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2011 Economic Outlook: Texas to Ride Higher in the Saddle



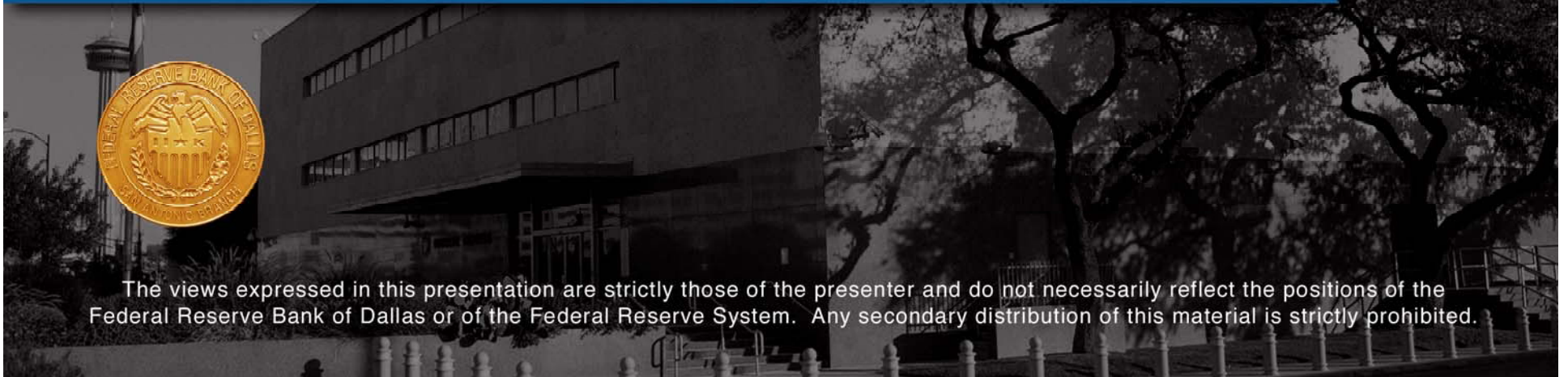
Keith Phillips, Sr. Economist and Advisor

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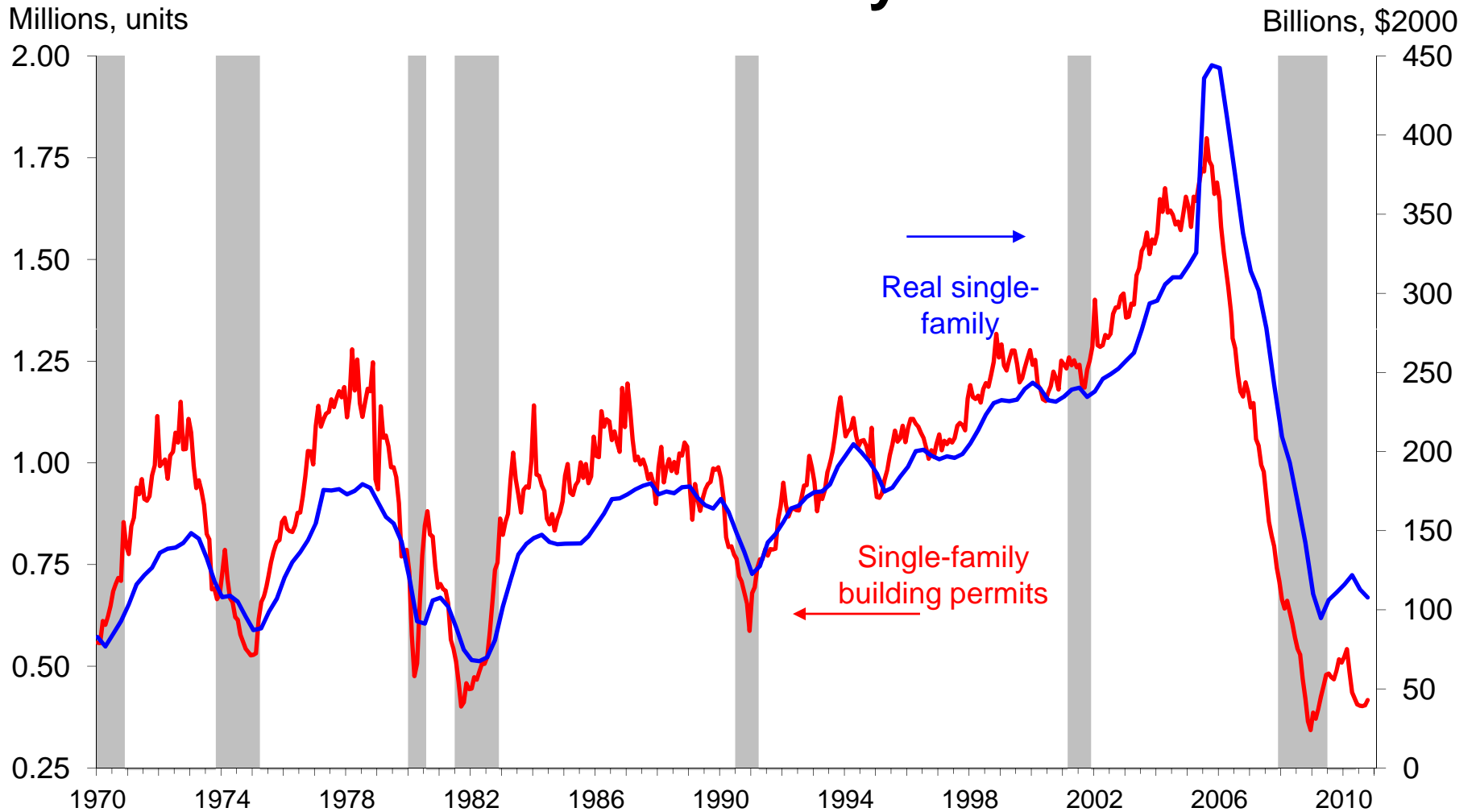
National Economic Overview



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Home Construction Generally Neutral



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

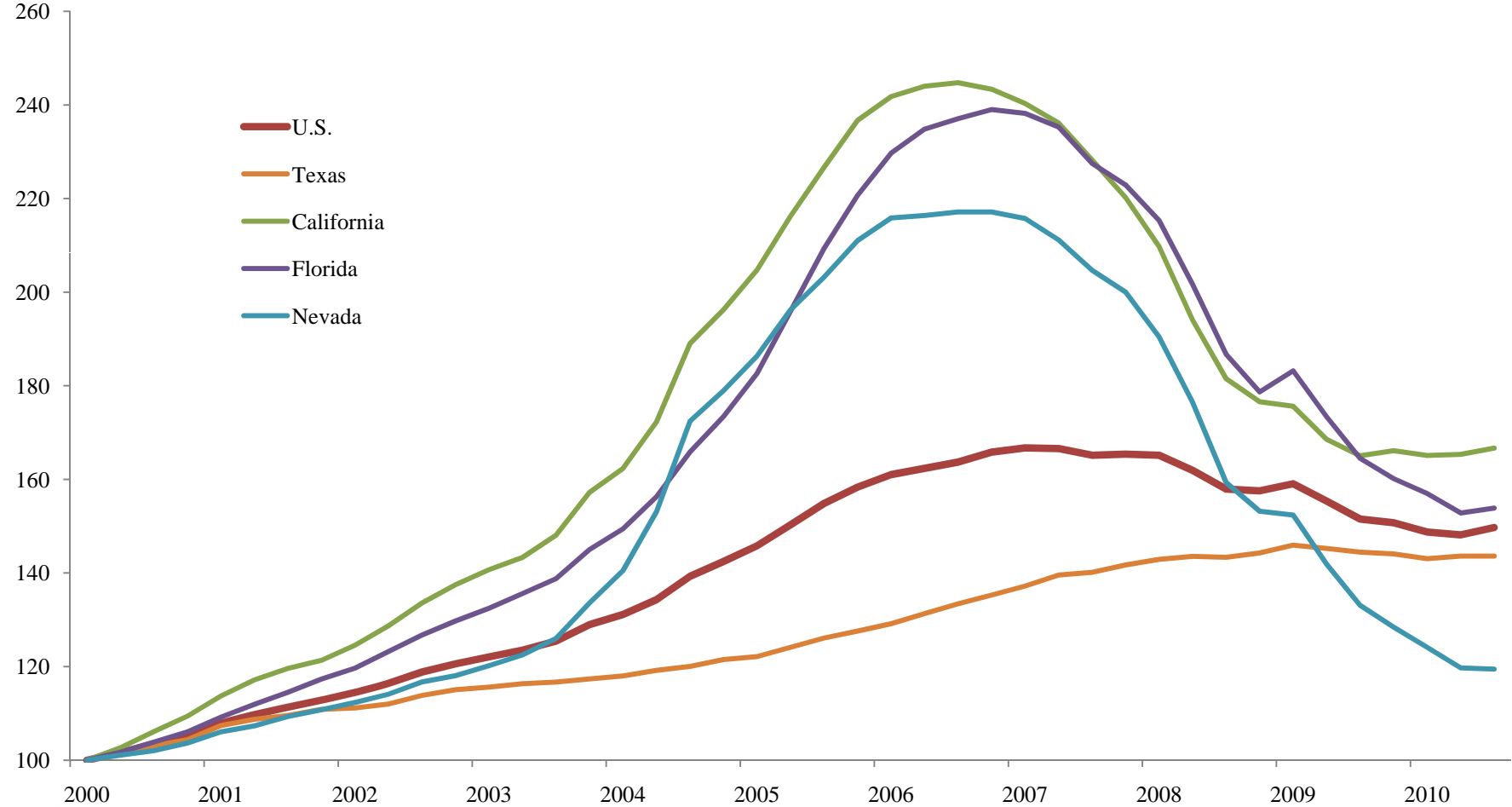


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Home Prices Inching Up After Boom and Bust in Many Markets

House Price Index, 2000=100



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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	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

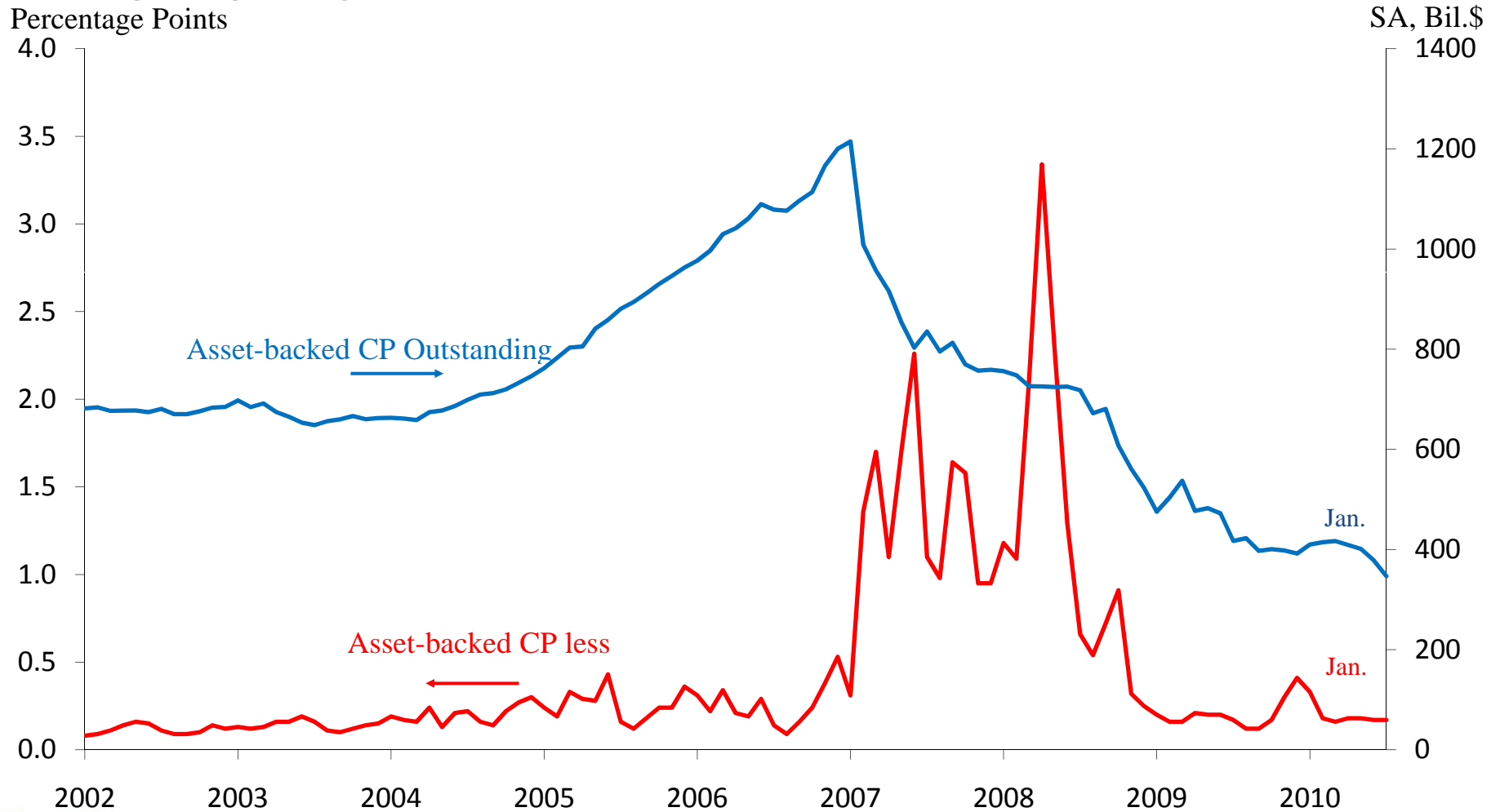


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Source: NAHB - Wells Fargo Housing Opportunity Index



Asset-backed Commercial Paper Spread Back to Normal



2002

2003

2004

2005

2006

2007

2008

2009

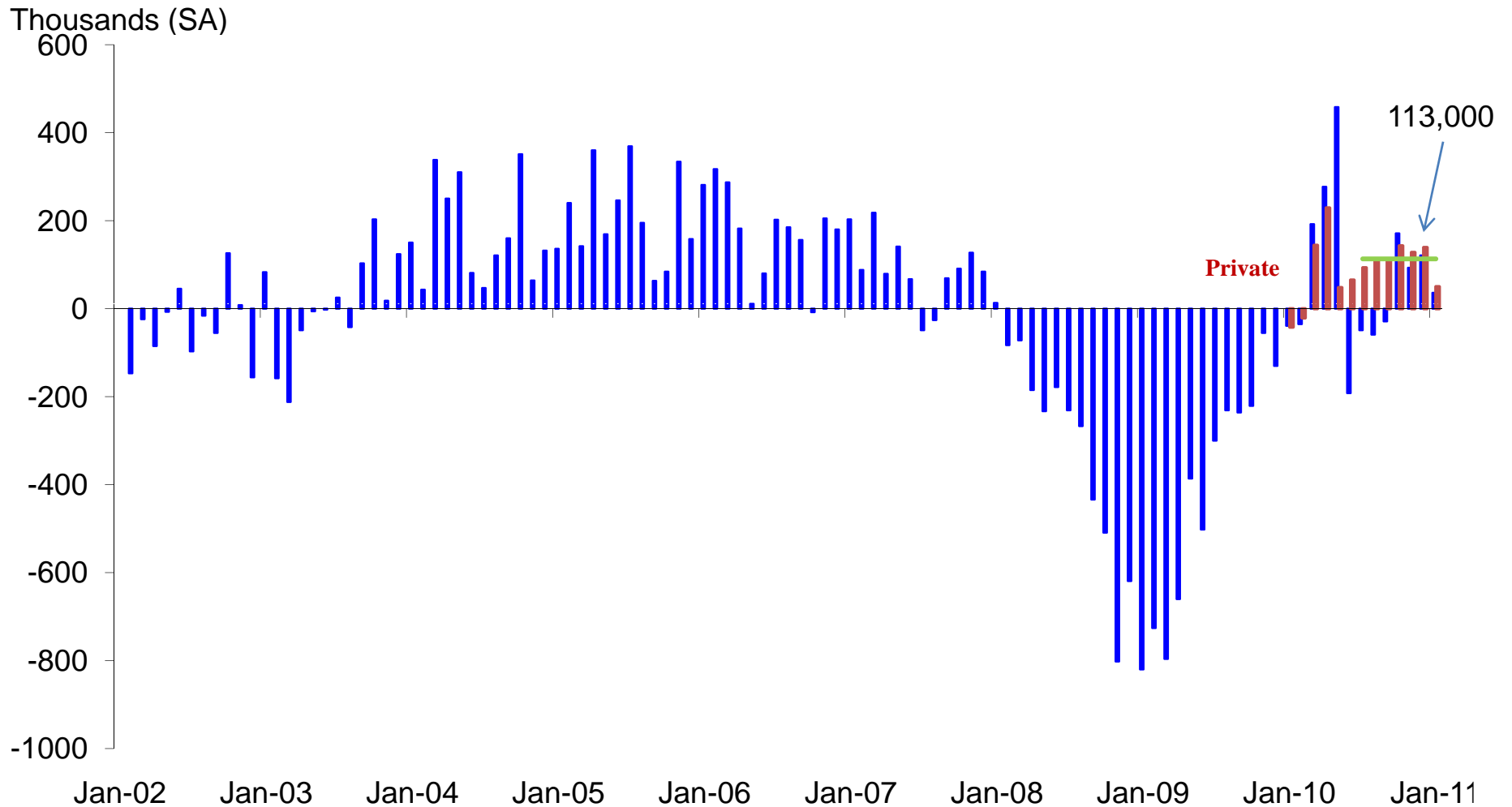
2010



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Jobs Increasing Mildly but Persistently

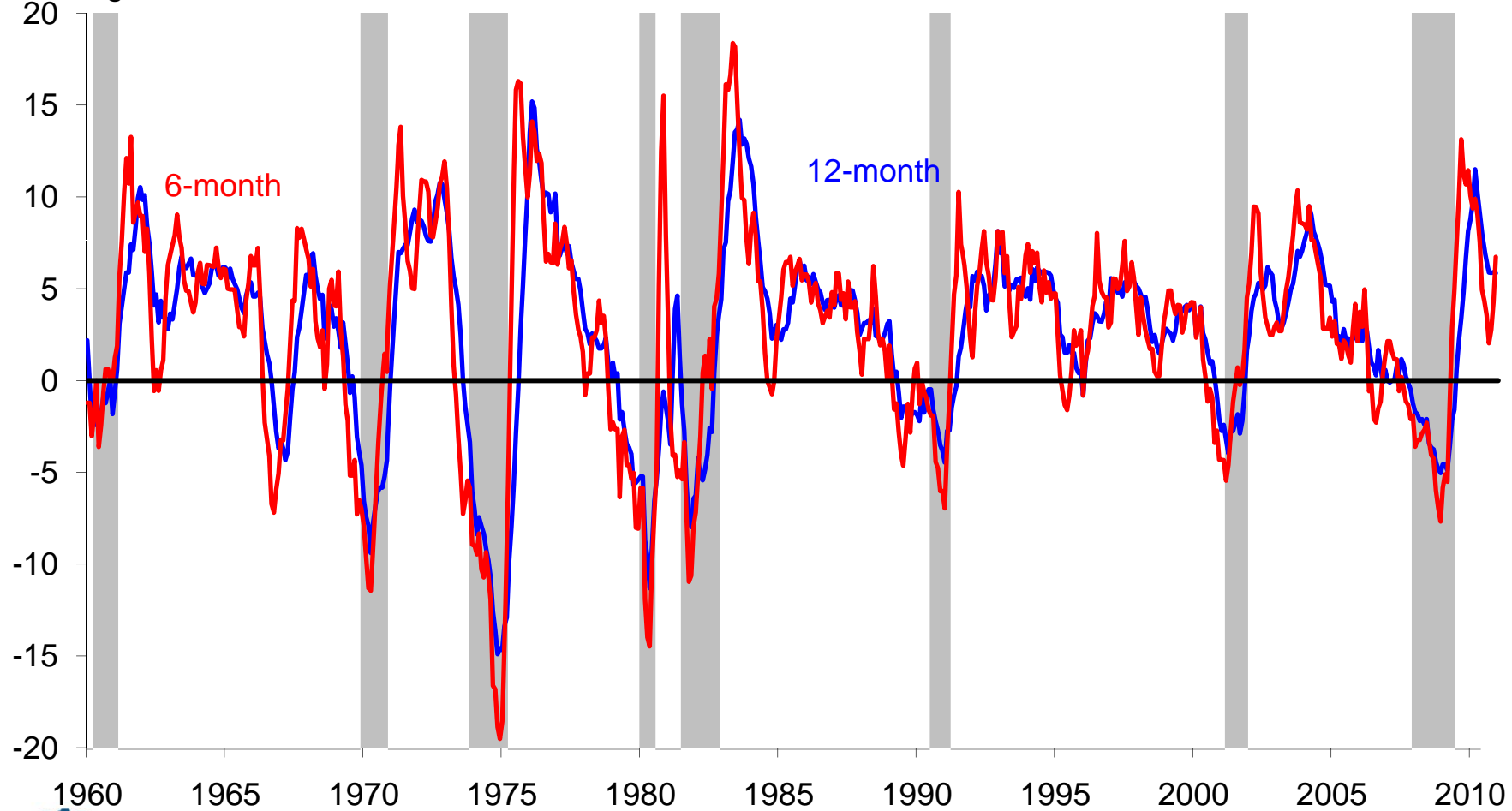


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U.S. Leading Index Suggesting Recovery Likely to Continue

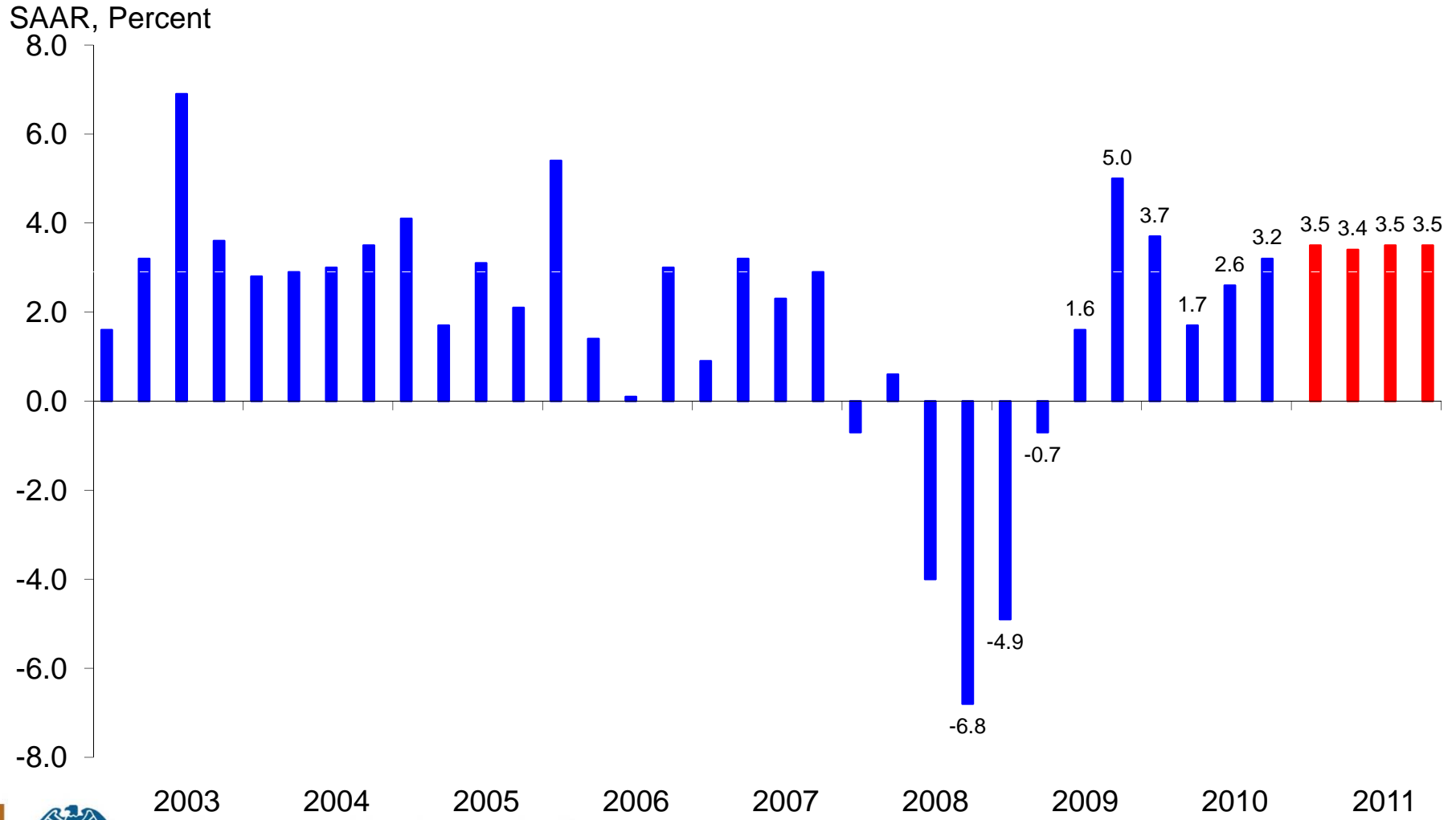
Annualized
% change



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February Blue Chip Survey Projects Positive RGDP Growth to Continue

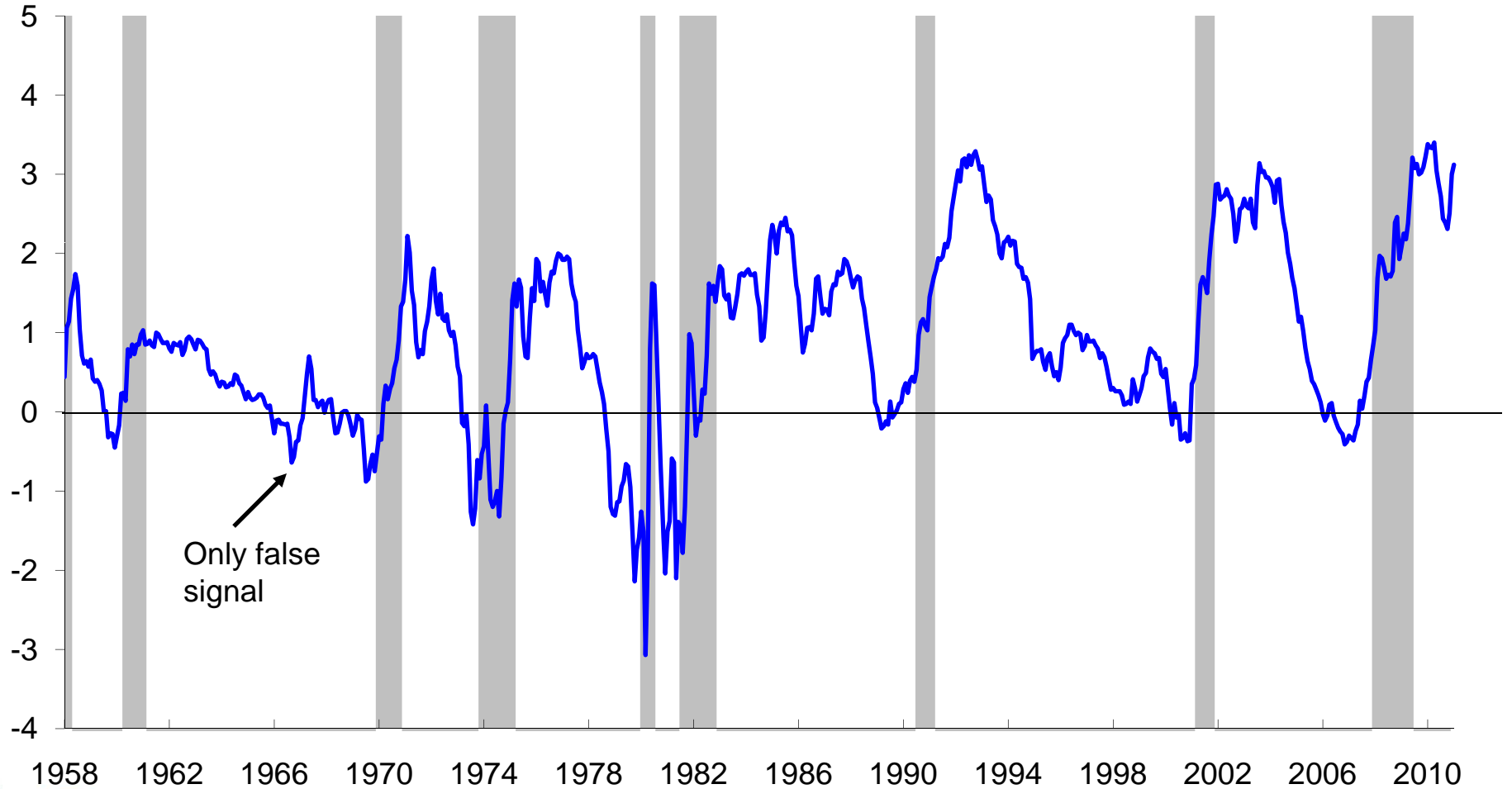


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10-yr./1-yr. Yield Spread Suggests Little Chance of Recession Over Next 4 Quarters

Percentage points

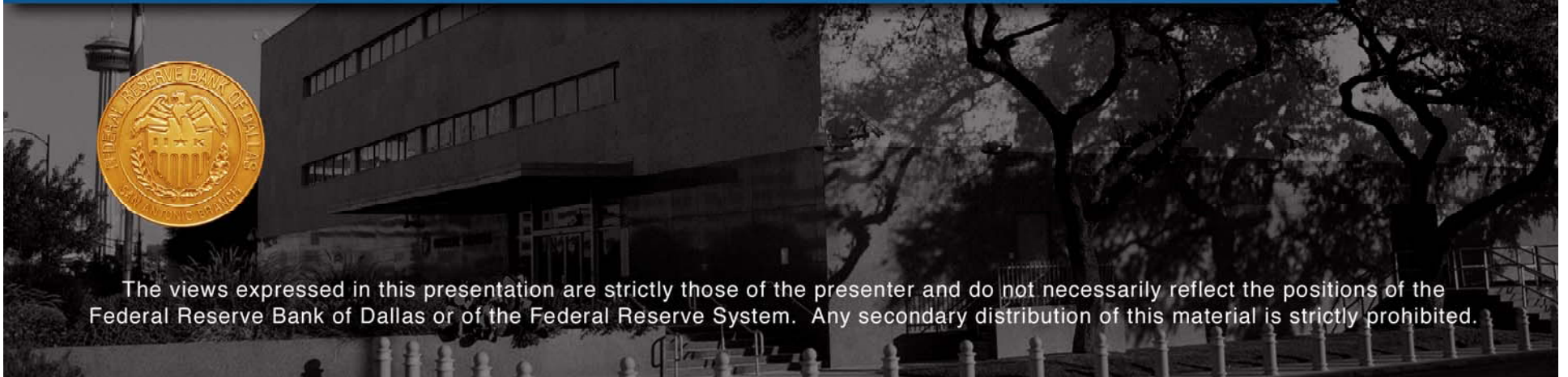


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Texas



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Texas Came Into Recession Late – Has Rebounded Stronger

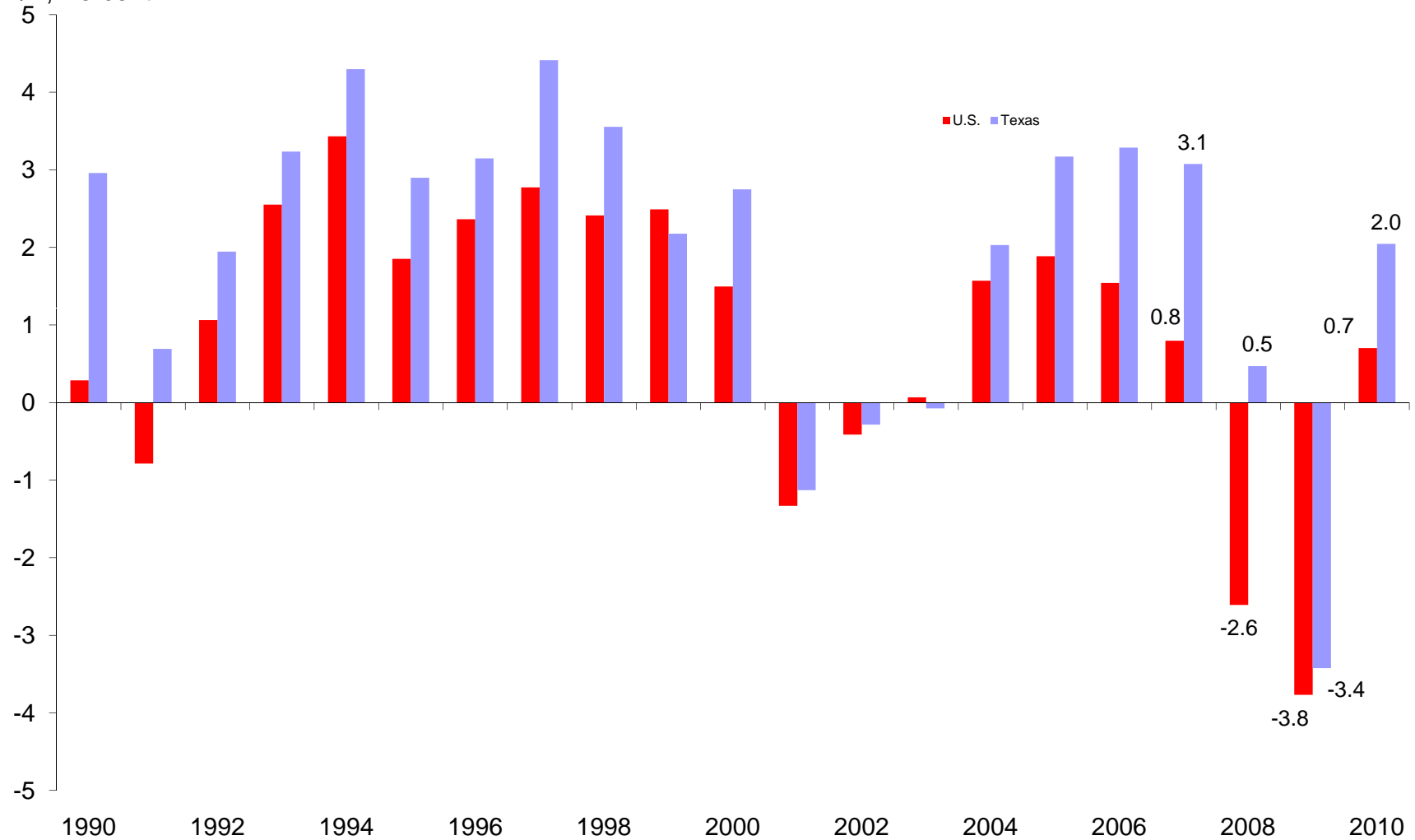
- Texas began a recession in the second half of 2008 due to a deepening national and international financial crisis, and a decline in energy prices and high-tech.
- Texas jobs declined about 3.4 percent (about 364,000 net job loss) in 2009.
- Rebounds in energy and high-tech provided a stimulus to Texas in 2010. Housing market less of a drag than nationally. Job growth was 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 3.5 percent.





Texas Jobs Growing Faster Than Nation's

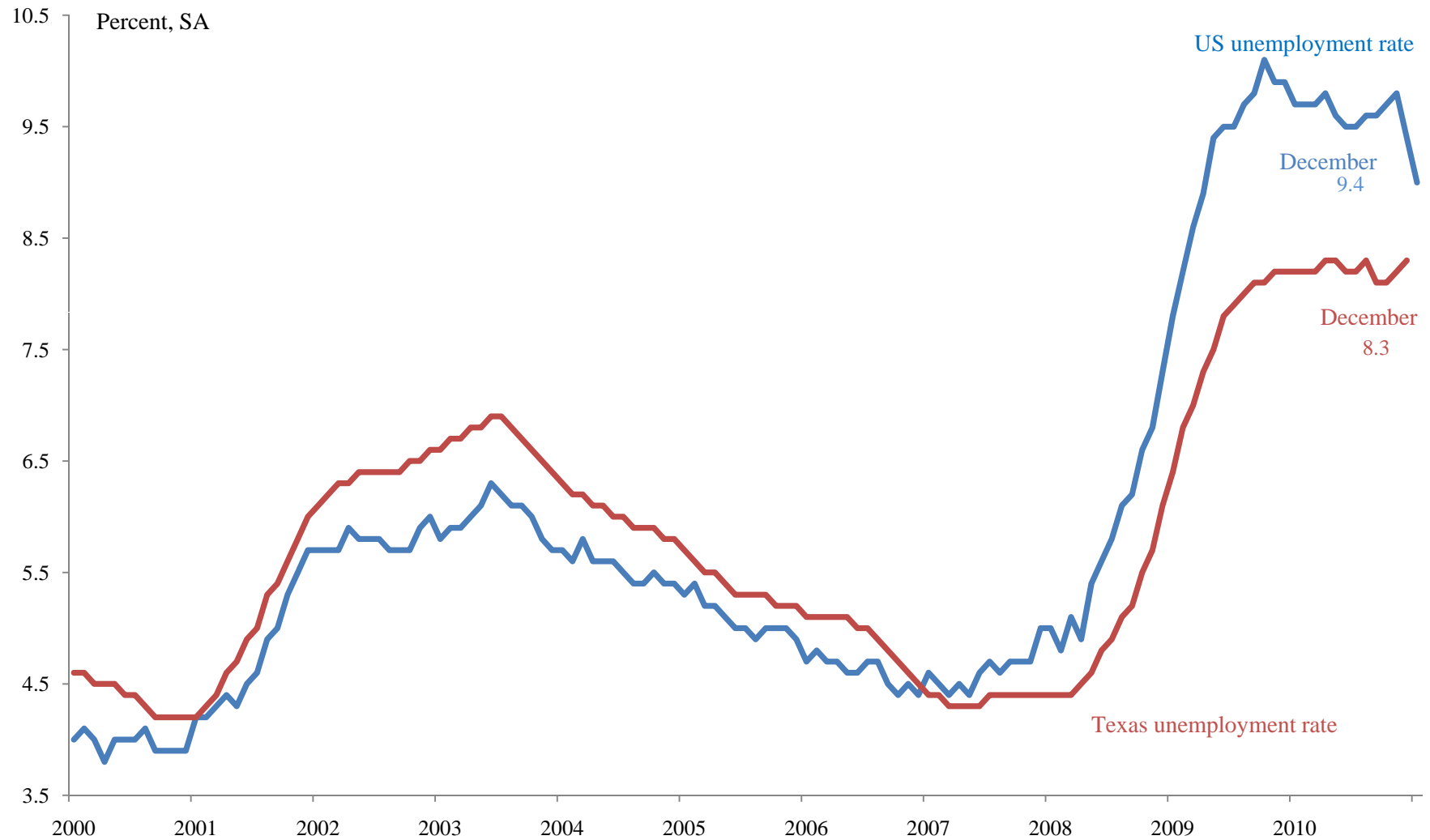
Y/Y, Percent



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Texas UR Has Flattened – But Remains High

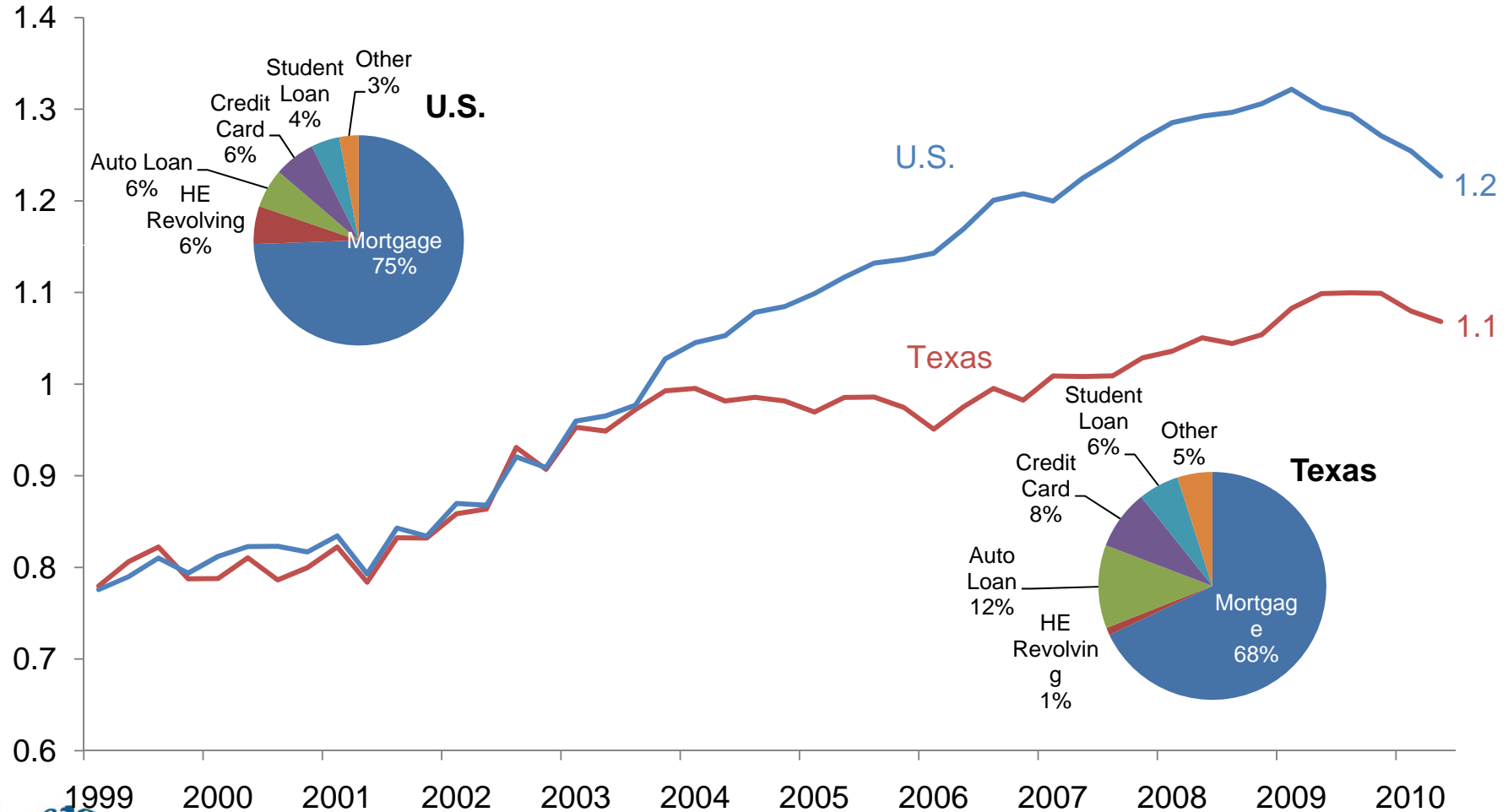


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Household's Deleveraging Continues

Ratio, personal debt per capita/personal income per capita

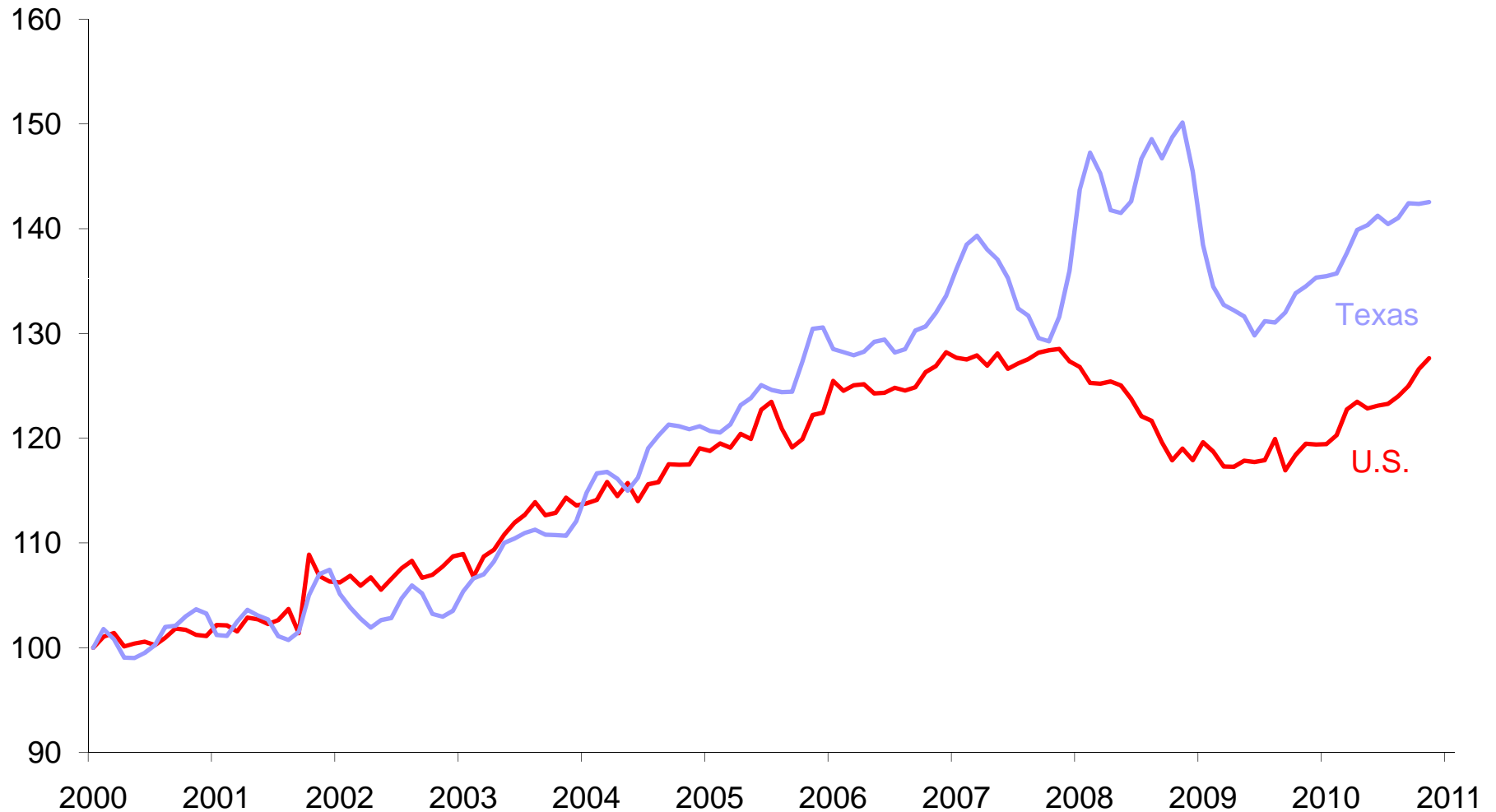


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Texas Real Retail Sales Gradually Picking Up

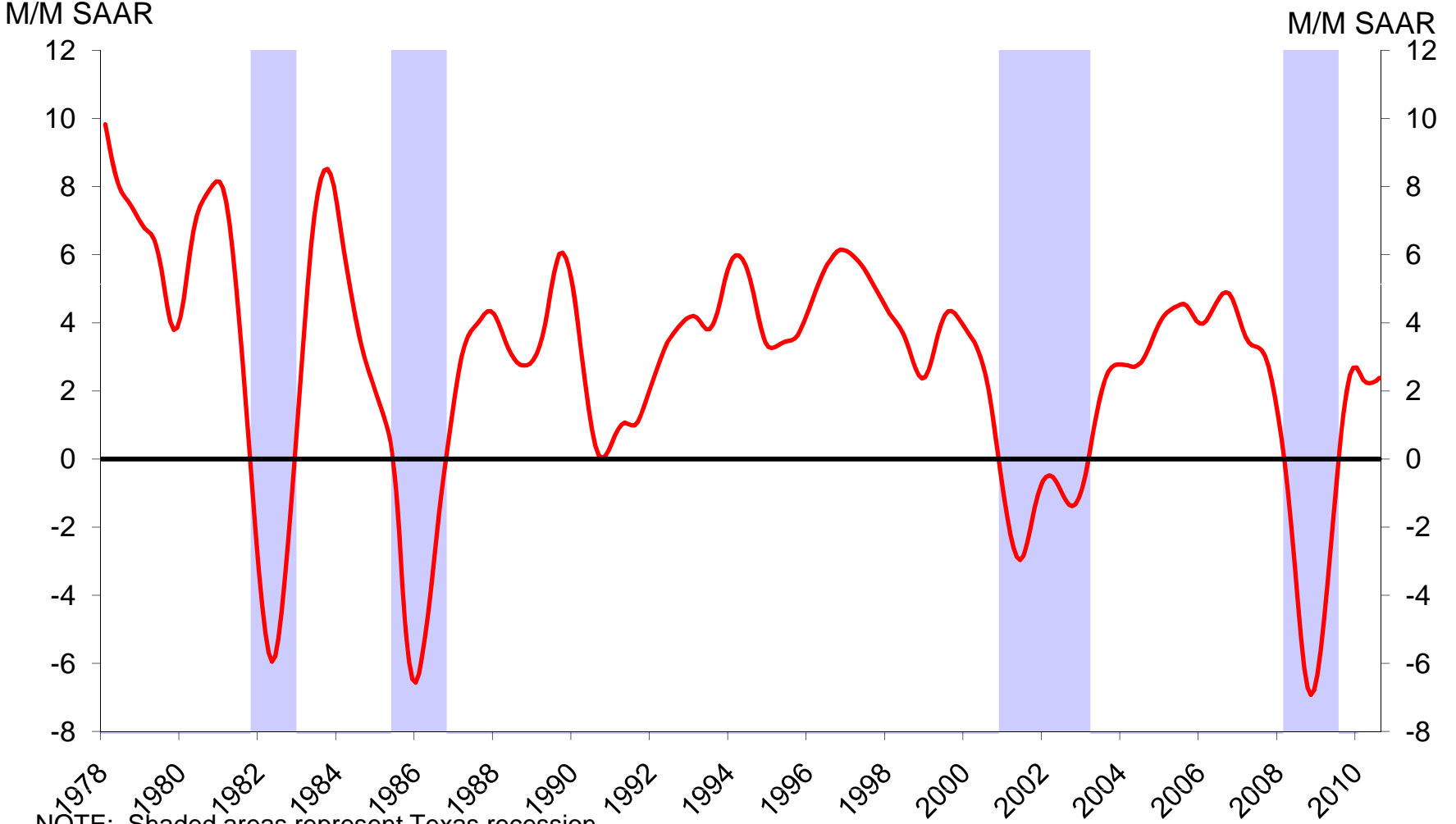
Index, SA, Real \$



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



NOTE: Shaded areas represent Texas recession.

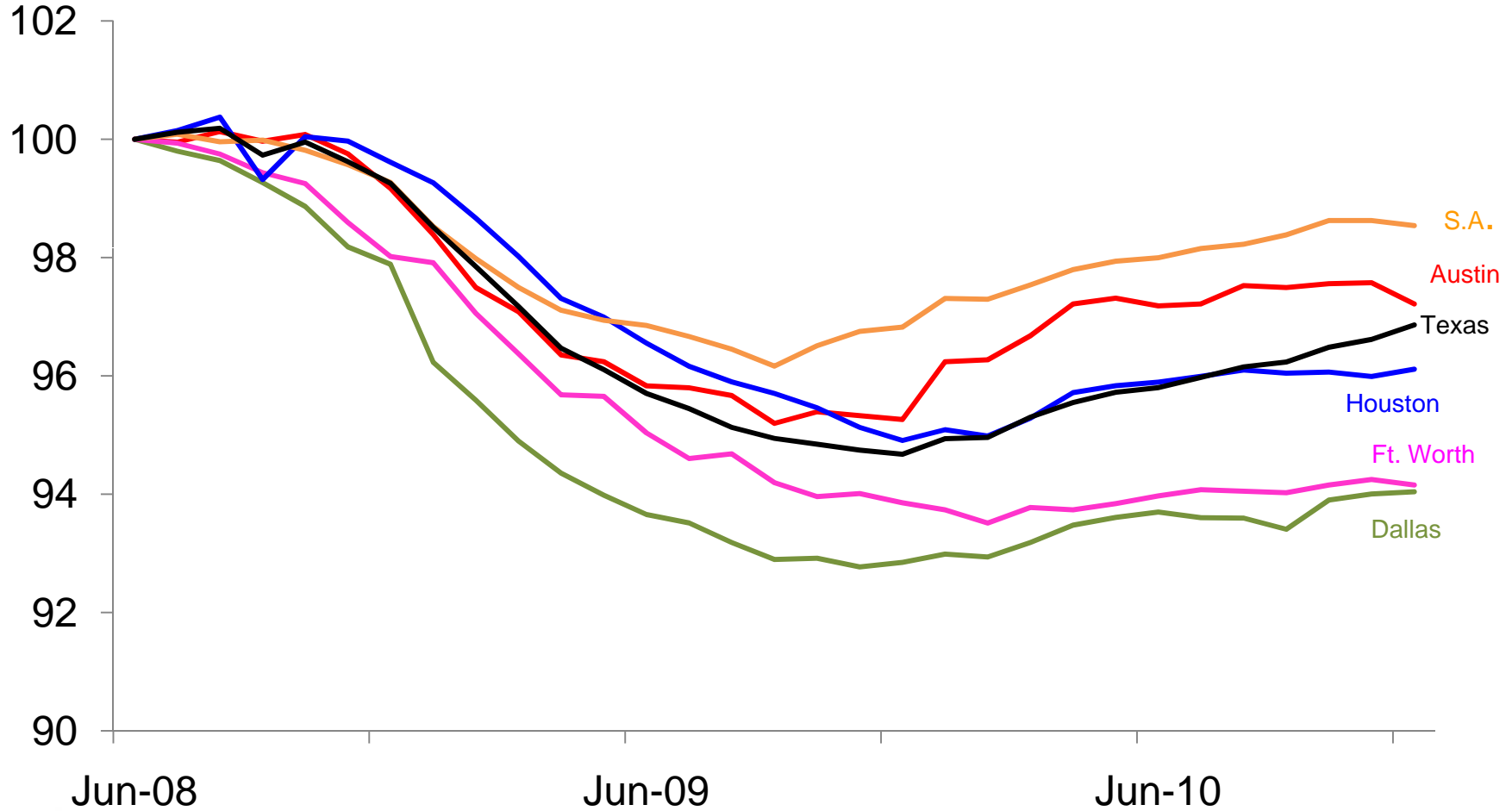


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Business Cycle Pattern Similar Across Metros

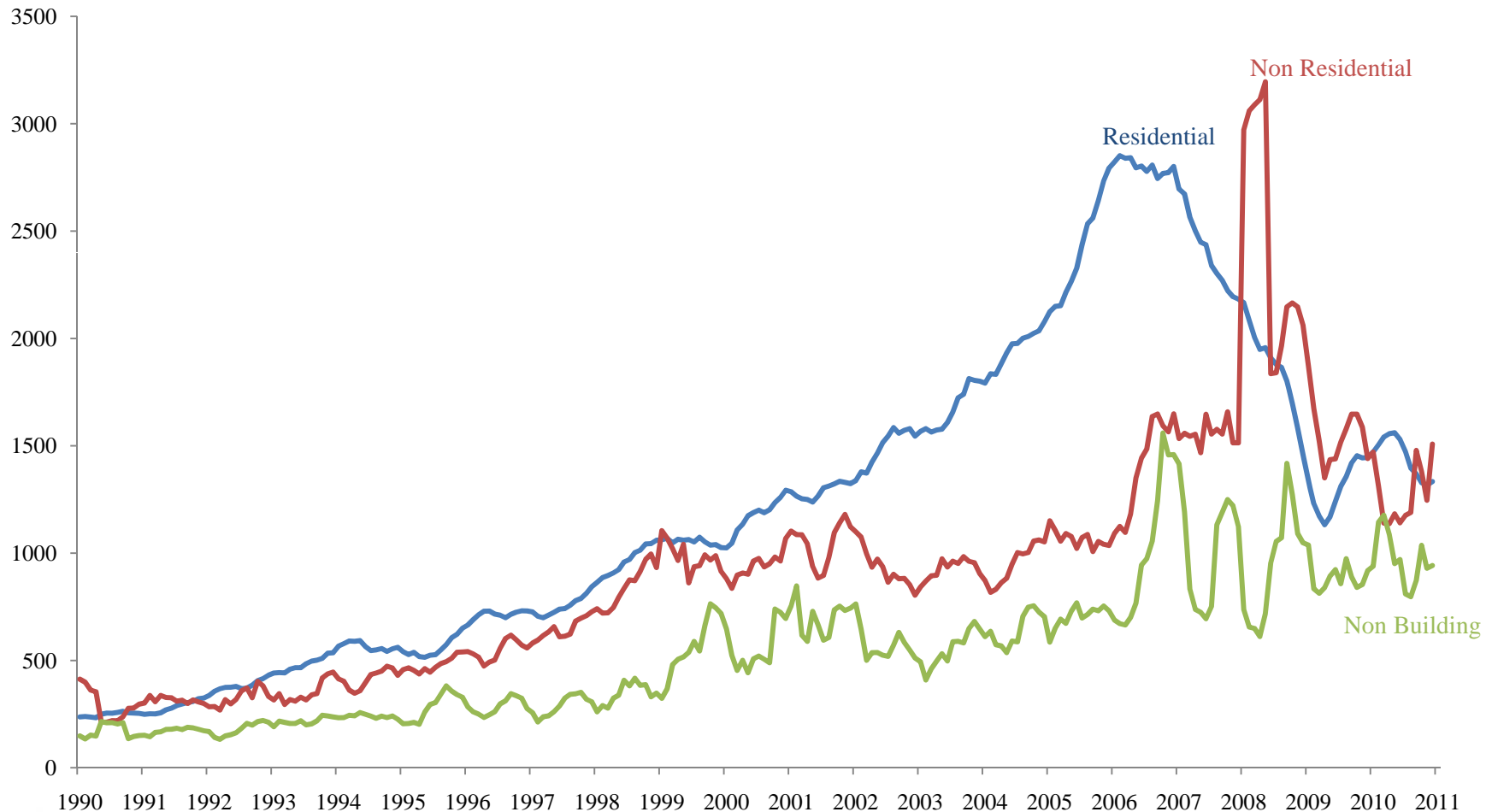
Private Employment
Index Jun. 2008=100



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Texas Residential Construction Contract Values Show Recent Weakness

Real \$, Mil

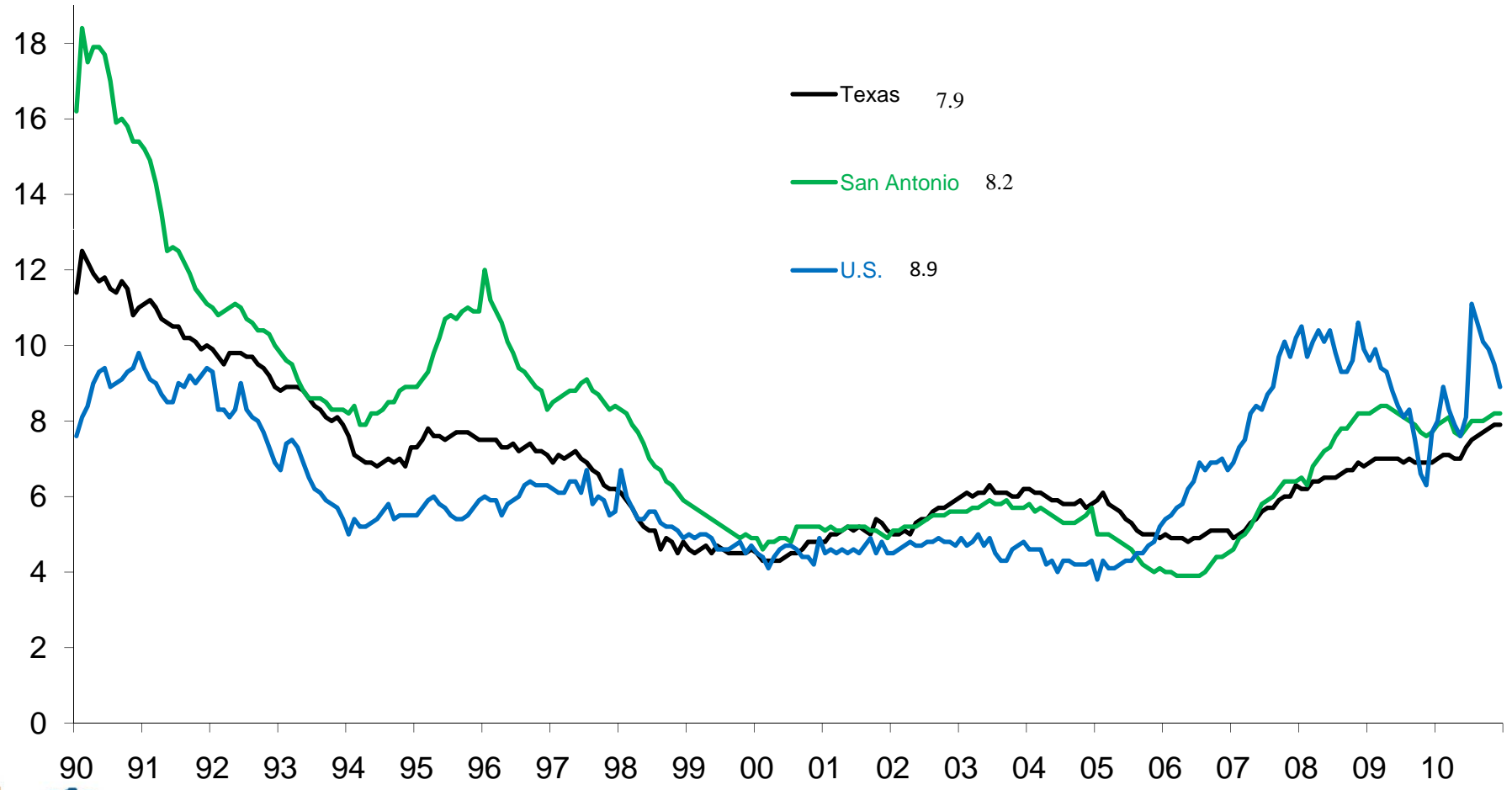


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Home Inventories Relative To Sales Below National Average

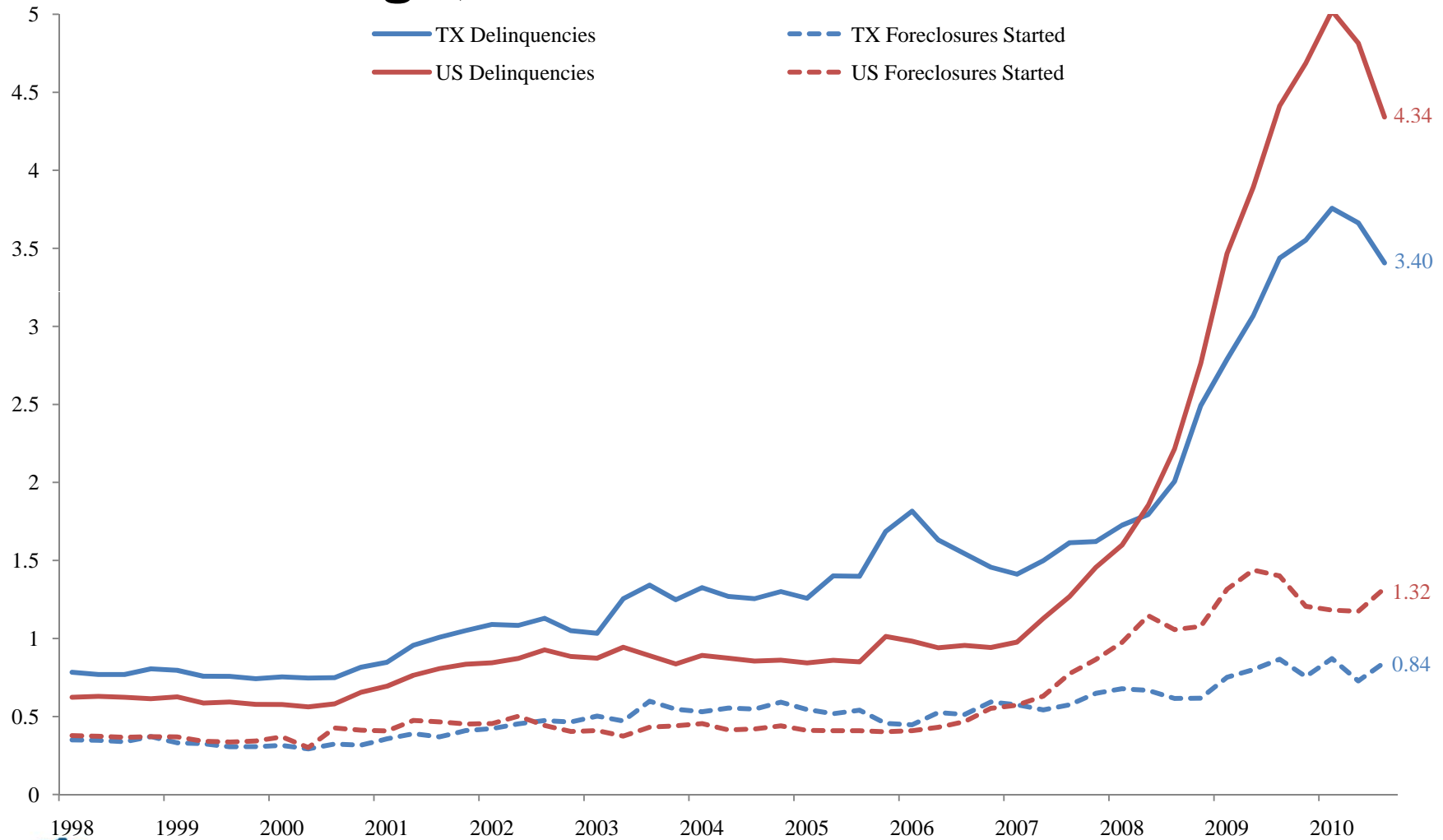
Months



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



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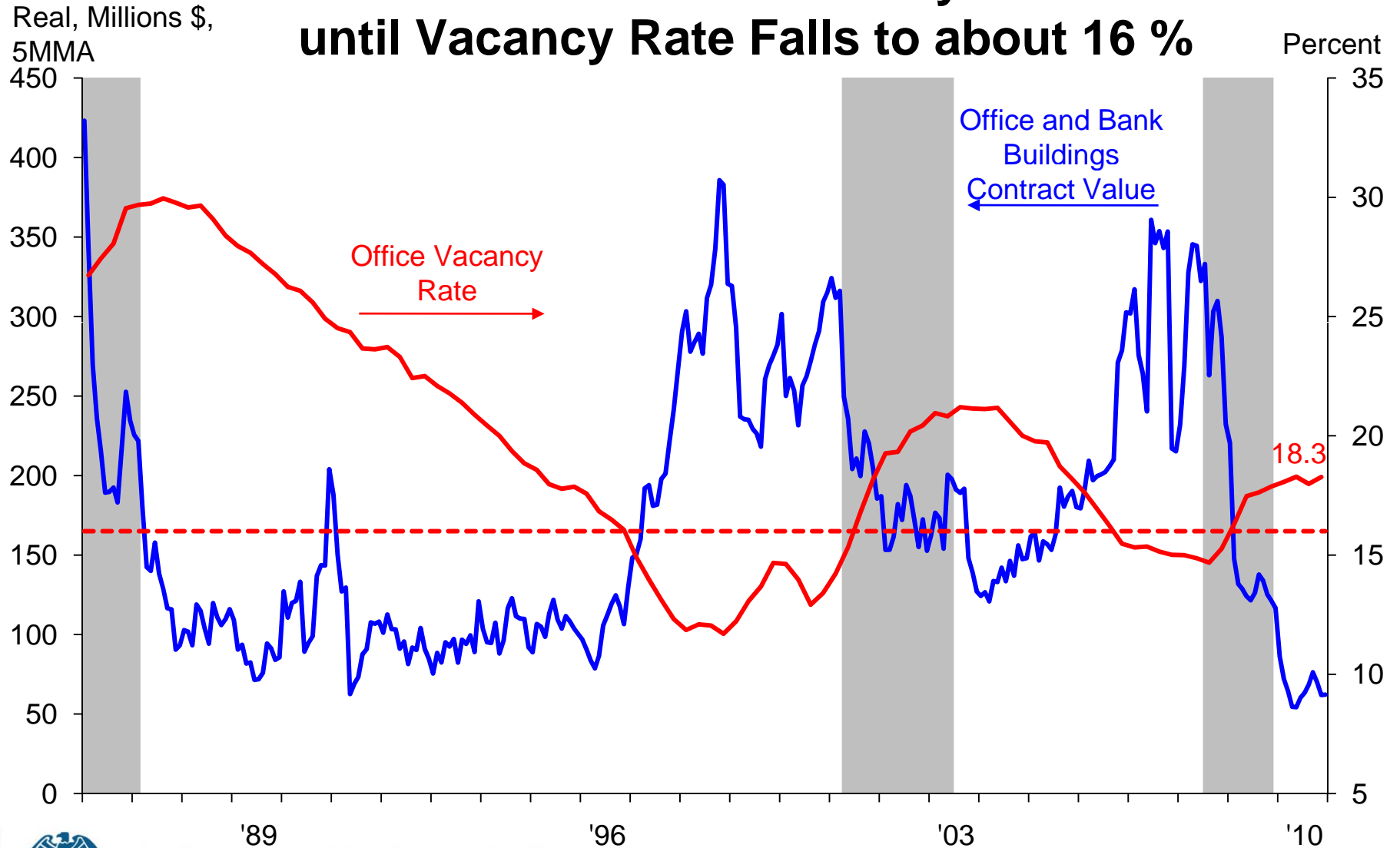
Commercial Real Estate Remains Weak

- 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 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 to about 16 %

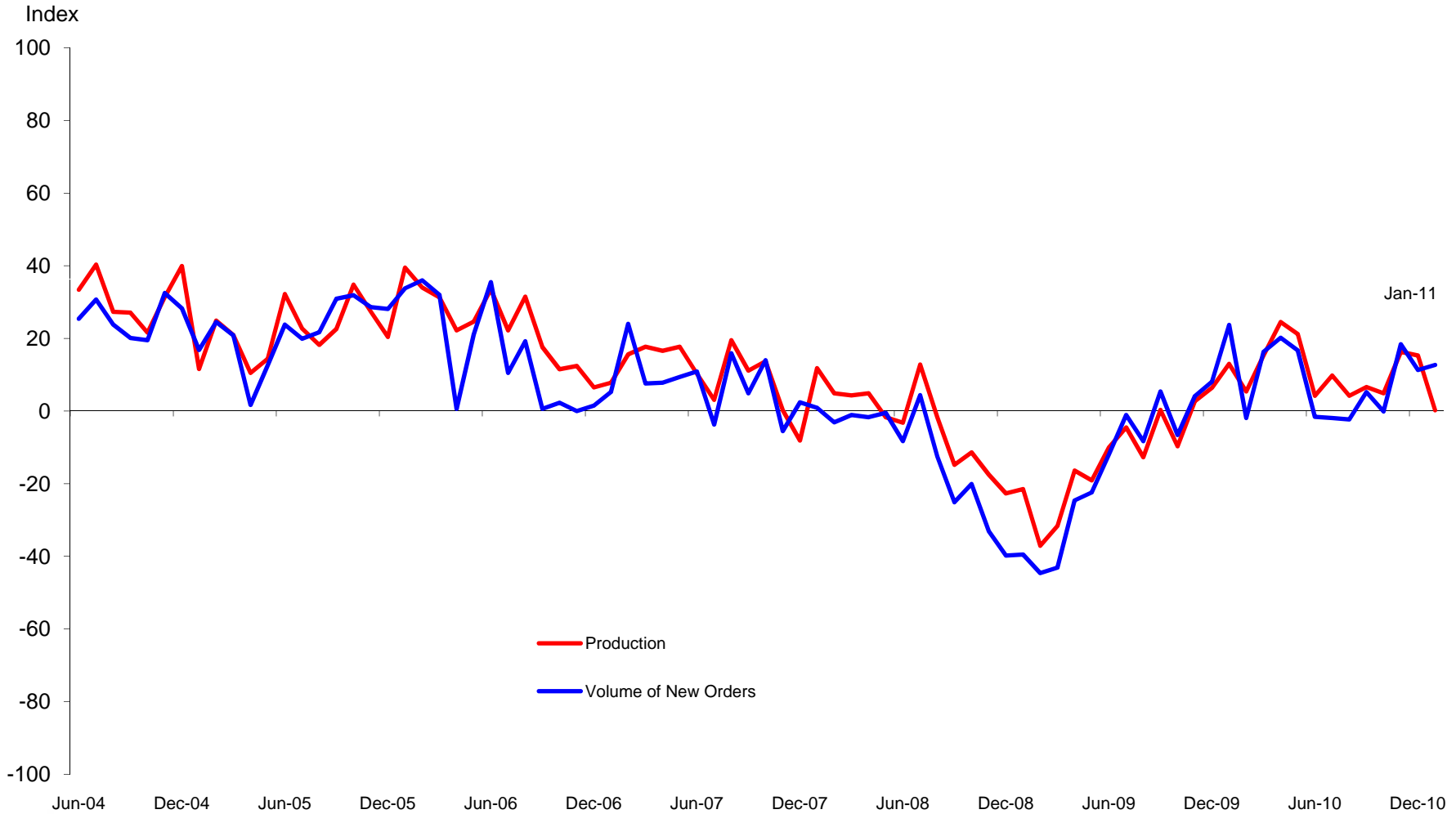


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Source: F.W. Dodge, CBRE Econometric Advisors, Haver Analytics.



Manufacturing Orders Up Strongly in January

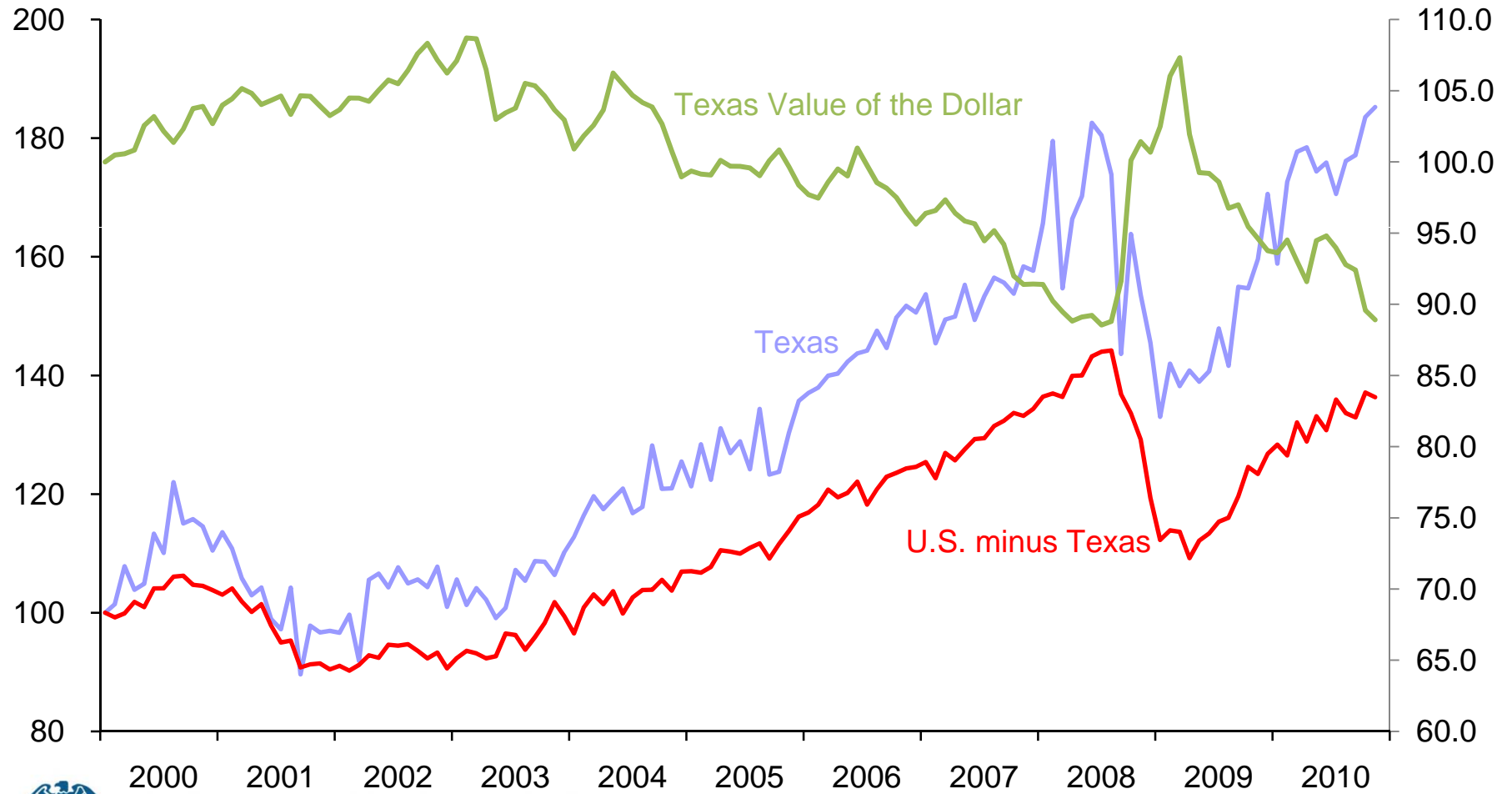


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Exports Surpass Pre-Recession Level

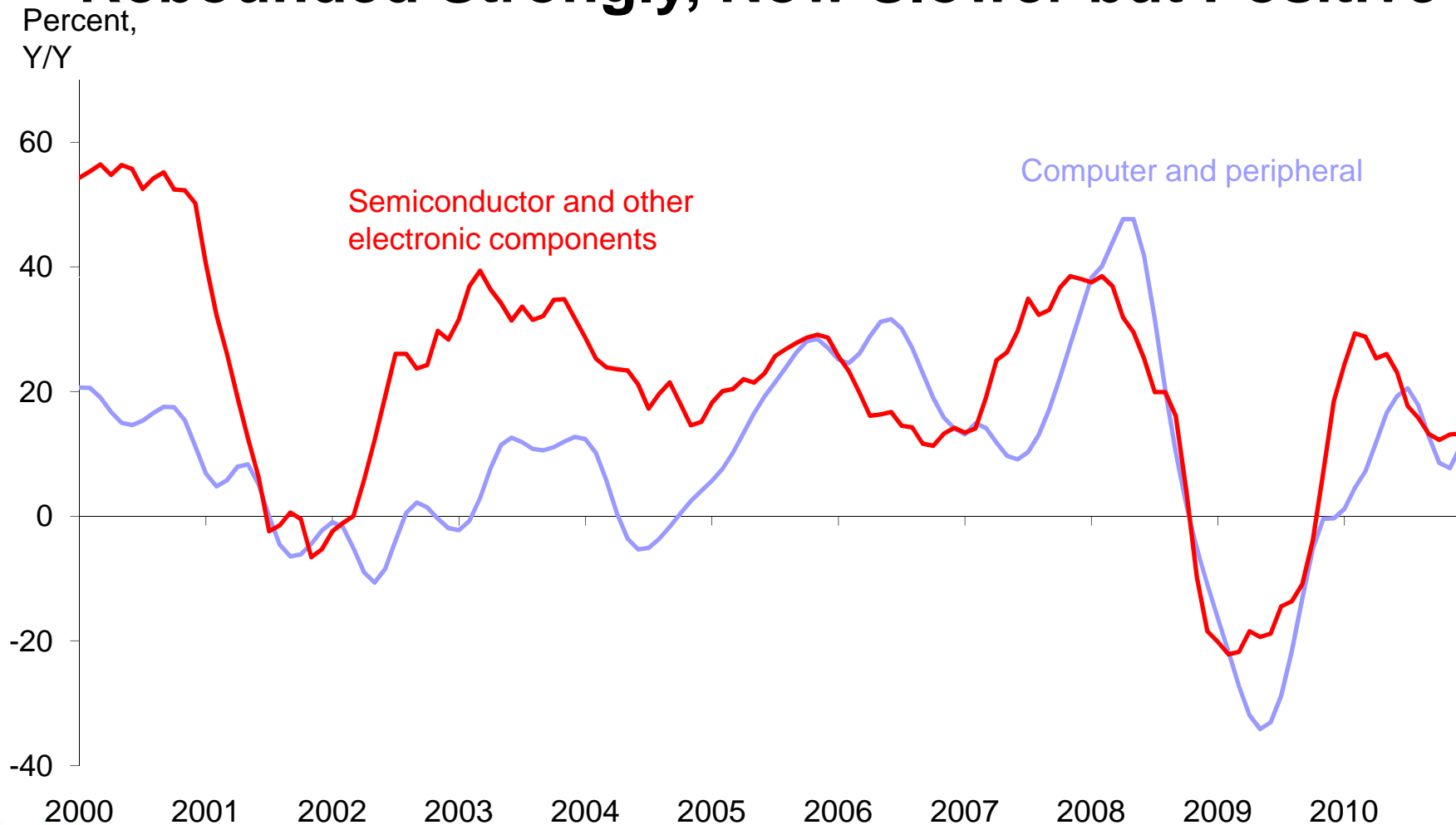
Index, SA Real



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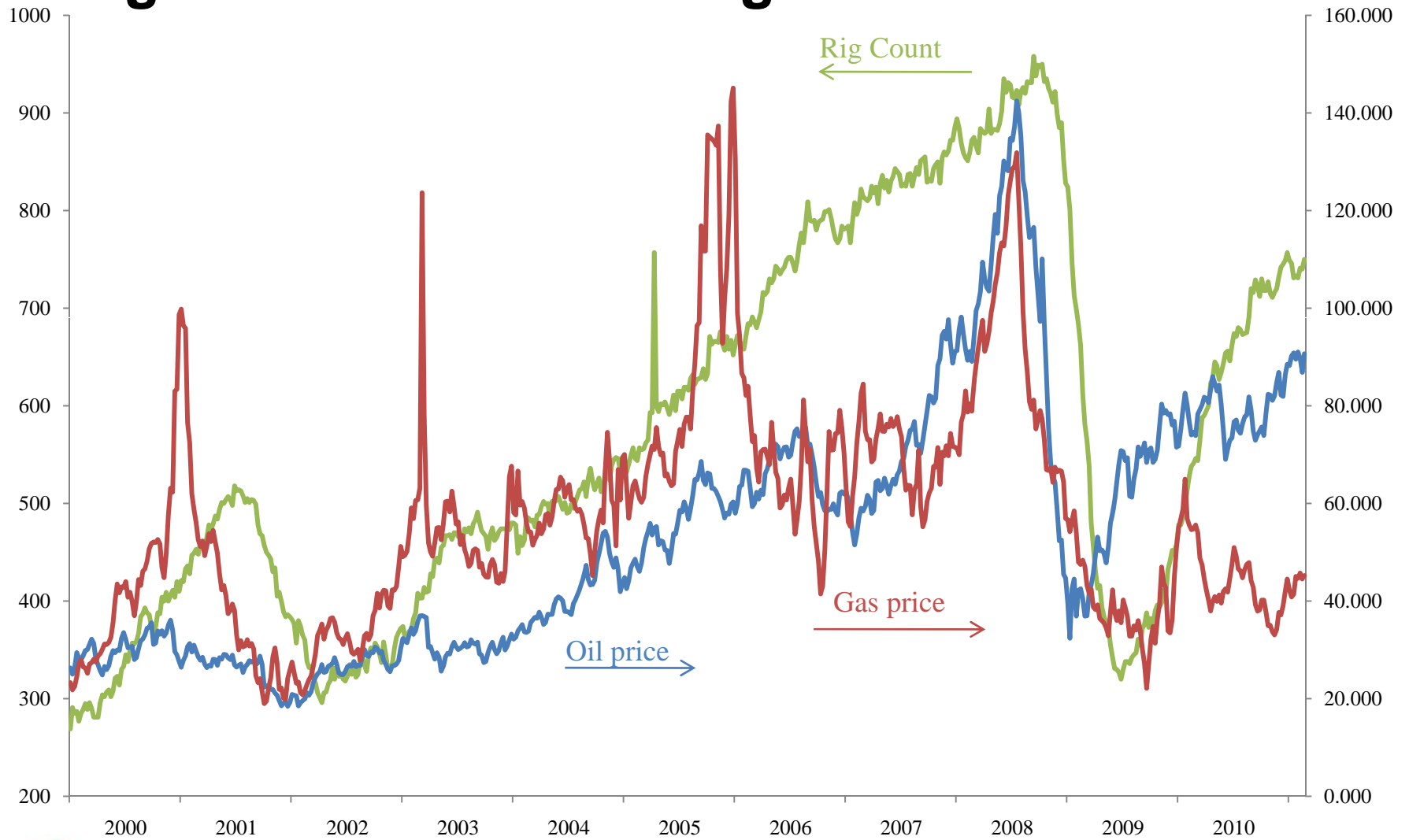
High-Tech Output Plunged in 2009 – Rebounded Strongly, Now Slower but Positive



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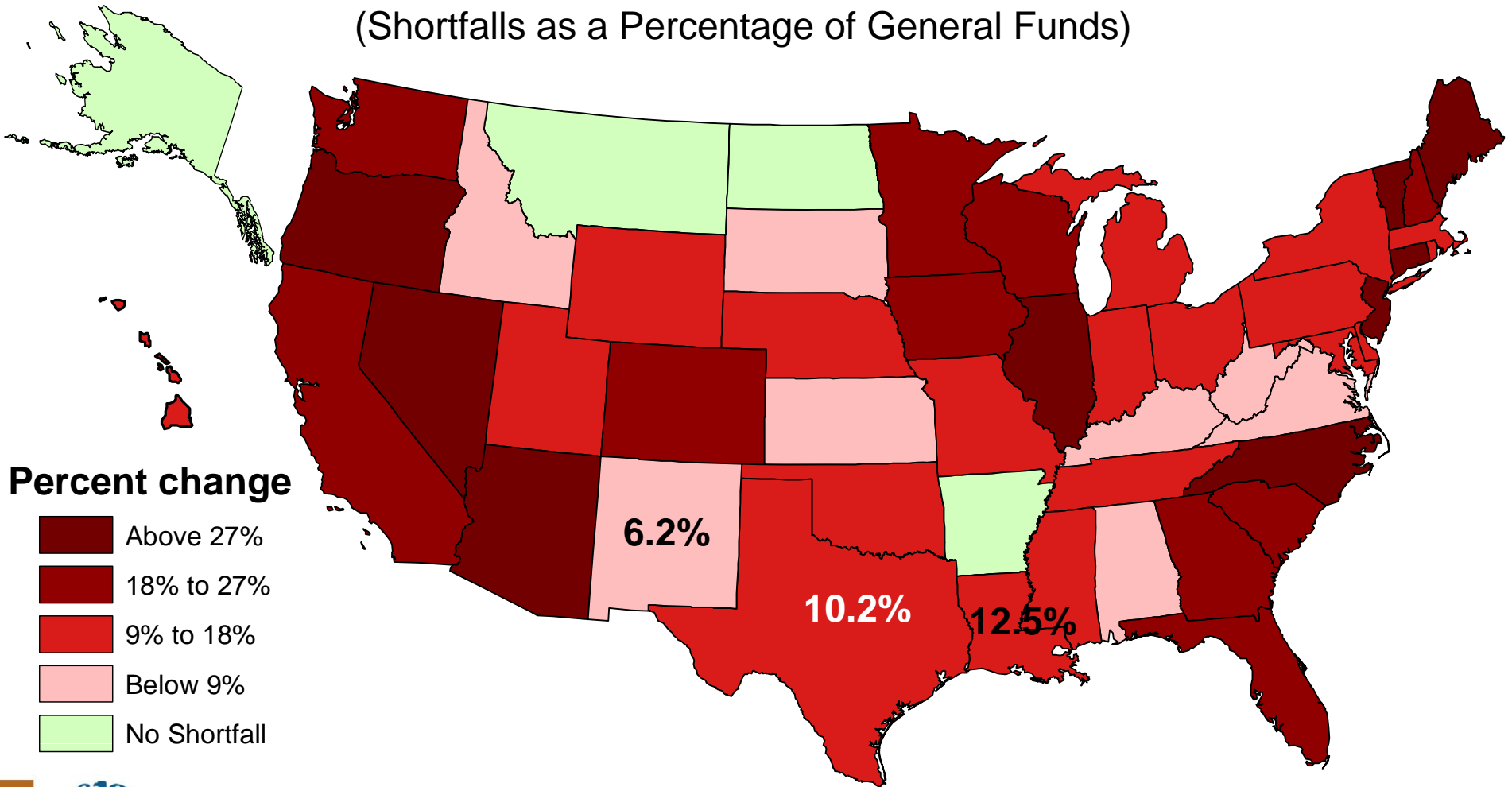
Rig Count Also Bouncing Back



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Projected 2011 State Budget Shortfalls Remain a Significant Challenge

(Shortfalls as a Percentage of General Funds)

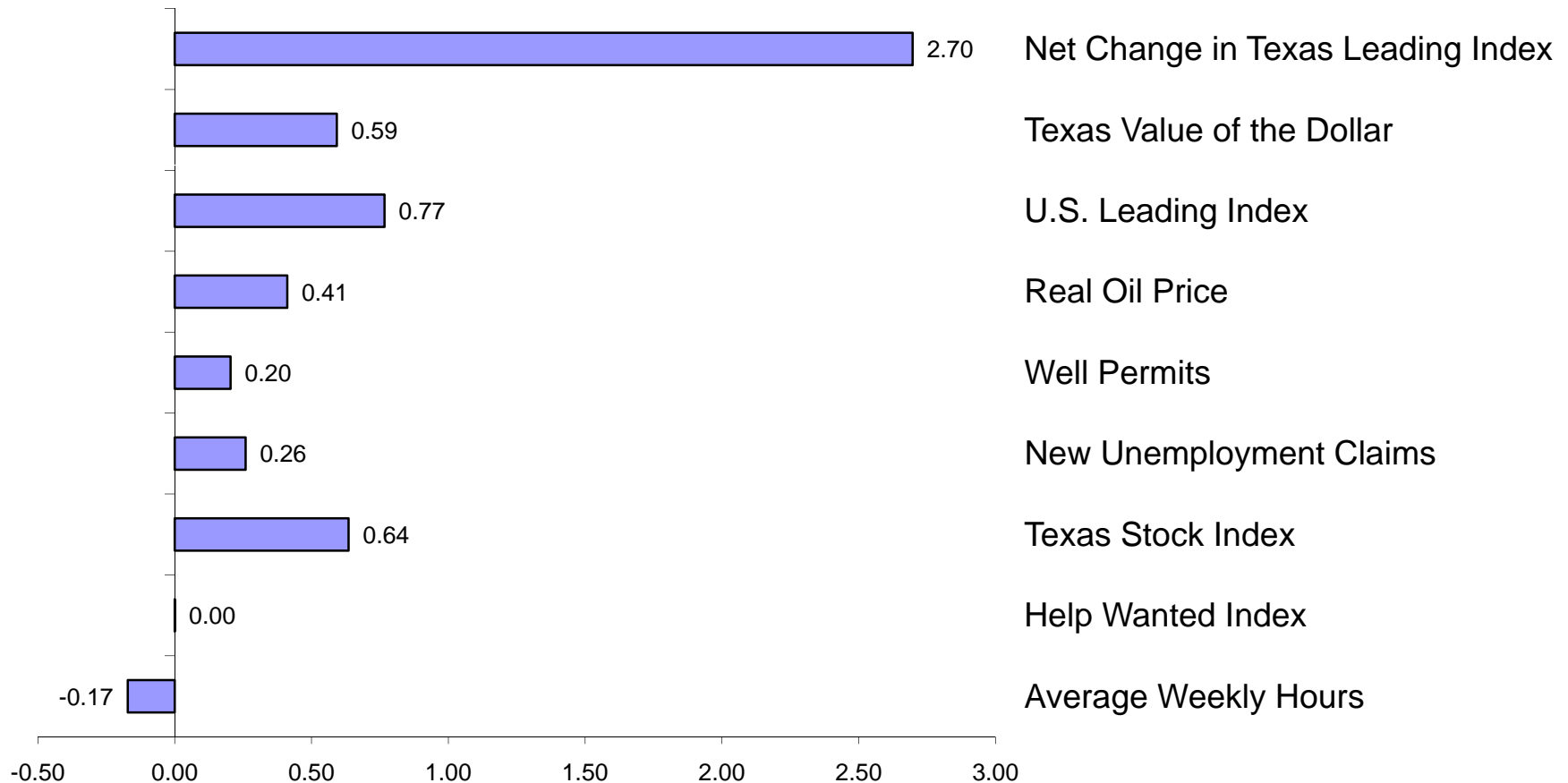


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Recent Broad-based Increase in TLI Components

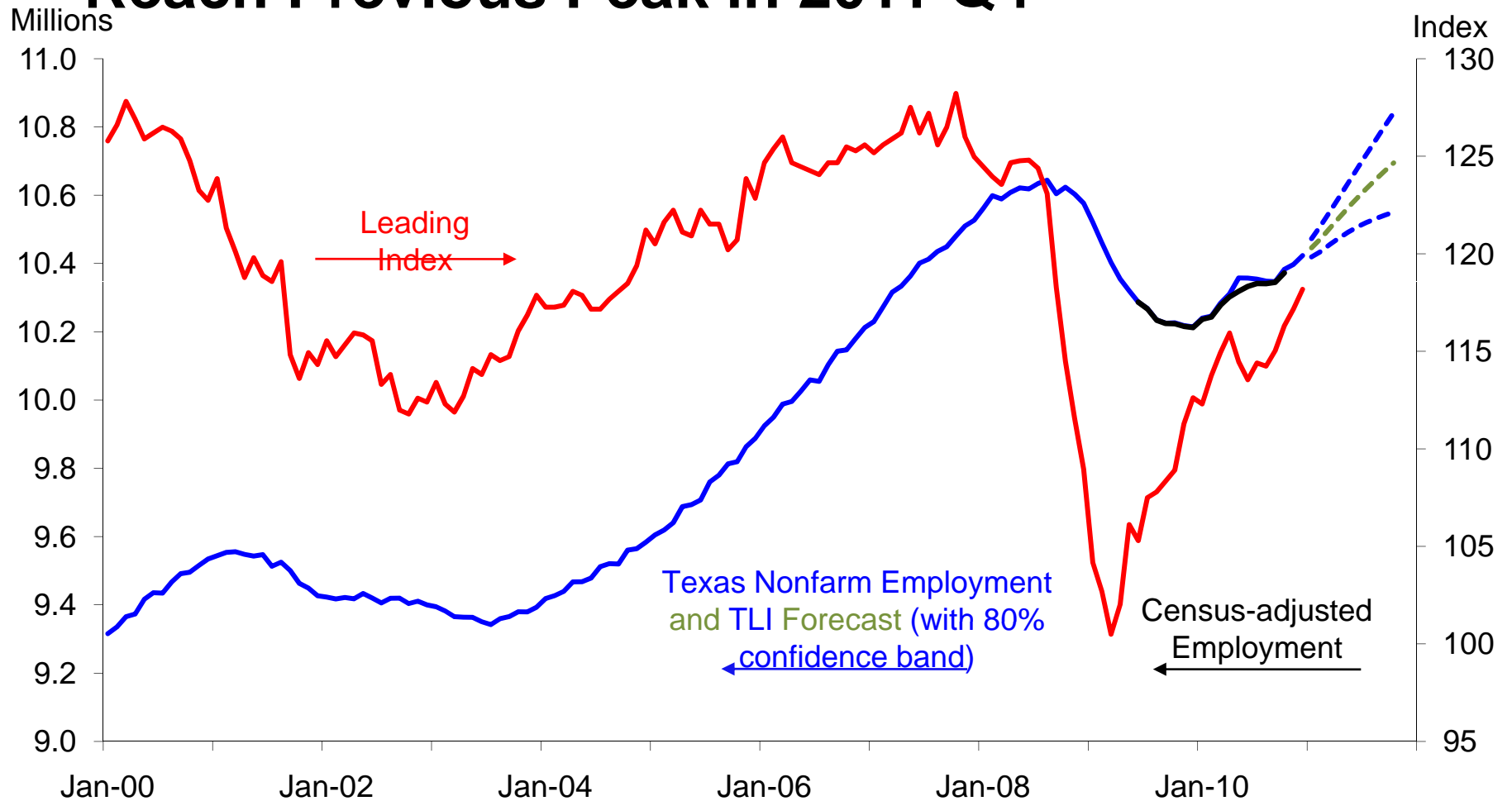
Texas Leading Index Components, 3 month change (October-December)



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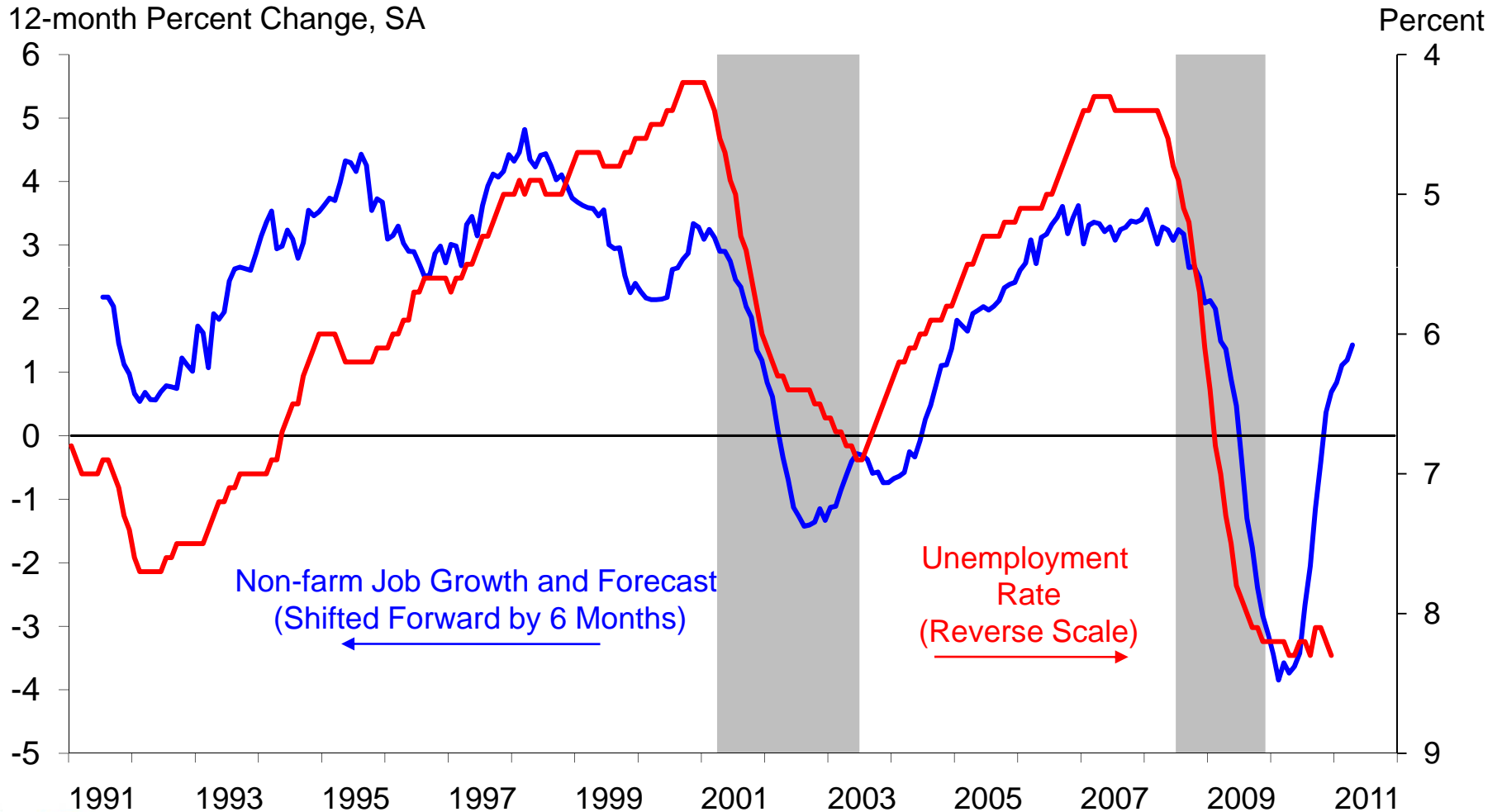
Texas Jobs Likely to Grow about 3% in 2011 – Reach Previous Peak in 2011 Q4



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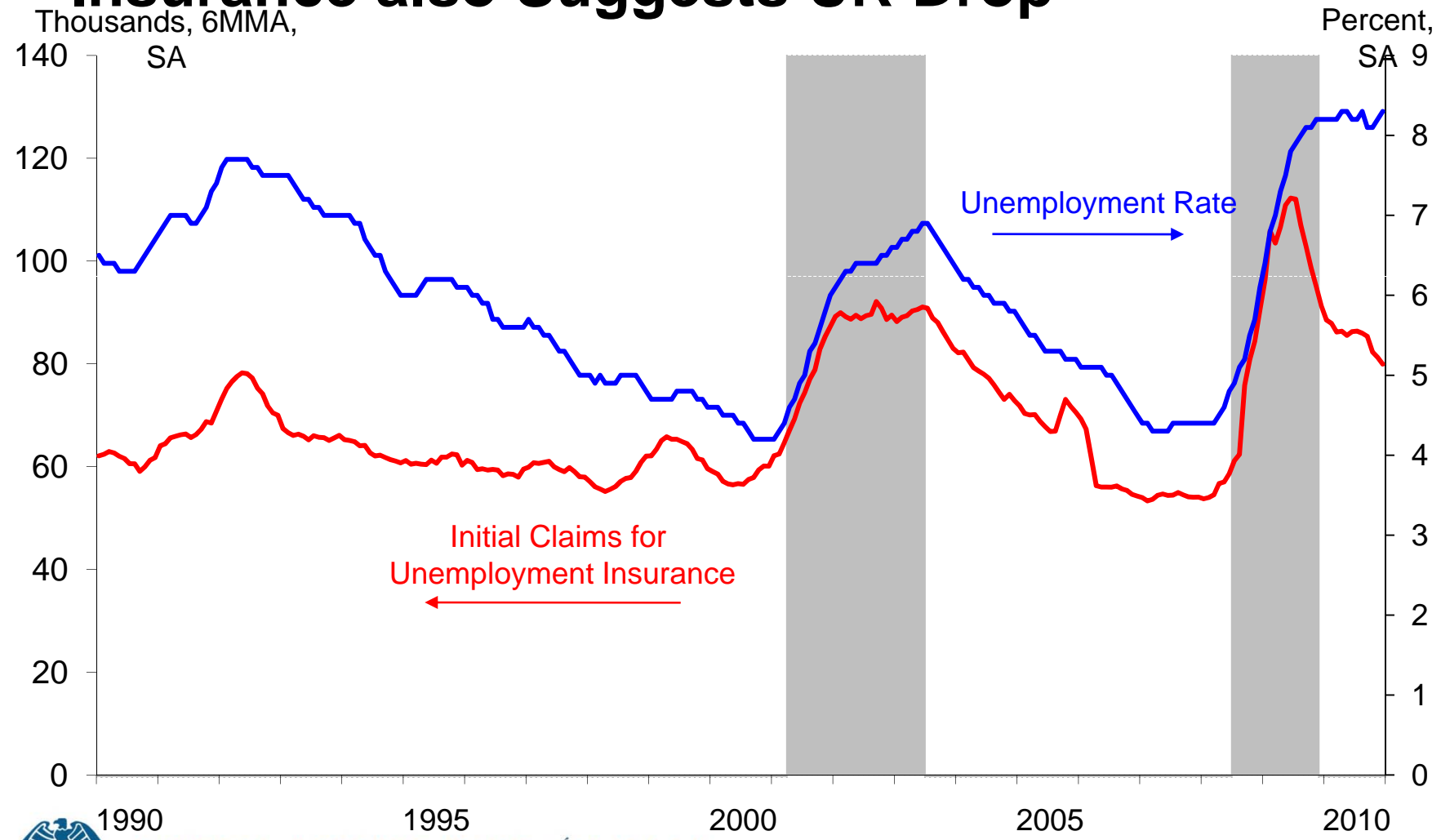
Recent Job Growth Suggest Declines Likely to Occur in TX UR in 2011



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Fall in Initial Claims for Unemployment Insurance also Suggests UR Drop





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



Houston Growing at Moderate Pace

- Challenges: cap and trade, the end of manned space flight, a slow return to Gulf of Mexico drilling, single-family permits still falling
- Sources of strength: Oil prices high, U.S. rig count up, petrochemical exports very strong, pricing of oil services is strong and profit margins are very good, health care jobs grew 4.5% in 2010
- Overall job growth in 2011 should pick up from 1.2 (to 1.7) in 2010 close to 3.0 in 2011



Summary

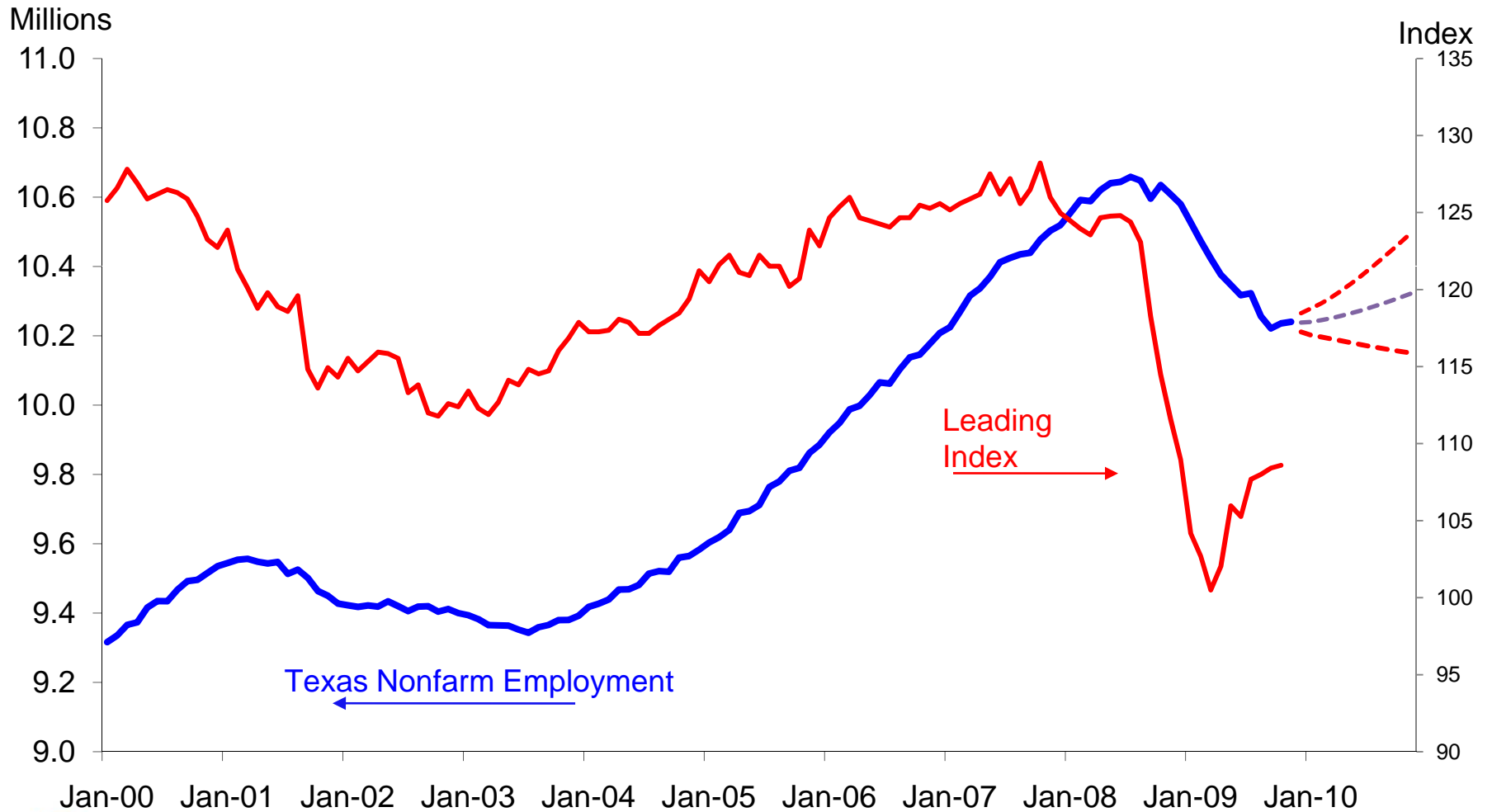
- Texas entered the recession late and has come out of it at a stronger pace than most states. High-tech, energy and home prices key sources of relative strength. Jobs grew at a moderate pace of about 2.0 percent in 2010.
- Main concerns going forward are weak construction activity, uncertain consumer spending, and state and local government budget cuts. Long-term: US government debt, education.
- Texas job growth will likely pickup from about 2.0 percent in 2010 to about 3.0 percent in 2011. The Texas unemployment rate likely to fall from about 8.0 percent to about 7.0 percent.
- Houston job growth likely to be close to 3.0 percent in 2011





Last Year's Forecast Slide

Increases in Leading Index Suggest Jobs Will Increase About 1% in 2010



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