

Economic Update: End of the Great Recession

William C. Melton

Regional Council of Mayors
September 14, 2009

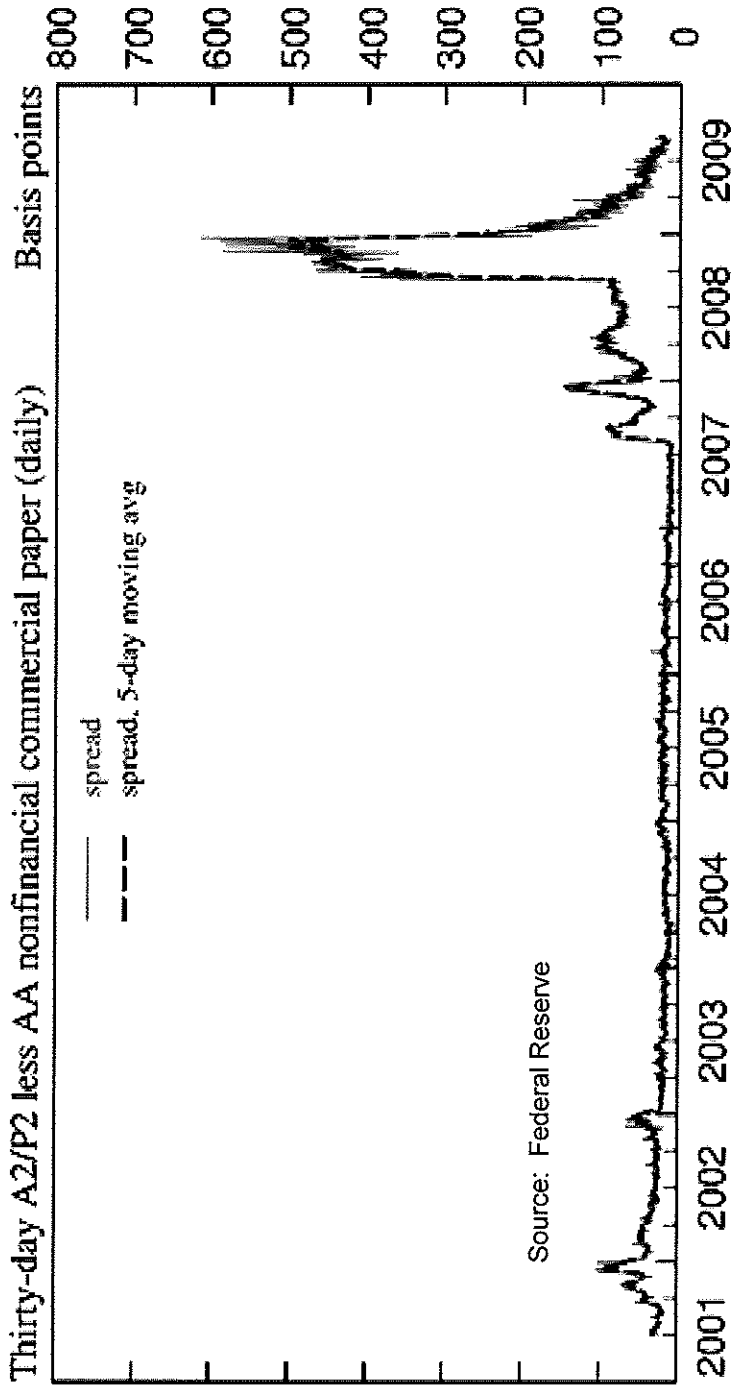
Escape from the Liquidity Trap - 1

- 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!

Escape from the Liquidity Trap - 2

- 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



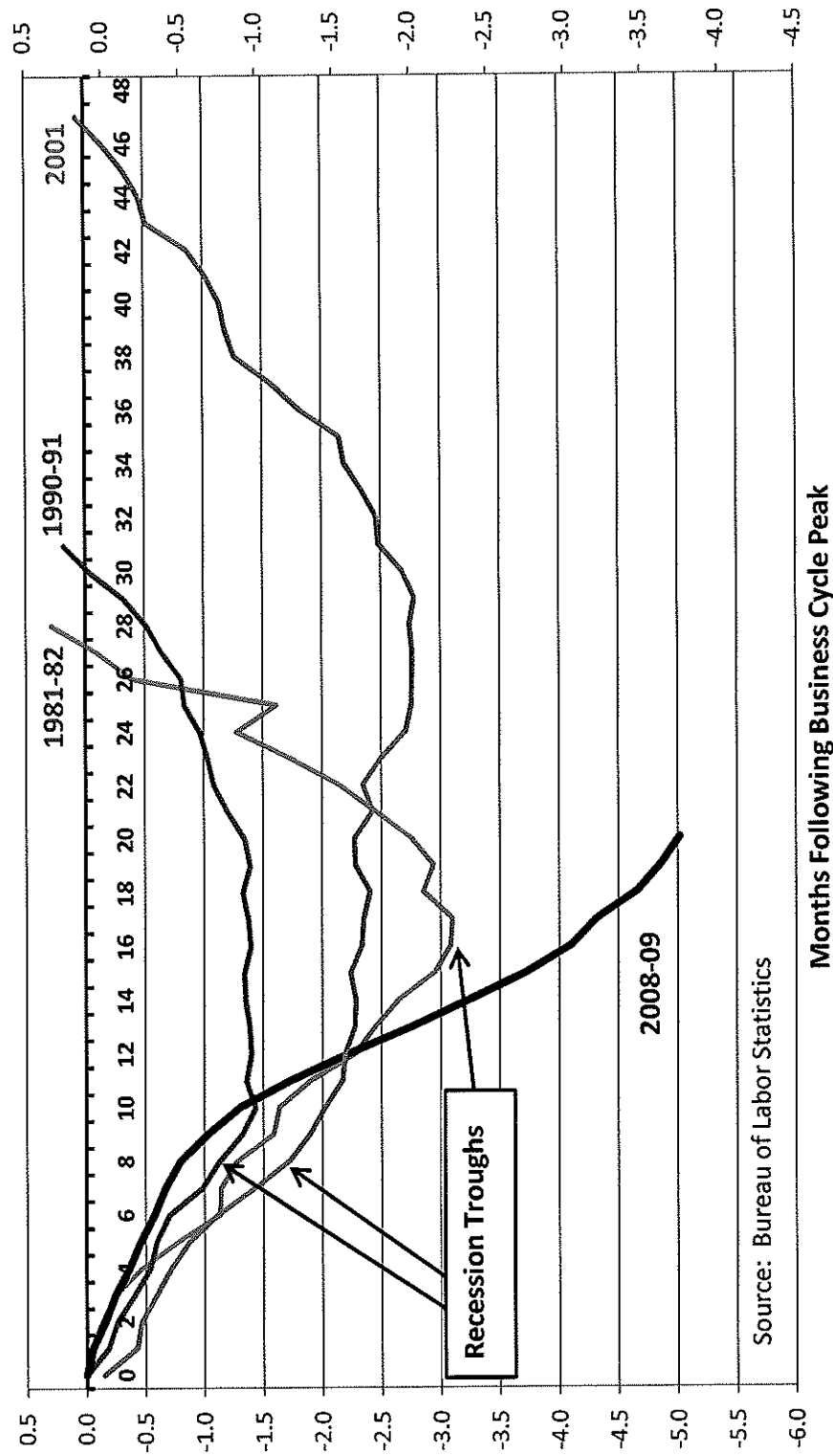
Many credit markets are now functioning more or less normally.
Others continue to face major challenges.

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!

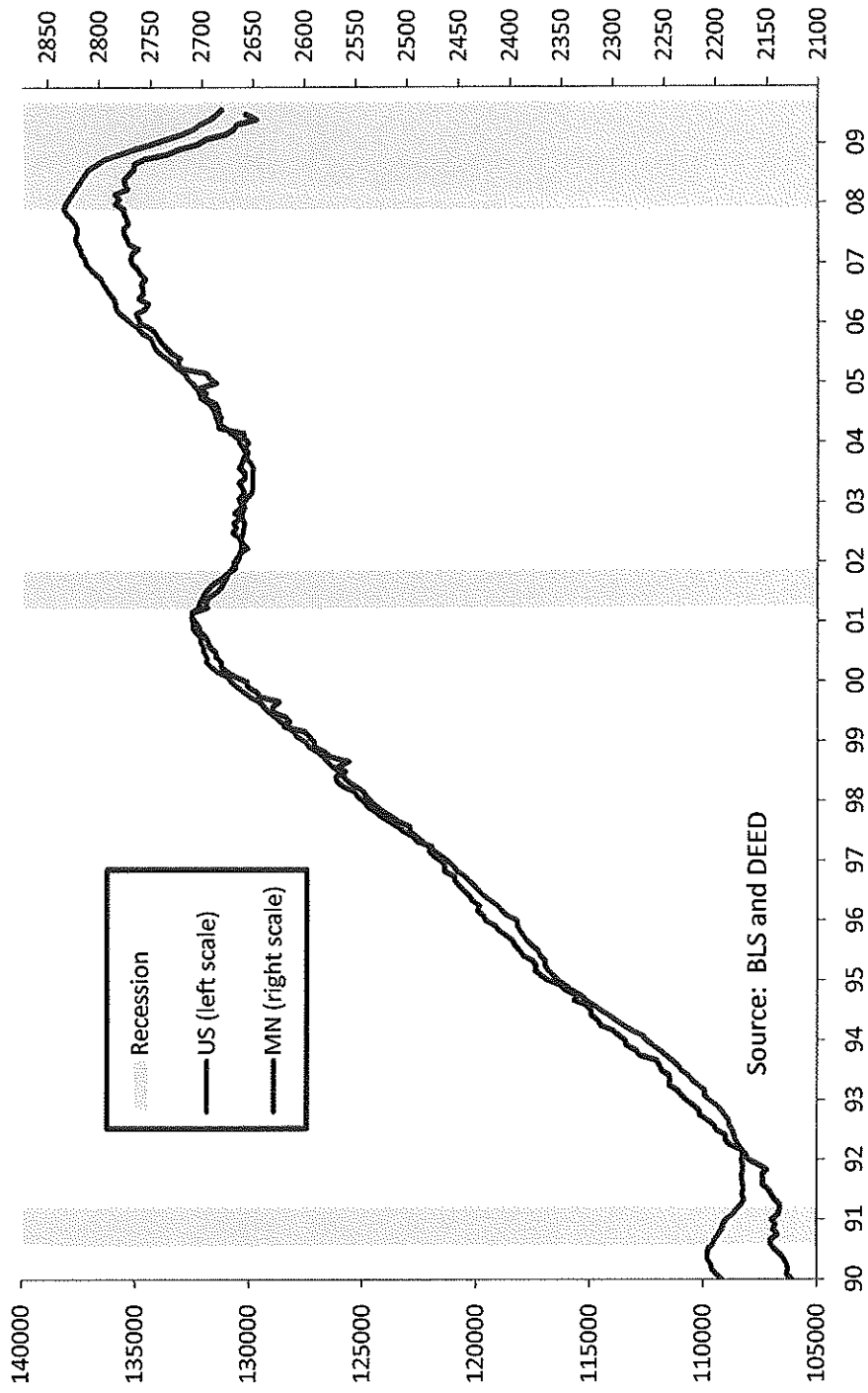
US Nonfarm Employment During Recessions

Cumulative Loss of Employment from the Business Cycle Peak (%)



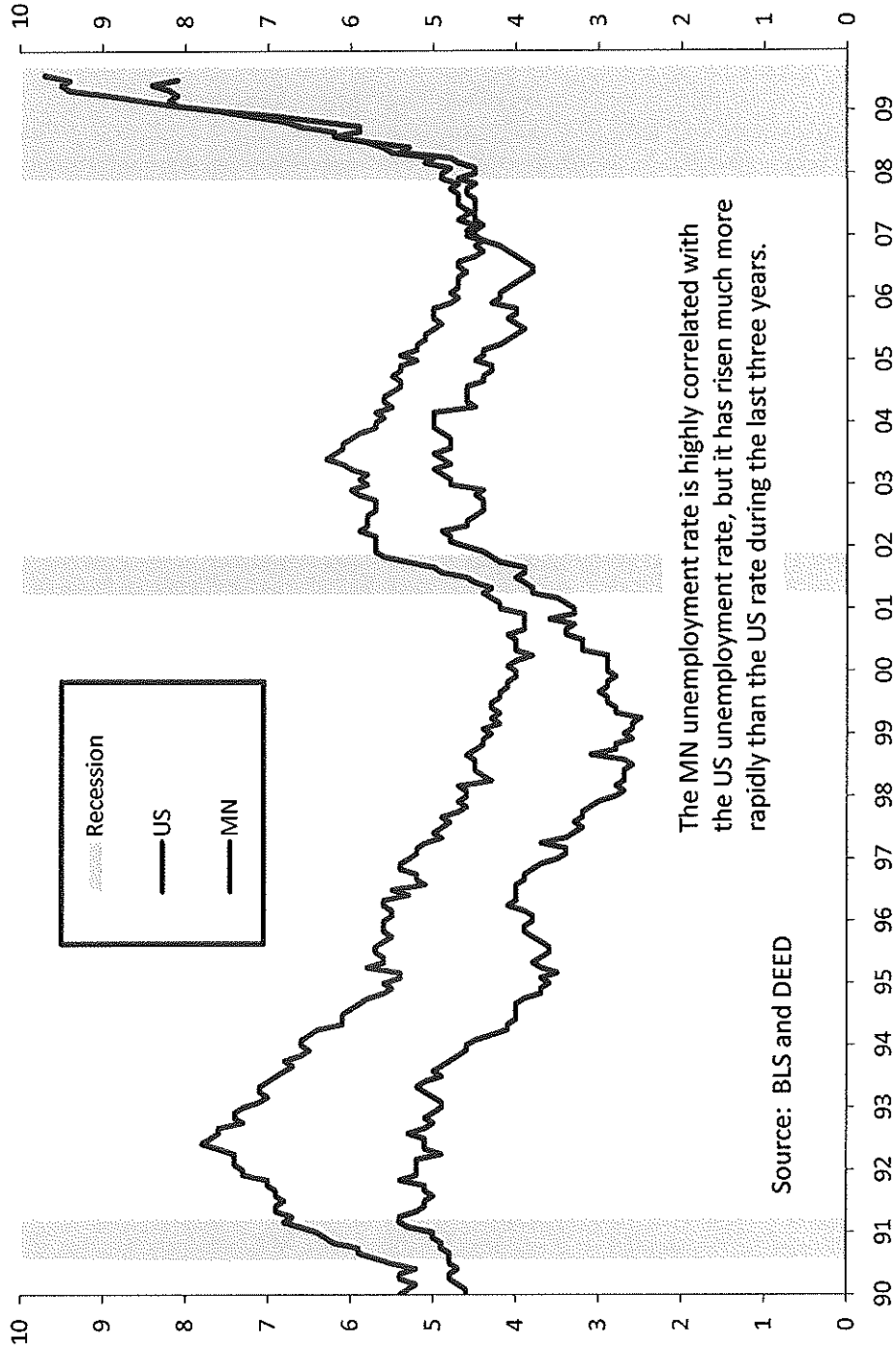
As goes the nation, so goes MN ...

Nonfarm Employment: US vs. MN (000s)



As goes the nation, so goes MN ...

Civilian Unemployment Rate: US vs. MN (%)



Source: BLS and DEED

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.

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.