Understanding the Current Recession

Alison Felix
Economist
Federal Reserve Bank of Kansas City

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.
Overview

- Economic Picture: Explaining the current recession

- Historical Perspective: How does the current recession compare to past recessions?

- Policy Responses: What steps has the government taken to mitigate the current crisis?

- Looking Forward: Are there any signs of a recovery?
Home sales have fallen sharply since late 2005.
Home inventory levels remain elevated.

Home Inventories
(Seasonally adjusted)

Source: Census Bureau
Latest release: 06/24/2009
Home prices are well below year-ago levels.

**Home Prices**

Year-over-year percent change

[Graph showing home price changes from Q1:1993 to Q1:2009 for FHFA and Case-Shiller indices.]

Source: Federal Housing Finance Agency and S&P

Latest release: 05/27/2009
Home price appreciation has varied widely across the nation.
Foreclosure rates are up across the nation, but regional variation persists.
Residential and commercial construction have slowed.

Source: U.S. Census Bureau and F.W. Dodge

Latest release: 06/24/2009
Financial Markets
Credit conditions are improving but remain stressed.
Banks have tightened lending standards.

Source: Federal Reserve Board
Latest release: 05/04/2009
Stock prices have fallen substantially but have rebounded over the past three months.

Stock Market Indexes

<table>
<thead>
<tr>
<th>Index Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>DJIA</td>
</tr>
<tr>
<td>4,000</td>
</tr>
<tr>
<td>5,000</td>
</tr>
<tr>
<td>Dow Jones Industrial Average (left axis)</td>
</tr>
<tr>
<td>3,000</td>
</tr>
<tr>
<td>4,000</td>
</tr>
<tr>
<td>NASDAQ Composite (right axis)</td>
</tr>
<tr>
<td>1,000</td>
</tr>
<tr>
<td>2,000</td>
</tr>
<tr>
<td>3,000</td>
</tr>
<tr>
<td>4,000</td>
</tr>
<tr>
<td>5,000</td>
</tr>
</tbody>
</table>

Source: Dow Jones and Nasdaq
Consumers
Consumer confidence has plummeted since the recession began but has increased recently.

**Consumer Confidence**

Index (1985=100)

Source: Conference Board

Latest release: 05/28/2009
Consumers are spending less. . .

**Consumer Spending**
Year-over-year percent change

Source: BEA
Latest release: 06/26/2009
And saving more.

Source: BEA

Latest release: 06/26/2009
Manufacturing
The manufacturing sector continues to contract but at a slower pace.
Labor Market
U.S. employment has fallen over 4% in the past year.
Unemployment rates continue to increase sharply.

Unemployment Rate
Seasonally adjusted

Source: Bureau of Labor Statistics
Latest release: 06/05/2009
The middle of the country is faring better than the coasts.
The education and health industries are the only industries experiencing job growth.

Private Job Growth by Industry
May-09 over May-08

Source: Bureau of Labor Statistics
Latest release: 06/05/2009
Initial unemployment claims remain elevated.

Initial Unemployment Claims
4-week moving average

Source: Department of Labor
Latest release: 06/11/2009
U.S. Economic Activity
Real GDP has declined in three consecutive quarters.

Source: Bureau of Economic Analysis
Latest release: 06/25/2009
Putting This Recession In Perspective
Real GDP has fallen more than in the previous two recessions.

<table>
<thead>
<tr>
<th>Year</th>
<th>Decline in GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929</td>
<td>-26.5%</td>
</tr>
<tr>
<td>1937</td>
<td>-3.4%</td>
</tr>
<tr>
<td>1948</td>
<td>-1.8%</td>
</tr>
<tr>
<td>1953</td>
<td>-2.7%</td>
</tr>
<tr>
<td>1957</td>
<td>-3.7%</td>
</tr>
<tr>
<td>1960</td>
<td>-1.1%</td>
</tr>
<tr>
<td>1969</td>
<td>-0.2%</td>
</tr>
<tr>
<td>1973</td>
<td>-3.1%</td>
</tr>
<tr>
<td>1980</td>
<td>-2.2%</td>
</tr>
<tr>
<td>1981</td>
<td>-2.9%</td>
</tr>
<tr>
<td>1990</td>
<td>-1.3%</td>
</tr>
<tr>
<td>2001</td>
<td>-0.05%</td>
</tr>
<tr>
<td>2007</td>
<td>-2.2%</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Bank of Minneapolis, Bureau of Economic Analysis
Note: 1929 and 1937 declines are based on annual data. Data for the 1945 recession is not available because that recession lasted less than 1 year.
Unemployment rates are expected to near rates reached in the 1981 recession.

Peak Unemployment Rate During Past Recessions

Source: Bureau of Labor Statistics
Note: 1929, 1937 and 1945 unemployment rates are based on annual data.
Through 17 months, the decline in stock prices was similar to the Great Depression.

Similar to chart from: http://dshort.com/charts/bears/four-bears-large.gif
Policy Responses
The U.S. Policy Response

- Federal Reserve
  - Lowered the Fed Funds rate
  - Purchased long-term securities
  - Implemented numerous liquidity facilities

- U.S. Treasury and Congress
  - TARP
  - Fiscal stimulus
  - Foreclosure prevention policies
Programs implemented by the Federal Reserve have expanded its balance sheet.

<table>
<thead>
<tr>
<th></th>
<th>Millions of Dollars</th>
<th>Millions of Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Longer-Term Securities</strong></td>
<td>3,000,000</td>
<td>3,000,000</td>
</tr>
<tr>
<td><strong>Liquidity to Key Credit Markets</strong></td>
<td>2,000,000</td>
<td>2,500,000</td>
</tr>
<tr>
<td><strong>Lending to Financial Institutions</strong></td>
<td>1,000,000</td>
<td>1,500,000</td>
</tr>
<tr>
<td><strong>Traditional Security Holdings</strong></td>
<td>0</td>
<td>500,000</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Board
Latest release: 06/03/2009
Despite expansionary monetary policy, inflation remains contained.
Programs enacted by the federal government have increased the budget deficit.

U.S. Federal Budget Deficit or Surplus as a Percent of GDP

Source: CBO

Latest release: 03/20/2009
Any Signs Of A Recovery?
Some preliminary signs of recovery

- **Housing:** Monthly home sales and residential construction activity seem to have leveled off, and the pace of home price deterioration has slowed.

- **Financial markets:** Credit conditions have improved slightly in some markets. Stock prices have increased more than 30% in the last three months.

- **Consumer confidence and spending:** Surveys show that consumer confidence increased sharply in April and May.

- **Manufacturing:** The pace of contraction in the manufacturing industry has slowed.

- **Labor markets:** Initial unemployment insurance claims (4-week average) have decreased more than 40,000 since peaking in early April.
The U.S. economy is in a severe recession.
- Housing and construction activity remains extremely slow.
- Financial markets remain stressed.
- Labor market conditions continue to deteriorate.

The current recession is worse than any U.S. recession since the early 1980s but does not compare to levels seen during the Great Depression.

The economy is showing some initial signs of recovery, but the return to potential growth is likely to be slow.
Questions?