

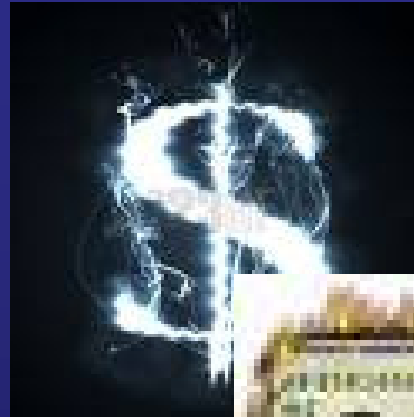
U.S. Economy: The Morning After

**Morteza Rahmatian, Ph.D.
Professor and Chair**

**Department of Economics
Mihaylo College of Business and Economics
California State University, Fullerton**

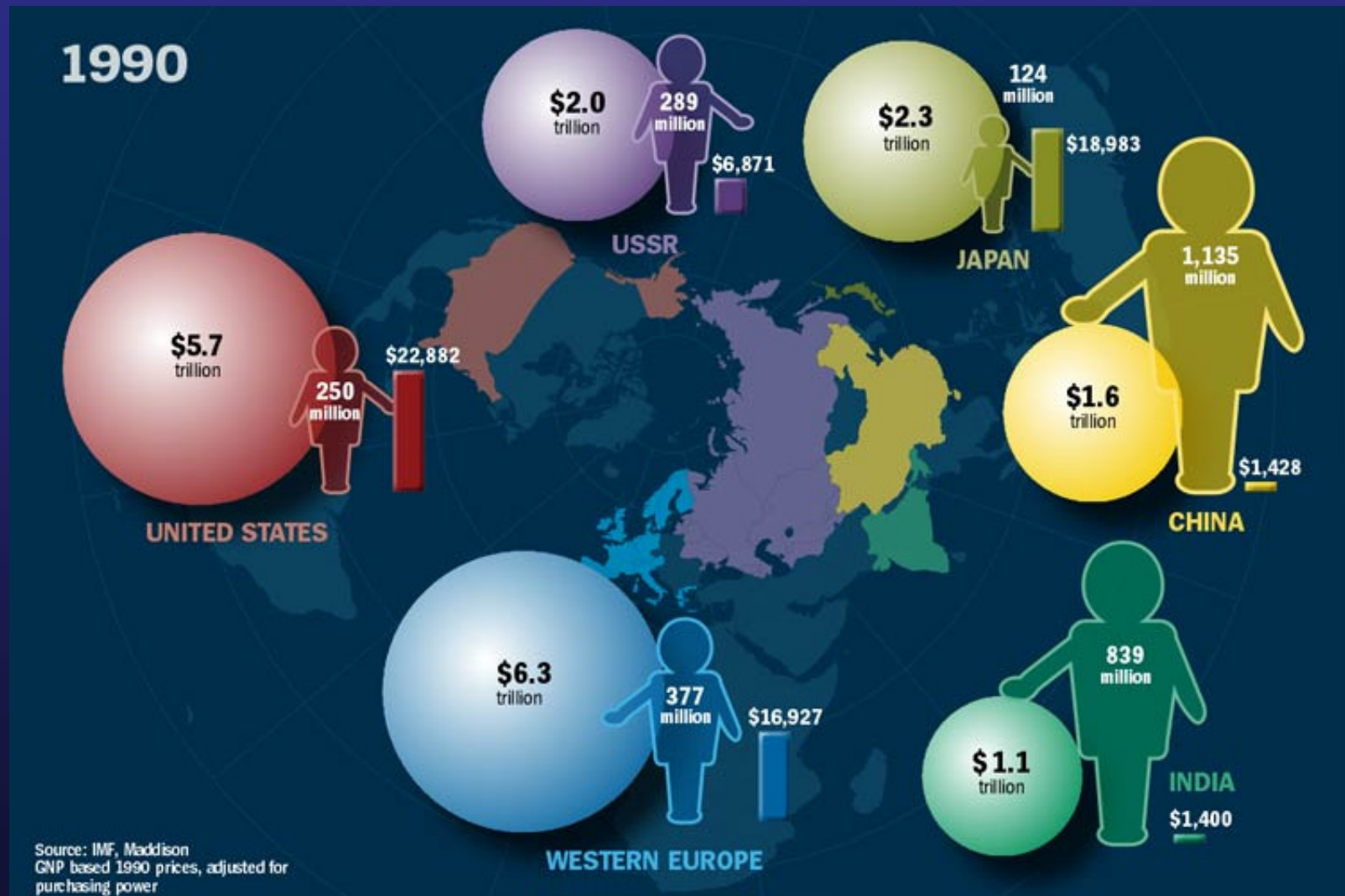
**February 10, 2010
American Society for Professional Estimators**

Economic Trends



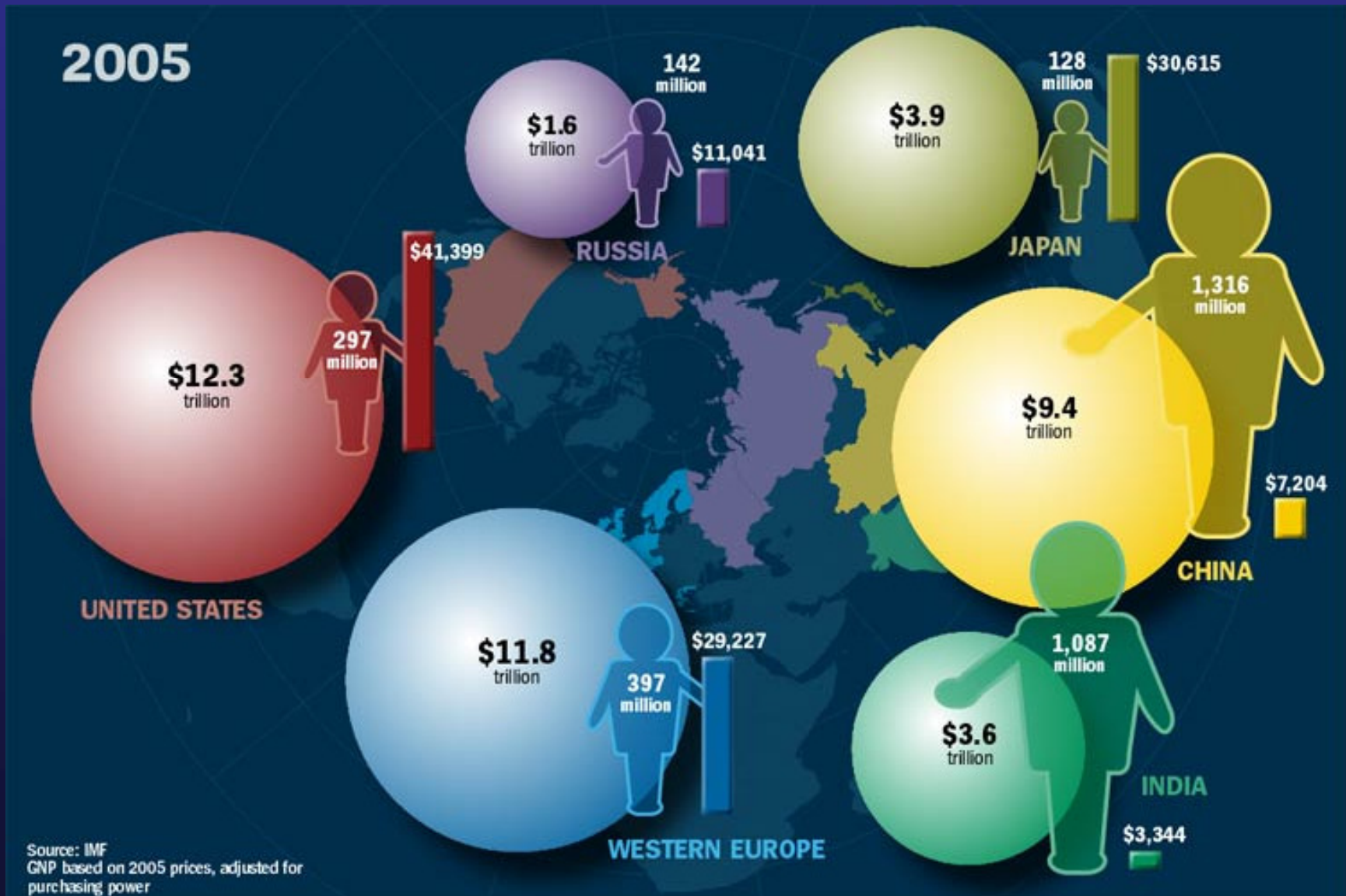
Economic Output 1990

(1990 prices; adjusted for purchasing power)



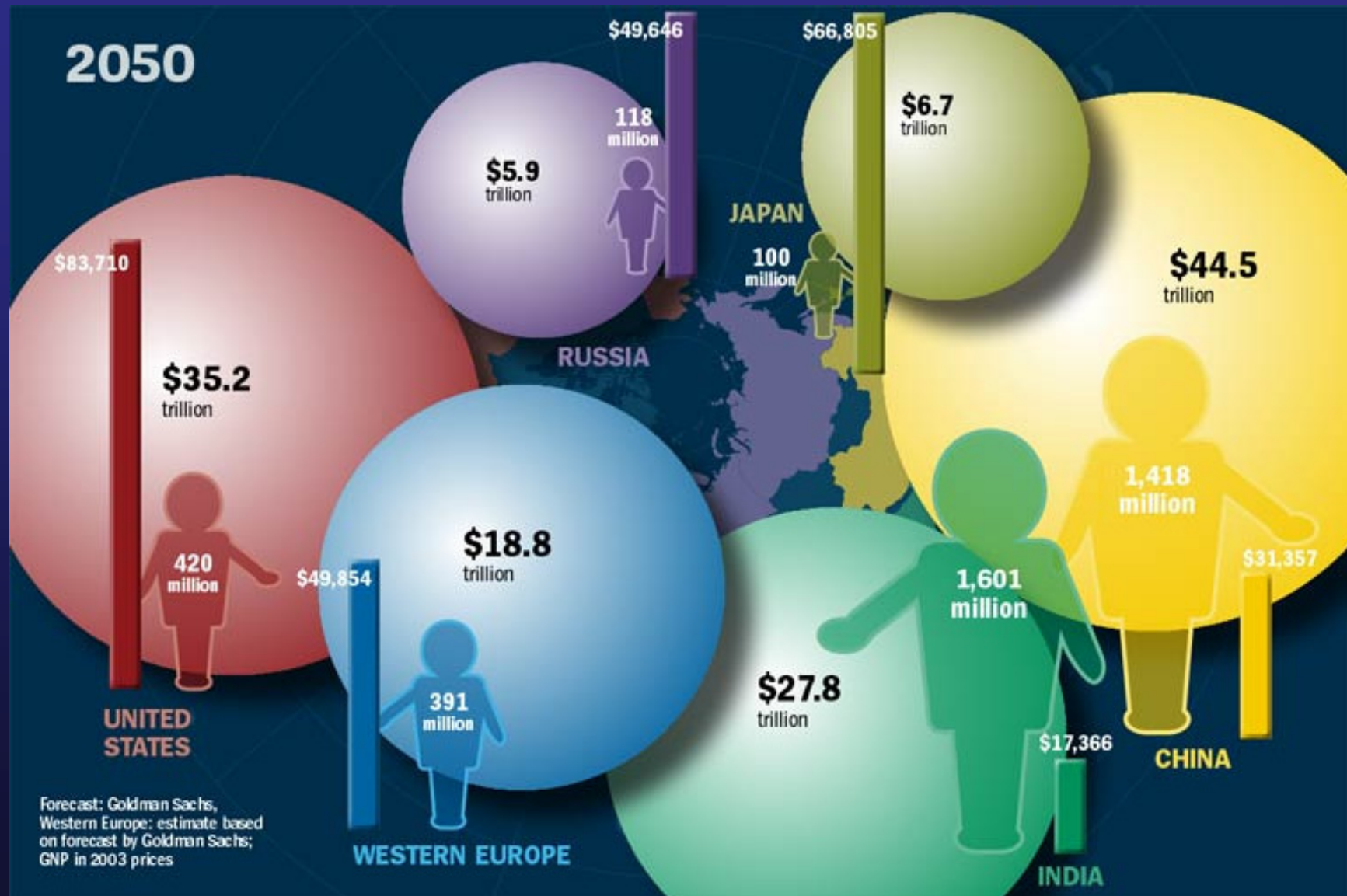
Economic Output 2005

(2005 prices; adjusted for purchasing power)



Economic Output 2050

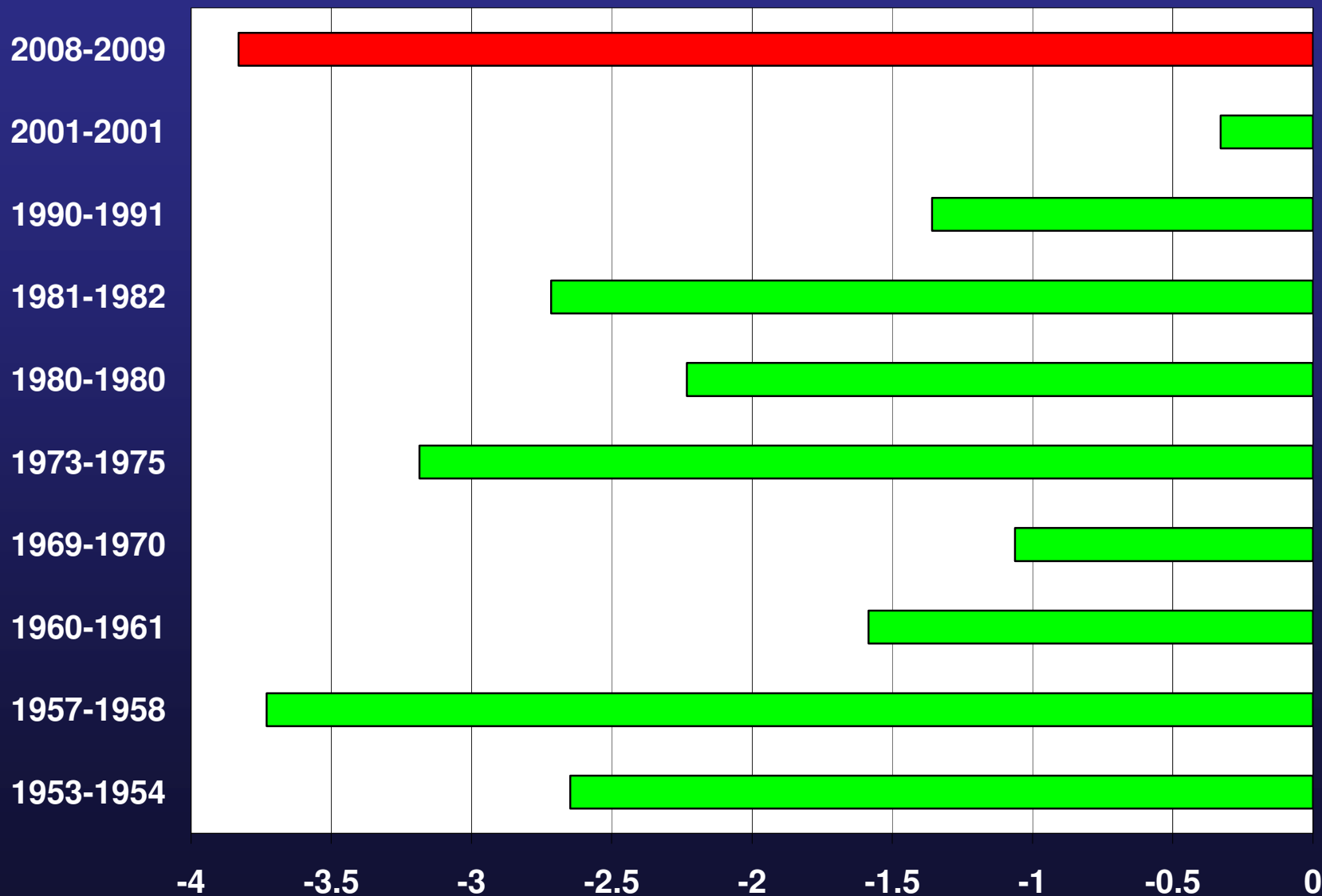
(adjusted for purchasing power)



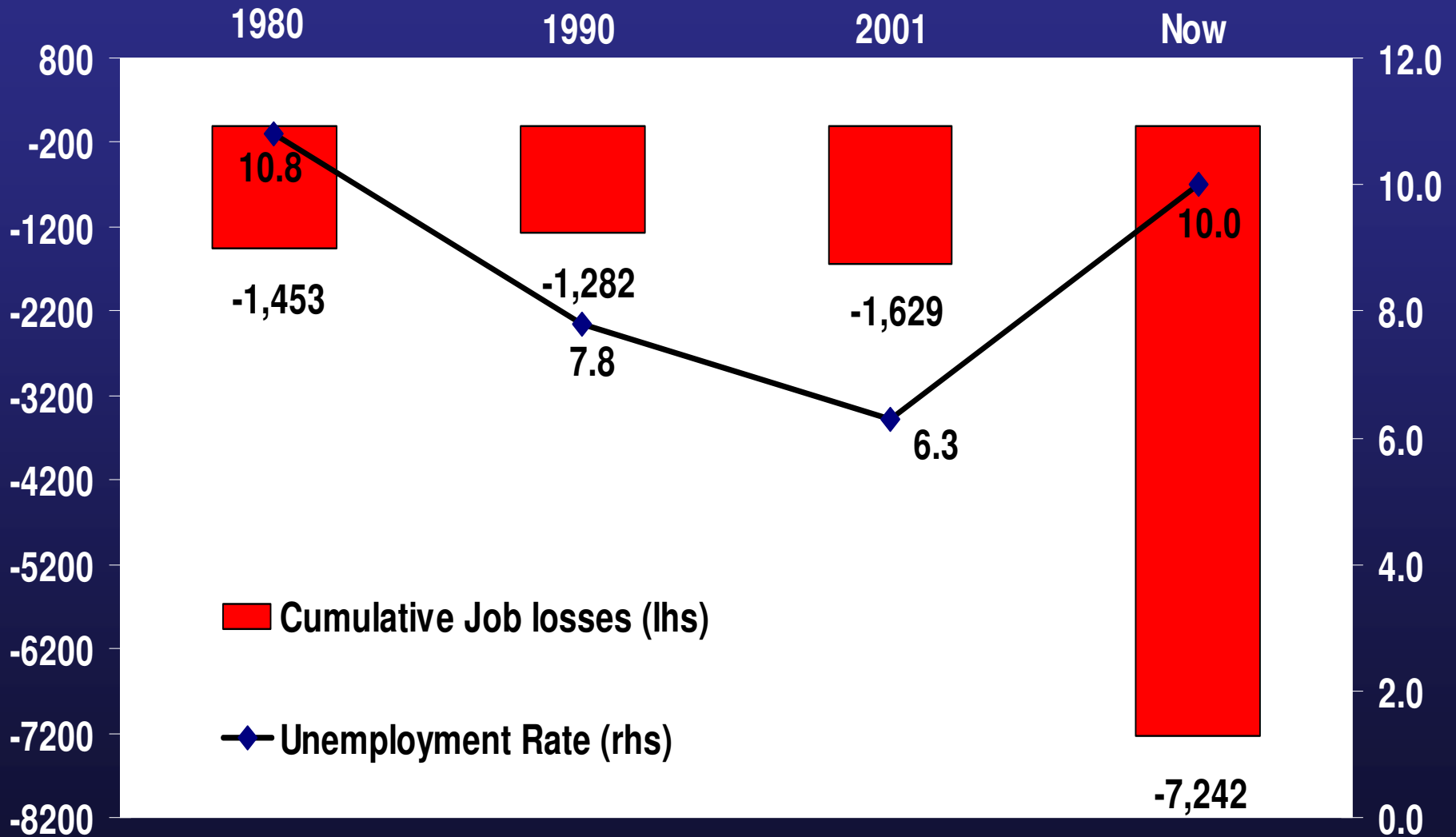
World Economic Trends

- 40% of the increase in global GDP will come from China (27%) and India (12%)
- US (16% of world growth) will remain the major economy up to 2020
- China will have closed the gap in economic size with the US by 2020
- The US is forecast to grow by almost 3% a year
- EU 25 is forecasted to grow by 2.1%
- Japan to grow by less than 1%; also shrinking population
- On a per-capita basis, China and India will remain far poorer than Western economies

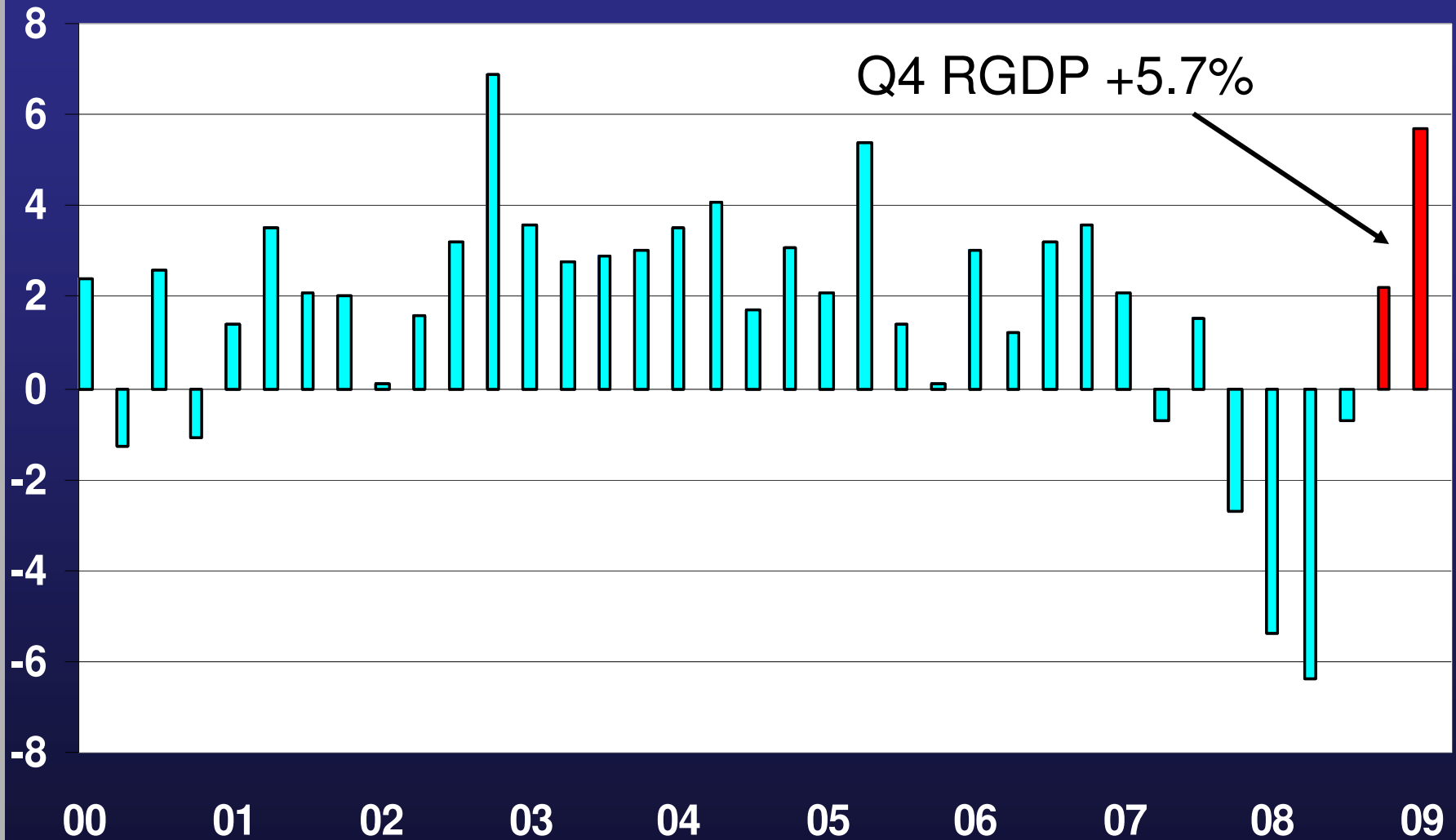
GDP Has Declined More than in any Postwar Recession



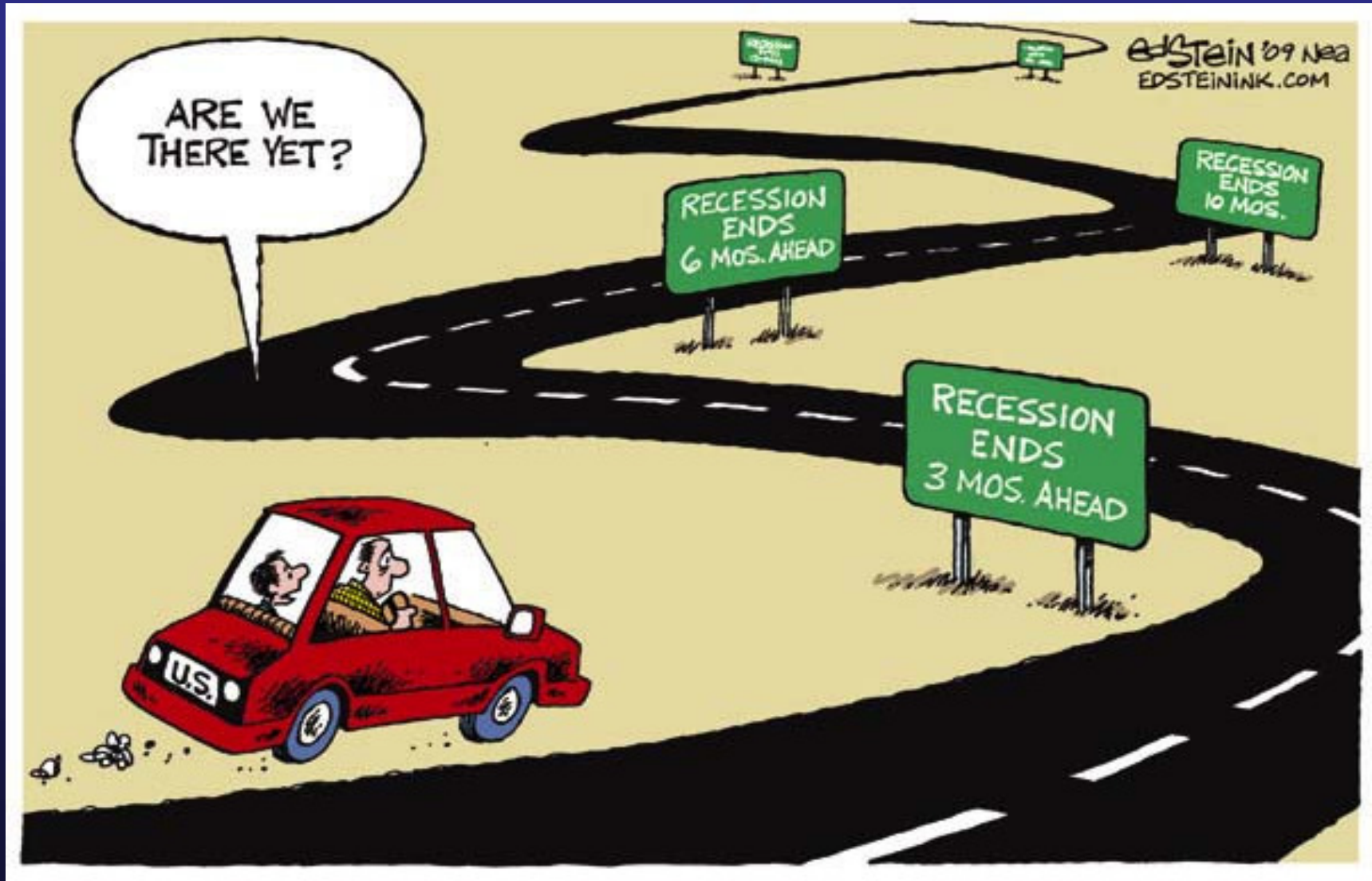
Job Destruction: Faster and Deeper than Previous Recessions



Real GDP Turned Around in H2 2009



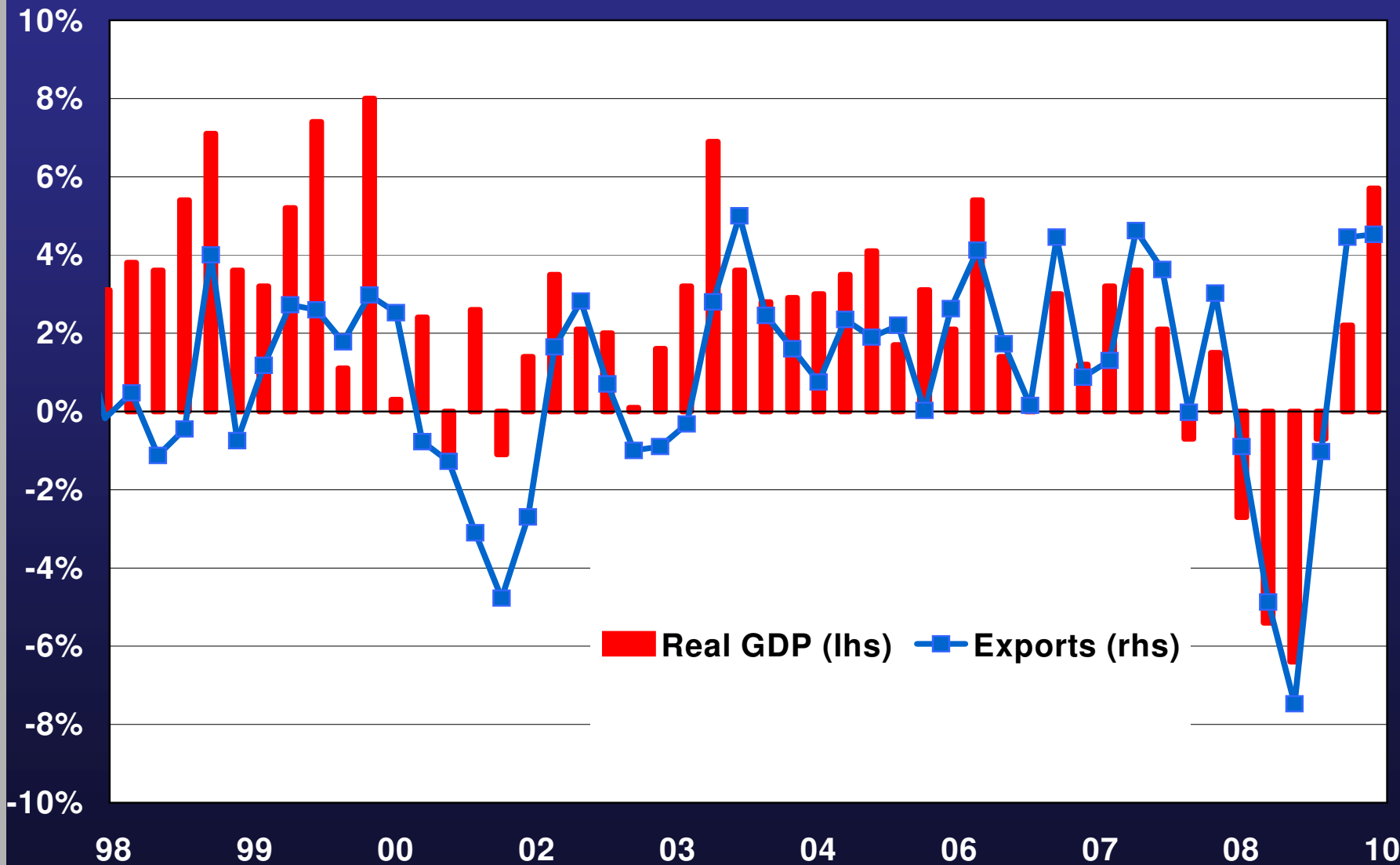
Road to Recovery: Are We There Yet?



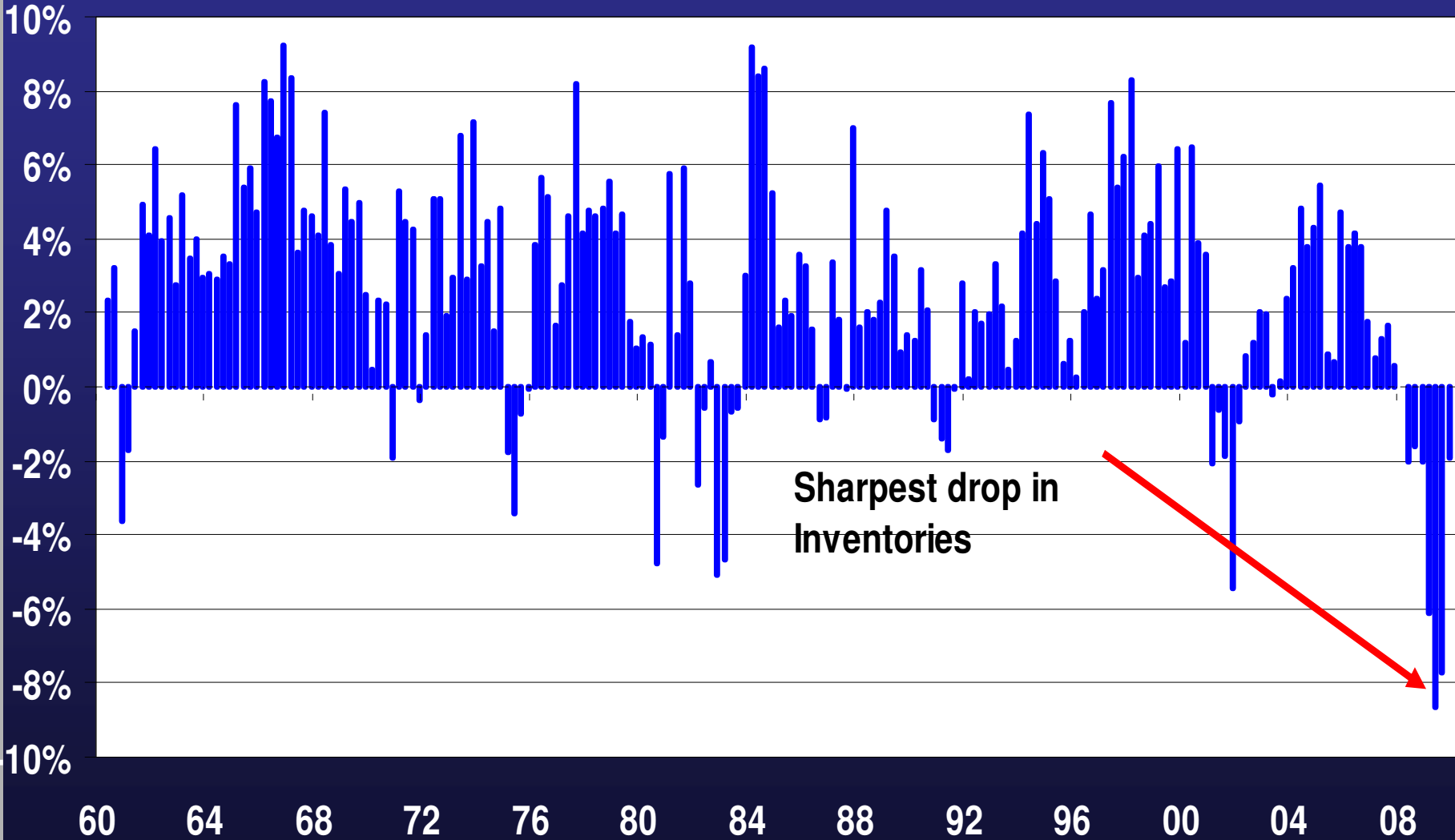
Recovery Spurred by “Unusual Suspects”

- Exports
- Inventories
- Industrial production
- Fixed Investment
- Massive Government Spending

Exports Have Turned Around Supporting Growth

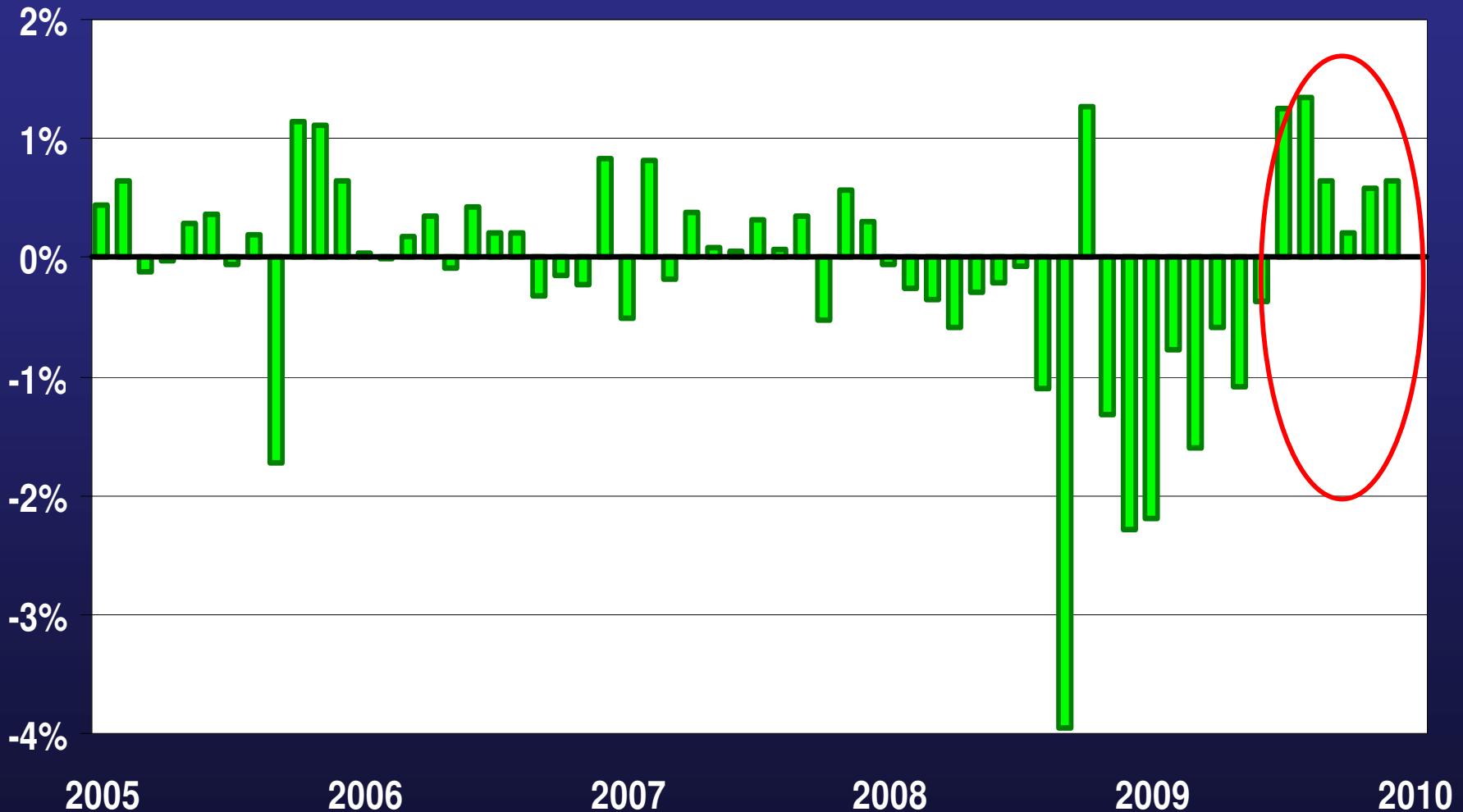


Inventories Have Turned Around (year-over-year percent change)

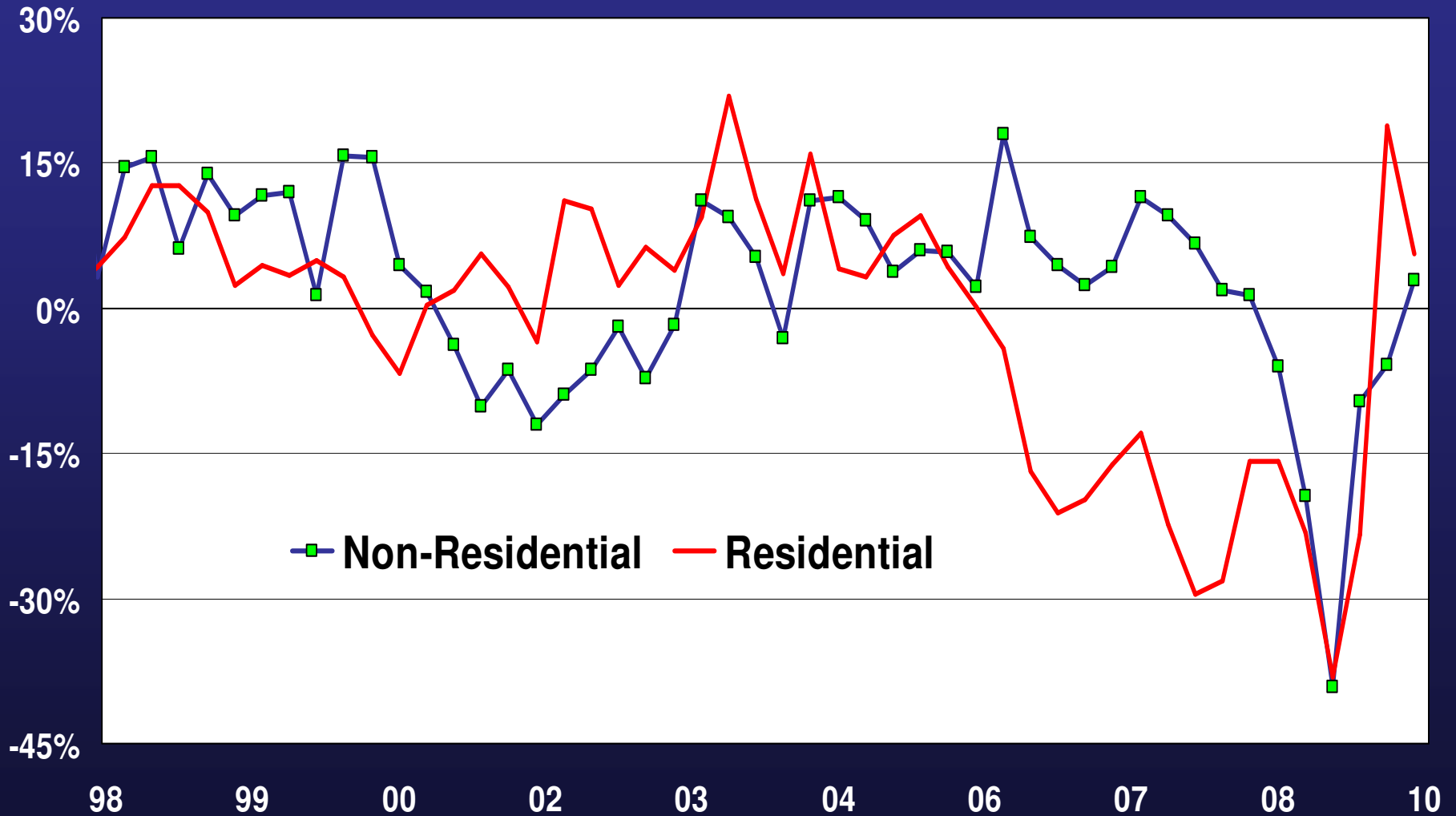


Sharpest drop in
Inventories

Industrial Production has Picked Up (month-over-month, percent change)

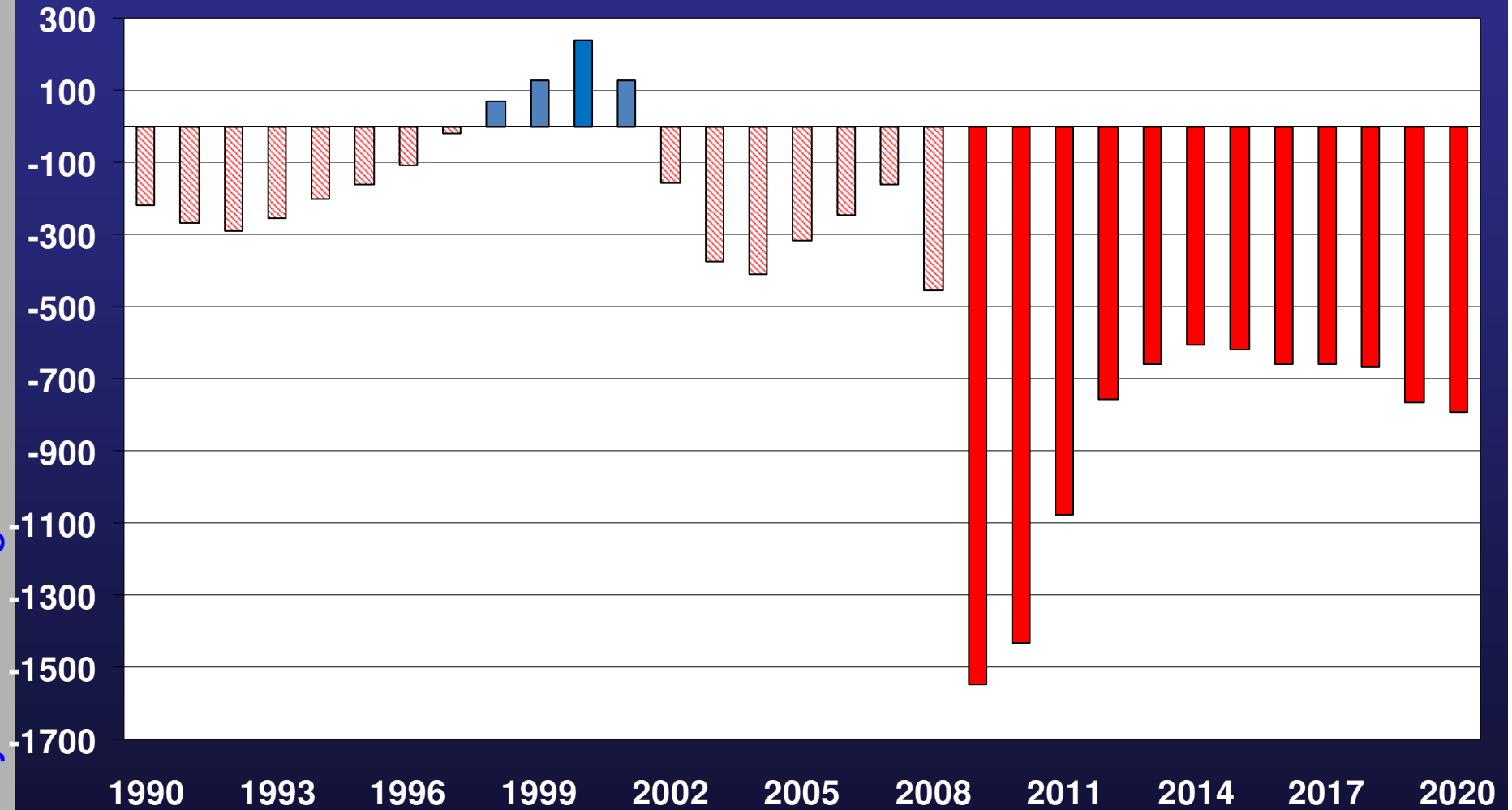


Investments have Rebounded from Lowest Levels since WW II



\$4 Trillion in Government Support (fiscal deficit, \$ billions)

Mihaylo College of Business & Economics



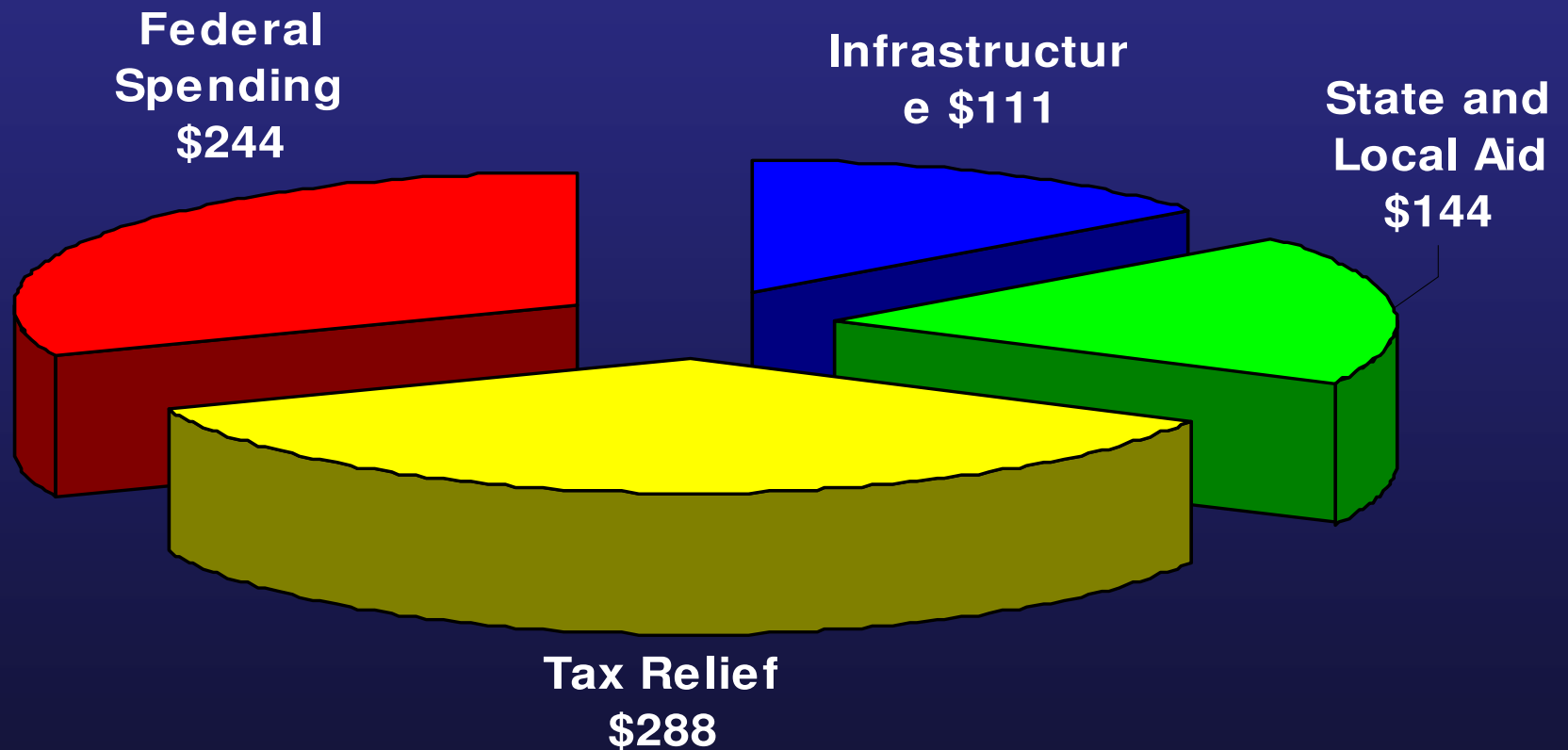
Losses from “Toxic Assets” Mounting

- Estimated total losses \$3-3.5 trillion
- Half to occur in the U.S. and half abroad
- So far, \$1.29 trillion in write-downs (U.S. \$800 billion)
- Remaining estimated losses to U.S. system: \$800b-\$1t
- The entire banking system has \$1.5 trillion in capital
- More capital (public and private) is needed

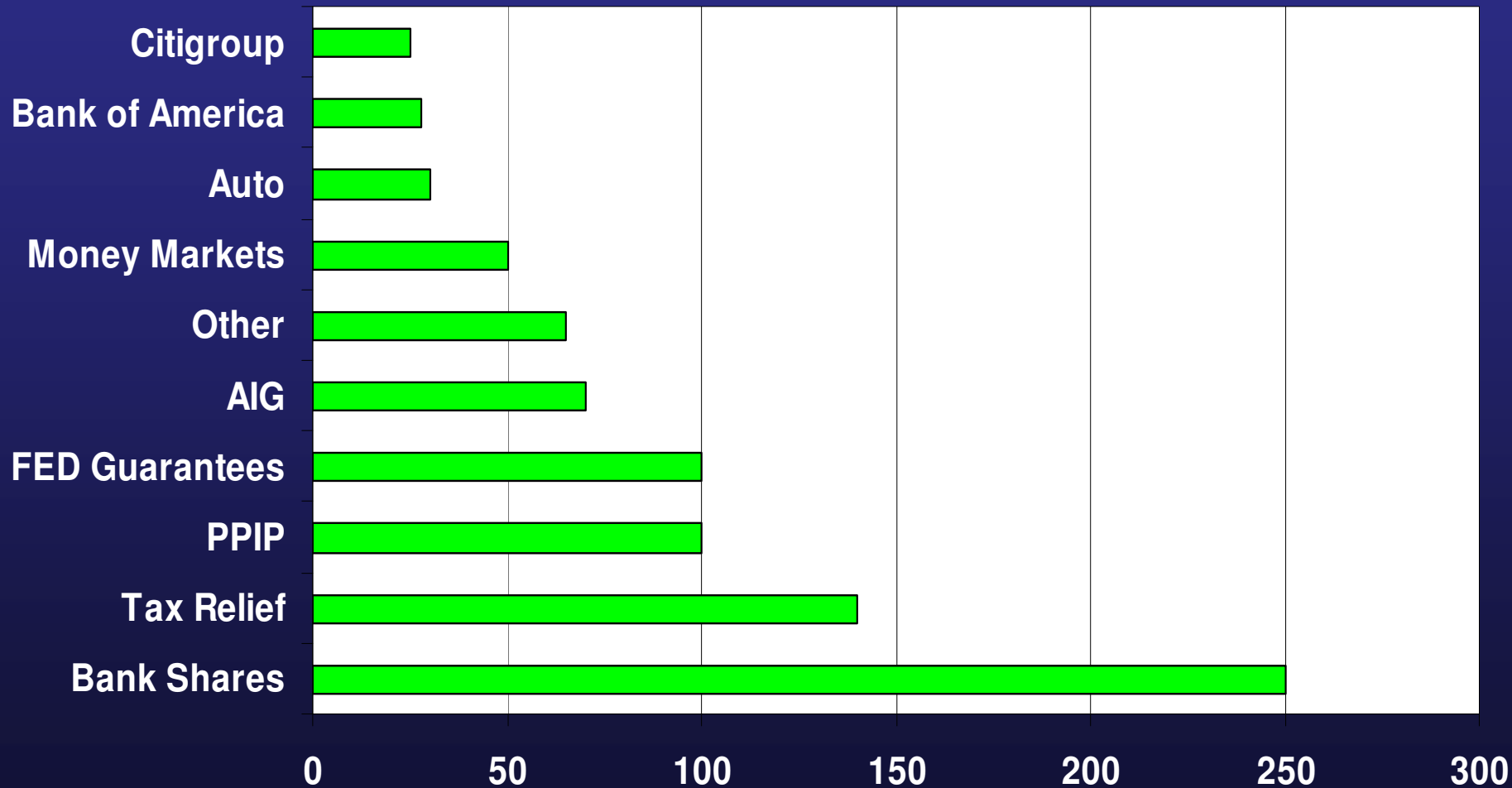
Grand-Scale Government Intervention

Over \$4 trillion!!!

Stimulus Bill: \$787 Relatively Back-loaded



Treasury: \$858 billion (in TARP and Other Programs)



Government Programs: Benefits and Risks

■ Potential Benefits

- Stop job hemorrhage
- Stimulate aggregate demand
- Recapitalize Banking system
- Prevent Financial Collapse

■ Risks

- No clear “Exit” Strategy
- Much Higher Deficits (\$9.3 trillion during 2010-2019)
- Higher Inflation
- Higher interest rates
- Higher Taxes

URGENT Concerns about the Federal Debt

- Deficit 1.7 trillion (12% of GDP)- highest since WWII
- Spending (27.4% of GDP) – highest since WWI
- Revenues (15.5% of GDP) – Lowest since 1950
- National Debt (85% of GDP)
- Huge short-term deficits (but they are not the real problem)
- Unsustainable medium-term deficit path
- Our largest creditors (China) have publicly questioned the security of Treasury debt
- Medicare trust to go bankrupt by 2017

“Usual Suspects” for Recovery: Improving but Still Tentative

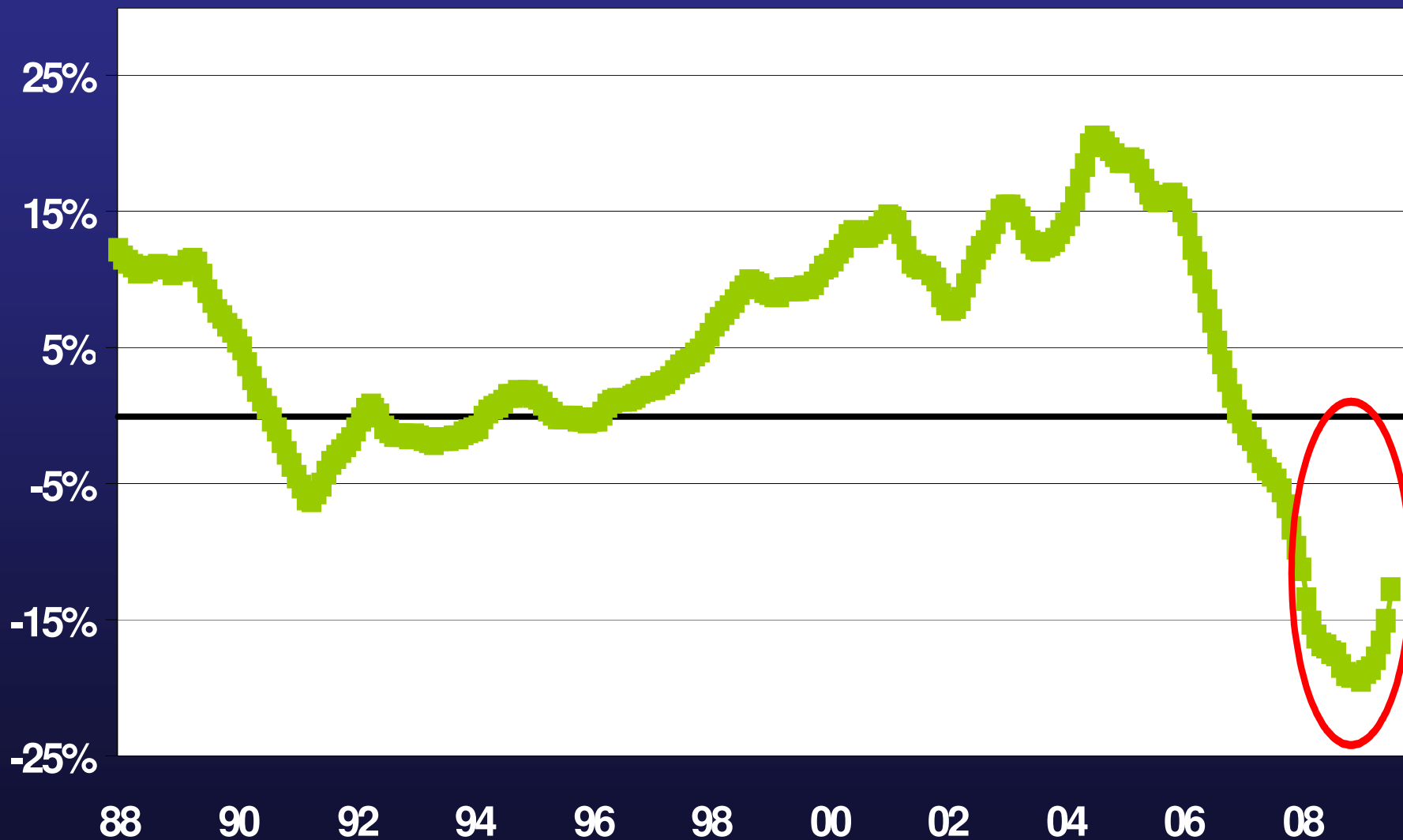
- Financial Market
- Housing Market
- Consumer Spending
- Labor Market

Stock Market Gained 51% since March 09 (Dow Jones Index, level)



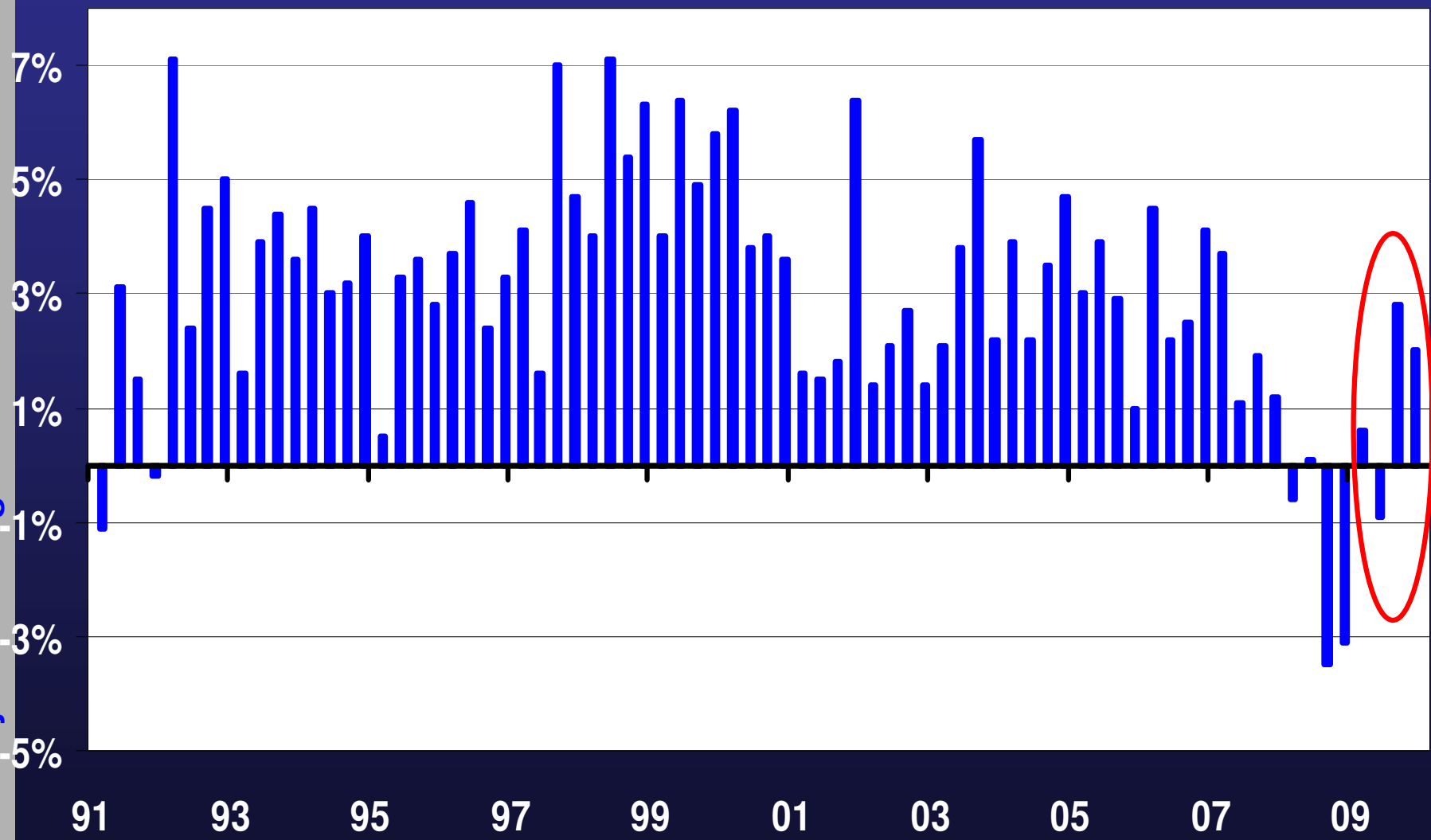
Housing Prices Have Stabilized

(Case/Shiller Index, year-over-year percent)

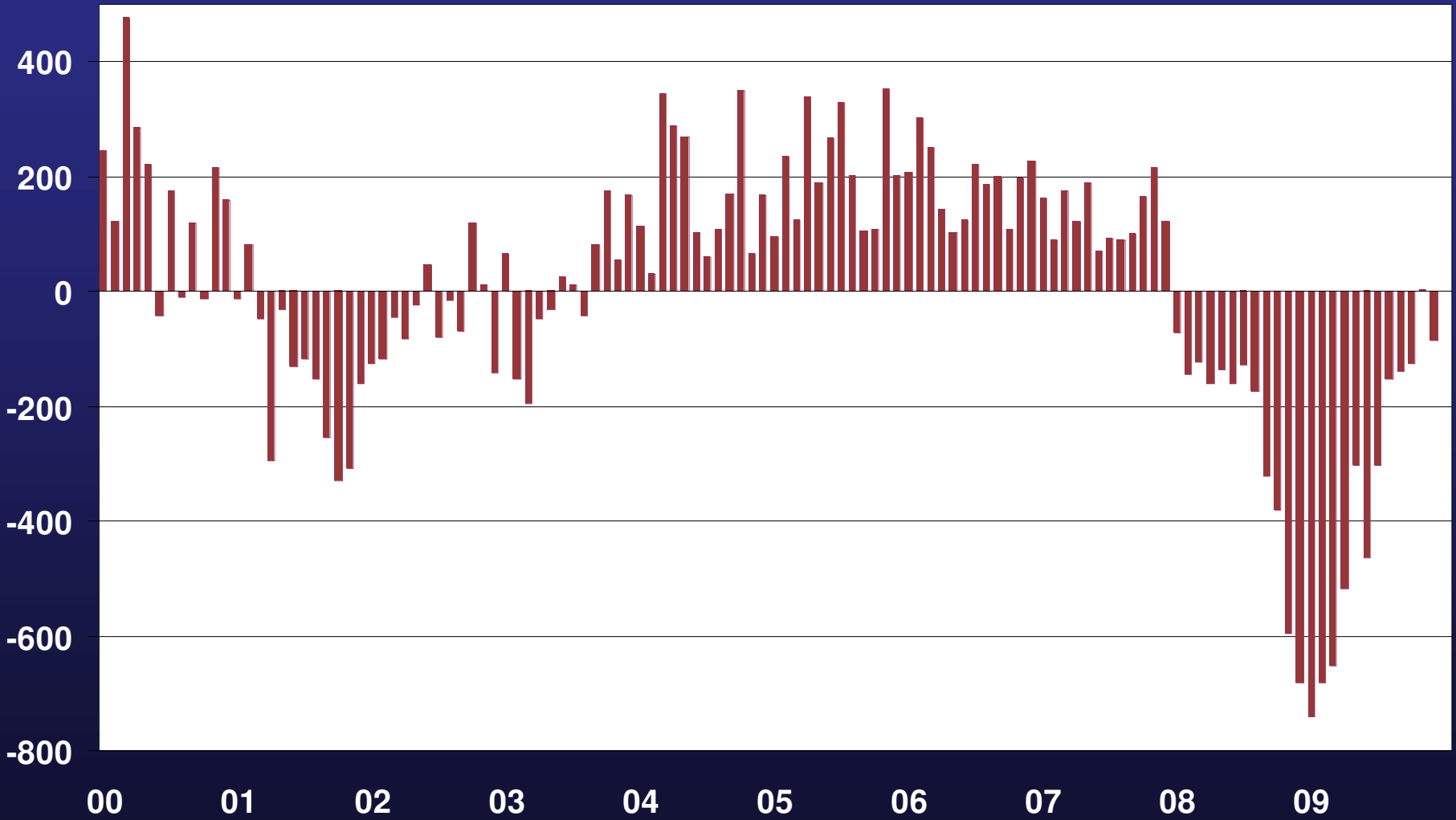


Consumer Spending Has Improved (consumer expenditure, quarter-over-quarter % change)

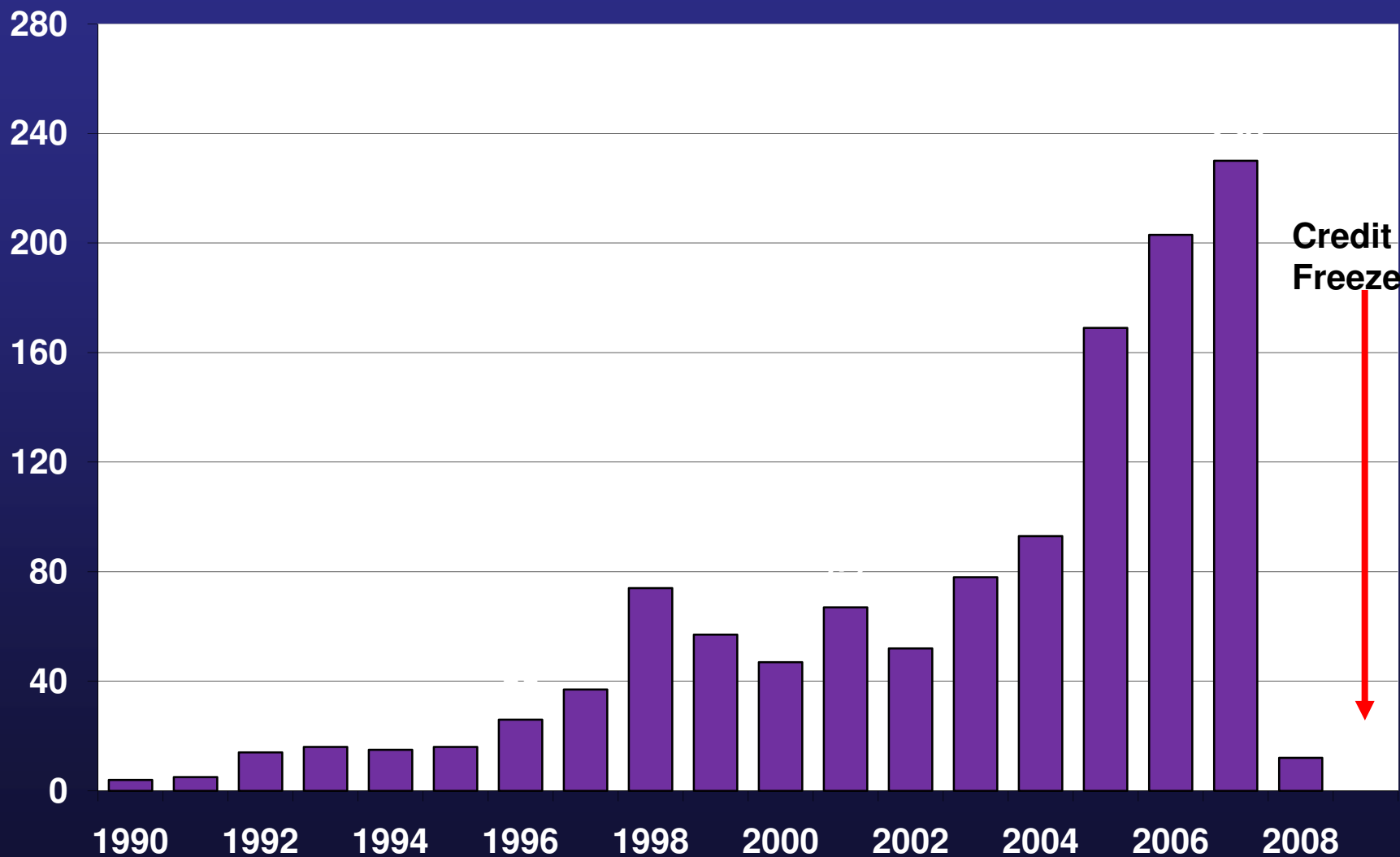
Mihaylo College of Business & Economics



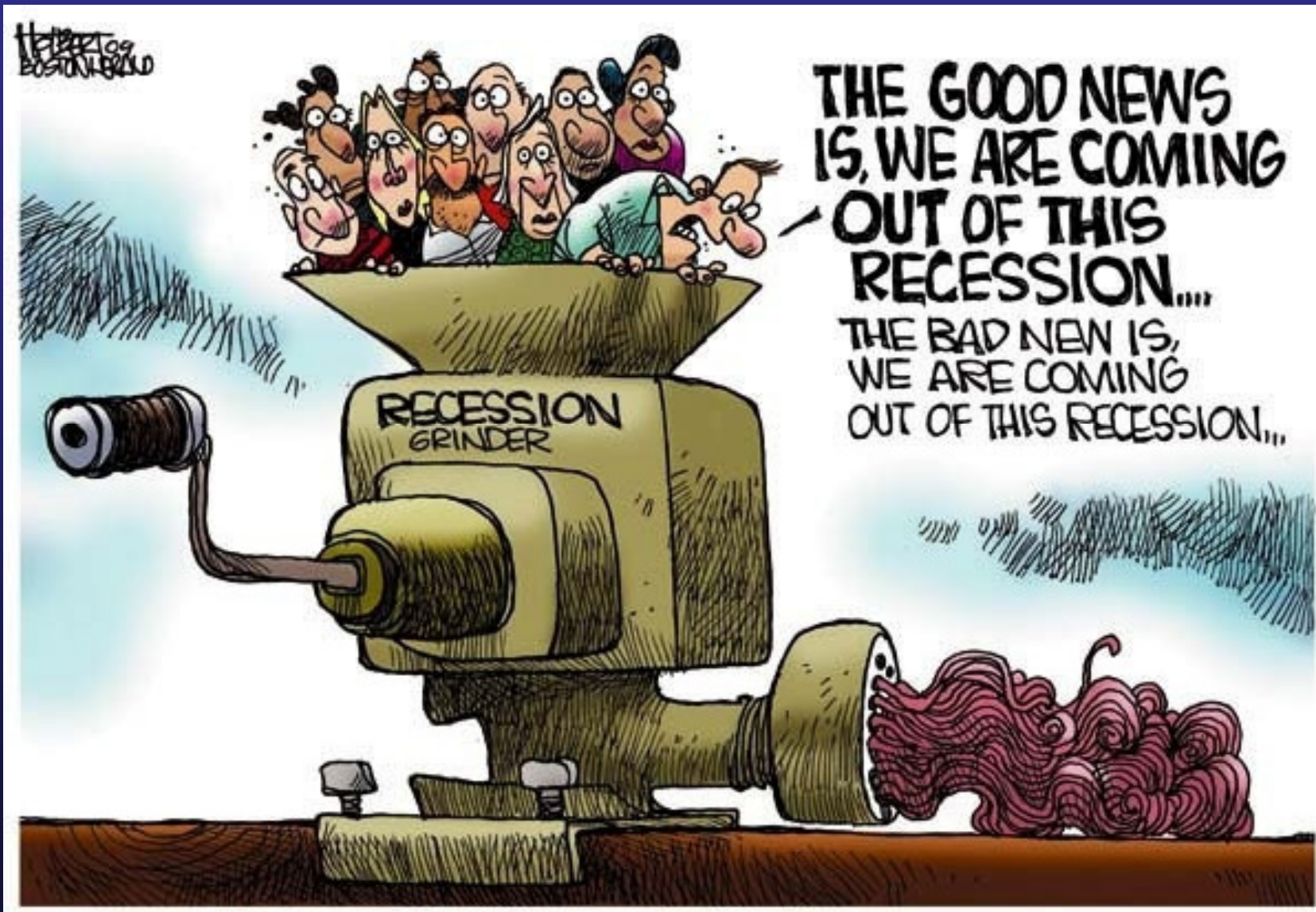
The Pace of Job Destruction Has Abated (nonfarm payroll, thousand of employees)



Danger Zone: Commercial Real Estate (CMBS Issuance, billions)



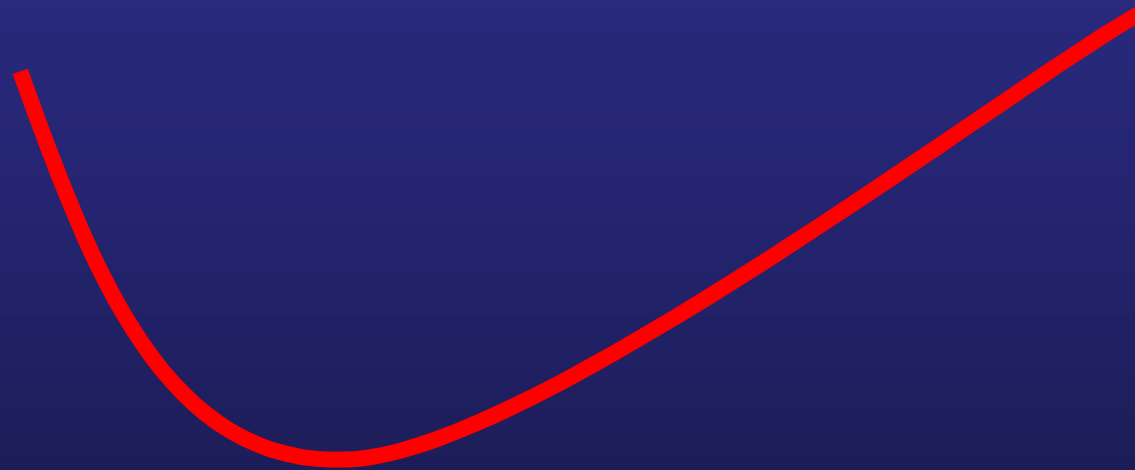
After the Storm



Converging to a “New Normal”

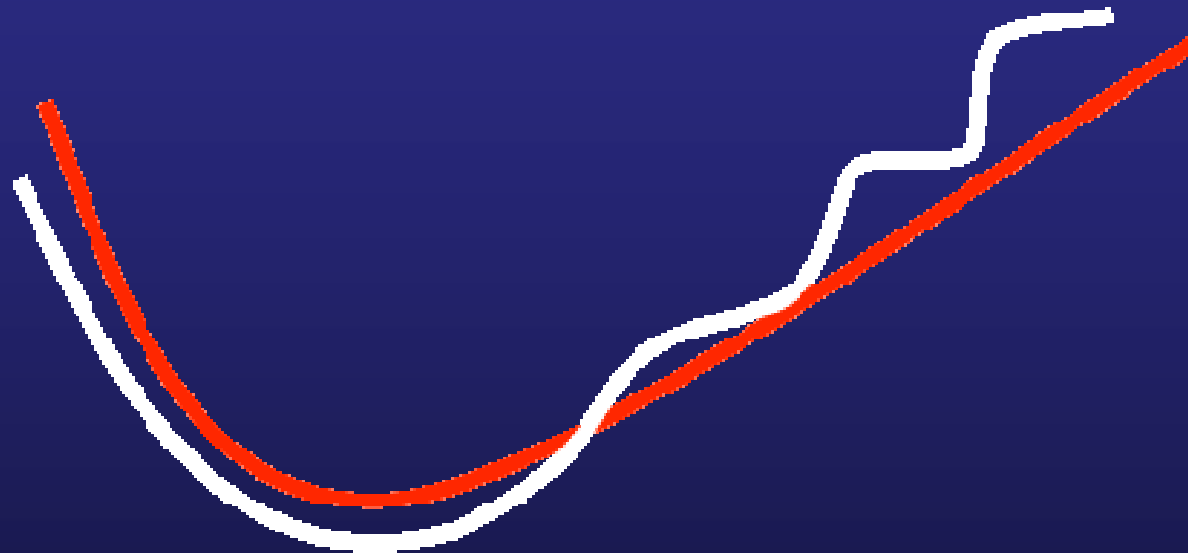
- **Not every change wrought by recession will be reversed**
 - ❖ Manufacturing jobs – disappearing
 - ❖ Banking system – a shadow of its former self
 - ❖ Securitization market – a “shadow” of the “shadow”
- **Three years after the crisis, output will be 10% below its pre-crisis trajectory**
- **“Balance-sheet recessions” take a heavier toll on growth**
- **Government exit strategy is not clear**

Last Year's Outlook



Nike Swoosh

US Recovery: Sluggish and Bumpy



Nike Swoosh- Morphed

National Economic Forecasts

	2009	2010f
GDP	-2.4	3.0
Core Inflation	1.7	1.9
Unemployment	9.3	9.8

Contact Info

Morteza Rahmatian

mrahmatian@fullerton.edu

(657) 278-3859