



The Current (And Prospective) Economic Environment

Prepared for the Conference of
Florida Mayors

Orlando, FL

November 18, 2009

The views expressed are mine, and not necessarily those of the Atlanta Fed or the Federal Reserve System.

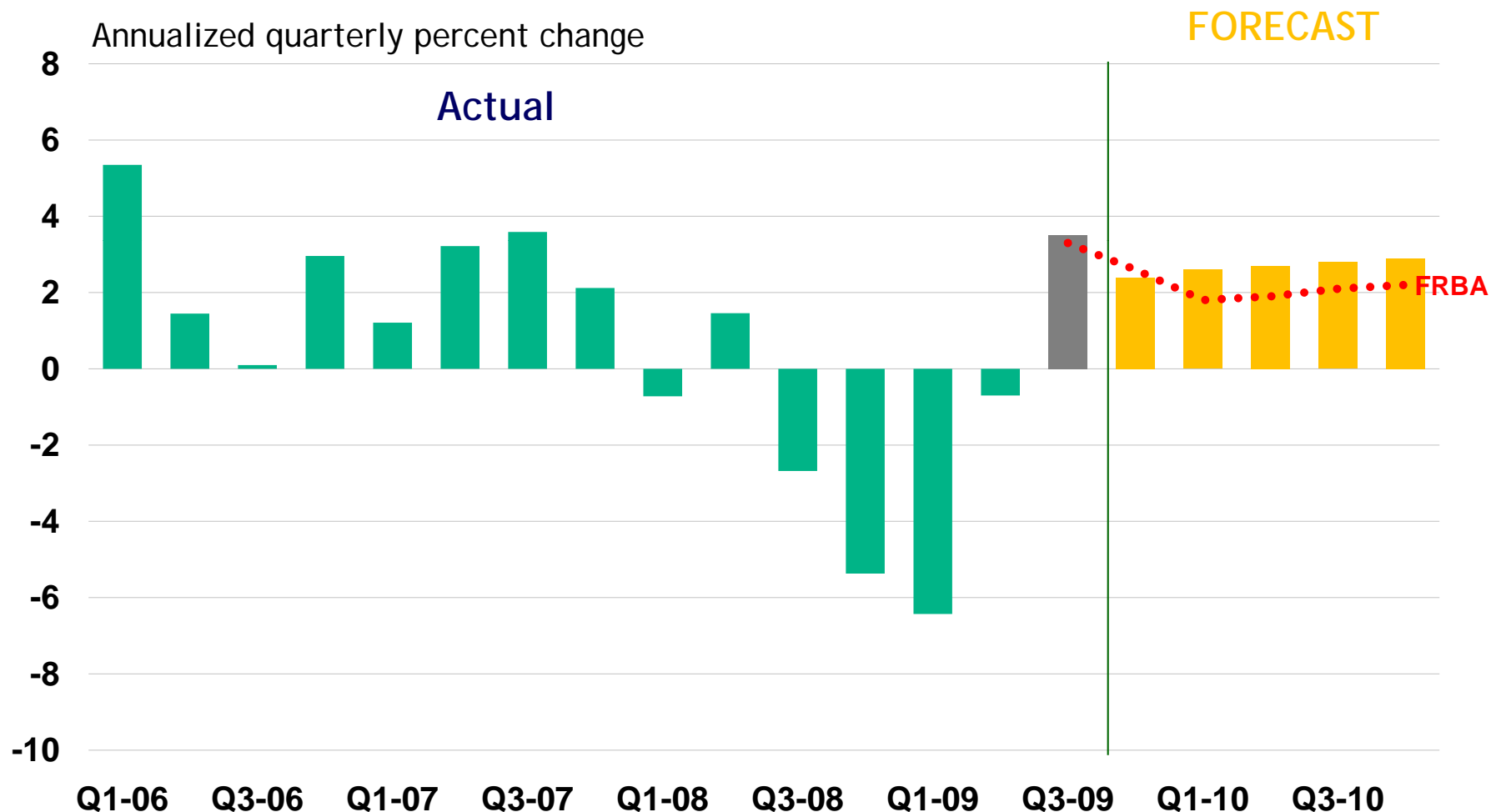




**“It’s a dog-
eat-dog
world, and
I’m wearing
Milkbone
underwear.”**

The recent forecast of the Federal Reserve Bank of Atlanta remains on the modest-side of the consensus.

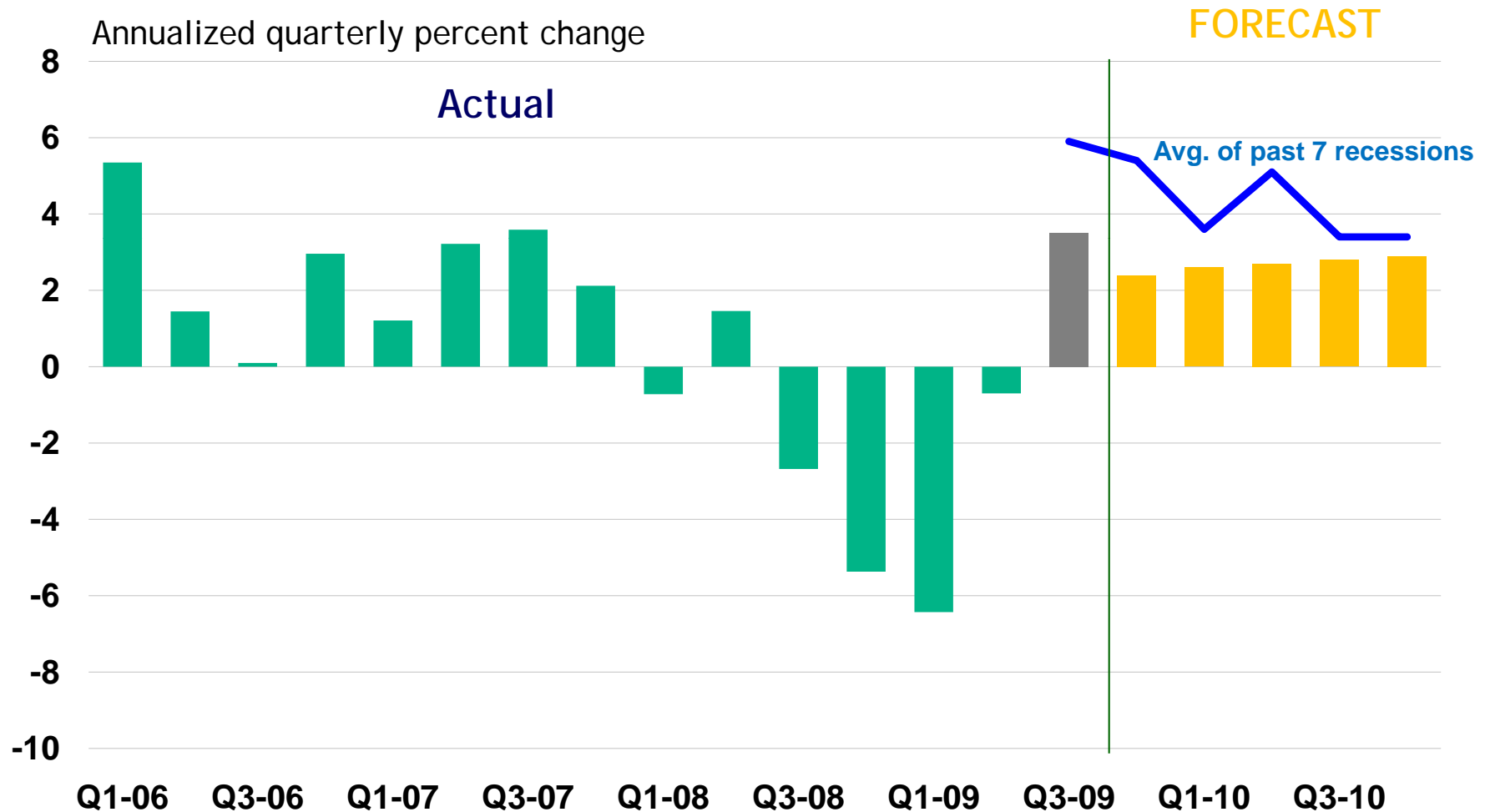
REAL GDP GROWTH



SOURCES: Blue Chip panel of economists, October 10, 2009, Federal Reserve Bank of Atlanta

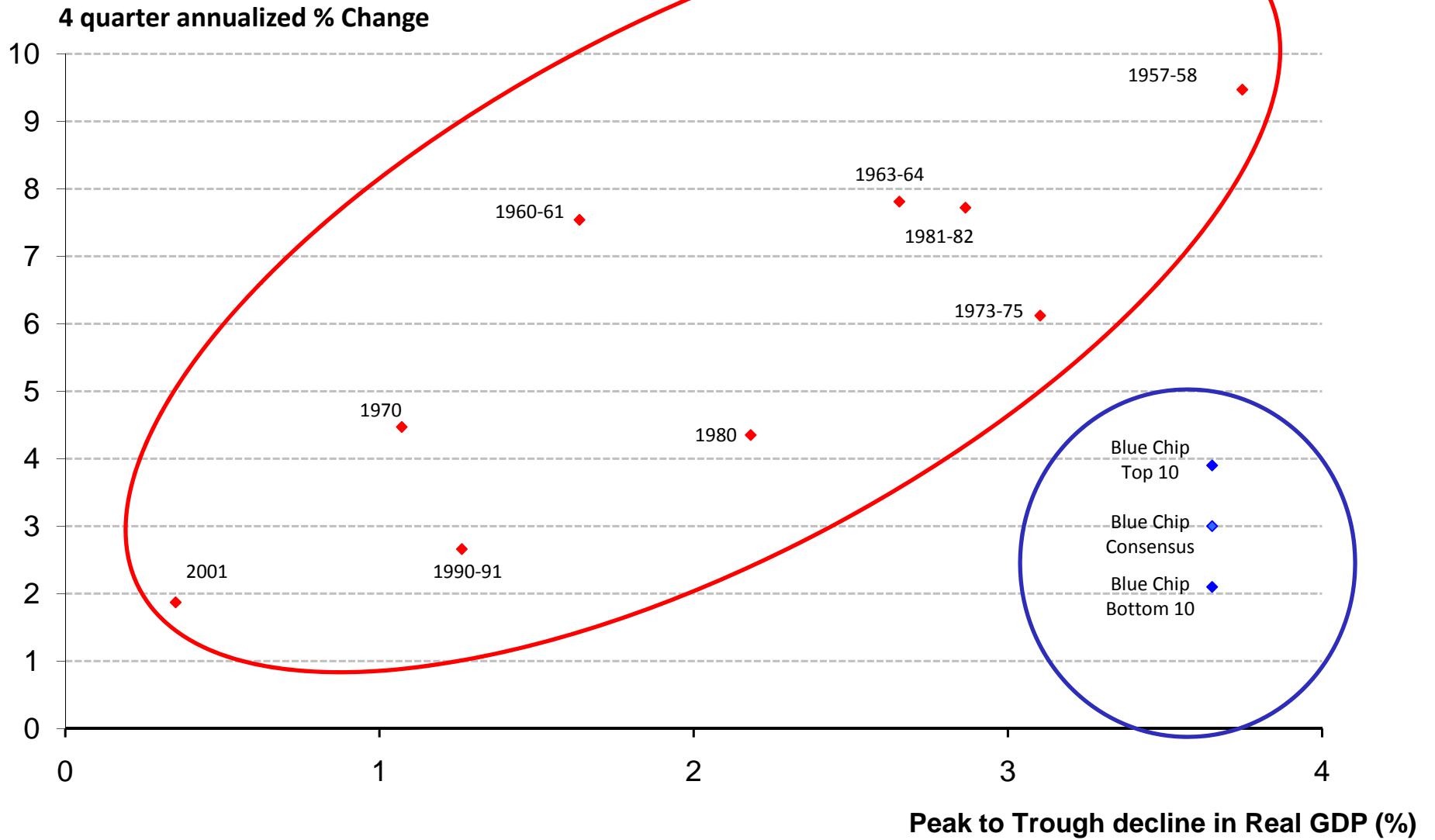
The GDP turnaround is expected to be very subdued relative to the “typical” recovery experience.

REAL GDP GROWTH



SOURCES: Bureau of Economic Analysis, Blue Chip panel of economists, October 10, 2009

Current forecasts are *very* pessimistic in historical context

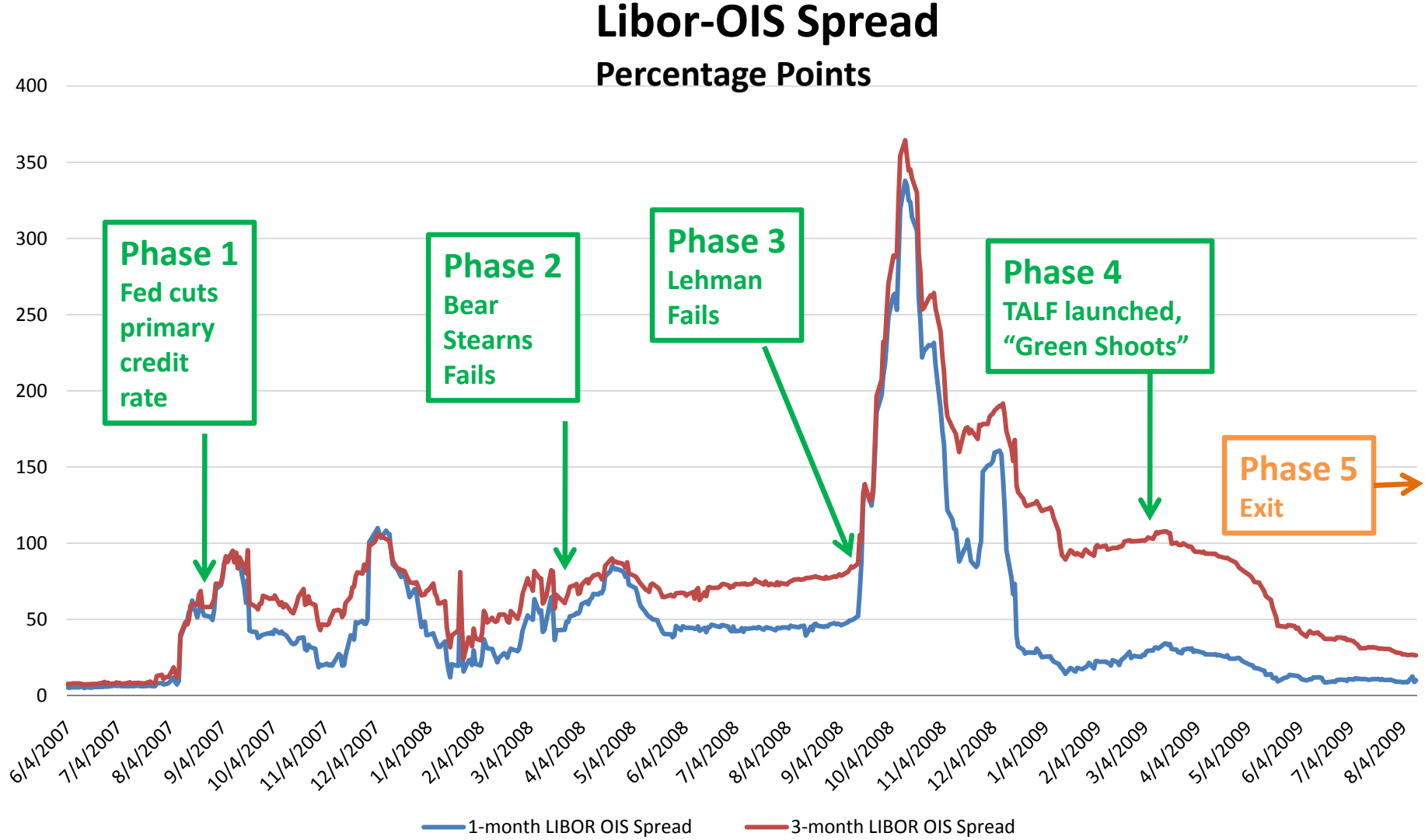


Source: BEA, Blue Chip

Is the strength for real?

-- The financial crisis has passed, but credit ain't exactly easy

The Crisis In a Simple Picture

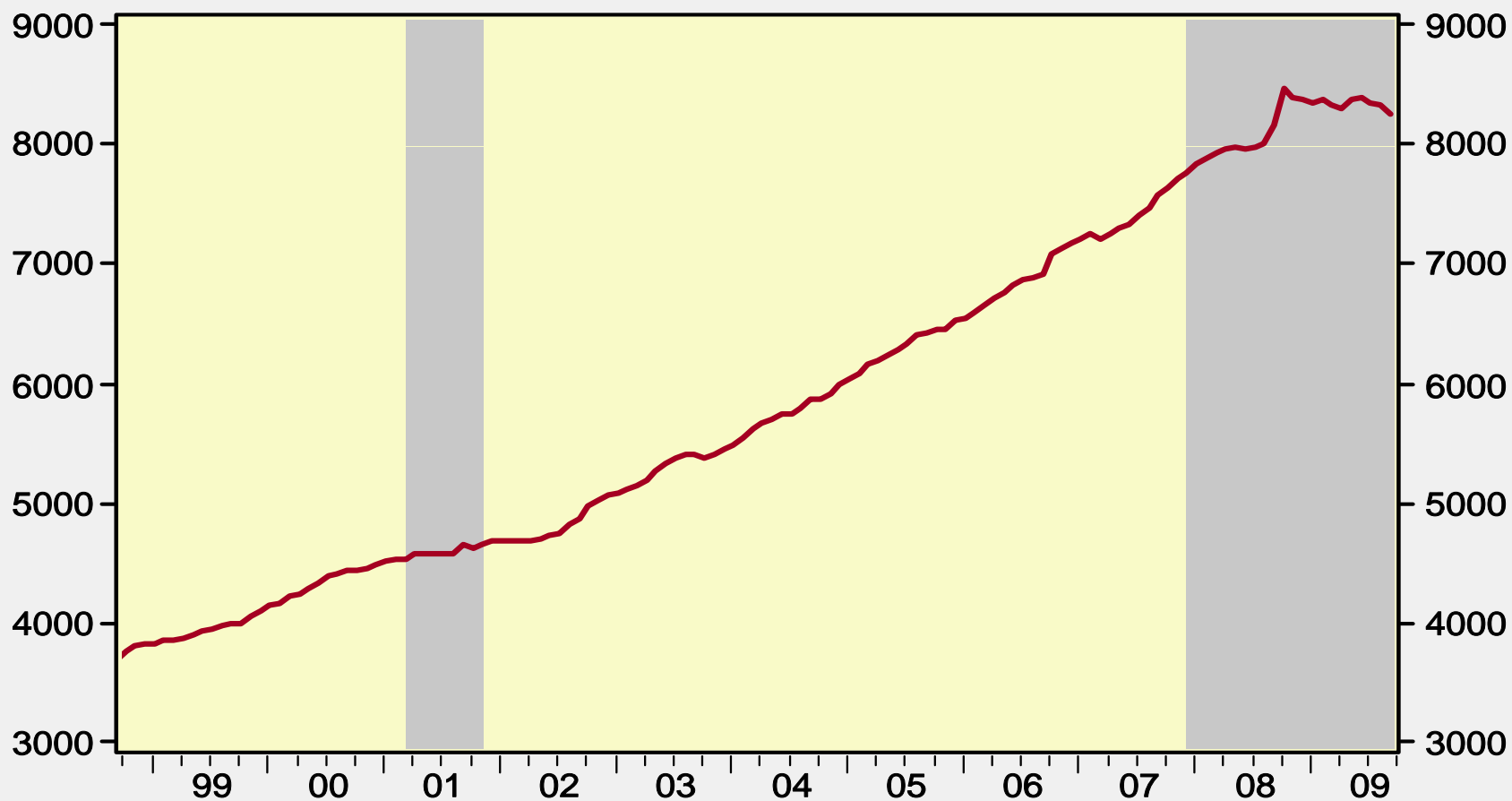


Source: Bloomberg, British Bankers Association

Bank credit has actually been contracting

Bank Credit: Domestically Chartered Commercial Banks

SA, Bil.\$



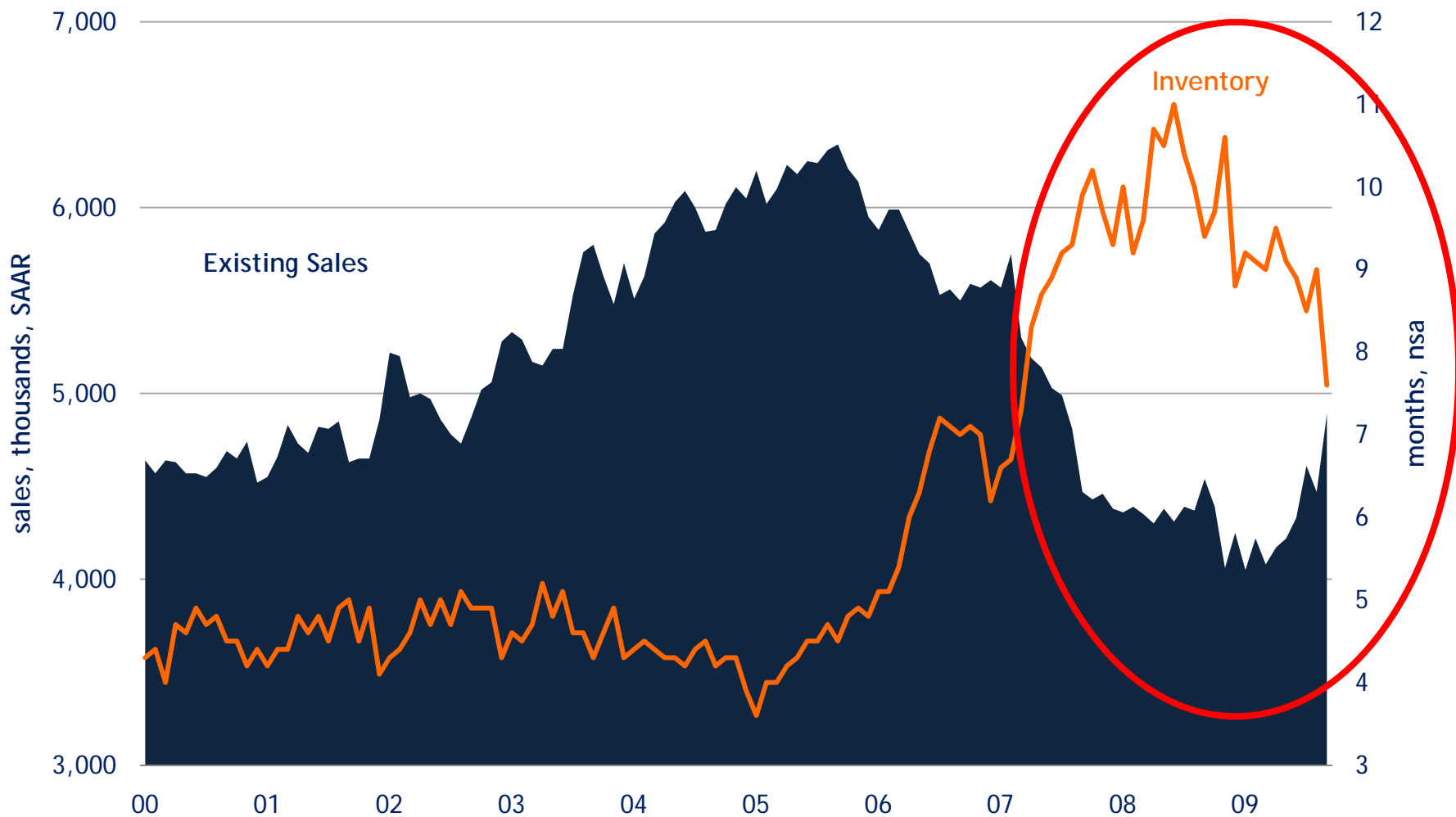
Source: Federal Reserve Board /Haver Analytics

Is the strength for real?

- The financial crisis has passed, but credit ain't exactly easy
- Signs of life in residential real estate, but are the fundamentals really there?

The housing market is continuing to strengthen.

Sales and Months' Supply of Existing Single-Family Homes

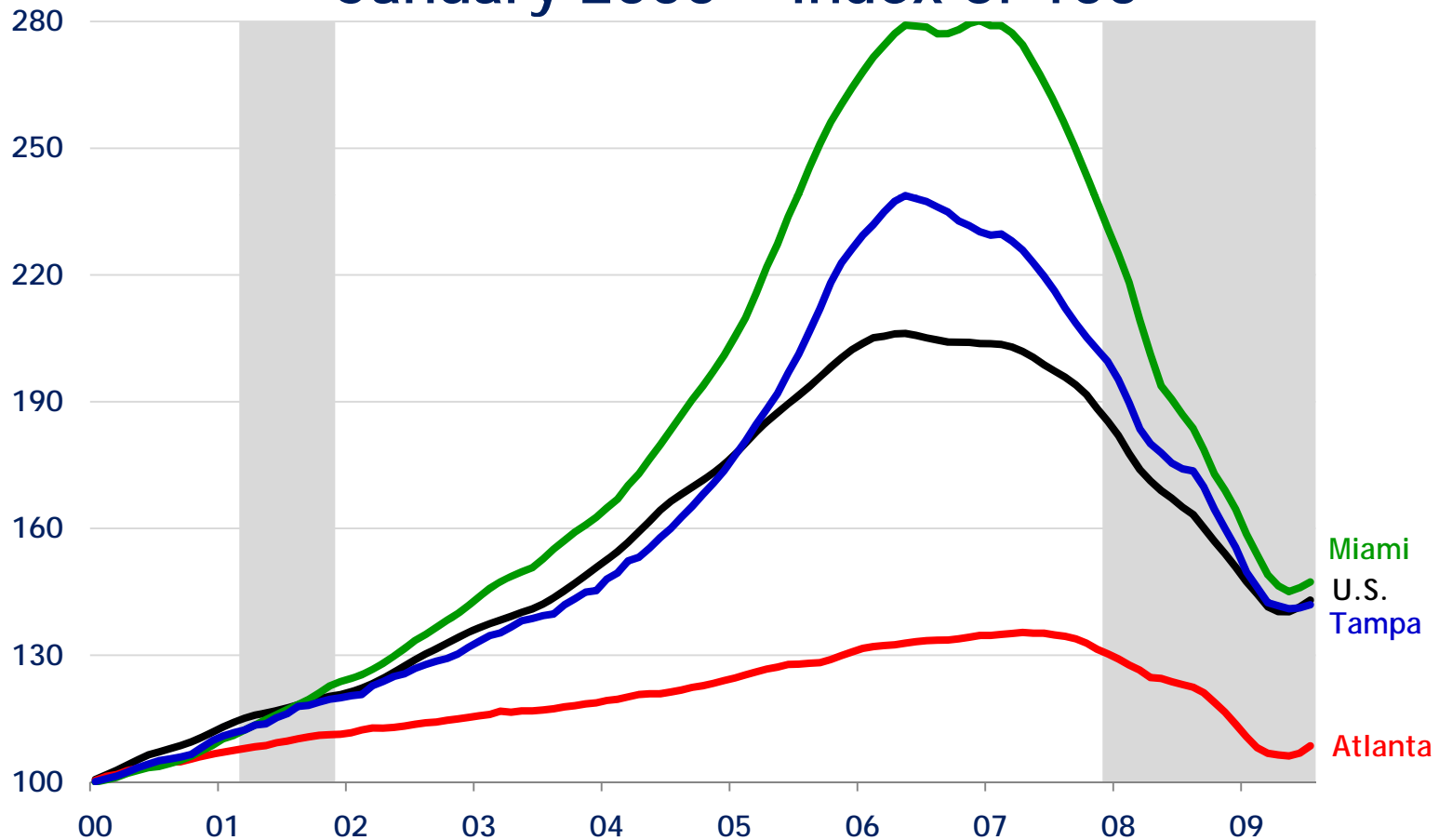


Source: National Association of Realtors

September 2009

Home prices are showing much greater stability, and in some markets, prices are rising.

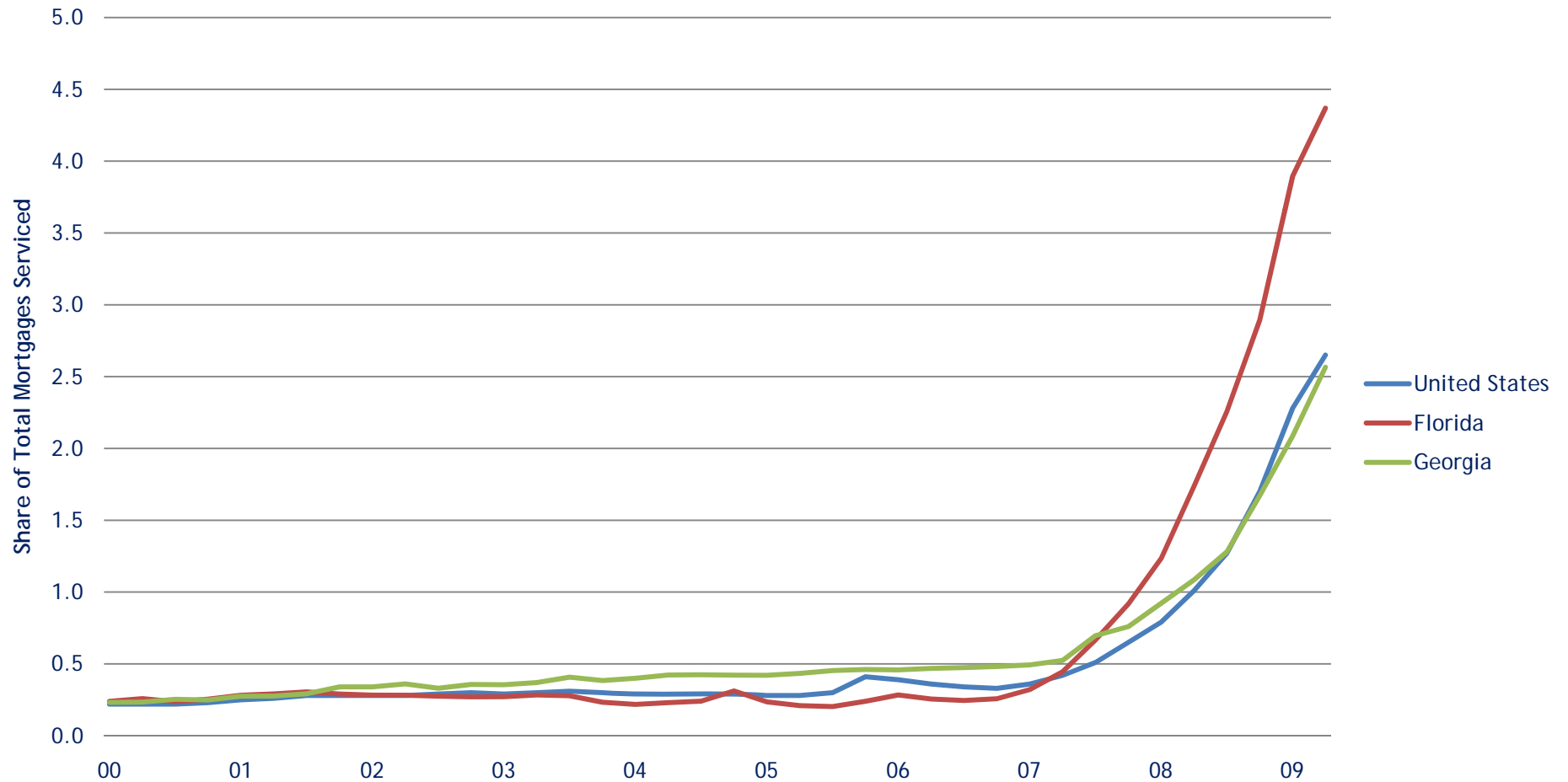
Case-Shiller Home Price Index
January 2000 = index of 100



Sources: Standard & Poor's and Fieserv Inc.

... even in the prime market.

Conventional Prime Mortgages 90+ Days Past Due



Source: MBA National Delinquency Survey: Economy.com

2Q09 QII

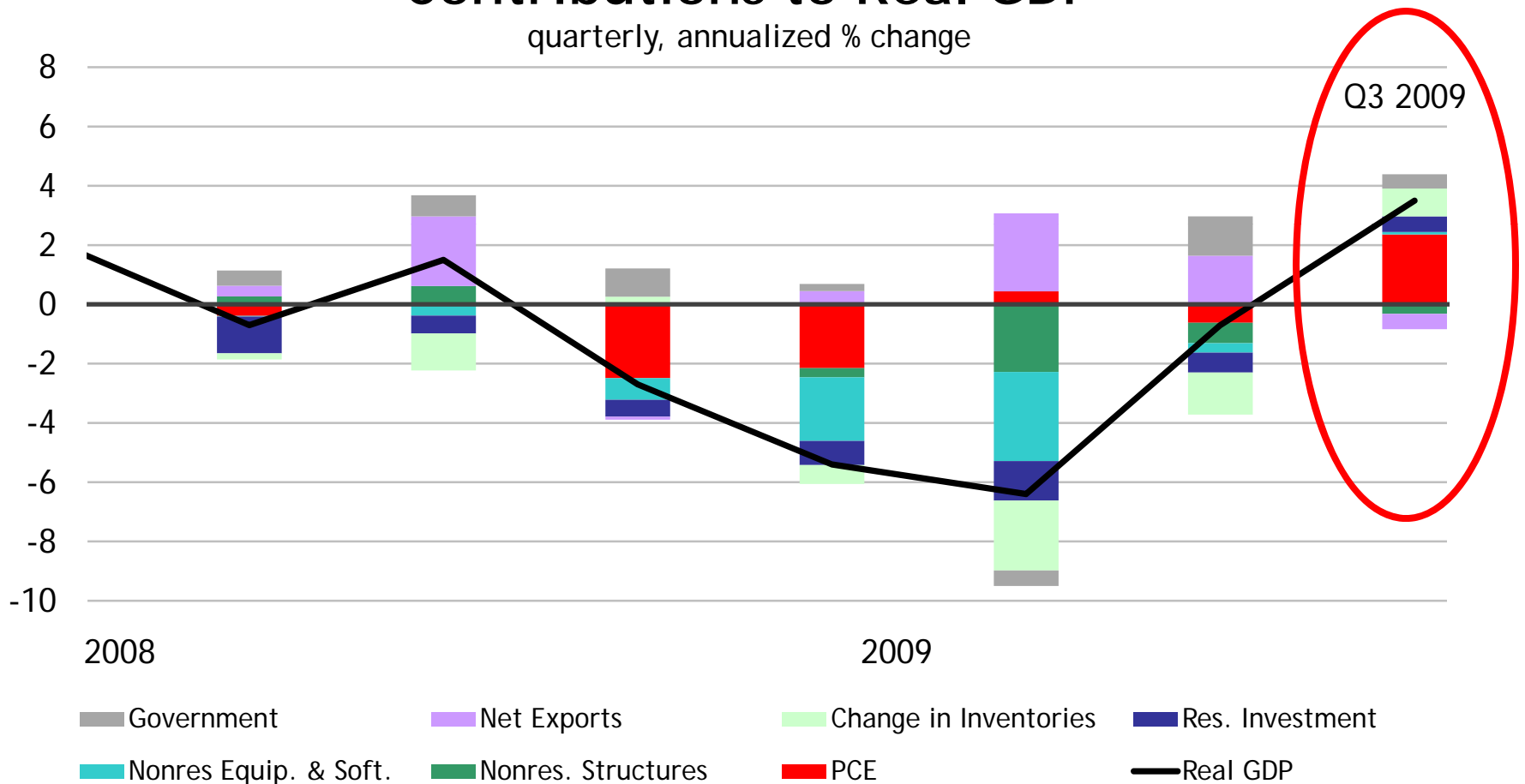
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- How would we fare without government life support?**

The Q3 increase in national output was spread across the components, though auto production accounted for about half (1.7 percentage points) of the gain.

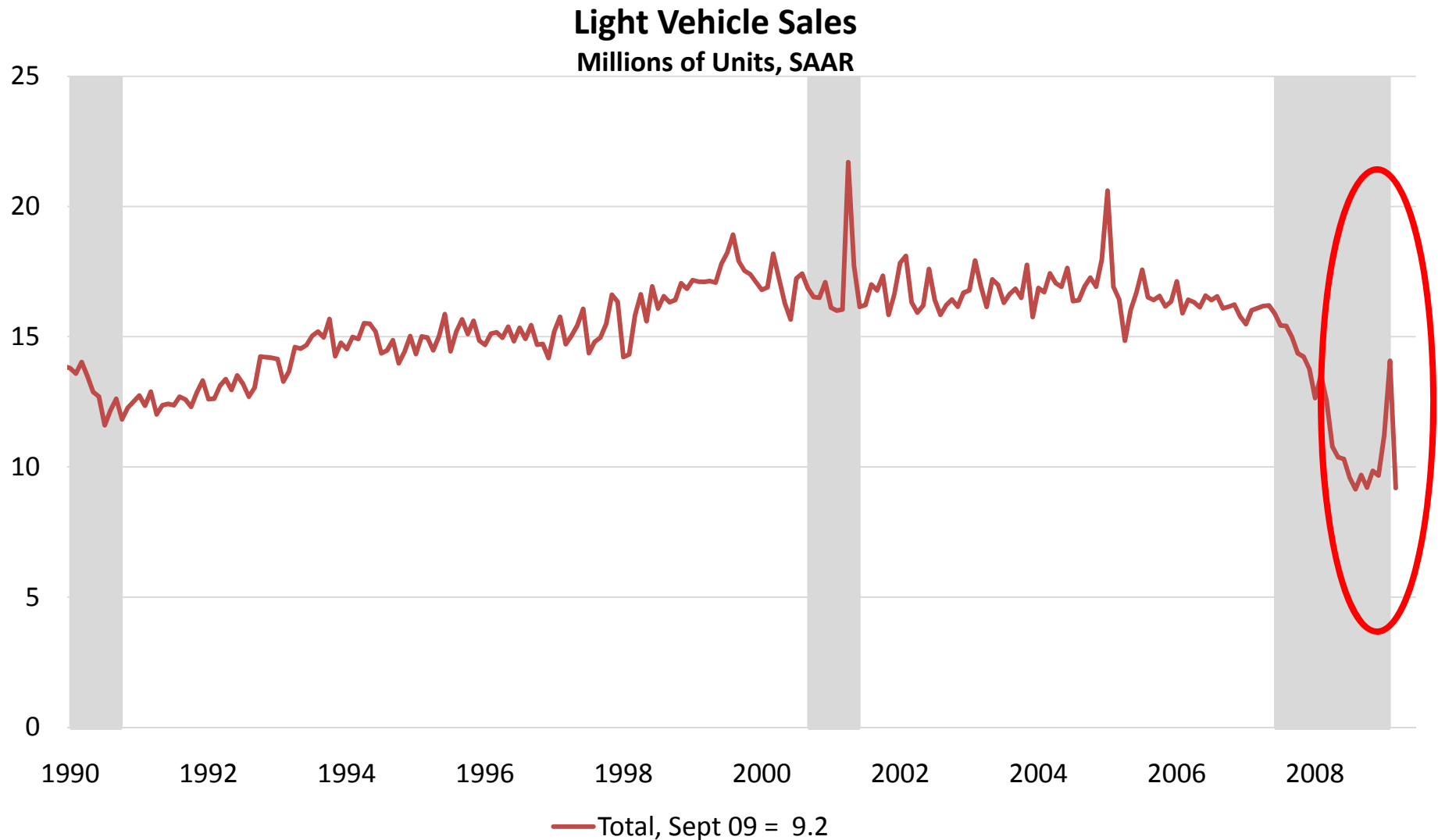
Contributions to Real GDP

quarterly, annualized % change



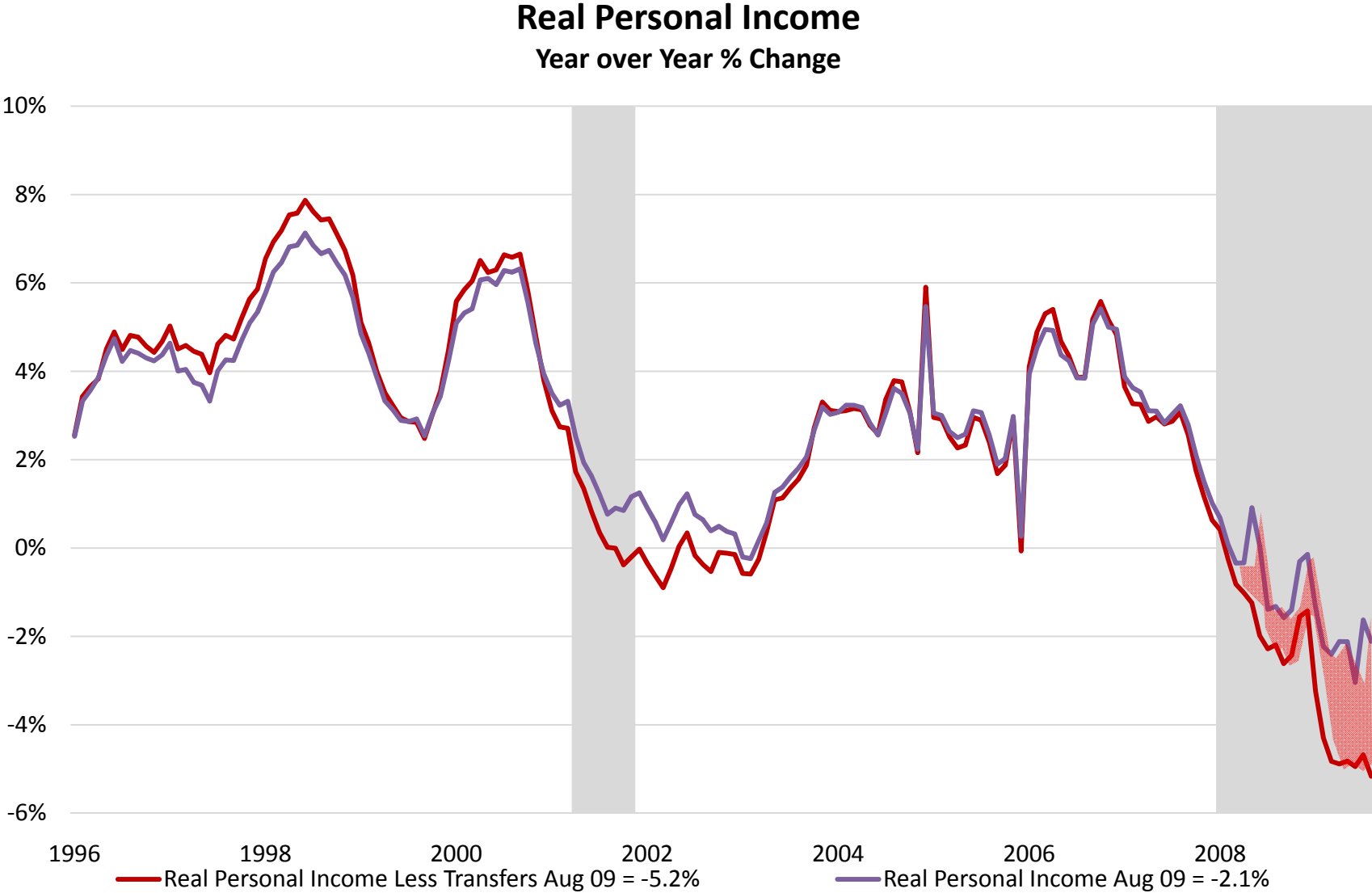
Source: U.S. Bureau of Economic Analysis

New vehicle sales turned sharply lower in September as the “cash-for-clunkers” program expired.



Source: BEA

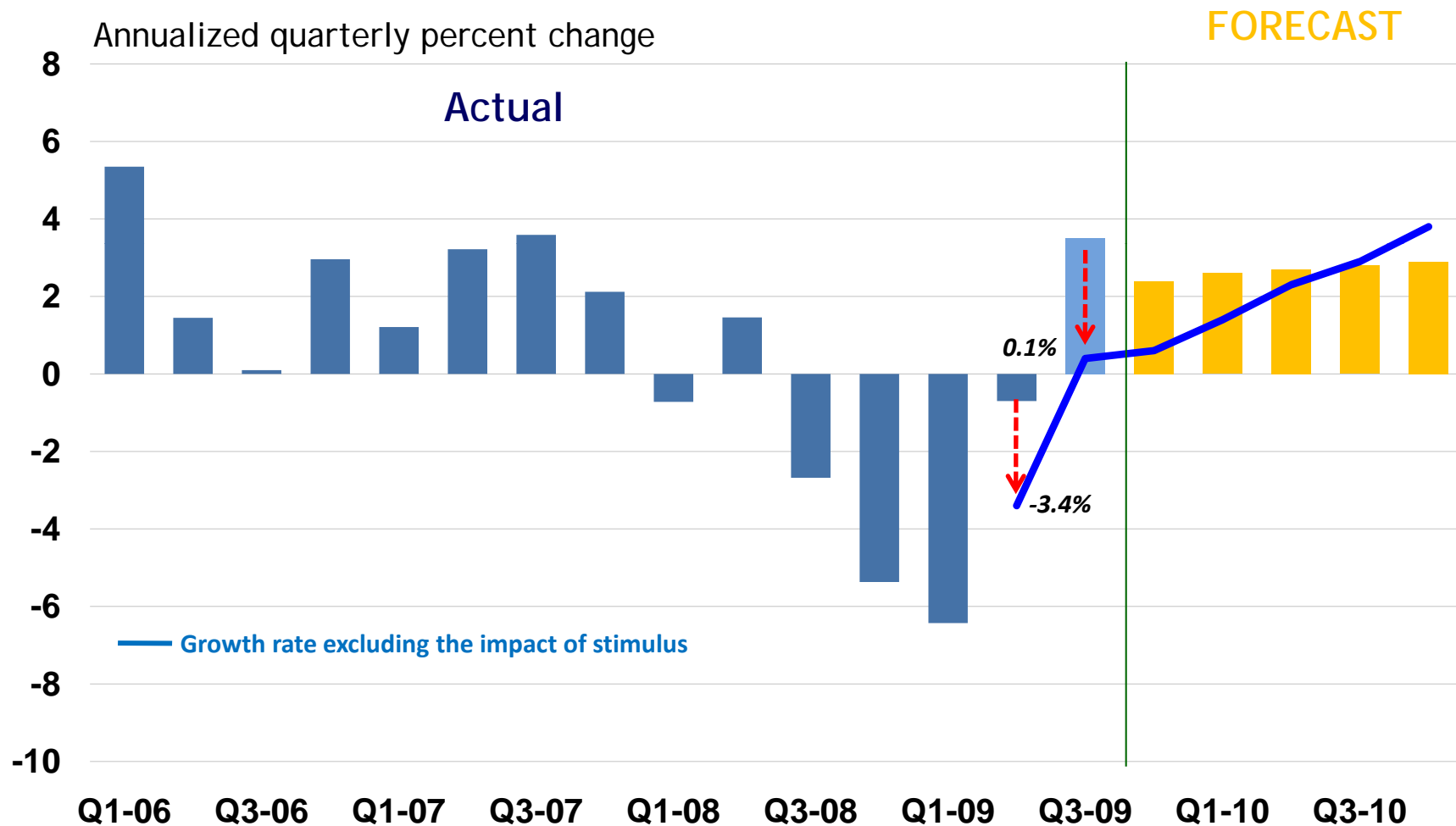
Without government transfers, real incomes would be declining at a record pace.



Source: BEA

Fiscal stimulus likely accounted for a large share of the recent improvement in GDP growth—but its influence is now probably on the wane.

REAL GDP GROWTH



SOURCES: Blue Chip panel of economists, October 10, 2009, Council of Economic Advisers, Moody's Econometrics

Is the strength for real?

- The financial crisis has passed, but credit ain't exactly easy**
- Signs of life in residential real estate, but are the fundamentals really there?**
- How would we fare without government life support?**
- Just how bad are things in labor markets?**

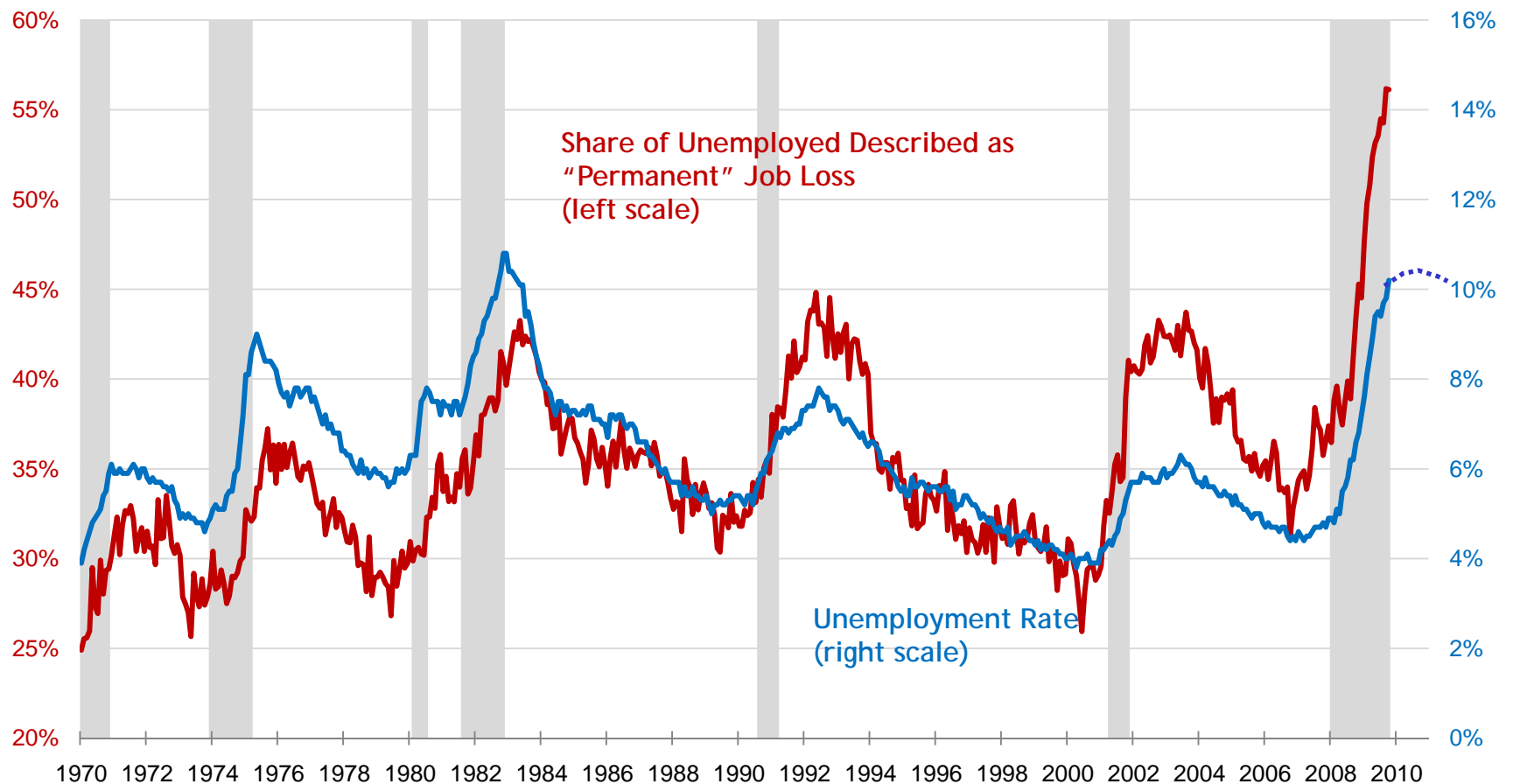
Unemployment almost always lags... by a lot

Historical lag between end of recession, unemployment rate peak, and beginning of funds rate tightening cycle

End of Recession	Unemployment rate peak	Months from end of recession to unemployment peak
Nov-01	Jun-03	19
Mar-91	Jun-92	15
Nov-82	Dec-82	1
(Jul 1980)		
Mar-75	May-75	2
Nov-70	Aug-71	9
	(Dec 1970)	(1)



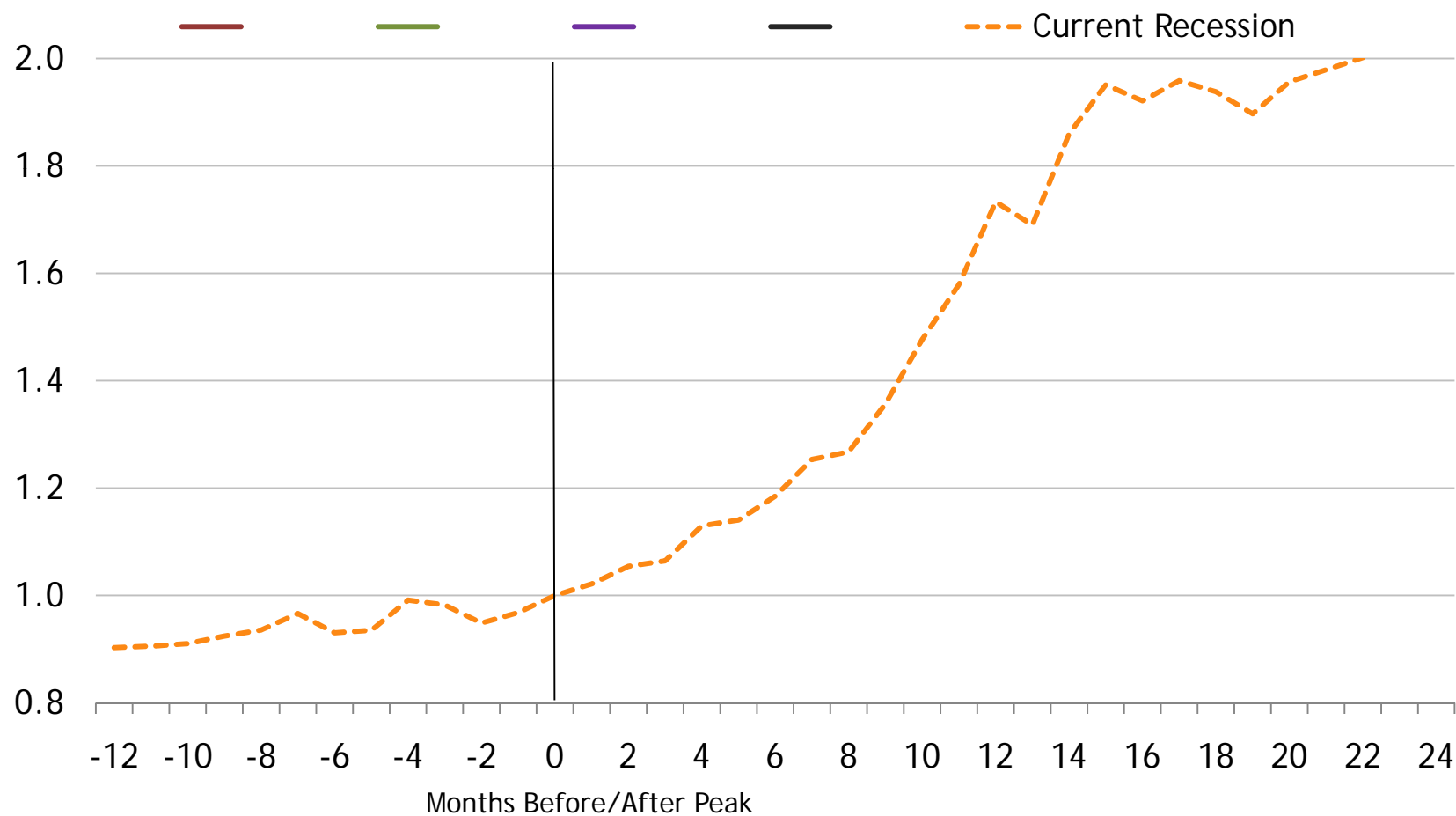
Unemployment is still rising and the share of joblessness attributed to permanent job loss has surged



Source: Bureau of Labor Statistics (through October)

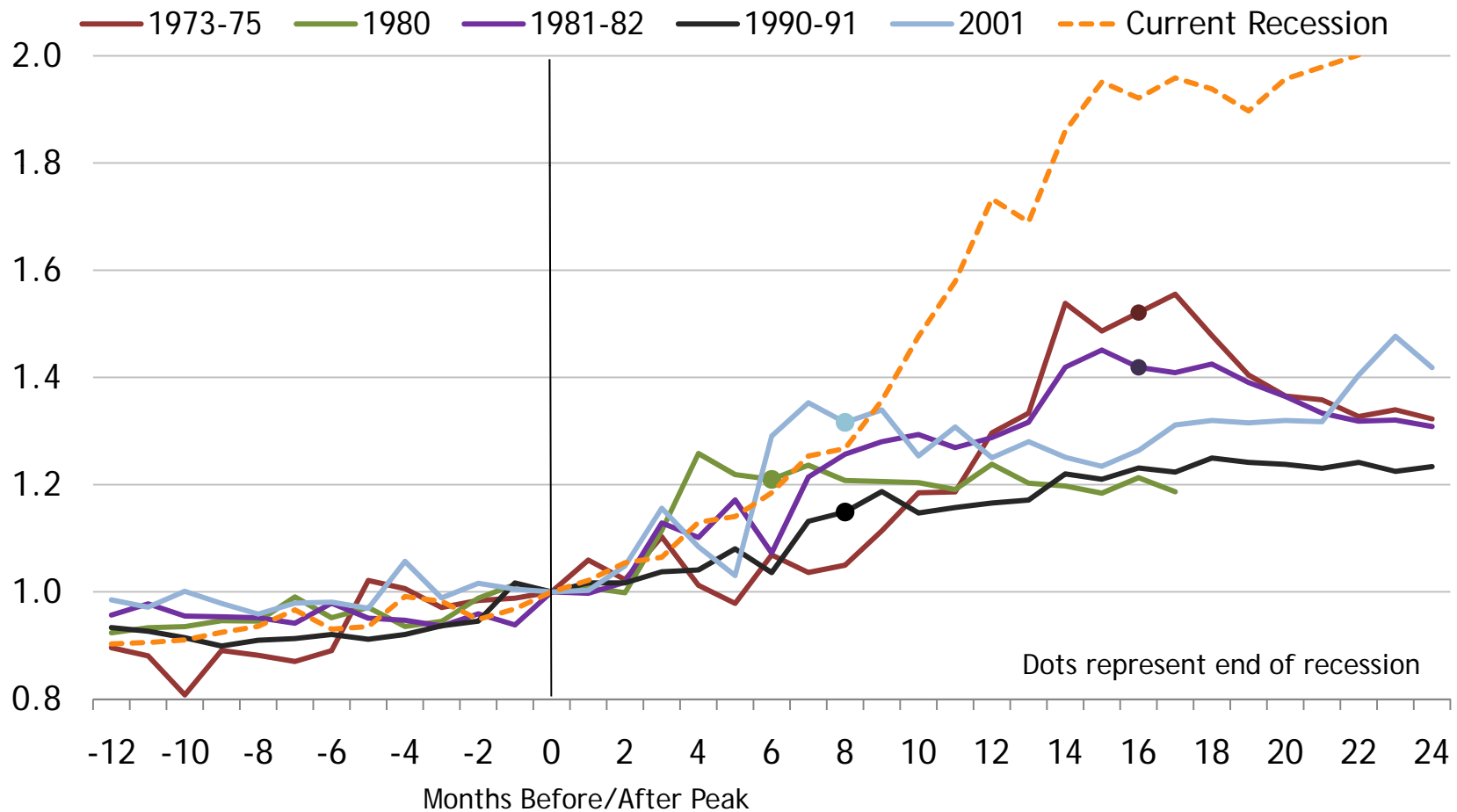
“Underemployment” is significantly higher than in past recessions.

Part-Time for Economic Reasons
Indexed to Start of Recession=1



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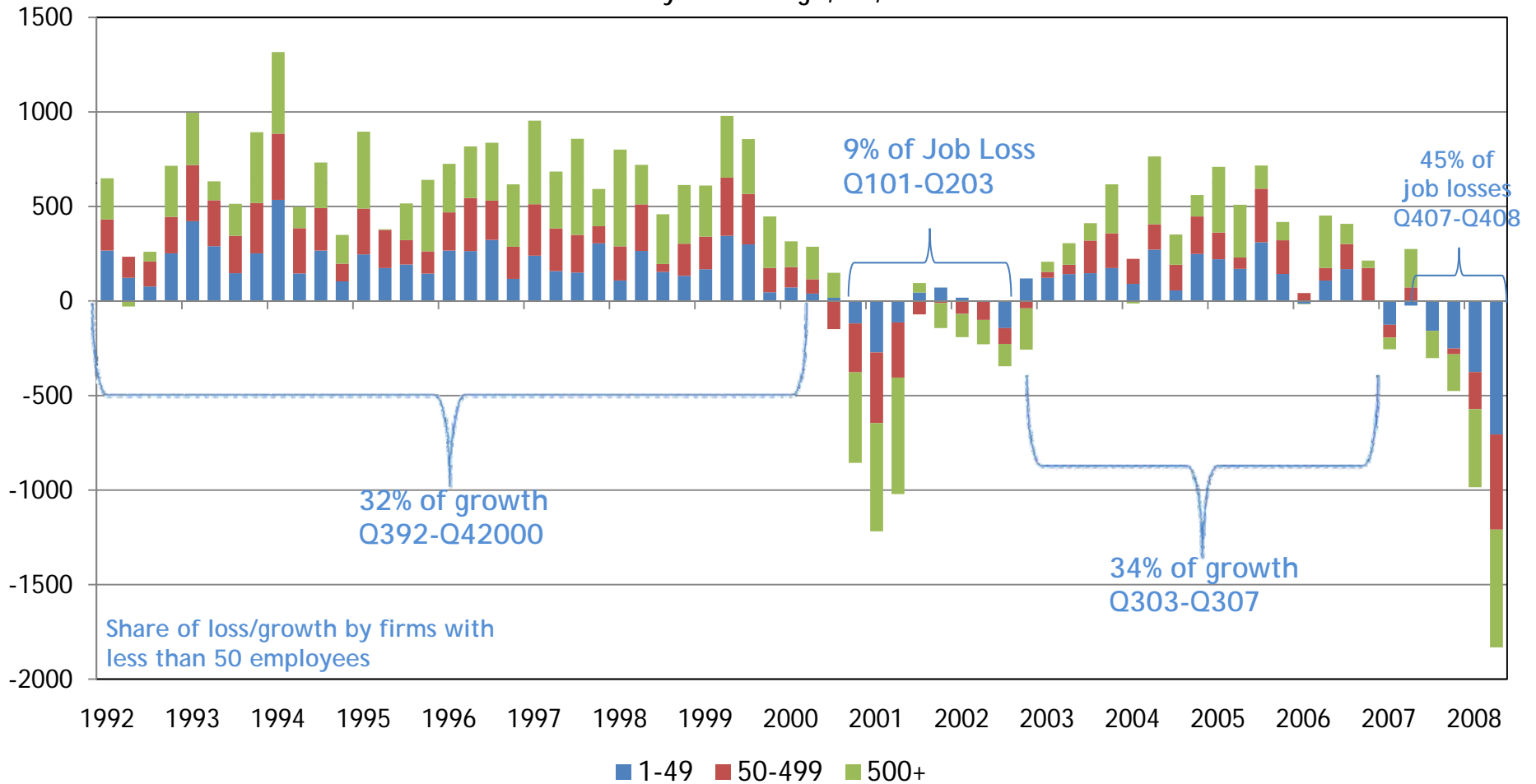
Part-Time for Economic Reasons Indexed to Start of Recession=1



Employment at firms with less than 50 employees have been most affected by the current recession.

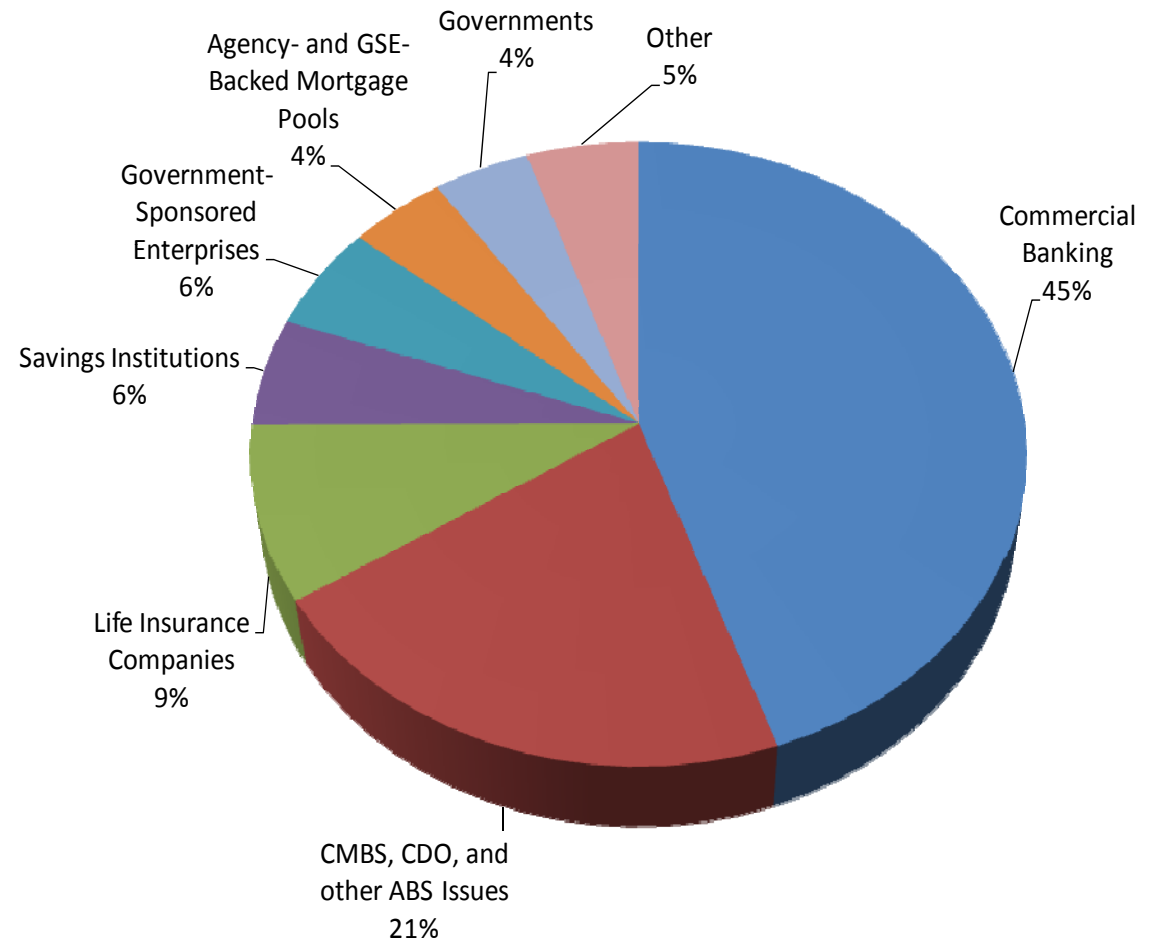
Distribution of Net Gain in Employment by Firm Size

Quarterly Net Change, SA, Thous.



Bank exposure to CRE is quite high.

- \$3.5t CRE debt outstanding
- \$1.5t held by US banks
- \$700b from CMBS
- High turnover: 5-10 year loan maturity is common
- 60% of outstanding CMBS originated 2005-2007 (*peak pricing, lax underwriting*)



The crux of the problem

-- Almost $\frac{1}{2}$ of small businesses surveyed in 2003 used personal or business credit card to finance working capital.

-- “Small banks” account for about $\frac{1}{2}$ of business loans under \$1 million

-- About $\frac{1}{2}$ of CRE bank loans are made by small banks – most of that in institutions with high CRE exposures



President Lockhart says:

I do not think that time has yet come, and to be consistent with my outlook, I think it may well be some time before a comprehensive exit (from monetary stimulus) need be under way.

Policy changes usually lag unemployment peaks

Historical lag between end of recession, unemployment rate peak, and beginning of funds rate tightening cycle

End of Recession	Unemployment rate peak	Beginning of funds rate tightening cycle	Months from end of recession to unemployment peak	Months from unemployment peak to beginning of funds rate tightening cycle
Nov-01	Jun-03	Jul-04	19	13
Mar-91	Jun-92	Feb-94	15	20
Nov-82	Dec-82	Jun-83	1	6
(Jul 1980)				
Mar-75	May-75	May-76	2	12
Nov-70	Aug-71	Mar-72	9	7
	(Dec 1970)		(1)	(15)



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