

The Current Recession Is it Really the Great Depression II

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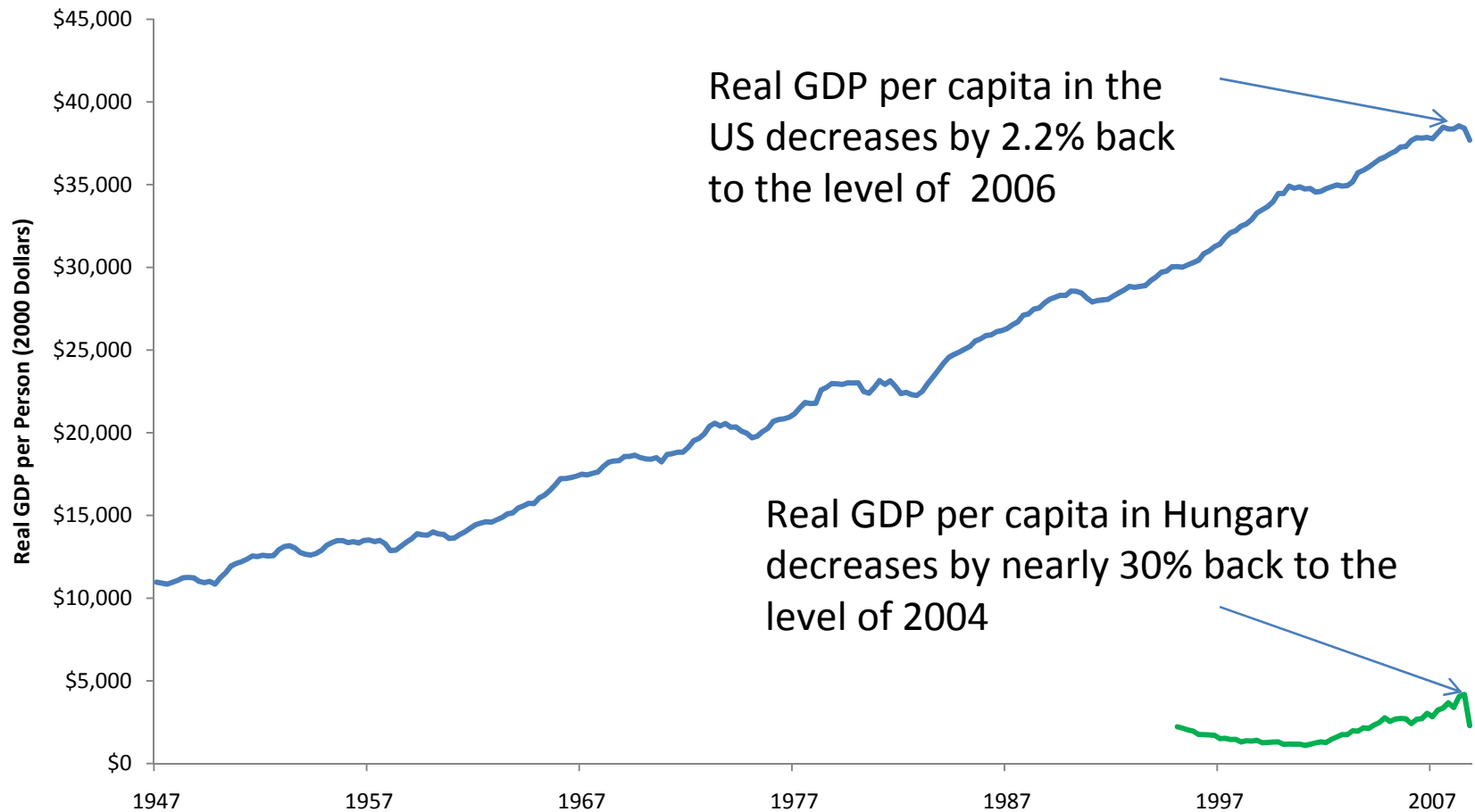
April 6, 2009

at Quinnipiac University

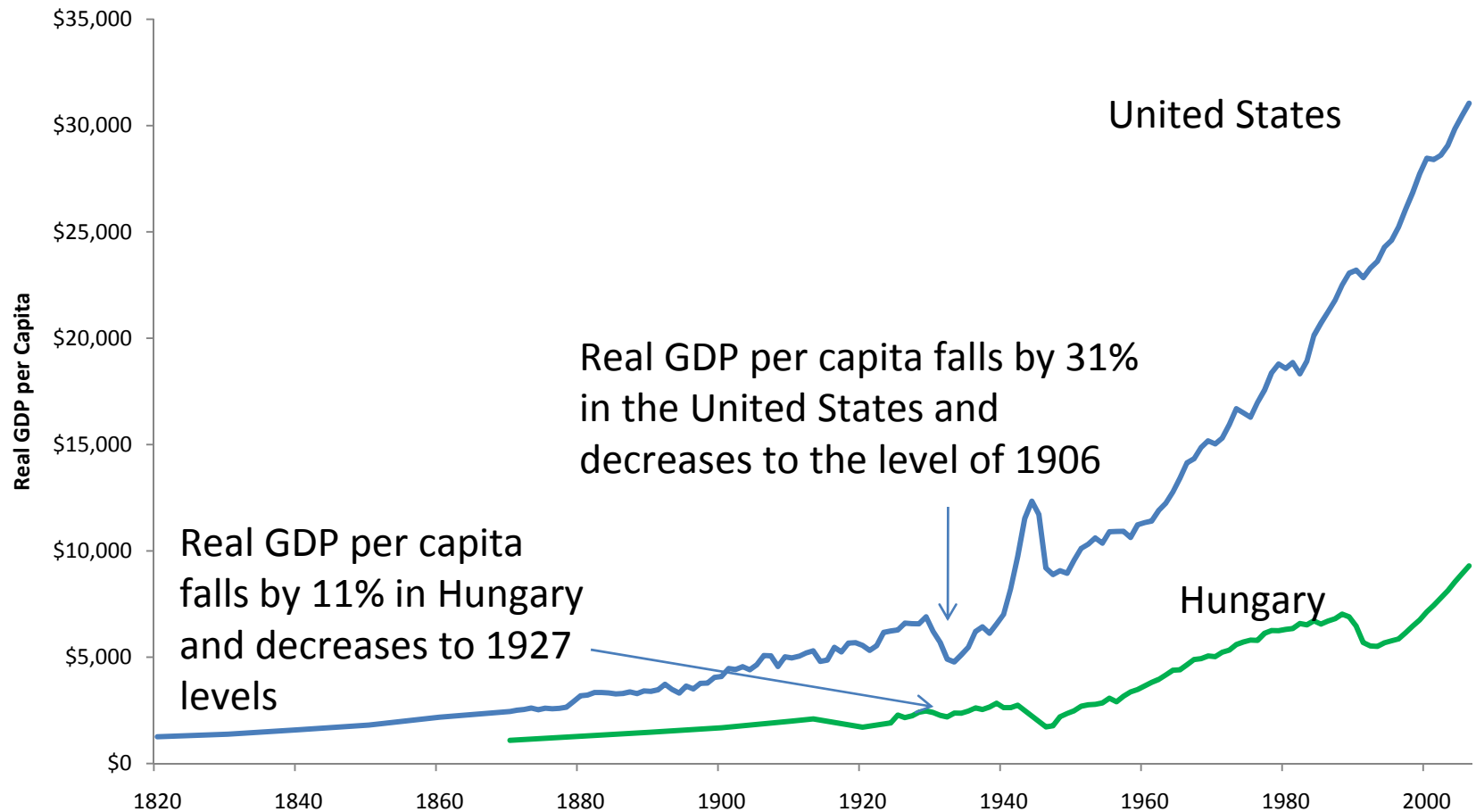
How Measure the Size of the Economy?

- Real GDP is both total amount of expenditures and total income generated in the economy
- Real GDP per capita is a useful measure of the standard of living because it measures how much “stuff” the average person can consume

Some Perspective using Real GDP per Capita

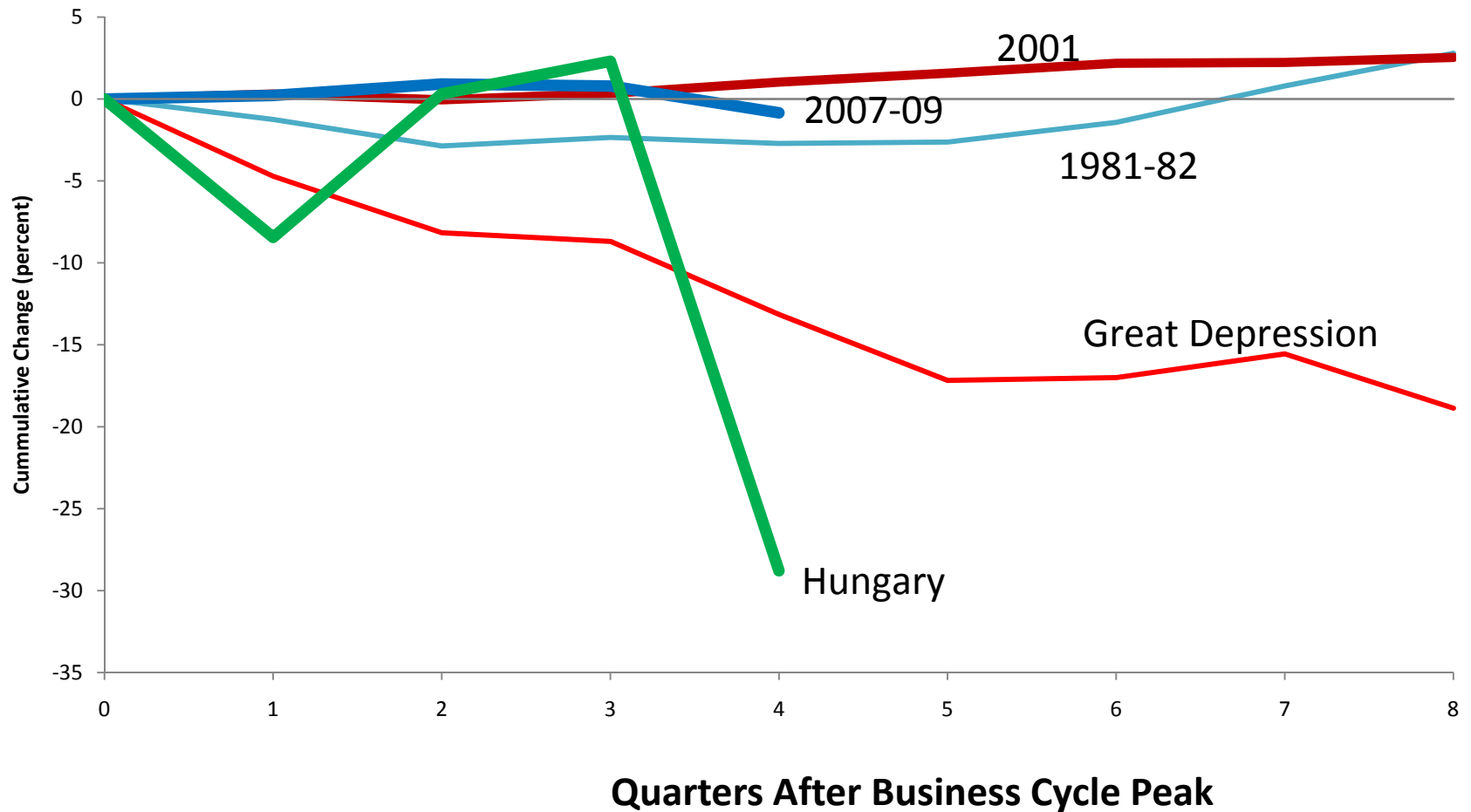


Some Longer Term Perspective Using Real GDP per Capita



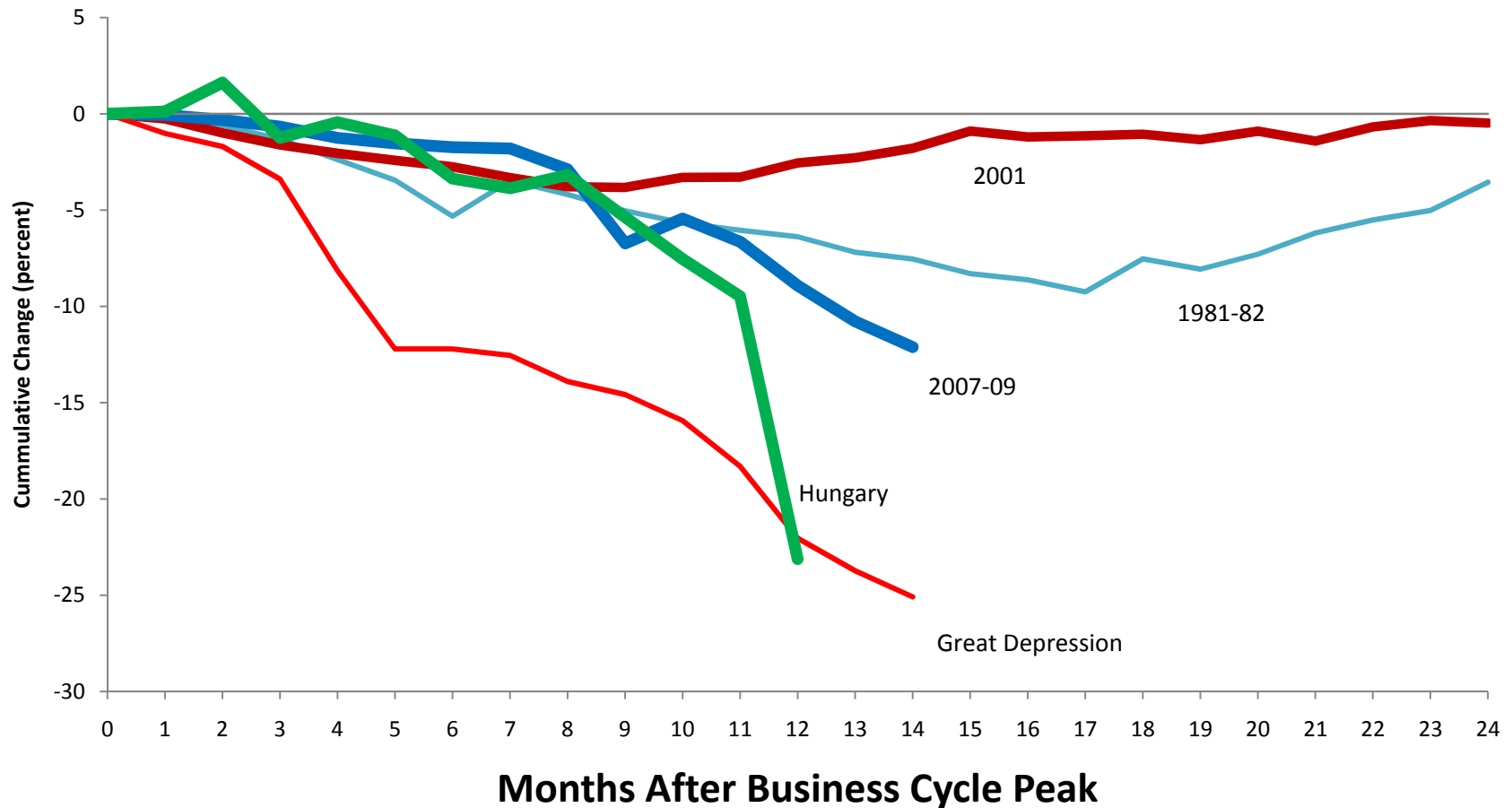
How Bad is this Recession?

A Look at Gross Domestic Product



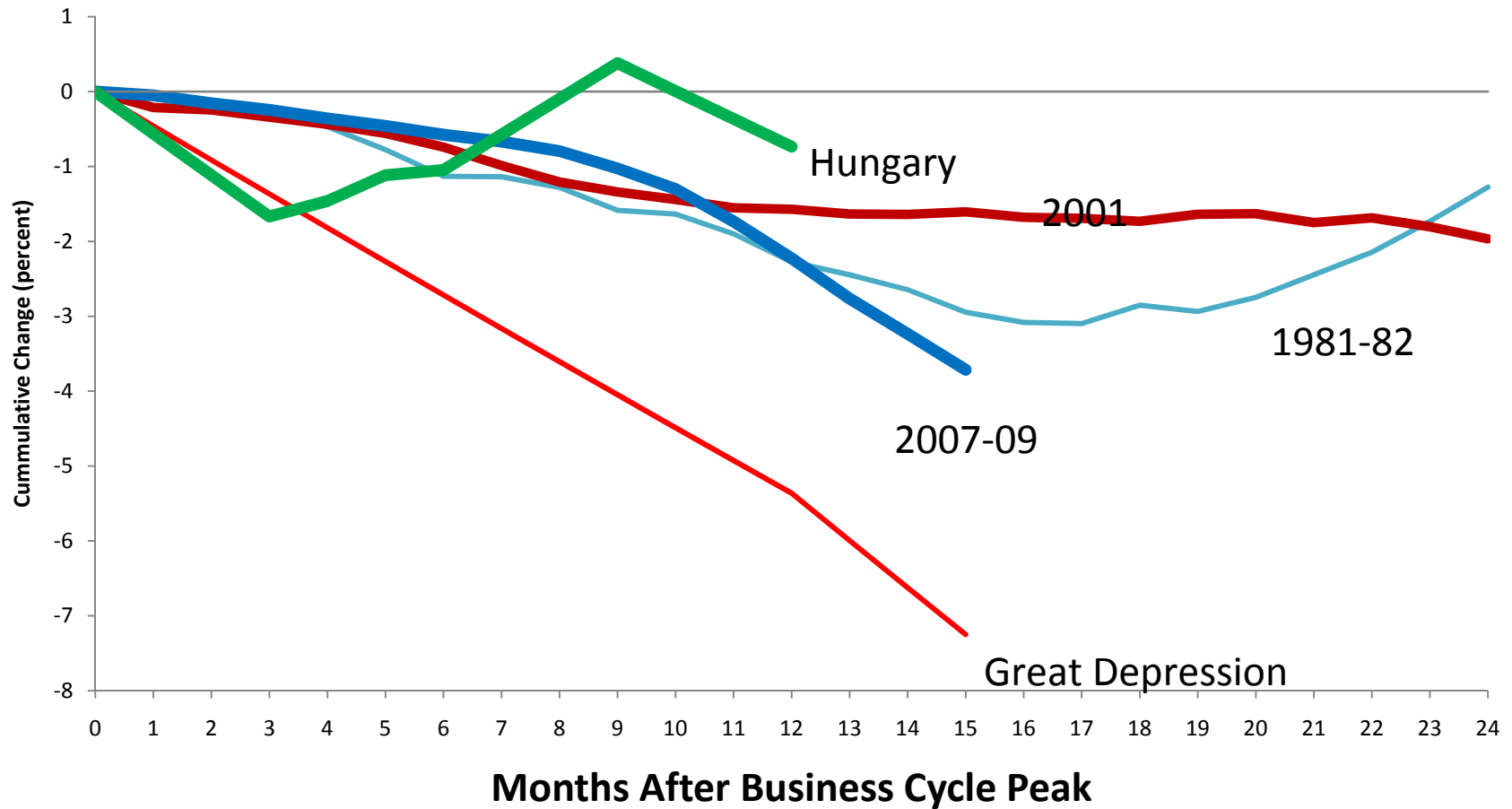
How Bad is this Recession?

A Look at Industrial Production



How Bad is this Recession?

A Look at Employment



What Have We Learned About the United States?

- The United States is in a severe recession
- Worse than 1981-82, but not even close to the Great Depression (at least not yet)

What Have We Learned About Hungary?

- Large decrease in output approximating what happened in the United States during the Great Depression
- Employment decline is mild so far, but employment is a lagging indicator so expect large employment declines in near future

How Bad Will Labor Markets Get

An Application of Okun's Law

- United States (1950 to 2008)

Change Unemployment = $1.7 - 0.5 * \text{Real GDP Growth}$

- Hungary (1993 to 2007)

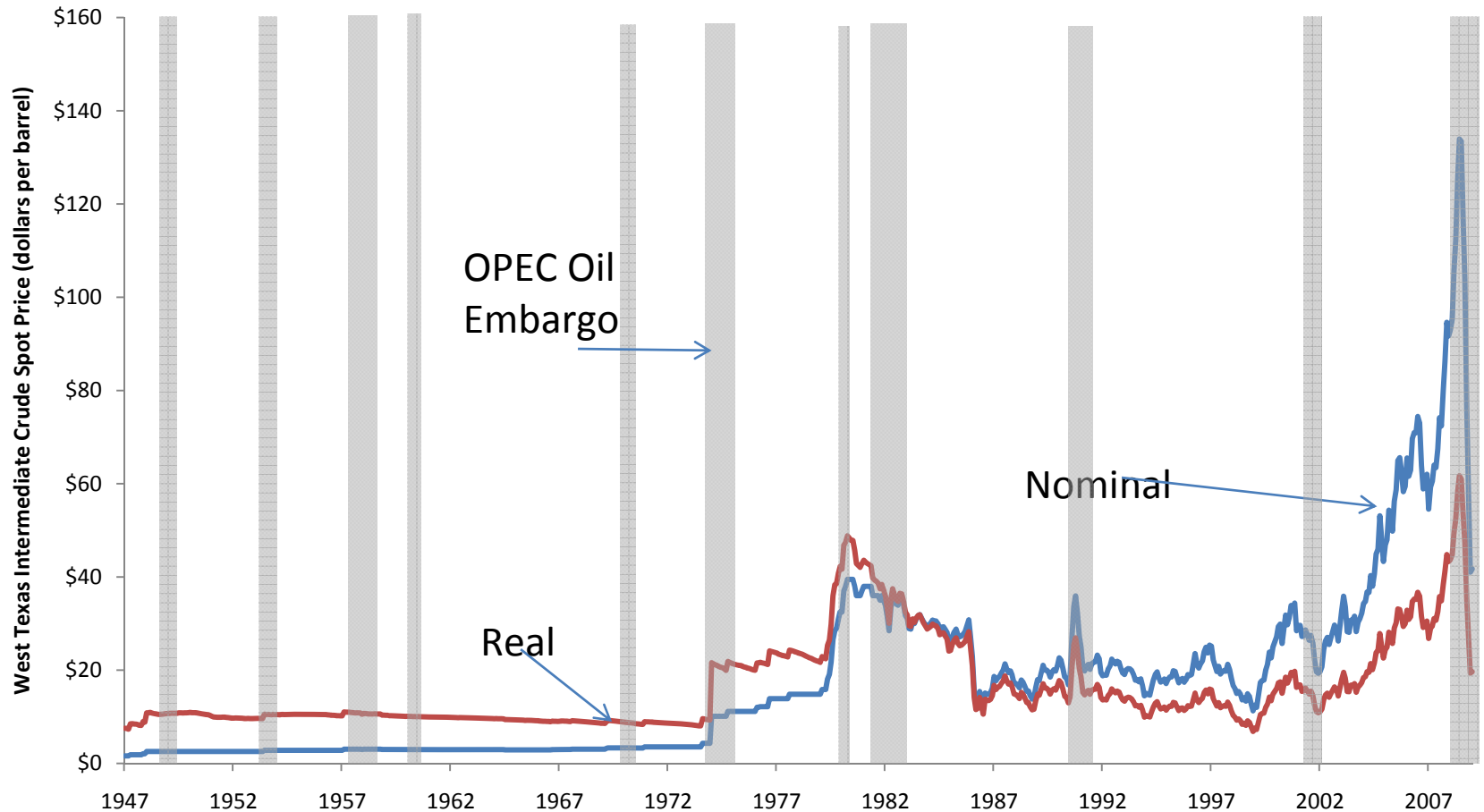
Change Unemployment = $3.4 - 1 * \text{Real GDP Growth}$

Any Reason to be Optimistic?

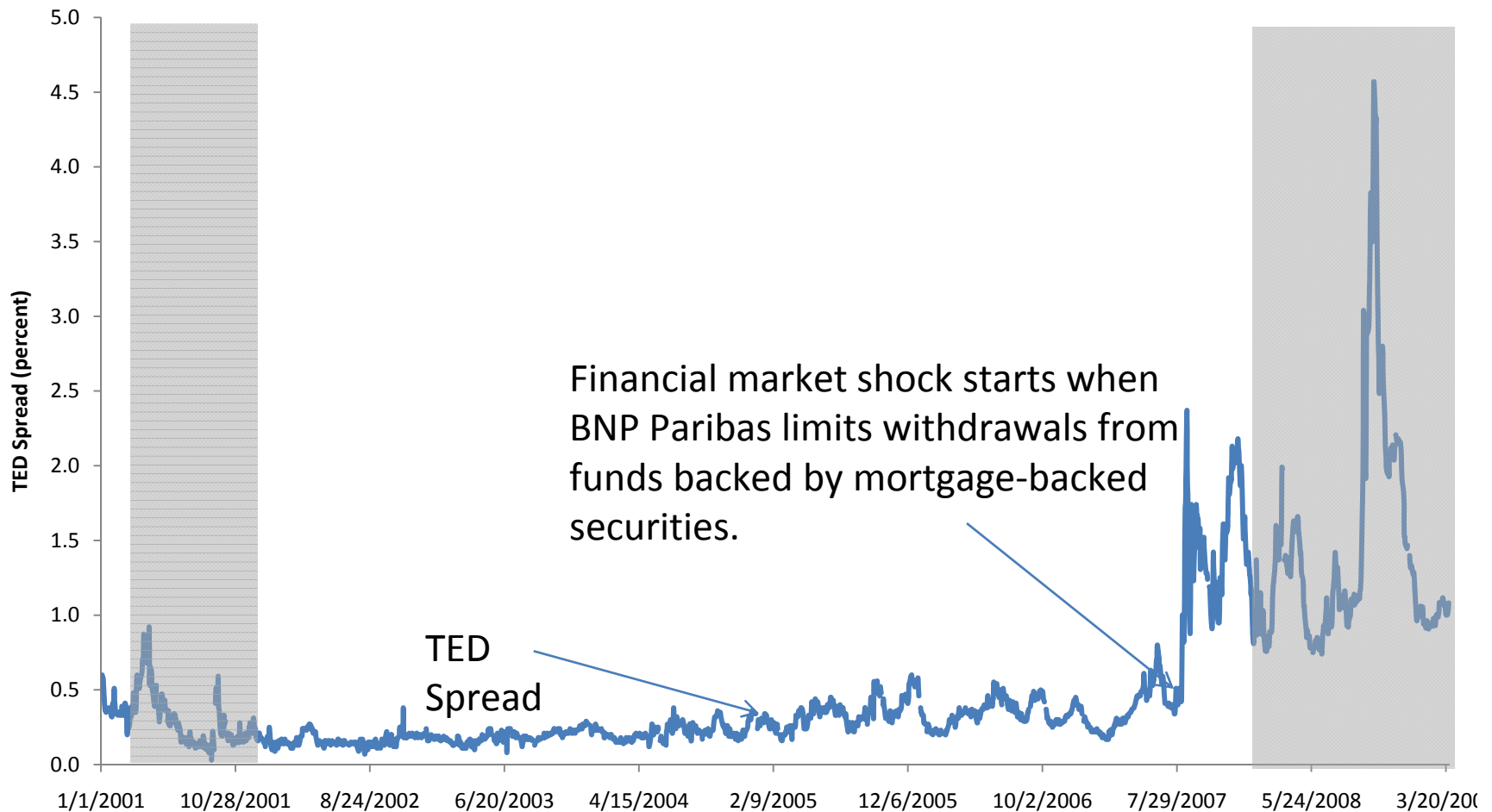
The recession in the United States was the result of 3 shocks:

1. Oil price shock
2. Housing market shock
3. Financial market shock

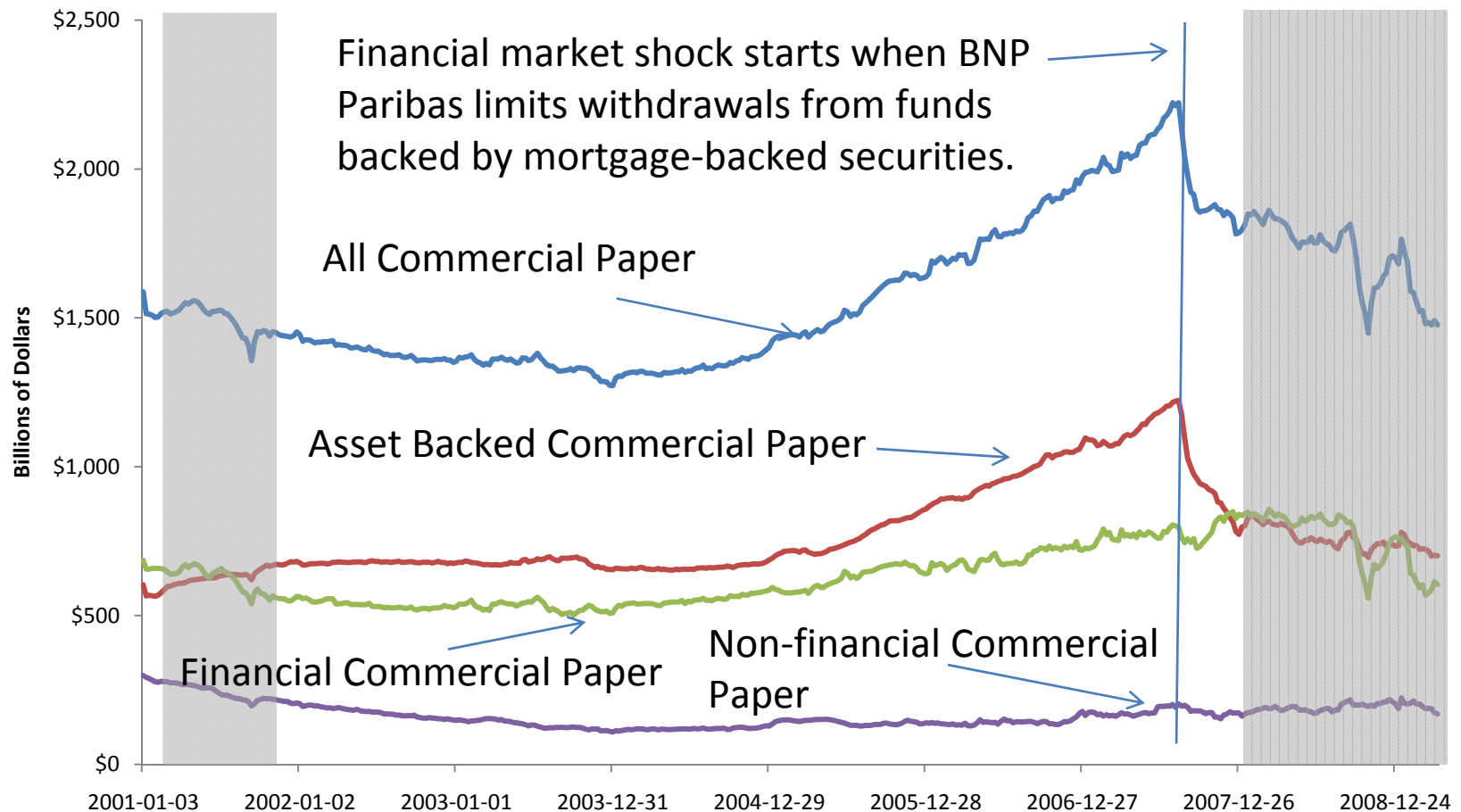
Oil Price Shock Has Dissipated



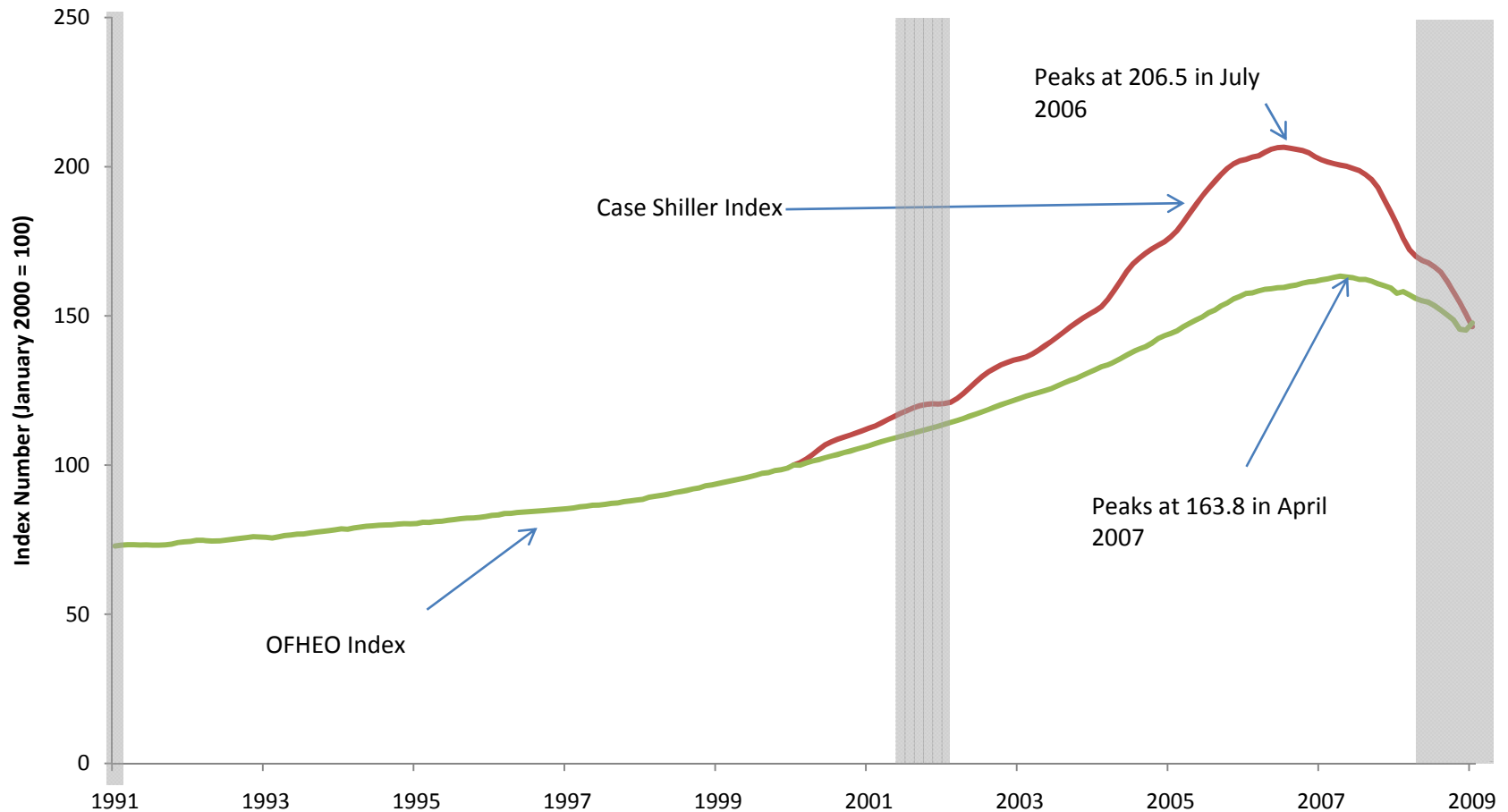
Financial Market Shock Has Dissipated (somewhat)



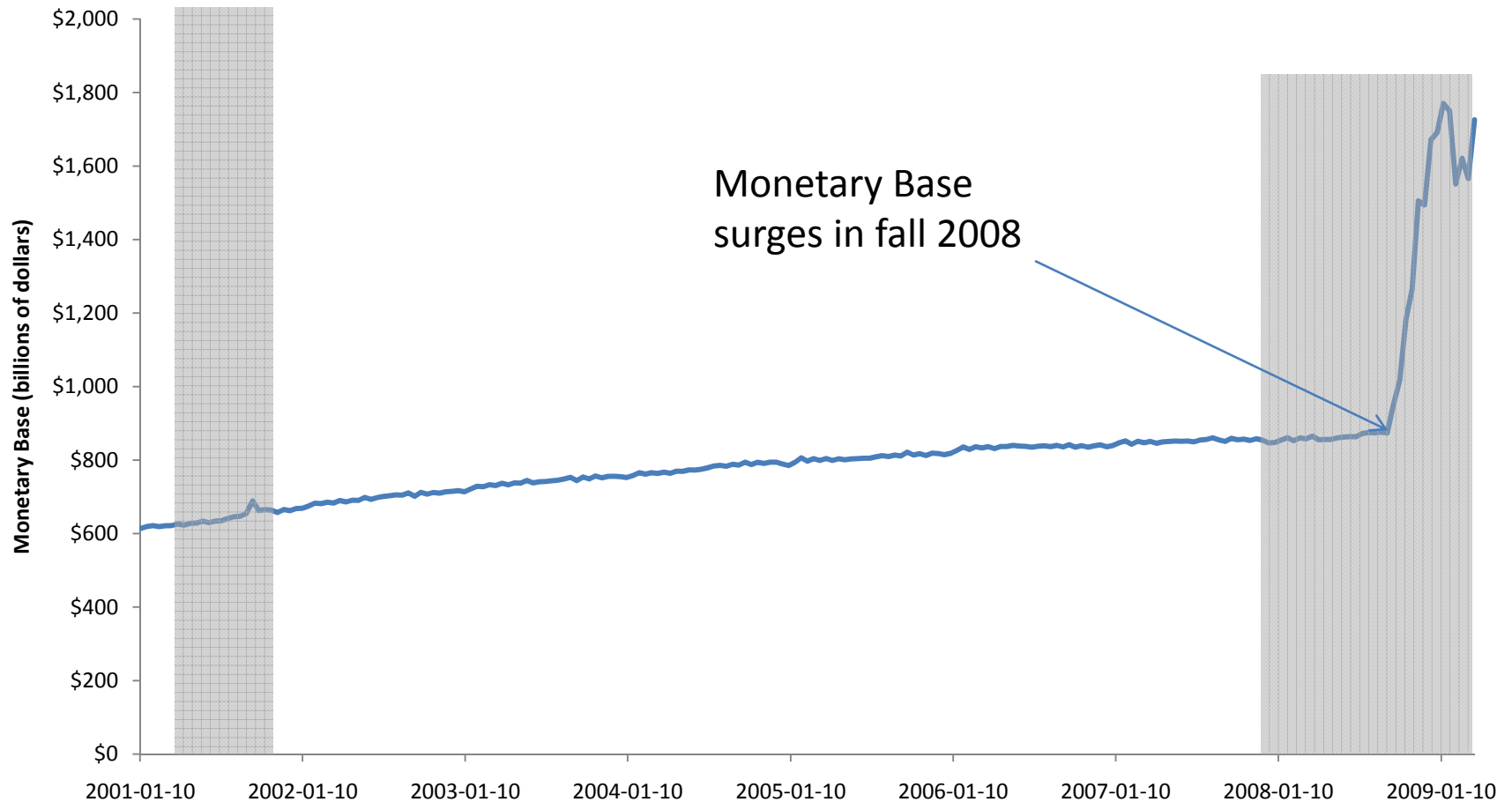
Commercial Paper Markets Have Not Recovered



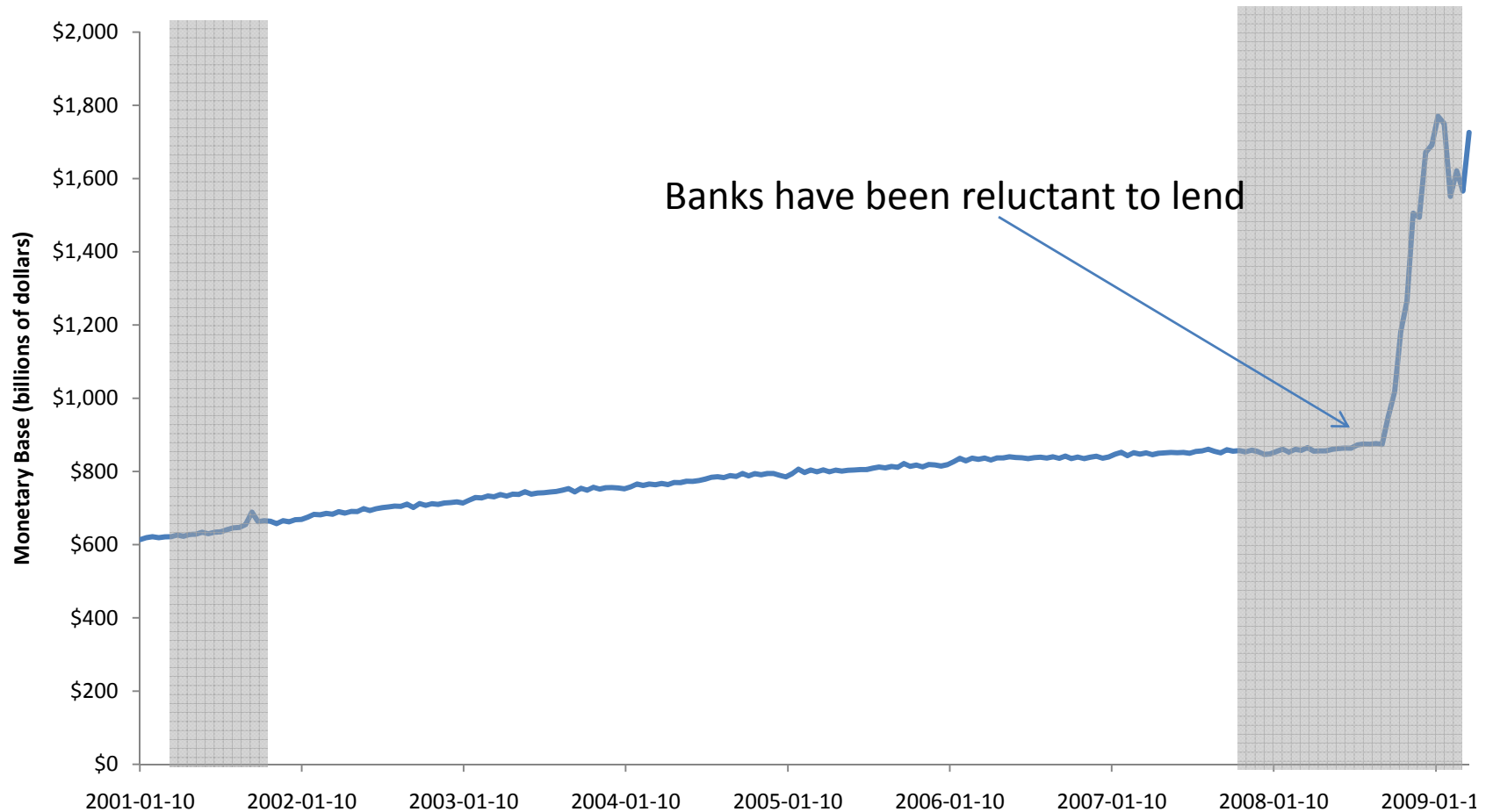
Housing Market Shock Has Not Dissipated



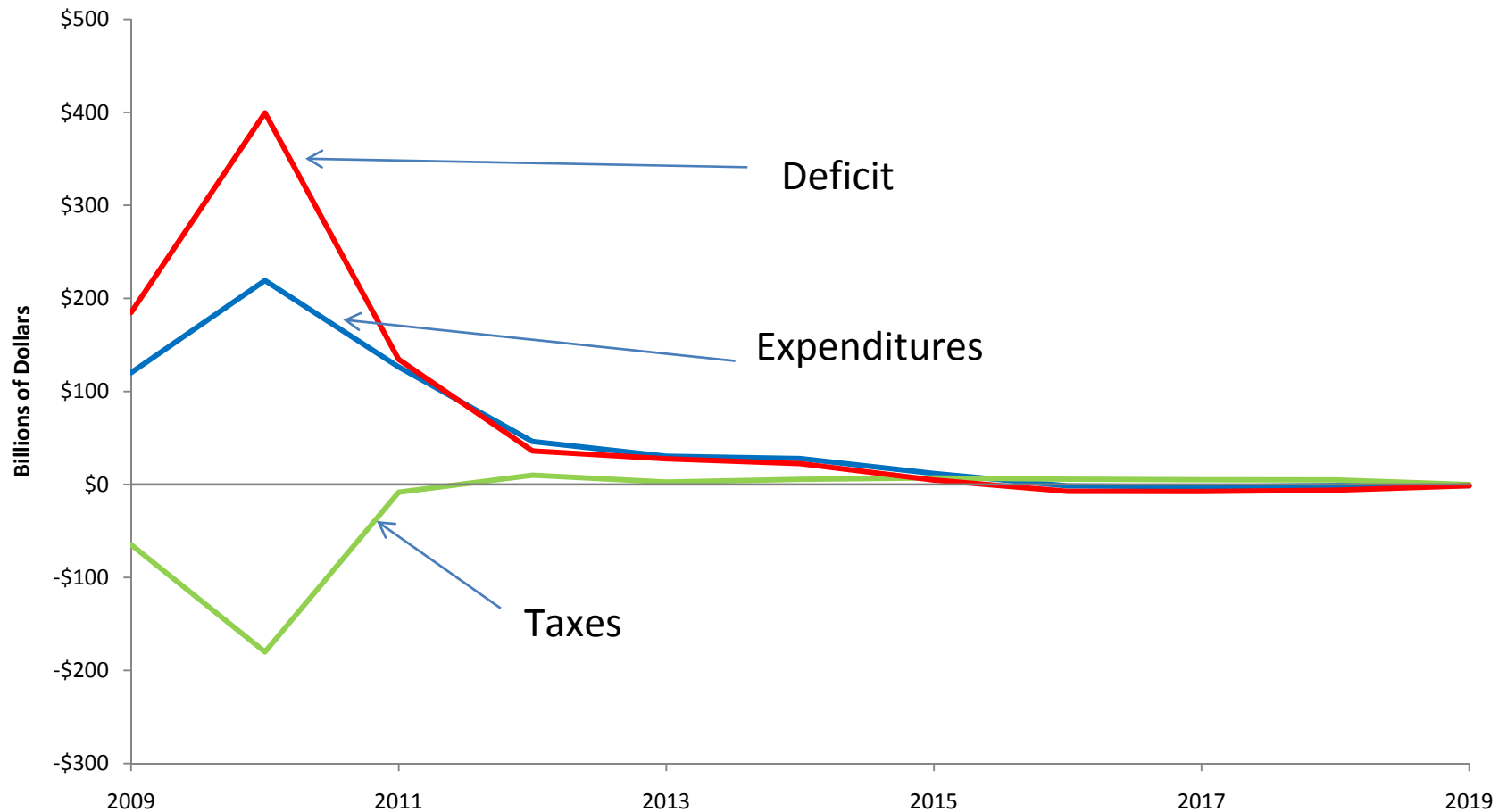
The Monetary Policy Response



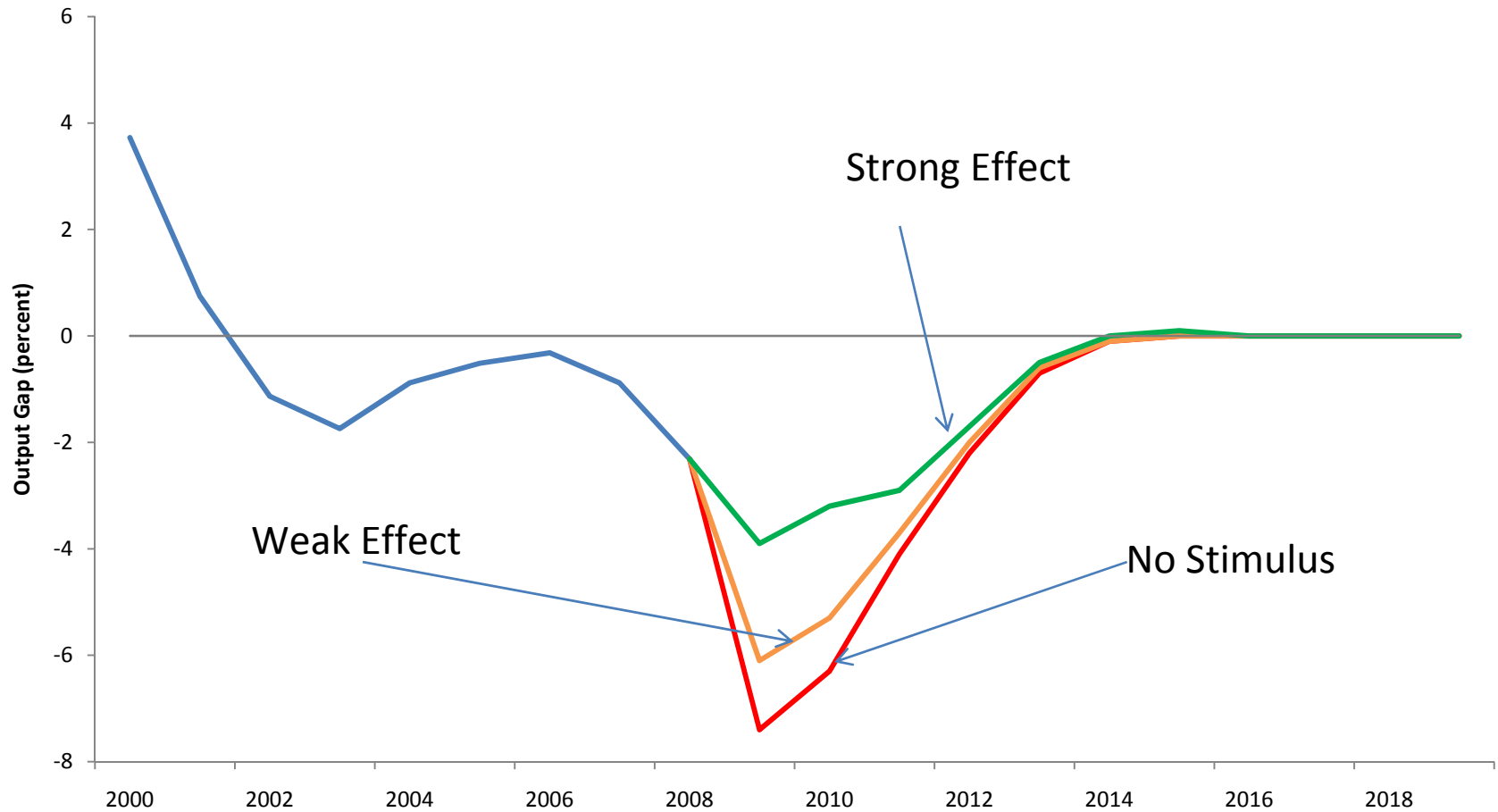
But Banks Have Just Increased Reserves



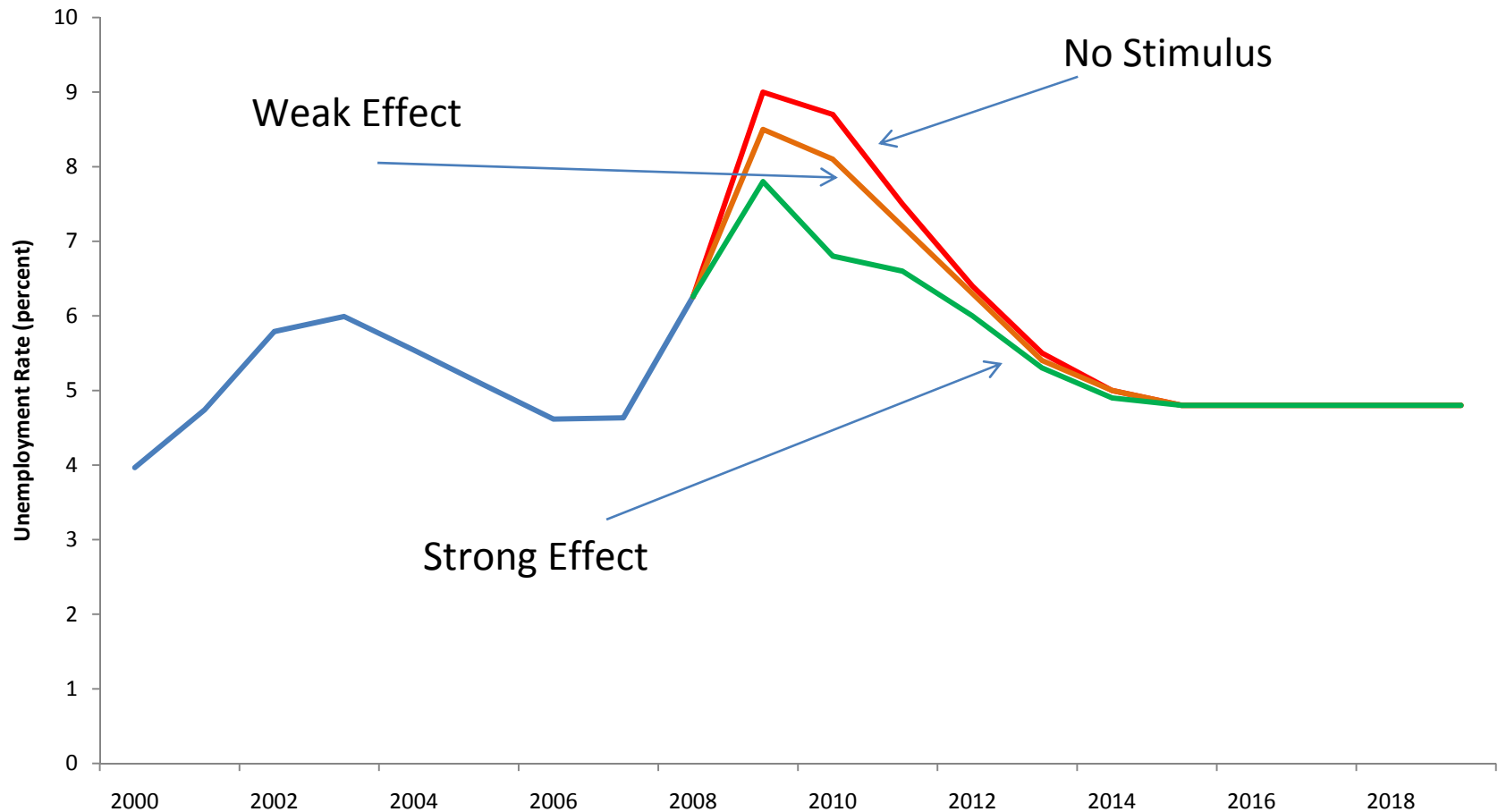
The February Fiscal Stimulus



The Effect on Real GDP



The Effect on the Unemployment Rate



What Does it All Mean

- Not the Great Depression II, but it will not be pleasant and likely to get worse before it gets better
- Recessions associated with financial market crises tend to be longer and deeper than average
- Expect a slow recovery in which the labor markets continue to deteriorate