

# The U.S. Economy: Recession and Recovery

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Redwood High School  
Ann Tepovich's Econ Class  
*October 5, 2018*



## Outline – Recession and Recovery

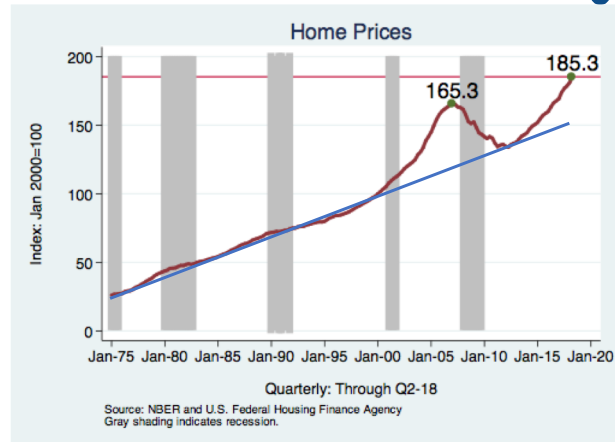
- Why the Recession?
- Gross Domestic Product
- Labor Market
- Other Indicators



# 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



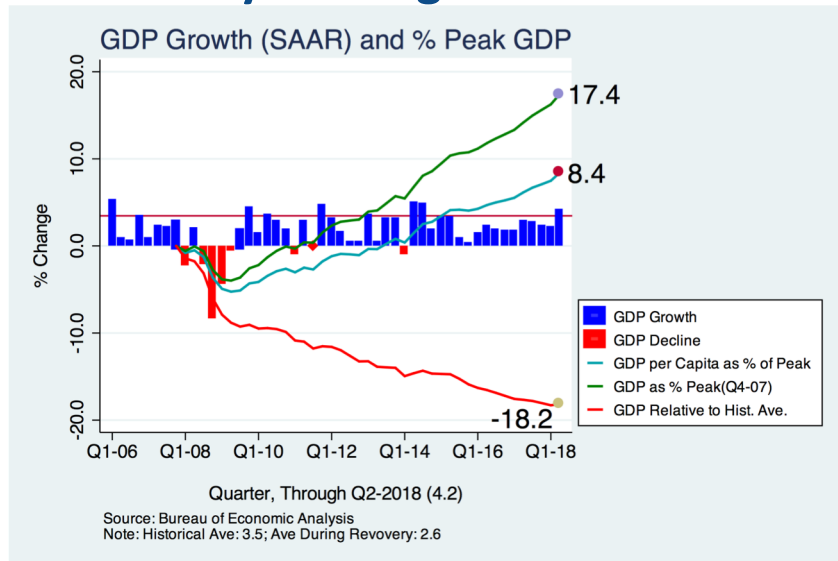
- Ratings agencies rated as AAA
- But really, if the housing bubble bursts:



## 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)

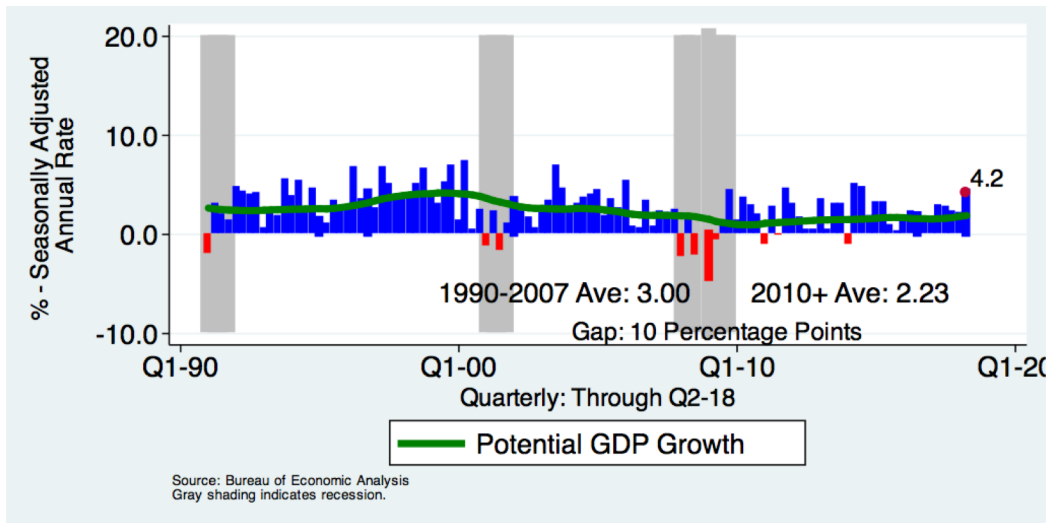
## How Is Recovery Coming?



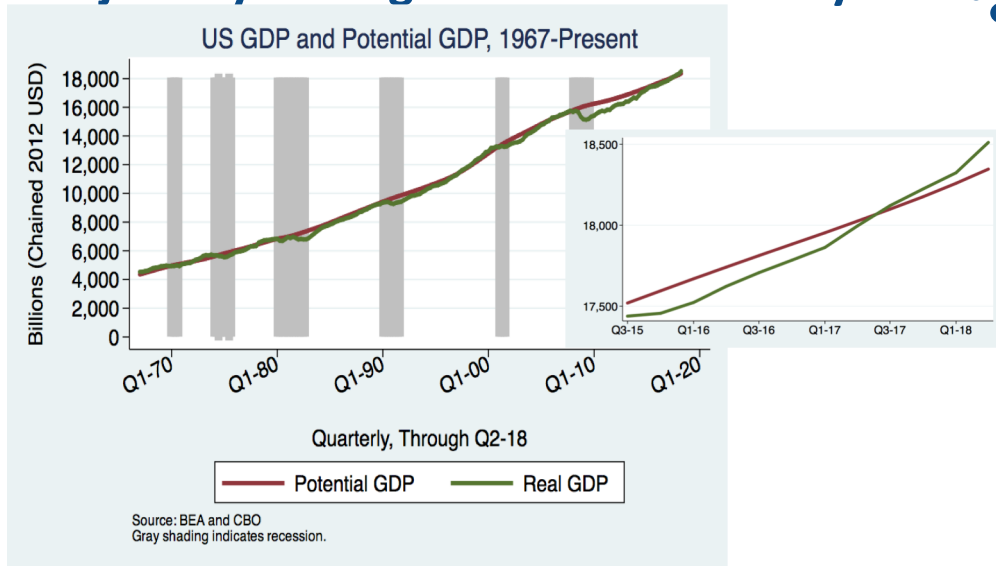
## GDP During the Recovery

- *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

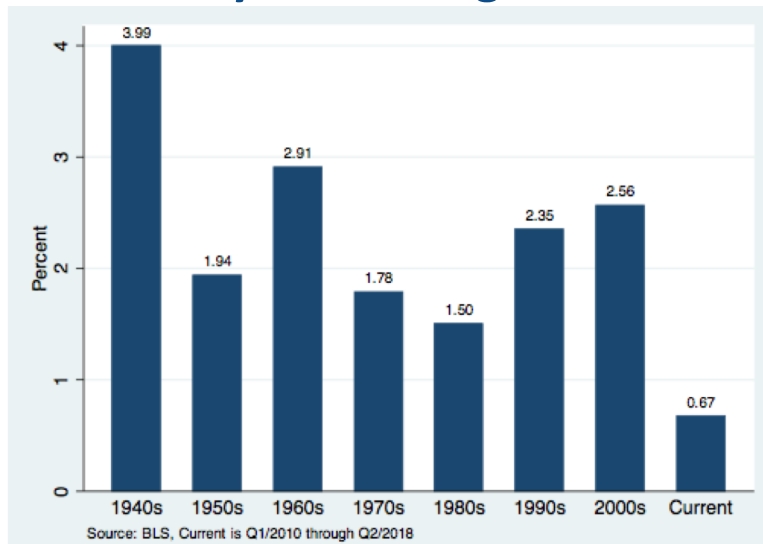
## GDP Growth During Economic Recovery



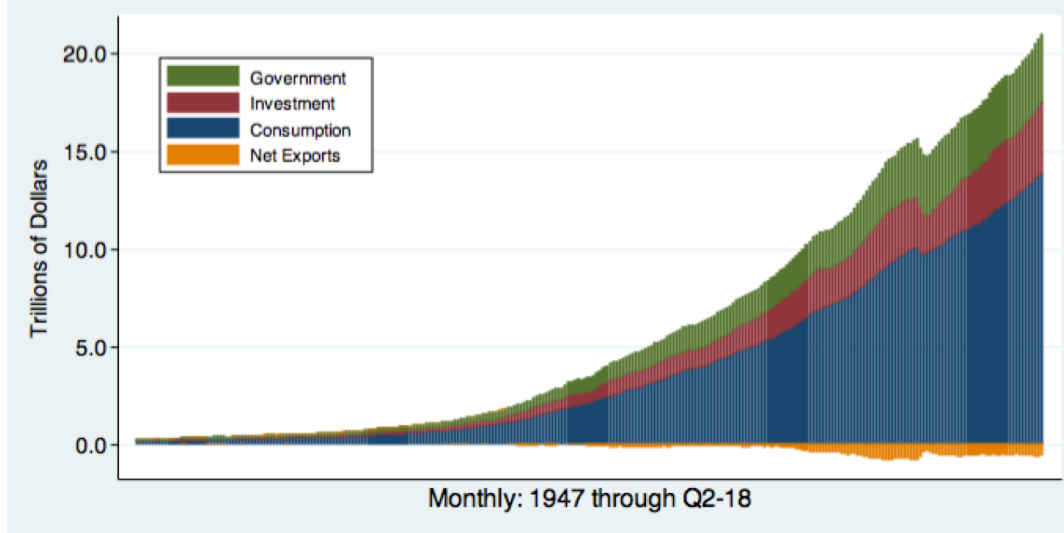
## GDP Trajectory During Economic Recovery



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



## Composition of GDP

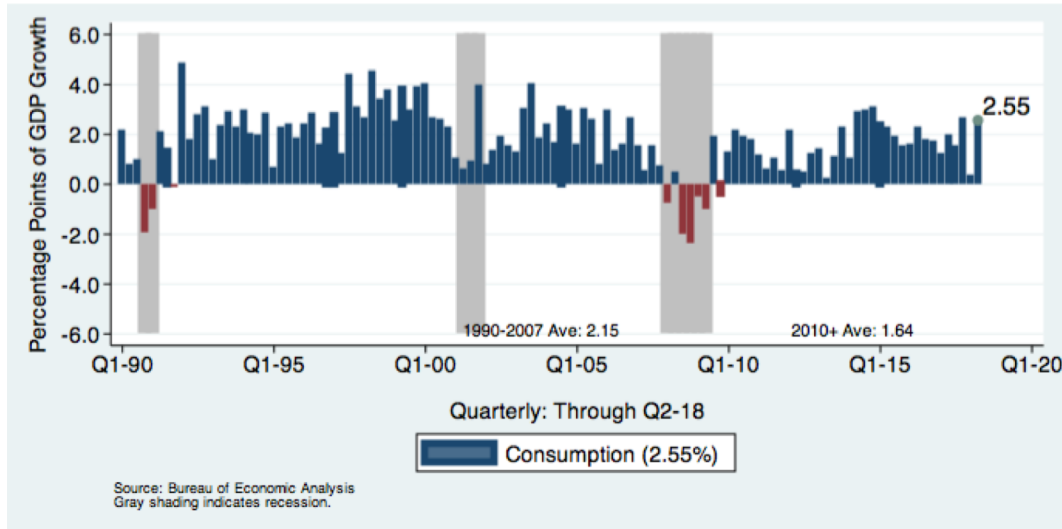


## Composition of GDP

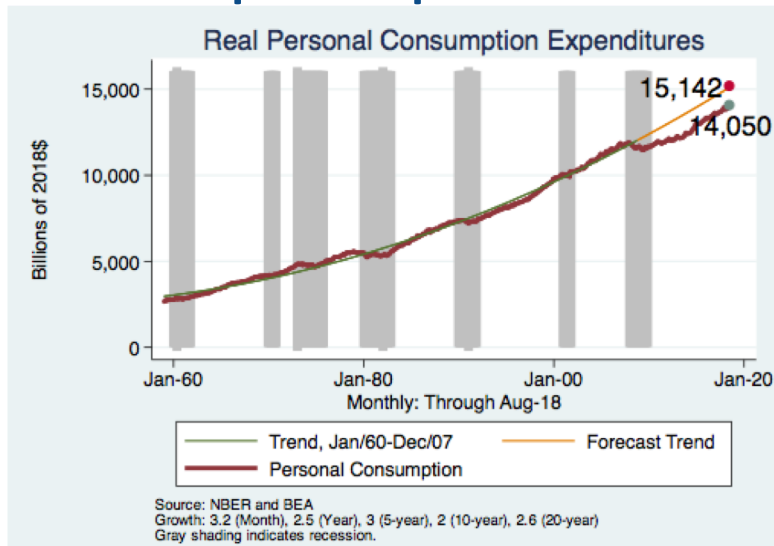
- Slow growth in any of these categories will slow overall GDP growth.
- How does each component contribute to GDP growth pre- vs. post-recession?
- What explains current trends in each component?



## Contribution to GDP Growth: Consumption



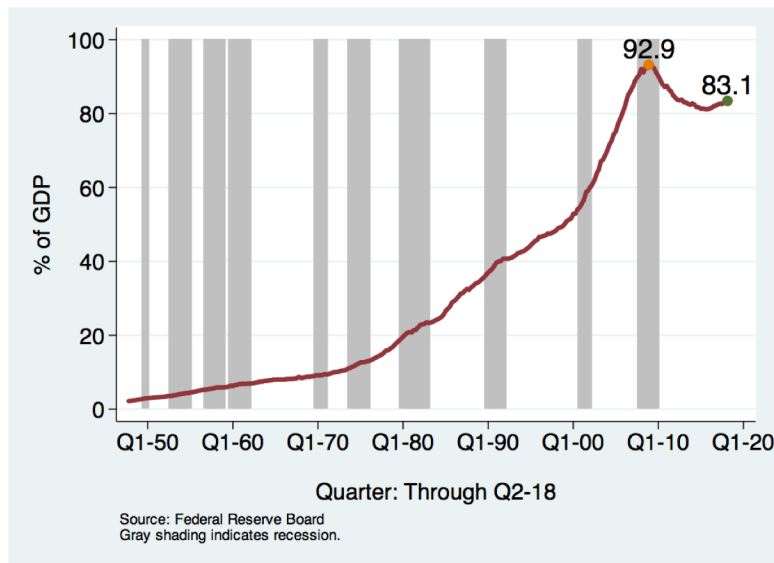
## Personal Consumption Expenditures



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- **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

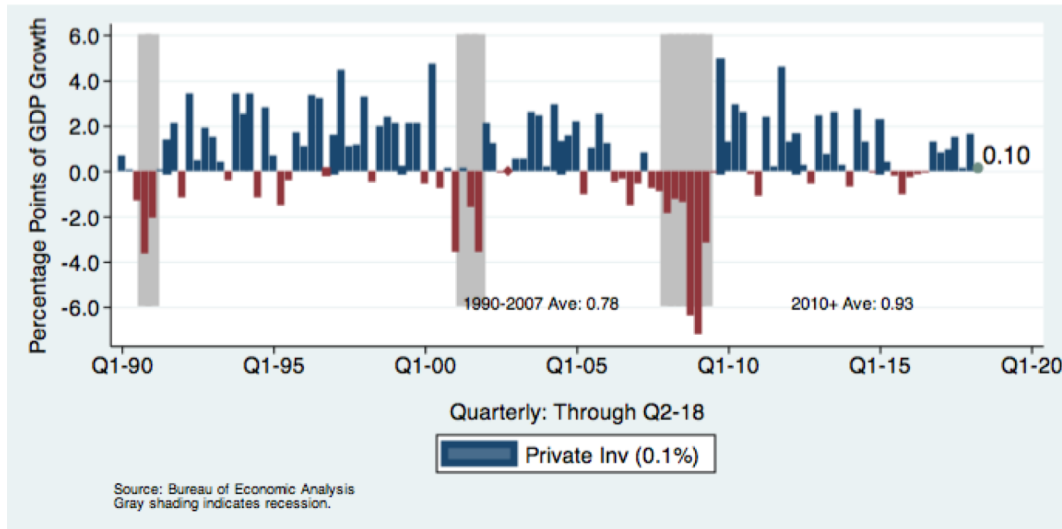




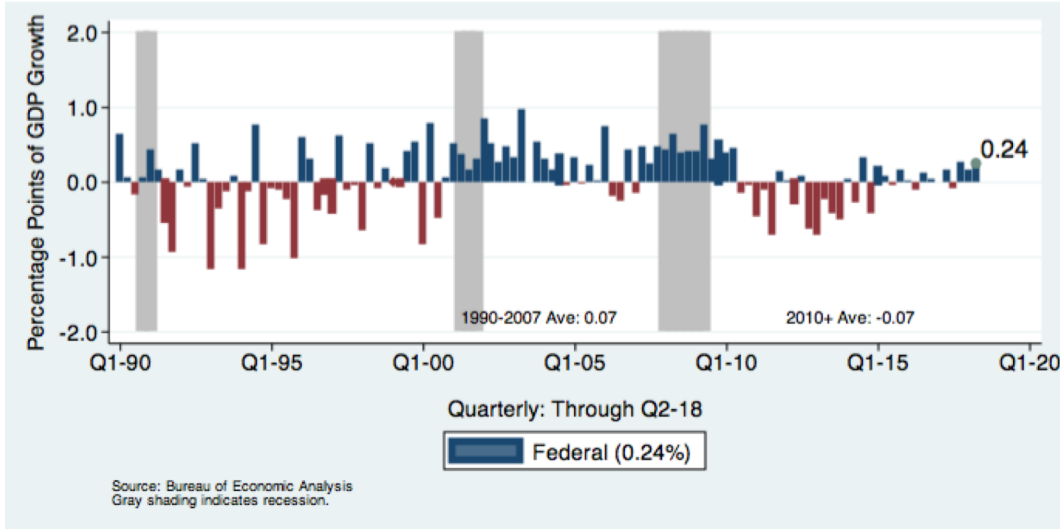
## Investment Expenditures

- 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.

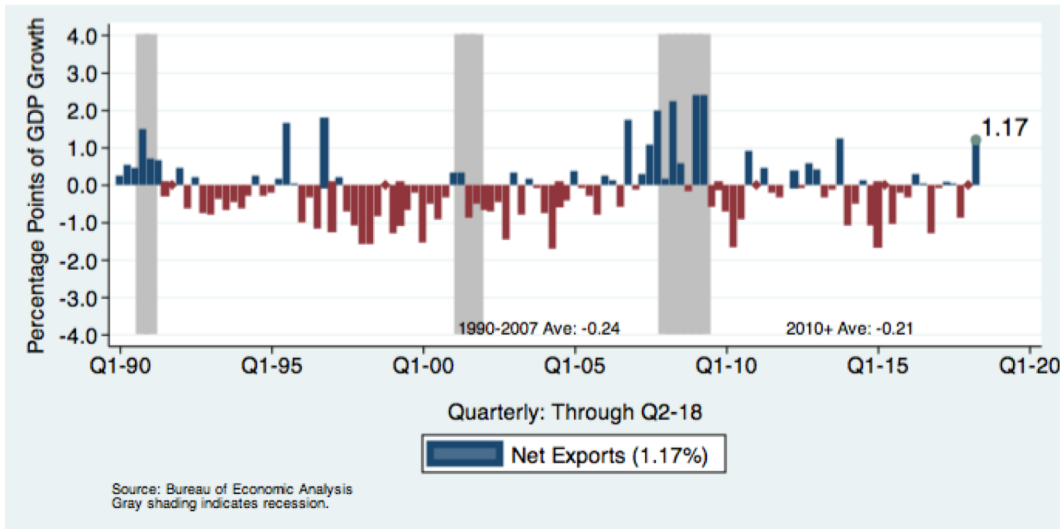
## Contributions to GDP: Private Investment



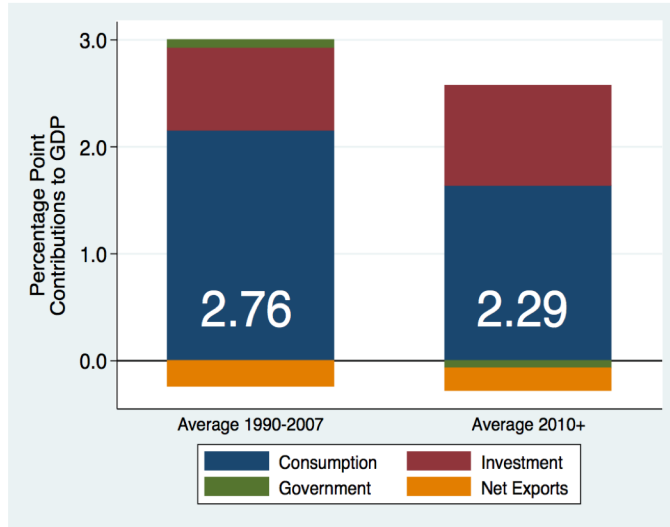
## Contributions to GDP: Government



## Contributions to GDP: Net Exports

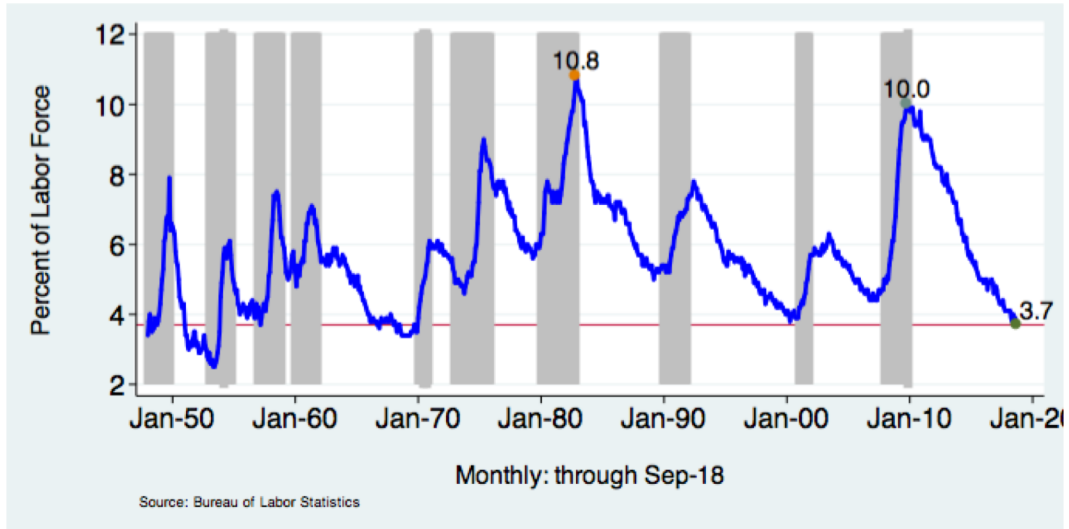


# Expenditure Summary

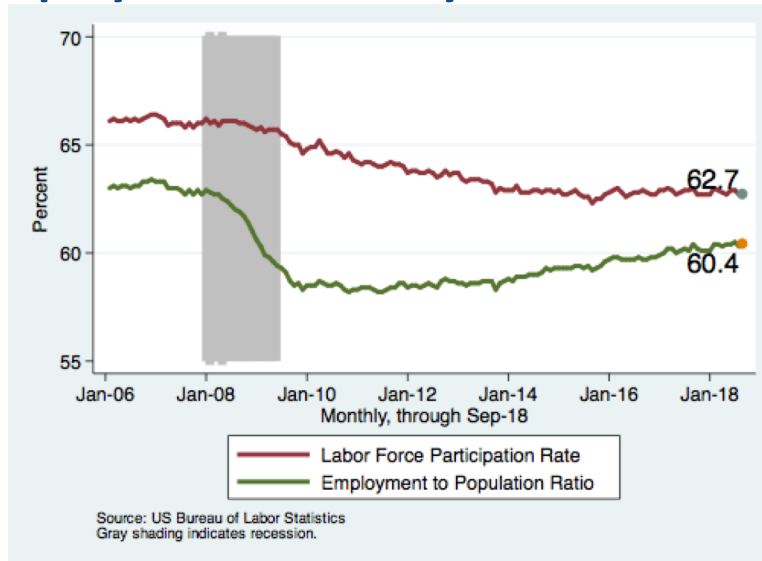


# Labor Market

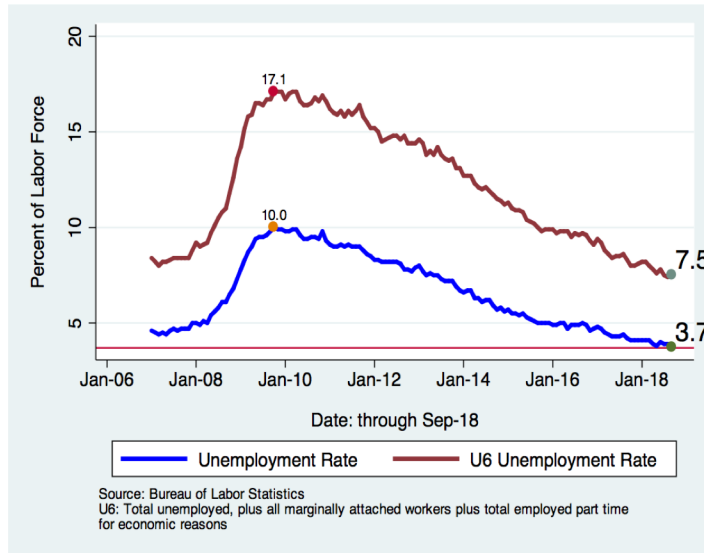
## Unemployment Rate



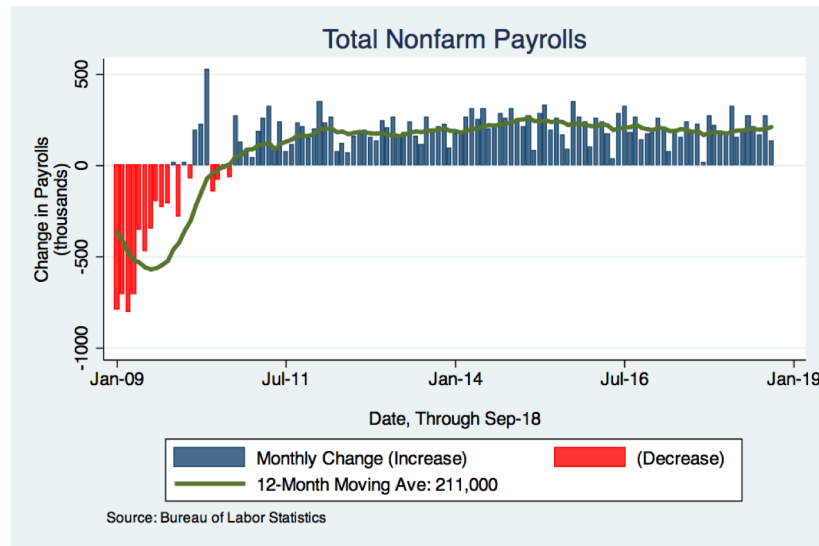
## Slow Employment Recovery



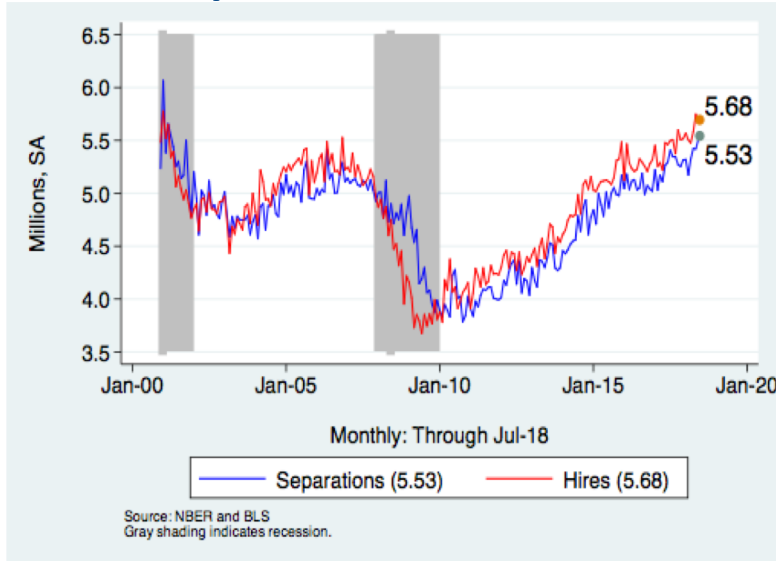
# Unemployment Rate



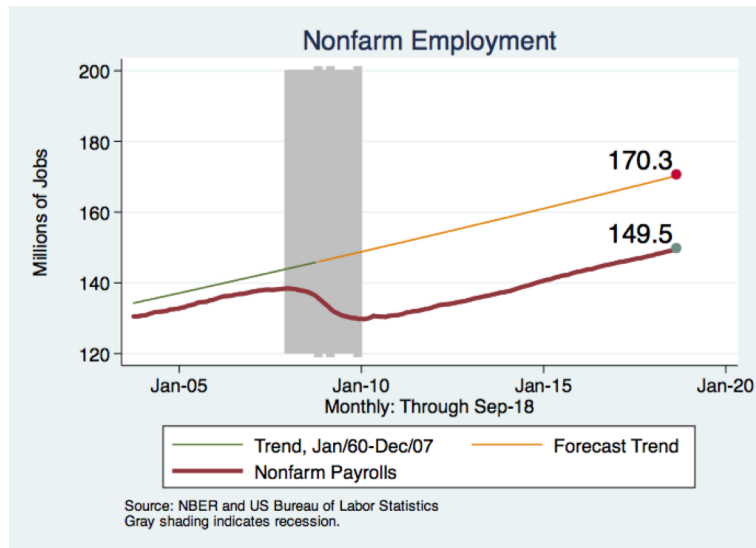
# Monthly Changes in Nonfarm Employment



## Job Hires and Separations



## Employment Gap



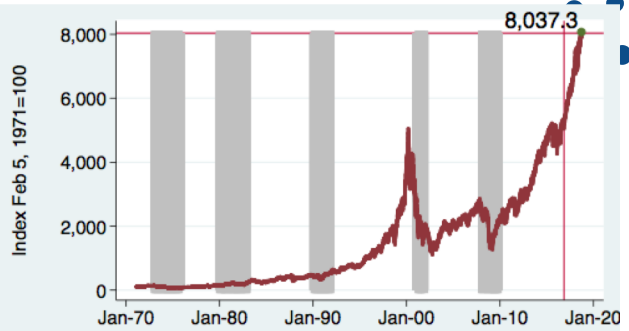
# Other Indicators



# Stock Markets



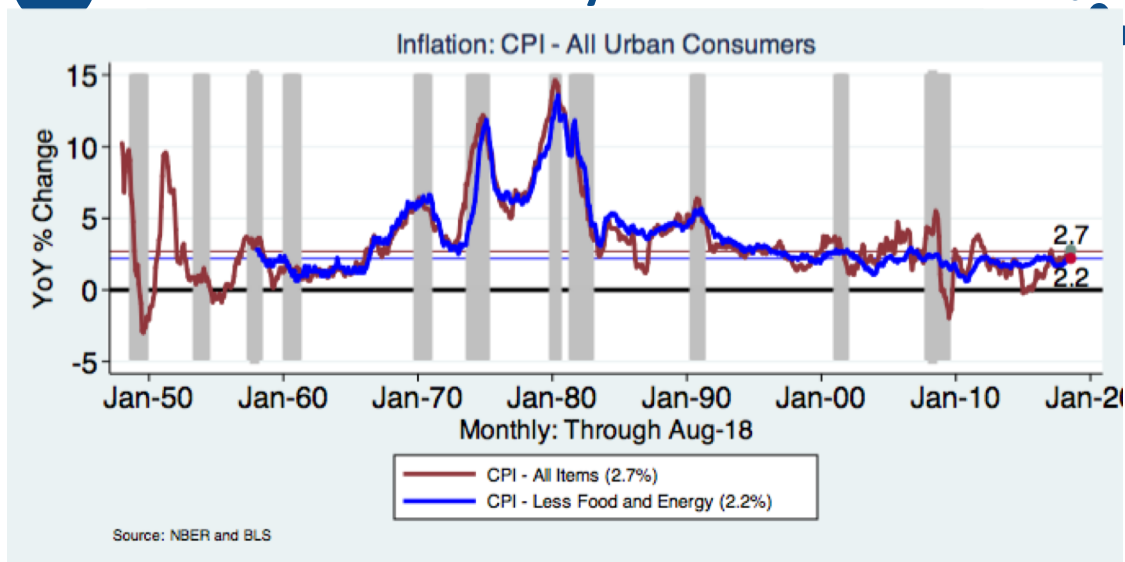
Source: NBER and FRED, Federal Reserve Bank of St. Louis  
Gray shading indicates recession.



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## Inflation – Recent Stability



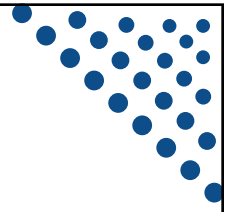
## Summary

- **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?

[www.NEEDelegation.org](http://www.NEEDelegation.org)

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