The Economic Roller Coaster: Where Have We Been? And Where Are We Going?

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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.
The US Economic Roller Coaster...

- Where have we been? What’s different about the most recent recession and recovery?
- How does our region compare? What’s different regionally vs. nationally?
- Where are we going? What are the risks to the recovery?
The US Economic Roller Coaster…

- Where have we been? What’s different about the most recent recession and recovery?

- How does our region compare? What’s different regionally vs. nationally?

- Where are we going? What are the risks to the recovery?
Anatomy of the Business Cycle

- The Business Cycle: An economic roller coaster of fluctuations in aggregate economic activity
- Recessions: Peak to Trough
- Expansions: Trough to Peak
- Long-run GDP growth rate: ~3% per year
A Economic Roller Coaster Bar Code?
U.S. Business Cycle

Black = Months in Contraction (Recession)

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Winston’s Wisdom #1

Winston Churchill

“It has been said that democracy is the worst form of government except all the others that have been tried.”
Length of Recessions

- 2007-09: 18 months
- 2001: 8 months
- 1990-91: 8 months
- 1981-82: 16 months
- 1980: 6 months
- 1973-75: 16 months
- 1969-70: 11 months
- 1960-61: 10 months
- 1957-58: 8 months
- 1953-54: 10 months
- 1948-49: 11 months
- 1945: 8 months
- 1937-38: 13 months
- 1929-33: 43 months

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Depth of Recessions

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Financial Insights

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Financial Institution Relationship Management

Branding the Great Recession
by Thomas F. Siems

The 2008 global financial crisis and economic downturn—often branded the Great Recession—the worst U.S. contraction since the Great Depression of the 1930s? And how has the subsequent recovery compared with previous recoveries?

According to the National Bureau of Economic Research (NBER), the most recent recession lasted 18 months and output contracted by 5.1 percent from peak (December 2007) to trough (June 2009). Since the end of World War II and prior to the 2008 downturn, there were 10 official recessions, lasting an average 10.4 months and contracting an average 1.8 percent from peak to trough. These 10 downturns ranged from six to 16 months in length and from +0.4 to -3.2 percent in depth, as measured by real gross domestic product (GDP).

The NBER’s Business Cycle Dating Committee is the generally accepted arbiter for determining the dates that mark the onset of expansions and contractions in U.S. economic activity, or business-cycle troughs and peaks. The NBER does not employ the media’s rule of thumb that an economic recession occurs when there are two or more consecutive quarters of declining real GDP, even though most recessions identified by the NBER are consistent with this definition.
Death of the 2008 Recession

Real GDP

-5.1% 2011:Q3 new all-time high

9 quarters

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GDP Roller Coaster

Range for 6 Recessions from 1953 - 1982

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GDP Roller Coaster

NBER Recession
Peak = 100

Range for 6 Recessions from 1953 - 1982

1991 Recession

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GDP Roller Coaster

Range for 6 Recessions from 1953 - 1982

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GDP Roller Coaster

NBER Recession
Peak = 100

Range for 6 Recessions from 1953 - 1982

2001 Recession
1991 Recession
2008 Recession

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Jobs: Still a Long Way to Go!

Payroll Employment (in Thousands)

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Jobs Roller Coaster: Typical Cycles

Range for 6 Recessions from 1953 - 1982

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Range for 6 Recessions from 1953 - 1982

1991 Recession
Jobs Roller Coaster

Range for 6 Recessions from 1953 - 1982

1991 Recession

2001 Recession
Jobs Roller Coaster

Range for 6 Recessions from 1953 - 1982

- 1991 Recession
- 2001 Recession
- 2008 Recession

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Why Such a Sluggish Recovery?

Average contribution to real GDP growth over 9 quarters

- Real GDP: 4.0
- PCE: 2.6
- Nonresidential investment: 1.0
- Residential investment: 0.5
- Government: 0.5
- Net Exports: -0.6

Three prior recoveries

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Why Such a Sluggish Recovery?

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Three prior recoveries
This recovery
(2009:Q3-2011:Q3)

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Why Such a Sluggish Recovery?

Average contribution to real GDP growth over 9 quarters

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Why Such a Sluggish Recovery?

Average contribution to real GDP growth over 9 quarters

- Real GDP: 4.0 (3 prior recoveries), 2.4 (this recovery)
- PCE: 2.6 (3 prior recoveries), 1.5 (this recovery)
- Nonresidential investment: 1.0 (3 prior recoveries), 1.3 (this recovery), +0.3
- Residential investment: 0.5 (3 prior recoveries), -0.5
- Government: 0.5 (3 prior recoveries), -0.6
- Net Exports: -0.3 (3 prior recoveries), +0.3

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As a Nation: We Overspent...

Log scale, bil. 2005$

Potential real GDP, CBO estimate

Real gross domestic purchases

Real GDP

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Spending Was Driven By Homebuilding, Consumption, and...
Household Debt-to-Income Ratio

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Long Run View of Household Debt

Household Debt-to-Income Ratio

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The Federal Budget Crisis

Federal Government Receipts and Expenditures as a Percentage of GDP

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Where Have We Been?

- 2008 (Great) Recession was the deepest and longest in 60+ years
  - Preceded by overconsumption, overbuilding, and excessive debt
- Recovery has finally turned to Expansion…
- But U.S. Job growth is too slow…
- And the Debt overhang is large
Winston’s Wisdom #2

Winston Churchill

“The farther backward you can look, the farther forward you are likely to see.”
The US Economic Roller Coaster…

- Where have we been? What’s different about the most recent recession and recovery?

- How does our region compare? What’s different regionally vs. nationally?

- Where are we going? What recovery?
No Boom or Bust in TX Housing

Index, 1Q 2000=100, NSA

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Big Housing Price Swings Elsewhere

Index, 1Q 2000=100, NSA

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Underwater Mortgages Remain Elevated in Many States

Percent of mortgages with balance > home value

Percent

- Nevada: 68% (2010 Q1), 62% (2011 Q1)
- Arizona: 51% (2010 Q1), 48% (2011 Q1)
- Florida: 48% (2010 Q1), 44% (2011 Q1)
- California: 34% (2010 Q4), 30% (2011 Q4)
- Texas: 12% (2010 Q4), 10% (2011 Q4)
- U.S.: 24% (2010 Q4), 23% (2011 Q4)

Source: Core Logic
Personal Balance Sheets Adjusting

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Big Adjustments Elsewhere

Personal Debt/Income


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Regional Bank Profitability Stronger

ROA (%)

- U.S.
- 11th District

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Regional Banks Performing Better

Noncurrent Loan Rate (%)

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Where Are the Problems?

Noncurrent Loan Rate (%)

U.S. Banks

11th District Banks

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Time to Rename the Texas Ratio*…

Percent of Banks with Texas Ratio > 100%

*The Texas Ratio is defined as noncurrent loans plus other real estate owned as a percentage of tangible equity capital plus loan loss reserves.

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The Almost-Anywhere-But-Texas Ratio

Percent of Banks with Texas Ratio > 100%, 3/31/2012

White: 0-5%  Lightest Blue: 5-10%  Blue: 10-15%  Darkest Blue: >15%

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BankThink: Is It Time to Rename the Texas Ratio?

Nov 03, 2011 11:24 AM EST
By Thomas F. Siems

By many economic measures, Texas currently stands atop the other forty-nine states as a beacon of success.

Through September, Texas has added more than one-third of the nation’s net new jobs since the national recovery began in mid-2009. Texas’ share of total U.S. exports is more than 17%, far and away the highest percentage among the fifty states. And Texas is the No. 1 producer of oil and gas in the nation, with about 45% of all active drilling rigs.

But even though Texas jobs, Texas exports and the Texas rig count all signal strength and stability, there is one economic measure, the Texas Ratio, that Texans—especially Texas bankers—would like to have renamed.
The Texas Ratio by District

Percent of Banks with Texas Ratio > 100%, 3/31/2012

- Texas Ratio:
  - Nationwide = 4.2
  - 12.2 in Atlanta
  - 7.8 in Richmond
  - 5.5 in Dallas

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Texas Cattle Population Very Low

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Texas Exports: #1 in Nation

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Rig Count Moves with Oil Prices

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Texas Employment Growth

TX and US Employment Growth, Year over Year, Percent

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The Unemployment Twist

Unemployment Rate, Percent

Most Recent:
- US (8.2%)
- TX (6.9%)

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More Jobs Created Regionally

Job Growth Index, 100 = January 1990

- Dallas
- Kansas City
- Minneapolis
- Atlanta
- San Francisco
- Richmond
- U.S.
- St. Louis
- Philadelphia
- Chicago
- Cleveland
- Boston
- New York

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Job Growth Around the Globe

Job Growth Index,
100 = January 1990
(except Euro Area, where 100 = July 1990)

- Texas
- Australia
- Canada
- U.S.
- Euro Area
- France
- Germany
- U.K.
- Japan

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How Does Our Region Compare?

- Texas is the place to be!
  - No boom or bust in housing
  - Personal balance sheets stronger
  - Banks healthier
  - Jobs have completely recovered and growing faster than the nation
  - More new businesses created and more corporate relocations
Winston’s Wisdom #3

Winston Churchill

“The inherent vice of capitalism is the unequal sharing of blessings; the inherent virtue of socialism is the equal sharing of miseries.”
Where have we been? What's different about the most recent recession and recovery?

How does our region compare? What's different regionally vs. nationally?

Where are we going? What are the risks to the recovery?
Where’s Inflation Headed?

Percent, yr/yr

Headline CPI

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Is Core Inflation Rising?

Percent, yr/yr

Trimmed Mean PCE
Core CPI
Core PCE

Jan-01 Jan-02 Jan-03 Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10 Jan-11 Jan-12

2.31
1.89
1.84

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Leading Index Signals Slower Growth

Annualized % change


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Prettiest Horse in the Glue Factory?

10-year Government Bond Yields, as June 11, 2012

<table>
<thead>
<tr>
<th>Country</th>
<th>Yield</th>
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<tbody>
<tr>
<td>US</td>
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<td>Germany</td>
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European Sovereign Debt Concerns

Spread over 10-year German bond

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Where Are We Going?

- U.S. 2012 economic growth likely tepid
- Inflation is currently under control
- Significant headwinds (risks):
  - European debt crisis and recession
  - Extended joblessness
  - Uneven housing recovery
  - Oil price shock
  - U.S. national debt and government spending
- Monetary policy has largely done its job
Winston’s Wisdom #4

Winston Churchill

“You can always count on Americans to do the right thing---after they’ve tried everything else.”

—THOMAS EDISON
Thank You! (www.dallasfed.org)

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