THE Independence Voice

From: MARK SPRAGUE, ITC State Director of Information Capital

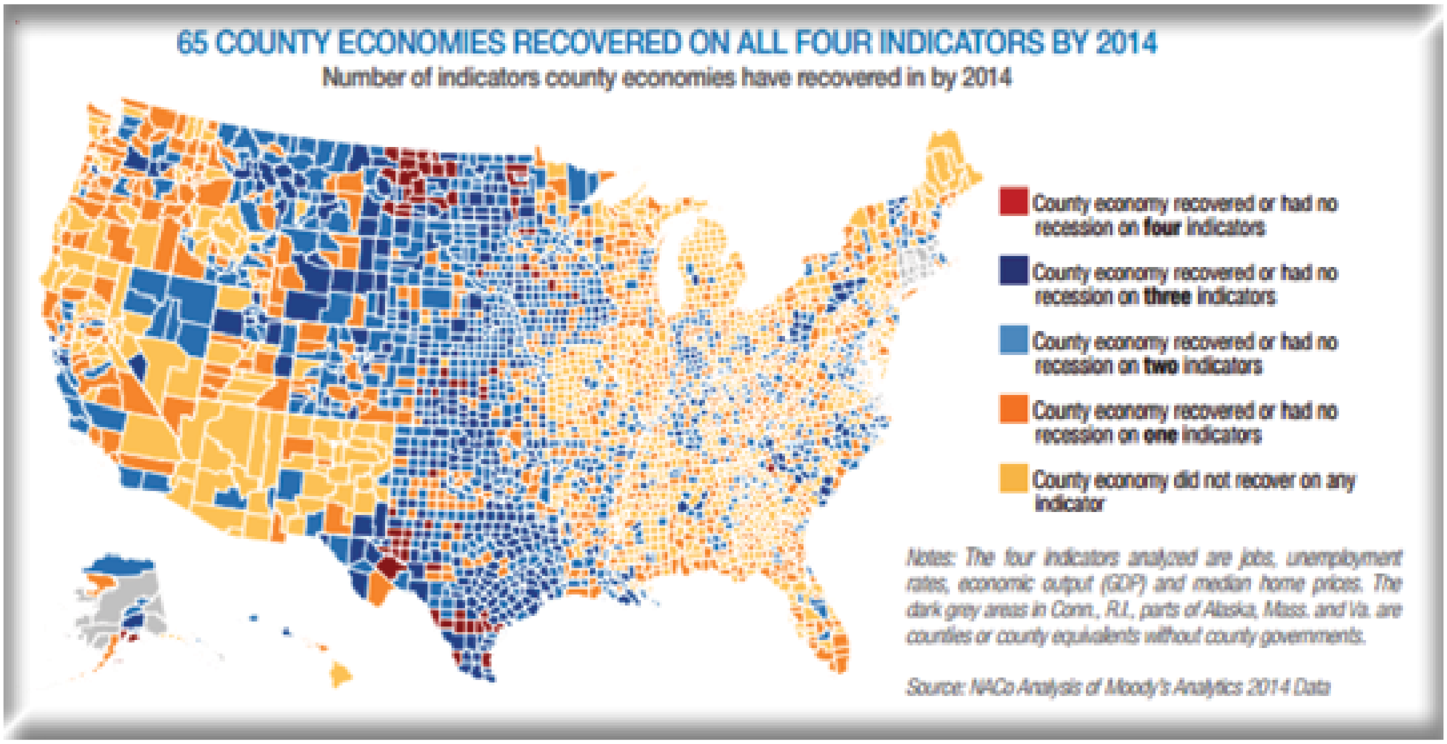
Officially, the Great Recession reached its lowest point in June of 2009, and the national economy began its path to recovery. Almost six years later, some states like North Dakota and Texas with strong energy industries are home to the most fully recovered economies in the aftermath of the Great Recession.

However, if we look at the majority of the country, unemployment has not recovered in 95% of the near 3,100 county economies to pre-recession levels according to a new study by the **National Association of Counties**.

A county-by-county breakdown of local economic performance was issued in the association's 2014 County Economic Tracker. The study spans all 3,069 U.S. counties and suggests the majority of local economies have not fully returned to pre-recession stability. The association's report, based on data obtained from Moody's Investors Service, breaks down local economic performance into four major categories: gross domestic product, employment totals, unemployment rates, and home pricing. The findings for 2014 were compared to pre-recession figures to get a feel for which local economies have recovered best since the Great Recession.

This analysis of county economic conditions identifies patterns of growth and recovery in 2014 across the 3,069 county economies by examining annual changes in jobs, unemployment rates, economic output (GDP), and median home prices. In addition, it explores 2013 wage dynamics by adjusting average annual pay in county economies for the local cost-of-living and inflation. The overall analysis reveals that:

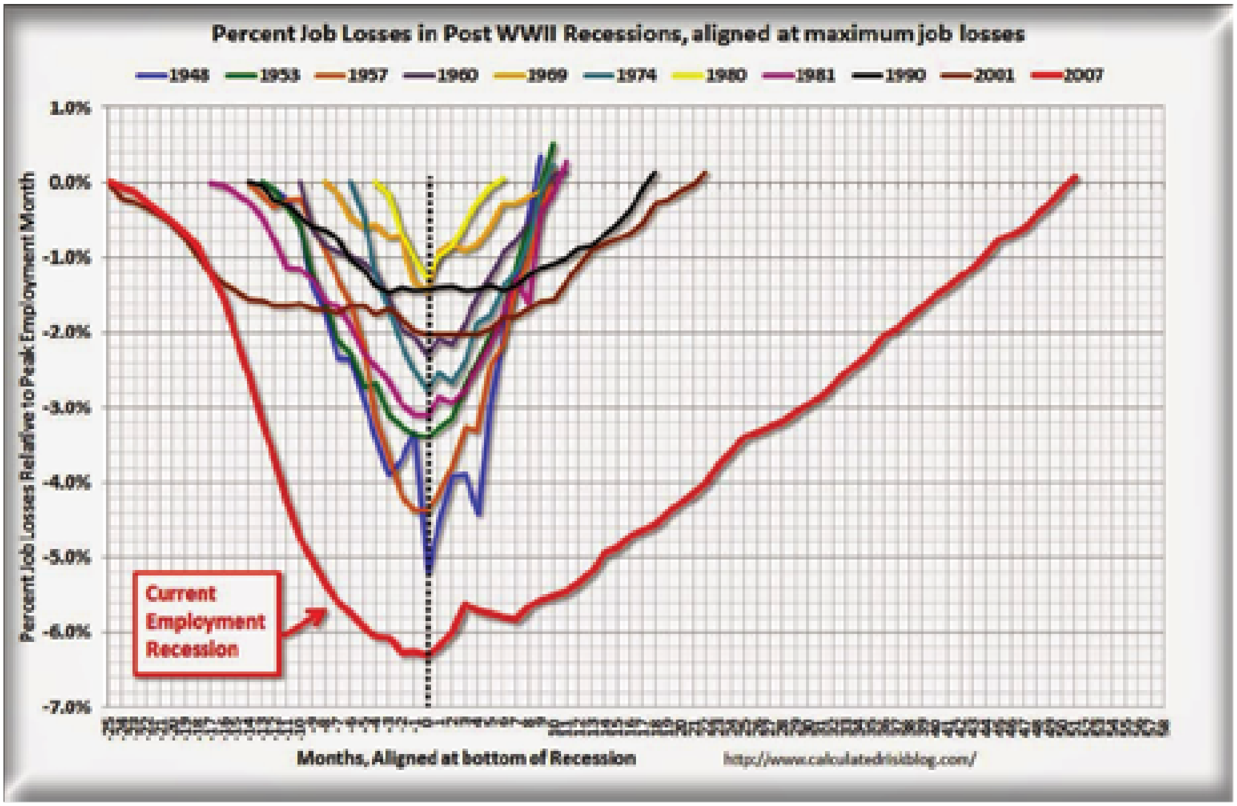
- 2014 was a year of recovery, but unemployment has yet to return to pre-recession lows in most county economies.
- Job growth accelerated in 2014, economic output expansion and county housing markets stabilized across the country, yet most have not fully recovered.
- Economic recovery is starting to spread, although only 65 county economies have fully recovered.
- 2014 recorded higher net job creation than the previous year, with 40 percent of the new jobs in industries earning more than the average county pay.
- On the positive side, we find out that 72 percent of county economies recovered on at least one of the indicators we analyzed.



In Texas, the recession is in the rearview mirror. Economic growth across the major Texas metros has been impressive since the recession and they have fueled the state's job growth. However with crude oil values down 52% in February from year ago levels, Texas employment growth will moderate in 2015, affecting the Texas's metros in varying degrees.

The Houston economy has grown over 310% since the recession, Dallas / Ft. Worth 228%, and Austin 114%. Houston has experienced the greatest benefit from the energy sector and its rise after the recession. D/FW lagged behind the other Texas metros after the downturn, however of all the Texas metros it will probably have the strongest growth and continue to propel the state's growth after the oil decline going into 2015.

The recession's impact was not as severe in Texas. Also realize that this last recession was the worst since the Great Depression as shown by this great chart from Calculated Risk.



To say that this last recession significantly affected job growth is an understatement as the chart shows. From peak to trough, the Texas region fell 4%, compared to the national decline of 6%.

So what is causing the national economy to lag? First we need to understand what made previous booms and recessions. Realize that the economic contraction in 2008 was nothing like past recessions. Inflation and monetary tightening had nothing to do with the recession: core CPI peaked at just 2.5%. It was, instead, a financial crisis, comparable in recent US history only to the Great Depression.

During the course of 2007 and 2008 recession, US household wealth fell by 25%, equal to about $15 trillion dollars. To put that number in perspective, annual GDP in the US in 2008 was $14.8 trillion. Nothing close to this had happened in the prior 75 years. In fact, the annual change in household wealth had never been negative.

When wealth falls, consumption falls. Remember we are a consumer driven economy, where the majority of our GDP is driven by the consumer's ability to acquire debt and spend it. Consumer sales in the US were negative year over year for six consecutive quarters during 2008-09. In comparison, consumer sales actually grew 1% during the trough of the 2000-02 recession.

The Texas region suffered, but not near like other states, particularly California, Nevada, Arizona, and Florida, where speculative appreciation was strong and the base of the consumer economy was home equity. This collapse of wealth in so many other states had little to no effect in Texas due to the lack of speculation and various regional banking laws.

In the wake of the dot-com bubble, the housing market inflated like never before. This was completely unlike prior economic cycles. Some states experienced not only double digit appreciation, but high double digit appreciation (40-50% annually). Additional speculative housing supply created a demand vacuum when this bubble burst. A major engine for the economy was damaged, the tail effects of which are still being felt. New and resale home sales are just beginning to recover from the lowest level experienced in many years.

During this real estate and financial boom, a byproduct was an increase in household debt. This leverage was in large part underwritten by inflating asset prices and ease of loan qualifications. When those prices collapsed, so did the ability to fund debt. The economic expansions in the prior 30 years were fueled by leverage. The current recovery has not had anything like that to propel faster growth. Leverage is lower now than it was 30 years ago. Without the leverage from previous recessions, the economic recovery is based on truer means; supply and demand.

Because of the increase in “equity wealth”, consumption exploded. Therefore with the collapse in housing and consumption came a collapse in employment two to three times more severe than prior recessions in the post-war era. This becomes a vicious cycle: lower demand leads to lower employment, leading to even lower demand. The dynamic is not unique to the current recovery but the damage inflicted in 2008 was orders of magnitude more severe.

Texas did not have the speculative housing economy as seen in other states. Therefore we did no have very far to drop when the national bubble burst. The Texas economy slowed in 2008-09, but showed relatively little real estate depreciation. Because of the nationalization of so much lending, development slowed or stopped. Yet in Texas we continued to see good employment growth across all sectors, not just energy. This employment growth drove ‘true demand’ as housing supplies dwindled across our state. In 2015, most metros continue to see a sellers market as demand outstrips supply in almost all Texas metros, cities, and towns.

Texas should continue to see growth. In the short term, continued growth is dependant on how severe the oil downturn is on our lending institutions. Presently, the Dallas Federal Reserve shows little impact on regional growth. The sweet spot for the economy is between $55 and $90/barrel. Below $55/barrel hurts energy employment in this state. Above $90/barrel starts to put a strain on household budgets.

Texas continues to be the ‘land of opportunity’ that California used to be. With lending rates low, supply low, and demand great, there is not a better opportunity to buy and see long term appreciation than in Texas real estate. Remember, I am coming from over 35+ years of watching, engaging and analyzing this regional market. No one I am aware of has called me optimistic. Compared to over 3000 counties nationwide, Texas counties seem to be faring better than most.

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