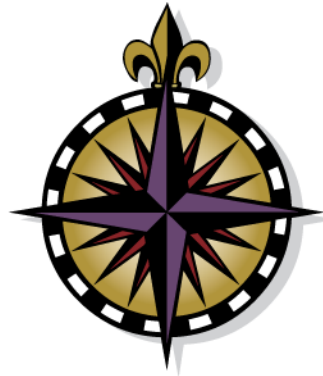


Review of U.S. Economic Conditions

May 4, 2012



by Alston Boyd
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Austin, Texas

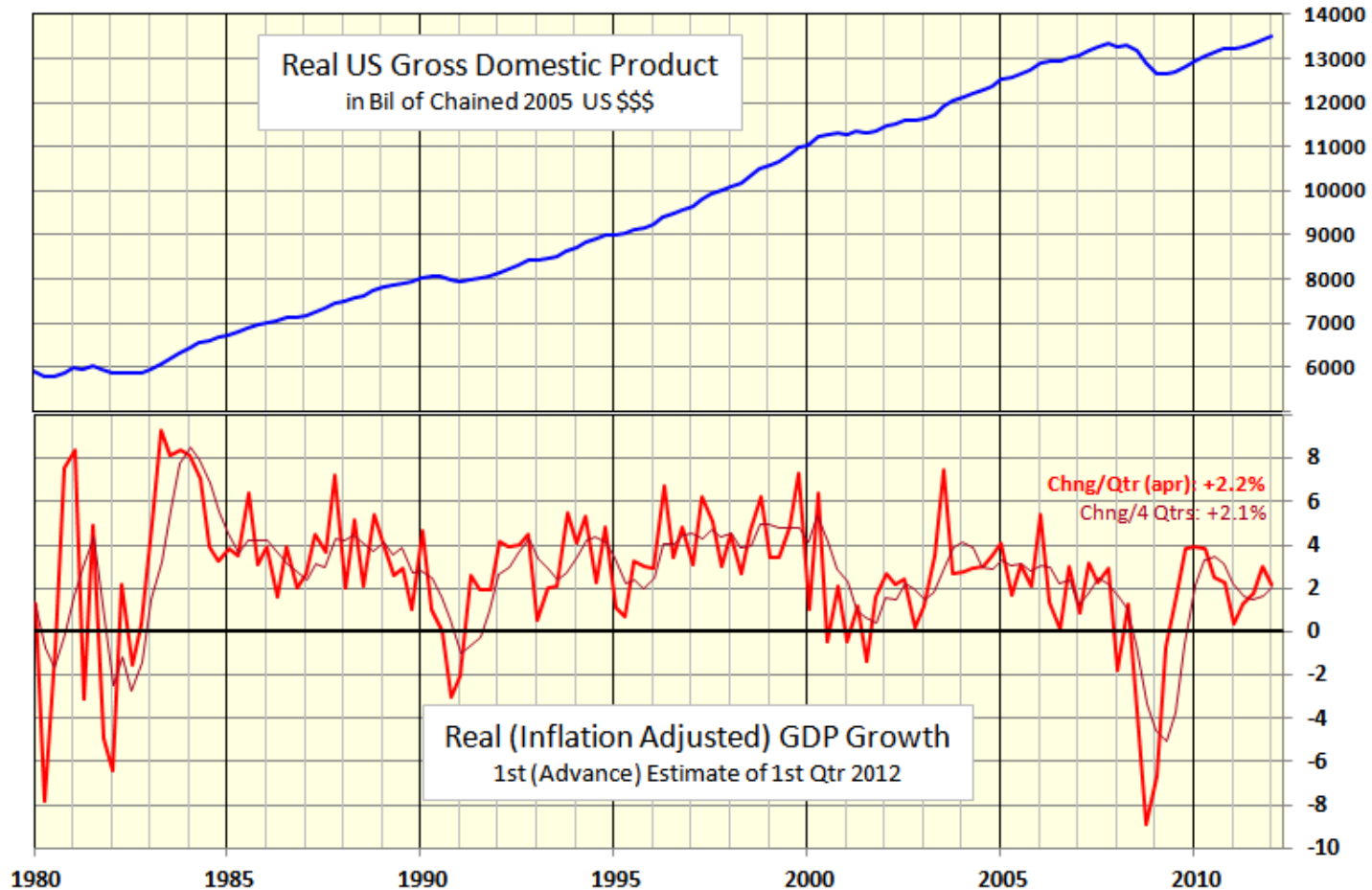
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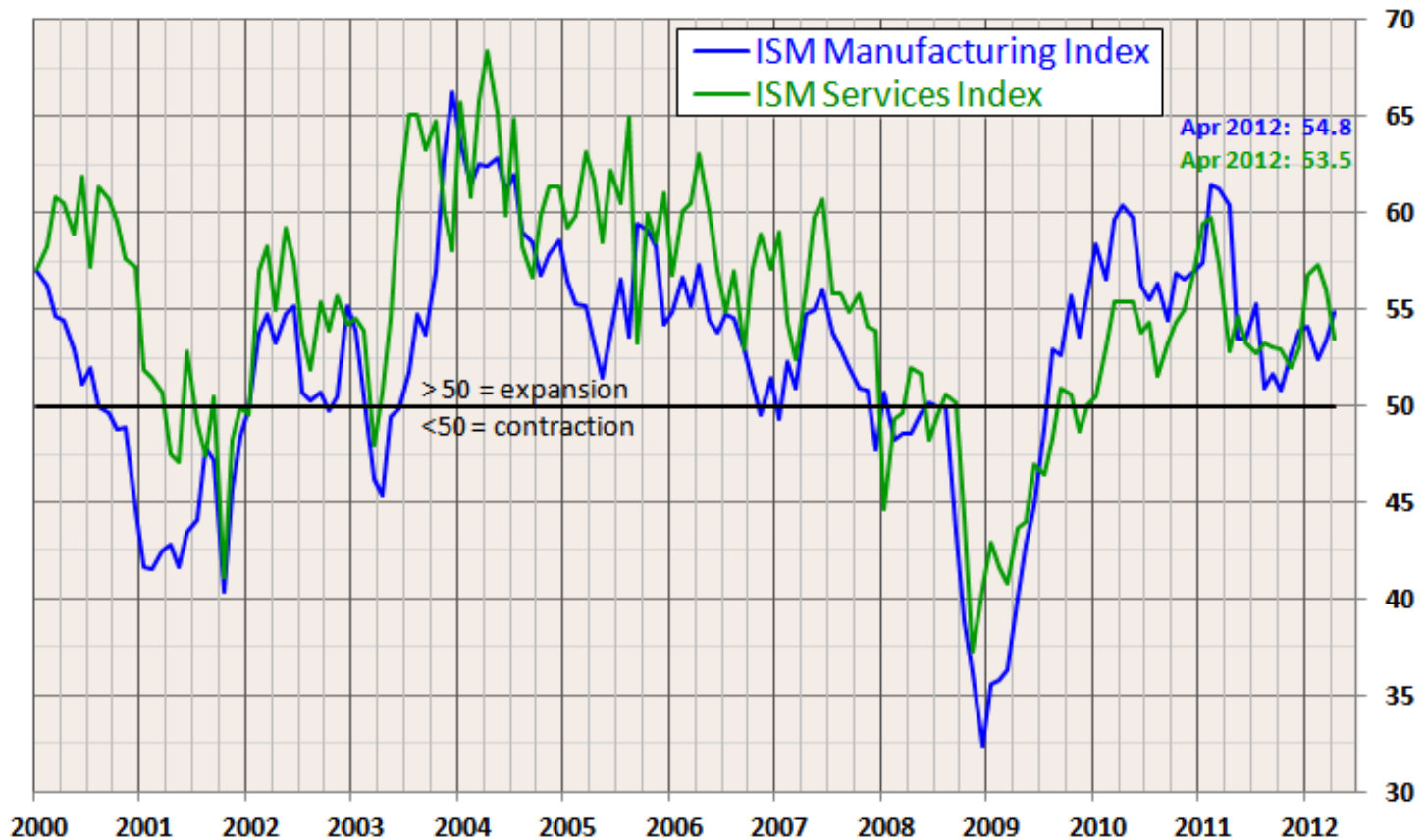
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U.S. Economic Growth



The 1st quarter 2012 GDP fell from an annualized growth rate of 3.0% to 2.2%. This is a rate that indicates we're just barely getting by.

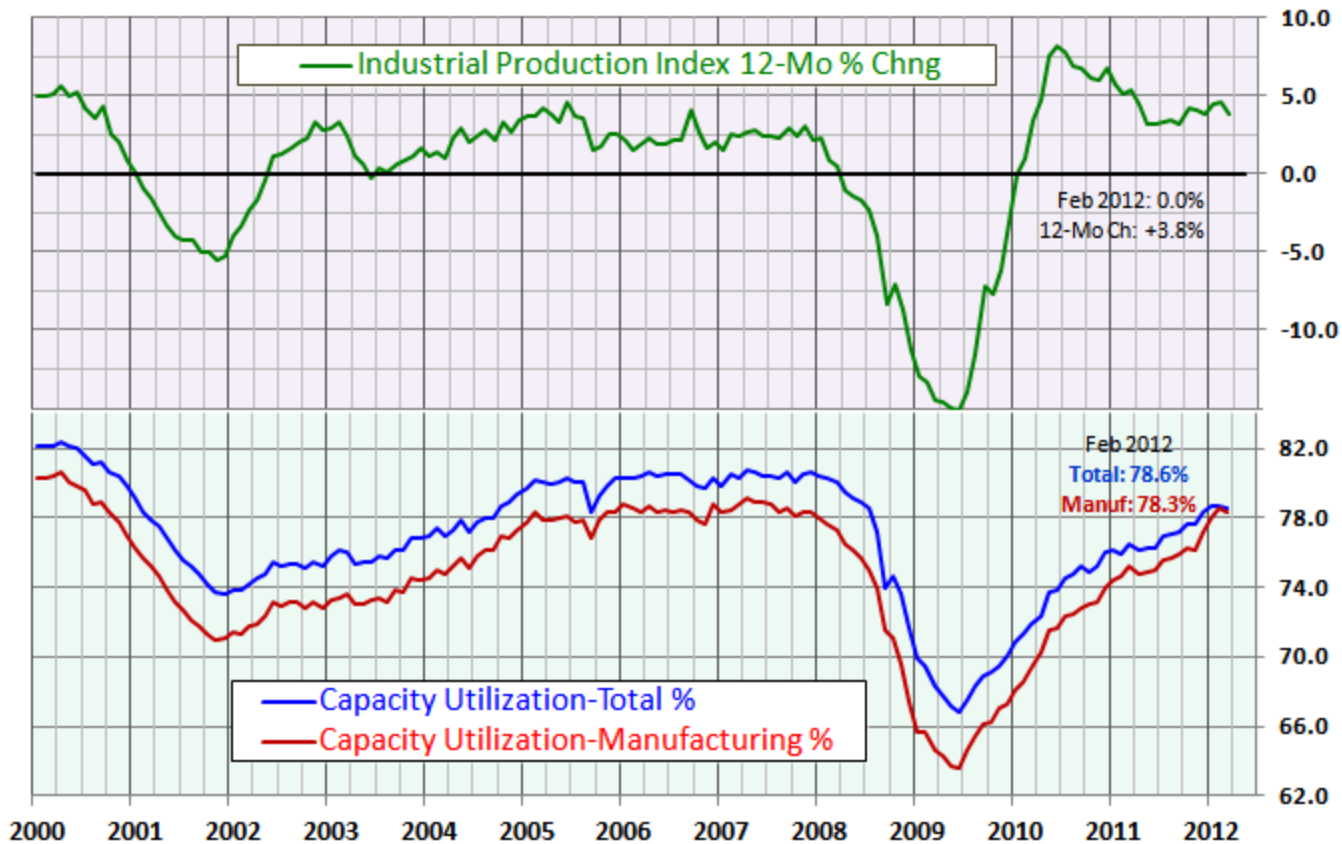
ISM Manufacturing & Services Indexes



>50.0=Growth <50.0=Contraction

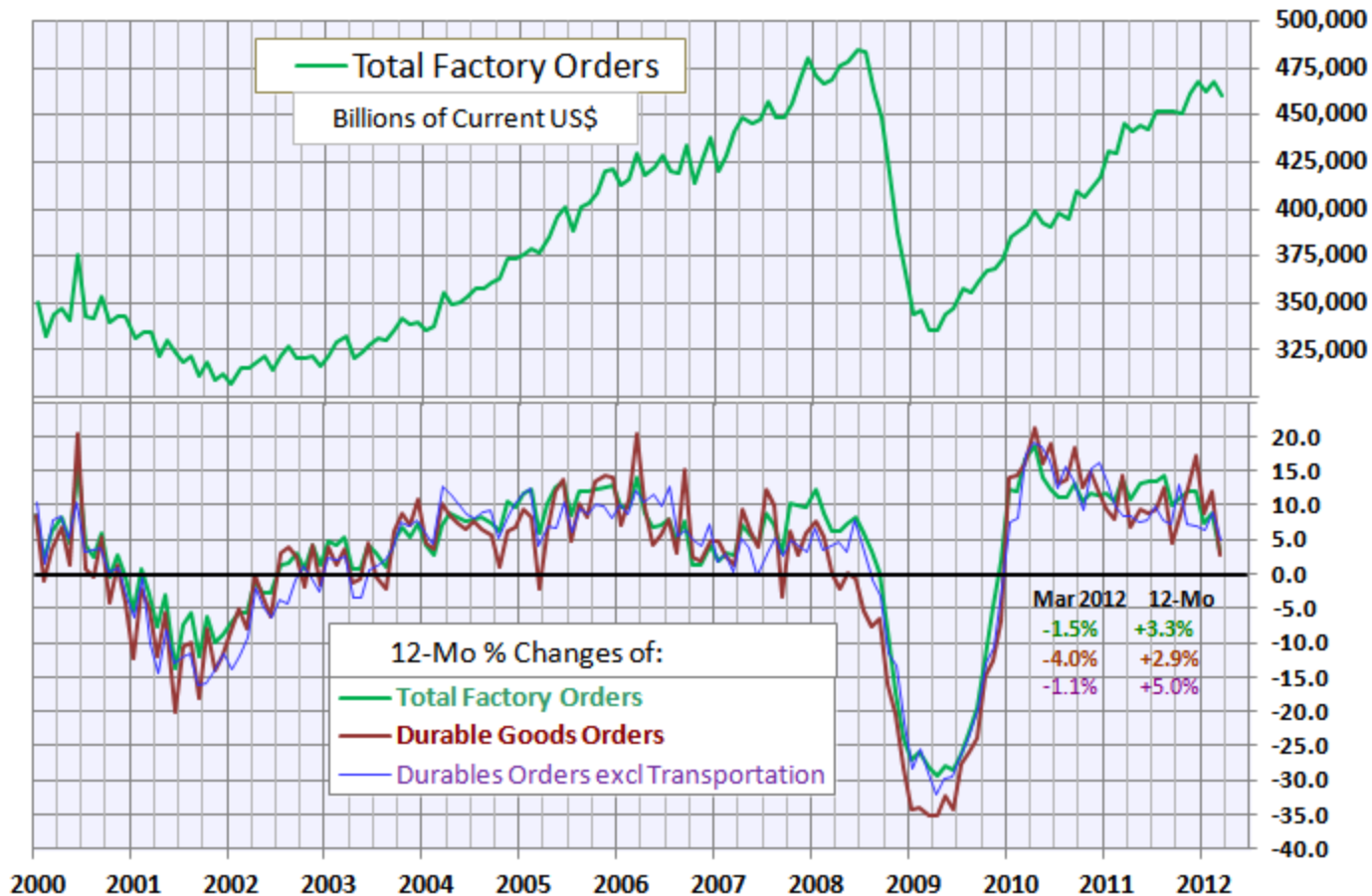
The Manufacturing Index rose slightly in April to 54.8, while the Services Index fell to 53.5, weaker, but still a respectable number.

Industrial Production



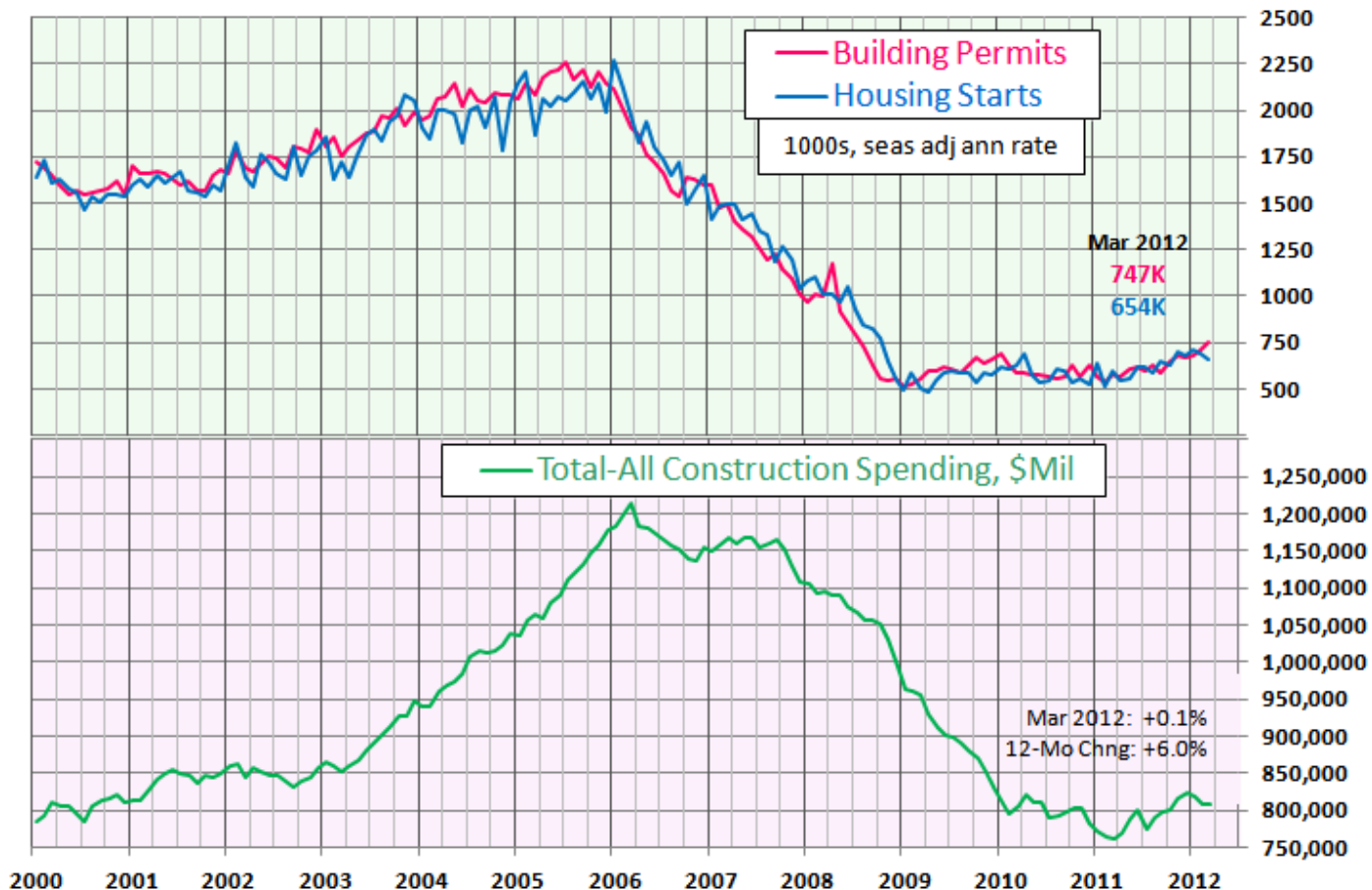
Everything still looks fairly good here; gains in industrial production slowed until the middle of last year, when they flattened out. Steady increases in capacity utilization since mid-2009 continue to be a good sign. The manufacturing figure is back up to where it was in 2005-2007 and it's the first time in at least 40 years that capacity utilization of manufacturing is virtually equal to the total rate.

Factory Orders



Factory orders fell 25+% in less than a year during 2008-2009, then rose rapidly and have come close to reaching the previous peak in 2008. The drop since January is hopefully only a temporary phenomenon.

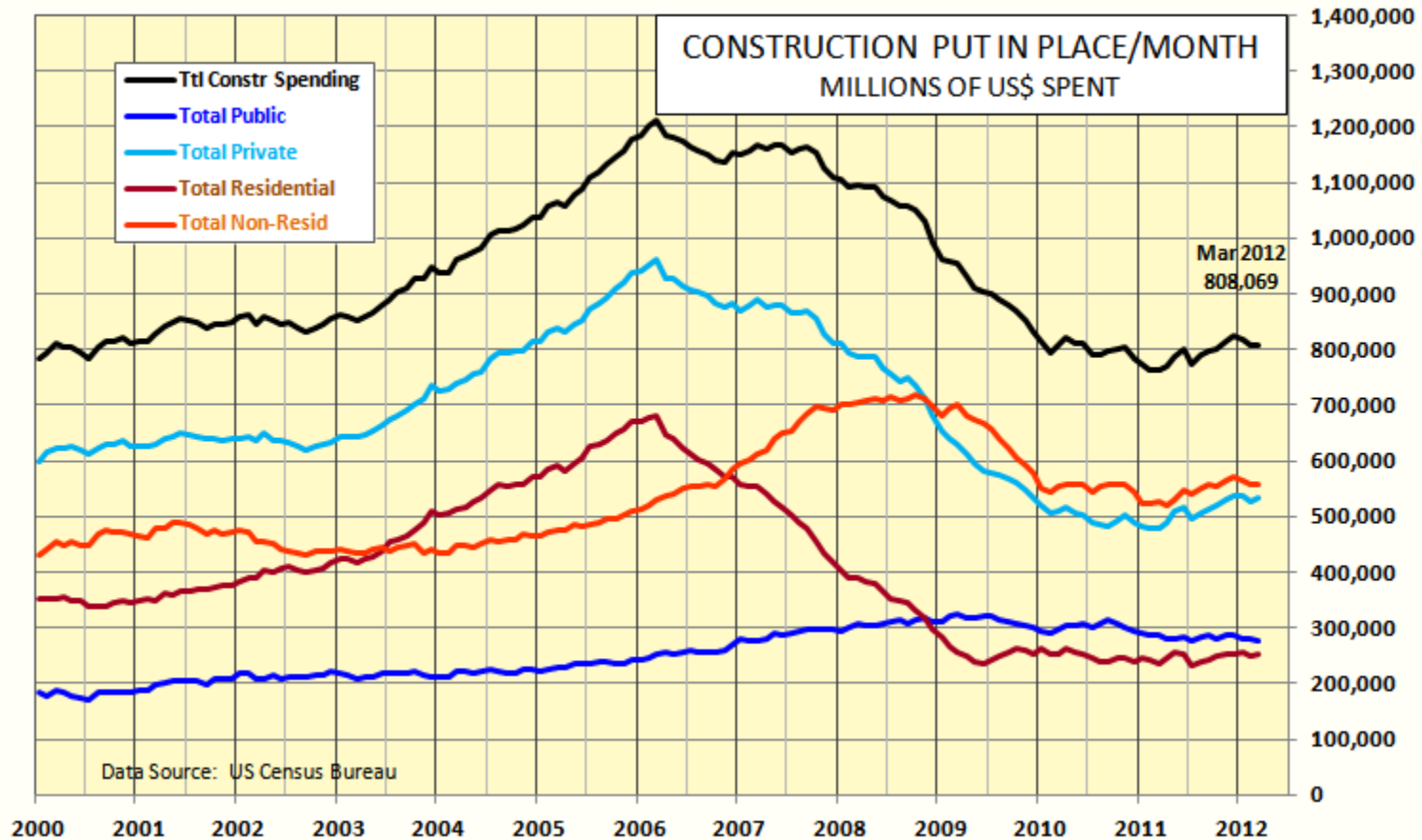
Housing & Total Construction



The construction industry, particularly housing, continues to be the weakest part of our economy, and has showed hardly any growth at all until a tentative rise began in 2011.

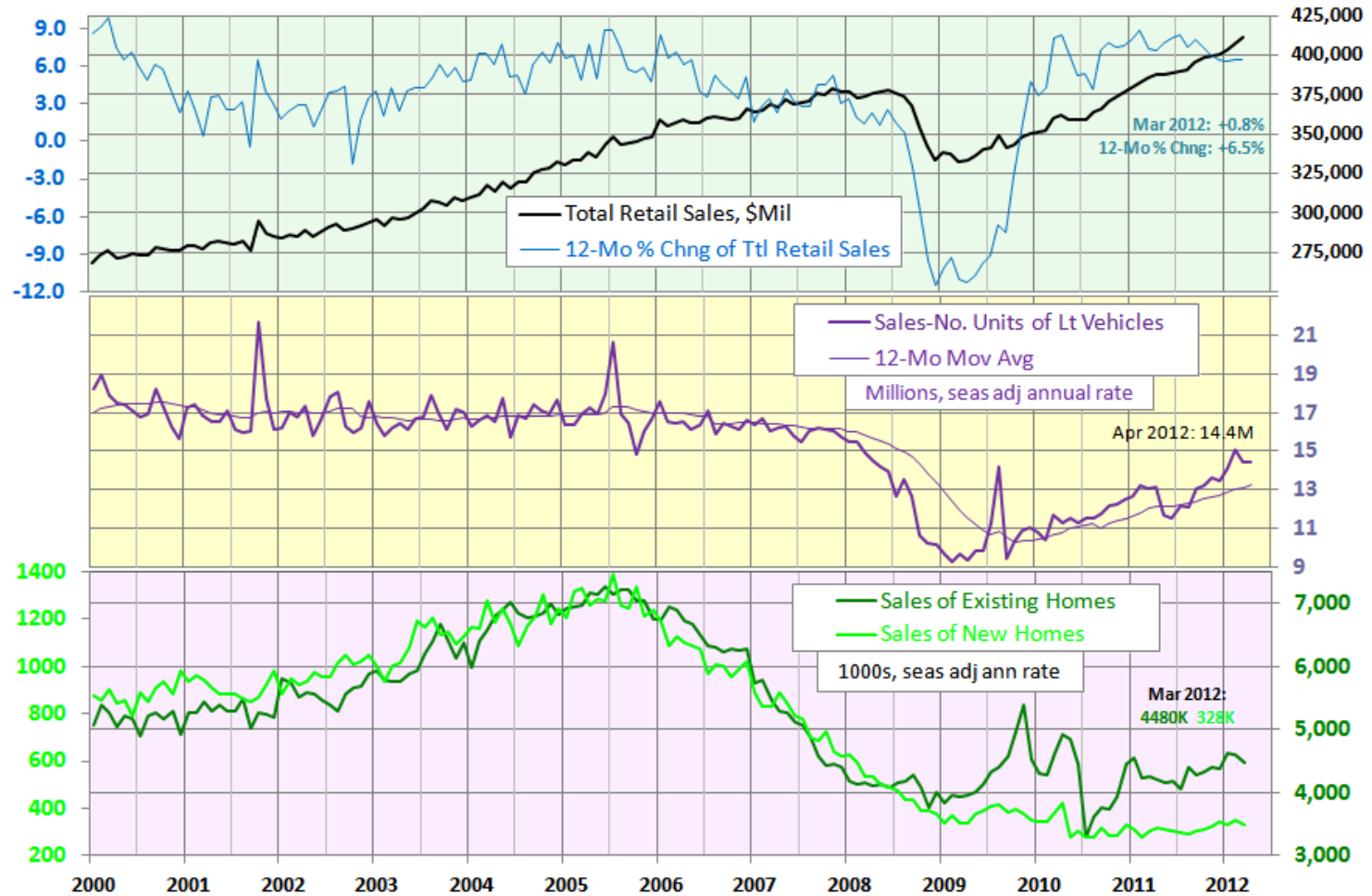


Construction Spending



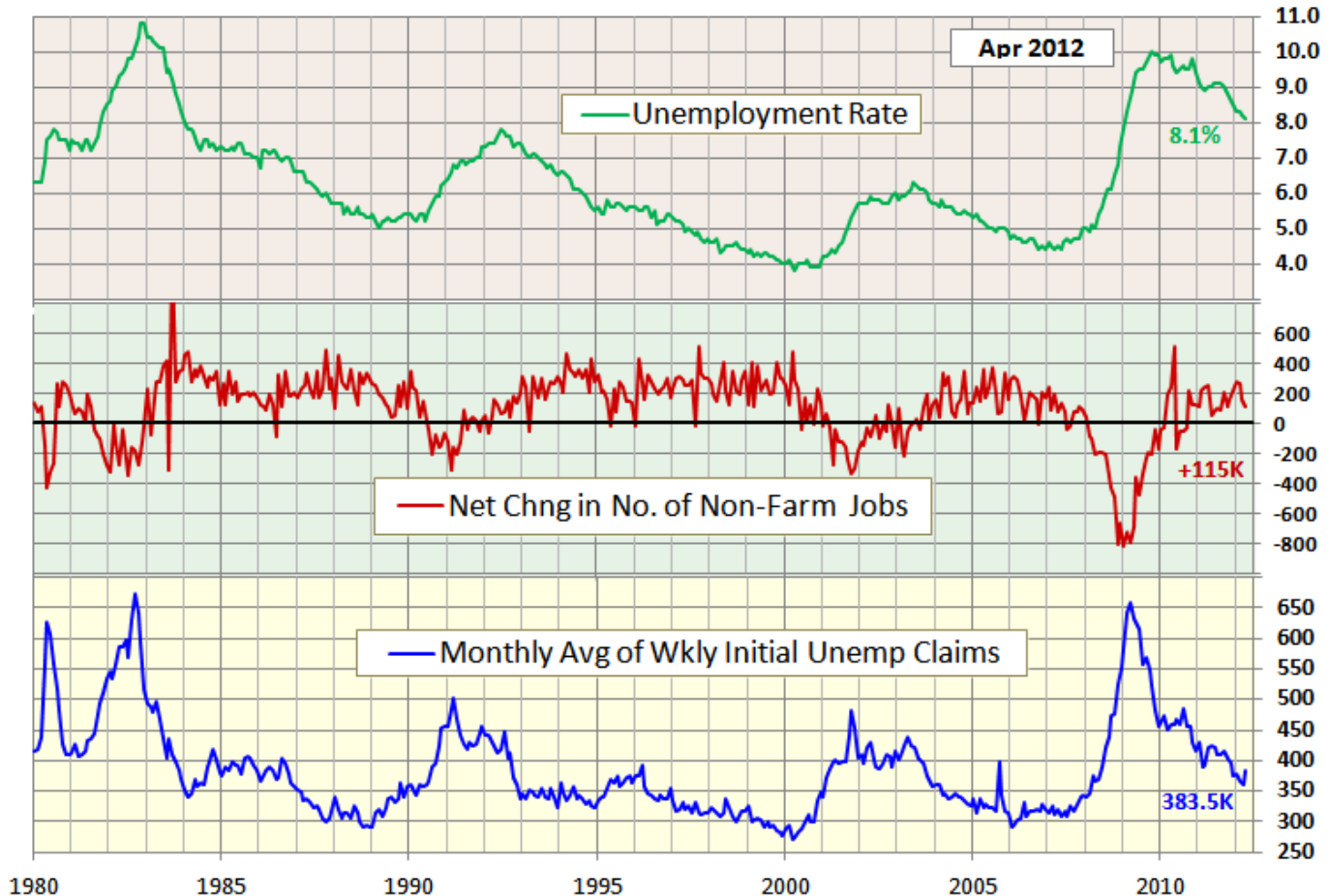
The good news here is that private and non-residential construction spending turned up early in 2011, though residential construction is still flat. Note that the increase in public (government) spending on construction that began in 2007 was hardly noticeable on this scale, even though it amounted to a 50+% increase. The slight dip in February 2012 is probably nothing to worry about.

Sales



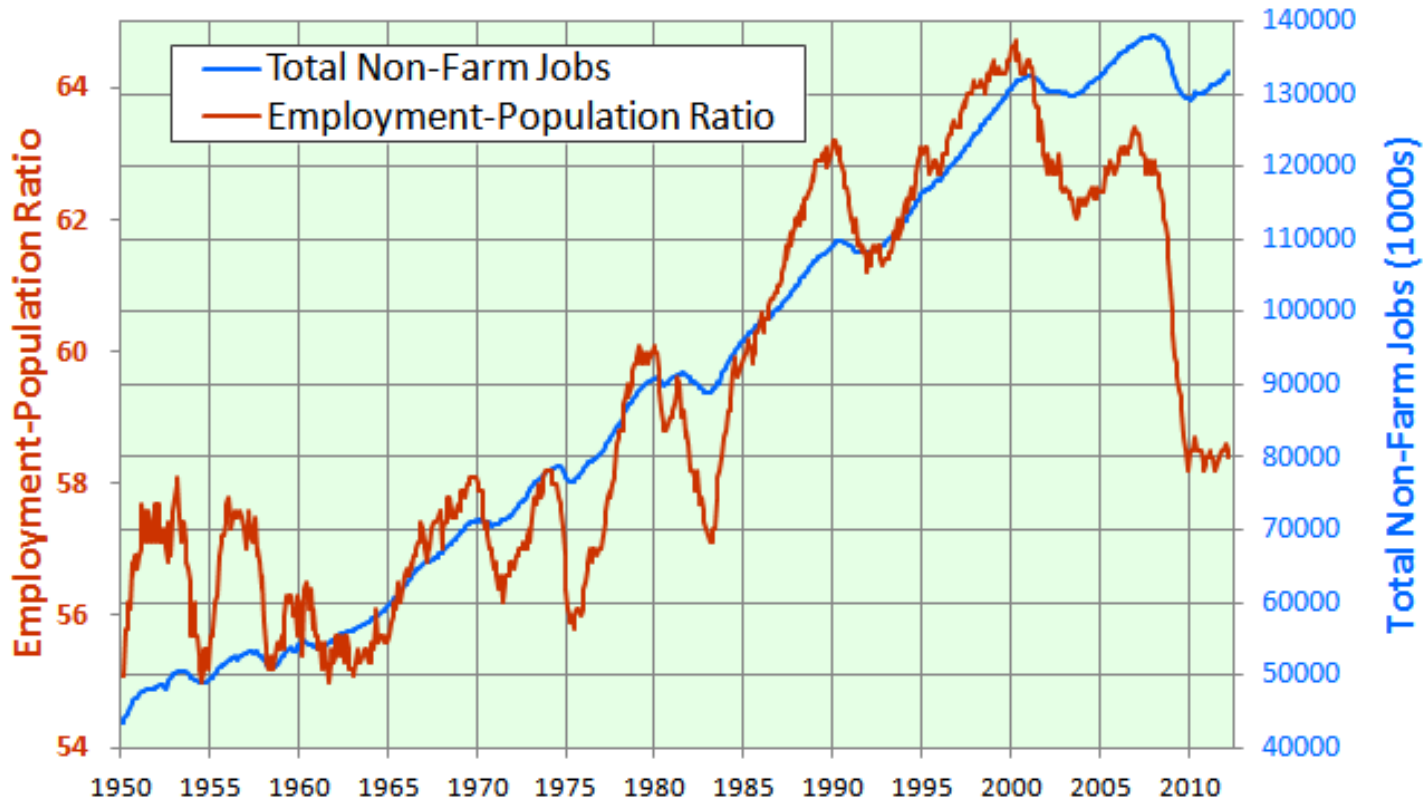
Total retail sales continue to grow at around 7%/yr and auto sales hit another 4-year high in February. The average age of cars on the road is up to nearly 11 years—they do wear out eventually and must be replaced. New home sales show no signs of recovery yet, but existing home sales are up substantially from the lows of mid-2010, though volatile from month to month.

Unemployment Rate, Jobs



Unemployment fell to 8.1% in April, though with a gain of only 115,000 jobs. Initial unemployment claims have dropped to the level of early 2008. These charts clearly show that an economic recovery is now under way, though not a strong one.

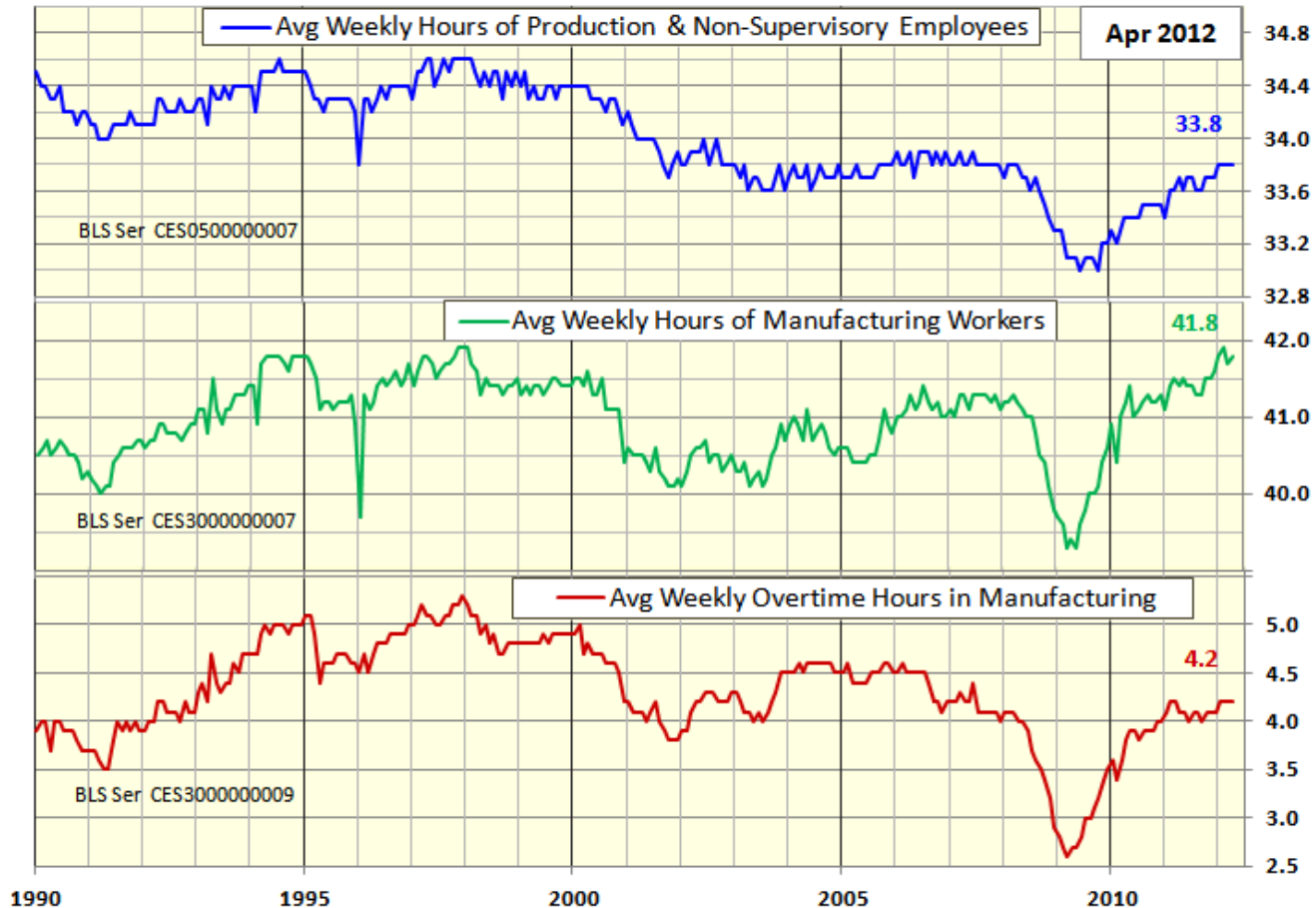
US Labor Participation Rate Compared to the Total Number of Non-Farm Jobs



The labor participation rate is the percentage of the population with jobs. Not many new jobs have been created since 2000, and the percentage of the population with jobs is down 5% over the last 6 years.

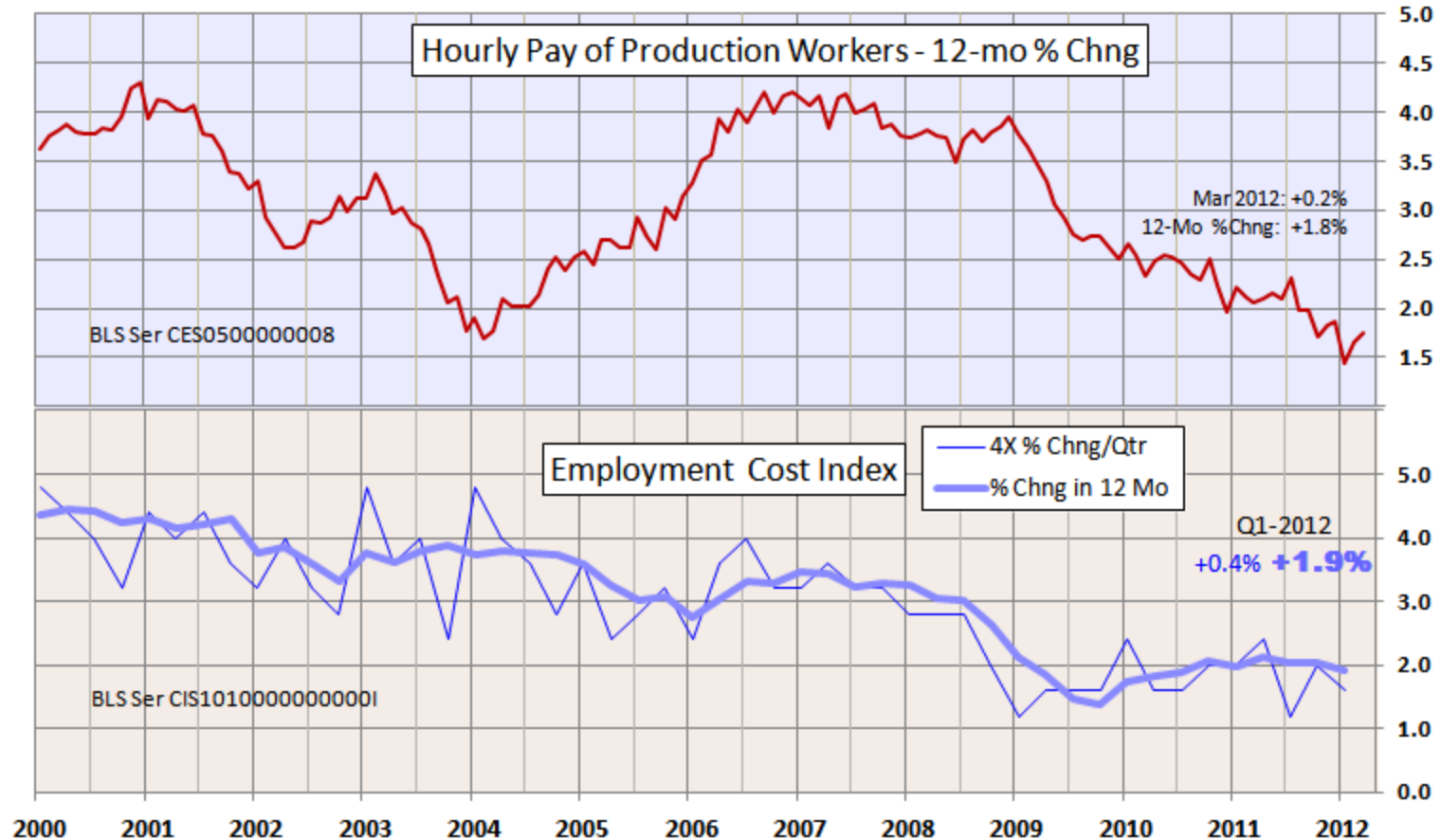


Work Week



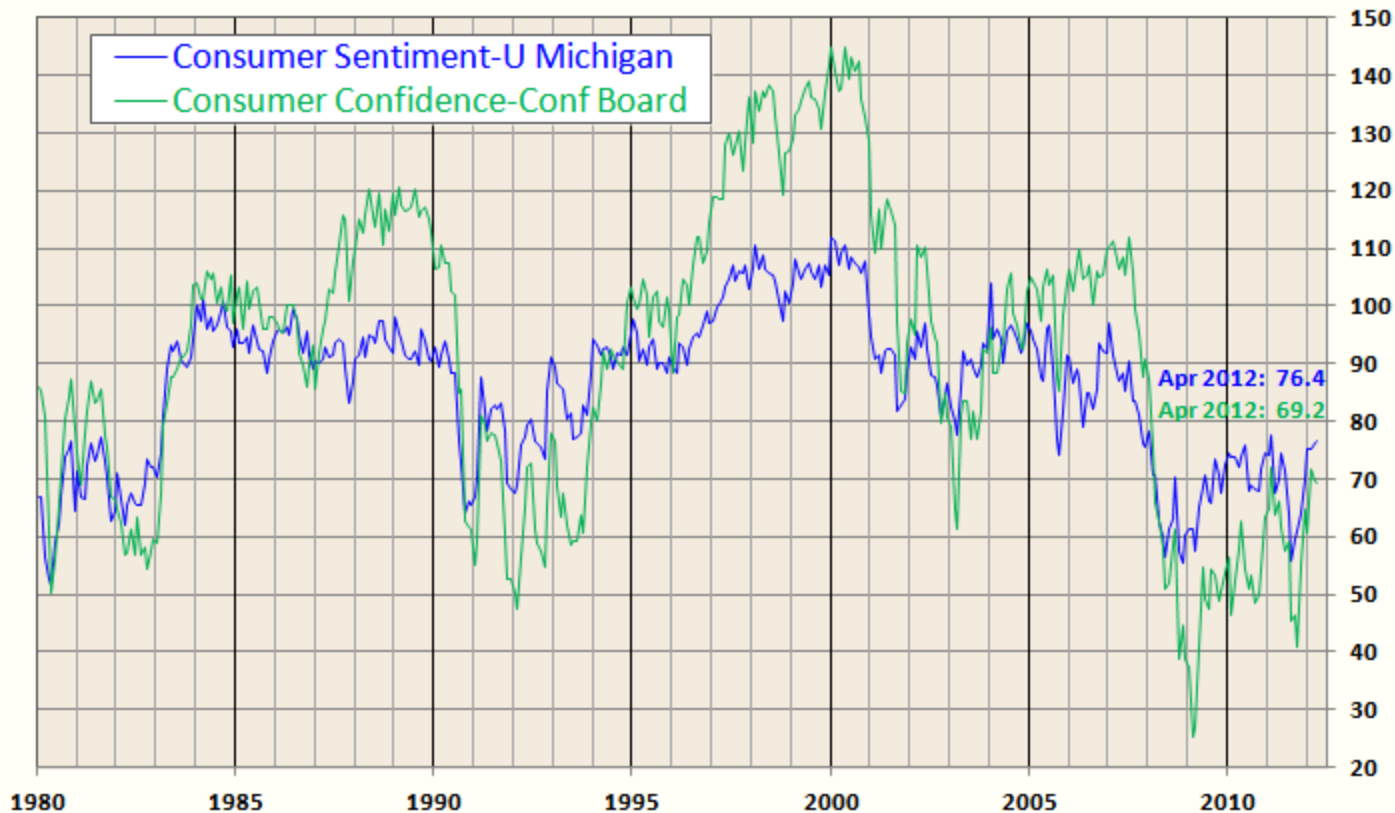
The increases in average hours worked, though uneven, are good signs of a stable environment for jobs. Manufacturing average hours per week in February were more than any since December 1997! Overtime hours increased sharply in January to the highest level since 2007 and have maintained that through March, implying that prospects for a lot more hiring are improving.

Labor Costs



Hourly wages have been decelerating and increased only 1.4% in 12 months through January, the smallest increase since at least 1965. The 12-month increase through March was up to 1.8%. Labor costs are said to be responsible for 2/3 of overall inflation in the US, so we haven't had much to fear from this direction and it's doubtful if this trend in labor costs will change drastically anytime soon.

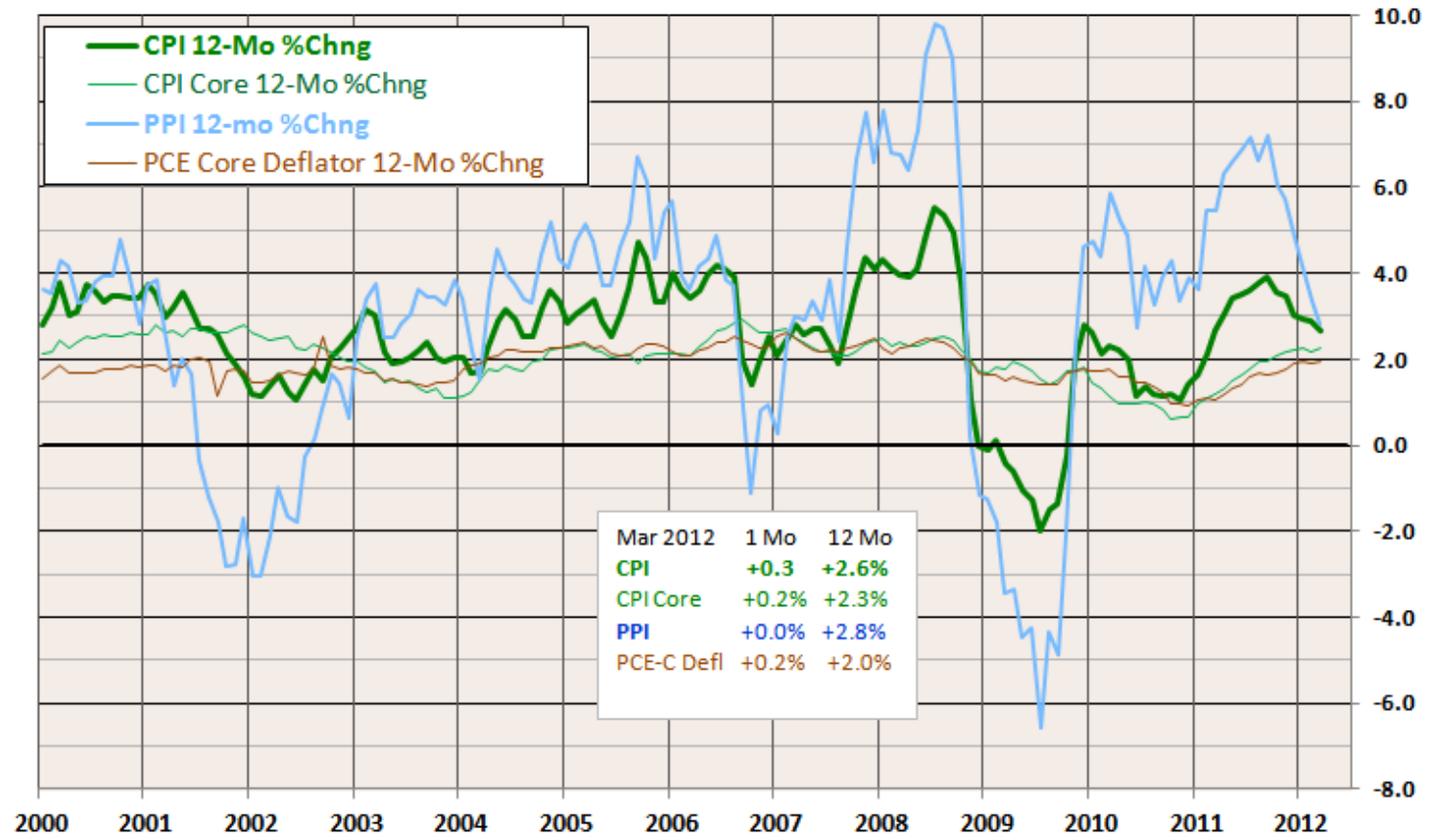
Consumer Confidence & Sentiment



The recent sharp upticks in sentiment and confidence are probably due to improvements seen in the job market in the last couple of months. Even though the unemployment rate is a lagging indicator, when it drops sharply, as it has done in the past few months it can have a powerful positive psychological effect.



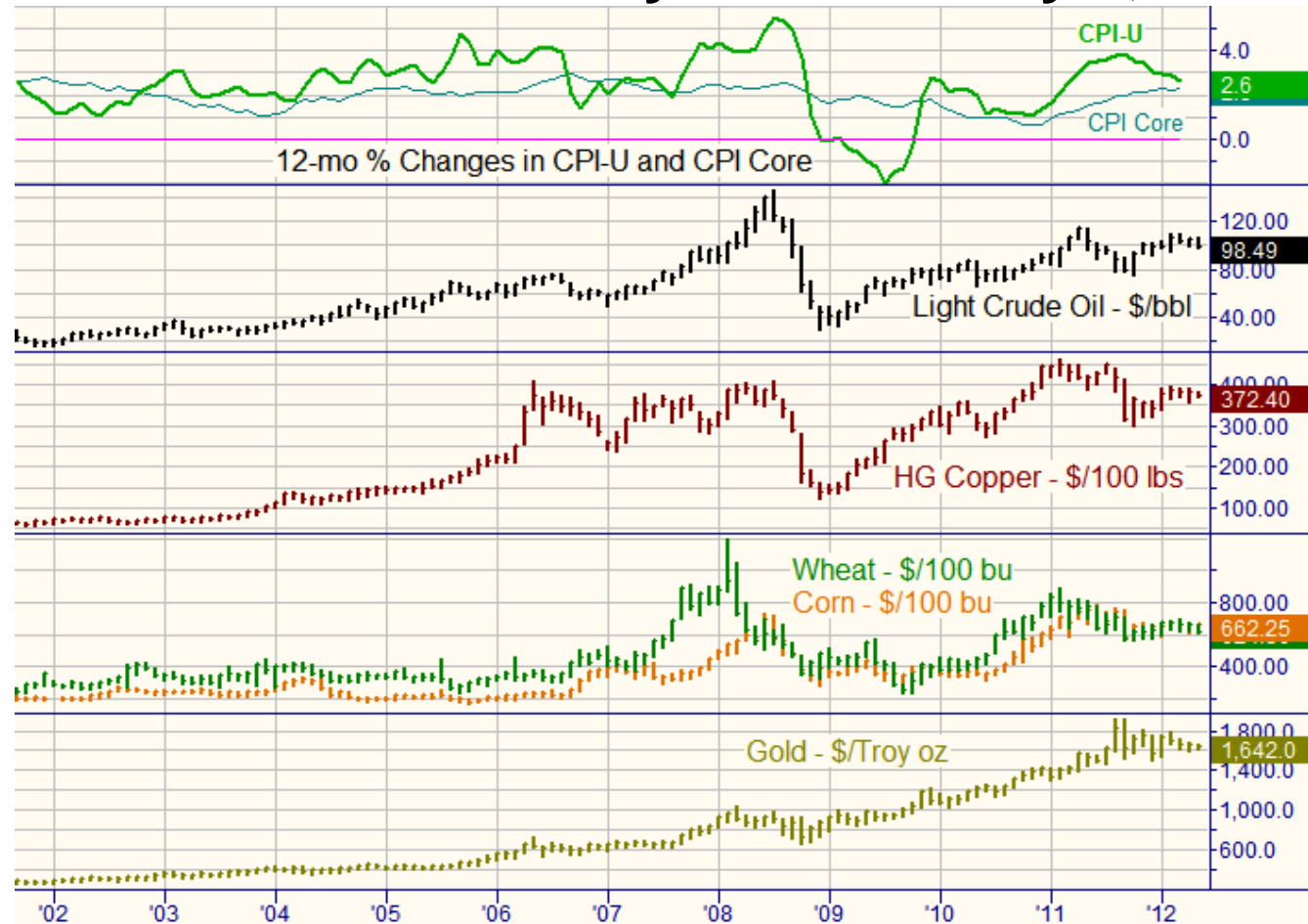
Inflation: CPI, CPI Core, PPI, PCE Core Deflator



Fears of inflation in the US are probably not justified, at least in the short term, because of (1) the overall weakness of the world economy and (2) weak wage increases in the US. Grain and gold prices have little inflationary effect here in the US. Oil prices, on the other hand, do have an effect here and could be a serious, real cause of inflation if the price of oil rises sharply. Fears of an attack on Iran have been boosting prices. Continuing rises in oil prices have the capability of derailing the US economic recovery.

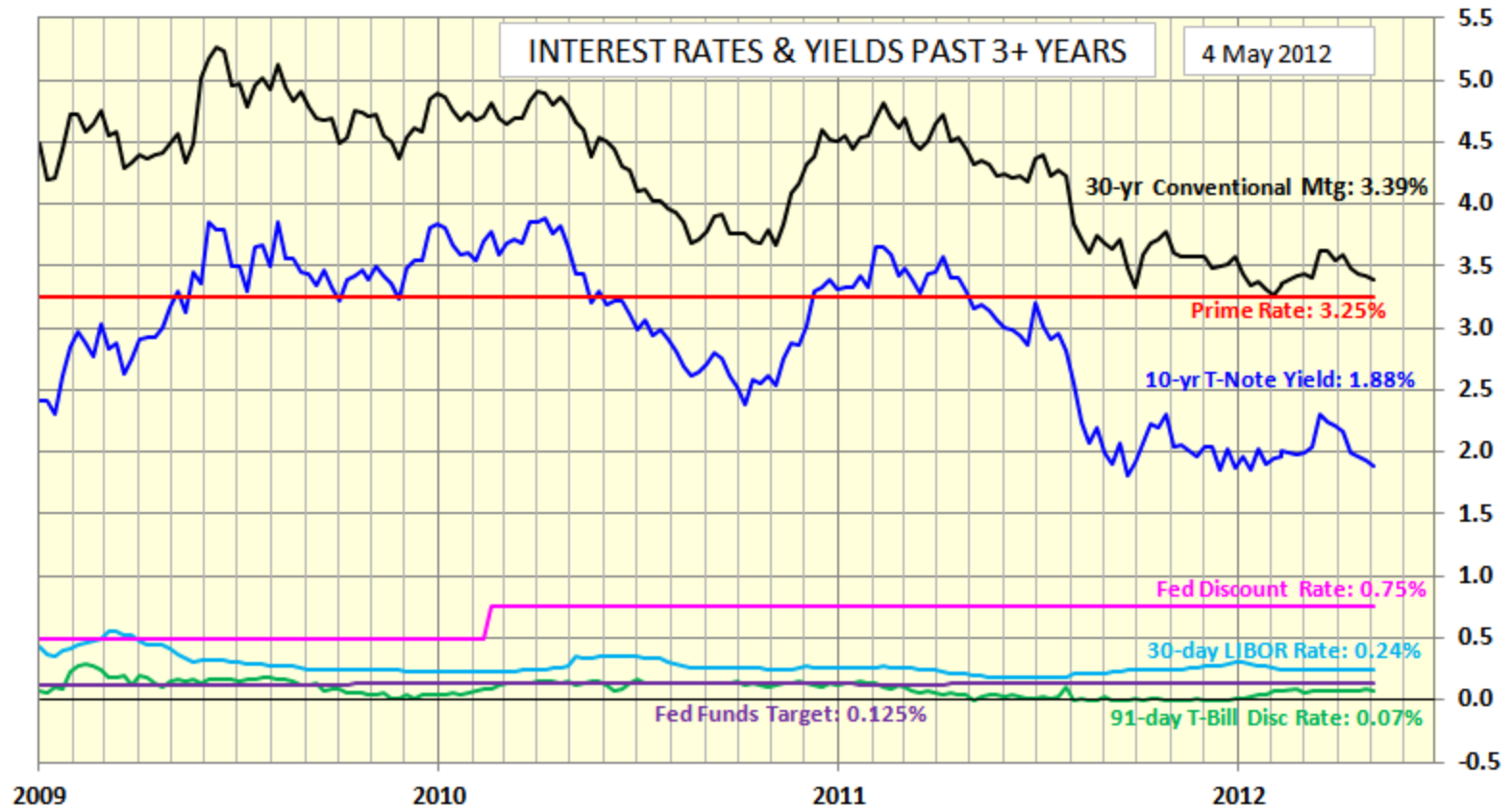


Inflation & Commodity Prices – May 5, 2012

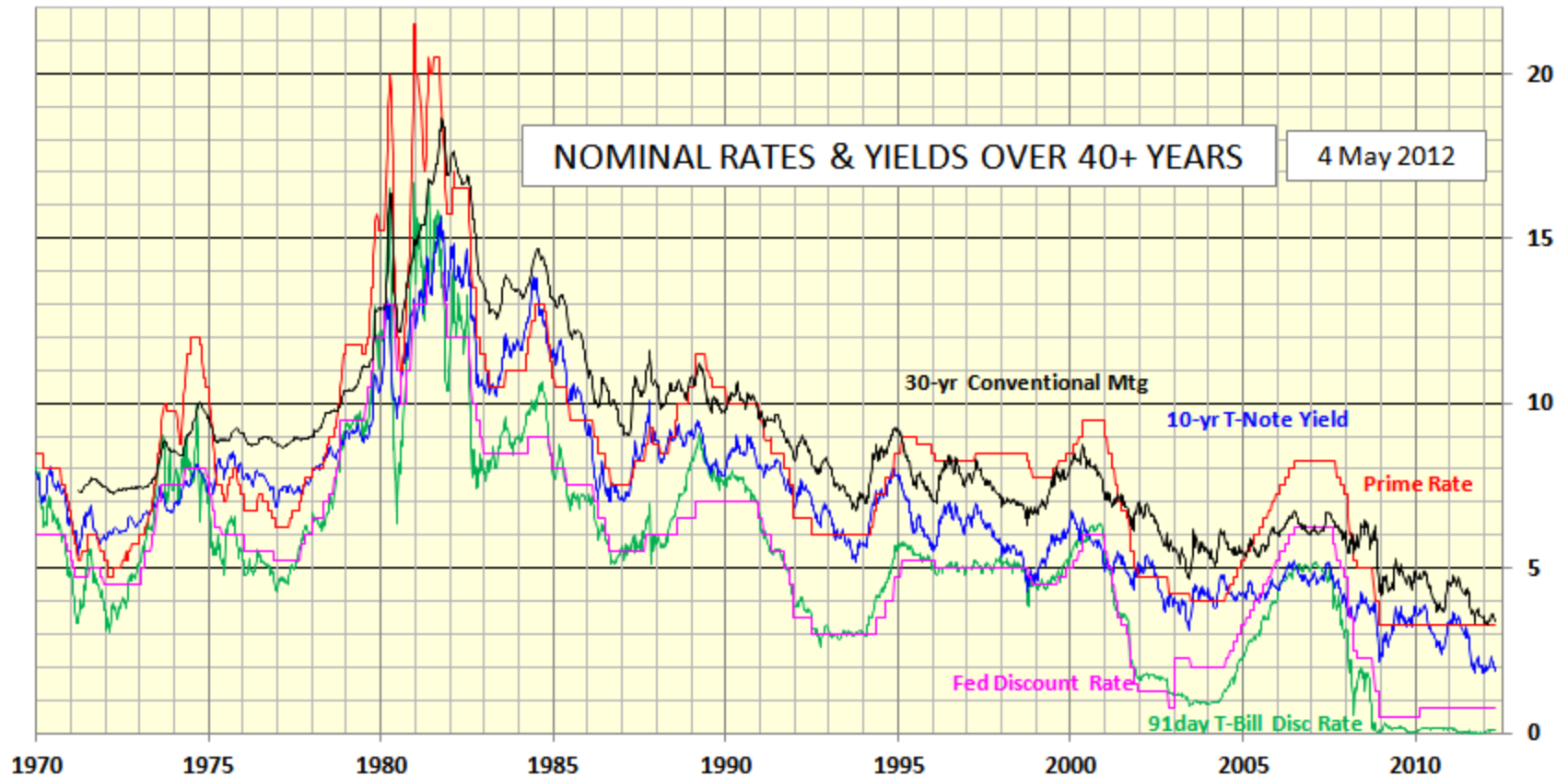


The prices of most commodities above have been flat in the past few months as fears of a global economic slowdown have become widespread. Oil prices have remained high due to geopolitical risk (Iran and the Persian Gulf). The European debt crisis and the US government's waffling over what to do about our own problems have both had bad effects on confidence in industry.

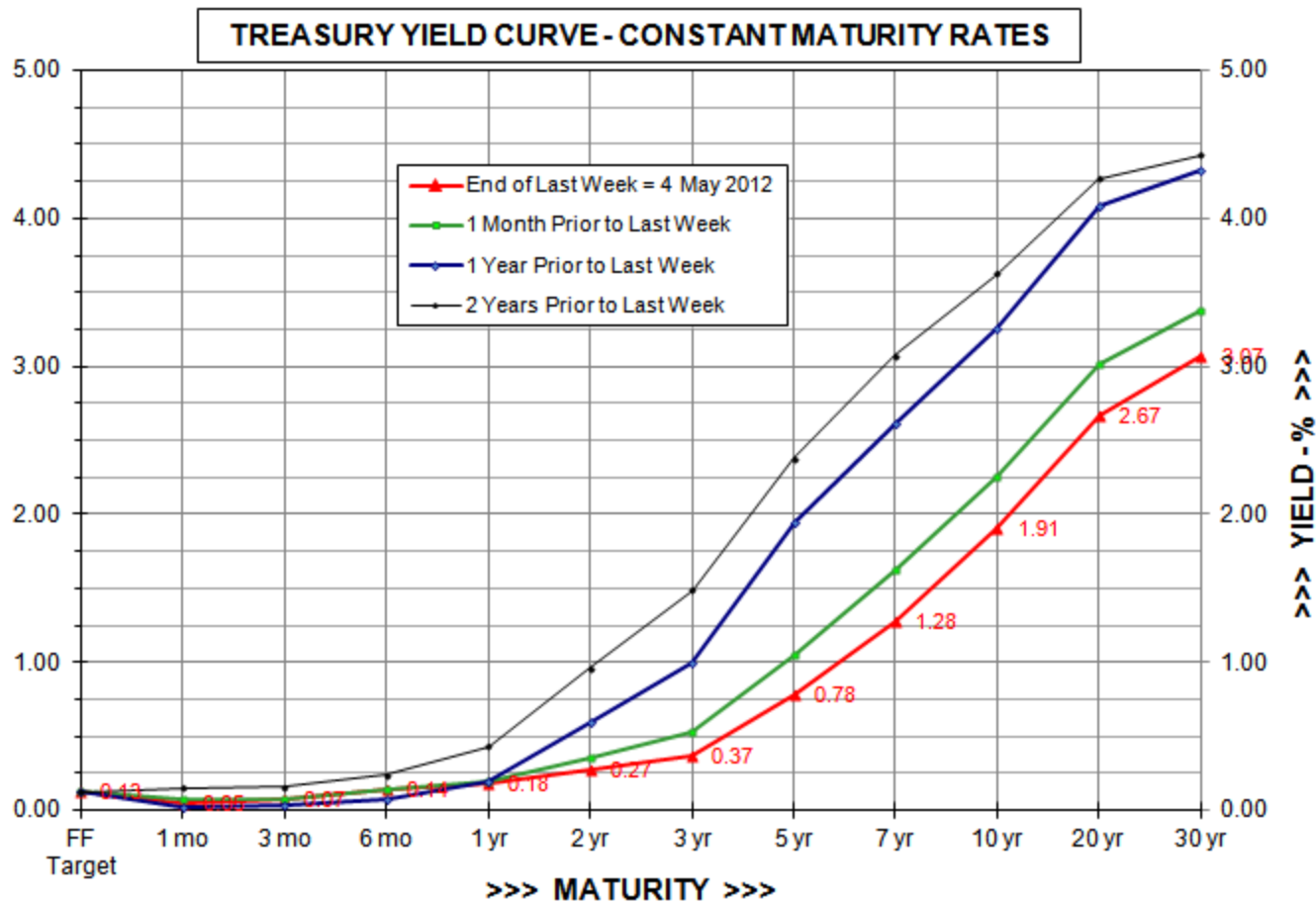
Interest Rates – Last 3+ Yrs – May 4, 2012



Short rates have remained low and steady, while long rates have remained low because of the expectation of a slow world economy.



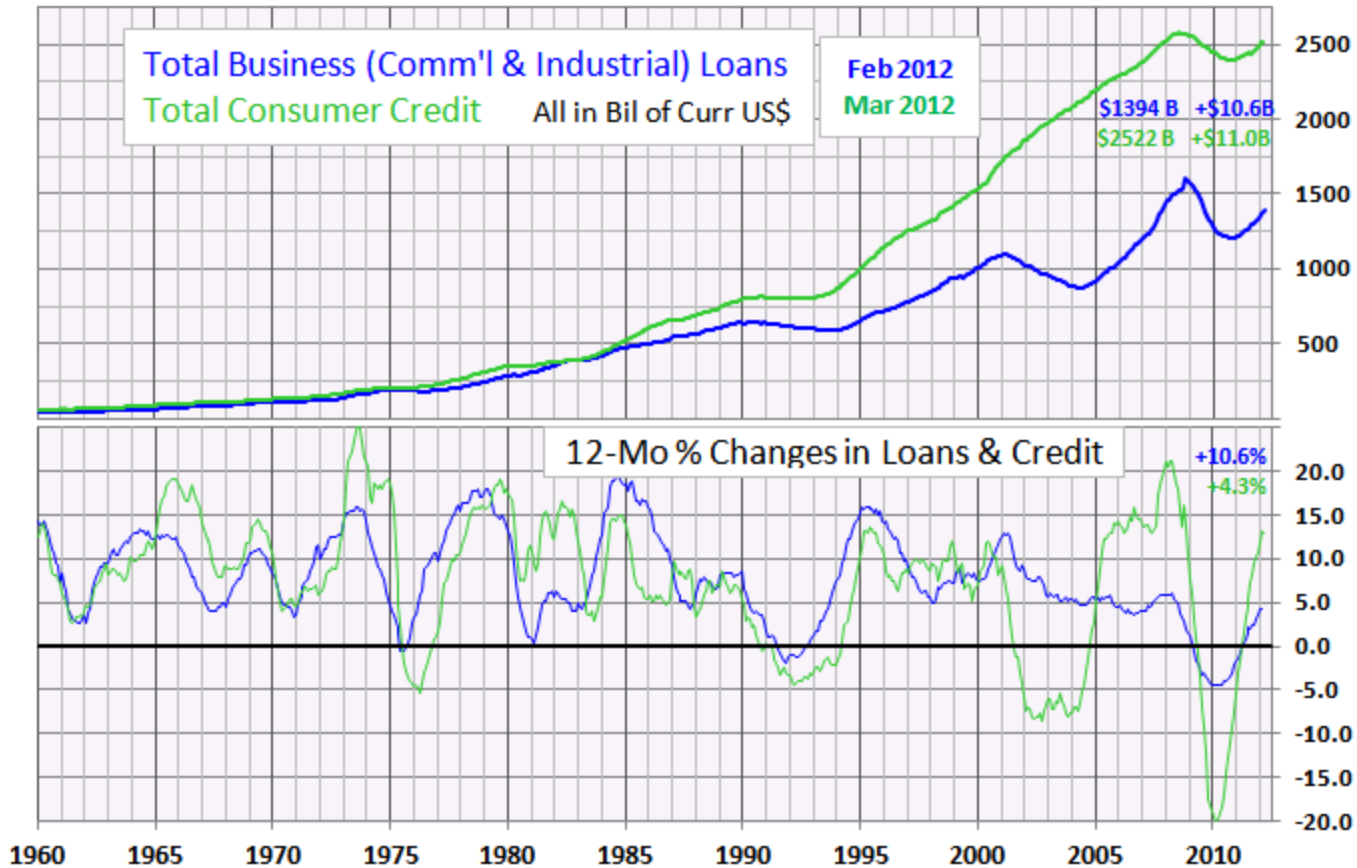
Both long and short interest rates are at or near multi-decade lows. How long will this continue?



Data Source: <http://www.treasury.gov/offices/domestic-finance/debt-management/interest-rate/yield.shtml>

The yield curve has flattened considerably over the past year. A flattening yield curve usually implies slower economic growth ahead, however many other influences are at work now, such as uncertainty, the Euro problems, government manipulation, etc.

Total Consumer Credit & Business Loans



The biggest drop in lending for both consumers and businesses in well over 60 years occurred with the banking crisis in 2008-2010. Since then, lending has been increasing, with business loans up 10.6% in 12 months through March, and consumer credit up 4.3% in that period, a good sign for the economy, but maybe not so good when the country is still recovering from a debt hangover.

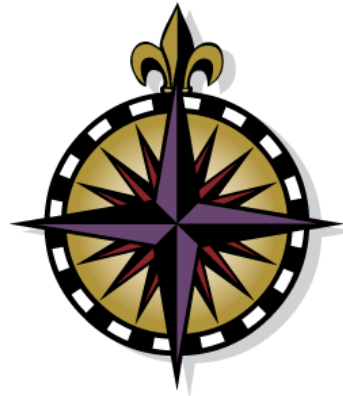
Currencies – May 4, 2012



The US dollar rose during much of 2011, as the sovereign debt problems in Europe have waxed and waned from day to day and have actually not yet been solved in spite of rejoicing over the Greek debt deal. That can continues to get kicked down the road.



Comparing the Housing Markets & Employment in the US, Texas and Austin



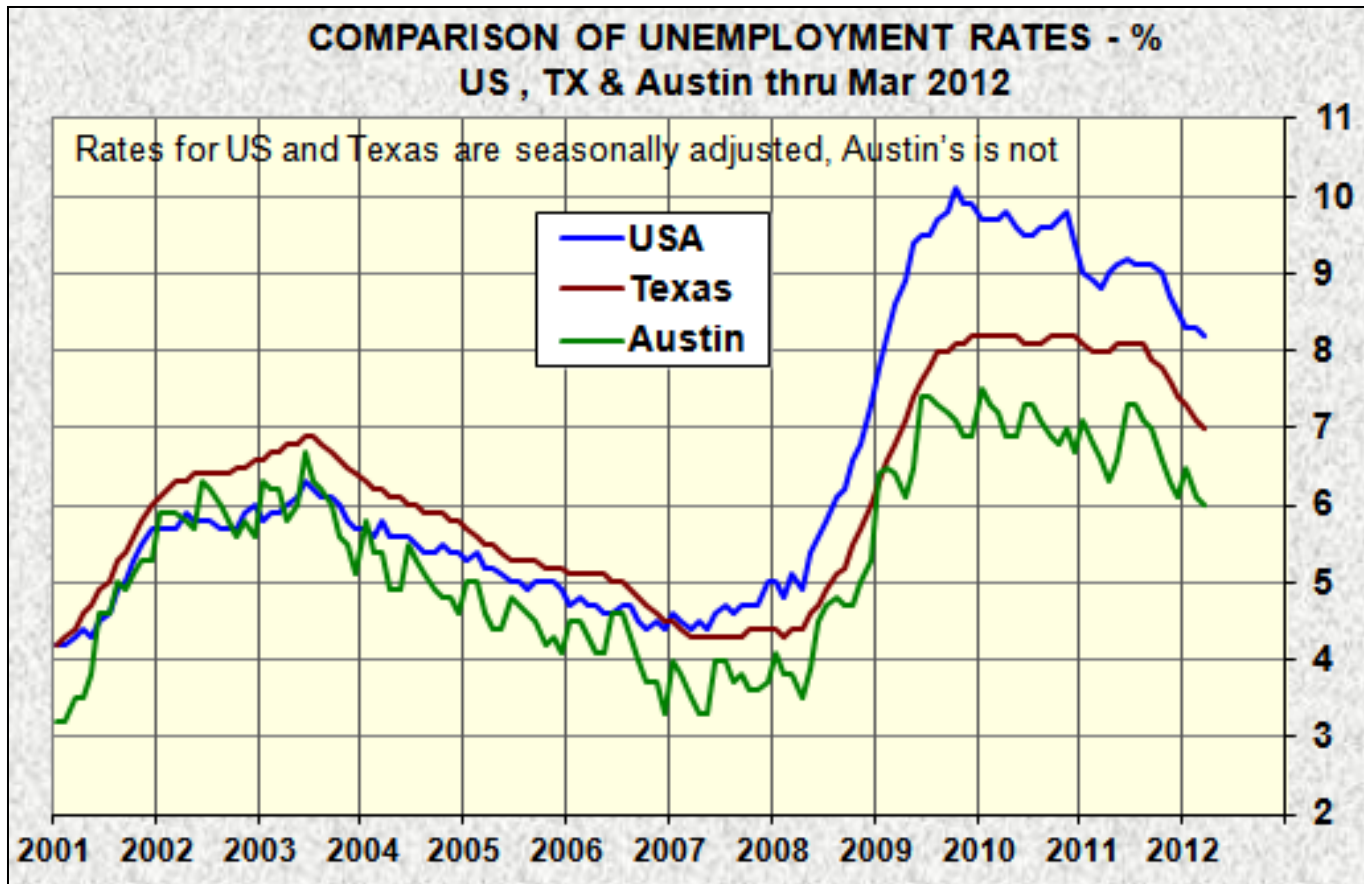
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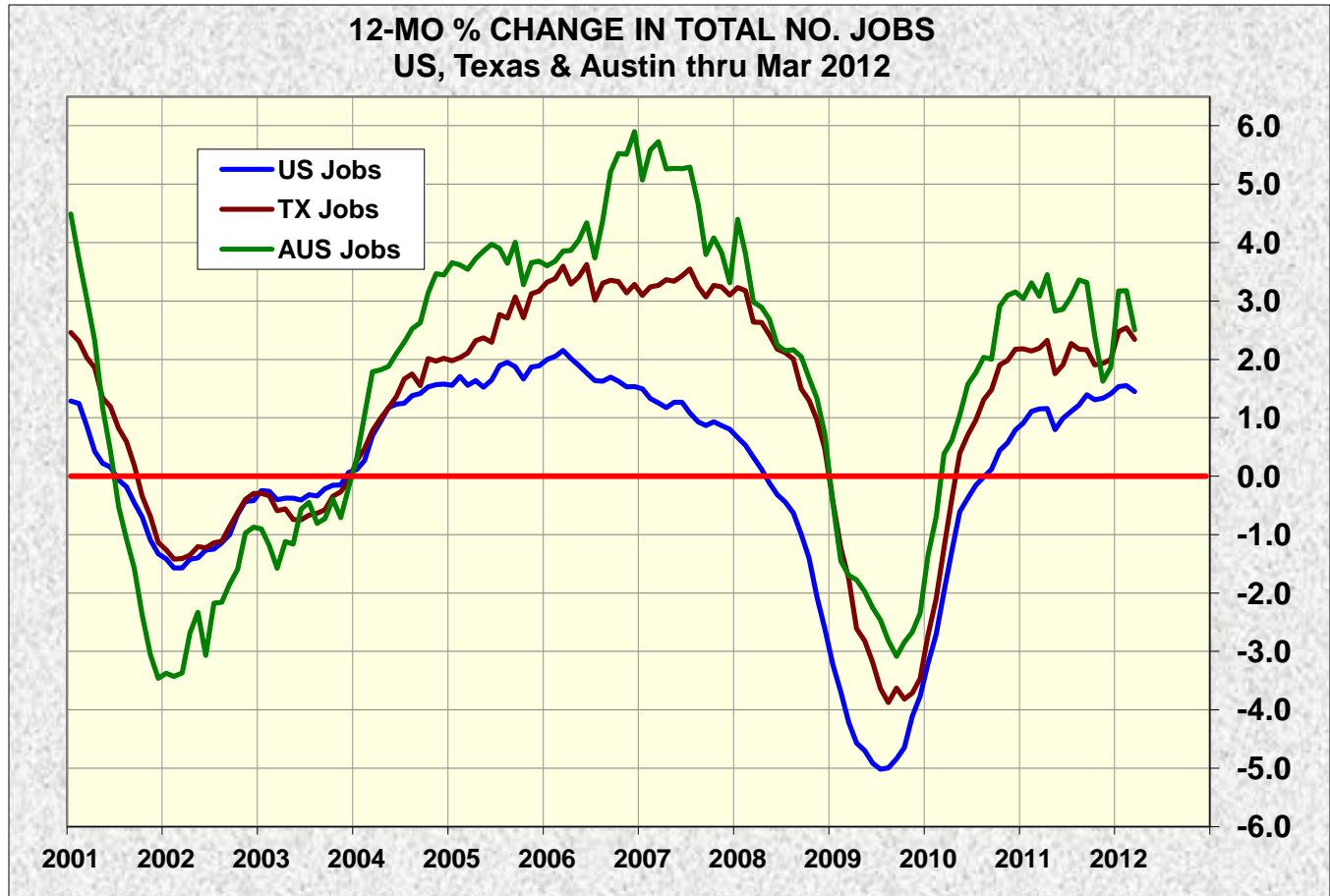
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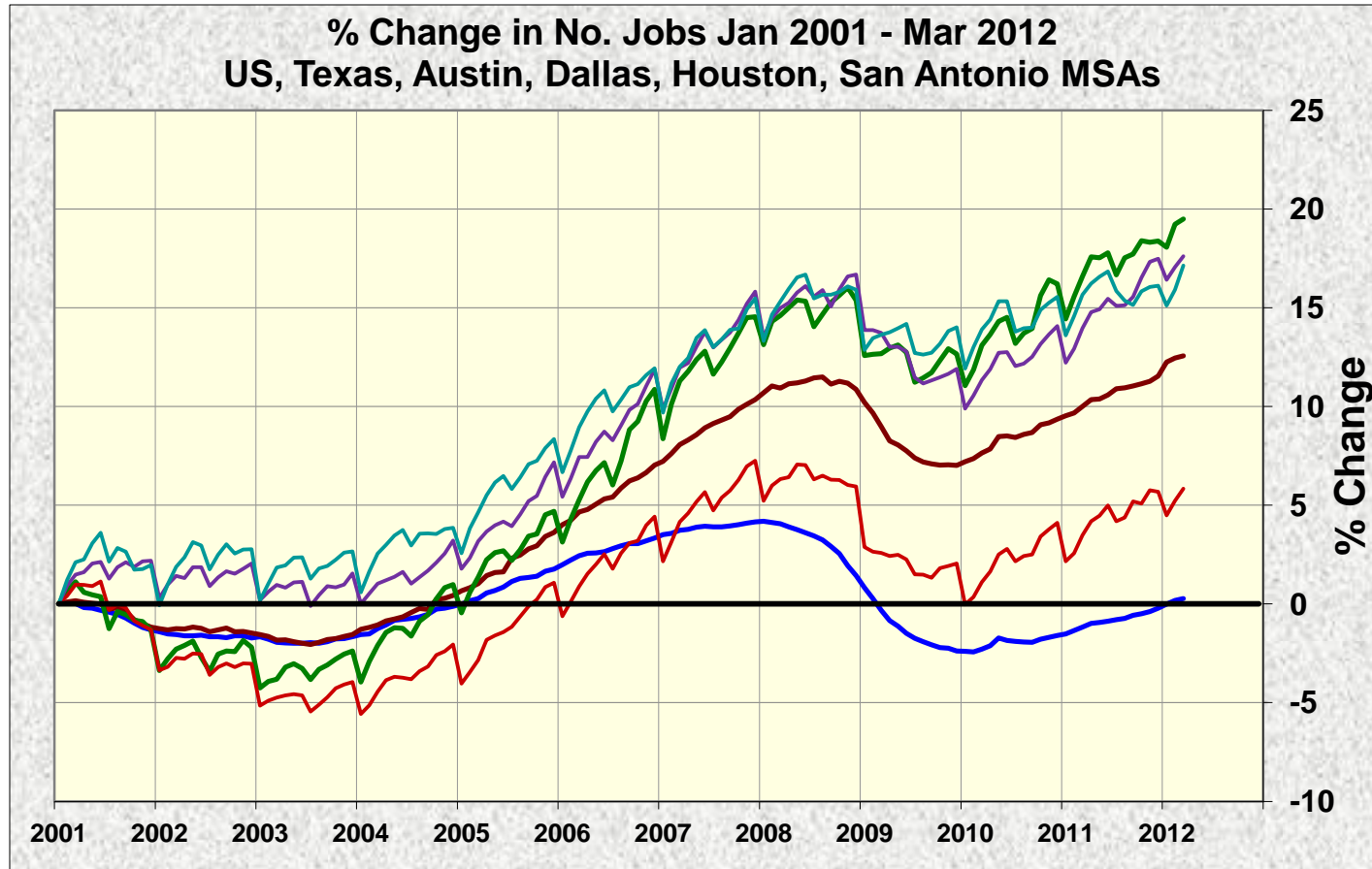


The unemployment rate in Austin has continued to trend downward, though with seasonal ups and downs. In March, the US rate was 8.2% (down to 8.1% in April), with Austin's at 6.0%. Texas' unemployment rate plummeted a full 1.0% in the 6 months from August 2011 to February 2012.

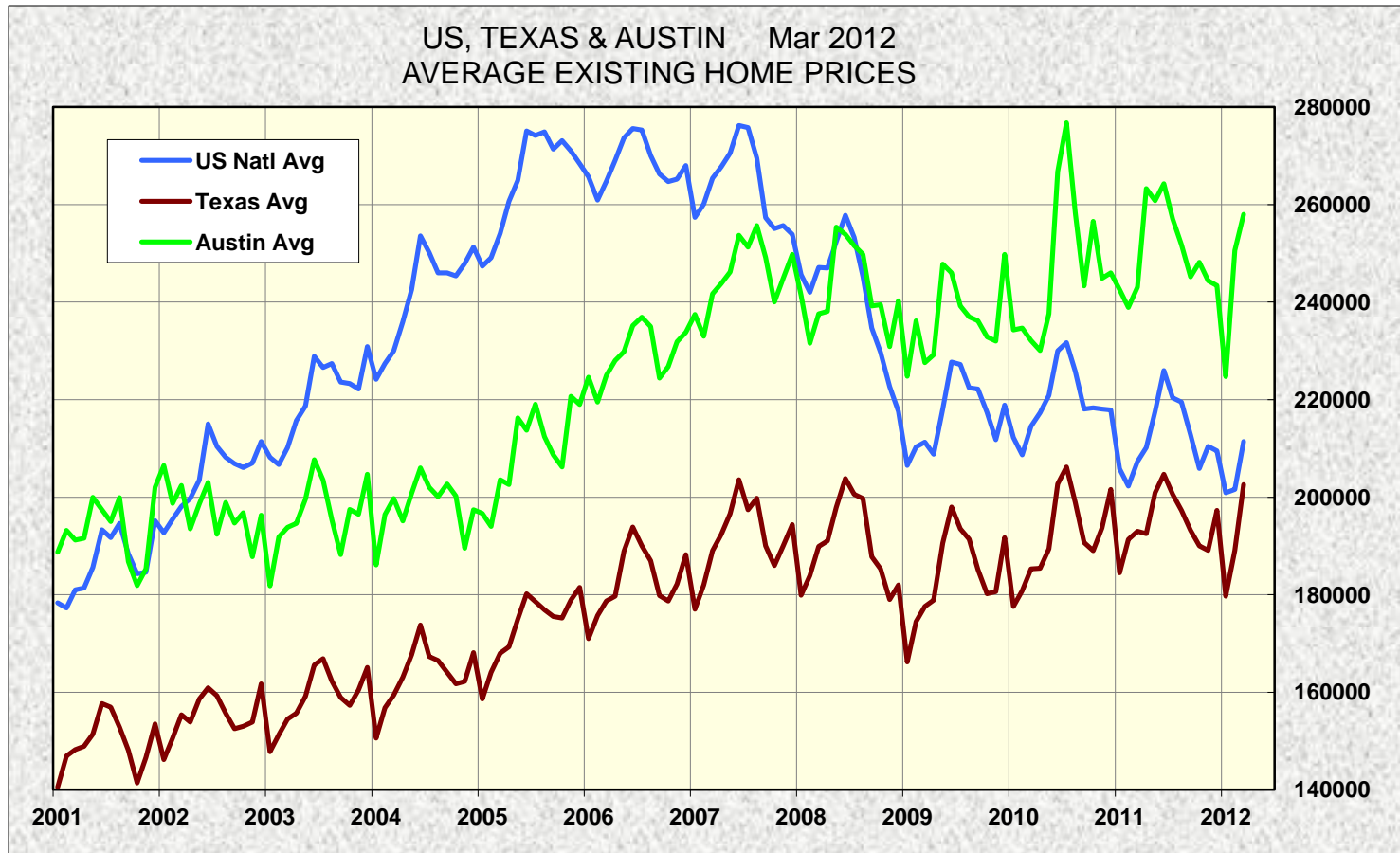


Percentage increases in jobs in Austin and in Texas as a whole have been far ahead of the country as a whole since 2004, maintaining that lead even in the darkest days of 2009.

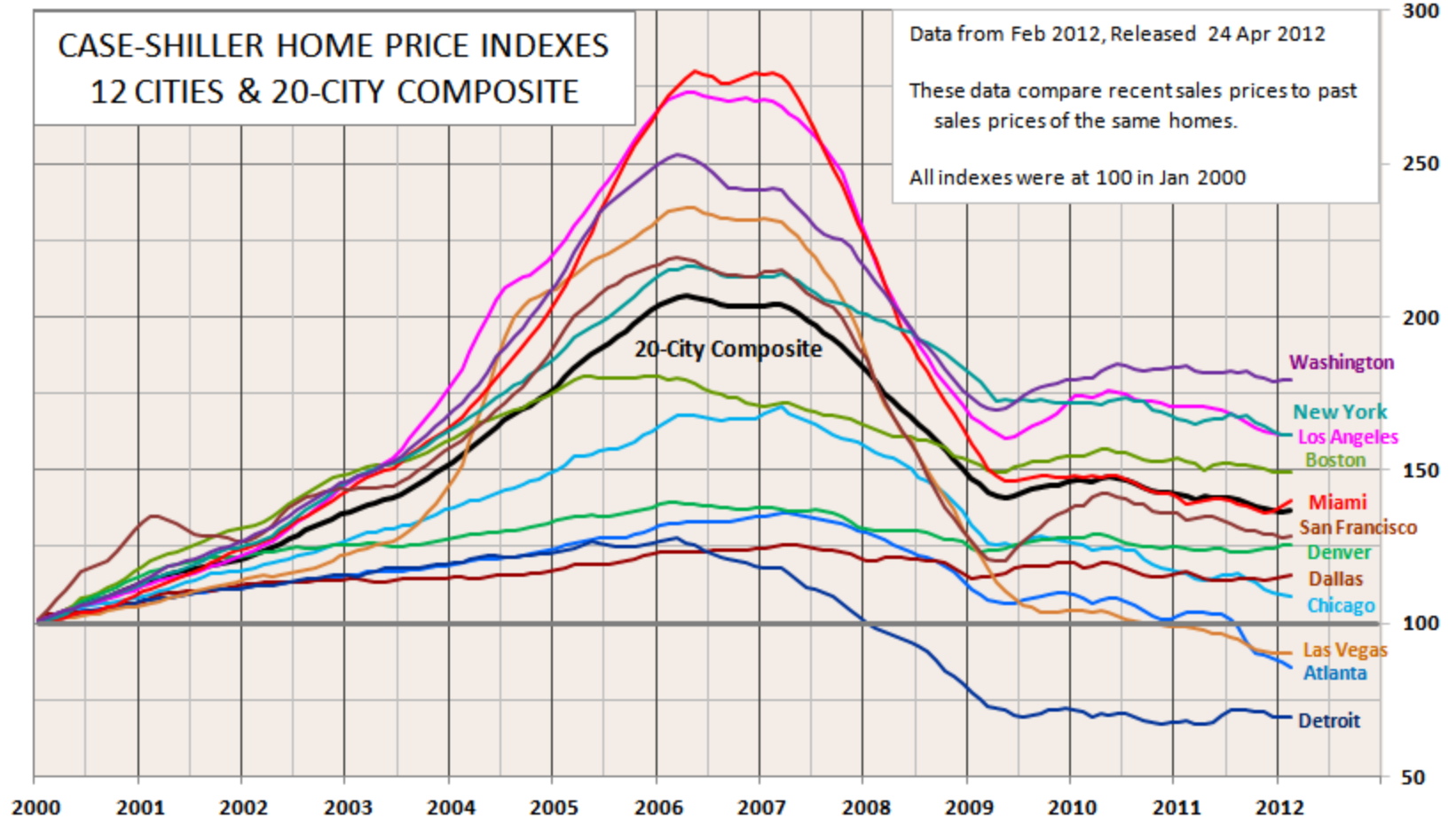
Job Growth – US, Texas & Texas Cities



Texas has been extremely fortunate about the growth in employment since about 2005, when it started to outpace the nation. Since 2001, Houston, Austin and San Antonio have all had job increases of well over 15% in this period, while the job increase of the country as a whole has barely crawled above the zero line.

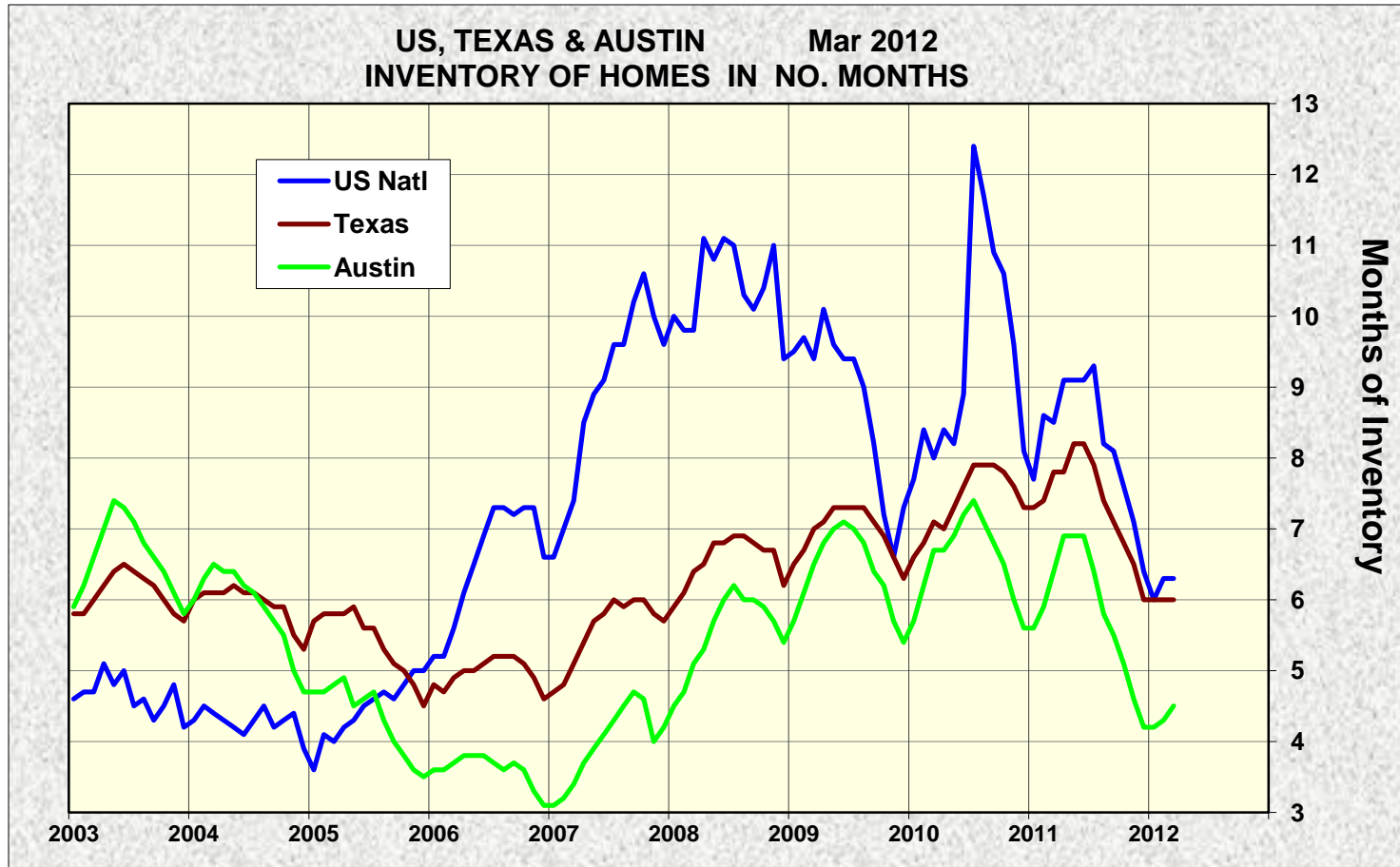


In mid-2007, a big split started to develop between average home sales prices in Texas (and Austin) vs. in the US as a whole. After that time, the Texas and Austin prices remained relatively flat and US prices took a dive until early 2009. Since then, Texas and Austin prices have crept up and US prices have been just a touch weak.

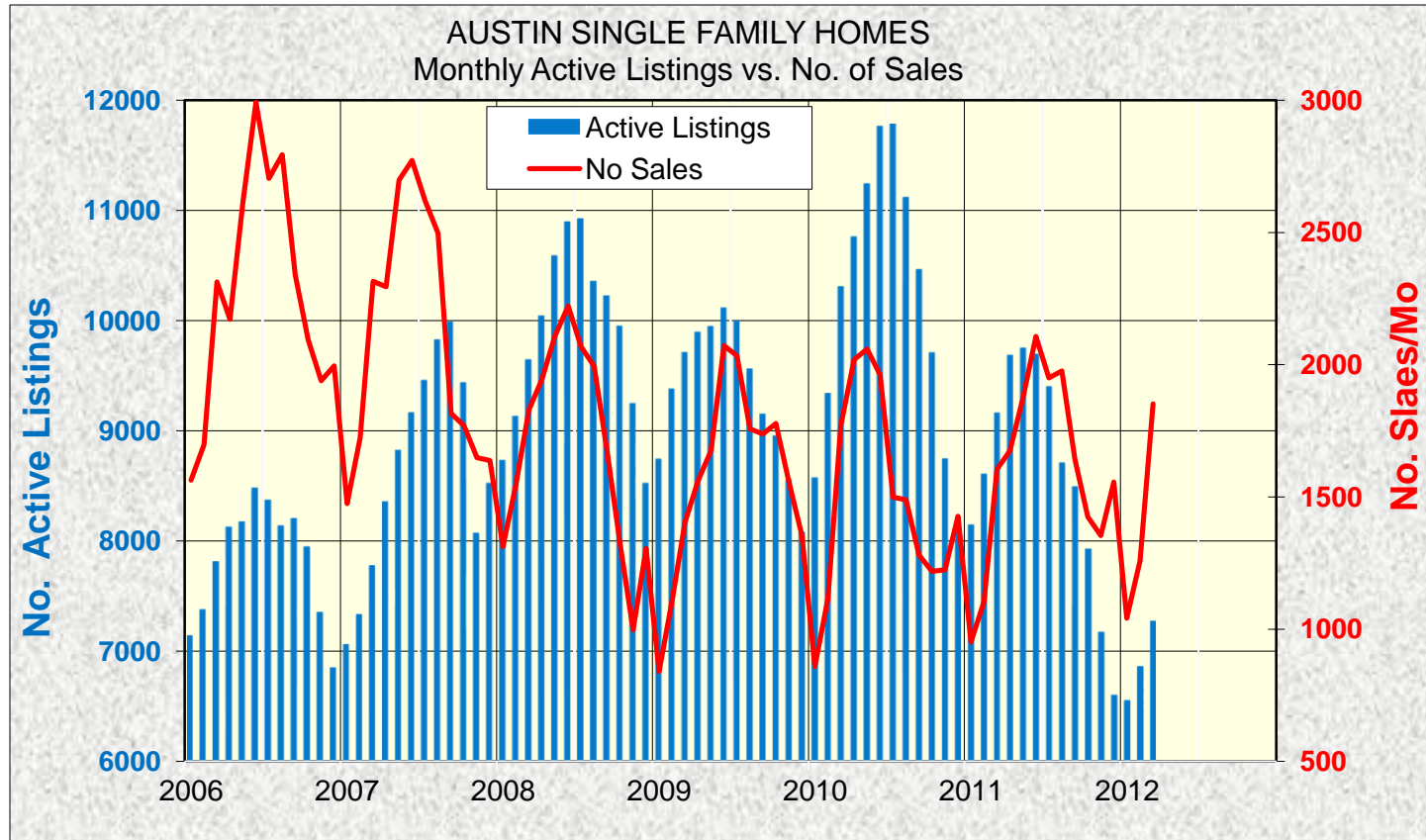


Prices in most of the 20 cities followed by Case-Schiller dipped lower over the past 12 months through January, with the 20-city Composite down 3.8% in the 12-month period, though unchanged in January. Las Vegas and Detroit look bad and what's going on in Atlanta???

Housing Inventory – US, Texas, Austin



A smaller inventory/supply with a shorter time to sell is an improvement for a soft market. A level of 5.5 to 6.0 is generally considered balanced between buyers and sellers. Though Austin's inventory has bounced from 4.2 months to 4.5, the housing market has come *alive*. Hopefully, it will spread...



2006 and 2007 showed higher numbers of sales relative to listings; In late 2007, the number of listings rose much higher relative to sales. Finally, in late 2011, the reverse began, the first sign of a stronger market, with sales gaining dramatically on listings.