

The Effect of the Financial Crisis on the “Real Economy”

Separating Financial from Real Effects in the Current GDP Statistics

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Measuring the Nation's Economy.



Overview

- Motivation
 - Provide awareness of the parts of GDP effected
 - Macro fact checking
- Behavioral effects on GDP statistics
 - Anticipate the effects on the demand components of GDP
 - Ensure source data & methods capturing these effects
- Current financial interventions by the Federal Government
 - Separate the financial treatments from real effects in the GDP statistics
- Roundtable discussion

Economic Effect of Credit Crisis on GDP Statistics

- **Consumption:**
 - Wealth effect
 - Credit constraints
 - Precautionary effects
- **Investment:**
 - Housing market
 - Credit constraints
 - Demand effects

Economic Effect of Credit Crisis on GDP Statistics(cont'd)

- Net exports
 - Global markets
- Government:
 - State & local:
 - Property taxes
 - Sales taxes
 - Credit constraints
 - Federal:
 - Administrative costs

Selected Current Financial Interventions by the Federal Government

Intervention	Action	Possible Effect on:	
		Flow of Funds	GDP Statistics
TARP	<ul style="list-style-type: none"> ▪ Authority for purchases up to \$700b ▪ Of which \$250b available to purchase senior preferred shares in banks and thrifts 	<ul style="list-style-type: none"> ▪ Federal government ▪ Banks and thrifts 	<ul style="list-style-type: none"> ▪ Federal dividends receipts ▪ Federal administrative costs
AIG	<ul style="list-style-type: none"> ▪ Two-year secured loan from FRB of up to \$122.8b 	<ul style="list-style-type: none"> ▪ Federal Reserve ▪ Funding corps (AIG) 	<ul style="list-style-type: none"> ▪ Federal Reserve profits ▪ Federal administrative costs
Fannie Mae and Freddie Mac (GSEs)	<ul style="list-style-type: none"> ▪ Placed in conservatorship ▪ Purchases of: <ul style="list-style-type: none"> ▪ Senior preferred stock ▪ Mortgage-back securities 	<ul style="list-style-type: none"> ▪ Federal government ▪ GSEs 	<ul style="list-style-type: none"> ▪ Federal dividend receipts ▪ Federal interest receipts ▪ Federal administrative costs
Bear Stearns	<ul style="list-style-type: none"> ▪ Asset purchase for \$28.8b through Maiden Lane LLC controlled by the FRB 	<ul style="list-style-type: none"> ▪ Federal Reserve ▪ Funding corps (Maiden Lane) 	<ul style="list-style-type: none"> ▪ Federal Reserve profits ▪ Federal administrative costs