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# 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.

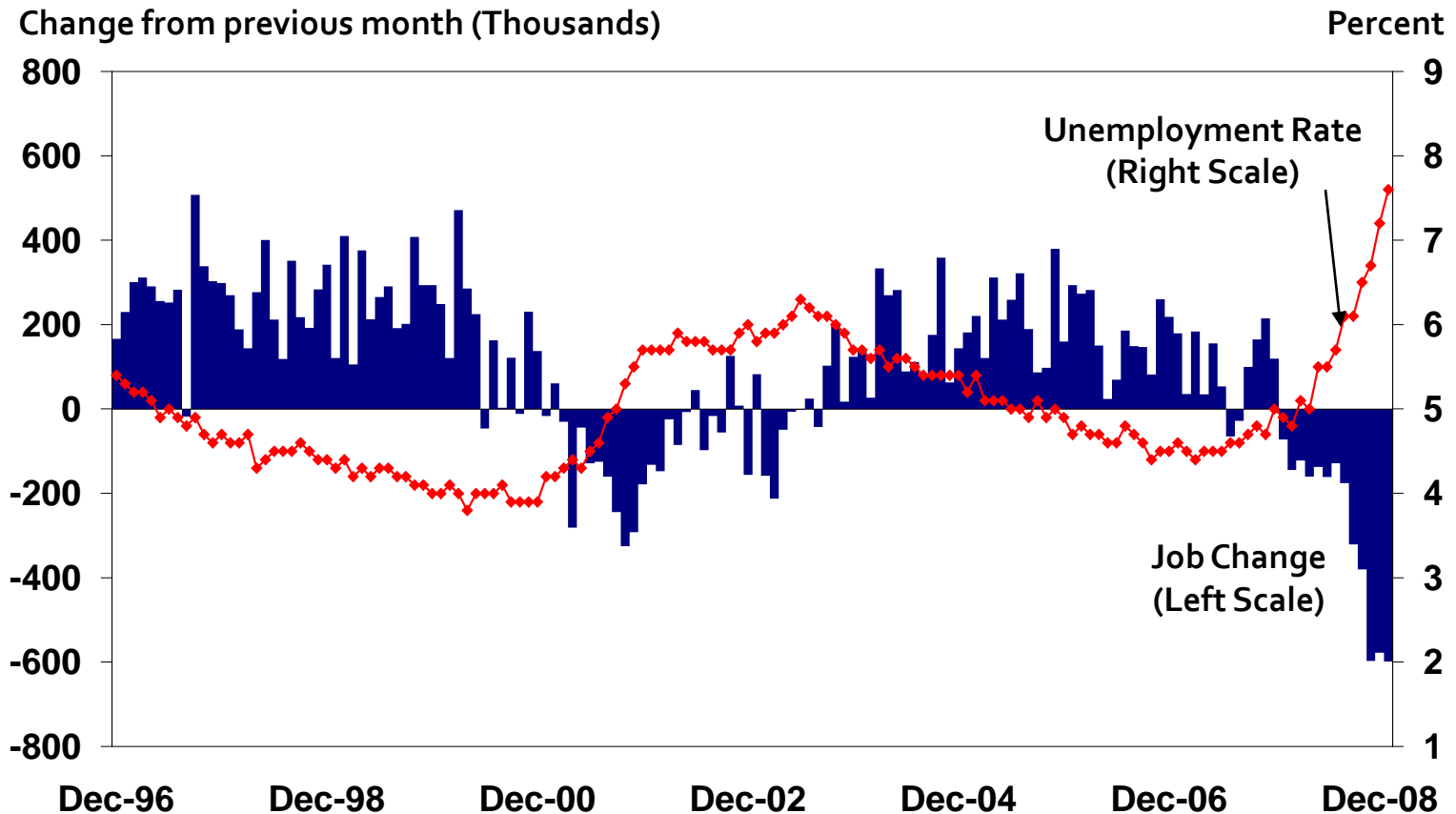
# Today's Roadmap

- **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

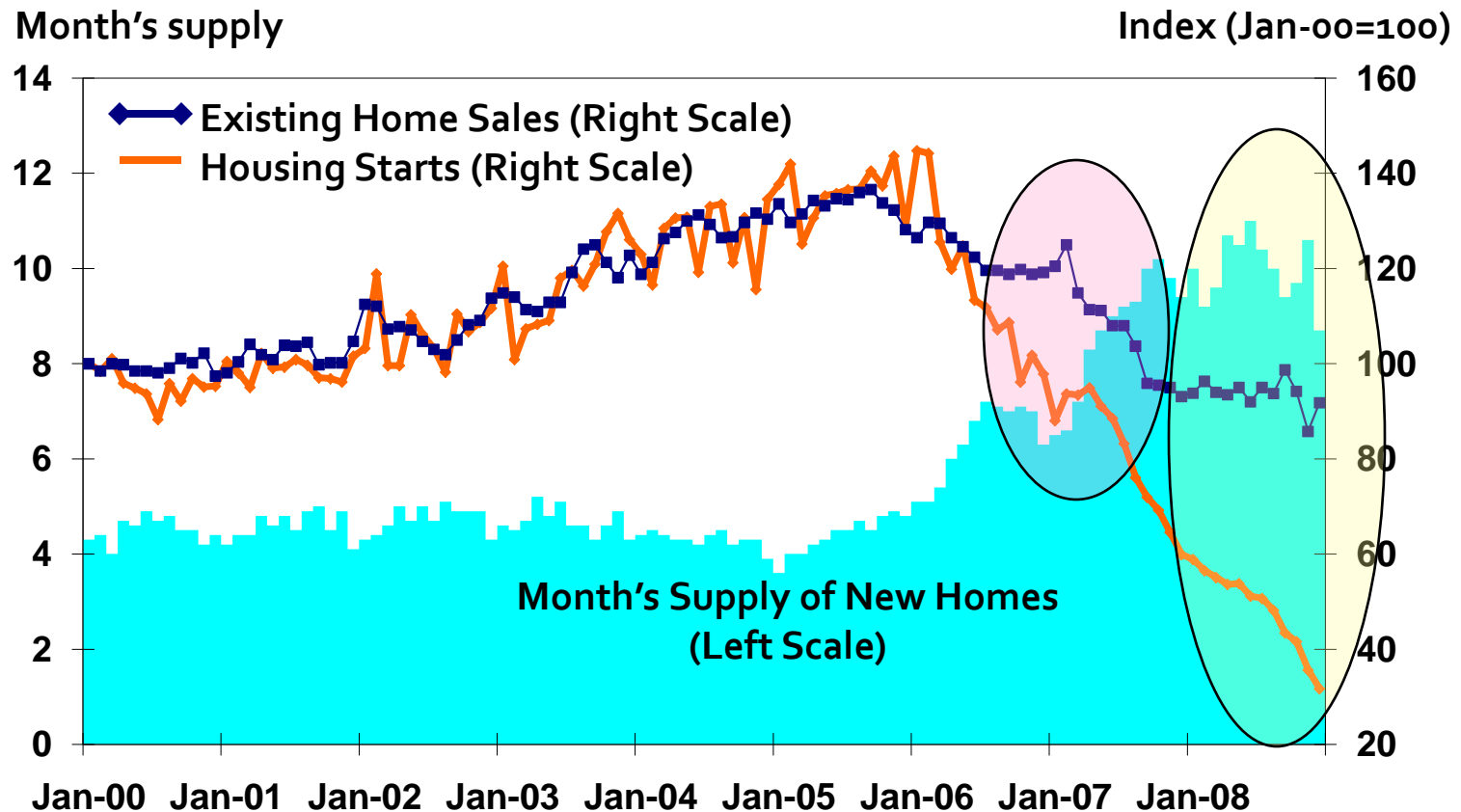


Source: Bureau of Labor Statistics



# *It started in the housing sector.*

## Home Starts, Sales and Inventories

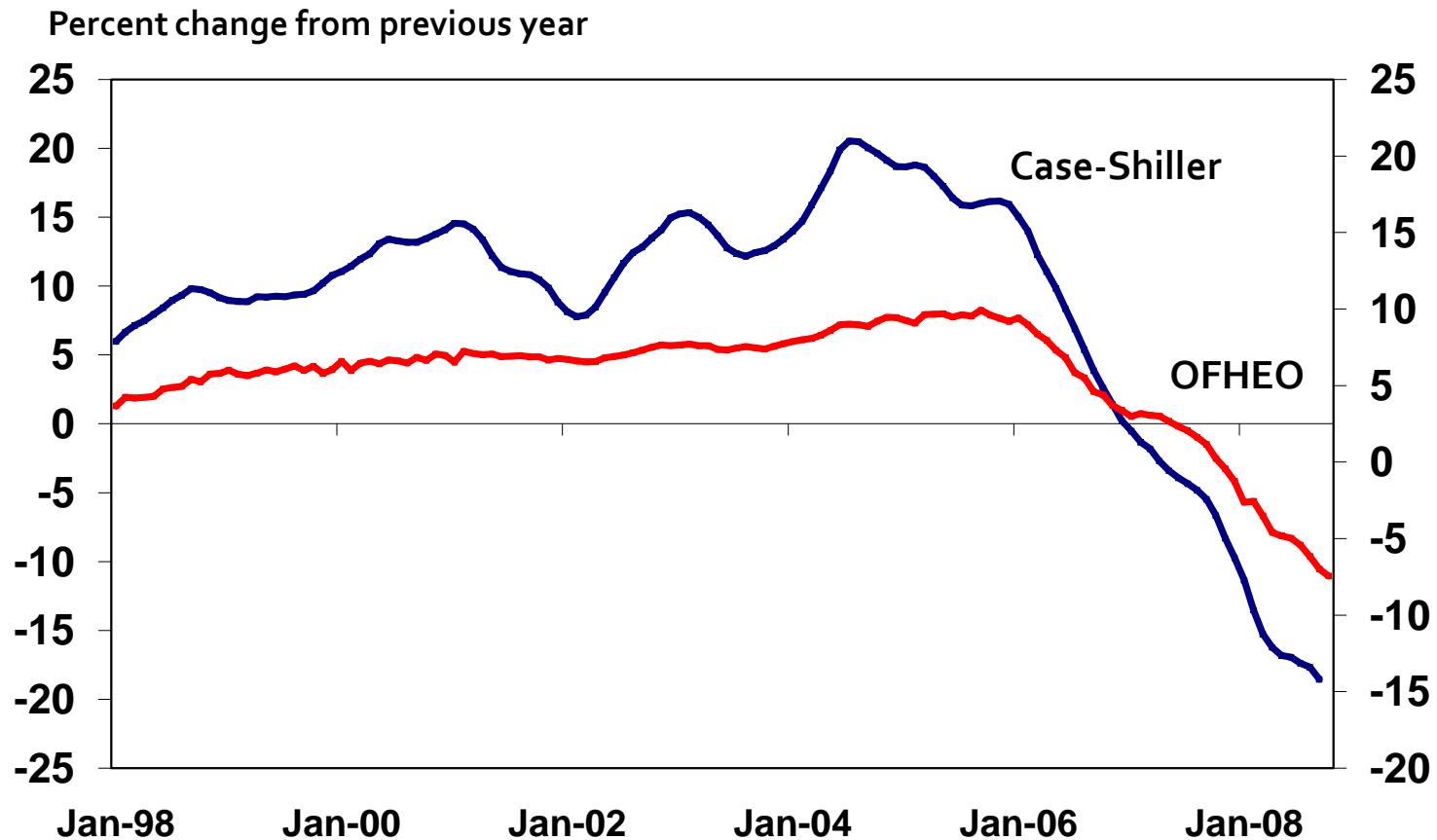


Source: Dept. of Commerce, National Association of Realtors



# Nationally, home prices are falling.

## U.S. Home Price Indexes

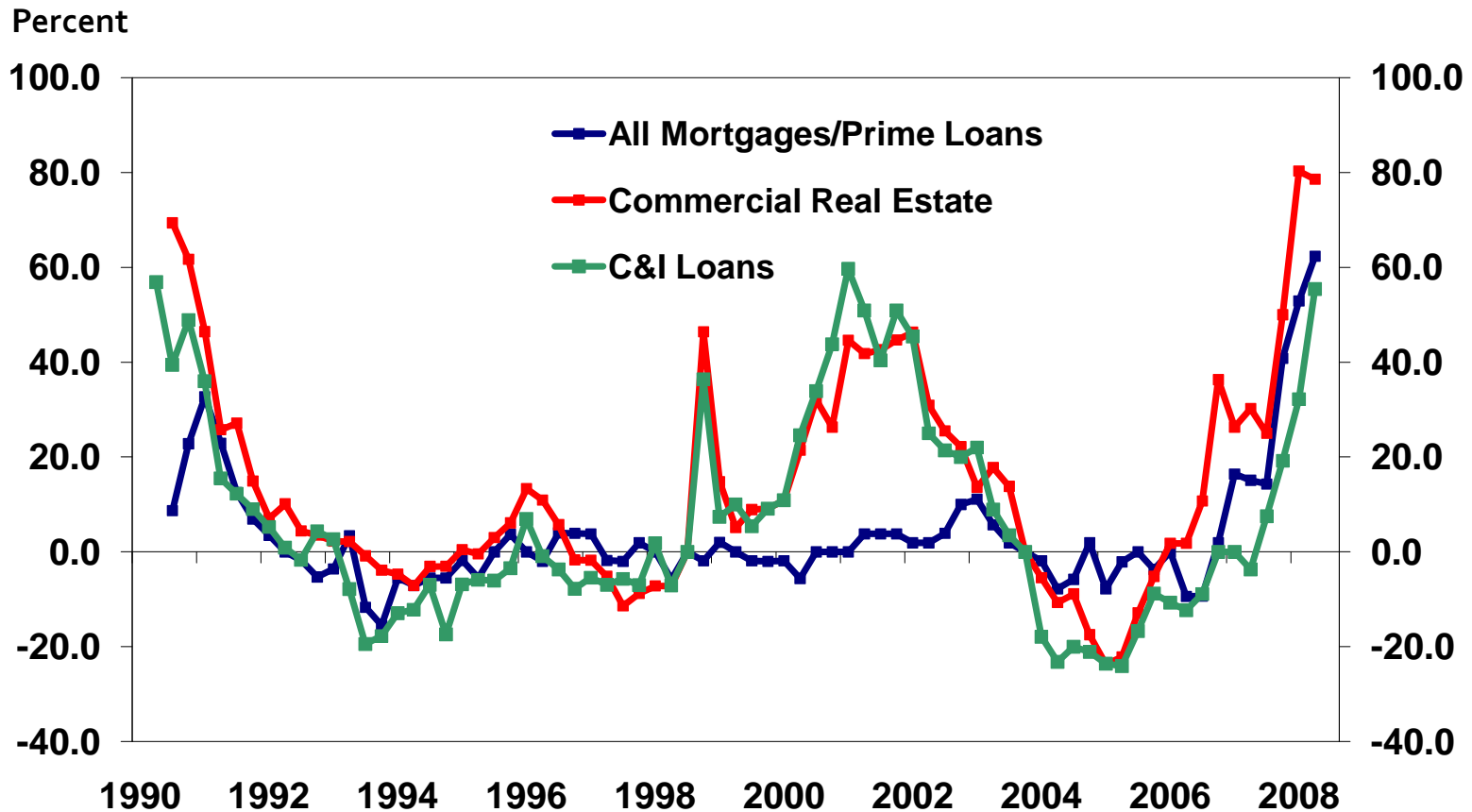


Source: OFHEO and Standard & Poor's



# *Banks have tightened credit standards.*

## Net Percent of Domestic Banks Tightening Credit Standards

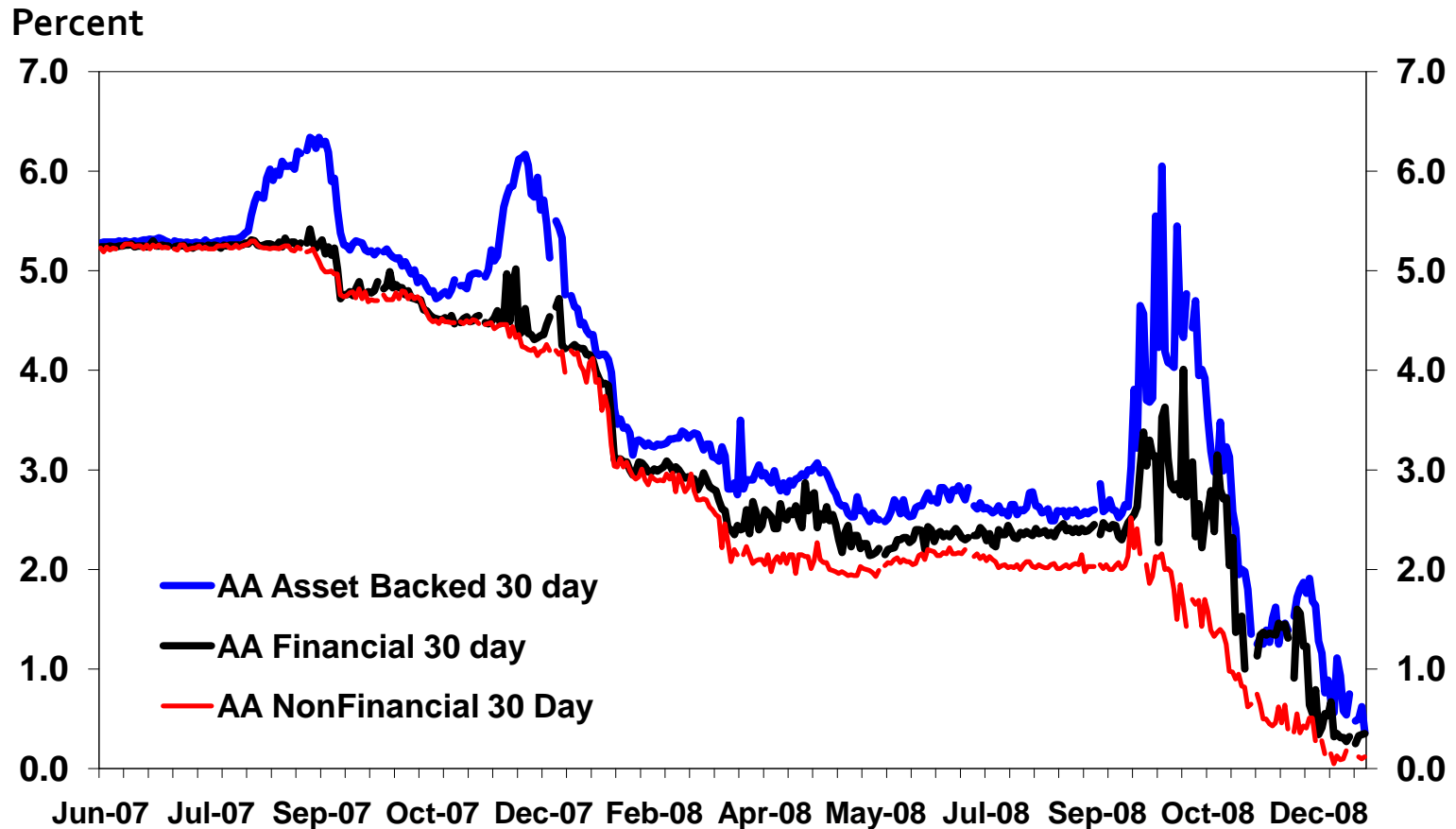


Source: Federal Reserve Board of Governors



# Financial markets seize.

## Commercial Paper Rates

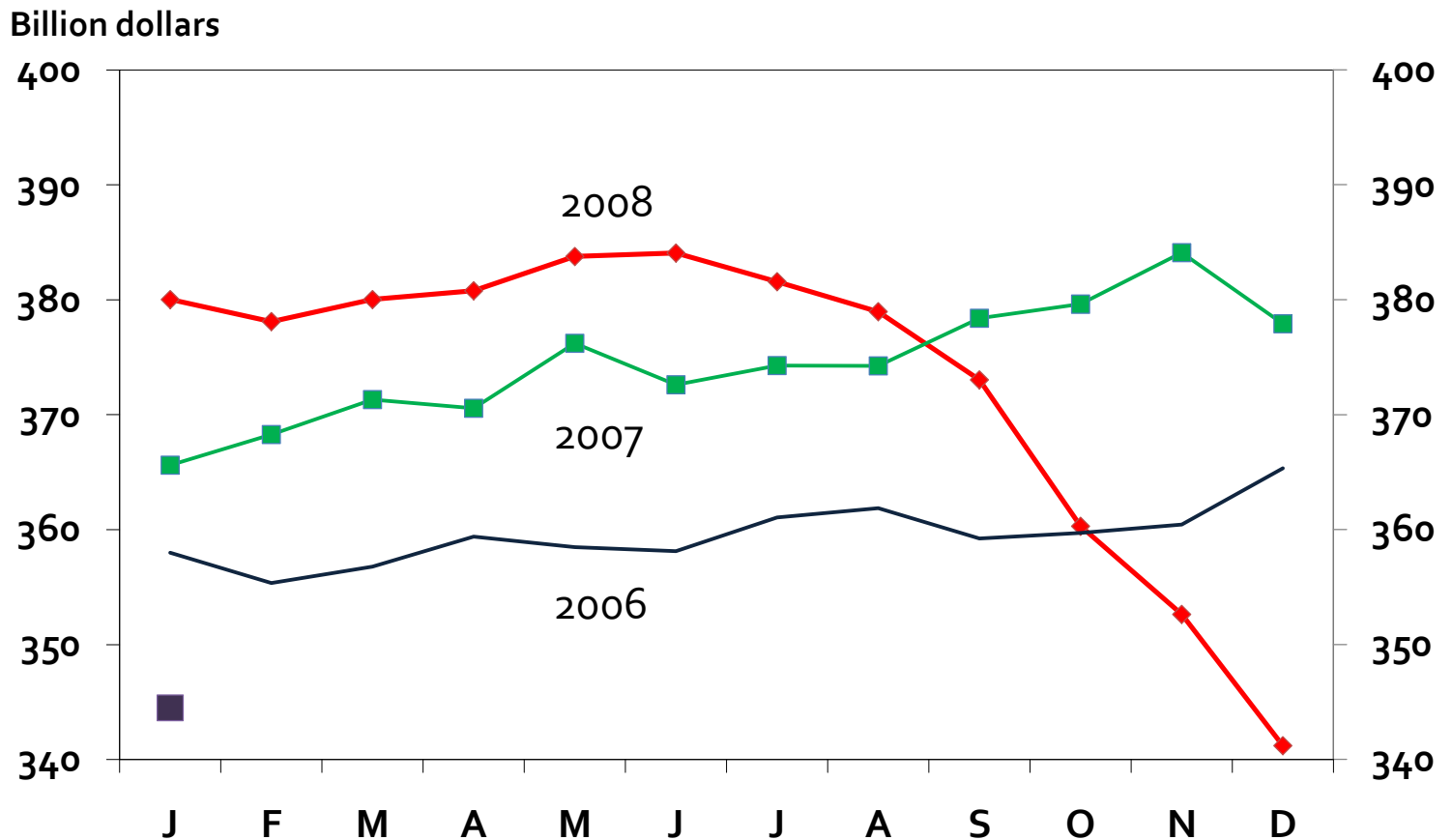


Source: Federal Reserve Board of Governors



# Consumer spending drops sharply.

## U.S. Monthly Retail and Food Sales



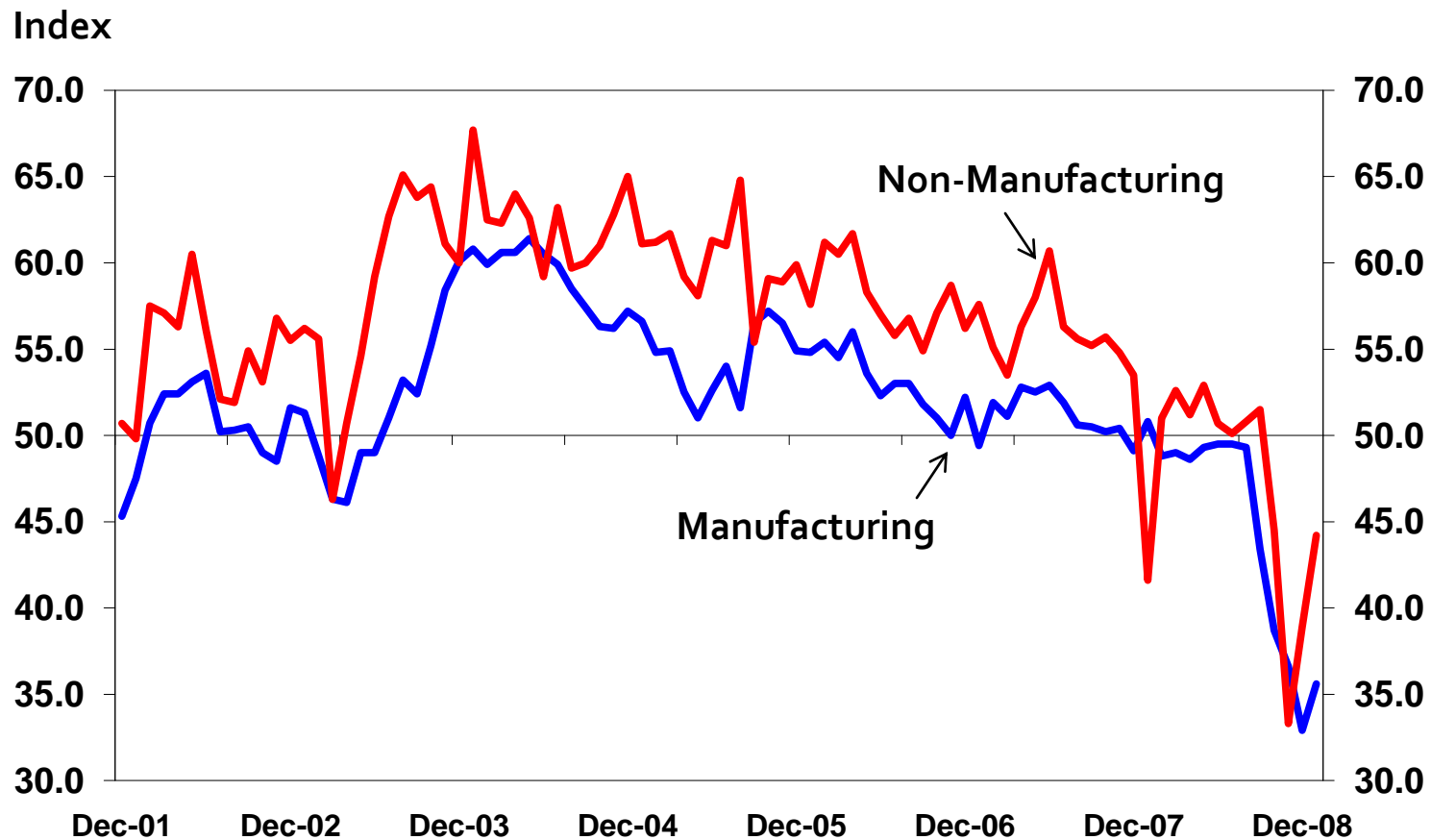
Source: U.S. Census Bureau





# *Business activity has plummeted.*

## U.S. Manufacturing and Non-Manufacturing Activity Indices

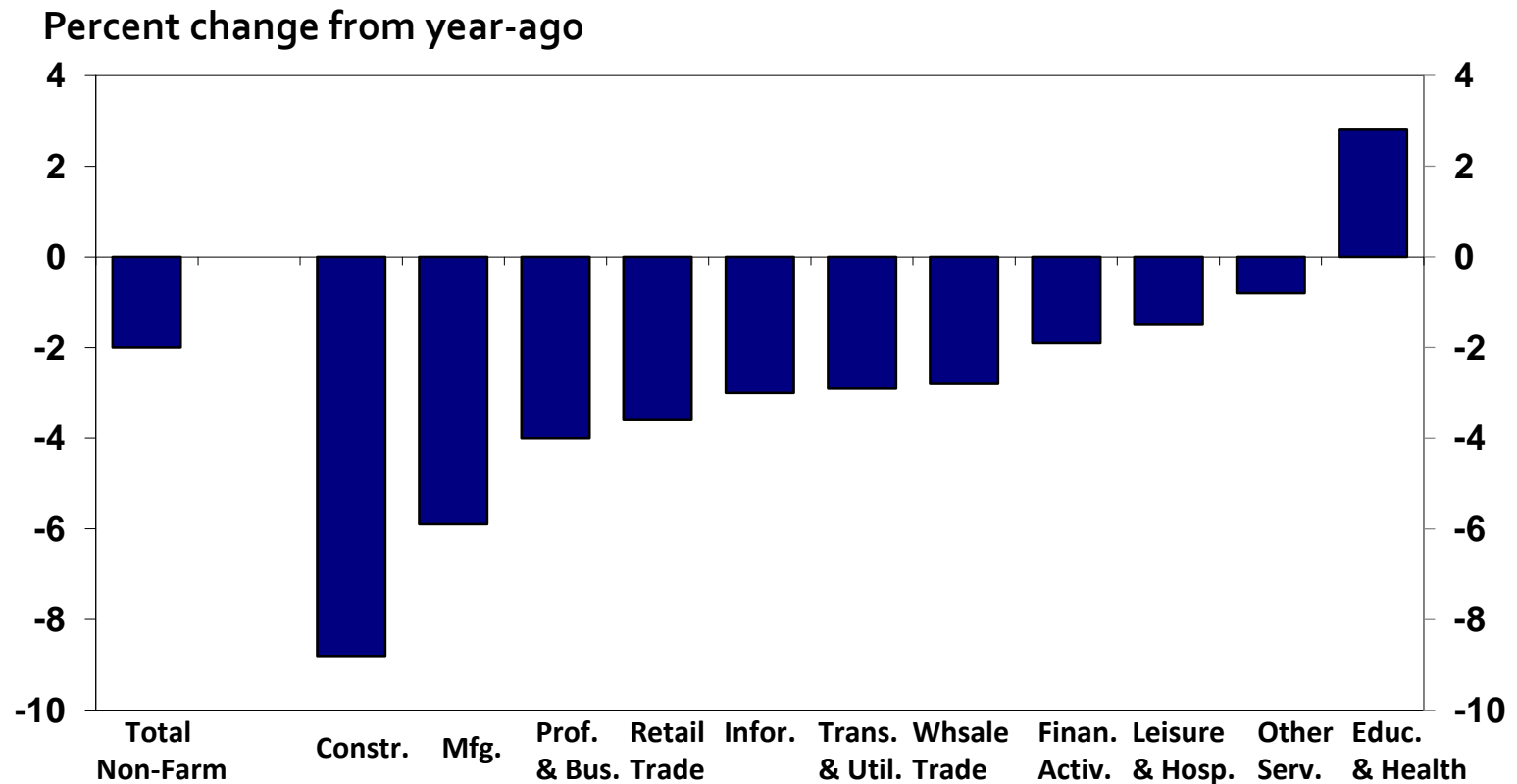


Source: Institute of Supply Management



# Contractions are broad-based.

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

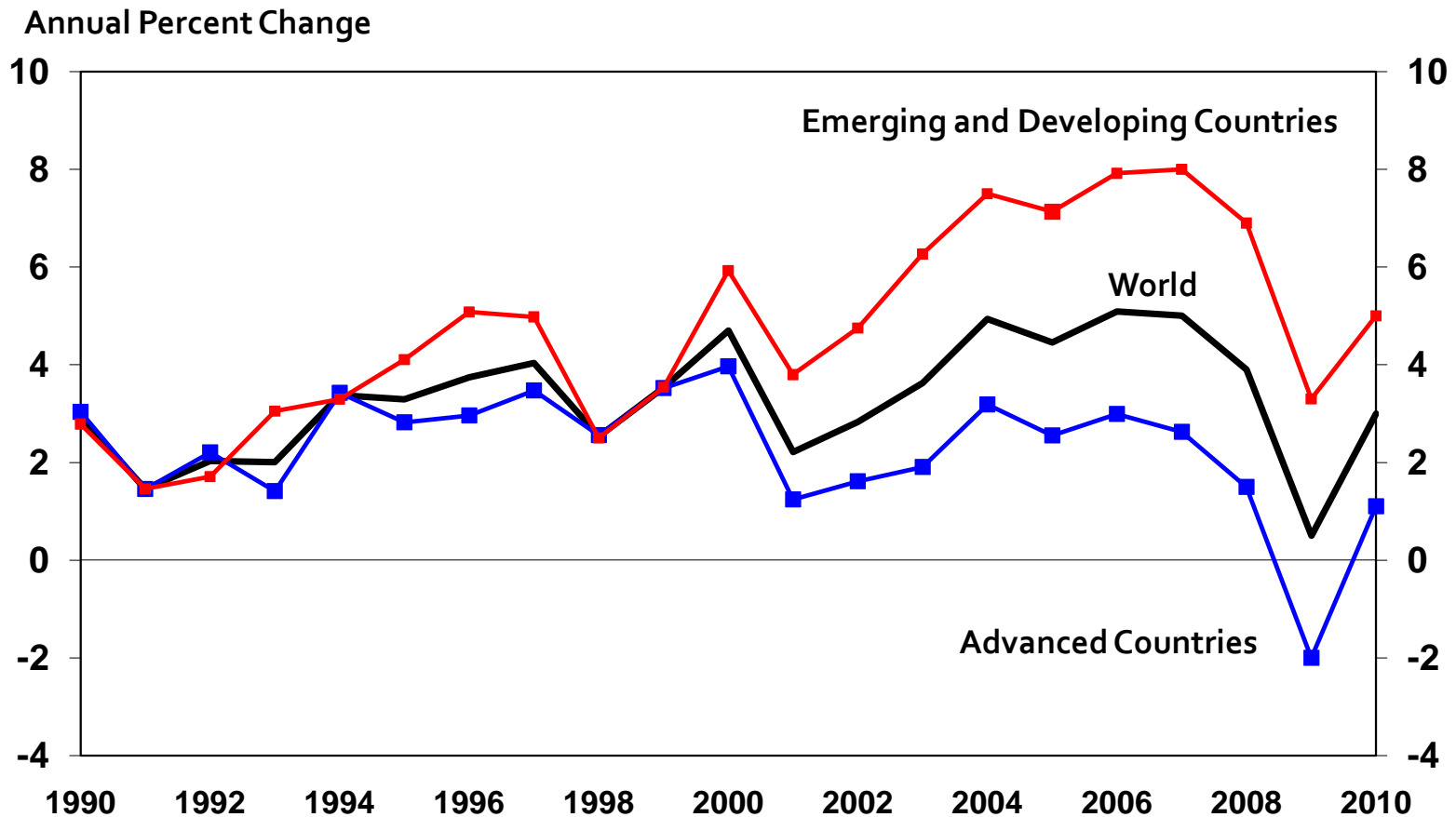


Source: Bureau of Labor Statistics



# The recession has spread globally.

## World GDP Growth



Source: International Monetary Fund, January 2009



# Today's Roadmap

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- **How Bad is it Historically?**



# Length of U.S. Recessions

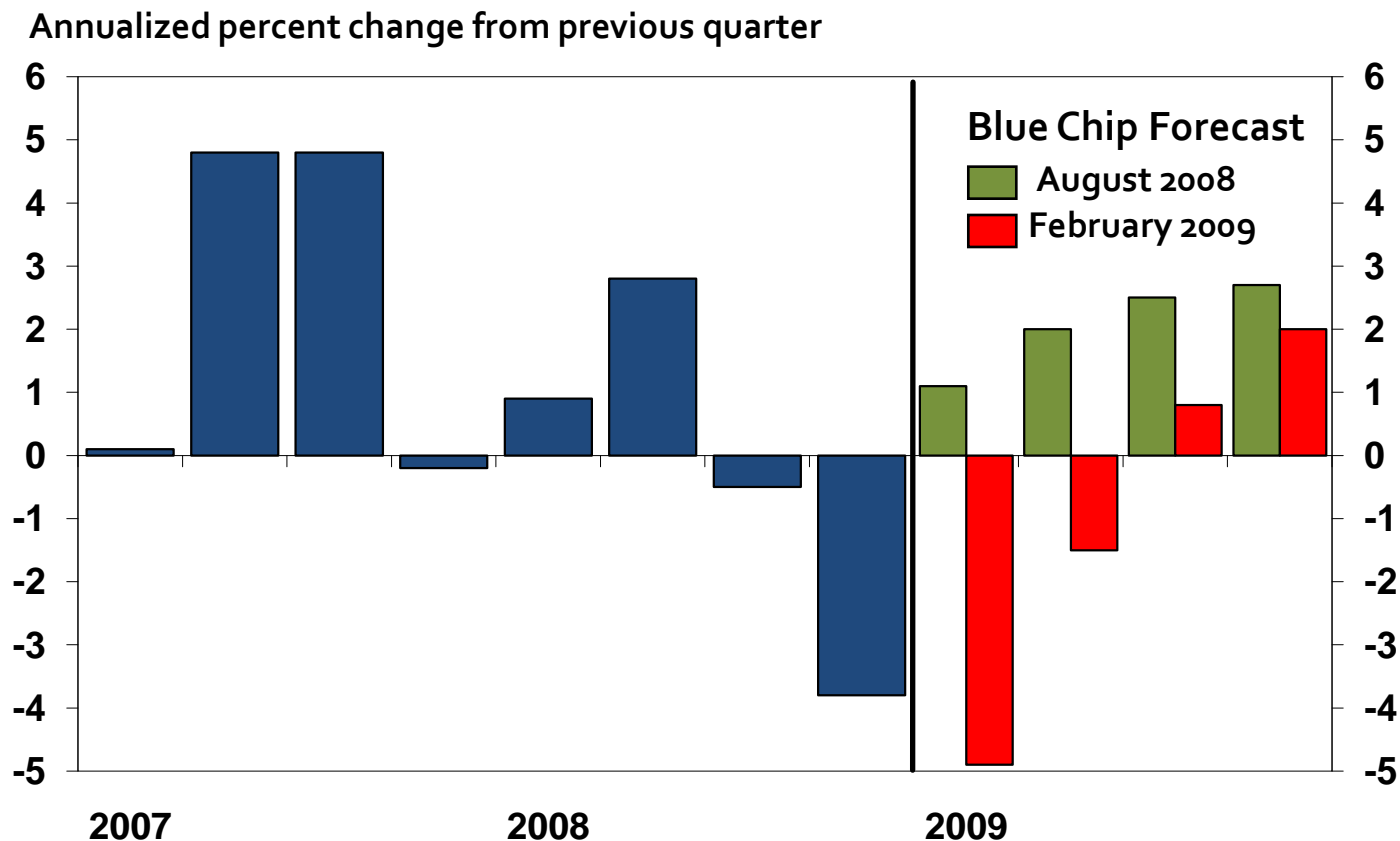
Start	End	Length (Months)
Nov. 1973	Mar. 1975	16
Jan. 1980	Jul. 1980	6
Jul. 1981	Nov. 1982	16
Jul. 1990	Mar. 1991	8
Mar. 2001	Nov. 2001	8
<b>Average since World War II</b>		<b>10</b>

Source: NBER



# The U.S. economy is in recession.

## Real GDP Growth



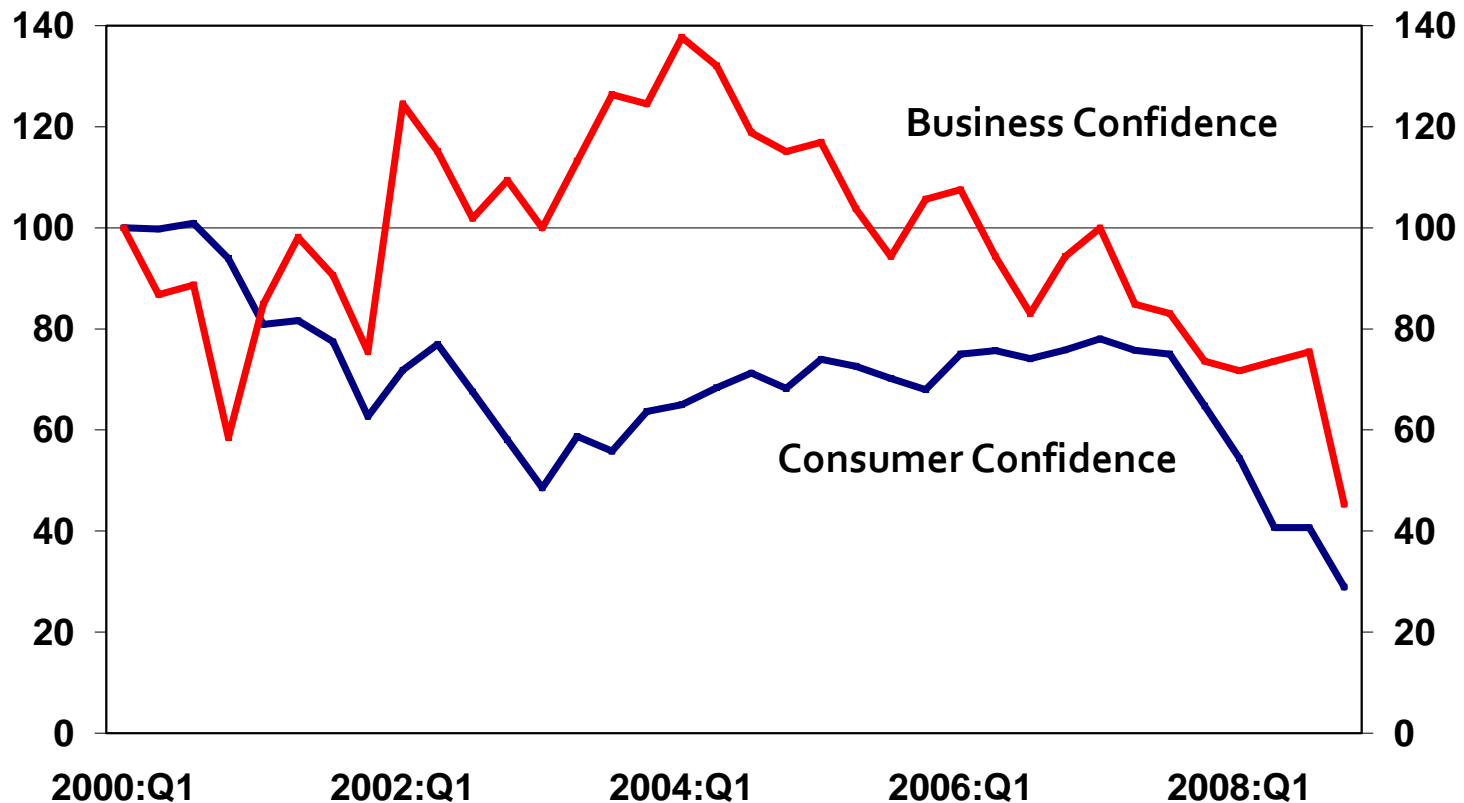
Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



# Confidence is at a historical low.

## Business and Consumer Confidence

Index (2000 Q1 = 100)



Source: The Conference Board



# Today's Roadmap

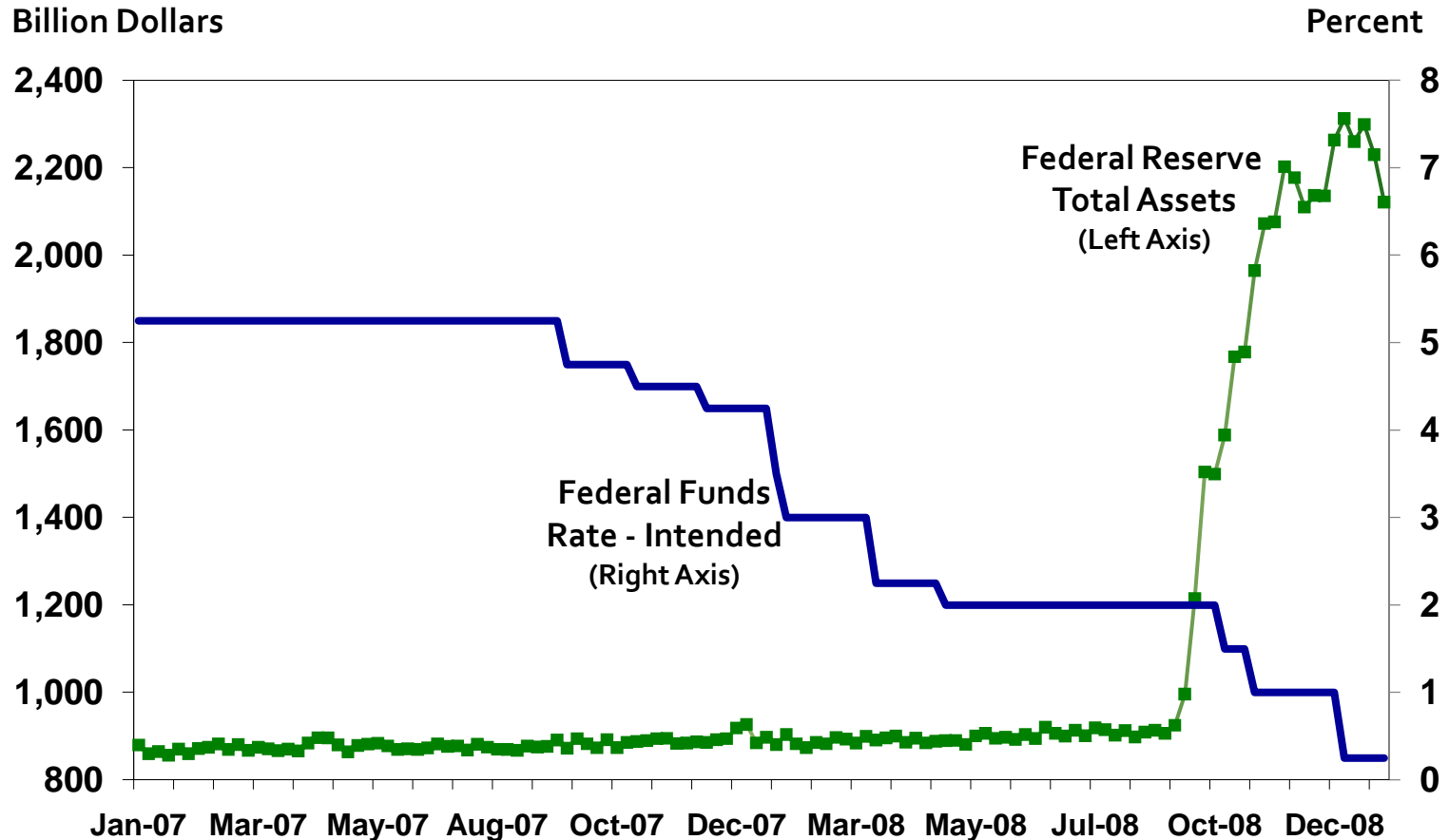
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# The Fed has acted aggressively.

## Fed Funds Rate and Federal Reserve Assets

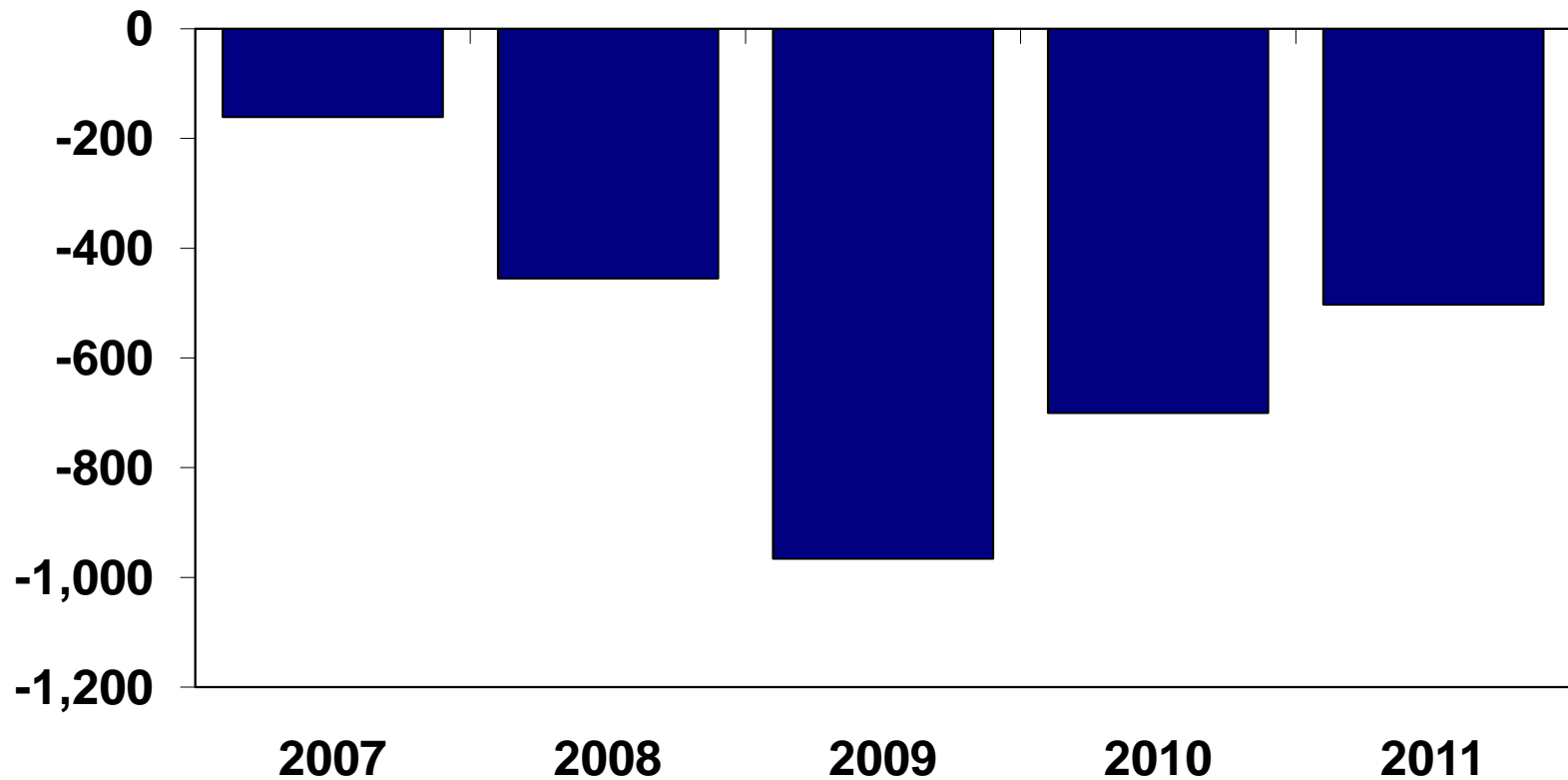


Source: Federal Reserve Board of Governors



# Federal government deficits rise sharply.

## Federal Budget Deficit Projections

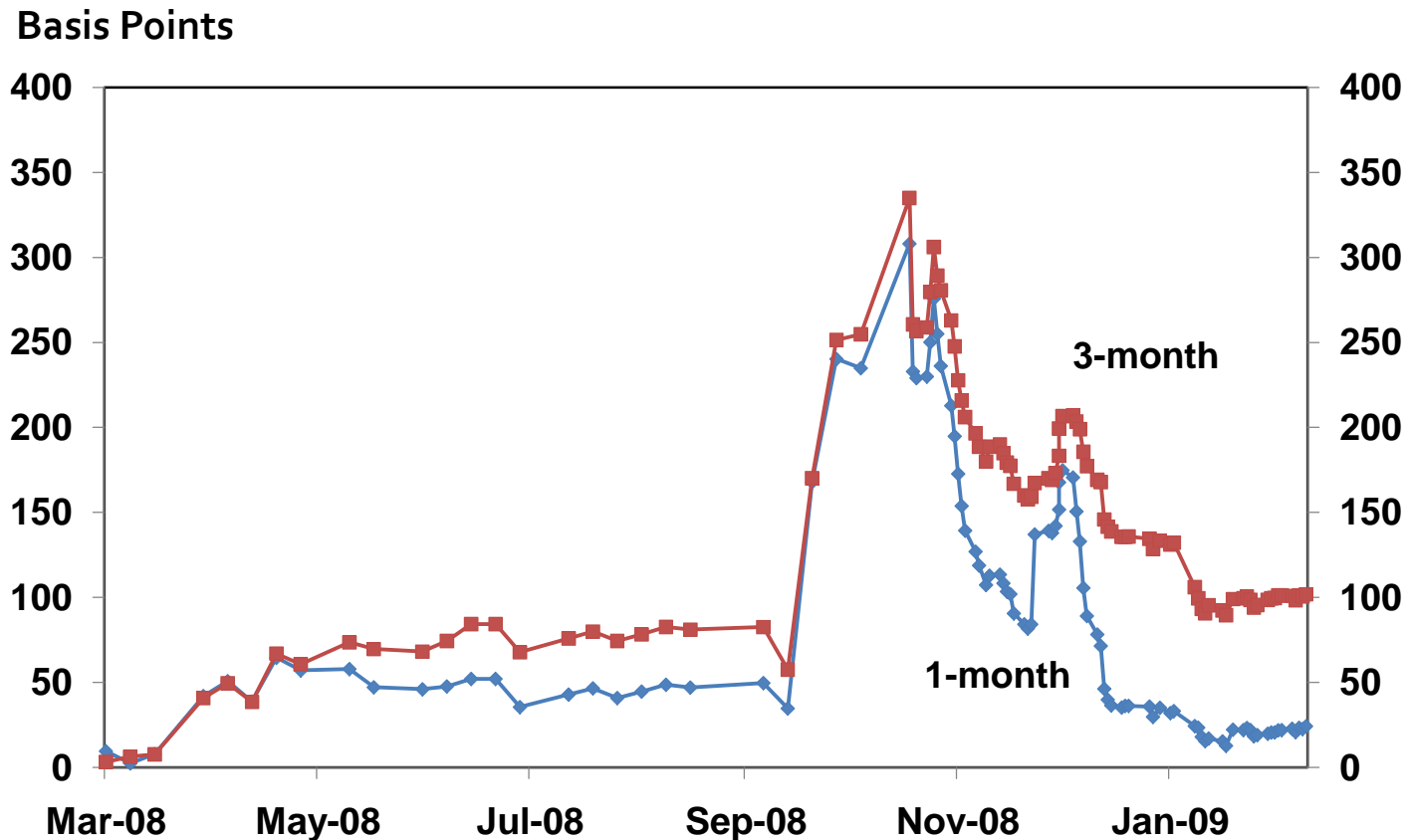


Source: Congressional Budget Office, January 2009



# Financial market stress remains elevated.

## LIBOR-OIS Spread

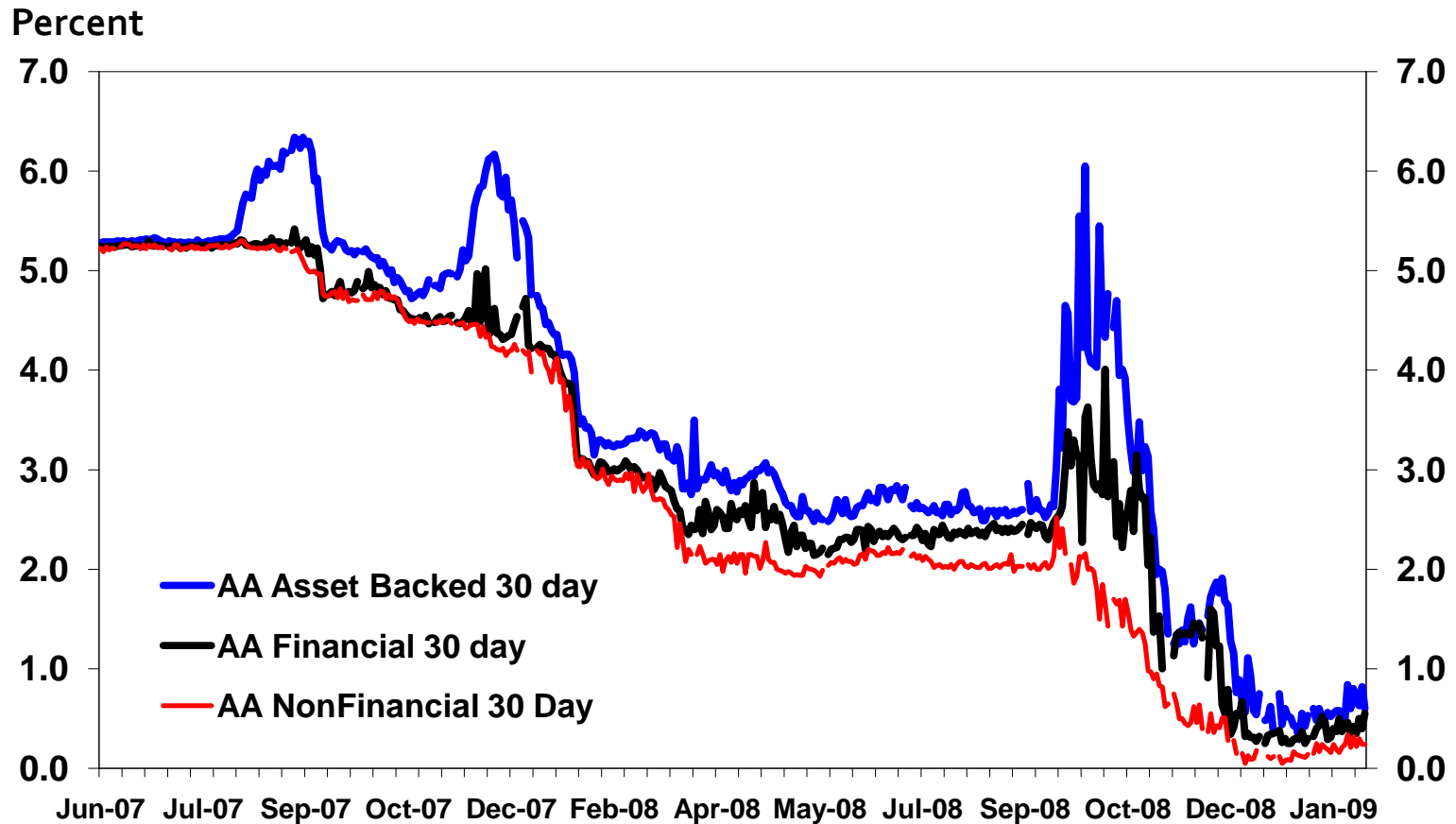


Source: Federal Reserve Board of Governors



# 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?*

