The Shape of Economic Recovery

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The views expressed are those of the presenter and do not necessarily reflect the positions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.
U.S. Economic Overview

- The U.S. economy has contracted sharply since the recession began.
  - Housing markets and construction activity have been very weak.
  - Financial markets and credit conditions have tightened.
  - Manufacturing activity declined dramatically as export markets weakened and consumers cut back.
  - Labor market conditions have worsened.

- The economy is beginning to show signs of recovery as policies implemented by the Federal Reserve, Treasury, Congress and President start to take hold.

- What will recovery look like?
Real GDP has fallen sharply since the recession started in December 2007.
In the past, the rebound in real GDP has been greater after sharp downturns.

Source: BEA
Consumption usually makes the largest contribution to GDP in the year following a recession.

Source: BEA
Consumption
Consumer confidence has trended upward over the past six months.
Consumption increased slightly over the summer but remains below year-ago levels.
Personal savings rates have increased from pre-recession levels.
Residential Investment
Home sales have fallen sharply since late 2005, but have since increased slightly.

Source: NAR
The months supply of homes has decreased lately, but remains elevated.
Home prices are well below year-ago levels in the U.S.

Home Price Appreciation
Year-over-year growth

Source: FHFA
Latest release: 08/25/2009
Home price appreciation has varied widely across the nation.

Source: Federal Housing Finance Agency
Foreclosure rates are up across the nation, but regional variation persists.

Foreclosure Rates, 2009 Q2

Source: Mortgage Bankers Association
Residential construction activity has increased slightly over the past few months.
Business Investment
Recent surveys indicate that manufacturing activity is stabilizing.

Manufacturing Production
Seasonally adjusted; month-over-month

Note: 10J index is computed on ISM basis (50 = zero change)
Sources: ISM, FRBKC Manufacturing Survey
Latest release: 09/23/2009 for the Manufacturing Survey and 09/01/2009 for ISM
Production levels and new orders are expected to increase in the next 6 months.

Manufacturing Expectations - Six Months Ahead
Seasonally adjusted

Source: FRBKC Manufacturing Survey
Latest release: 09/24/2009
Commercial construction activity remains slow.

Value of Commercial Construction Contracts
Seasonally adjusted, 3-mo. mov. av.

Source: F.W. Dodge, Inc.
Latest release: 10/15/2009
Net Exports
Canada, Mexico and China are the largest importers of U.S. goods.

Exports, 2009 through July

Source: Department of Commerce
The global economy is expected to recover gradually in 2010.

Source: World Bank

Latest release: 06/22/2009
Government Spending
The majority of stimulus funds will be spent by mid-2010.

Source: Congressional Budget Office

Latest release: 02/13/2009
State governments must cut back as tax revenues plummet.

Source: U.S. Census Bureau
Labor Market
Employment has fallen sharply over the past year.
Unemployment rates continue to increase.
There are large regional variations in unemployment.
The education and health industries are the only industries experiencing job growth.

**Private Job Growth by Industry**
Sep-09 over Sep-08

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent Growth</th>
<th>MO Percent Growth</th>
<th>U.S. Percent Growth</th>
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<tbody>
<tr>
<td>Educ. &amp; Health</td>
<td>(.18)</td>
<td>(.03)</td>
<td>(.18)</td>
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<tr>
<td>Information</td>
<td>(.19)</td>
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<td>Trade</td>
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<tr>
<td>Finance</td>
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<tr>
<td>Leisure &amp; Hosp.</td>
<td>(.12)</td>
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<td>Trans. &amp; Util.</td>
<td>(.04)</td>
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<td>Prof. &amp; Bus.</td>
<td>(.15)</td>
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<td>Other Serv.</td>
<td>(.05)</td>
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<tr>
<td>Manuf.</td>
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<td>Constr.</td>
<td>(.06)</td>
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</tbody>
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Source: Bureau of Labor Statistics

Latest release: 10/21/2009

Note: Number in parentheses is the industry's share of total private jobs in MO in Sep-09
Initial unemployment claims remain elevated.

Initial Unemployment Claims
Seasonally adjusted

Source: Department of Labor
Latest release: 10/22/2009
The last two recessions were “jobless recoveries”.

Source: BLS
Most economists expect the U.S. economy to recover gradually over the next couple of years.

There are several factors that will likely prevent a more robust recovery.

- Credit conditions remain tighter than pre-recession levels.
- Consumers seem less willing to spend as they try to rebuild wealth.
- An excess supply of housing will take time to work off.
- Unemployment is likely to remain stubbornly high for some time.