good economist is
an *ample dose of humility***

- Gregory Mankiw, *NYT*, Sunday Business, p. 4, 12/4/11



Forecasting Folly

Murphy's Fourth Corollary:

If you perceive that there are four possible ways in which a forecast can be wrong, and circumvent these, then a fifth way will promptly develop

BUT...

Harvey & David's Corollary:

Things often turn out better than anticipated



Texas Economic Update



Mine Yücel

Federal Reserve Bank of Dallas

February 1, 2012

Presented by

Jason L. Saving

Senior Research Economist and

Advisor



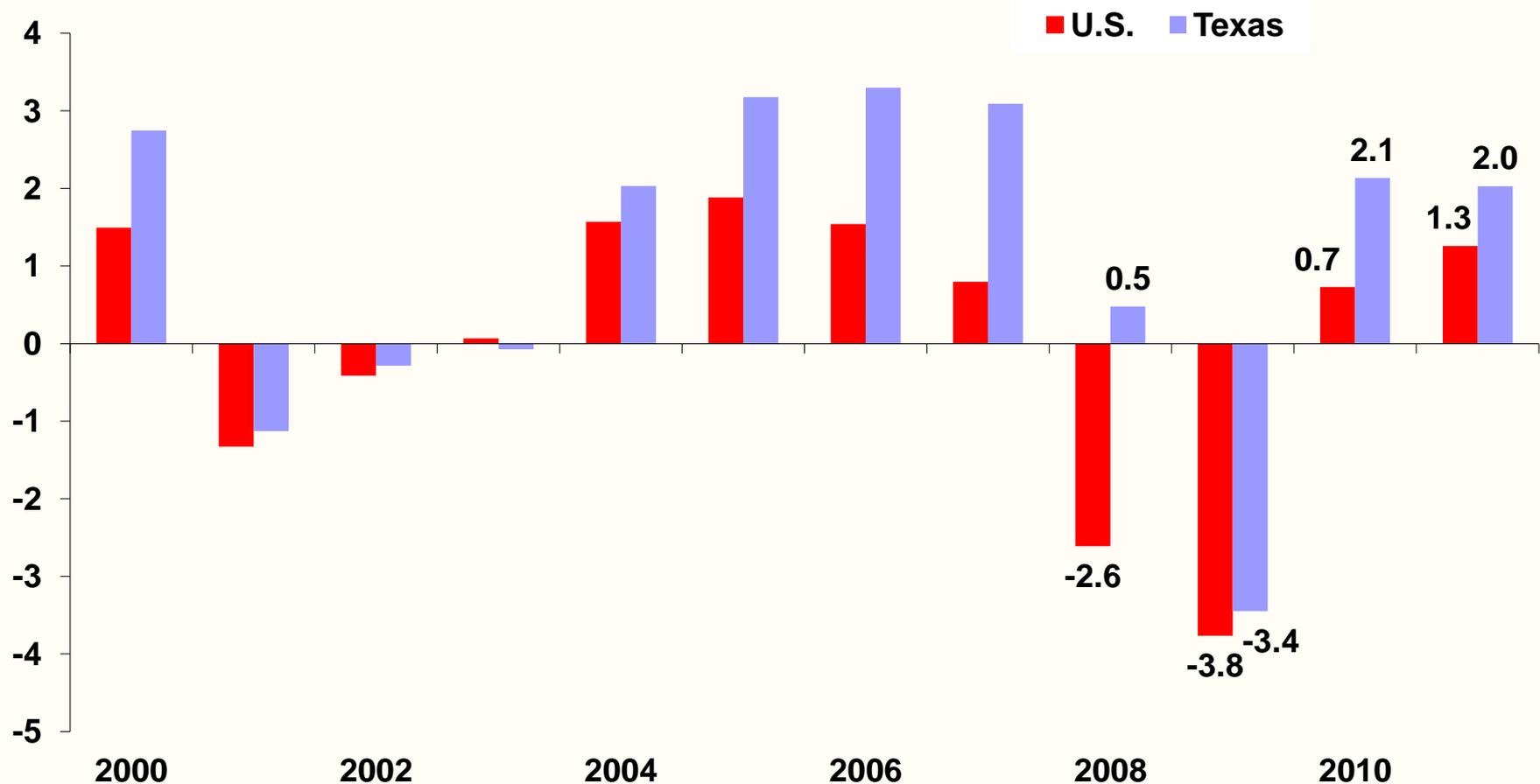
Texas economic update

- **Texas employment grew 2.0 percent in 2011**
 - Added a total of 211,600 jobs
 - 266,400 private jobs
- **Expect similar job growth in 2012**
- **Faster growth possible if national and global economies pick up**



Texas' employment growth bests nation's

Dec/Dec, SAAR





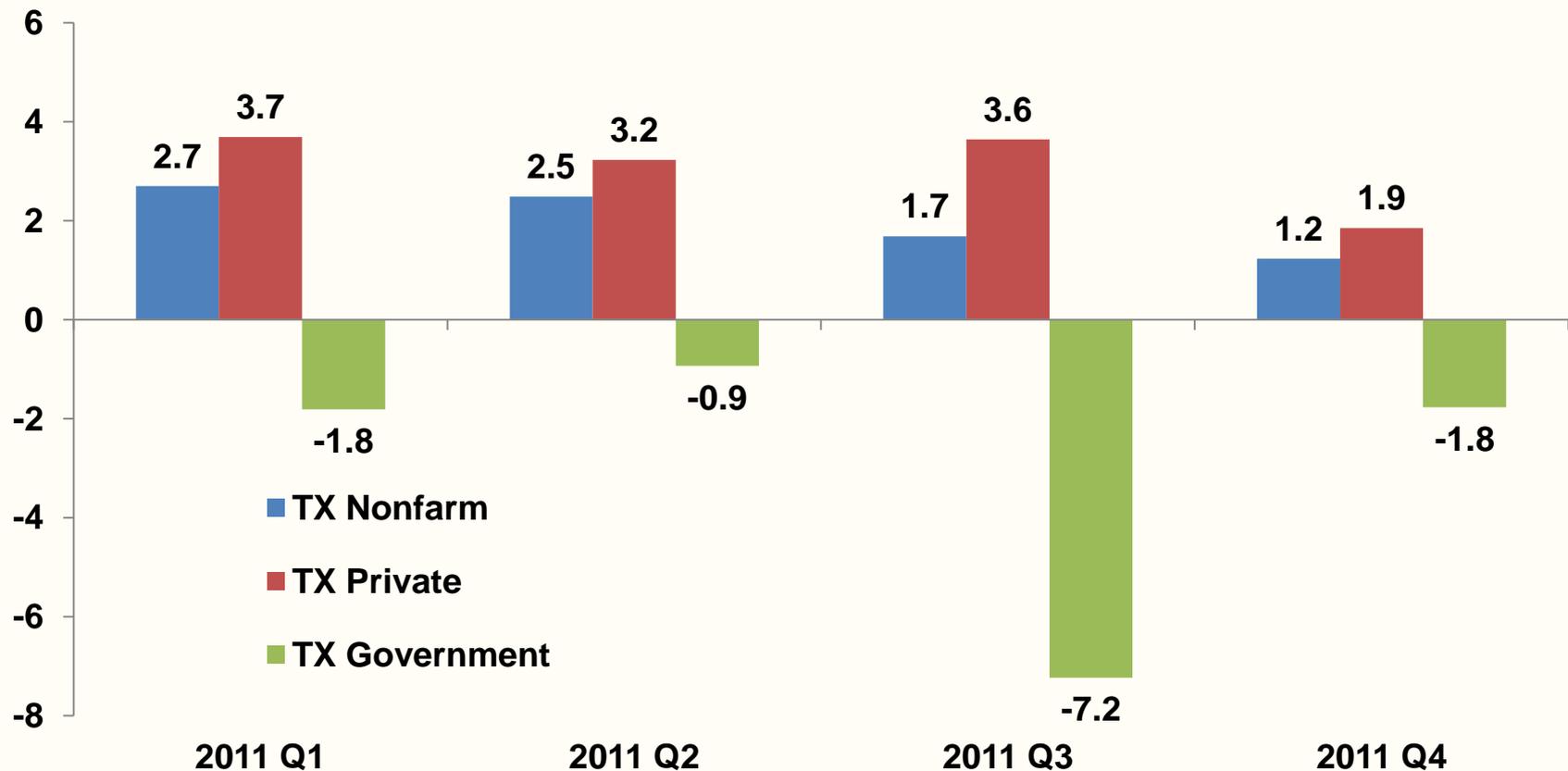
The Texas recovery: strengths

- **Strong energy sector**
- **Rapidly growing exports**
- **No housing bubble or bust**
- **Healthy banks**
- **State finances relatively healthy, although budget cuts hurt**



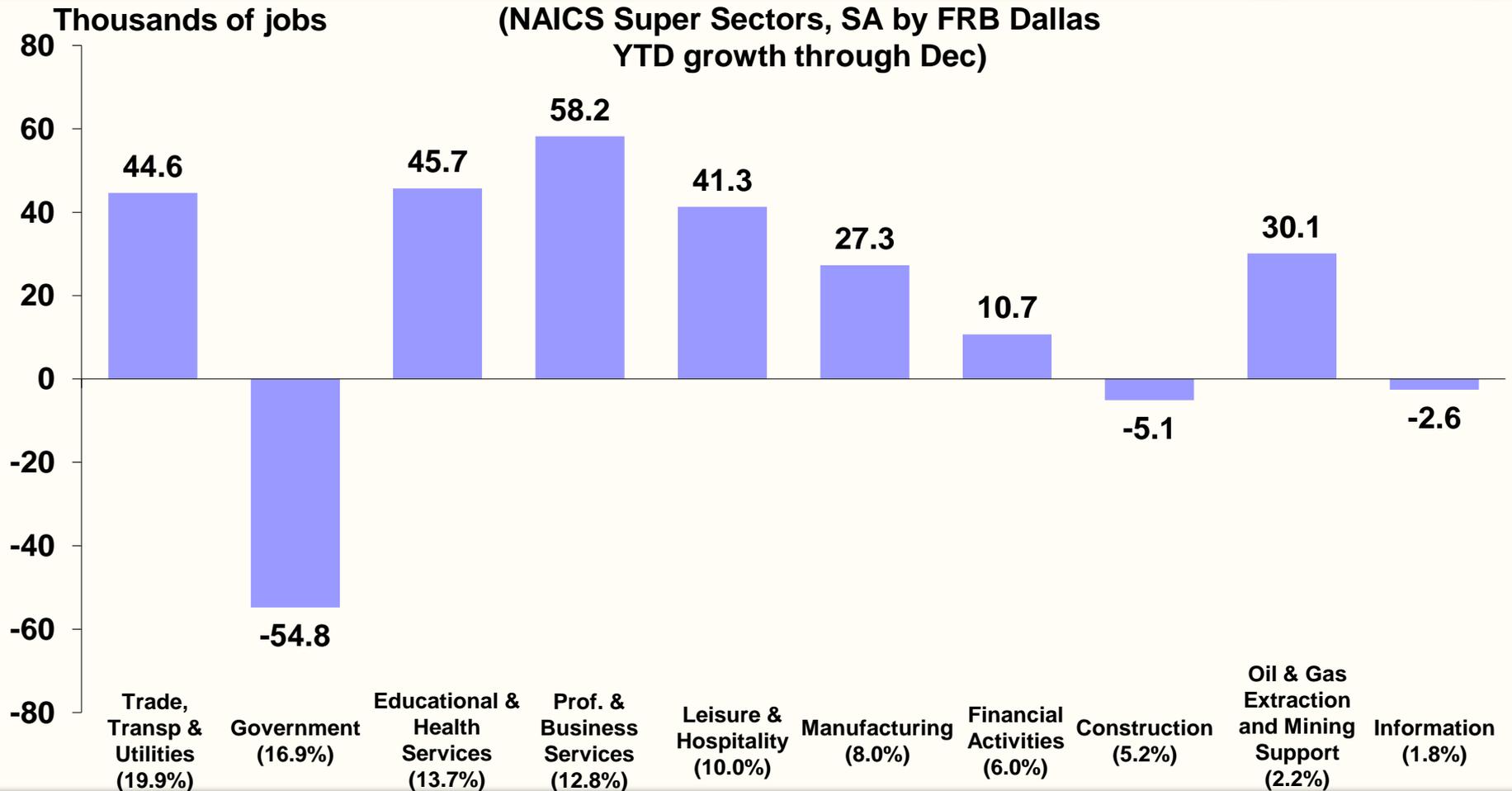
Government job losses huge drag in 2011

Q/Q, SAAR



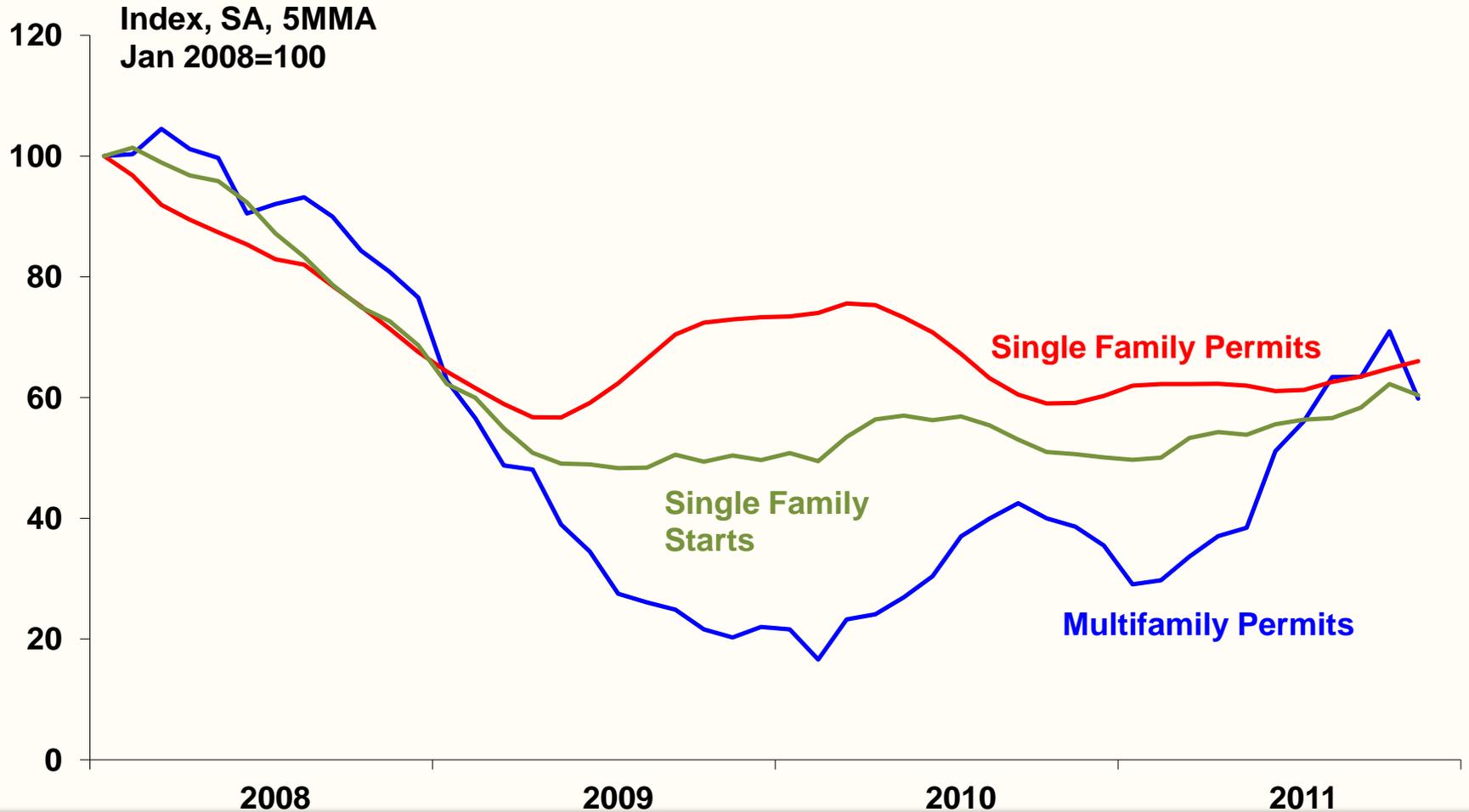


2011 employment growth





New home construction

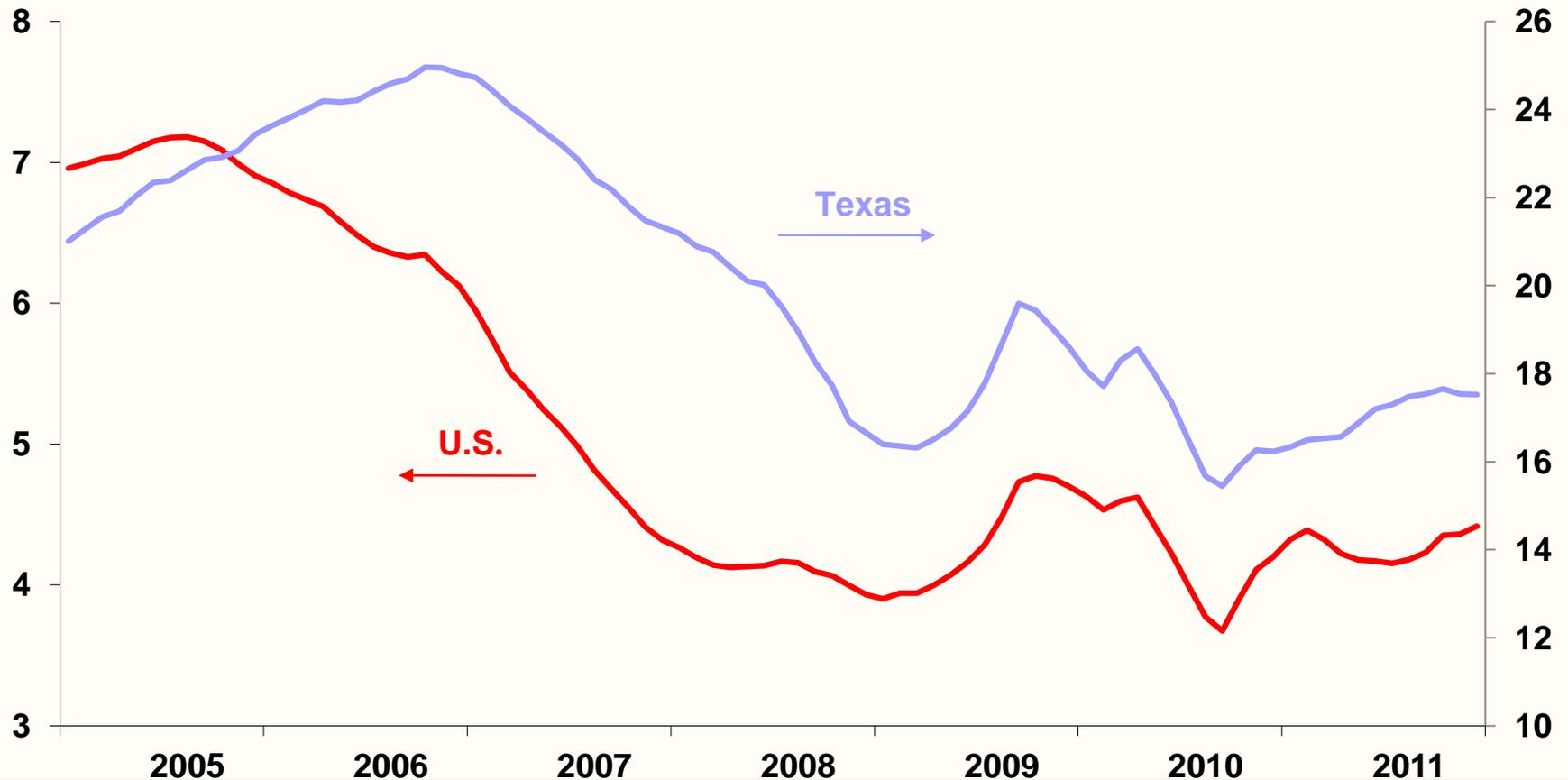




Existing home sales improving

Millions, 5MMA,
centralized

Thousands, 5MMA,
centralized

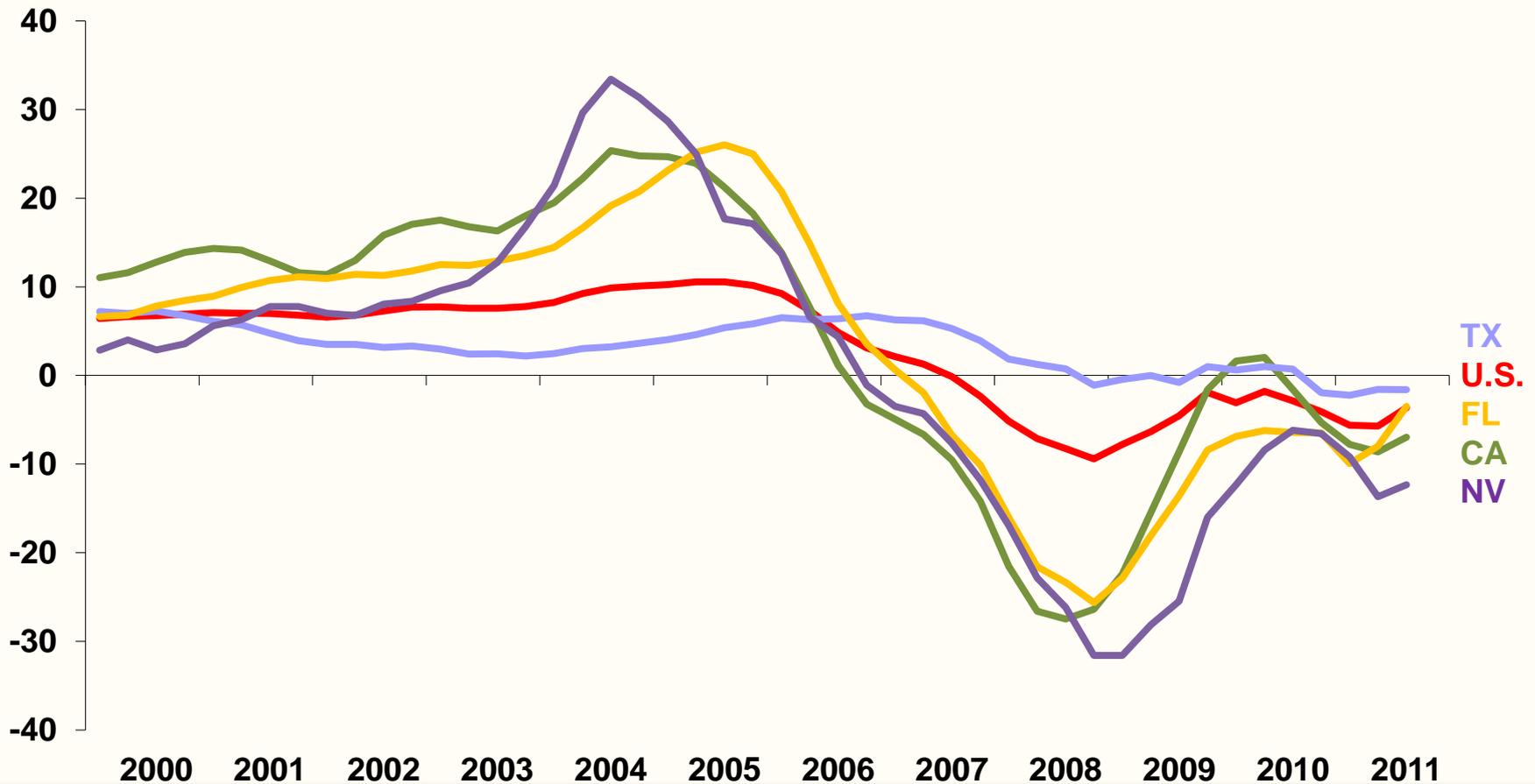




House prices not stable yet

FHFA House Price Index - Q3

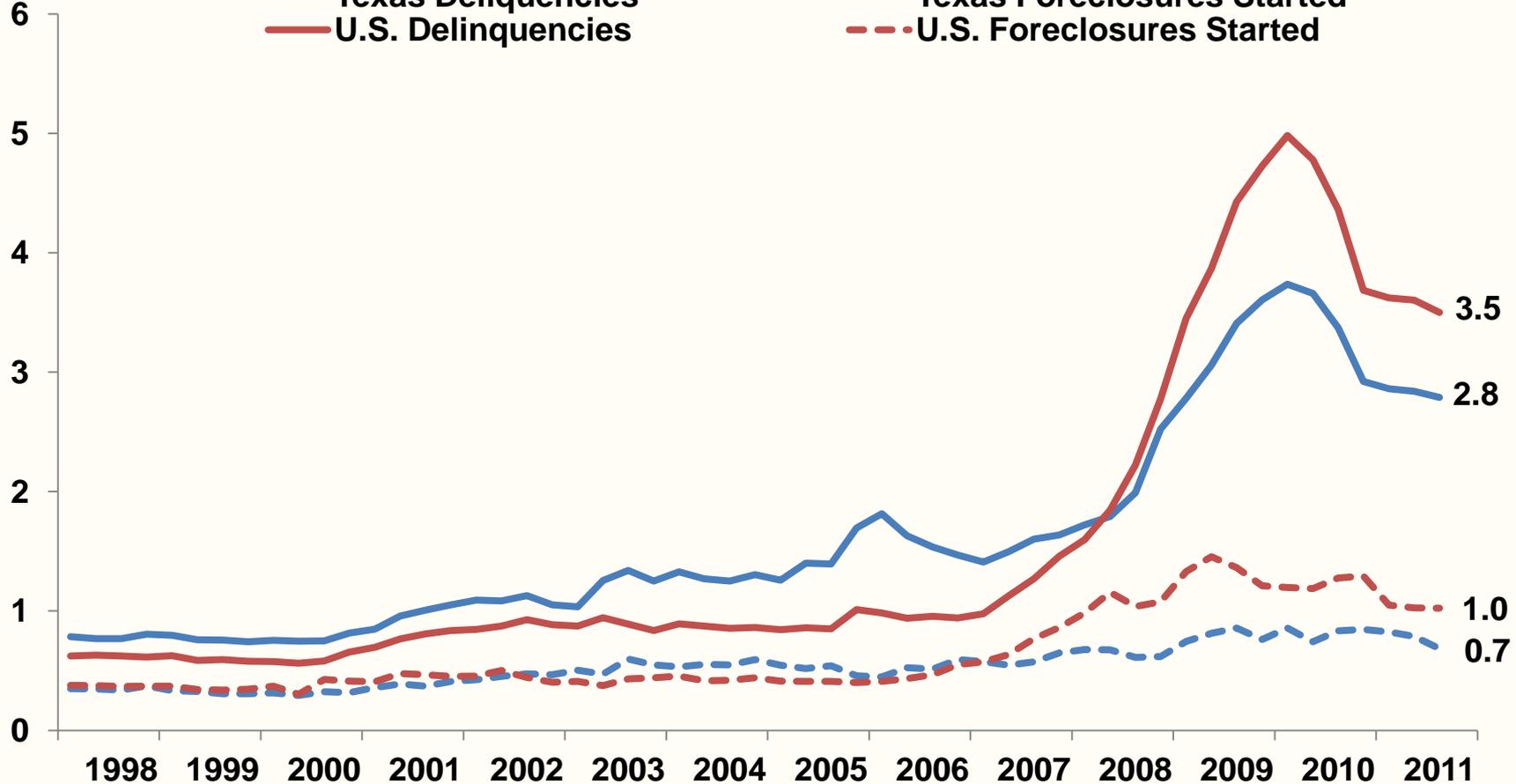
4-Q Percent Change





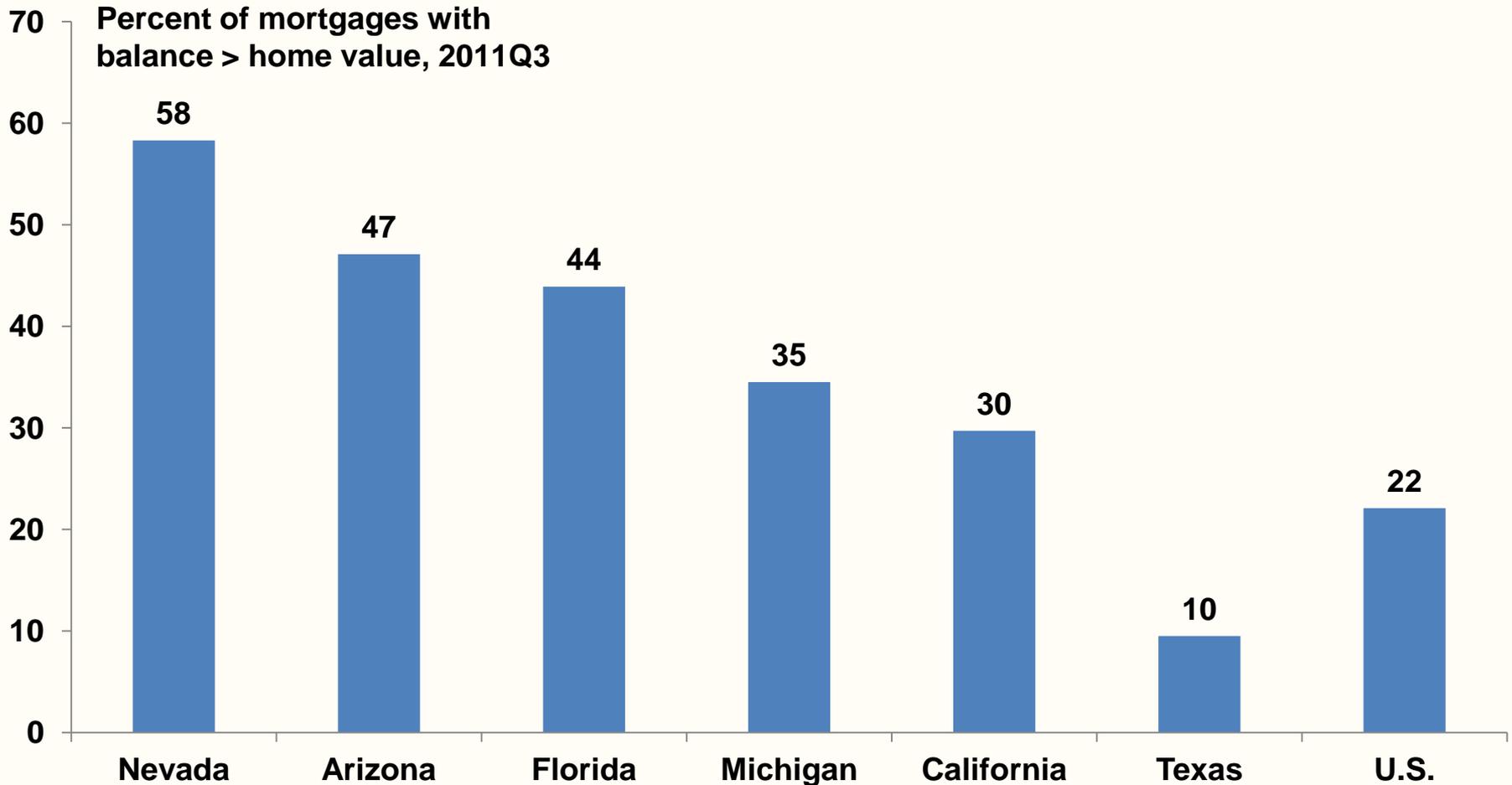
Mortgage delinquencies falling

Percent, SA





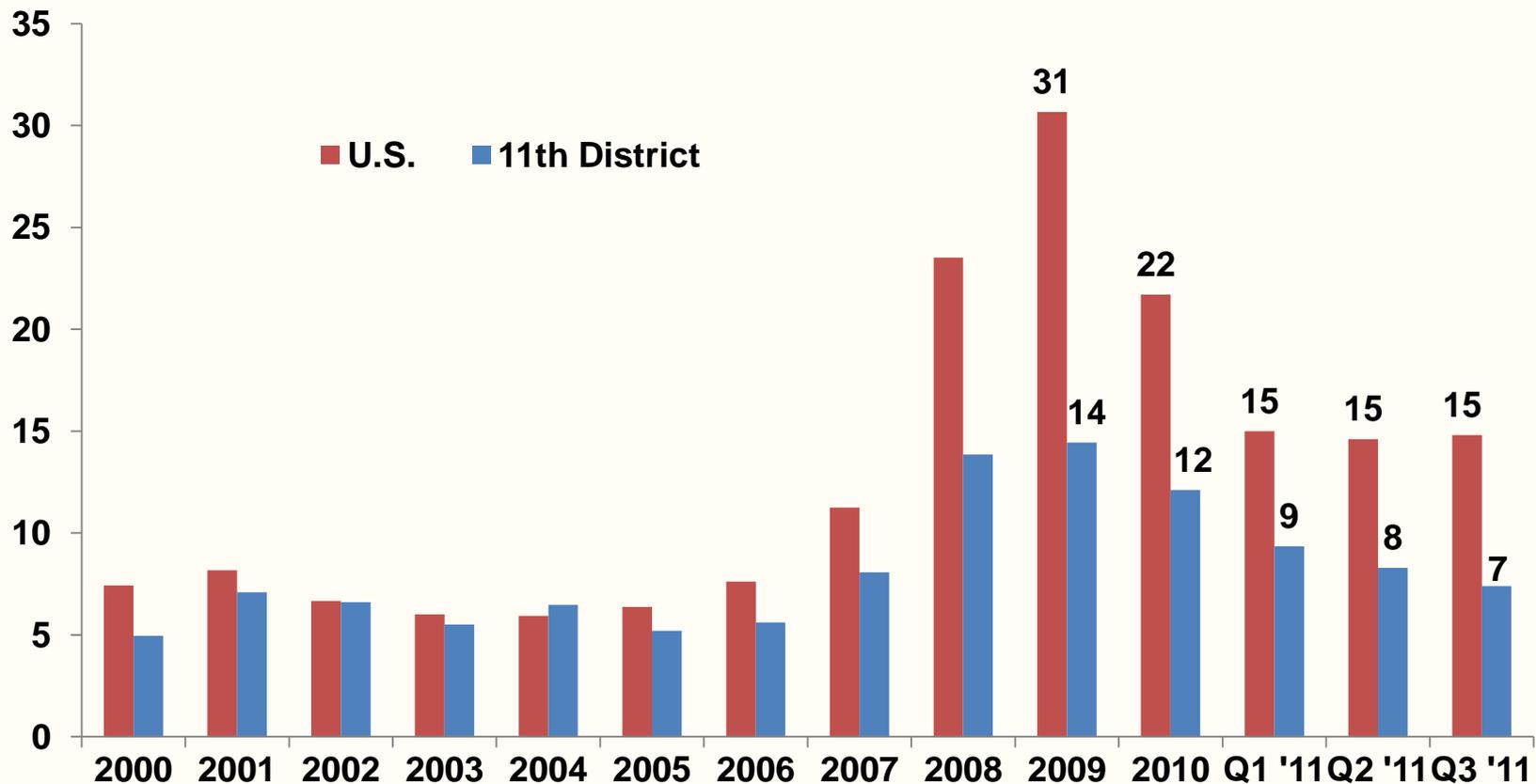
Texas has much lower share of underwater mortgages





Share of unprofitable banks

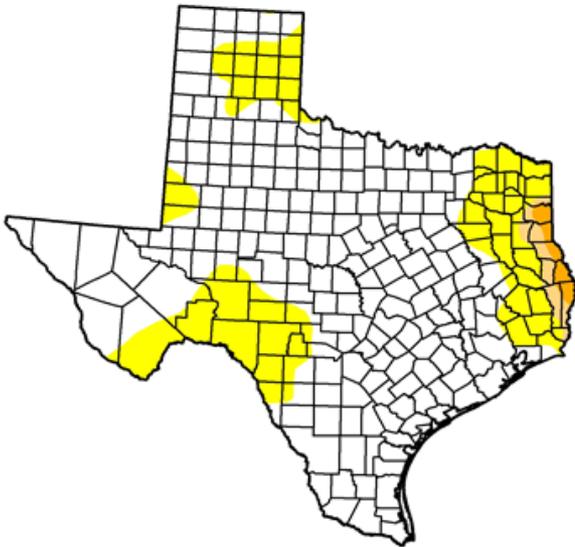
Percent of Banks Reporting a Net Loss



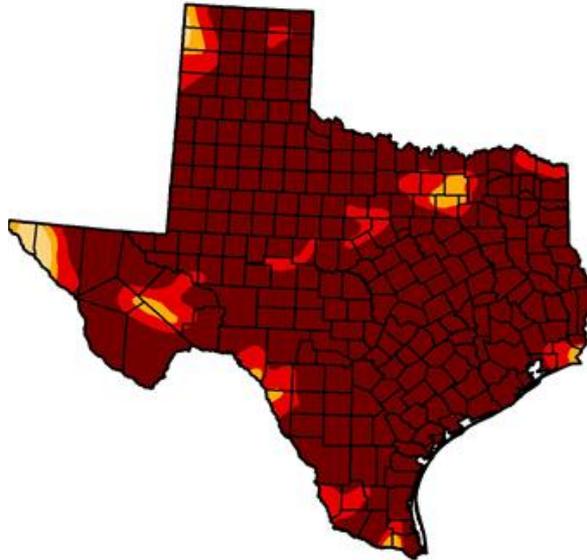


Easing of drought conditions

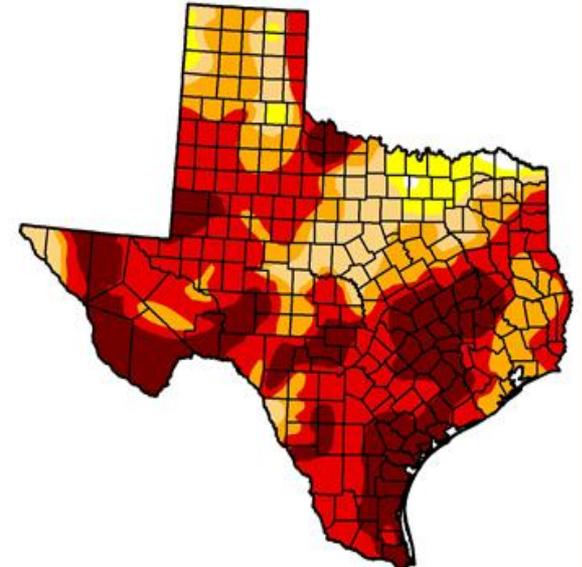
October 2010



October 2011



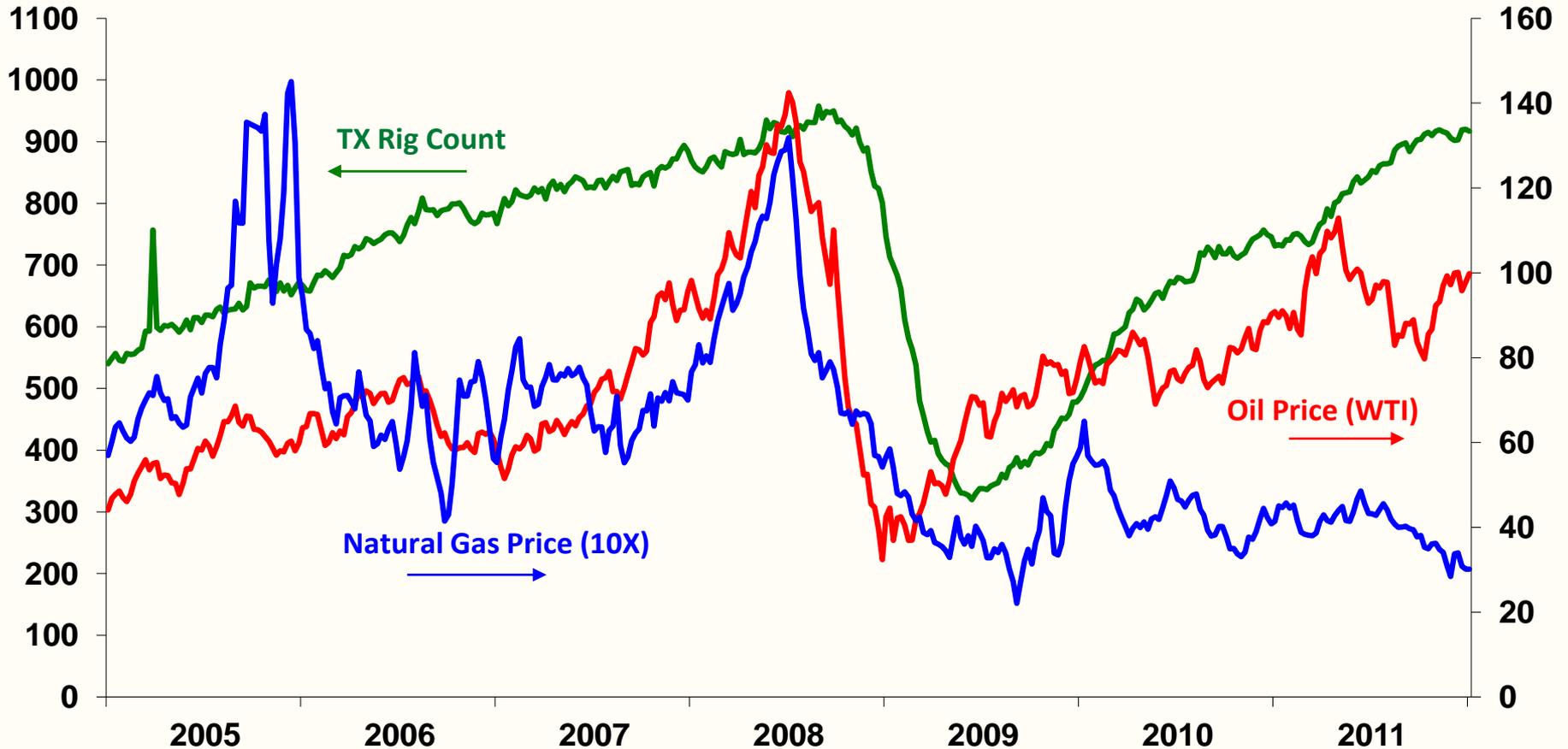
January 2012





High oil prices & new technologies fuel drilling

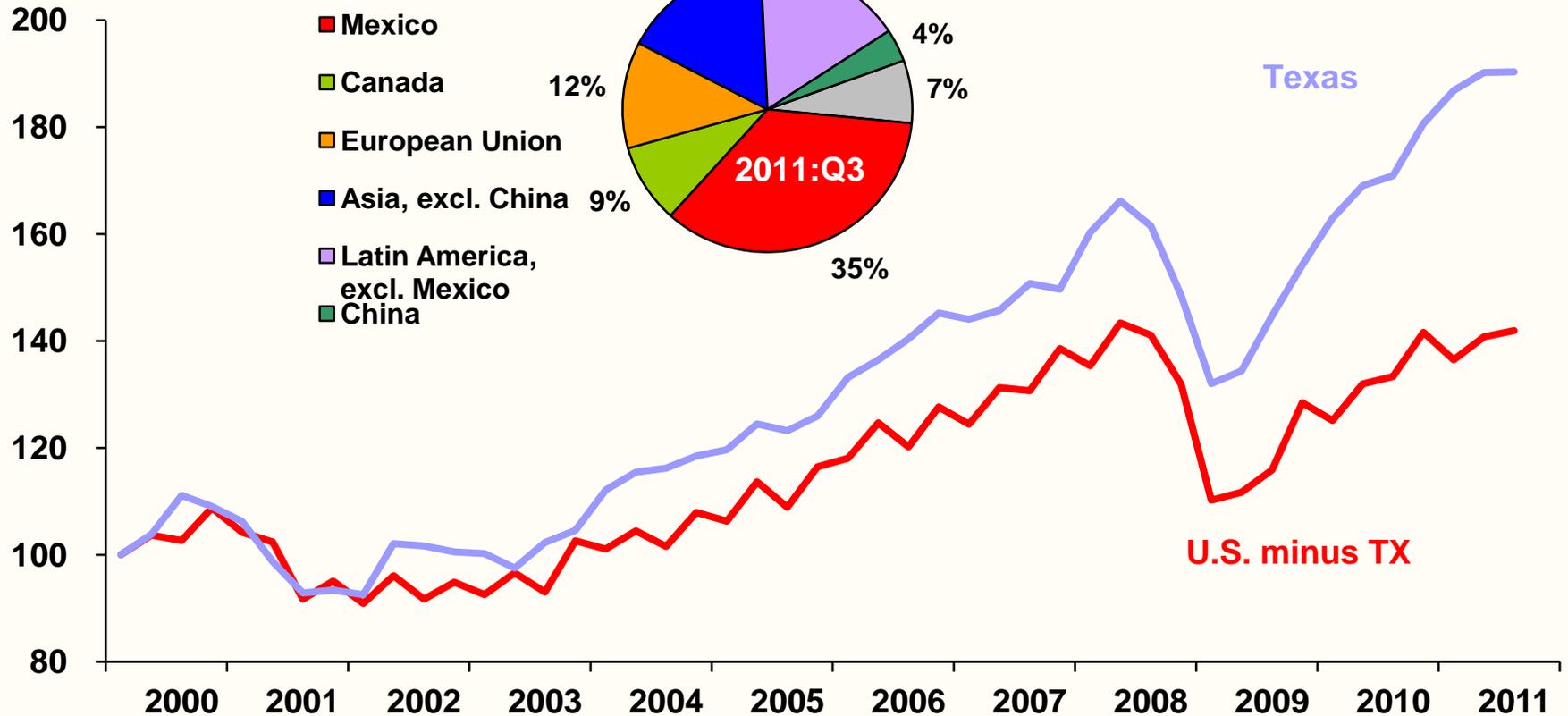
Rig count, weekly





Texas exports softening

Index, SA, Real
2000 Q1=100





Summary

- **Texas employment grew 2.0 percent in 2011**
 - Added a total of 211,600 jobs
 - 266,400 private jobs
- **Expect similar job growth in 2012**
- **Uncertainty and risk in the outlook**



Questions?

**Please go to
www.dallasfed.org
for data and
regional information**