

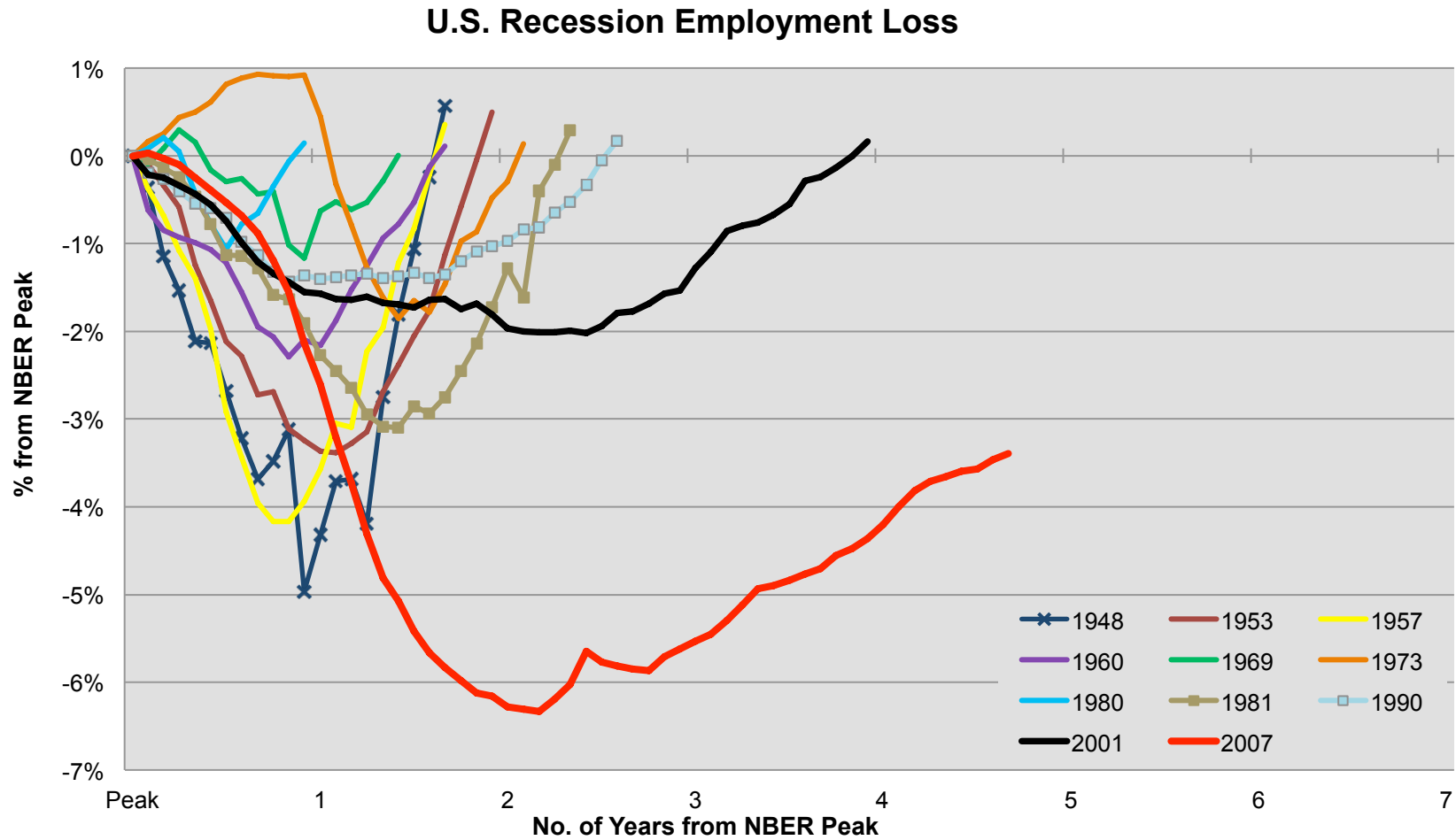
Checking in on Financial Crises Recoveries

FTA 2012

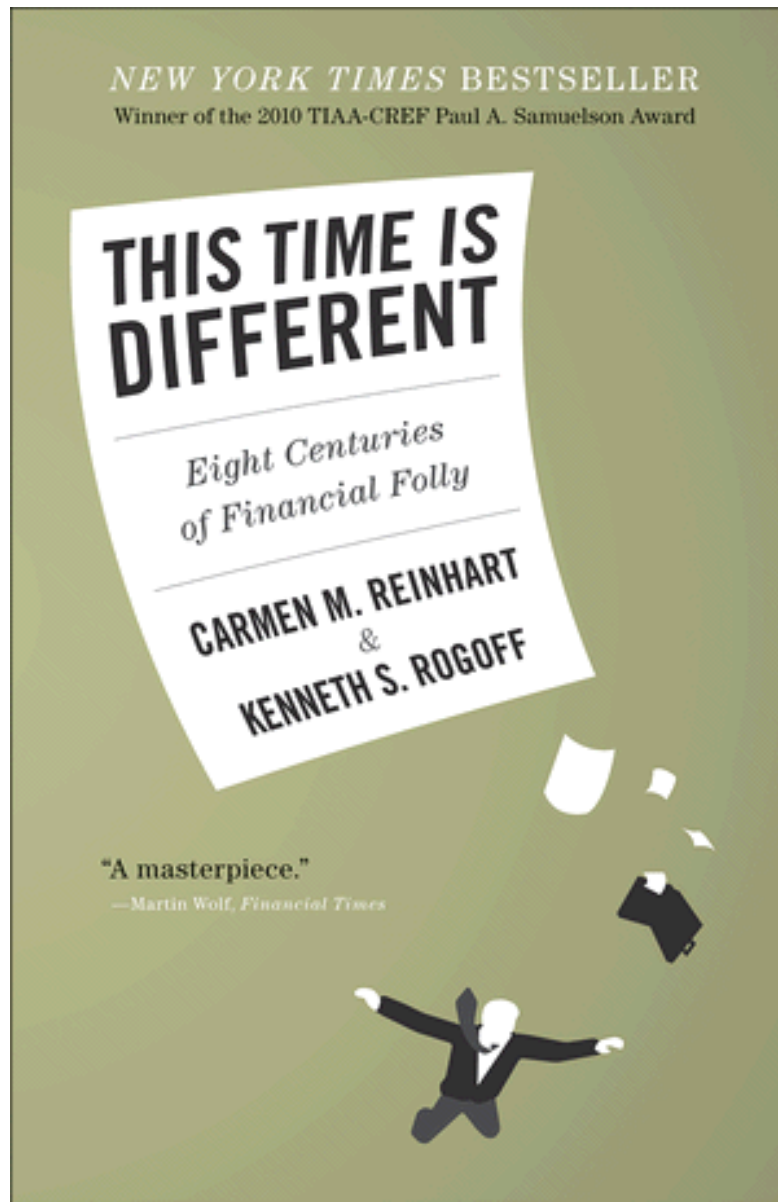
Josh Lehner, Oregon Office of Economic Analysis

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Great Recession / Little Depression





Data through August, 2012



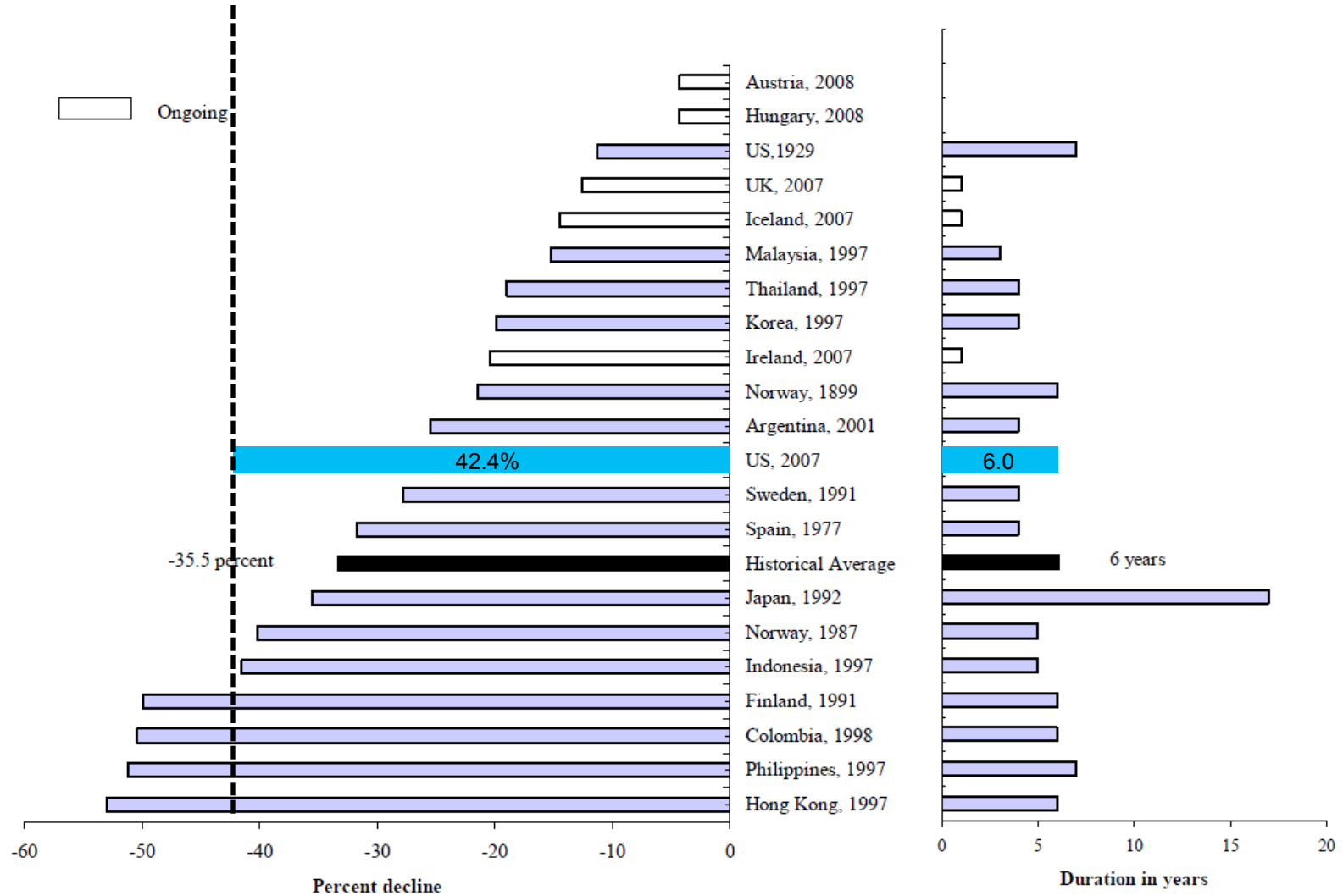
- Financial Crises
Precursors:
 - Markedly rising asset prices
 - Slowing real economic activity
 - Large current account deficits
 - Sustained debt buildup
 - Public or private

Main Findings

Financial Crises Facts			
	U.S. Avg (‘81, ‘90, ‘01)	Historical Average	Current U.S. Cycle
 Real Housing Prices	-5.7%	-35.5%	-42.4%
Real Equity Prices	-29.5%	-55.9%	-53.4%
Unemployment Rate	+3.2%	+7.0%	+5.7%
Real GDP per Capita	-2.3%	-9.3%	-6.4%
 Real Government Debt	27.5%	86.0%	78.0%

Past and Ongoing Real House Price Cycles and Banking Crises:

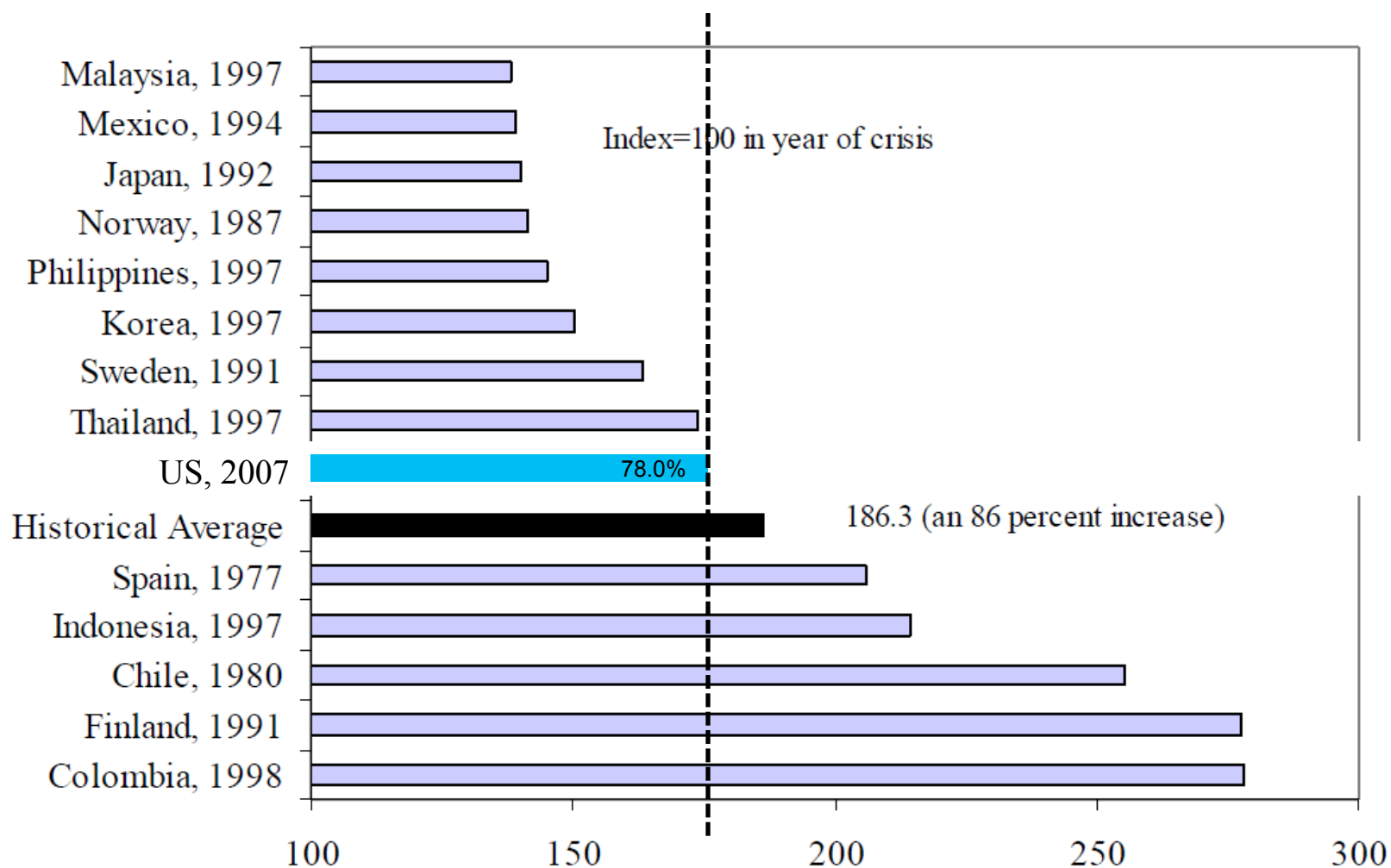
Peak-to-trough Price Declines (left panel) and Years Duration of Downturn (right panel)



Note: While the financial crisis began in 2007, the S&P Case-Shiller peaked in mid-2006 and the calculation used here is based on this peak. The real home price trough was reached in February 2012.

Sources: S&P/Case-Shiller Home Price Indices, BLS

Cumulative increase in real public debt in the three years following the banking crisis



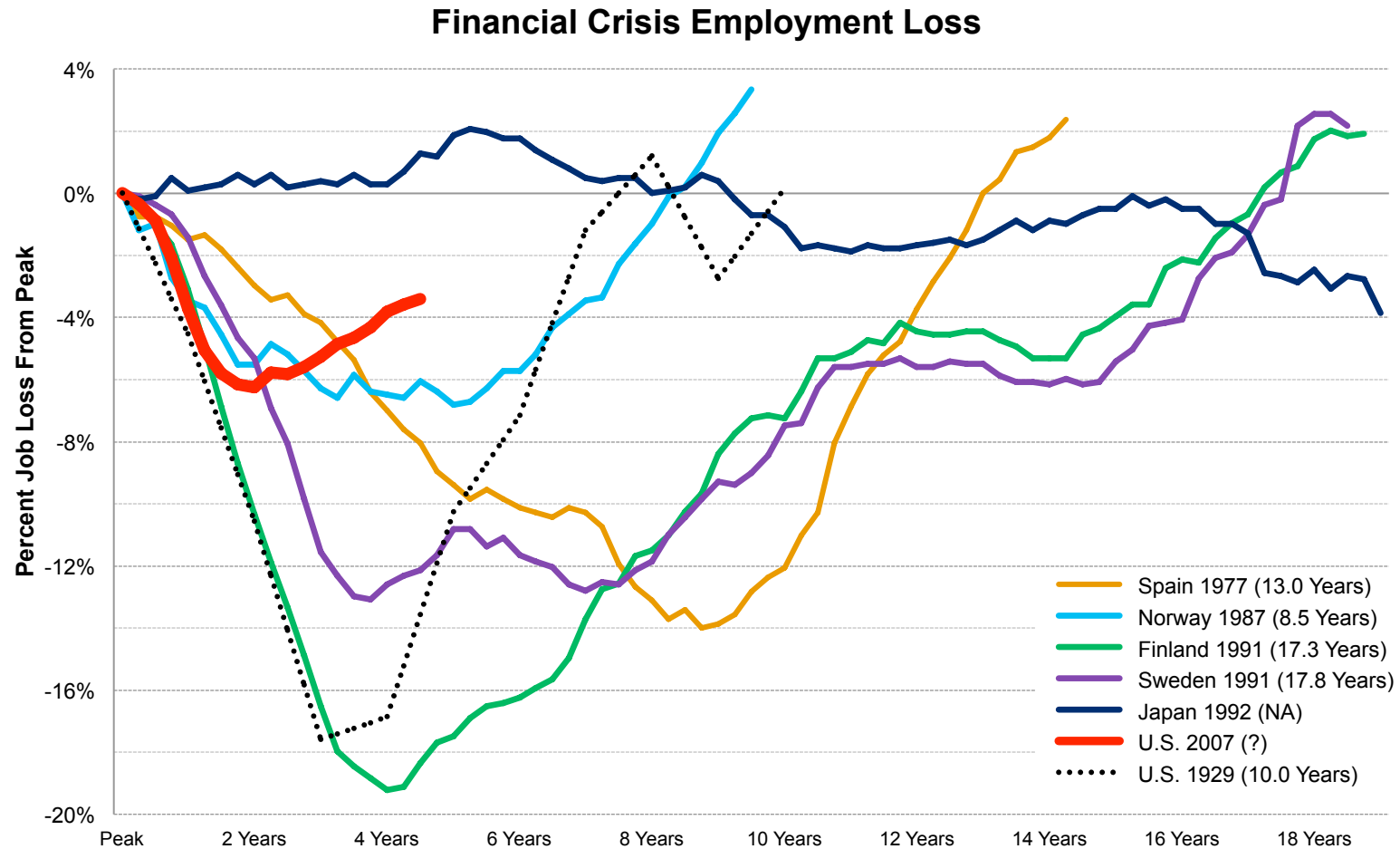
Note: To obtain inflation adjusted debt for a full three years the calculation dates chosen here are July 2008 – July 2011. Depending upon which dates one prefers, the percentage increase varies, e.g. Dec 2007 – Dec 2010 the increase is 73 percent.

Source: BLS, U.S. Treasury – Debt Held by the Public

Employment Losses

- Given the history of post WWII recessions in the US, the current level of job loss and slow recovery to date make the current cycle the clear outlier
- Juxtapose the current US cycle against the Big 5 financial crisis in the developed world plus the Great Depression and the picture looks a bit different
 - That doesn't necessarily mean the current outcome is acceptable

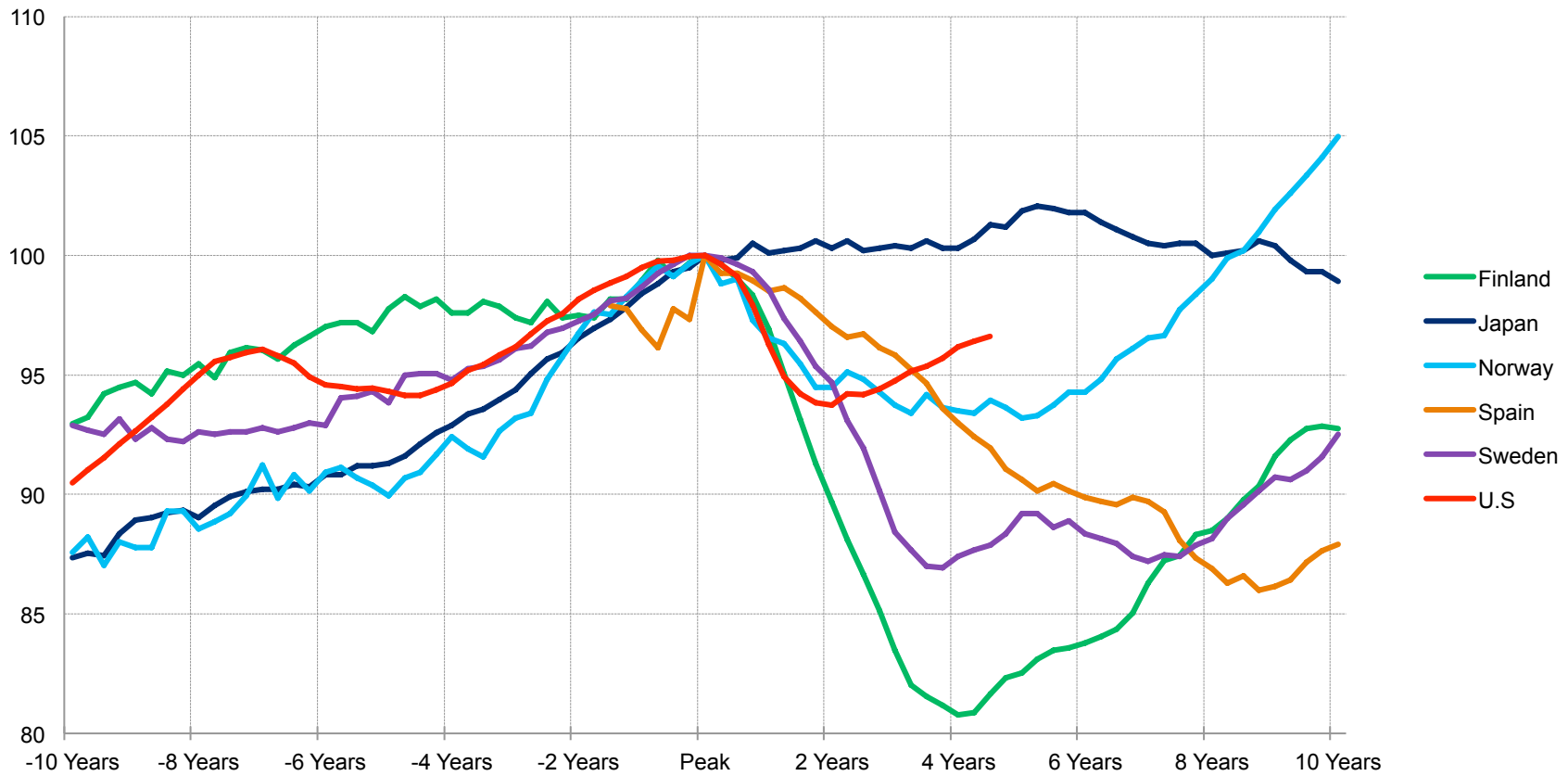
But We've Done Something Right



Note: Return to peak duration given in parenthesis. Japan's employment essentially reached a plateau in 1992, the start date used here is 1992 Q1.
Sources: OECD, BLS

More Context for Losses

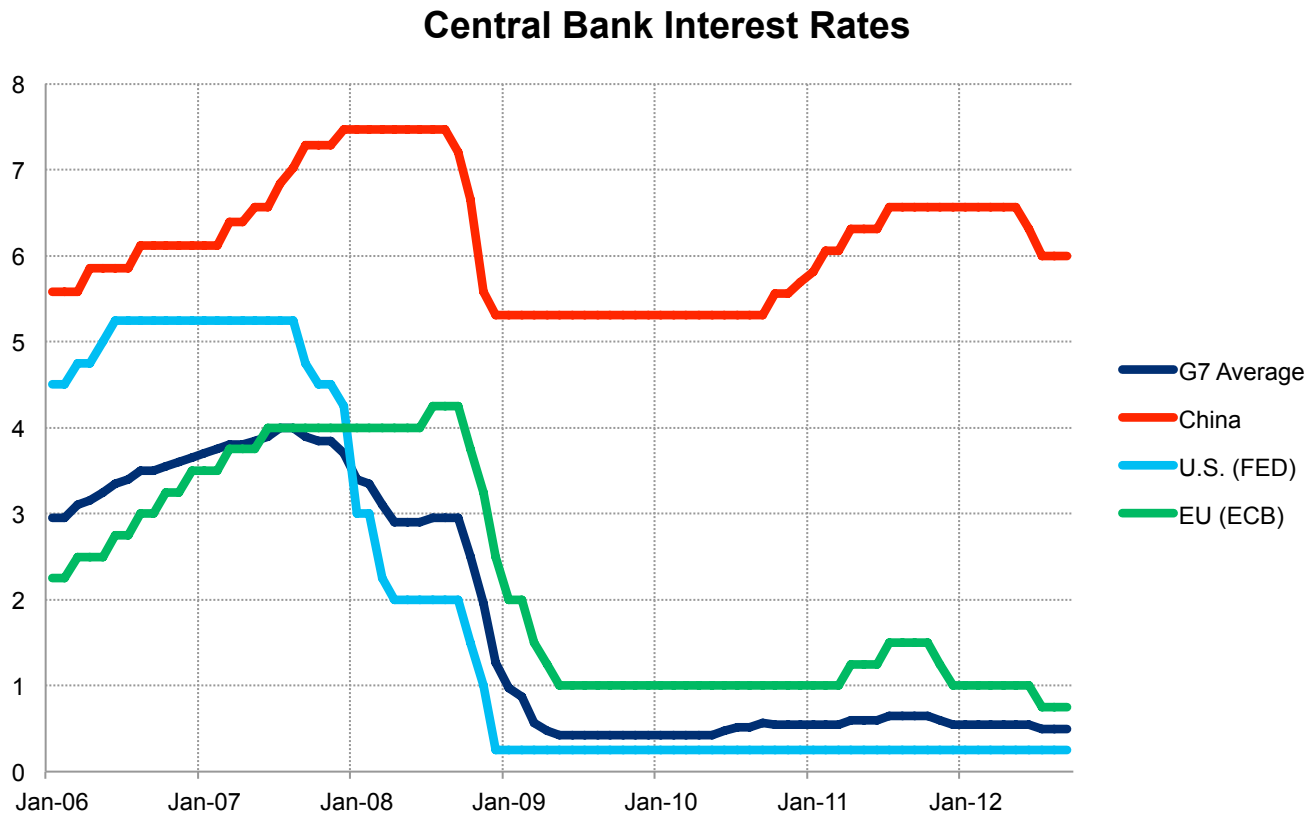
Financial Crises Employment, Peak = 100



What Exactly is Different This Time?

- “We have put a much higher floor on the initial contraction.”
 - Carmen Reinhart via Ezra Klein, Oct 15th 2012
- Monetary and Fiscal Policy
 - Coordinated, global response

Monetary Policy

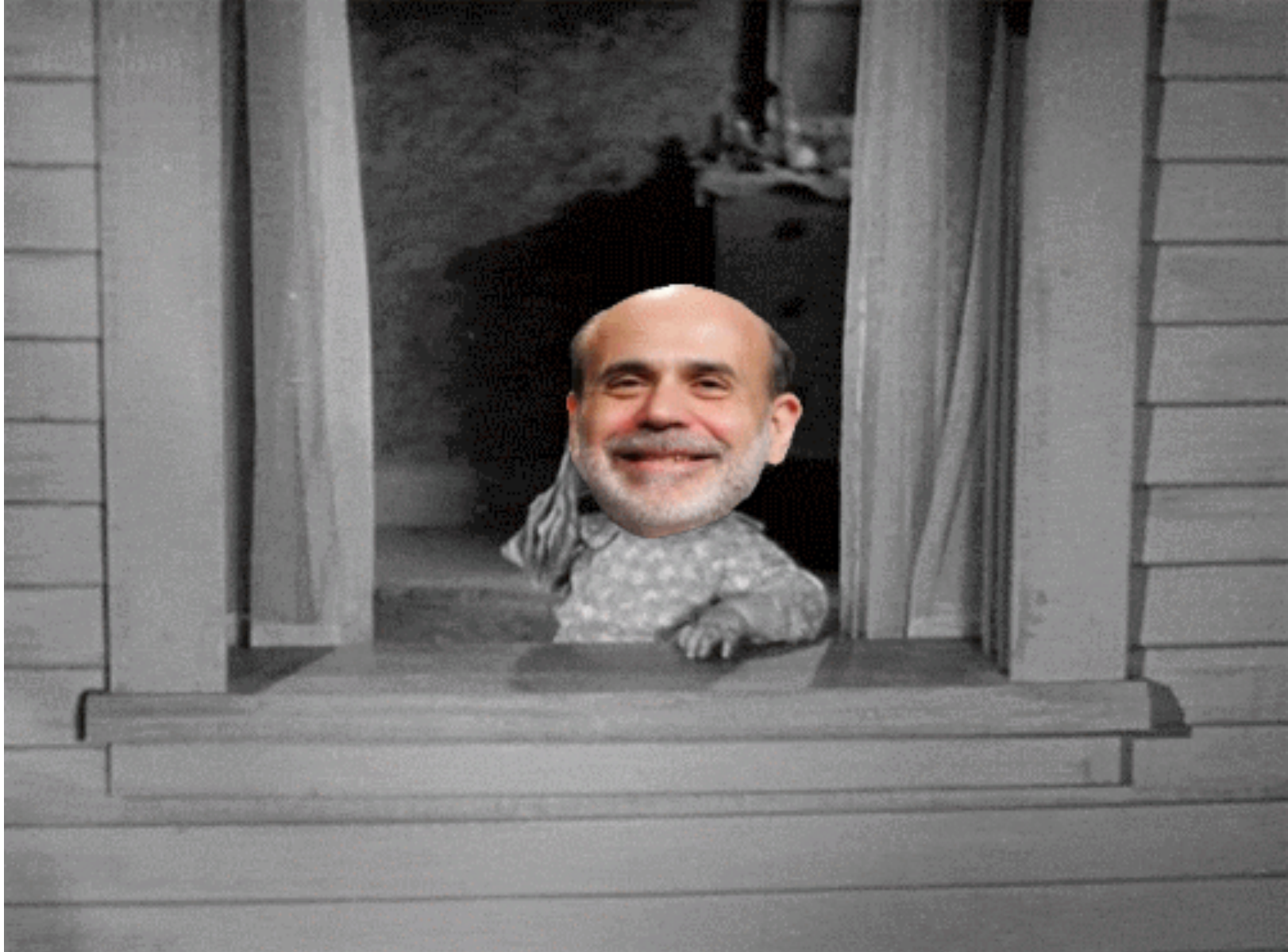


Monetary Policy (Cont)



Source: Federal Reserve Bank of Atlanta

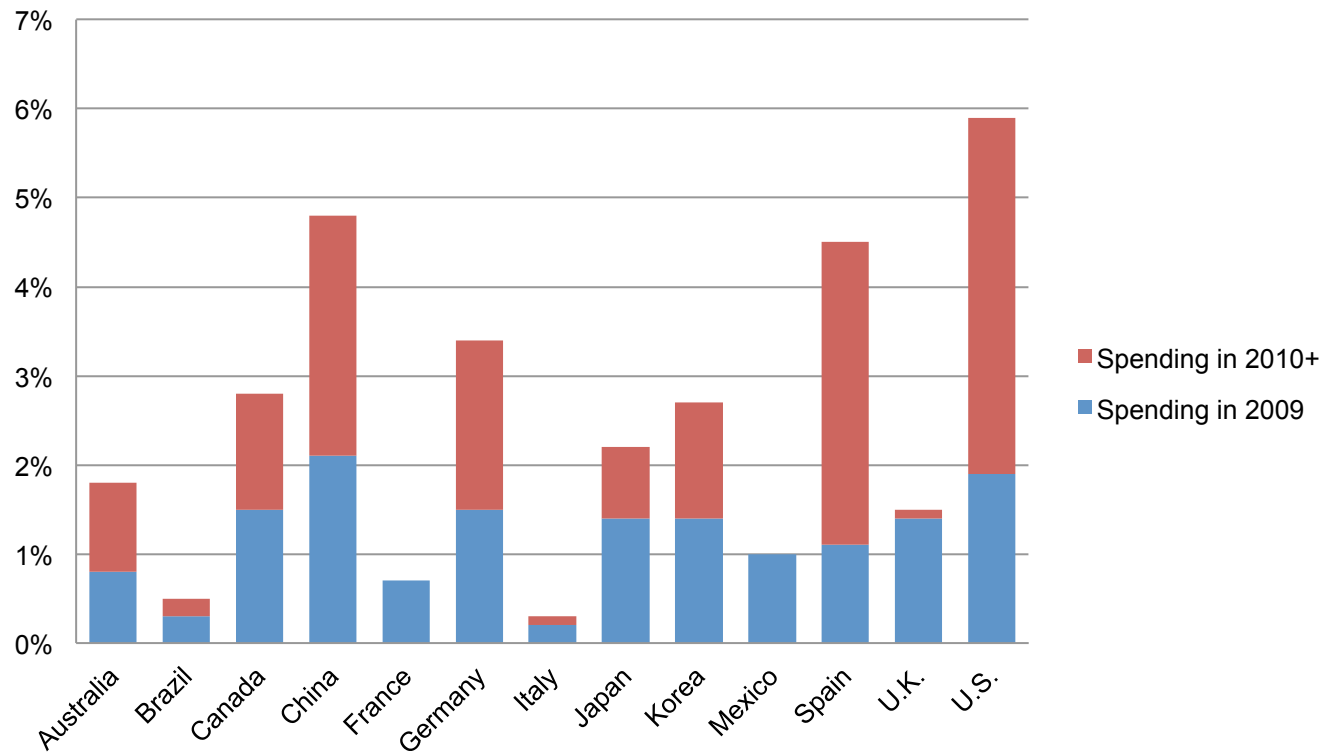
Monetary Policy (Cont)



Source: Federal Reserve Bank of Atlanta

Fiscal Policy

Economic Stimulus as Share of 2008 GDP



Source: Brookings, March 2009 based on IMF and Brookings' author's calculations

Conclusion

- The U.S. is experiencing your “garden-variety severe financial crisis.”
- However labor markets are performing better than previous episodes.
- Recovery path has been slow and steady.

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