

Economic Update: A Recession View From Mid-Stream

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“The Way In Which TARP was proposed and eventually enacted surely must have contributed to the lockup in spending”

-- Phillip Swagel

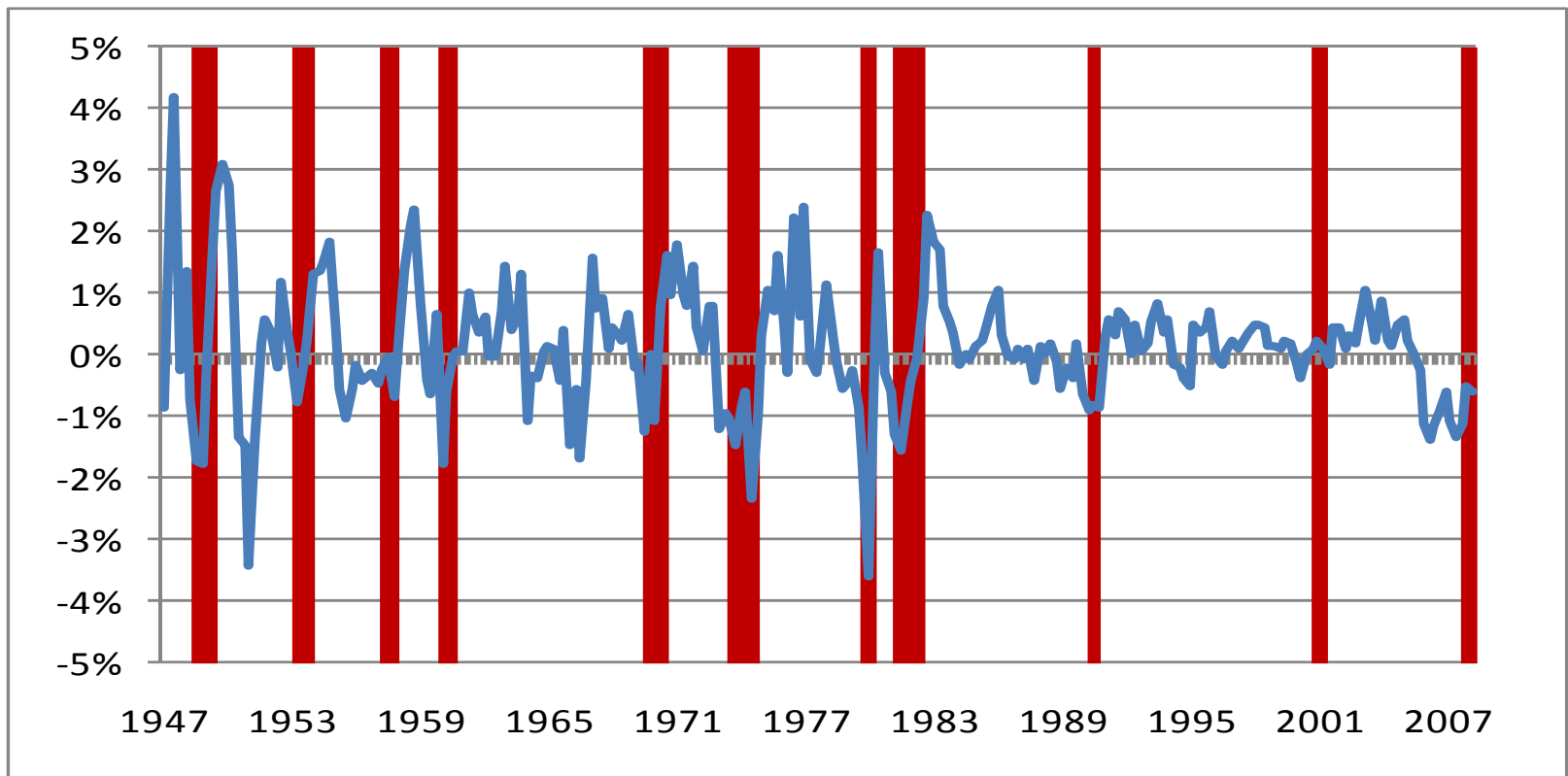
Assistant Secretary of The Treasury For
Economic Policy, 2006-2008

Financial Crisis: An Insider's View
Brookings Papers, Spring 2009

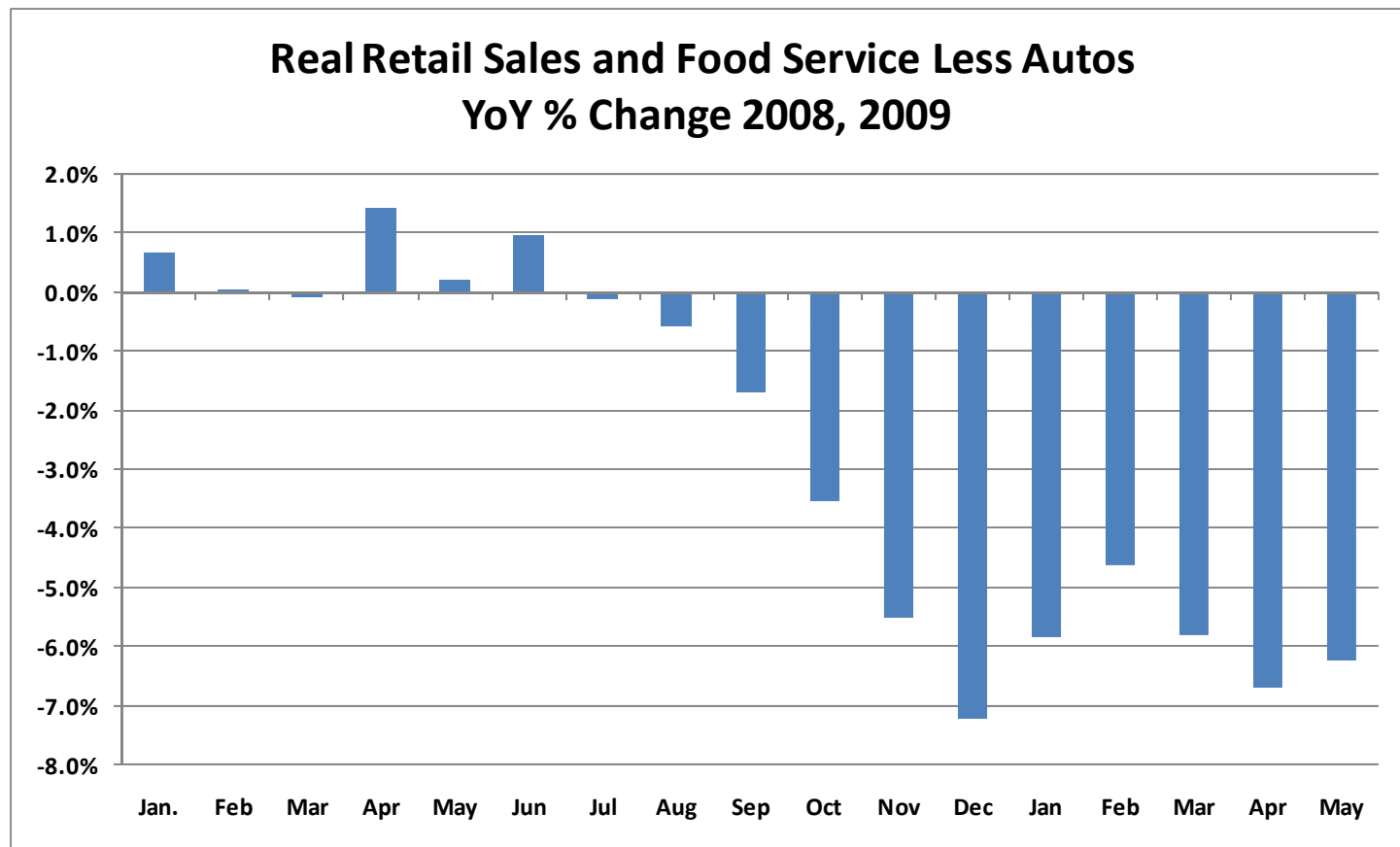
THE ANATOMY OF THE RECESSION

The Prelude: Housing Market

Contribution of Residential Construction to GDP

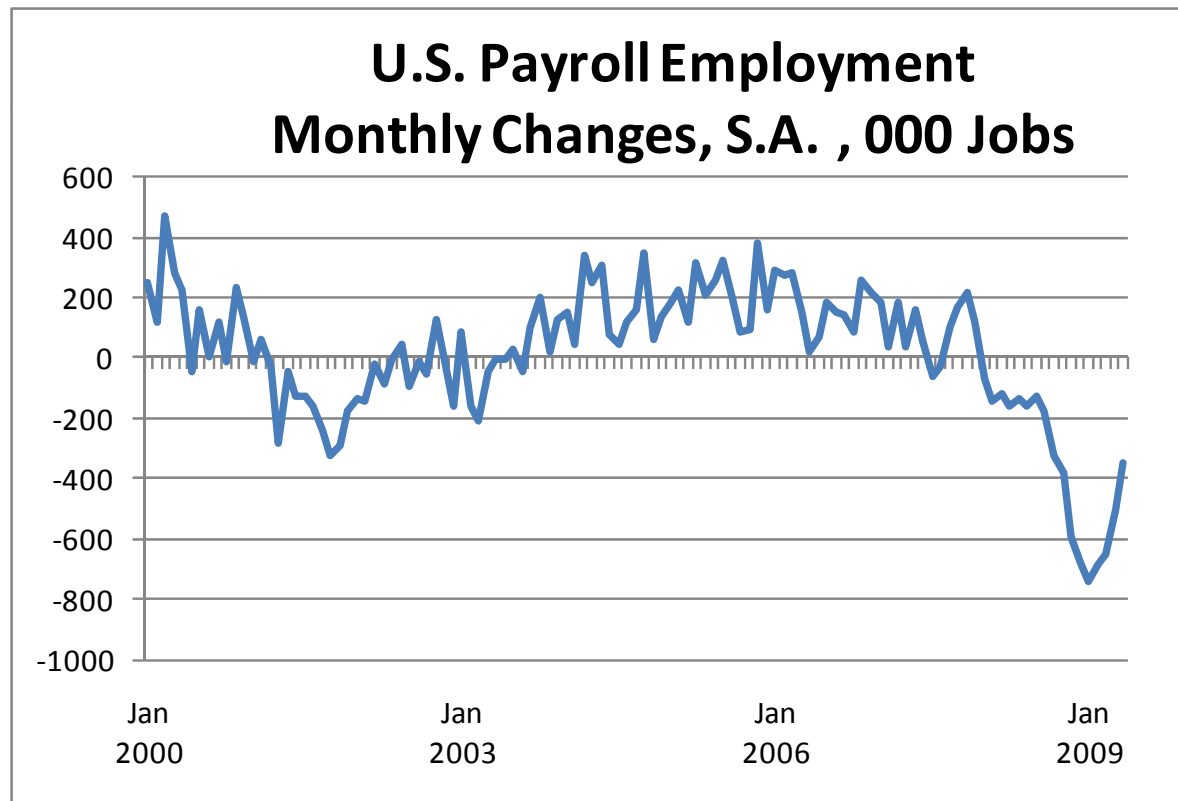


The Phases Of The Recession



Consumer Demand Collapses and The Economy Takes a Nosedive

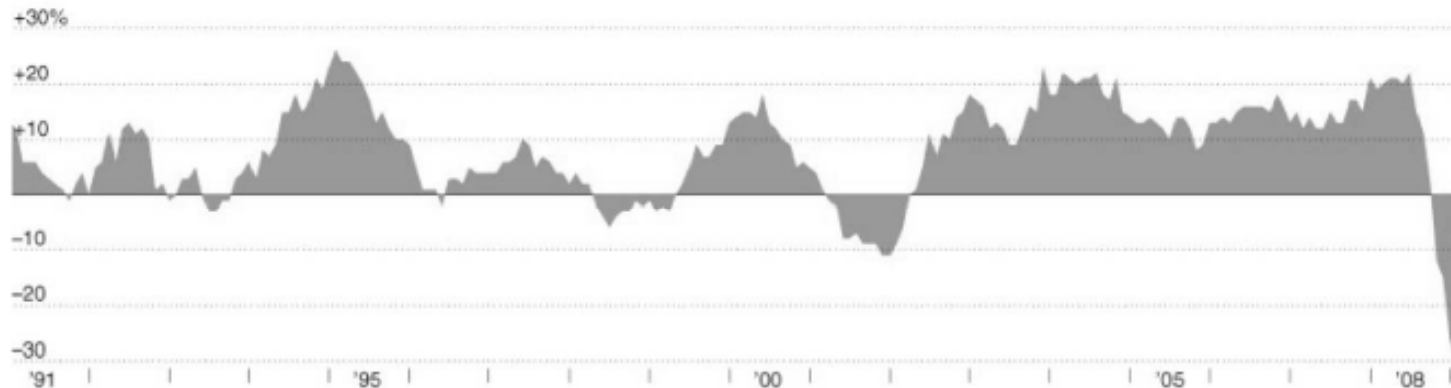
- ◆ Unemployment Rises Sharply
6.1% in September to 9.4% in May



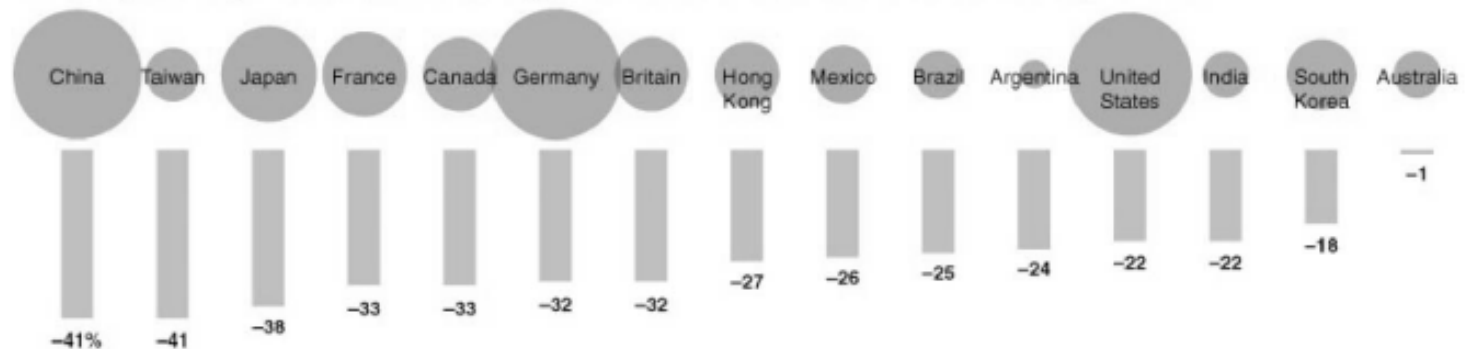
The Collapse in World Trade

World Trade Shrinks

Year-over-year **change** in total exports from 15 major exporters. Data are through February 2009, in U.S. dollars.



Year-over-year **change** in total exports for February, in U.S. dollars. Size of circles reflect volume of exports in 2008.



Sources: National governments, via Haver Analytics

How will this recession end?

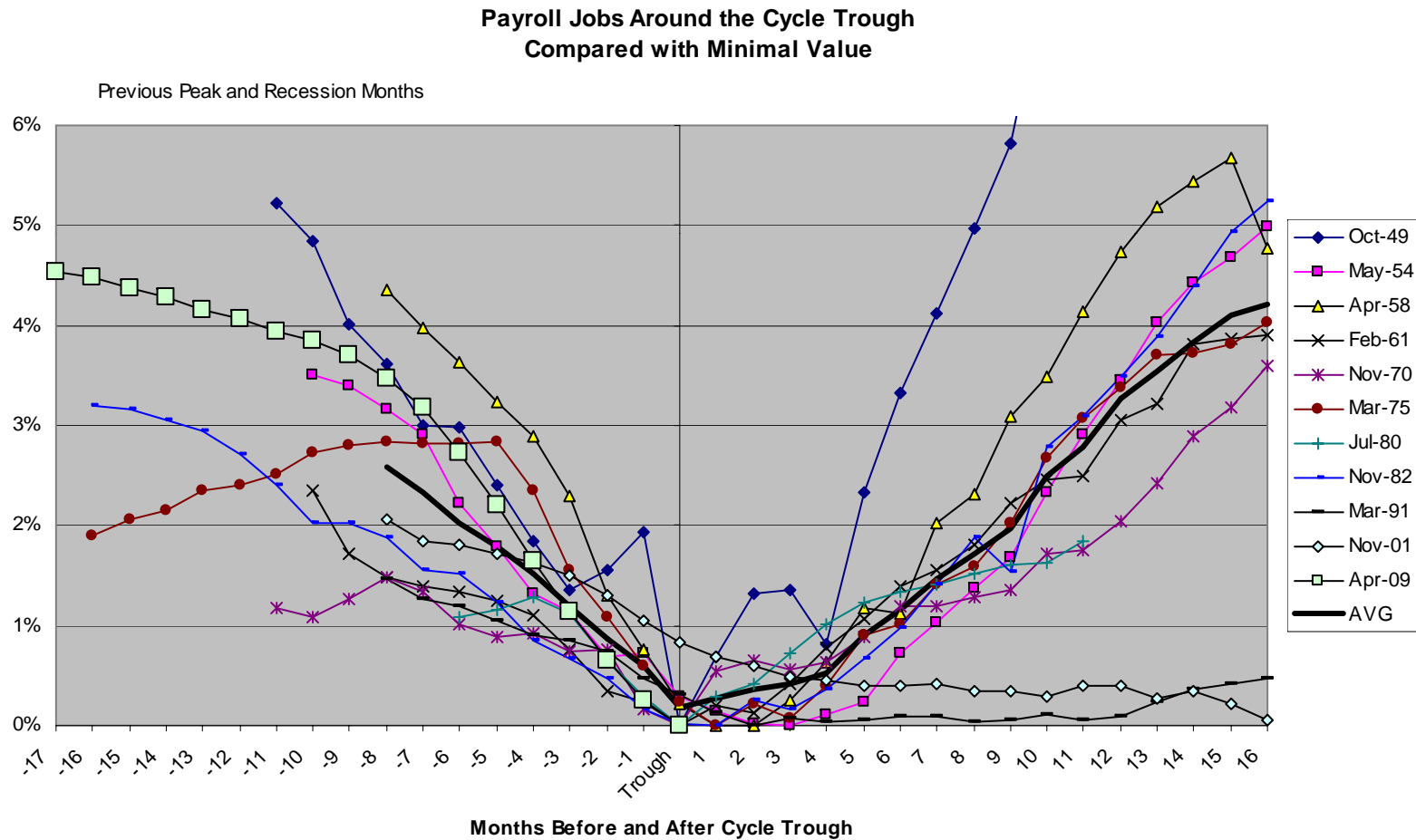
- ◆ Consumers
 - Will another shoe drop?
- ◆ Government: The Obama Trifecta
 - Auto Bailout
 - Stimulus II
 - Financial Alphabet Soup: TARP, TALF, PPIP...
- ◆ Some Hopeful Signs
 - Exports, Inventory Adjustments, Housing, and Consumption



WHAT DOES THE END OF A RECESSION LOOK LIKE

Payroll Job Losses End When the Recession Ends

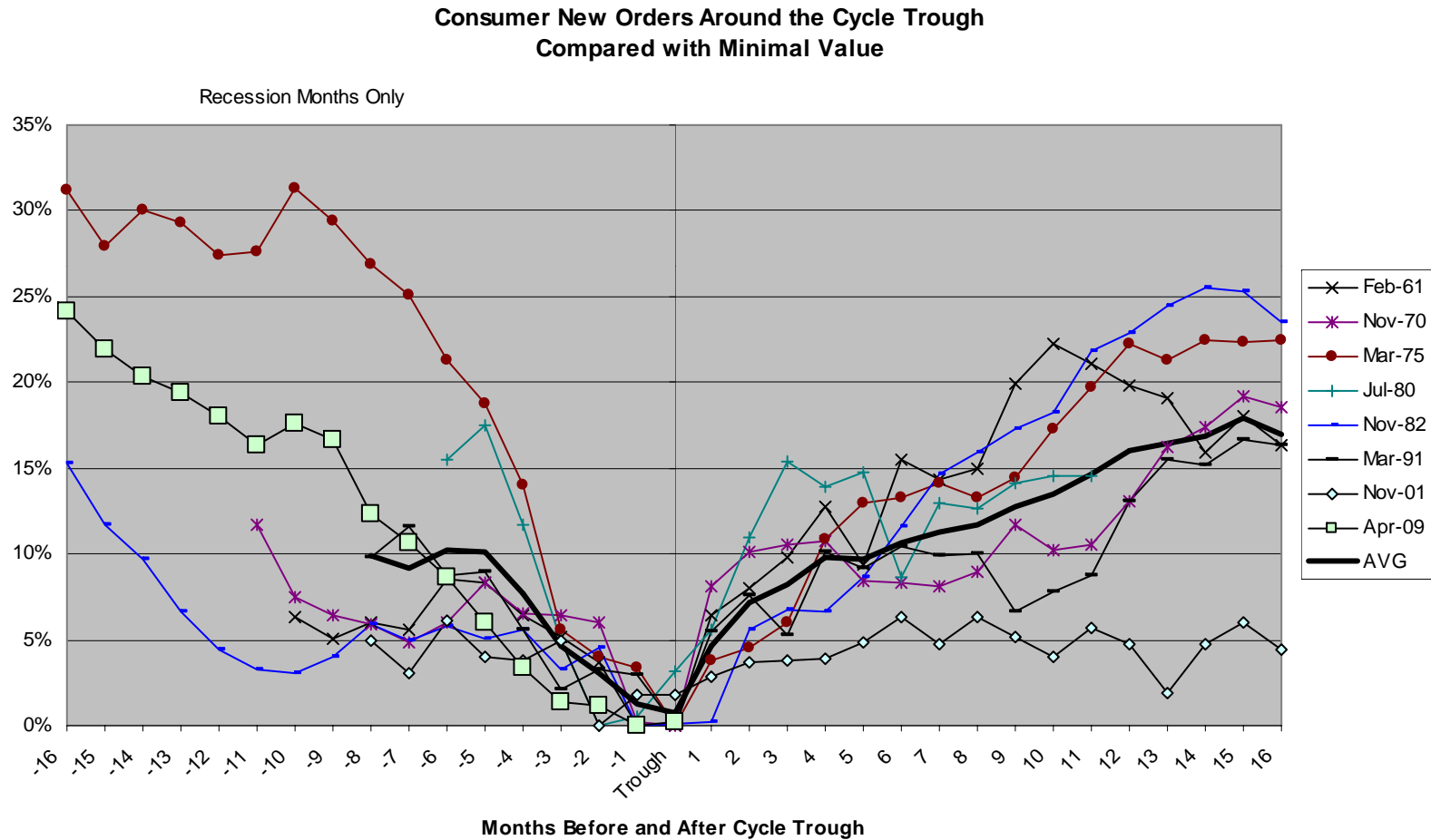
-345,000 Does Not an Expansion Make



The Recession Ends

Soon After the Trough in Consumer New Orders

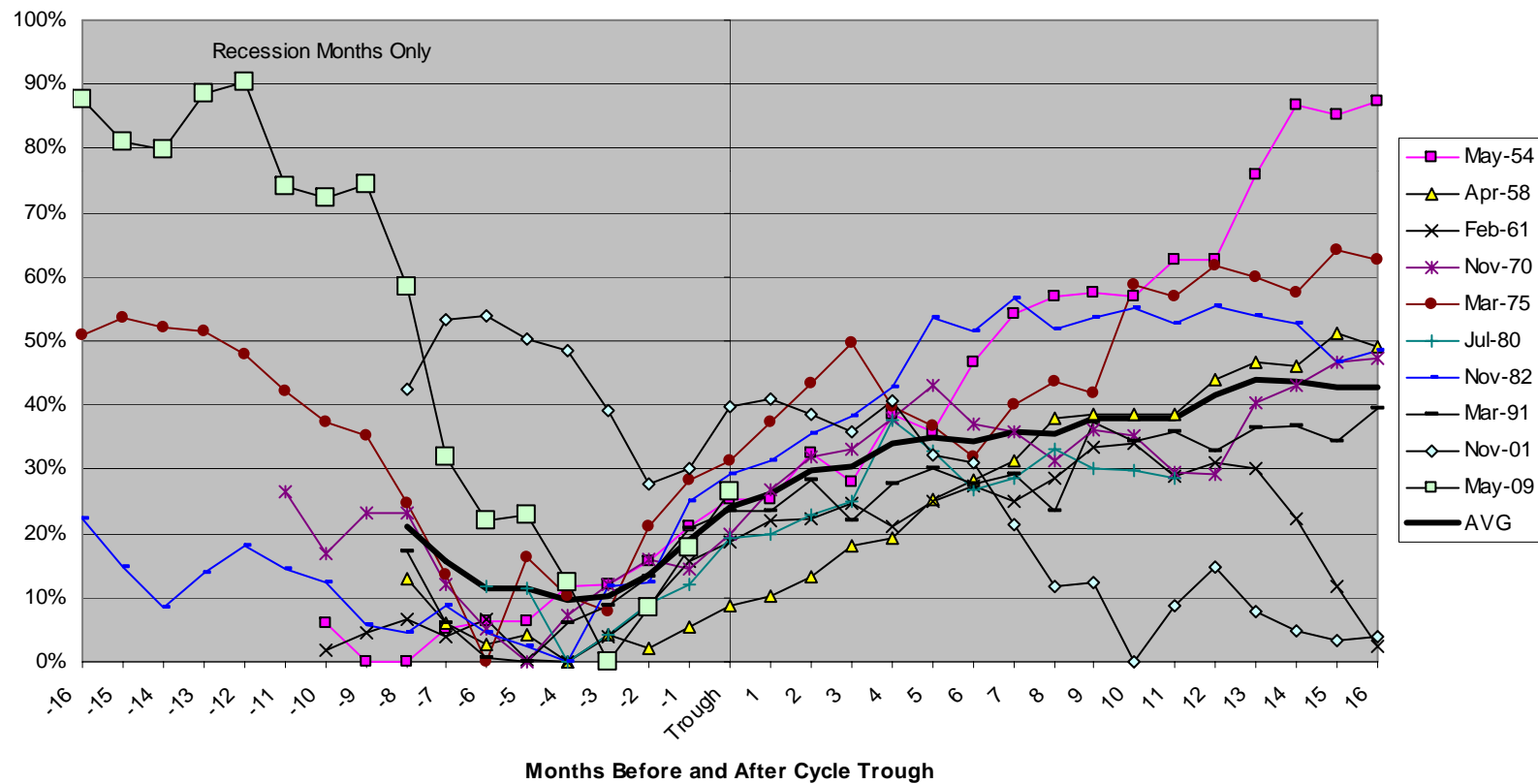
Consumer New Orders May Have Hit Bottom in March



The Stock Market Bottoms Out 5-6 Months Before the Expansion Begins

The S&P 500 Bottomed Out In February

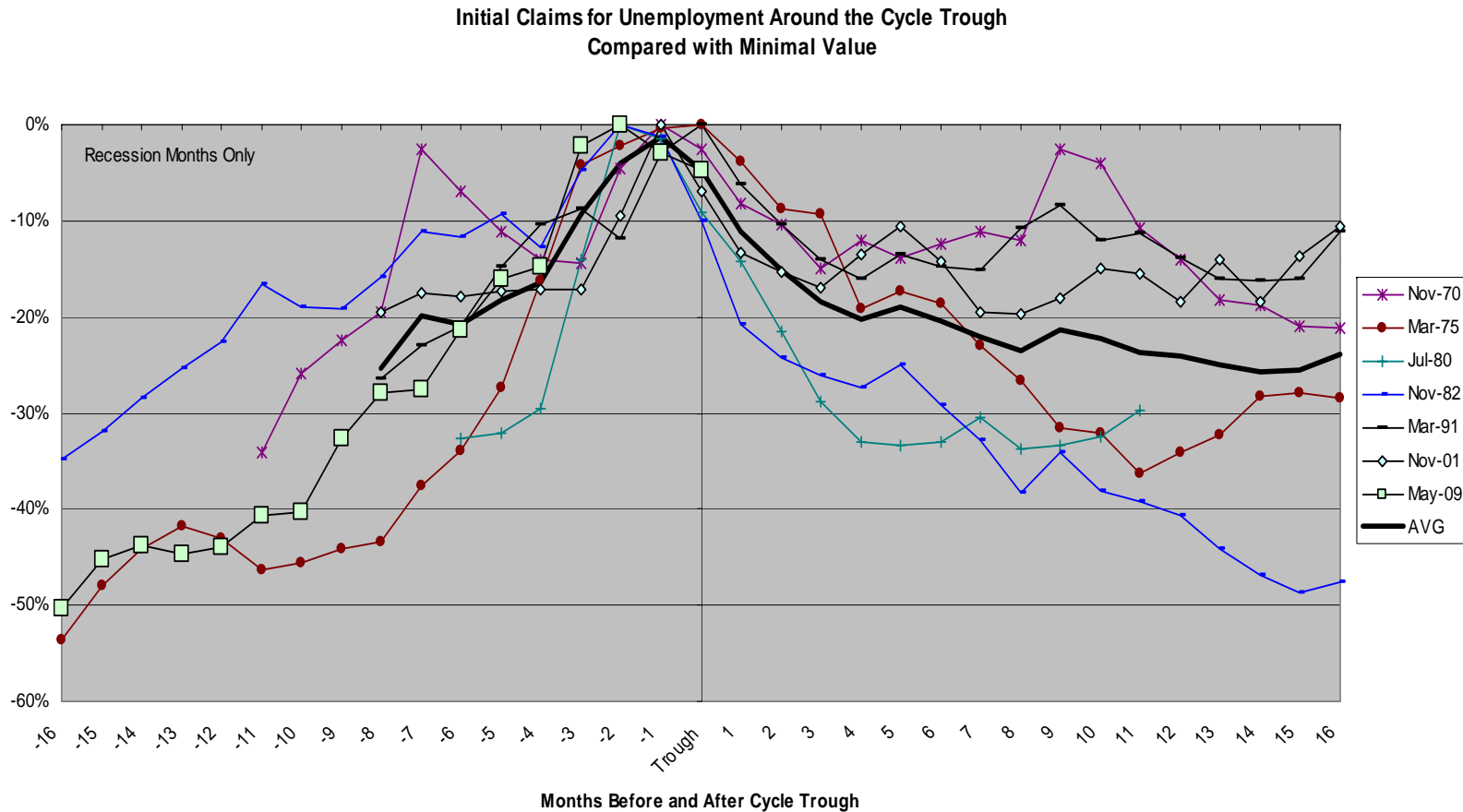
S and P 500 Around the Cycle Trough
Compared with Minimal Value



The Recession Ends

2-3 Months After Peak Initial Claims for Unemployment

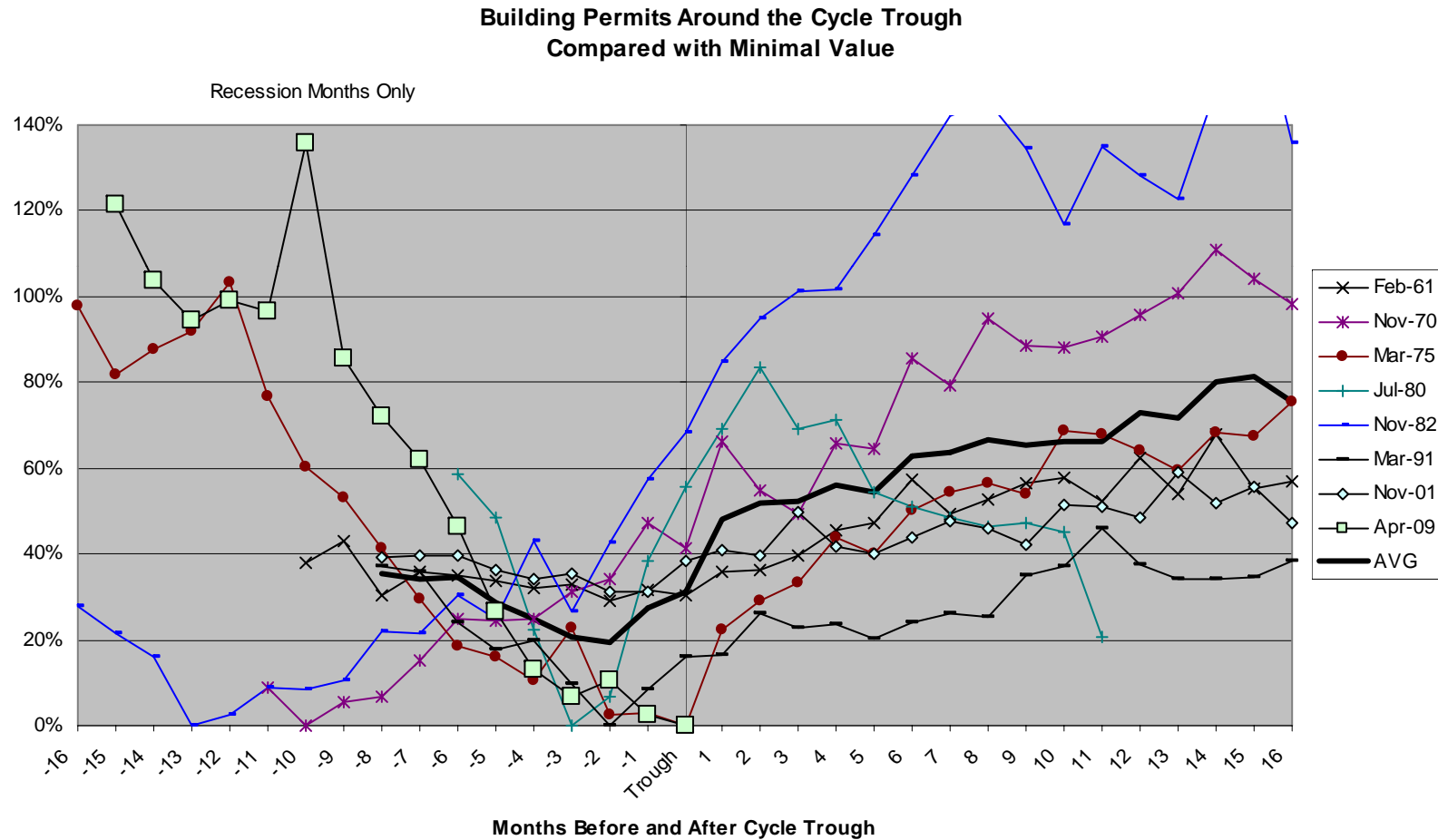
Claims Peaked in March



The Recession Ends

Several Months After the Trough of Building Permits

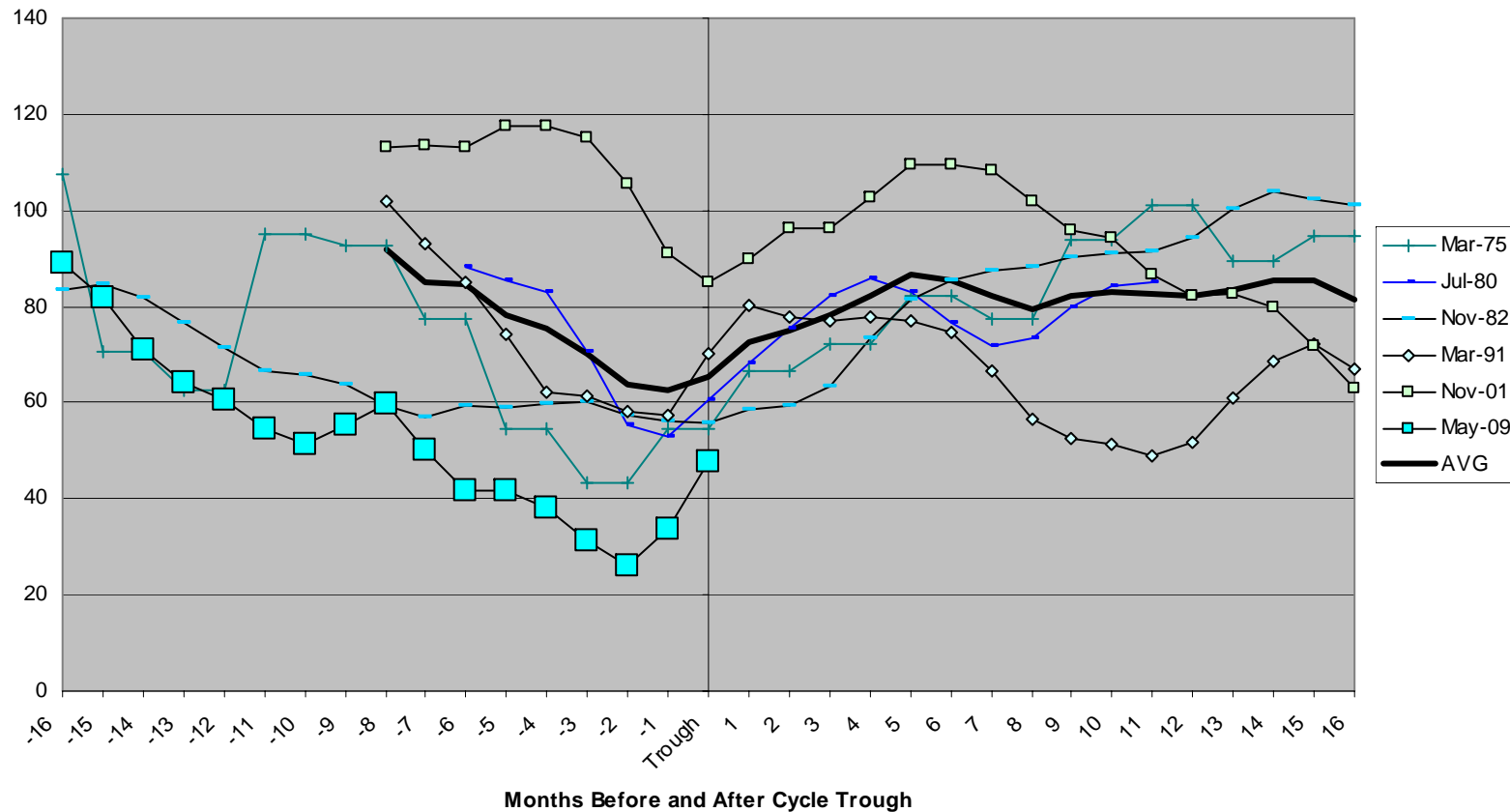
Building Permits Established a New Low in April



Consumer Confidence Is Often Rising When the Recession Ends

Consumer Confidence may Have Bottomed Out in March

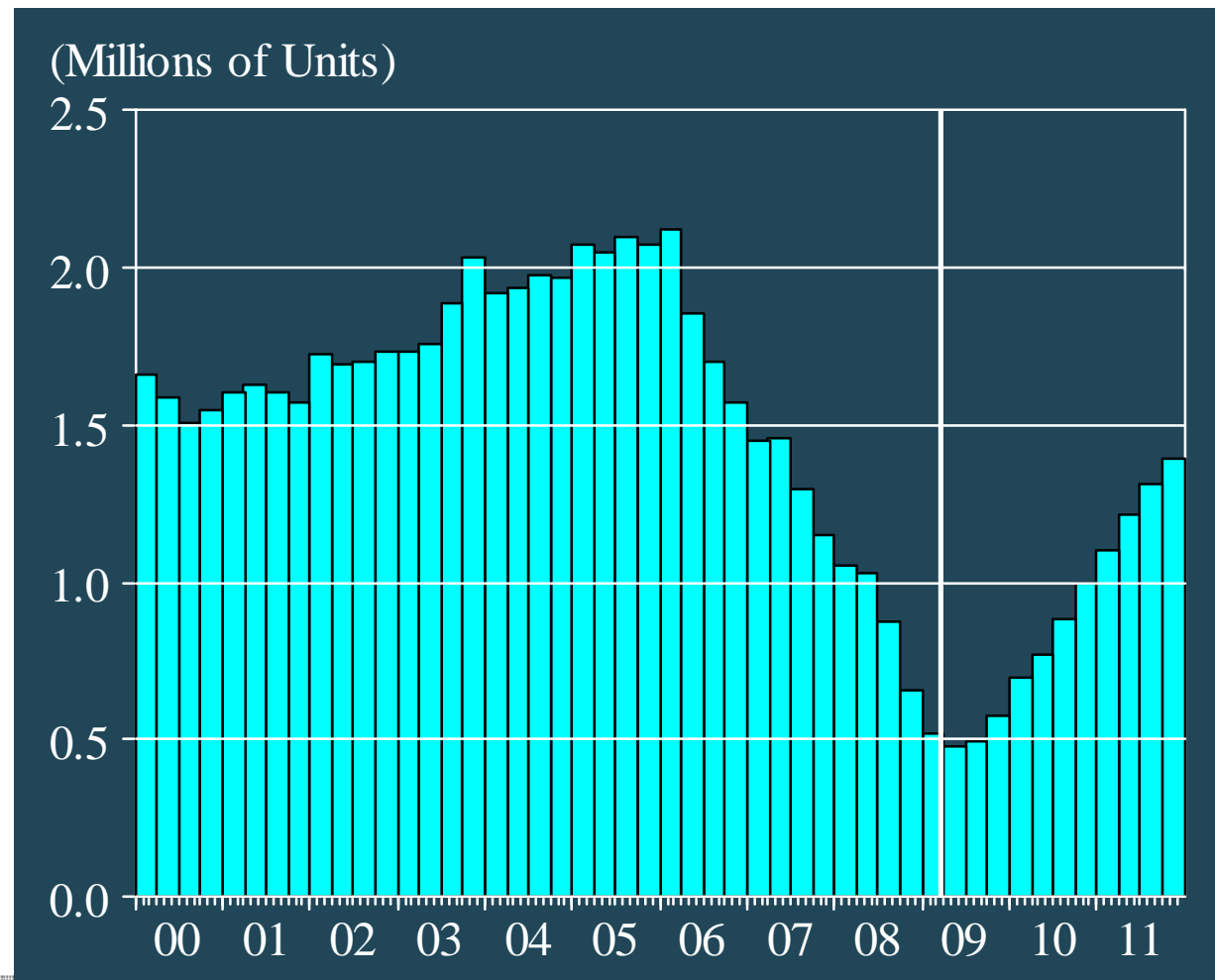
Consumer Confidence (Conference Board, MA2) Around the Cycle Trough



THE FORECAST

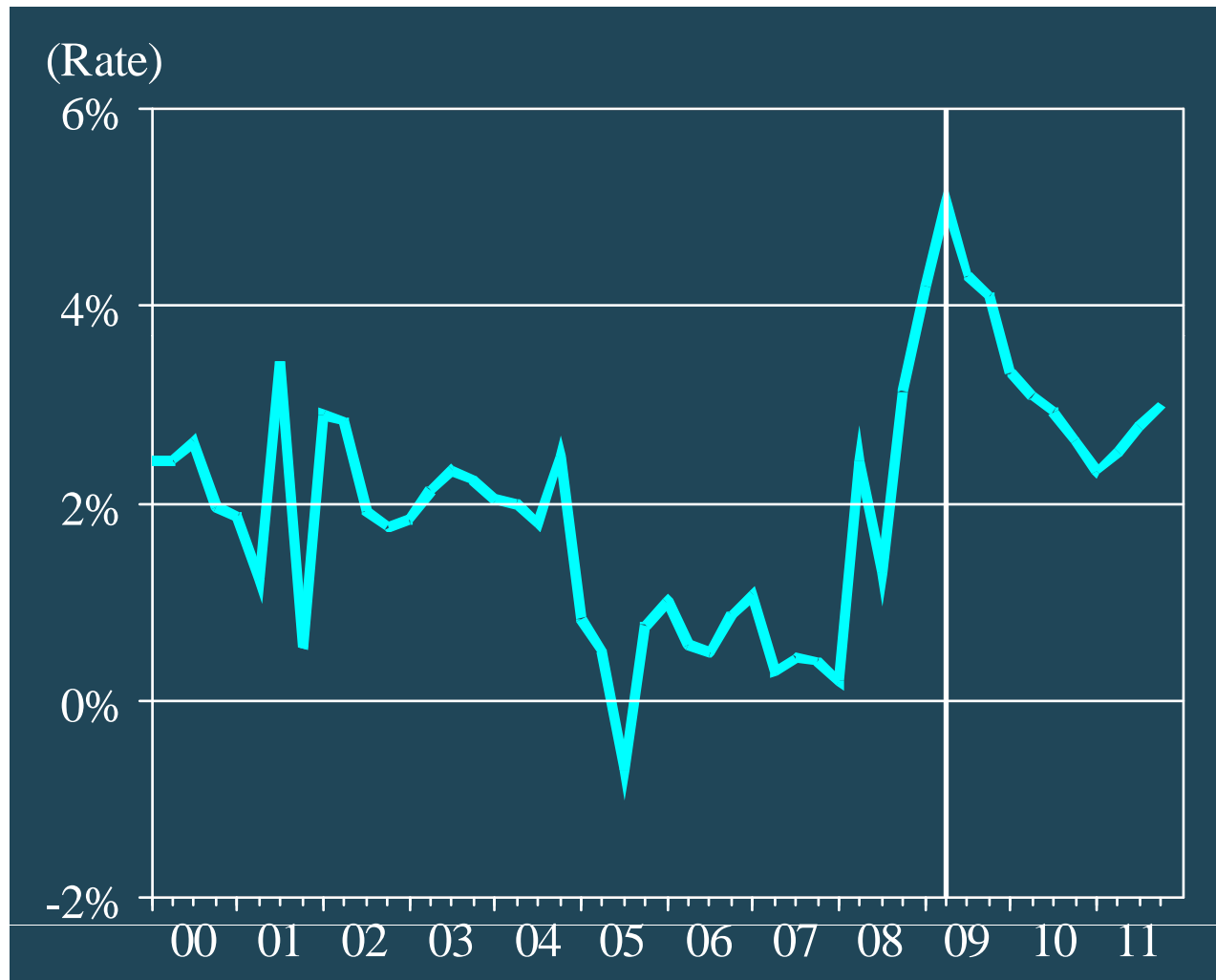
Housing Starts Bottoming

Housing Starts, 2000:Q1 – 2011:Q4F, SAAR



Sources: Global Insight and UCLA Anderson Forecast

Saving Rate Rising

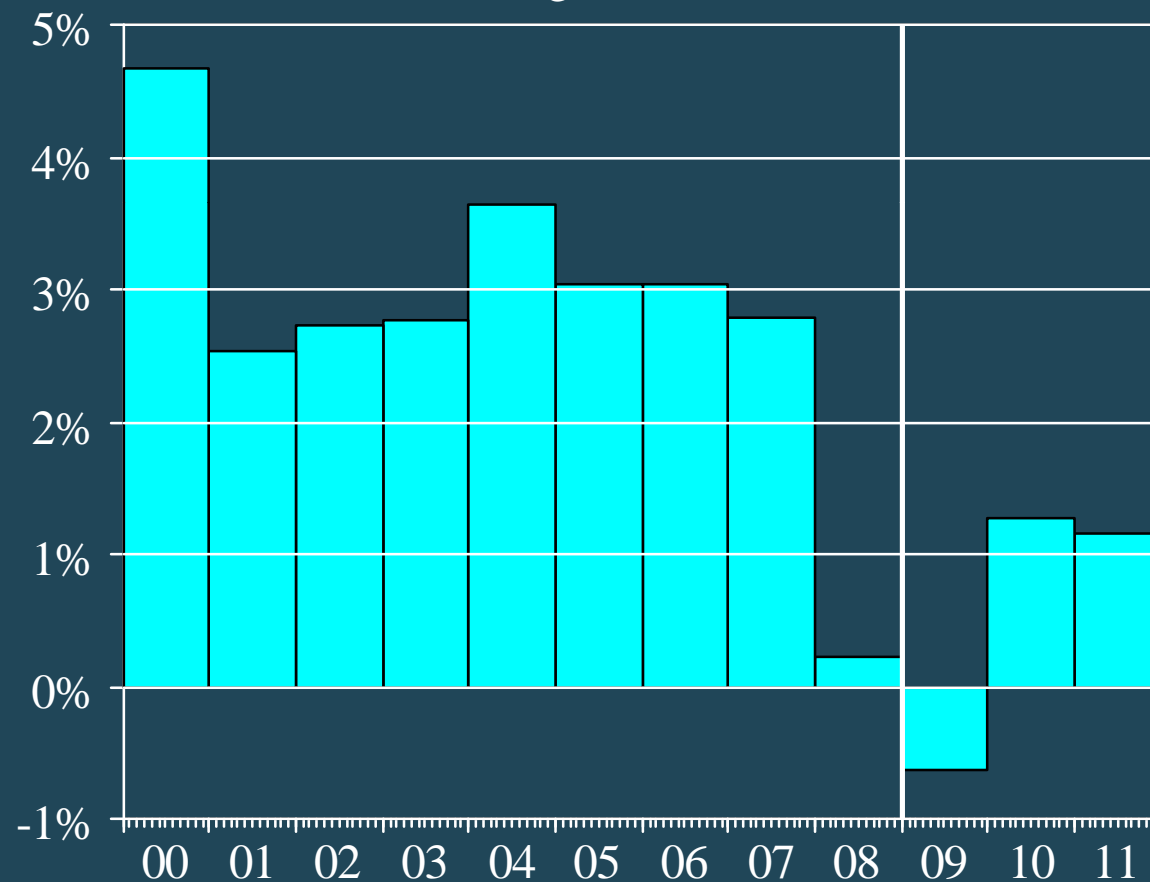


Sources: Global Insight and UCLA Anderson Forecast

Leads to Very Weak Consumption Growth

Real Consumption Growth, 2000 – 2011F

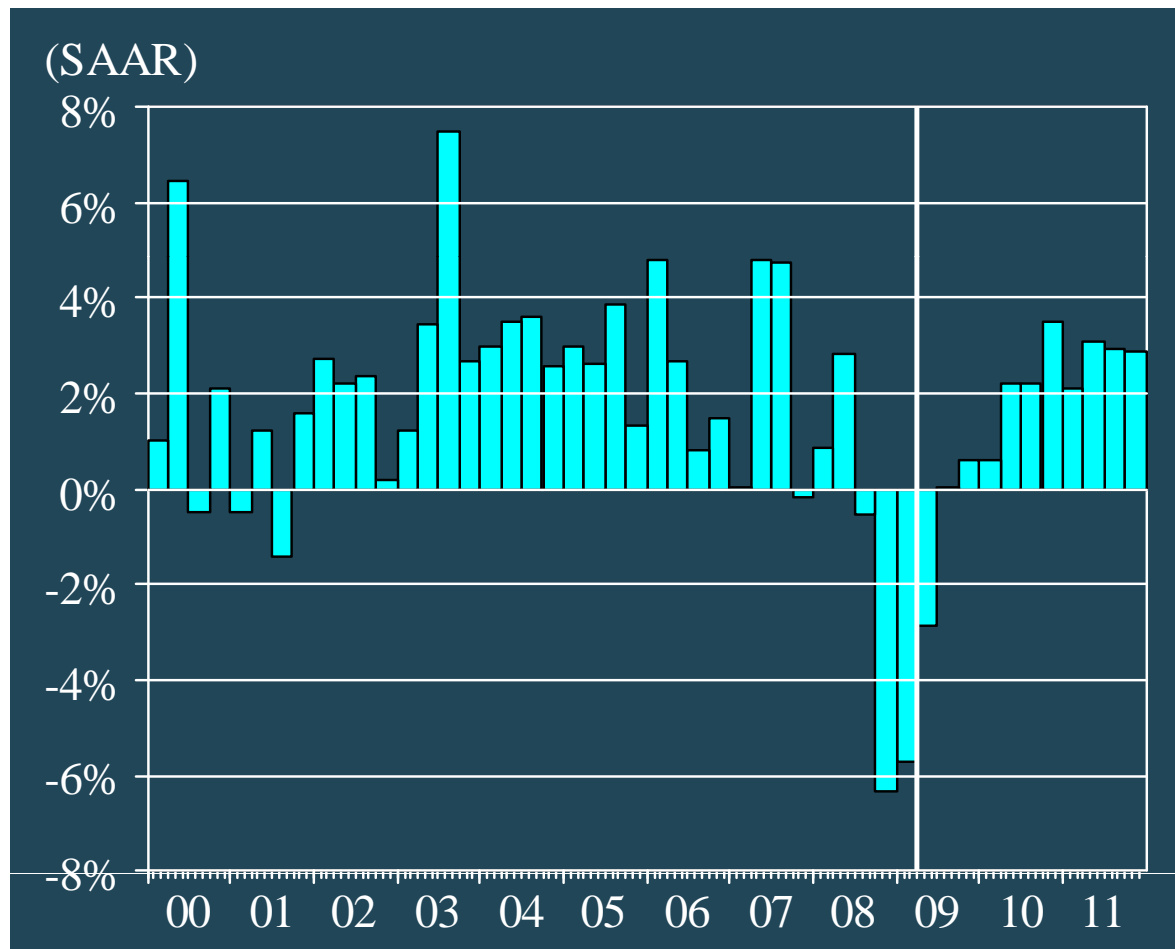
(Annual Data, Percent Change)



Sources: Global Insight and UCLA Anderson Forecast

Very Sluggish GDP Growth Ahead

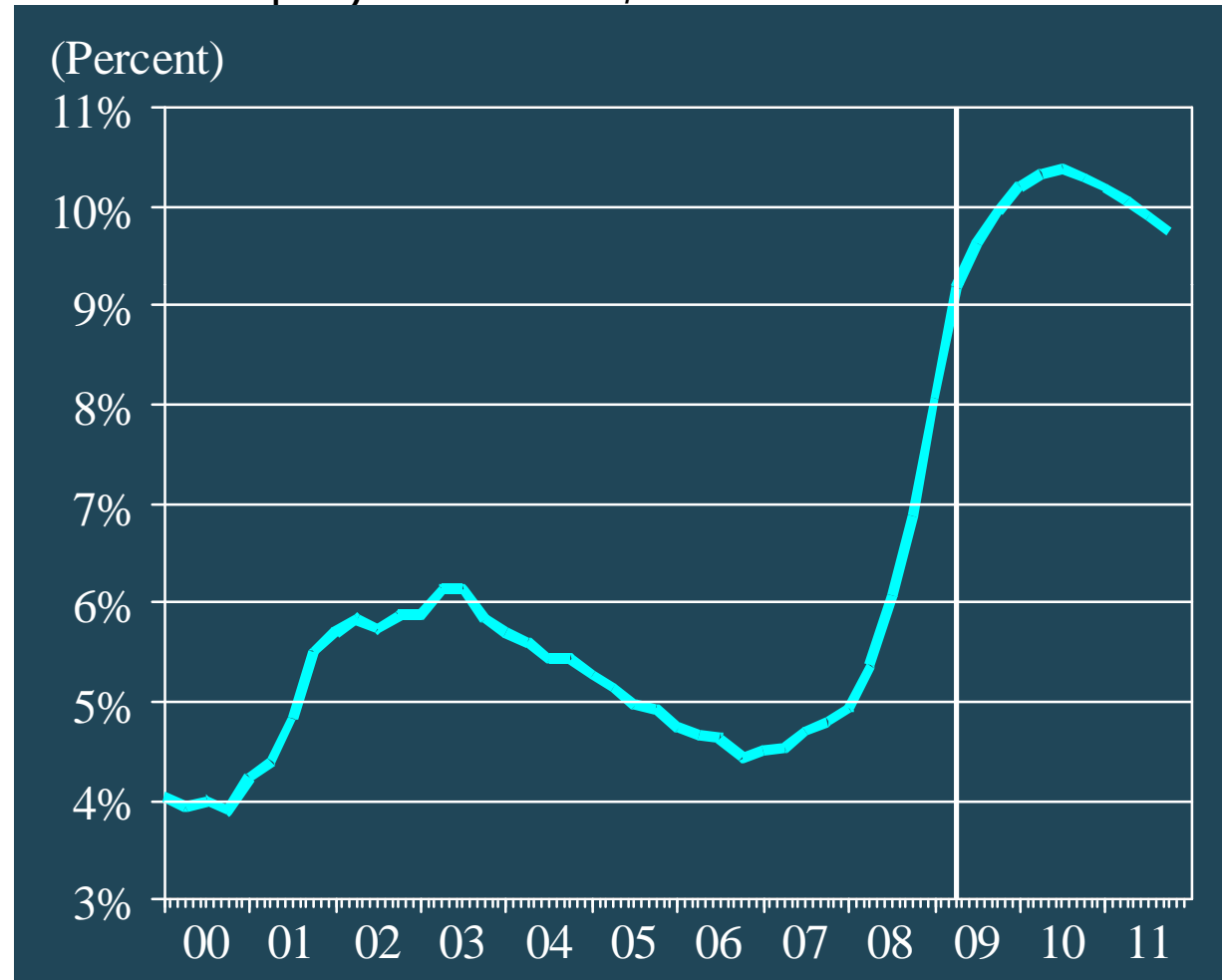
Real GDP Growth, 2000Q:1 – 2011:Q4F



Source: Global Insight and UCLA Anderson Forecast

Unemployment Rate Hangs High

Unemployment Rate, 2000: Q1-2011: Q4F



Sources: Global Insight and UCLA Anderson Forecast

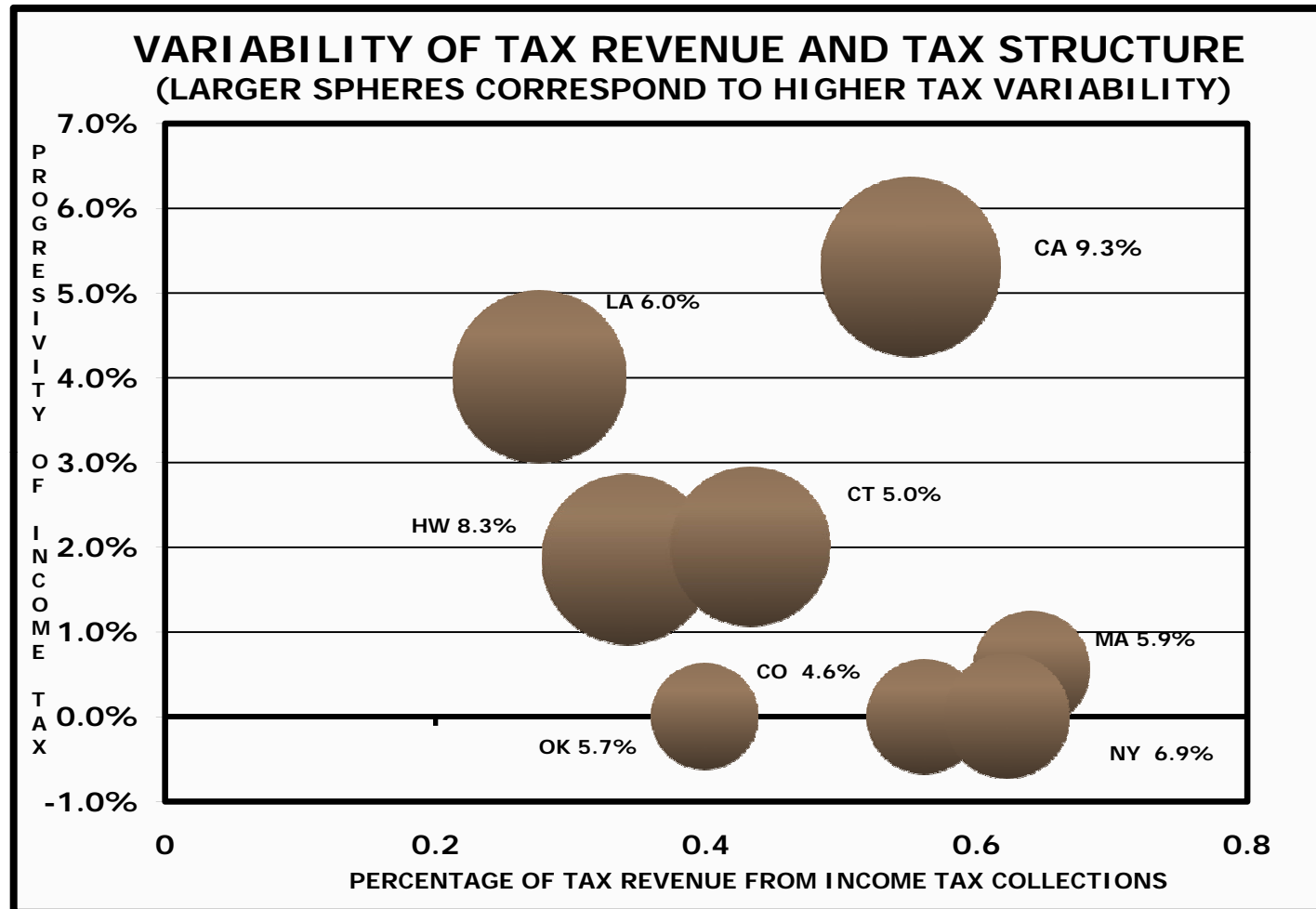
What We Worry About

- ◆ *Protectionism and Trade Wars*
- ◆ *Inflation and Fed Policy*
- ◆ *Government Intervention*
- ◆ *Geopolitical Risk*



STATE FINANCE: VARIABLE REVENUE STREAMS

Income Variation and Income Tax Structure:



More Progressivity and Higher Top Bracket

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Larger Spheres