



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

Thomas F. Siems, Ph.D.
Senior Economist and Director
of Economic Outreach
Federal Reserve Bank of Dallas

Economic Summit
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.



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...

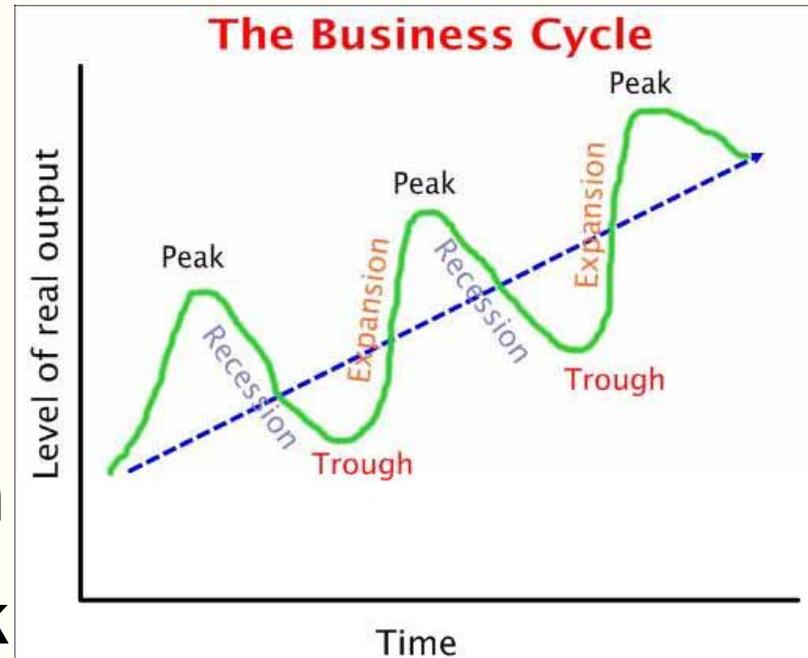
- **Where have we been? What's different about the most recent recession and recovery?**
- How does our region differ regionally?
- Where are we going in recovery?





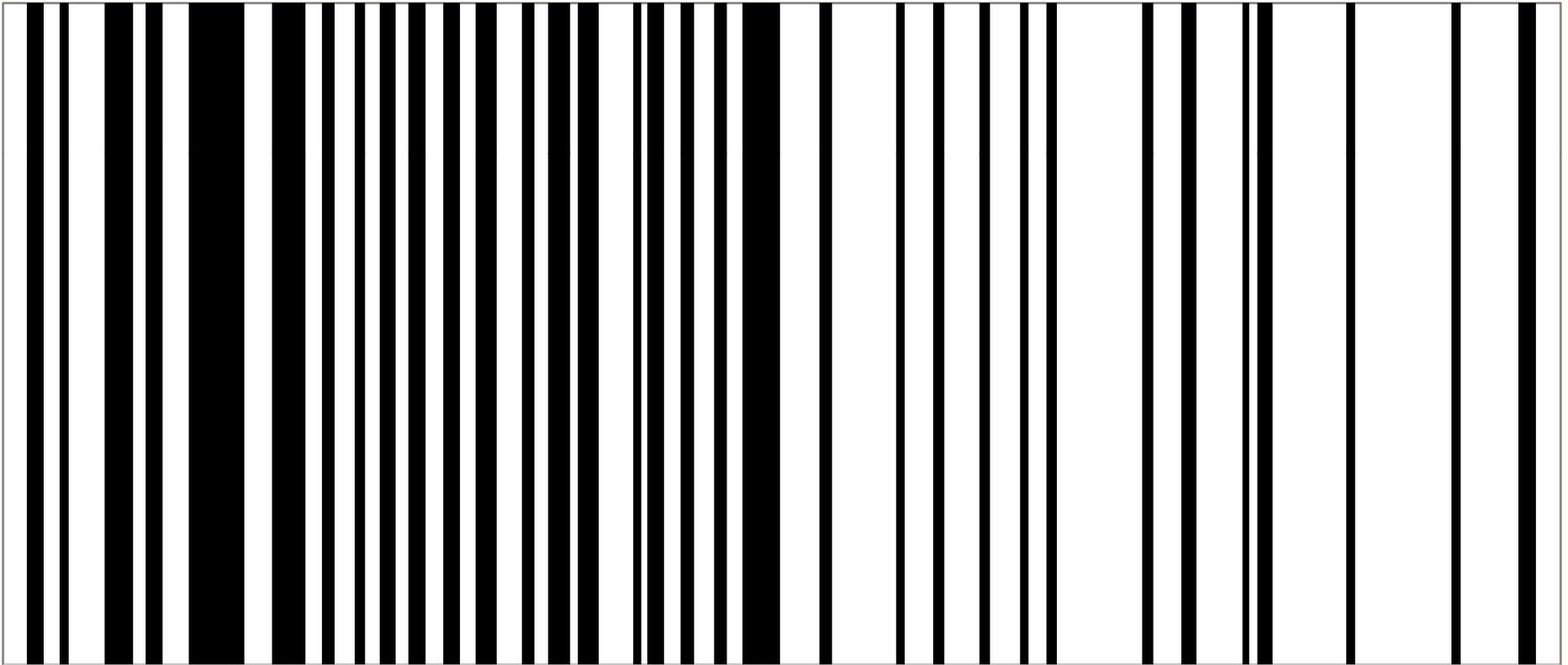
Anatomy of the Business Cycle

- **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**





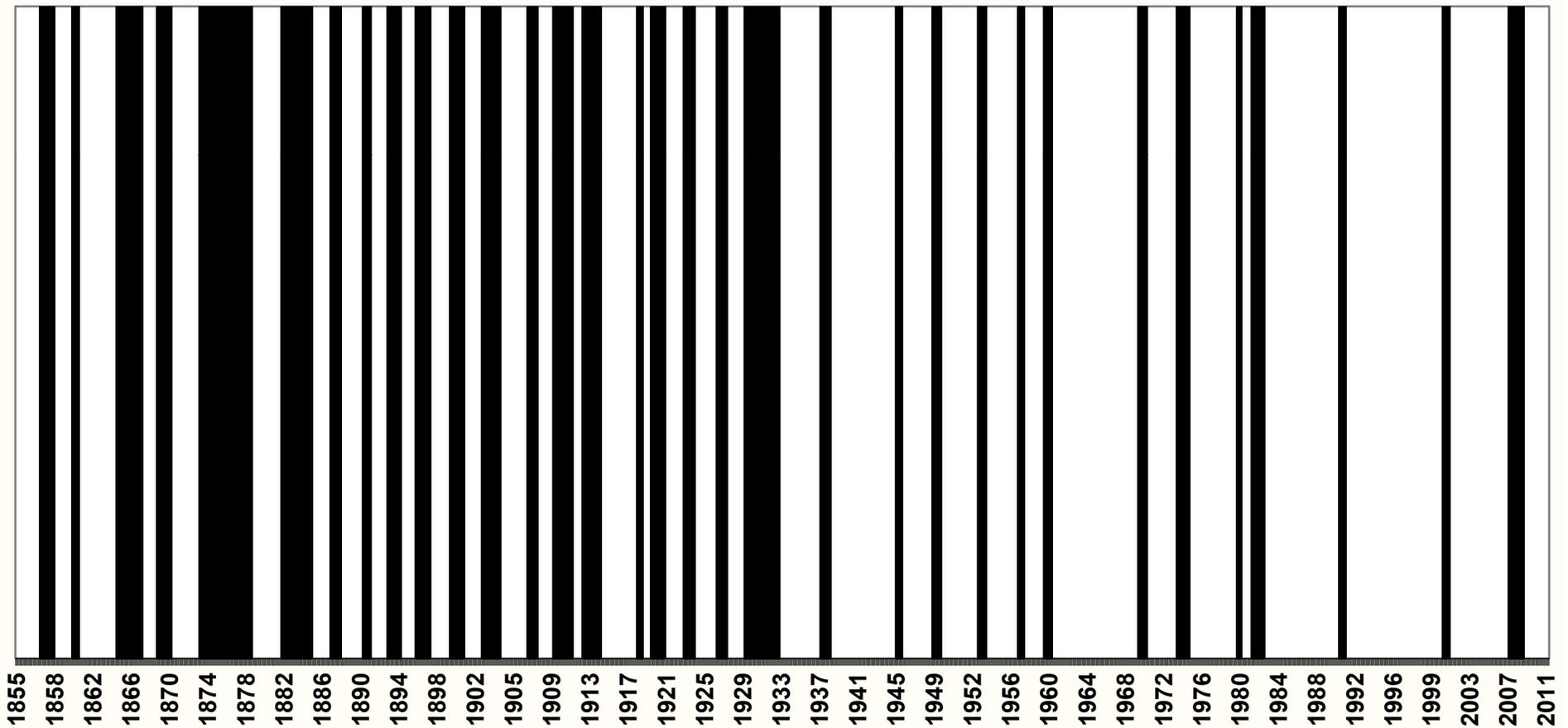
A Economic Roller Coaster Bar Code?





U.S. Business Cycle

Black = Months in Contraction (Recession)



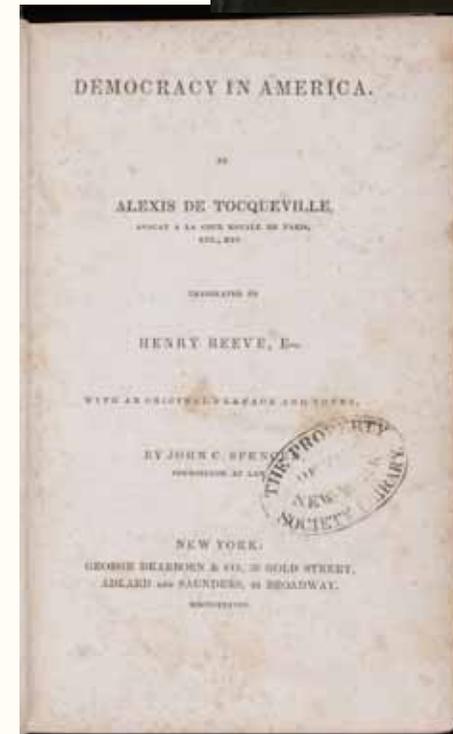


Winston's Wisdom #1



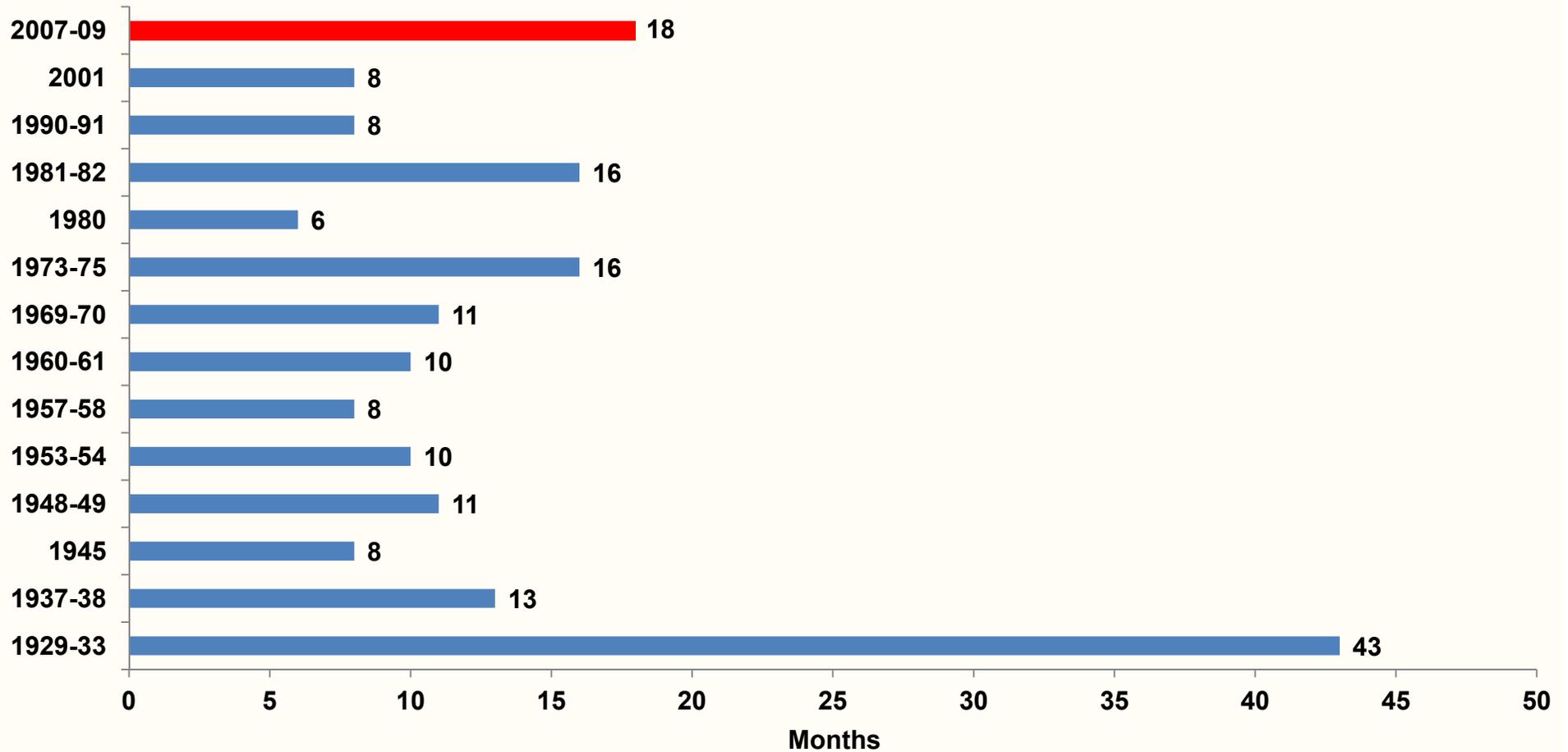
Winston Churchill

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



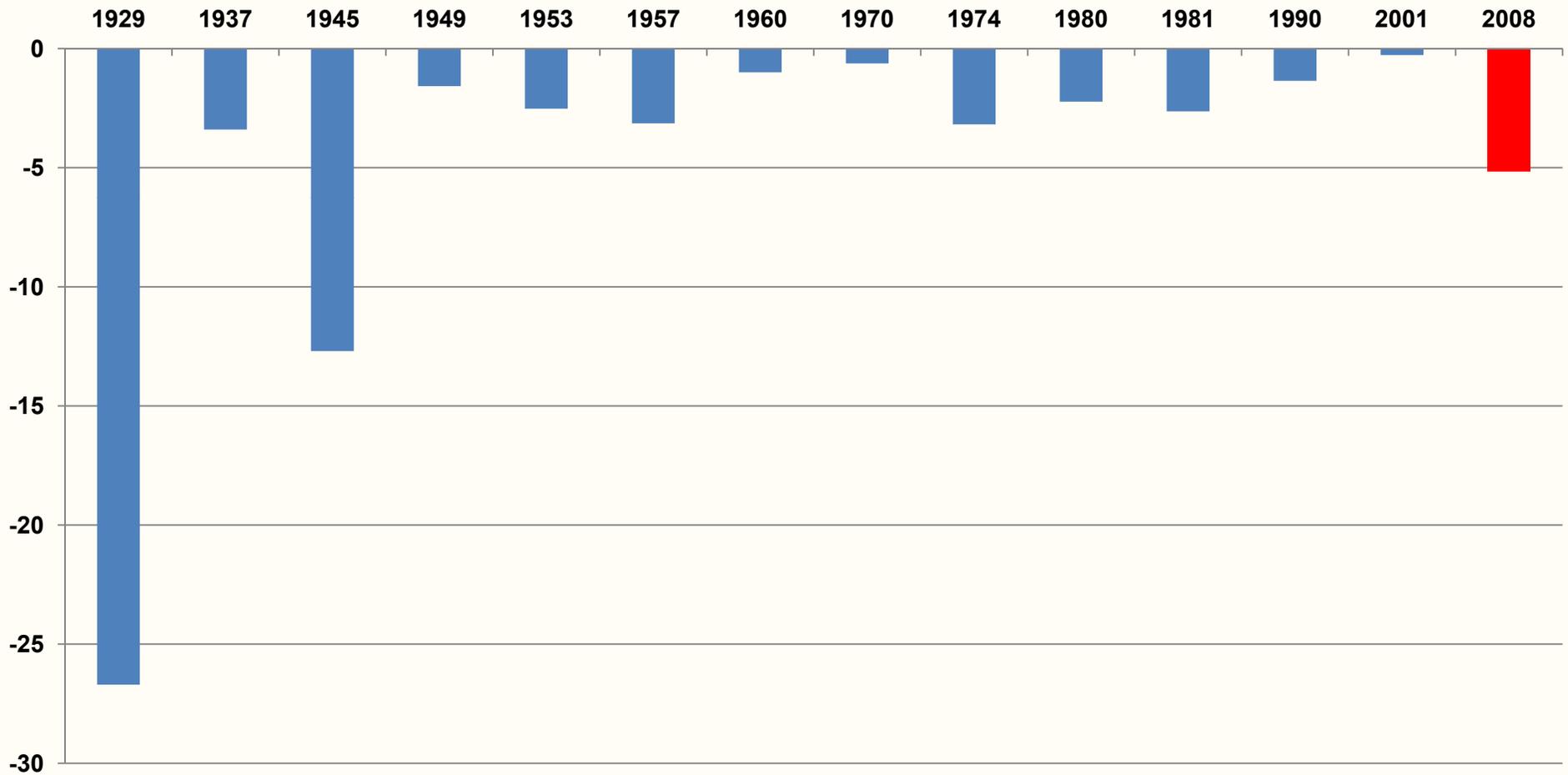


Length of Recessions





Depth of Recessions





New Dallas Fed FIRM Publication!

DALLASFED

VOLUME 1, ISSUE 1
MAY 31, 2012

Financial Insights

FIRM • FINANCIAL INSTITUTION RELATIONSHIP MANAGEMENT

CALENDAR OF EVENTS

May 30

**CEO Forum with
Richard Fisher**
San Antonio, TX

June 14

TCUL–Coastal Bend
Corpus Christi, TX

June 19

Economic Roundtable
Stephenville, TX

June 27

Economic Roundtable
Wichita Falls, TX

Branding the Great Recession

by Thomas F. Siems

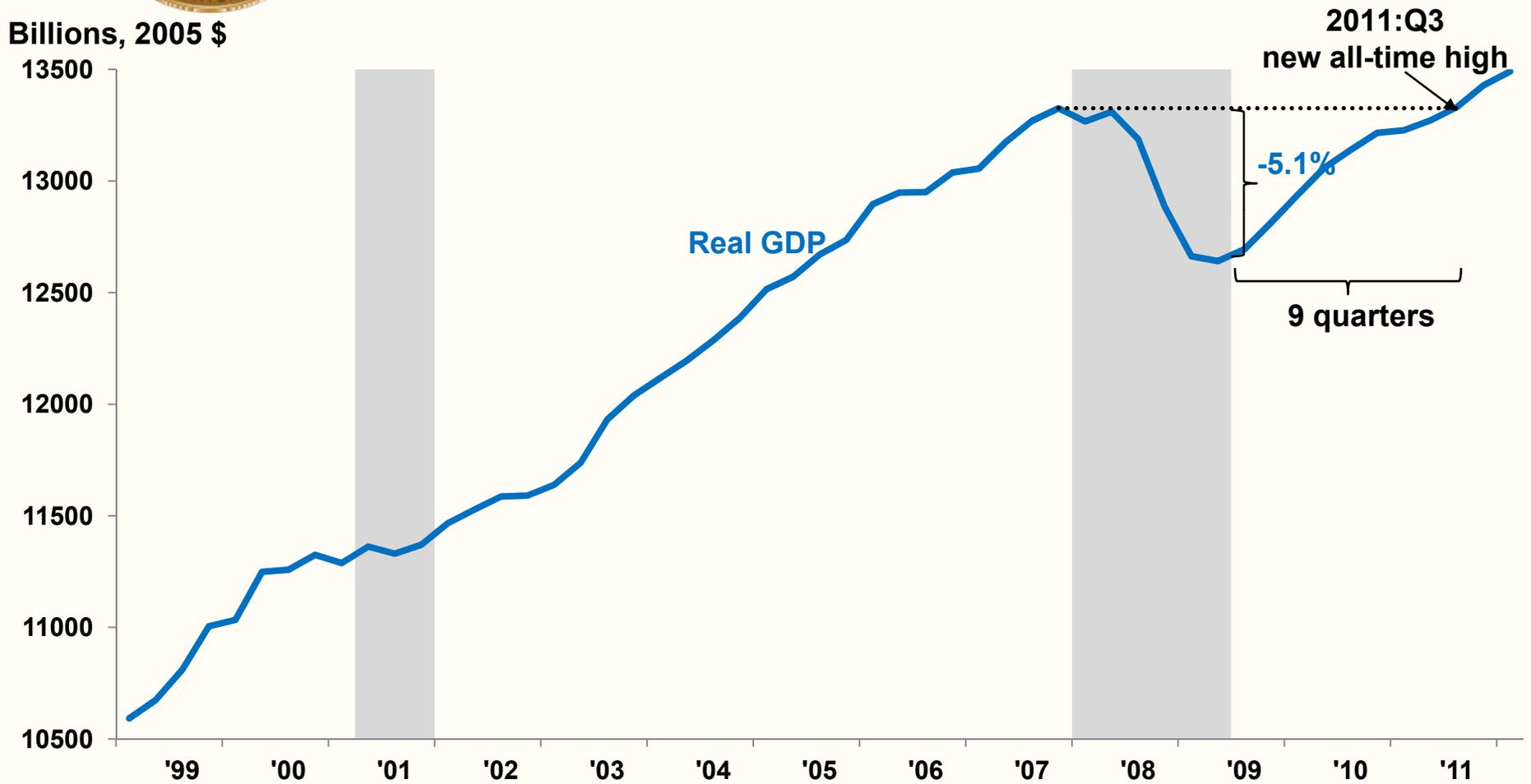
Was the 2008 global financial crisis and economic downturn—often branded the Great Recession—the worst U.S. contraction since the Great Depression of the 1930s? And how has the subsequent recovery compared with previous recoveries?

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.

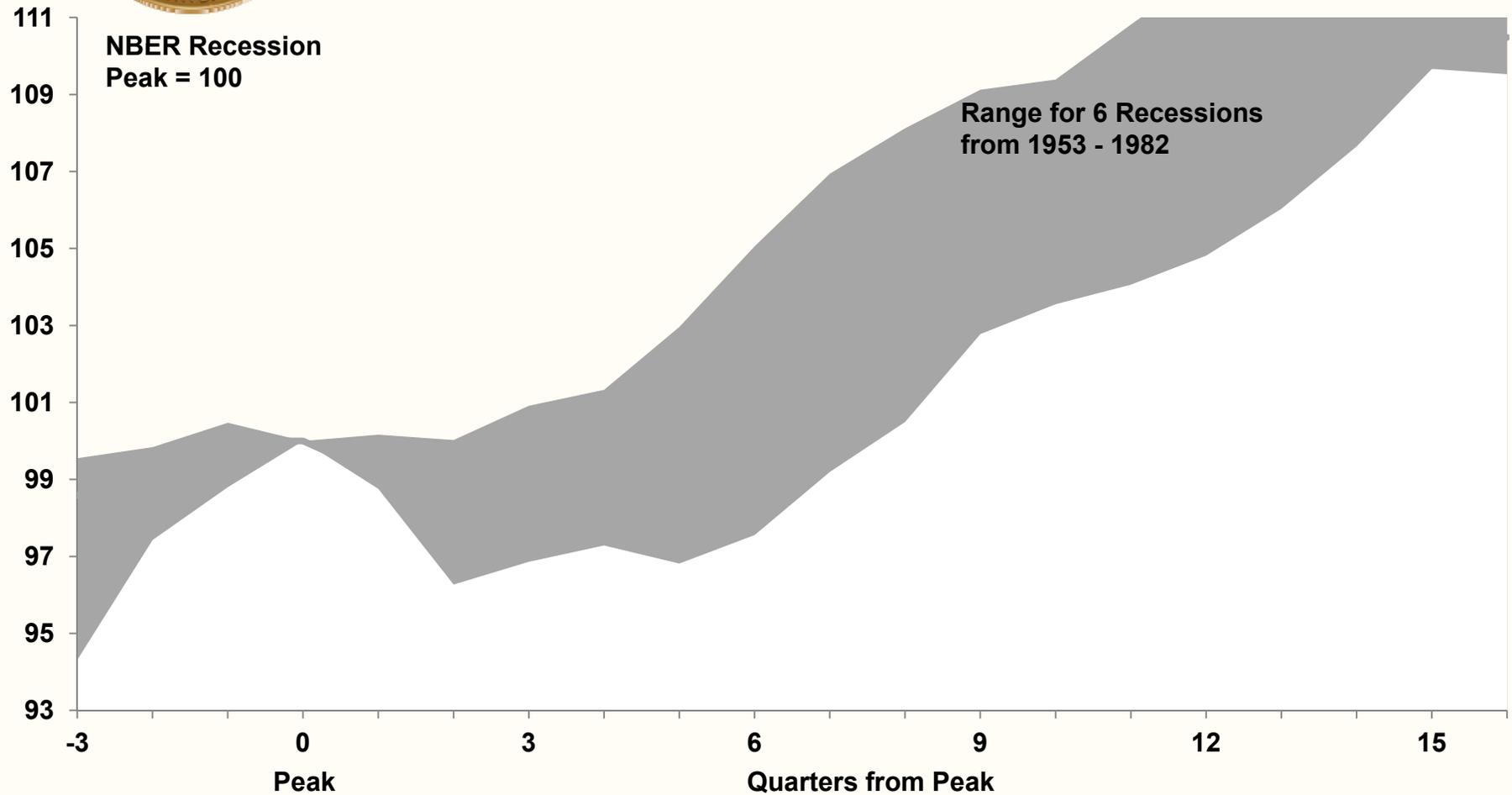


Death of the 2008 Recession



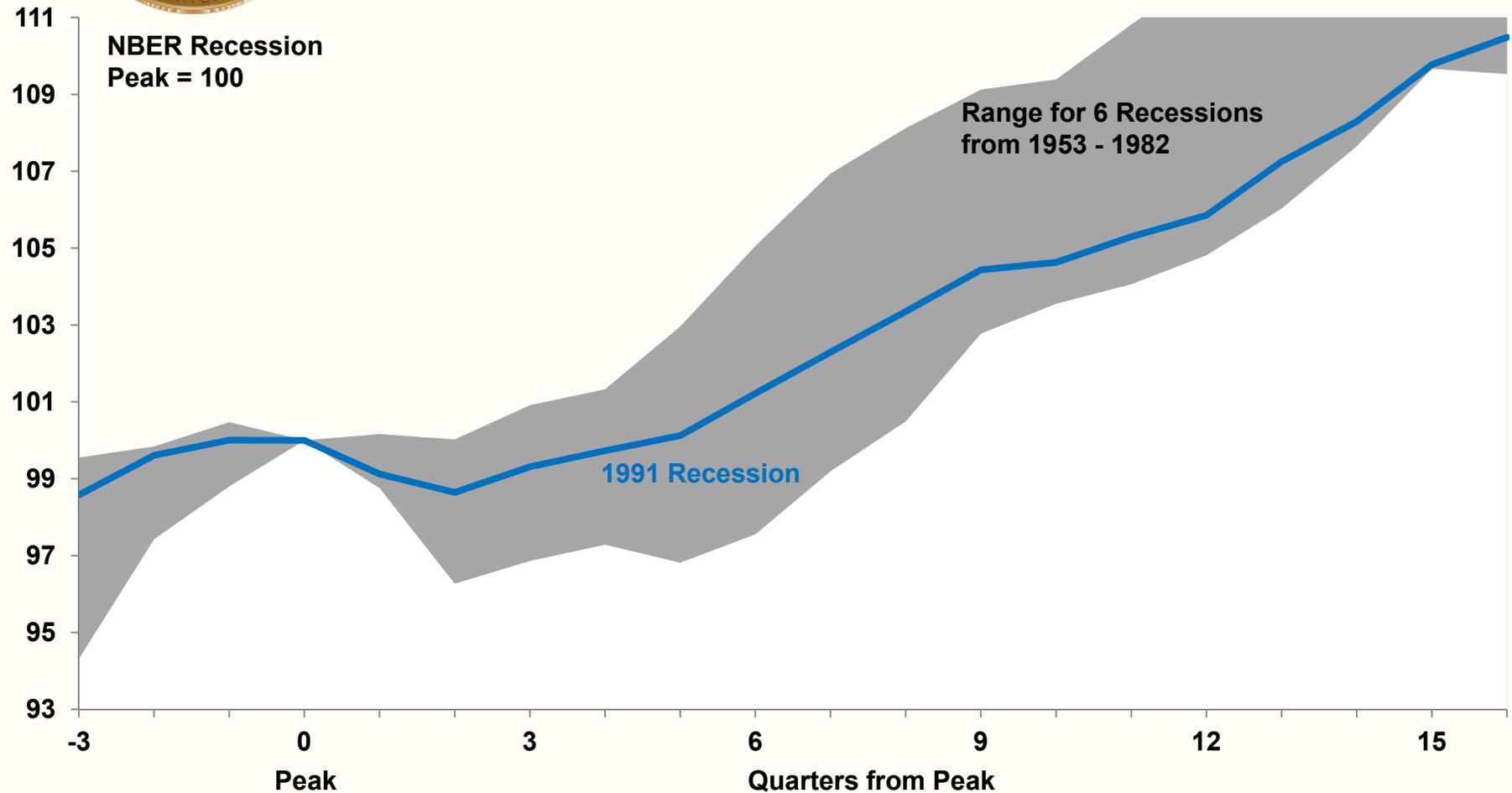


GDP Roller Coaster



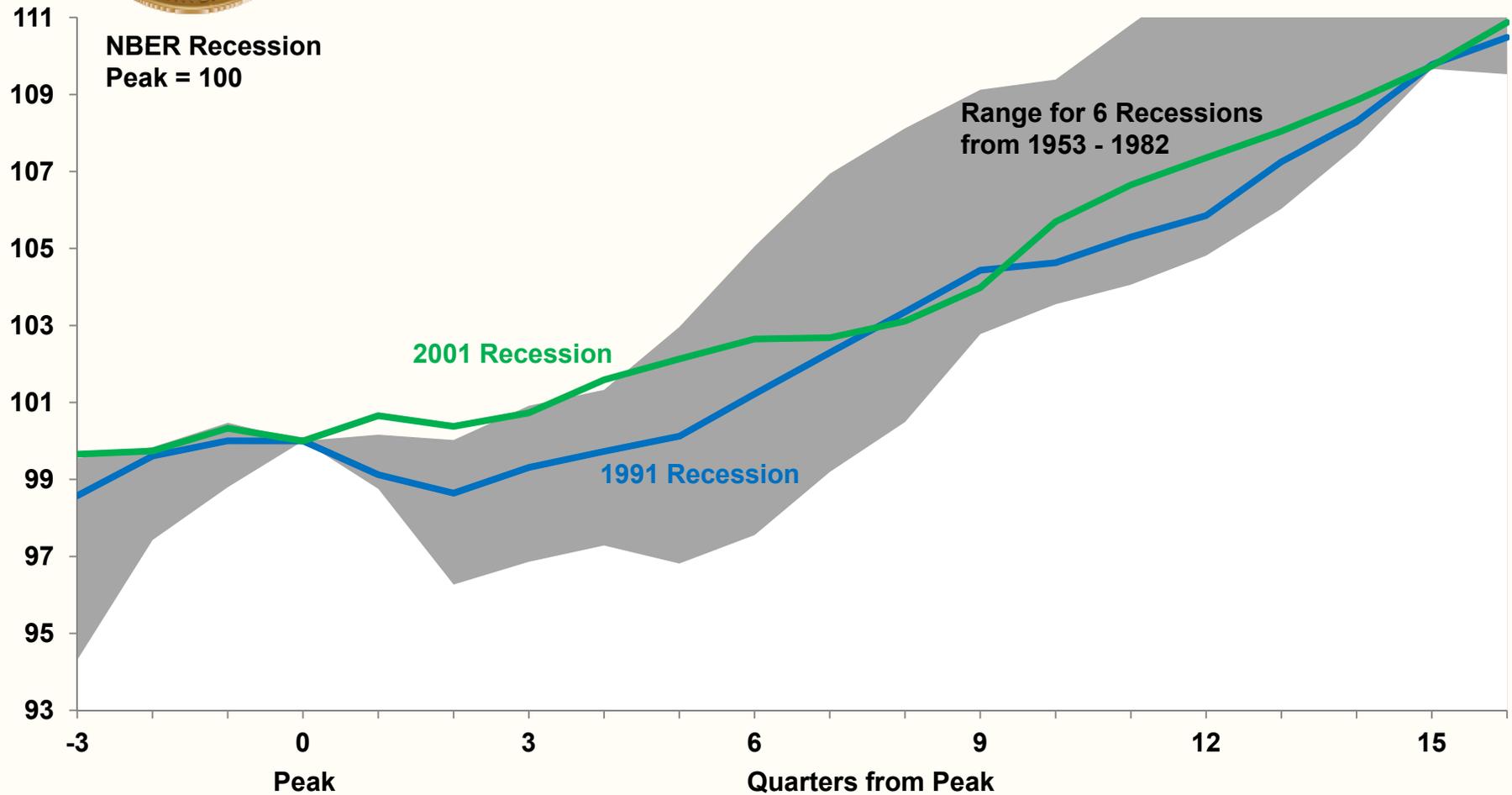


GDP Roller Coaster



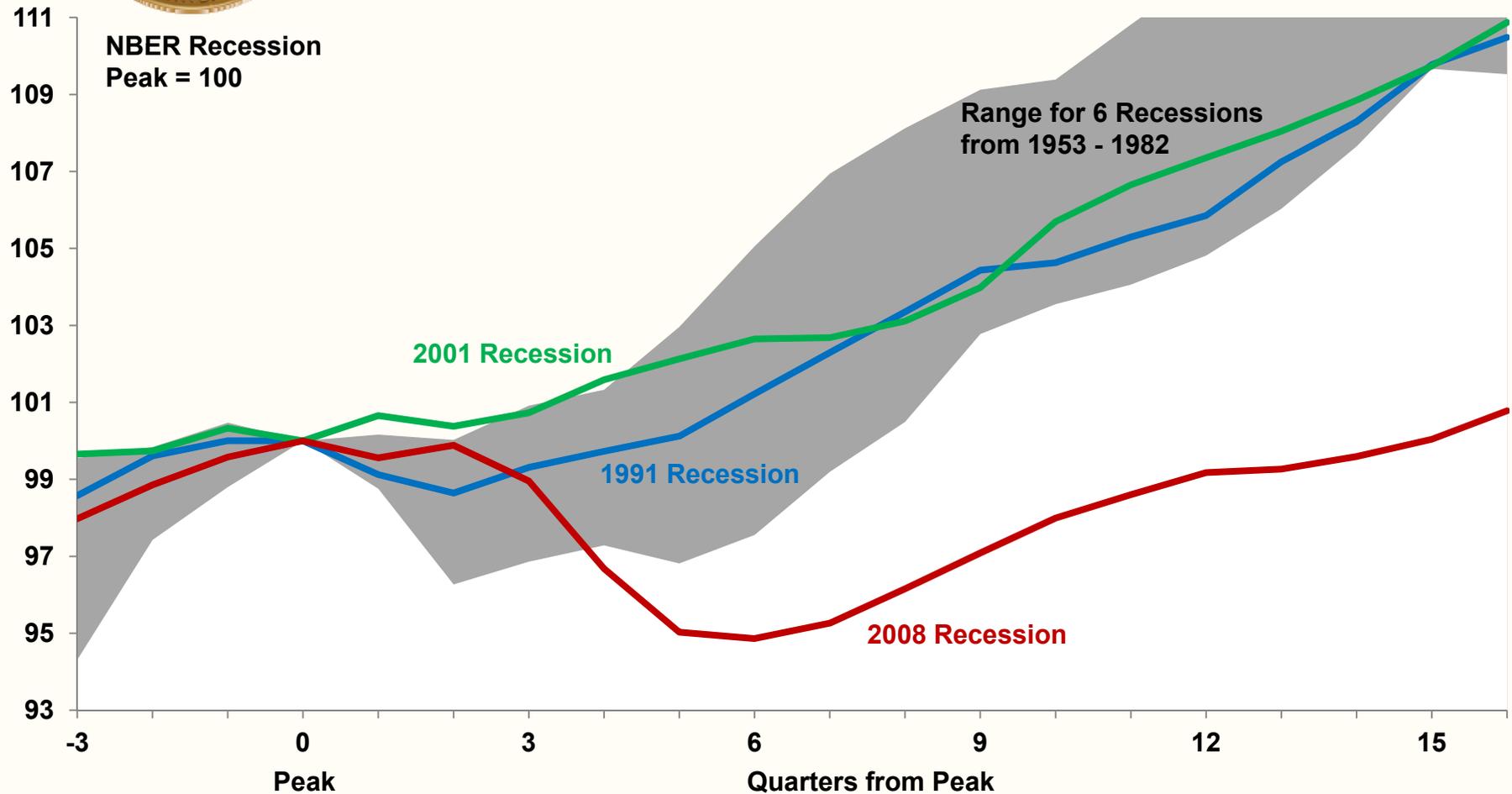


GDP Roller Coaster



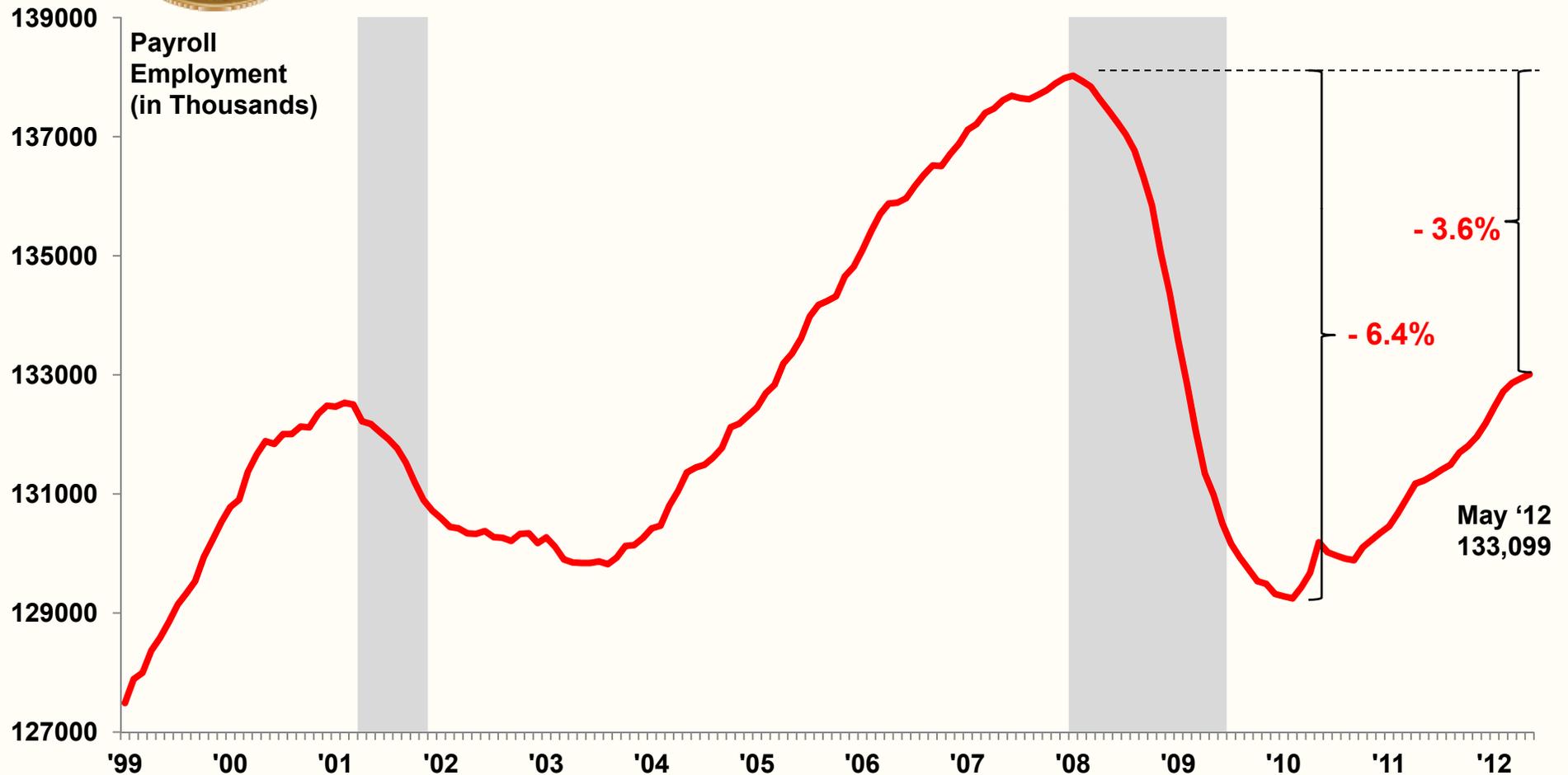


GDP Roller Coaster



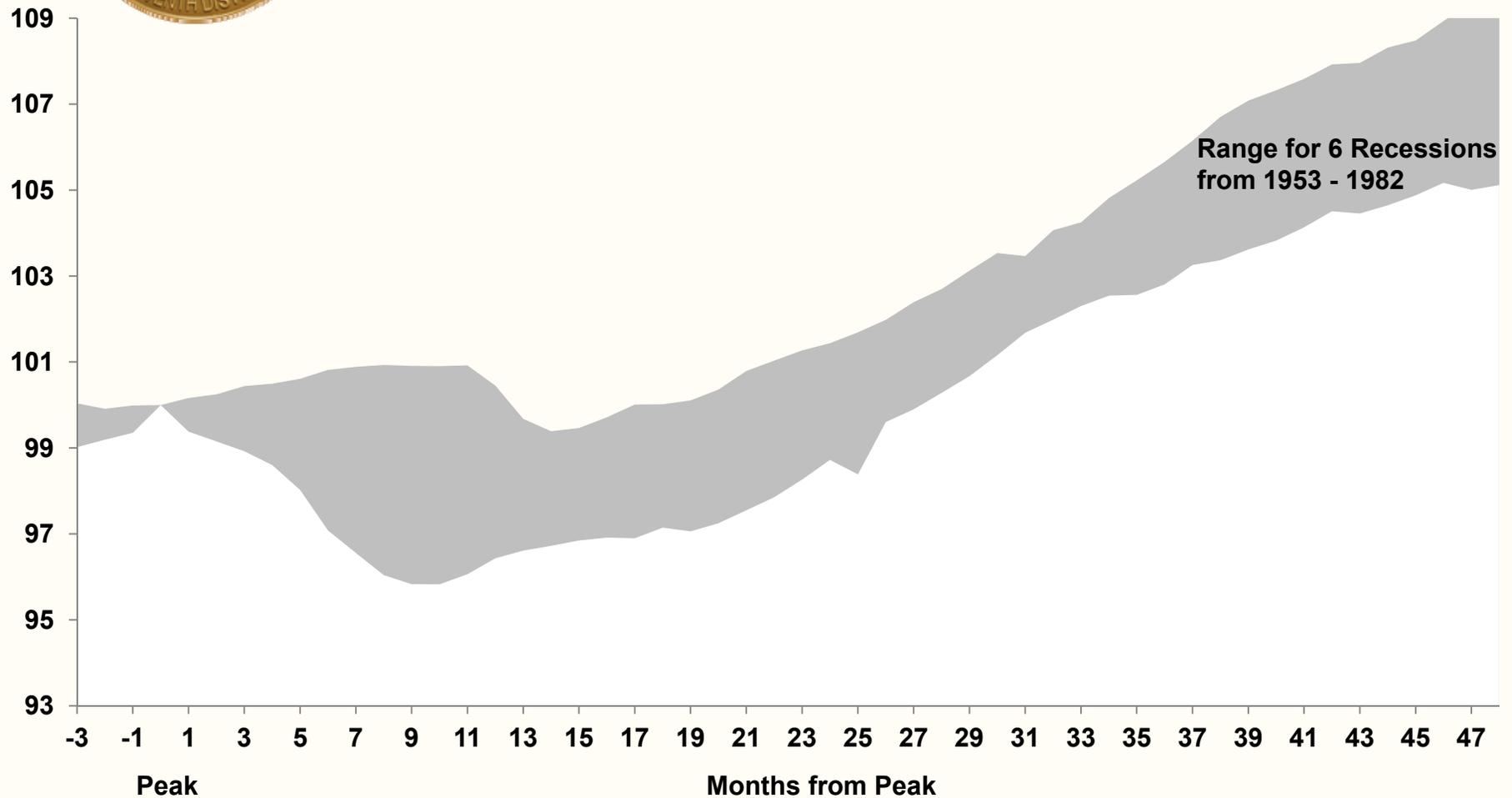


Jobs: Still a Long Way to Go!



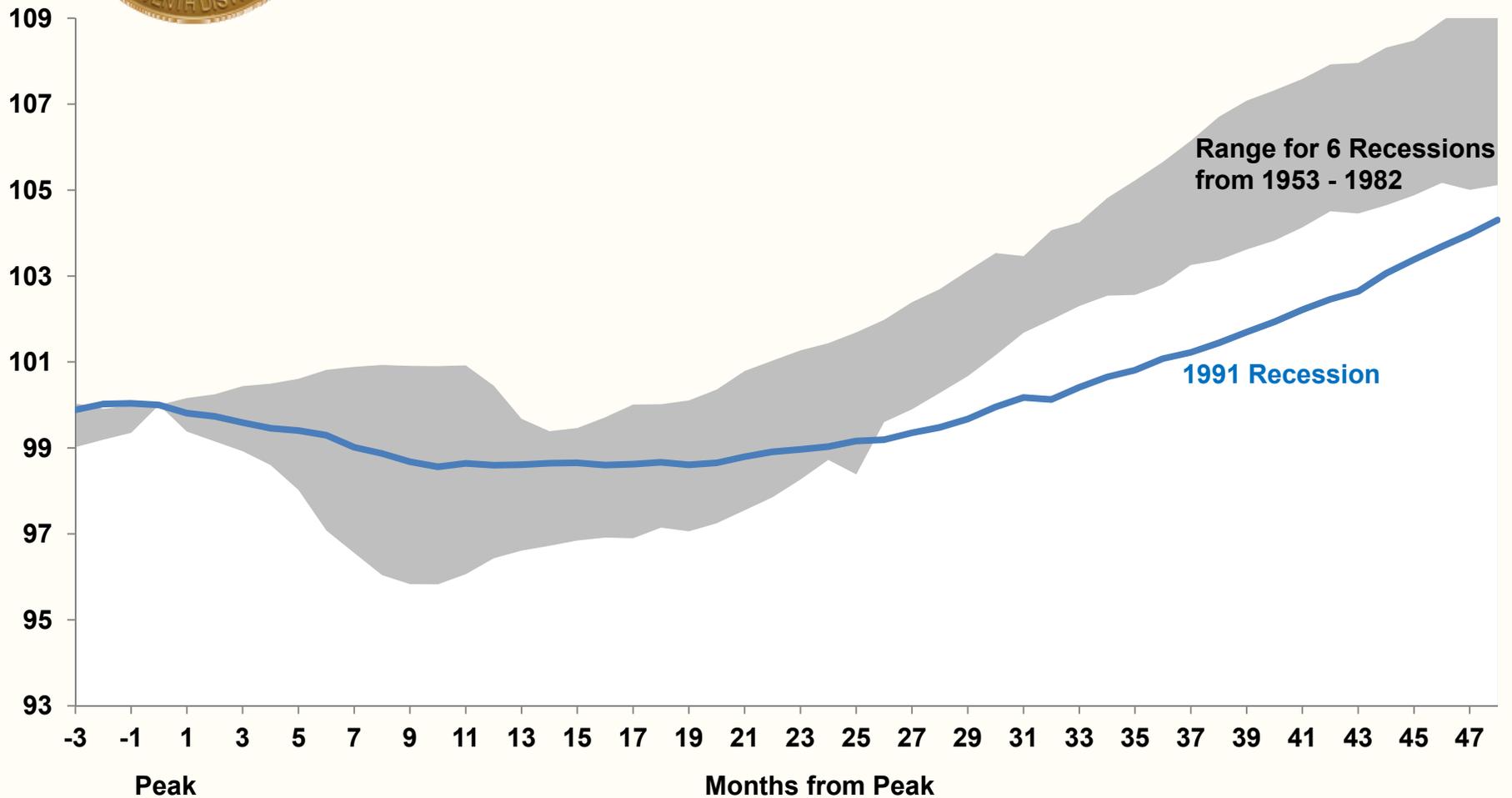


Jobs Roller Coaster: Typical Cycles



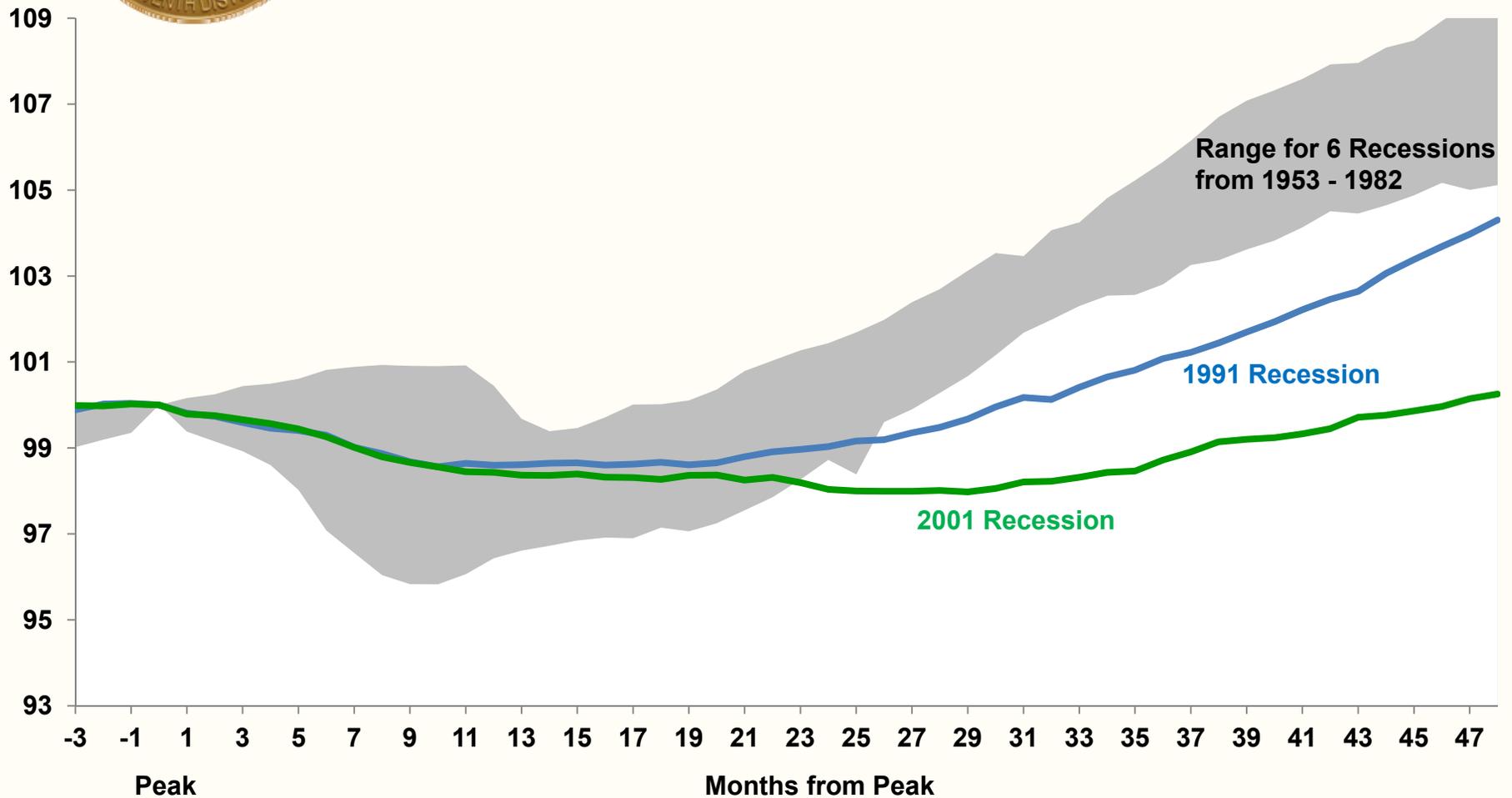


Jobs Roller Coaster



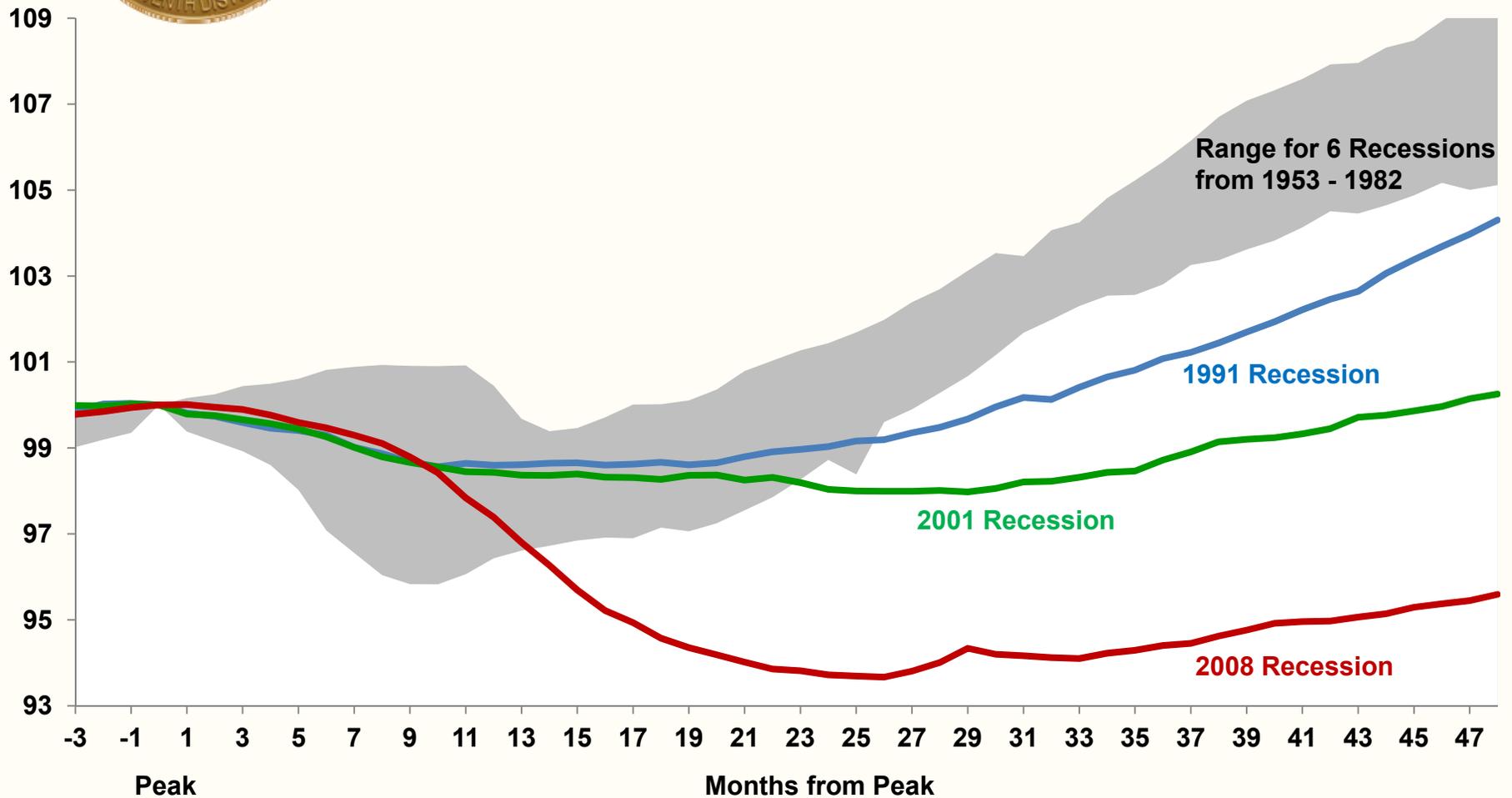


Jobs Roller Coaster





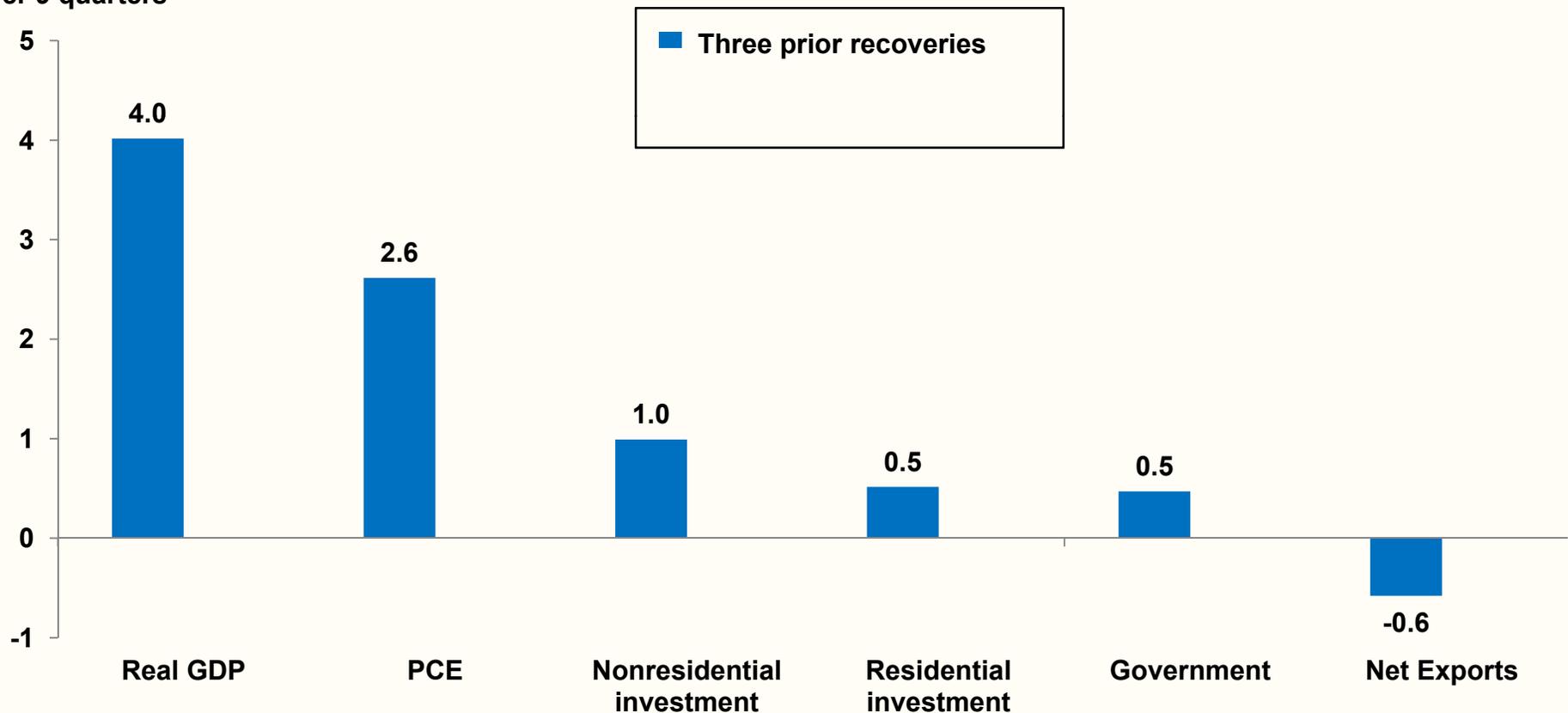
Jobs Roller Coaster





Why Such a Sluggish Recovery?

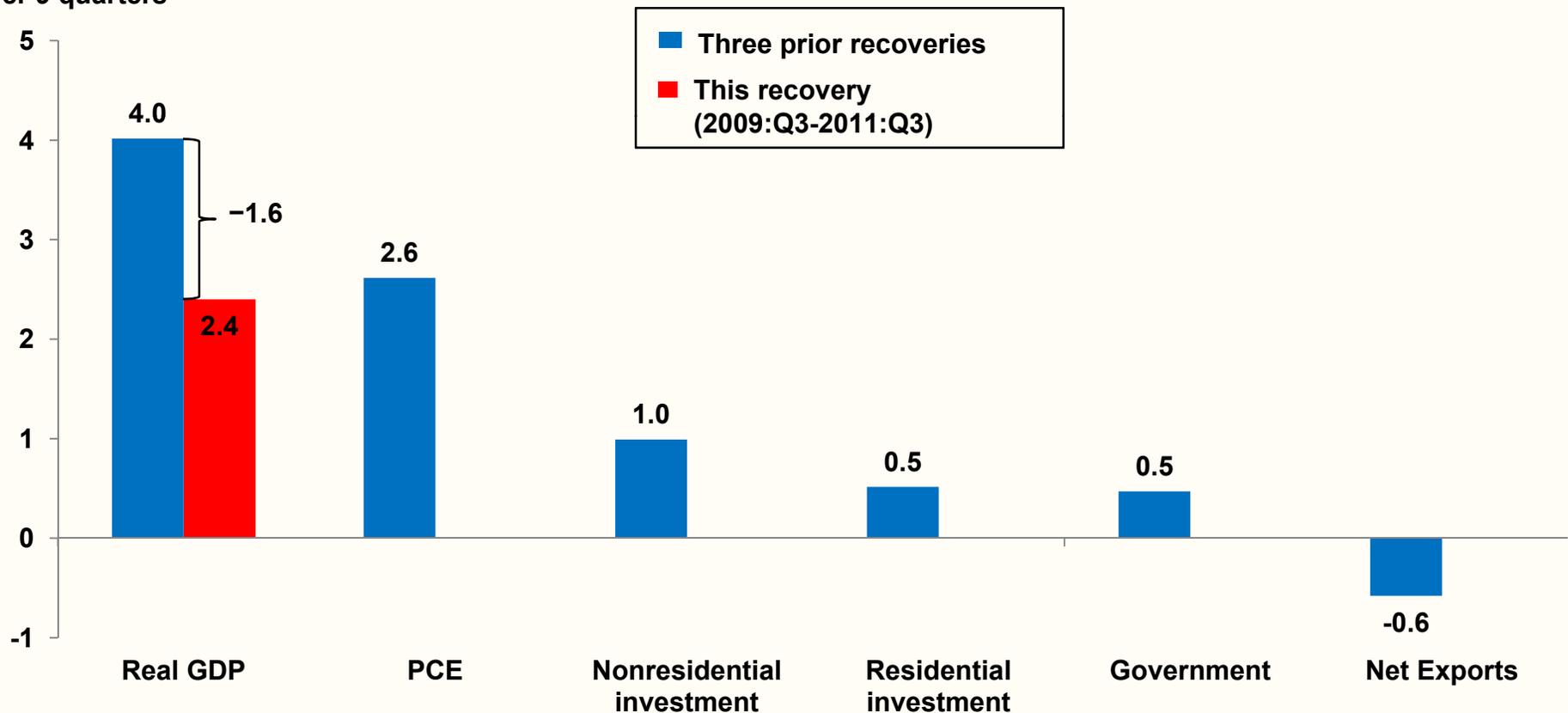
Average contribution to real GDP growth over 9 quarters





Why Such a Sluggish Recovery?

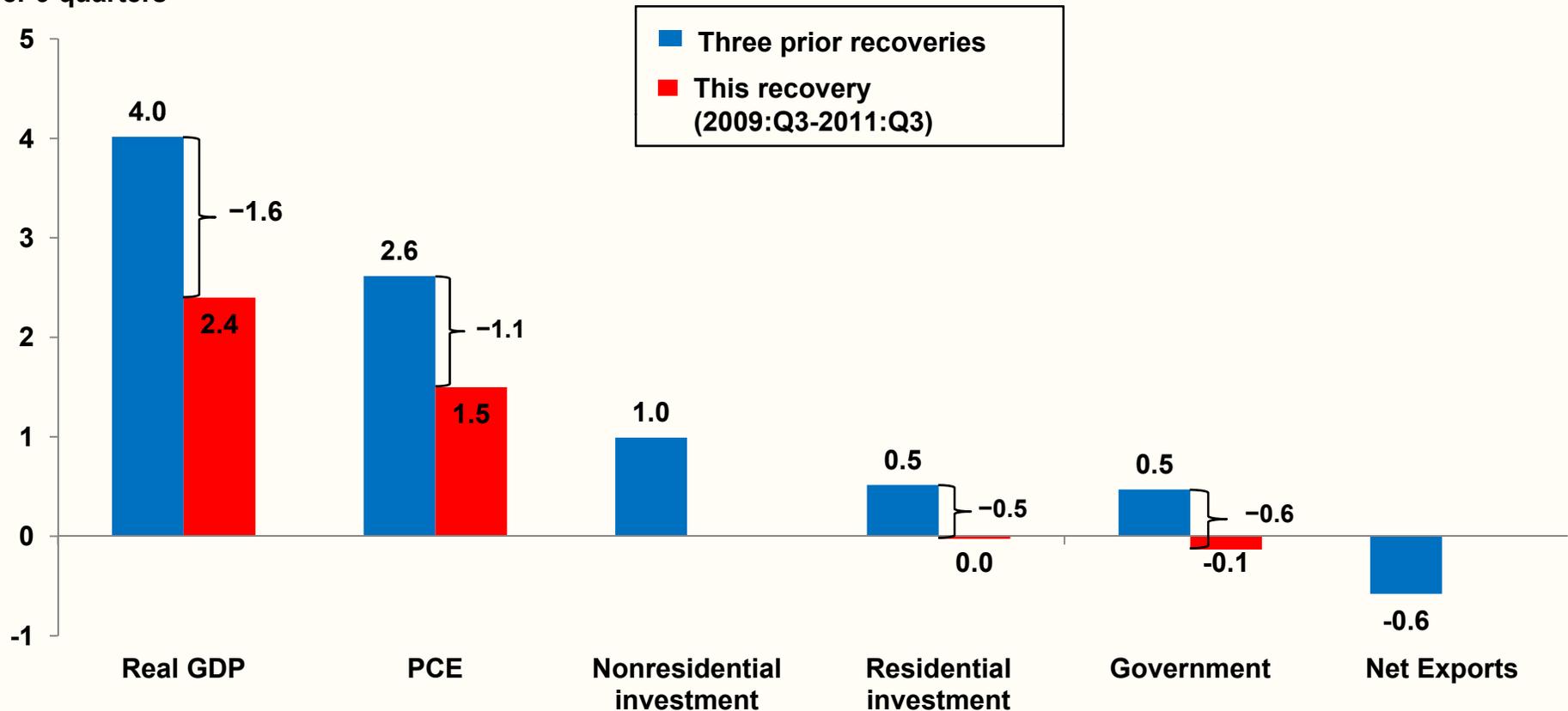
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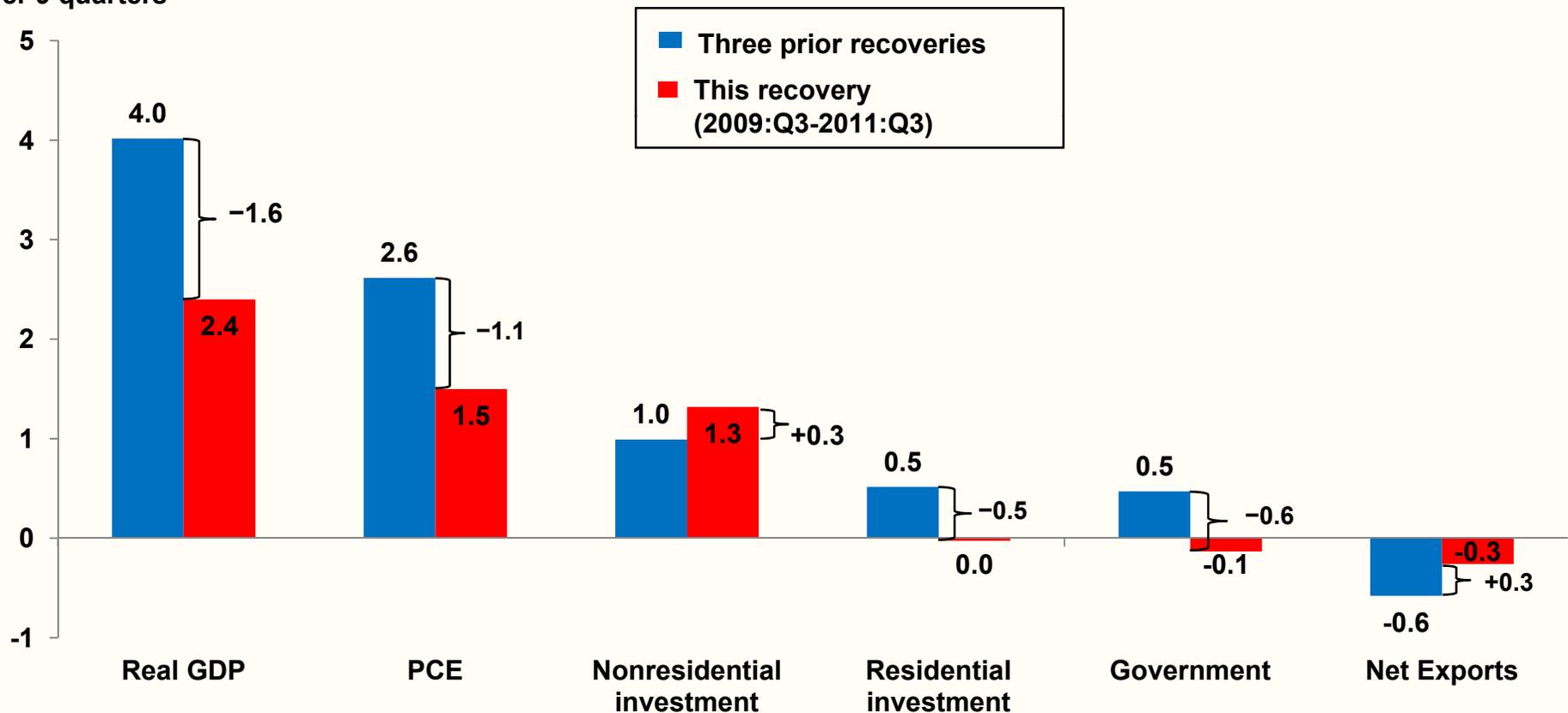
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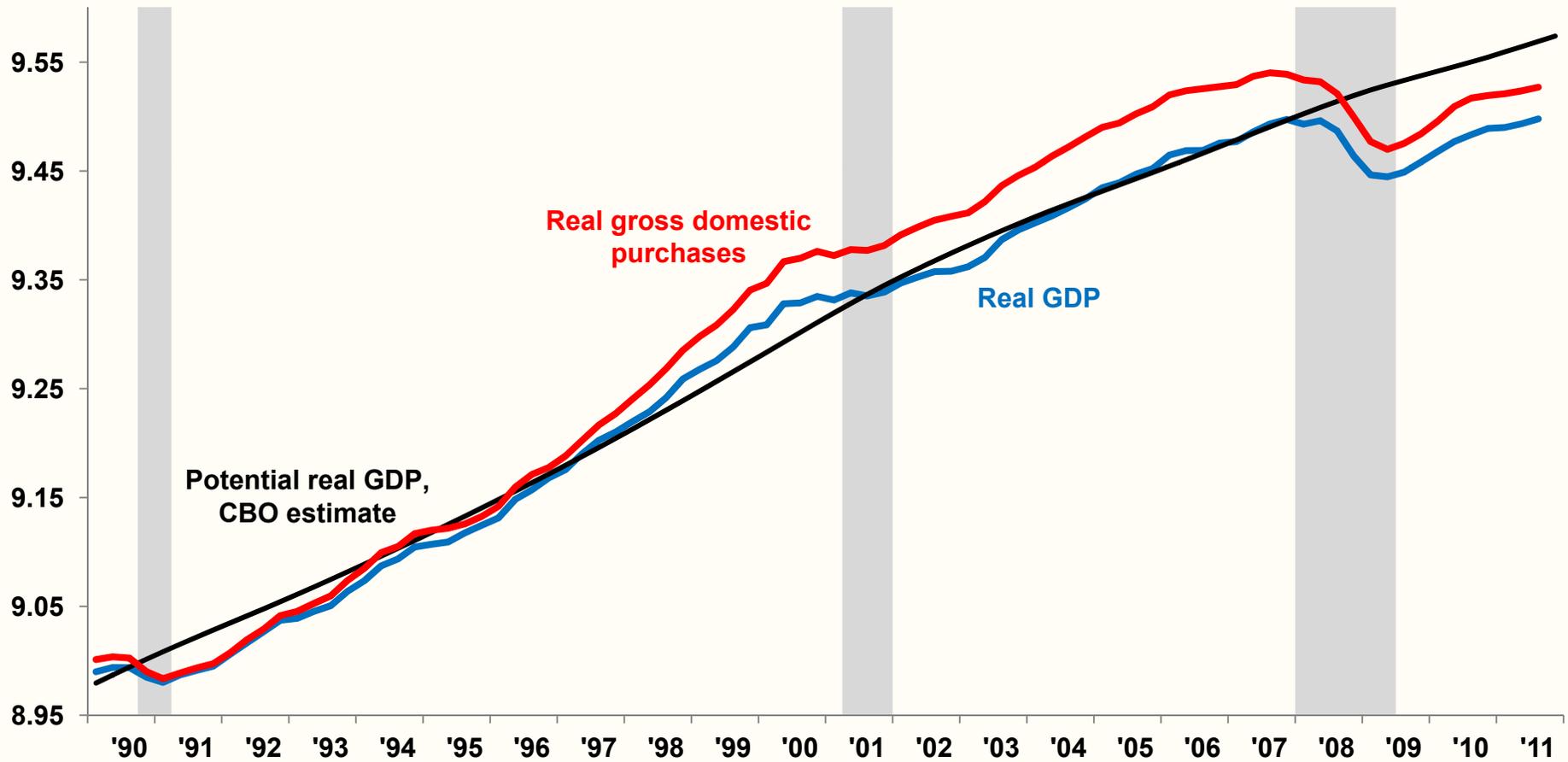
Average contribution to real GDP growth over 9 quarters





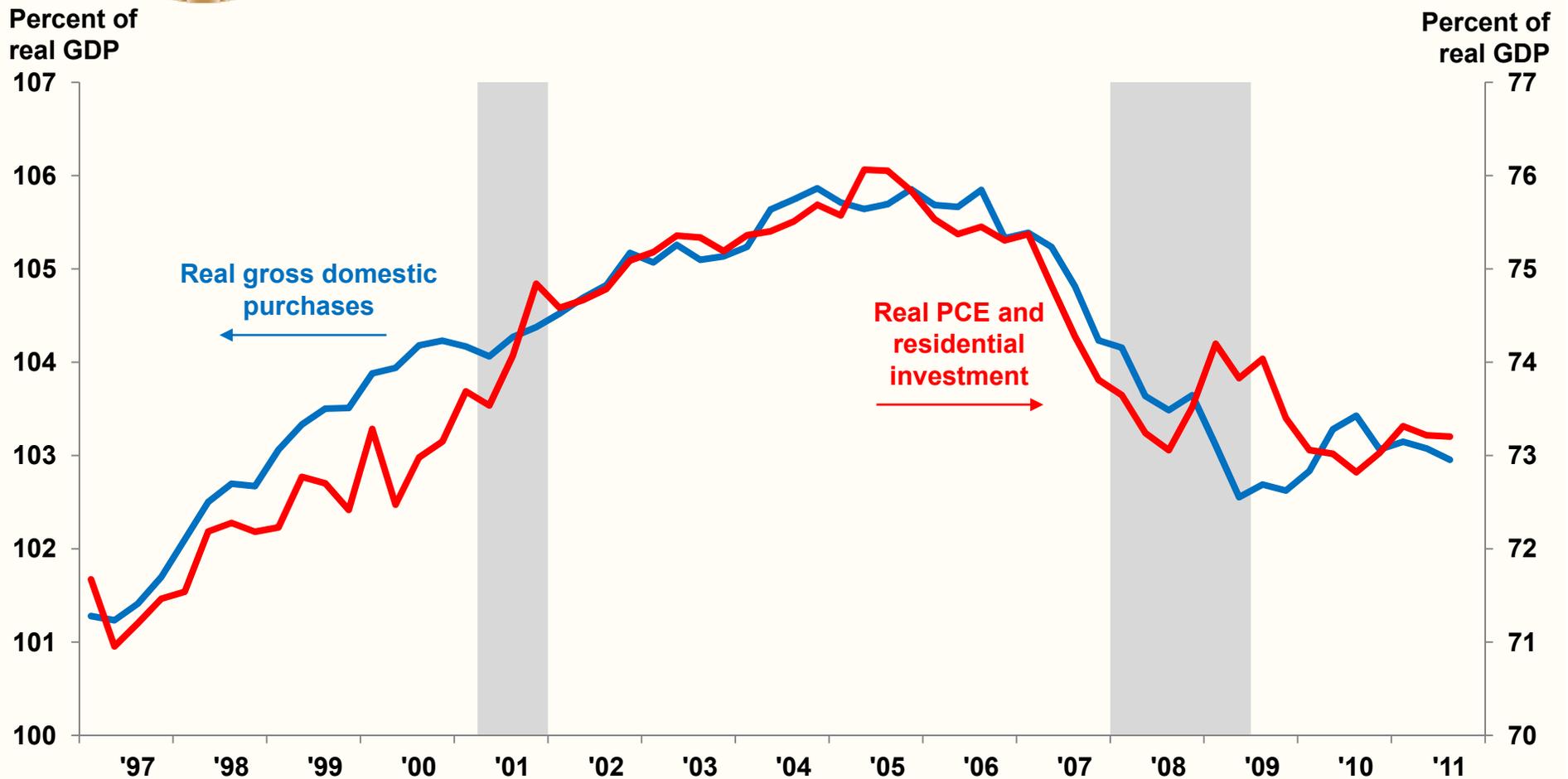
As a Nation: We Overspent...

Log scale, bil. 2005\$





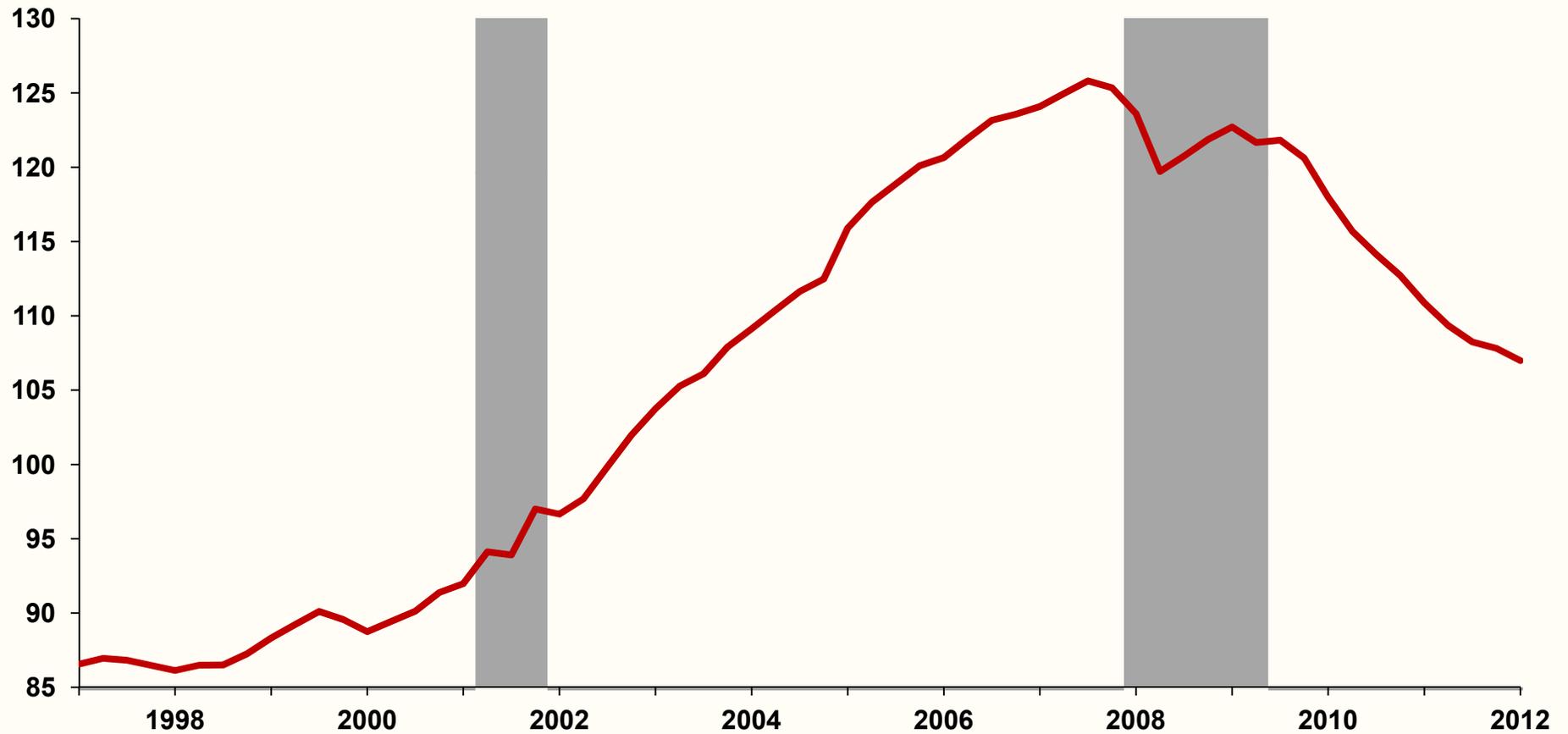
Spending Was Driven By Homebuilding, Consumption, and...





Household Debt!

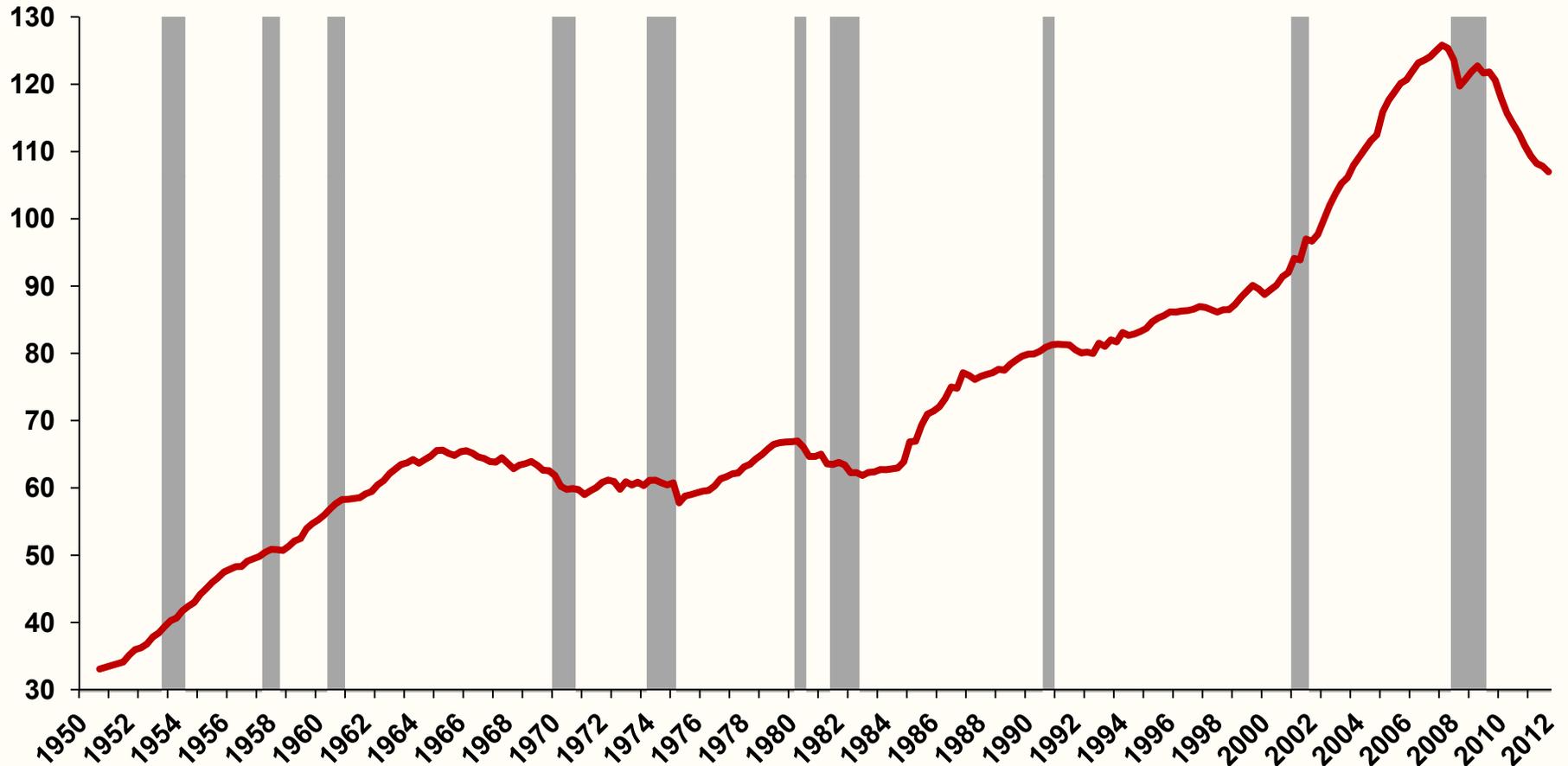
Household Debt-to-Income Ratio





Long Run View of Household Debt

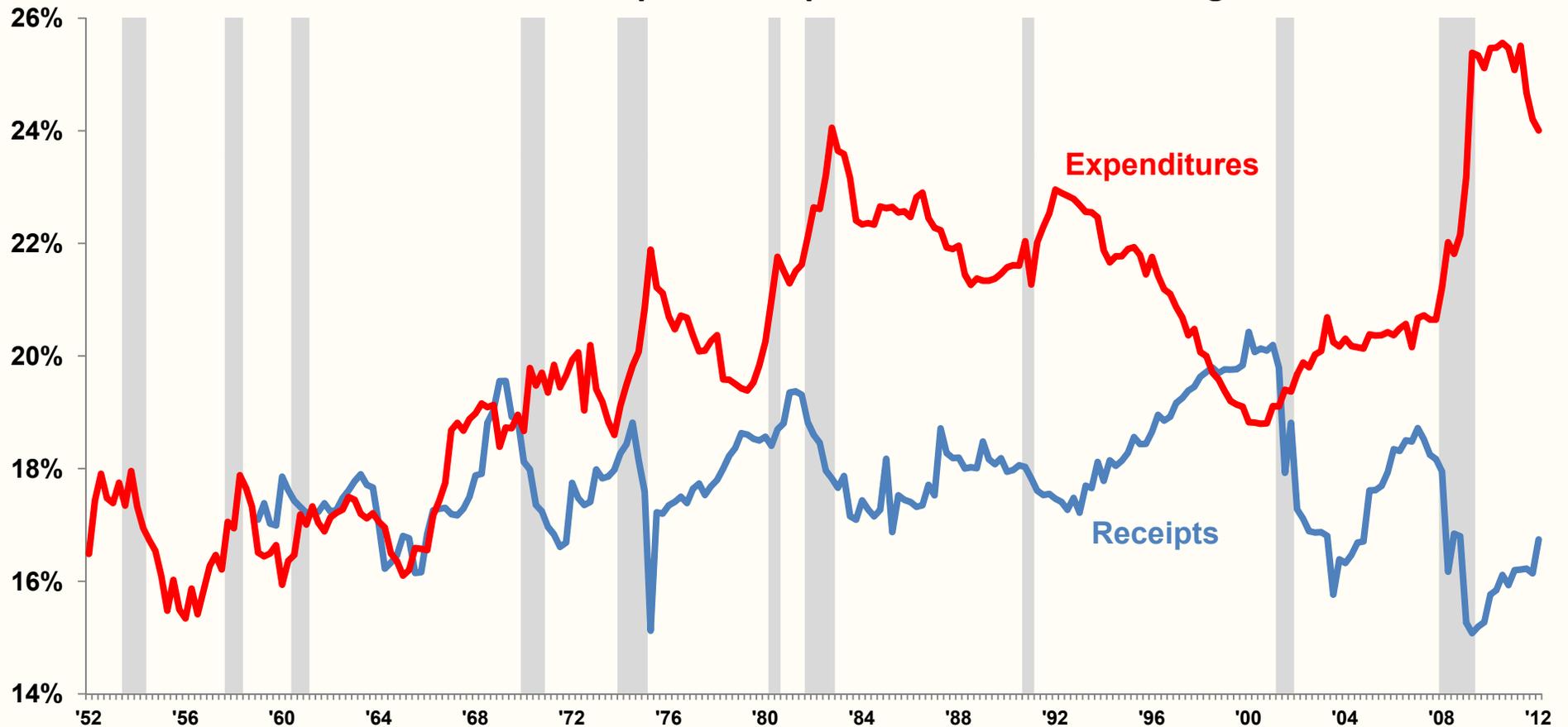
Household Debt-to-Income Ratio





The Federal Budget Crisis

Federal Government Receipts and Expenditures as a Percentage of GDP





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.”





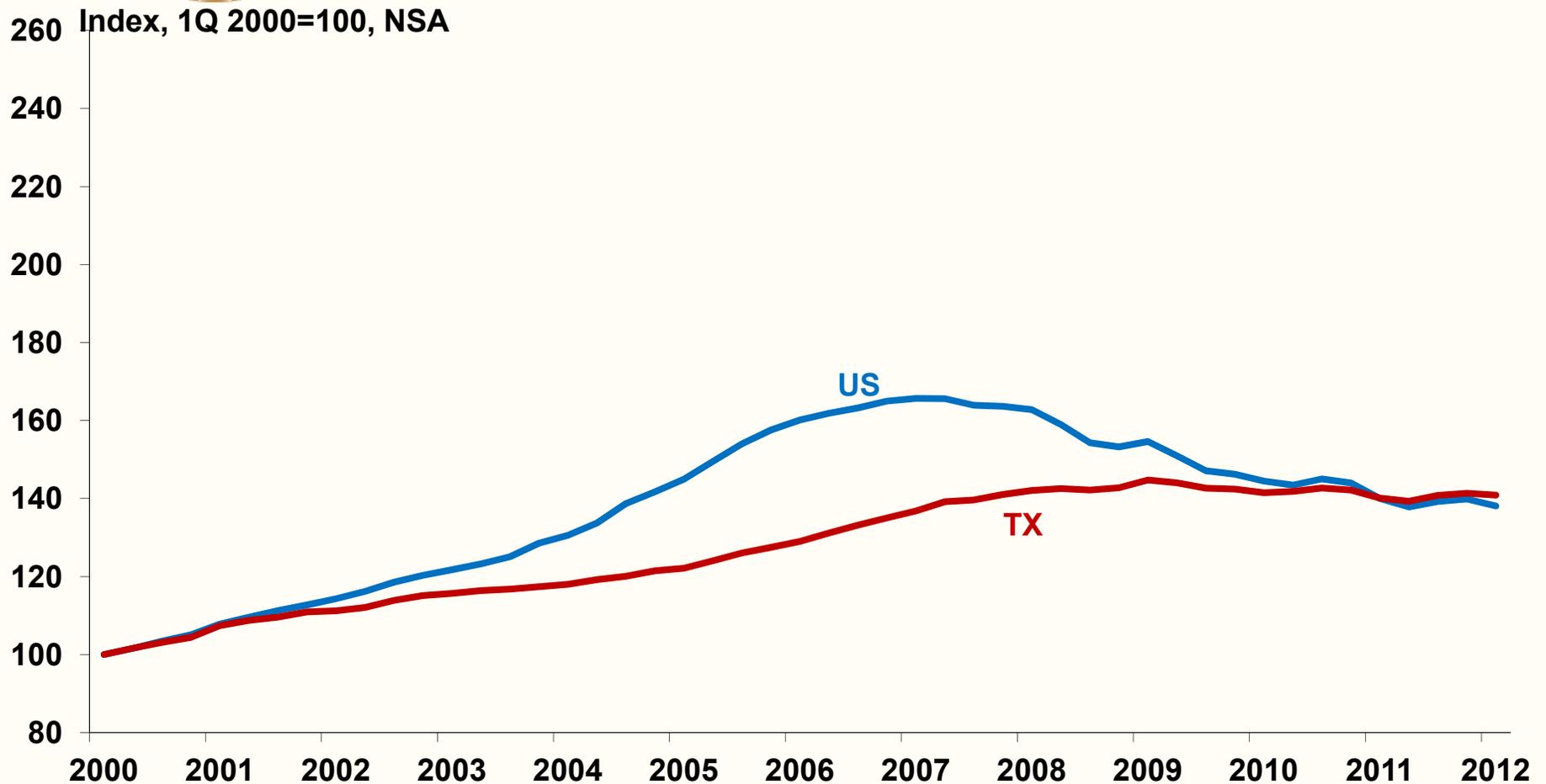
The US Economic Roller Coaster...

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- Where are we going? What recovery?



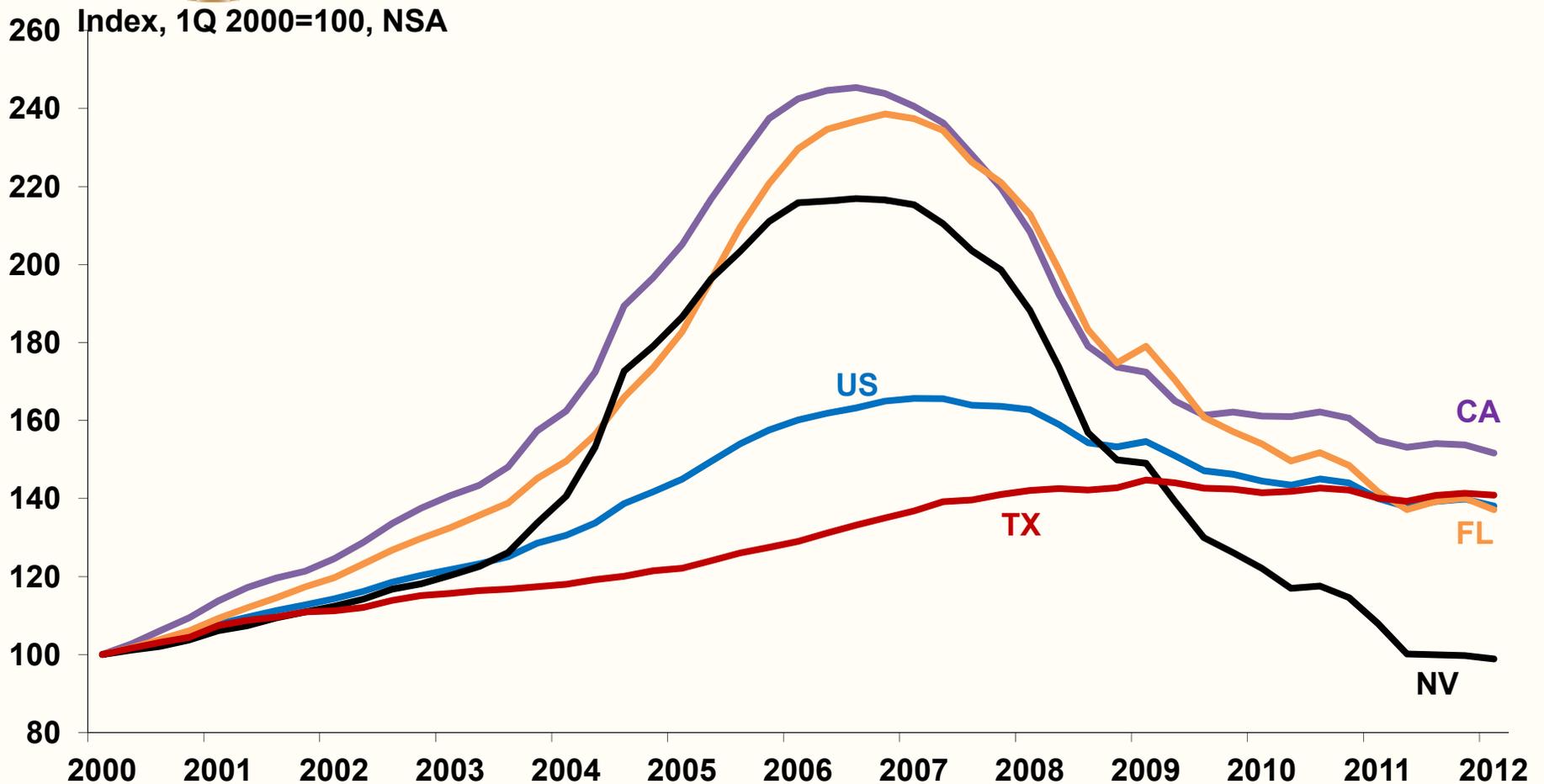


No Boom or Bust in TX Housing





Big Housing Price Swings Elsewhere

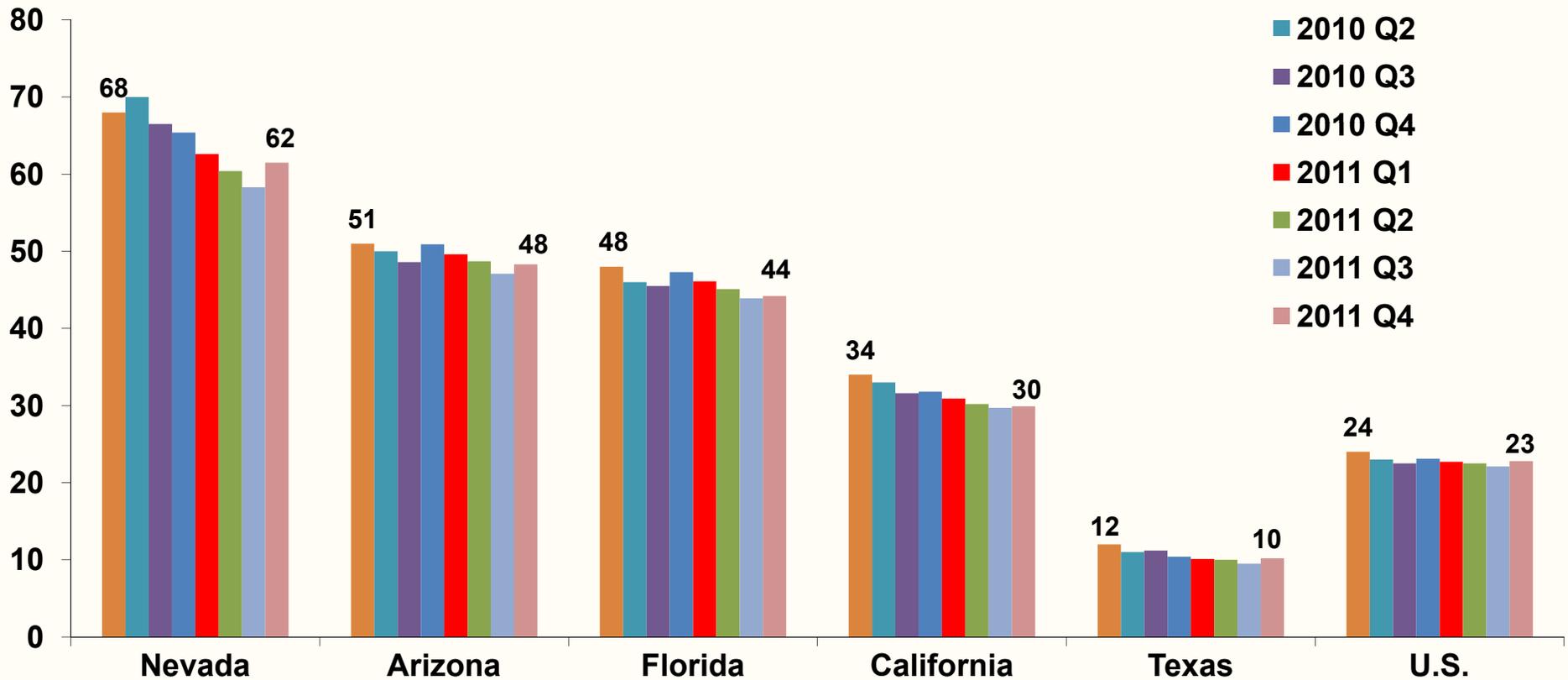




Underwater Mortgages Remain Elevated in Many States

Percent of mortgages with balance > home value

Percent

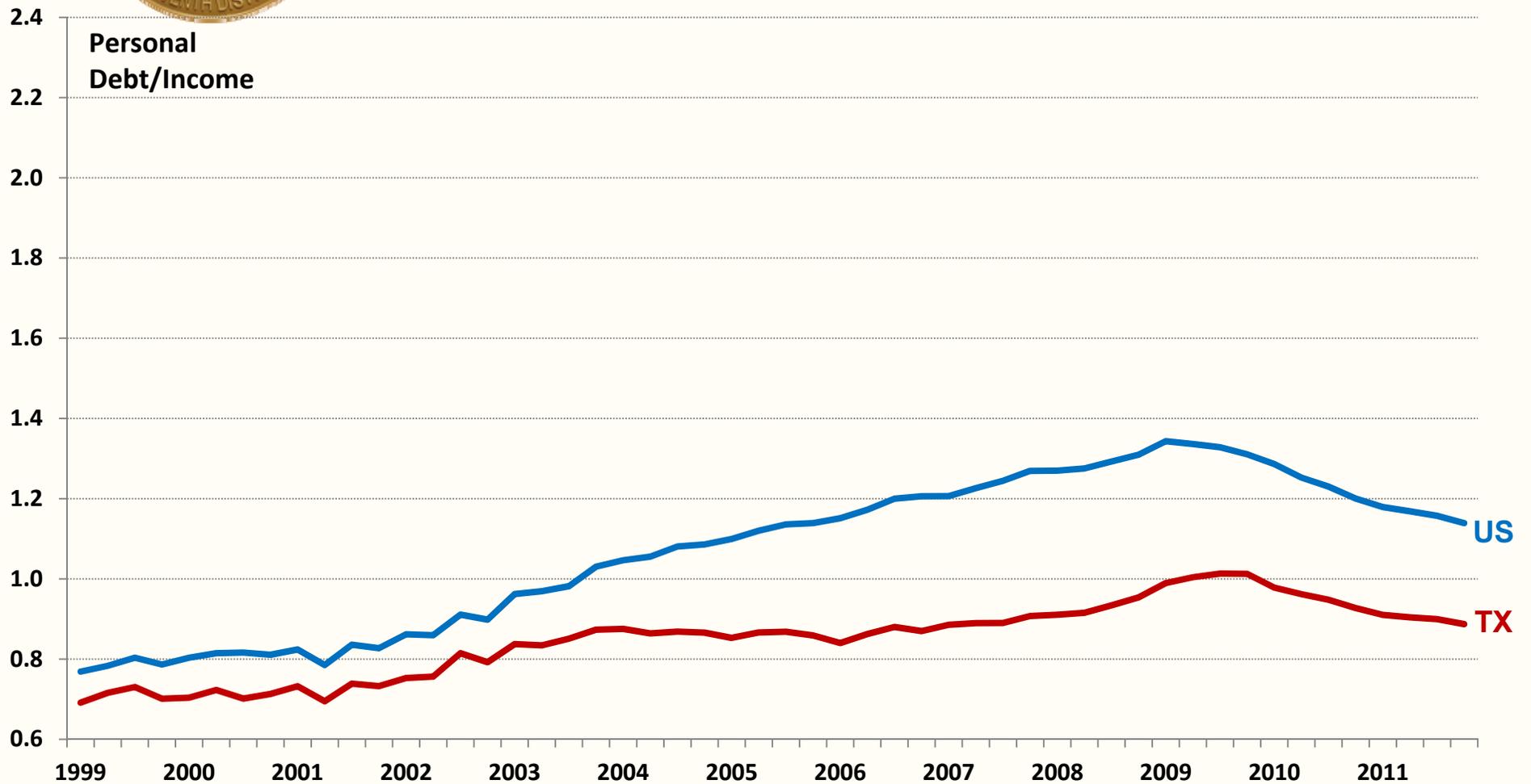


Nevada

Source: Core Logic

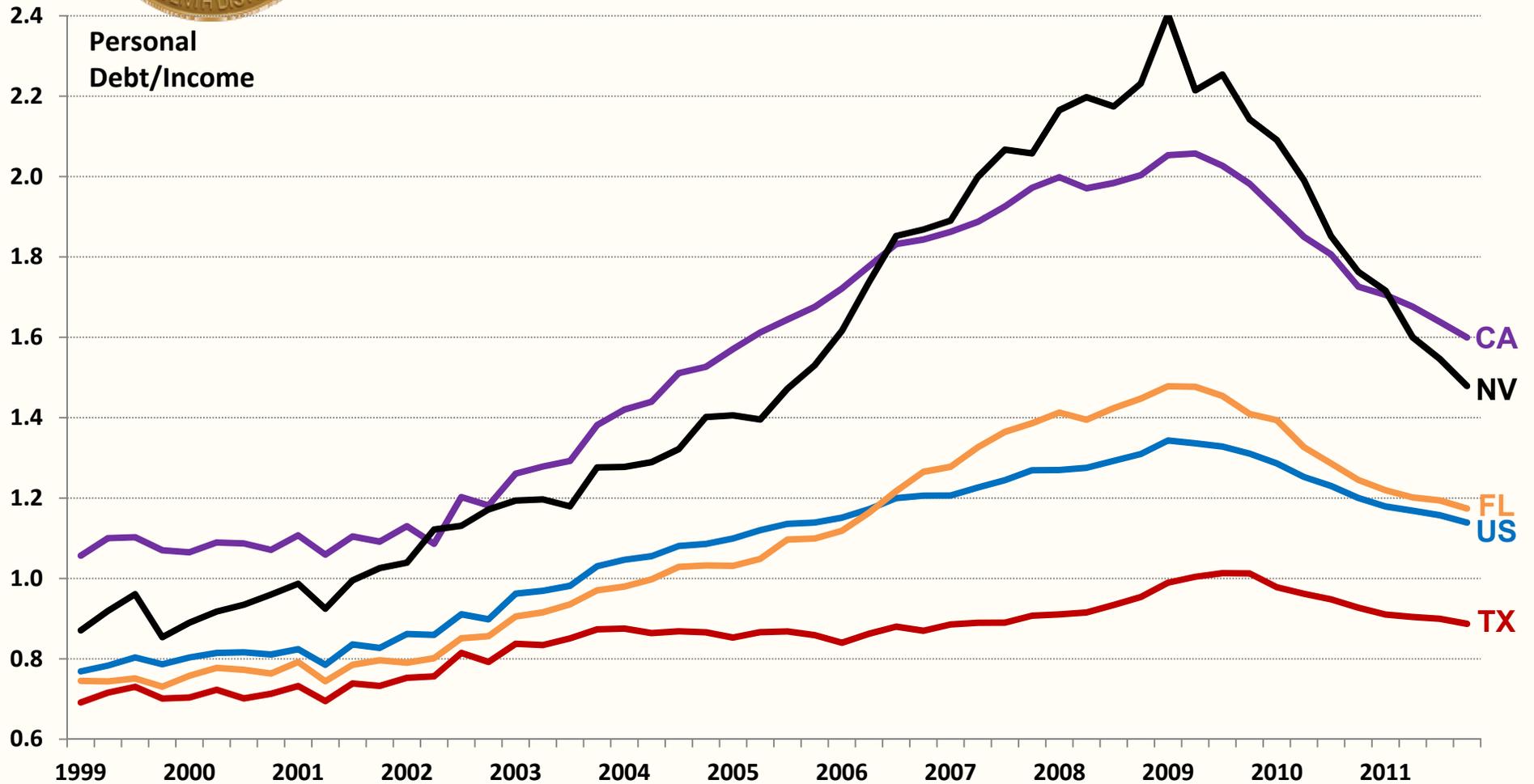


Personal Balance Sheets Adjusting



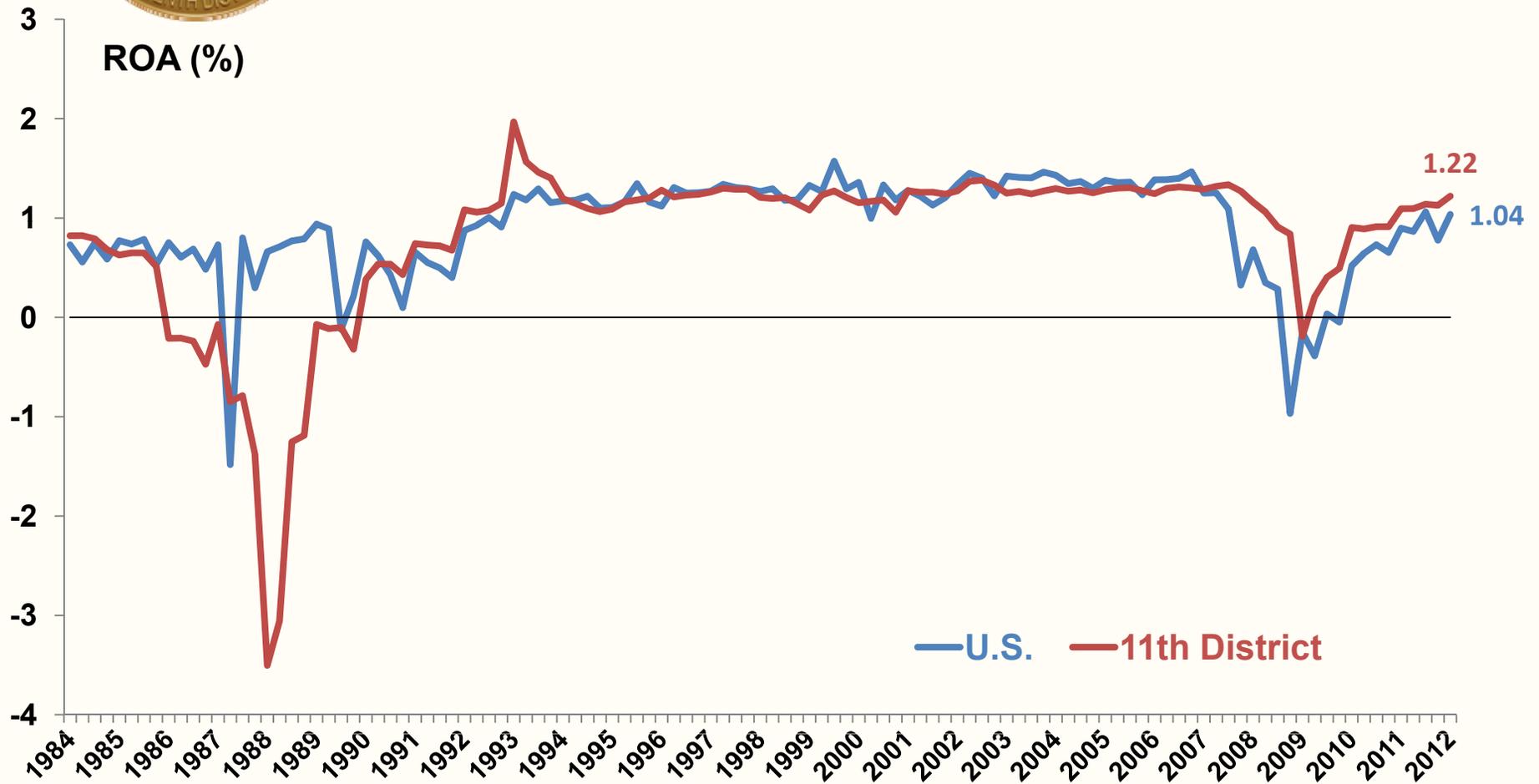


Big Adjustments Elsewhere



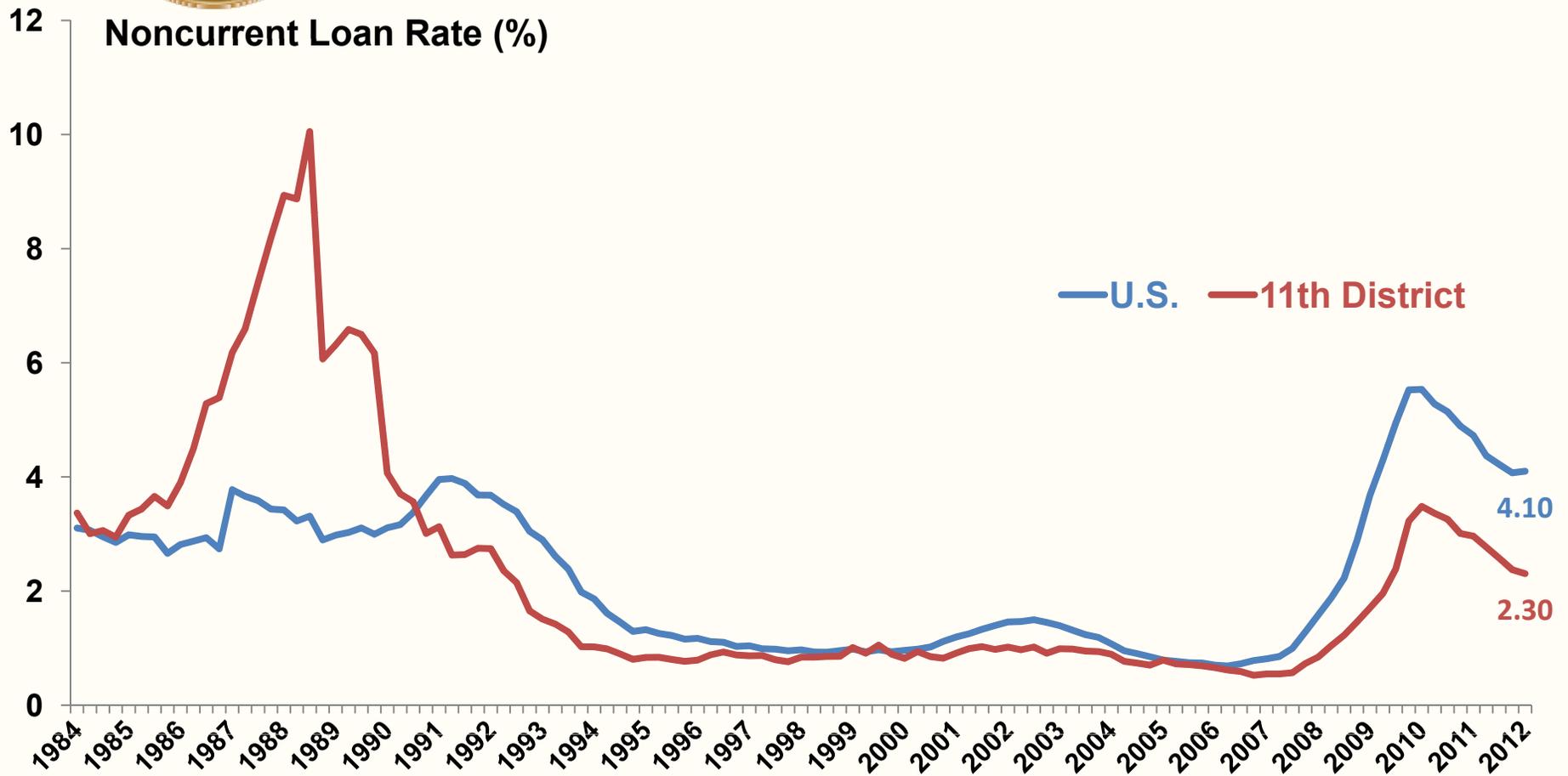


Regional Bank Profitability Stronger





Regional Banks Performing Better

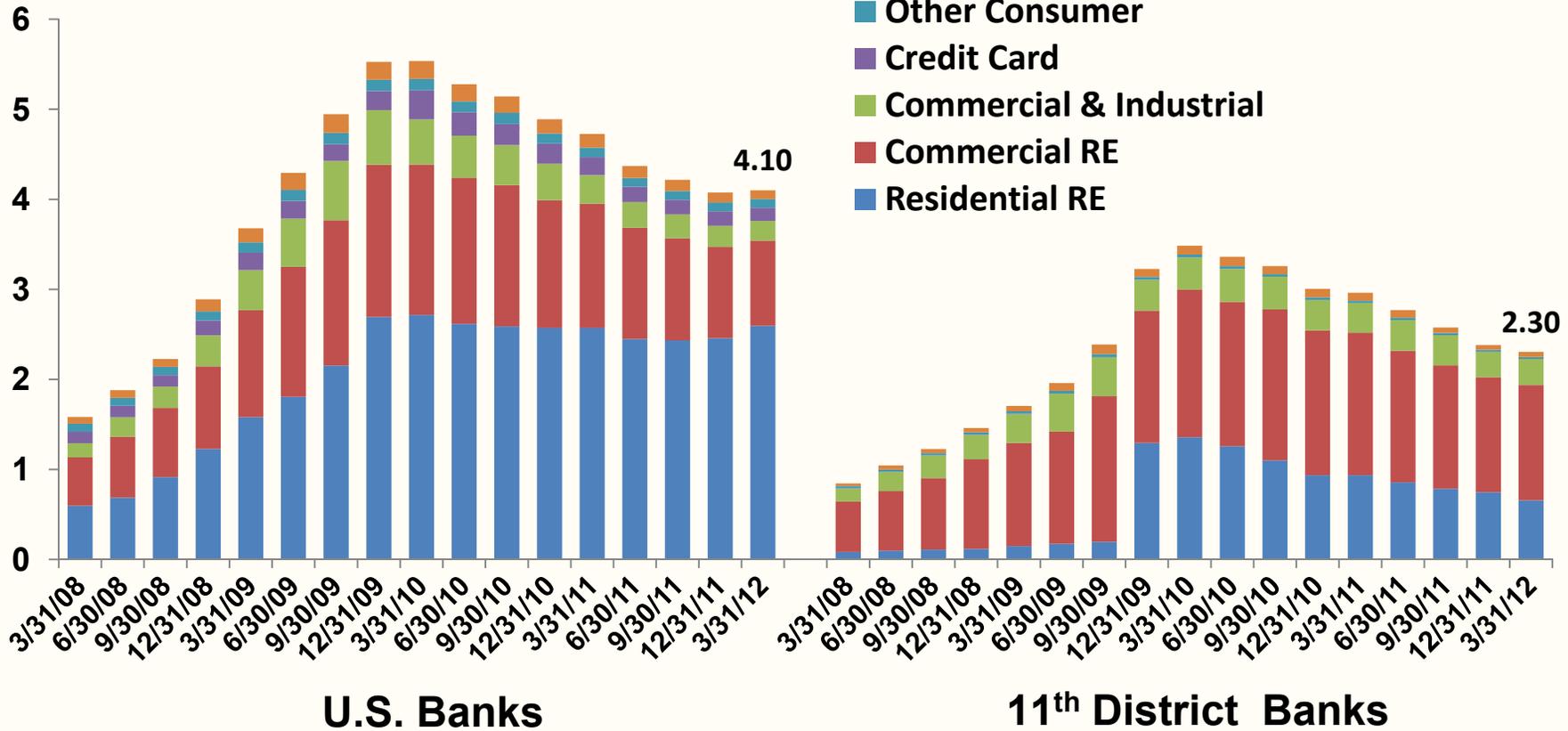




Where Are the Problems?

Noncurrent Loan Rate (%)

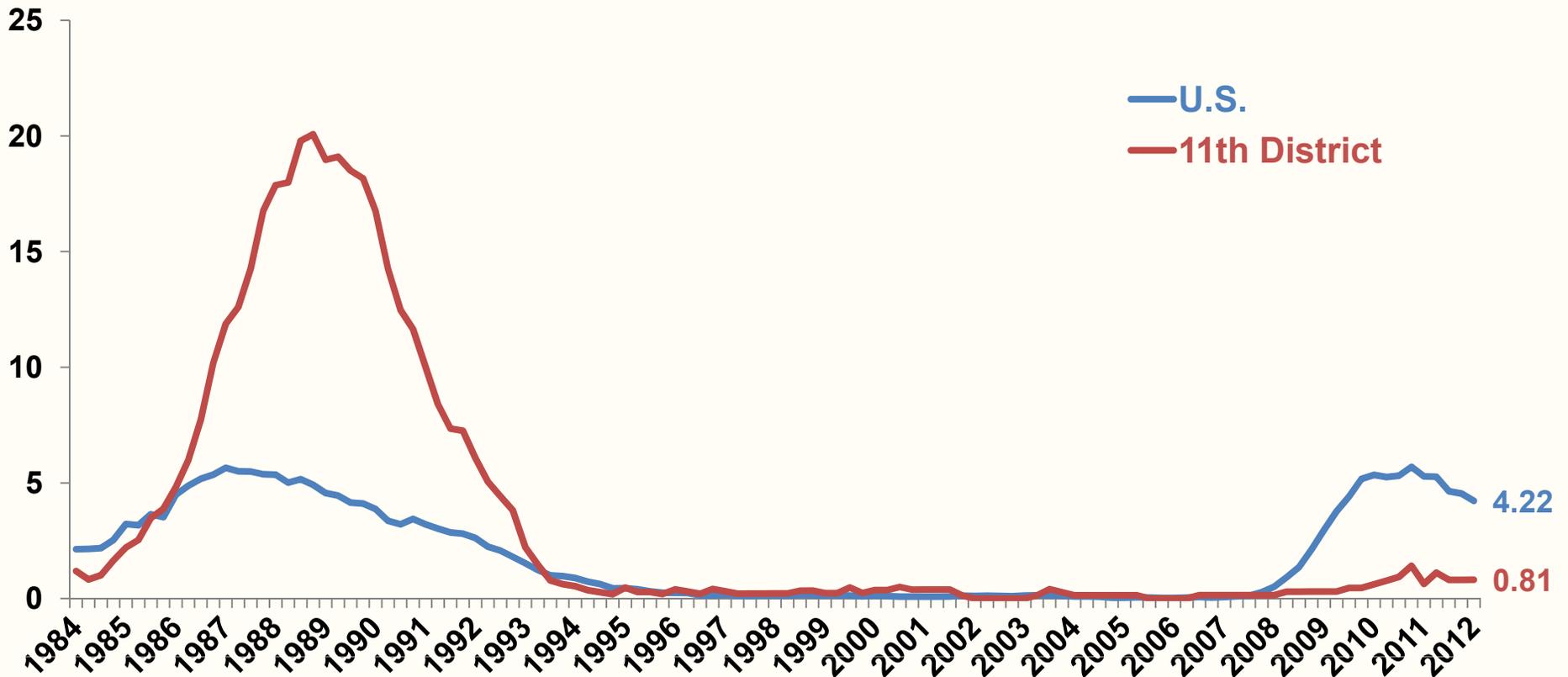
- Other
- Other Consumer
- Credit Card
- Commercial & Industrial
- Commercial RE
- Residential RE





Time to Rename the Texas Ratio* ...

Percent of Banks with Texas Ratio > 100%

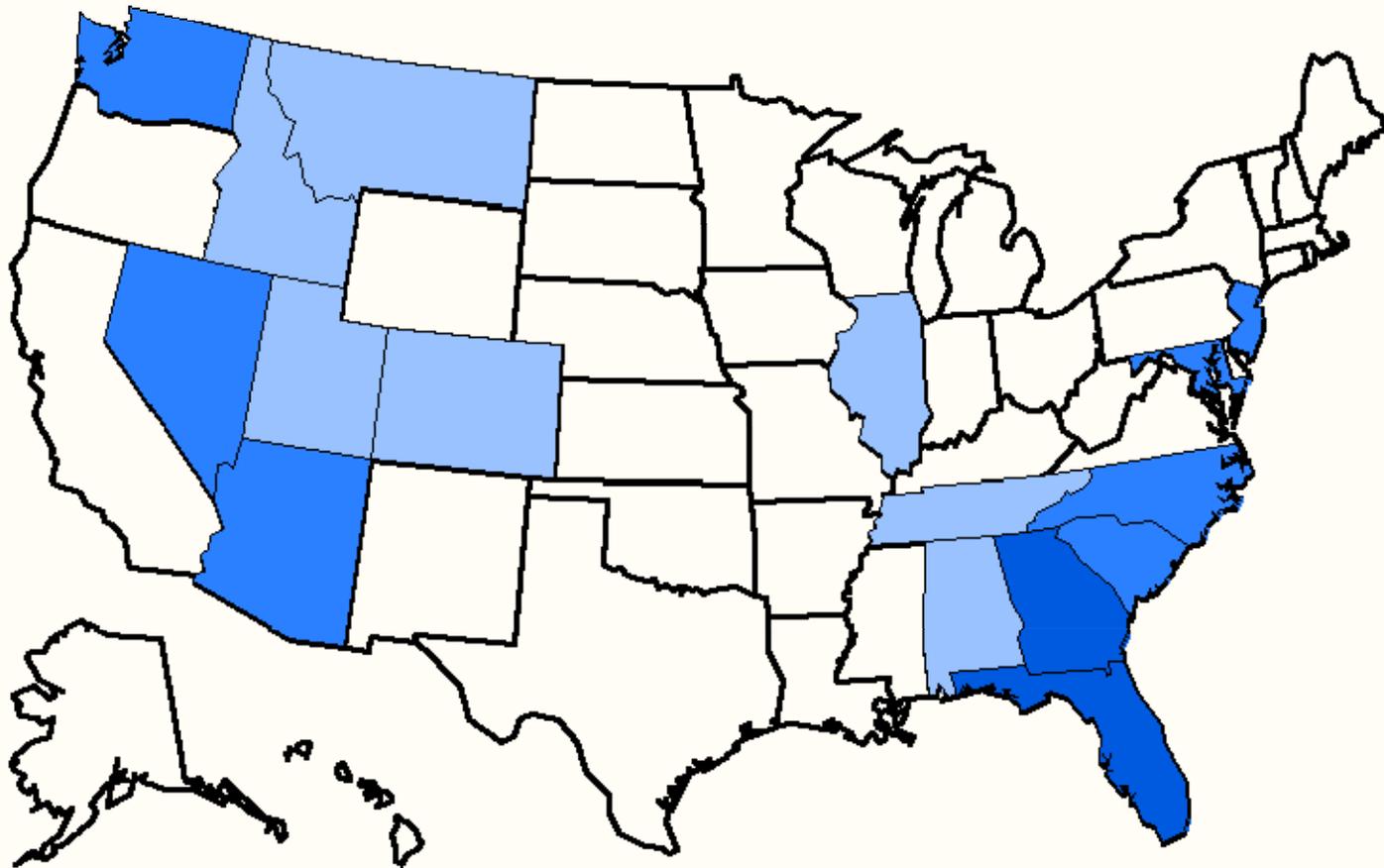


*The Texas Ratio is defined as noncurrent loans plus other real estate owned as a percentage of tangible equity capital plus loan loss reserves.



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%

Federal Reserve Bank of Dallas, FIRM (Financial Institution Relationship Management)



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BankThink: Is It Time to Rename the Texas Ratio?

Nov 03, 2011 11:24 AM EST

By Thomas F. Siems



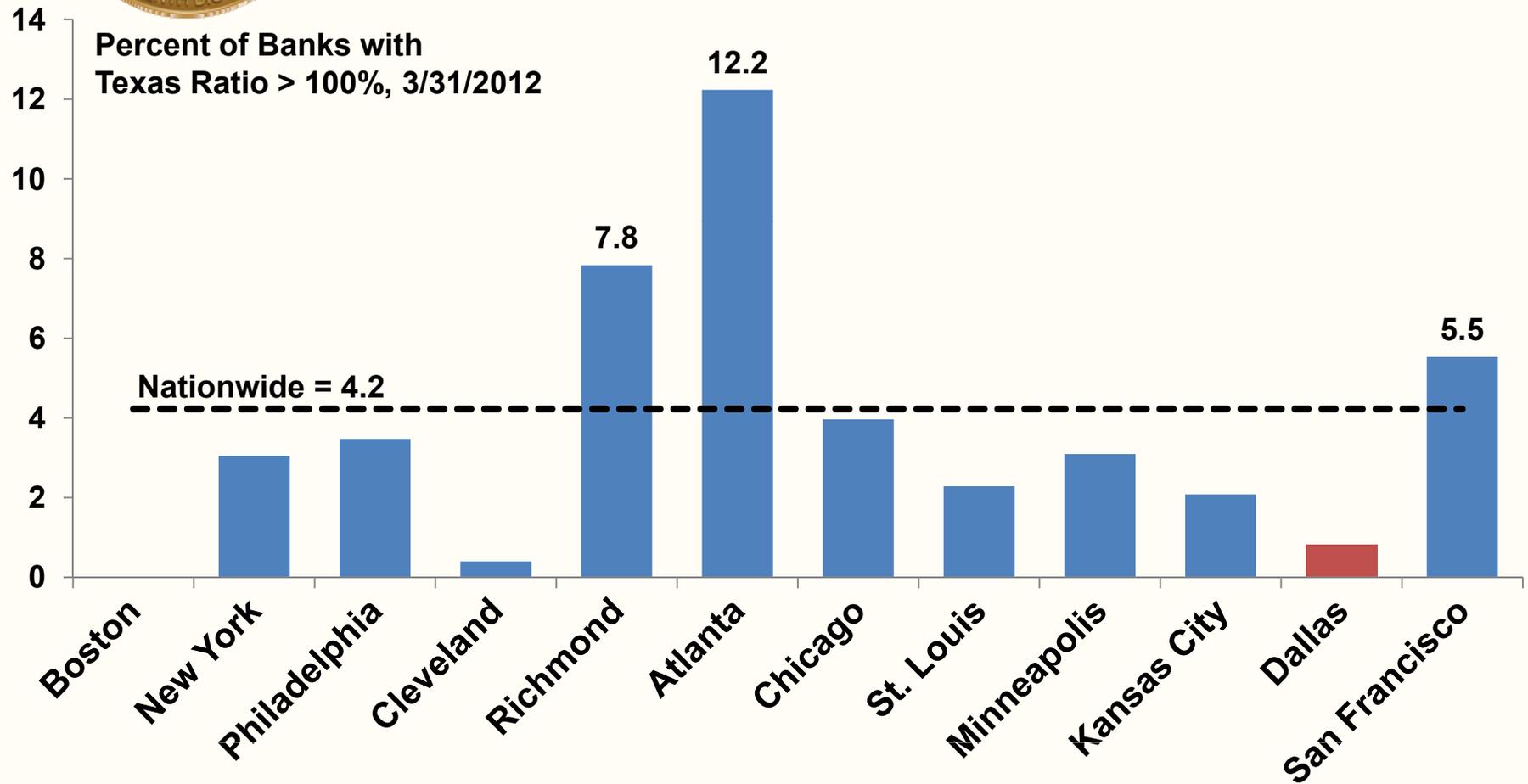
By many economic measures, Texas currently stands atop the other forty-nine states as a beacon of success.

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.

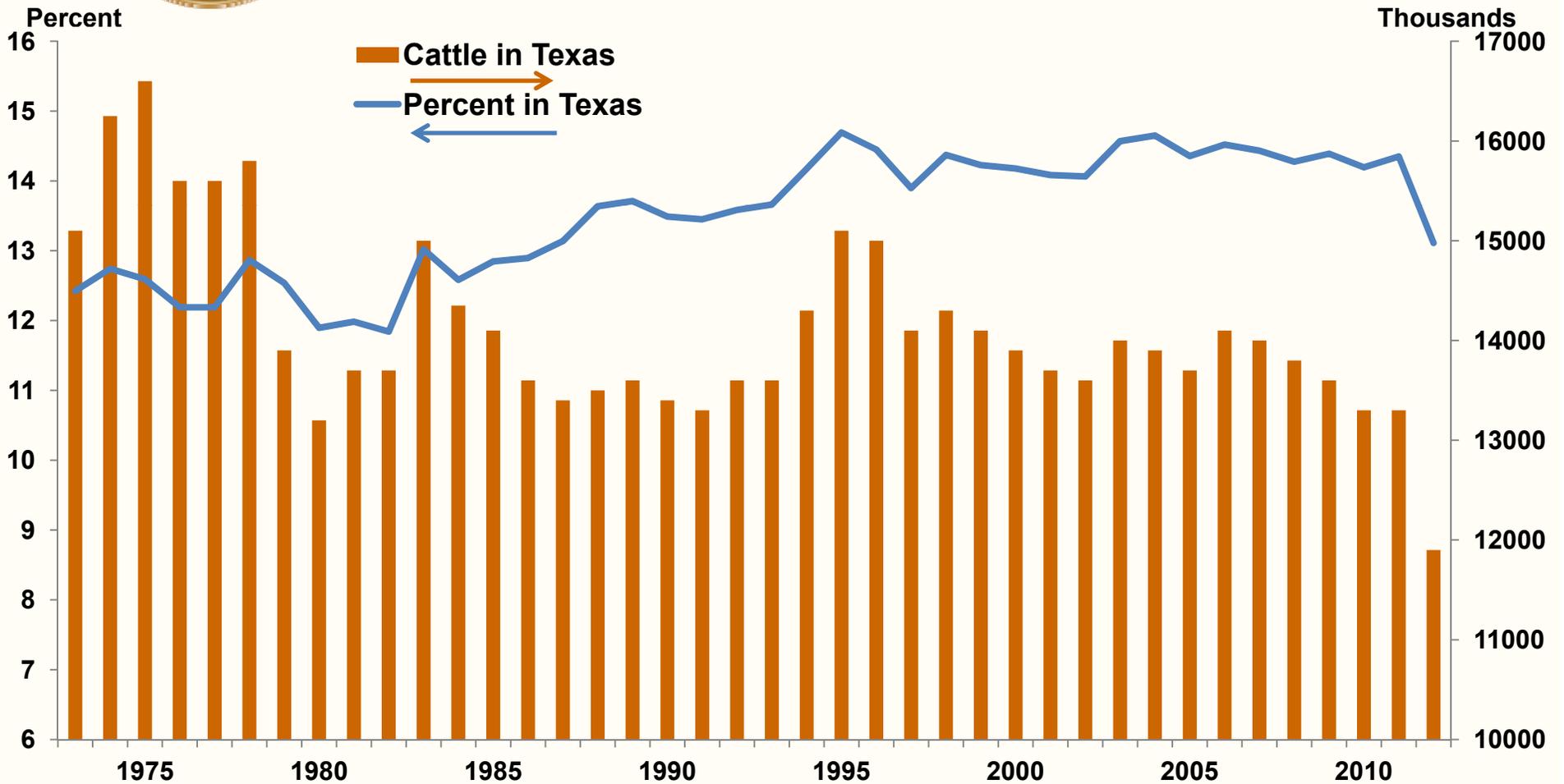


The Texas Ratio by District



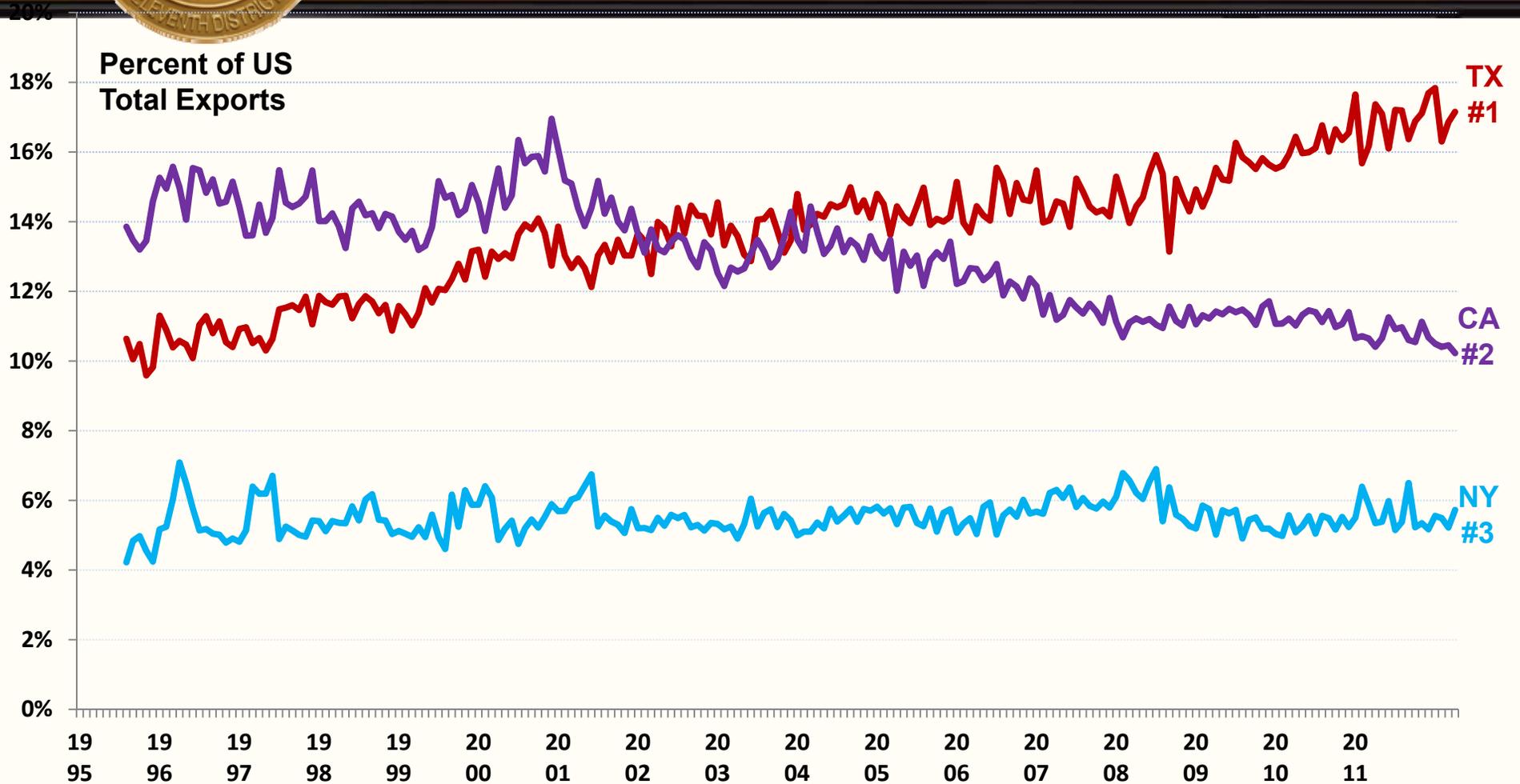


Texas Cattle Population Very Low



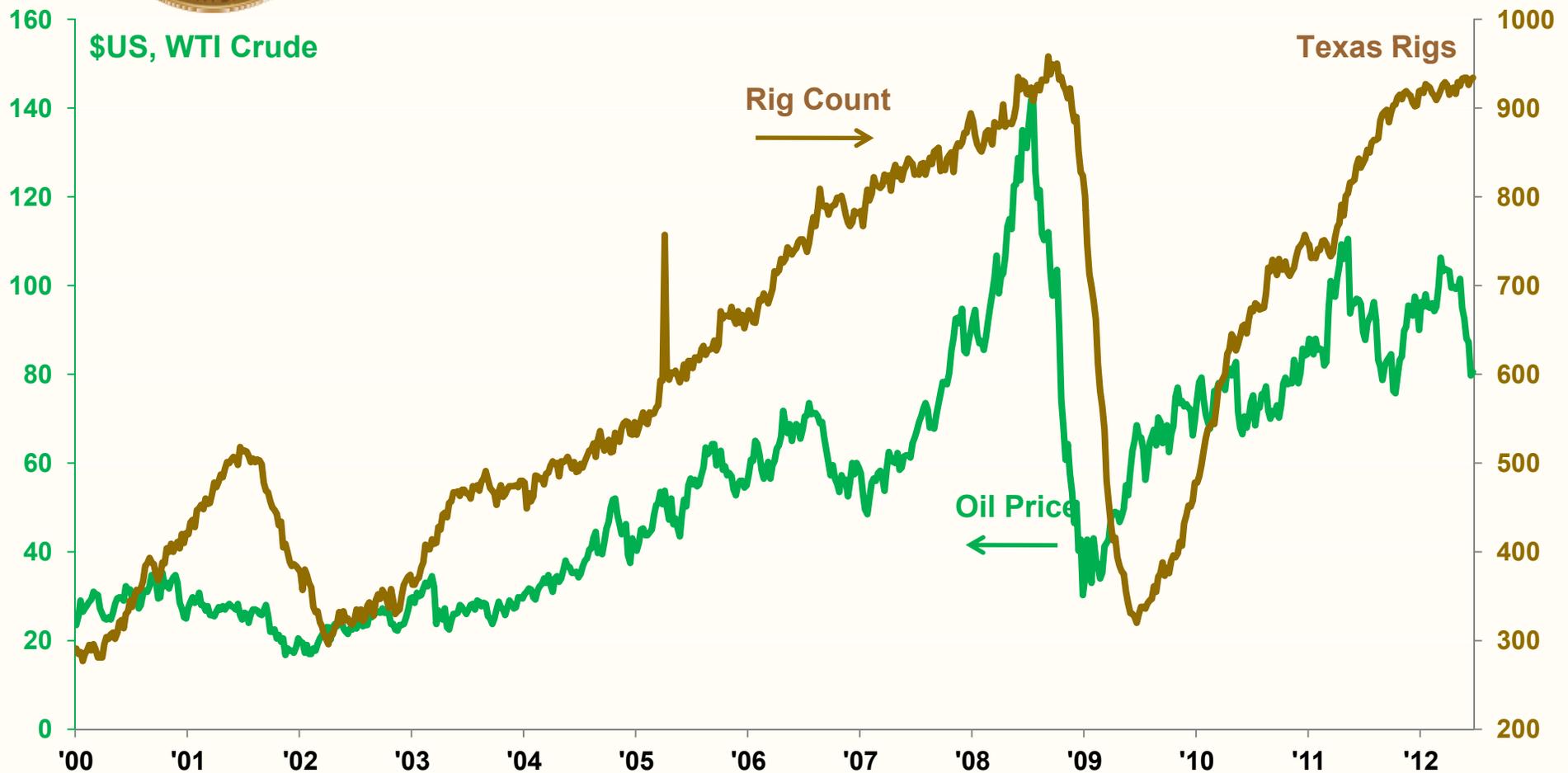


Texas Exports: #1 in Nation



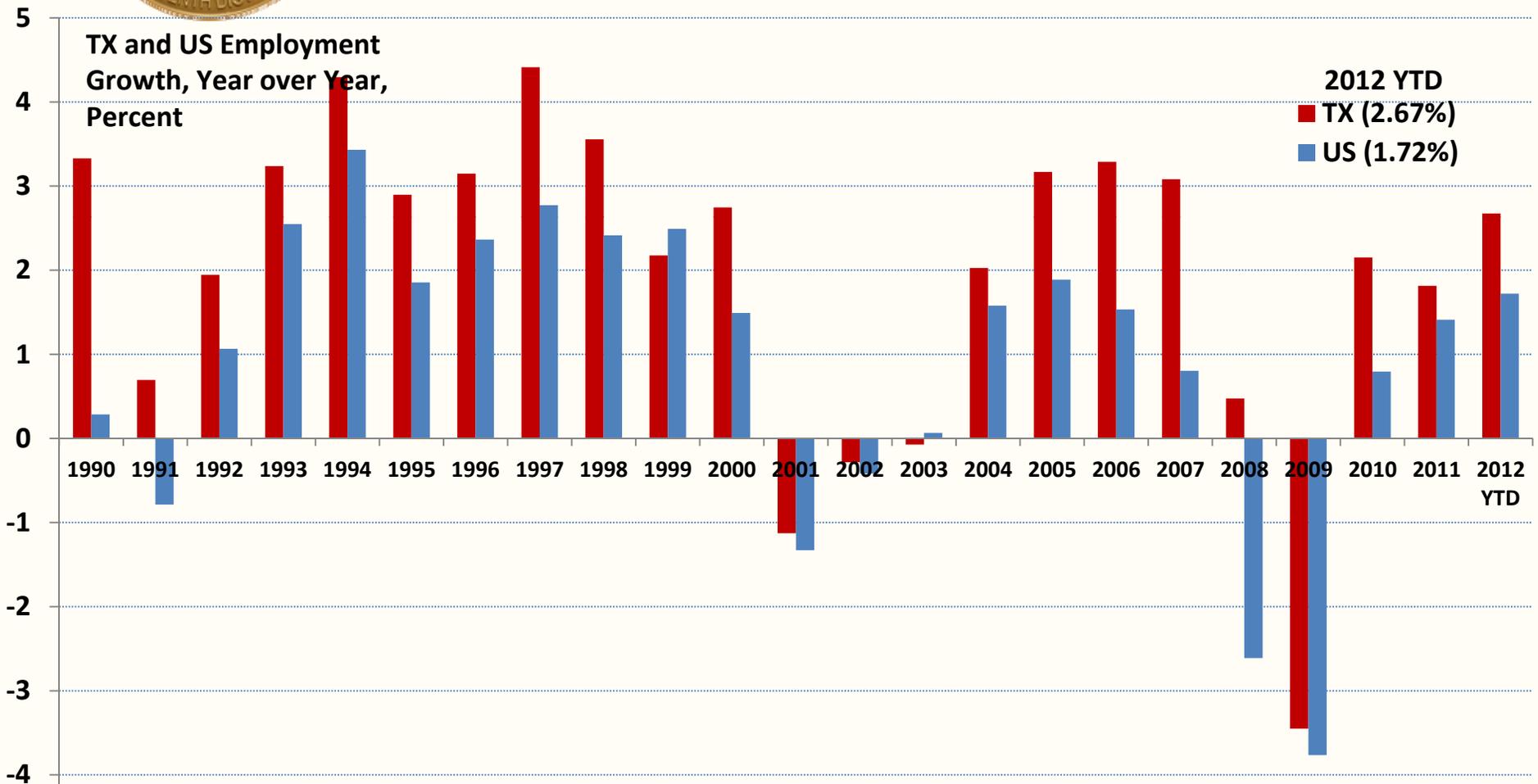


Rig Count Moves with Oil Prices



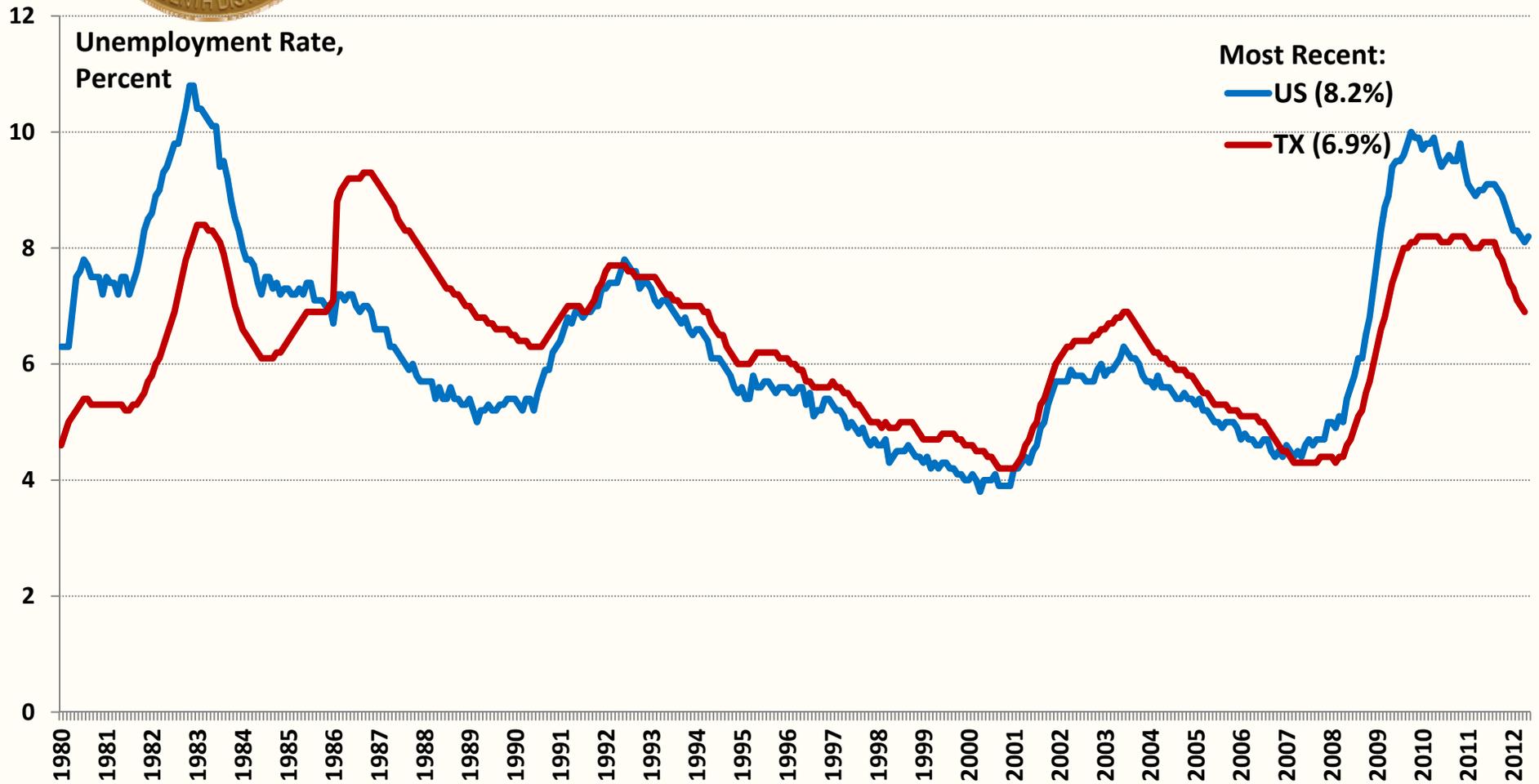


Texas Employment Growth



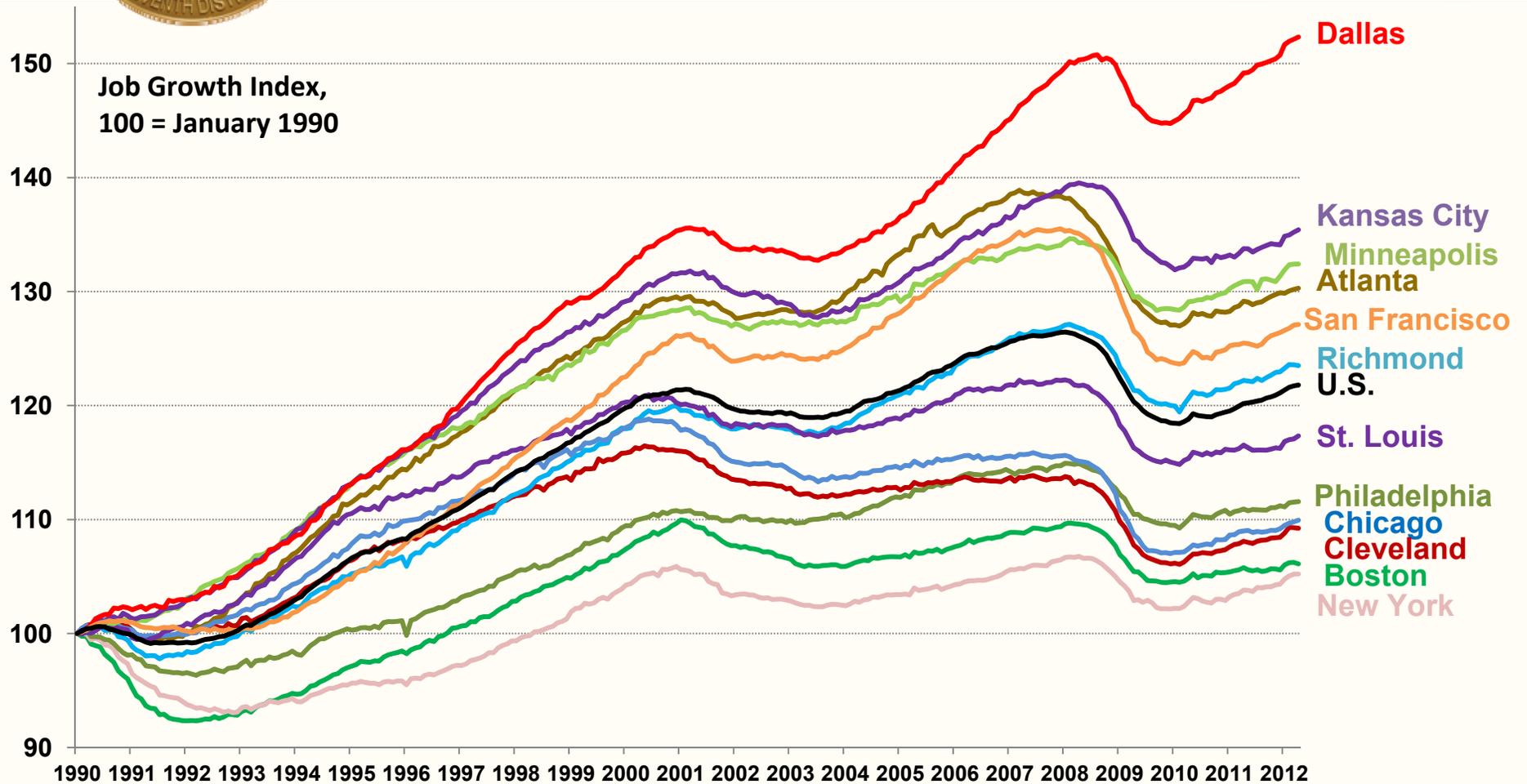


The Unemployment Twist



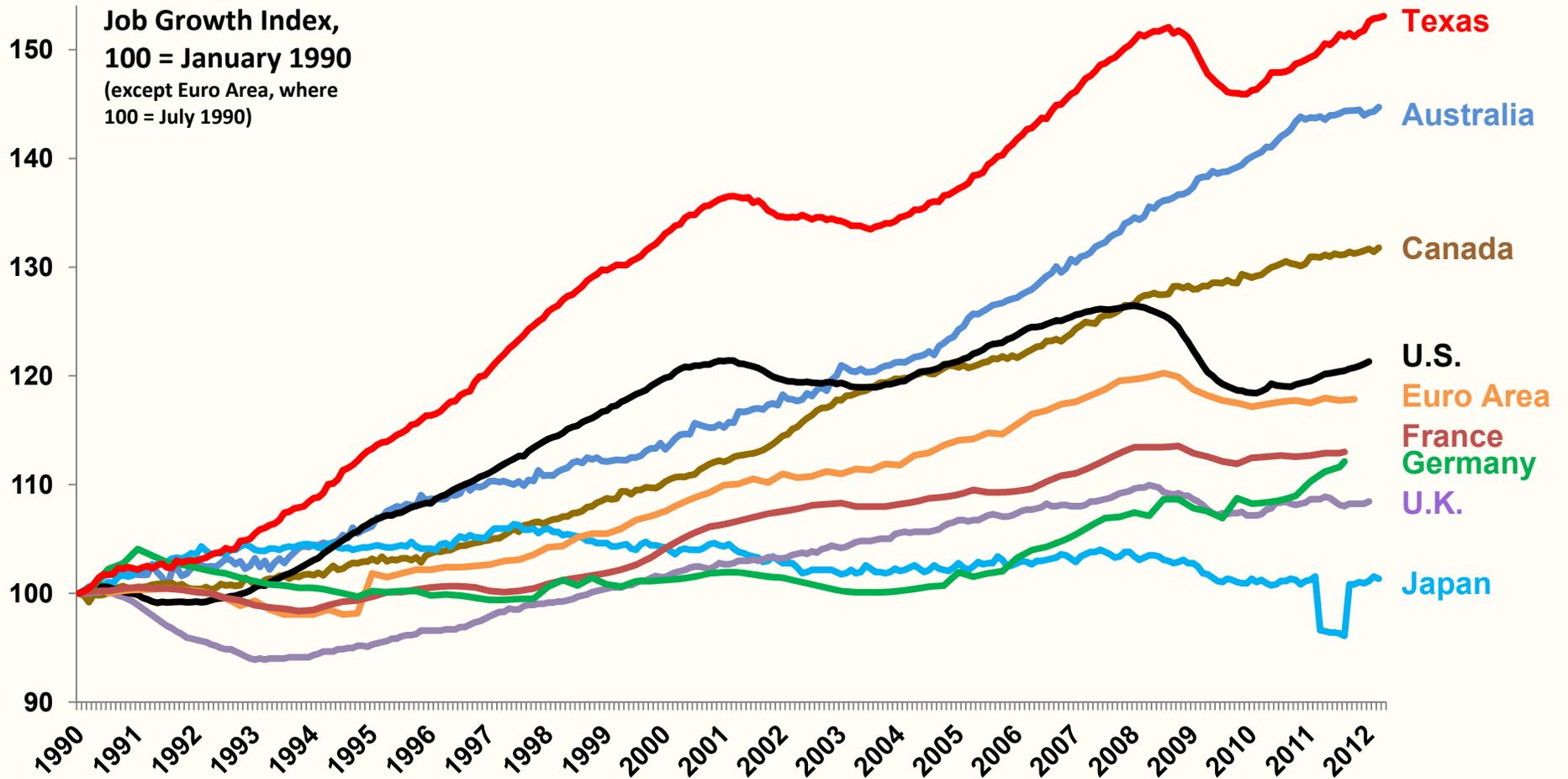


More Jobs Created Regionally



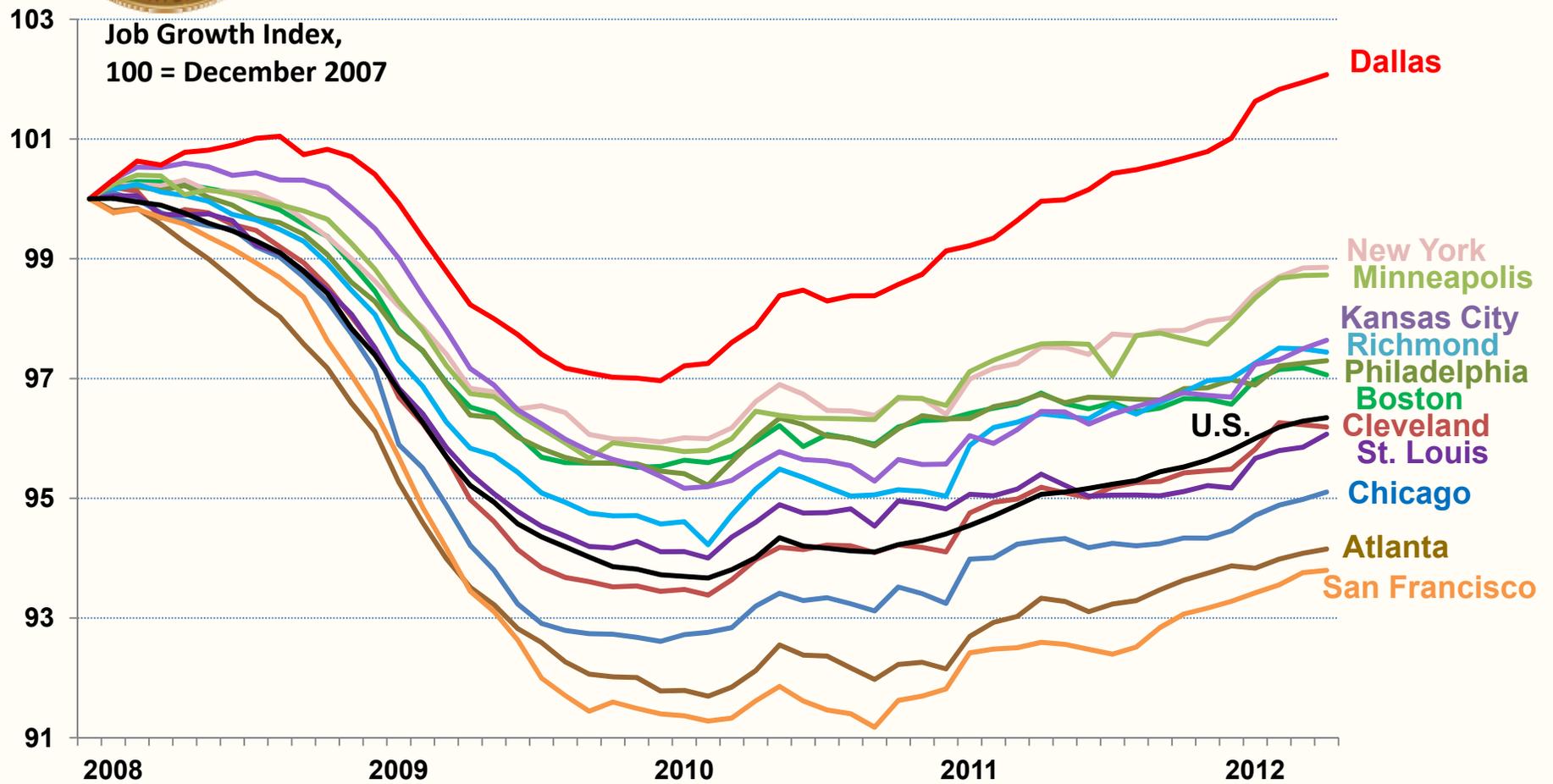


Job Growth Around the Globe





Jobs in The Great Recession: Dallas District Slower Going In, Quicker Coming Out





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.”





The US Economic Roller Coaster...

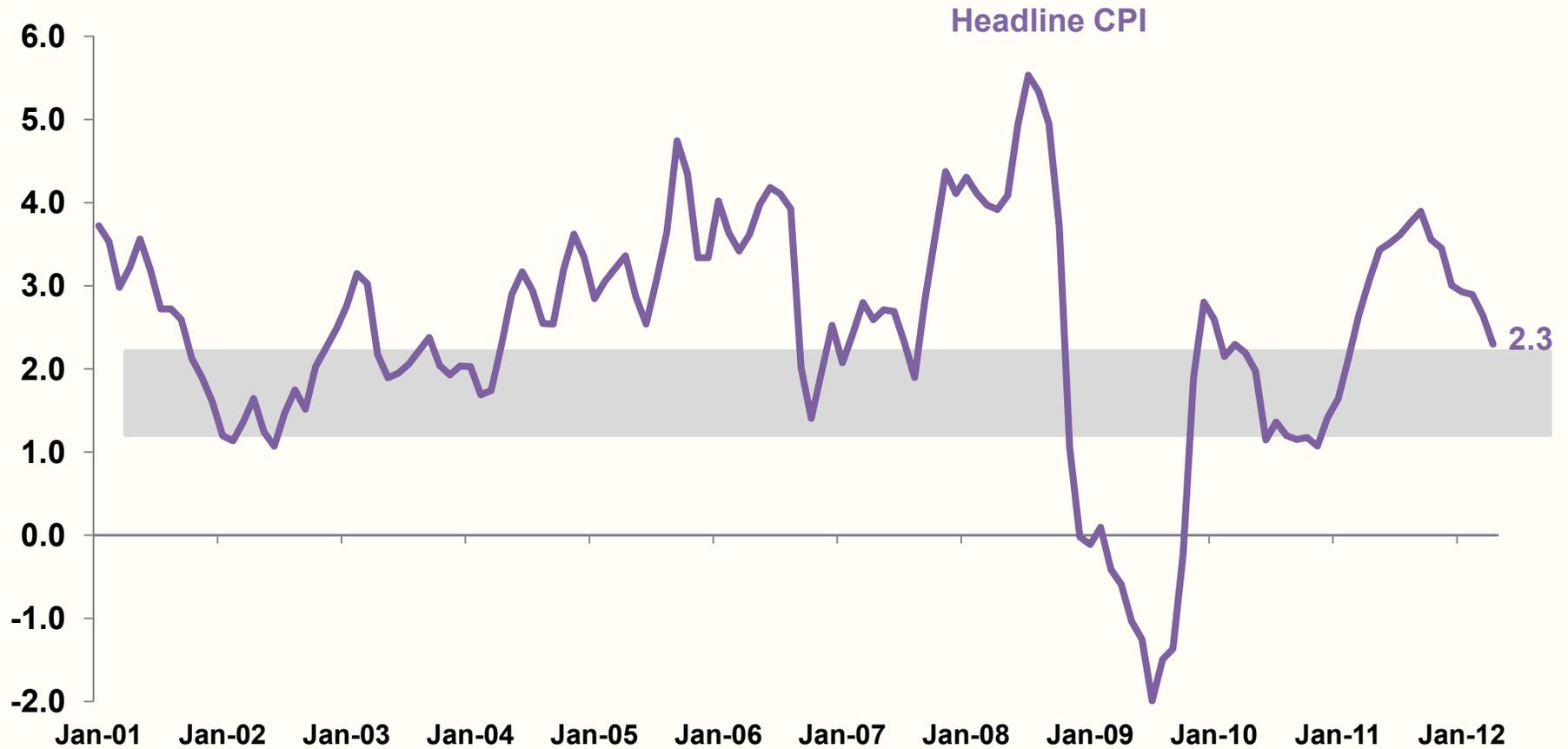
- Where have we been? What was the most recent recession and how long did it last?
- How does our region compare to other regions? Different regionally vs. nationally?
- **Where are we going? What are the risks to the recovery?**





Where's Inflation Headed?

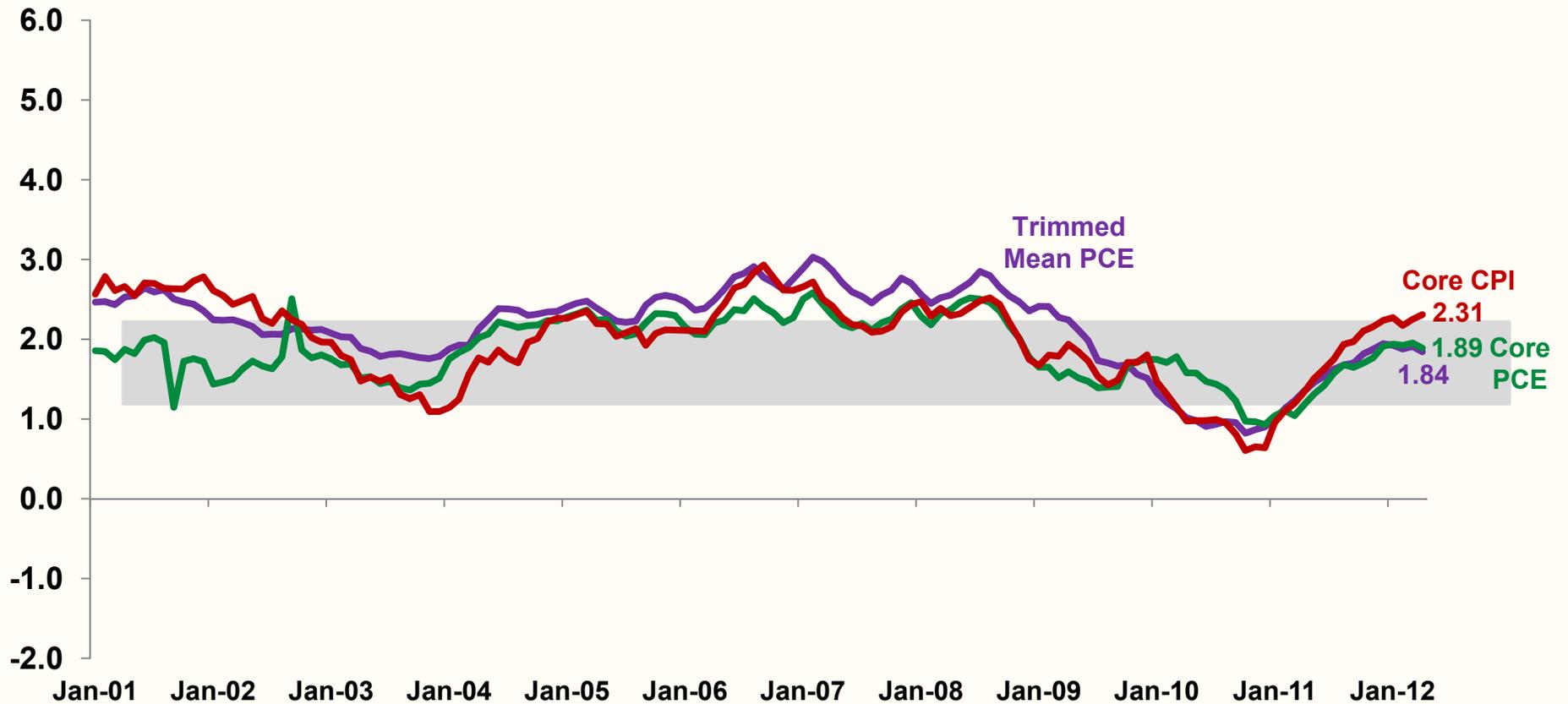
Percent, yr/yr





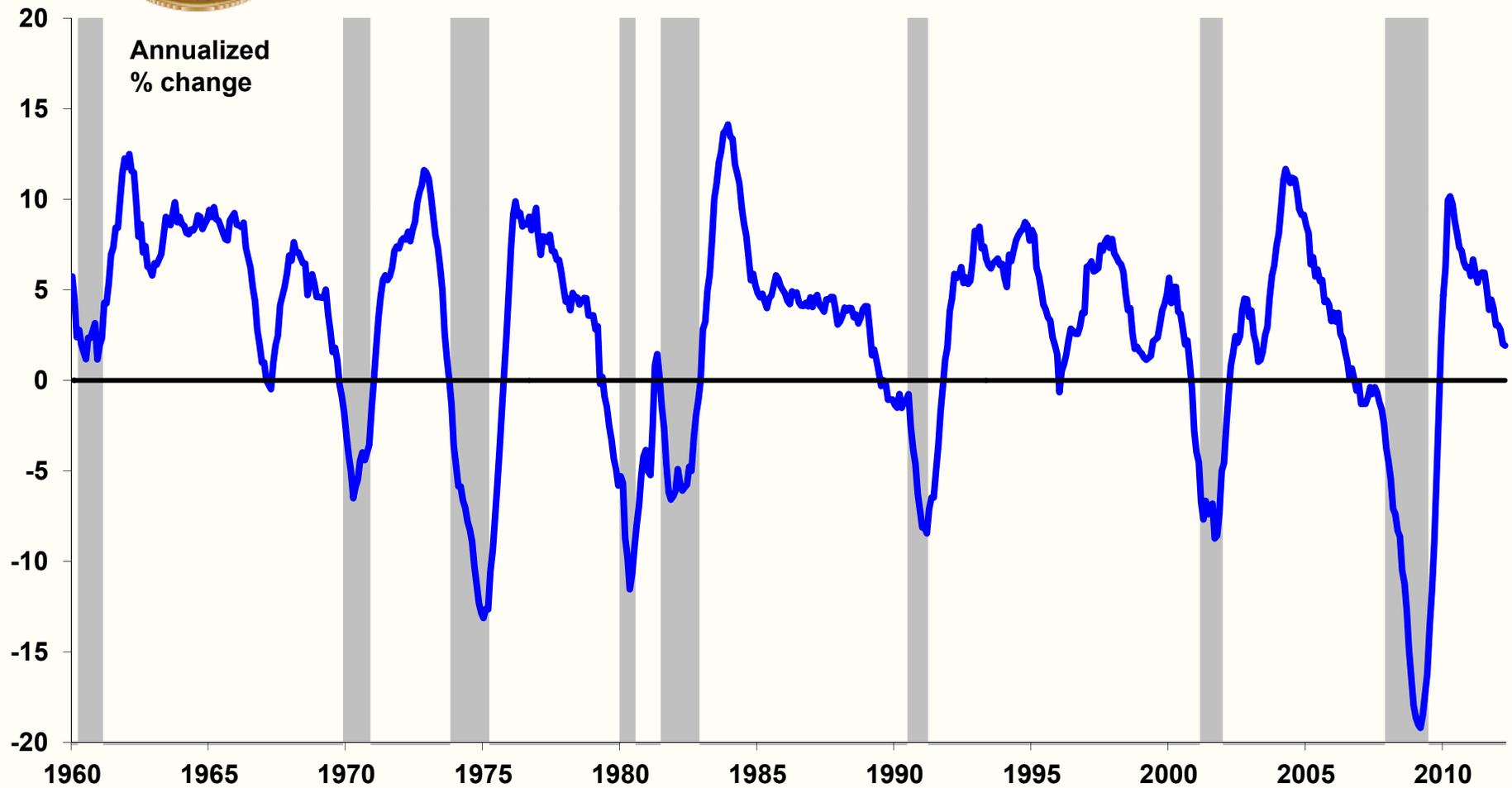
Is Core Inflation Rising?

Percent, yr/yr



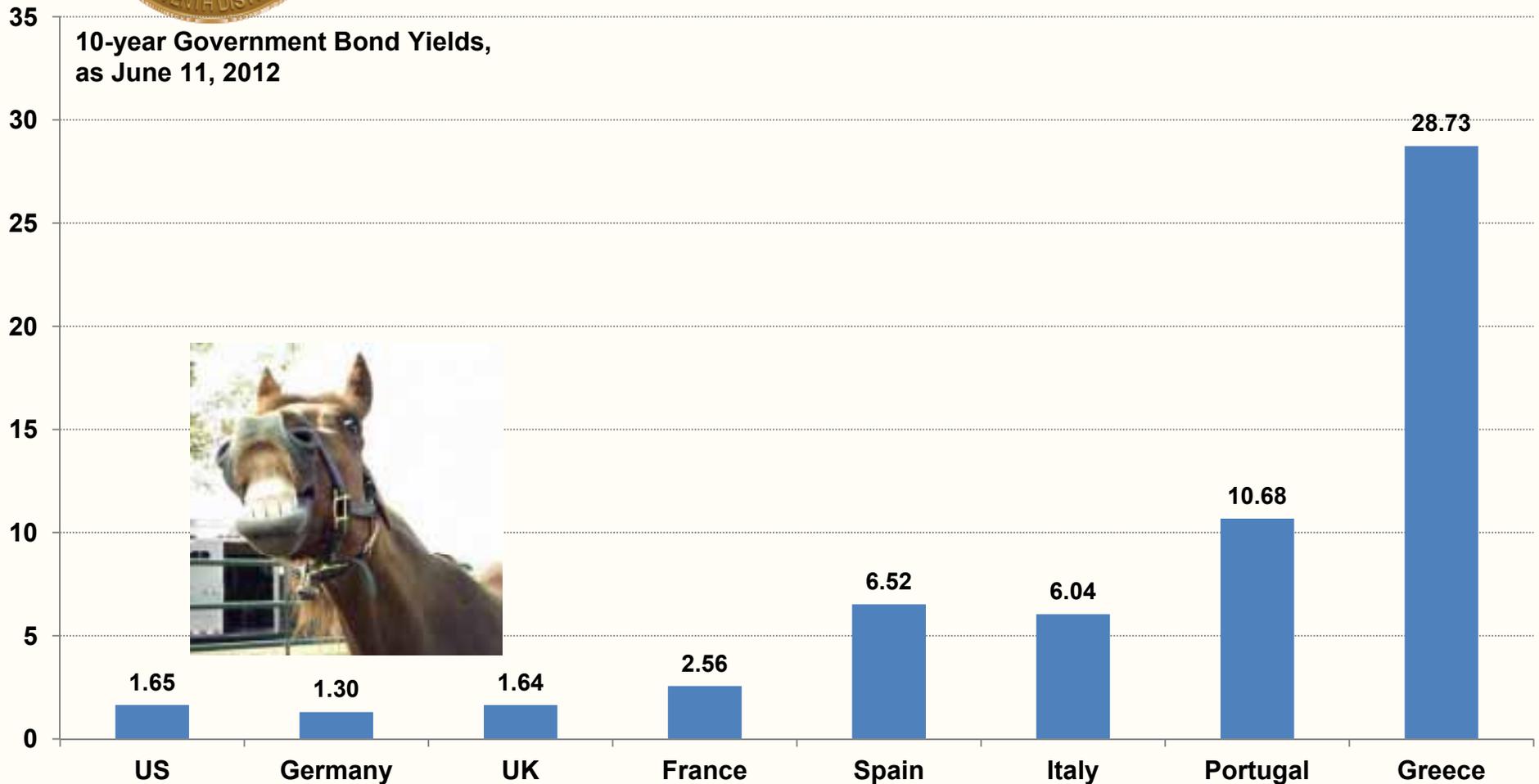


Leading Index Signals Slower Growth



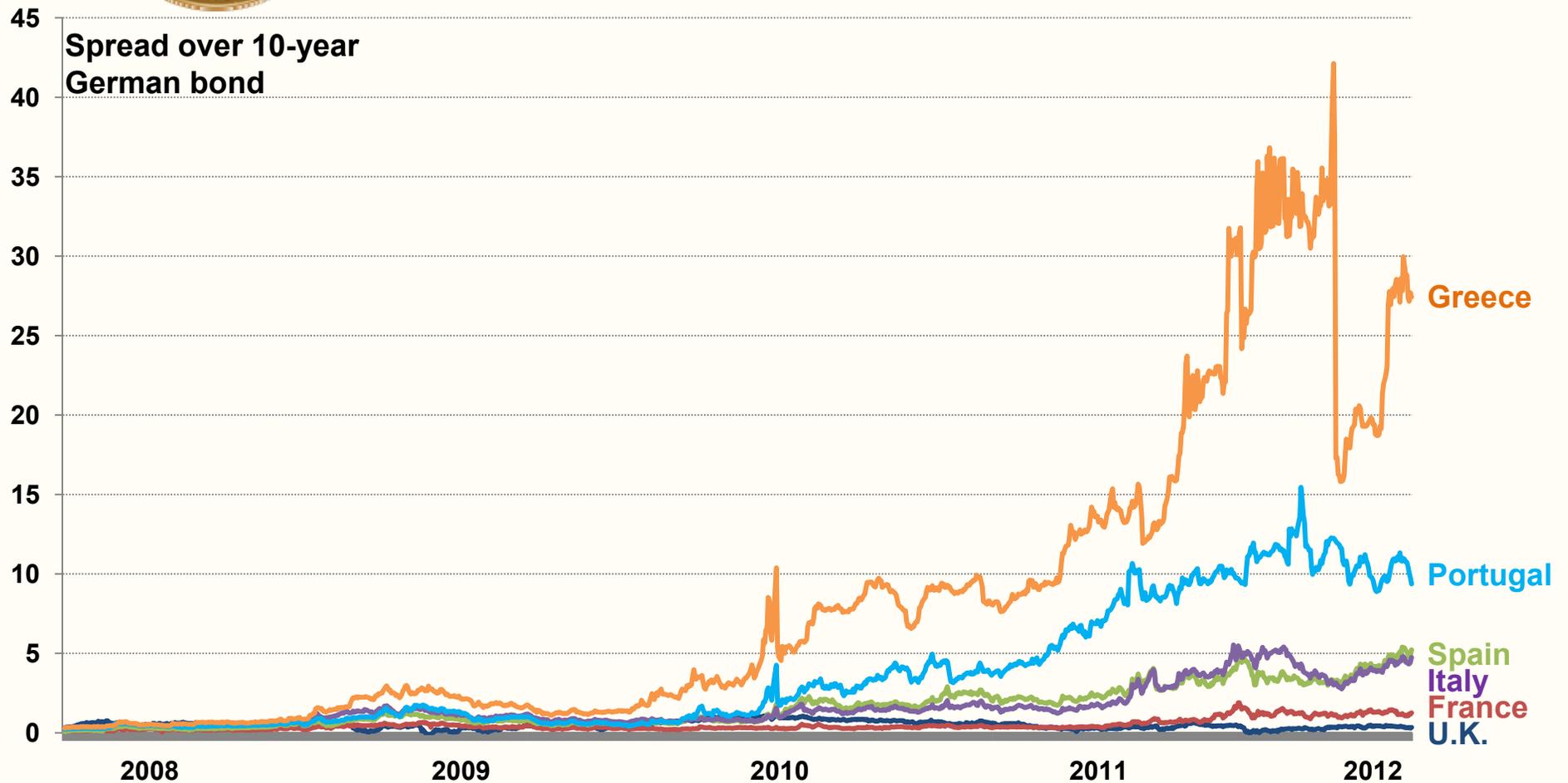


Prettiest Horse in the Glue Factory?





European Sovereign Debt Concerns





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.”

*When you exhaust
all possibilities
remember
this:*
**YOU
HAVEN'T.**
—THOMAS EDISON



Thank You! (www.dallasfed.org)

**Rosenblum, Harvey, “2012 Economic Outlook,”
Dallas, TX (January 2012)**

**Koenig, Evan, “2012 Economic Outlook,”
Dallas, TX (January 2012)**

**Financial Industry Studies, Quarterly Banking
Update, Dallas Fed (February 2012)**

**Saving, Jason, “Regional Update,” Dallas Fed
(March 2012)**