



Economic Outlook 2012

Camp Allen
November 16, 2011



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Bentley's First Law of Economics: "The only thing more dangerous than an economist is an amateur economist!"

Bentley's Second Law of Economics : "The only thing more dangerous than an amateur economist is a professional economist."

**Remember:
Amateurs built the Ark
Professionals built the Titanic**

US Economy in 1996



US Economy in 2008



US Economy in 2012



Economy is Trying to Recover, but Slow Going

- **Great Recession Officially Declared Over**
- **Employment – Texas twice rate of US growth**
- **Retail Sales and Consumption**
- **GDP**
- **Inventories**
- **Corporate Earnings**
- **Housing**

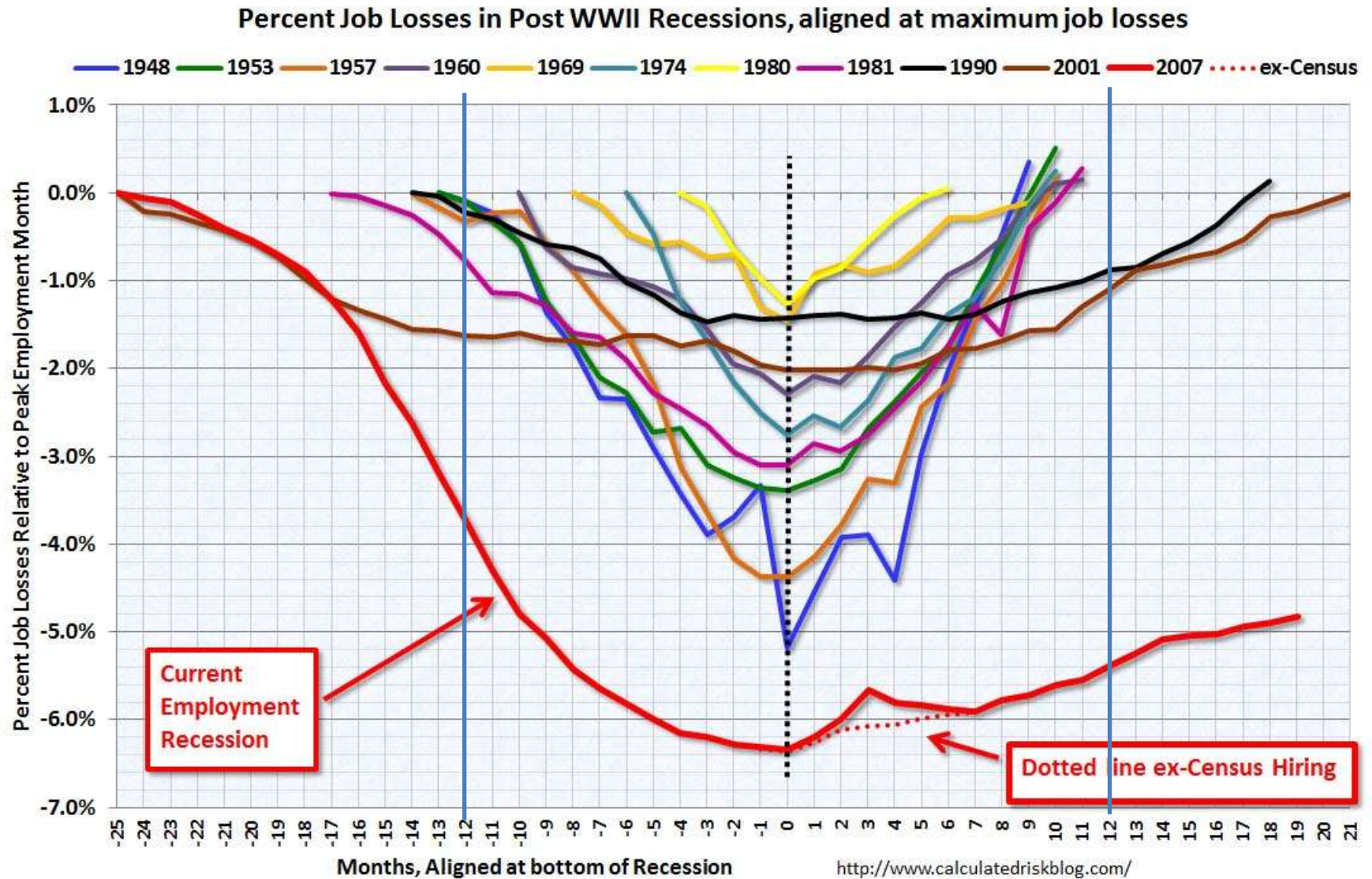
Projections for the next couple of years indicate substantive growth doesn't occur until after 2012

“Until we see a sustained period of stronger job creation, we cannot consider the recovery to be truly established.”

Ben Bernanke

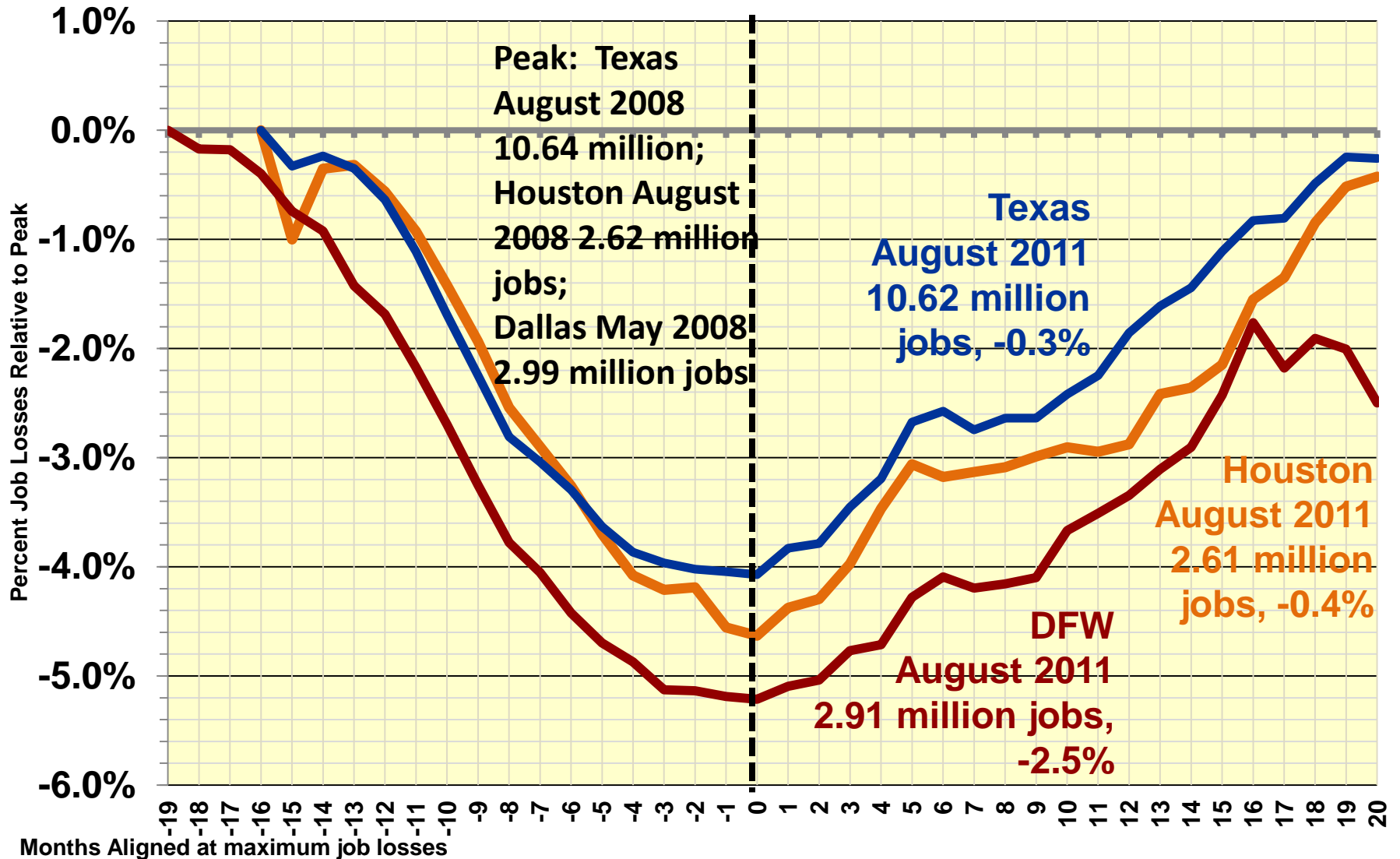
June 7, 2011, International Monetary Conference, Atlanta, Georgia

Recovery May Take a While



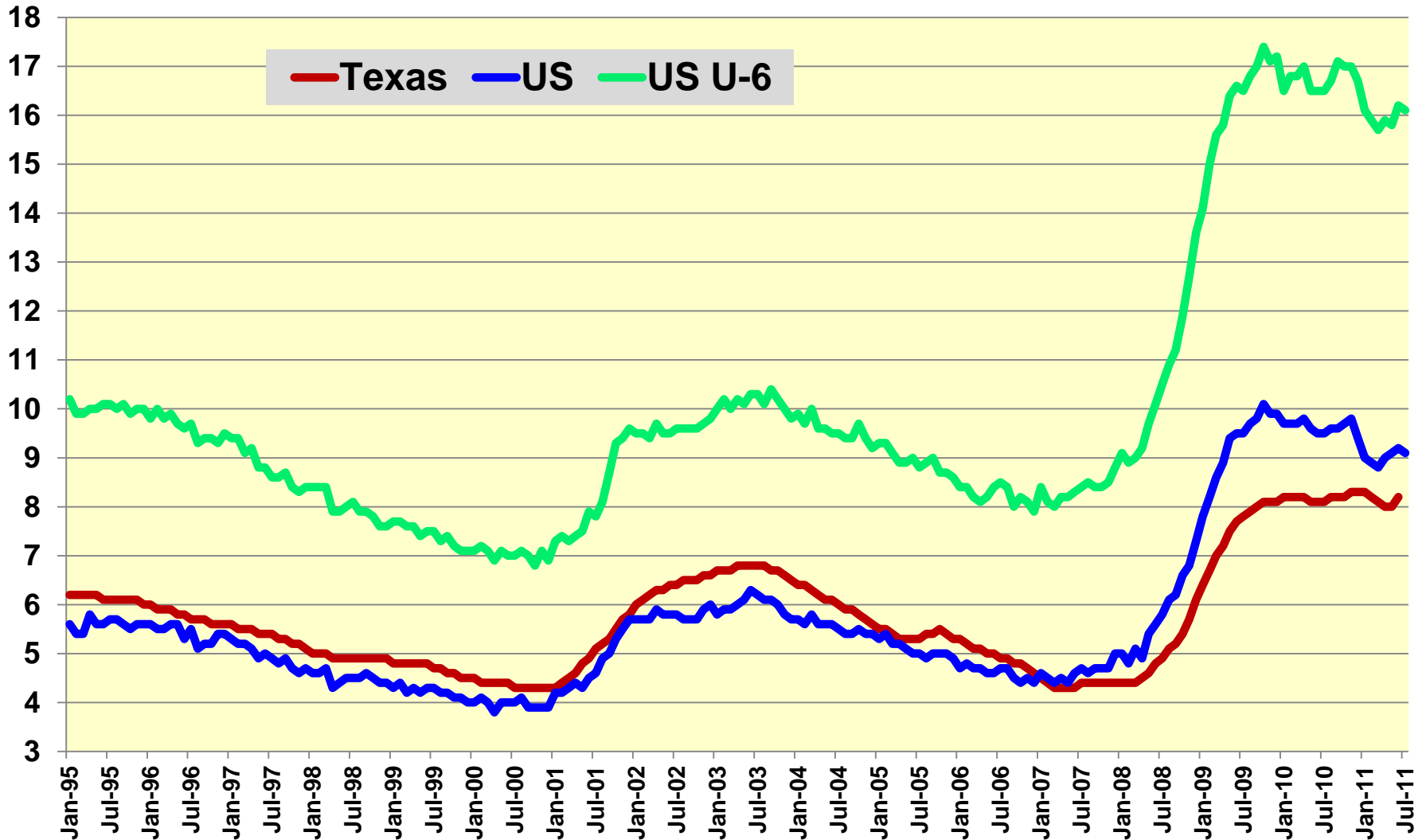
Texas, Dallas and Houston Employment Recovery

Percent Job Losses From Peak



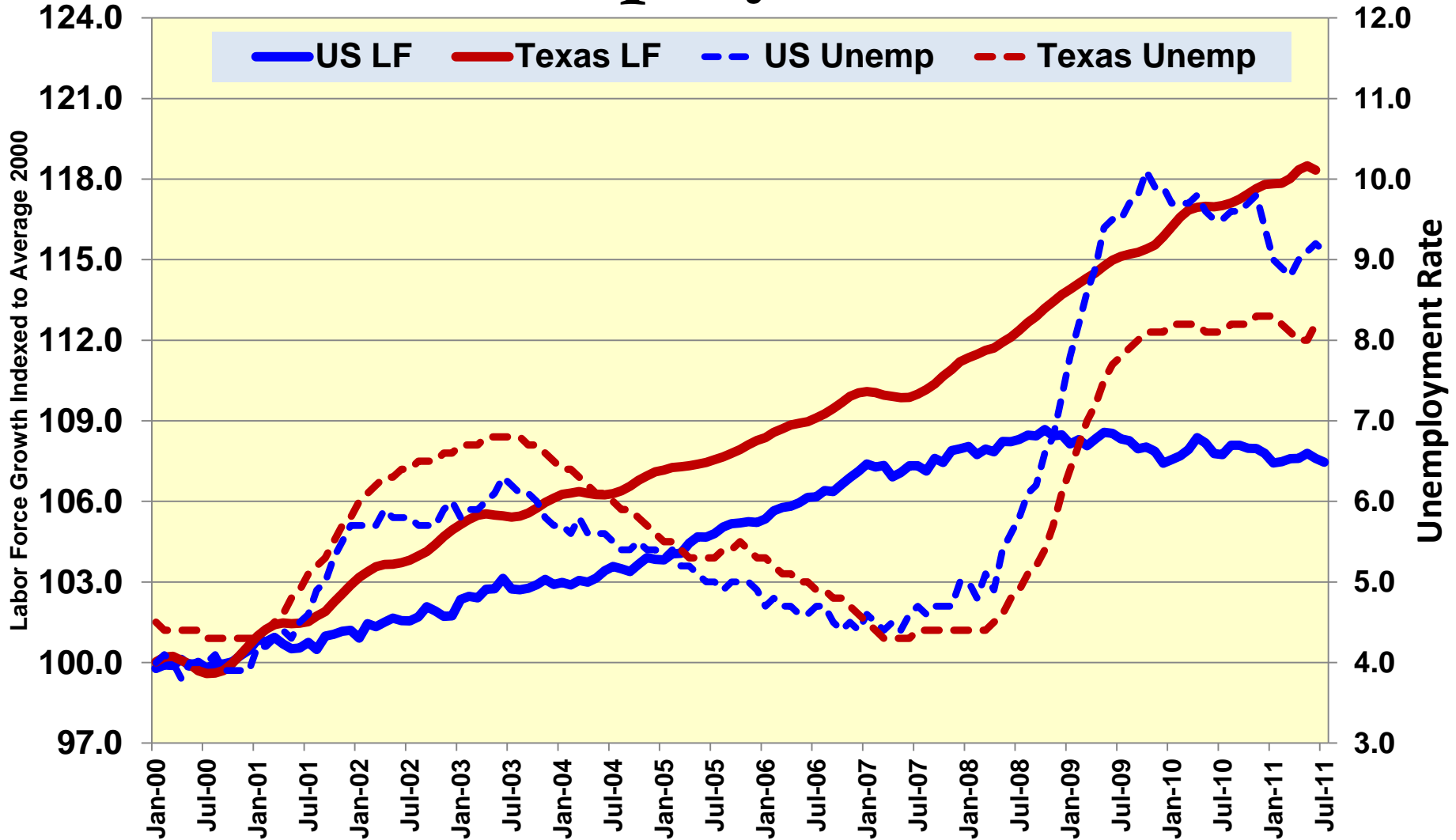
Source: Texas Workforce Commission; Real Estate Center at Texas A&M

US and Texas Unemployment Rate



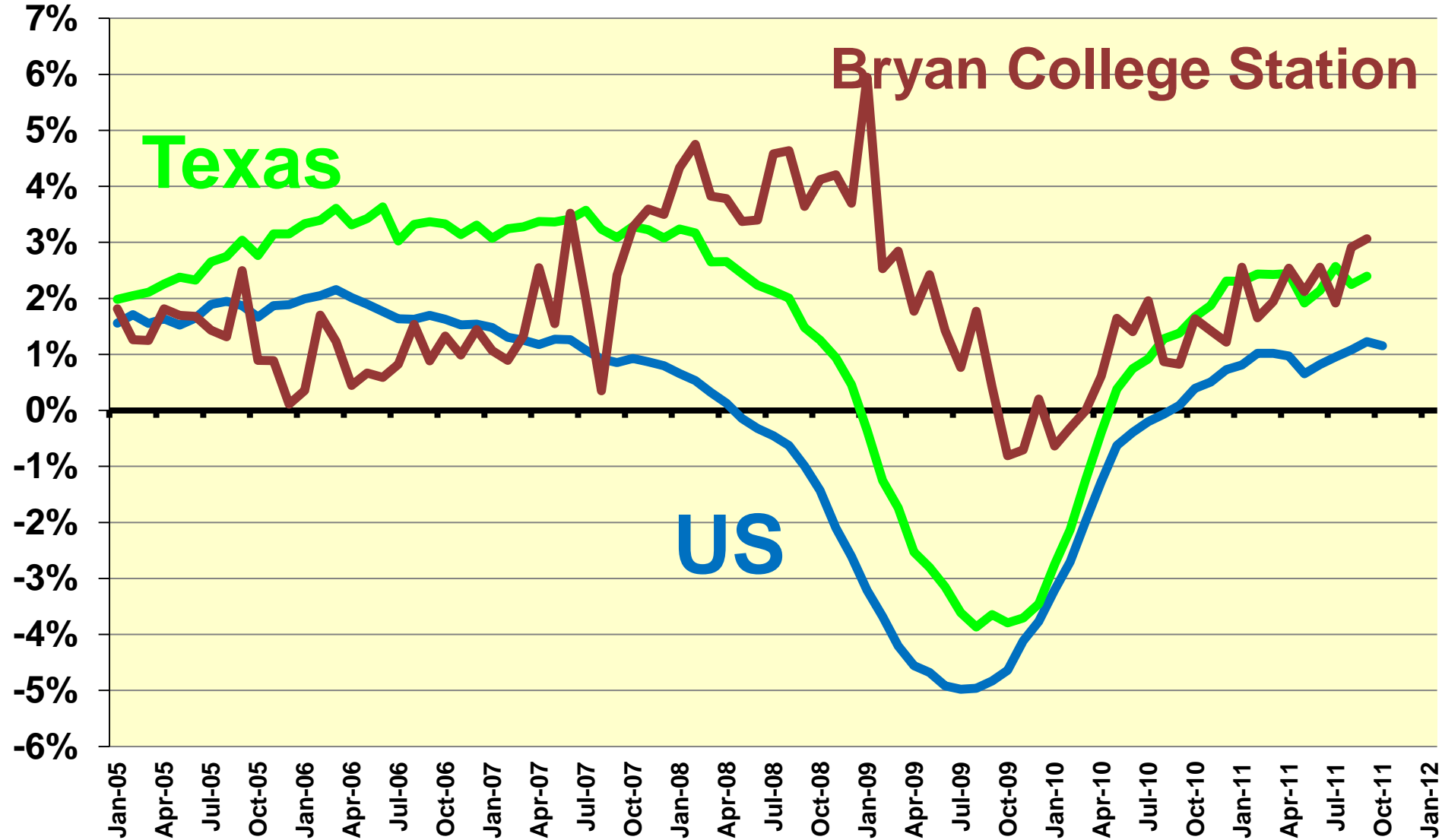
Source: BLS, Texas Workforce Commission; Real Estate Center at Texas A&M

US and Texas Labor Force Growth and Unemployment Rates



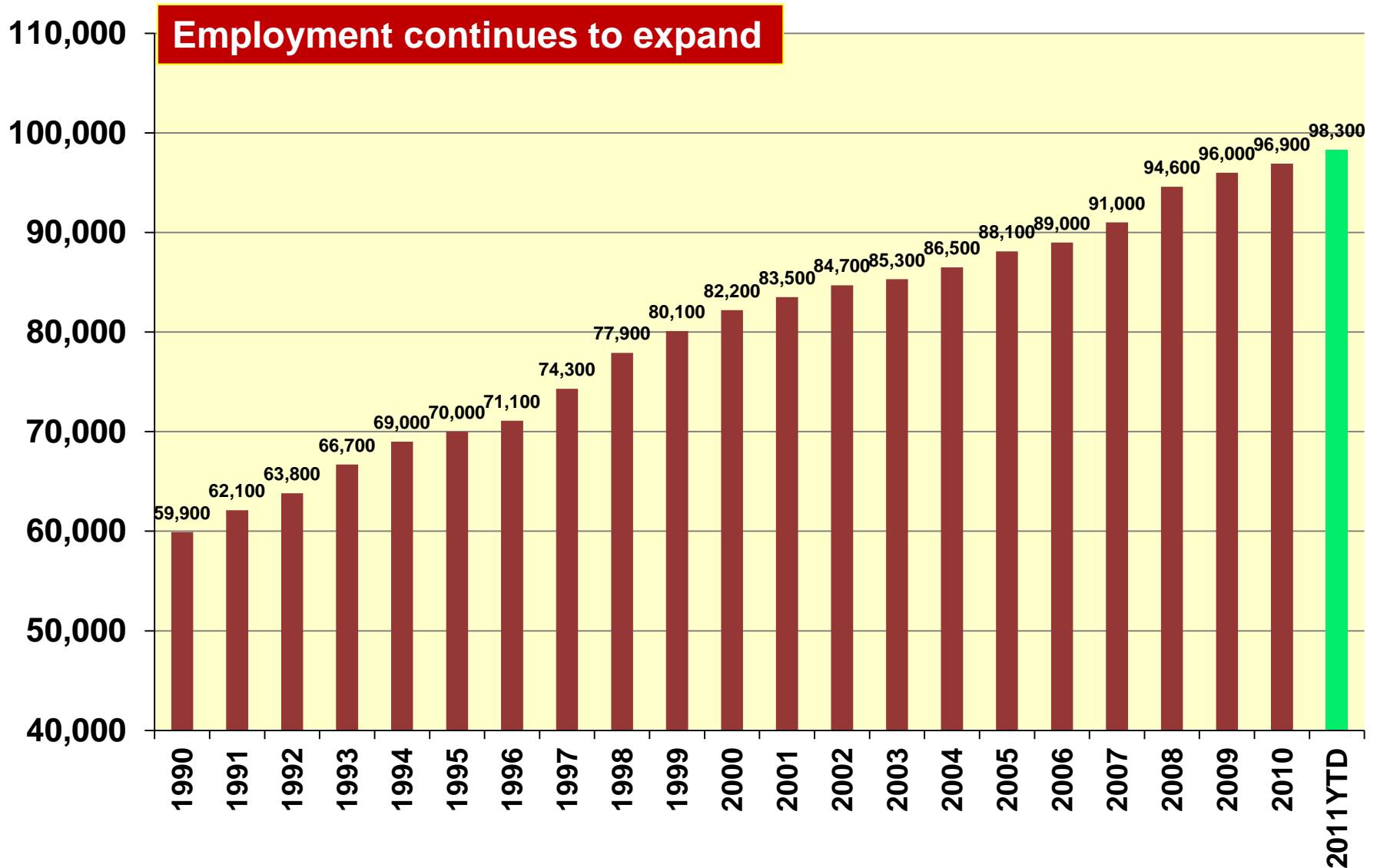
Source: BLS (SA), Real Estate Center at Texas A&M

Annual Job Growth Rates for US, Texas and BCS MSA



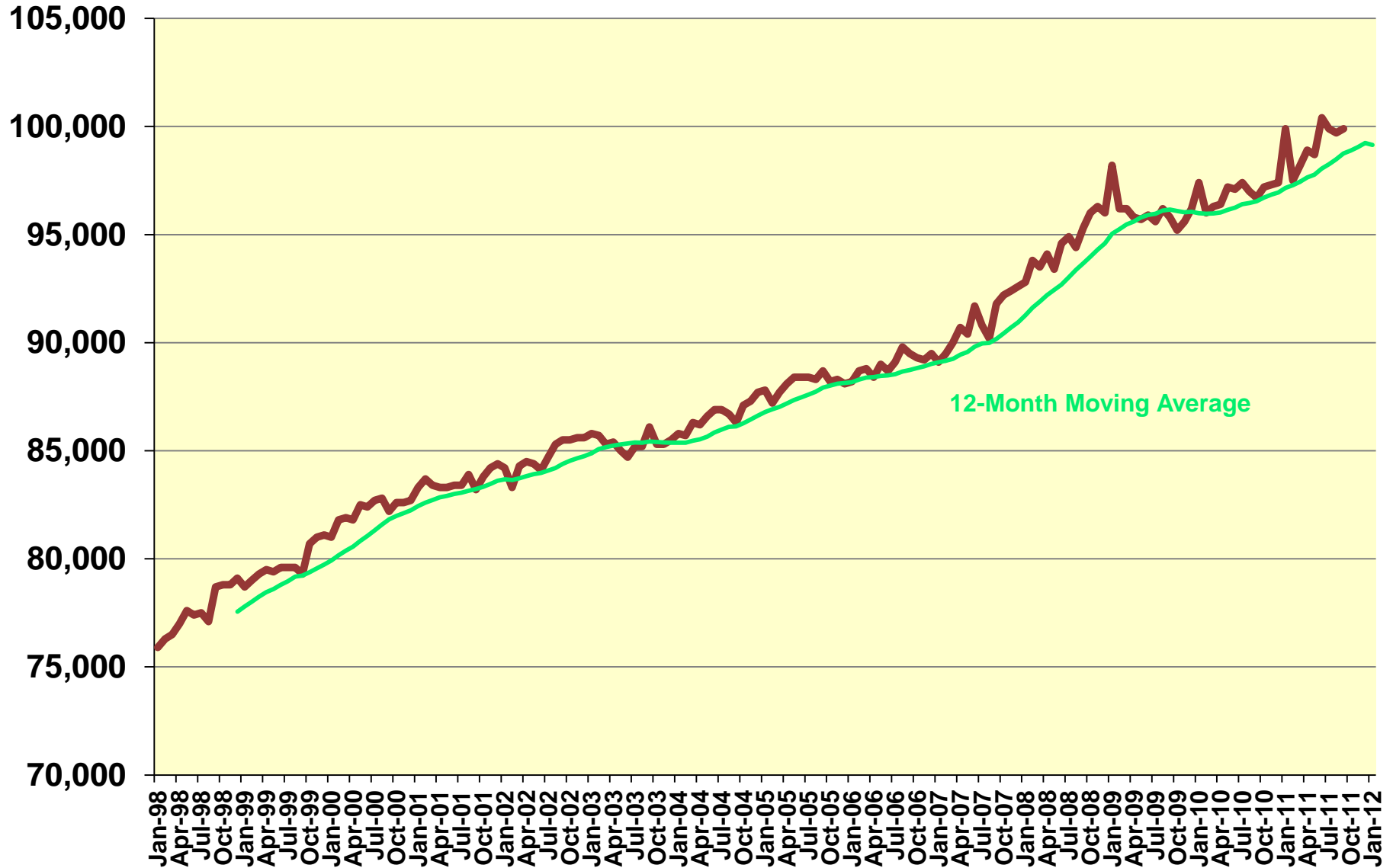
Source: BLS, TWC, Real Estate Center at Texas A&M University

BCS Annual Jobs



Sources: Texas Workforce Commission, Real Estate Center at Texas A&M University

BCS Monthly Jobs

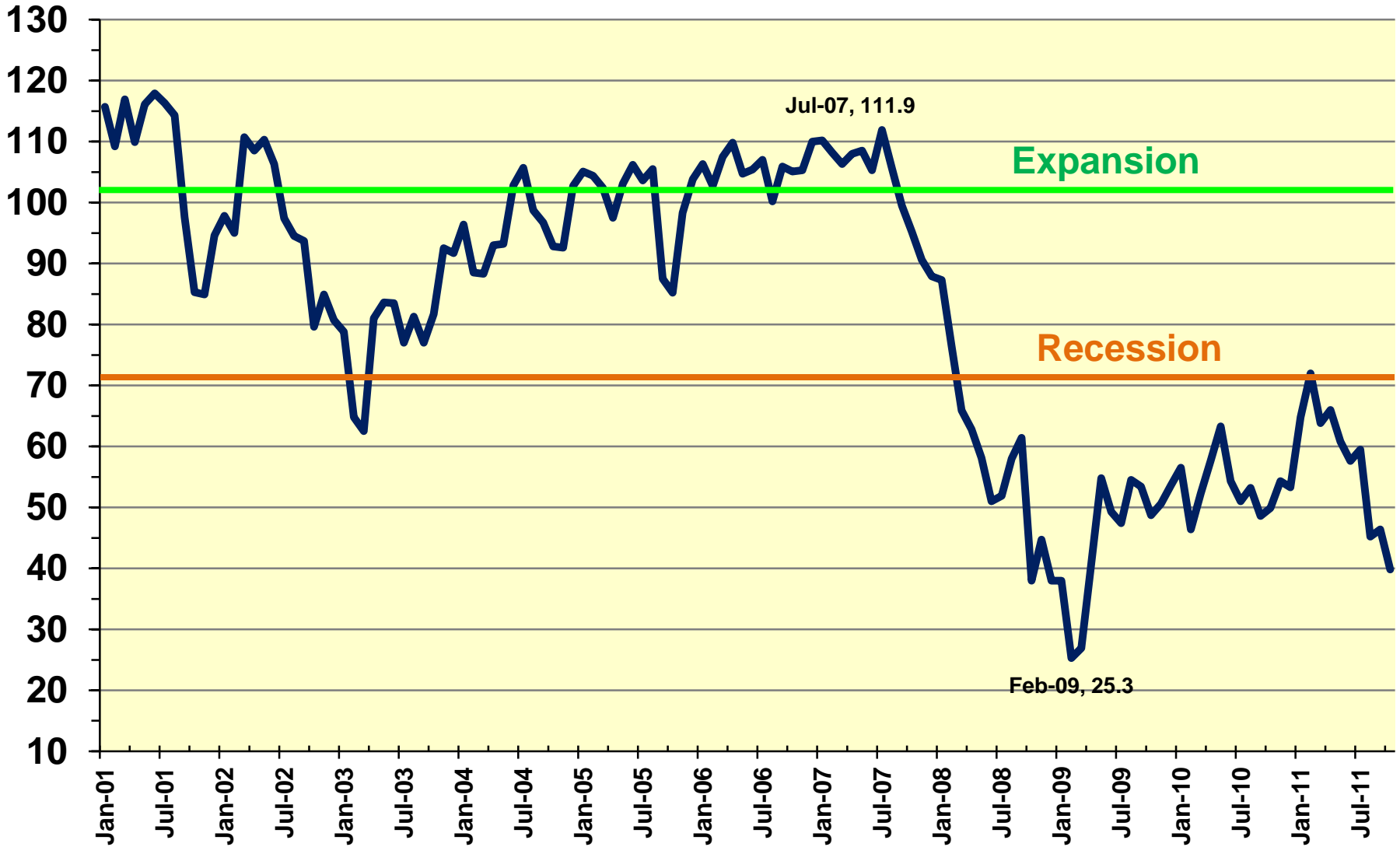


Sources: Texas Workforce Commission, Real Estate Center at Texas A&M University

Major Hurdles for 2012

- 1. Tepid growth in private sector: jobs and spending**
- 2. Government constriction from falling revenues**
- 3. Credit contraction continues for businesses, consumers, mortgages – except government**
- 4. Home prices declining – housing is not leading a general recovery as with past recessions**
- 5. Commercial real estate drag on community and regional banks**
- 6. UNCERTAINTY & Lack of CONFIDENCE**
government actions, regulations and taxes;
national debt & deficits; global disruptions

Consumer Confidence Index



Source: The Conference Board (1985=100)

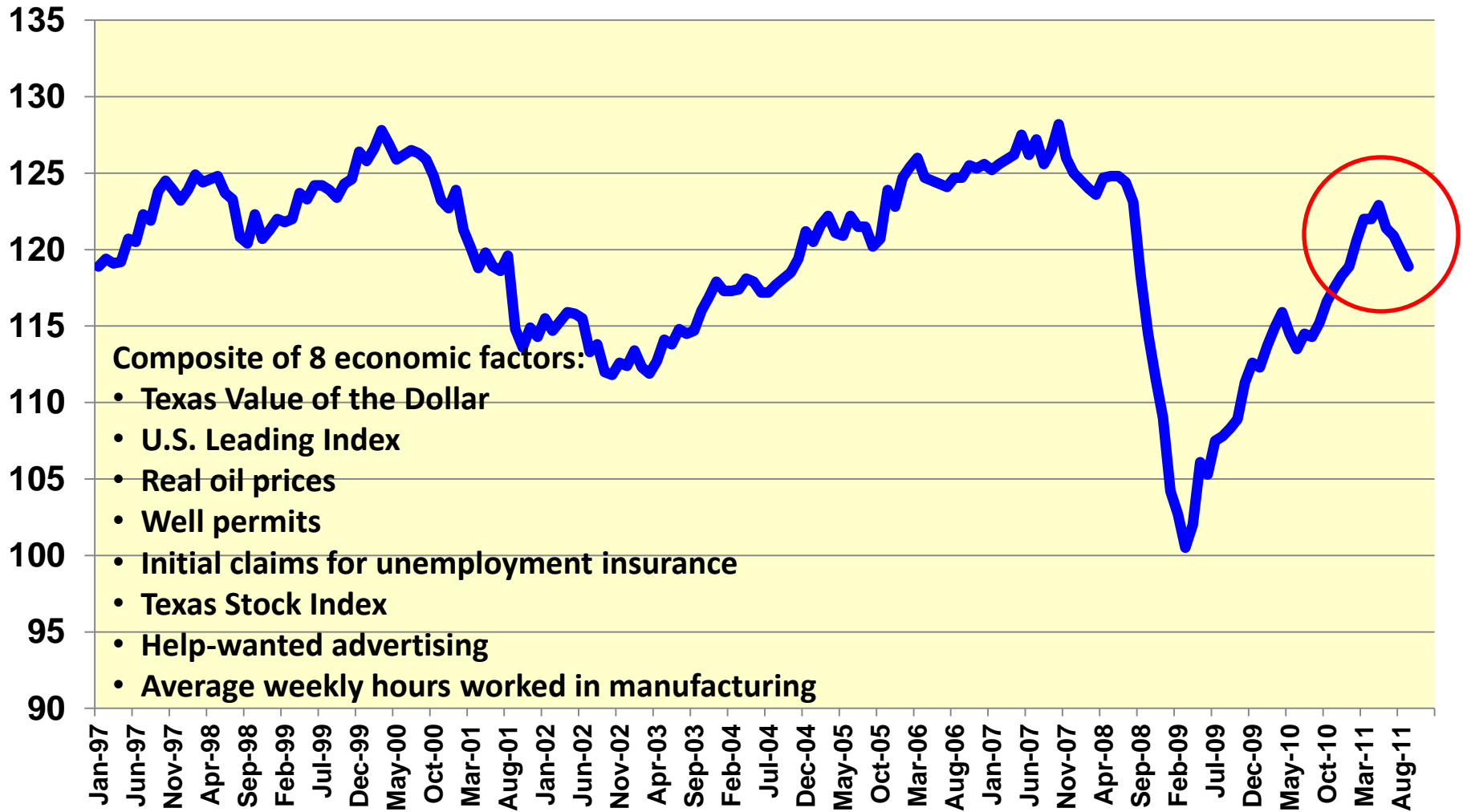
The Law of Unintended Consequences



Reasons for Optimism

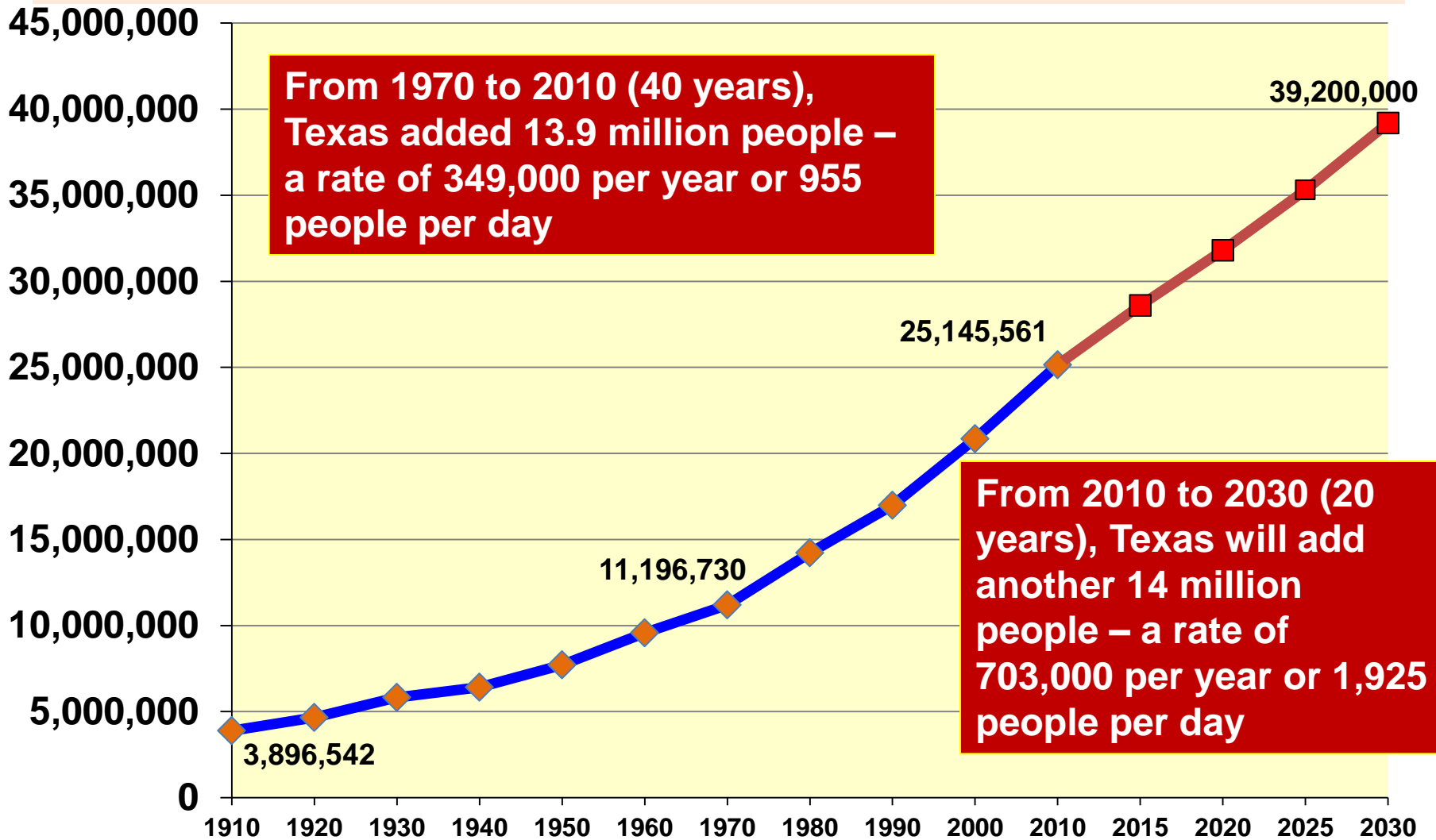
- ❑ Texas job growth double the national rate
- ❑ Relentless population growth in Texas
- ❑ Government budgets finally getting real - maybe
- ❑ Four years of pent up demand
 - Retiring
 - Moving to a new location
 - Buying a house
 - Expanding a business
 - Relocating a business to Texas

Texas Leading Economic Index



Source: Dallas Federal Reserve

Texas Population 1910-2030



Sources: U.S. Census Bureau, Texas State Demographer 2008 Projections (average of 2000-2007 and 100% 1990-2000 immigration scenarios)

Fastest Growing States, 2000-2010

	2000 Population*	2010 Population	Numerical Change 2000-2010	Percent Change 2000-2010
United States	281,424,602	308,745,538	27,323,632	9.7%
Texas	20,851,820	25,145,561	4,293,741	20.6%
California	33,871,648	37,253,956	3,382,308	10.0%
Florida	15,982,378	18,801,310	2,818,932	17.6%
Georgia	8,186,453	9,687,653	1,501,200	18.3%
North Carolina	8,049,313	9,535,483	1,486,170	18.5%
Arizona	5,130,632	6,392,017	1,261,385	24.6%
Virginia	7,078,515	8,001,024	922,509	13.0%
Washington	5,894,121	6,724,540	830,419	14.1%
Colorado	4,301,261	5,029,196	727,935	16.9%
Nevada	1,998,257	2,700,551	702,294	35.1%
Tennessee	5,689,283	6,346,105	656,822	11.5%

**15.7% of numerical
change in U.S.**

Source: 2010 U.S. Census Bureau

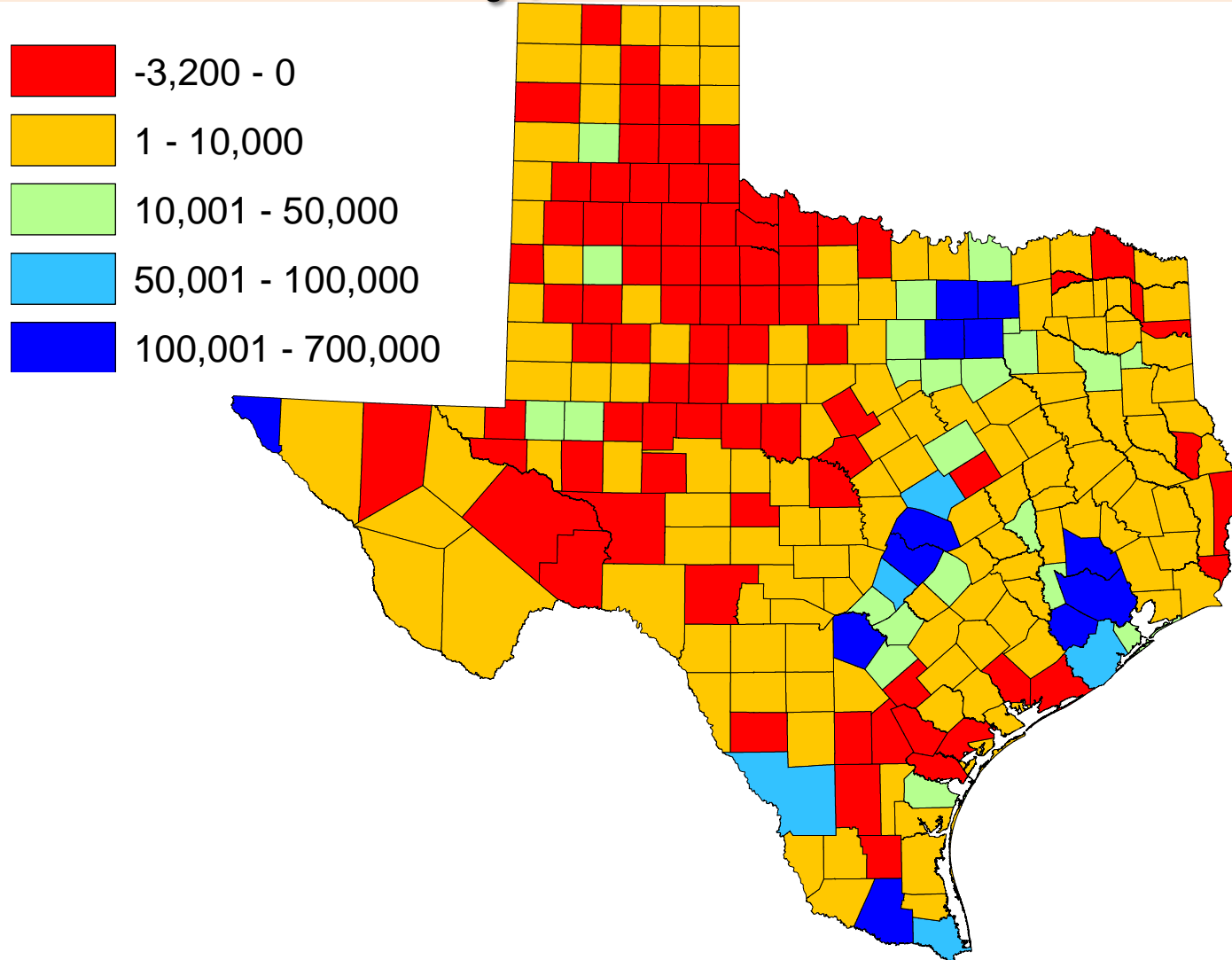
2010 Census Top 25 States

1	California	37,253,956
2	Texas	25,145,561
3	New York	19,378,102
4	Florida	18,801,310
5	Illinois	12,830,632
6	Pennsylvania	12,702,379
7	Ohio	11,536,504
8	Michigan	9,883,640
9	Georgia	9,687,653
10	North Carolina	9,535,483
11	New Jersey	8,791,894
12	Virginia	8,001,024
13	Washington	6,724,540
14	Massachusetts	6,547,629
15	Indiana	6,483,802
16	Arizona	6,392,017
-	Dallas-Fort Worth	6,371,773
17	Tennessee	6,346,105
18	Missouri	5,988,927
-	Houston	5,946,800
19	Maryland	5,773,552
20	Wisconsin	5,686,986
21	Minnesota	5,303,925
22	Colorado	5,029,196
23	Alabama	4,779,736
24	South Carolina	4,625,364
25	Louisiana	4,533,372

> 34 states

> 32 states

Change in Total Population by County, 2000 to 2010



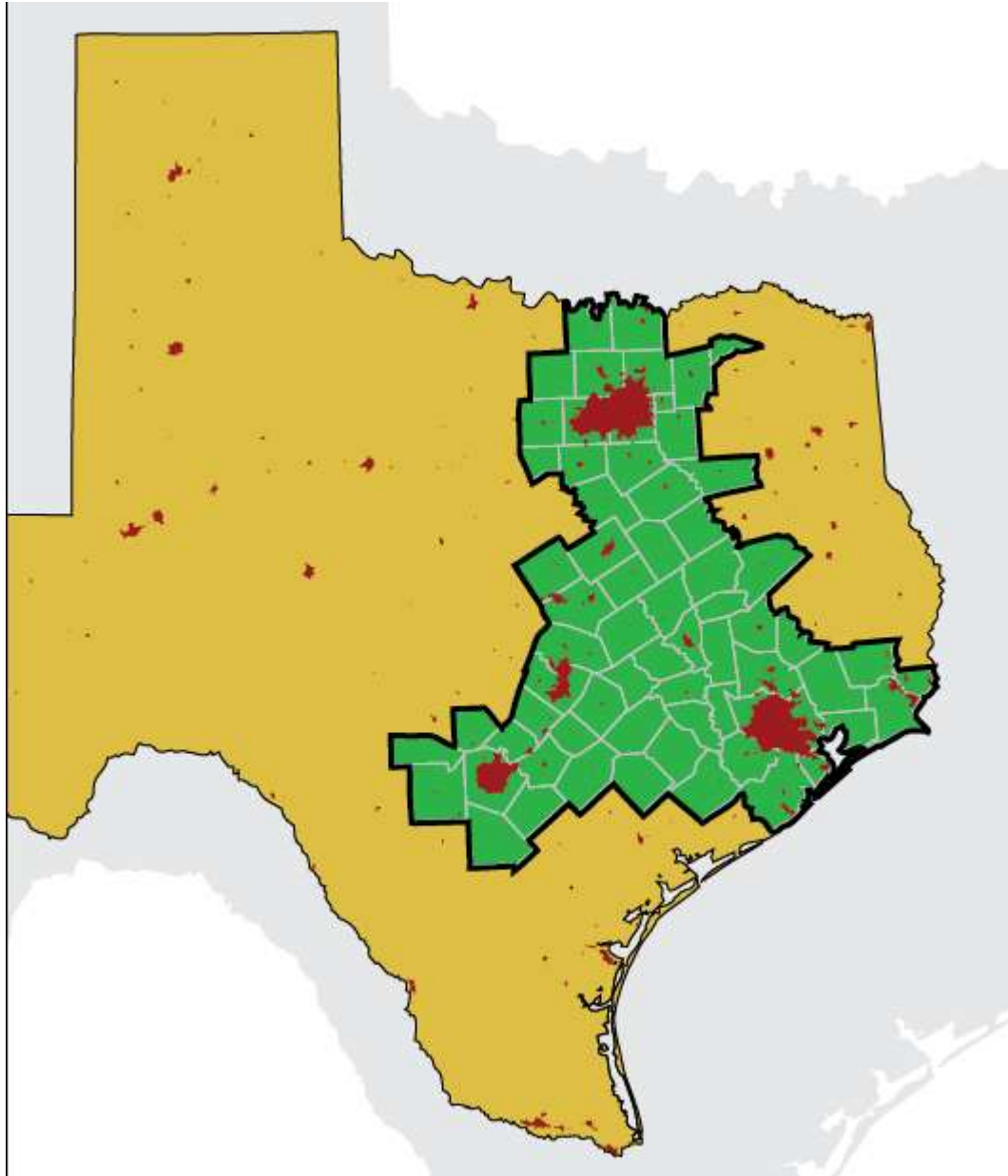
Source: Texas State Demographer's Office, U.S. Census Bureau 2000 and 2010 Census Counts

Texas Is An Urban State

MSA	2010 Population (millions)	Percent of Total State Population
Austin	1.72	6.8%
Dallas-Ft. Worth	6.37	25.3%
Houston	5.95	23.7%
San Antonio	2.14	8.5%
Total 4 MSAs	16.2	64.3%
Total All MSAs	21.7	86.5%
Texas	25.1	100.0%

Texas Urban Triangle

In 2007, 15.3 million people, about 90% of the total population in the area, lived in the four principal metro areas in the triangle



By 2040, 33.7 million people will live in the four principal metro areas in the triangle, a 120% increase

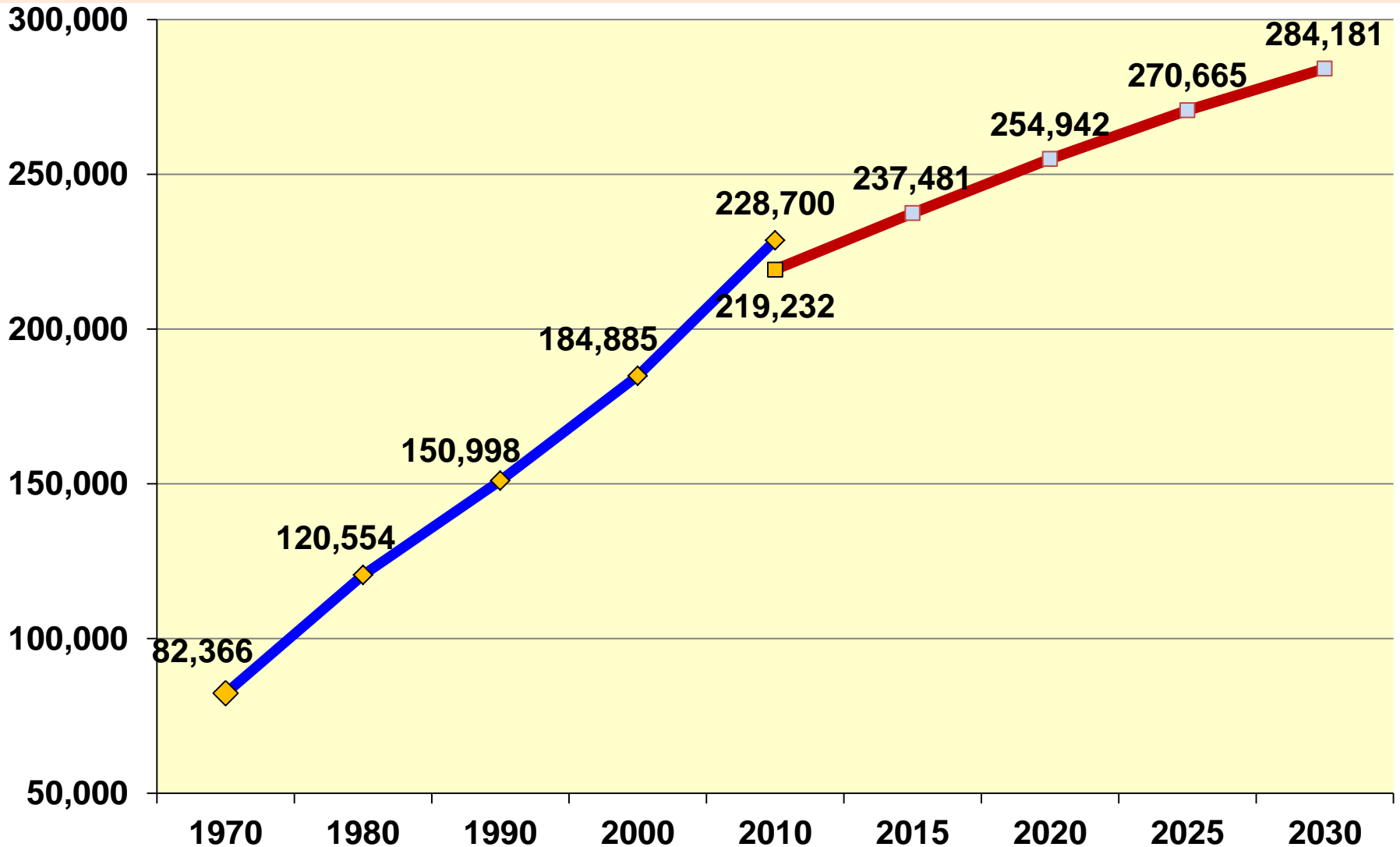
States with Largest Unauthorized Immigrant Populations, 2010

State	Estimate (thousands)	Range	Percent of 2010 Pop
California	2,550	(2,350 - 2,750)	6.8%
Texas	1,650	(1,450 - 1,850)	6.5%
Florida	825	(725 - 950)	4.4%
New York	625	(525 - 725)	3.2%
New Jersey	550	(425 - 650)	6.3%
Illinois	525	(425 - 625)	4.1%
Georgia	425	(300 - 550)	4.4%
Arizona	400	(275 - 500)	6.3%

Sources: Texas State Demographer's Office;
Pew Hispanic Center estimates based on residual methodology applied to March Supplements to the
Current Population Survey (February 1, 2011)

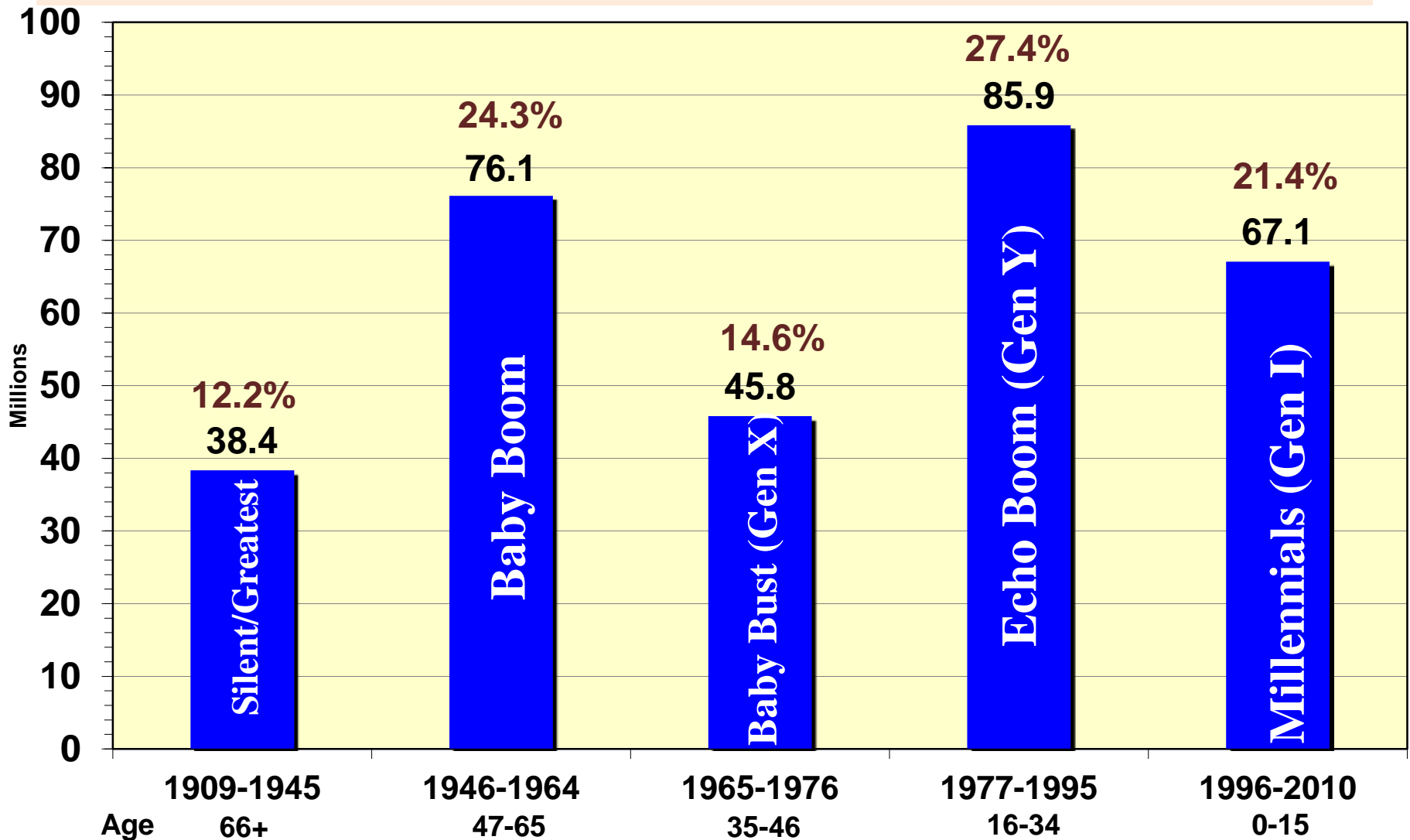
BCS MSA Population

Brazos, Burleson and Robertson Counties



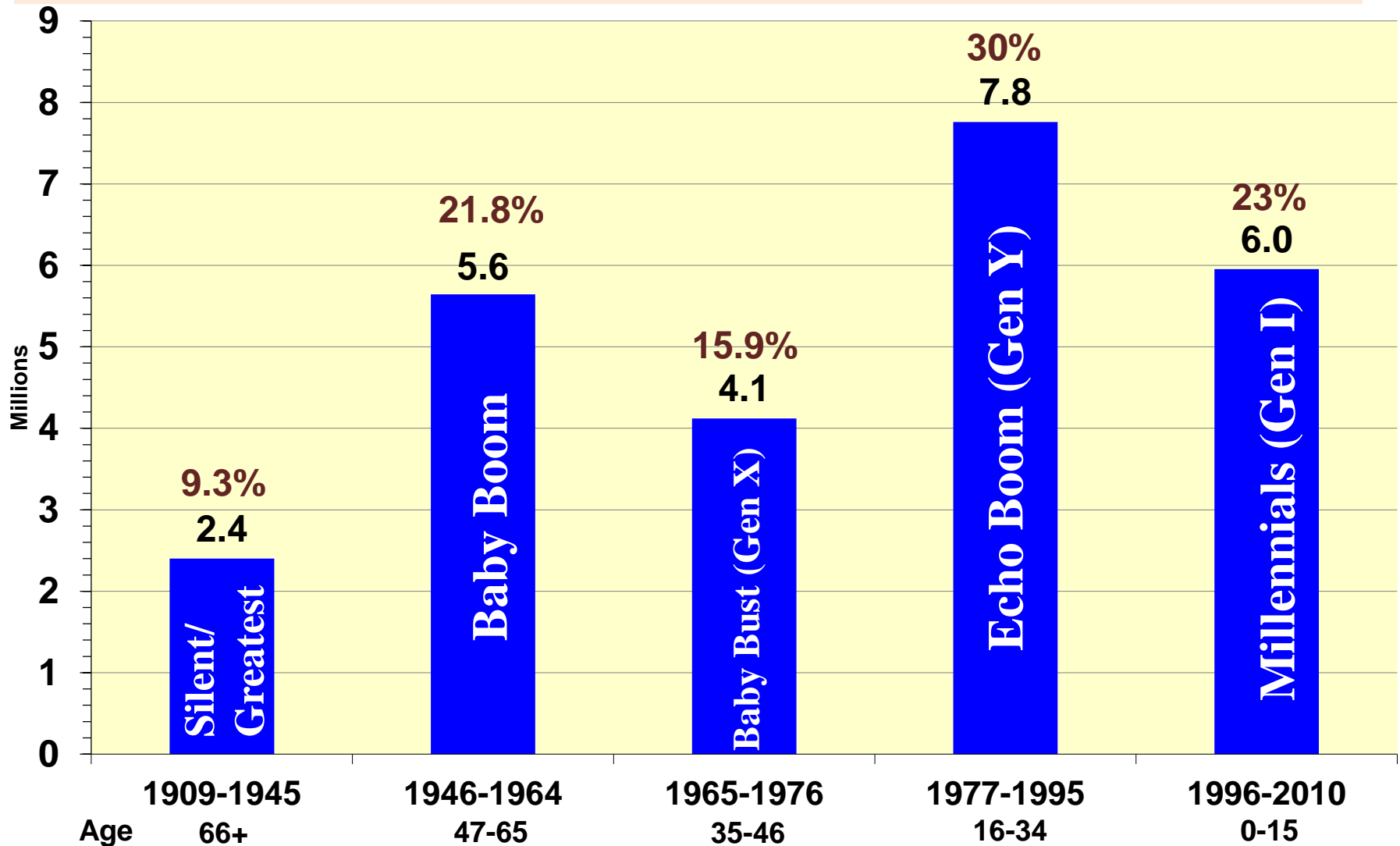
Sources: U.S. Census Bureau, Texas State Demographer 2008 Projections (1990-2000 scenario)

U.S. Population Groups 2011



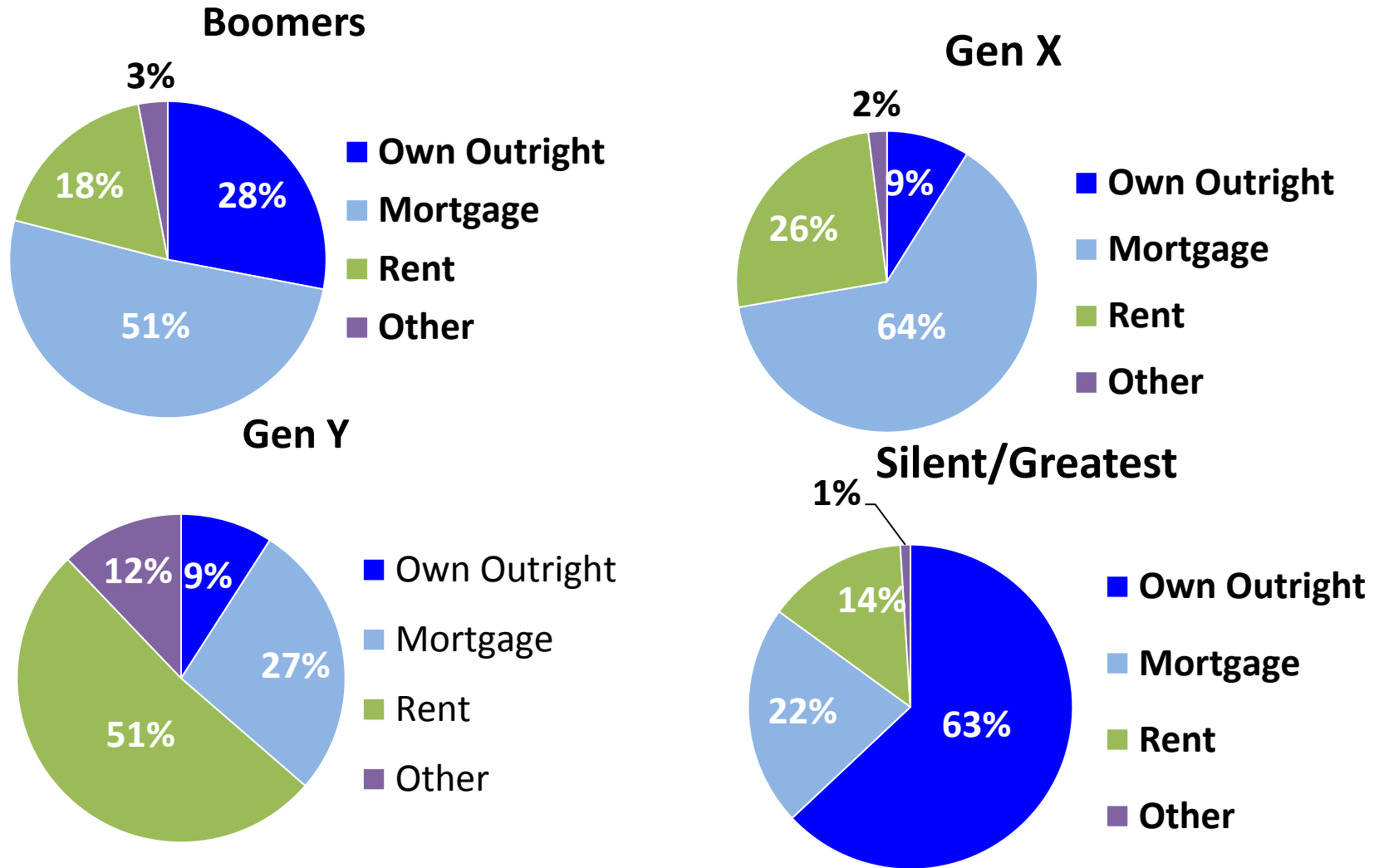
Source: U.S. Census Bureau; 2009 National Population Projections (Supplemental)

Texas Population Groups 2011



Source: U.S. Census Bureau; 2009 National Population Projections (Supplemental)

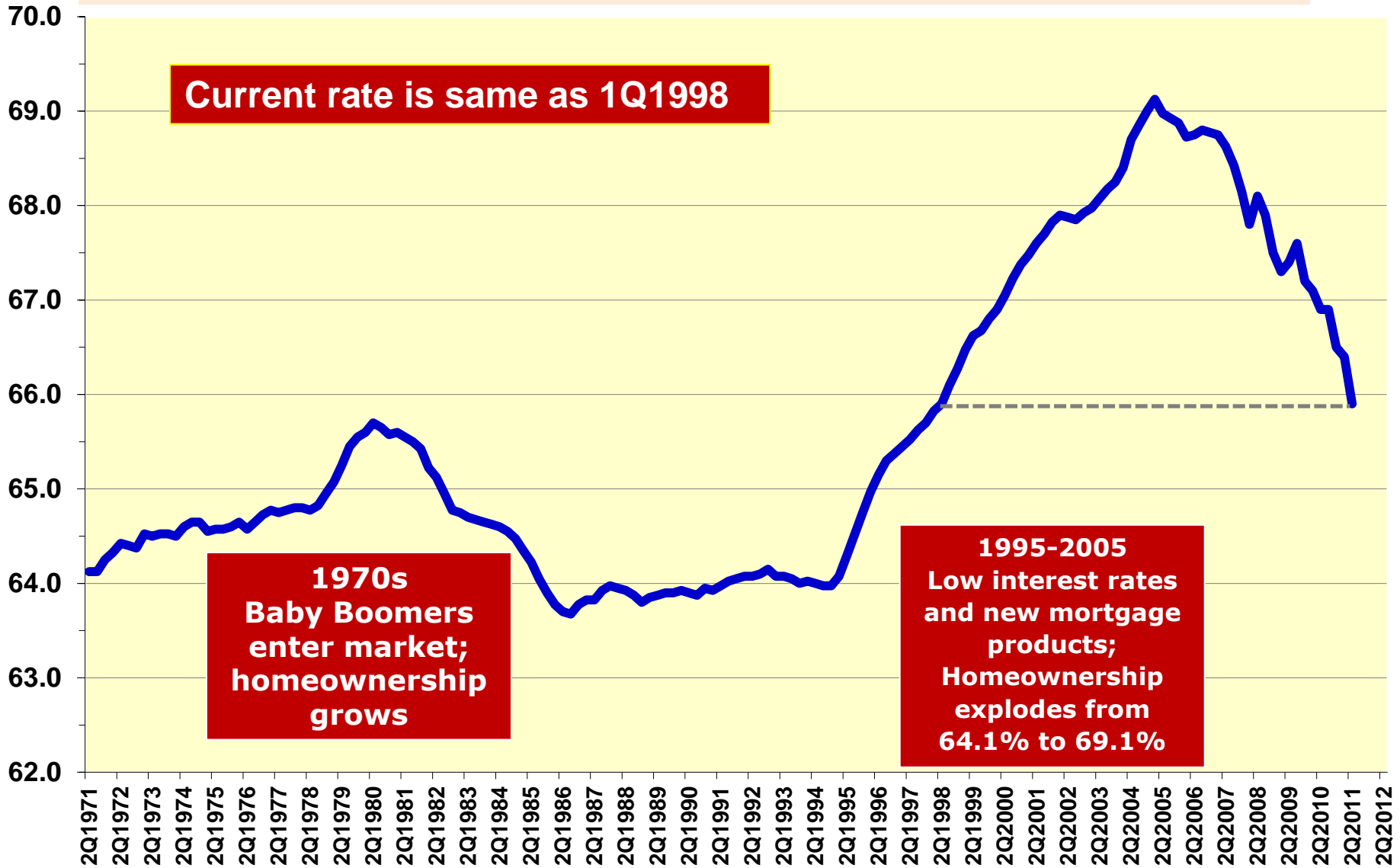
Boomers Own - Gen Y Rents



Source: FNMA National Housing Survey, 4Q2010

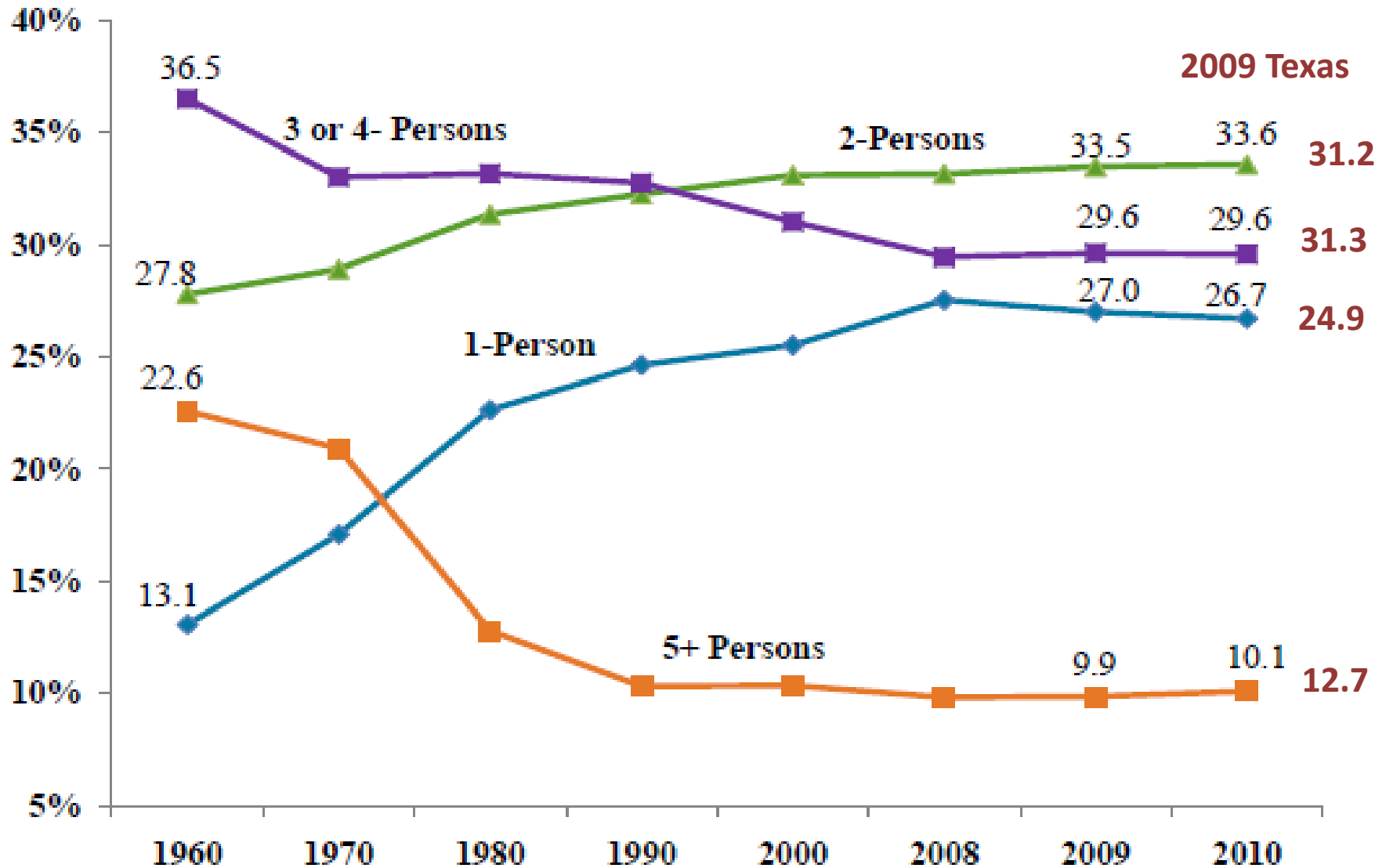
**A Changing Housing Market
Must Recuperate to Lead a
General Economic Recovery**

US Homeownership Rate

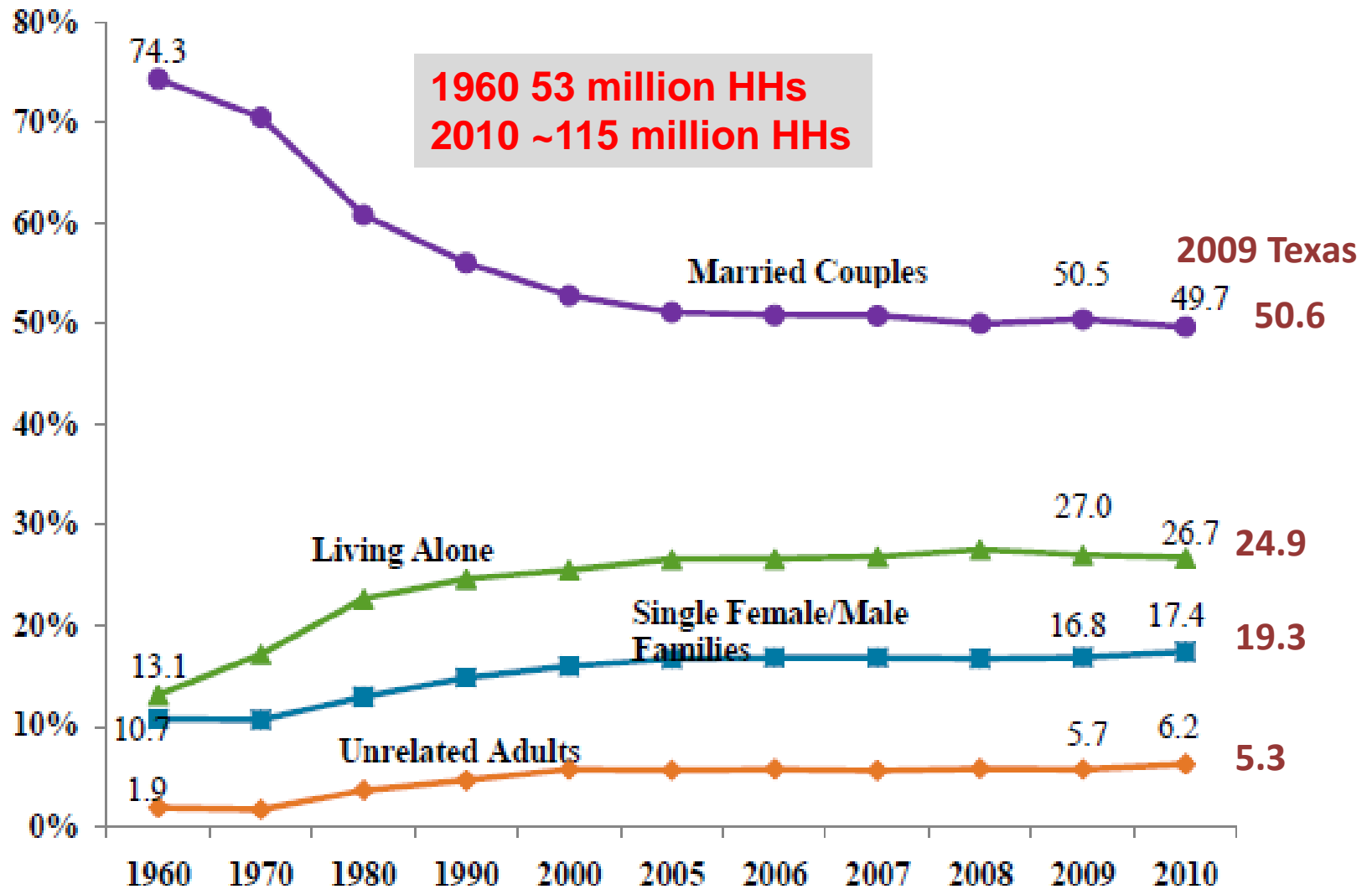


Source: US Census Bureau; FHLMC (4-quarter moving average homeownership rate)

Size of US Households



Types of US Households

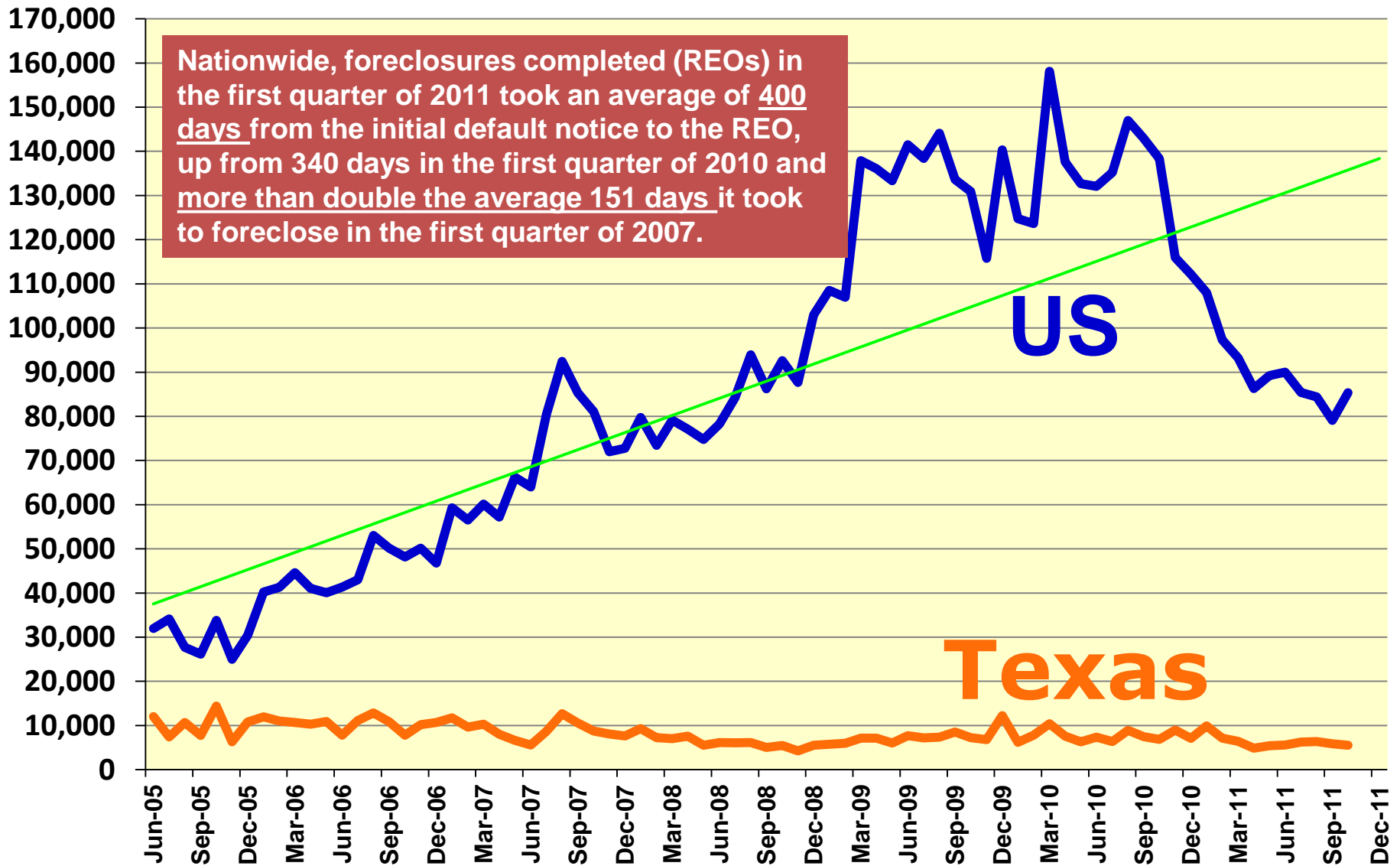


Source: NAHB Economics and Housing Policy Group, "The New Home in 2015," December 2010

Current Housing Issues

- Government stimulus efforts prolonged market recovery: tax credits + mortgage workouts
- Low Demand and High Supply = Weaker Home Values
- FNMA/FHLMC resolution at critical juncture
- Lenders in difficulty: told to make loans, punished for making RE loans; CRE and other bad loans have not be cleared; definition of QRM
- Renting more viable option to buying
- First-time buyers financially unable to buy
- FHA essentially a subprime lender

Monthly Foreclosure Filings



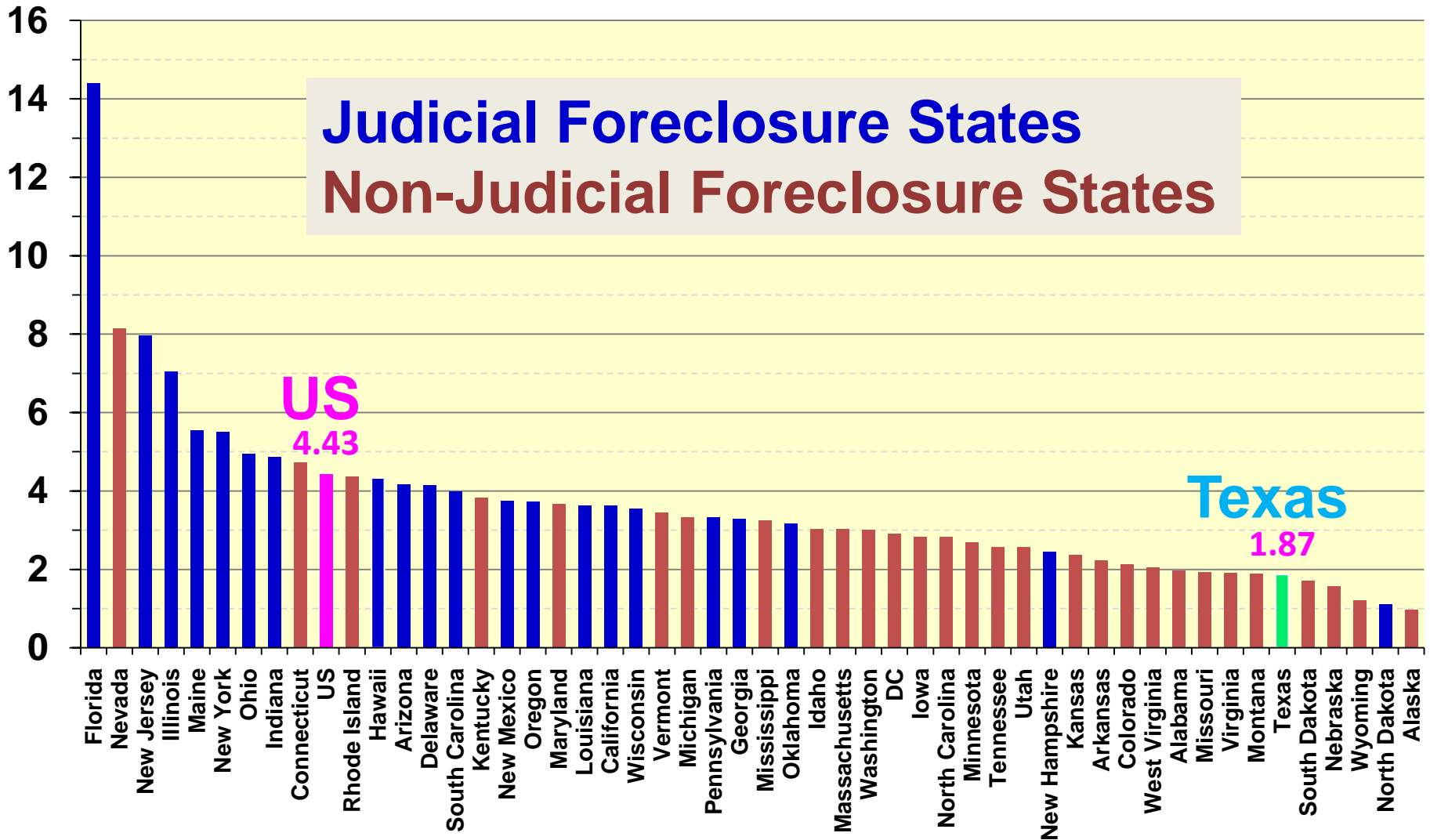
Nationwide, foreclosures completed (REOs) in the first quarter of 2011 took an average of 400 days from the initial default notice to the REO, up from 340 days in the first quarter of 2010 and more than double the average 151 days it took to foreclose in the first quarter of 2007.

Source: RealtyTrac, Inc.

Data include Notices of Trustee Sales plus Notices of Foreclosure Sale

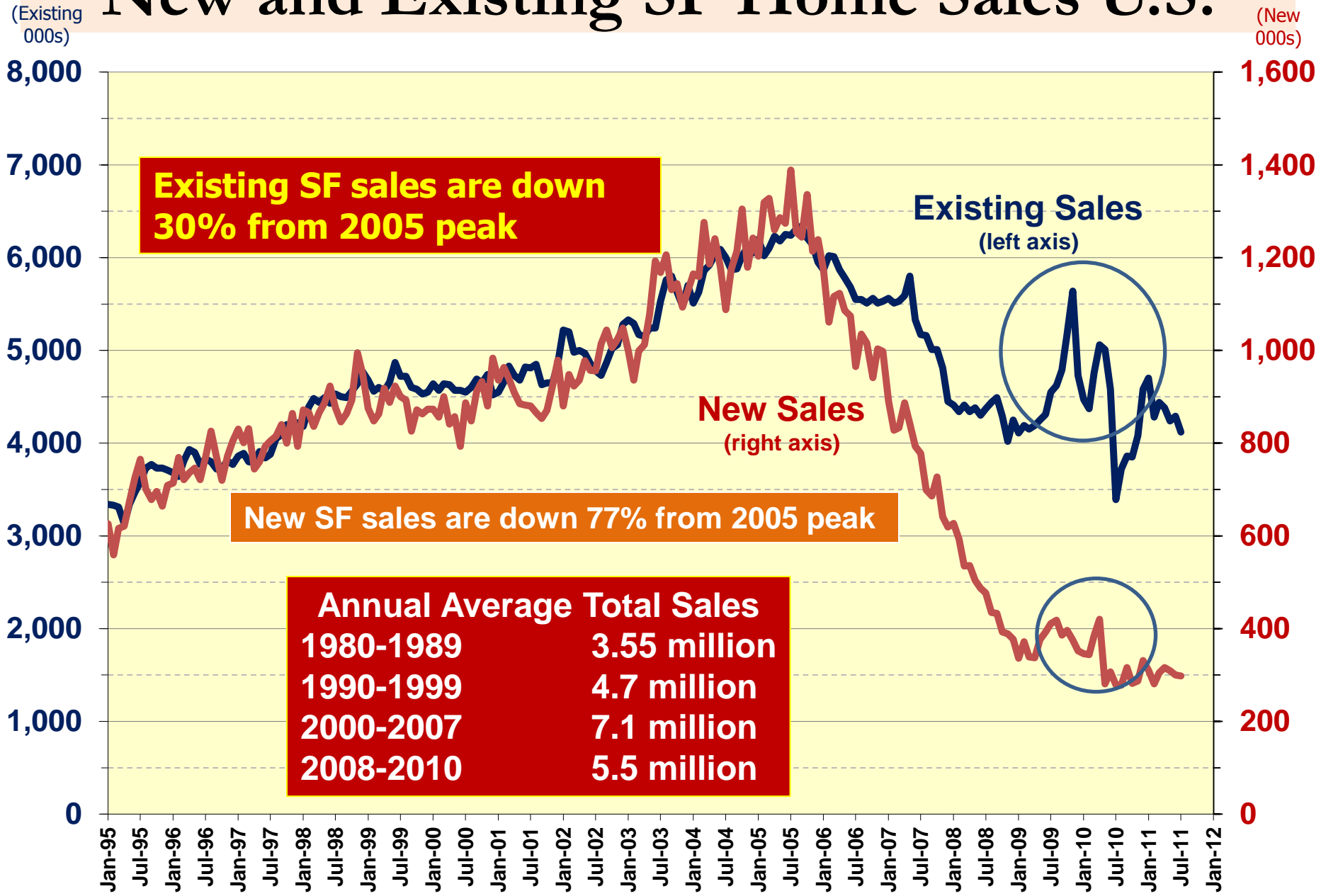
Percent of Loans in Foreclosure

End of 2Q2011



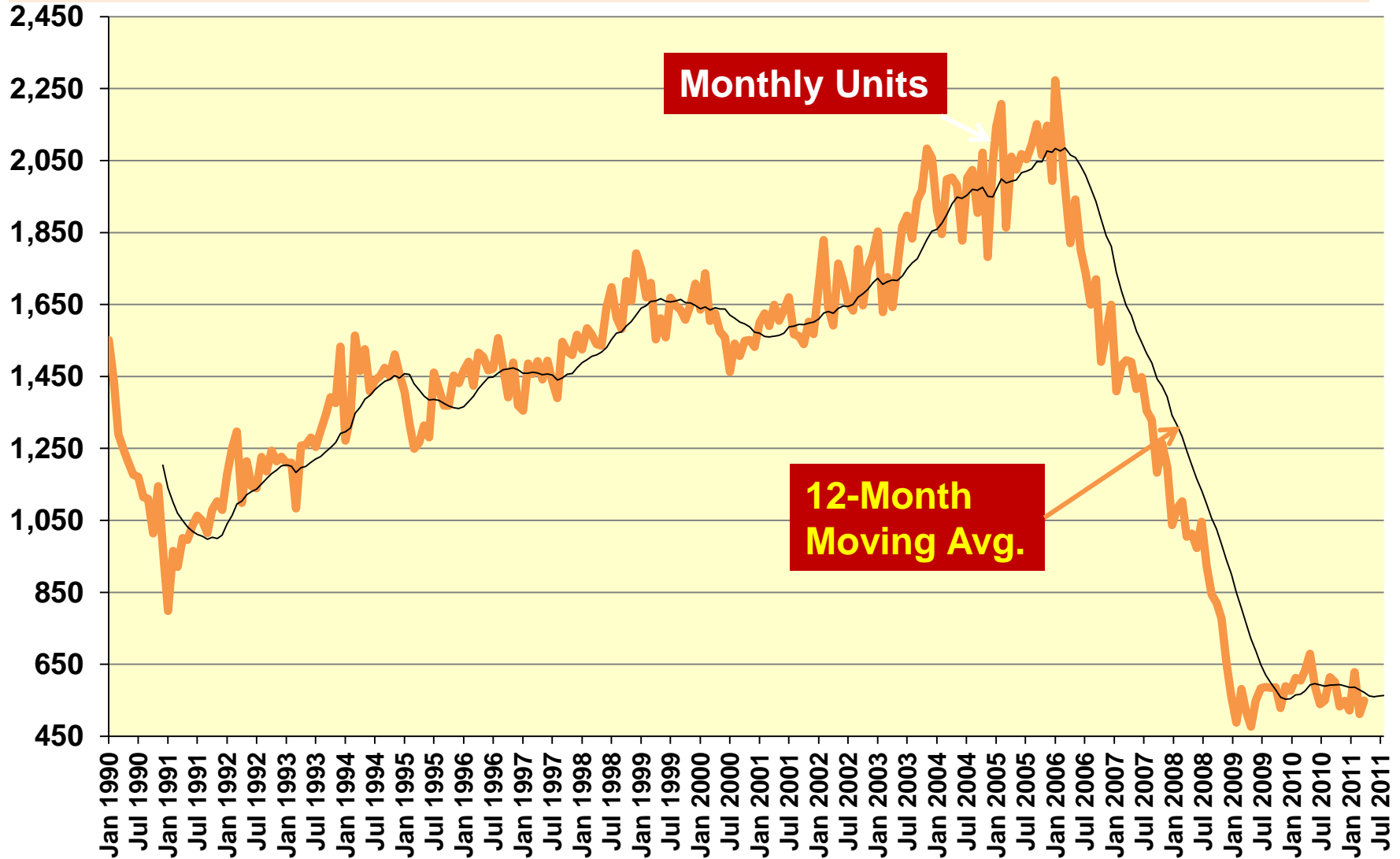
Source: Mortgage Bankers Association, National Delinquency Survey

New and Existing SF Home Sales U.S.



US Total Housing Starts

Total Units & 12-Month Moving Average

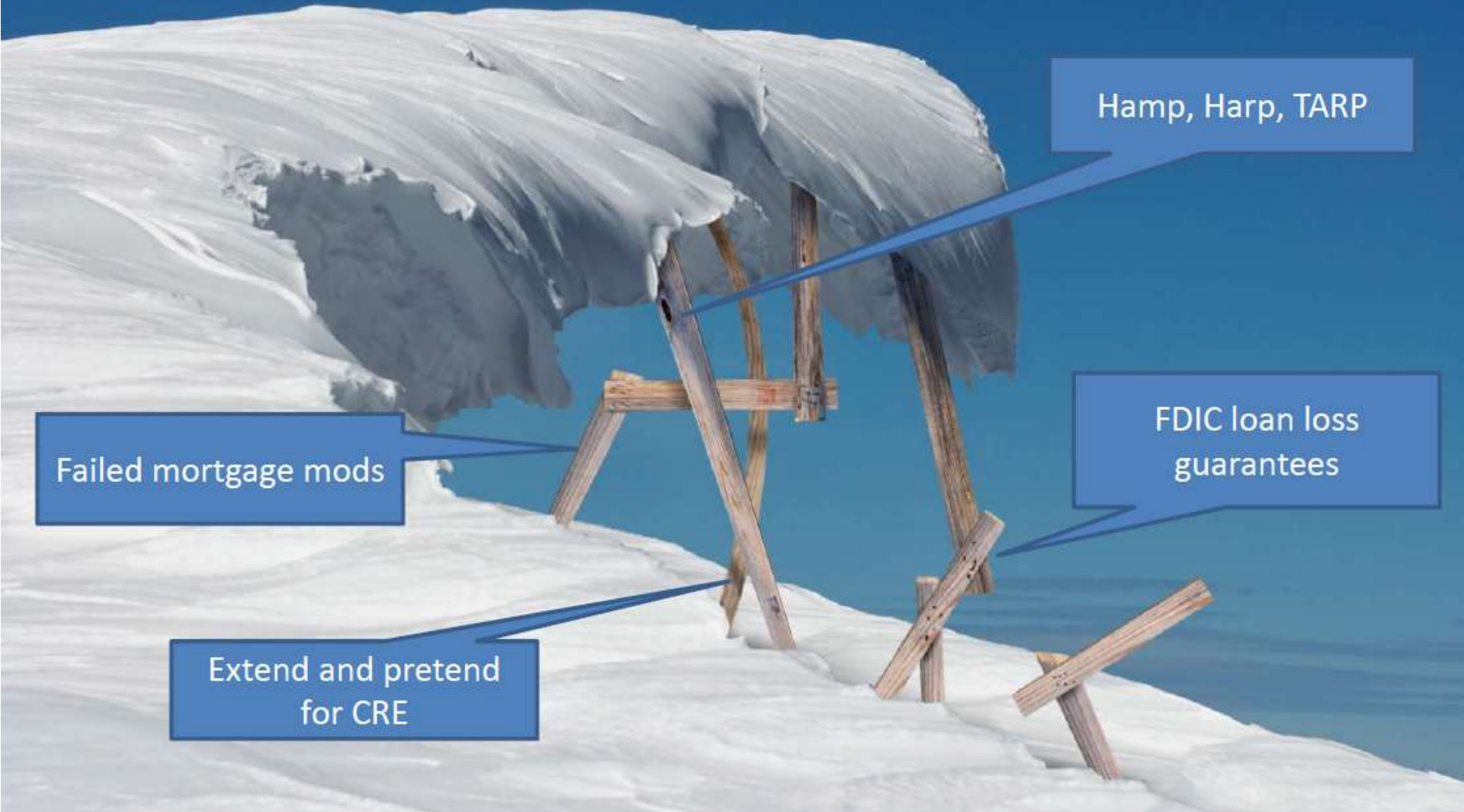


Source: US Census Bureau, Real Estate Center at Texas A&M

The Shadow Inventory
is an avalanche ready to happen.

Everybody knows it,
and nobody is skiing.

The overhang of shadow inventory is killing the housing and CRE markets



Hamp, Harp, TARP

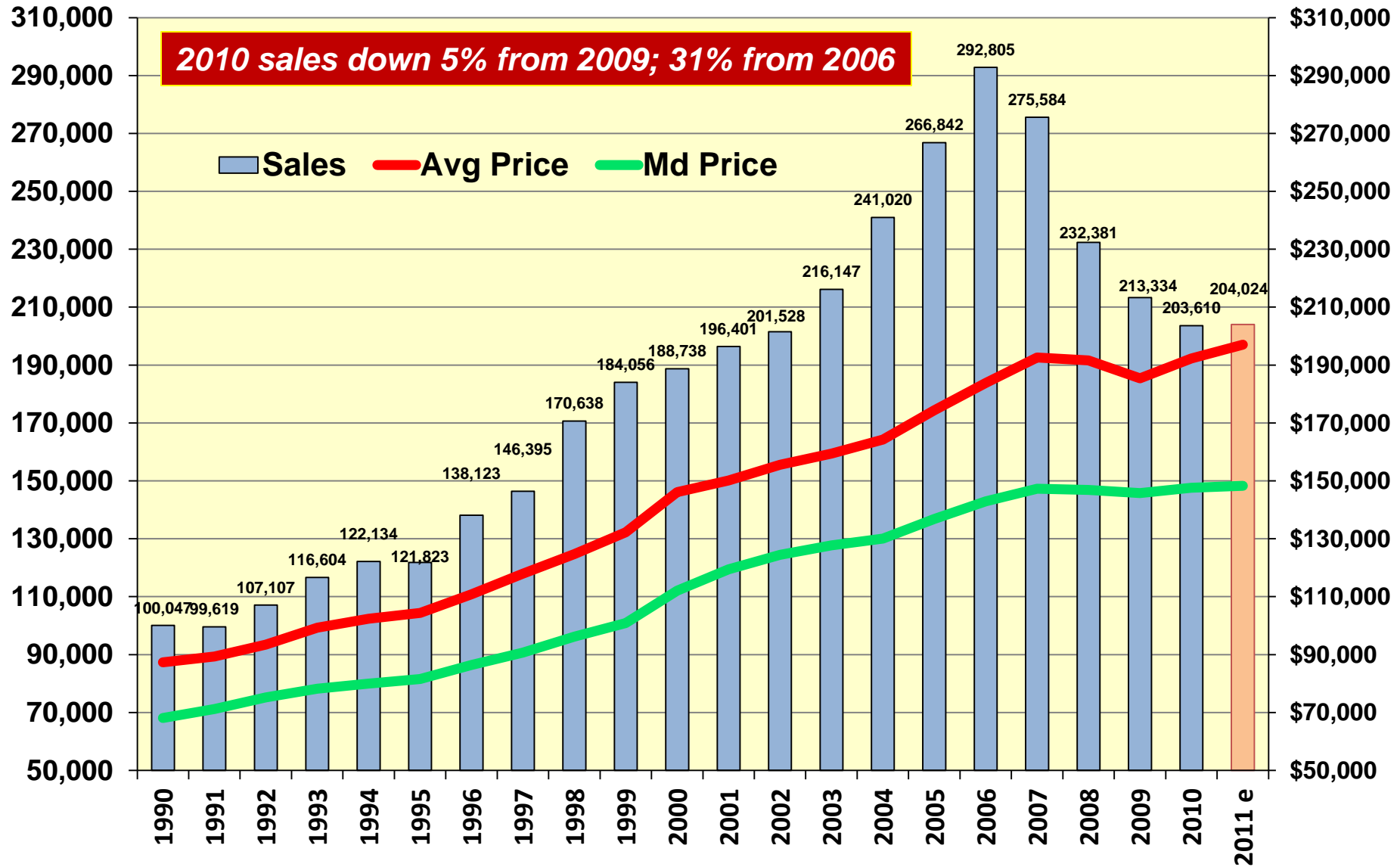
Failed mortgage mods

FDIC loan loss guarantees

Extend and pretend for CRE

Texas & B-CS Housing Markets

Annual Texas Home Sales and Prices

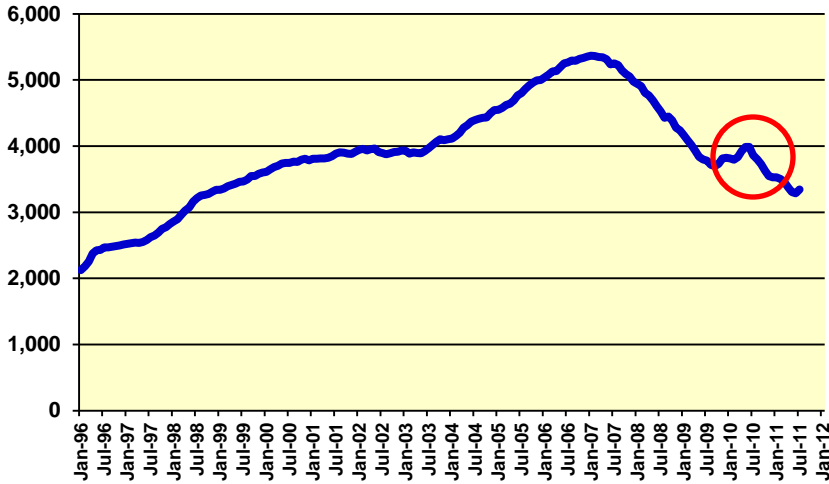


Source: Real Estate Center at Texas A&M University

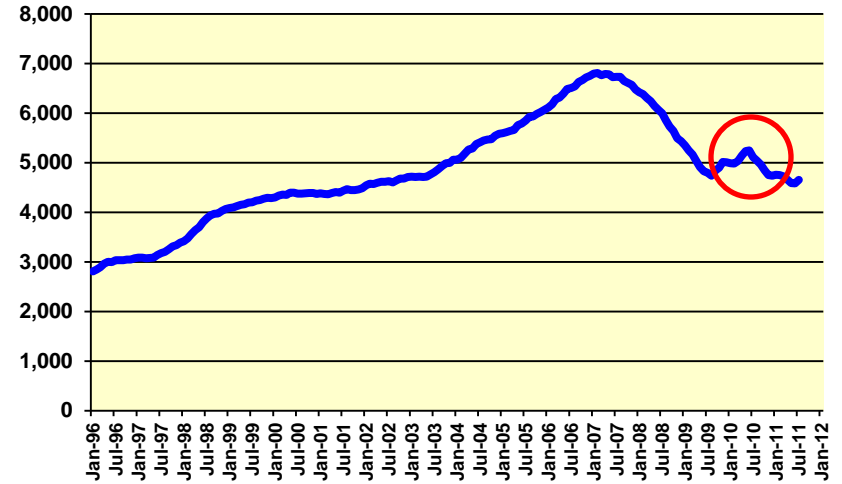
Texas Metropolitan Home Sales

12-Month Moving Average

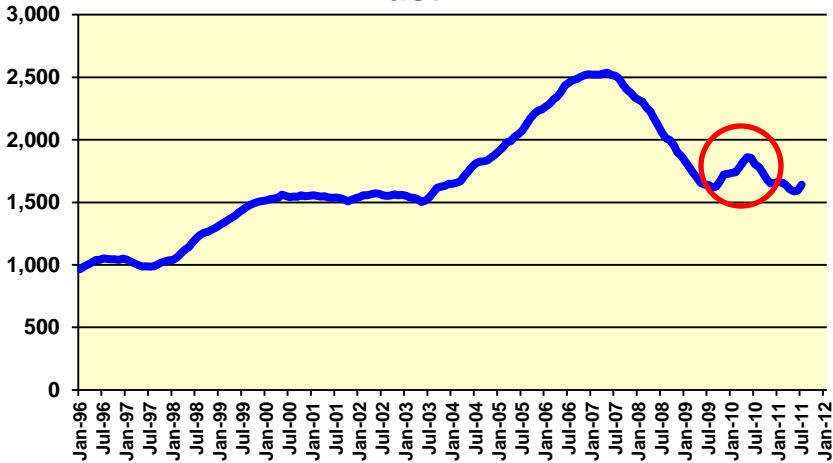
Dallas



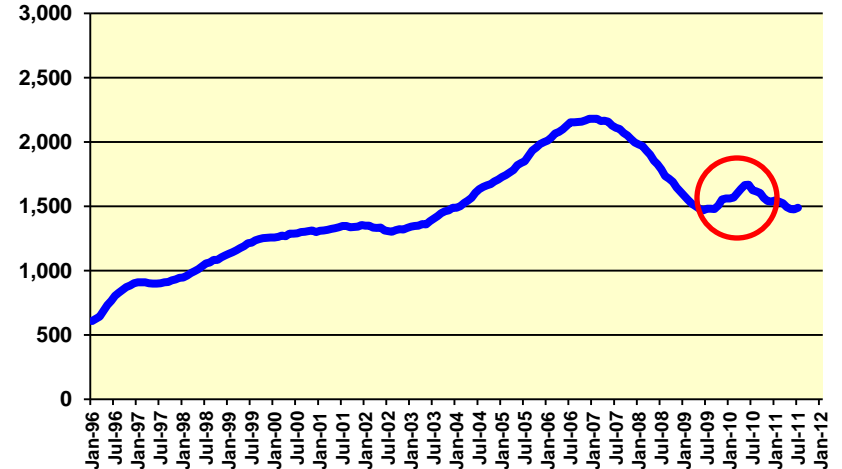
Houston



Austin

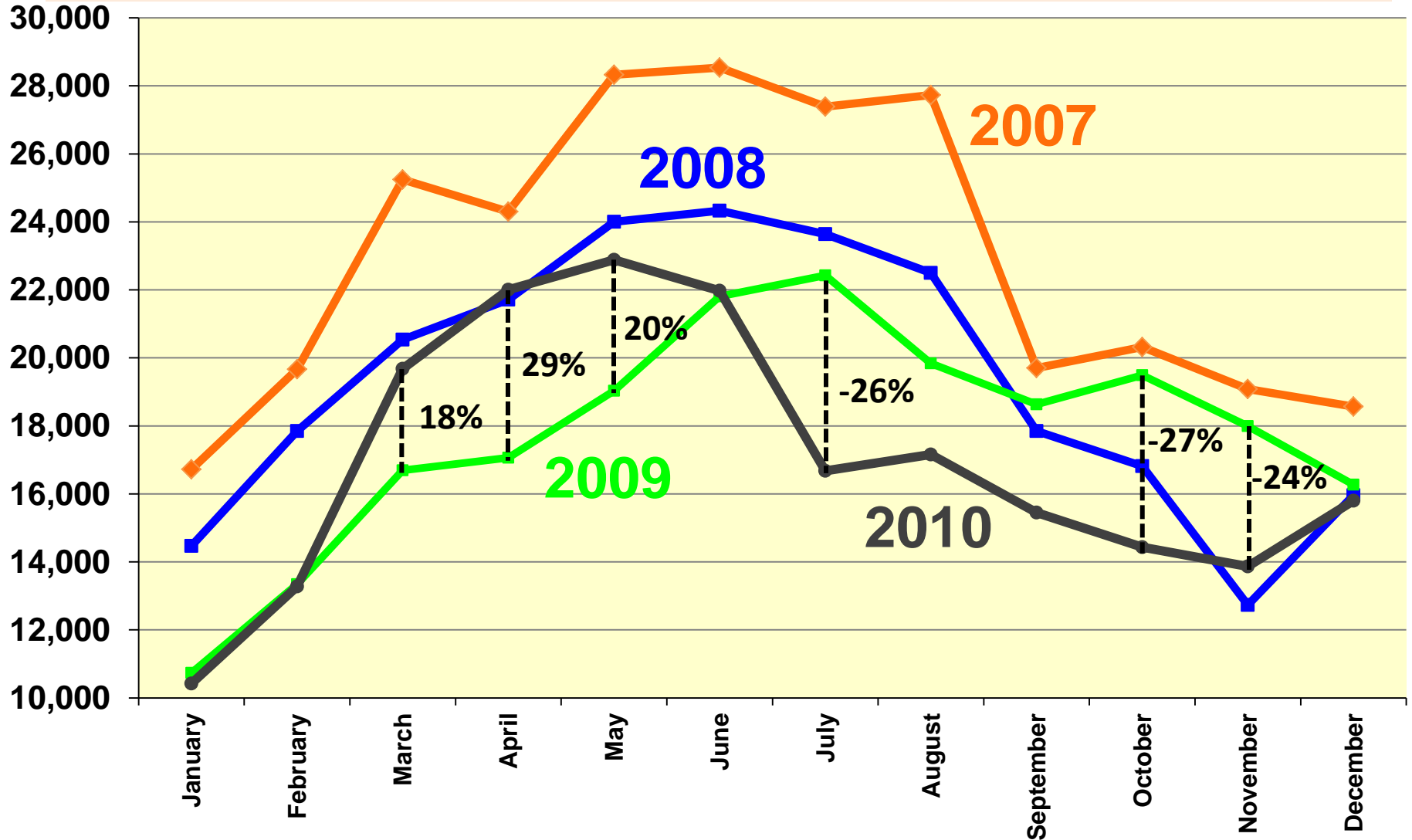


San Antonio



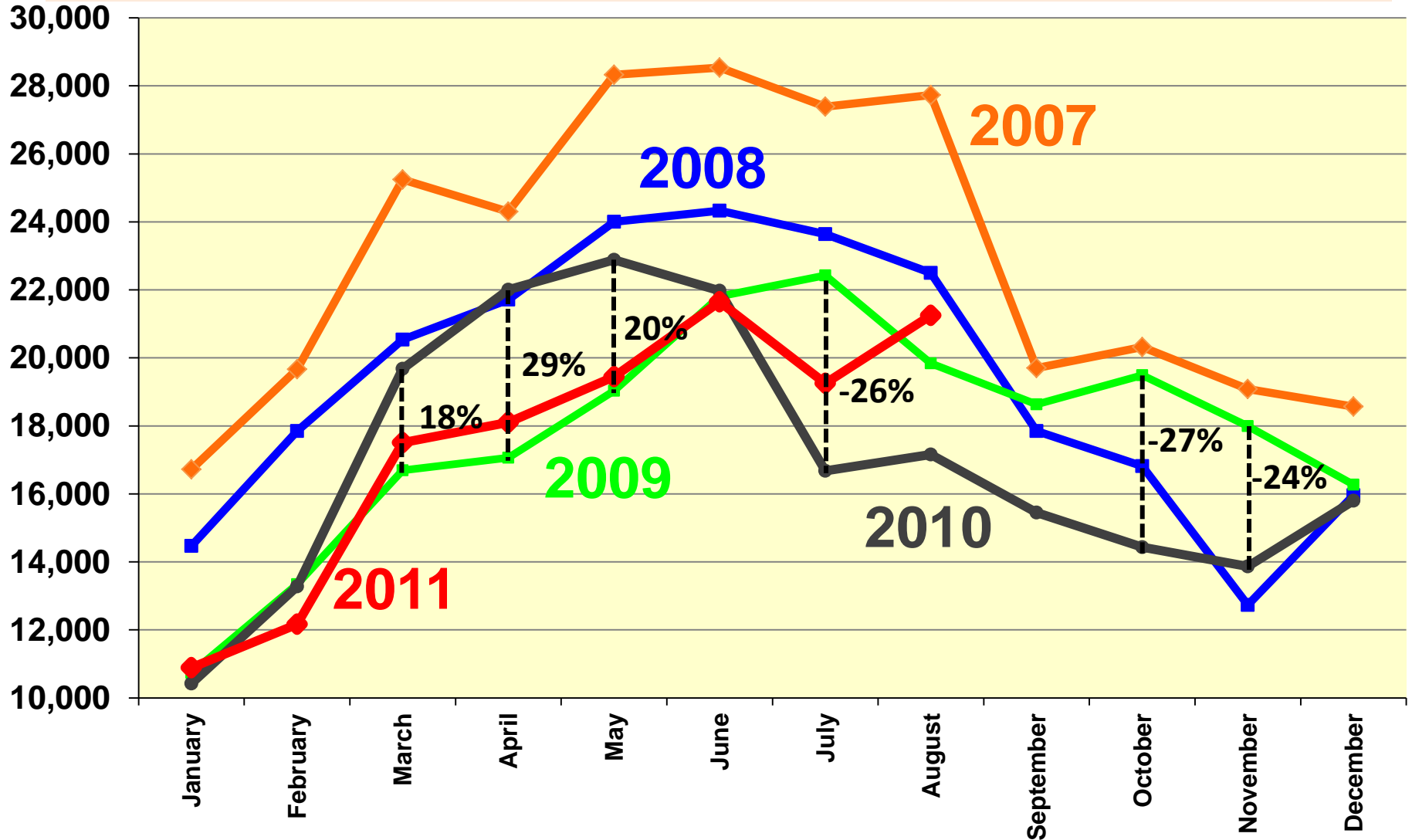
Source: Real Estate Center at Texas A&M University

Monthly Sales in Texas



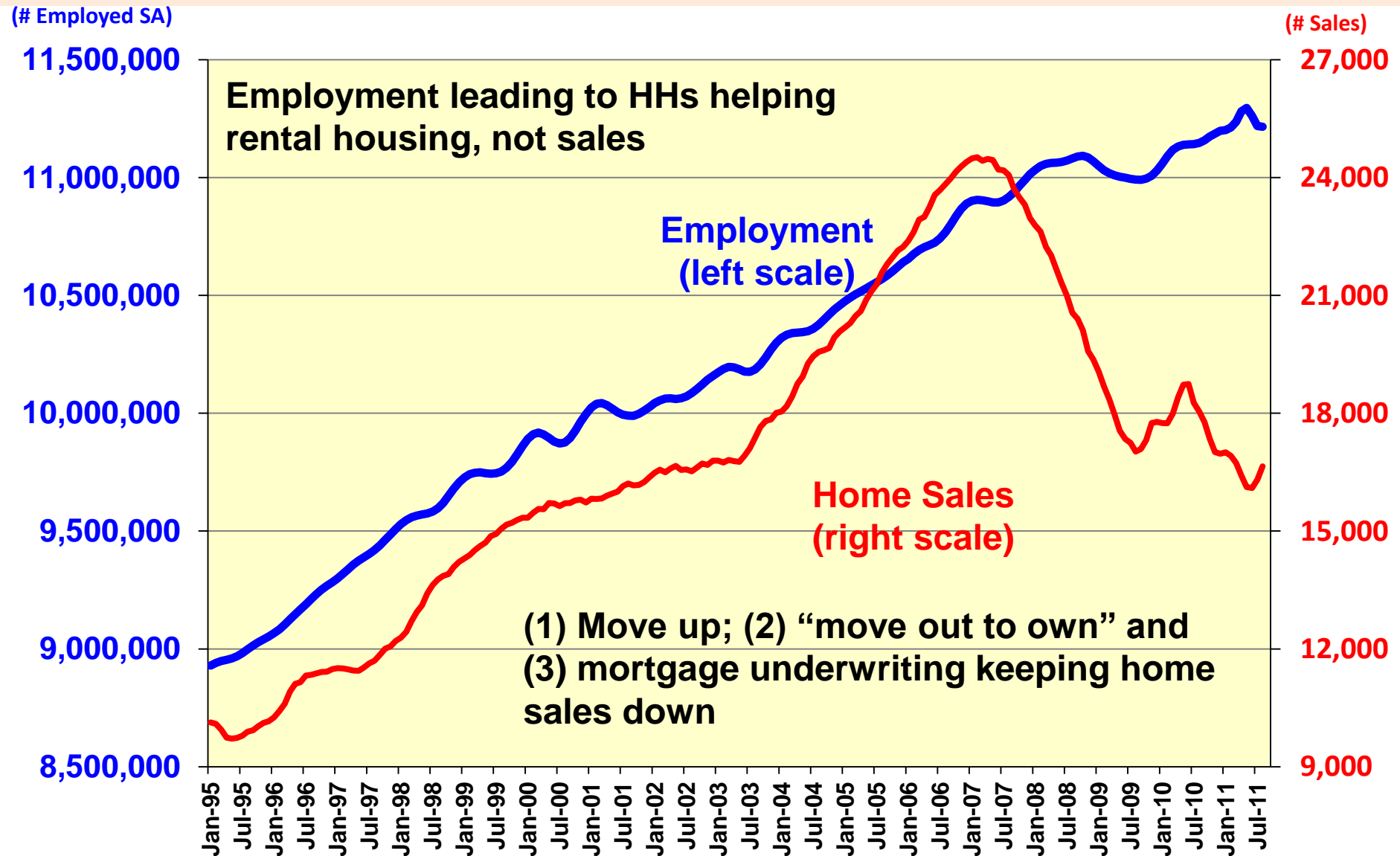
Source: Real Estate Center at Texas A&M University

Monthly Sales in Texas



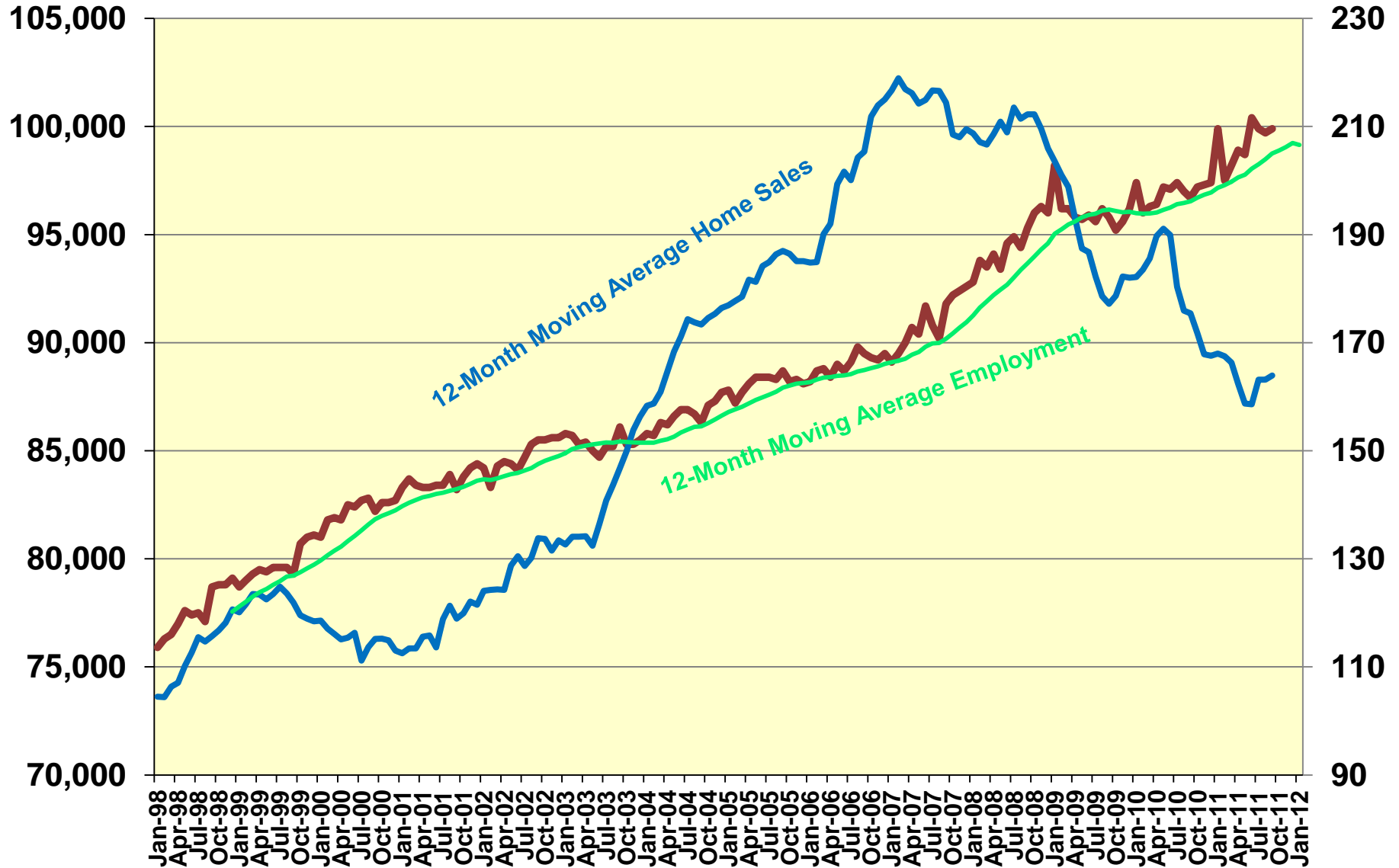
Source: Real Estate Center at Texas A&M University

Texas Home Sales and Employment



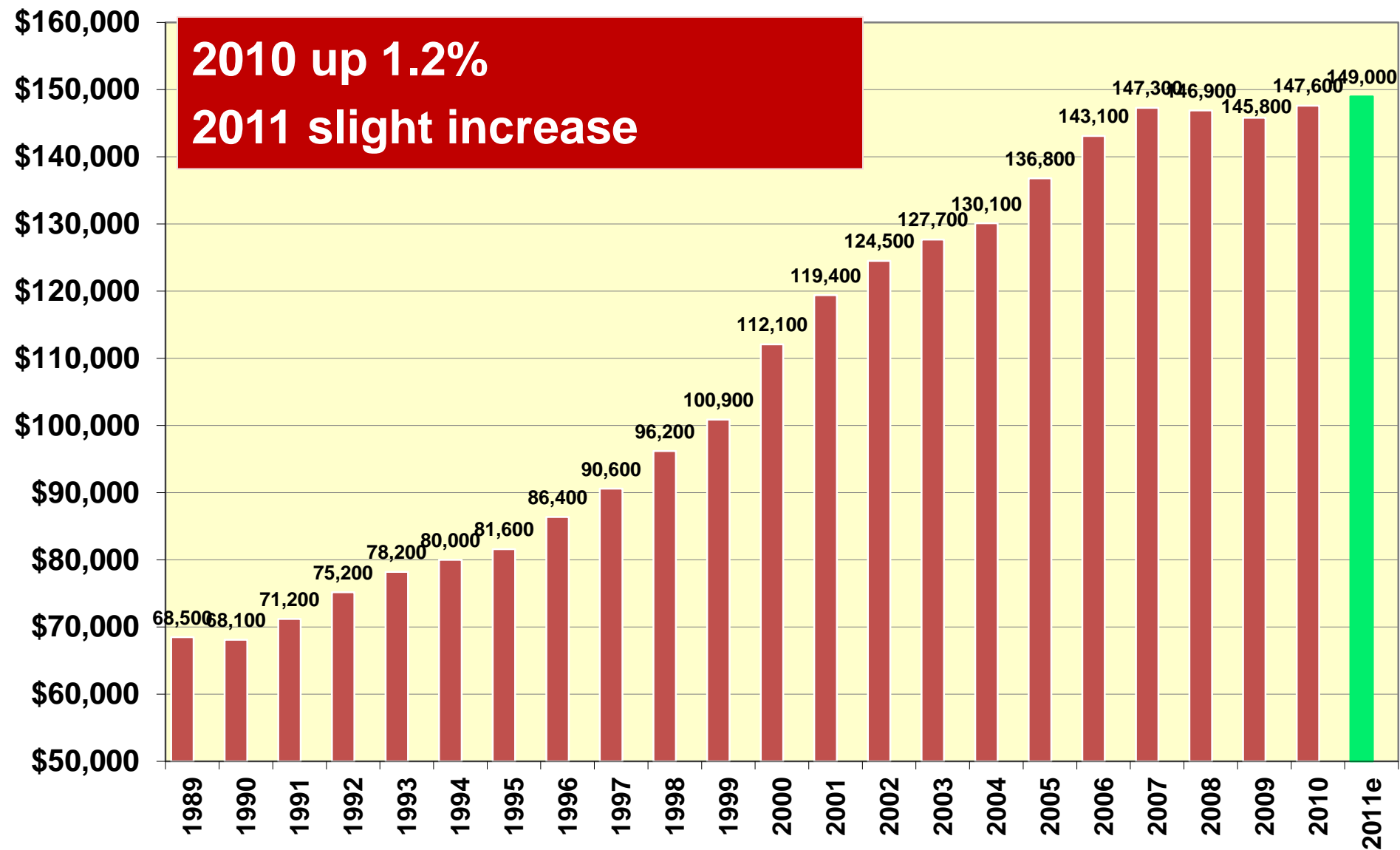
Source: Texas Workforce Commission; Real Estate Center at Texas A&M University

BCS Monthly Jobs & Home Sales



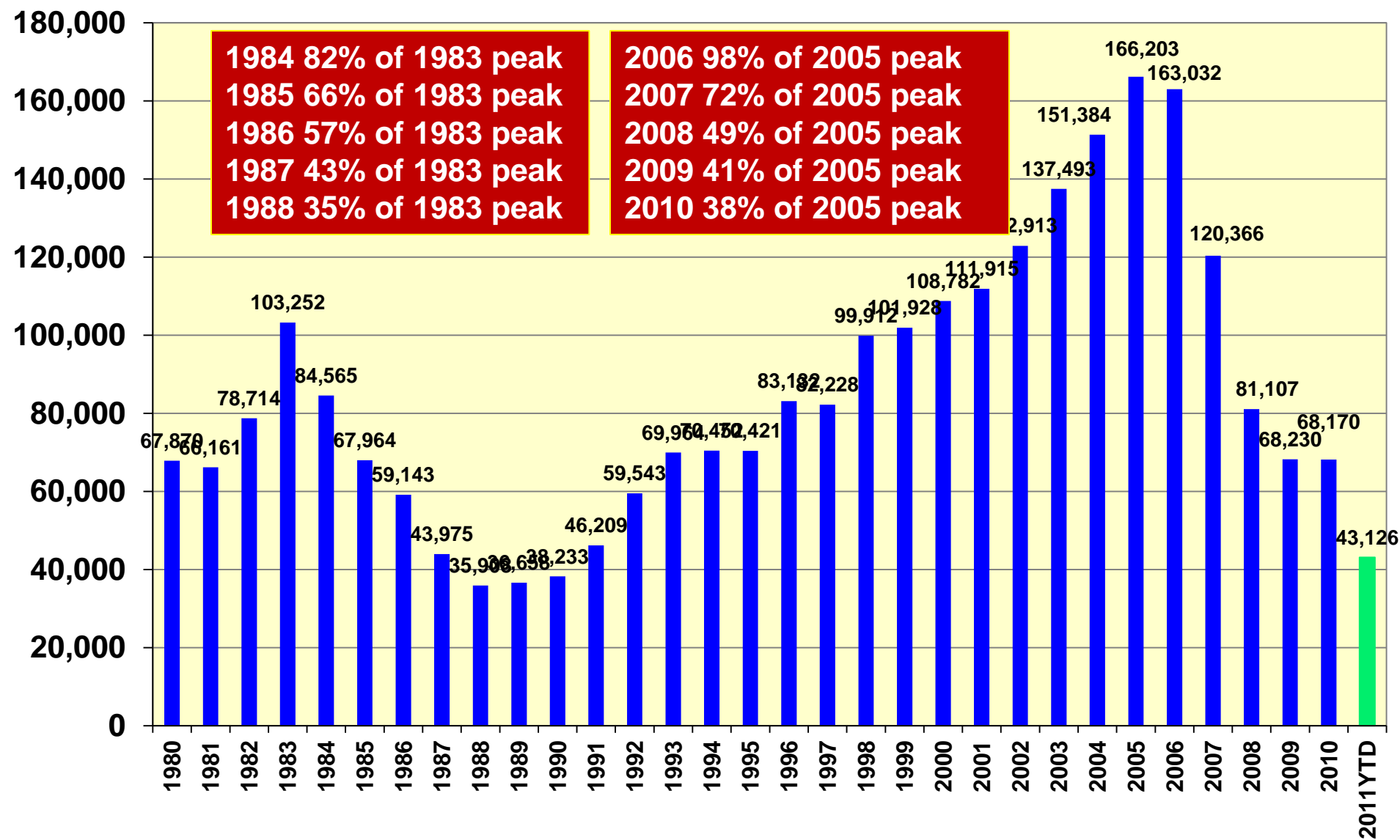
Sources: Texas Workforce Commission, Real Estate Center at Texas A&M University

Texas Median Home Prices



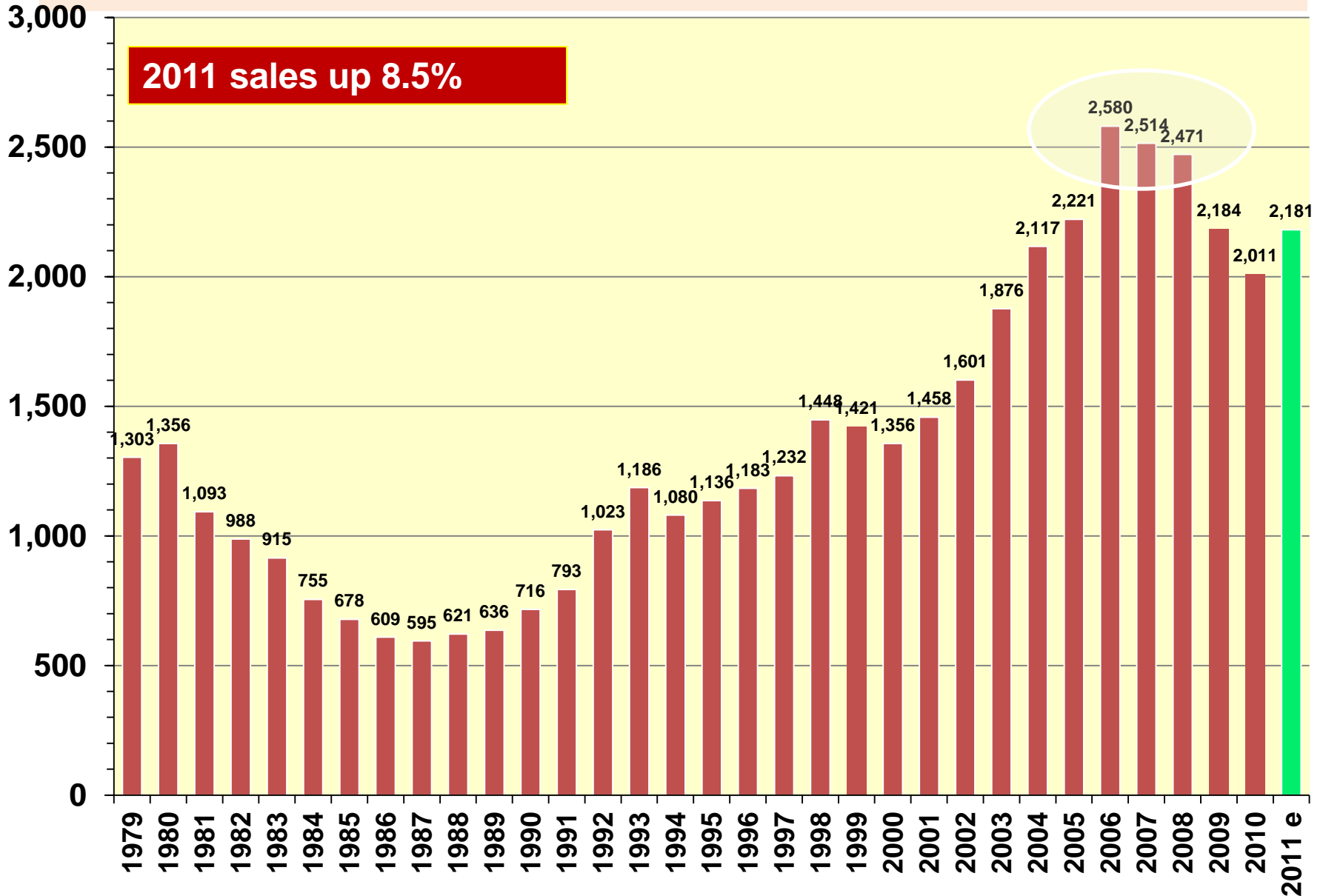
Source: Real Estate Center at Texas A&M University

Texas SF Building Permits



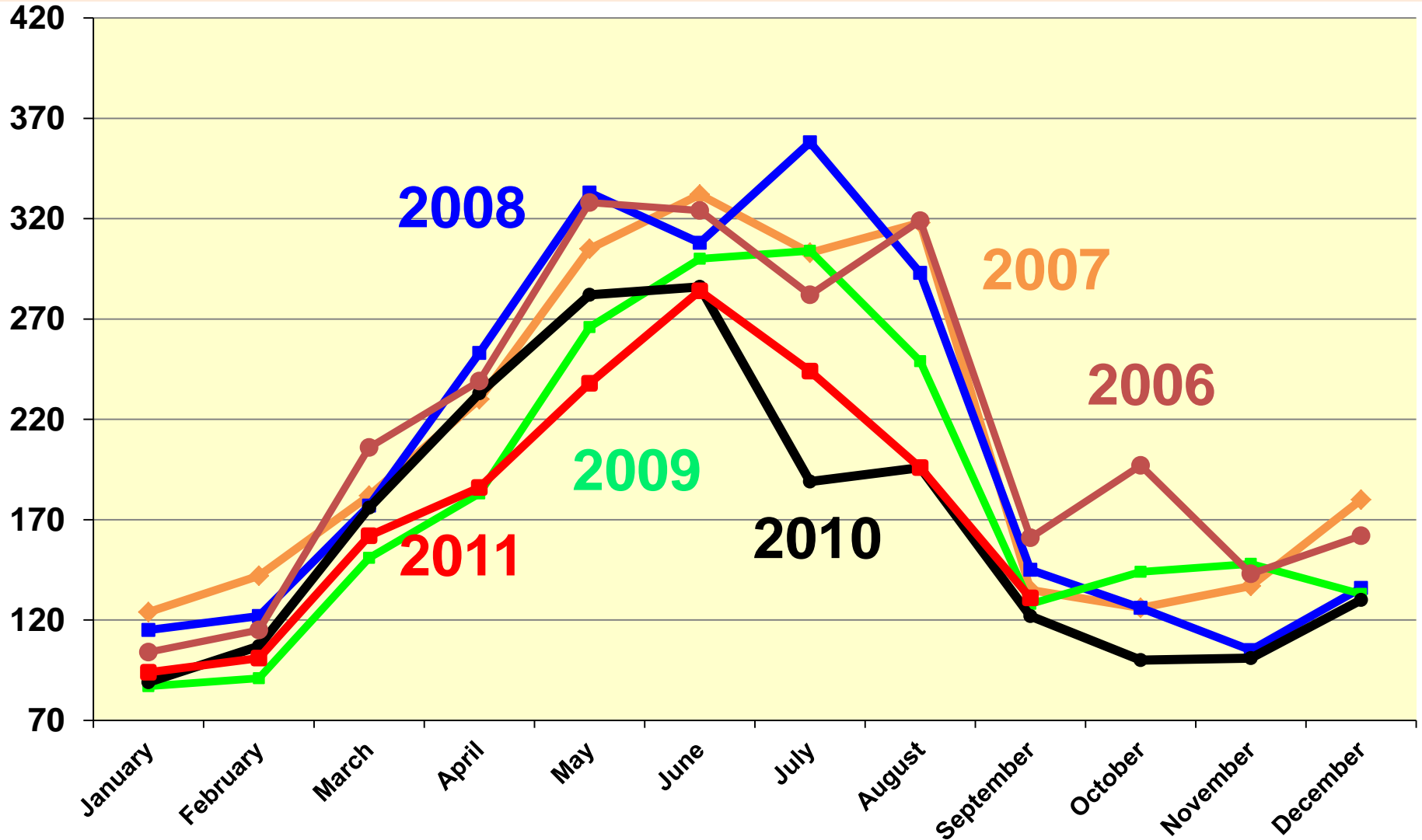
Source: US Census Bureau, Real Estate Center at Texas A&M

BCS Annual Home Sales



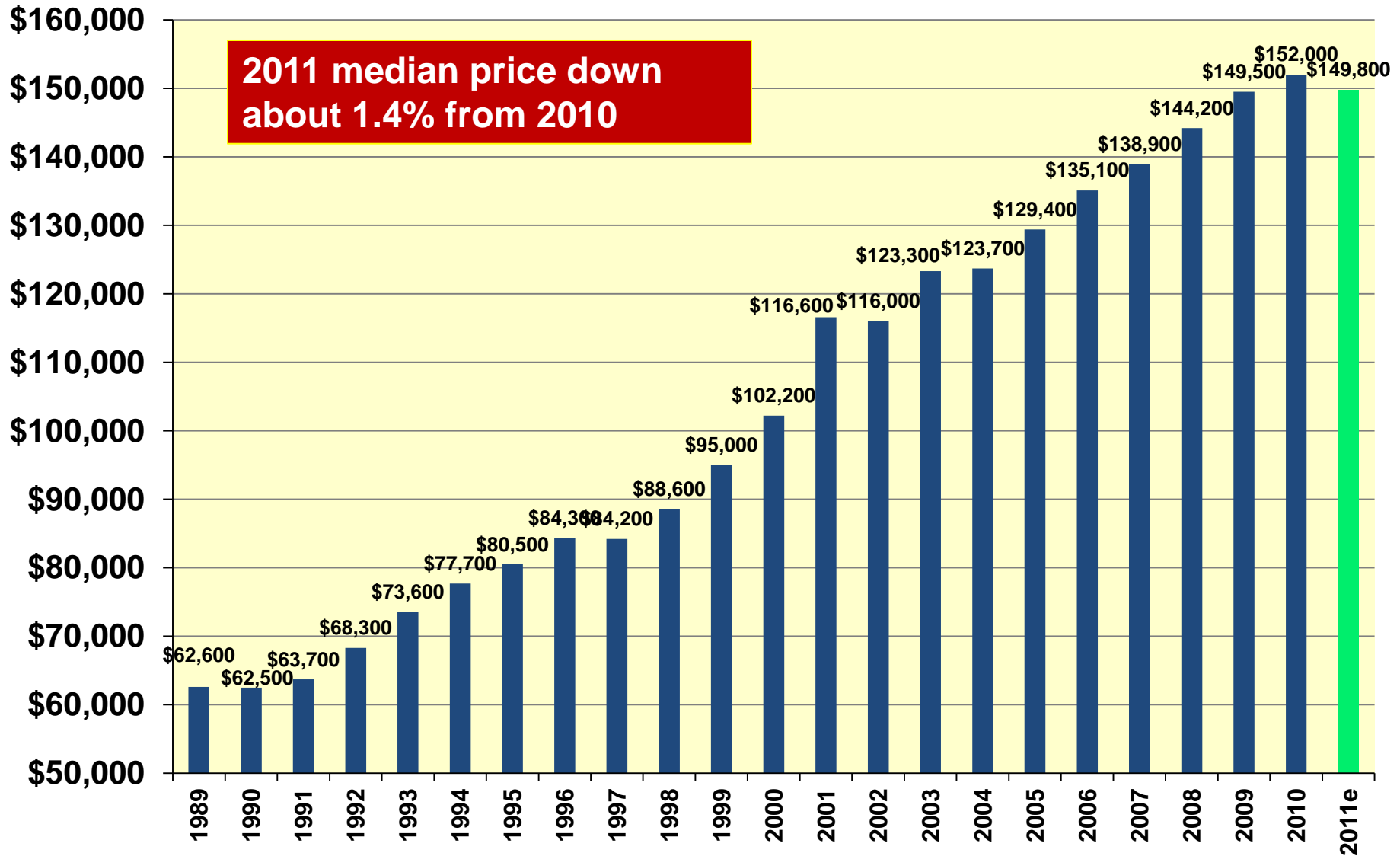
Source: Real Estate Center at Texas A&M

Monthly Sales in the BCS Area



Source: NTRIS; Real Estate Center at Texas A&M University

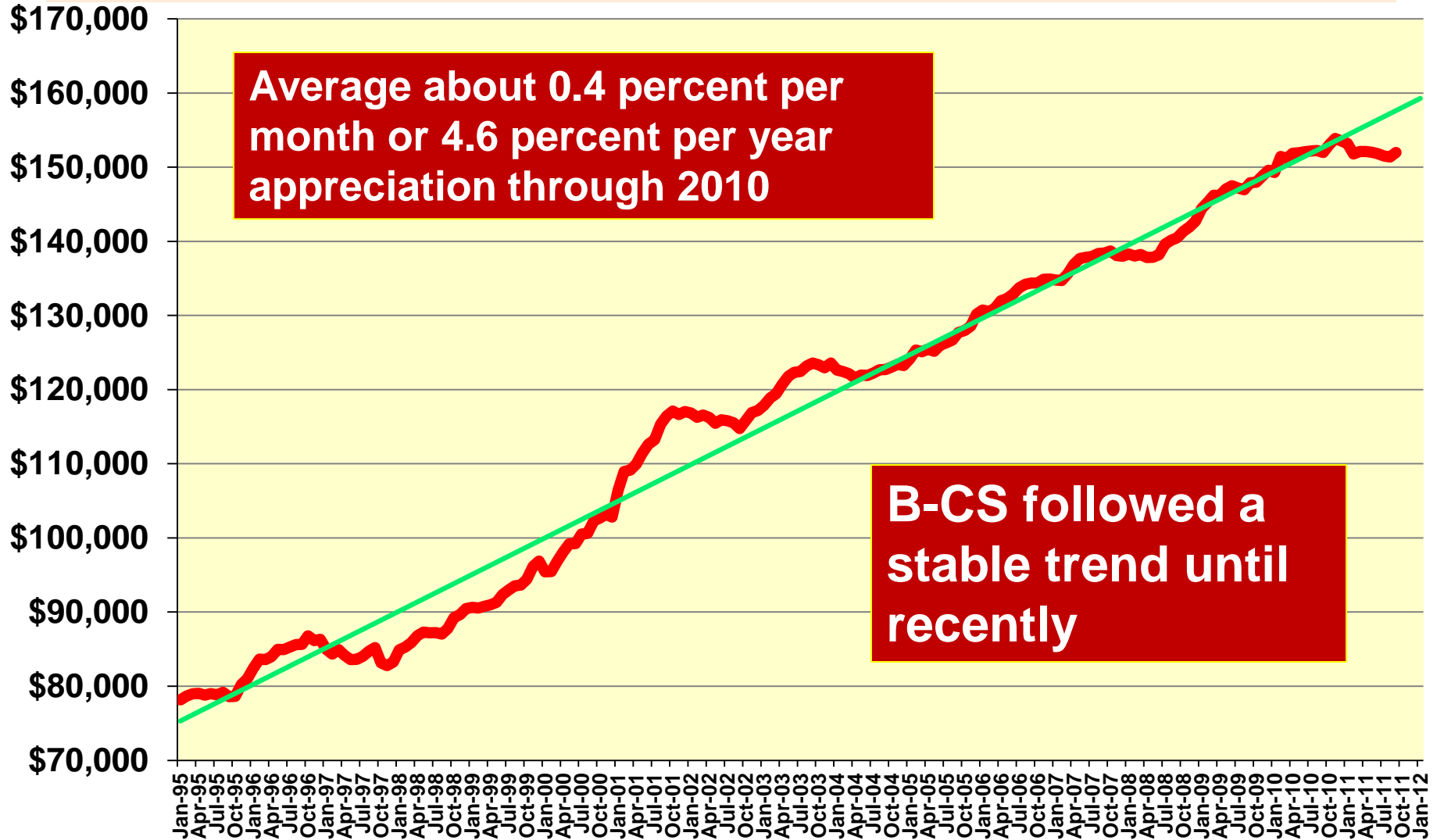
BCS Median Home Prices



Source: Real Estate Center at Texas A&M

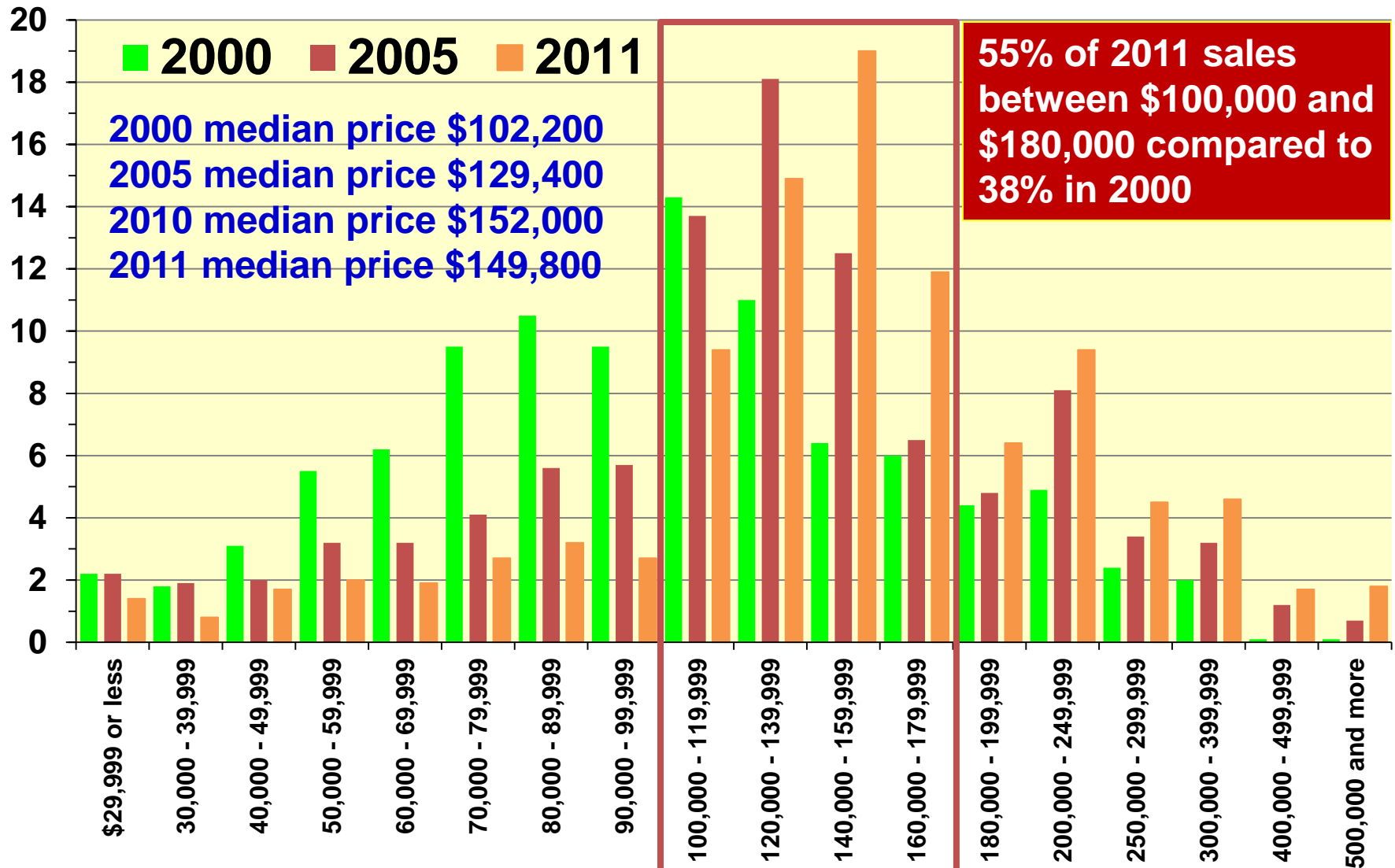
BCS Median Home Price

12-Month Moving Average



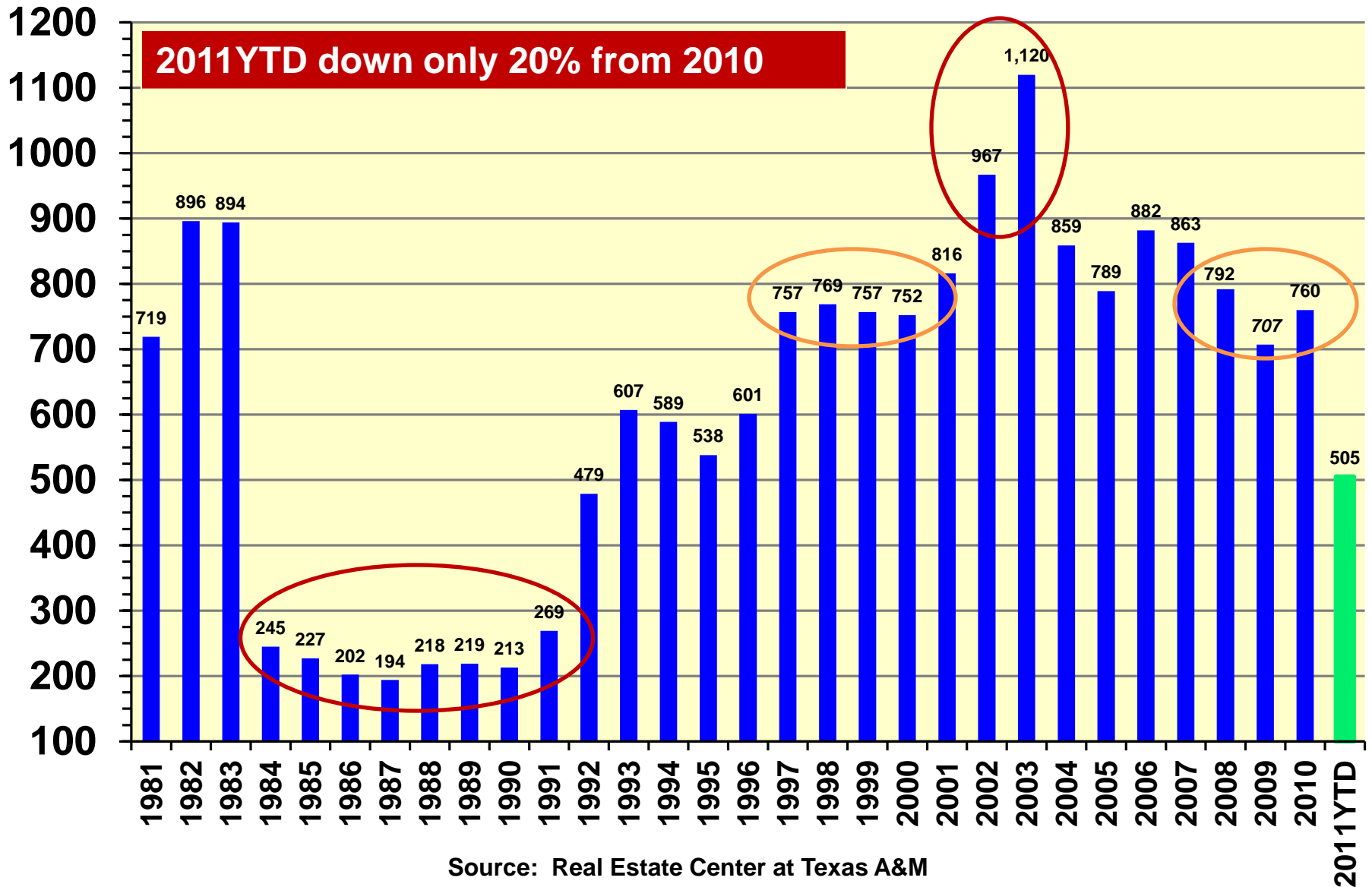
Source: Real Estate Center at Texas A&M

Percent of BCS Home Sales by Price



Source: Real Estate Center at Texas A&M

BCS Single-Family Building Permits



Conclusions

- **Major business and investment decisions postponed until after the 2012 election. Major inflection point in first quarter of 2013.**
- **Sluggish growth into the first quarter of 2013.**
- **Interest rates stay low through 2013.**
- **U.S. housing market will remain steady with no major movement**
- **Texas & B-CS housing markets should show some modest improvement but no major upgrade**

Albert Einstein

“If we knew what we were doing, it wouldn't be called research, would it?”



Economic Outlook 2012

Camp Allen
November 16, 2011



Dr. James P. Gaines
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