



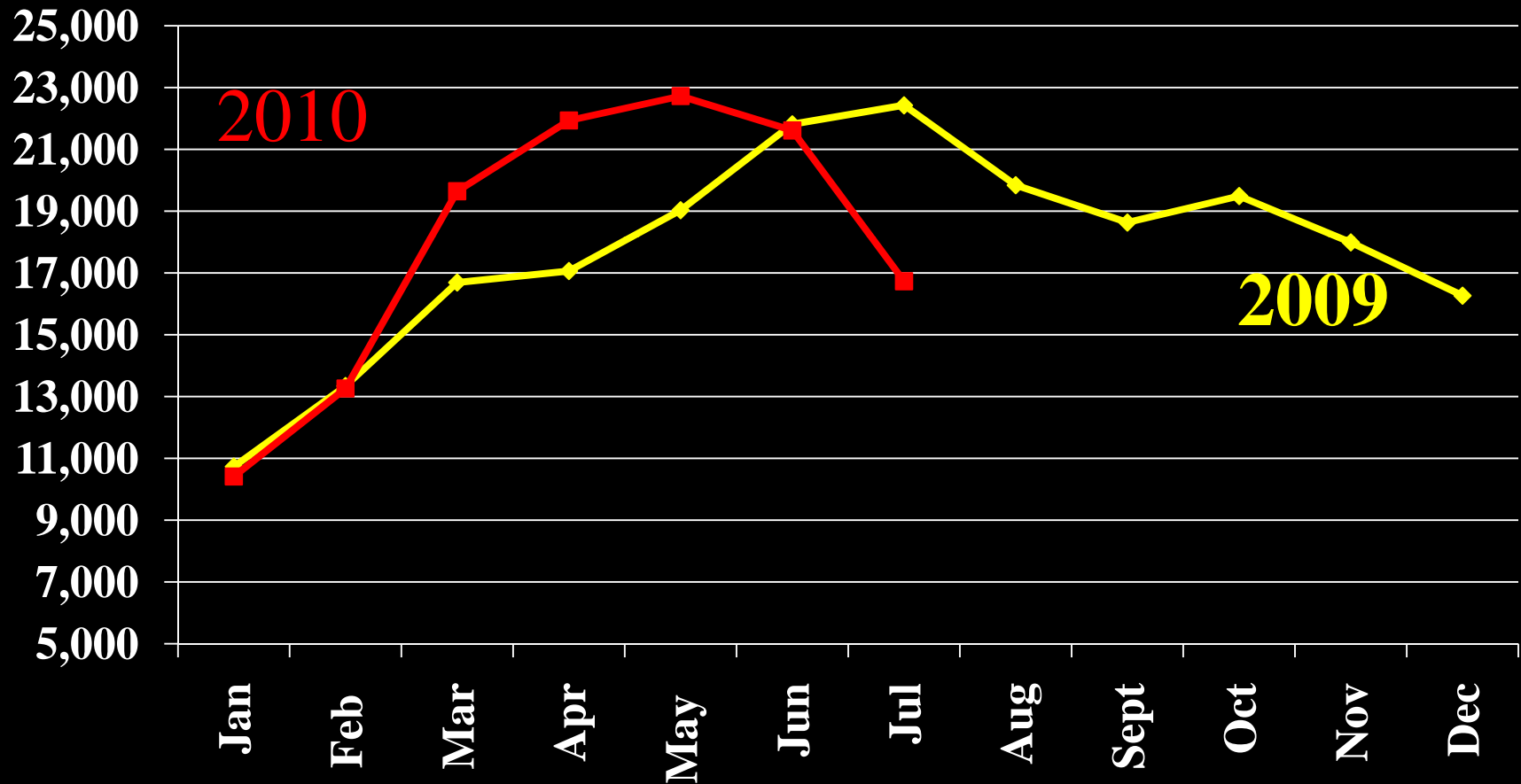
Economic Outlook For Investors and Business Decision Makers

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Outlook for Home Sale Volume

- Job Growth
- Mortgage Interest Rates
- Home Price Appreciation

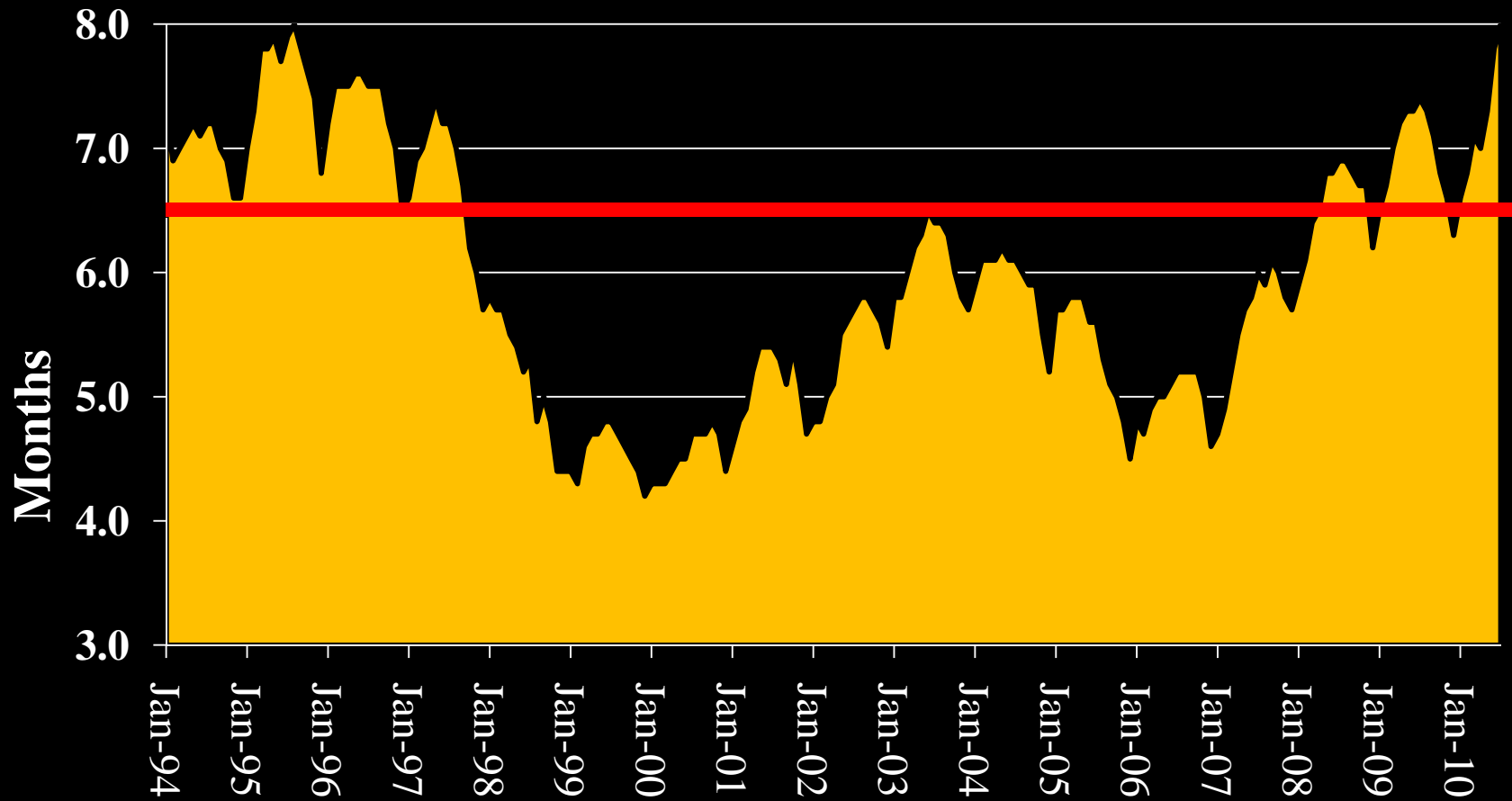
Texas: Existing Home Sales



Source: Real Estate Center

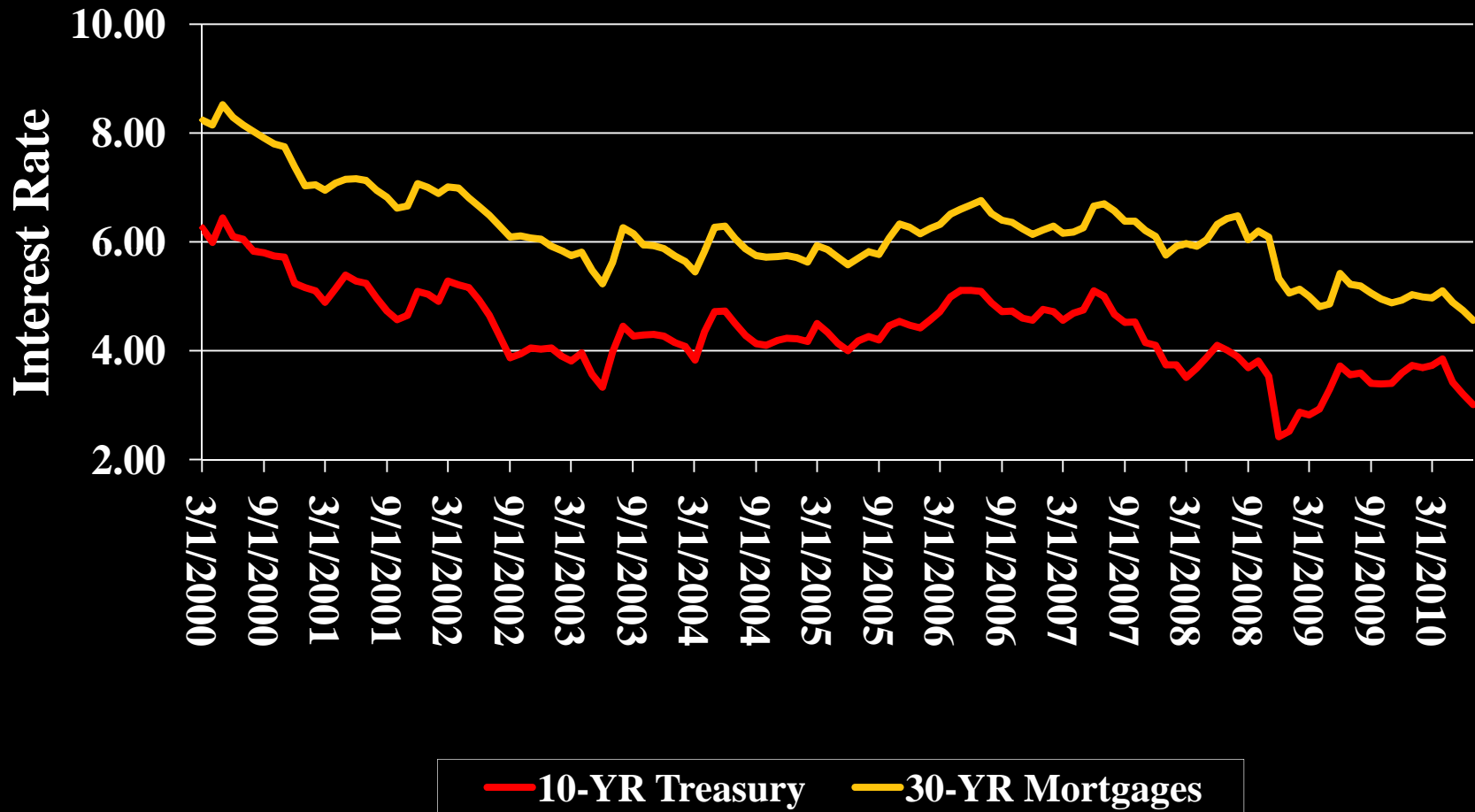
Texas:

Months Inventory of Unsold Homes



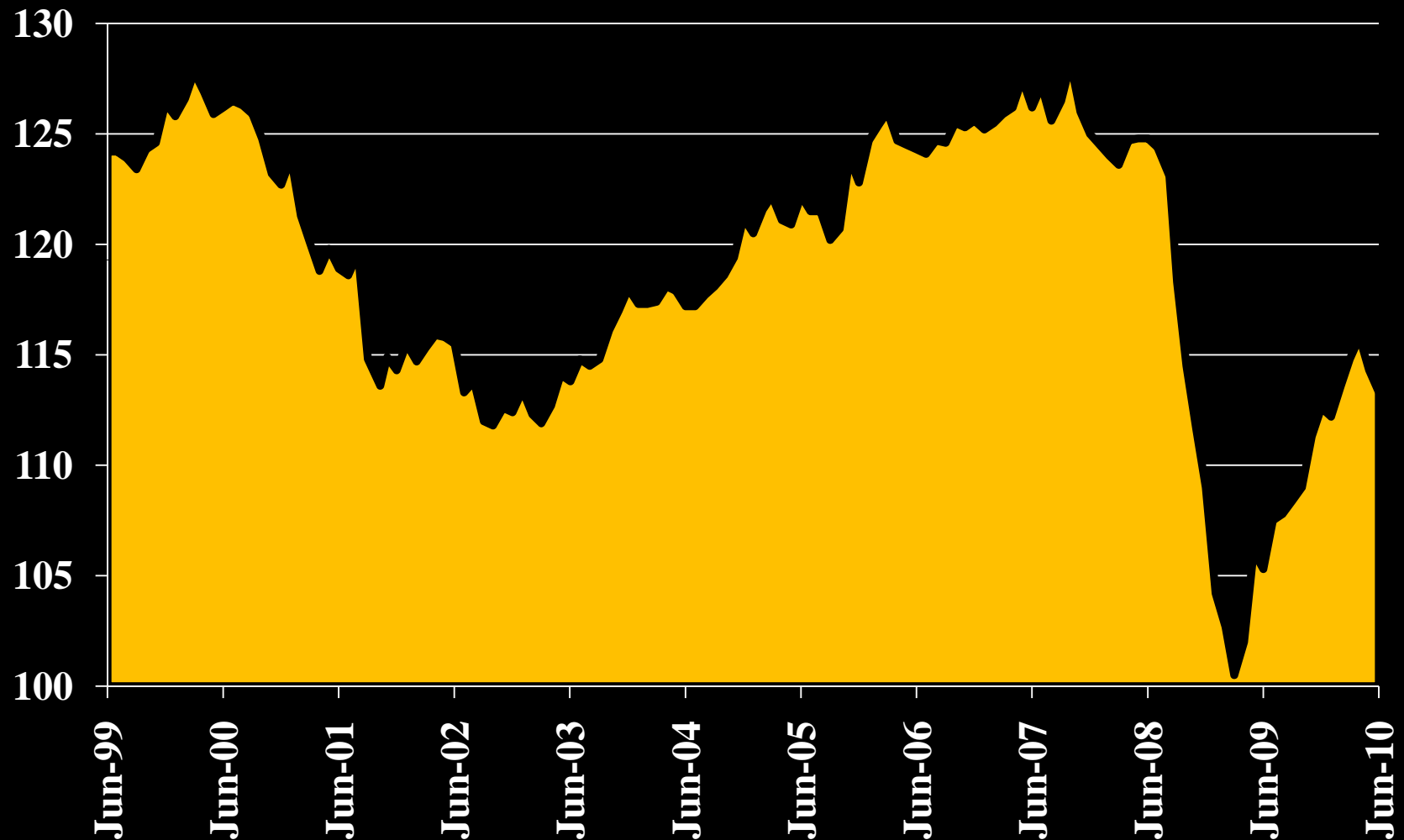
Source: Real Estate Center

Mortgage Rates and Treasuries



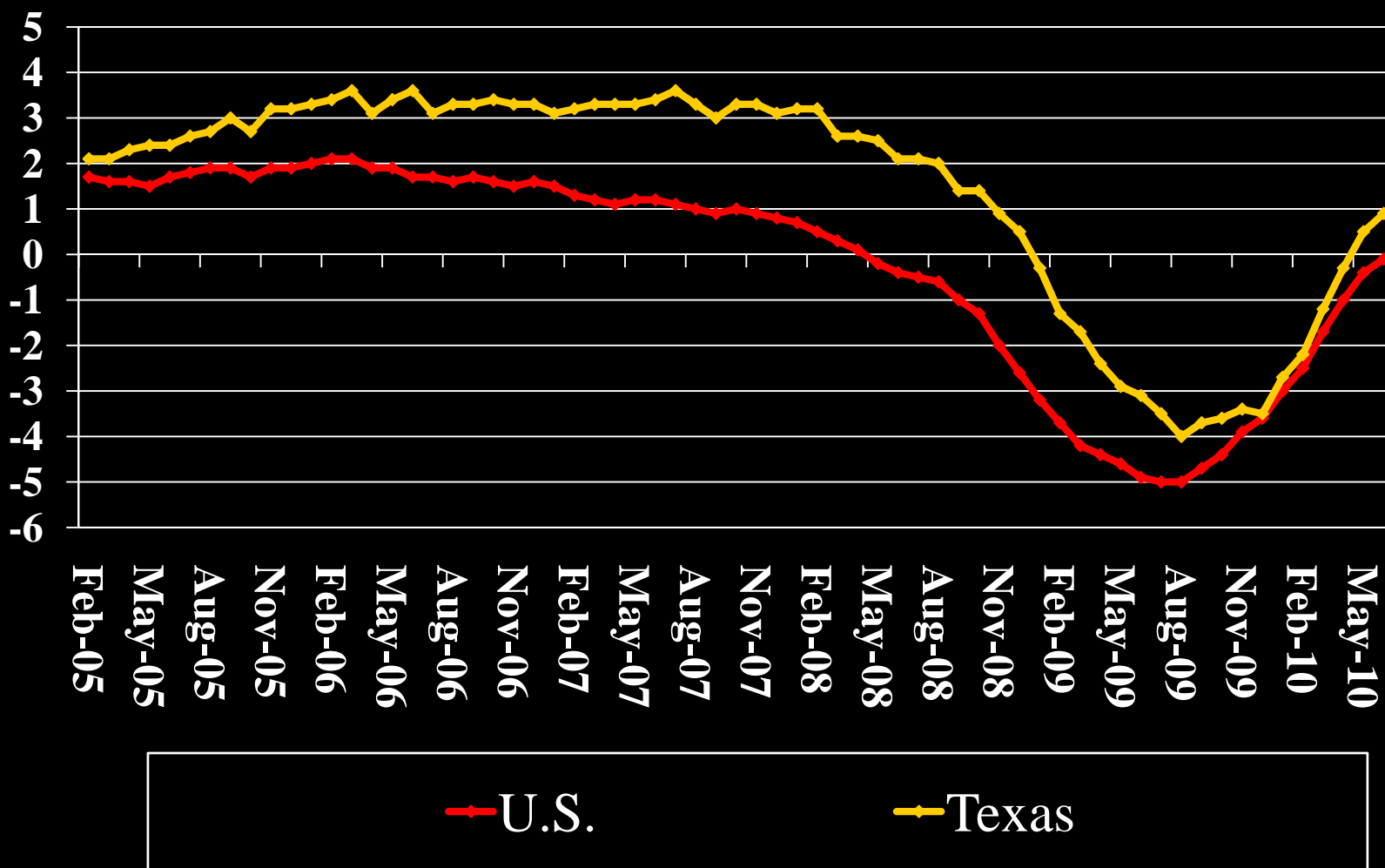
Source: Federal Reserve Board

Texas Index of Leading Indicators



Source: Federal Reserve Bank of Dallas

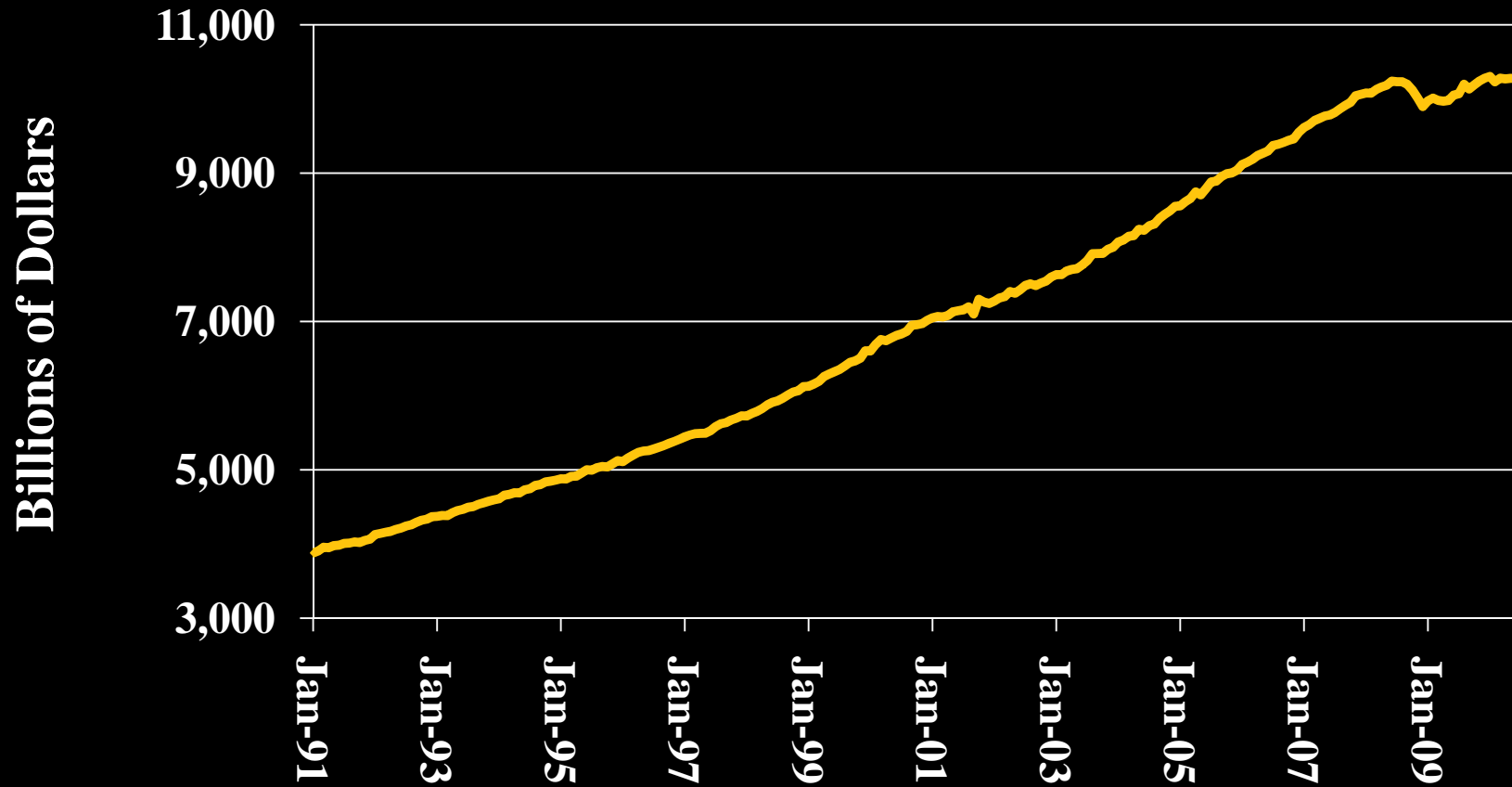
Employment Growth Rates



The US Economy

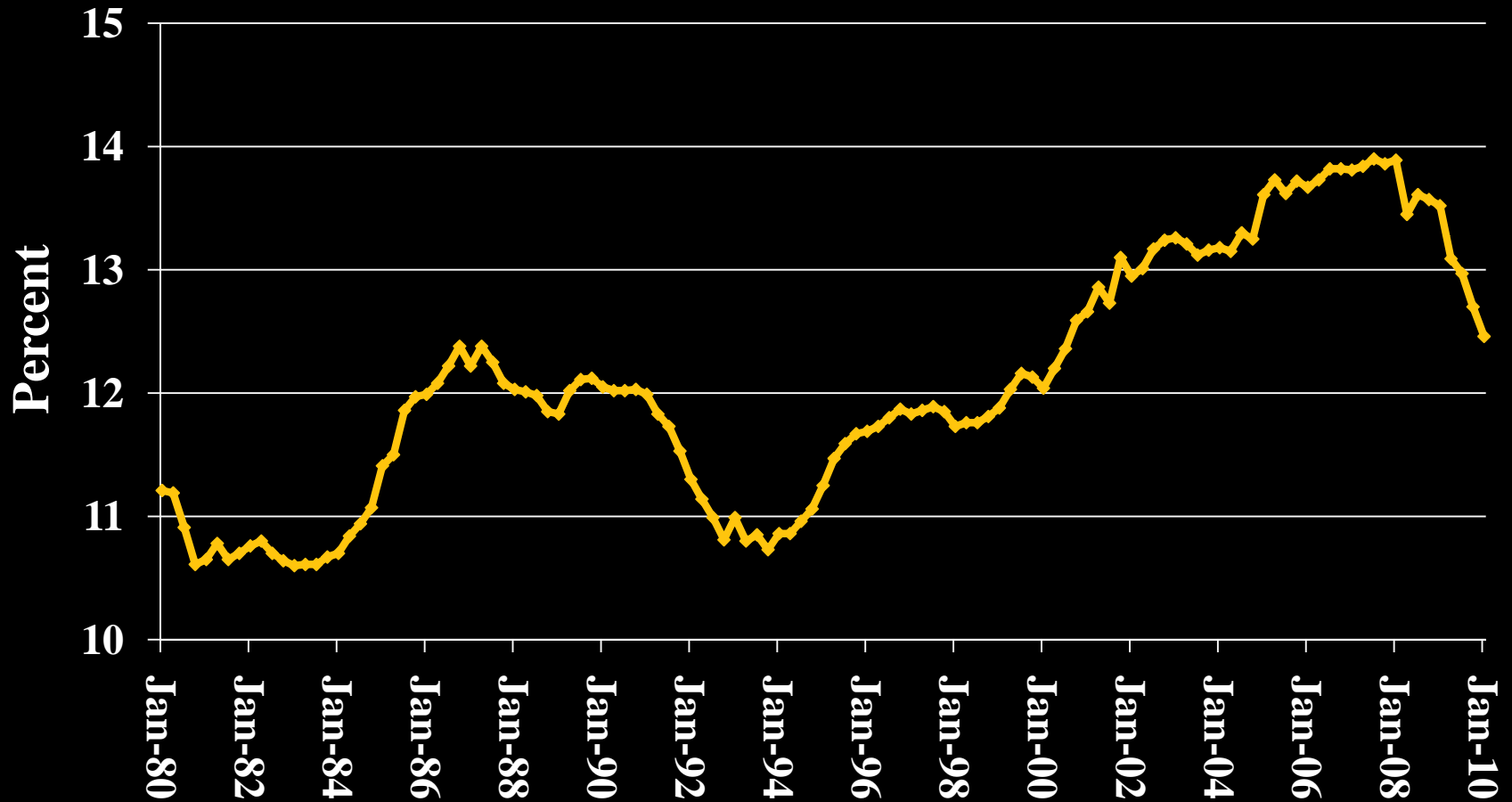
- **Consumers**
 - Private businesses
 - Government
 - Exports

Personal Consumption Expenditures



Source: Department of Commerce

Debt Service Payments as a Percent of Disposable Personal Income



Source: Federal Reserve Board

The US Economy

- Consumers
- **Private businesses**
- Government
- Exports

Corporate Profits

(With Inventory Valuation Adjustment & Capital Consumption Adjustment)



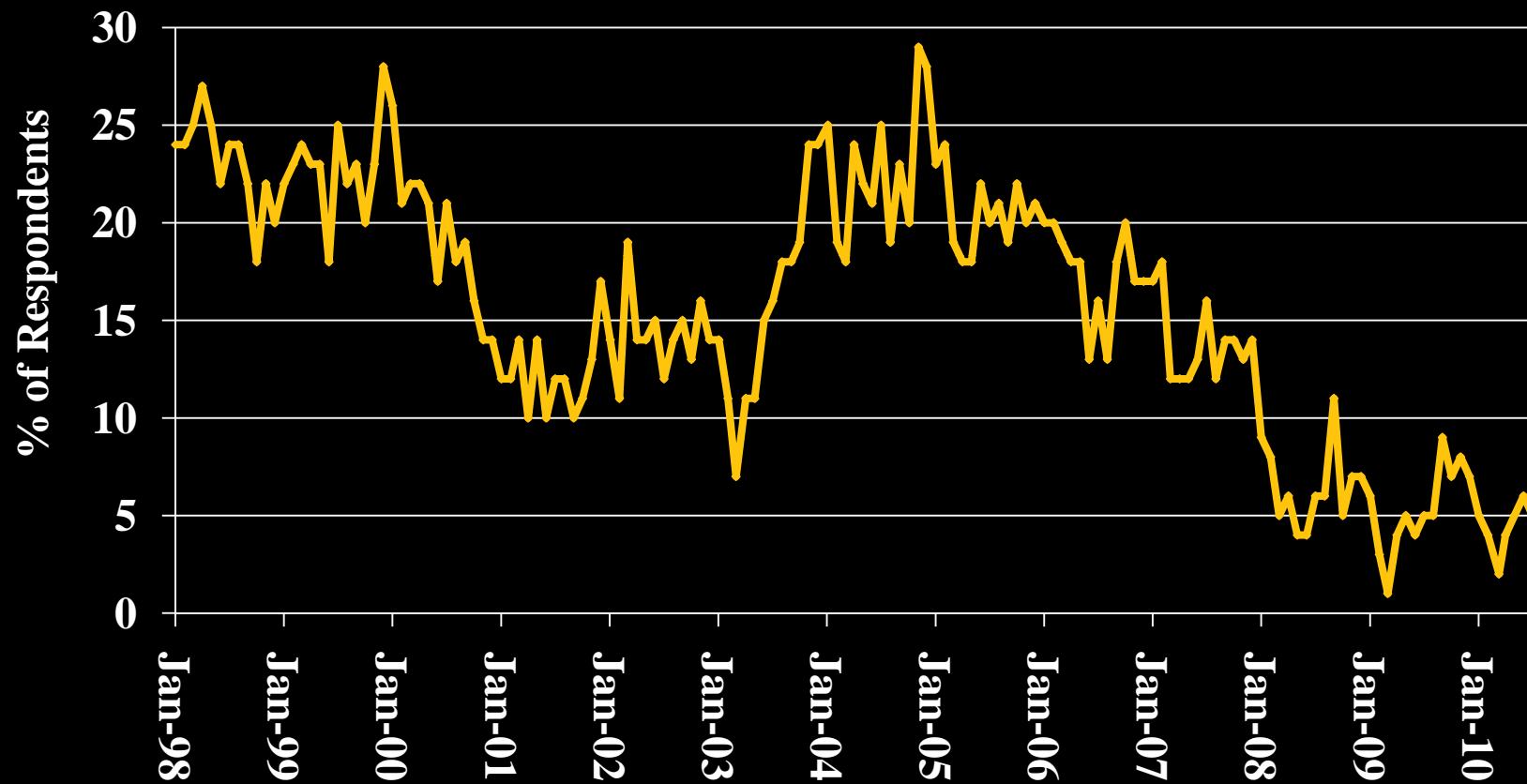
Source: Department of Commerce

Corporate Hiring Plans: Next 6 Months

	Q2-10	Q1-10	Q4-09	Q3-09
More Jobs	39%	29%	19%	13%
Less Jobs	17%	21%	31%	40%

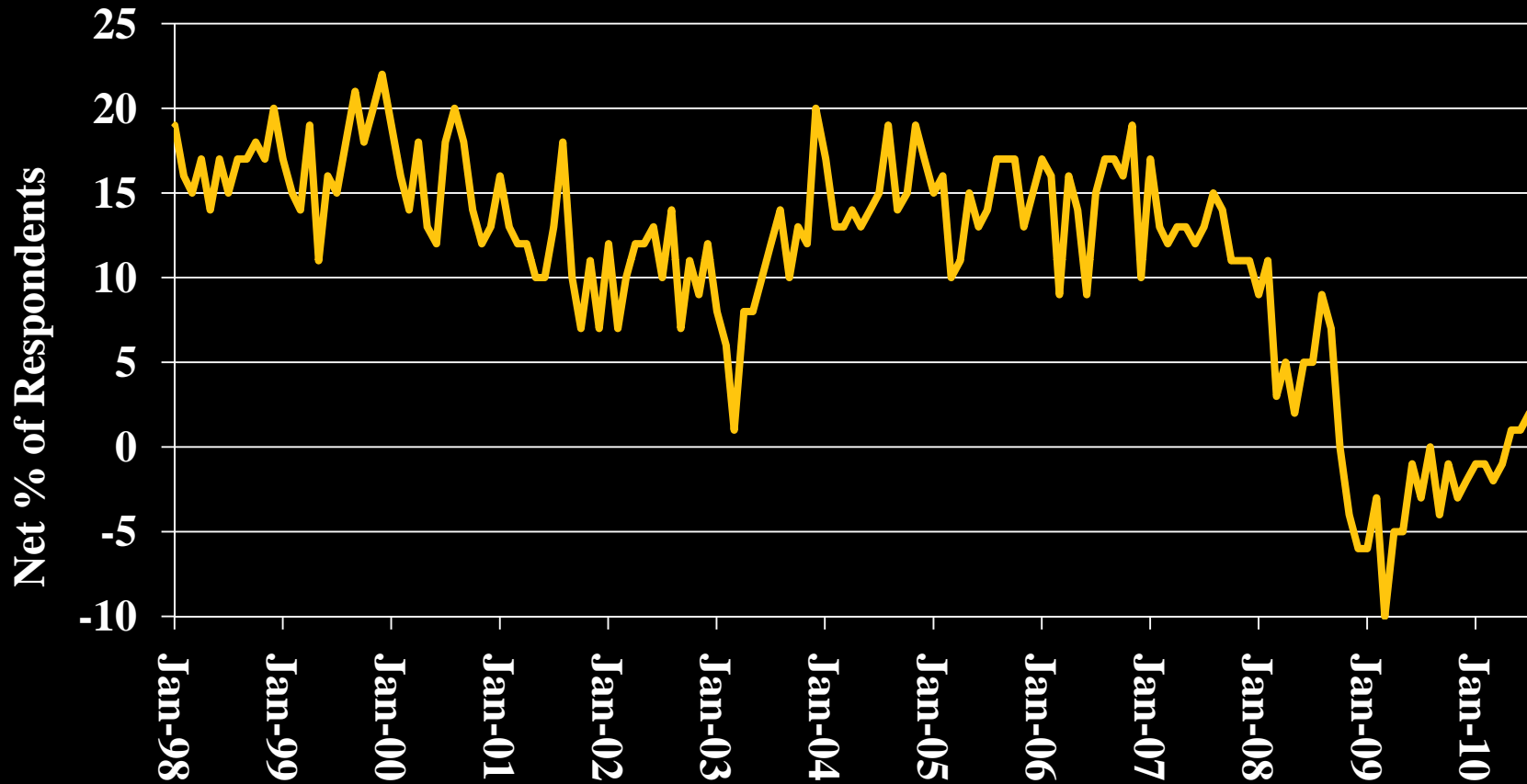
Small Business Outlook

“Now Is A Good Time To Expand”



Small Business Outlook

“Planning To Hire People In The Next Six Months”



The US Economy

- Consumers
- Private businesses
- **Government**
- Exports

The “Hoover Maneuver”



- What were his policy mistakes?
 - Raising taxes
 - Tightening credit

The “Hoover Maneuver”



- What are we doing in 2010 and 2011?
 - Raising taxes
 - Tightening credit

It didn't work well in the 1930's and it won't work well this time either.

The “Japanese Experience”

- Stock market bubble burst in 1989
- Real estate market bubble burst also
- Now (21 years later) the Japanese stock market is still 75% below its 1989 peak.
- Now (21 years later) commercial real estate land prices are 66% below its 1980's peak.

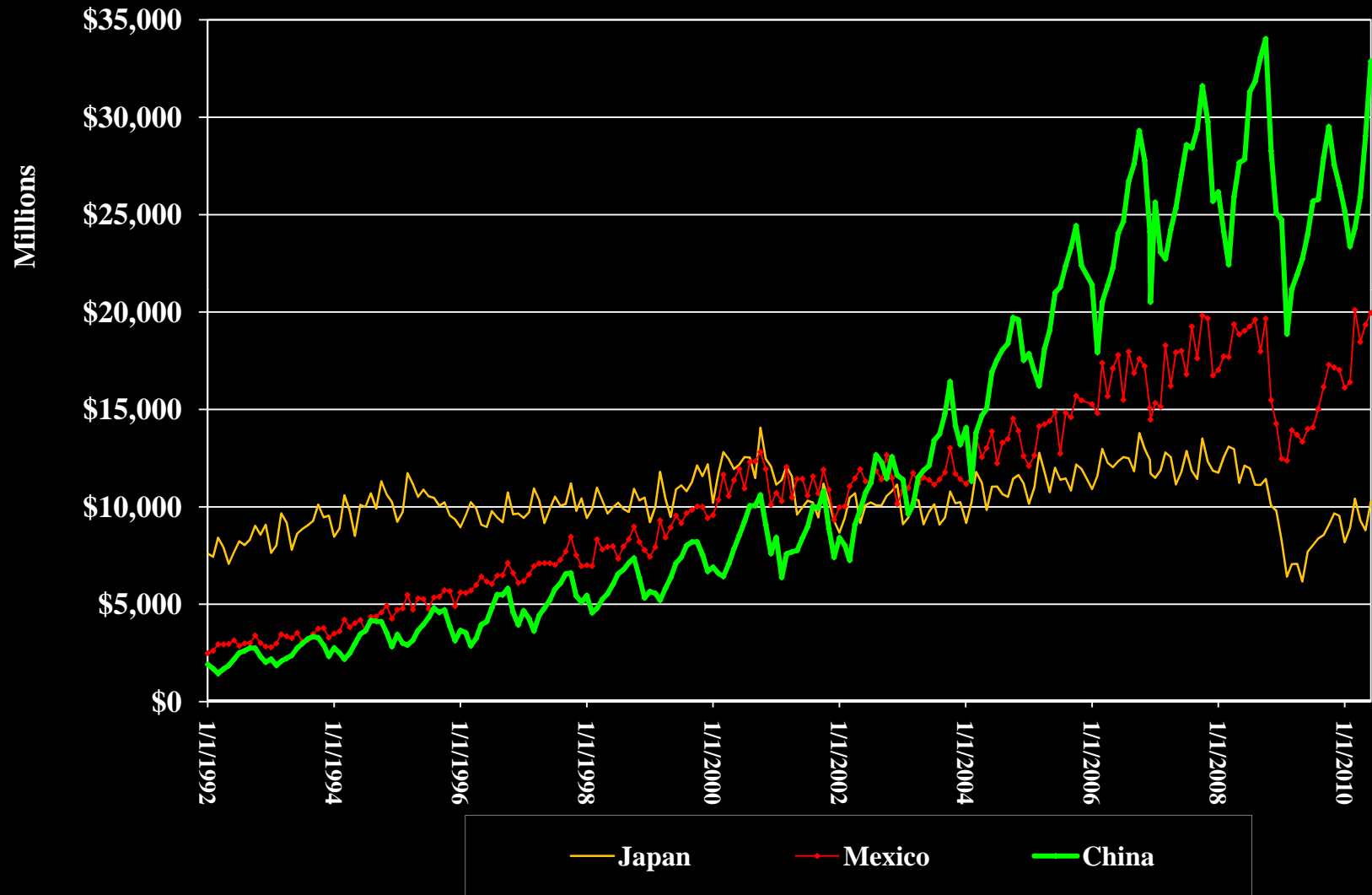
The “Japanese Experience”

- Japanese banks incurred huge losses from bad real estate loans made in the 1980's.
- The banks failed to recognize the loans on their books for more than a decade.
- “Zombie loans” at “zombie banks”.
- Finally Takenaka required the banks to write off their bad loans and take losses.
- Restored confidence in the banking system.

The US Economy

- Consumers
- Private businesses
- Government
- Exports

Imports Into the US



Source: Department of Commerce

Conclusions

- American Consumers are fixing their balance sheet and returning to the stores.
- American businesses have right-sized and returned to profitability.
- American small business owners are still frozen with uncertainty and sitting on cash.
- States, cities, counties and school districts will have to right-size their spending.
- Federal policies are serving up another perfect storm with tighter credit and higher taxes.
- The “extend and pretend” gambit in the banking system will retard growth until it’s resolved.

Conclusions

- The “real” economy is trying to turn the corner
- Small business hiring is essential to offset weakness in the public sector
- There is a lot of pent up demand from businesses that have postponed decisions and are sitting on cash.
- There is a lot of pent up demand from consumers that have postponed decisions too.

Risks

- Public employees balk at cost cutting measures
- Political will to “stimulate” fades away
- Higher income tax rates reduce consumption
- Higher income tax rates reduce investment
- Congress continues adversarial role with large and small business
- Failure to resolve the banking system causes the commercial real estate markets to stay frozen for another year.
- China continues to manipulate their currency.



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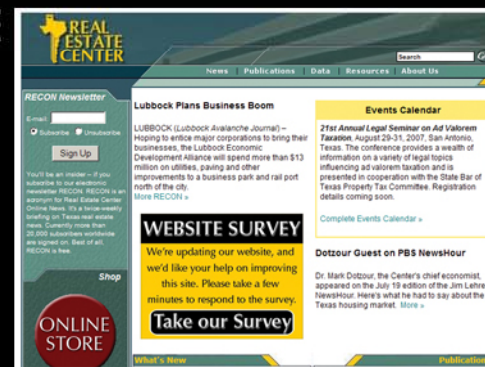


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