

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?

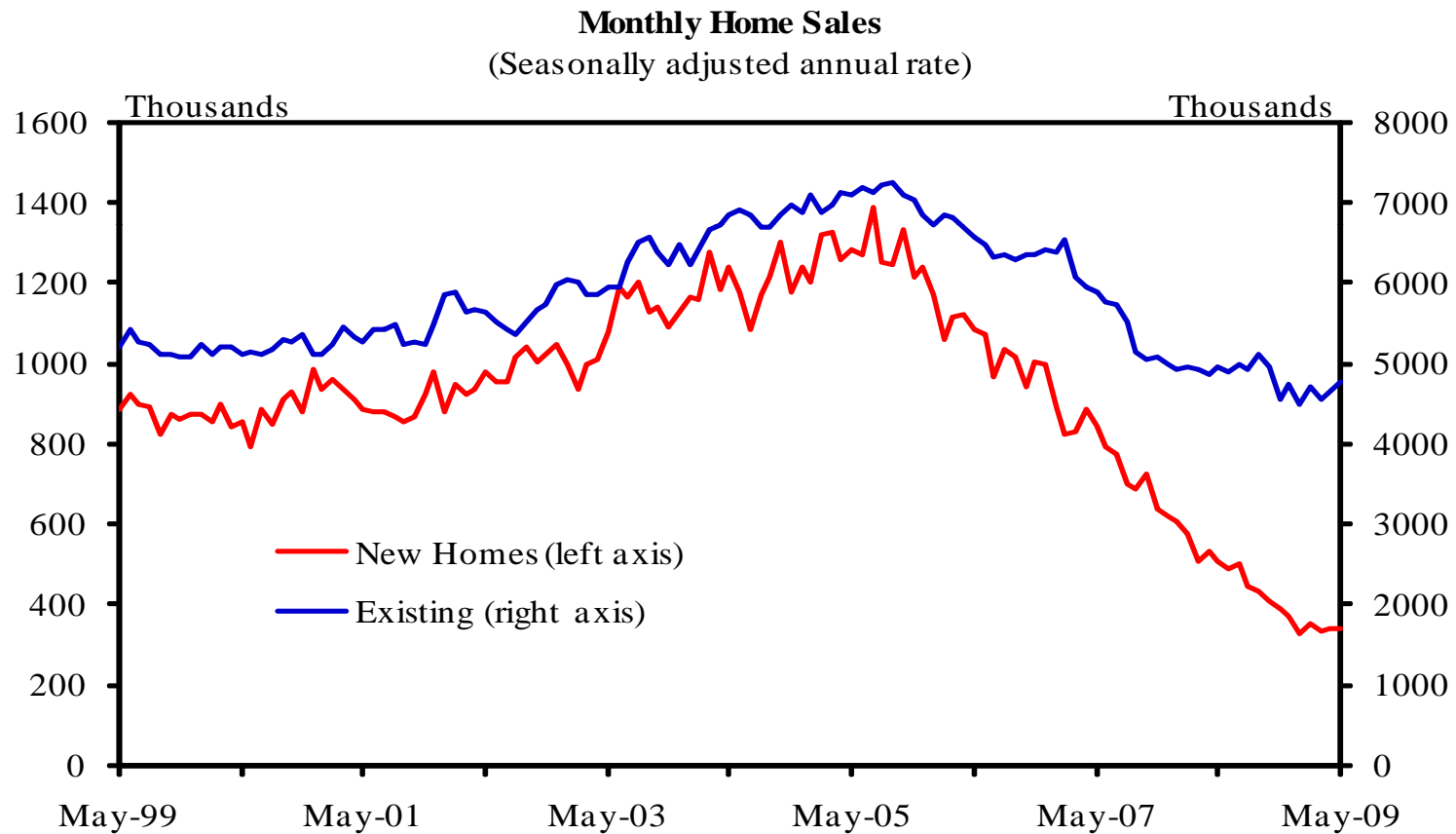




Housing and Construction Activity



Home sales have fallen sharply since late 2005.

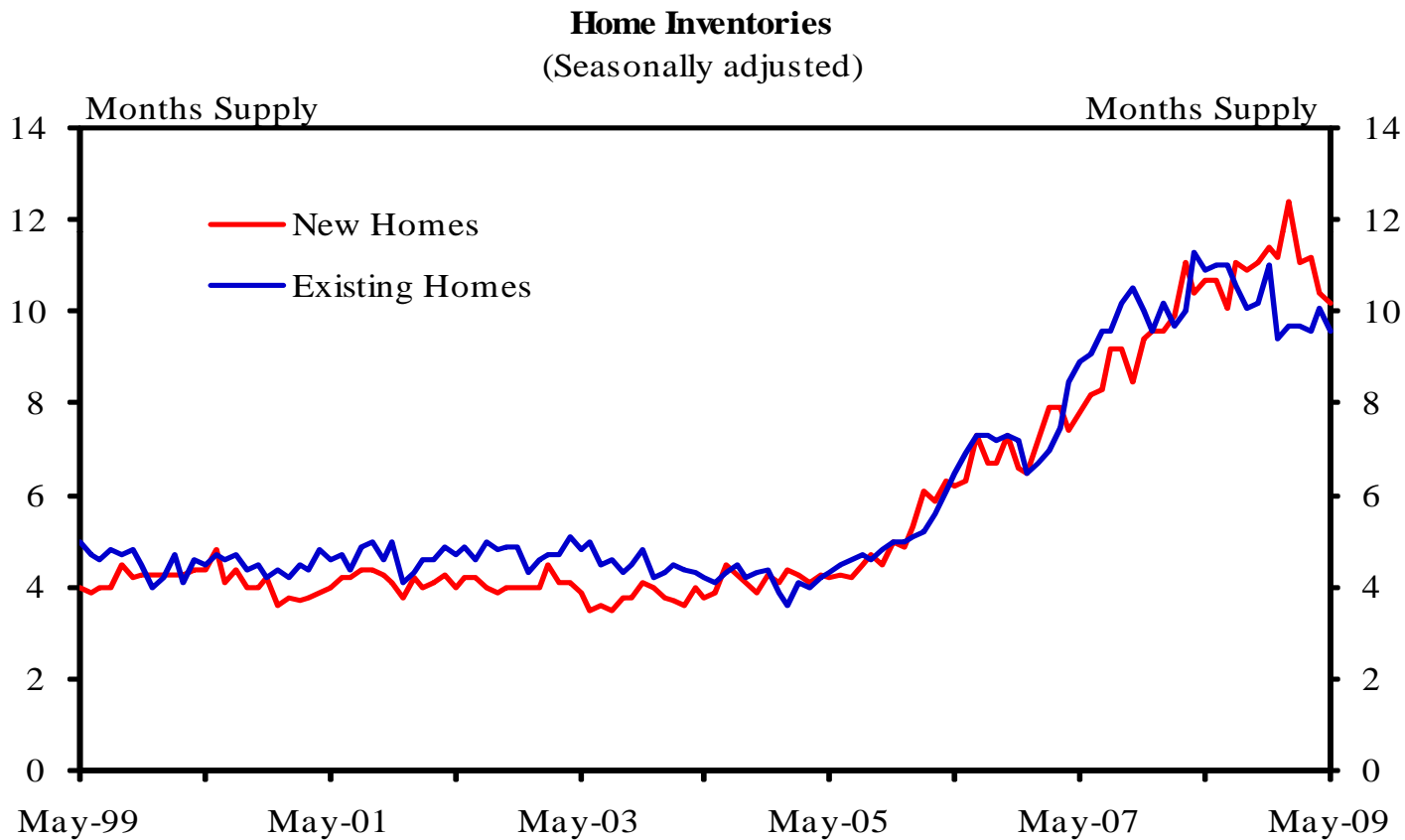


Source: Census Bureau and NAR

Latest release: 06/24/2009



Home inventory levels remain elevated.

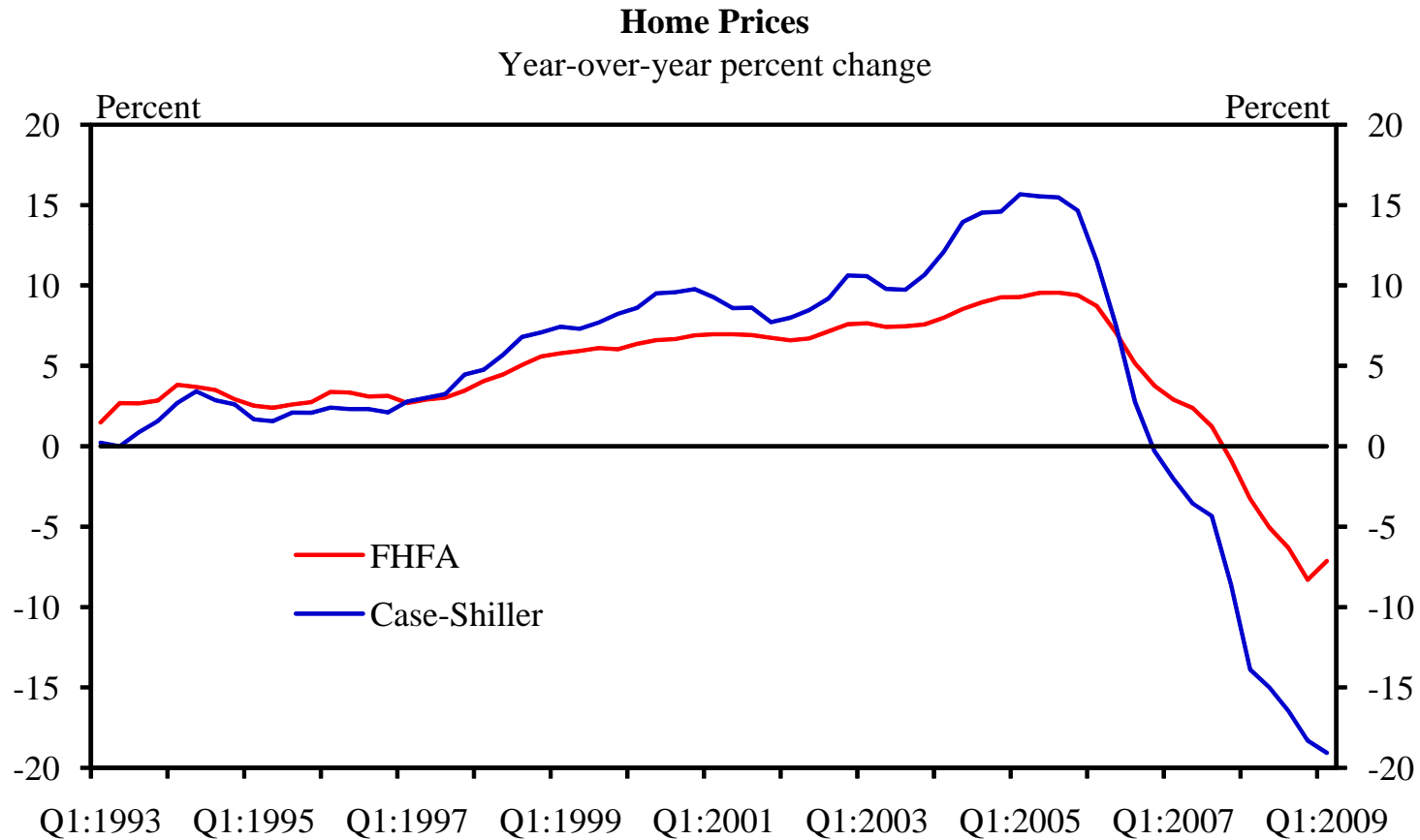


Source: Census Bureau

Latest release: 06/24/2009



Home prices are well below year-ago levels.

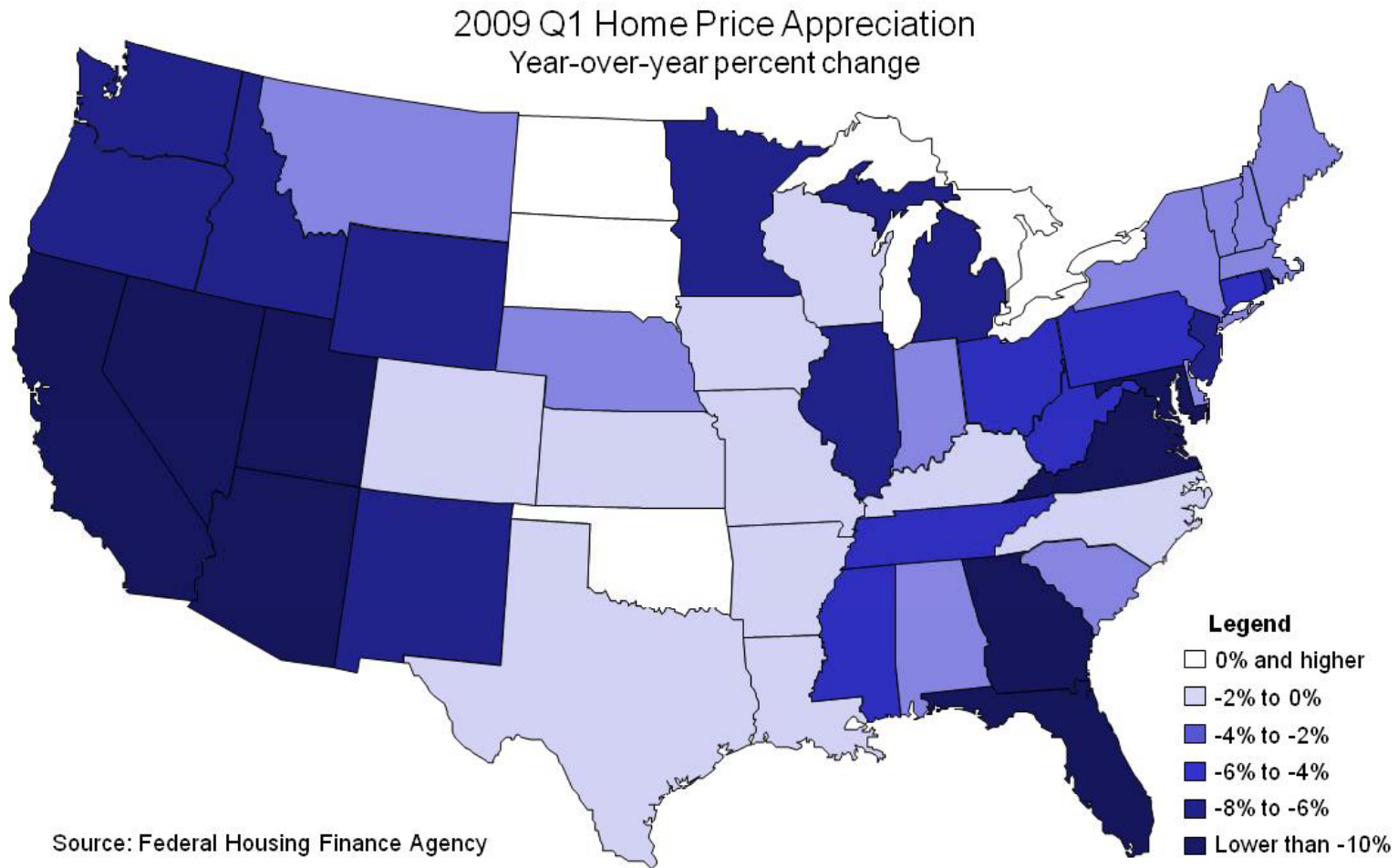


Source: Federal Housing Finance Agency and S&P

Latest release: 05/27/2009



Home price appreciation has varied widely across the nation.

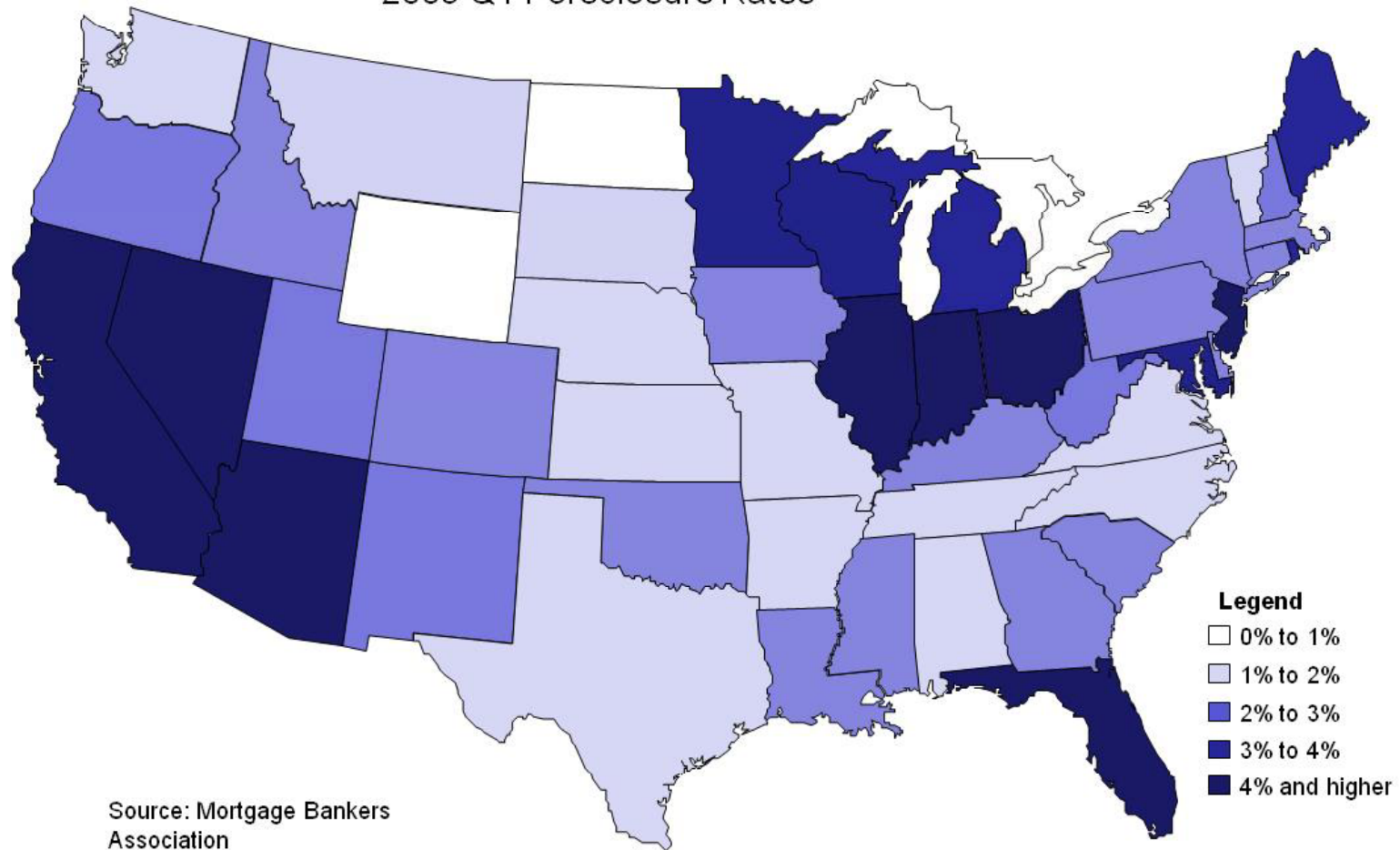


Source: Federal Housing Finance Agency



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

2009 Q1 Foreclosure Rates

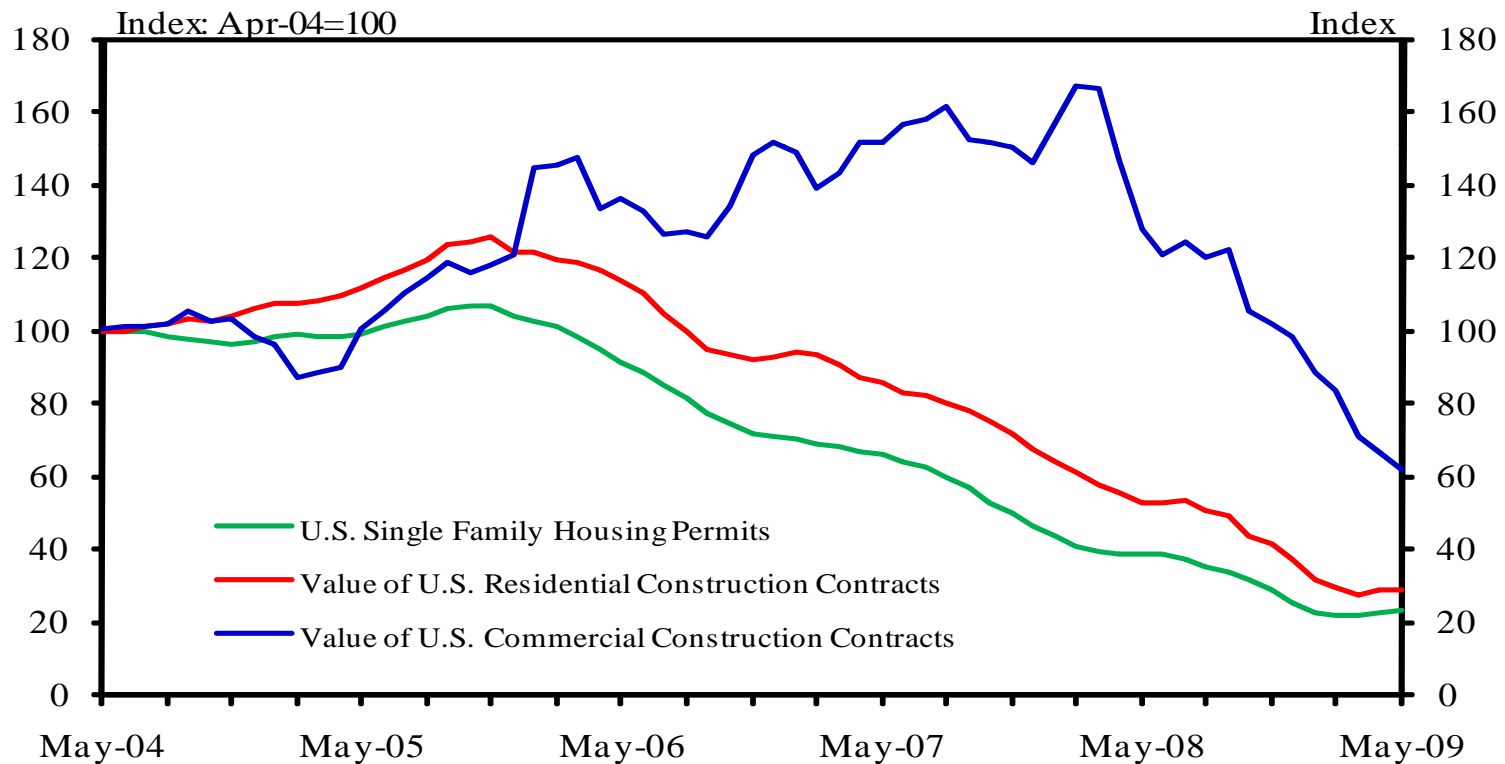


Source: Mortgage Bankers Association



Residential and commercial construction have slowed.

Single-Family Housing Permits and Construction Contracts



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

Latest release: 06/24/2009

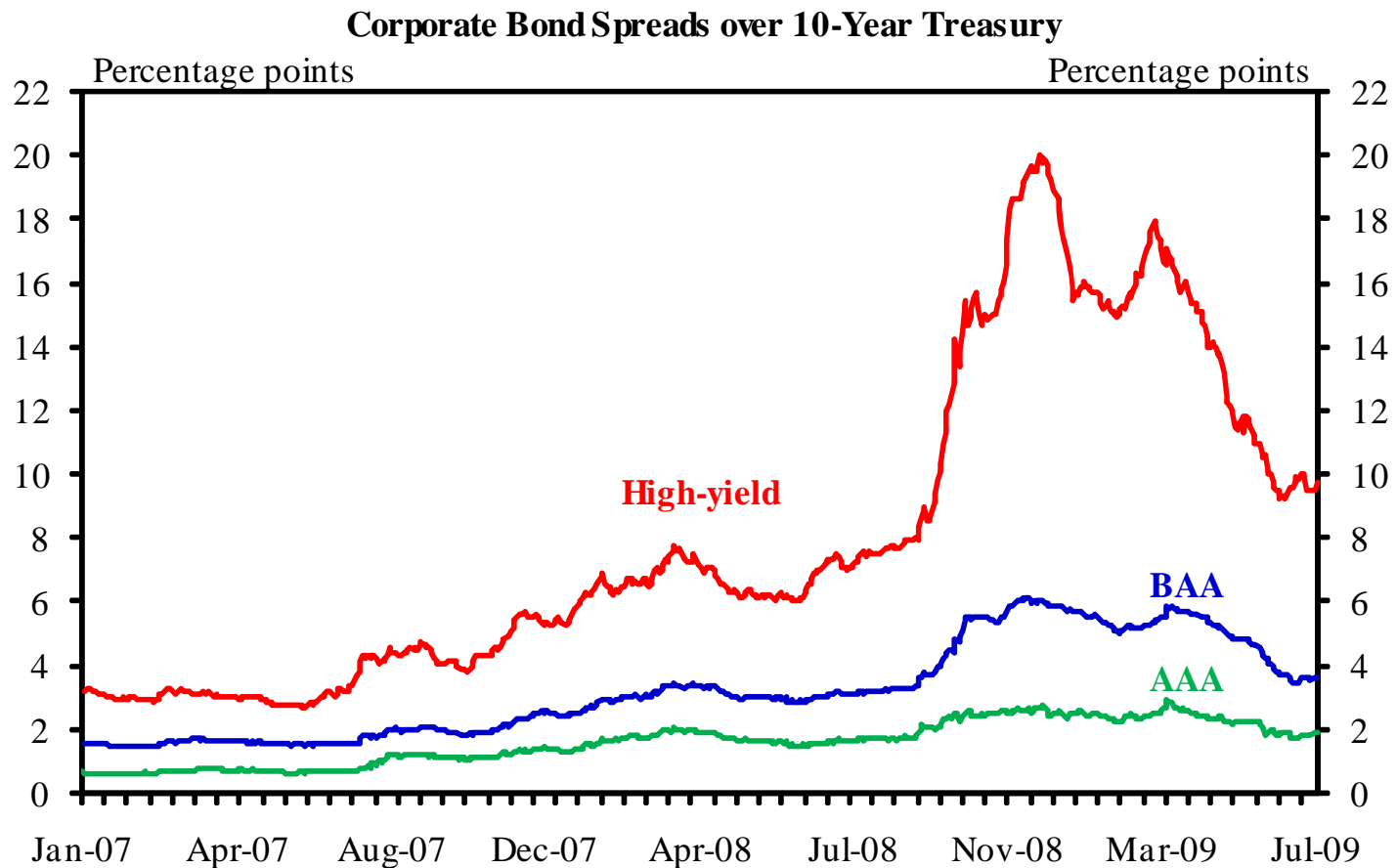




Financial Markets



Credit conditions are improving but remain stressed.

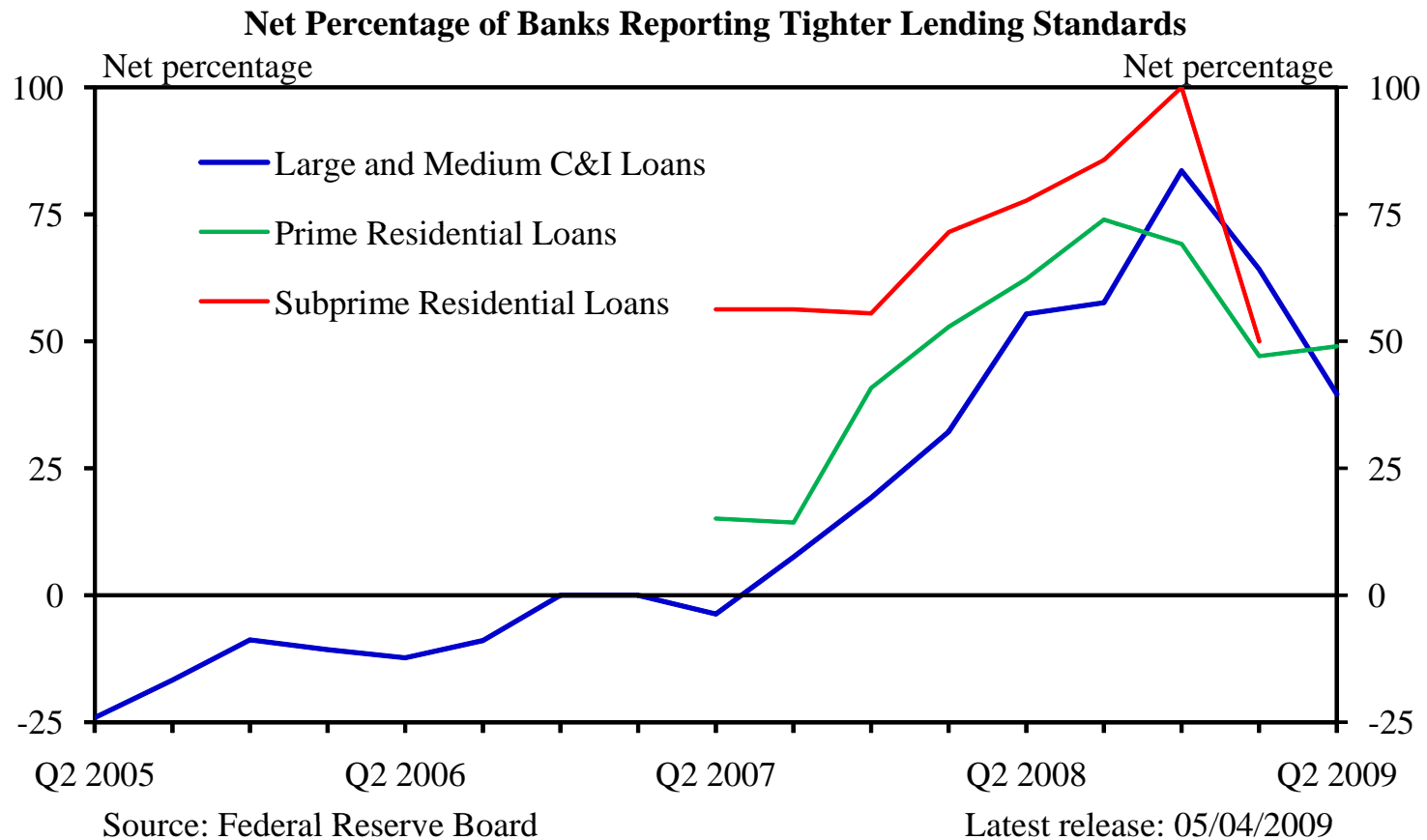


Source: Federal Reserve Board

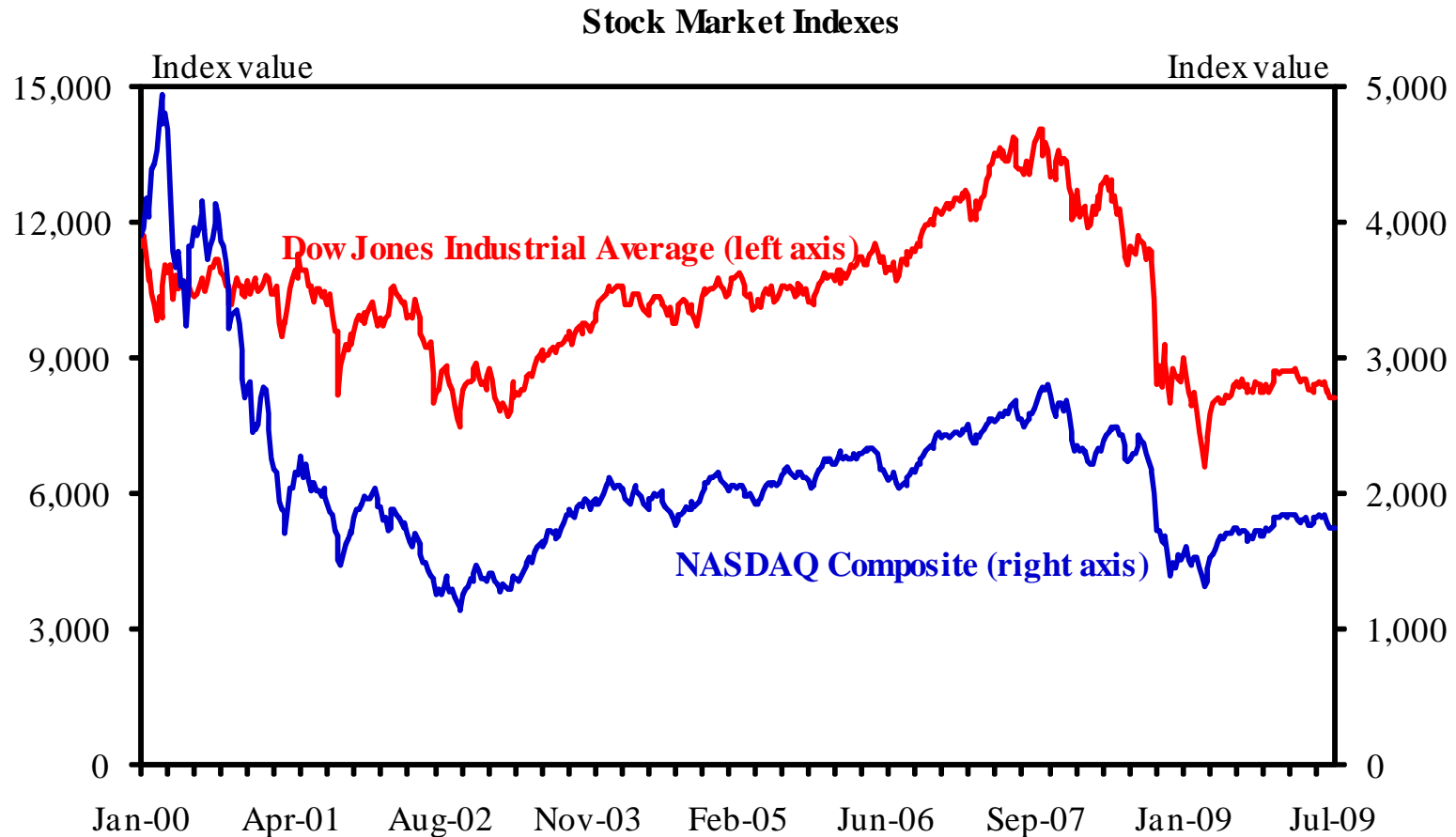
Latest release: 07/08/2009



Banks have tightened lending standards.



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



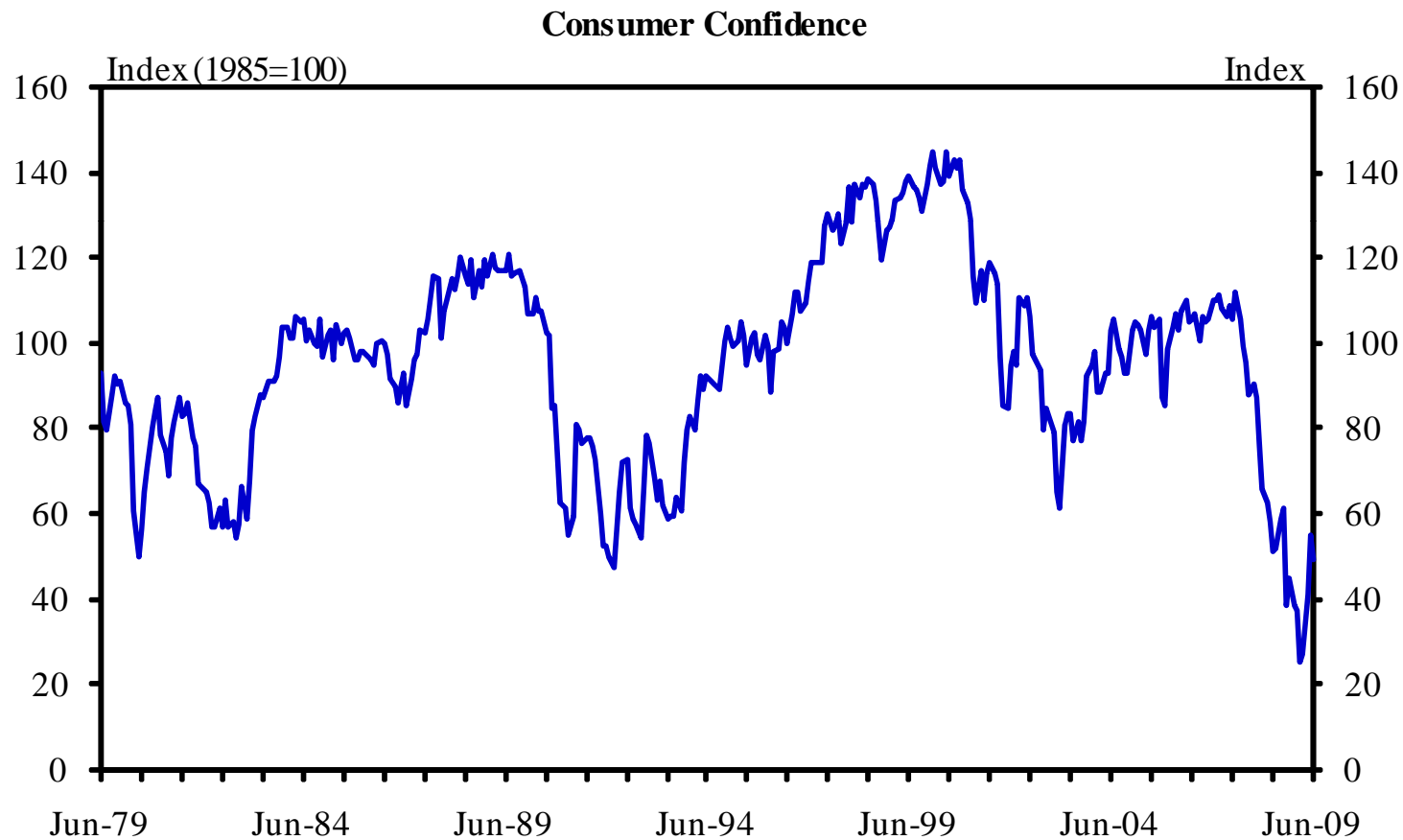
Source: Dow Jones and Nasdaq



Consumers



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

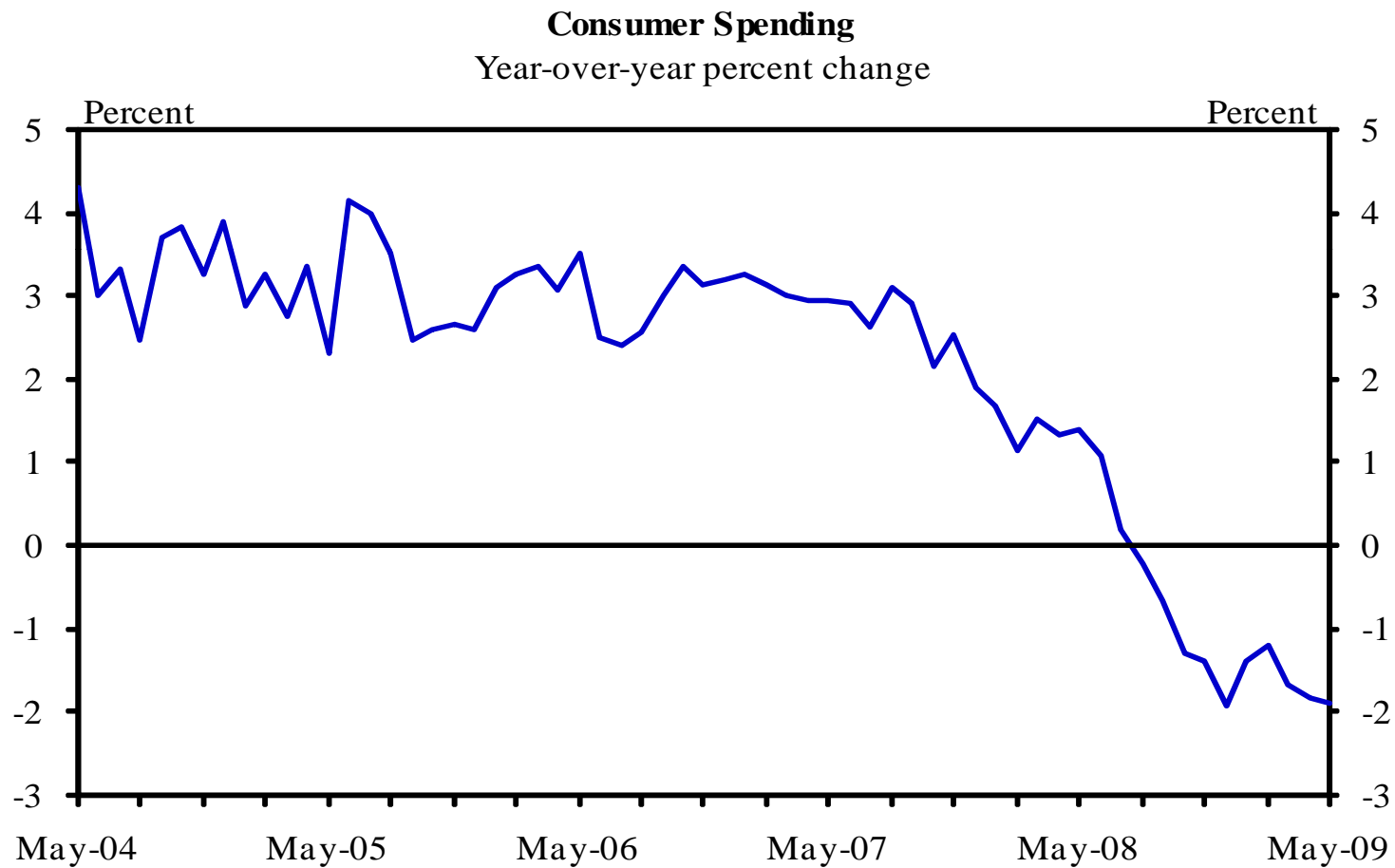


Source: Conference Board

Latest release: 06/30/2009



Consumers are spending less. . .

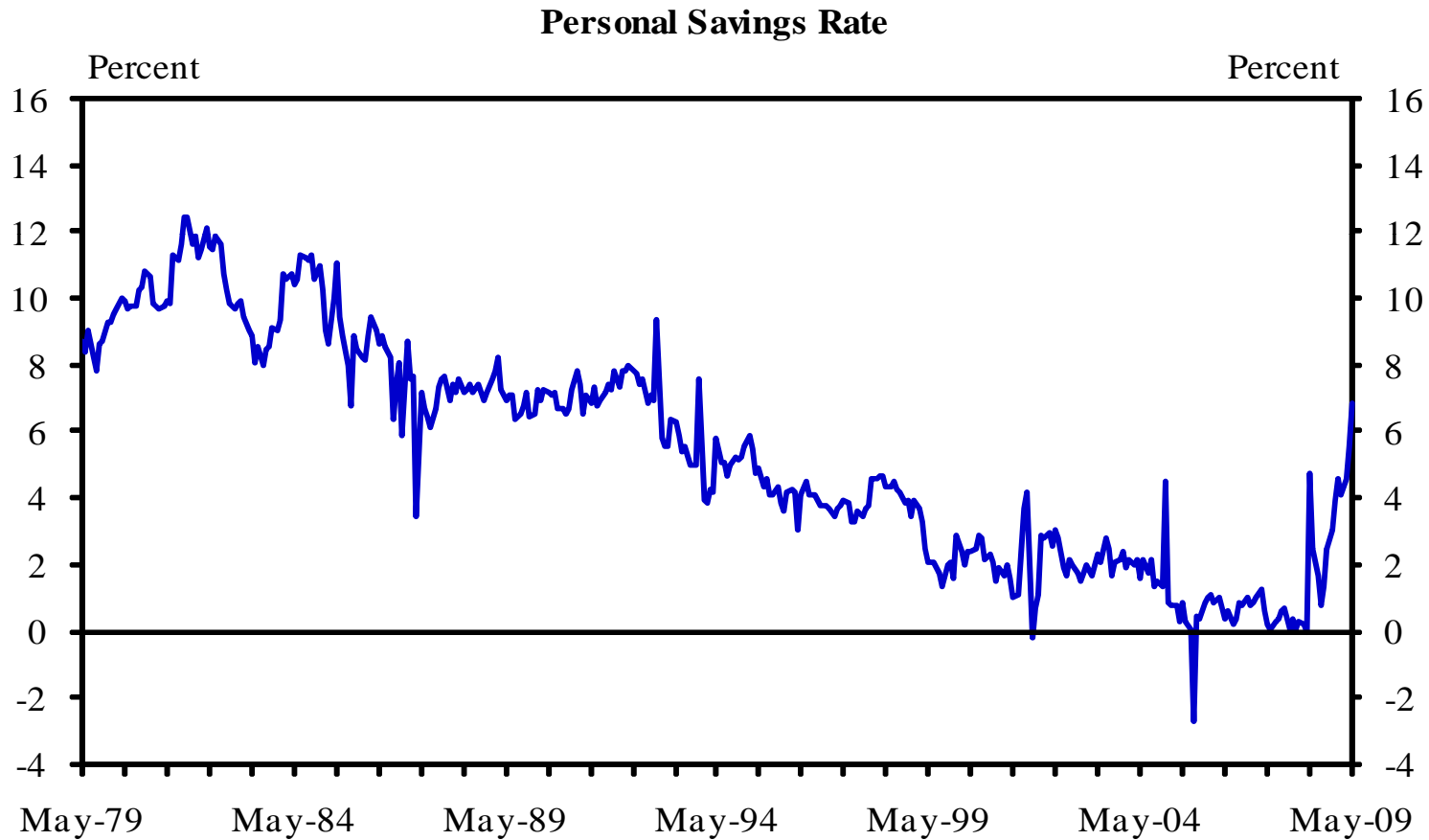


Source: BEA

Latest release: 06/26/2009



And saving more.



Source: BEA

Latest release: 06/26/2009



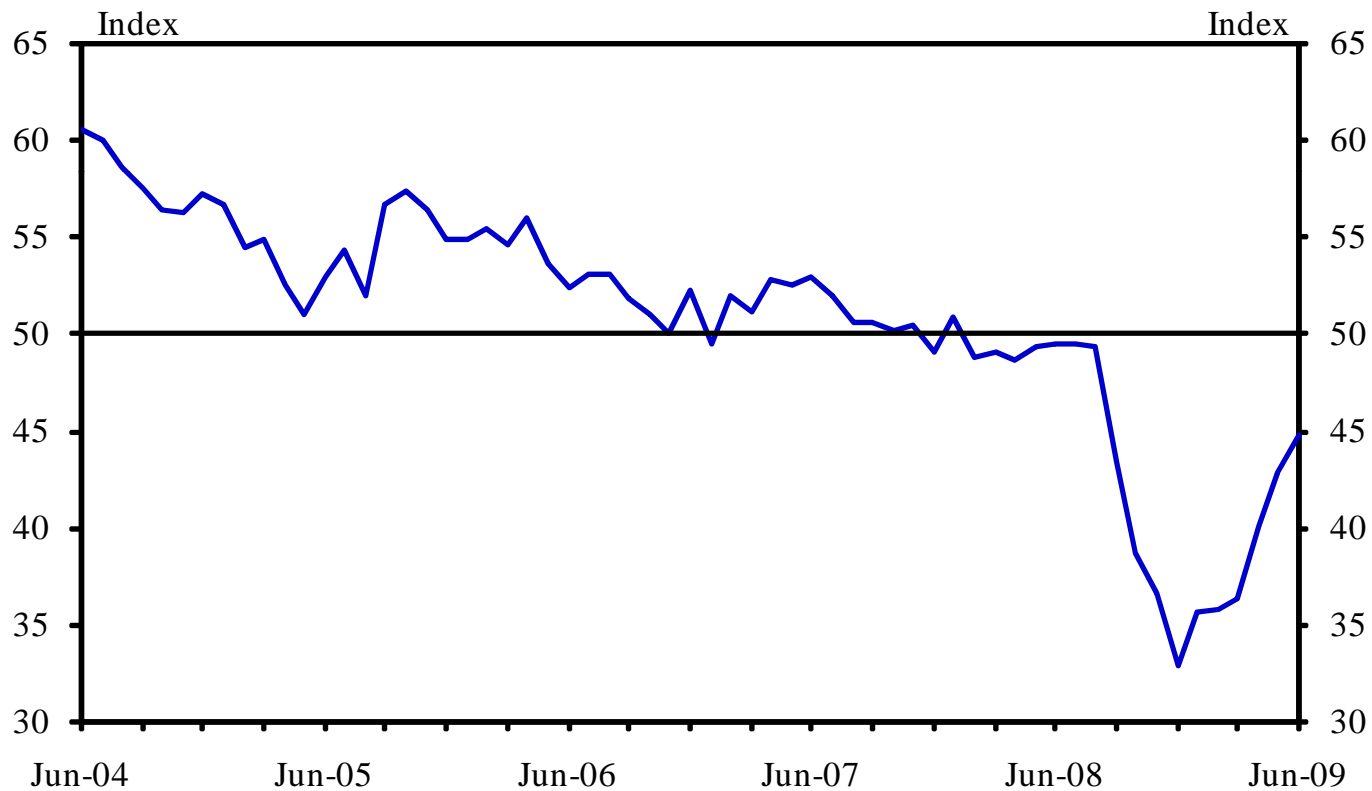


Manufacturing



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

Manufacturing Production (Month-Over-Month)
Seasonally adjusted



Source: Institute for Supply Management

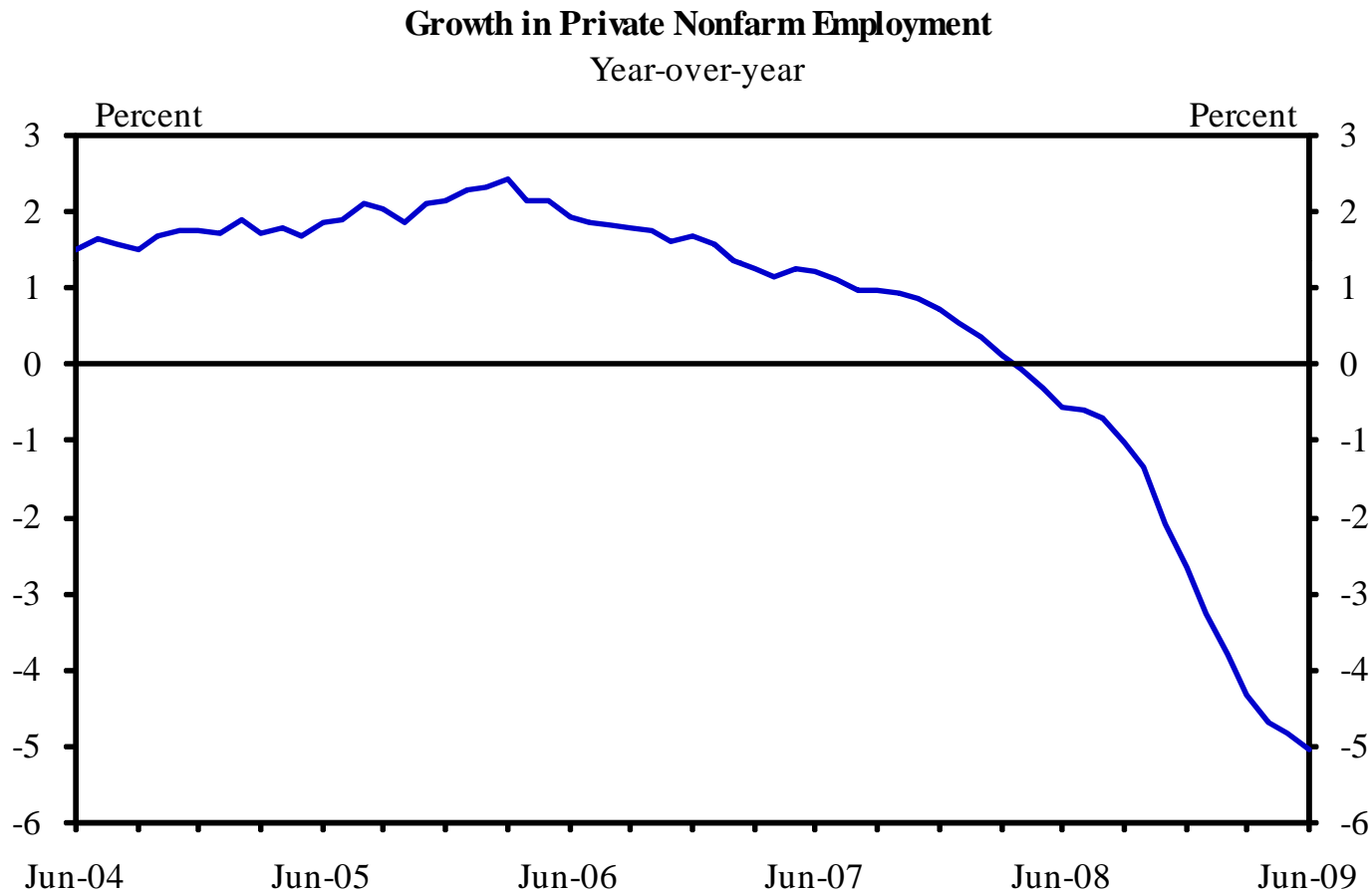
Latest release: 07/01/2009



Labor Market



U.S. employment has fallen over 5% in the past year.



Source: Bureau of Labor Statistics

Latest release: 07/02/2009



Unemployment rates continue to increase sharply.



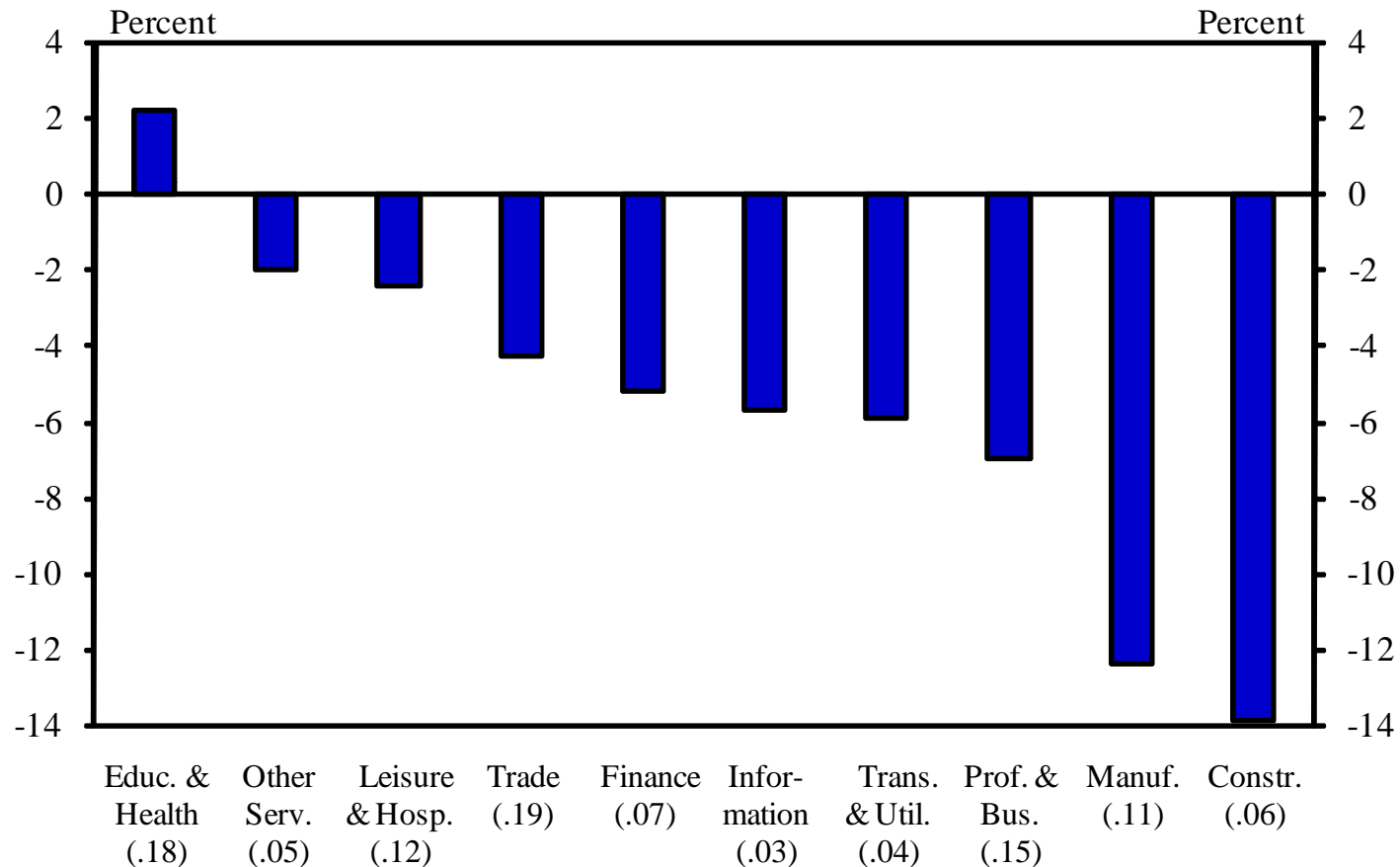
Source: Bureau of Labor Statistics

Latest release: 07/02/2009



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

Private Job Growth by Industry
Jun-09 over Jun-08

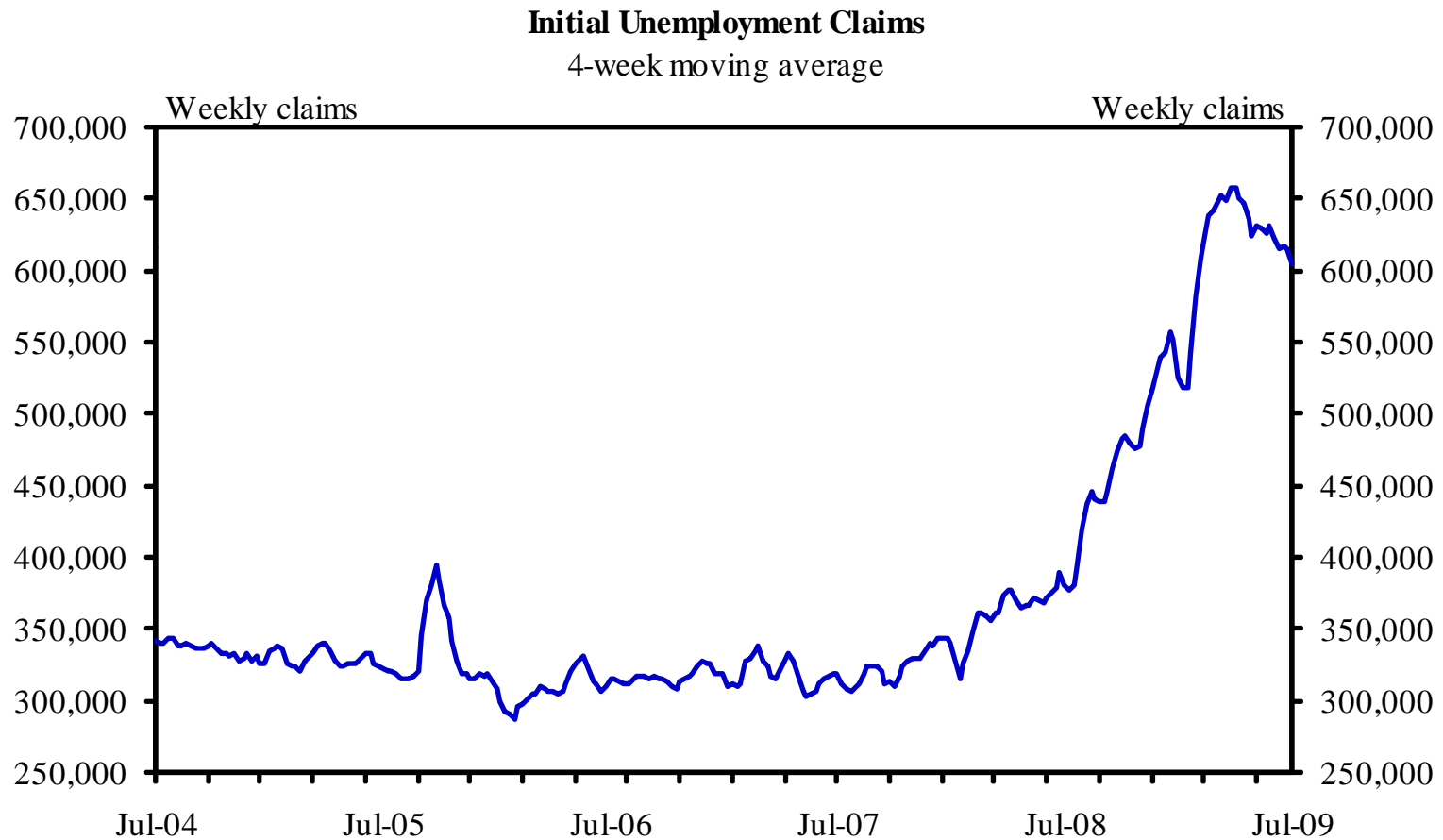


Source: Bureau of Labor Statistics

Latest release: 07/02/2009



Initial unemployment claims remain elevated.



Source: Department of Labor

Latest release: 07/09/2009



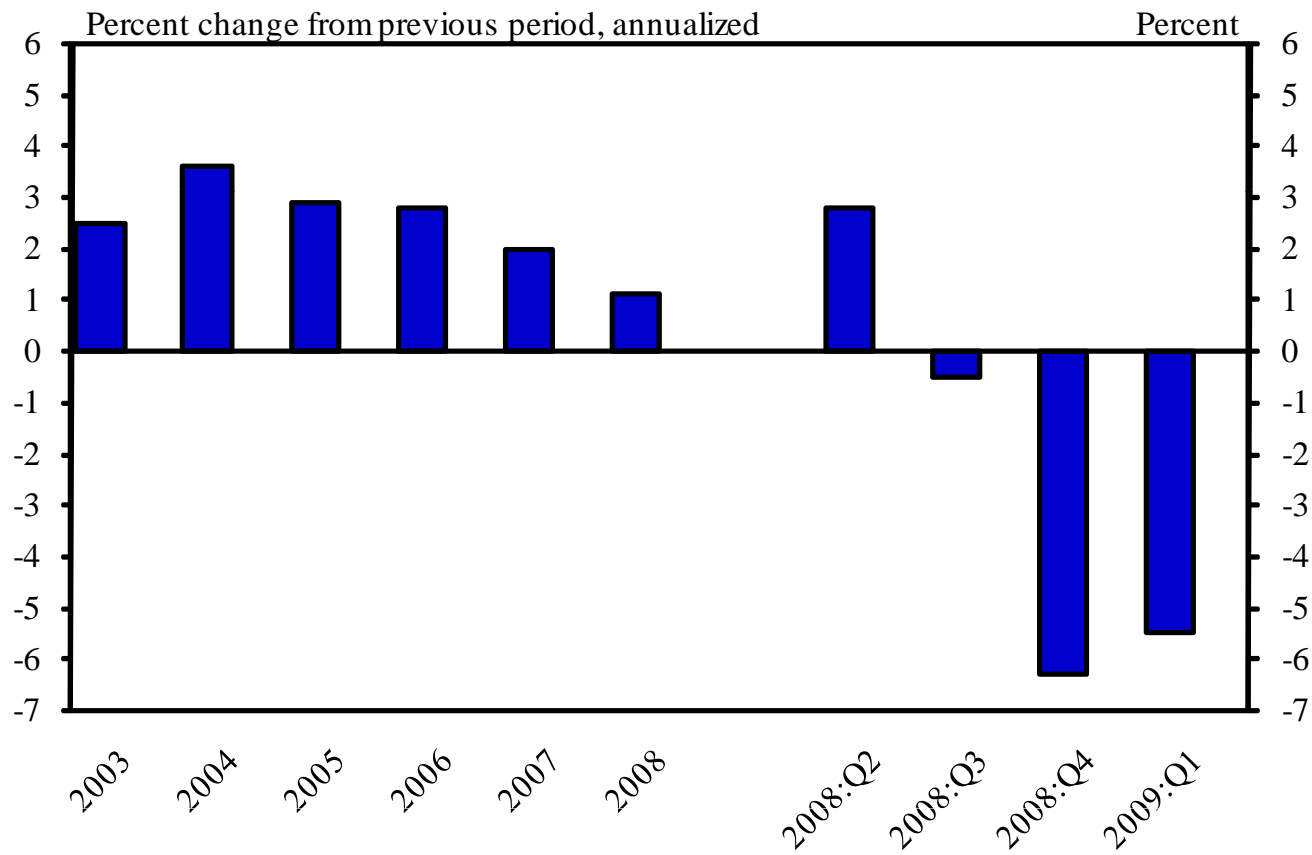


U.S. Economic Activity



Real GDP has declined in three consecutive quarters.

Real Gross Domestic Product



Source: Bureau of Economic Analysis

Latest release: 06/25/2009

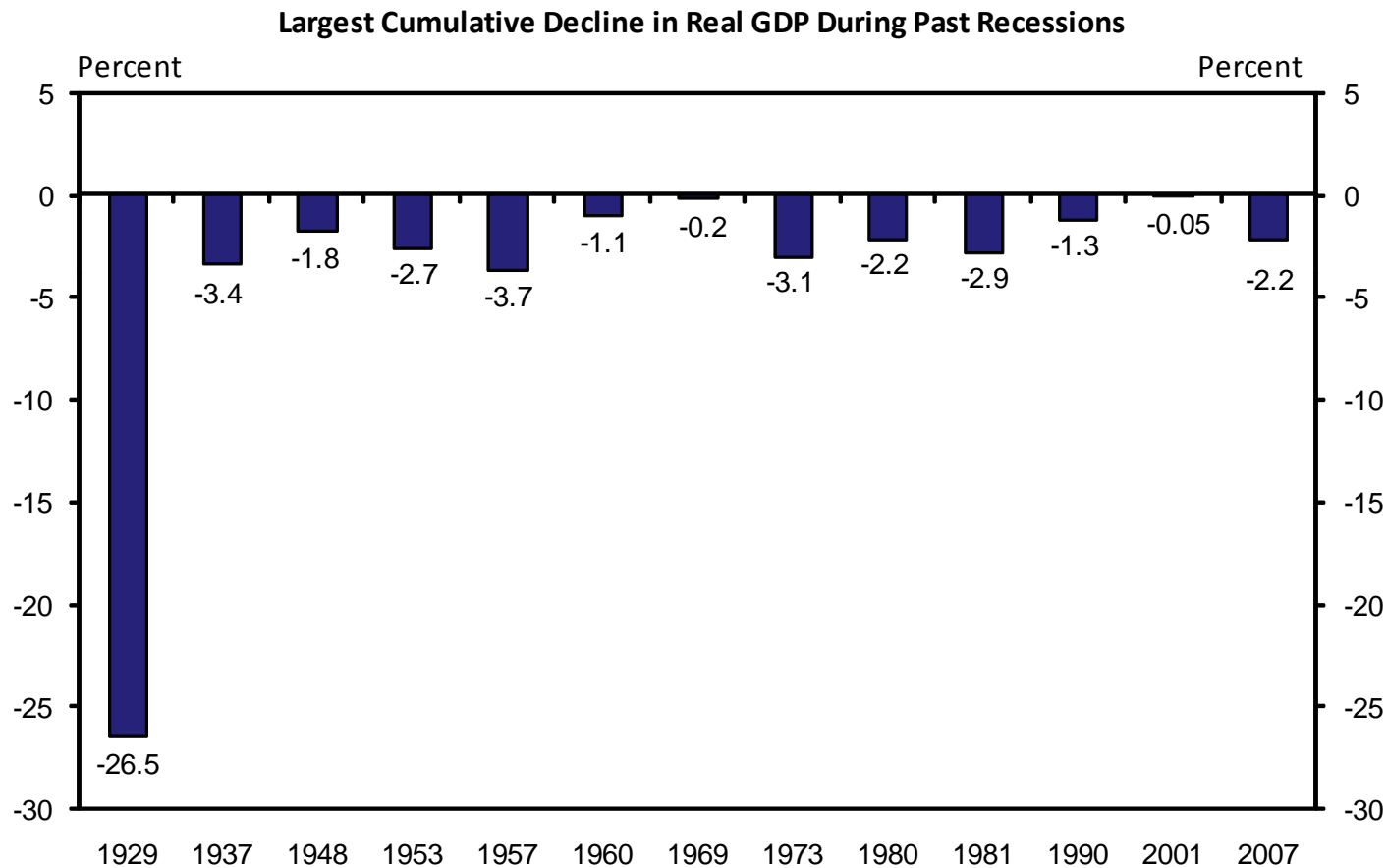




Putting This Recession In Perspective



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



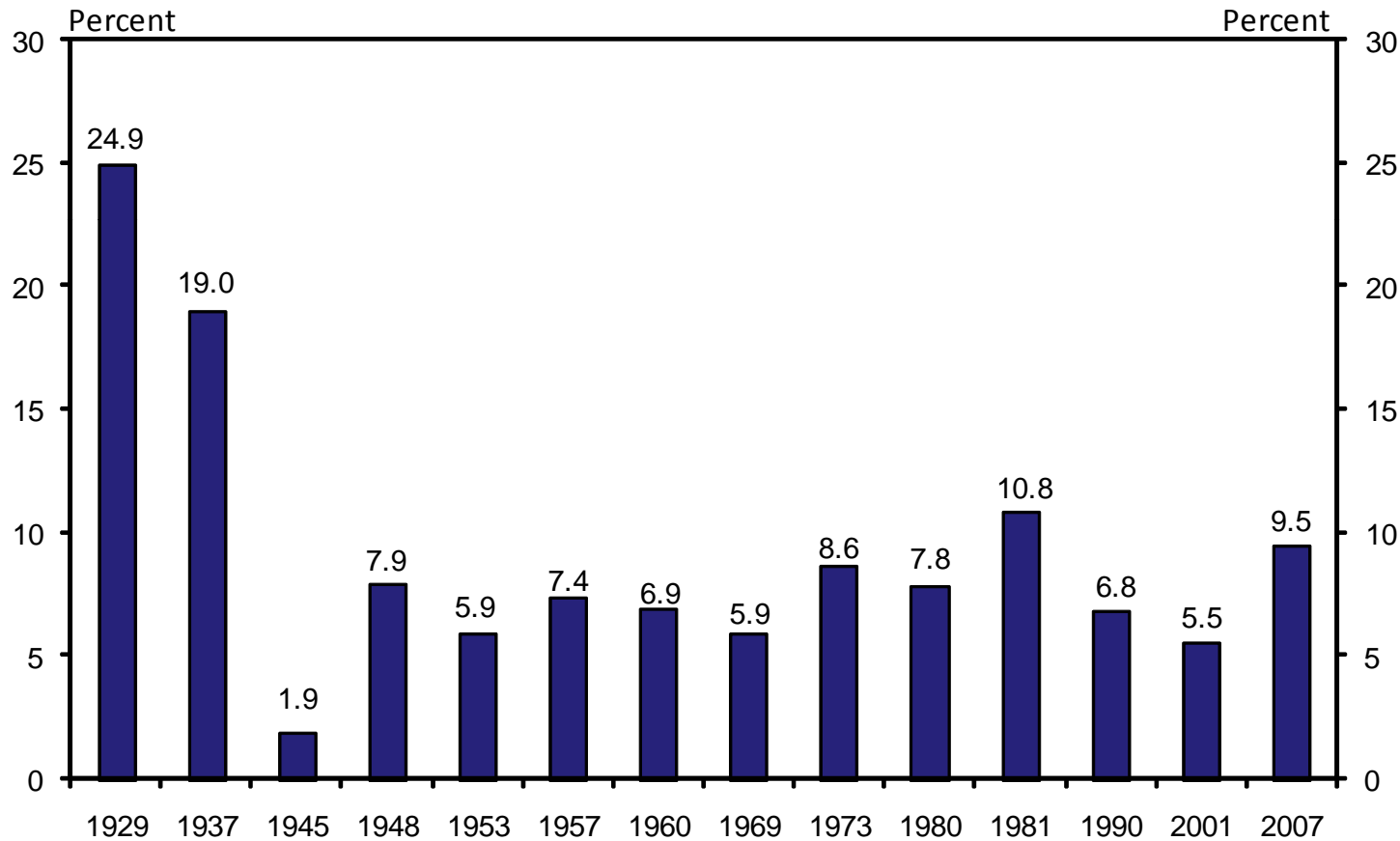
Source: Federal Reserve Bank of Minneapolis, Bureau of Economic Analysis

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.

Peak Unemployment Rate During Past Recessions

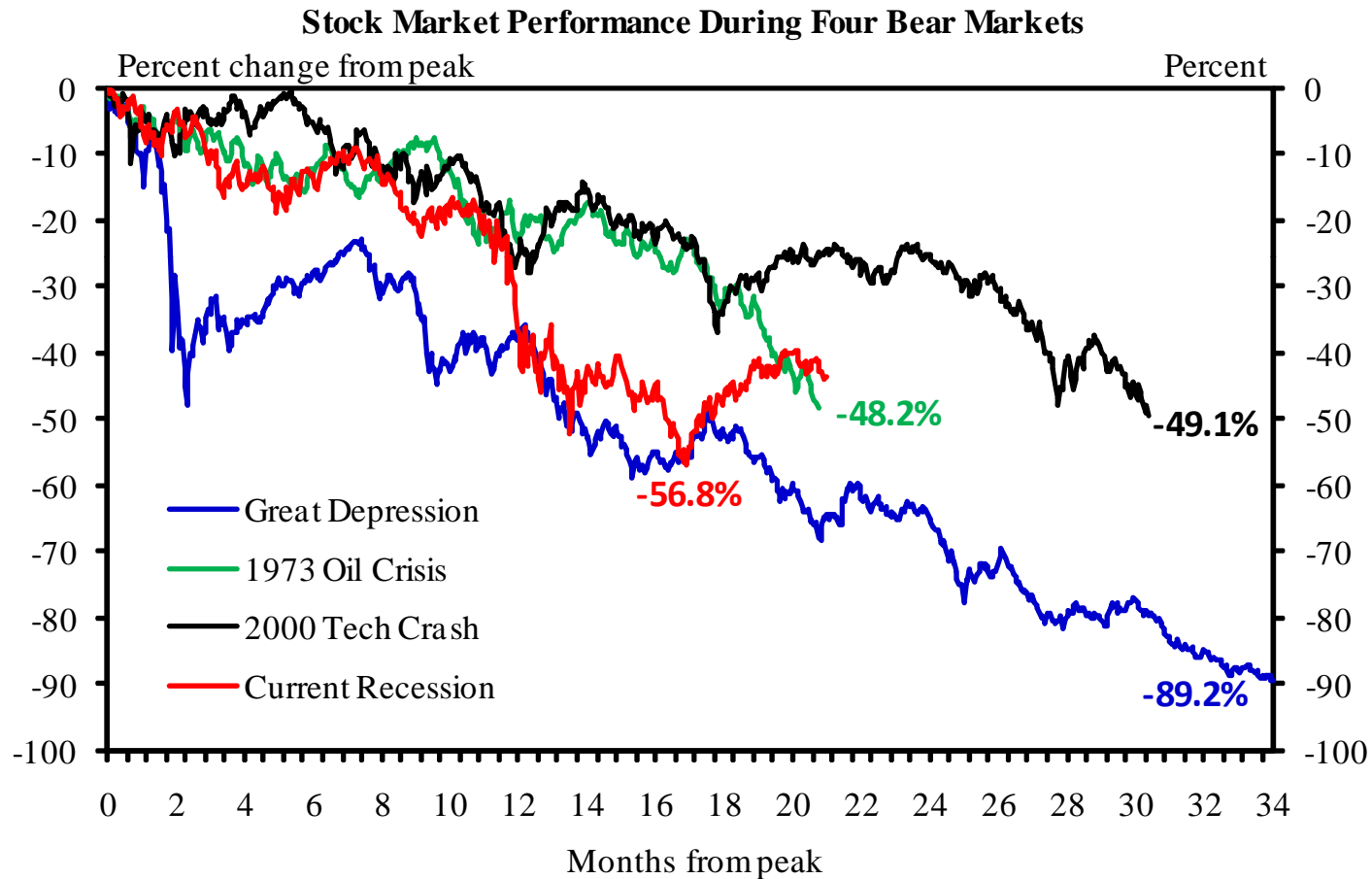


Source: Bureau of Labor Statistics

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

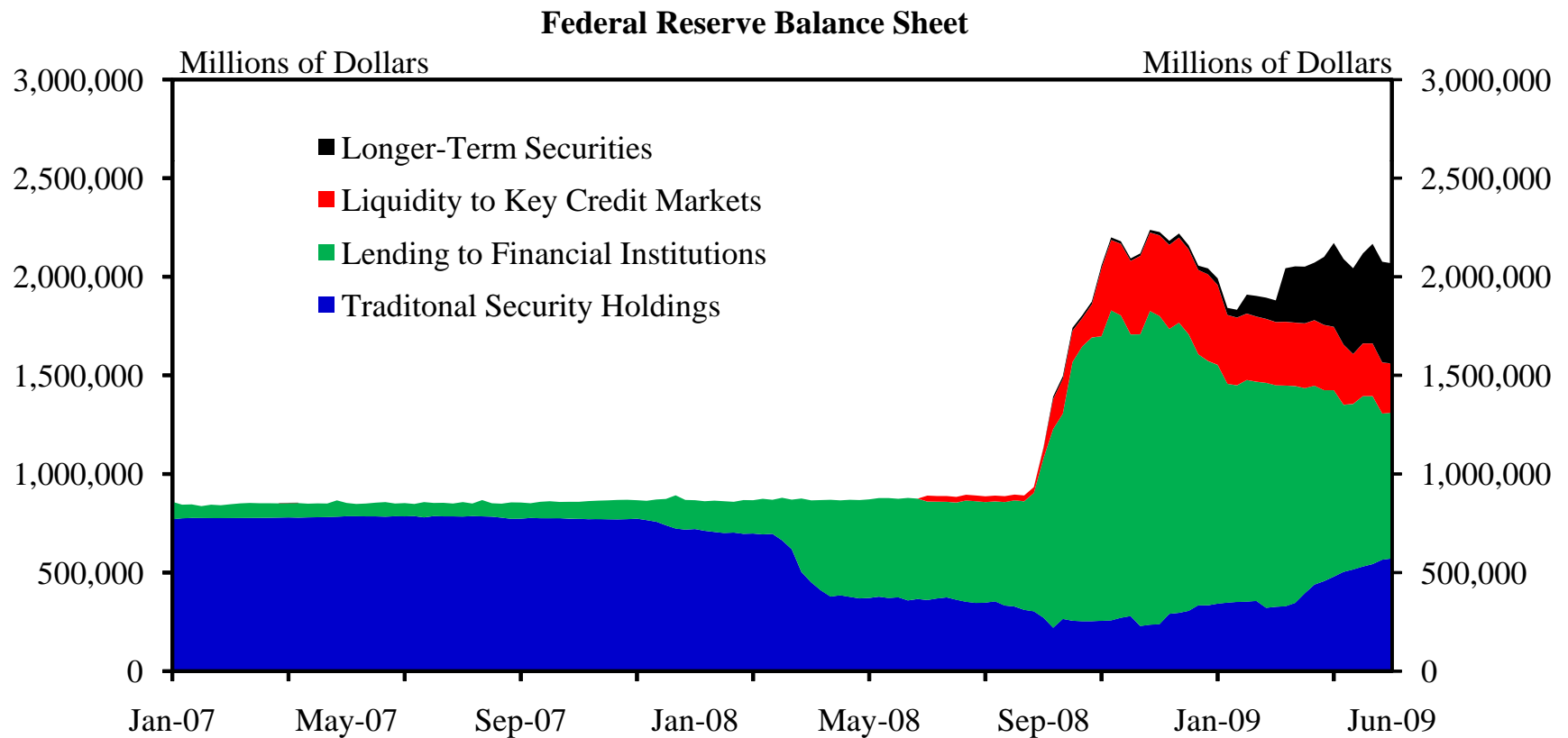
- Lowered the Fed Funds rate
- Purchased long-term securities
- Implemented numerous liquidity facilities

□ U.S. Treasury and Congress

- TARP
- Fiscal stimulus
- Foreclosure prevention policies



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

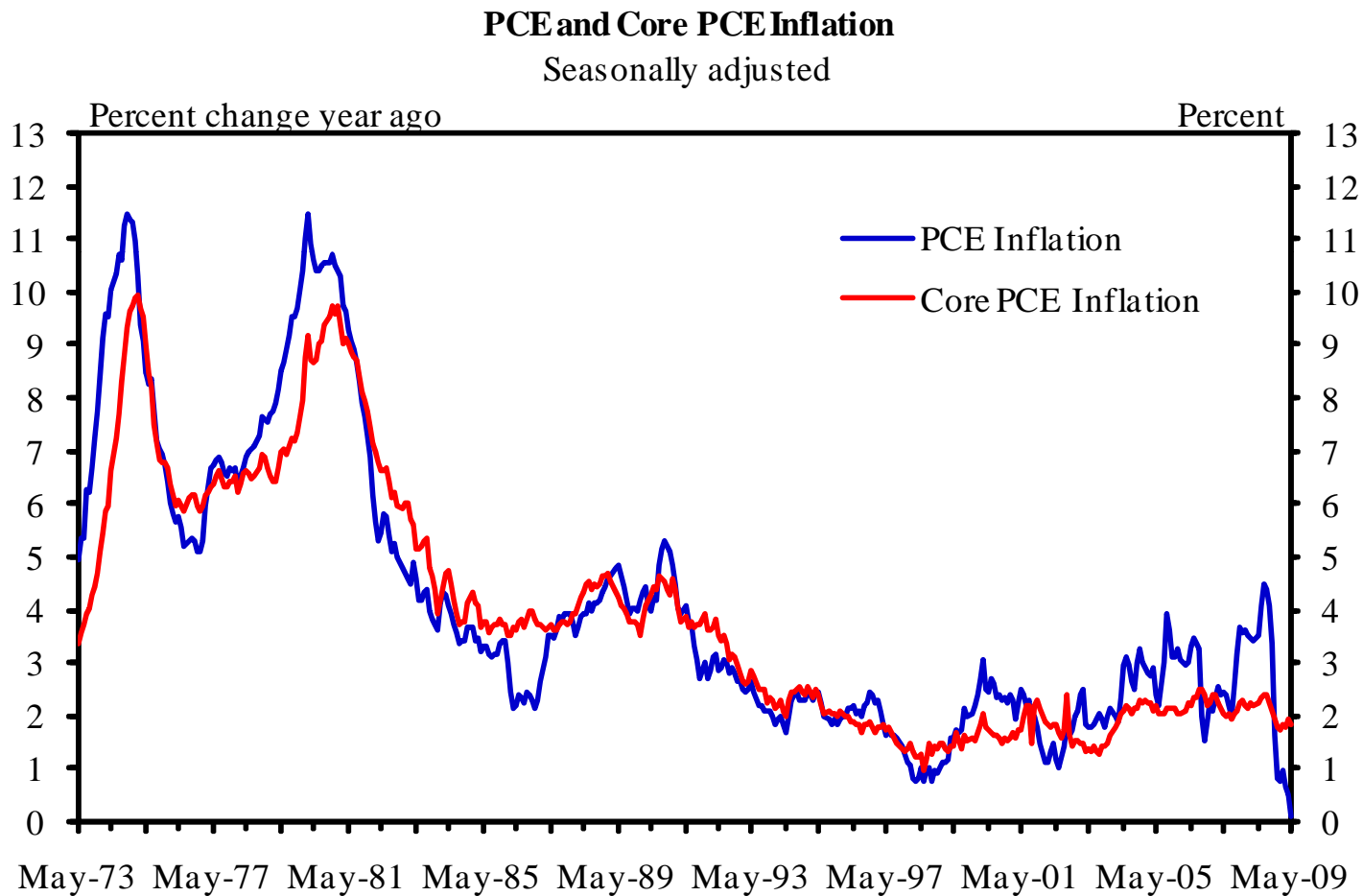


Source: Federal Reserve Board

Latest release: 06/03/2009



Despite expansionary monetary policy, inflation remains contained.

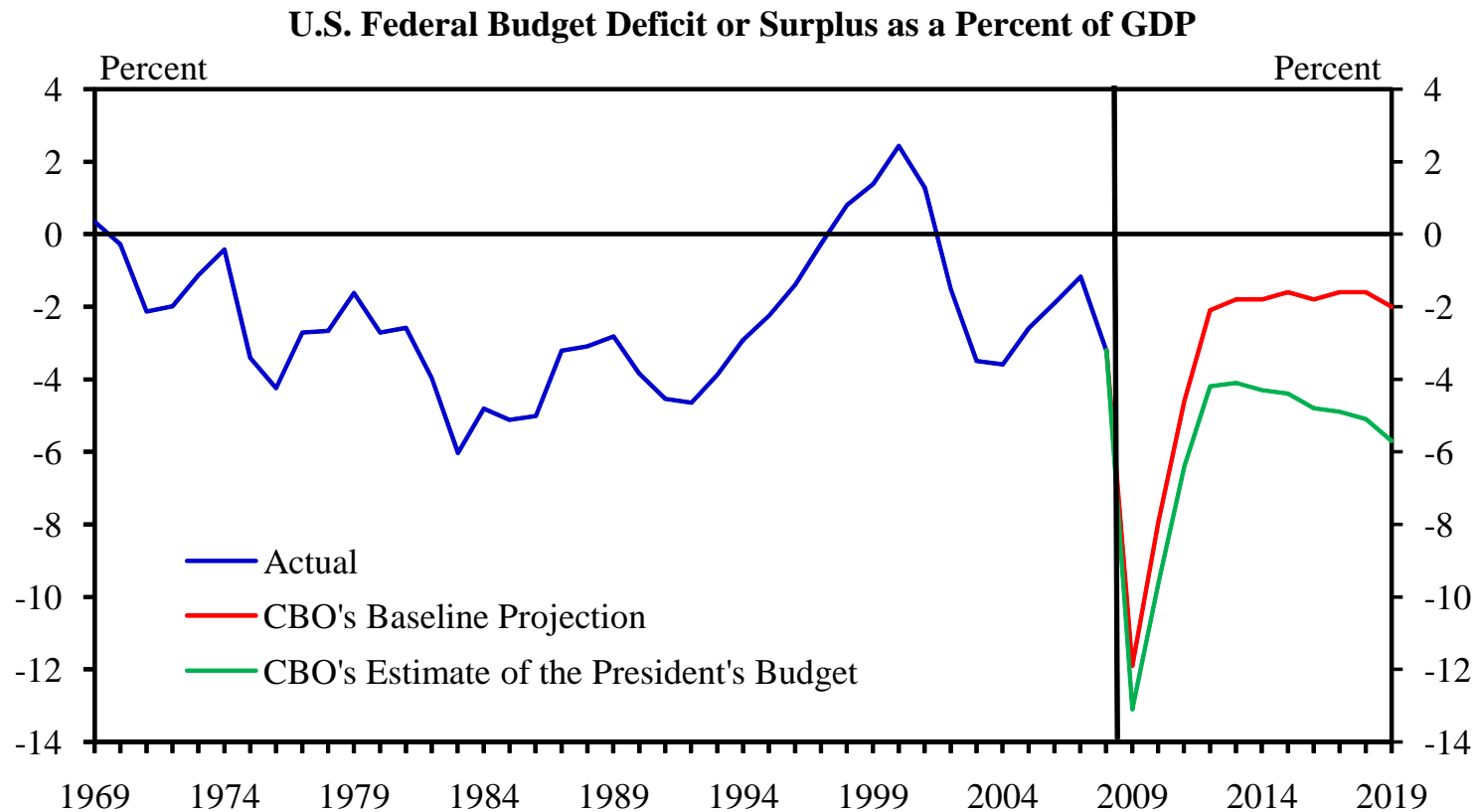


Source: Bureau of Economic Analysis

Latest release: 06/26/2009



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 20% over the past few 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 50,000 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?

