

Understanding the Current Recession



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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?

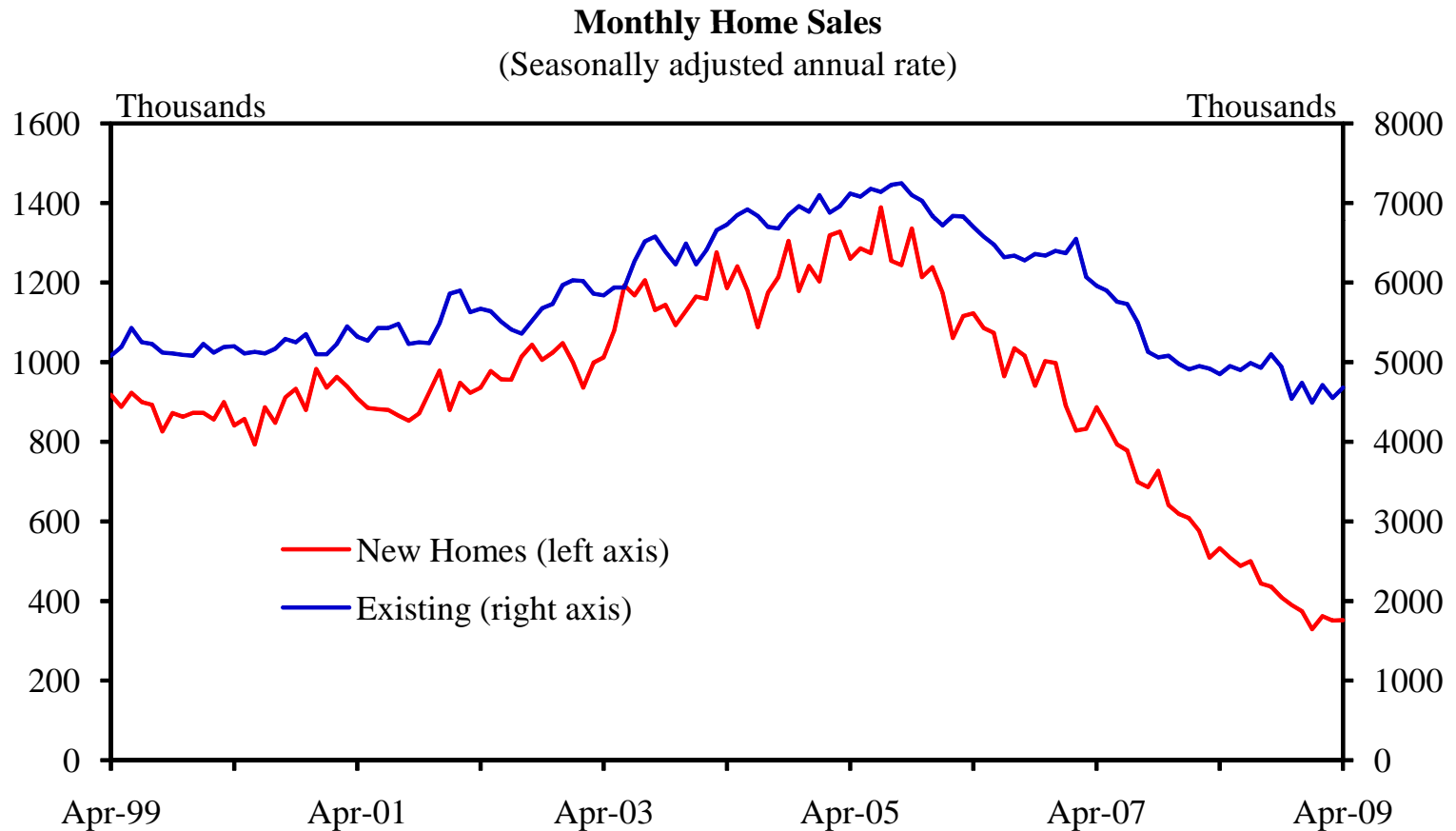




Housing and Construction Activity



Home sales have fallen sharply since late 2005.

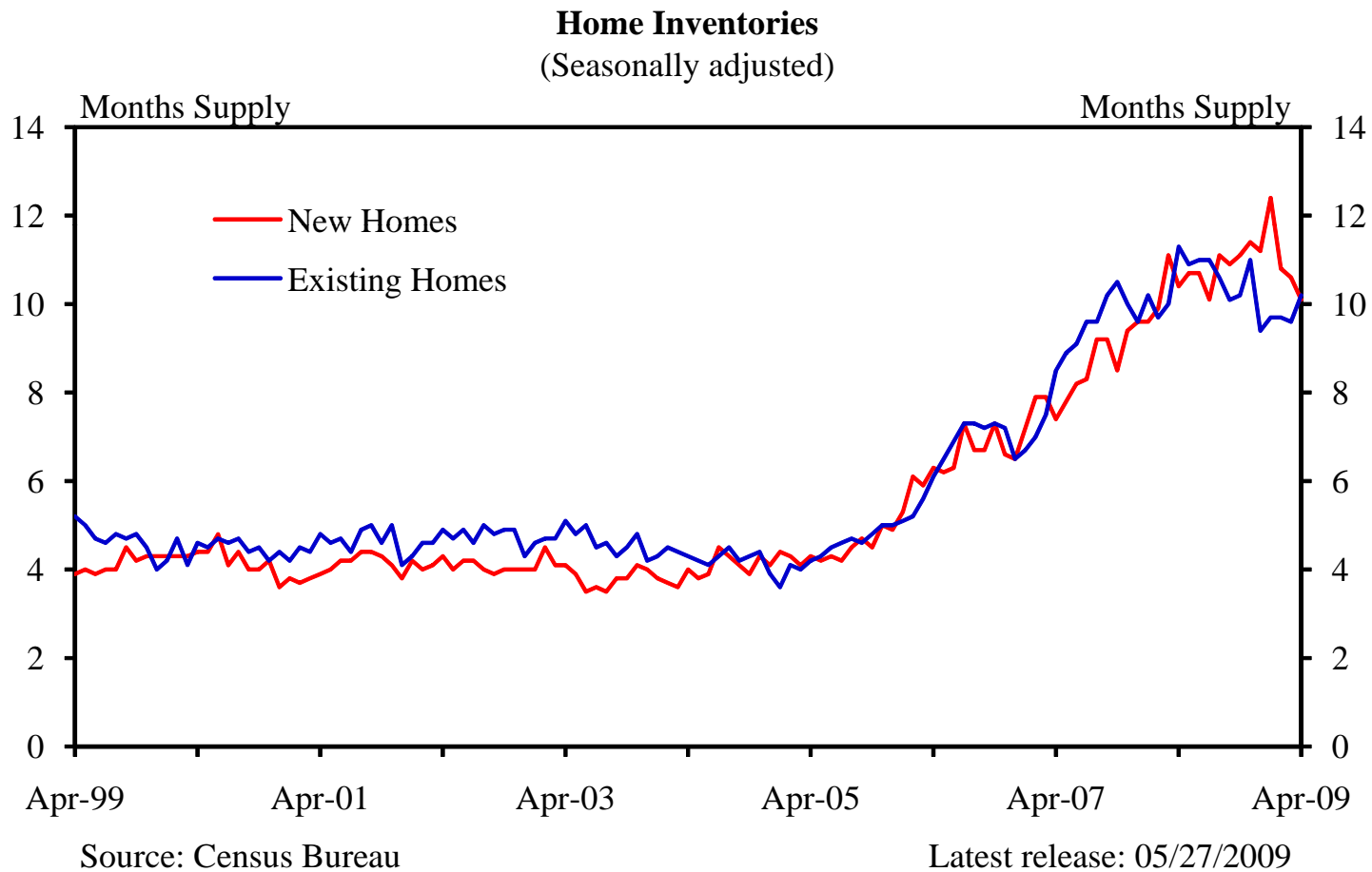


Source: Census Bureau and NAR

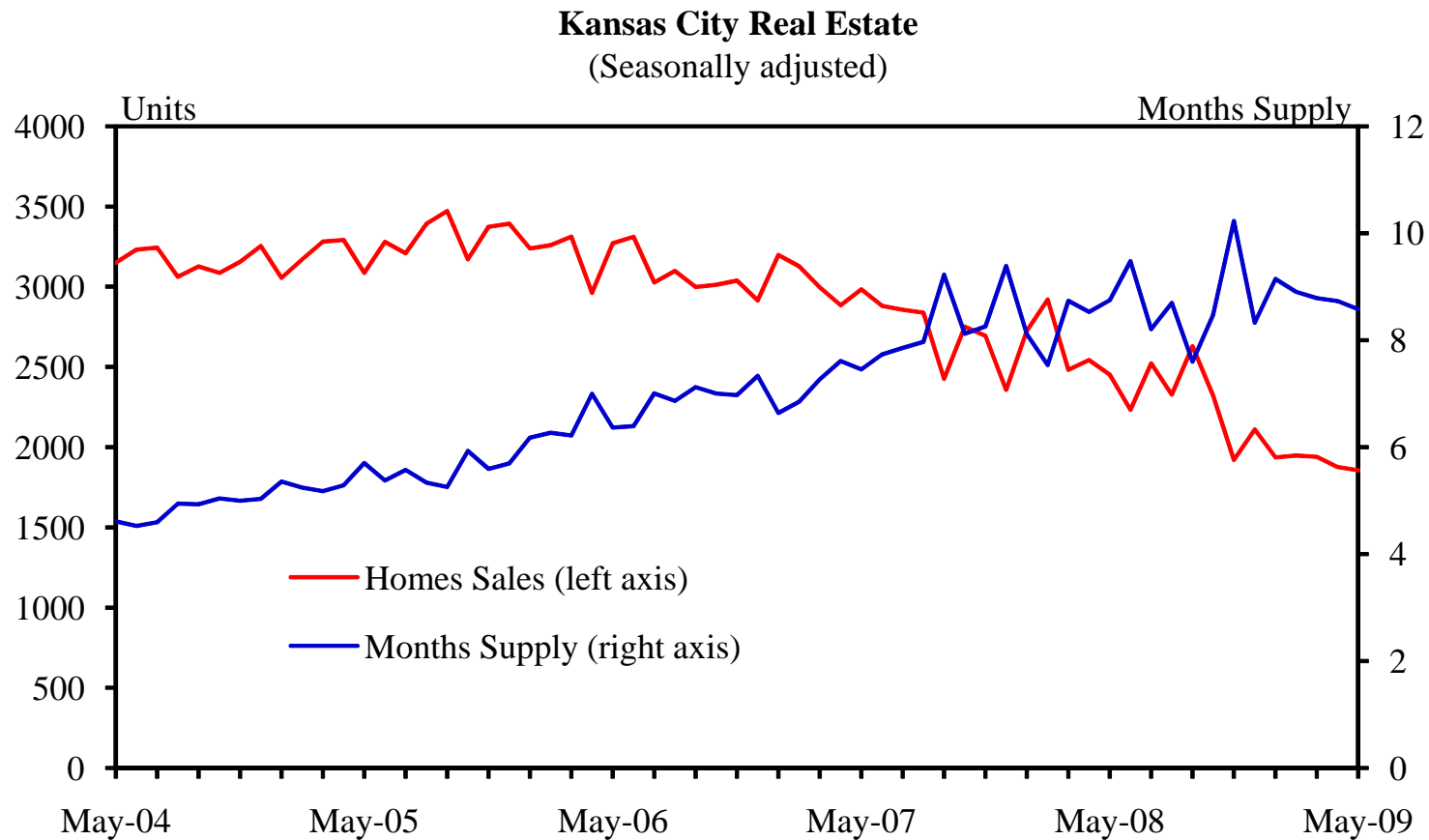
Latest release: 05/27/2009



Home inventory levels remain elevated.



Homes sales are down, and the months supply of homes is up in Kansas City.

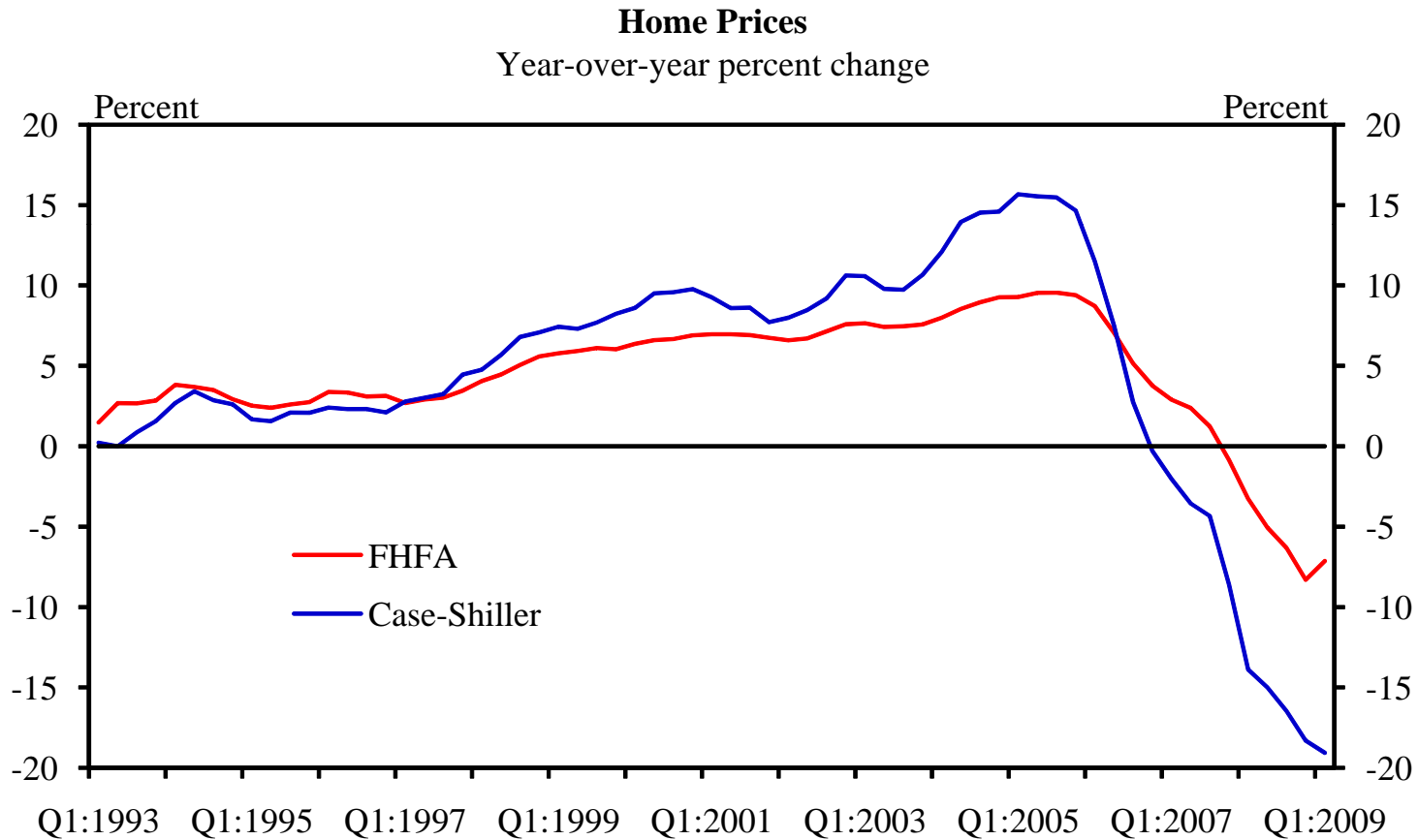


Source: KC Regional Association of Realtors

Latest release: 06/16/2009



Home prices are well below year-ago levels.

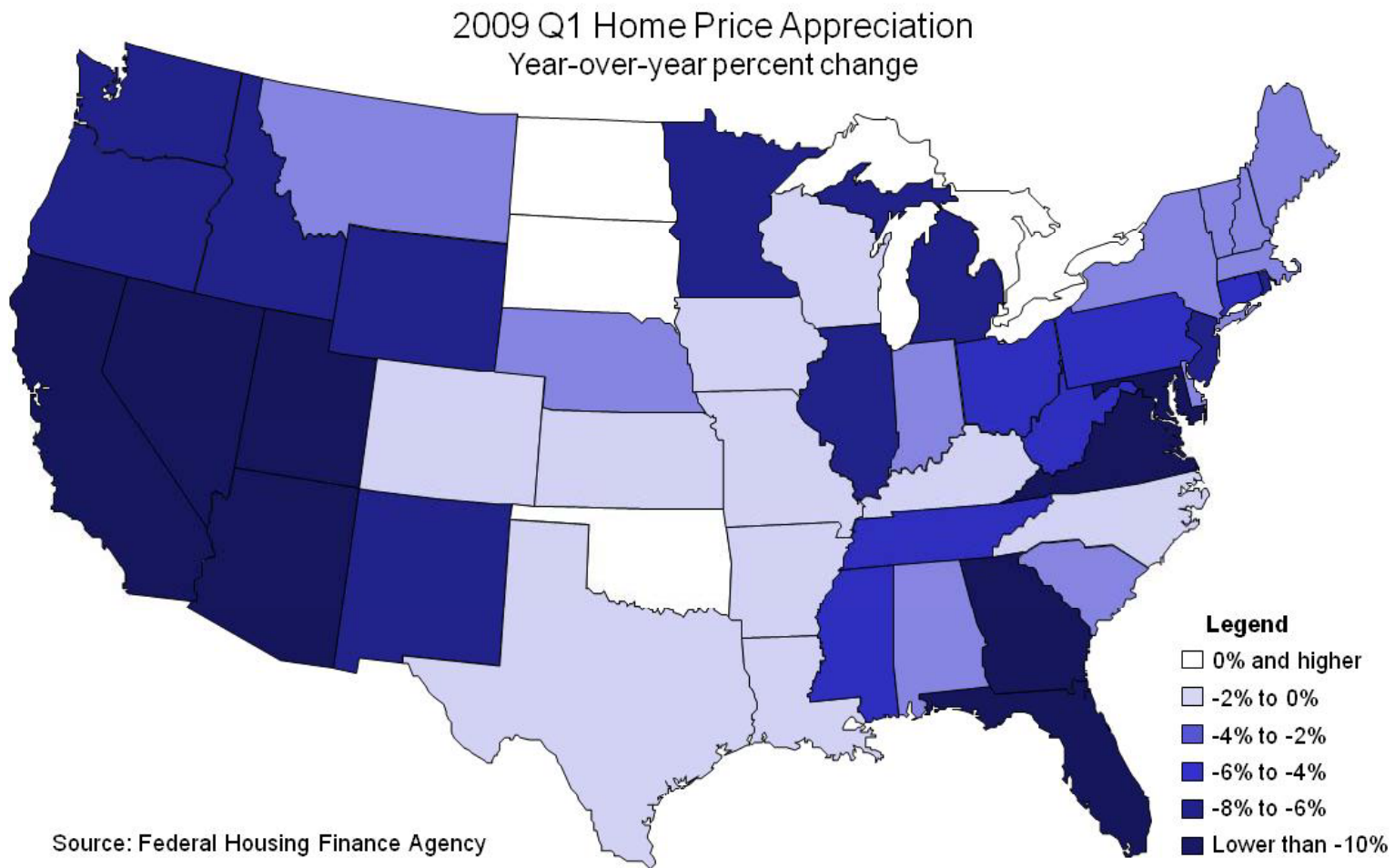


Source: Federal Housing Finance Agency and S&P

Latest release: 05/27/2009



Home price appreciation has varied widely across the nation.

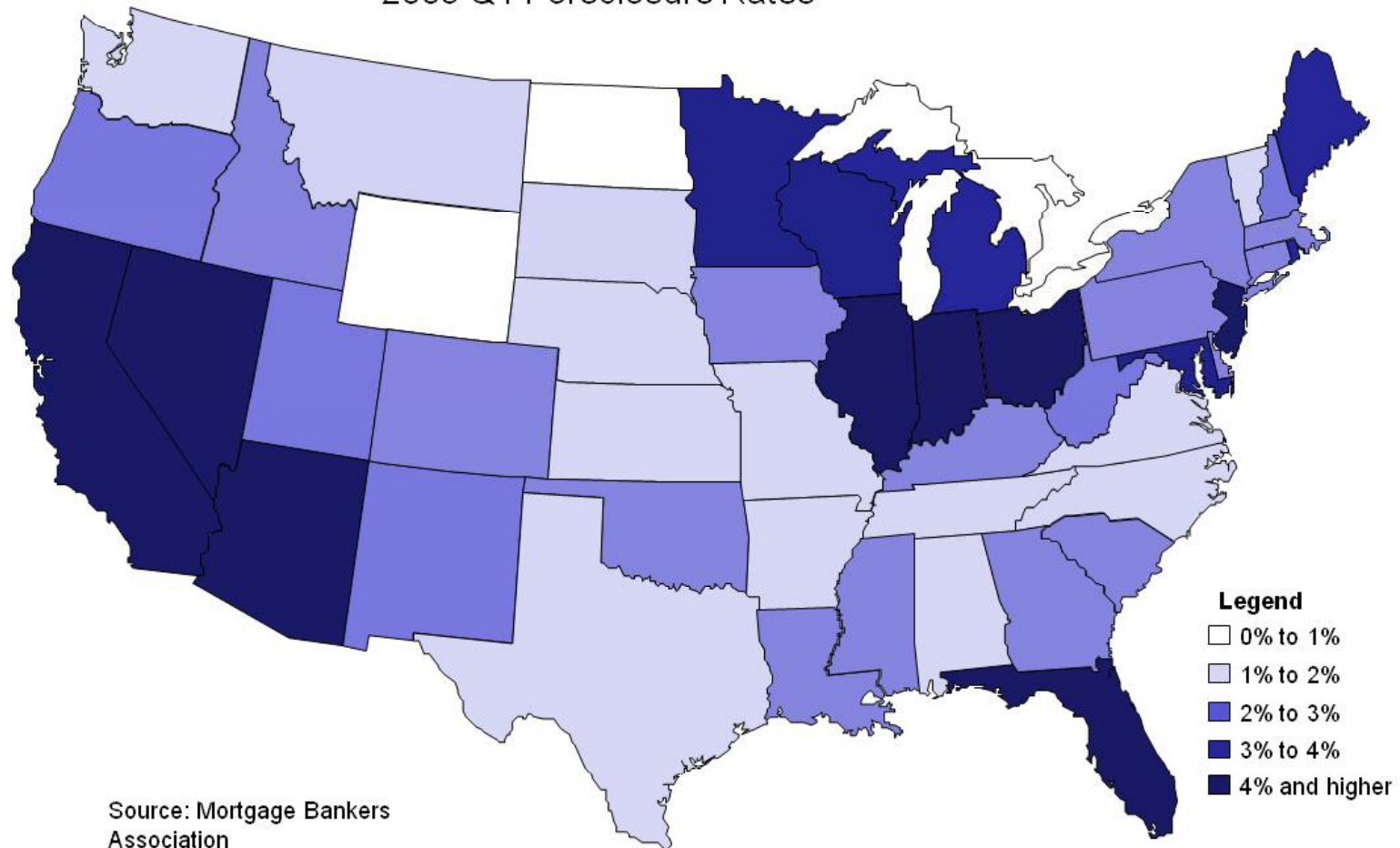


Source: Federal Housing Finance Agency



Foreclosure rates are up across the nation, but regional variation persists.

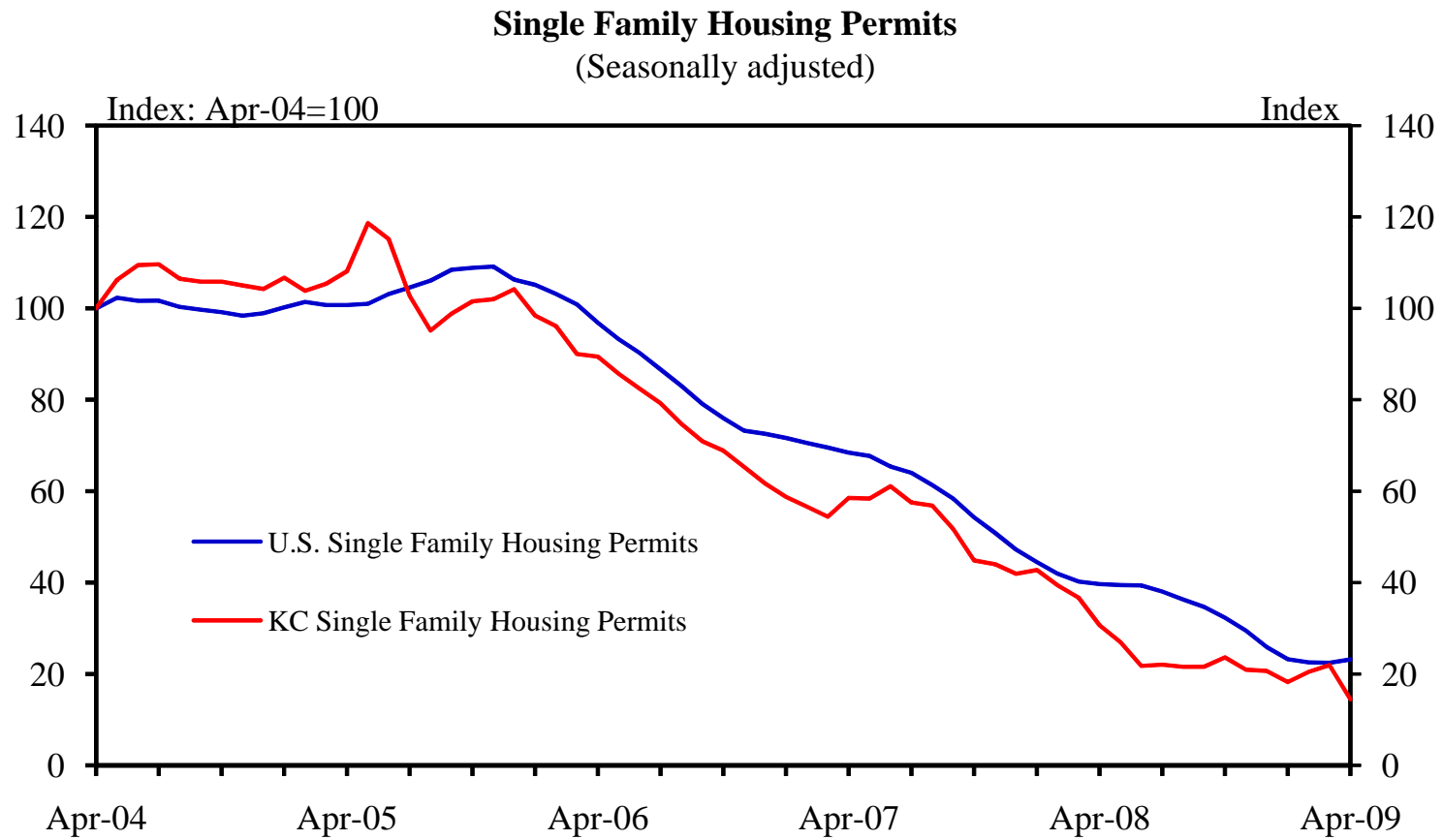
2009 Q1 Foreclosure Rates



Source: Mortgage Bankers Association



Residential construction has slowed dramatically.

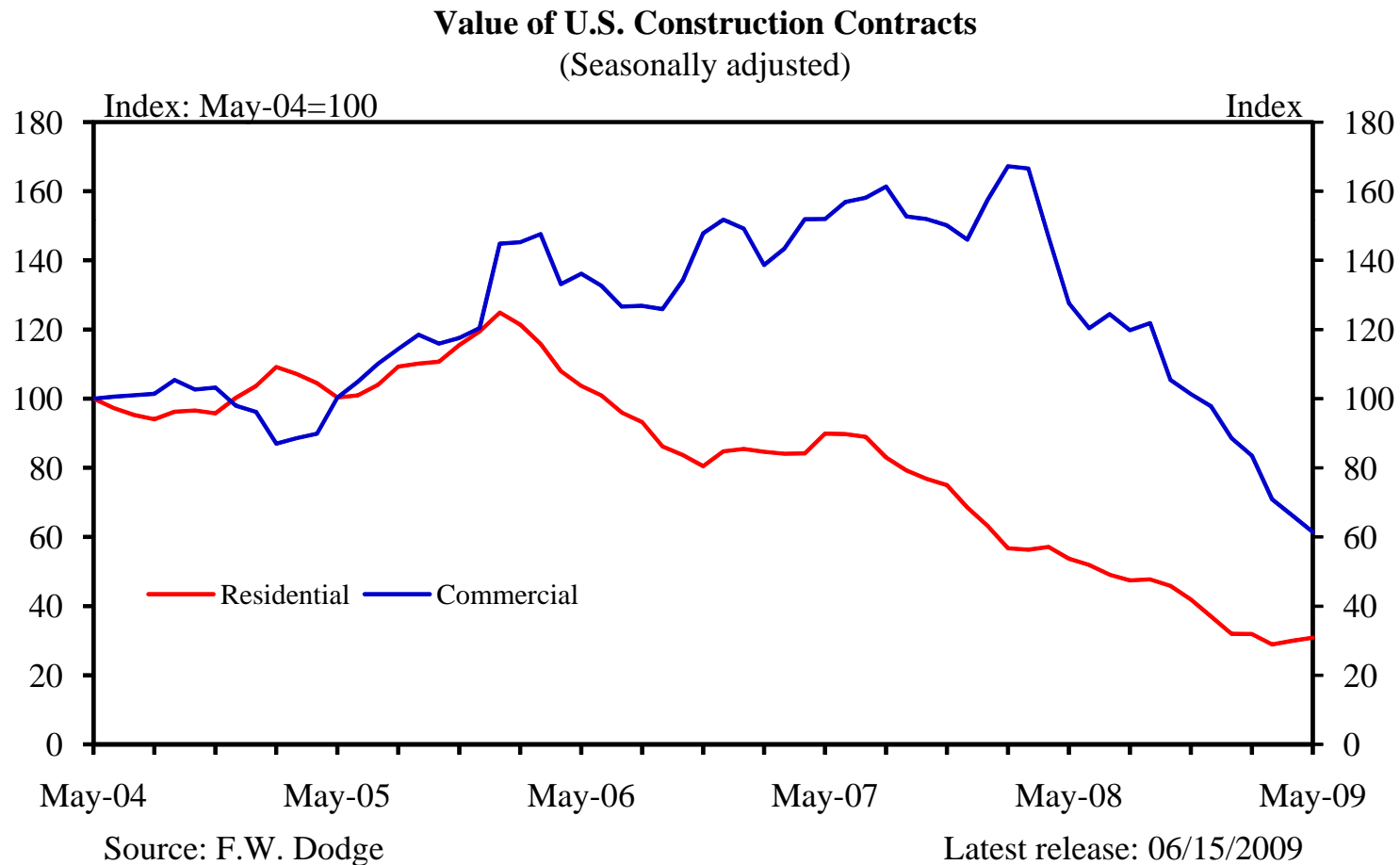


Source: Census Bureau

Latest release: 05/27/2009



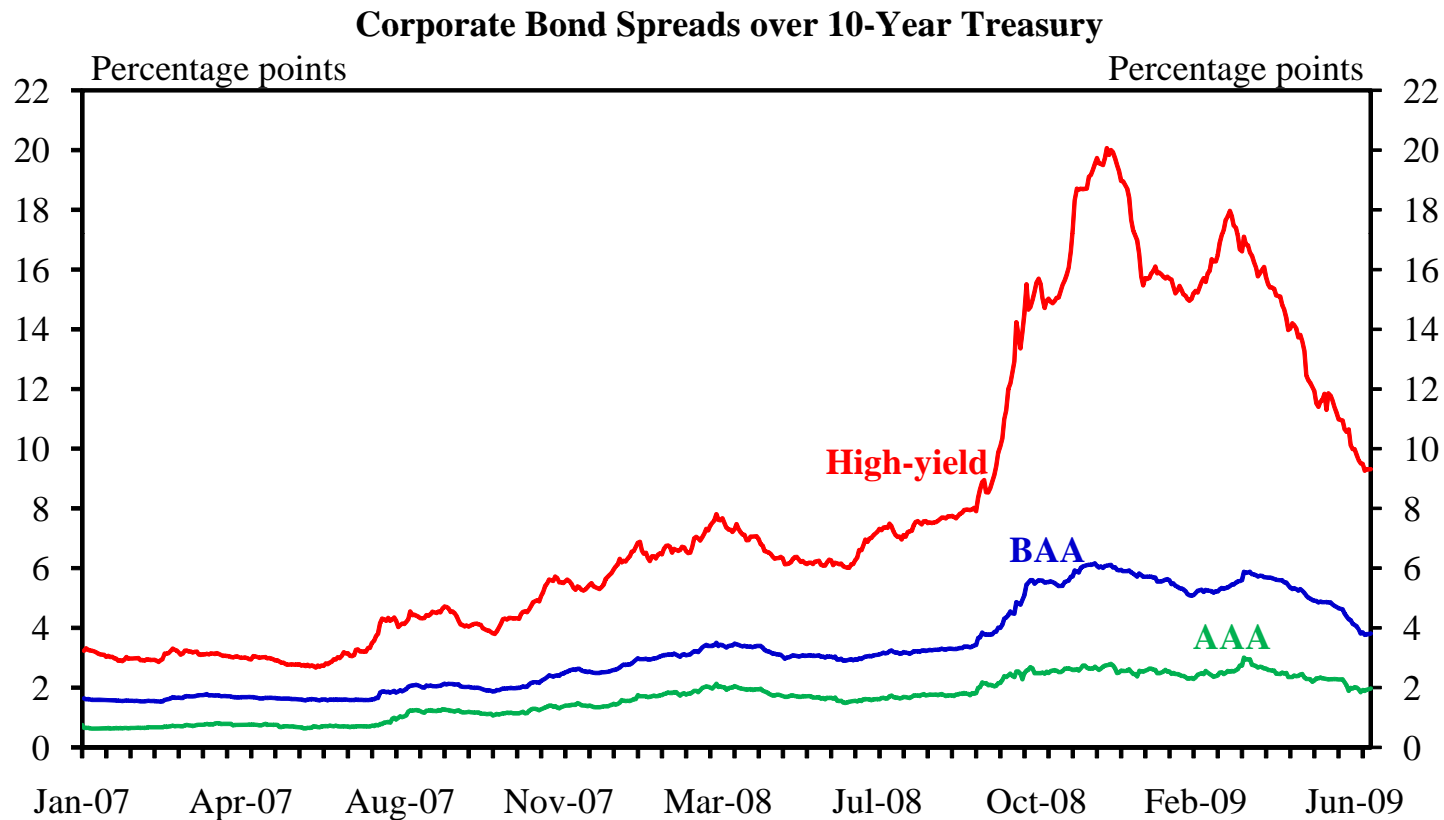
The slowdown in commercial construction followed the decline in residential construction.



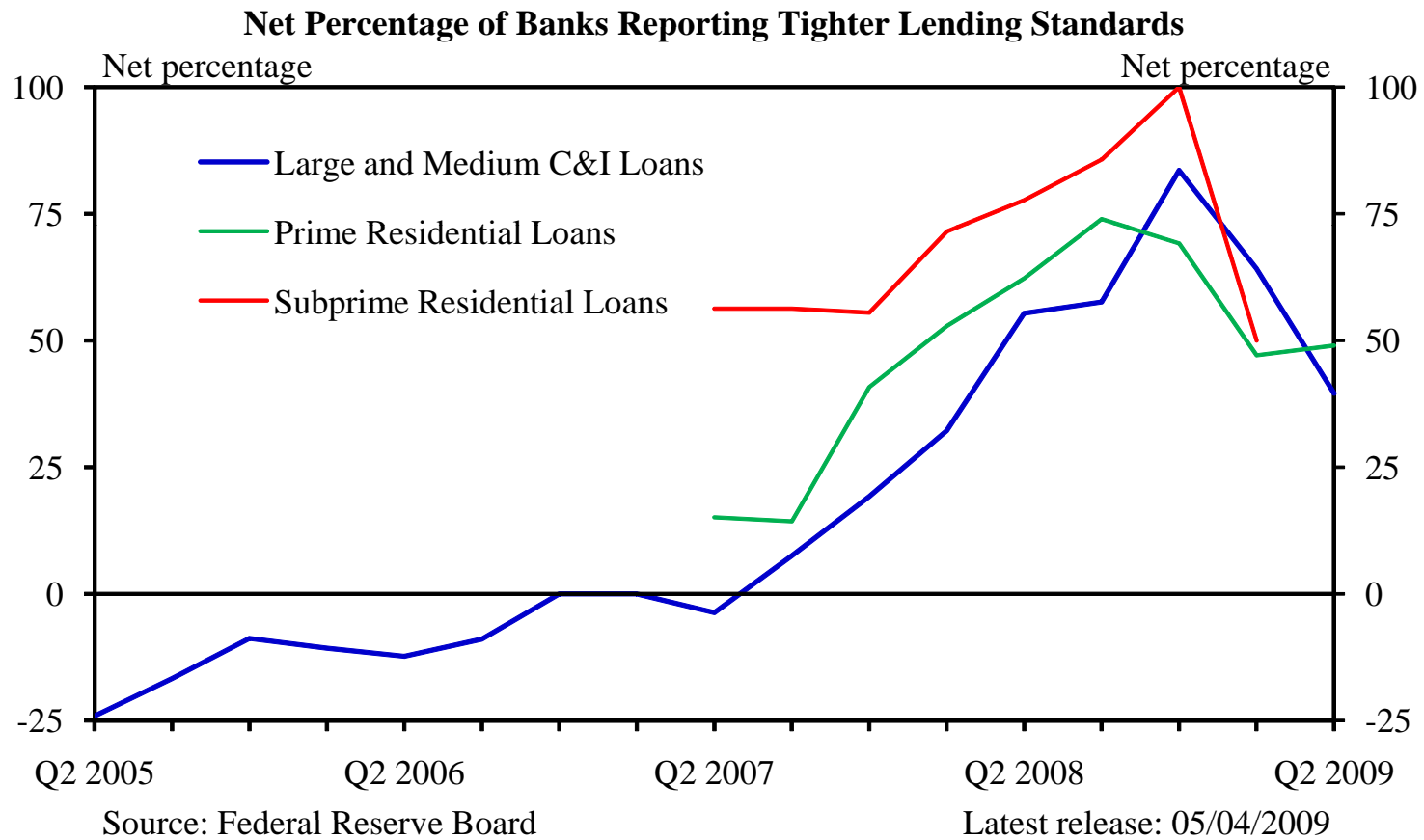
Financial Markets



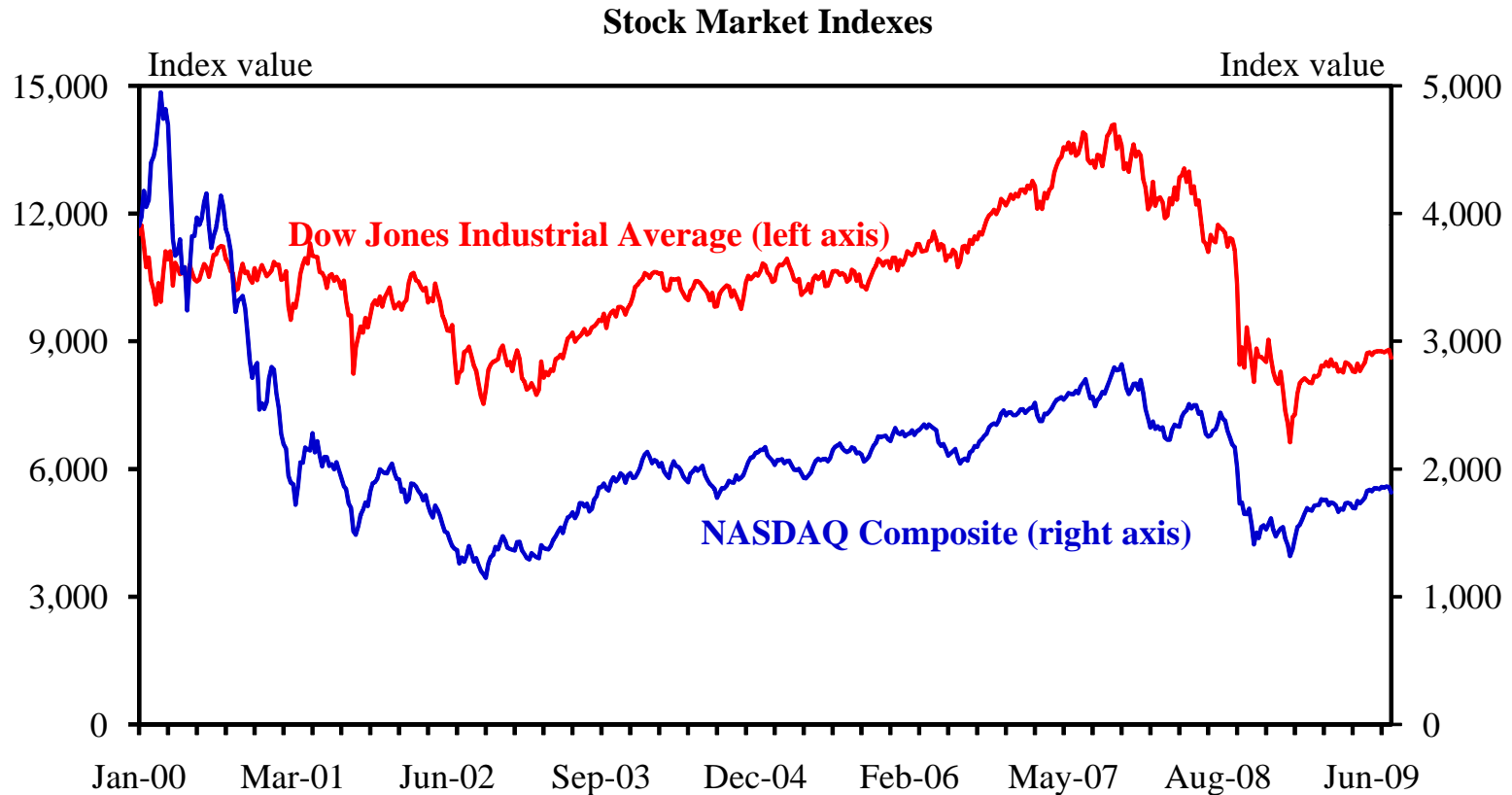
Credit conditions are improving but remain stressed.



Banks have tightened lending standards.



Stock prices have fallen substantially but have rebounded over the past three months.



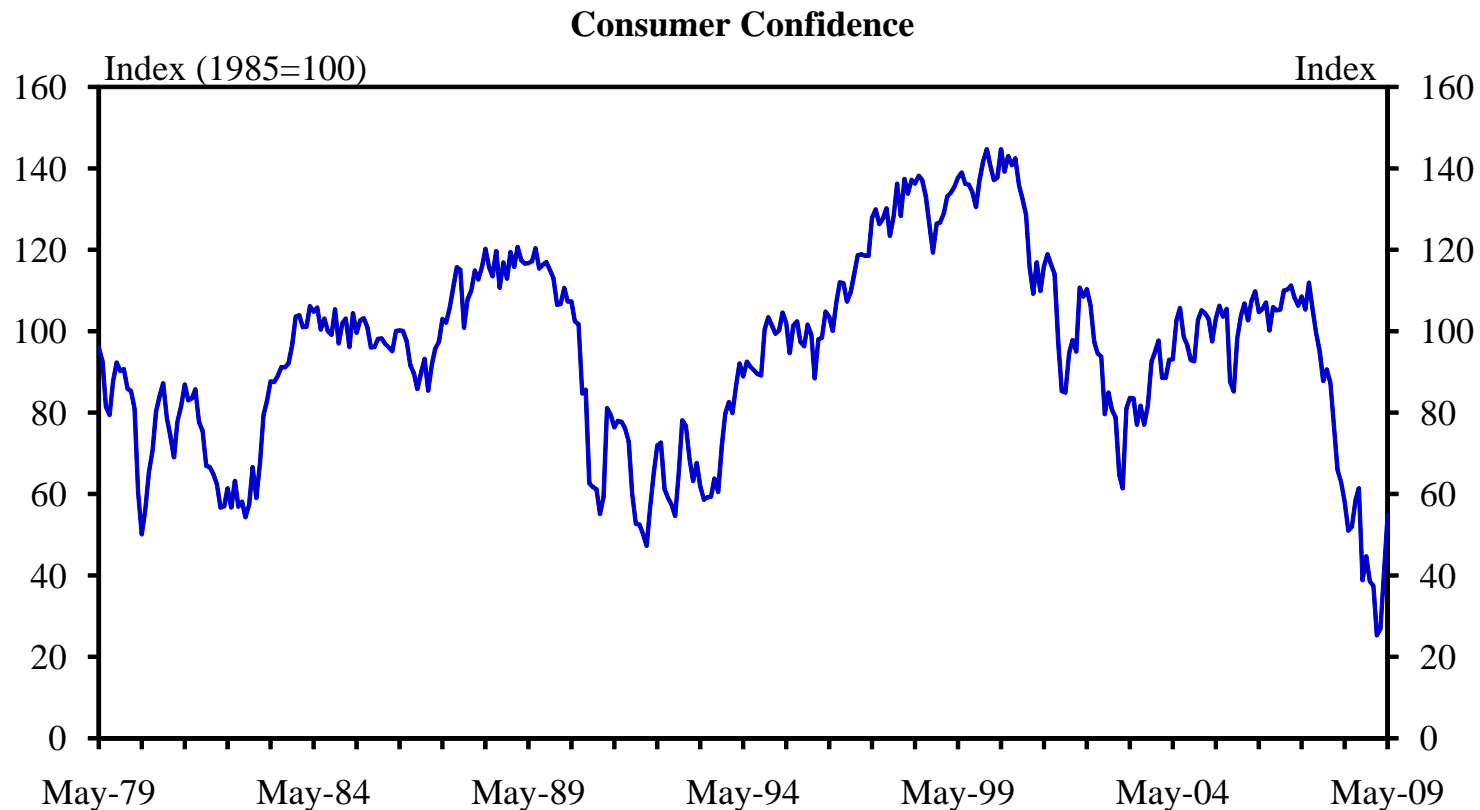
Source: Dow Jones and Nasdaq



Consumers



Consumer confidence has plummeted since the recession began but has increased recently.

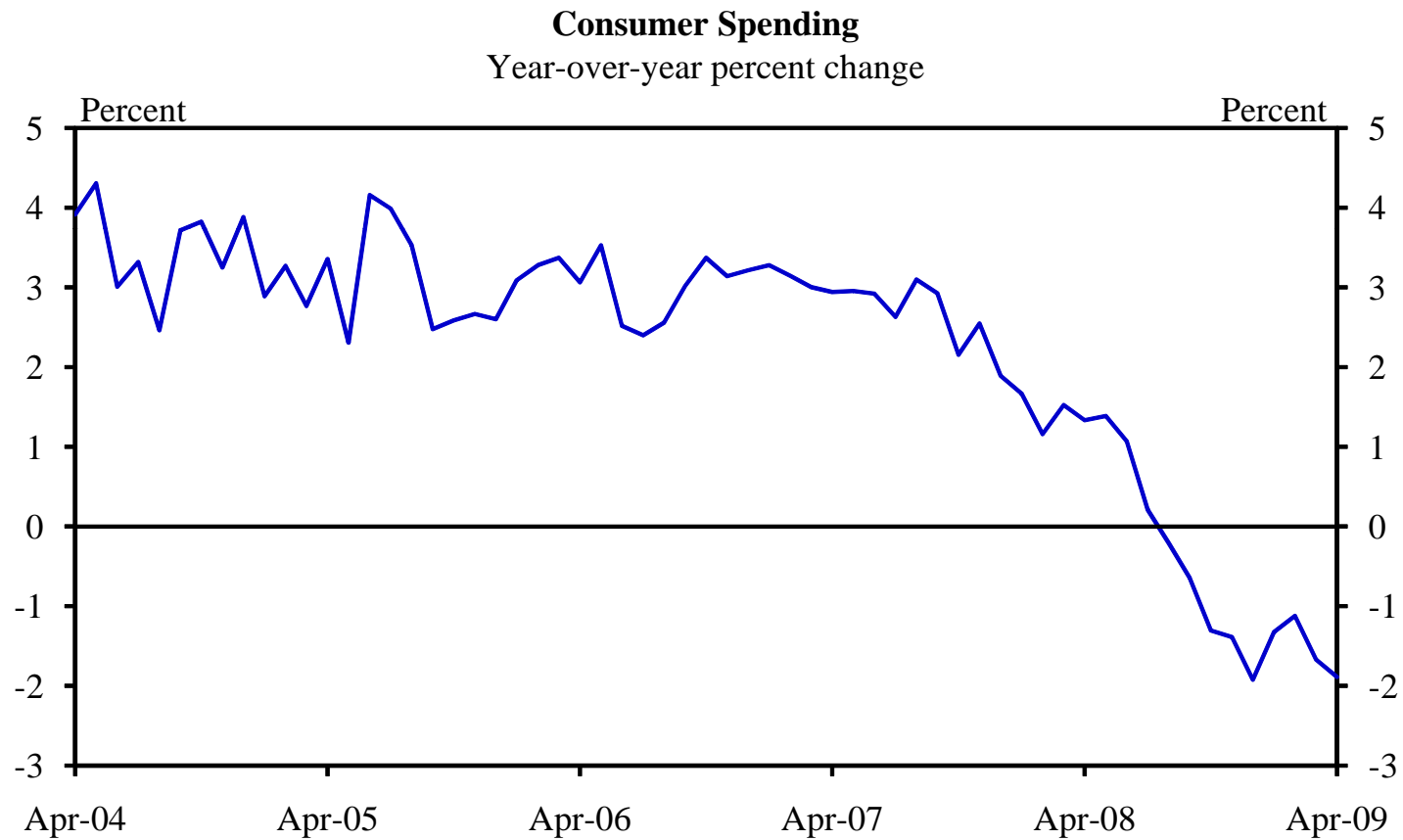


Source: Conference Board

Latest release: 05/28/2009



Consumers are spending less. . .

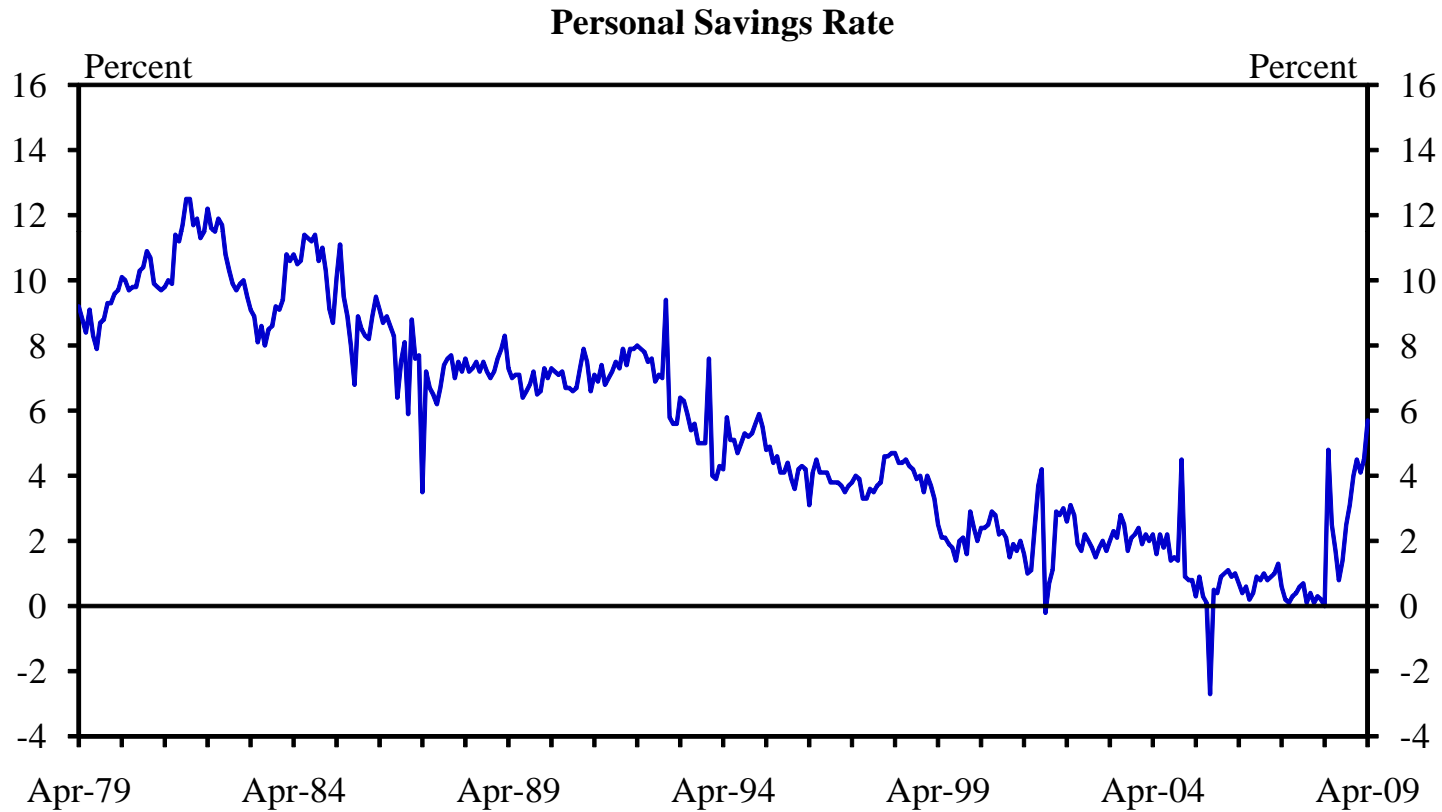


Source: BEA

Latest release: 06/01/2009



And saving more.



Source: BEA

Latest release: 06/01/2009



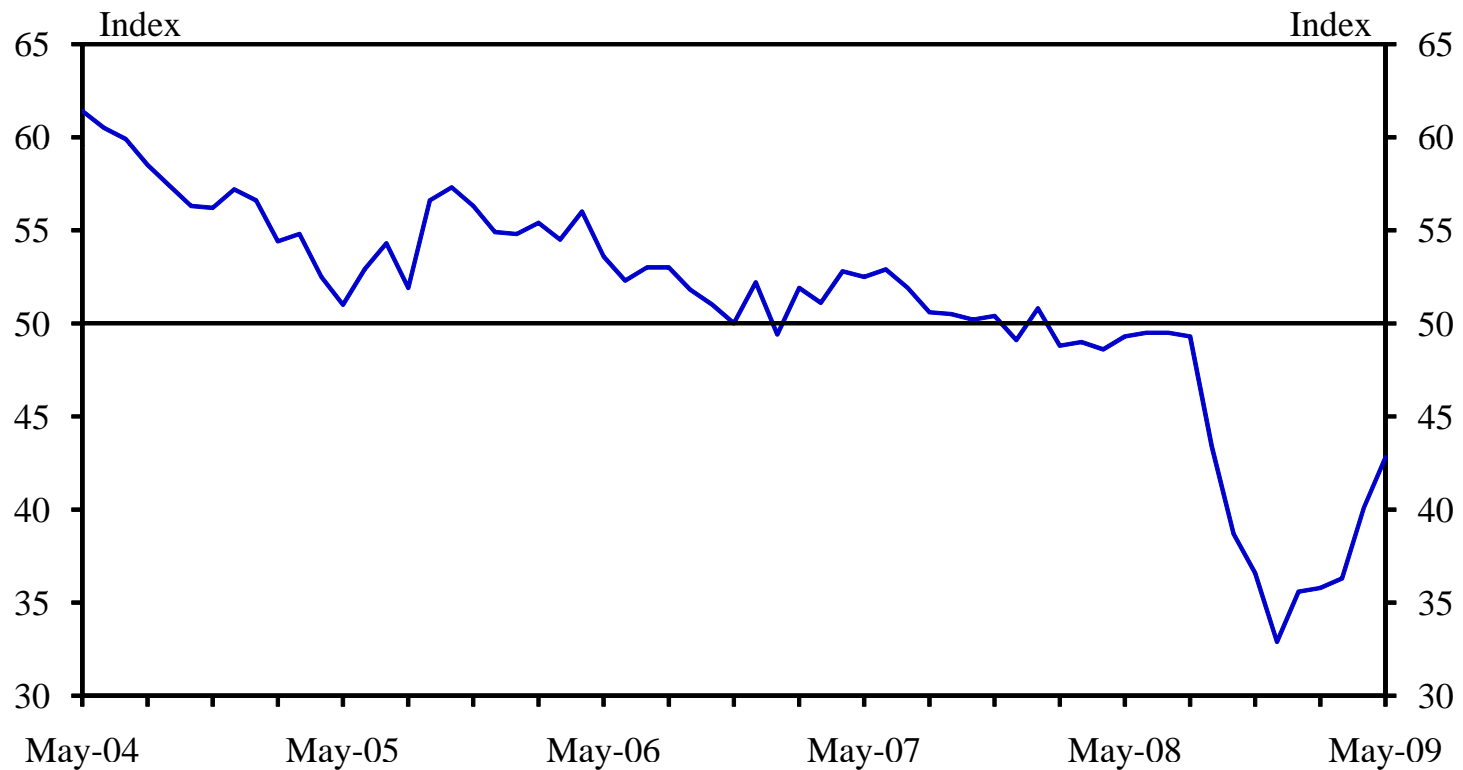


Manufacturing



The manufacturing sector continues to contract but at a slower pace.

Manufacturing Production (Month-Over-Month)
Seasonally adjusted



Source: Institute for Supply Management

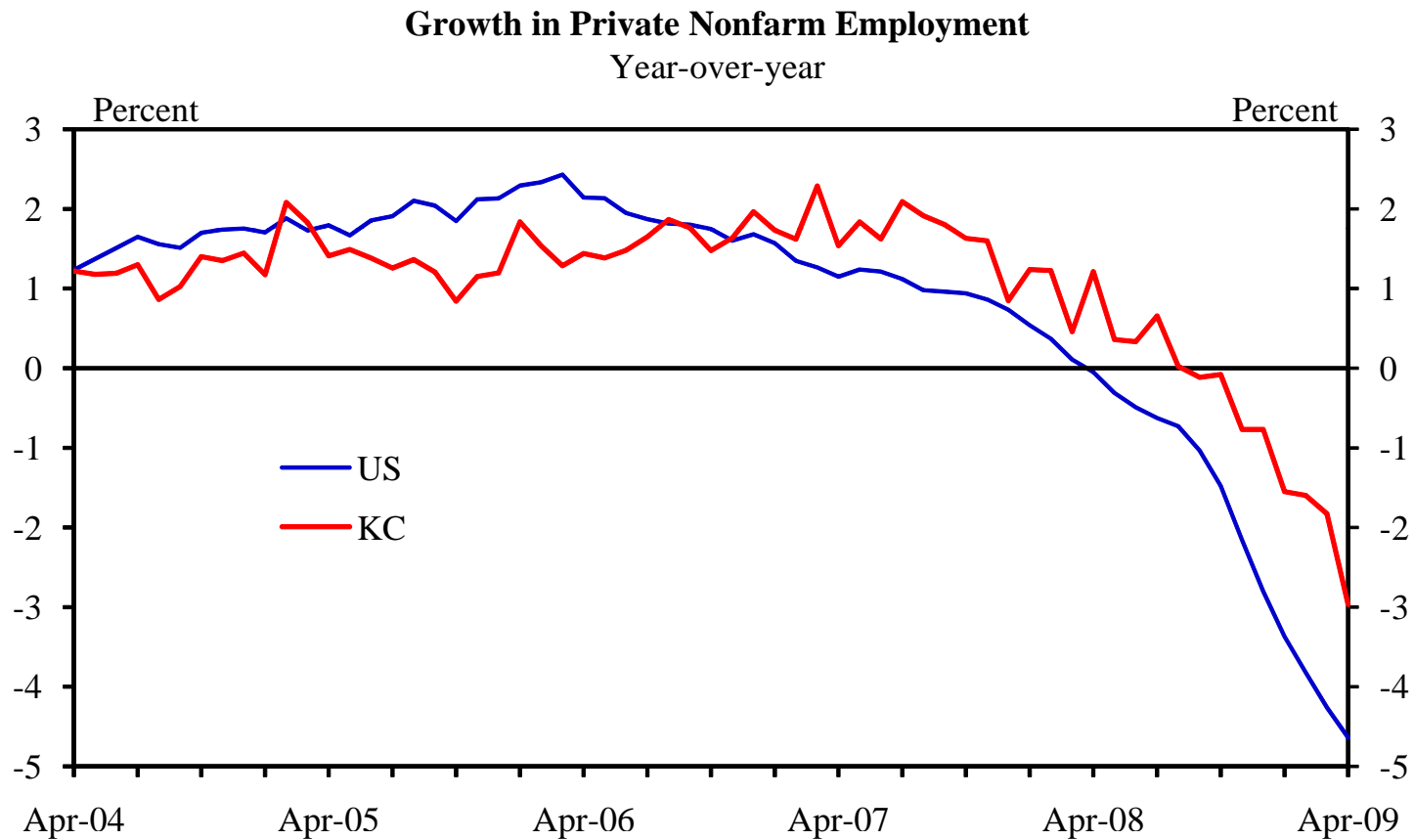
Latest release: 06/01/2009



Labor Market



U.S. employment has fallen over 4% in the past year.

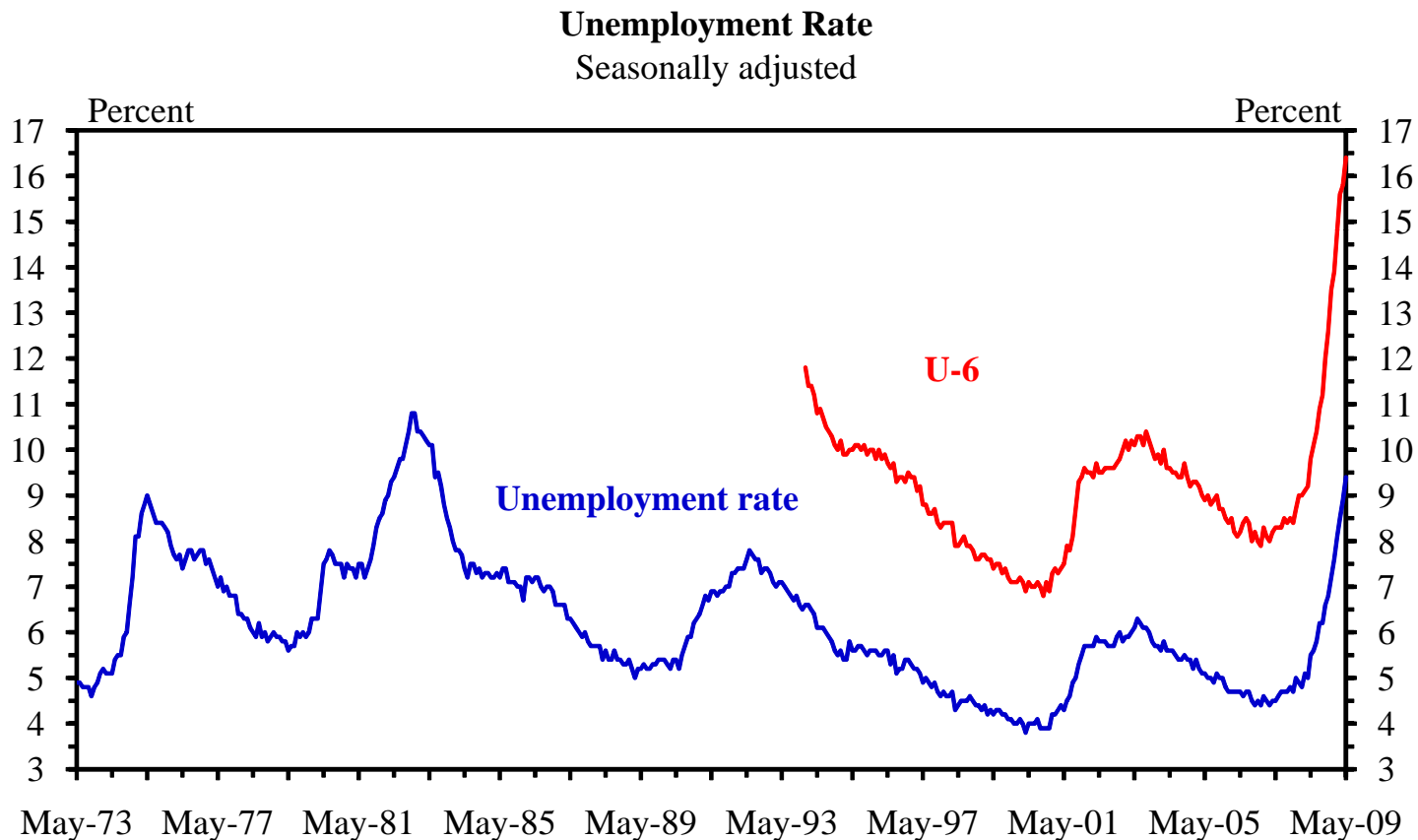


Source: Bureau of Labor Statistics

Latest release: 06/05/2009



Unemployment rates continue to increase sharply.

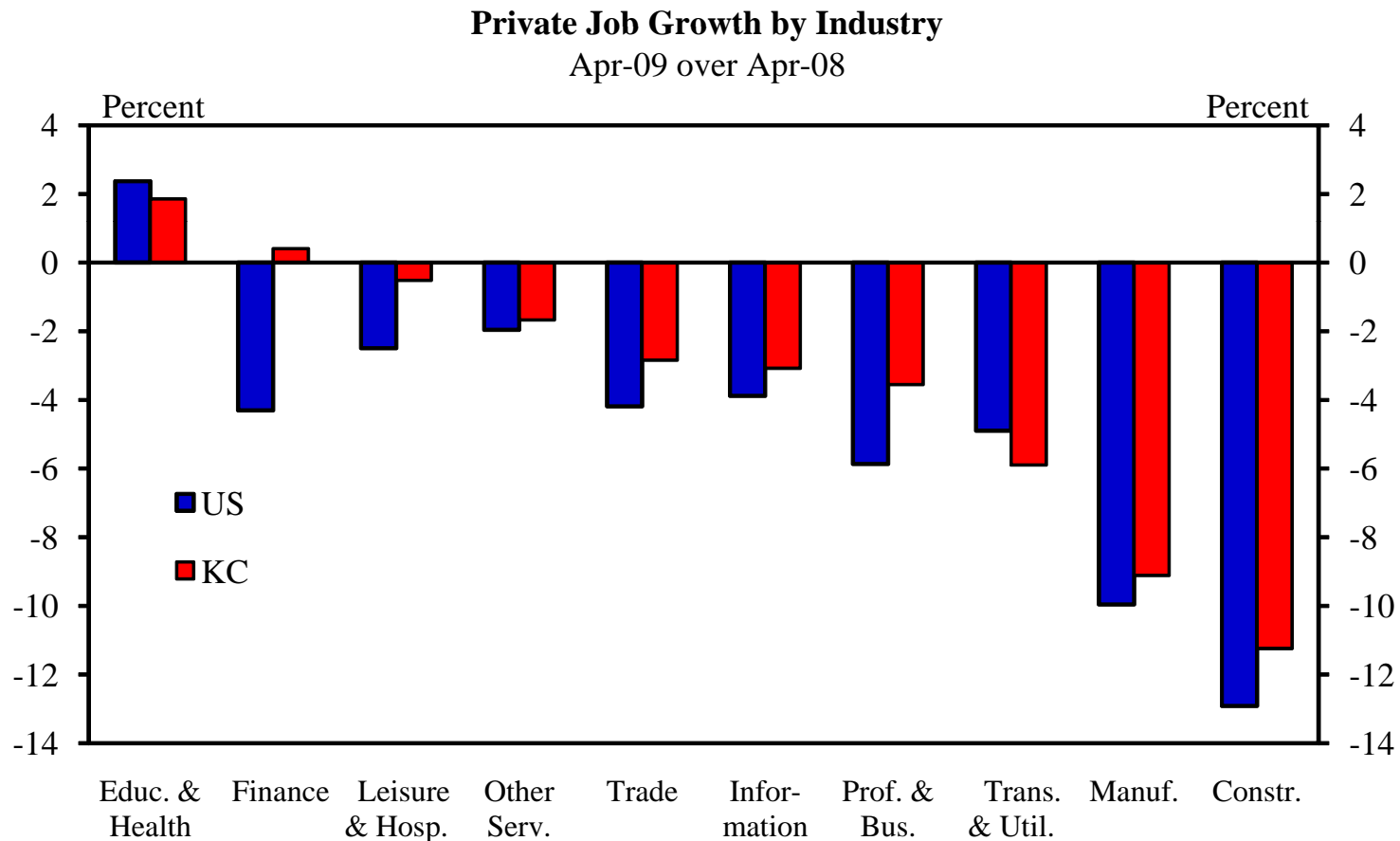


Source: Bureau of Labor Statistics

Latest release: 06/05/2009



The education and health industries are the only industries experiencing job growth.

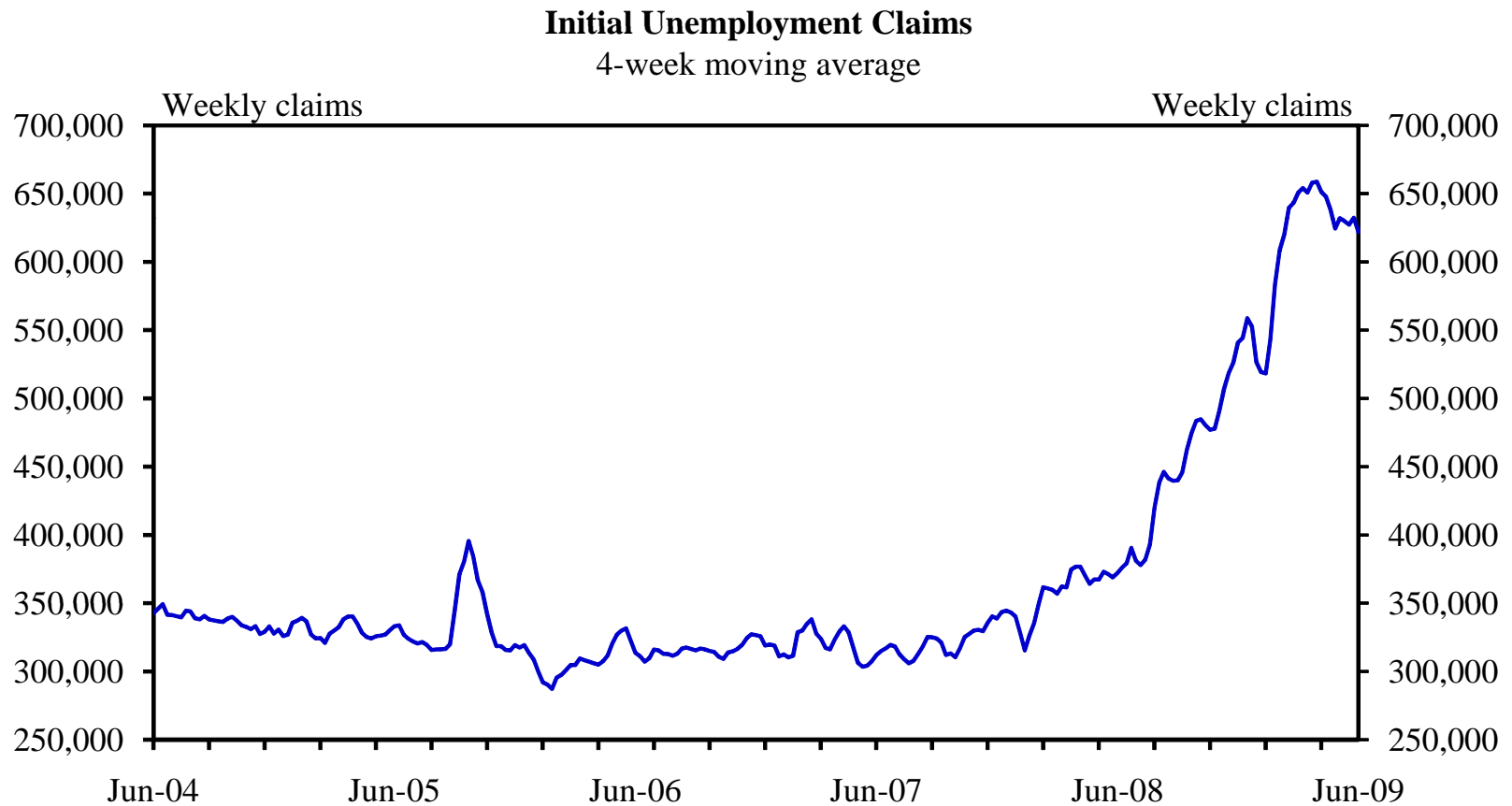


Source: Bureau of Labor Statistics

Latest release: 06/05/2009



Initial unemployment claims remain elevated.



Source: Department of Labor

Latest release: 06/11/2009

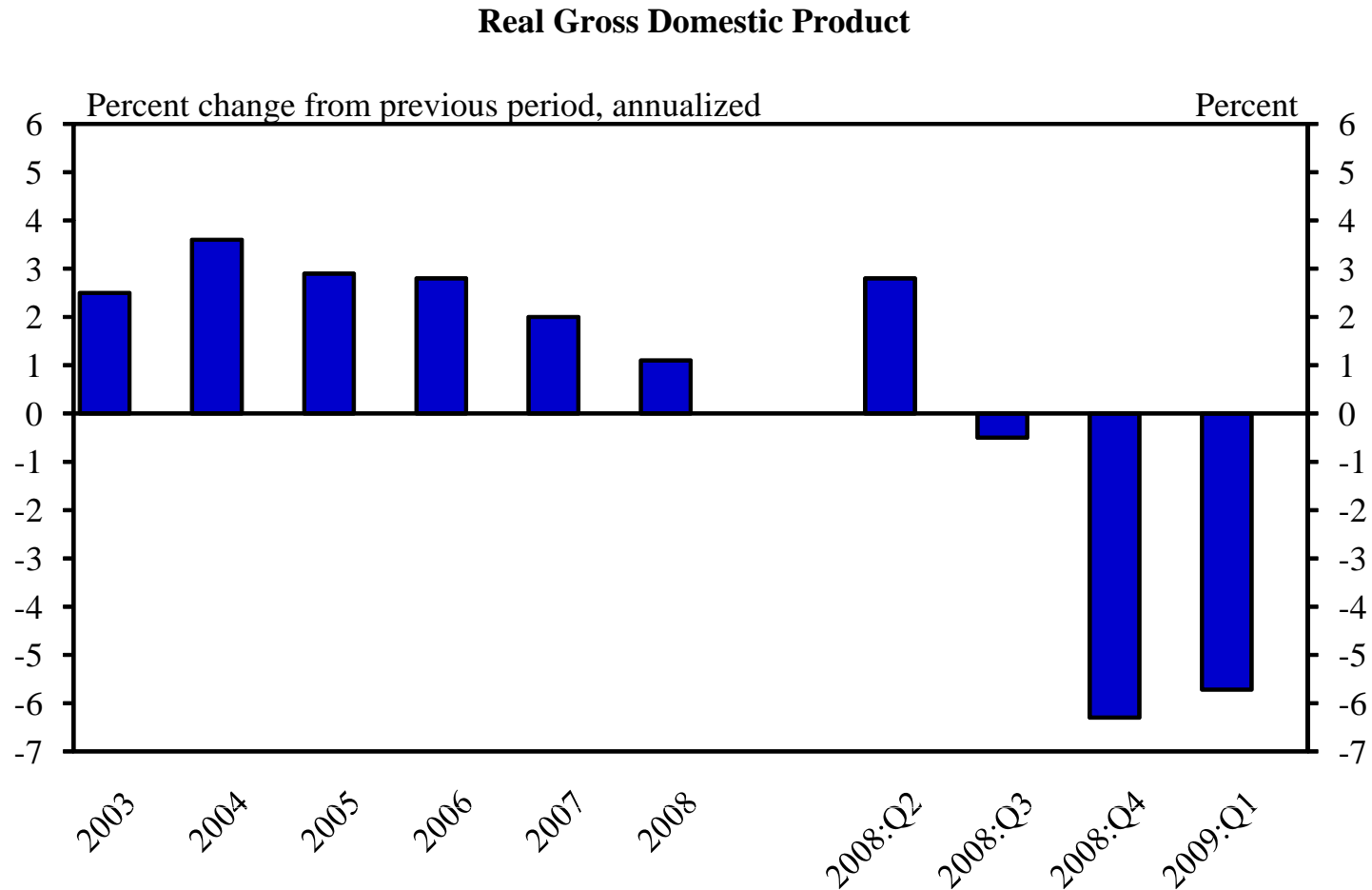




U.S. Economic Activity



Real GDP has declined in three consecutive quarters.



Source: Bureau of Economic Analysis

Latest release: 05/29/2009

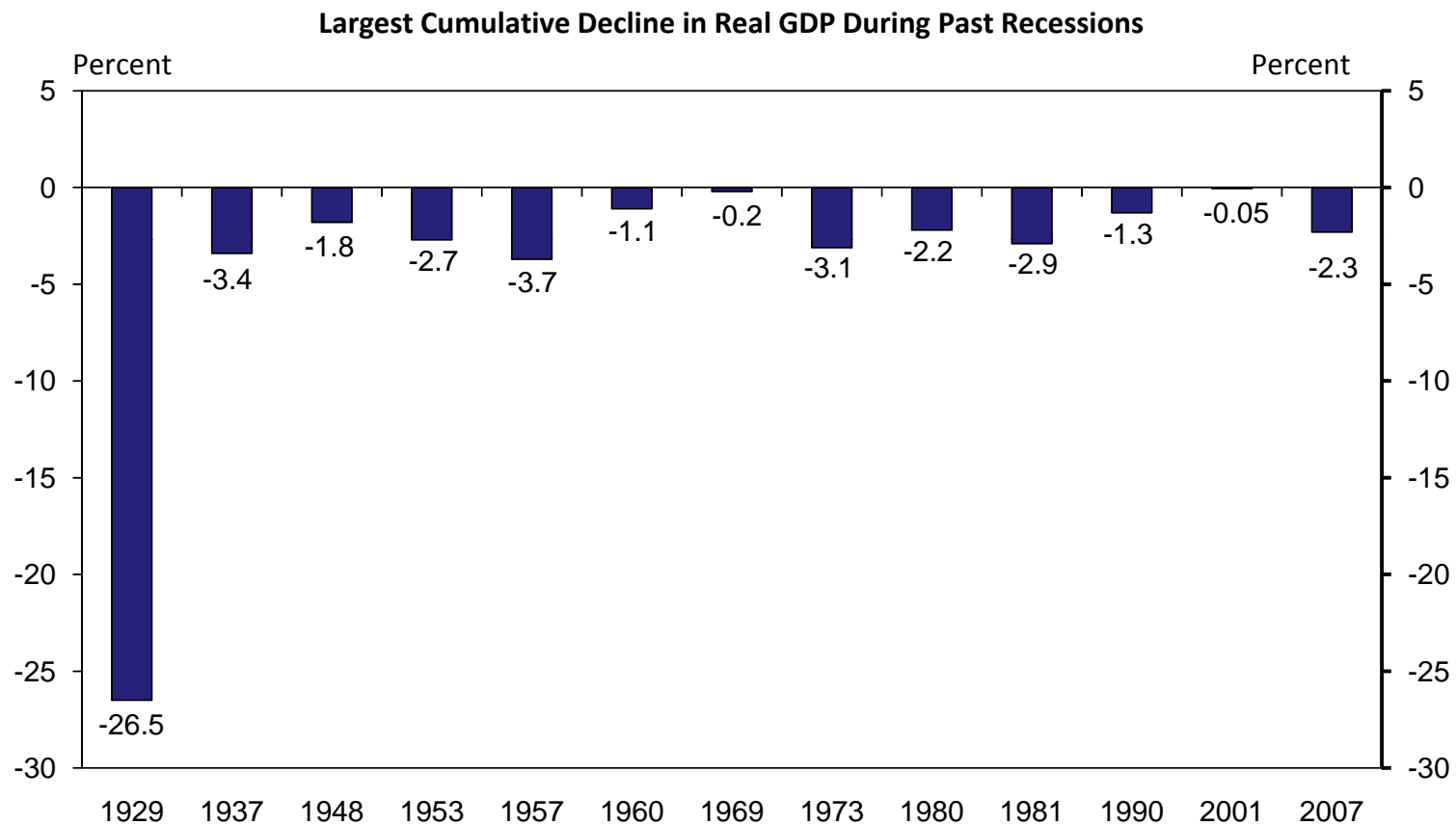




Putting This Recession In Perspective



Real GDP has fallen more than in the previous two recessions.

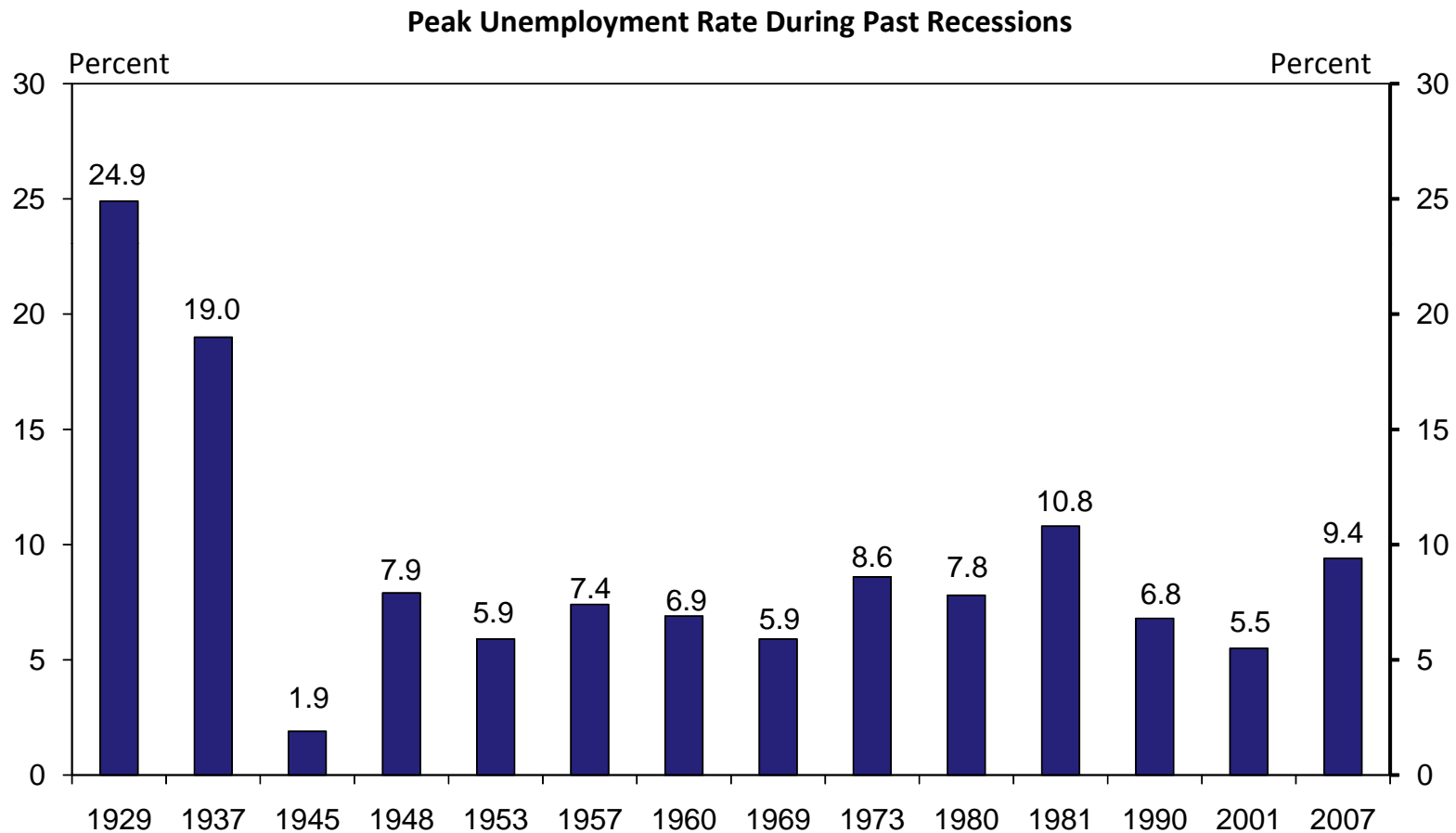


Source: Federal Reserve Bank of Minneapolis, Bureau of Economic Analysis

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.

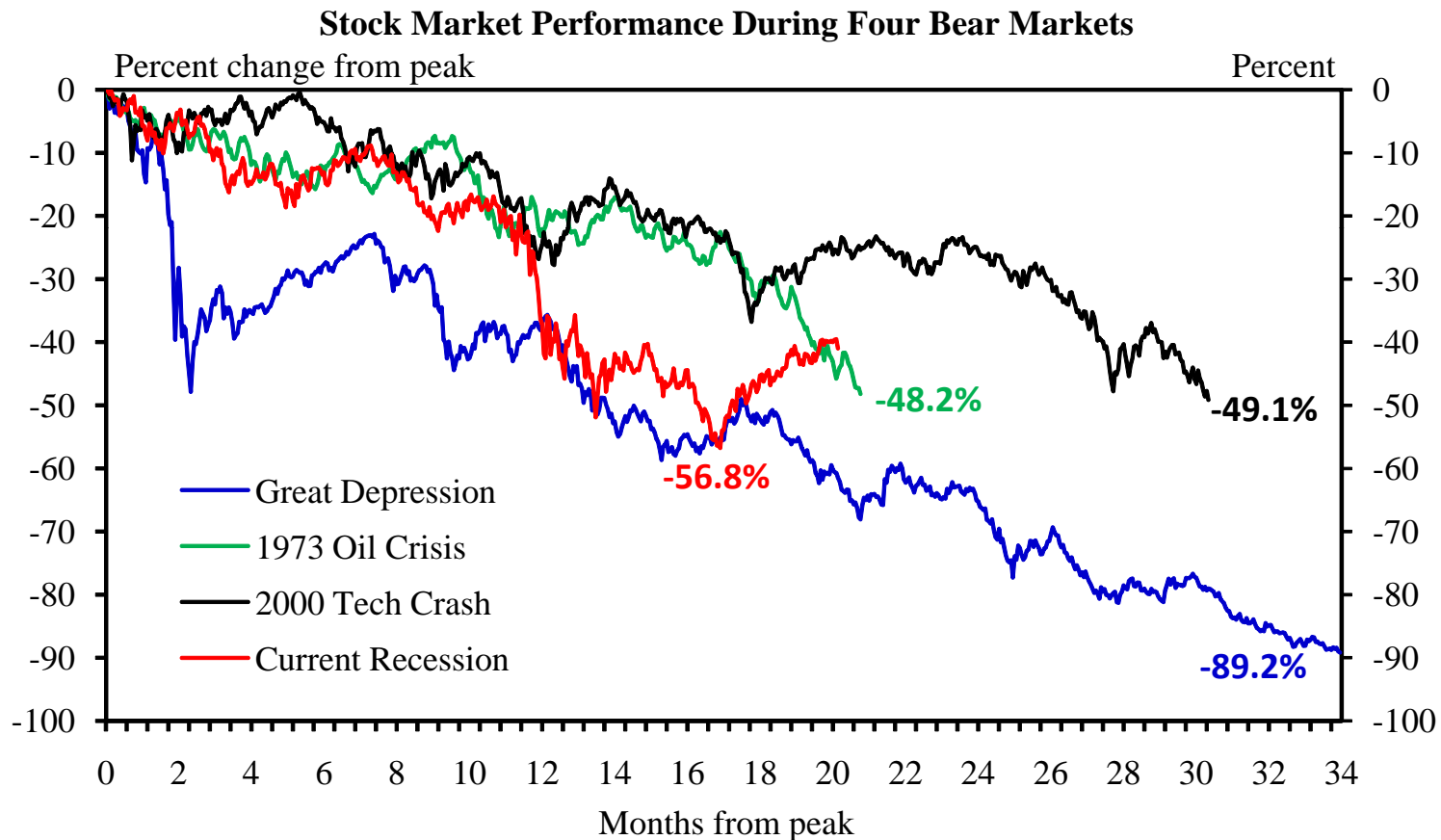


Source: Bureau of Labor Statistics

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.



Sources: Dow Jones (1929-1932) and S&P (1973-1974, 2000-2002, 2007-now)

Similar to chart from: <http://dshort.com/charts/bears/four-bears-large.gif>





Policy Responses



The U.S. Policy Response

□ Federal Reserve

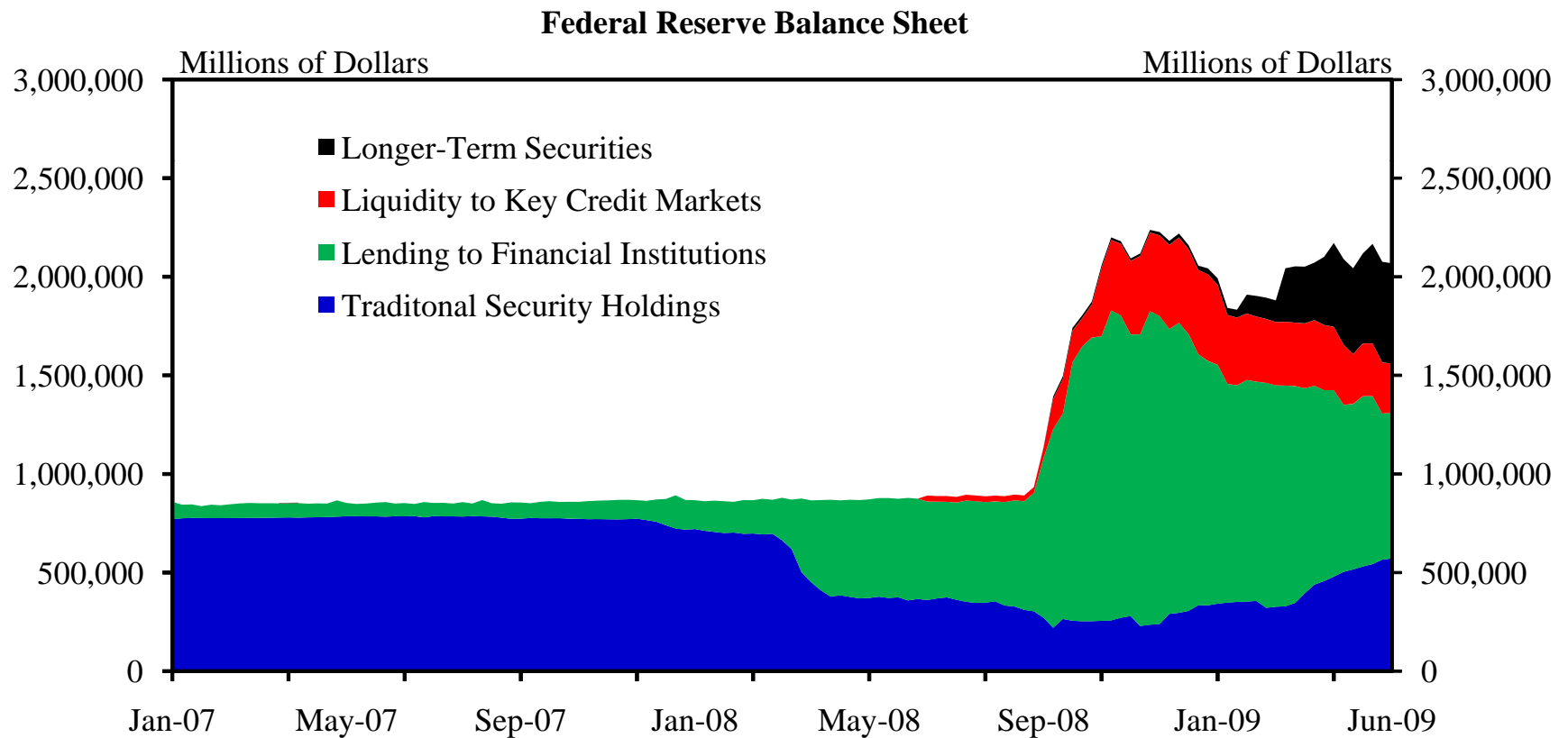
- Lowered the Fed Funds rate
- Purchased long-term securities
- Implemented numerous liquidity facilities

□ U.S. Treasury and Congress

- TARP
- Fiscal stimulus
- Foreclosure prevention policies



Programs implemented by the Federal Reserve have expanded its balance sheet.

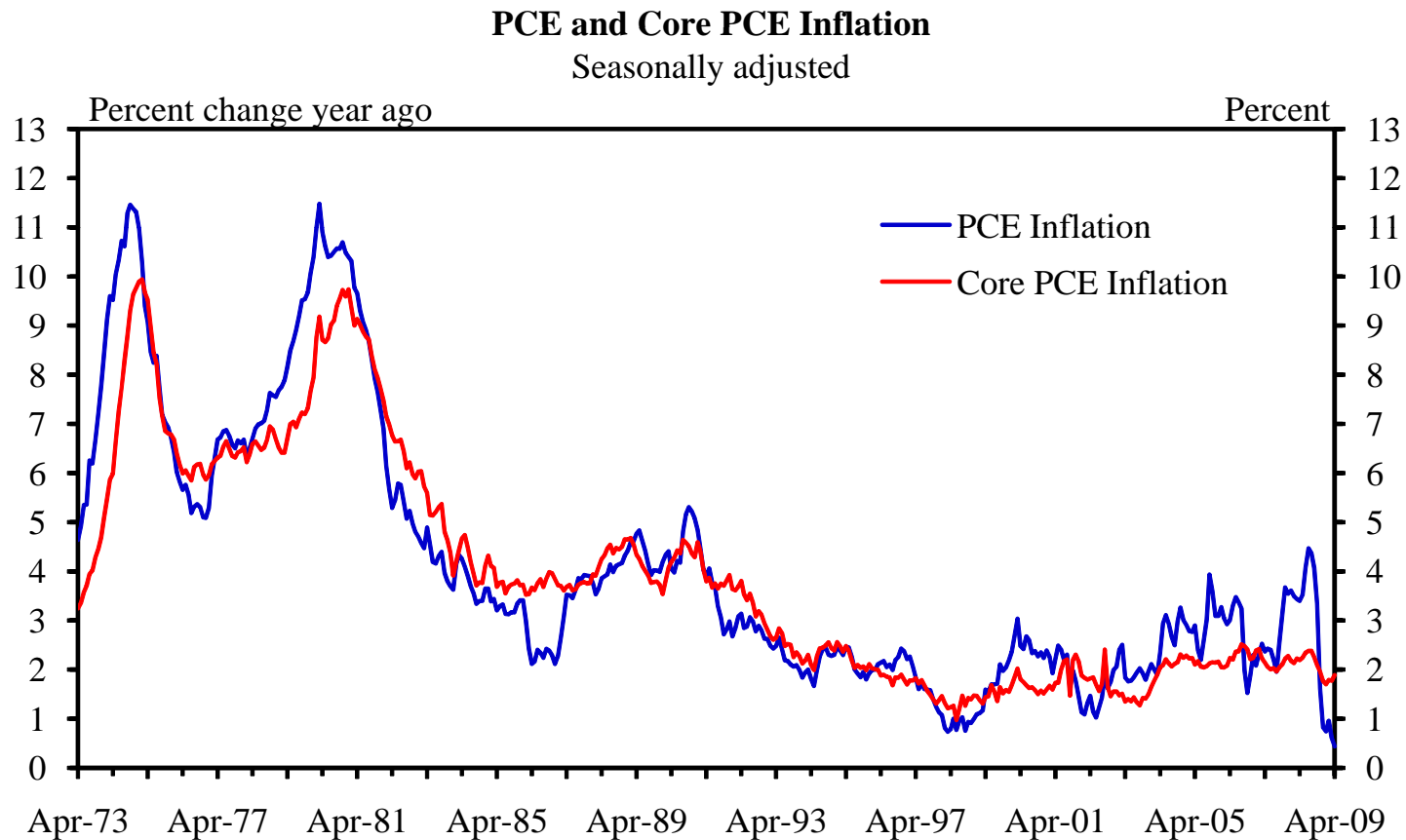


Source: Federal Reserve Board

Latest release: 06/03/2009



Despite expansionary monetary policy, inflation remains contained.

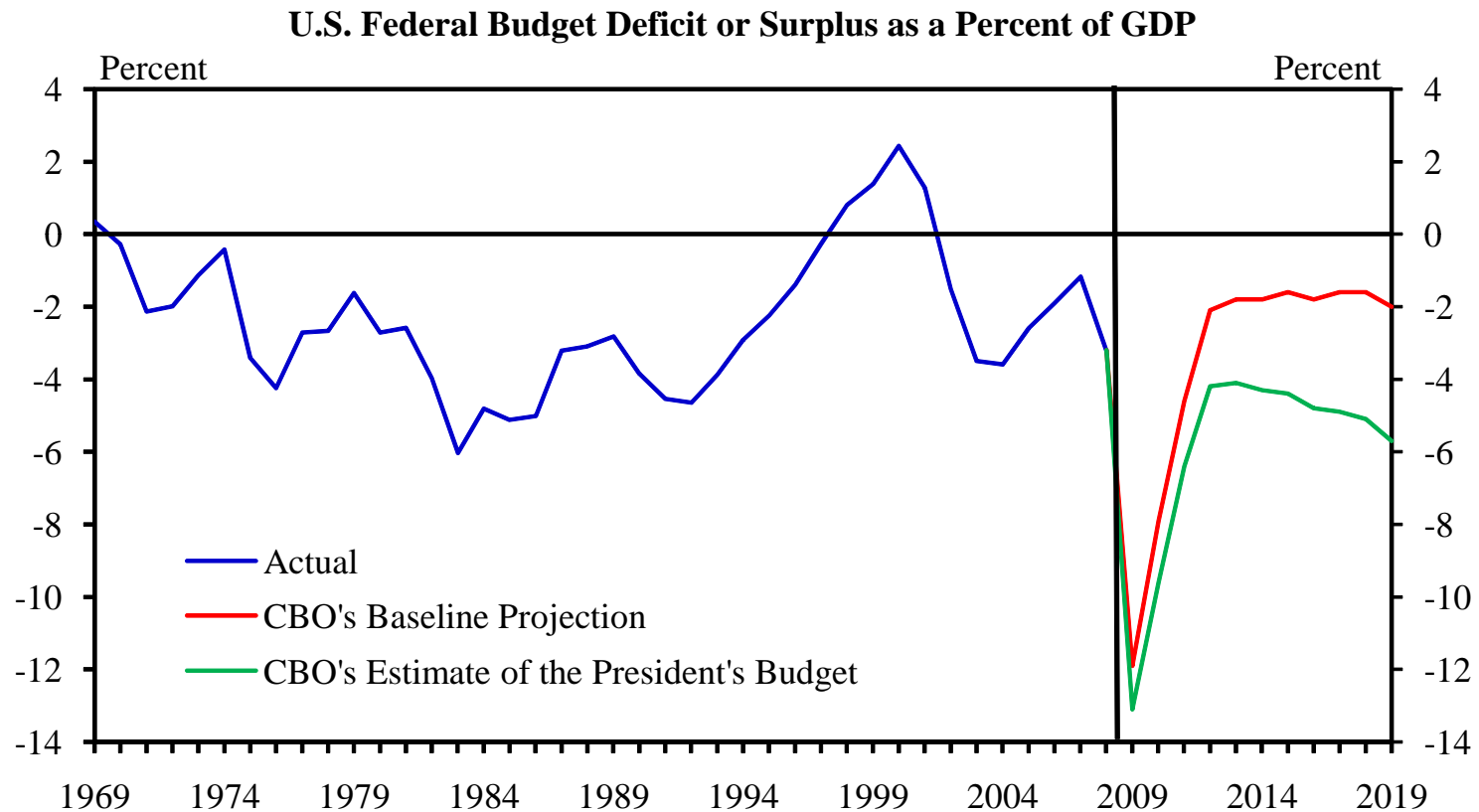


Source: Bureau of Economic Analysis

Latest release: 06/01/2009



Programs enacted by the federal government have increased the budget deficit.



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 30,000 since peaking in early April.



Conclusions

- 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?

