Economic Update: End of the Great Recession

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Escape from the Liquidity Trap - 1

• Aggressive monetary and fiscal stimulus worked! The “Great Recession” is either over or soon will be—in the US and abroad.

• Great progress has been made in unfreezing credit markets.

• The S&P 500 stock-price index is up 16.4% YTD—but it was a wild ride!
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- Growth is turning positive, but the labor market will weaken for several more months.
- No sign of any “crowding out” from huge Treasury credit demands—yet.
- Inflation likely to remain close to 1% for the next couple of years.
- The Fed will keep short-term interest rates close to zero for at least another year.
Unfreezing Credit Markets

Thirty-day A2/P2 less AA nonfinancial commercial paper (daily)  Basis points

--- spread
--- spread, 5-day moving avg

Source: Federal Reserve

Many credit markets are now functioning more or less normally. Others continue to face major challenges.
Jobs

• For most people employment is the bottom line.

• This is has been the worst employment performance since the 1930s—and it’s not over.

• Will we have a “jobless recovery”? You are going to hear a lot about this in coming months!
US Nonfarm Employment During Recessions
Cumulative Loss of Employment from the Business Cycle Peak (%)
As goes the nation, so goes MN ...

Nonfarm Employment: US vs. MN (000s)

Source: BLS and DEED
As goes the nation, so goes MN ...

Civilian Unemployment Rate: US vs. MN (%)

The MN unemployment rate is highly correlated with the US unemployment rate, but it has risen much more rapidly than the US rate during the last three years.

Source: BLS and DEED
Great Recession – R.I.P.

• The recovery is likely to be slow, and it will still “feel” like a recession for at least a couple of years.

• The US and MN probably won’t regain peak employment (December 2007) until early in 2011.

• We will be dealing with the consequences for years to come.