Fortunately...Unfortunately: What’s the Economic Story?

Thomas F. Siems, Ph.D.
Assistant Vice President
and Senior Economist
Federal Reserve Bank of Dallas

New Mexico State University
Las Cruces, NM
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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 Adventure…

• National Economic Snapshot
• National Economic History
• Potential Economic Headwinds (Risks)
• Economic Forecasts
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Unfortunately, GDP Growth Is Generally Declining...
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Avg GDP Growth: 4.1%
Std Dev of Growth: 3.1%
Time in Recession: 16%
Unfortunately, GDP Growth Is Generally Declining...

- Avg GDP Growth: 4.1%
- Std Dev of Growth: 3.1%
- Time in Recession: 16%

- Avg GDP Growth: 3.2%
- Std Dev of Growth: 2.4%
- Time in Recession: 15%
Unfortunately, GDP Growth Is Generally Declining...

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth, Year Over Year (Percent)</th>
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<tbody>
<tr>
<td>1948</td>
<td>Avg GDP Growth: 4.1% Std Dev of Growth: 3.1% Time in Recession: 16%</td>
</tr>
<tr>
<td>1953</td>
<td>Avg GDP Growth: 3.2% Std Dev of Growth: 2.4% Time in Recession: 15%</td>
</tr>
<tr>
<td>1958</td>
<td>Avg GDP Growth: 1.9% Std Dev of Growth: 1.9% Time in Recession: 17%</td>
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</tbody>
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Fortunately, Inflation is Low and Stable…

<table>
<thead>
<tr>
<th>Year</th>
<th>Headline Inflation</th>
<th>Core Inflation</th>
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<tbody>
<tr>
<td>1958</td>
<td>Avg Inflation: 2.4%</td>
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<tr>
<td>1961</td>
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<td>1964</td>
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<tr>
<td>2009</td>
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<tr>
<td>2012</td>
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</tbody>
</table>

Avg Inflation: 2.4%  Avg Inflation: 5.3%  Avg Inflation: 2.0%
Unfortunately, Unemployment Remains Elevated…
Fortunately, Jobs Are (Slowly) Returning…

Monthly Change in Payroll Employment
Fortunately, Jobs Are (Slowly) Returning…

Monthly Change in Payroll Employment

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Unfortunately, This Recovery Has Been Weak…

Total GDP Growth in Recovery, 4 Years After Recession Ended

1974
1982
1991
2001
2008
Unfortunately, This Recovery Has Been Weak…

Total Job Growth in Recovery, 5.5 Years After Jobs Peaked
Unfortunately, the Nature of Work Has Changed…

Unemployment Rate by Educational Attainment

Unemployment Rate

- Some High School
- High School Grad
- Some College
- College Grad

Unfortunately, the Nature of Work Has Changed…

The Long-Term Unemployed are a Growing Problem
(Percent of Unemployed by Duration of Unemployment)

Share of Unemployed

- Under 5 weeks
- 5 - 14 weeks
- 15 - 26 weeks
- 27 weeks and over

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Fortunately, the Eleventh District Is Bucking Many Trends…

Job Growth Index, 100 = January 1990

Dallas
Kansas City
Minneapolis
Atlanta
San Francisco
Richmond
U.S.
St. Louis
Chicago
Philadelphia
Cleveland
Boston
New York
Fortunately, 11th District Is Bucking Many Trends…

Job Growth Index, 100 = January 1990 (except Euro Area, where 100 = July 1990)
Fortunately, Bank Profitability is Rising...
The Adventure…

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Unfortunately, Many Economic Risks Exist…

• National debt and federal government budgeting
• TBTF Banks and the competitive banking landscape
• European debt crisis and recession
• China
• The Middle East
• Consumer and business confidence (uncertainty)
Unfortunately, Government Debt is Exploding…

Sector Debt as a Percentage of GDP

- Nonfinancial
- Financial
- Government
- Household
• **5,500 small community operations**
  ✓ Assets less than $10 billion
  ✓ Threat of closure
  ✓ Owner discipline

• **70 midsized, regional institutions**
  ✓ Assets of $10 to $250 billion
  ✓ Threat of closure
  ✓ Creditor discipline

• **12 largest banking institutions**
  ✓ Assets over $250 billion
  ✓ Insufficient regulatory discipline
  ✓ Lack of market discipline
Community Banks Maintain Business Loan Quality
2007 – 2009 Recession

Percent of loans noncurrent

Percent of loans charged off

Asset Size
- Less than $1 Billion
- $1-10 Billion
- $10-250 Billion
- Over $250 Billion
Community Banks Maintain Residential Real Estate Loan Quality

Closed-End, First-Lien, 1-4 Family Mortgages, Percent Noncurrent

Asset Size
- Less than $1 Billion
- $1-10 Billion
- $10-250 Billion
- Over $250 Billion

2008 2009 2010 2011 2012
Unfortunately, Consumer Confidence Wanes…

Consumer Confidence, 6 Month Moving Average
1985 = 100

Sep 2013 = 79.7 *
Restoring Confidence and Growth
by Thomas F. Siems

What is your assessment of current business and employment conditions? What are your expectations regarding business, employment and your family's income six months from now? The Conference Board's Consumer Confidence Index (CCI) was created in 1967 to gather responses to these questions and ultimately measure consumers' perceptions about the health of the U.S. economy.

Chart 1 shows that while the CCI has increased recently, a confidence crisis seems to continue to plague U.S. consumers. The good news is that the CCI has improved from its deep trough during the recent Great Recession. The bad news is that the rebound has been drawn out and sluggish. The latest CCI reading, at 88.1 (1985 = 100), is lower than 88 percent of the observations computed between 1967 and the start of the Great Recession.
Fortunately, Our Region is More Optimistic…

The West South Central Region of the U.S. is Far More Optimistic

Consumer Confidence Index, 1985 = 100

West South Central Census Region

United States

Shaded Area = Range of Nine Census Regions
And Job Growth is Stronger in the Region...

Job Growth Increased Most in the West South Central Region

Payroll Employment (Sum of States Data) Indexed to December 2007 = 100

Source: The Bureau of Labor Statistics; Haver Analytics
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Fortunately, Monetary Policymakers Are Optimistic…

FOMC Economic Projections and Policy Thresholds

FOMC Price Stability Threshold: 2.5%

PCE Inflation Rate

Rate

Fortunately, Monetary Policymakers Are Optimistic…

FOMC Economic Projections and Policy Thresholds

- FOMC Full Employment Threshold: 6.5%
- FOMC Price Stability Threshold: 2.5%

Unemployment Rate vs. PCE Inflation Rate from 2000 to 2015.
Fortunately, Monetary Policymakers Are Optimistic…

FOMC Economic Projections and Policy Thresholds

Unemployment Rate

FOMC Full Employment Threshold: 6.5%

PCE Inflation Rate

FOMC Price Stability Threshold: 2.5%

Dotted lines = Range of Projections

Rate

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Unemployment Rate

PCE Inflation Rate

Dotted lines = Range of Projections
Unfortunately, Monetary Policymakers Too Optimistic on Growth Projections...

FOMC Economic Growth Projections

Annualized GDP Growth Rate

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FOMC Economic Growth Projections

Annualized GDP Growth Rate

Dotted lines = Range of Projections

April 2011
Unfortunately, Monetary Policymakers Too Optimistic on Growth Projections…

FOMC Economic Growth Projections

Annualized GDP
Growth Rate

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Unfortunately, Monetary Policymakers Too Optimistic on Growth Projections…

FOMC Economic Growth Projections

Annualized GDP Growth Rate

Dotted lines = Range of Projections

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Fortunately…

• The national economy is slowly improving

• The U.S. still has time to address her problems and there appears to be momentum to do so

• The U.S. continues to be the “land of opportunity” as the “land of the free and the home of the brave”