



FEDERAL RESERVE BANK *of* NEW YORK

# Recent Economic Developments

Andrea Tambalotti, Macroeconomic and Monetary Studies Function

College Fed Challenge Student Orientation

September 22, 2011

The views that I express are my own and do not necessarily represent those of the Federal Reserve Bank of New York or the Federal Reserve System.

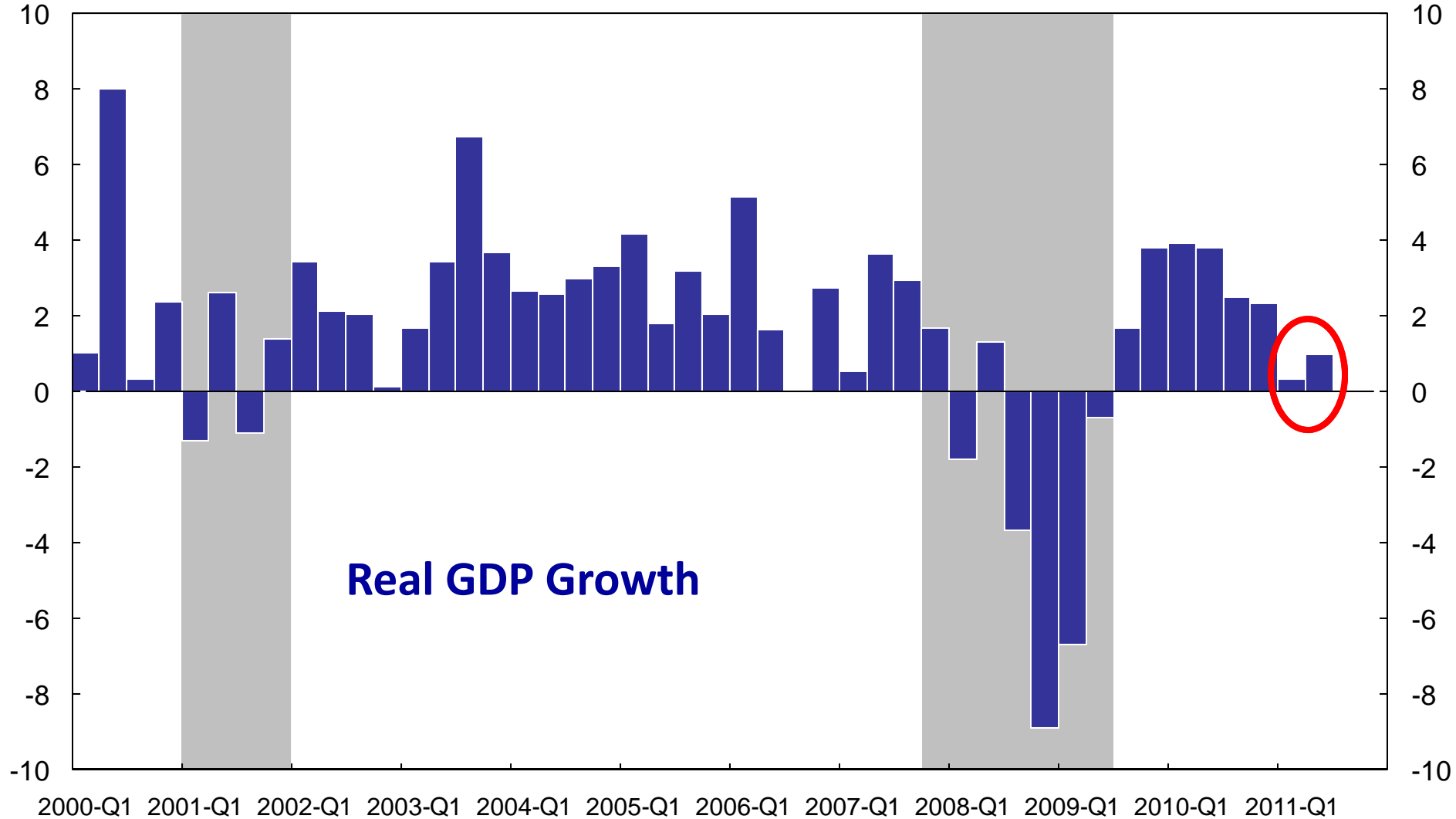
# The “Macro” Picture

GDP and Employment

# The Recovery Hit Another Soft Patch

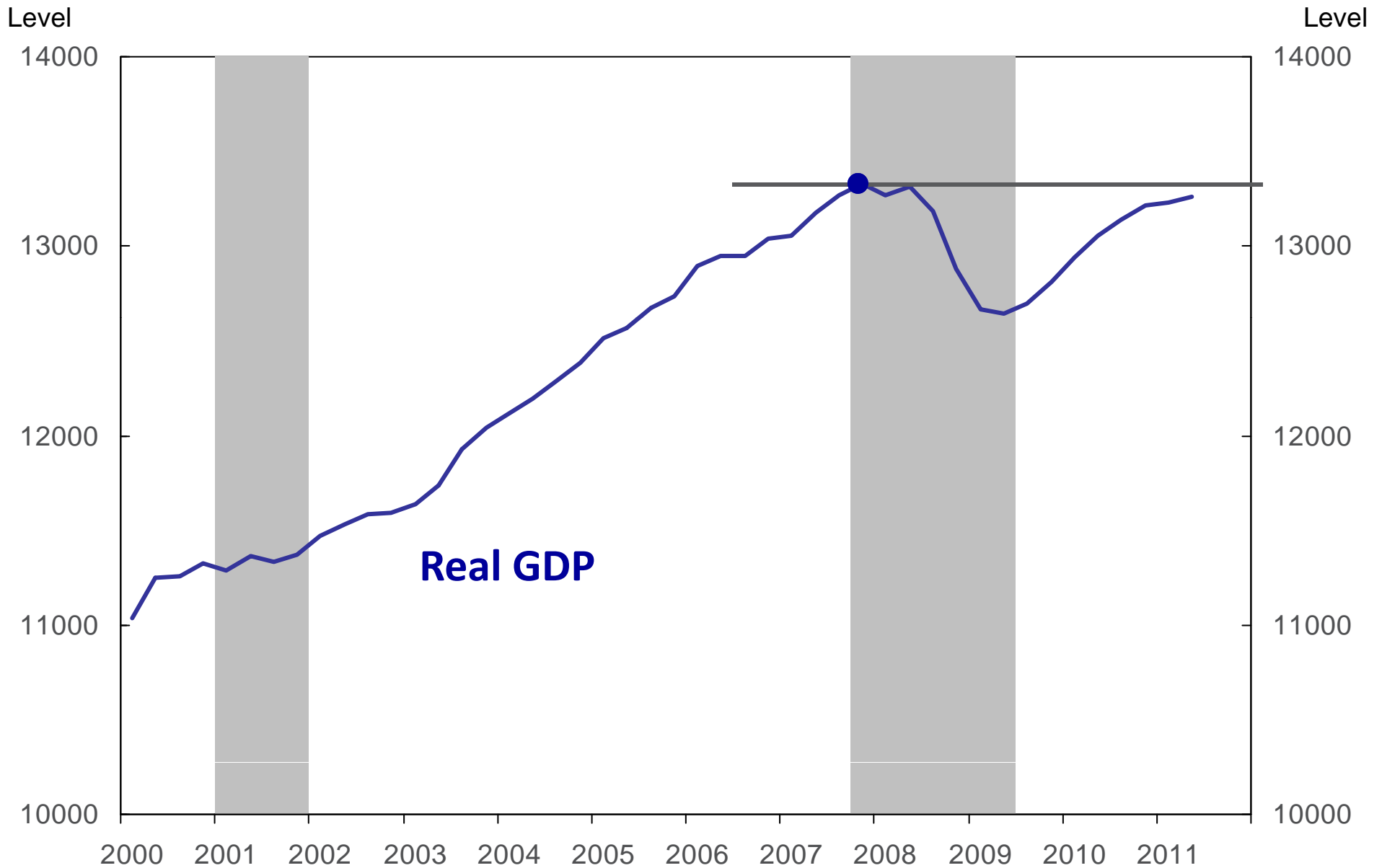
% Change – Annual Rate

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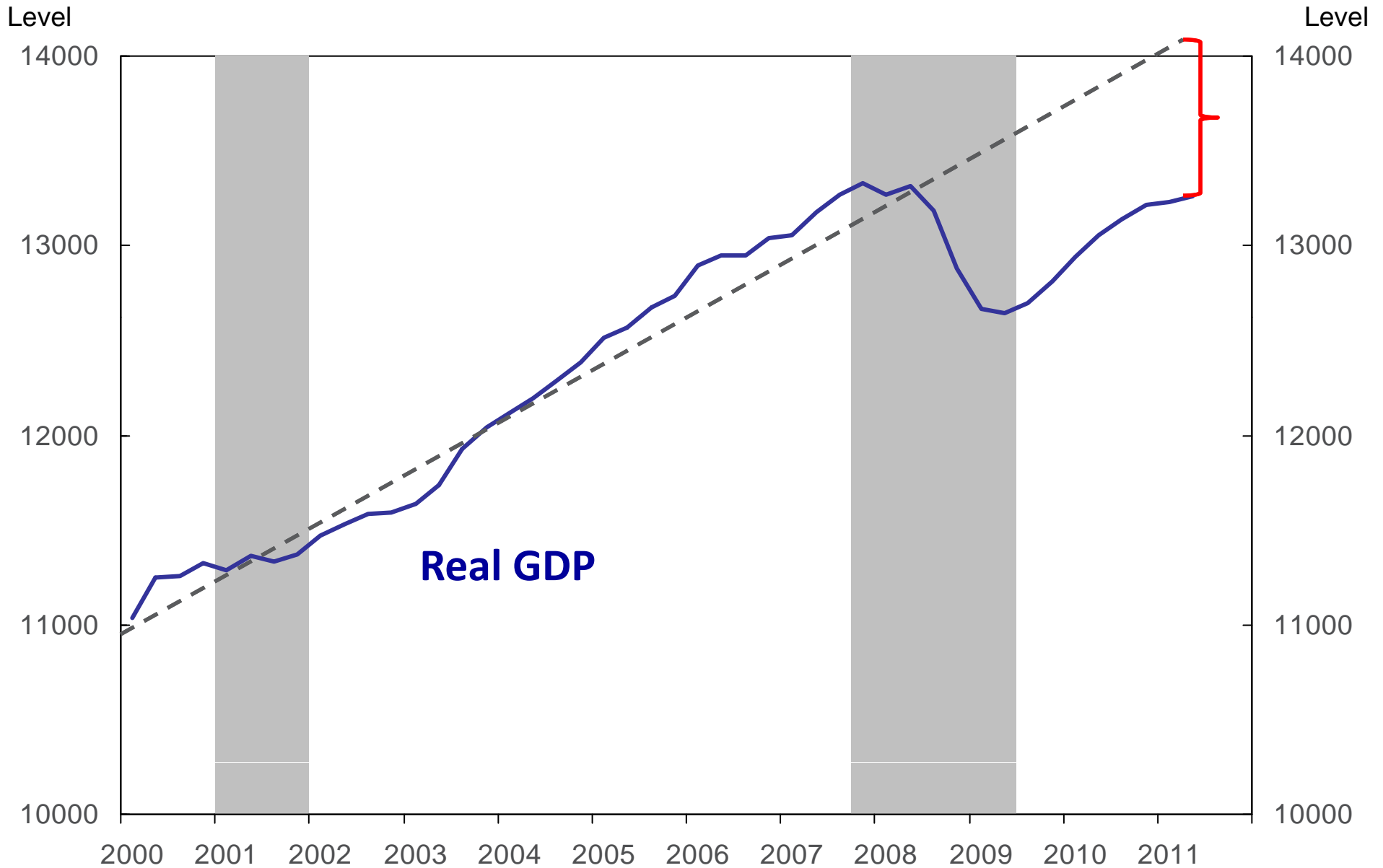
Source: Bureau of Economic Analysis

# With GDP Still Below the Peak



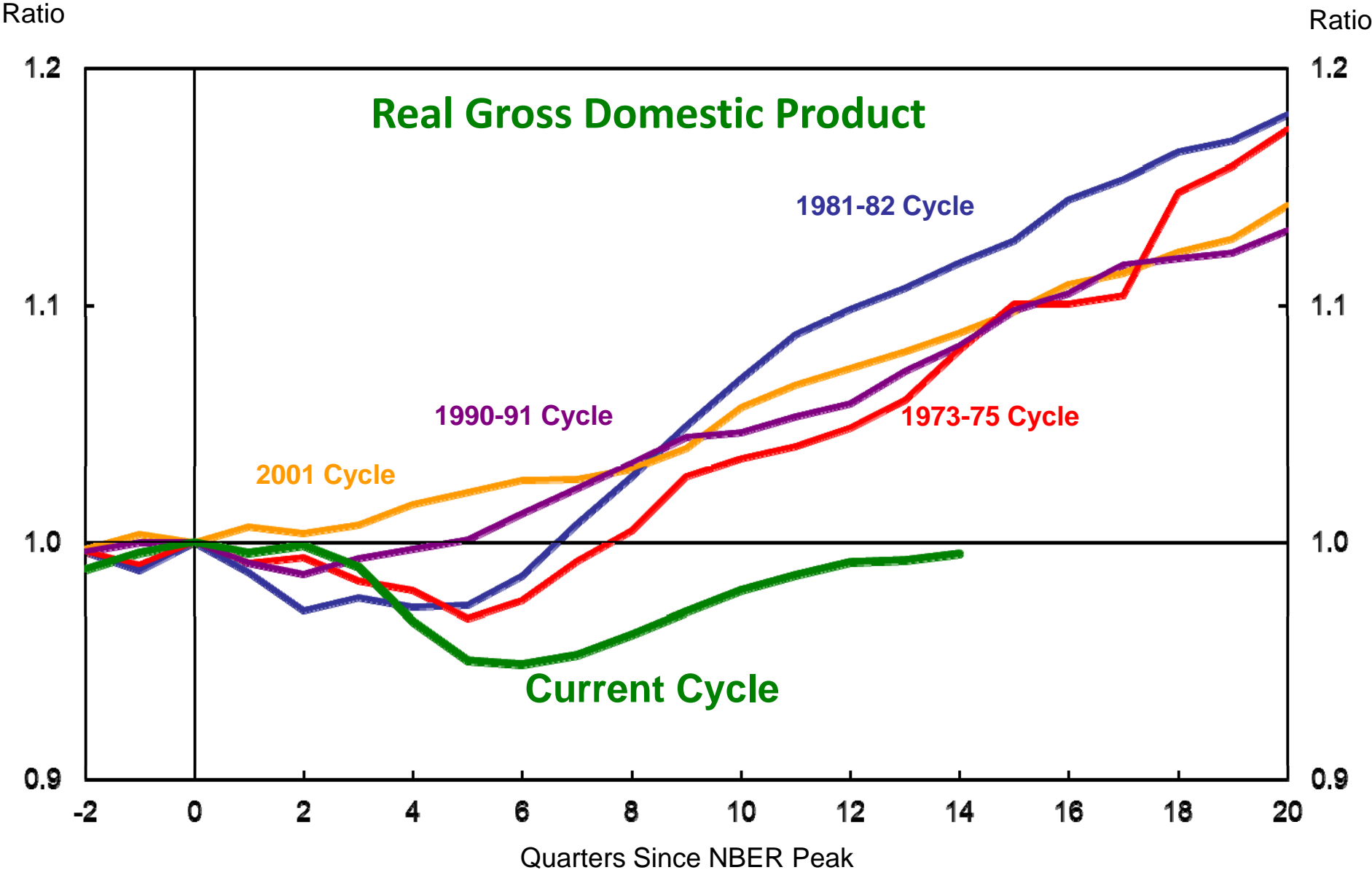
Source: Bureau of Economic Analysis

# And Way Below Any Reasonable Trend



Source: Bureau of Economic Analysis

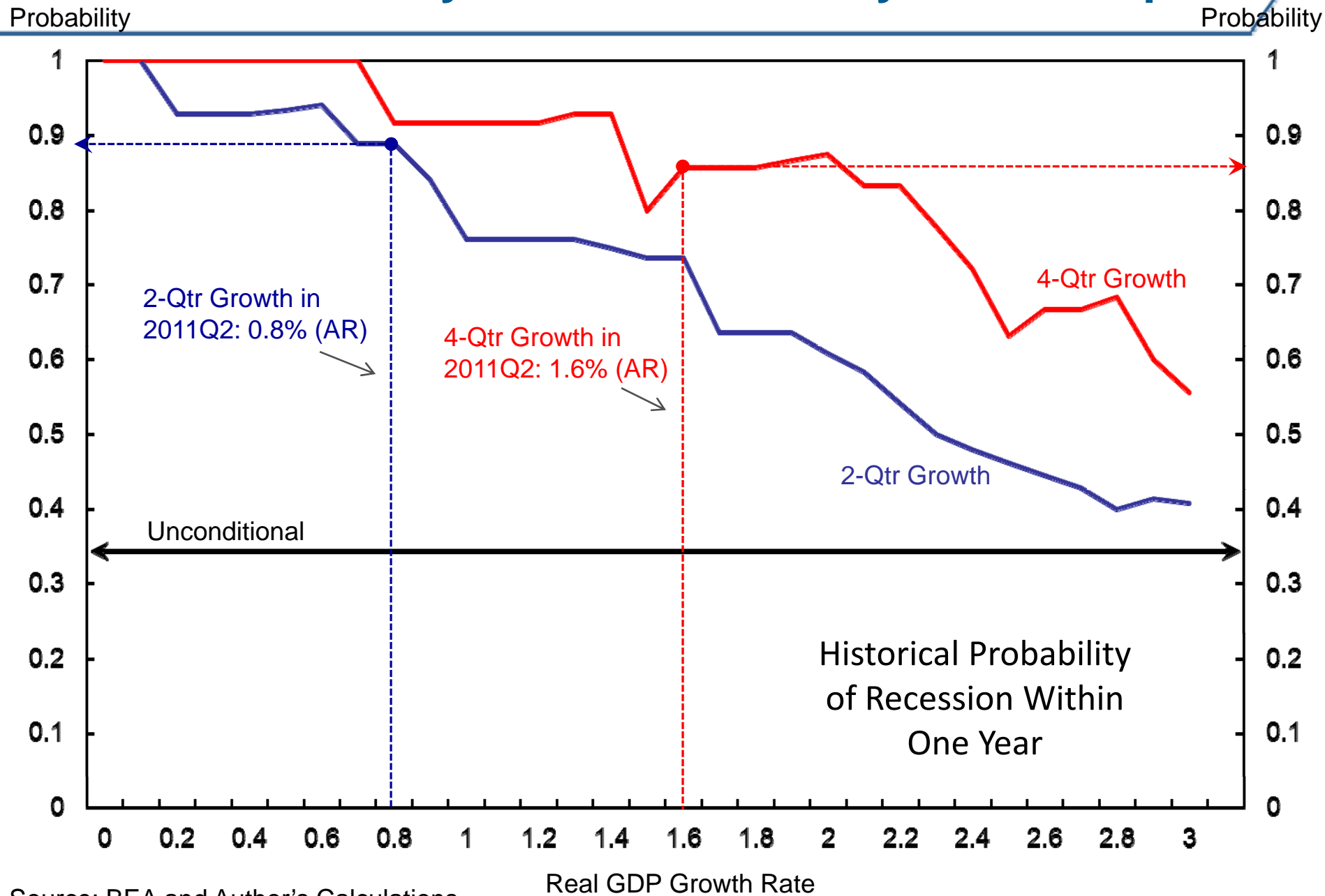
# A Very Unusual Occurrence at This Stage of the BC



Source: Bureau of Economic Analysis

Note: Series Set to 1.00 at NBER Peak.

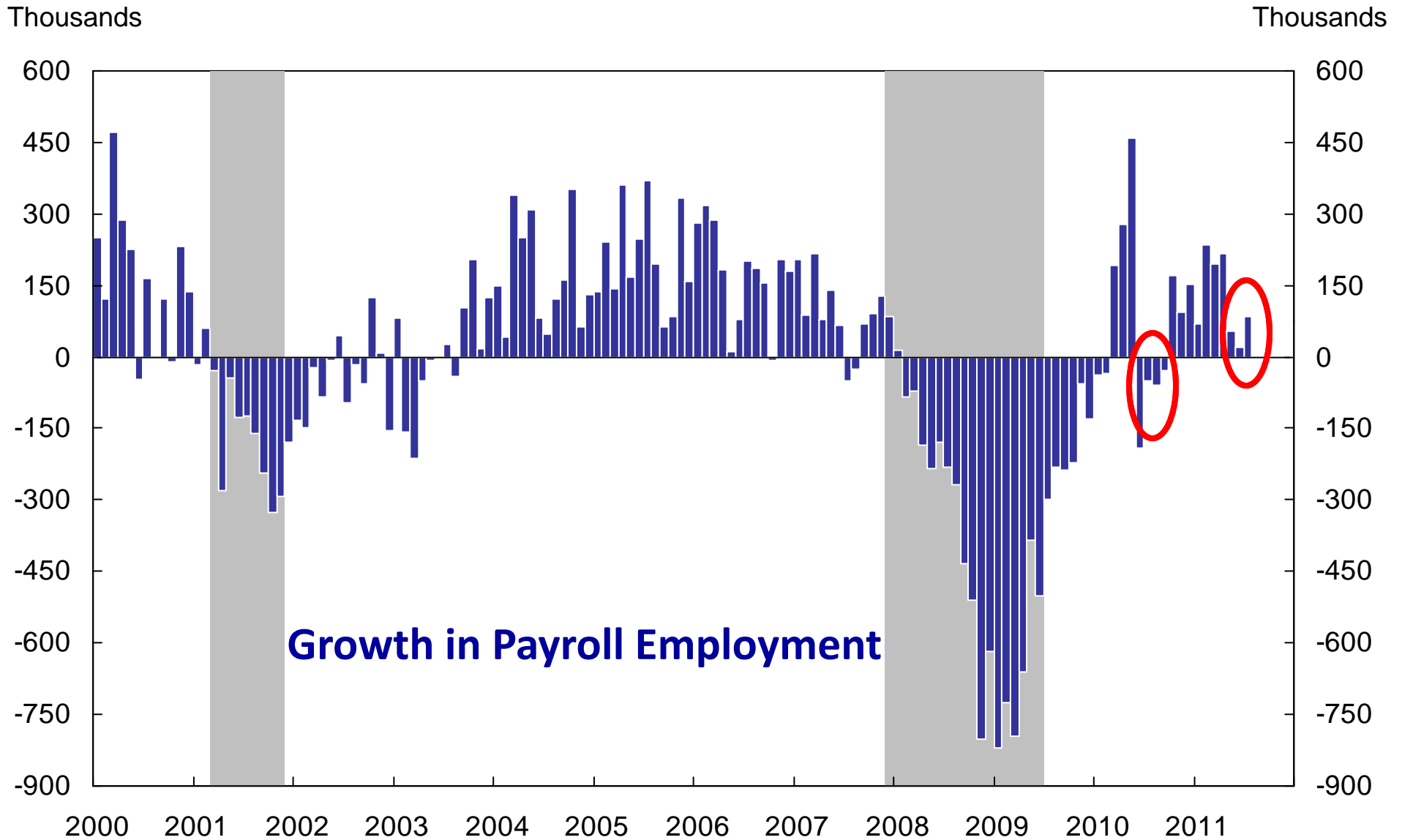
# Reasons to Worry: Has the Economy Hit Stall Speed?



Source: BEA and Author's Calculations

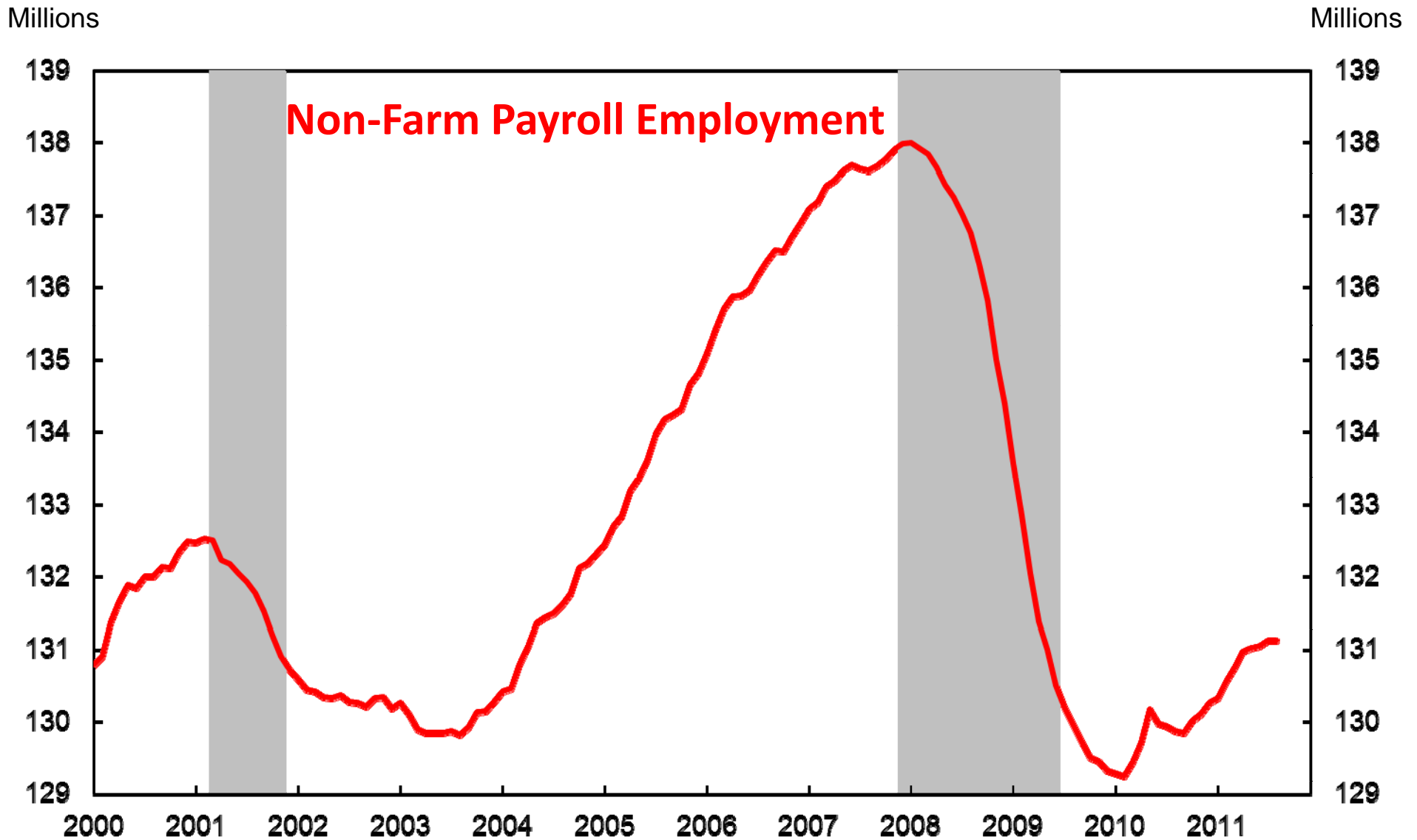


# Employment Growth Has Stalled, Again...



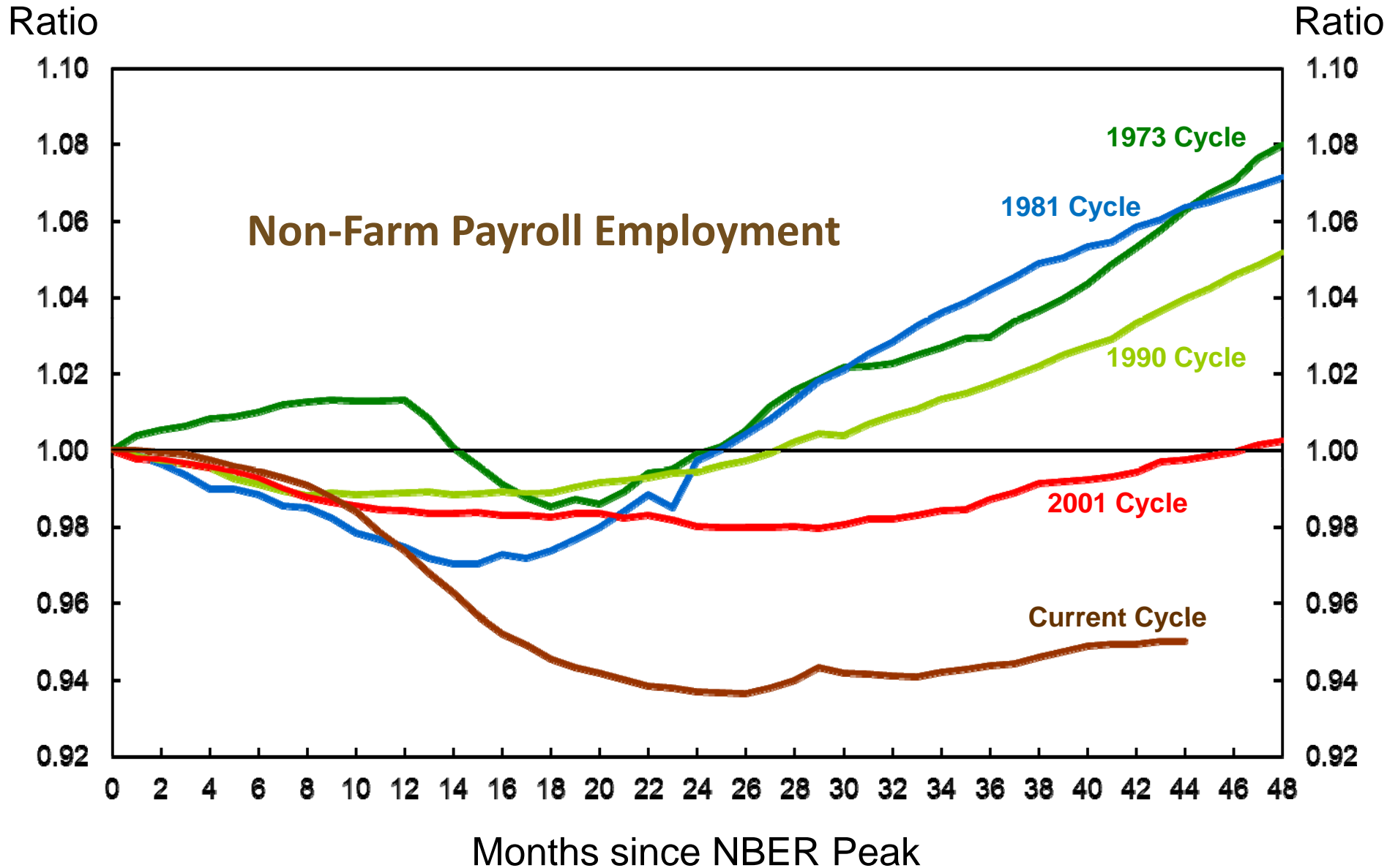
Source: Bureau of Labor Statistics

# Leaving a Huge Hole to Fill



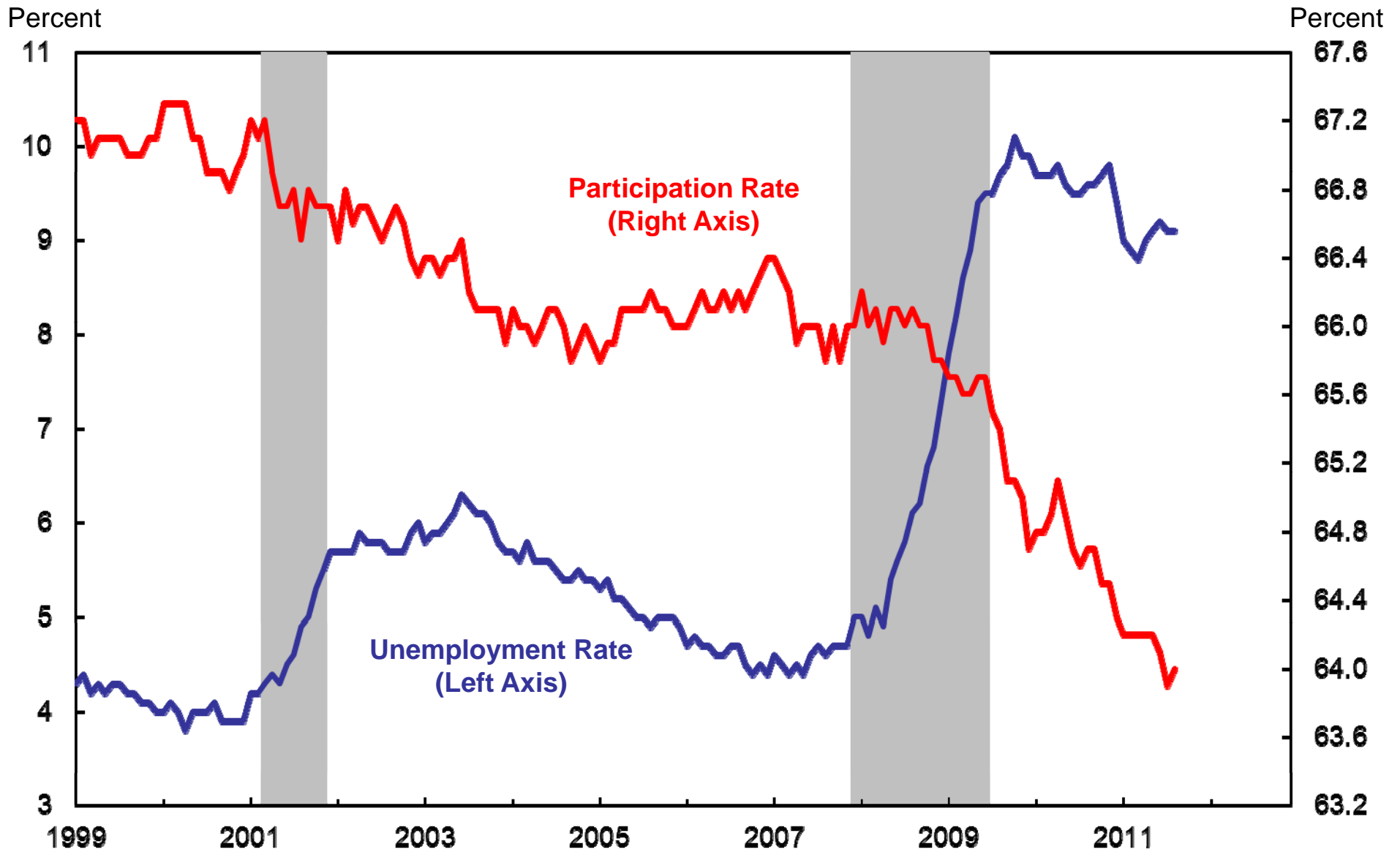
Source: Bureau of Labor Statistics

# Also an Unusual Occurrence



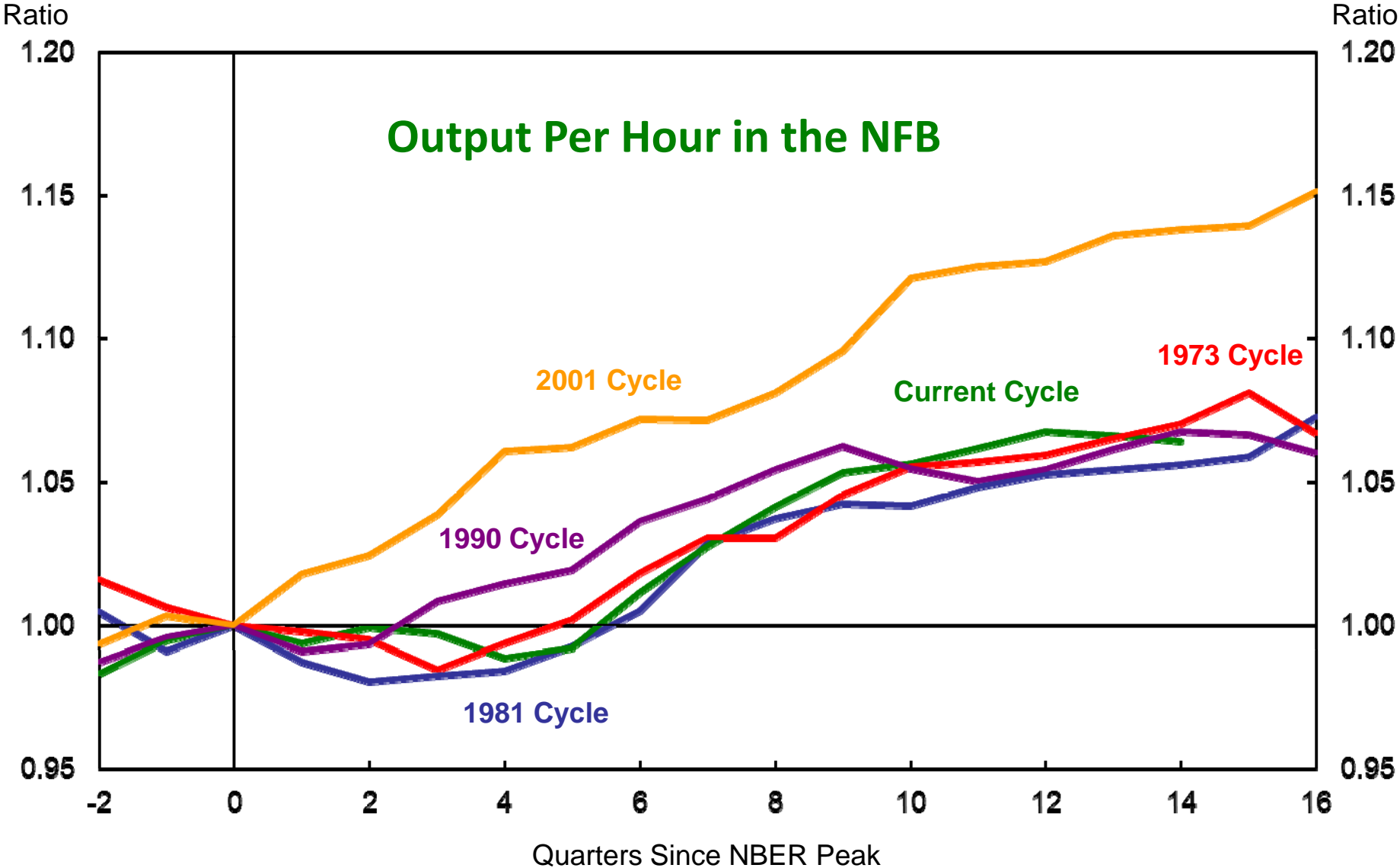
Source: Bureau of Labor Statistics

# Unemployment is Stuck, while Participation Falls



Source: Bureau of Labor Statistics

# A New Normal? Not so Fast...

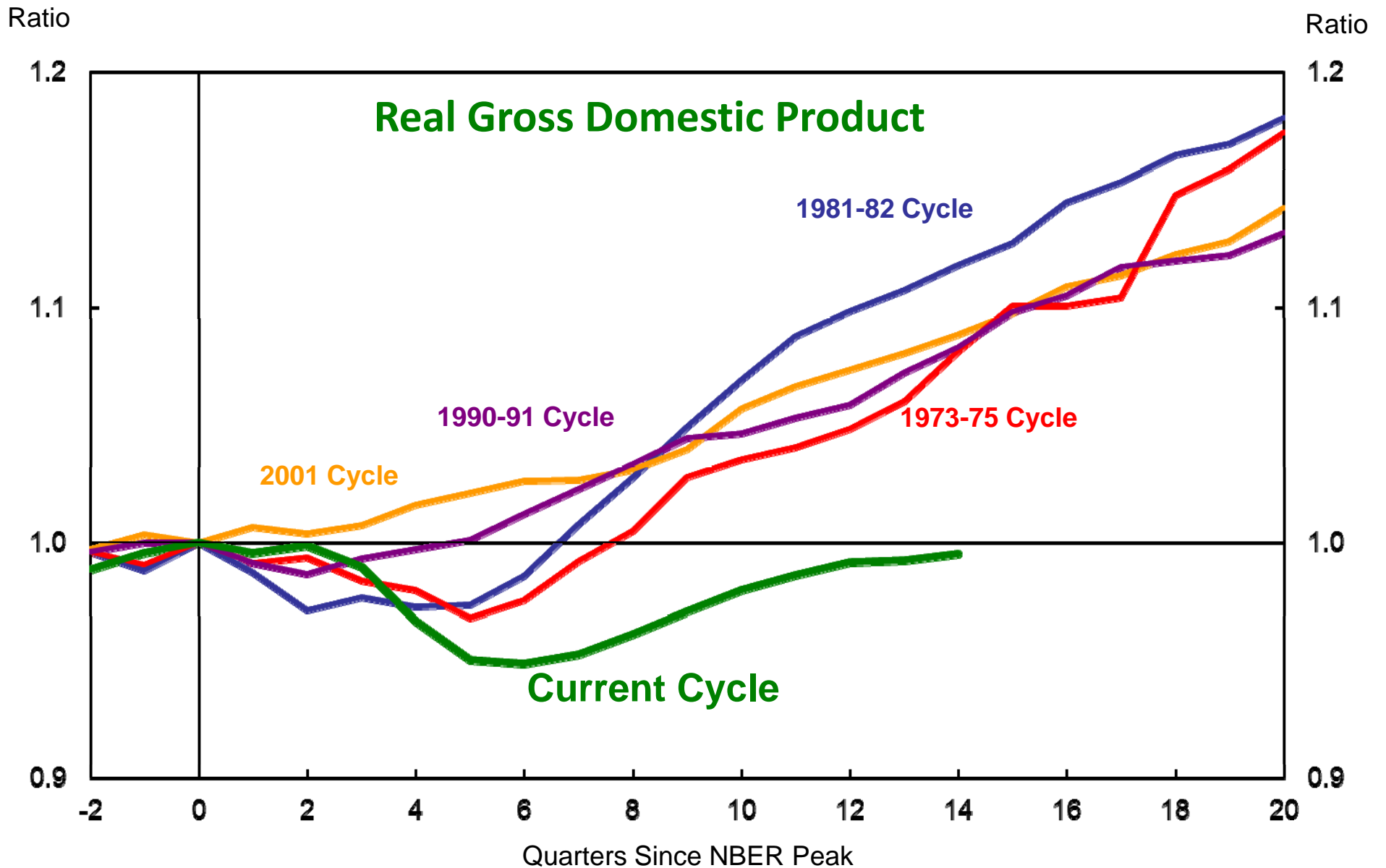


Source: Bureau of Labor Statistics

**Let's Break It Up**

**Where is the Weakness?**

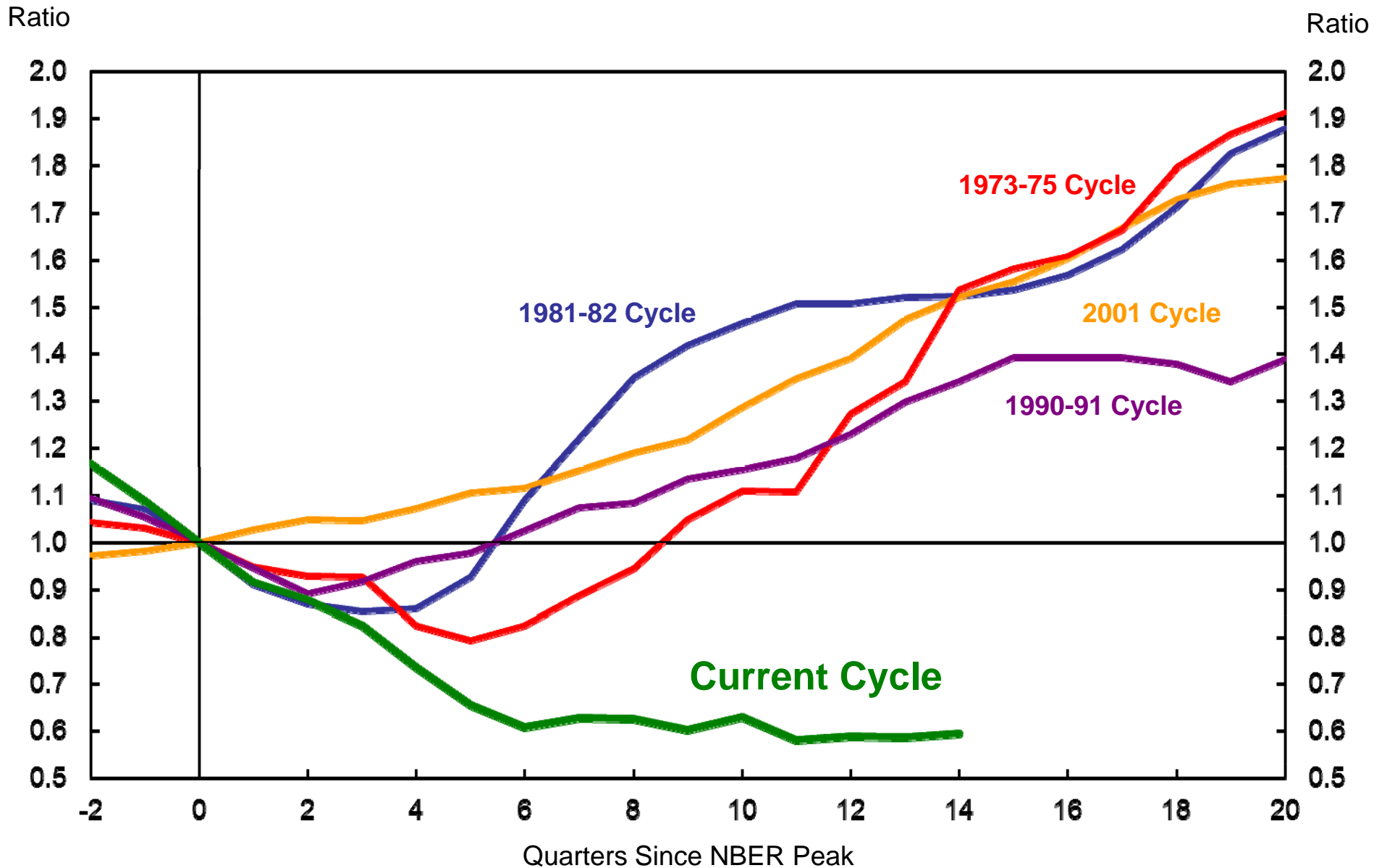
# Recall the Big Picture



Source: Bureau of Economic Analysis

Note: Series Set to 1.00 at NBER Peak.

# Residential Investment

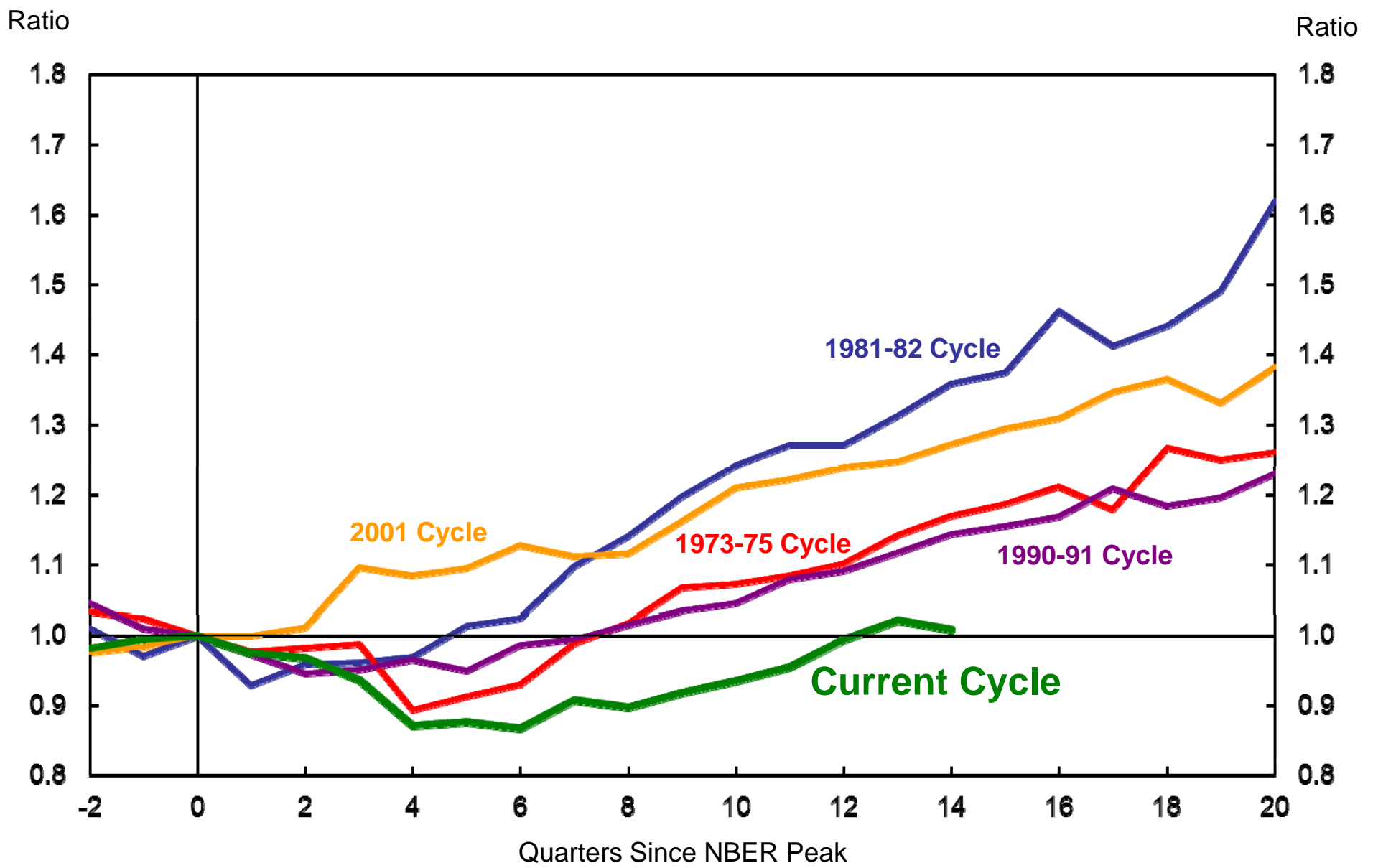


Source: Bureau of Economic Analysis

Note: Series Set to 1.00 at NBER Peak.



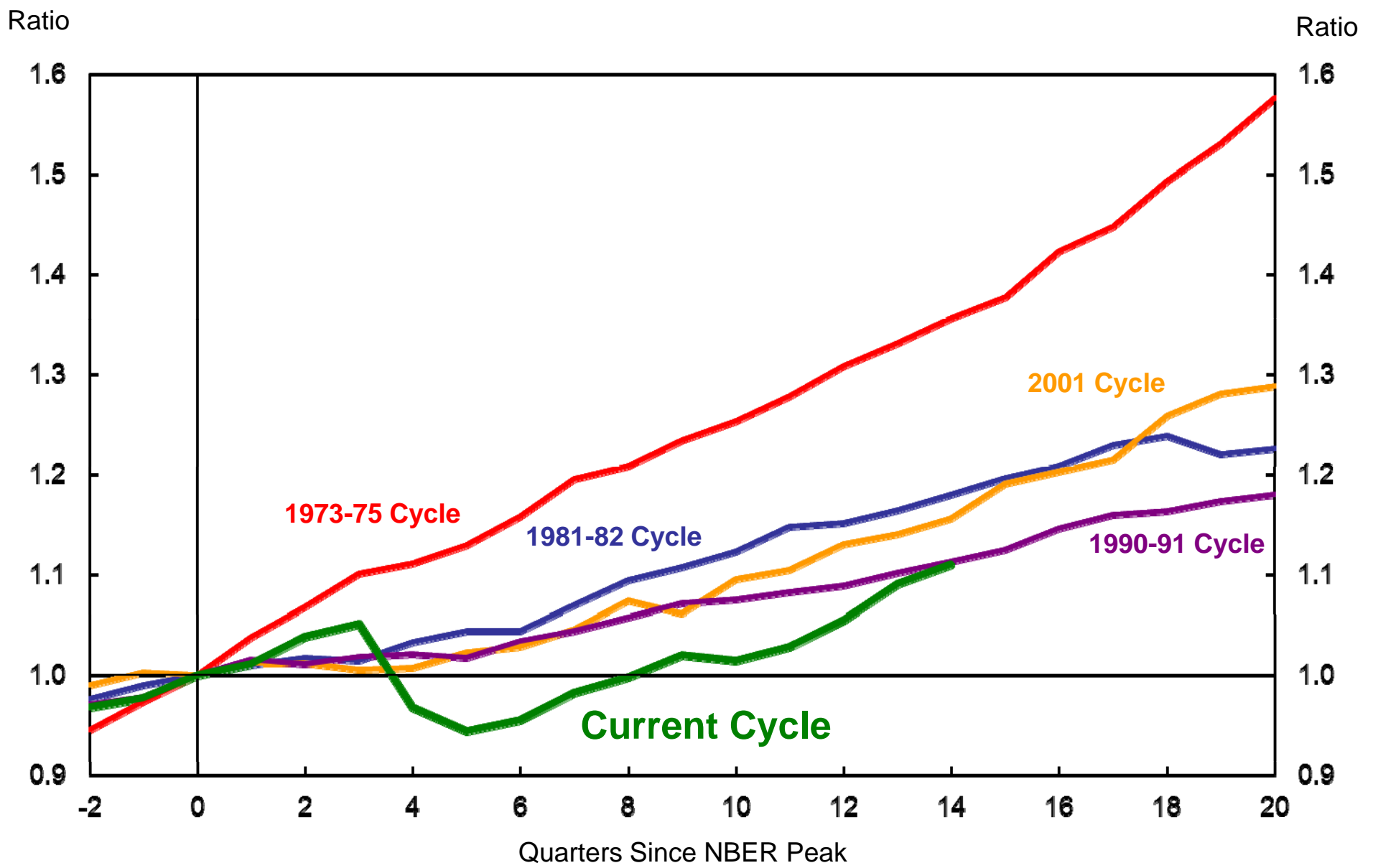
# Durable Goods Expenditures



Source: Bureau of Economic Analysis

Note: Series Set to 1.00 at NBER Peak.

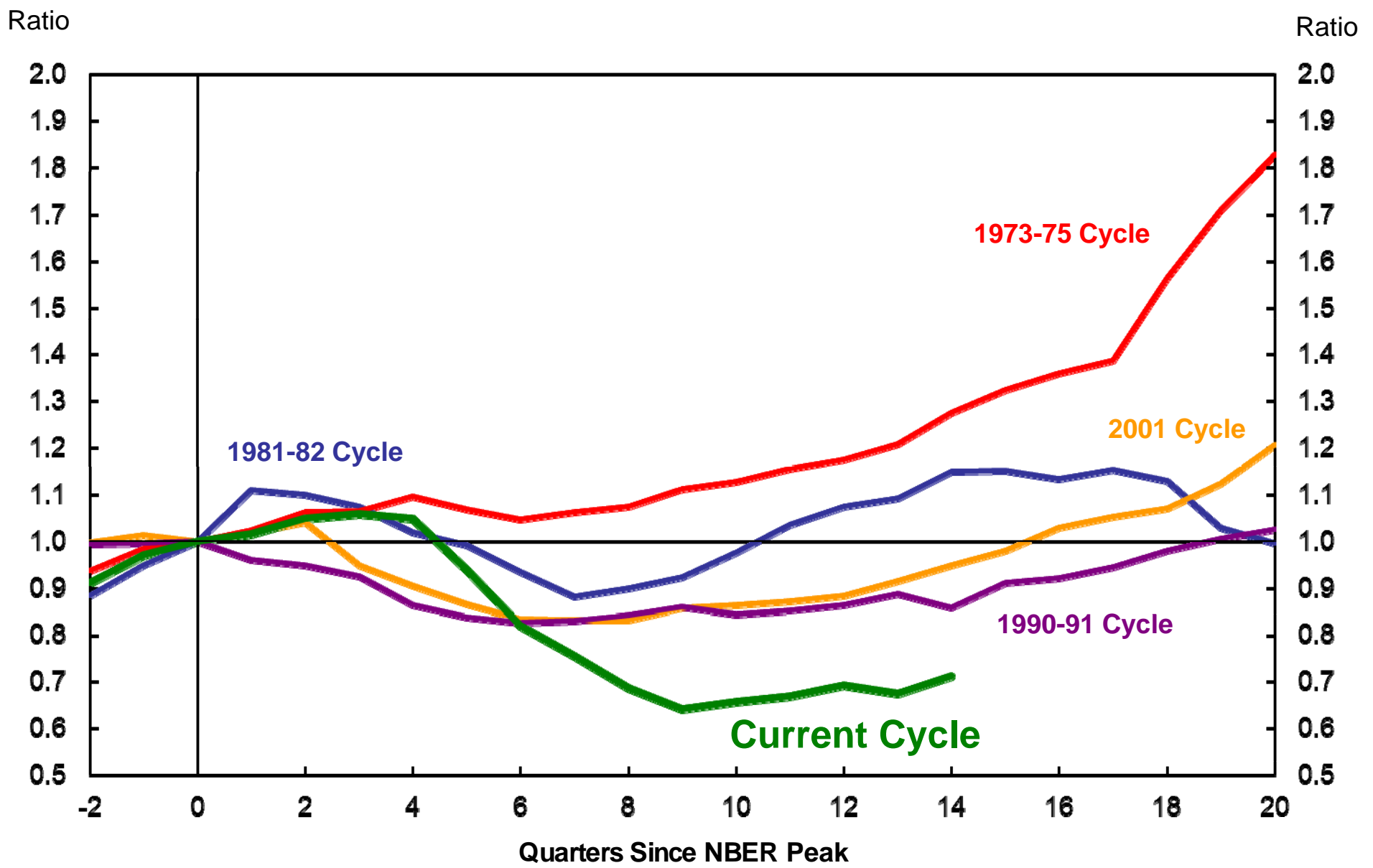
# Nondurable Goods Expenditures



Source: Bureau of Economic Analysis

Note: Series Set to 1.00 at NBER Peak.

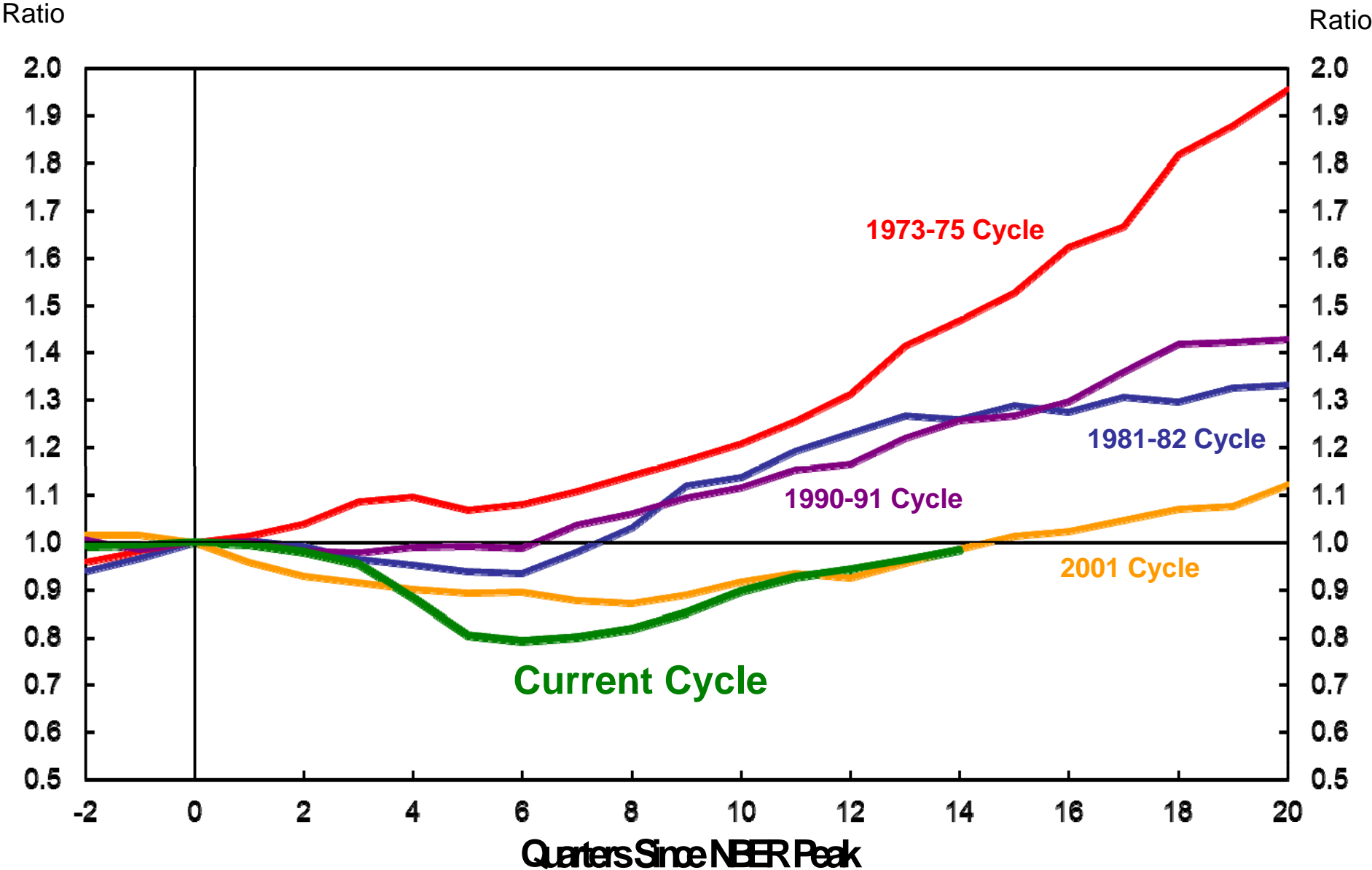
# Investment in Nonresidential Structures



Source: Bureau of Economic Analysis

Note: Series Set to 1.00 at NBER Peak.

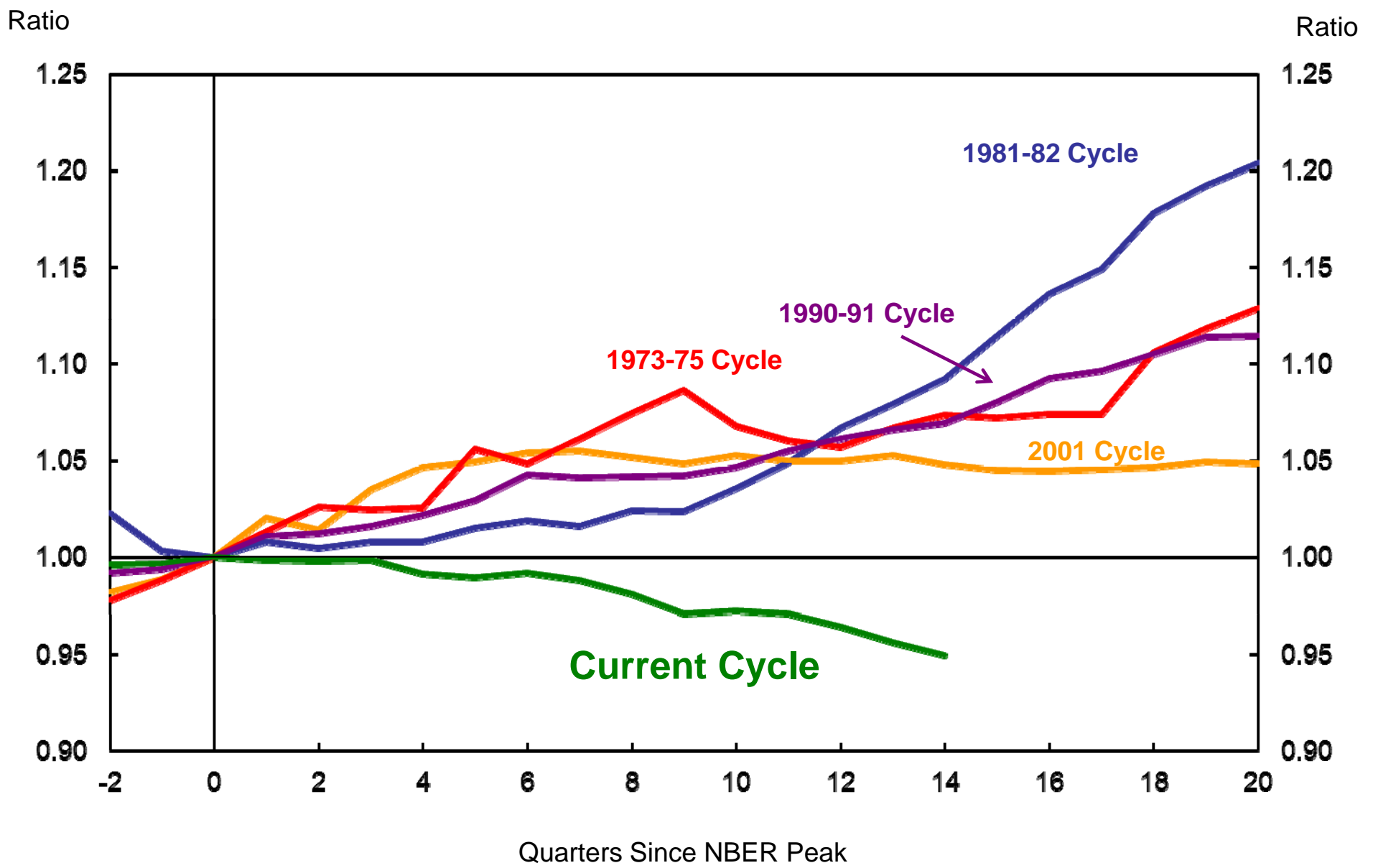
# Investment in Equipment and Software



Source: Bureau of Economic Analysis

Note: Series Set to 1.00 at NBER Peak.

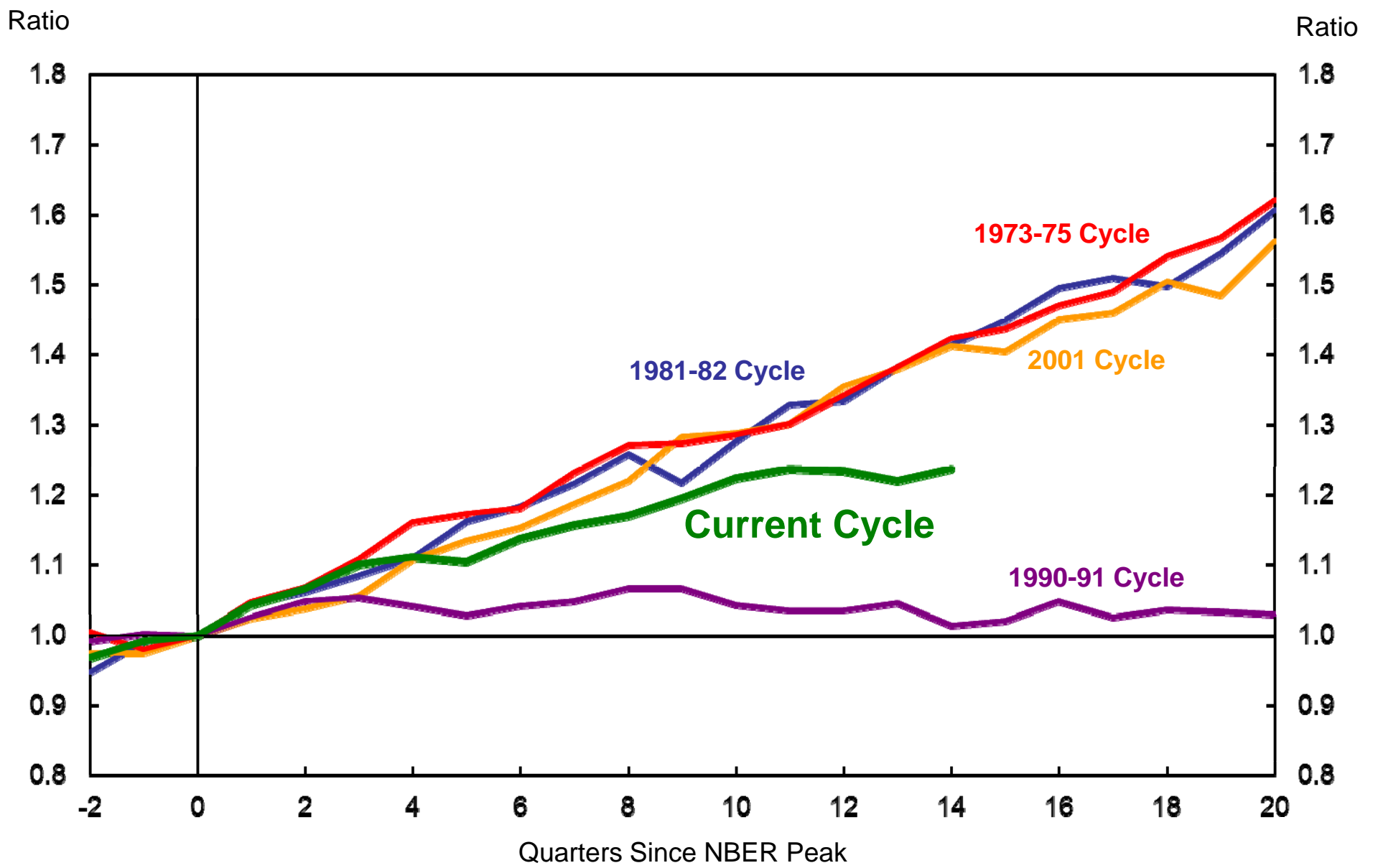
# State and Local Government Expenditures



Source: Bureau of Economic Analysis

Note: Series Set to 1.00 at NBER Peak.

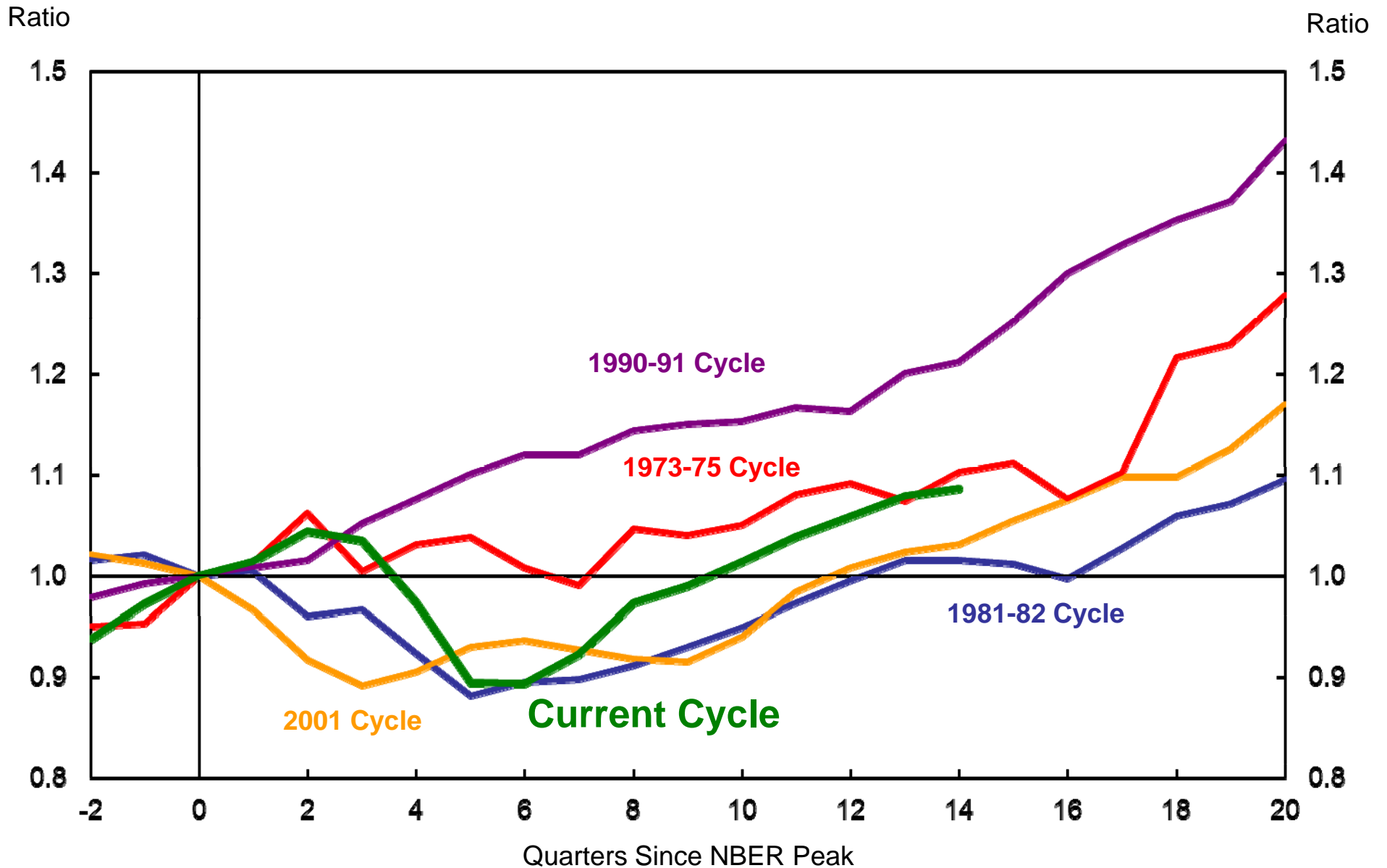
# Federal Government Expenditures



Source: Bureau of Economic Analysis

Note: Series Set to 1.00 at NBER Peak.

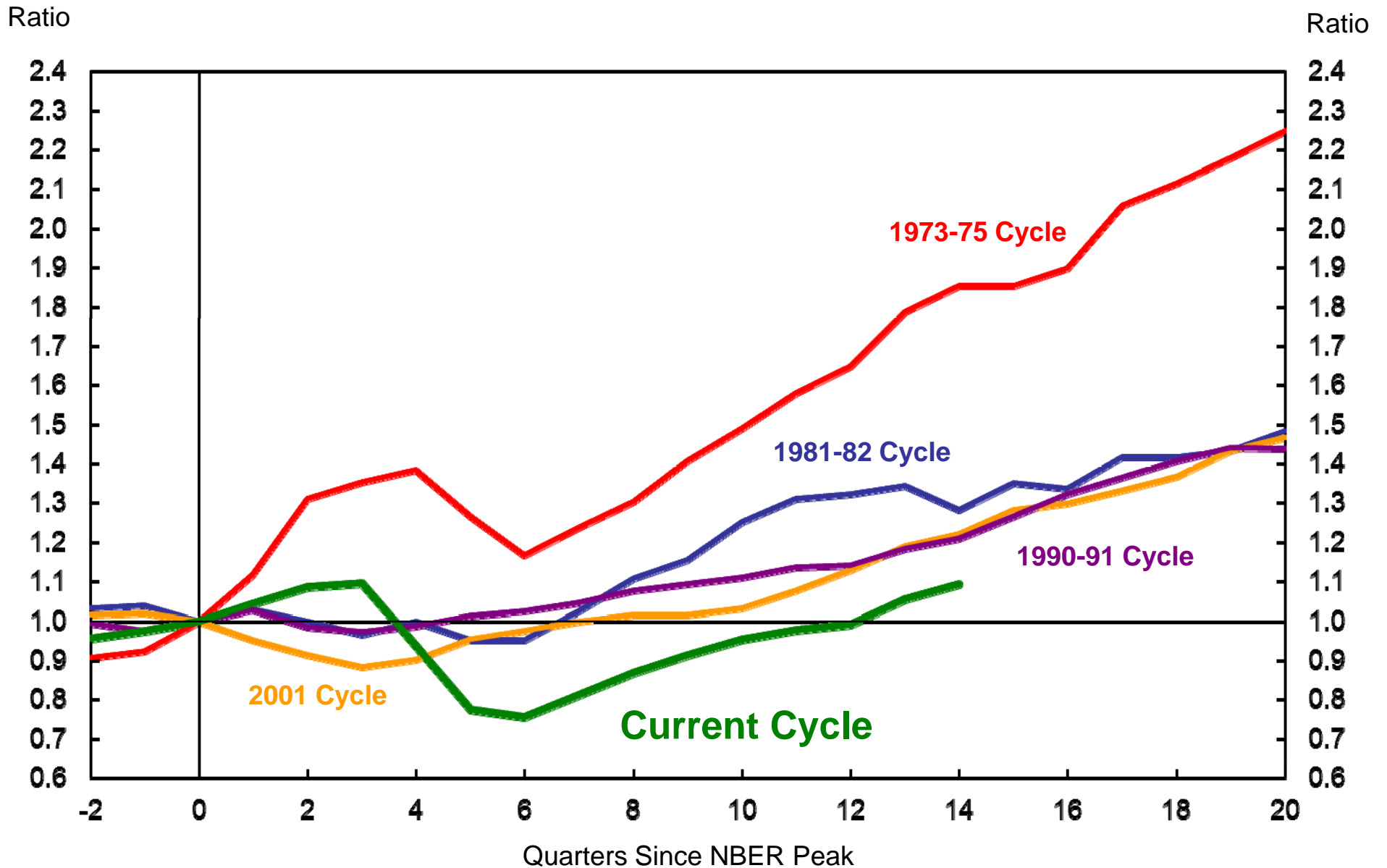
# Exports



Source: Bureau of Economic Analysis

Note: Series Set to 1.00 at NBER Peak.

# Imports



Source: Bureau of Economic Analysis

Note: Series Set to 1.00 at NBER Peak.

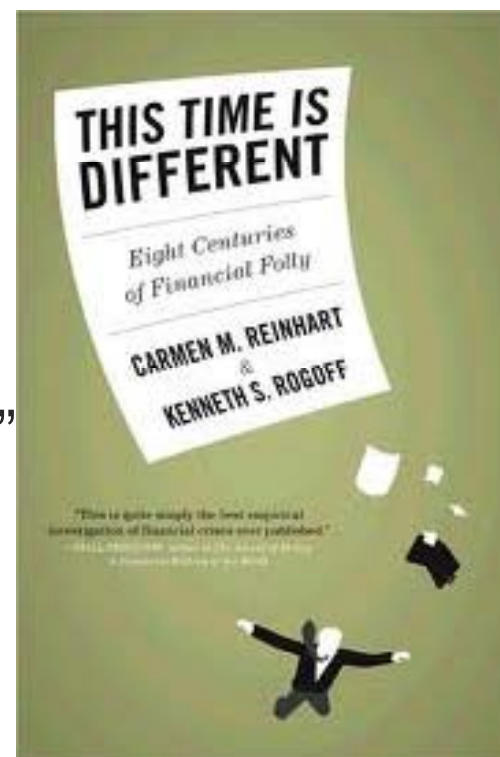


# **A Great Contraction?**

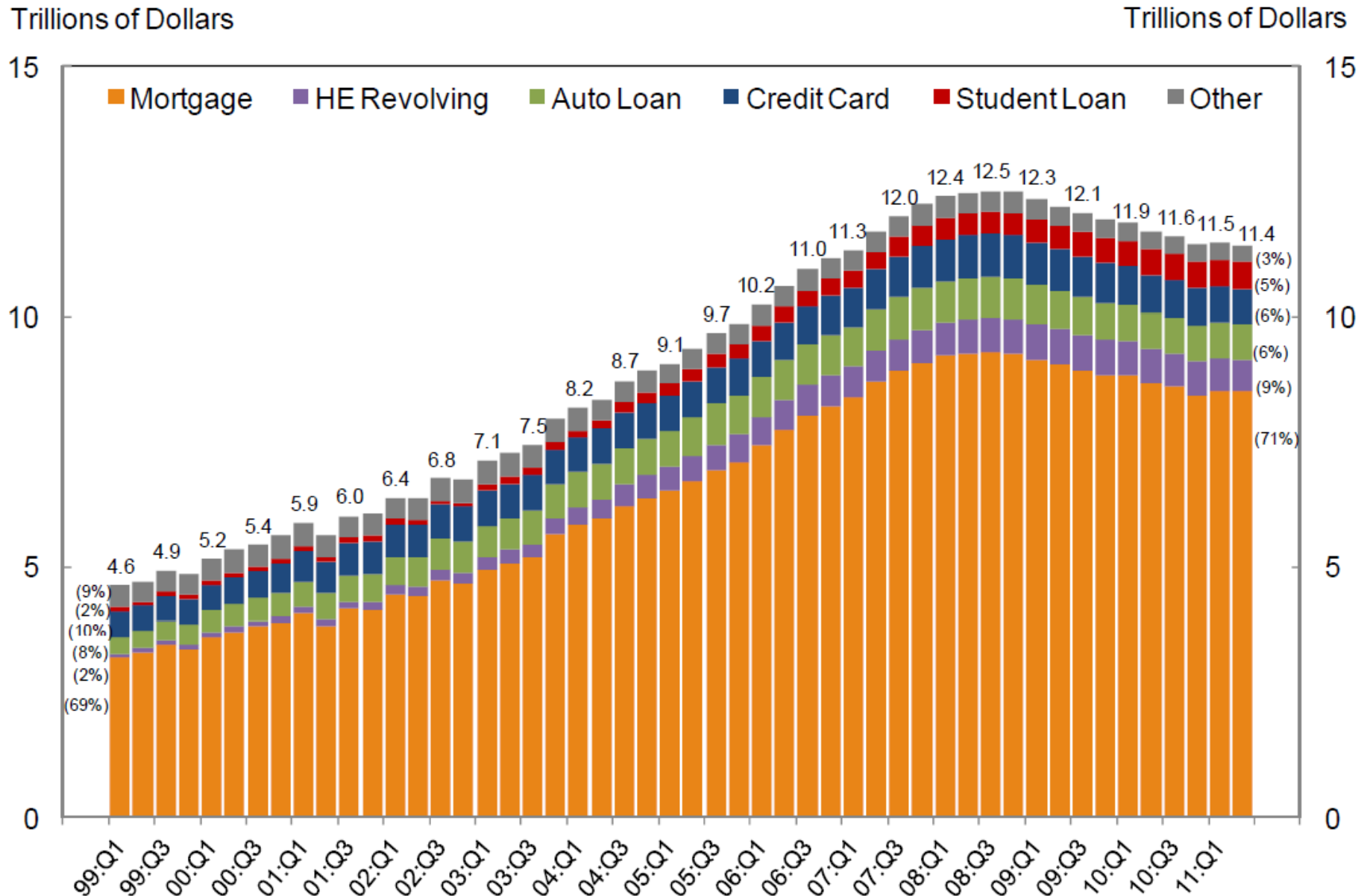
**Consumption, Saving and Debt**

# Ken Rogoff's Thesis: This Time Is Different

- “The Second Great Contraction”
  - Great Depression was the first
  - Pneumonia, not just a cold
- “In a conventional recession, the resumption of growth implies a reasonably brisk return to normalcy. The economy not only regains its lost ground, but, within a year, it typically catches up to its rising long-run trend.”
- “The contraction applies not only to output and employment, as in a normal recession, but to debt and credit, and the **deleveraging** that typically takes many years to complete.”

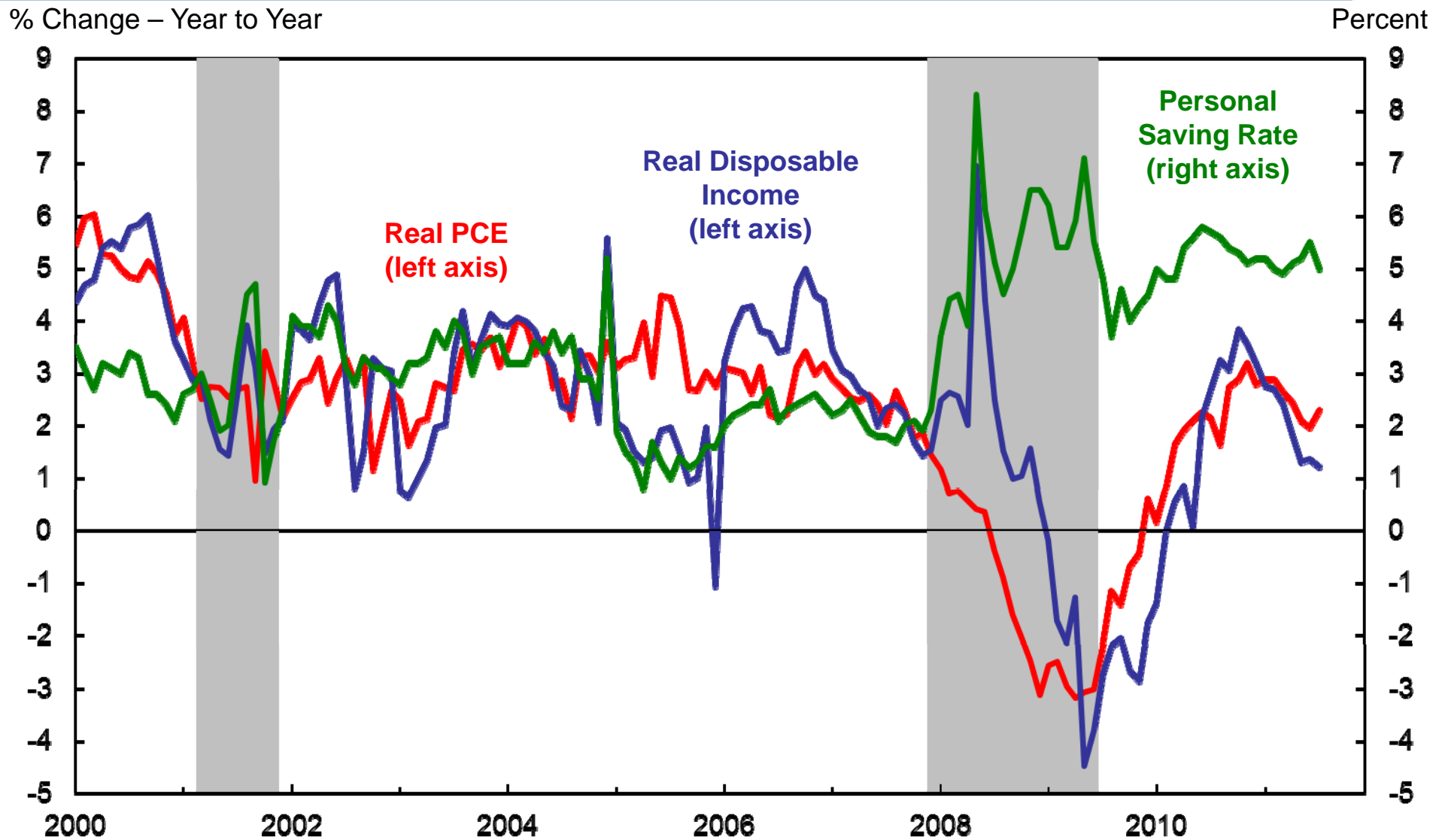


# Household Deleveraging Means...



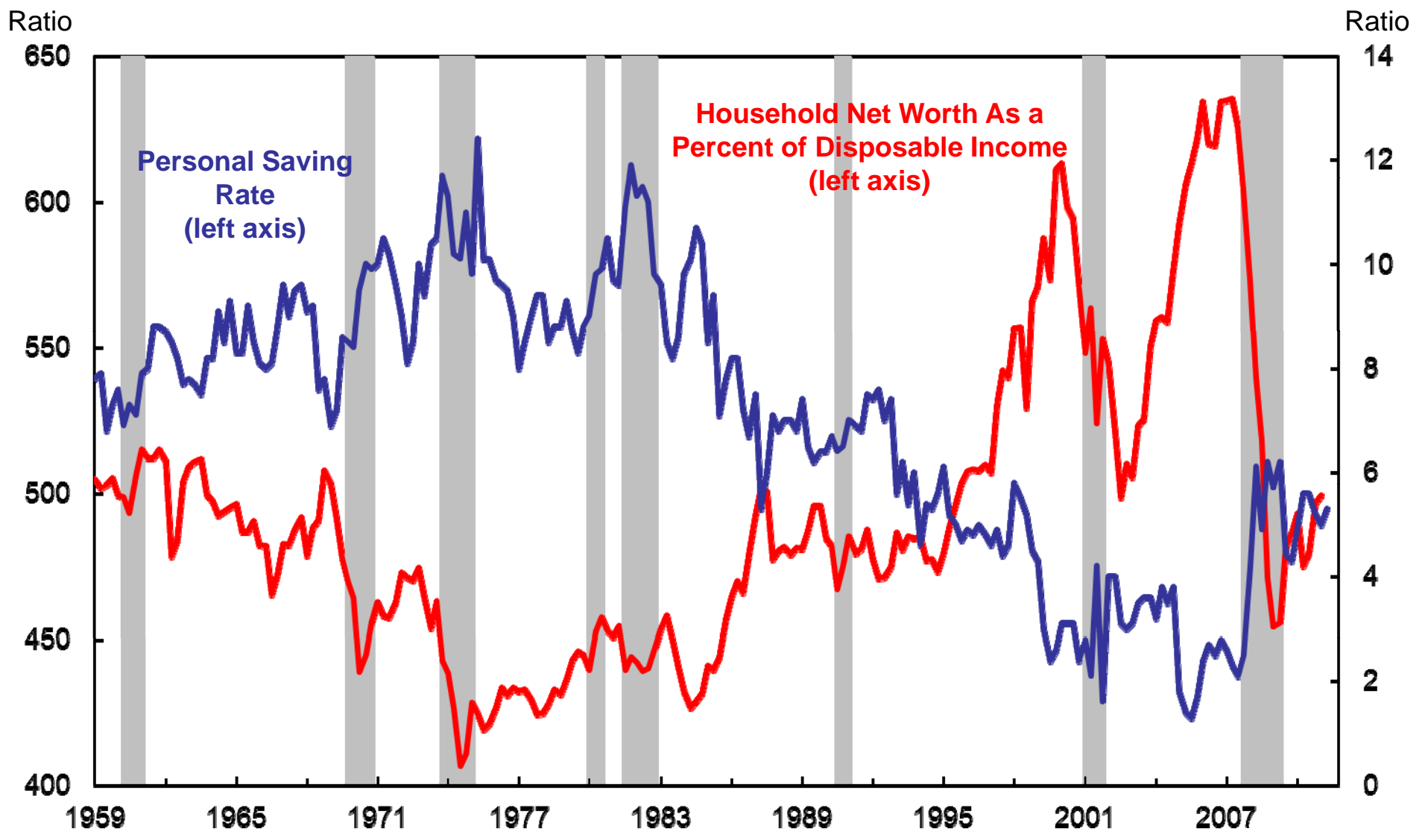
Source: FRBNY Consumer Credit Panel/Equifax

# ...More Saving and Less Consumption



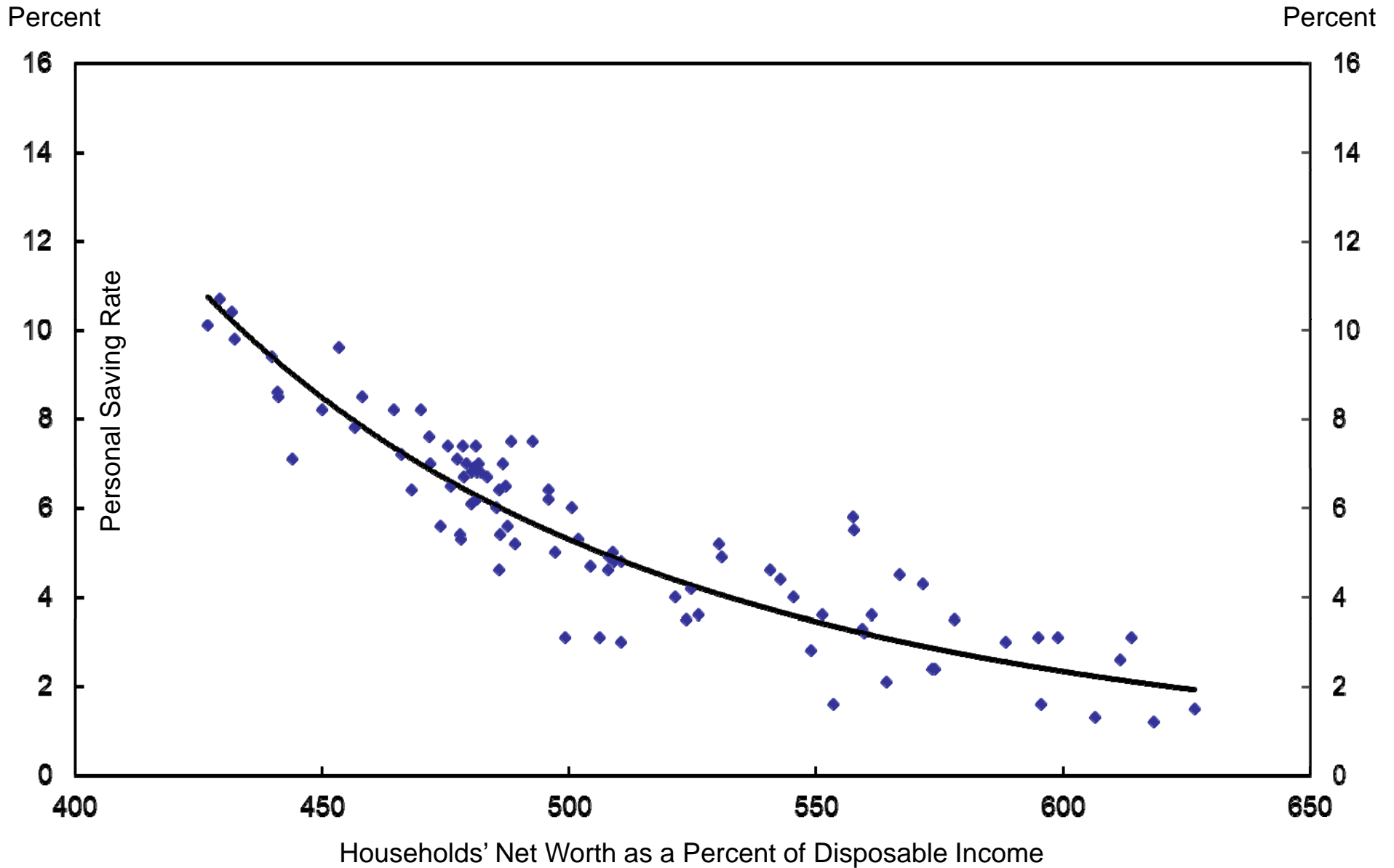
Source: Bureau of Economic Analysis

# Has the Saving Rate Stabilized?



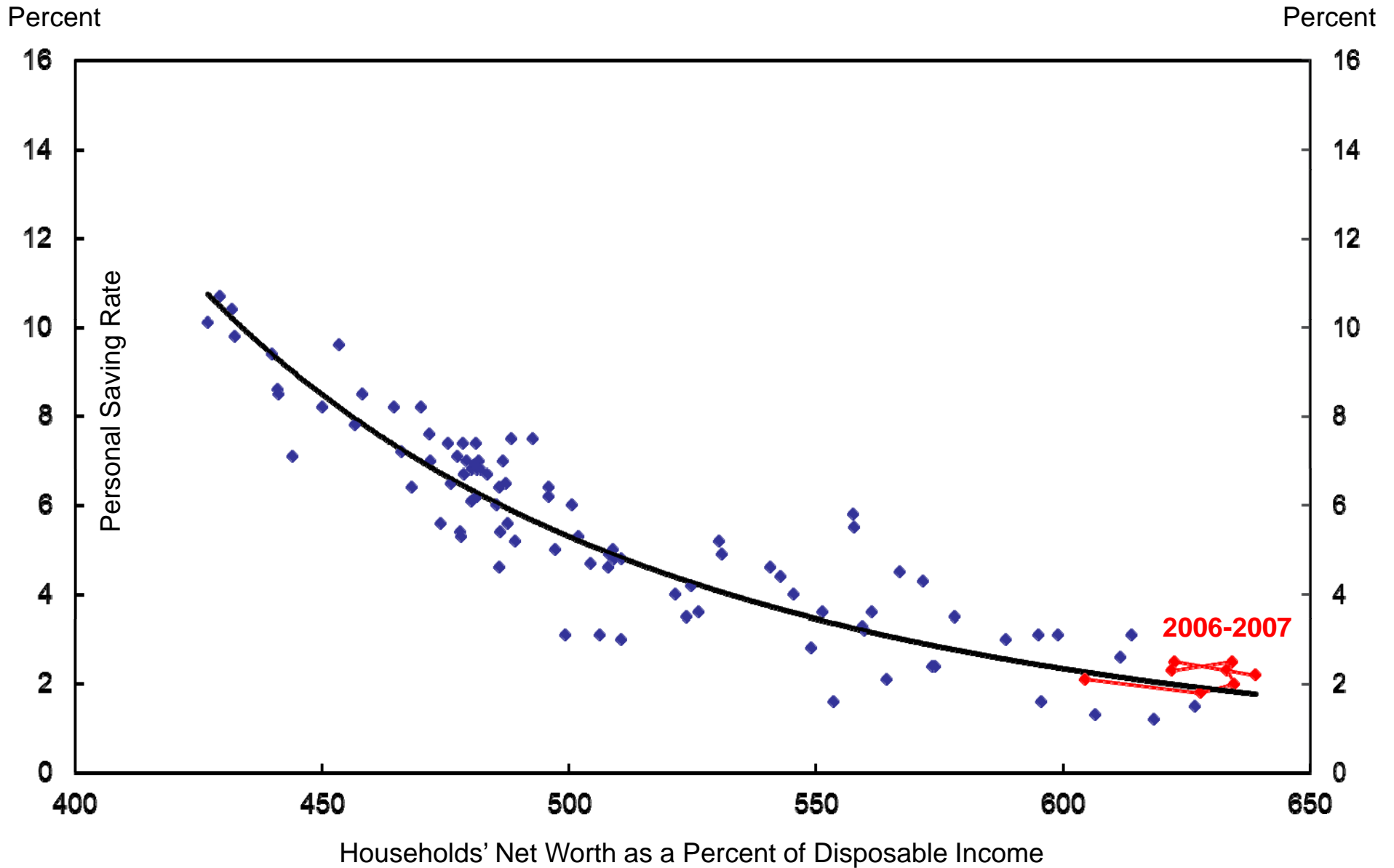
Source: Bureau of Economic Analysis and Federal Reserve Board

# If Households' Net Worth Remains Stable



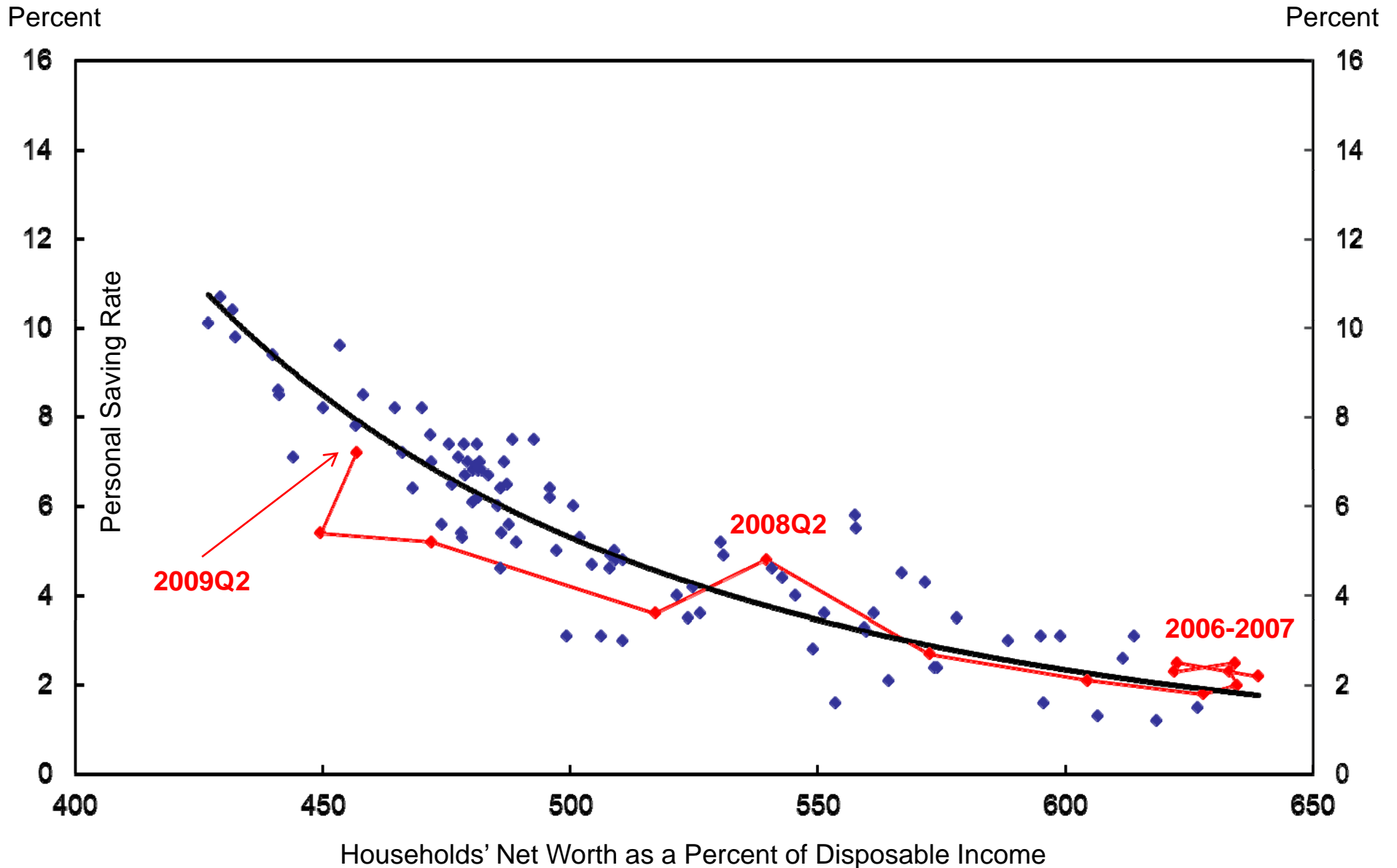
Source: Bureau of Economic Analysis and Federal Reserve Board      Note: Fitted line is from 1983Q1 to 2005Q4.

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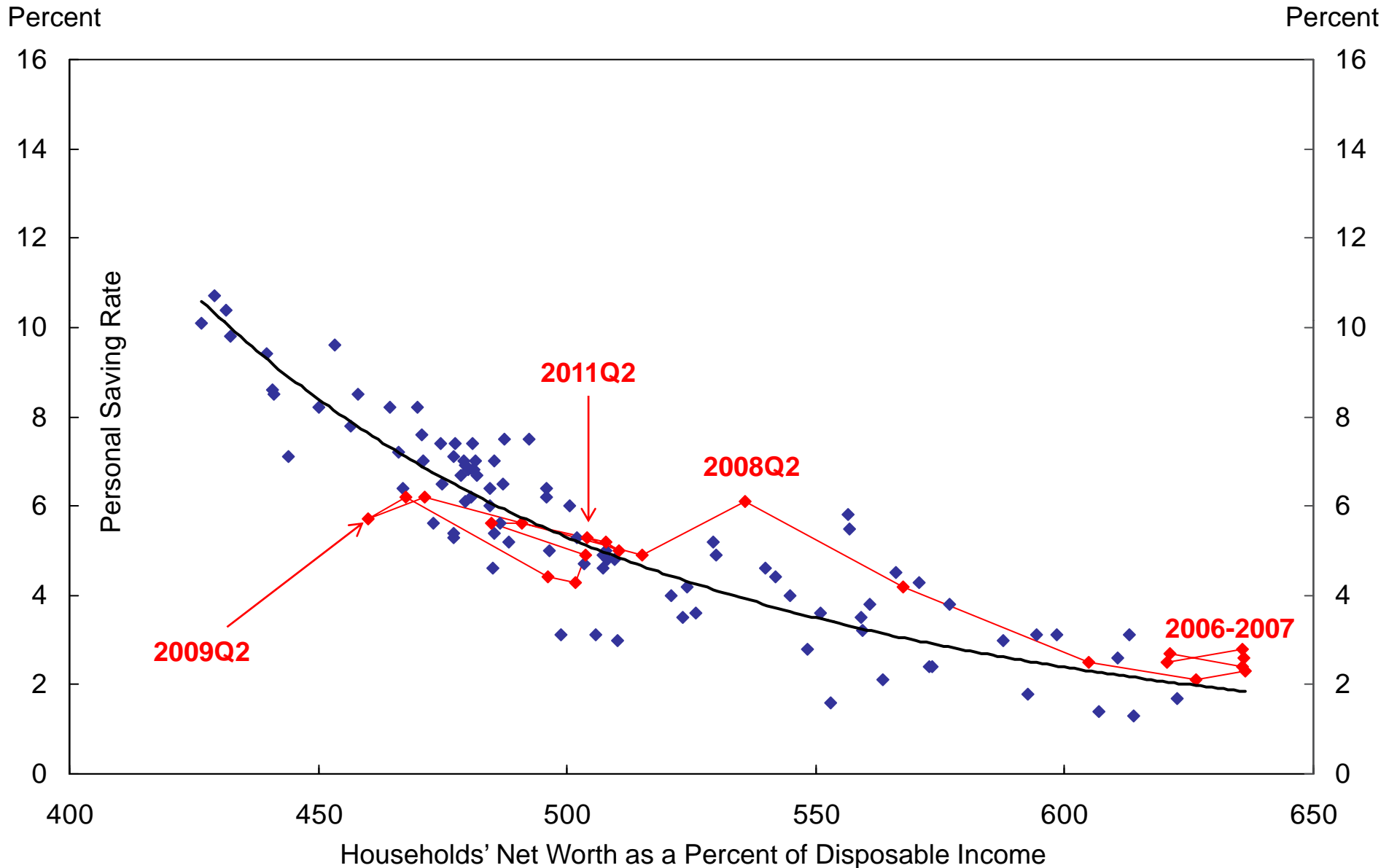
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Source: Bureau of Economic Analysis and Federal Reserve Board Note: Fitted line is from 1983Q1 to 2005Q4.

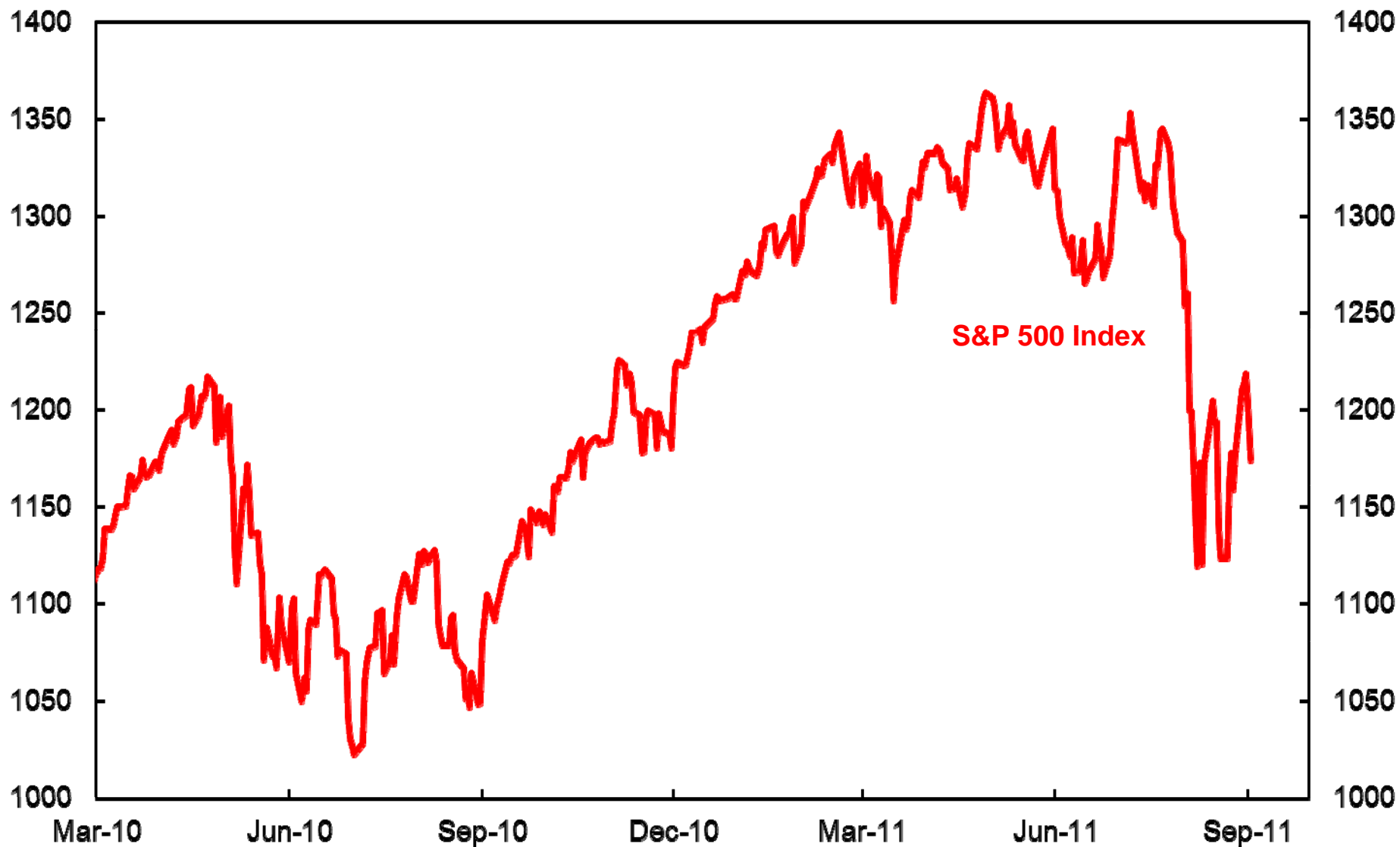


# If Households' Net Worth Remains Stable



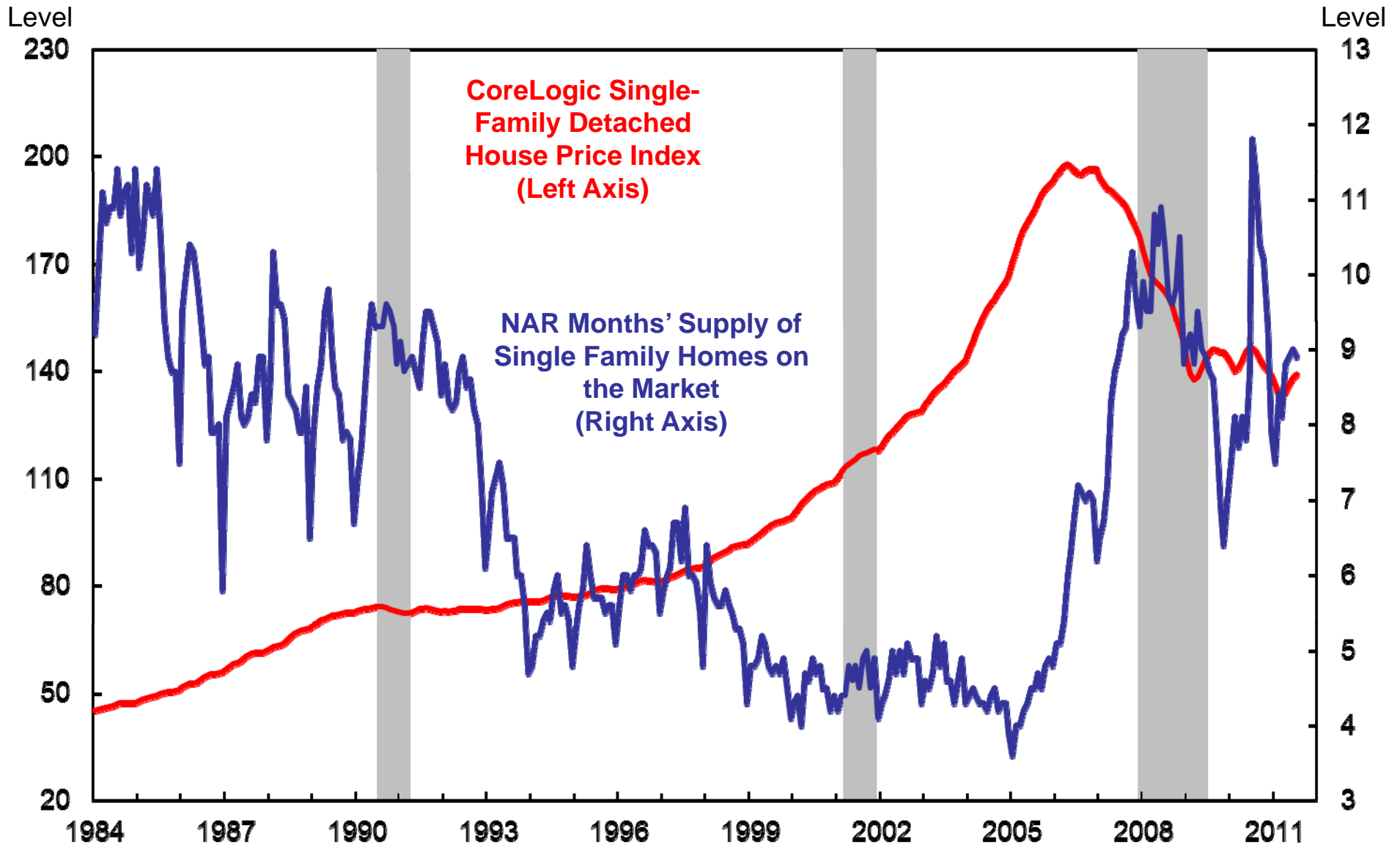
Source: Bureau of Economic Analysis and Federal Reserve Board      Note: Fitted line is from 1983Q1 to 2005Q4.

# The Stock Market is Not Helping Much Lately



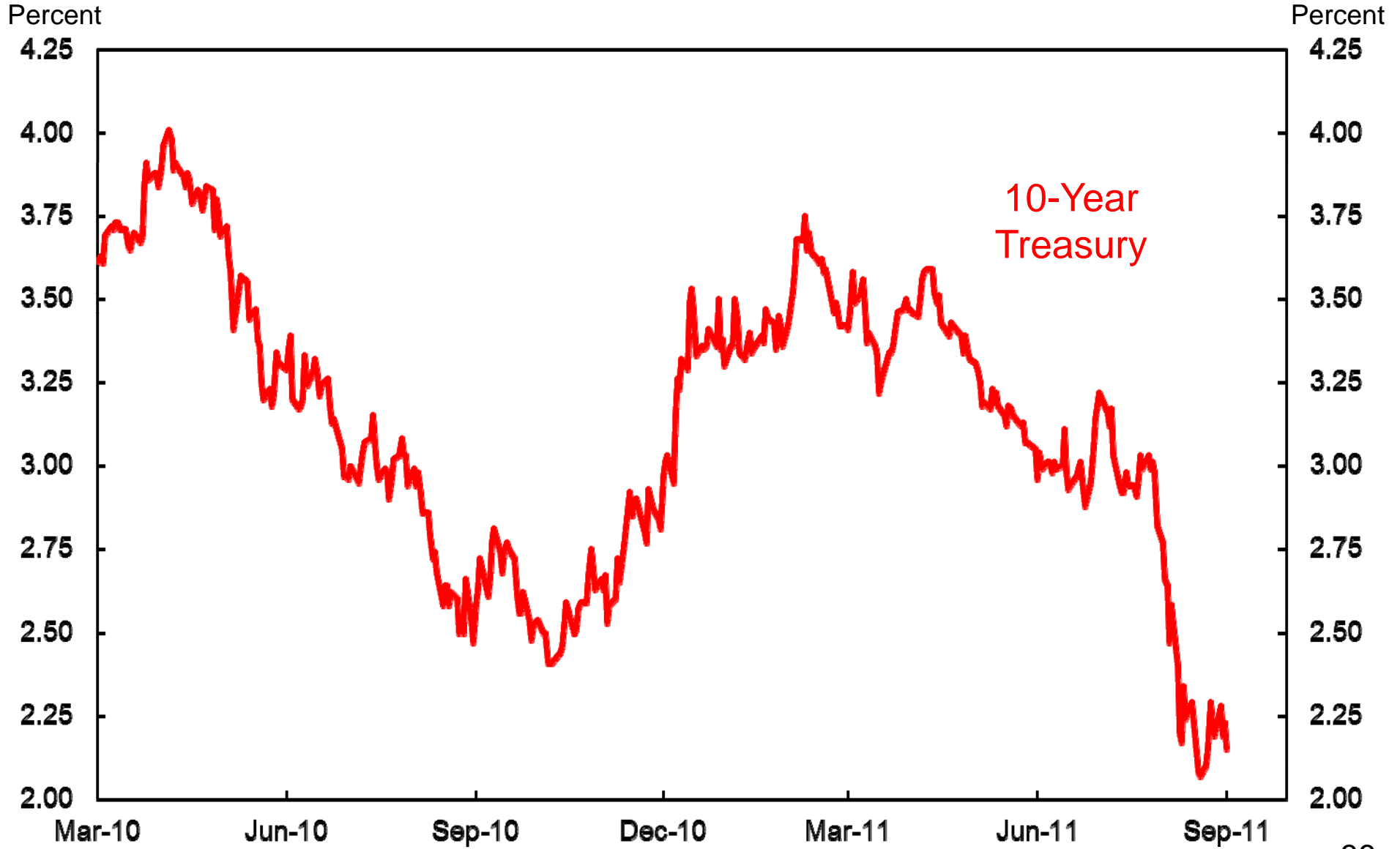
Source: New York Times

# And Neither is Housing



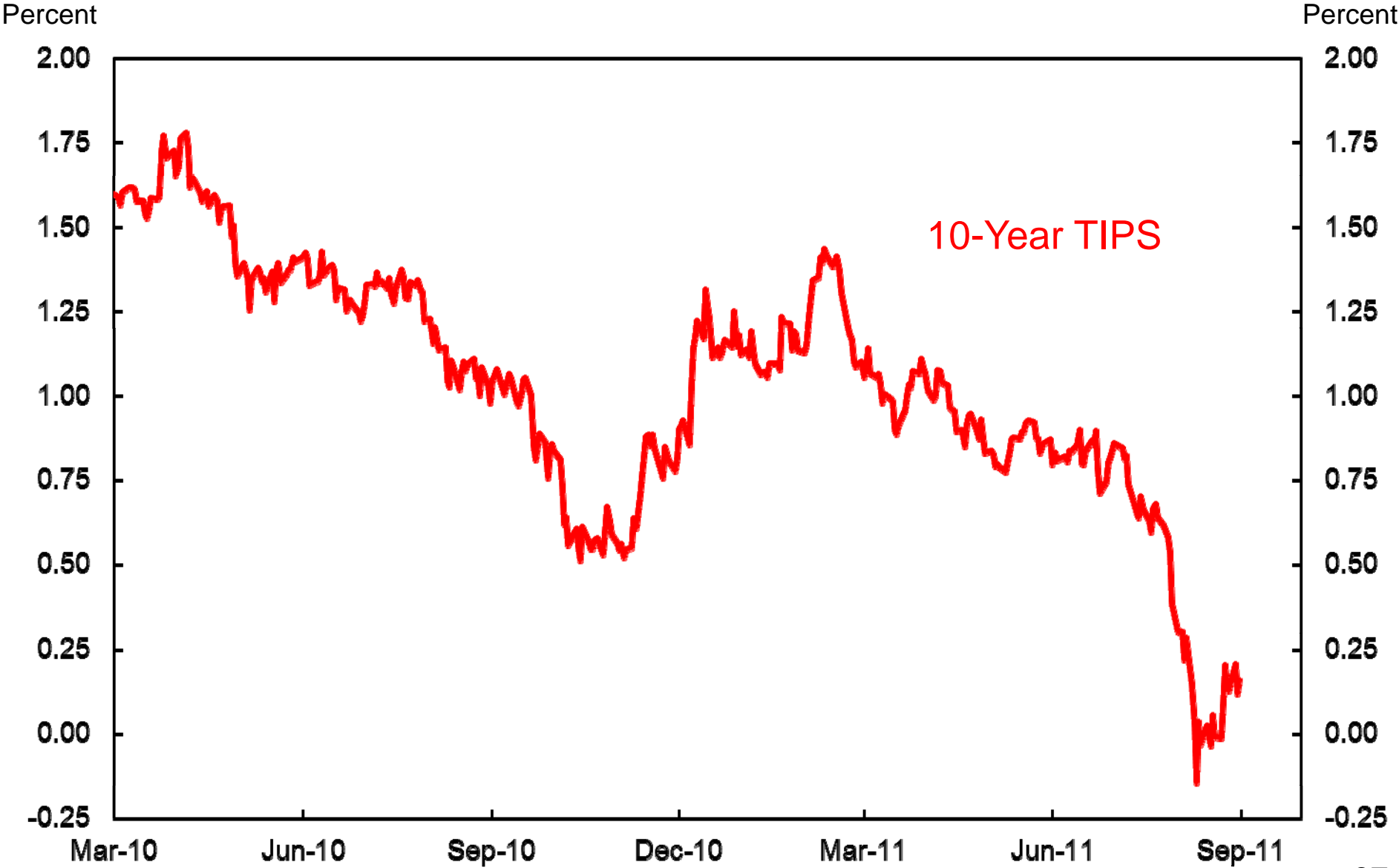
Source: CoreLogic, National Association of Realtors

# Although Nominal Interest Rates Have Moved Down



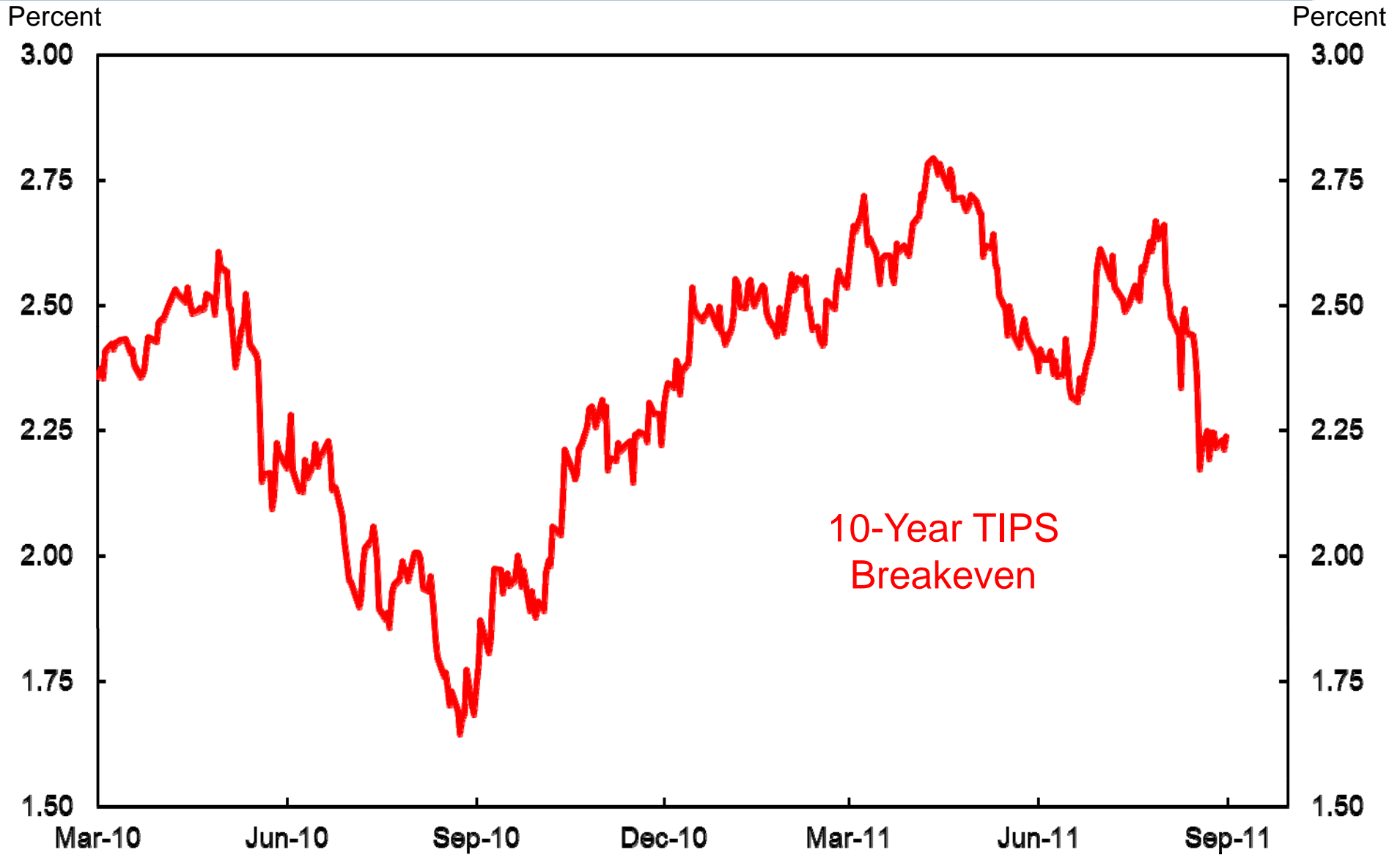
Source: Federal Reserve Board

# Although Down is not Necessarily “Good”



Source: Federal Reserve Board

# Although Down is not Necessarily “Good”



Source: Federal Reserve Board

# Reasons to Worry

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# Reasons to Worry: A Worldwide Slow-down

## Why the global economic recovery is in trouble

September 18, 2011 3:48 pm by Financial Times

*By Eswar Prasad and Karim Foda*

### Brazil's slowdown gets even slower

August 22, 2011 9:30 pm by Samantha Pearson

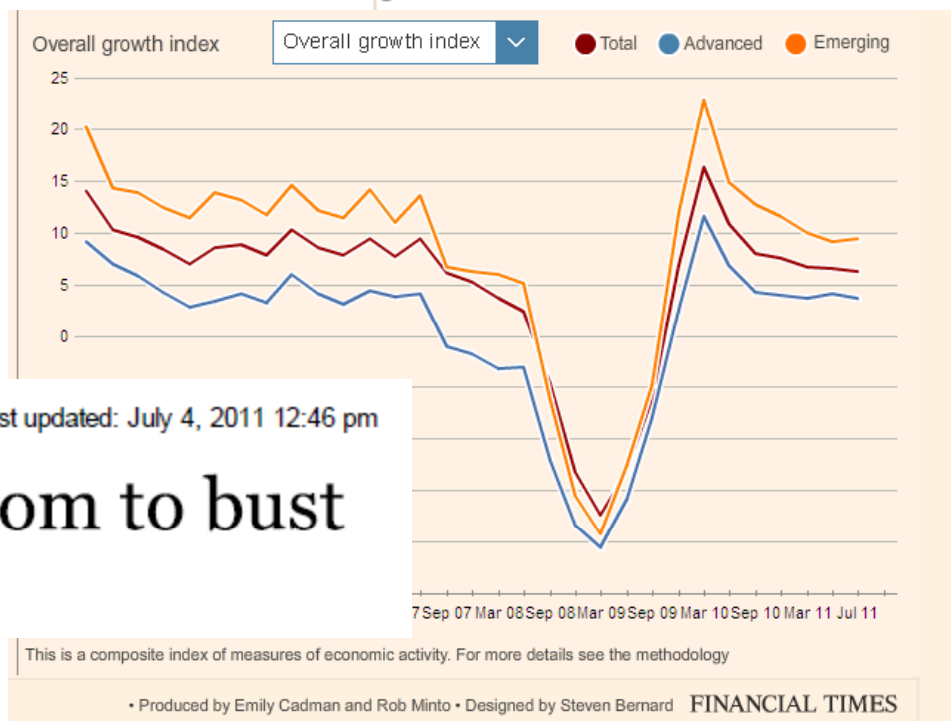
MARKETS INSIGHT

### Brazil risks tumbling from boom to bust

By Paul Marshall and Amit Rajpal

# Bloomberg

## China Growth Forecasts Trimmed by IMF as Worldwide Export Demand Softens





# Reasons to Worry: Greece as the New Lehman?

## FINANCIAL TIMES

GLOBAL INSIGHT

September 20, 2011 7:11 pm

### Eurozone crisis has making of horror sequel

Rising government credit risks, including Tuesday's Italy downgrade, shaky asset markets, weakening growth: the makers of the horror movie of 2008 are clearly contemplating a sequel – "Lehman Brothers II: This Time It's Sovereign".



September 21, 2011 2:14 pm

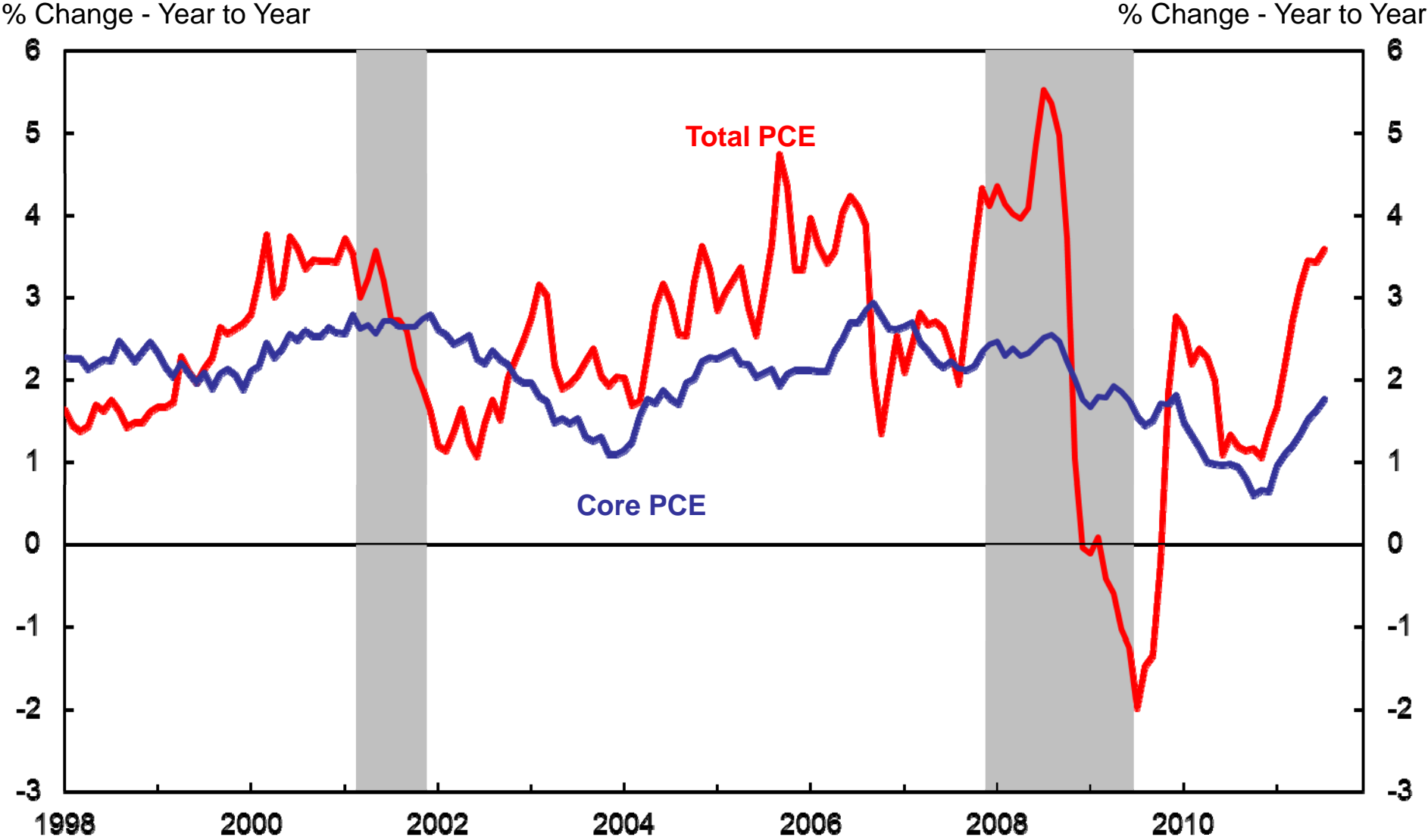
### IMF warns on global financial system

Political and sovereign debt turmoil in Europe and the US have thrown the recovery in the global financial system into reverse for the first time since the depths of the crisis in 2008, according to the International Monetary Fund.



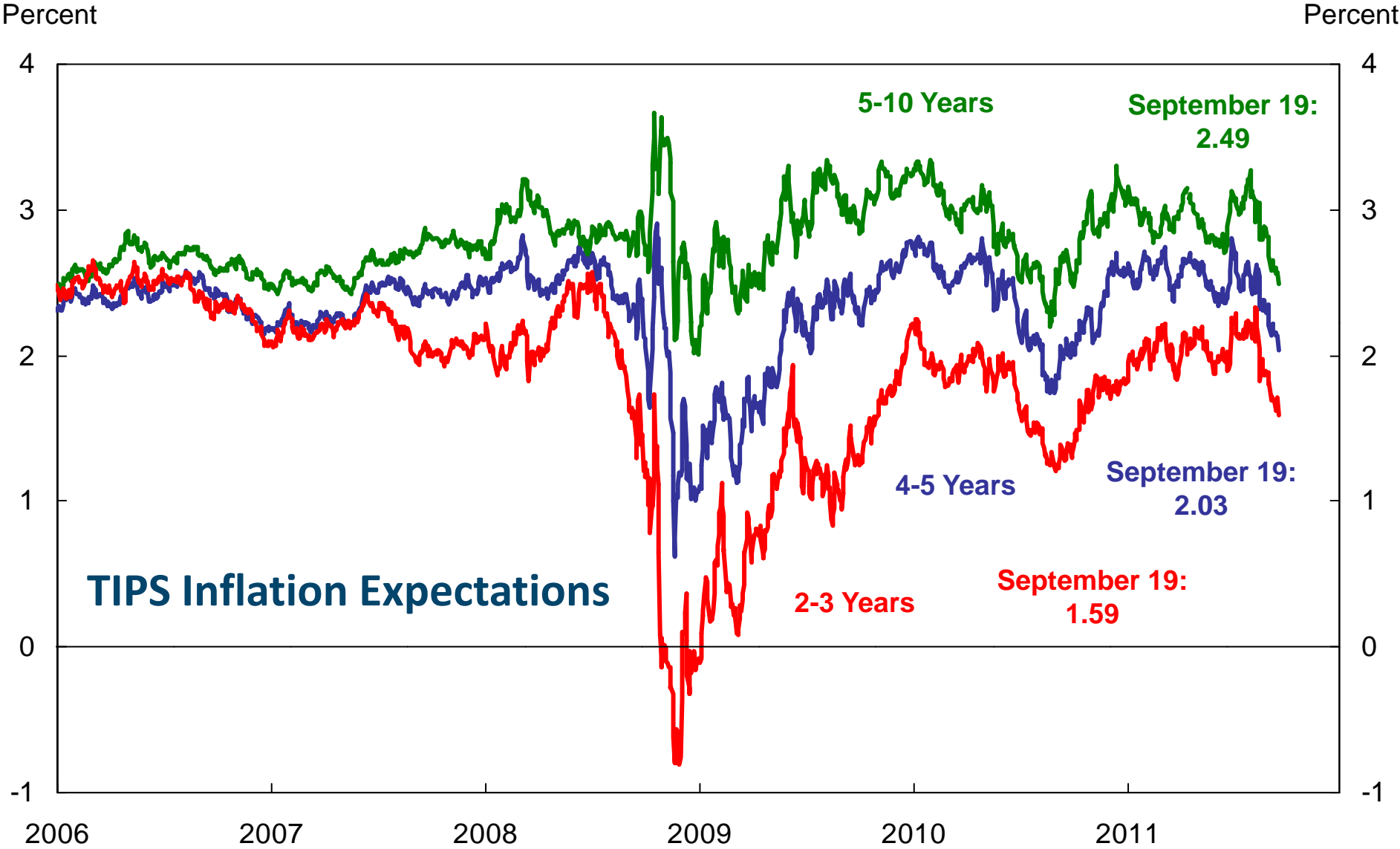
The report adds to a rising chorus of alarm this week from around the world that the slow and uncertain resolution of the Greek sovereign debt crisis risks spilling over into a serious global economic dislocation.

# In All of This, Inflation Remains Contained



Source: Bureau of Economic Analysis

# While Inflation Expectations Have Been Declining



Source: Federal Reserve Board

Note: Carry-adjusted.

## In the FOMC's Own Words (September 21, 2011)

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- Information received since the Federal Open Market Committee met in August indicates that **economic growth remains slow**. Recent indicators point to continuing **weakness in overall labor market conditions**, and the unemployment rate **remains elevated**. **Household spending** has been increasing at only a **modest pace** in recent months despite some recovery in sales of motor vehicles as supply-chain disruptions eased. **Investment in nonresidential structures** is still **weak**, and the **housing sector** remains **depressed**. However, **business investment in equipment and software** continues to **expand**. **Inflation** appears to have moderated since earlier in the year as prices of energy and some commodities have declined from their peaks. Longer-term **inflation expectations** have remained stable.
- Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee continues to **expect some pickup in the pace of recovery** over coming quarters but anticipates that the **unemployment rate will decline only gradually** toward levels that the Committee judges to be consistent with its dual mandate. Moreover, there are **significant downside risks** to the economic outlook, **including strains in global financial markets**. The Committee also anticipates that **inflation will settle**, over coming quarters, **at levels at or below those consistent with the Committee's dual mandate** as the effects of past energy and other commodity price increases dissipate further. However, the Committee will continue to pay close attention to the evolution of inflation and inflation expectations.