U.S. Economic Update

The views expressed are those of the author and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.
Today’s Roadmap

- The Recession Intensifies
  - A housing market correction spread to financial markets.
  - A financial crisis fuels the recession.
- How Bad is it Historically?
- Will Recent Financial Market Improvements Persist?
Job losses mount.

U.S. Non-farm Job Growth and Unemployment Rate

Change from previous month (Thousands)

Source: Bureau of Labor Statistics
It started in the housing sector.

Home Starts, Sales and Inventories

Month’s supply

Index (Jan-00=100)

Existing Home Sales (Right Scale)

Housing Starts (Right Scale)

Month’s Supply of New Homes (Left Scale)

Source: Dept. of Commerce, National Association of Realtors
Nationally, home prices are falling.

U.S. Home Price Indexes

Source: OFHEO and Standard & Poor’s
Banks have tightened credit standards.

Net Percent of Domestic Banks Tightening Credit Standards

Source: Federal Reserve Board of Governors
Financial markets seize.

Commercial Paper Rates

Source: Federal Reserve Board of Governors
Consumer spending drops sharply.

U.S. Monthly Retail and Food Sales

Billion dollars

Source: U.S. Census Bureau
Business activity has plummeted.

U.S. Manufacturing and Non-Manufacturing Activity Indices

Source: Institute of Supply Management
Contractions are broad-based.

U.S. Non-Farm Employment Growth by Sector
(December 2007 to December 2008)

Percent change from year-ago

Source: Bureau of Labor Statistics
The recession has spread globally.

Source: International Monetary Fund, January 2009
The Recession Intensifies

- A housing market correction spread to financial markets.
- A financial crisis fuels the recession.

How Bad is it Historically?
## Length of U.S. Recessions

<table>
<thead>
<tr>
<th>Start</th>
<th>End</th>
<th>Length (Months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov. 1973</td>
<td>Mar. 1975</td>
<td>16</td>
</tr>
<tr>
<td>Jul. 1981</td>
<td>Nov. 1982</td>
<td>16</td>
</tr>
<tr>
<td>Mar. 2001</td>
<td>Nov. 2001</td>
<td>8</td>
</tr>
</tbody>
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**Average since World War II**

10

Source: NBER
The U.S. economy is in recession.

Real GDP Growth

Annualized percent change from previous quarter

Source: Bureau of Economic Analysis and Blue Chip Economic Indicators
Confidence is at a historical low.

Business and Consumer Confidence

Index (2000 Q1 = 100)

Source: The Conference Board
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The Fed has acted aggressively.
Federal government deficits rise sharply.

Federal Budget Deficit Projections

Source: Congressional Budget Office, January 2009
Financial market stress remains elevated.

LIBOR-OIS Spread

Basis Points

0  50  100  150  200  250  300  350  400
Mar-08  May-08  Jul-08  Sep-08  Nov-08  Jan-09

3-month

1-month

Source: Federal Reserve Board of Governors
Financial markets remain fragile.

Commercial Paper Rates

Source: Federal Reserve Board of Governors
Conclusions

• The recession has intensified.
• A housing bust has led to a financial crisis.
• The contraction is broad-based.
• The recession has spread globally.

Can fiscal and monetary stimulus rekindle demand and jump-start the world economy?