



Economic Outlook for 2012

DFW Retail Executives Association
January 11, 2012

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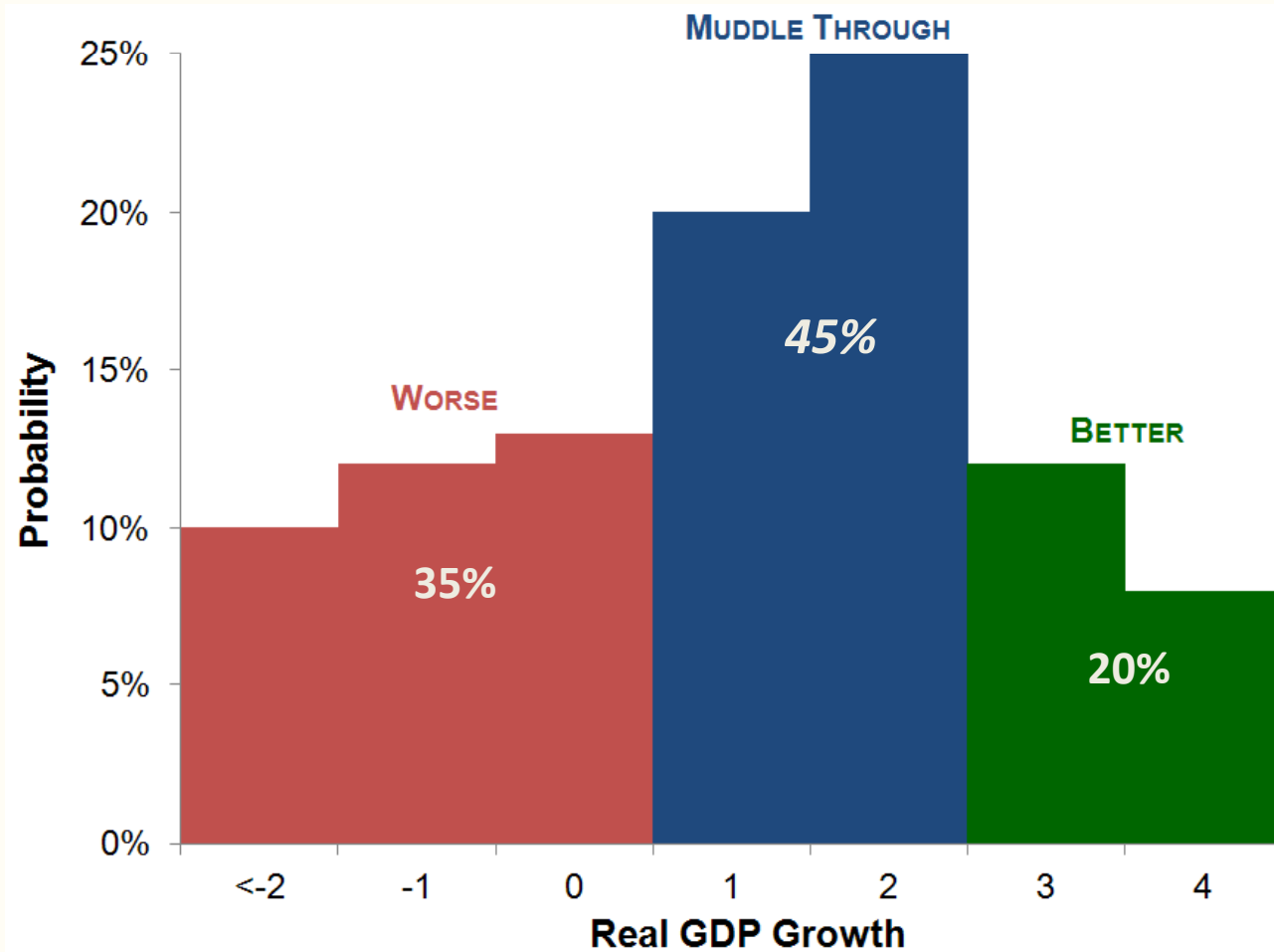


**It is better to remain silent and be thought
a fool than to open one's mouth and
remove all doubt.**

— Abraham Lincoln



2012 Outlook





2012 Outlook

	<u>MUDDLE THROUGH</u>	<u>WORSE*</u>	<u>BETTER</u>
GDP GROWTH	2%	0 OR -	3%+
INFLATION (TREND)	2%	1%	2.5%
PAYROLL GROWTH (AVG. MO.)	175k	75k	225k

Under WORSE scenario: *globally, as many as 20 TBTF banks might need extraordinary government assistance (i.e.– failure)

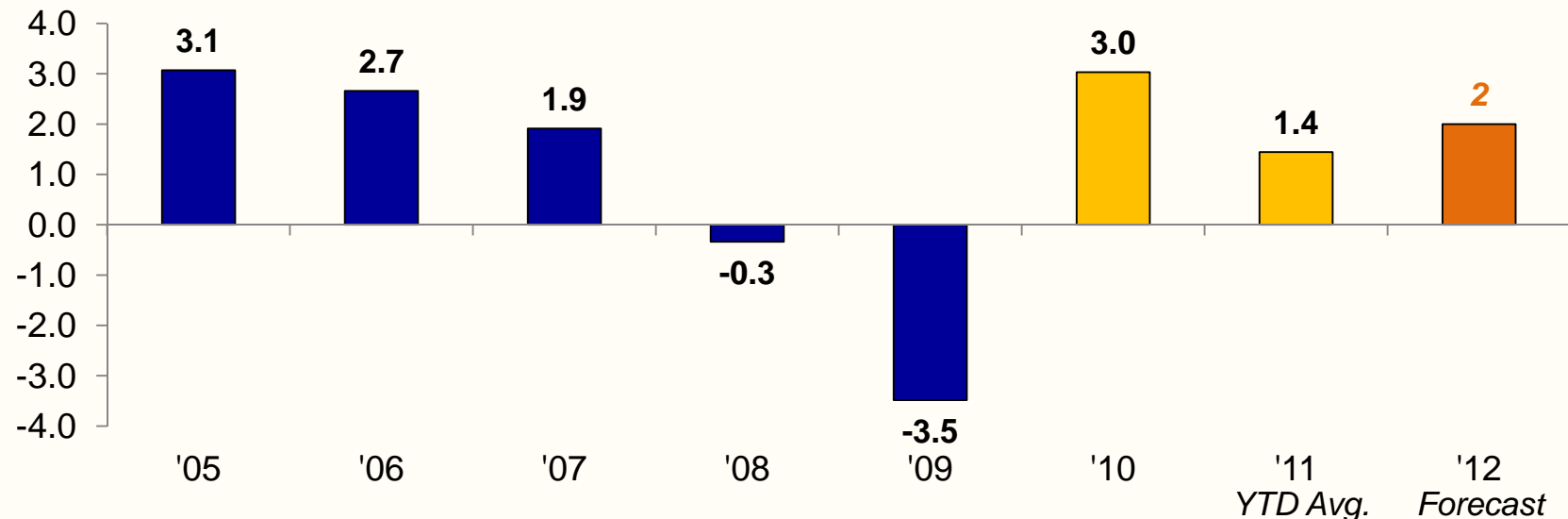


January 2012 FORECAST

MUDDLE THROUGH

To manage to get through something awkwardly;
to continue despite confusion and difficulties

Ann. Real GDP growth, %





Forward Momentum

- GDP growth – fits and starts, but positive since Q3 '09
- Employment growth – sluggish, but essentially positive since March '10 (private payrolls)
- Inflation – somewhat higher than desired, but no deflation since Fall '09

U.S. economy flirted with “stall speed” during 2nd half of 2011, but did not stall

A sustainable positive feedback loop developing?



Impediments to Stronger Growth

U.S. Headwinds

- **Weak income growth**
- **Underemployed workforce**
- **Large overhang of unsold/ foreclosed homes**
- **Vacant CRE**
- **Still tight credit standards**
- **Gov't austerity measures**
- **Household deleveraging**
- **Monetary policy constrained by *zero lower bound***



Impediments to Stronger Growth

Global Headwinds

- Slowing global economy
- European sovereign debt problems with soaring gov't and private sector borrowing costs
- Spillover into banking sector



Impediments to Stronger Growth

Uncertainties

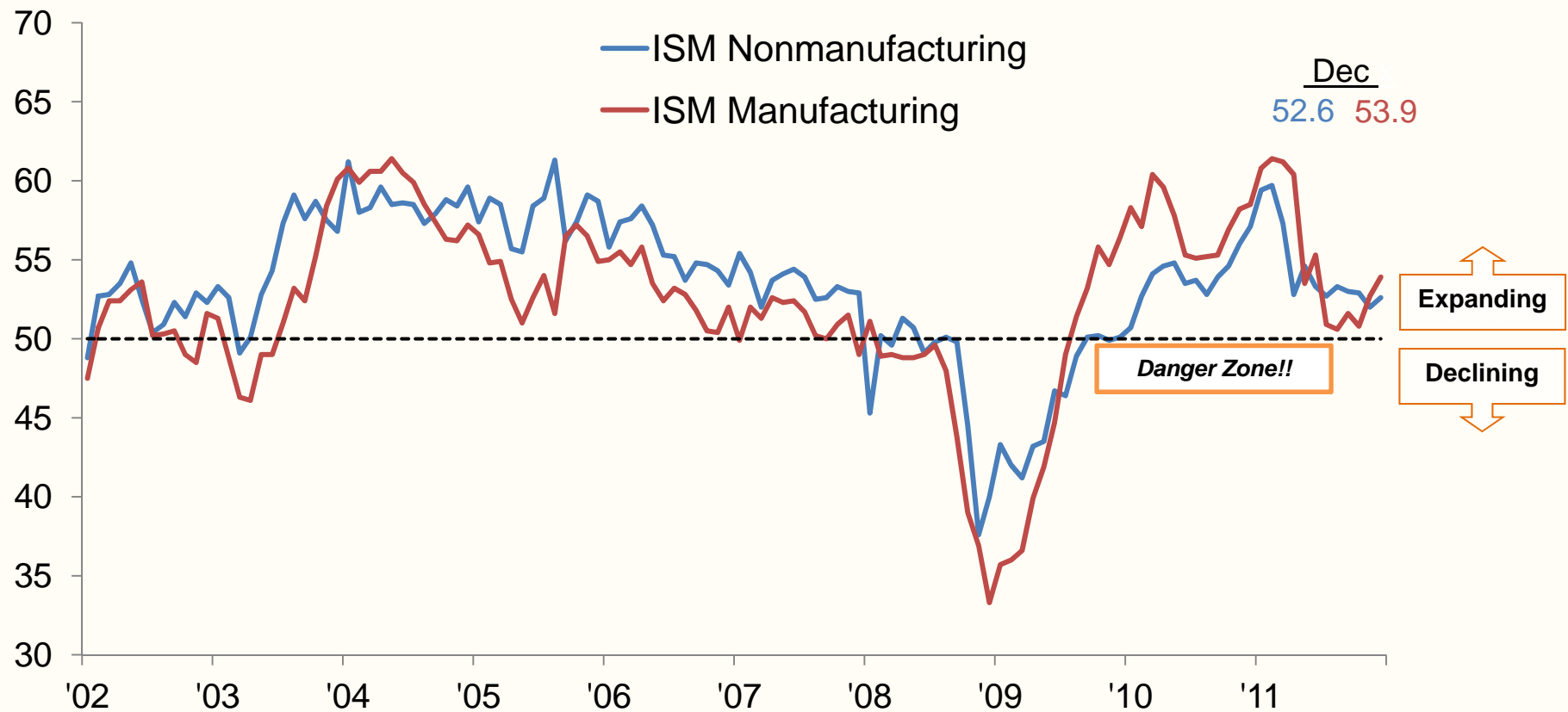
- U.S. Presidential election cycle adds to already abundant tax/ regulatory uncertainties
- All the usual geopolitical risks and concerns

BOTTOM LINE: NOTHING NEW, NOTHING DIFFERENT



U.S. ISM's Show Modest Growth

Diffusion Index, 50+=Increasing

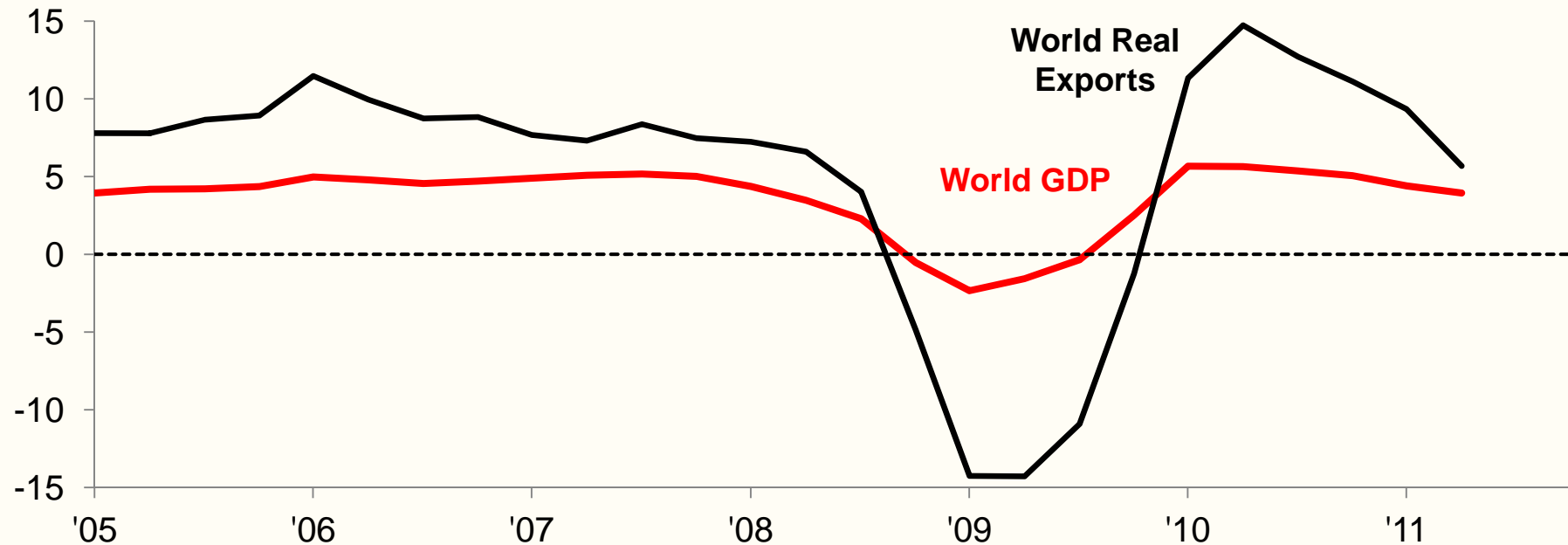




Global Growth Cools

- **Slowing manufacturing activity and a Eurozone recession could quickly impact global export growth**

% change, year-over-year

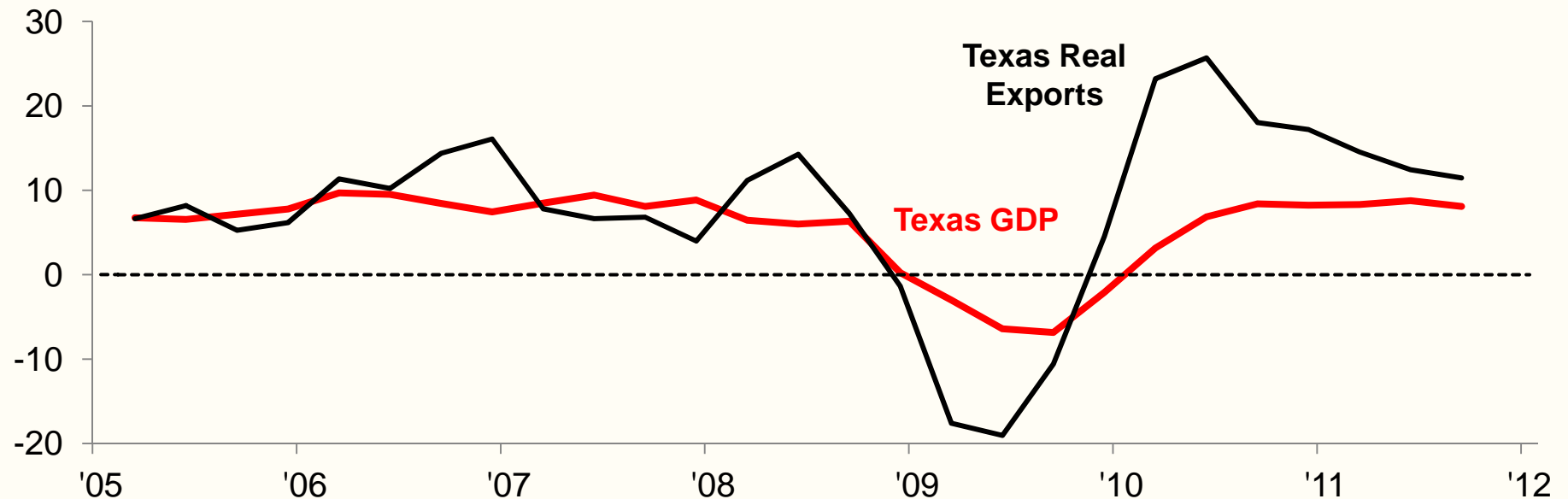




Side-bar: Dubious Distinction of TX

- **Texas is the leading U.S. exporter**
 - **Texas is a “high beta” state with a lot to lose from a decline in global trade**

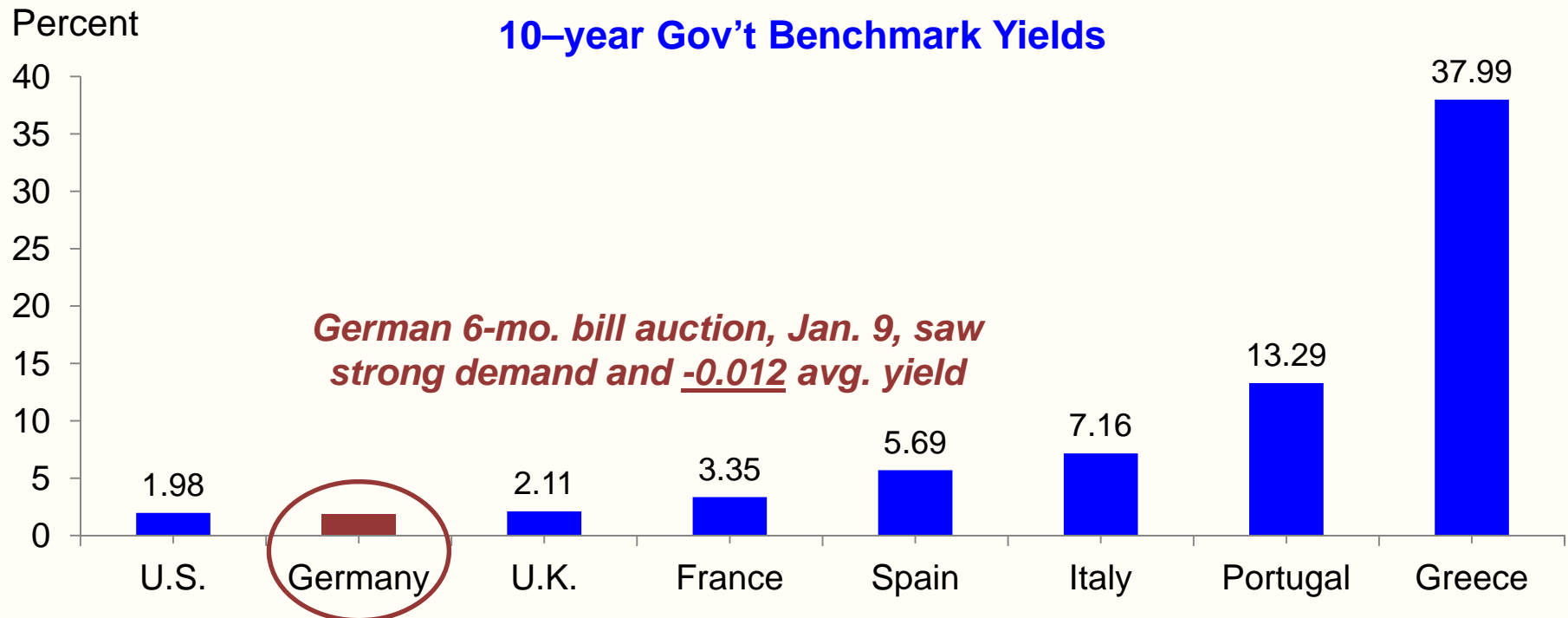
% change, year-over-year





Horses in the Glue Factory

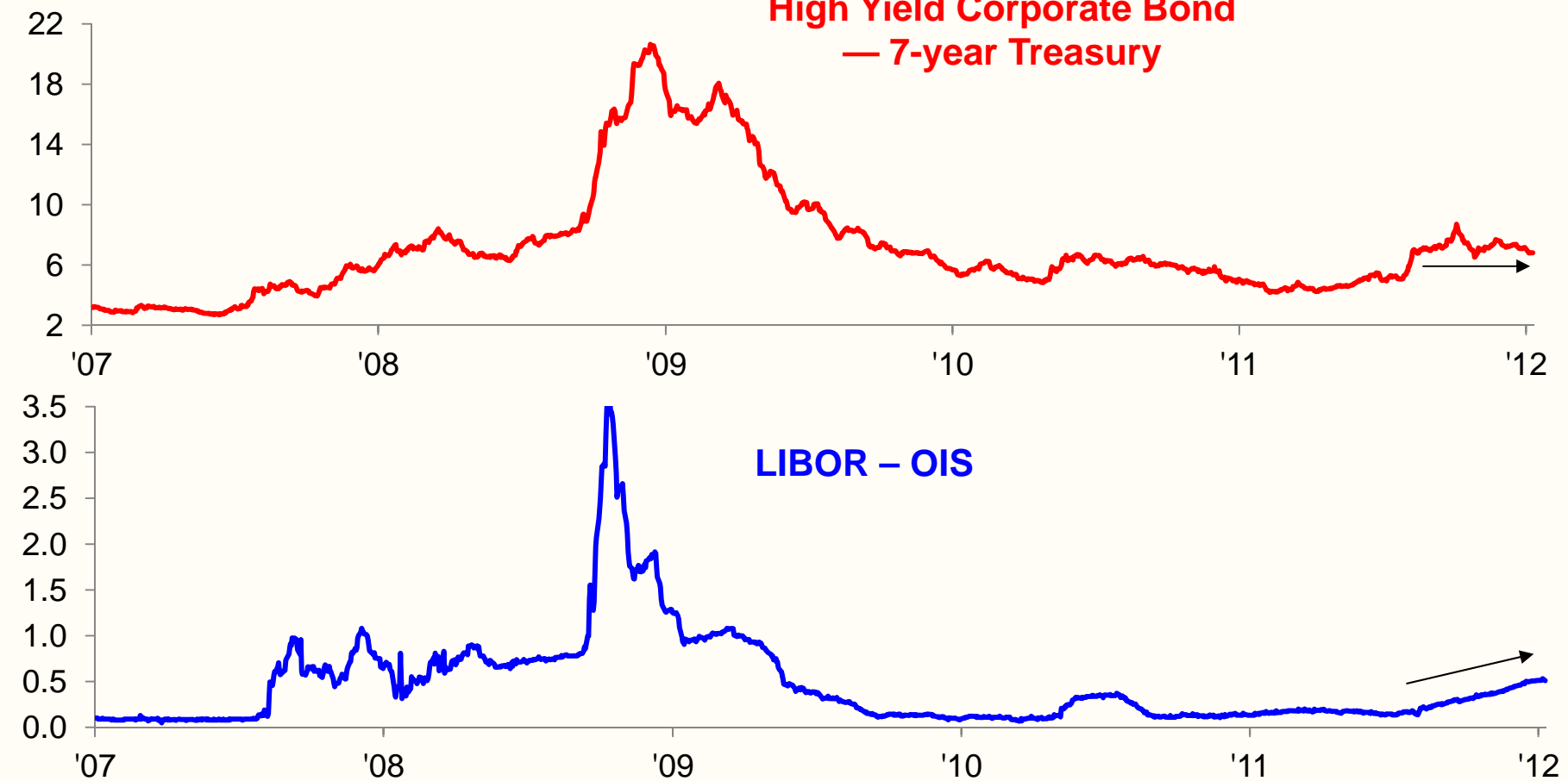
- The bond market has differentiated between U.S., Germany, U.K, France... and the rest





Financial Market Reactions

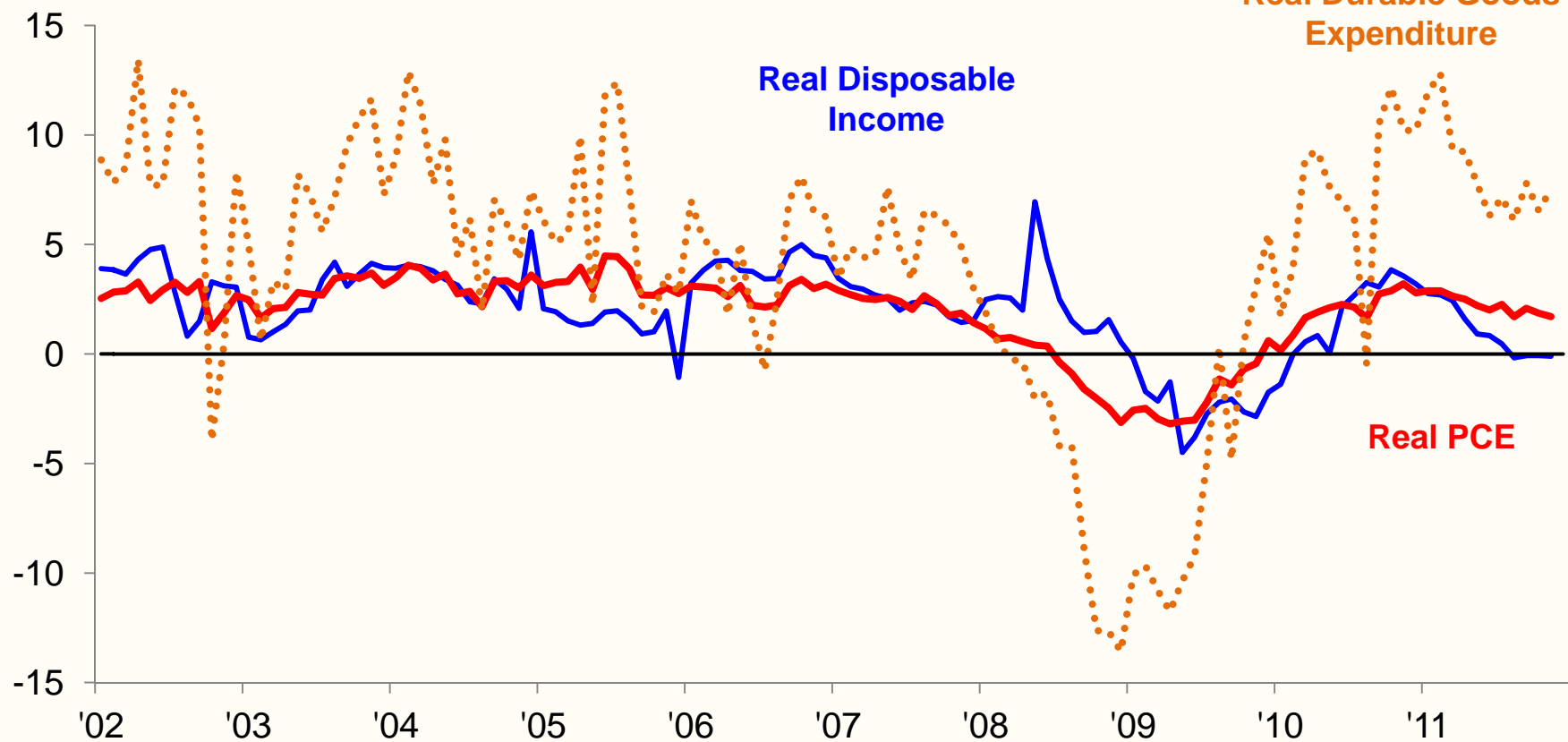
Percent





Spending Outpaces Earning

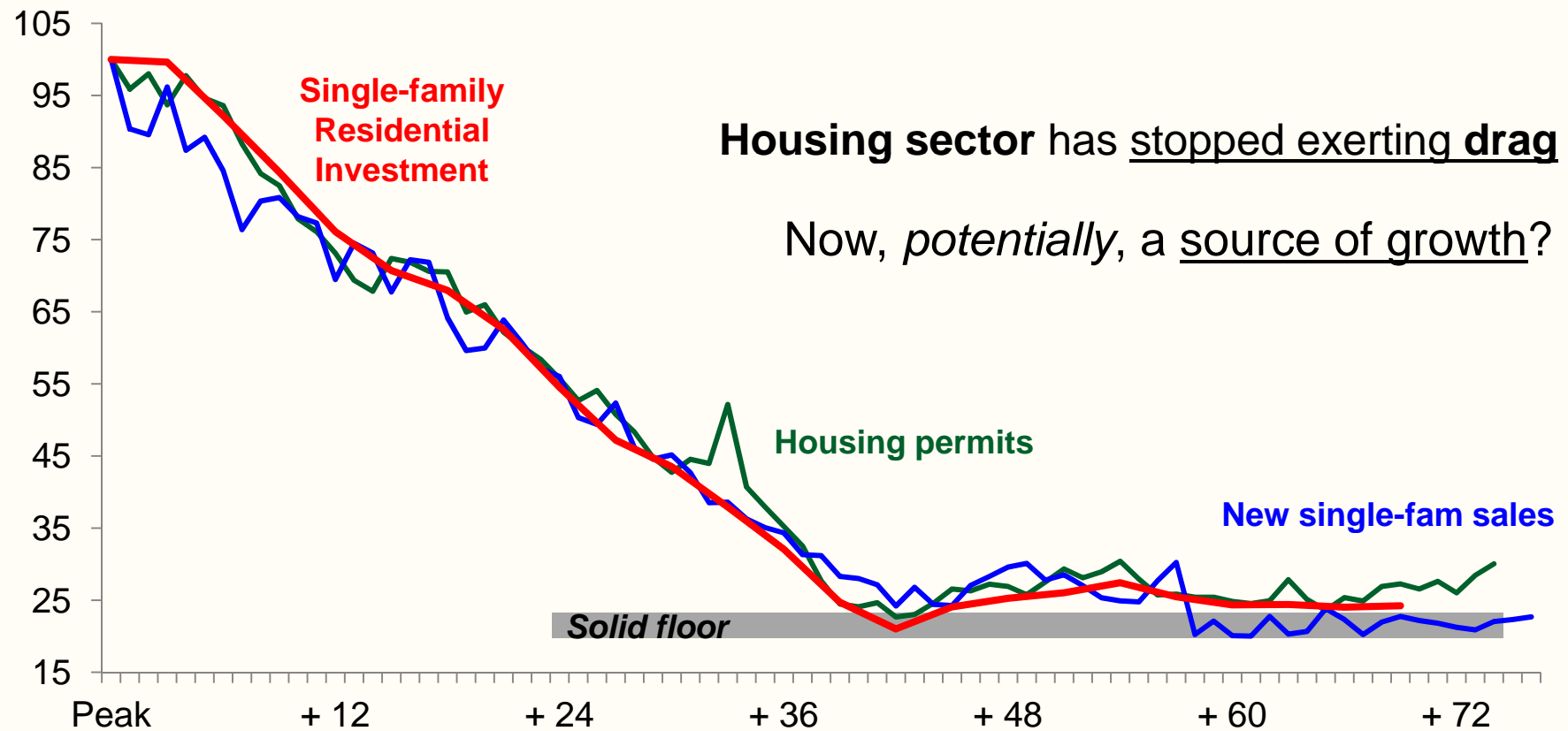
Percent, yr/ yr





Housing Stabilizes

Index, 100=peak





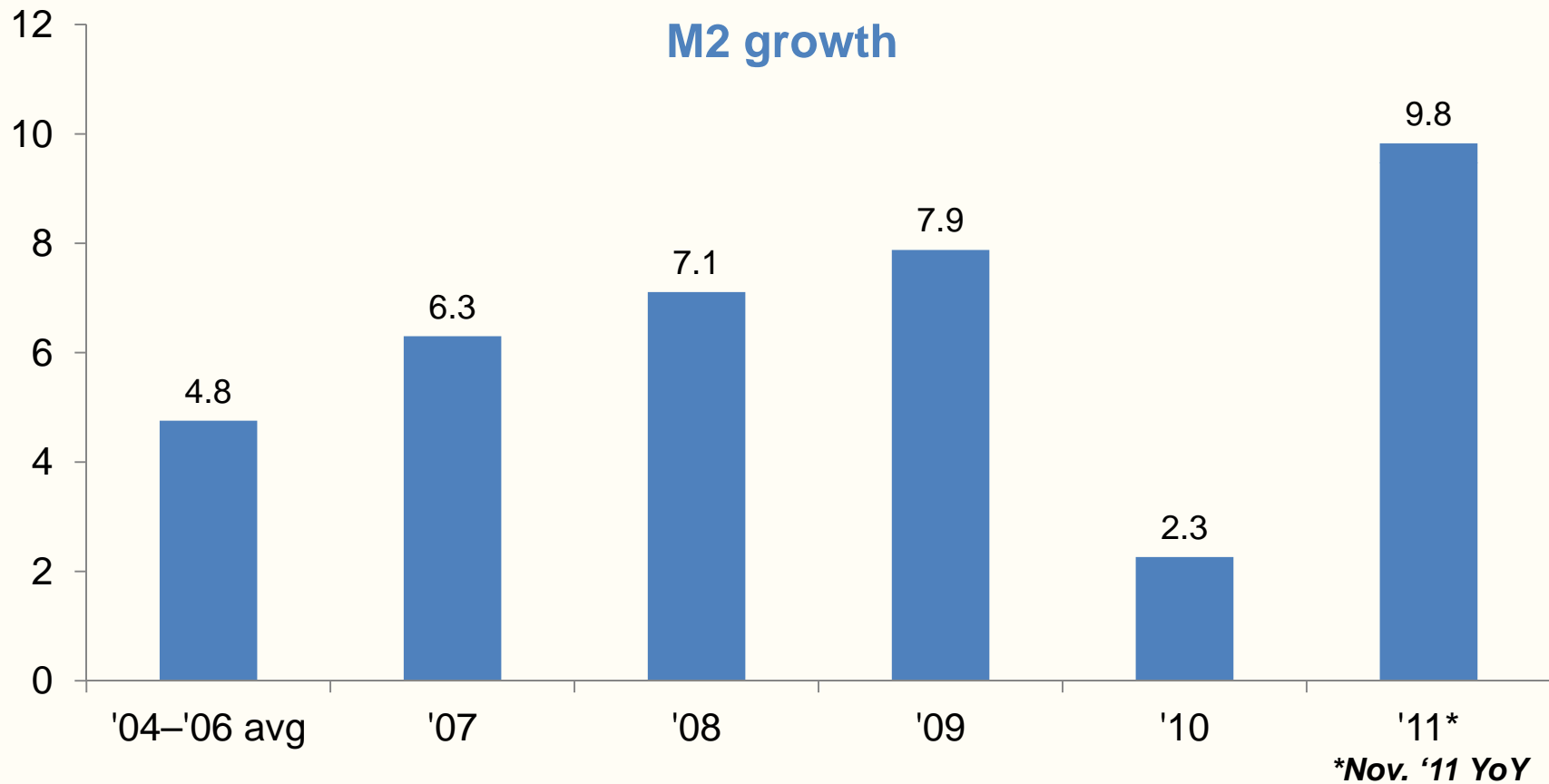
Evolution of the Treasury Yield Curve





Money Growth

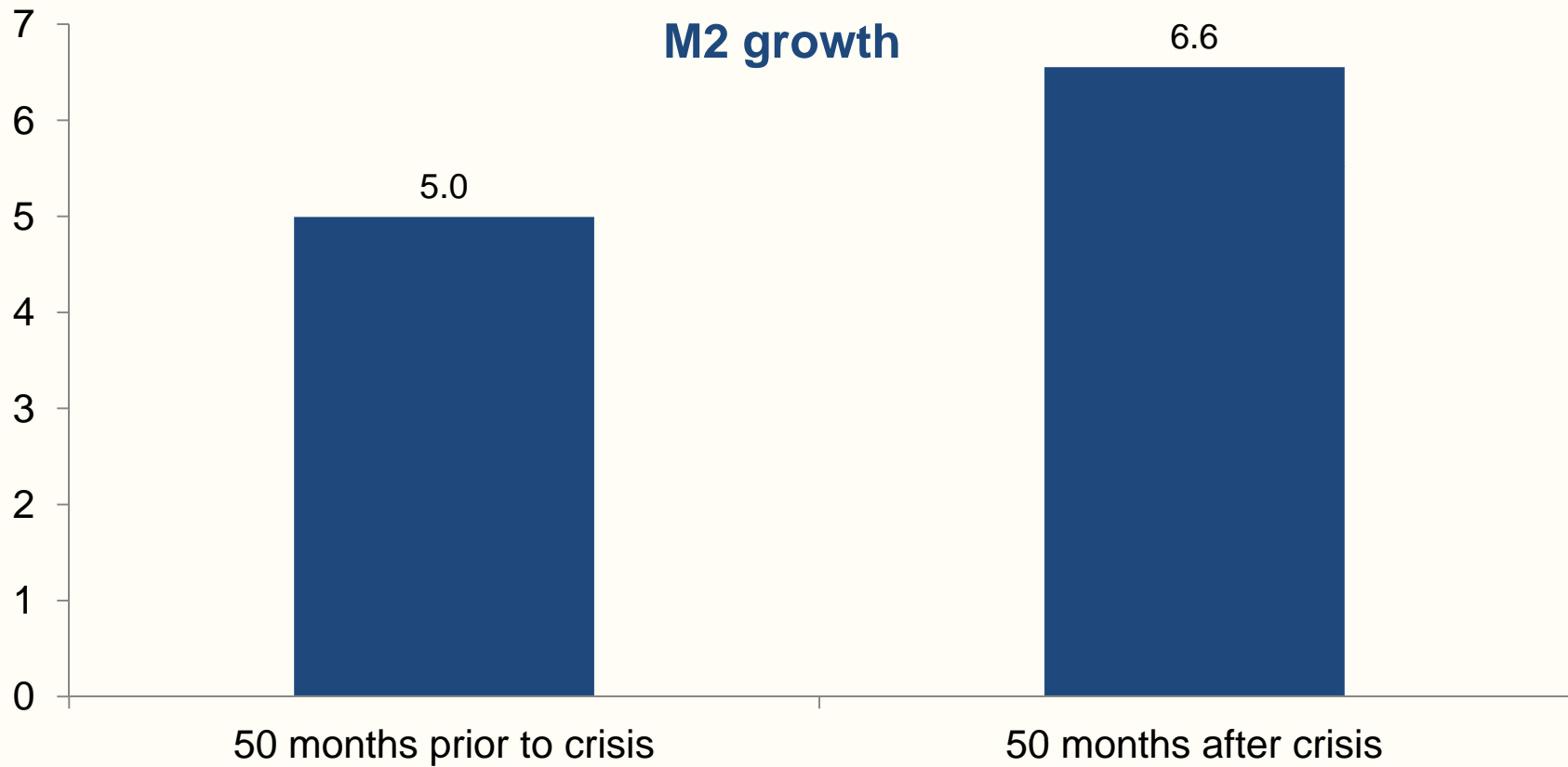
Ann. M2 growth, %





Money Growth

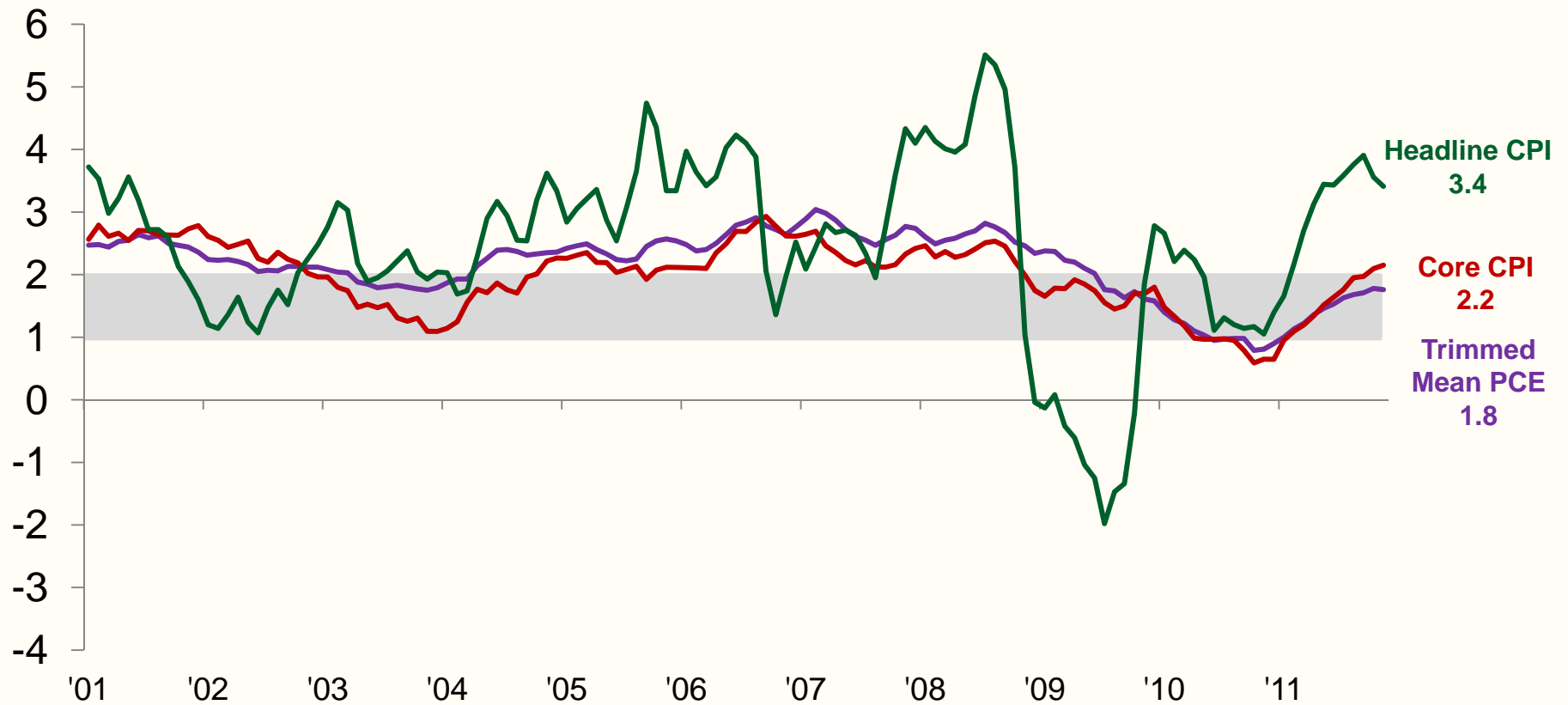
Ann. M2 growth, %





Will Price Pressures Remain “Modest”?

Percent, yr/yr





Takeaways

- **2012: MUDDLE THROUGH most likely scenario**
- **U.S. growth is OK, but looming and large downside risks necessitate humility in making forecasts**



**A pre-requisite for being a good economist is
an *ample dose of humility***

- Gregory Mankiw, *NYT*, Sunday Business, p. 4, 12/4/11



Forecasting Folly

Murphy's Fourth Corollary:

If you perceive that there are four possible ways in which a forecast can be wrong, and circumvent these, then a fifth way will promptly develop

BUT...

Harvey & David's Corollary:

Things often turn out better than anticipated