



# Economic Outlook: Knife's Edge

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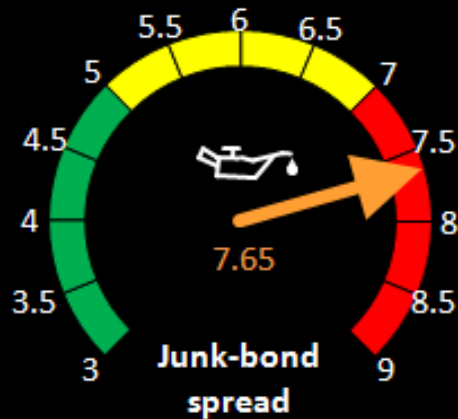
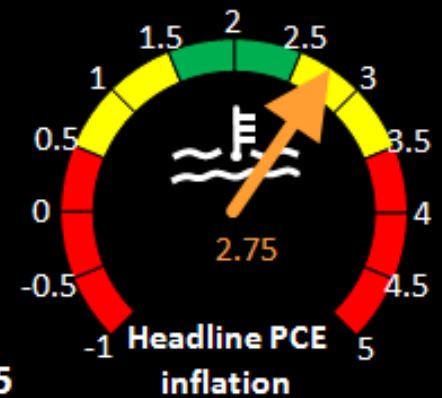


# Overview

- **On the one edge, growth;  
on the other, contraction**
  
- **Preferable to “Anaerobic Nightmare”  
and “Lehman Moment” of 2008–2009**



# Gauging Our Concern: Nothing in the Green



## Warning lights



STALL



Unemp.  
jump



Yield  
curve

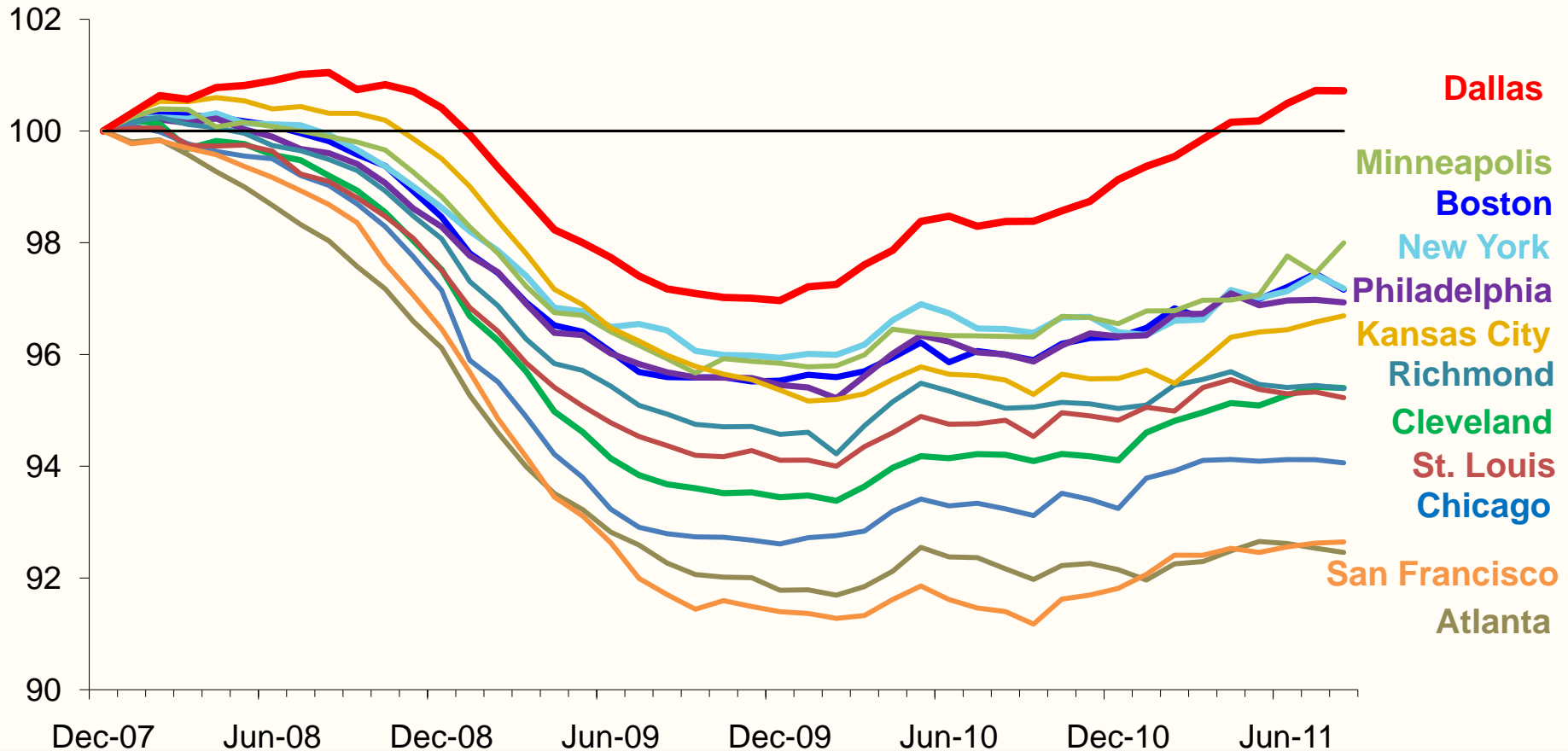


Oil  
shock



# Many Fed Districts Still Feel Like They Are in Recession

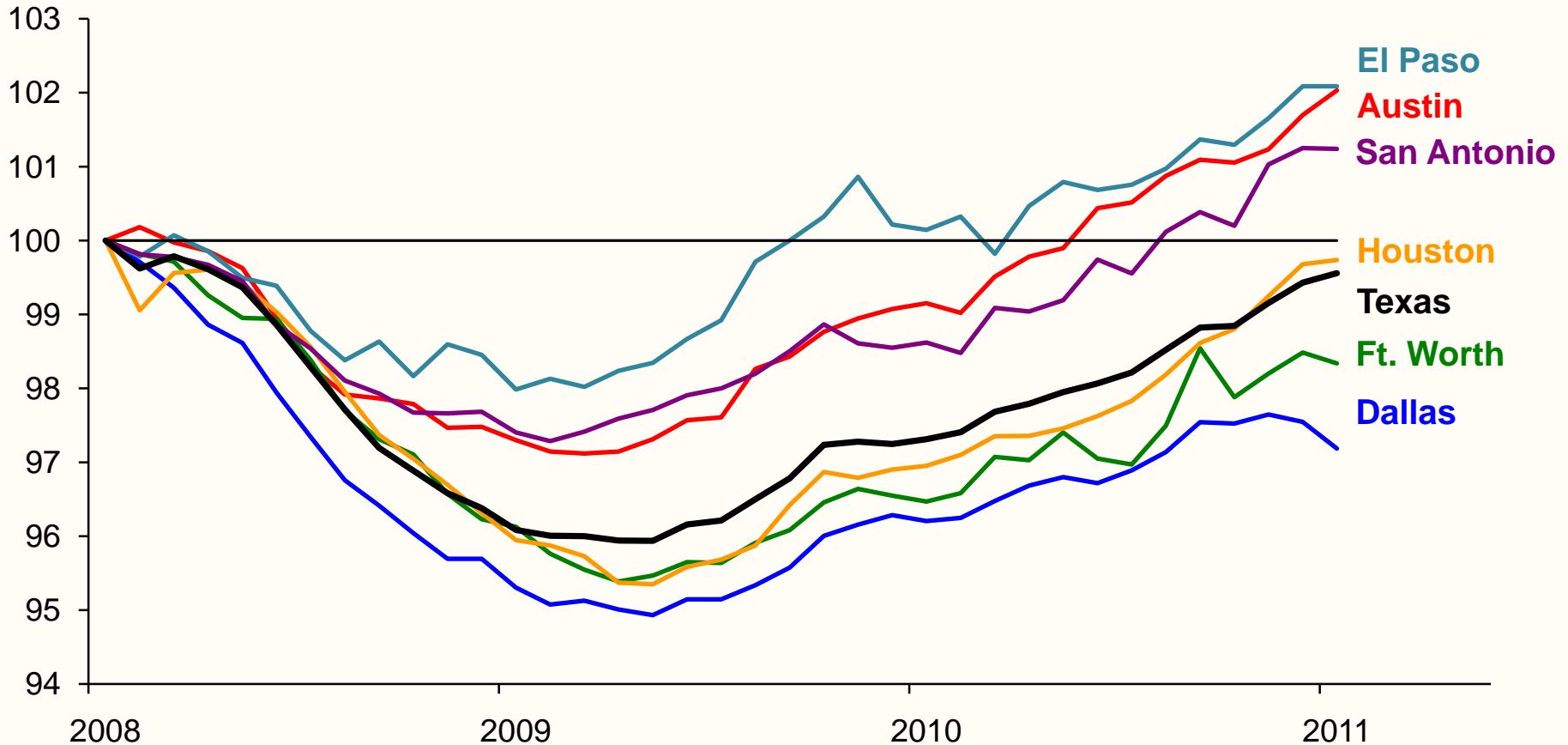
Index, December 2007=100





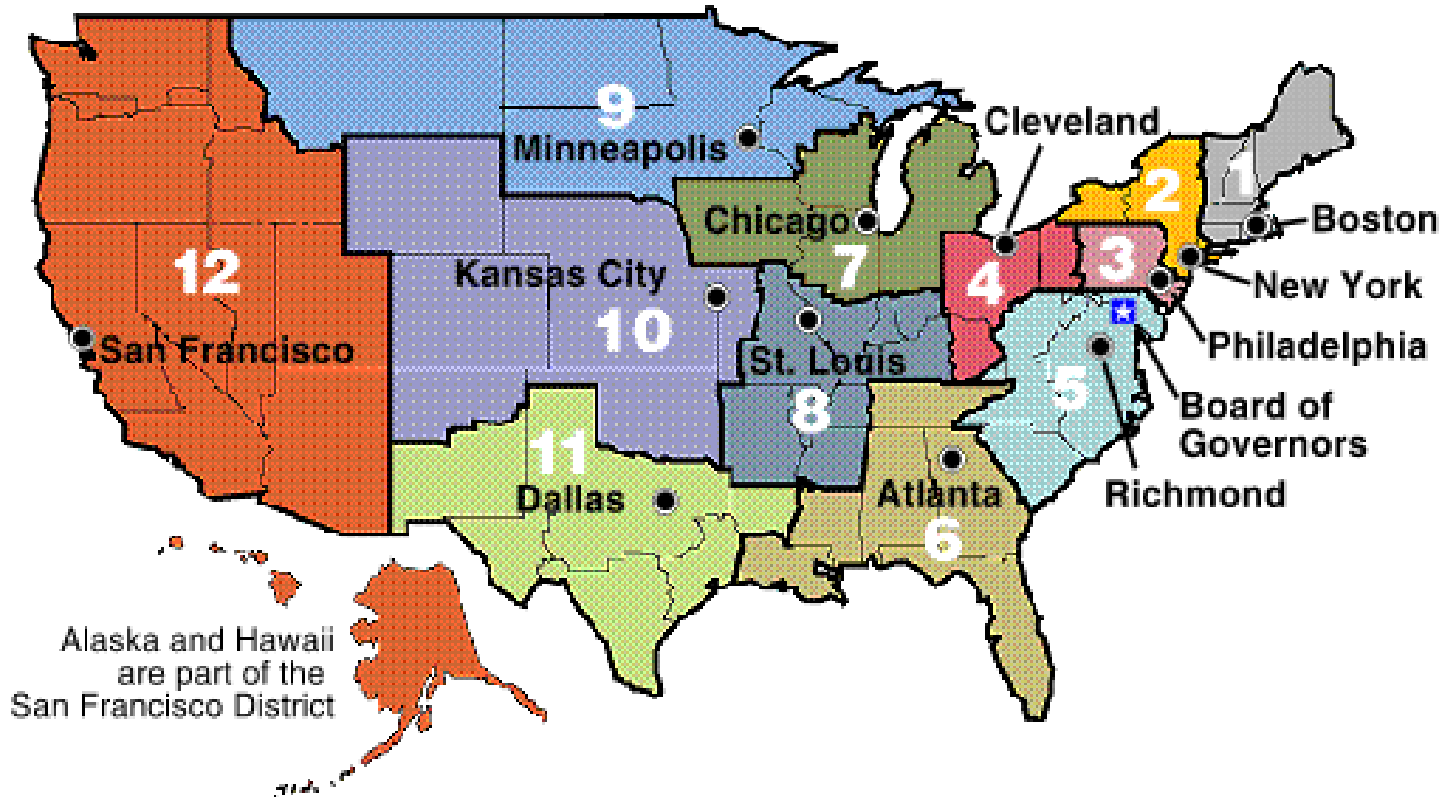
# Even in Texas, Not All Metros Show Rapid Growth

Index, August 2008=100





# Federal Reserve District Map

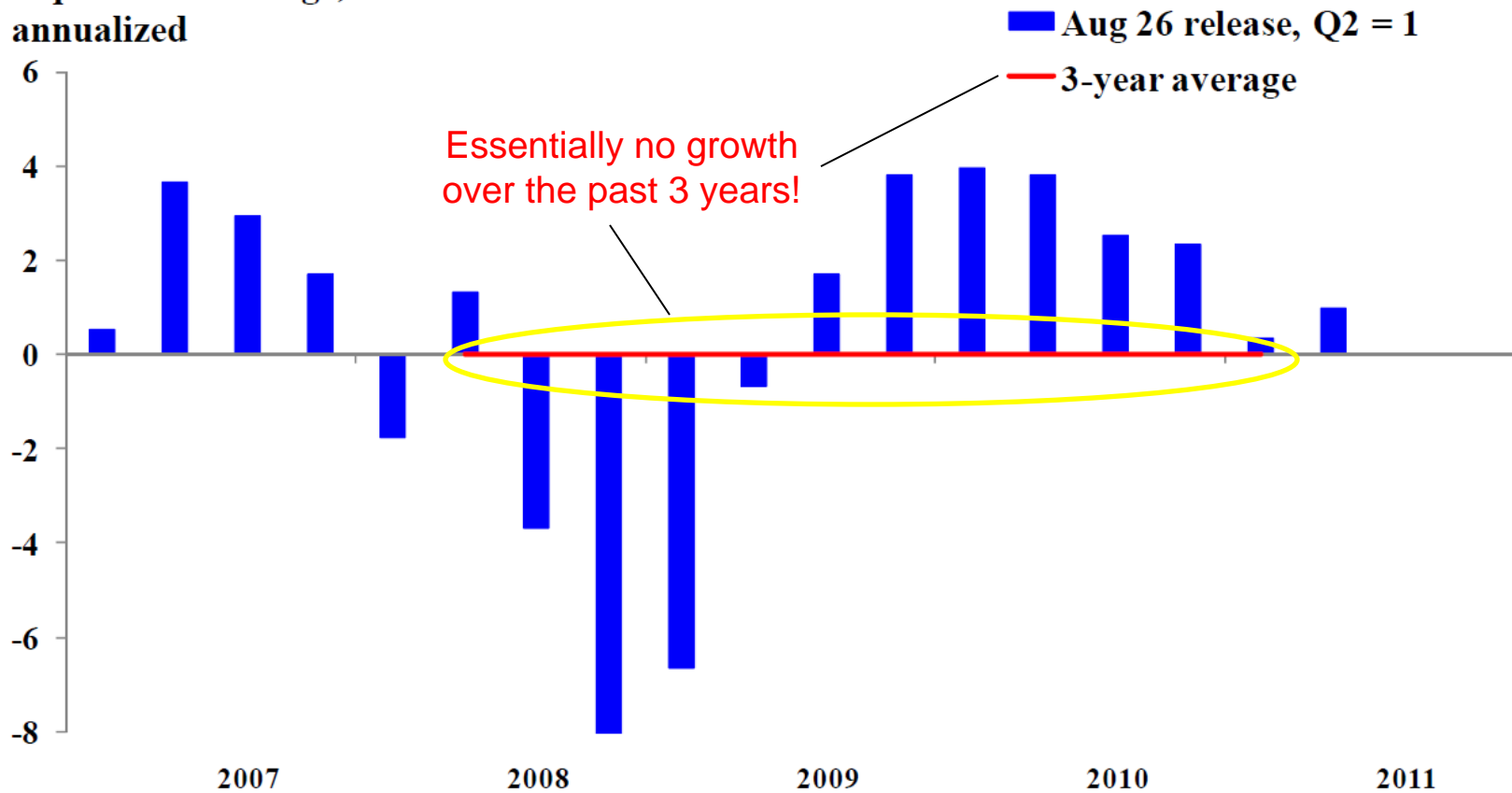






# Recovery? What Recovery?

1-quarter % change,  
annualized

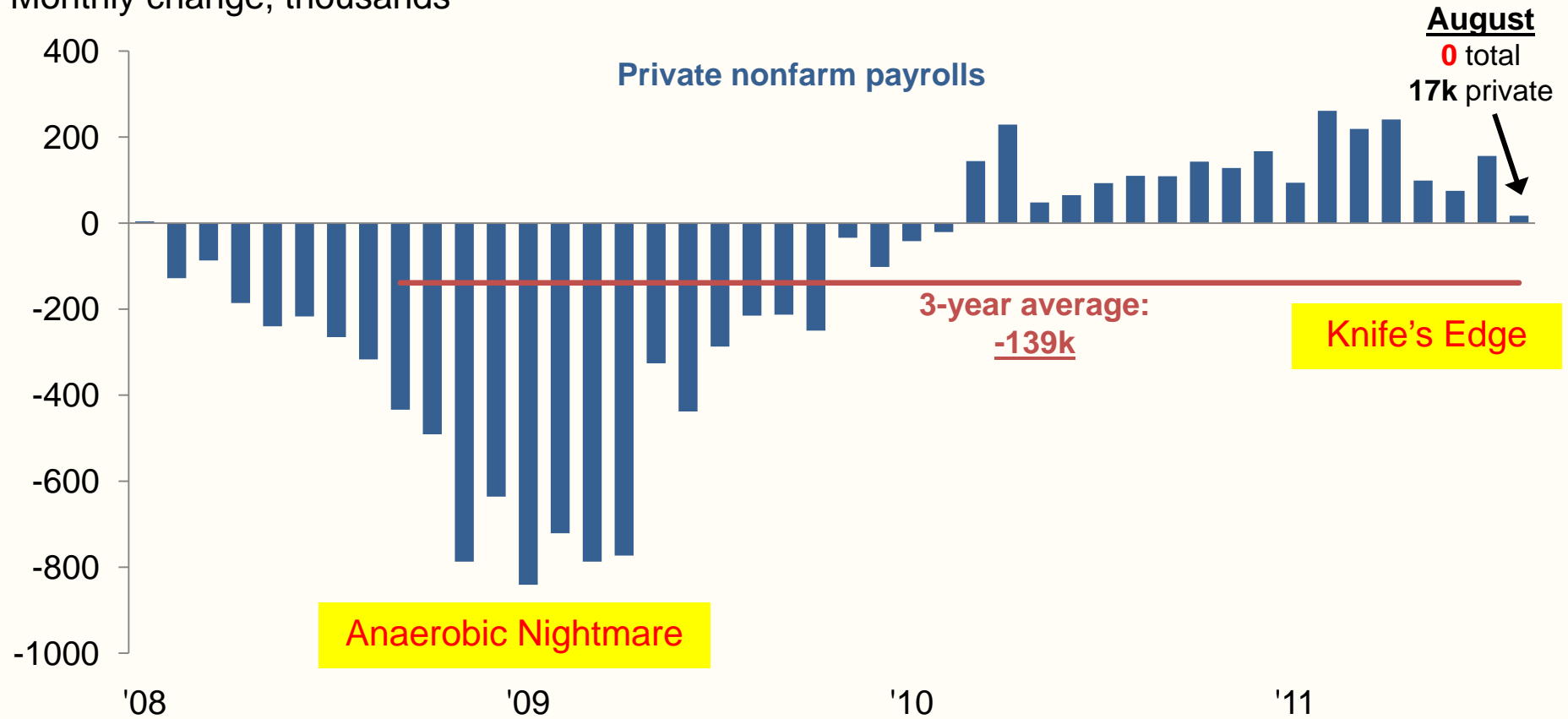






# Loss of Labor Market Momentum

Monthly change, thousands





# Regional Perspective on the Transmission of Monetary Policy

## Texas outperforms

- *Healthier banking system*
- *No boom and bust housing cycle*
- *Strong exports*

**3 out of 4 channels  
of monetary policy  
worked well**

“Breaking Out of Recession: Gauging Texas’ Response to Fed Stimulus” by David Luttrell and Harvey Rosenblum

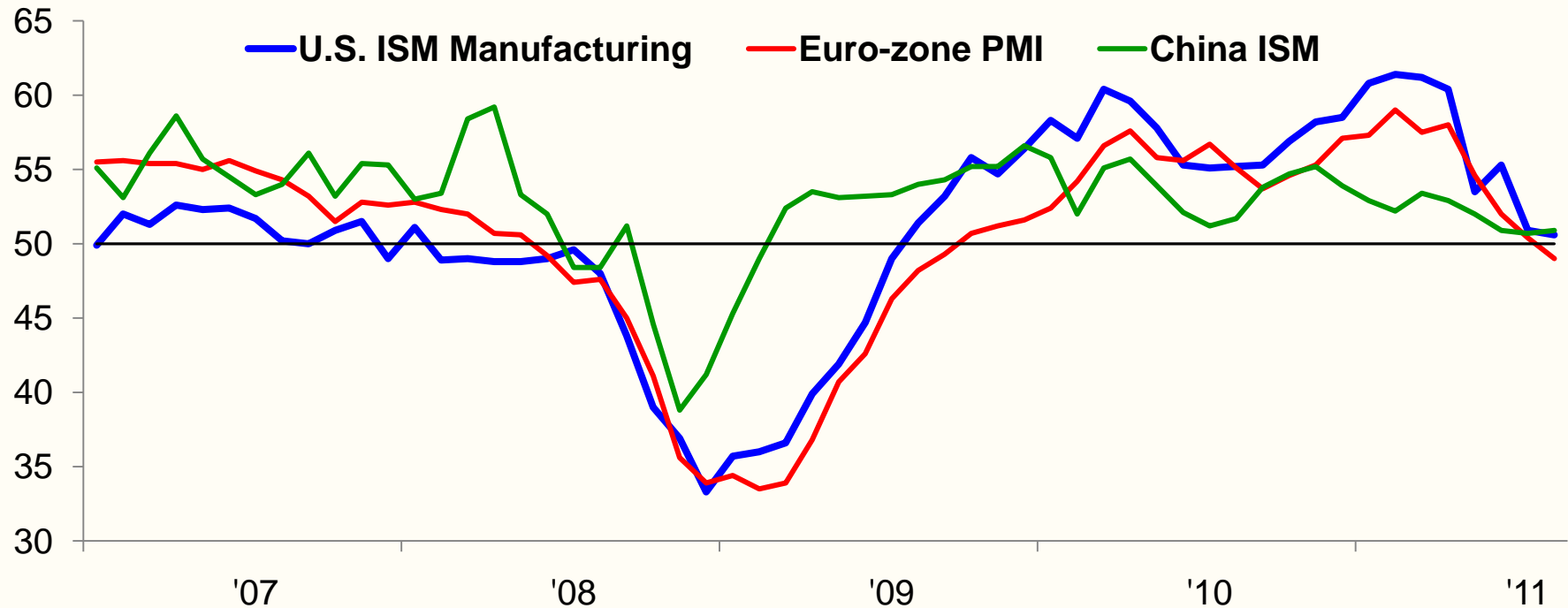




# Global Manufacturing Slowdown

## Manufacturing surveys around the globe are soft

Diffusion Index, 50+=Increasing



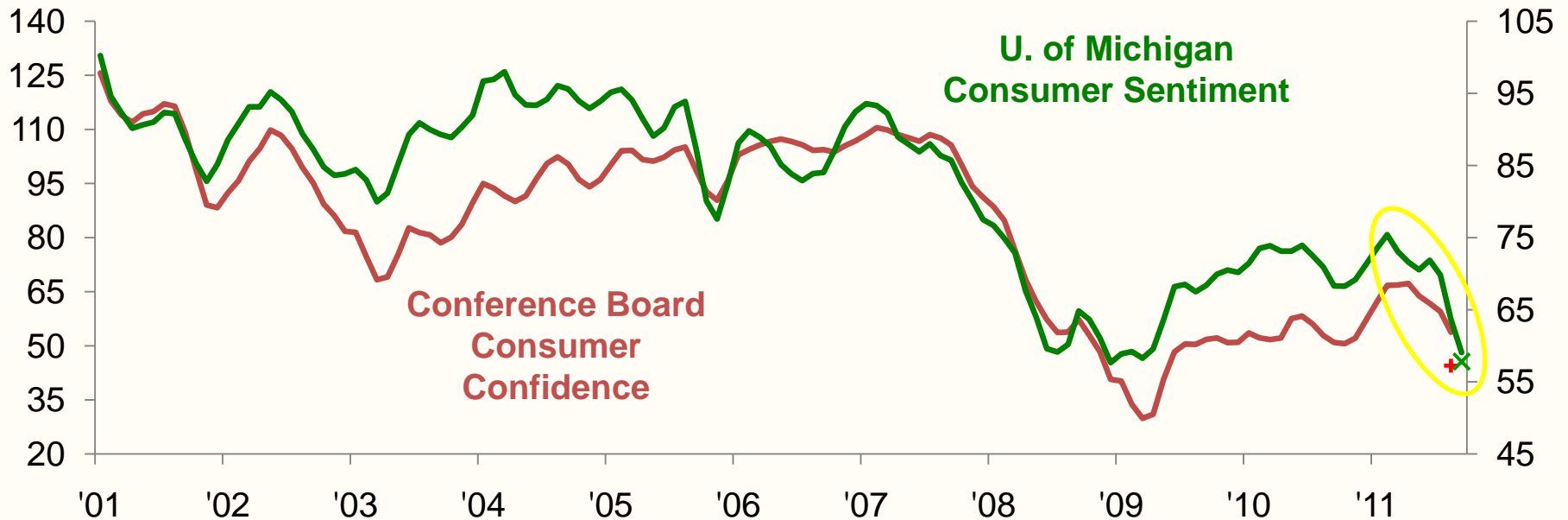
Also, **UK: 49** and **Japan: 51.9**



# Confidence Crisis

3-month Moving Avg.

3-month Moving Avg.



- August reading of Consumer Sentiment collapsed to the lowest level since 1980, worse than the recession low!
- Conference Board's Consumer Confidence saw sharpest drop since Lehman (Oct. 08)!



# Lending Improves from a Weak Level

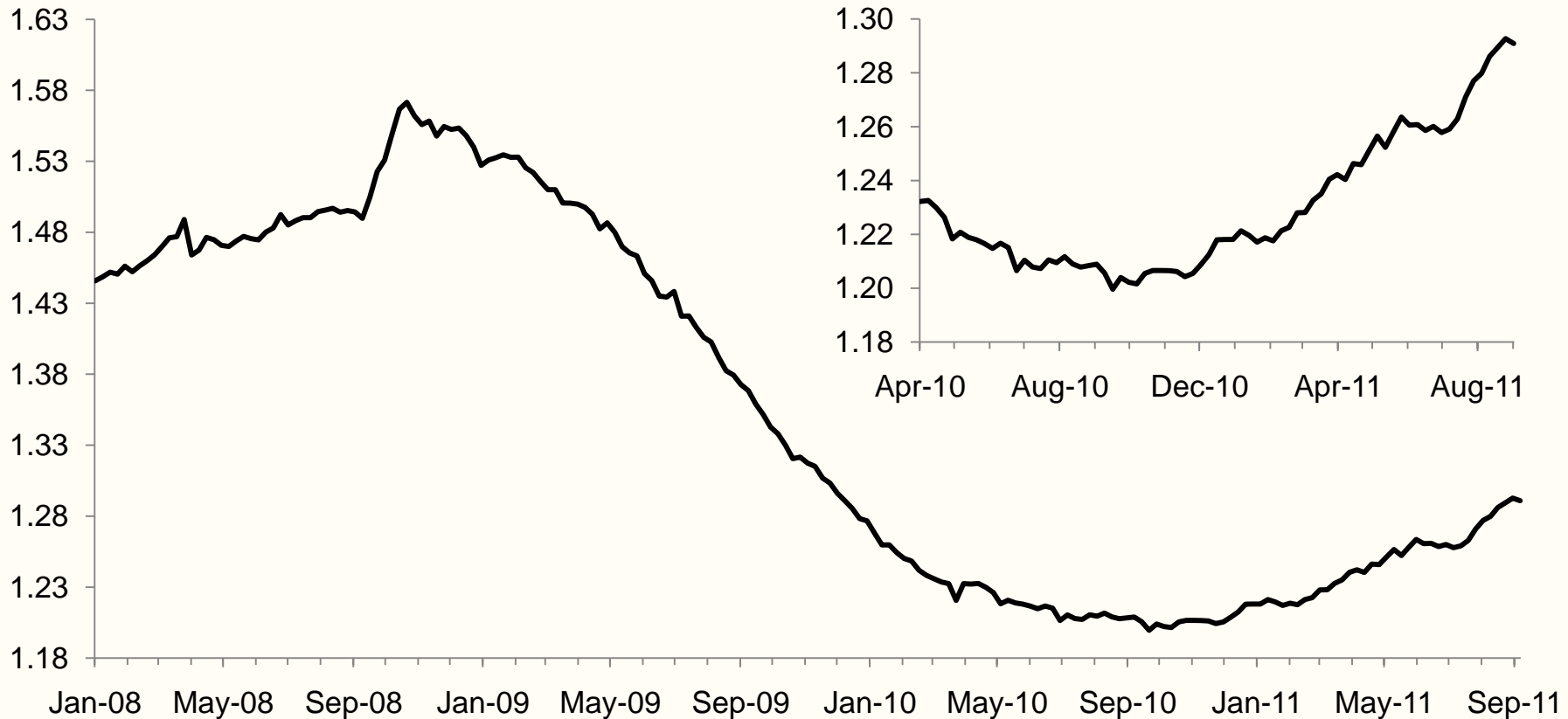
- SLOOS:
  - continued improvement in lending conditions, standards eased, demand improved, willingness to lend remains relatively high
  - still very soft demand and tighter standards for mortgage lending
- In July, consumer credit rose \$12B, the largest monthly increase since April 2008 and the tenth consecutive monthly increase
- C&I lending has continued to expand; 9 month trend



# Lending Improves from a Weak Level

SA, \$ Trillions

C&I Credit Outstanding





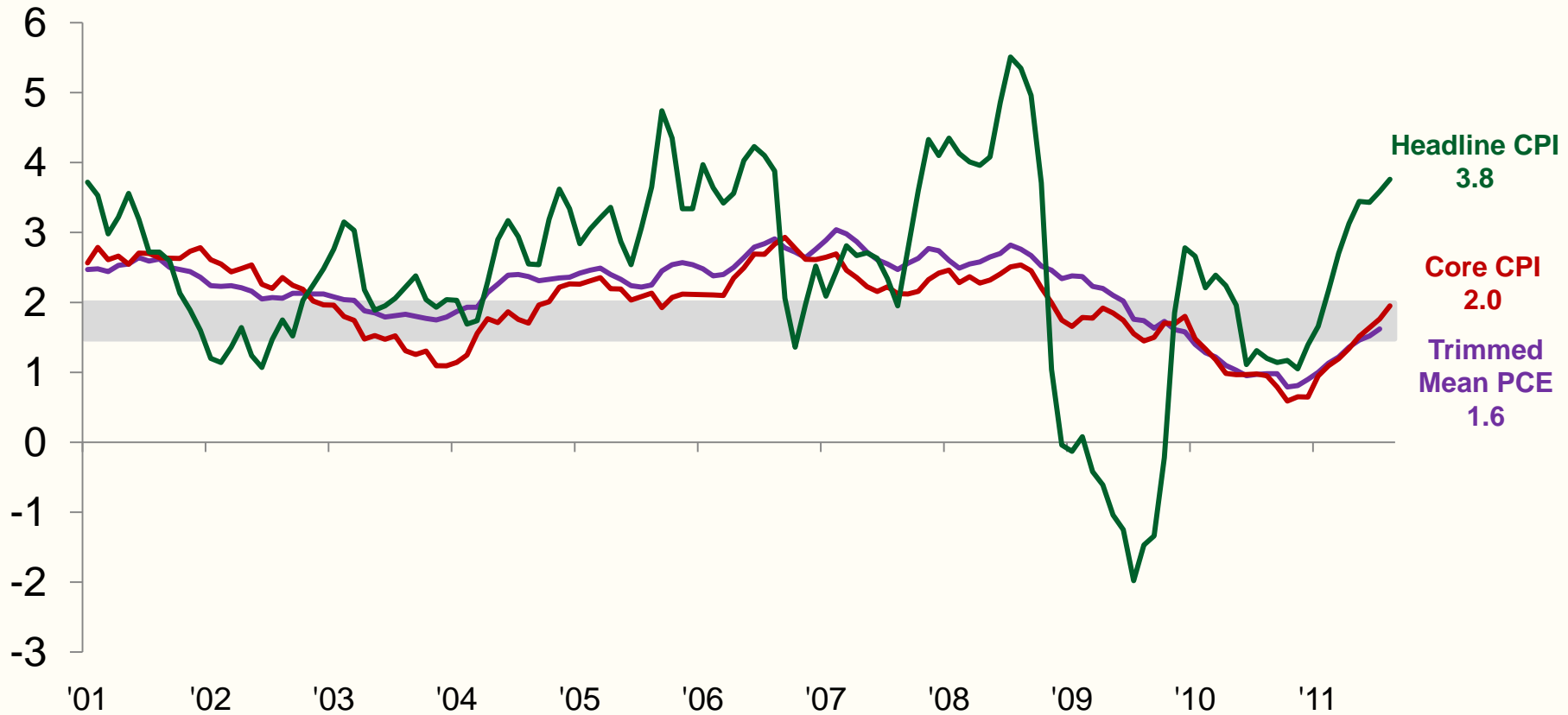
# Evolution of Inflation

- **Multiple bubbles burst:**  
Deflation, deleveraging and depression  
*Unless* there is an aggressive and rapid monetary response (i.e., 2008)
- Going forward: avoiding the danger of **deflation**, credible risk of **rising inflation**
- *But bubbles bursting again in 2011*



# Modest Price Pressures, *For Now*

Percent, yr/yr







# FOMC Statement 9/21/11 Key Points

- Growth and labor market conditions remain weak
- Significant downside risks to the economic outlook
- Further monetary accommodation to support a stronger recovery within the context of price stability
  - Reduce long-term Treasury rates
  - Reinvest agency debt principal payments in more MBS
- Voting against the action were Fisher, Kocherlakota, and Plosser, who did not support additional policy accommodation at this time.

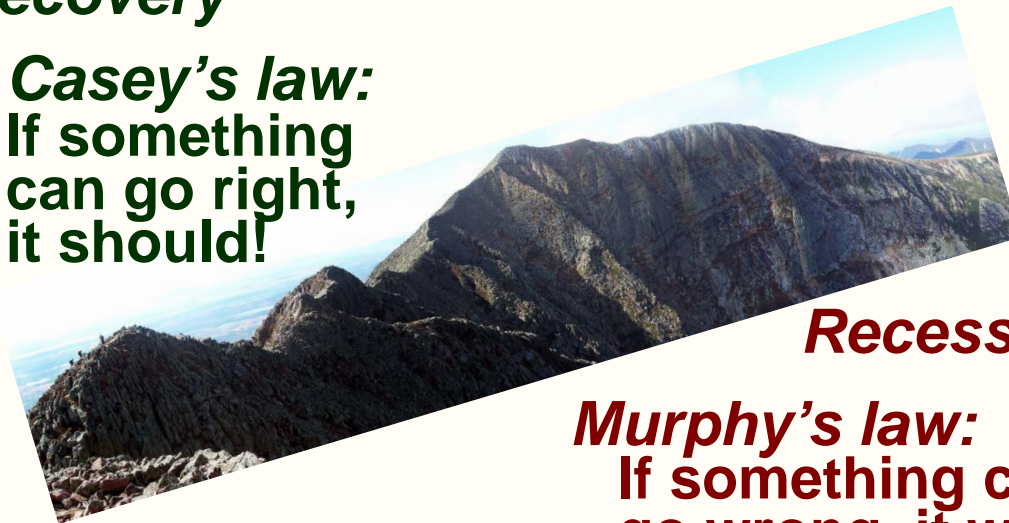


# Takeaways

- Economic growth has slowed, maybe stalled
- *We're on the edge*

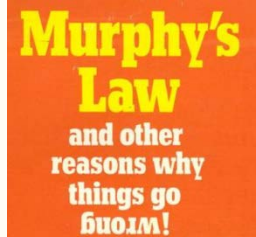
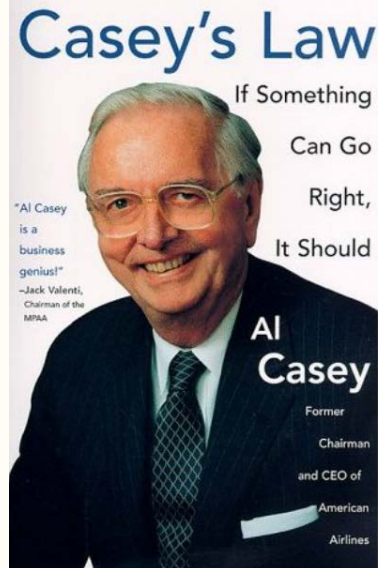
## Recovery

**Casey's law:**  
If something  
can go right,  
it should!



## Recession

**Murphy's law:**  
If something can  
go wrong, it will!





## Additional Takeaways

- **Recession/ recovery not the right framework?**
- **Second Great Contraction a more realistic thought process**
- **Texas has outperformed other regions. WHY?**
  - **Healthier, better capitalized banks**
  - **Internationally competitive firms**
- **Key lesson: Ignore lobbying by TBTF banks for lower capital requirements**