

# Understanding the Current Recession



Alison Felix

Economist

Federal Reserve Bank of Kansas City

---

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?



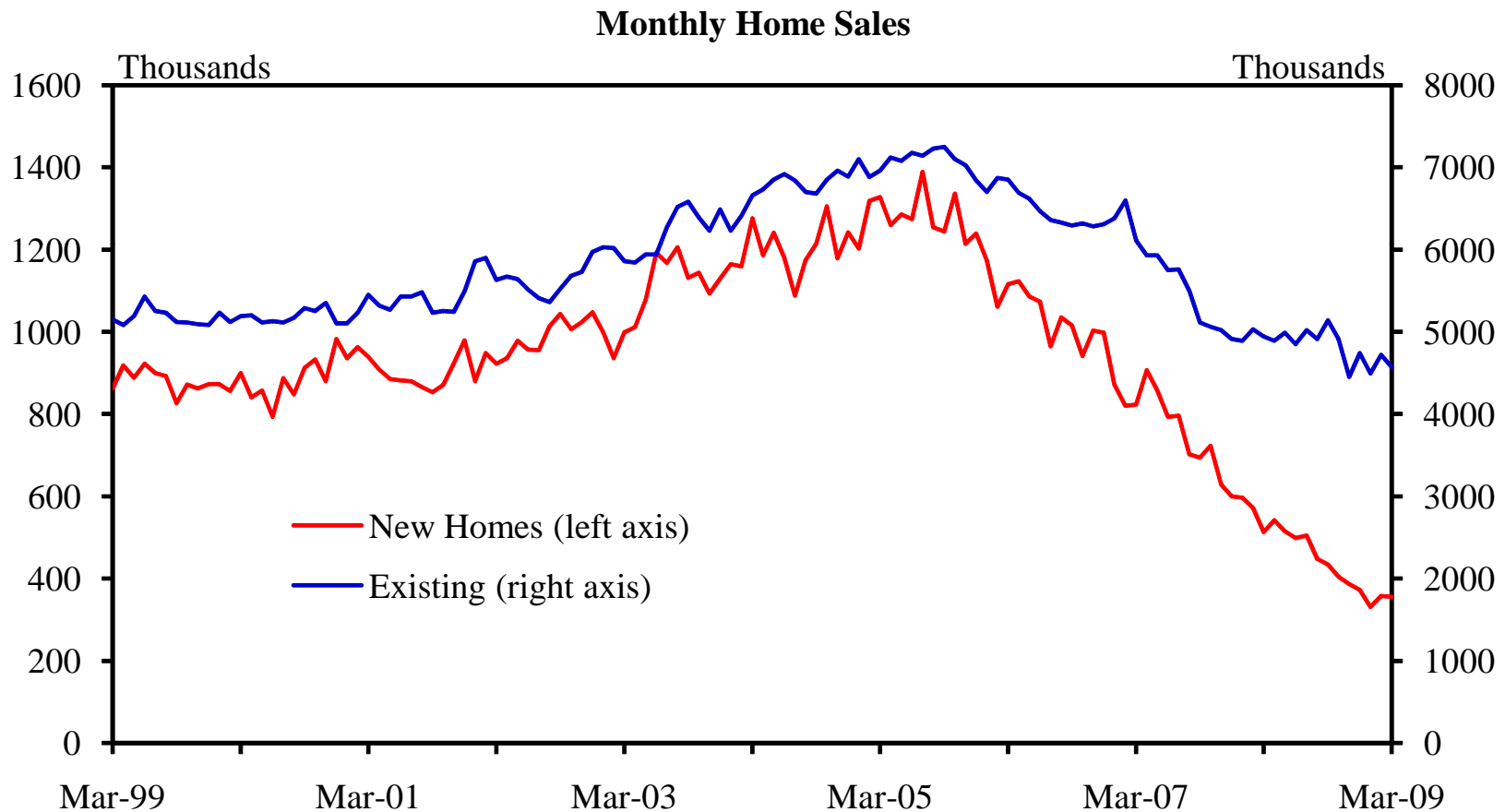


---

# Housing and Construction Activity



# Home sales have fallen sharply since late 2005.

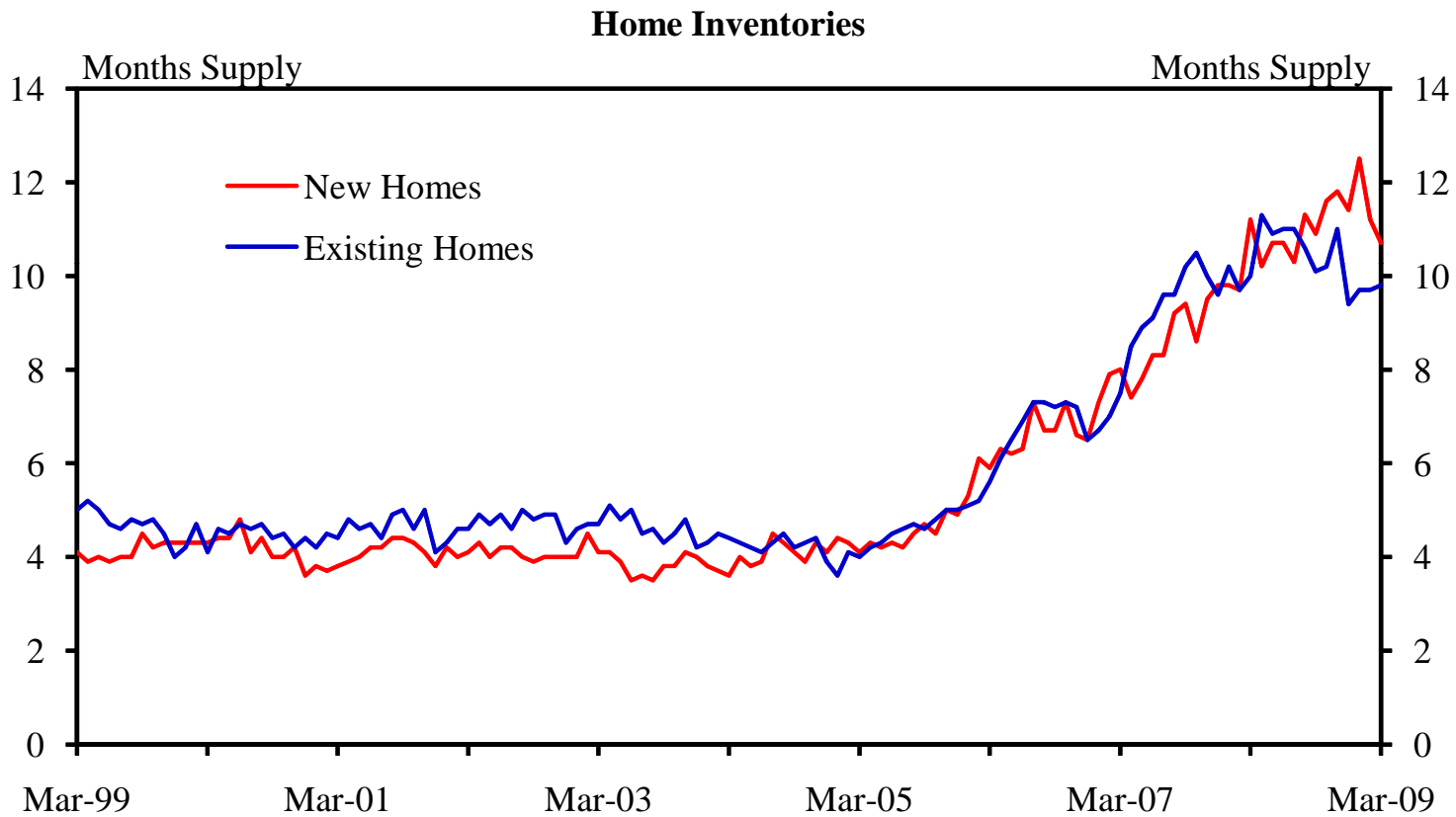


Source: Census Bureau and NAR

Latest release: 04/23/2009



# Home inventory levels remain elevated.

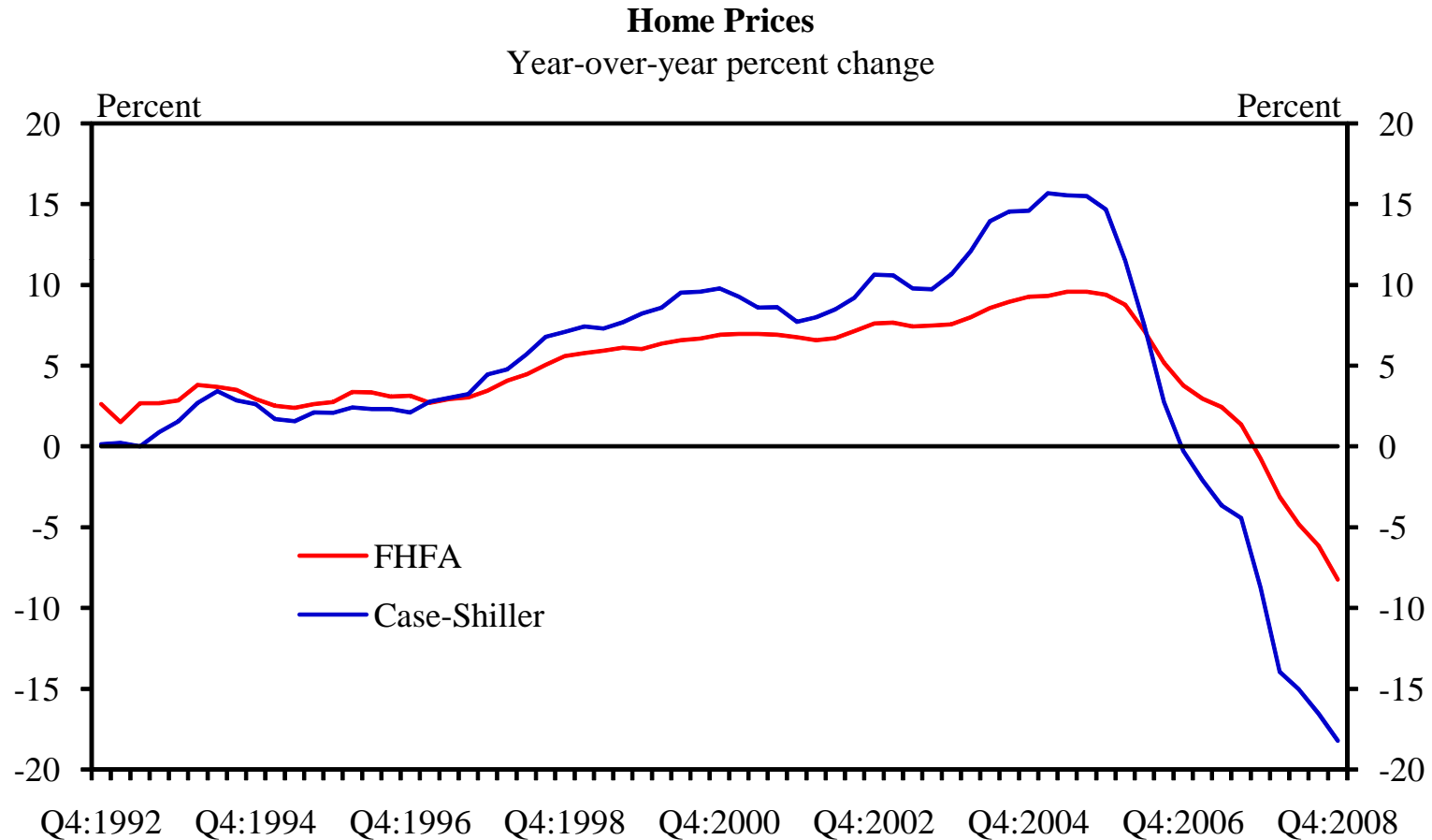


Source: Census Bureau

Latest release: 04/24/2009



# Home prices are well below year-ago levels.

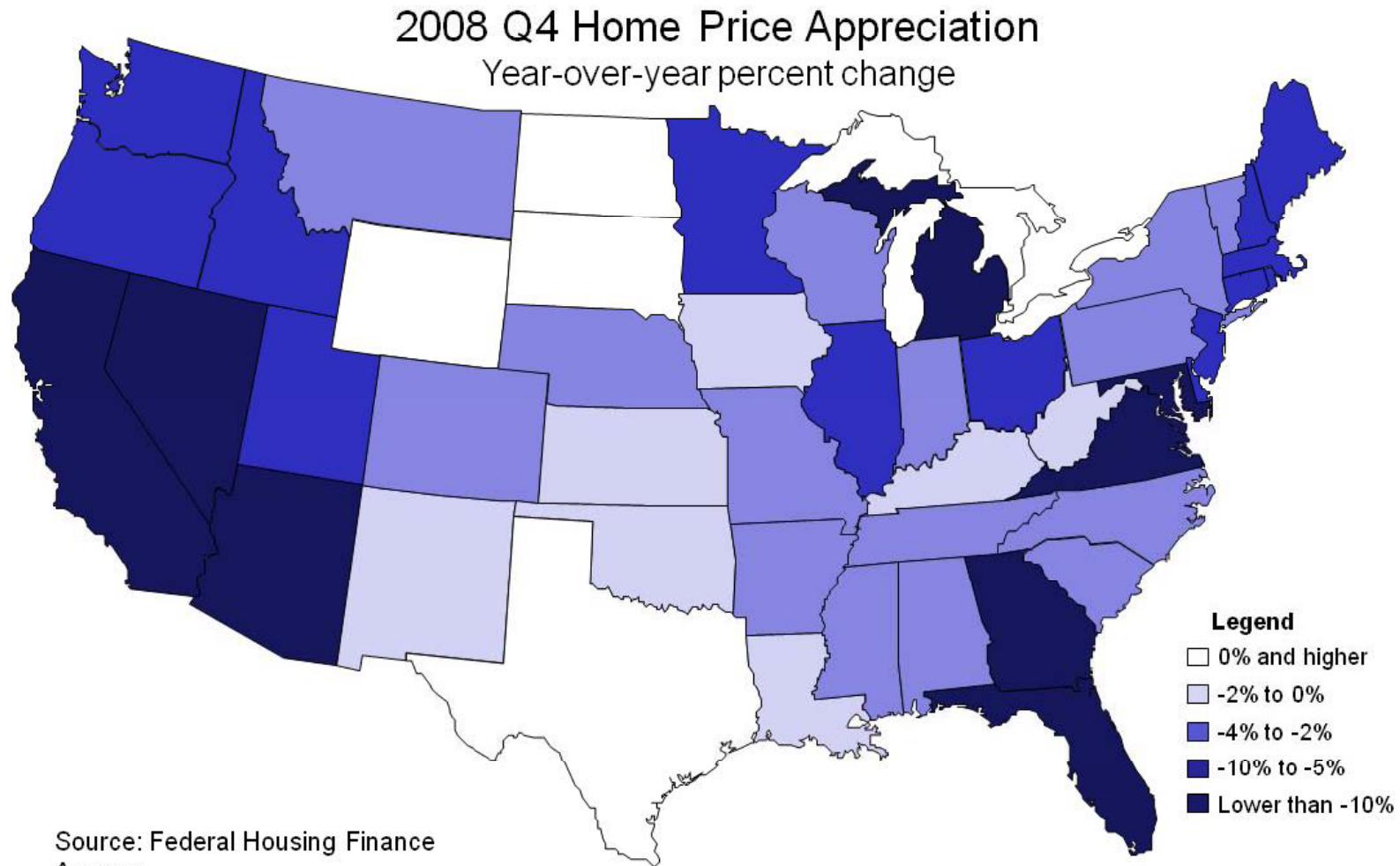


Source: Federal Housing Finance Agency and S&P

Latest release: 02/24/2009



# Home price appreciation has varied widely across the nation.

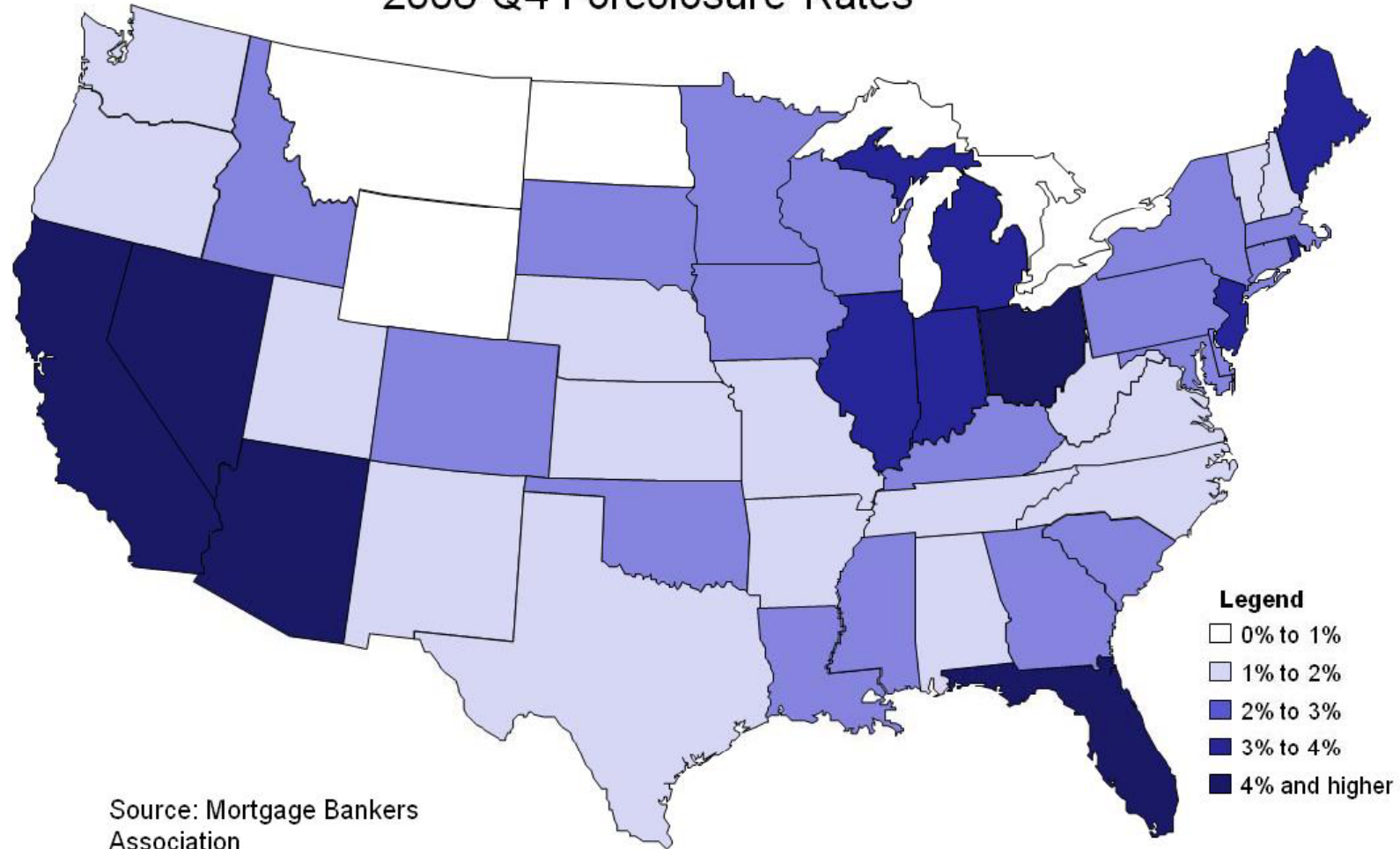


Source: Federal Housing Finance Agency



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

2008 Q4 Foreclosure Rates



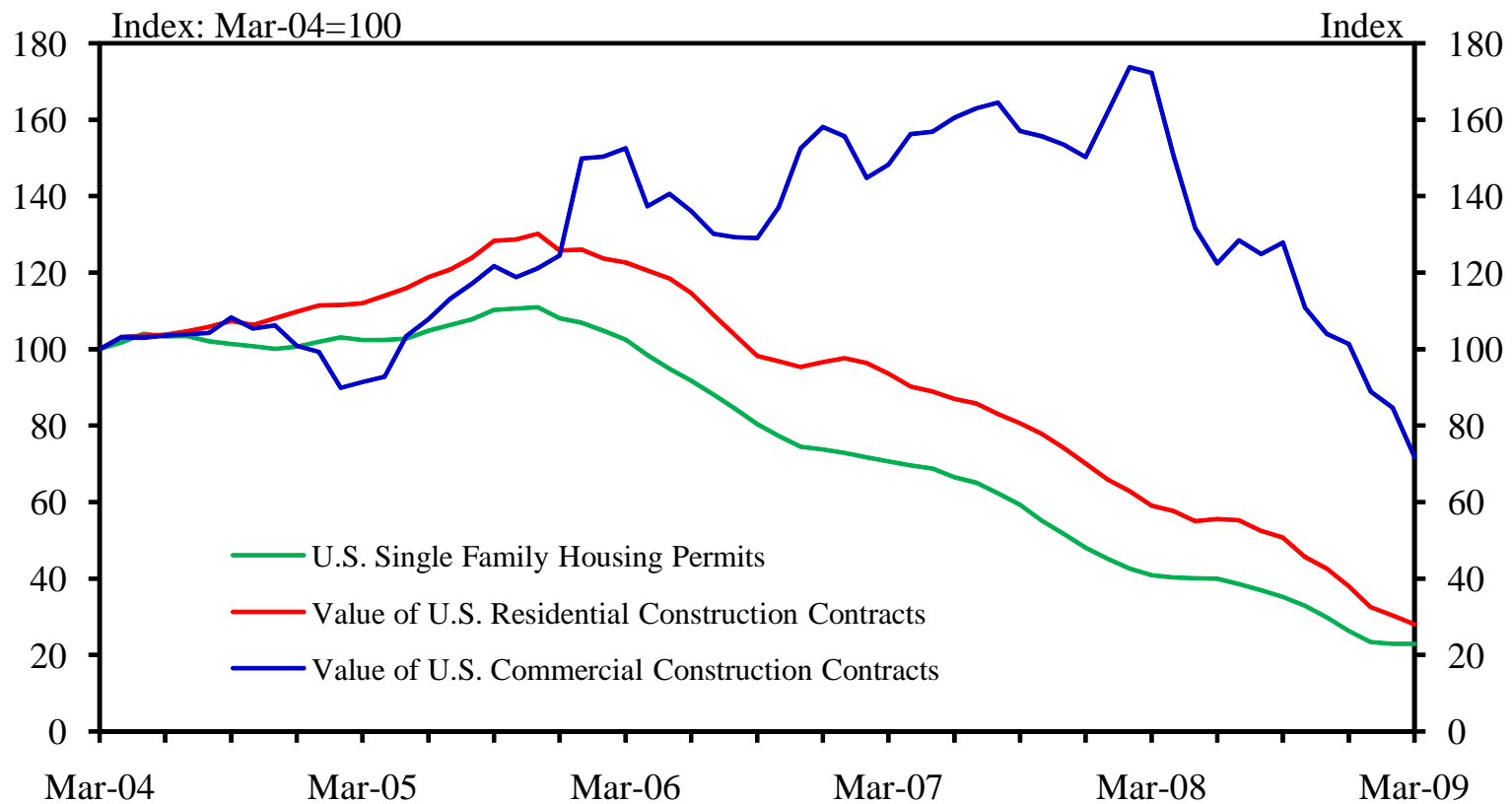
Source: Mortgage Bankers Association





# Residential and commercial construction have slowed.

Single-Family Housing Permits and Construction Contracts



Source: U.S. Census Bureau and F.W. Dodge

Latest release: 04/24/2009



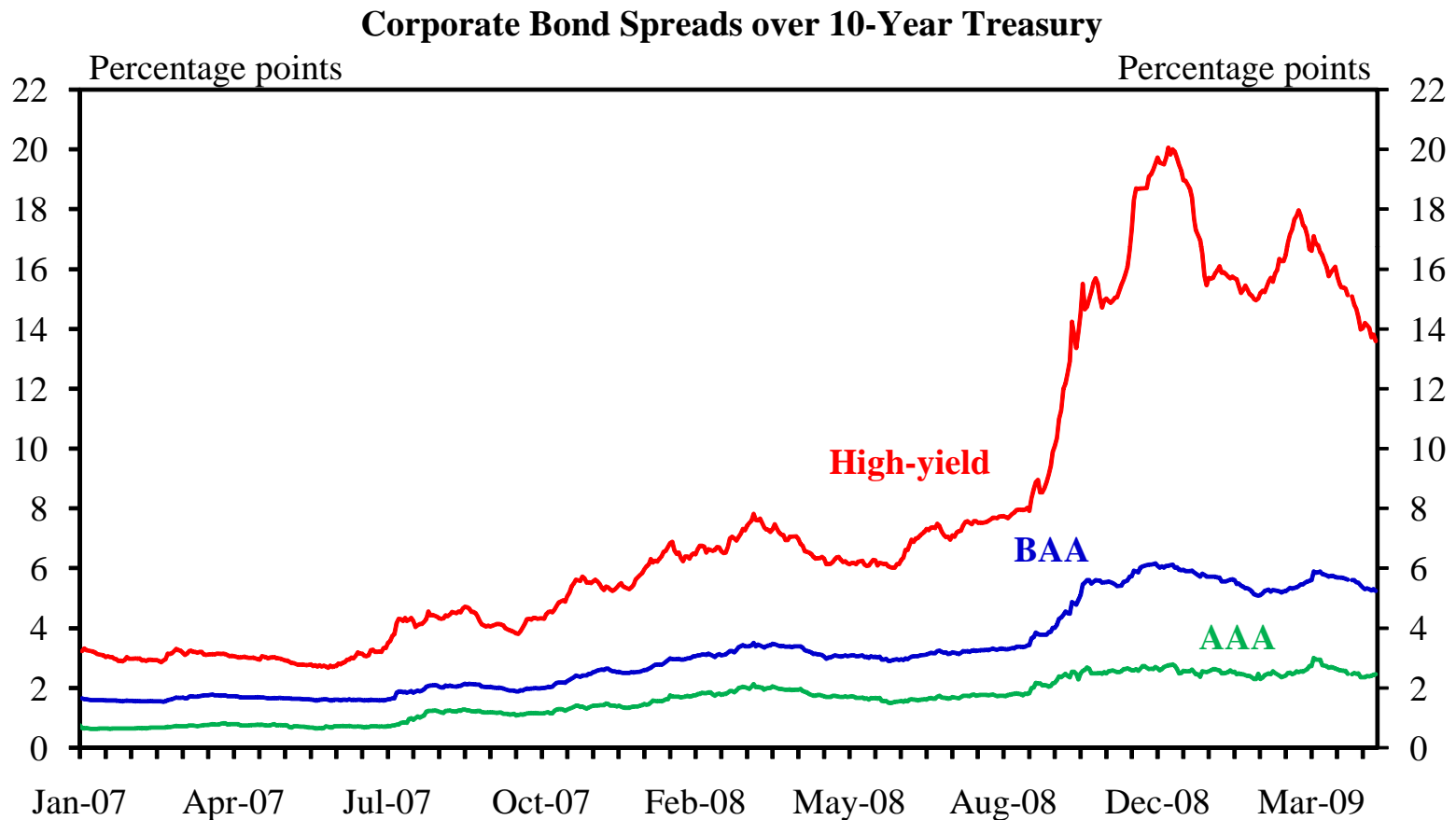


---

# Financial Markets



# Credit conditions are improving but remain stressed.

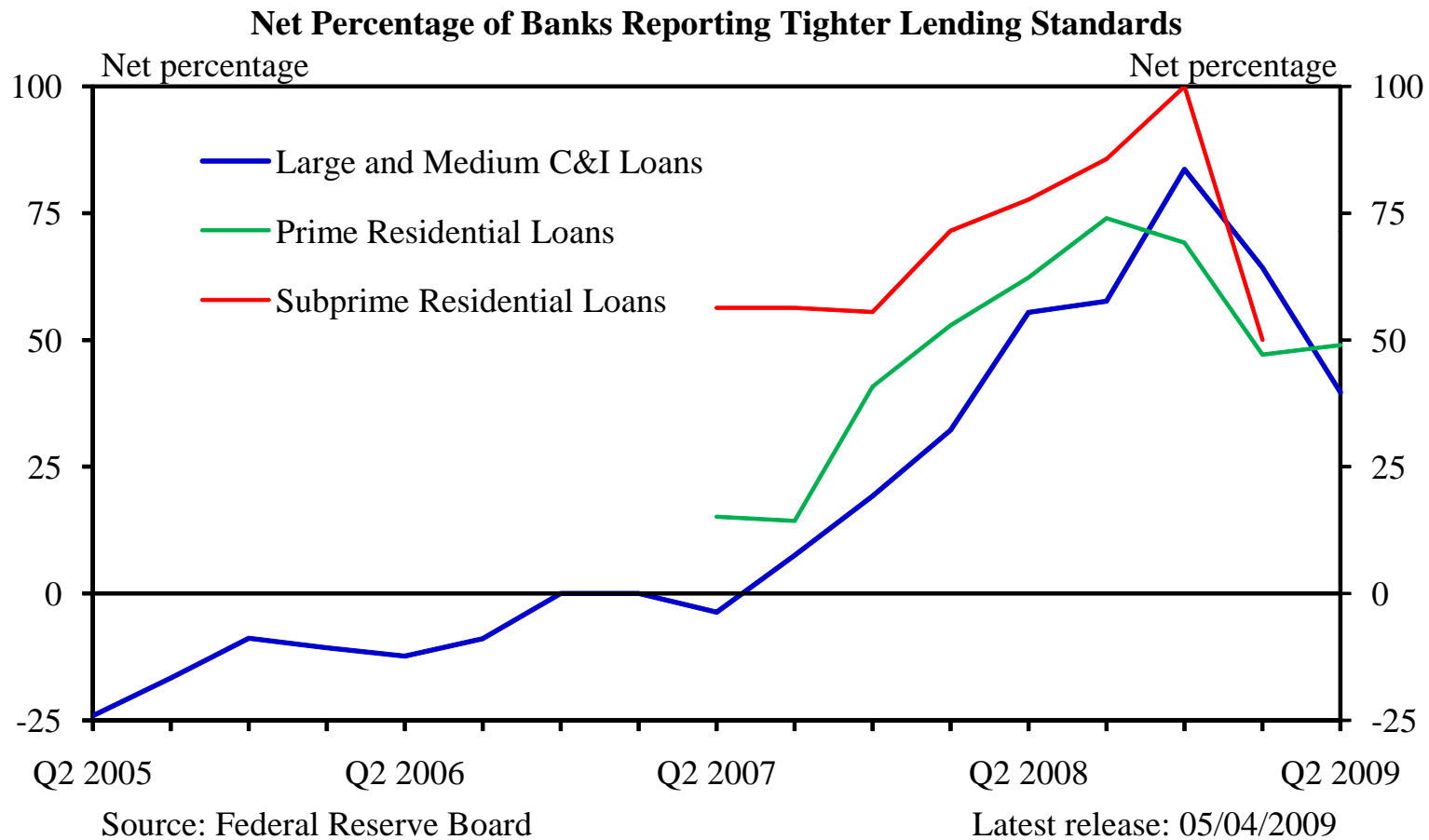


Source: Federal Reserve Board

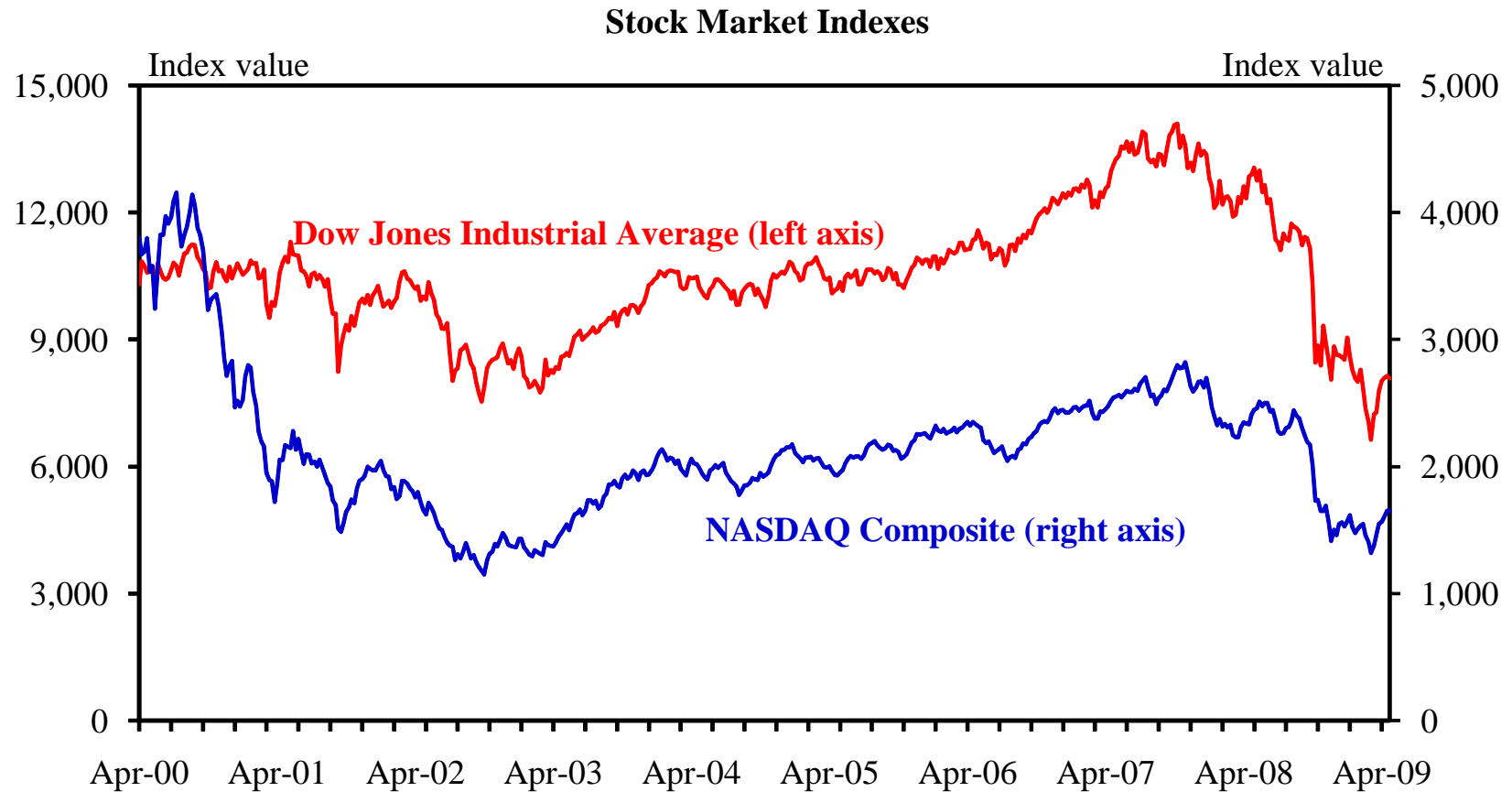
Latest release: 04/30/2009



# Banks have tightened lending standards.



# Stock prices have fallen substantially.



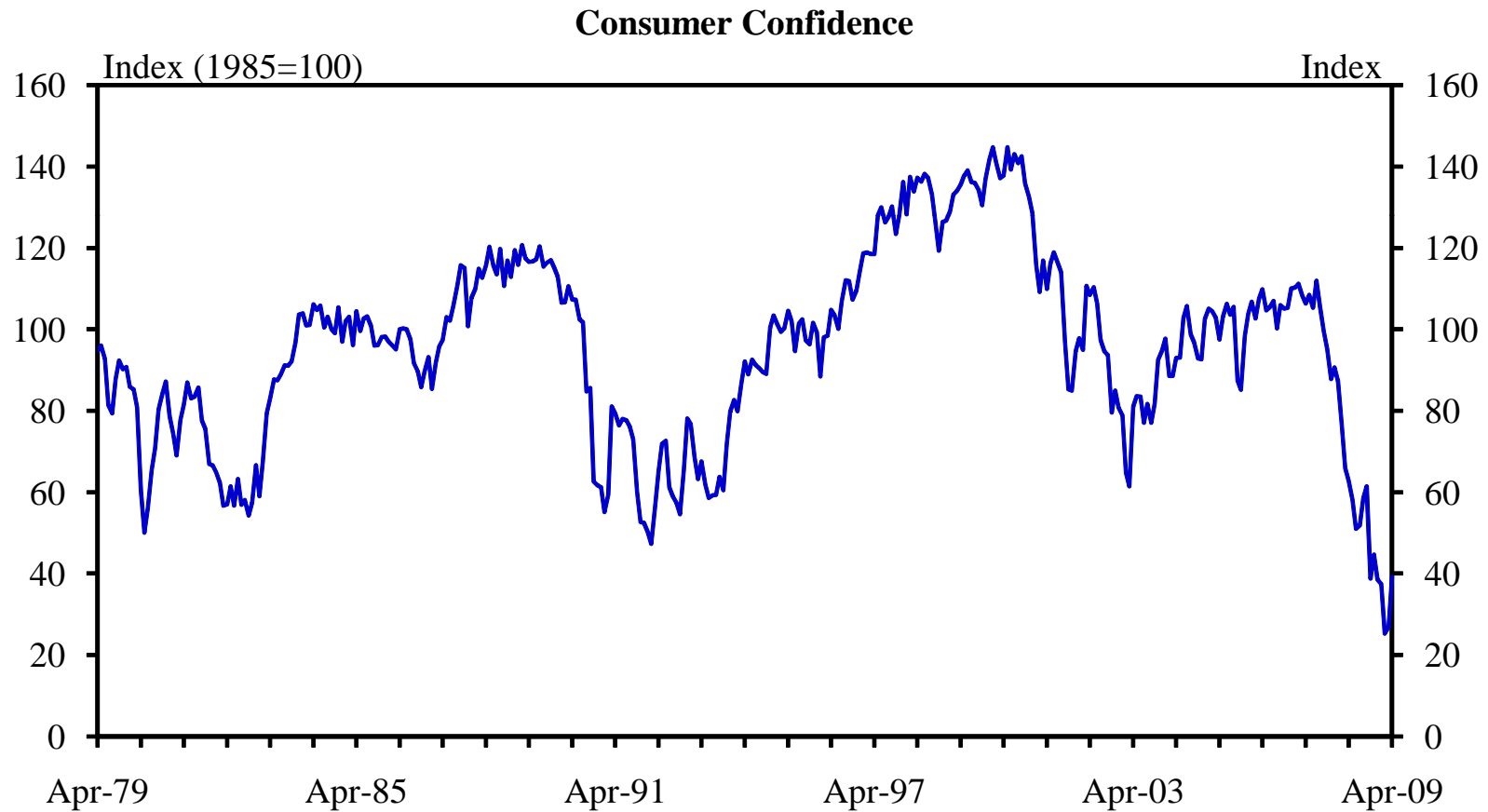
Source: Dow Jones and Nasdaq



# Consumers



# Consumer confidence has plummeted.

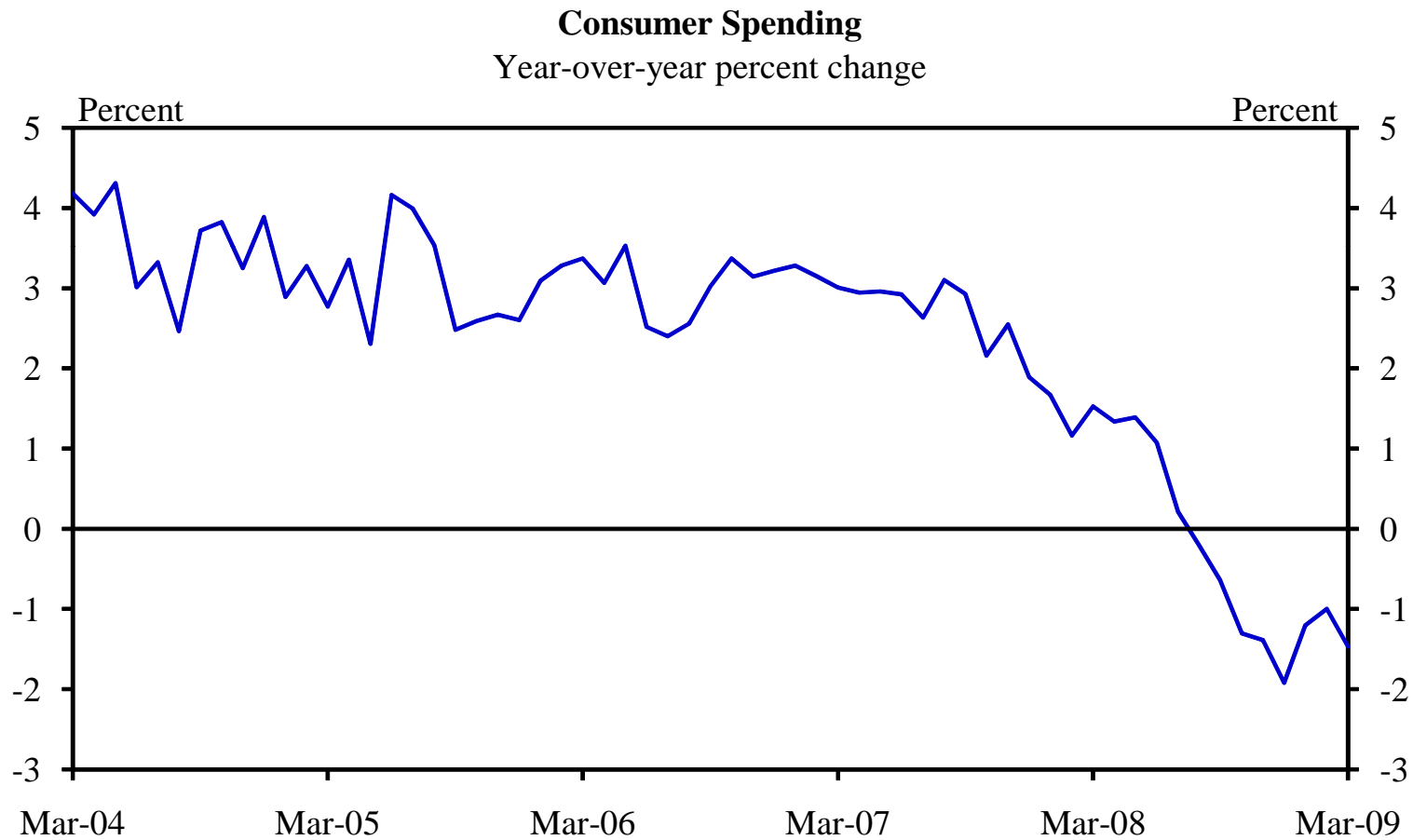


Source: Conference Board

Latest release: 04/28/2009



# Consumers are spending less. . .



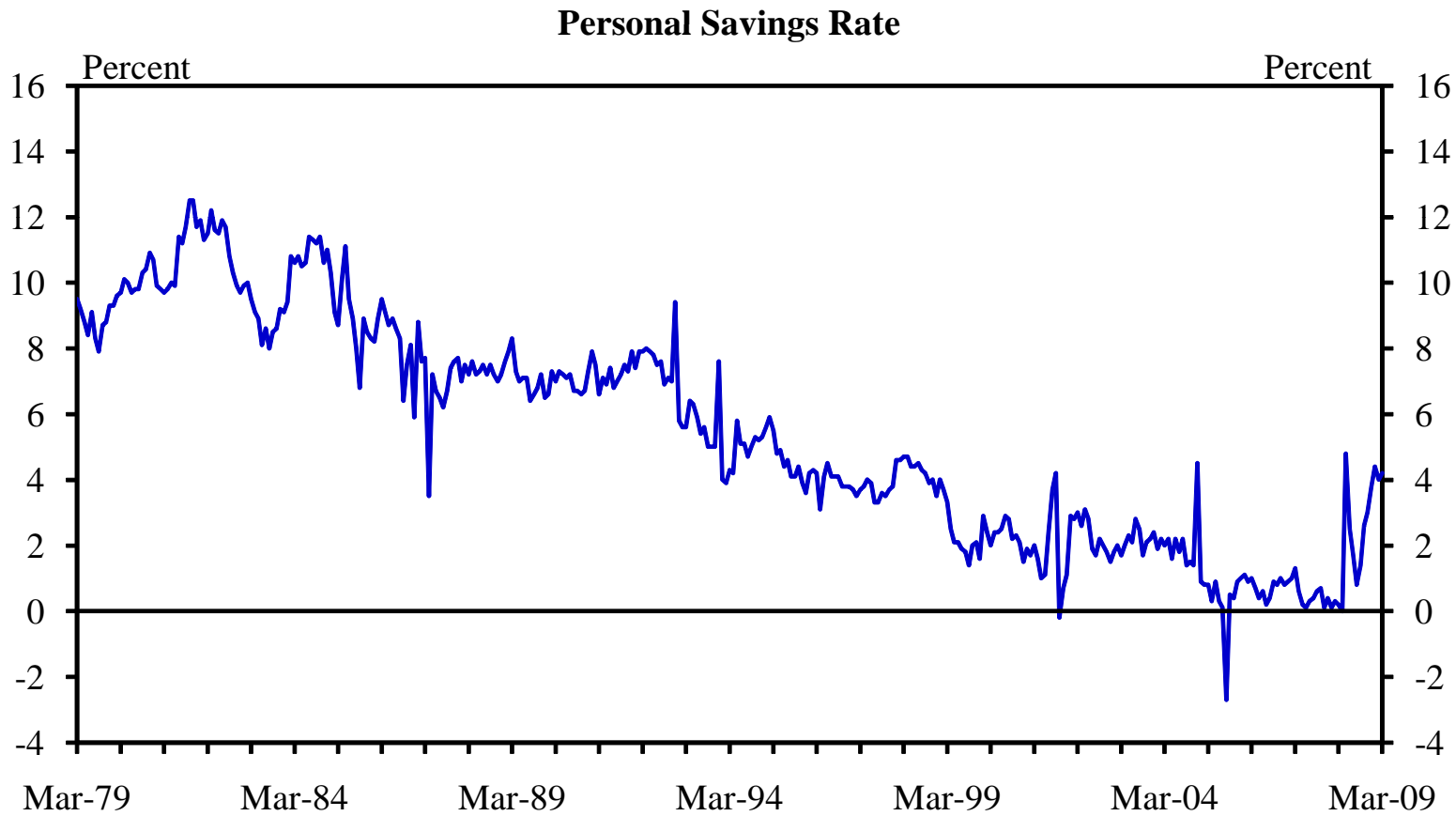
Source: BEA

Latest release: 04/30/2009





# And saving more.



Source: BEA

Latest release: 04/30/2009

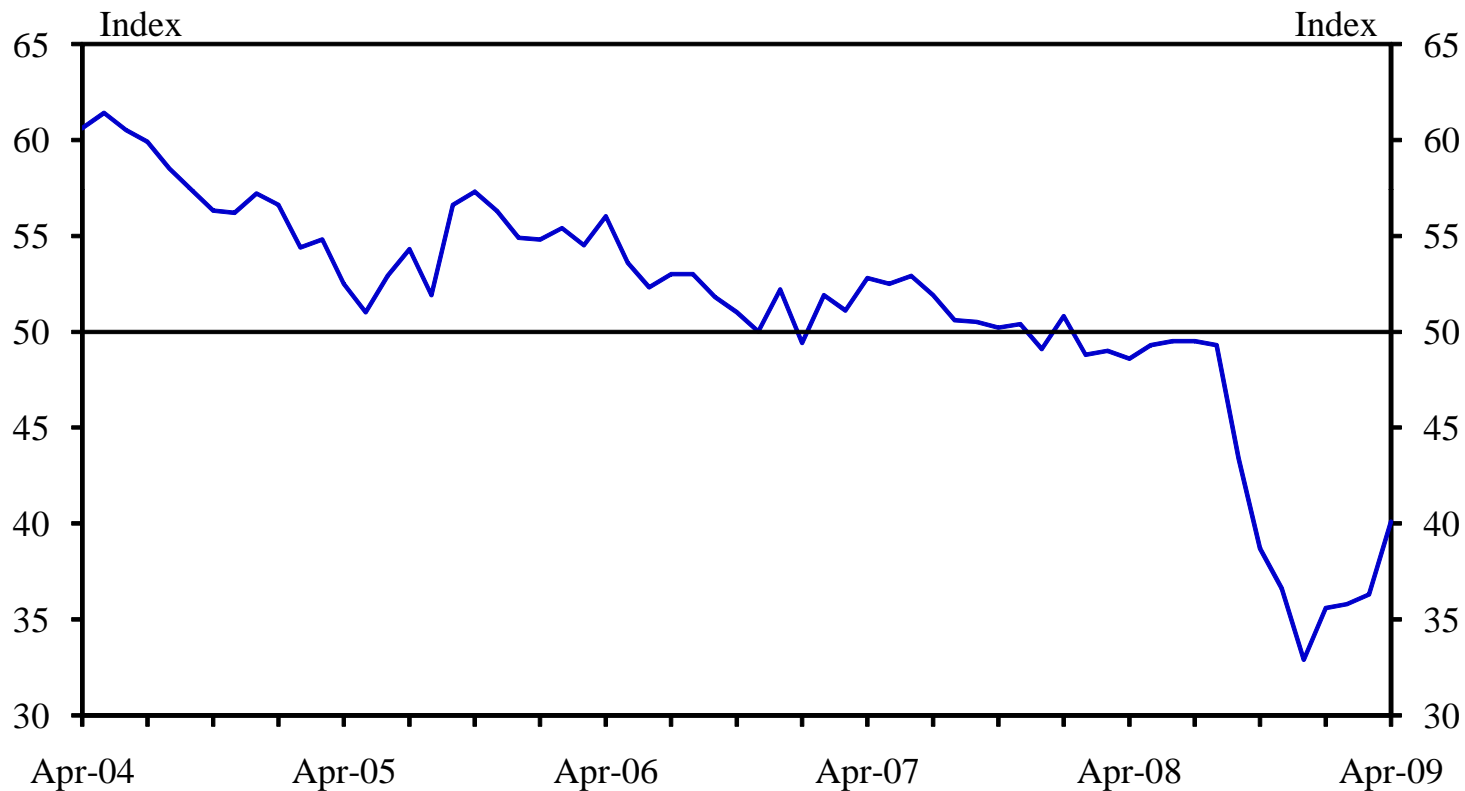


# Manufacturing



# The manufacturing sector continues to contract.

**Manufacturing Production (Month-Over-Month)**  
Seasonally adjusted



Source: Institute for Supply Management

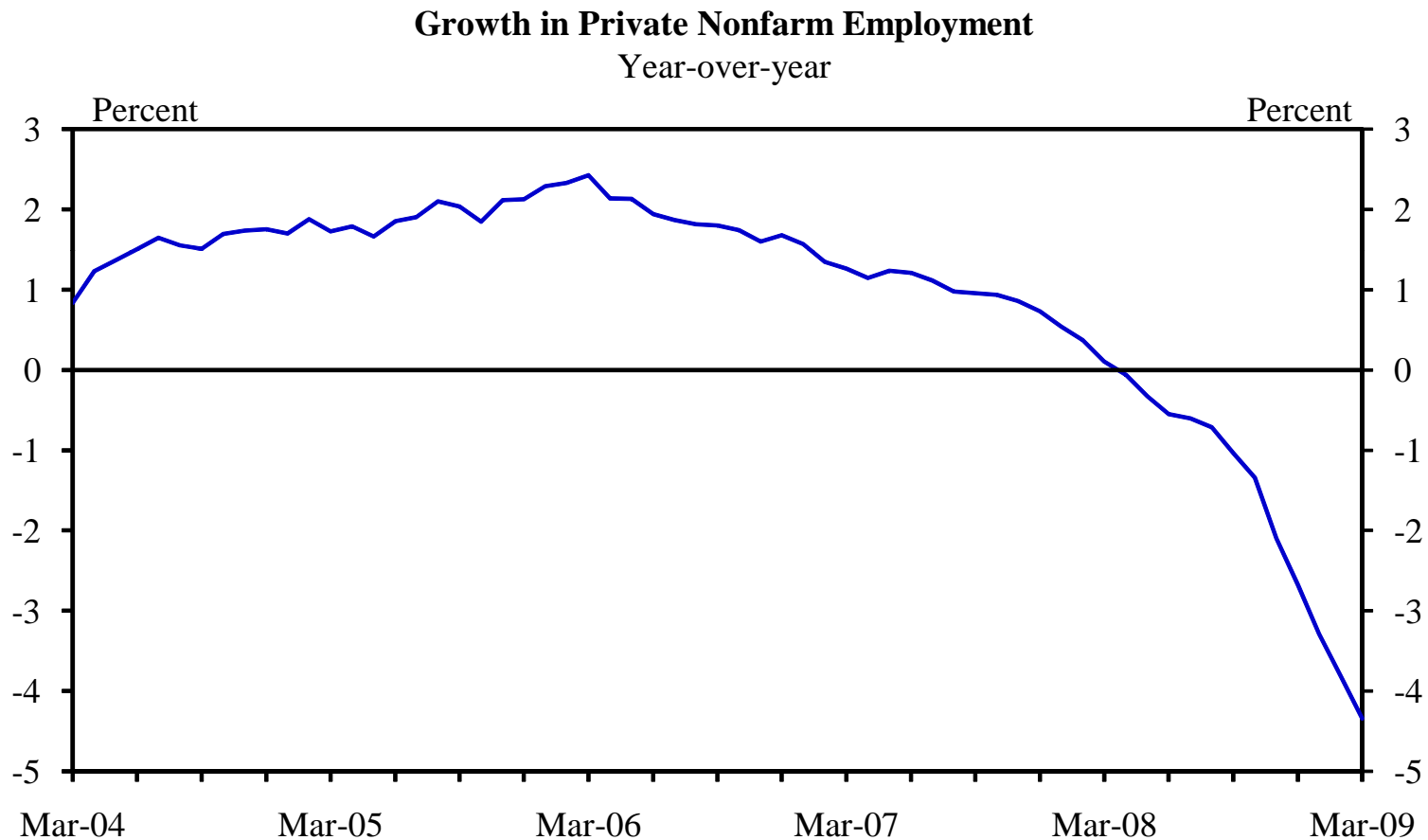
Latest release: 05/01/2009



# Labor Market



# Employment has fallen over 4% in the past year.



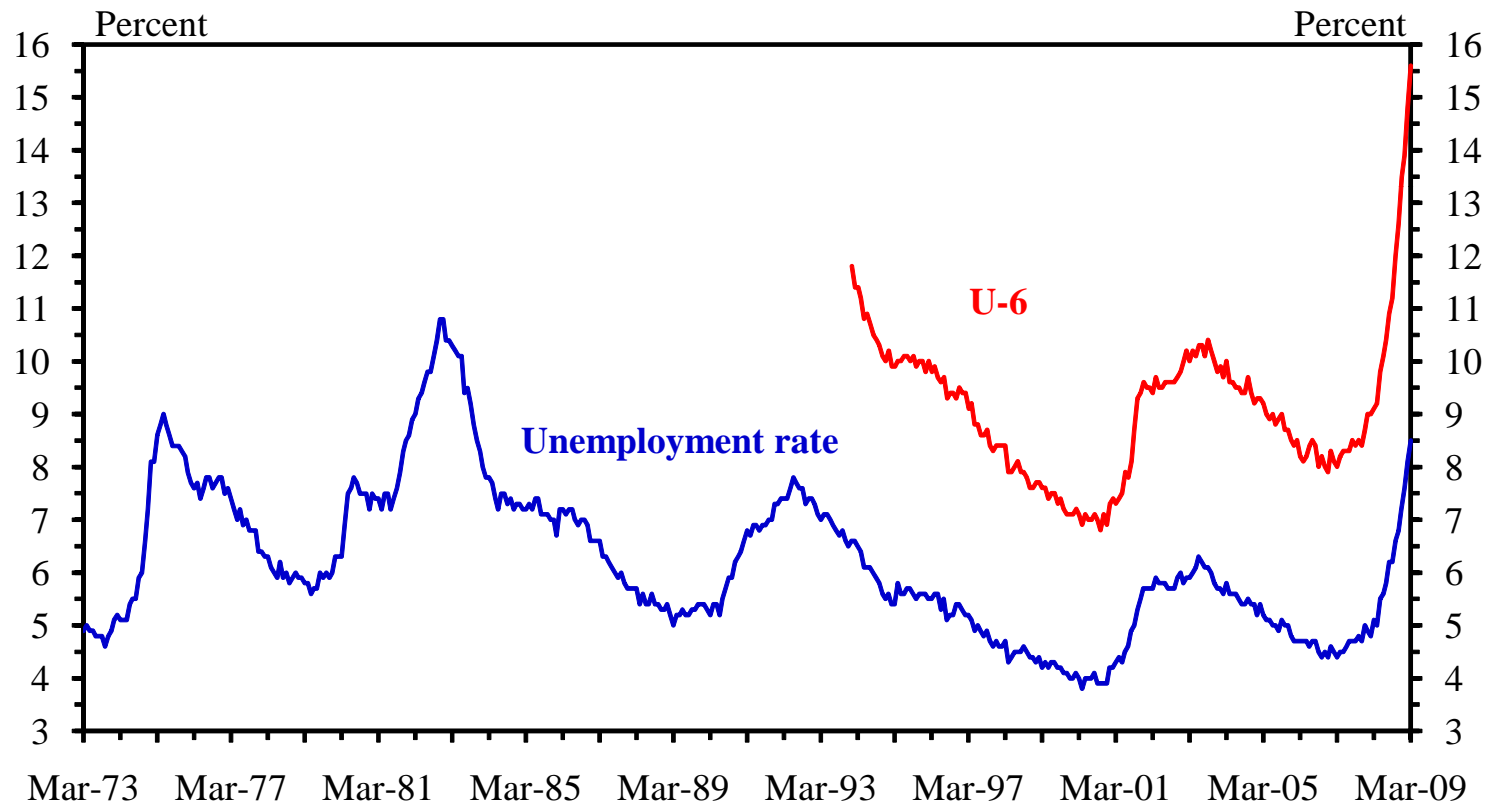
Source: Bureau of Labor Statistics

Latest release: 04/03/2009



# Unemployment rates continue to increase sharply.

**Unemployment Rate**  
Seasonally adjusted



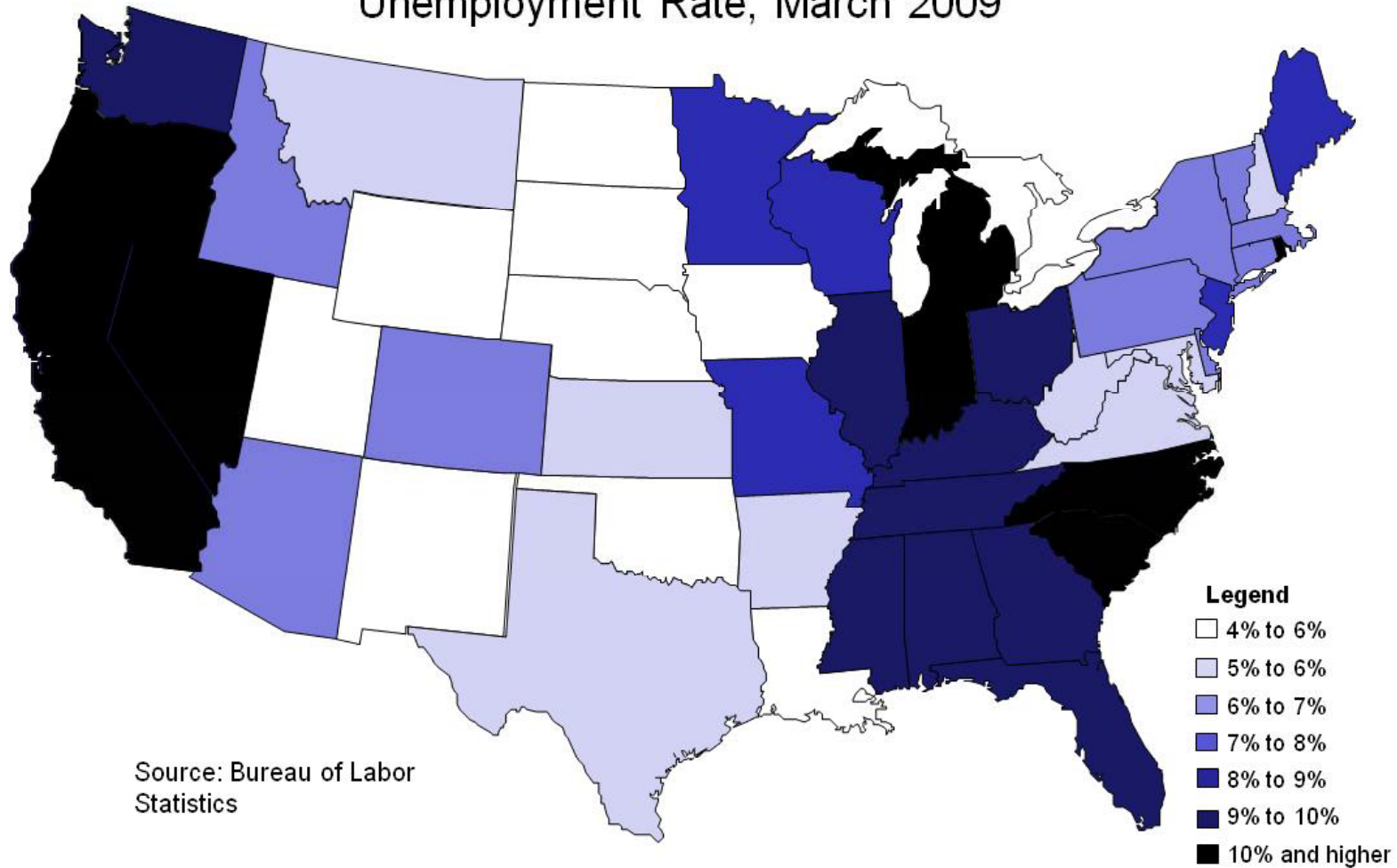
Source: Bureau of Labor Statistics

Latest release: 04/03/2009



# The middle of the country is faring better than the coasts.

Unemployment Rate, March 2009

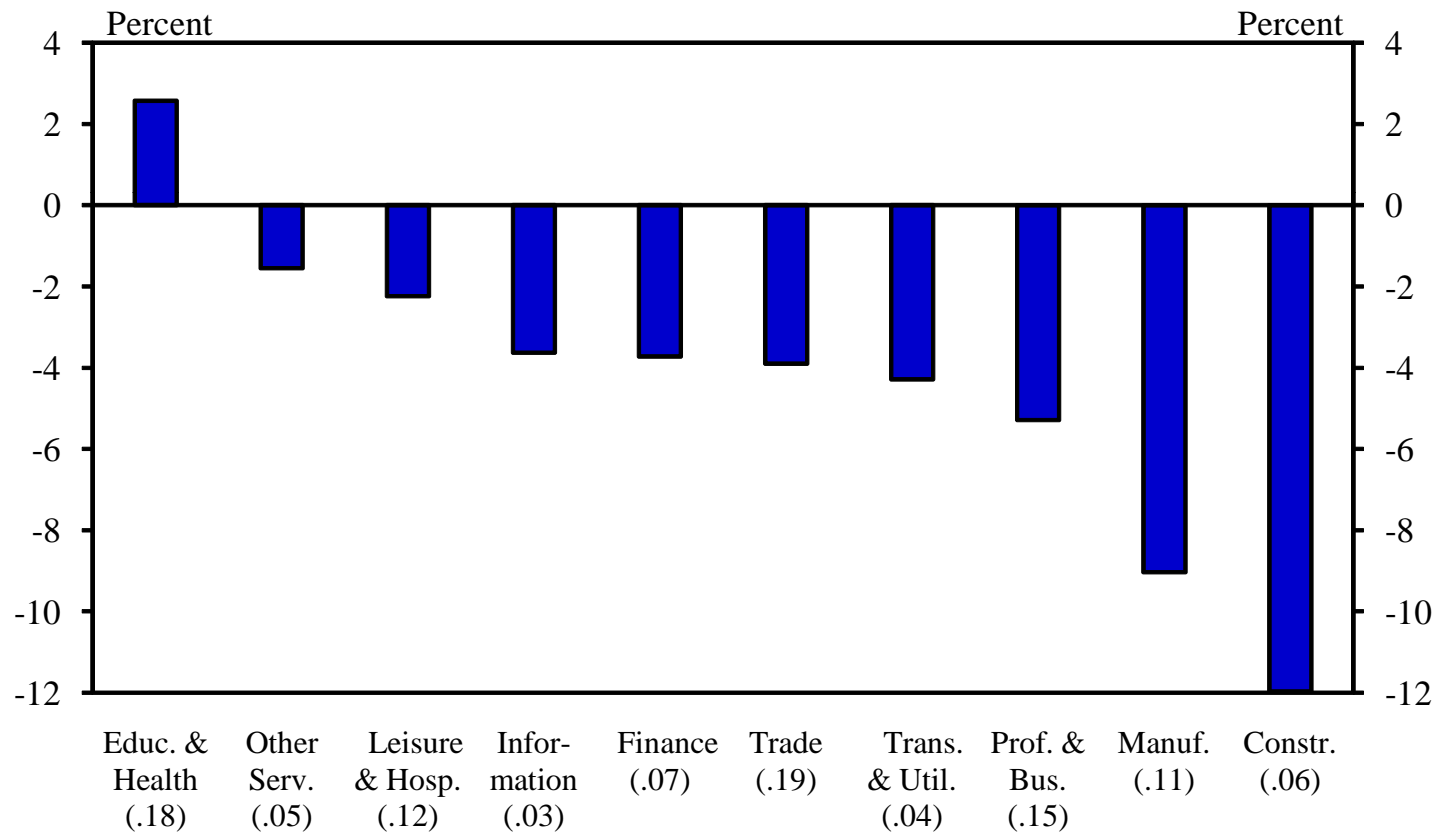


Source: Bureau of Labor Statistics



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

**Private Job Growth by Industry**  
Mar-09 over Mar-08



Source: Bureau of Labor Statistics

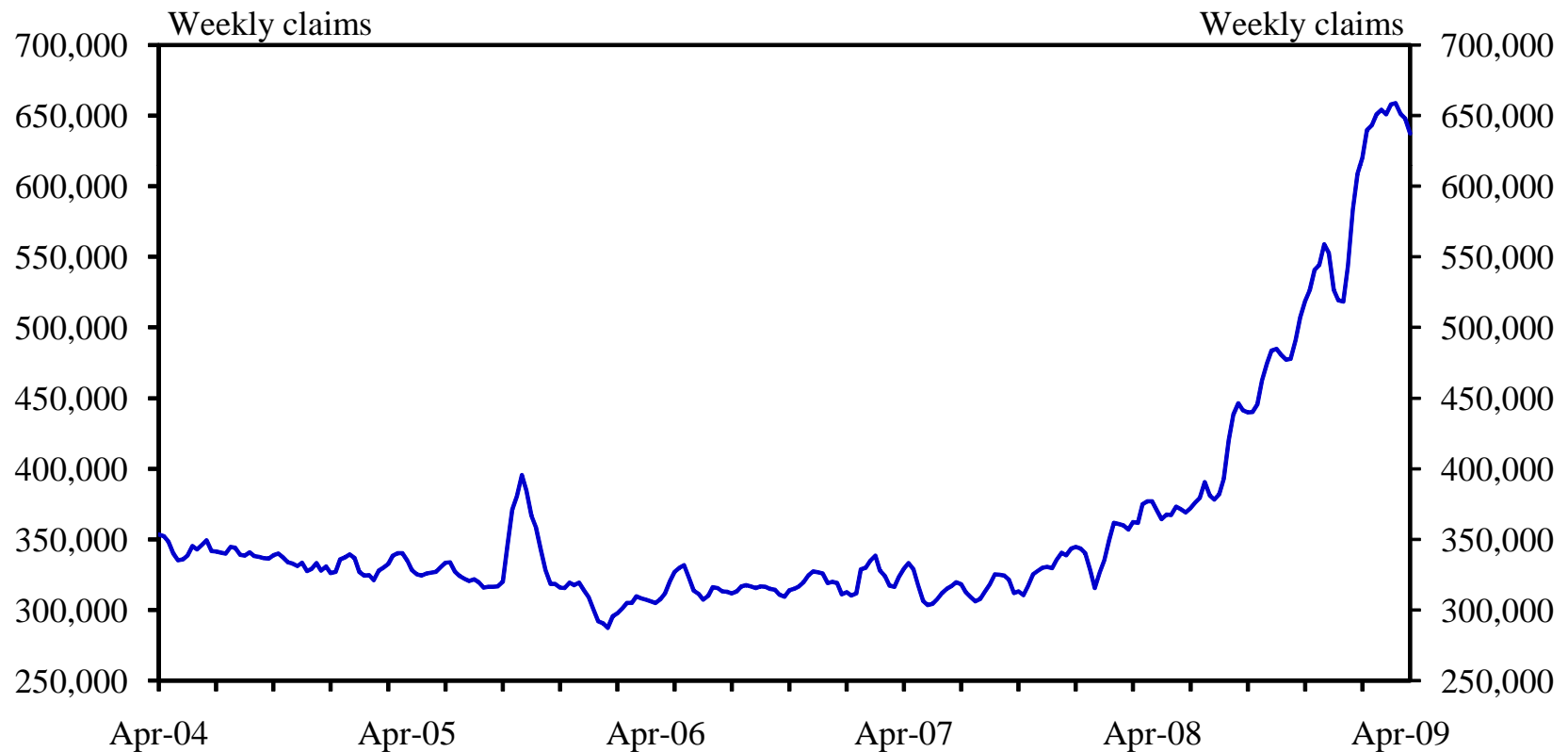
Latest release: 04/17/2009





# Initial unemployment claims remain elevated.

**Initial Unemployment Claims**  
4-week moving average



Source: Department of Labor

Latest release: 04/30/2009





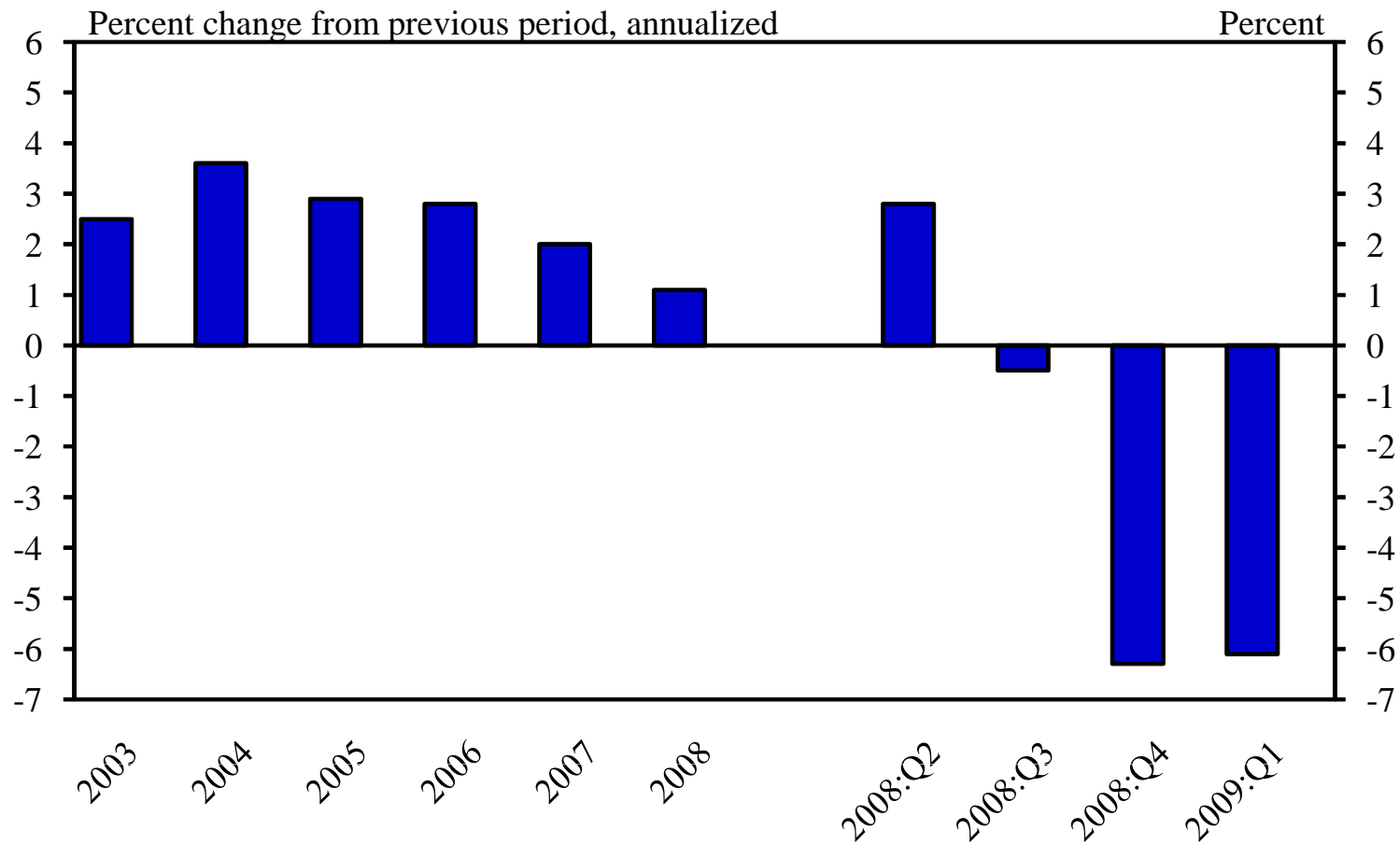
---

# U.S. Economic Activity



# Real GDP has declined in three consecutive quarters.

Real Gross Domestic Product



Source: Bureau of Economic Analysis

Latest release: 04/29/2009



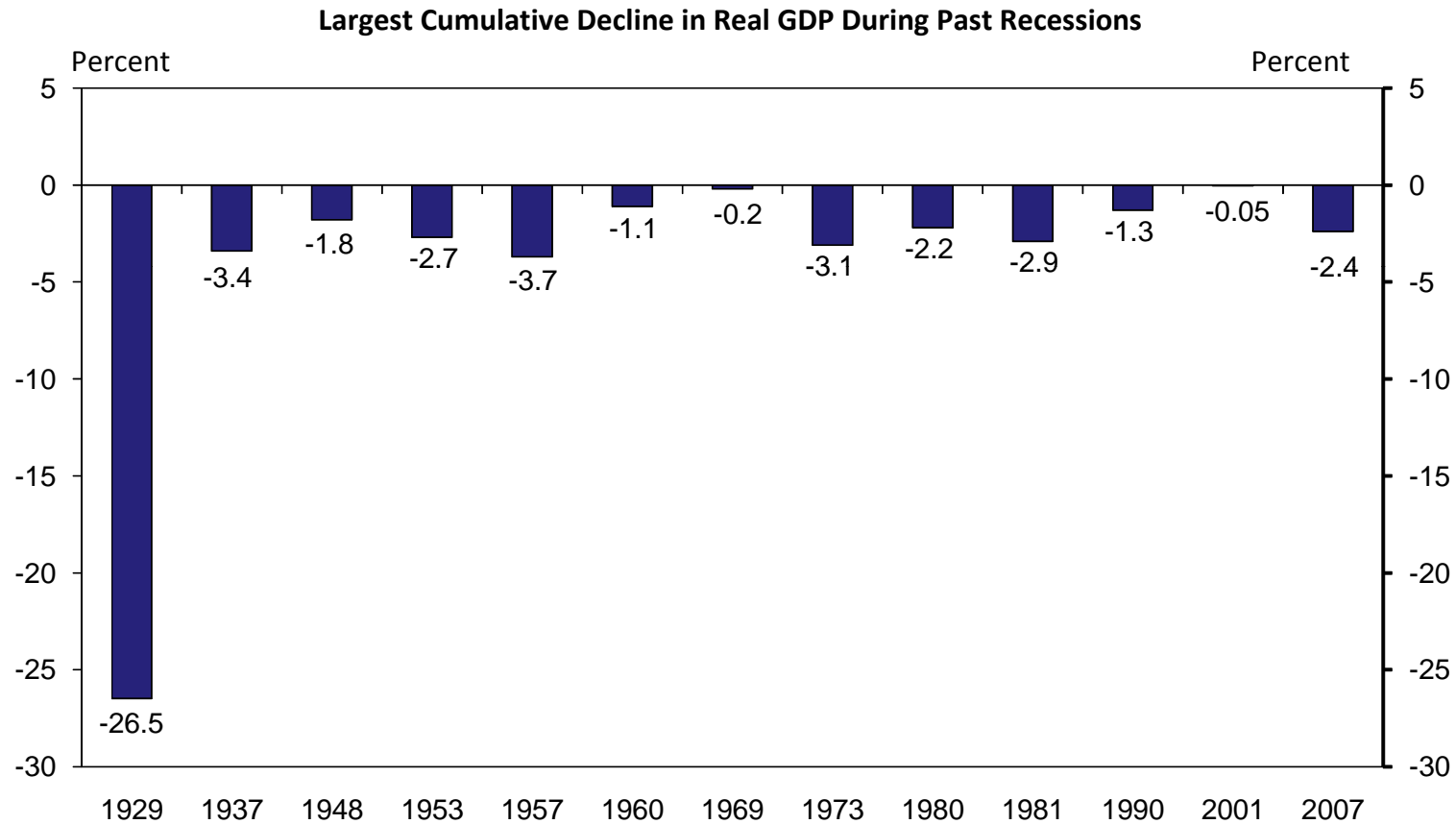


---

# Putting This Recession In Perspective



# Real GDP is expected to decline more than in the previous two recessions.



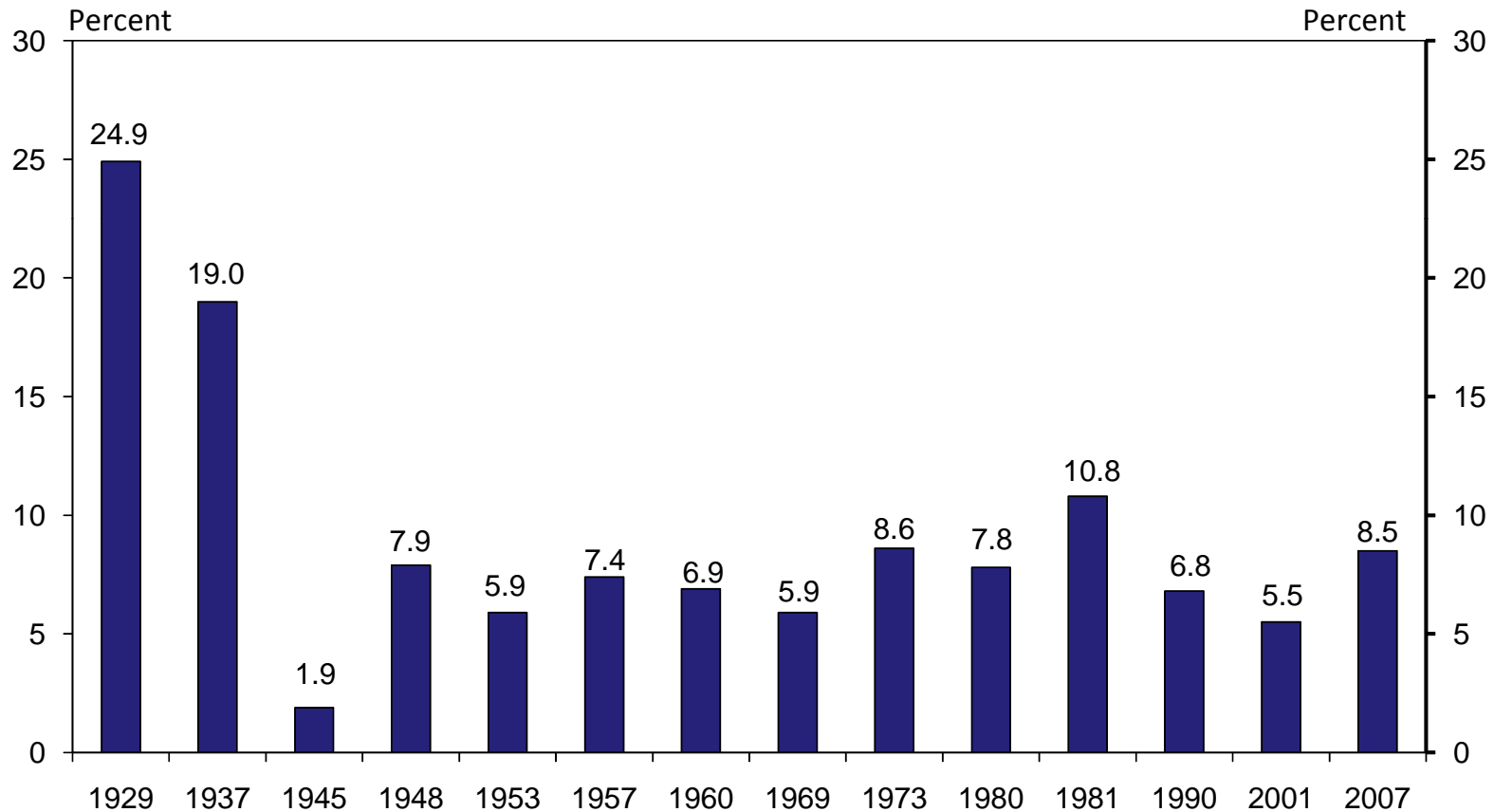
Source: Federal Reserve Bank of Minneapolis, Bureau of Economic Analysis

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.

Peak Unemployment Rate During Past Recessions

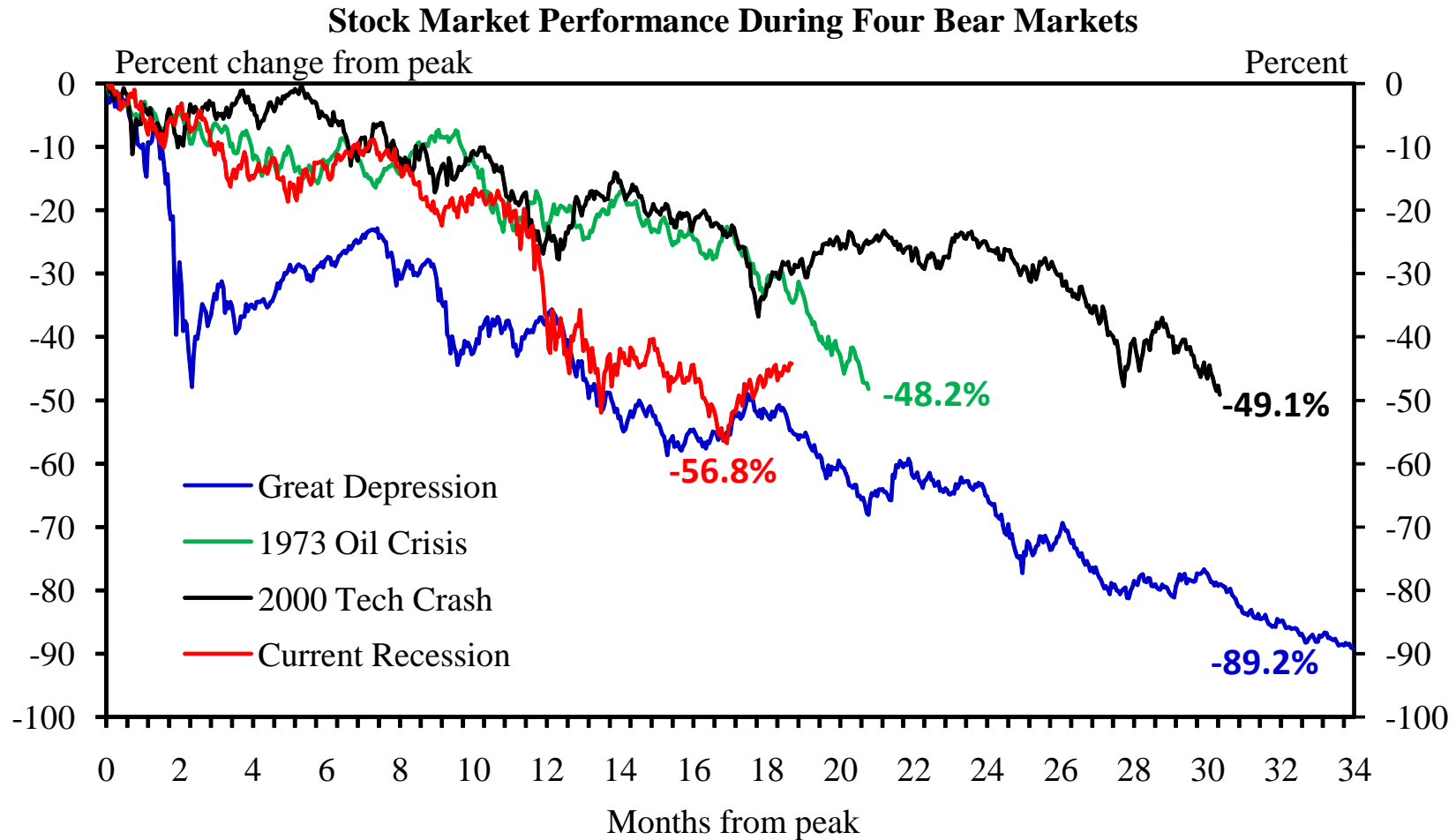


Source: Bureau of Labor Statistics

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

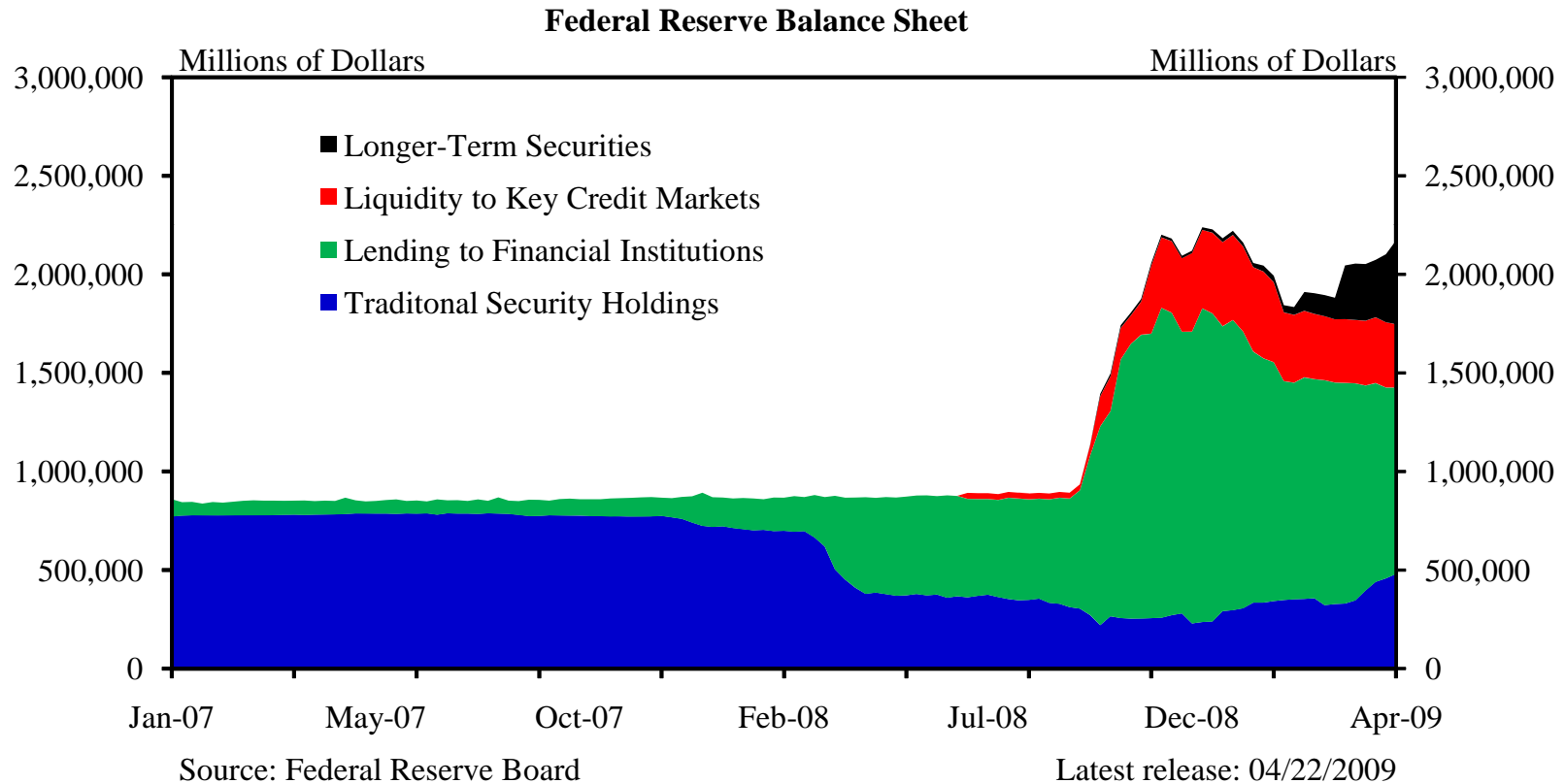
- Lowered the Fed Funds rate
- Purchased long-term securities
- Implemented numerous liquidity facilities

## □ U.S. Treasury and Congress

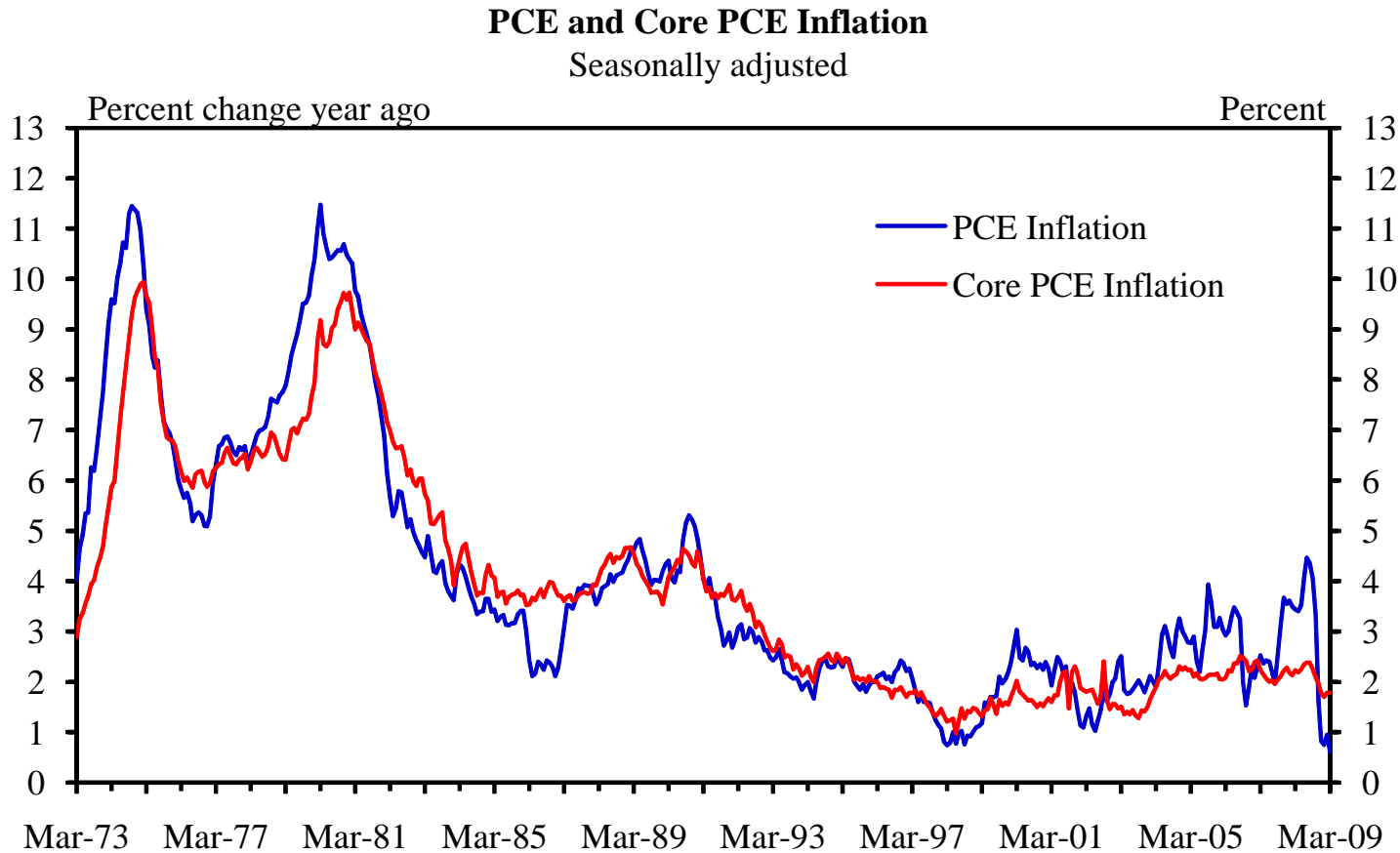
- TARP
- Fiscal stimulus
- Foreclosure prevention policies



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



# Despite expansionary monetary policy, inflation remains contained.

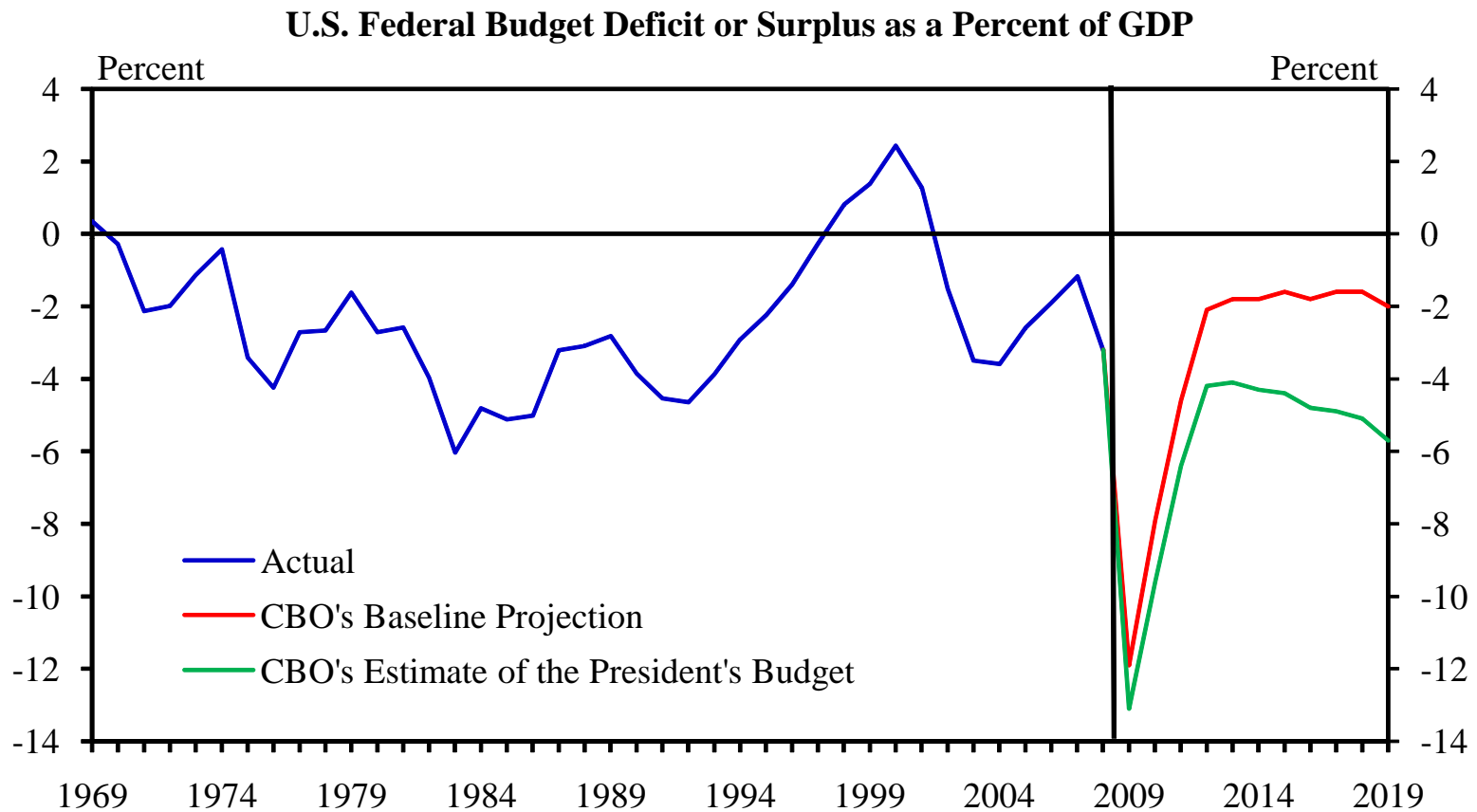


Source: Bureau of Economic Analysis

Latest release: 04/30/2009



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



Source: CBO

Latest release: 03/20/2009



Any Signs Of A Recovery?



# Some very 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 25% in the last two months.
- ❑ **Consumer confidence and spending:** Surveys show that consumer confidence increased in April.
- ❑ **Manufacturing:** The pace of contraction in the manufacturing industry has leveled off.
- ❑ **Labor markets:** Initial unemployment insurance claims (4-week average) have decreased in the past 2 weeks.



# 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?

