



## **An Economy in Transition**

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As I wrote this summary last Friday evening, I was sitting in front of the television tuned into the Masters replays while drinking a glass of wine and analyzing the current plight of the economy on a Friday night. It was a good night!

And the economy is starting to generate more good nights. According to the gross domestic product measure the U.S. economy grew at an annualized rate of 5.6% in the fourth quarter of last year. While I do not believe this rate is sustainable this year, I think it is reasonable to expect that the economy will show some signs of growth this year of around 2-2.5%. The housing market nationally is at least reaching its bottom it appears, but that said, I am not too optimistic about the consumer being ready yet to start purchasing houses at a rate that will spur a terribly strong recovery. For instance, delinquencies on single-family mortgages, and while the credit markets are starting to at least loosening up a bit, the mortgage market is not there, yet, and with all of the regulatory changes (albeit reasonable for the most part) in this market, I think there will be a bit of an adjustment period. The big negative in the economy is still the labor market with unemployment coming down slightly but remaining at 9.7% over the past three months. Employment levels are starting to pick-up, but initial claims for unemployment are still at levels that will not pull down the unemployment rate. While I think unemployment will come down some this year as the economy continues to grow, profits continue to grow, and businesses gain confidence in the recovery, we might actually see it tick up a bit as those who are not in the labor market at this moment due to their discouragement begin to enter the labor market and look for jobs.

Locally, the picture continues to be somewhat brighter in San Antonio. The Texas economy appears to be turning the corner, if it has not already done so. The leading index for Texas

indicates that the economy should be heading upward in the near future, and the business cycle index increased in January for the first time since July 2008. The business cycle index for San Antonio and the other major metropolitan economies also indicates they are starting to turn the corner. The unemployment rate in San Antonio in February was at 7.2% and had been fluctuating around that level for the past few months. While the employment levels declined 1.3% in February, the trend indicates that the labor market has reached its bottom and is starting (or will start) to turn the corner soon. I am projecting that employment will grow around 2.0% this year. The local housing market also appears to be turning around with home sales increasing and growth in listings nearing positive territory. However, home prices did fall 3.20% and inventories increased to 7.8 months in February. Overall, I think the San Antonio economy will at least grow simultaneously with the U.S. economy, if not lead the way out of the recession this year.