

The Crisis Has Ended, So Where's the Recovery?

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The Crisis Has Ended, So Where's the Recovery?

- Goodbye to the "Global Financial Crisis" & the "Great Recession"...
- Putting the GFC/GR in perspective
- Signs of financial & economic life
- ... Hello to economic recovery—?
- What to expect based on previous recoveries
- Why this time likely will be different
- The outlook for 2010 and beyond
- U.S. recovery driven by investment, exports?
- Our region remains economically challenged



Important Reminder

- These comments do not necessarily reflect the views of the Federal Reserve Bank of St. Louis or of the Federal Reserve System.



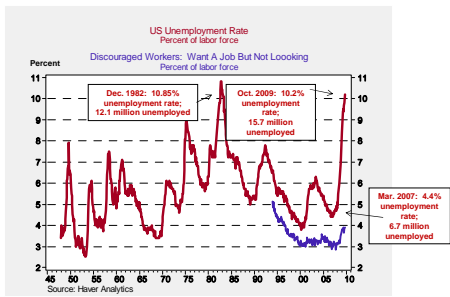
How Serious Was The Great Recession?



- International Monetary Fund (IMF): The world economy has experienced the deepest & most globally synchronized downturn since end of World War II
- U.S. households are at the center of the storm
- Growth of employment & wage income have collapsed
- \$14 trillion loss of household wealth (only partially recovered)
- 10 million families could face foreclosure, 2006-2011

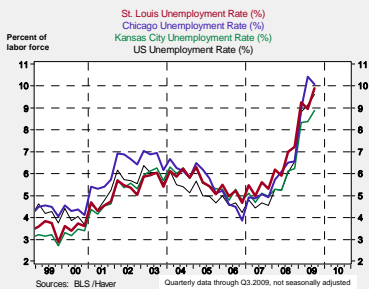
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Unemployment Has Increased By 9 Million in 31 Months => 290,000 Per Month



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Midwest Unemployment Tracks the Nation



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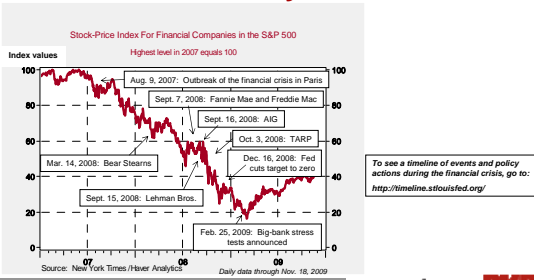
How Serious Was The Global Financial Crisis of 2007-2009?



- Ben Bernanke (Aug. 21, 2009): “The most severe financial crisis since the Great Depression... [with] features of a classic panic.”
- Meltdown of the US financial sector
- Peak-to-trough 84-percent loss of equity value
- Effective collapse of 12 financial institutions, each with assets over \$100 billion

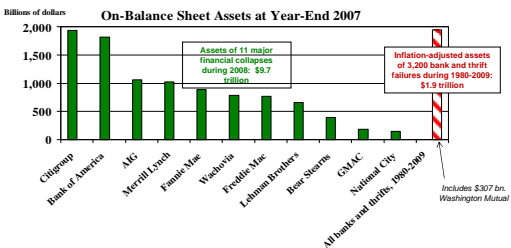
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Financial-Sector Meltdown: 84-Percent Market-Value Decline With Partial Recovery



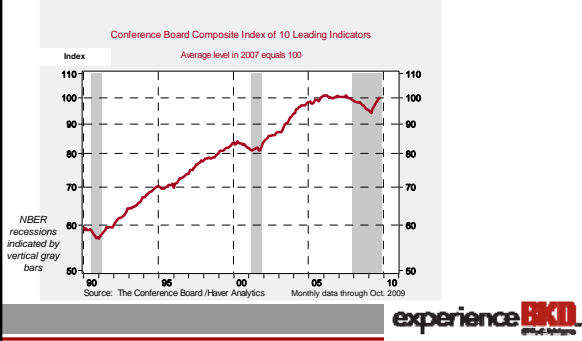
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12 Major Financial Casualties of 2008 Totaled \$10 Trillion in Assets

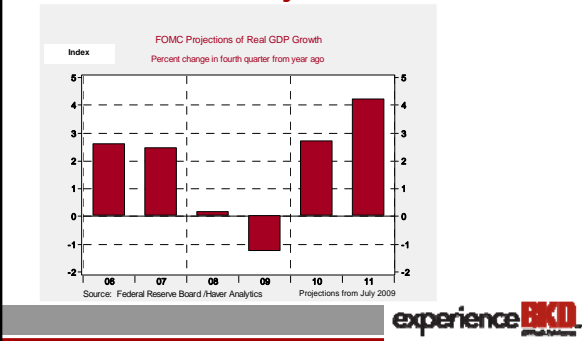


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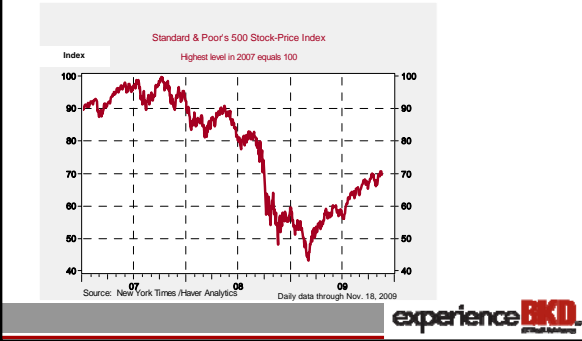
Signs of Financial and Economic Life: Leading Indicators



Signs of Financial and Economic Life: FOMC Projections



Signs of Financial and Economic Life: Stockmarket Recovery



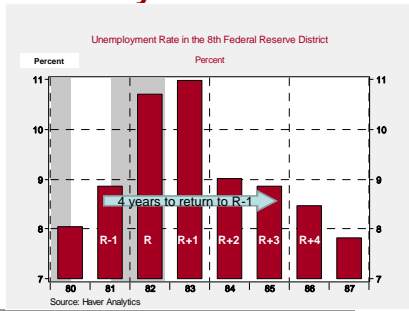
Economic Recovery?



- What to expect based on previous recoveries in the St. Louis Fed's district
- Unemployment always lags in recovery
- Recovery from the Great Recession in our district is likely to be especially sluggish
- Why the recovery is likely to be weak
- Households will be the “dragging anchor” on the recovery as they deleverage & rebuild their balance-sheet strength
- The financial sector likely to remain source of weakness, rather than strength

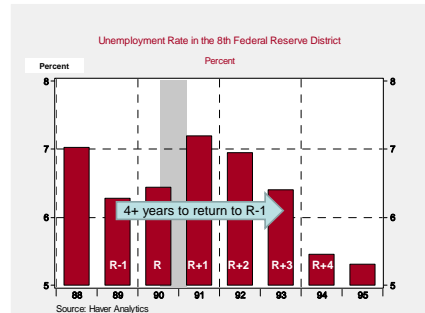
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Unemployment Always Lags Recovery



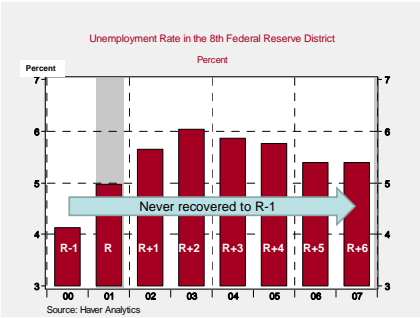
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1990-91 Recession



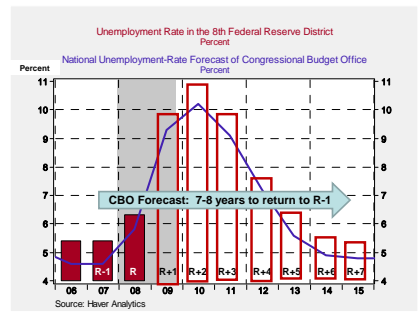
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2001 Recession



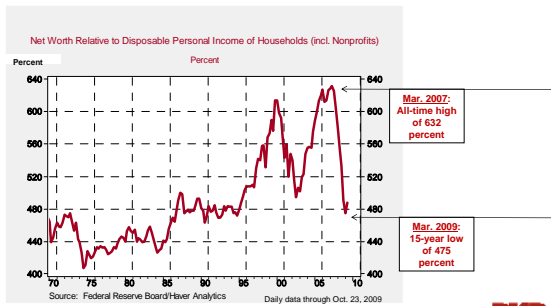
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2007-09 Recession



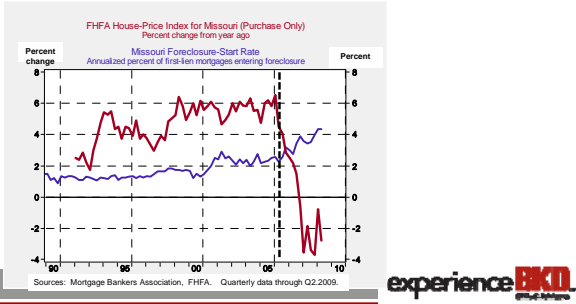
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Why So Slow? Household Wealth Crashed



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Missouri Foreclosure Rate Increased When House Prices Decelerated



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Underlying (& Continuing) Cause of the Foreclosure Crisis: Negative Equity

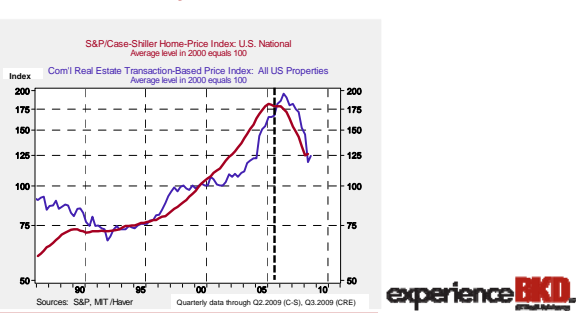


Estimates for Q2.2009	Illinois	Missouri	USA
Negative equity: Fraction of mortgaged homeowners with mortgage debt greater than the current market value of their house	29.4%	25.6%	32.2%
Estimated number of mortgaged homeowners with negative equity	550,000	250,000	15.7 mn.
Near-negative equity: Fraction of homeowners with mortgage debt below, but within 5%, of the current market value of their house	6.1%	6.5%	5.4%
Estimated number of homeowners with near-negative equity	115,000	65,000	2.6 mn.

Source: First American Core Logic, www.logiprformance.com/infocenter/library/FACL%20Negative%20Equity_final_081309.pdf; and own calculations using US Census data.

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Caution Required: CRE Values Following House Prices With Short Delay



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In Sum: The Crisis Has Ended, But Recovery is Likely to be Weak



- The “Global Financial Crisis” & the “Great Recession” have ended
- Recovery is underway, albeit a slow one
- The underlying problems that caused crash will not be resolved overnight
- The Midwest economy faces special challenges to achieve long-term growth



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