

The U.S. Economy: Recession and Recovery

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Redwood High School
Stephen Hart's Econ Class
October 5, 2018

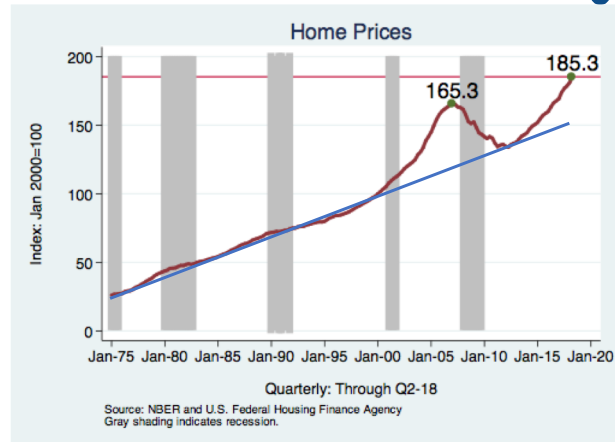
Outline – Recession and Recovery

- Why the Recession?
- Gross Domestic Product
- Labor Market
- Other Indicators

Why The Great Recession?

- **Largely the result of the housing market**

- Home prices started rising very quickly
- Why? NINJA, LIAR loans
- Why? Financial Innovation!



What Kind of Financial Innovation?

- **Mortgage backed securities**

- Bundling up of bad (subprime) mortgages



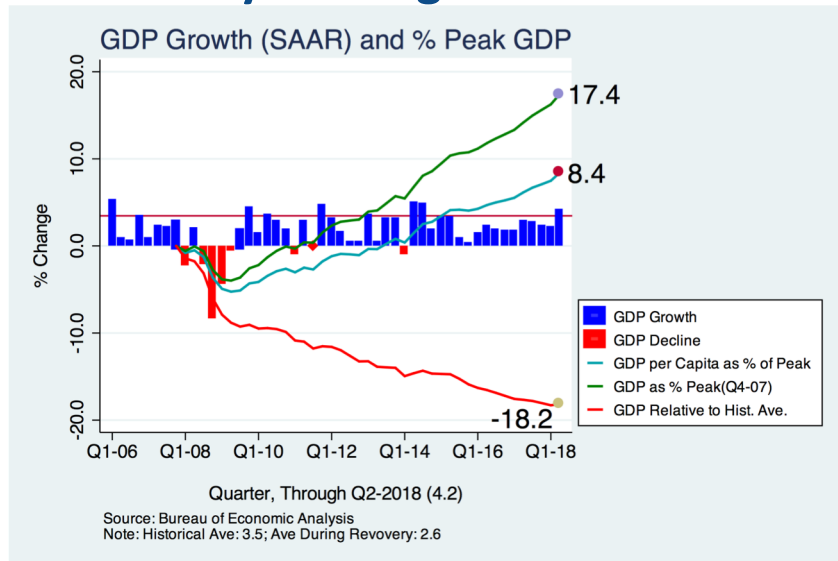
- Ratings agencies rated as AAA
- But really, if the housing bubble bursts:



About the Recession

- **Time frame: January 2008 – June 2009 (18 months)**
- **Economic consequences:**
 - GDP: fell 3.3%
 - Employment: fell 8.7 million (138.4 million to 129.7 million)
 - Unemployment: from 5% to 10%
 - Dow Jones: fell 47% (13,851 to 7,278)

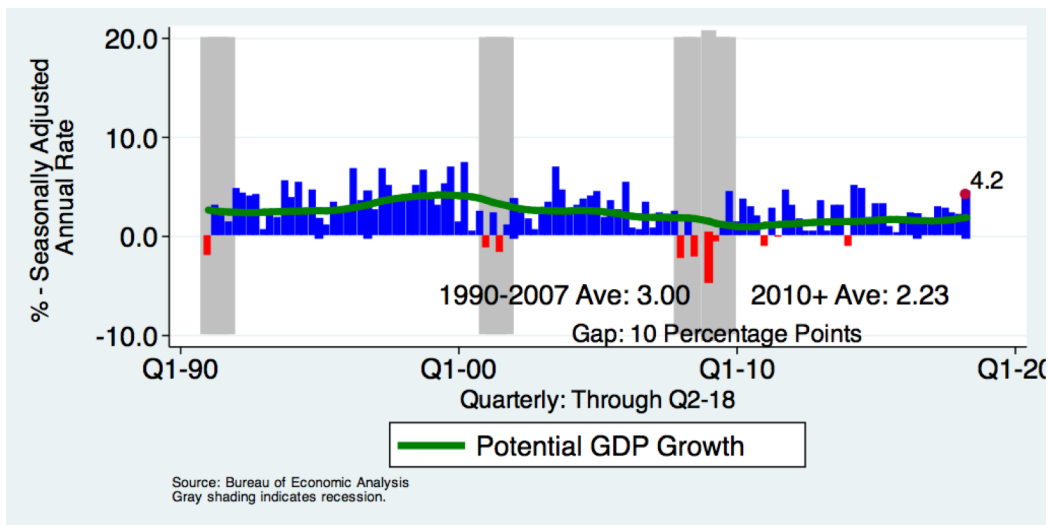
How Is Recovery Coming?



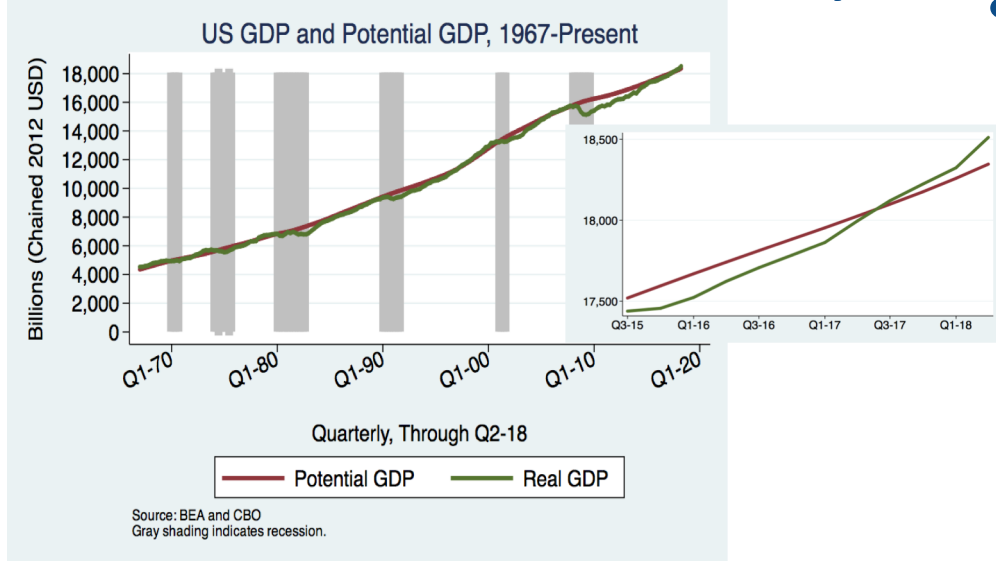
GDP During the Recovery

- *Real GDP* is a standard measure of production used by economists to assess the health and well-being of an economy
- *Potential GDP* is the level of production in an economy operating at full employment
- We use potential GDP to get a sense of what production should be in an economy

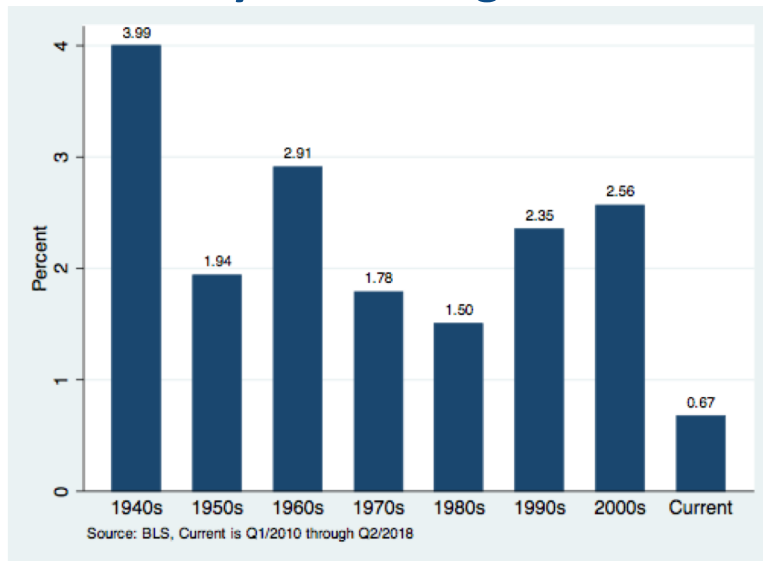
GDP Growth During Economic Recovery



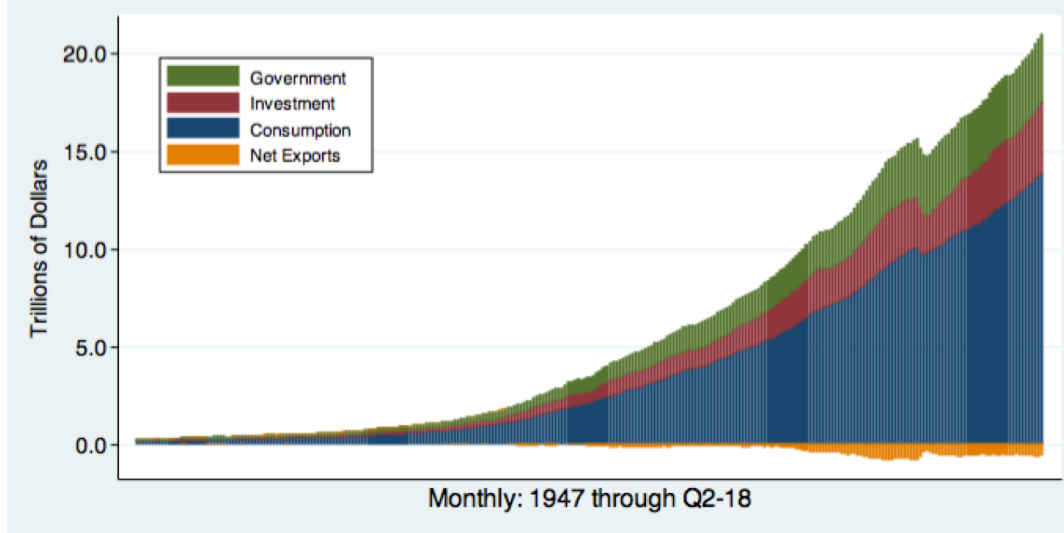
GDP Trajectory During Economic Recovery



Labor Productivity is Growing S..L..O..W..ly



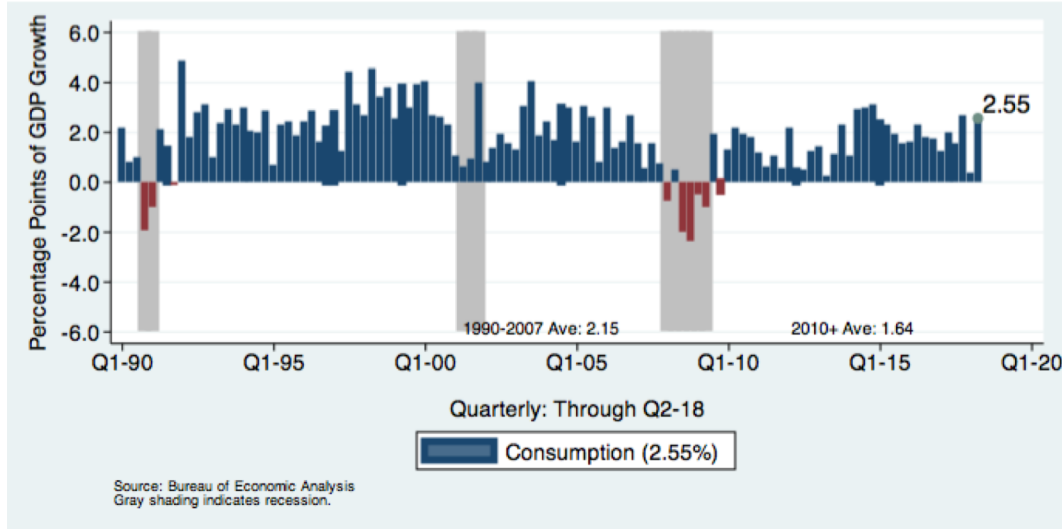
Composition of GDP



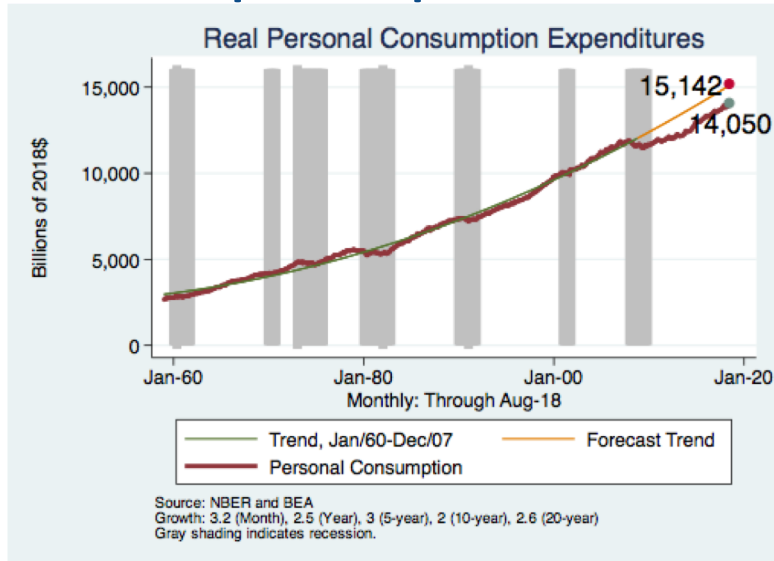
Composition of GDP

- Slow growth in any of these categories will slow overall GDP growth.
- How does each component contribute to GDP growth pre- vs. post-recession?
- What explains current trends in each component?

Contribution to GDP Growth: Consumption



Personal Consumption Expenditures

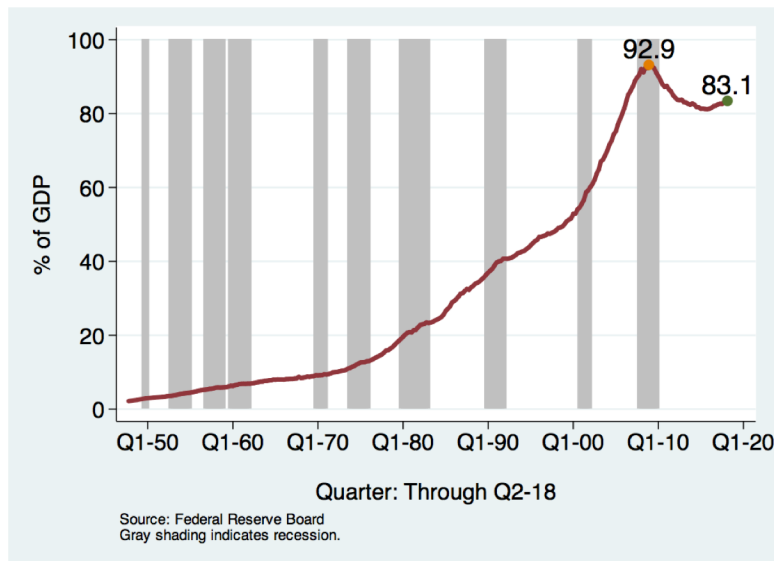


Personal Consumption Expenditures

- **Consumption has been slow to recover.**
 - Pre-crisis average contribution of consumption expenditures is 2.15 percentage points.
 - Post-crisis contribution is 1.64 percentage points.

- **In other words, its contribution to GDP growth is down 24%.**

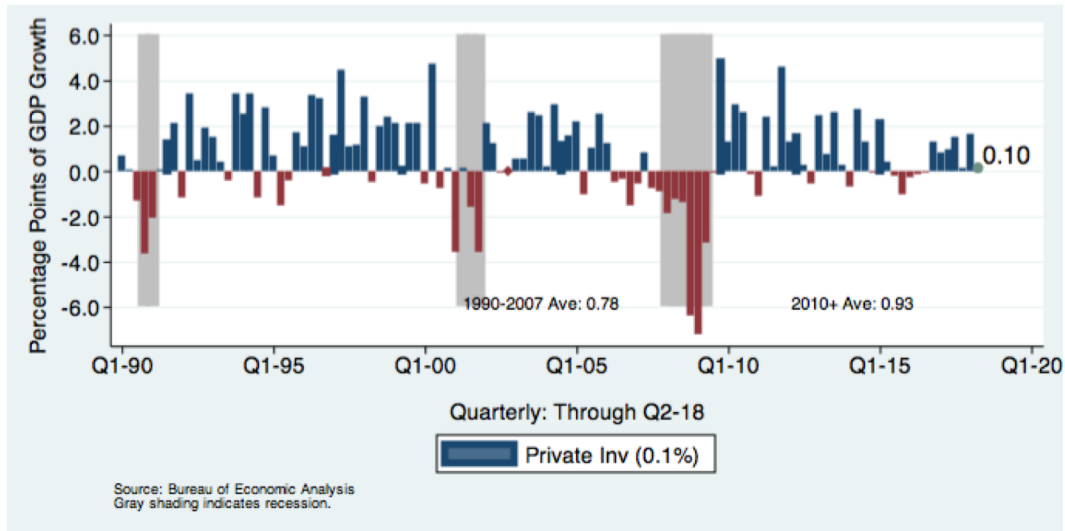
Household Debt as a Share of GDP



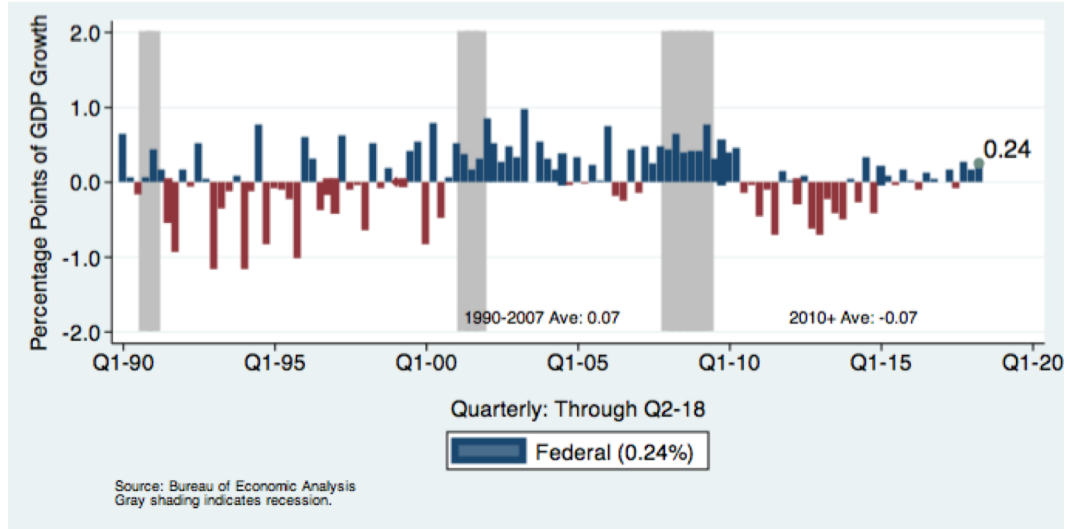
Investment Expenditures

- Investment expenditures are composed of residential and non-residential spending.
- Residential spending refers to purchases of new homes.
- Non-residential spending refers to capital purchases and new inventory accumulation.
 - Tools, machinery, new factories, commercial real estate.

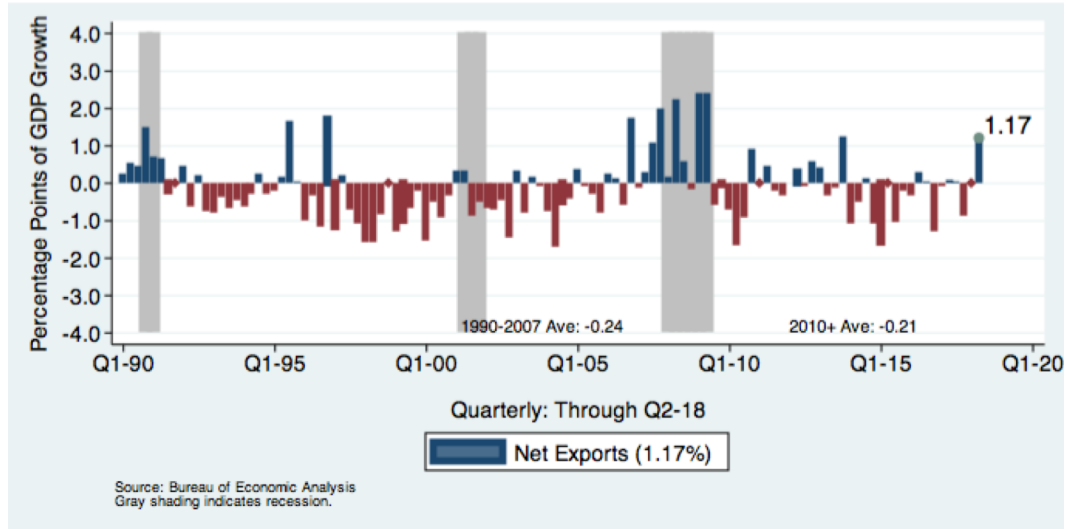
Contributions to GDP: Private Investment



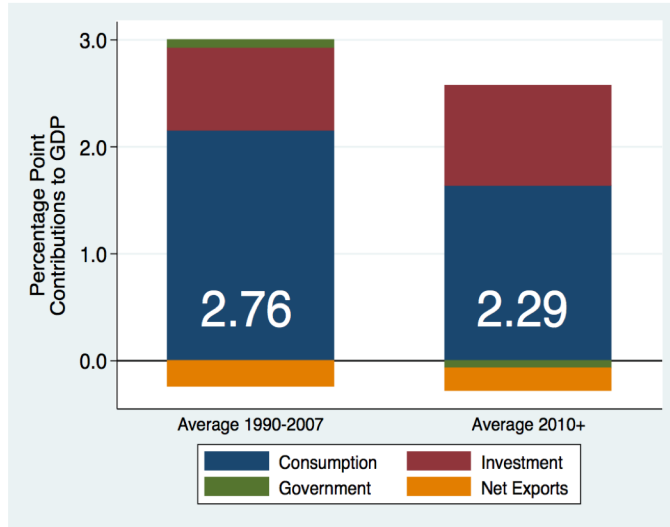
Contributions to GDP: Government



Contributions to GDP: Net Exports

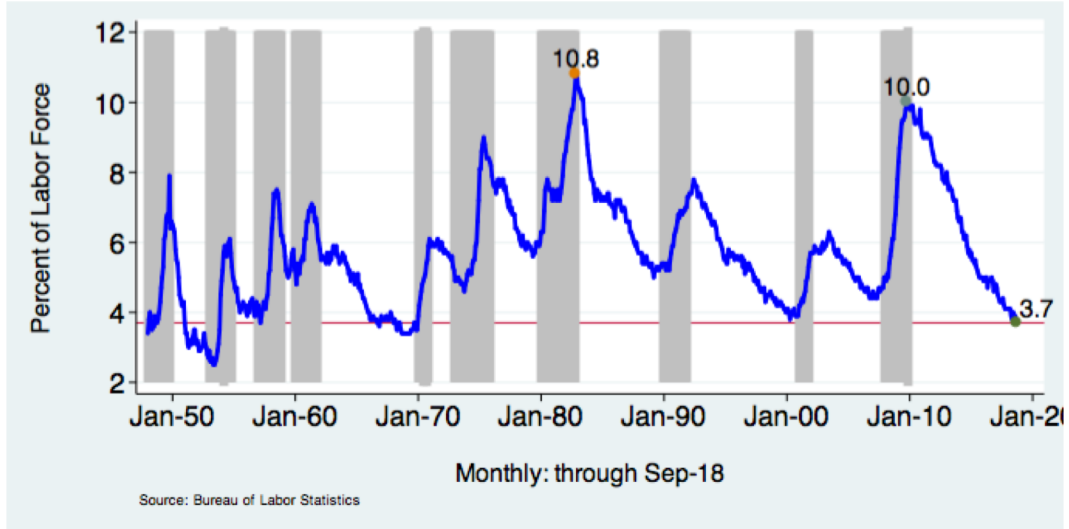


Expenditure Summary

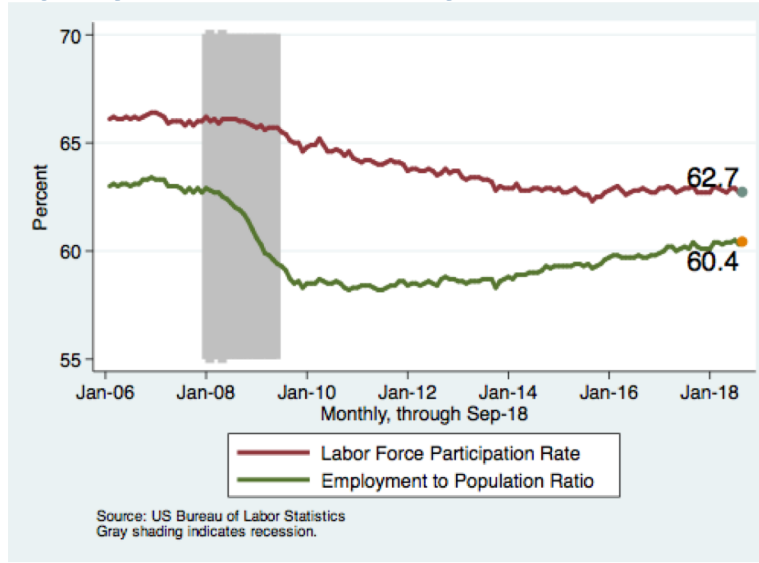


Labor Market

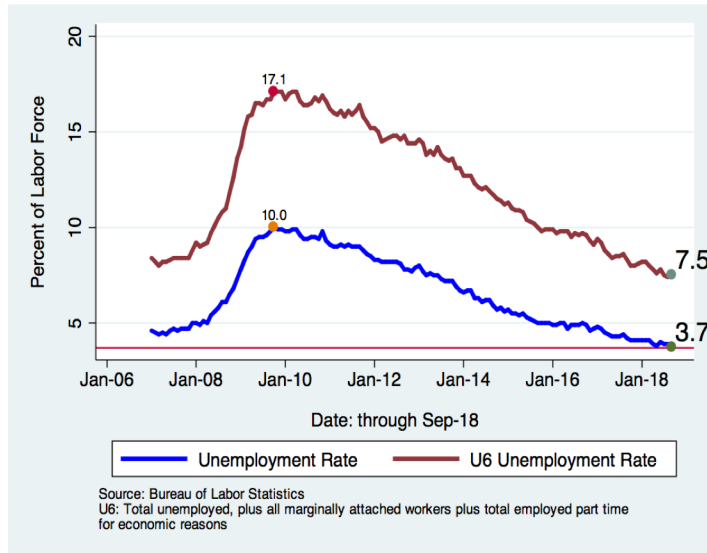
Unemployment Rate



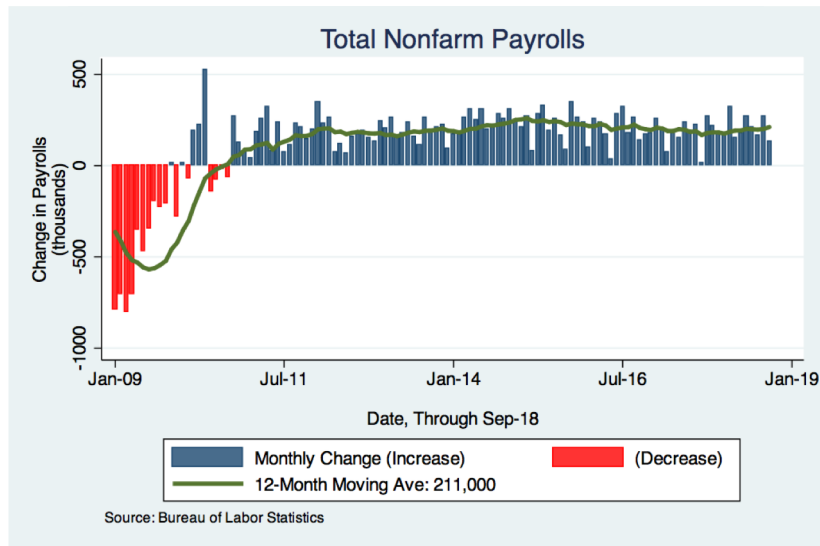
Slow Employment Recovery



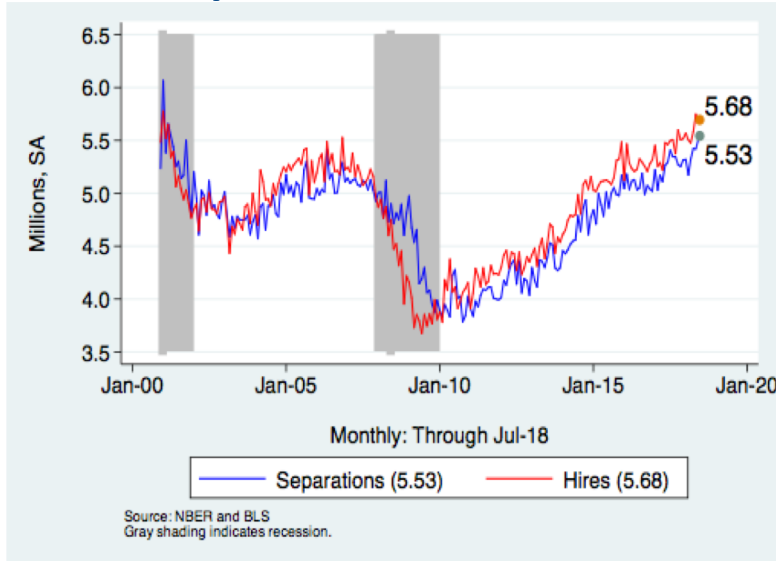
Unemployment Rate



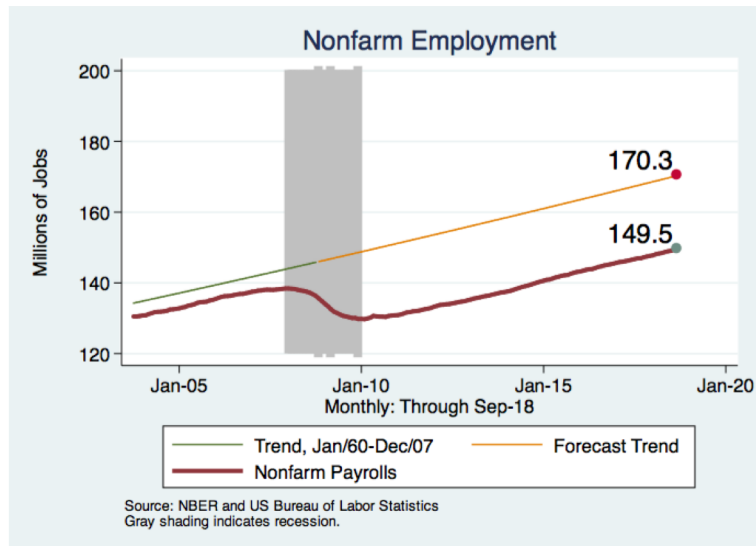
Monthly Changes in Nonfarm Employment



Job Hires and Separations



Employment Gap



Other Indicators



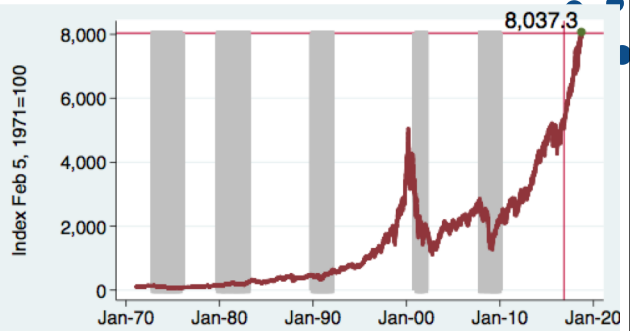
Stock Markets



Daily: Through 10/1/18

DJIA

Source: NBER and FRED, Federal Reserve Bank of St. Louis
Gray shading indicates recession.



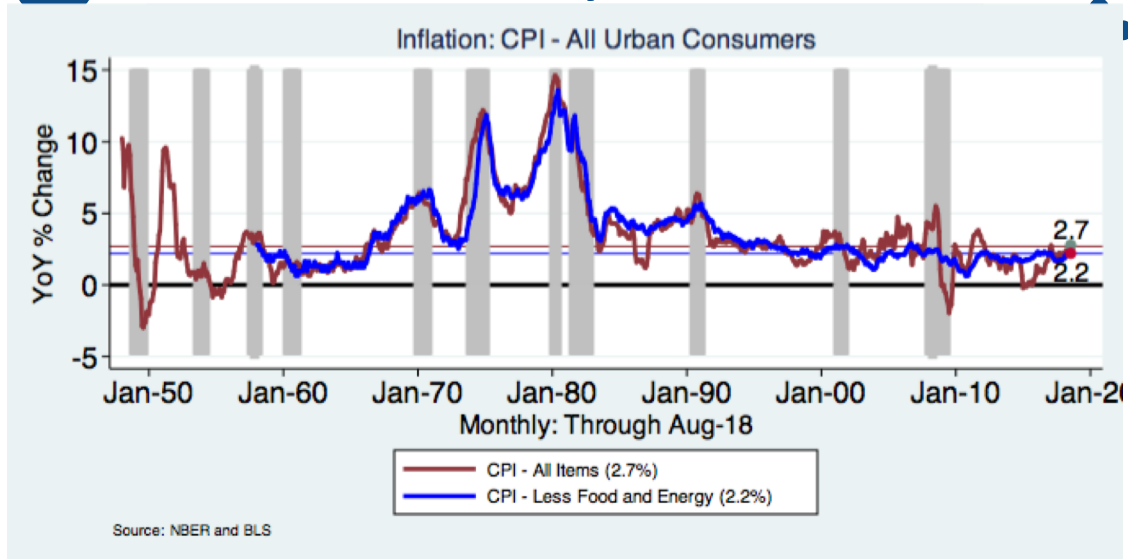
Daily: Through 10/1/18

NASDAQ

Source: NBER and FRED, Federal Reserve Bank of St. Louis
Gray shading indicates recession.



Inflation – Recent Stability

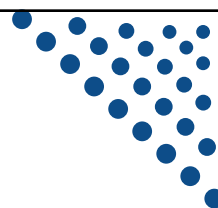


Summary

- **Recession was the worst since the Great Depression in 1929**
- **Gross Domestic Product**
 - GDP – fell 3.3% and is still far below where it should be.
- **Labor Market**
 - Unemployment is low, labor force is shrinking, real wages are stagnant.
- **Stock Markets**
 - Have recovered and are doing very well!
 - The relationship between the markets and the economy is tenuous.



Thank you!



Any Questions?

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