

# ***Whither Our Economy?***

*A Faculty Panel Discussion*

*On The Financial Crisis – Part II*

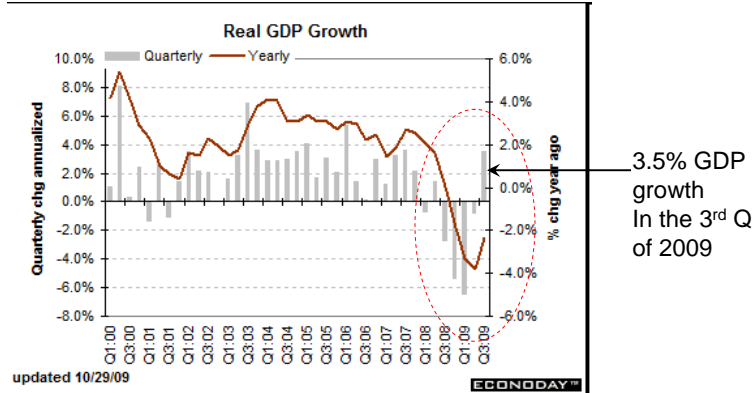
**Presented by the  
DEPARTMENT OF ECONOMICS  
PORTLAND STATE UNIVERSITY**

# ***The State of the National and Global Economies***

**Hiro Ito  
Associate Professor  
of Economics**

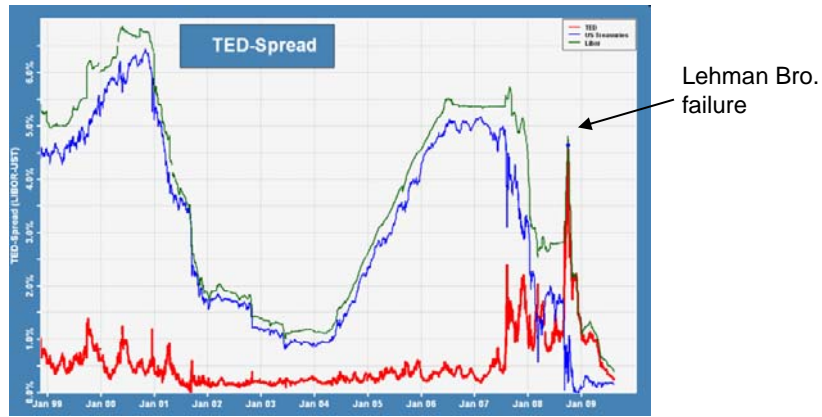
# There are signs of recovery, but are they real?

- GDP growth seems to be coming back



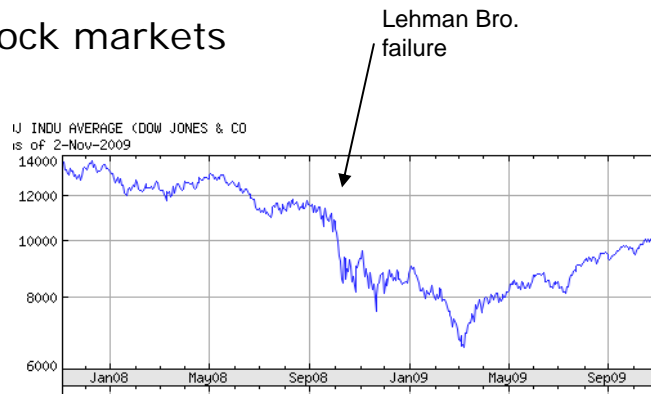
# Other signs of recovery

- ❑ Credit risk spread is improving = it is no longer too expensive for banks to borrow



## Other signs of recovery

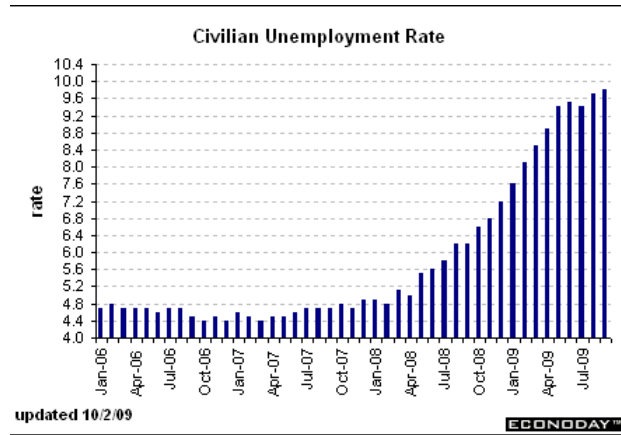
### □ Stock markets



## And Others

- Industrial production
  - Corporate profits
  - Existing home sales, etc.
- But many of the positive signs are either
- reflecting short-term gains from gov't programs (ex. Cash for clunkers and tax credit for new home buyers) or
  - showing more of the "signs of bottoming out"

## Where are the jobs?



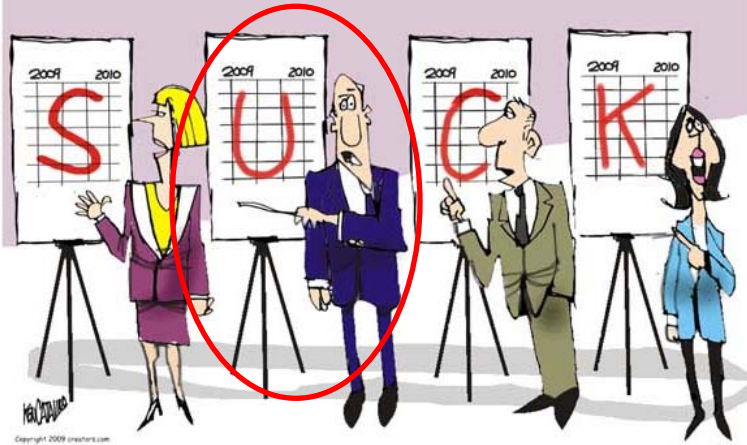
**“Jobless recovery”**

**So, what kind of recovery path will we experience?**

Is it shaped like a

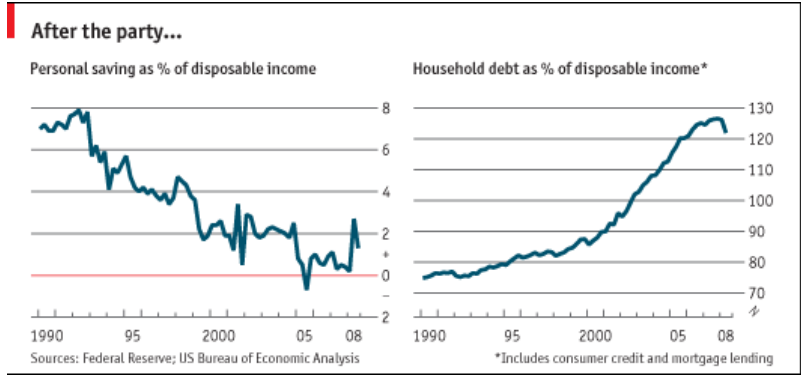
V, U, L, or W?

DIFFERING VIEWS ON WHAT THE ECONOMY WILL DO NEXT:



# It is more likely to be U-shaped, but why?

Reason 1: Americans are heavily indebted



## **It is more likely to be U-shaped, but why?**

### **Reason 2: “No consumer of last resort”**

The U.S. craving for consumption

- saved the world economy from regional crises
- but is blown away while no other economy can fill the void

## **U.S. gov’t needs to be very careful about the exit strategy**

- ❑ Policy makers need to carefully remove tubes from the sick patient
  - Eventually raise the interest rate to prevent another bubble
  - Reduce fiscal spending and raise taxes
- ❑ They must avoid the repeat of the U.S. as of 1937 and Japan as of 1997

## Mushrooming Public Debt

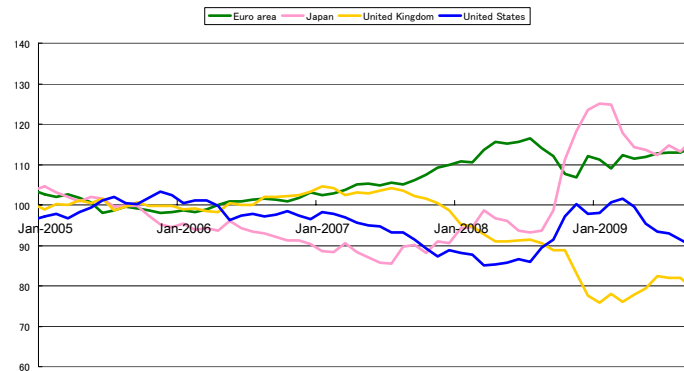


## No need to panic

- ☑ What matters is the ability to repay the debt
- ☑ US dollar continues to be the international currency  
= no other alternative

## Dollar depreciation can be a good sign

Nominal Effective Exchange Rates (2005 = 100)



## What should we do?

Take (economics) courses at PSU!!

- In a highly globalized and competitive world, firms do not rehire workers with the same level of productivity as prior to the crisis

# *On the Crisis from the Historical Perspective*

John Walker  
Professor of Economics

COMPONENTS OF REAL GNP (1958 = 100)							
	TOTAL	CONSUM-	INVEST-	GOVERN NET		G/GNP	I/GNP
	GNP	TION	MENT	MENT	FOREIGN		
1929	203.6	139.6	36.9	22.0	1.1	10.81%	18.1%
1930	183.5	130.4	28.0	24.3	1.0	13.24%	15.3%
1931	169.3	126.1	19.2	25.4	0.5	15.00%	11.3%
1932	144.2	114.8	10.9	24.2	0.4	16.78%	7.6%
1933	141.5	112.8	9.7	23.3	0.4	16.47%	6.9%
1934	154.3	118.1	12.1	26.6	0.6	17.24%	7.8%
1935	169.5	125.5	15.6	27.0	0.1	15.93%	9.2%
1936	193.0	138.4	20.9	31.8	0.1	16.48%	10.8%
1937	203.2	143.1	24.5	30.8	0.3	15.16%	12.1%
1938	192.9	140.2	19.4	33.9	1.3	17.57%	10.1%
1939	209.4	148.2	23.5	35.2	1.1	16.81%	11.2%
1940	227.2	155.7	28.1	36.4	1.7	16.02%	12.4%
<b>PERCENTAGE CHANGE</b>							
1929-33	-30.50%	-19.20%	-73.71%	5.91%	-63.64%		

**COMPONENTS OF REAL GNP IN CONSTANT DOLLARS**

	TOTAL GDP	CONSUM- TION	INVEST- MENT	GOVERN MENT	NET FOREIGN	G/GDP	I/GDP
2007 iv	13,391.2	9,363.6	2,123.4	2,468.7	-564.0	18.44%	15.9%
2008 i	13,366.9	9,349.6	2,082.9	2,484.7	-550.9	18.59%	15.6%
2008 ii	13,415.3	9,351.0	2,026.5	2,506.9	-476.0	18.69%	15.1%
2008 iii	13,324.6	9,267.7	1,990.7	2,536.6	-479.2	19.04%	14.9%
2008 iv	13,141.9	9,195.3	1,857.7	2,544.0	-470.9	19.36%	14.1%
2009 i	12,925.4	9,209.2	1,558.5	2,527.2	-386.5	19.55%	12.1%
2009 ii	12,901.5	9,189.0	1,456.7	2,568.6	-330.4	19.91%	11.3%
<b>PERCENTAGE CHANGE AT ANNUAL RATE-0245</b>							
07vi-09ii	-2.45%	-1.25%	-22.22%	2.68%	30.00%		

**Worst one year investment decline**

1930-31	31.43%
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**Worst one year investment decline**

08ii-09ii	28.12%
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<b>NON-AG. WAGE AND SALARY WORKERS</b>					
		<b>GOVERNMENT</b>			
		<b>TOTAL</b>	<b>PRIVATE</b>	<b>FEDERAL</b>	<b>S&amp;L</b>
**	1929	31,339	28,274	533	2532
	1,930	29,424	26,276	526	2622
	1,931	26,649	23,385	560	2704
	1,932	23,628	20,403	559	2666
	1,933	23,711	20,545	565	2601
<b>CHANGE IN FIRST 2 YEARS OF DECLINE</b>					
<b>AMOUNT</b>		-4,690	-4,889	27	172
<b>PERCENT</b>		-15.0%	-17.3%	5.1%	6.8%

<b>CIVILIAN EMPLOYMENT (in thousands)</b>						
	<b>TOTAL</b>	<b>TOTAL PRIVATE</b>	<b>ALL FEDERAL GOVT.</b>	<b>ALL STATE GOVT.</b>	<b>ALL LOCAL GOVT.</b>	<b>TOTAL GOVT.</b>
<b>2007</b>						
<b>JAN</b>	156,926	134,952	2,707	4,997	14,270	21,974
<b>NOV **</b>	161,889	139,090	2,742	5,302	14,755	22,799
<b>DEC</b>	161,613	138,875	2,757	5,242	14,739	22,738
<b>2008</b>						
<b>JAN</b>	158,090	135,840	2,713	5,047	14,490	22,250
<b>DEC</b>	158,811	135,917	2,782	5,297	14,815	22,894
<b>2009</b>						
<b>JAN</b>	154,749	132,302	2,779	5,119	14,549	22,447
<b>SEP</b>	153,504	131,306	2,822	5,141	14,235	22,198
<b>CHANGE SINCE PEAK</b>						
<b>AMOUNT</b>	-8,385	-7,784	80	-161	-520	-601
<b>PERCENT</b>	-5.2%	-5.6%	2.9%	-3.0%	-3.5%	-2.6%

REAL GNP, INVESTMENT, GOVERNMENT AND UNEMPLOYMENT							
	TOTAL	INVEST-	GOVERN-		CHANGE		CHANGE
	GNP	MENT	MENT	I + G	IN	UNEMPLOY	IN UNEM-
					I + G	MENT	PLOYMENT
						RATE	
<b>1929</b>	203.6	36.9	22.0	58.9		3.2%	
<b>1930</b>	183.5	28.0	24.3	52.3	-6.6	8.7%	5.5%
<b>1931</b>	169.3	19.2	25.4	44.6	-7.7	15.9%	7.2%
<b>1932</b>	144.2	10.9	24.2	35.1	-9.5	23.6%	7.7%
<b>1933</b>	141.5	9.7	23.3	33.0	-2.1	24.9%	1.3%
<b>1934</b>	154.3	12.1	26.6	38.7	5.7	21.7%	-3.2%
<b>1935</b>	169.5	15.6	27.0	42.6	3.9	20.1%	-1.6%
<b>1936</b>	193.0	20.9	31.8	52.7	10.1	16.9%	-3.2%
<b>1937</b>	203.2	24.5	30.8	55.3	2.6	14.3%	-2.6%
<b>1938</b>	192.9	19.4	33.9	53.3	-2.0	19.0%	4.7%
<b>1939</b>	209.4	23.5	35.2	58.7	5.4	17.2%	-1.8%
<b>1940</b>	227.2	28.1	36.4	64.5	5.8	14.6%	-2.6%

REAL GNP, INVESTMENT, GOVERNMENT AND UNEMPLOYMENT							
	TOTAL	INVEST-	GOVERN-		CHANGE		CHANGE
	GDP	MENT	MENT	I + G	IN	UNEMPLOY	IN UNEM-
					I + G	MENT	PLOYMENT
<b>2007 iv</b>	13,391.2	2,123.4	2,468.7	4,592.1		4.8%	
<b>2008 i</b>	13,366.9	2,082.9	2,484.7	4,567.6	-24.5	4.9%	0.1%
<b>2008 ii</b>	13,415.3	2,026.5	2,506.9	4,533.4	-34.2	5.4%	0.5%
<b>2008 iii</b>	13,324.6	1,990.7	2,536.6	4,527.3	-6.1	6.1%	0.7%
<b>2008 iv</b>	13,141.9	1,857.7	2,544.0	4,401.7	-125.6	6.9%	0.8%
<b>2009 i</b>	12,925.4	1,558.5	2,527.2	4,085.7	-316.0	8.1%	1.2%
<b>2009 ii</b>	12,901.5	1,456.7	2,568.6	4,025.3	-60.4	9.3%	1.2%

**REAL GNP, INVESTMENT, GOVERNMENT AND UNEMPLOYMENT**

	TOTAL	INVEST-	GOVERN-	UNEMPLOY
	GNP	MENT	MENT	MENT
				RATE
1929	203.6	36.9	22.0	3.2%
1930	183.5	28.0	24.3	8.7%
1931	169.3	19.2	25.4	15.9%
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1937	203.2	24.5	30.8	14.3%
1938	192.9	19.4	33.9	19.0%
1939	209.4	23.5	35.2	17.2%
1940	227.2	28.1	36.4	14.6%
<b>average annual growth of GNP</b>				
1933-37	9.50%			

**FEDERAL DEFICITS AND INVESTMENT**

	(1958=100) FEDERAL		
	REAL	PURCHA-	SURPLUS OR
YEAR	INVEST.	SES	DEFICIT
1929	40.4	3.5	1.2
1930	27.3	4.0	0.3
1931	16.6	4.3	-2.1
1932	4.6	4.6	-1.5
1933	5.3	6.0	-1.3
1934	9.4	8.0	-2.9
1935	18.0	7.9	-2.6
1936	24.1	12.2	-3.6
1937	30.0	11.5	-0.4
1938	17.0	13.3	-2.1
1939	24.7	12.5	-2.2
1940	33.0	15.0	-1.3
1941	41.6	36.2	-5.1
1942	21.4	98.9	-33.1
1943	12.8	147.8	-46.6
1944	14.0	165.4	-54.5
1945	19.8	139.7	-42.1
1946	52.3	30.1	3.5
1947	51.5	19.1	13.4
1948	60.4	23.7	8.4
1949	48.0	27.6	-2.4
1950	69.3	25.3	9.1
1951	70.0	47.4	6.2
1952	60.5	63.8	-3.8
1953	61.2	70.0	-7.0
<b>annual percentage change</b>			
1944-51	25.8%		

GOVERNMENT RESPONSES TO INVESTMENT AND FINANCIAL COLLAPSE				BANK FAILURES	
1929-1932				1929	659
Federal reserve lowers discount rate				1930	1350
1929	6.0%			1931	2293
1931	1.0%			1932	1453
				1933	4000
1930	Congress and President pass Smoot-Hawley tariff setting off trade war and killing exports			FDIC CREATED	
				1934	61
				1935	31
1931	President writes and Congress passes largest peacetime tax increase to reestablish balanced budget. Collapse expands and the budget stays in deficit.				
1932	Reconstruction Finance Corporation is created to loan funds to needy mostly in finance. Borrows from Treasury and lends the monies.				
Virtually no assistance to failing financial institutions until 1932 when RFC lends \$1.5 billion.					

LOANS AND GUARANTEES EXTENDED IN THE 2008-09 FINANCIAL CRISIS				(in billions)	
	AID EXTENDED	END PROGRAM OR REPAID	DUE	SOURCES OF FUNDS	AMOUNT
DIRECT LOANS	\$2,367	\$265	\$2,102	NEW YORK FED	\$3,779
INDIRECT LOANS AND GUARANTEES	\$6,708	\$625	\$6,083	FEDERAL RESERVE	\$3,548
				FDIC	\$2,324
				TREASURY	\$1,899
EXPANSION OF EXISTING REPURCHASE AND GUARANTEE AGREEMENTS	\$323	\$50	\$273	JOINT FED AND FDIC	\$1,260
				TOTAL	\$12,810
GENERAL BACKING AND SUSIDIZATION	\$4,439	\$3,739	\$700	AID EXTENDED AS A SHARE OF GDP	
				121%	
GSE'S AND GINNIE MAE	\$2,189		\$2,189		
INTERNATIONAL LIQUIDITY SWAPS AND MARKET INTERVENTIONS	905		\$905		
GENERAL CAPITAL REQUIREMENTS	\$558		\$558		
<b>TOTAL AID EXTENDED</b>	<b>\$17,489</b>	<b>\$4,679</b>	<b>\$12,810</b>		

SOURCE: Prins, Nomi and Krisztina Ugrin, *Bailout and Susicidization Report*, and *The total Bailout supplements to It Takes a Pillage*, Hoboken, NJ, John Wiley and Sons, 2009. They are at [www.nomiprins.com/bailout.html](http://www.nomiprins.com/bailout.html)

## BAILING OUT THE FINANCIAL SYSTEM

LENDER	RECIPIENTS	billion	
		AMOUNT	REPAID
FED RES.BANK OF NEW YORK	J.P. Morgan, Bear Stearns bridge loan	\$12.9	\$12.9
	Maiden Lane LLC (to buy Bear Stearns Assets)	\$29.8	
	AIG Securities Lending Facility	\$37.8	\$37.8
	AIG Credit	\$60.0	\$35.0
	Maiden Lane II LLC (AIG, mortgage backed securities)	\$22.5	
	Maiden Lane III LLC (buy AIG CDO's)	\$30.0	
	AIG Preferred Stock bought by FRBNY	\$26.0	
FEDERAL RESERVE BOARD	JPMorganChase/Lehman Brothers enables debt clearance	\$138.0	\$138.0
JOINT	CitiGroup Asset Guarantee (minimize CITI losses on Real Estate TO 41.2)	\$301.0	\$41.2
TREASURY	Troubled Asset Relief Program (TARP)	\$700.0	
JOINT	Public Private Investment Fund (FDIC and Treasury finance private purchase of troubled assets on bank books)	\$1,000.0	
	<b>NET STILL DUE</b>	<b>\$2,101.6</b>	

TABLE 1

Year	Bank Loans and Investments in Millions of Dollars	Bank Loans in Millions of Dollars	Bank Net Deposits in Millions of Dollars	Loans as a Percentage of Loans and Investments	Loans as a Percentage of Net Deposits
1921	39895	28927	30129	73%	96%
1922	39837	27627	31803	69%	87%
1923	43613	30272	34359	69%	88%
1924	45067	31409	36660	70%	86%
1925	48709	33729	40349	69%	84%
1926	51474	36035	42114	70%	86%
1927	53645	37208	43489	69%	86%
1928	57683	39507	44911	68%	88%
1929	58899	41581	45058	71%	92%
1930	58556	40497	45586	69%	89%
1931	55267	35285	41841	64%	84%
1932	46310	27888	32166	60%	87%
1933	40305	22243	28468	55%	78%
1934	42552	21306	32184	50%	66%
1935	44347	20213	35662	46%	57%
1936	48412	20636	41027	43%	50%
1937	49565	22410	42765	45%	52%
1938	47212	20982	41752	44%	50%
1939	49616	21320	45557	43%	47%
1940	51336	22340	49951	44%	45%

Source: *Banking and Monetary Statistics, 1914-1941.*

Net Deposits are total deposits less interbank deposits.

All data are for the last business day of June in each year.

# ***Implications of the Crisis on the Oregonian Economy***

Tom Potiowsky  
Professor of Economics  
Oregon State Economist

## ***Whither Our Economy?***

***A Faculty Panel Discussion  
On The Financial Crisis – Part II***

### **Q & A Session**

***Panelists:***

Hiro Ito

John Walker

Tom Potiowsky

Moderated by Randy Bluffstone



Portland State UNIVERSITY

FUTURE STUDENTS   CURRENT STUDENTS   FACULTY + STAFF   ALUMNI + FRIENDS

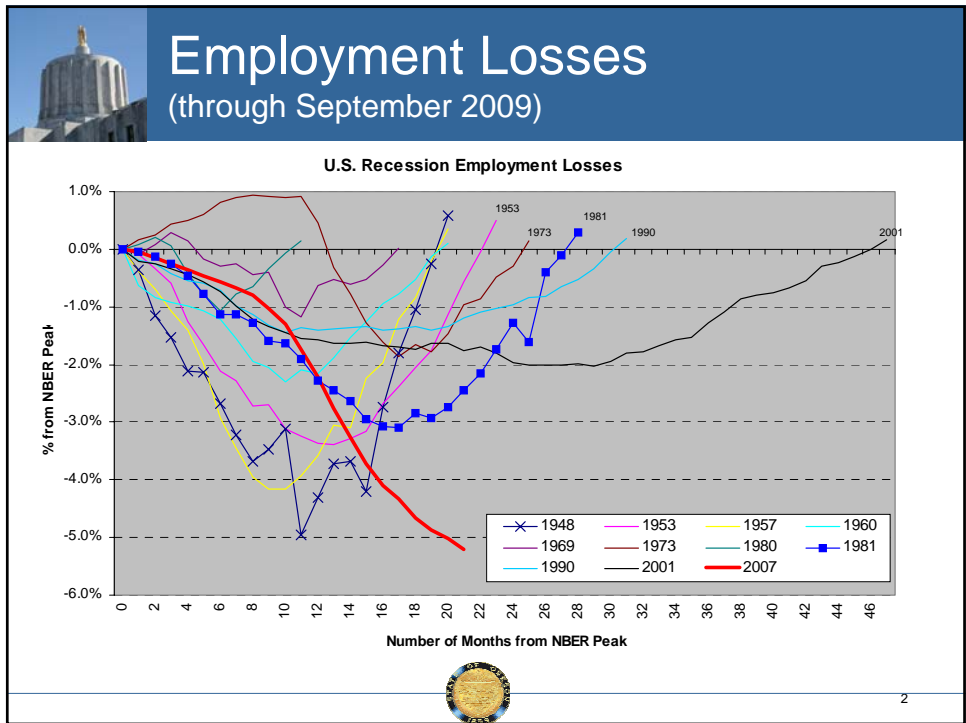
Economics


# Oregon

## “Whither Our Economy” U.S. and Oregon Economic Review & Forecast

Smith Center PSU  
November 3, 2009


Office of Economic Analysis  
Tom Potiowsky



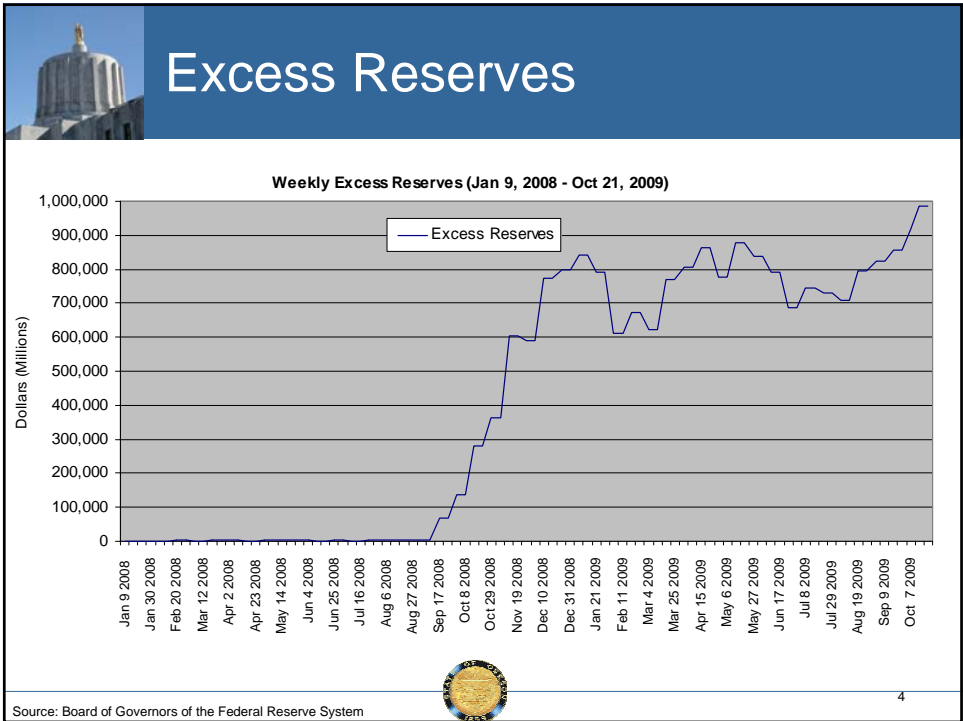



## “Green Shoots” – “Glimmers of Hope”

- Retail sales start to stabilize: up in January and February, down in March and April, up in May and June, slightly down in July (but more so if autos excluded. August and September pushed around by Cash for Clunkers, but both up excluding autos.
- Real personal consumer spending was positive in first quarter of 2009, negative in the second quarter, expected positive in third quarter.
- Stock market up 45% to 55% from the lows of early March
- Financial stocks (not all) see strong gains
- Credit risk spreads are down, bond markets opening up
- Housing sales may be stabilizing. Housing affordability is up; credit availability is improving
- ISM manufacturing index up for the first 9 months of 2009 (slight down in Sept. but still above 50 since August)
- Conference Board Leading Economic Indicators rose for the sixth straight month in September.
- \$62.5 billion of \$787 billion in American Recovery and Reinvestment Act of 2009 spent or dedicated at the end of August.




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# Oregon




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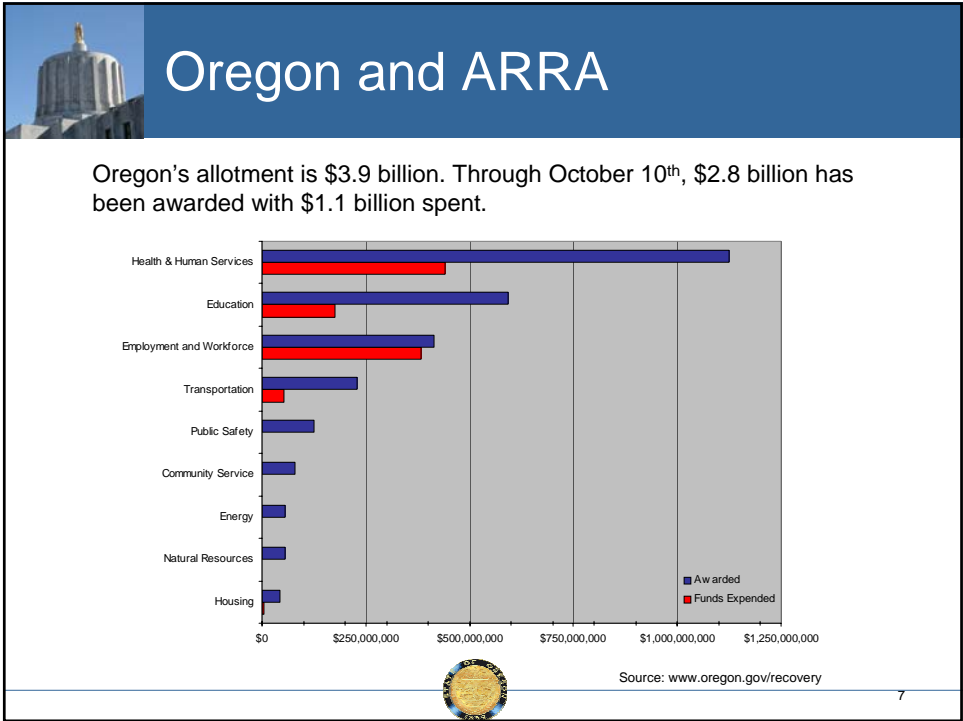


# Recent Oregon Economy Facts

- 11.5% unemployment rate for September 2009 (Sept US rate is 9.8%) is up from the latest lowest rate of 5.0% in April 2007. Oregon unemployment rate has been around 12% from March thru August.
- 47th fastest job growth at -6.05% for all states for September 2009 over September 2008.
- Total nonfarm employment dropped -5.7% year-over-year for the 3rd quarter of 2009. Job losses (S.A.) basically since January 2008 (up slightly July 2008, 2009) but have slowed since April. The last five months' losses averaged 4,400 per month versus 13,400 per month over the first four months of 2009.
- -1.4% personal income growth for 2<sup>nd</sup> quarter of 2009 over 2<sup>nd</sup> quarter of 2008. Annualized 2<sup>nd</sup> quarter 2009 growth at 1.8%.
- Oregon exports fell 34.3% in the 2<sup>nd</sup> quarter compared to the same period last year and finished 2008 up 17% over 2007. (Export growth is positive Q/Q and is expected to follow the global economy)



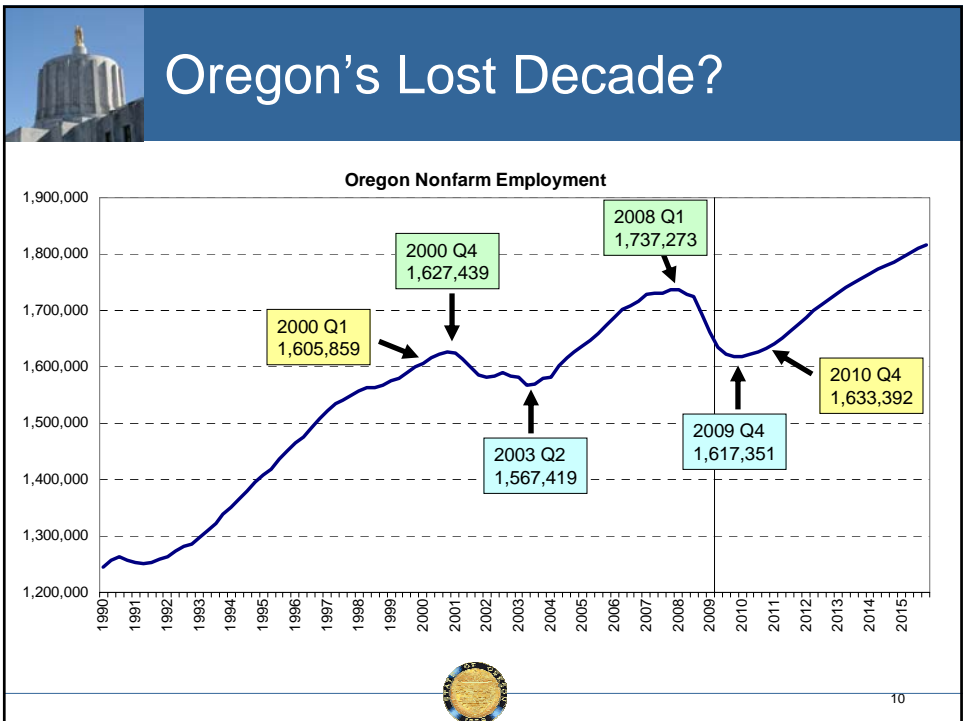
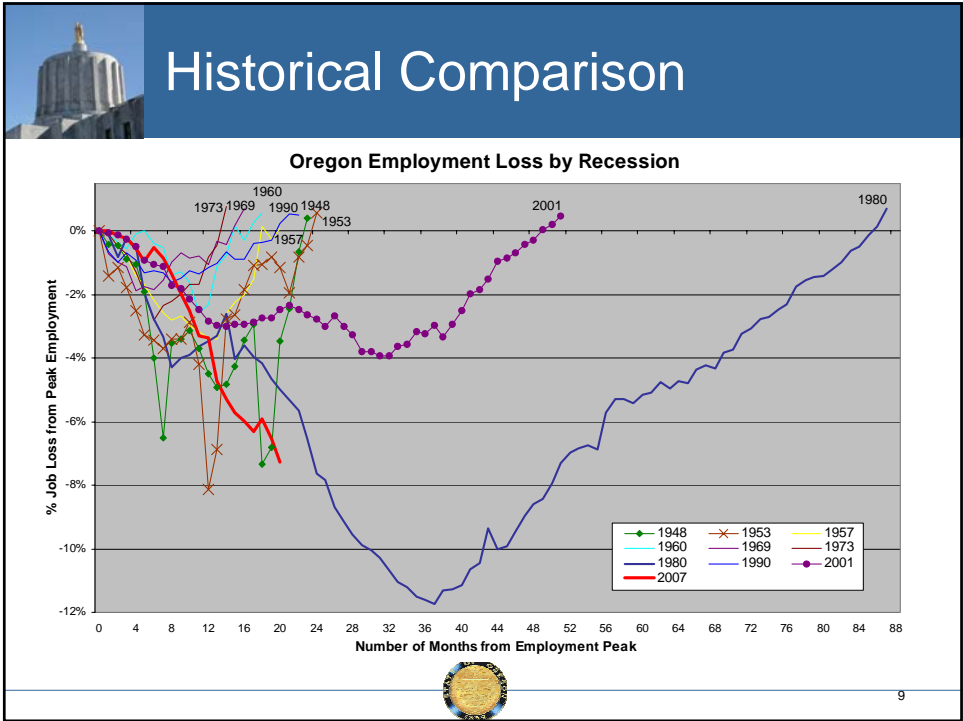
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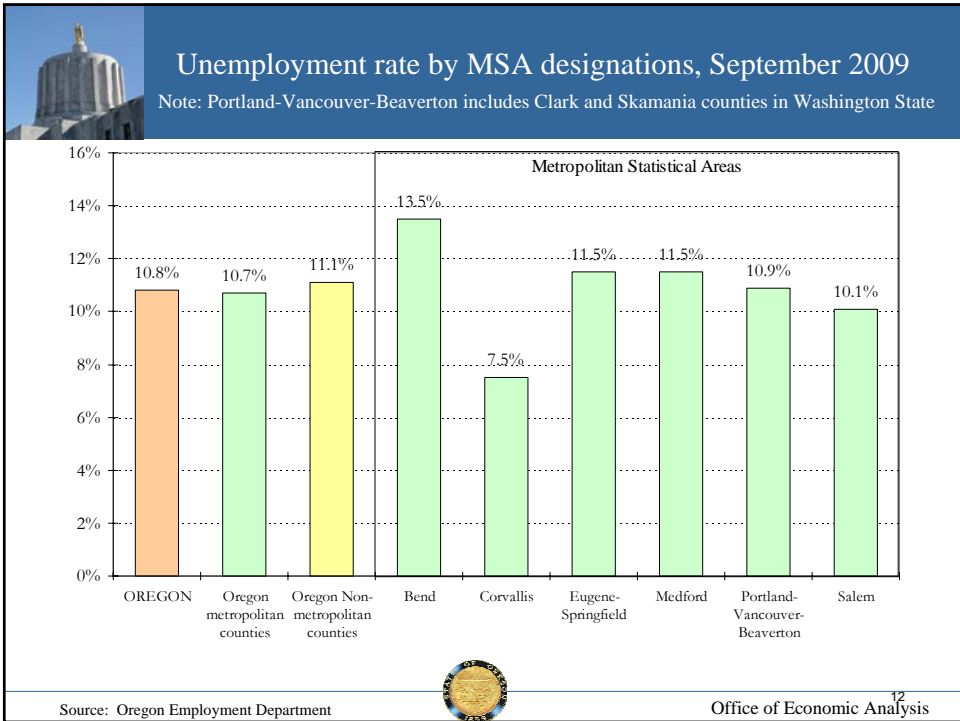
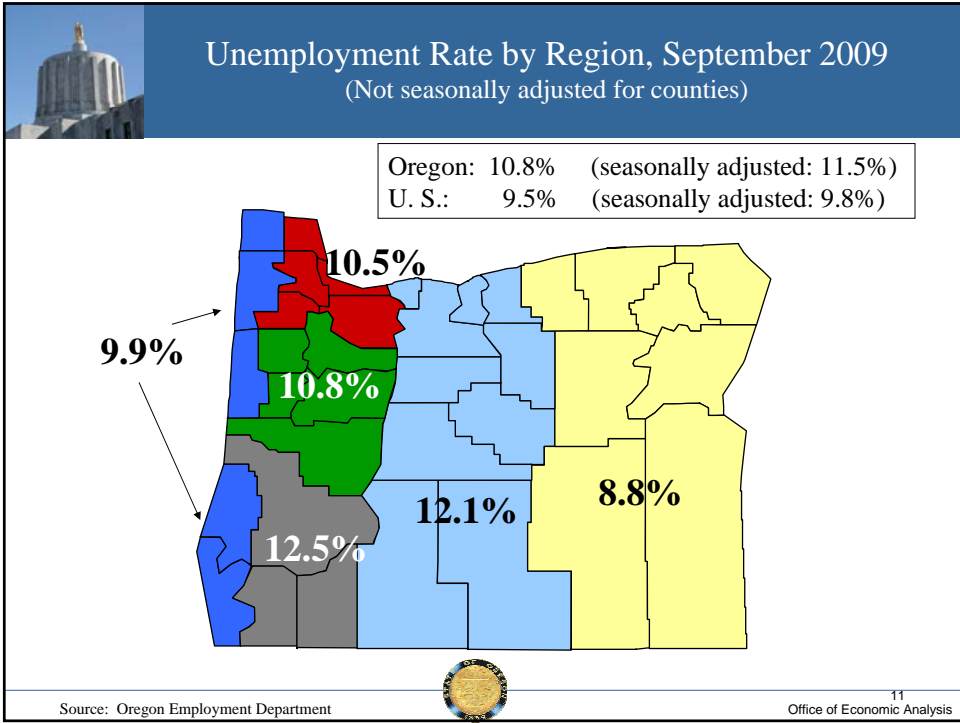


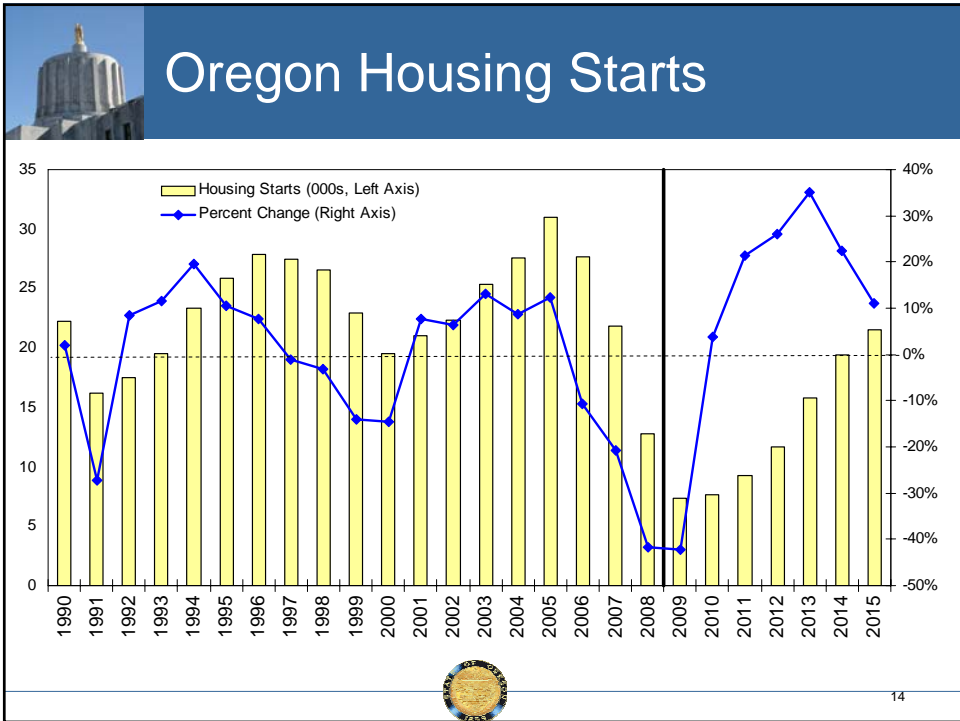
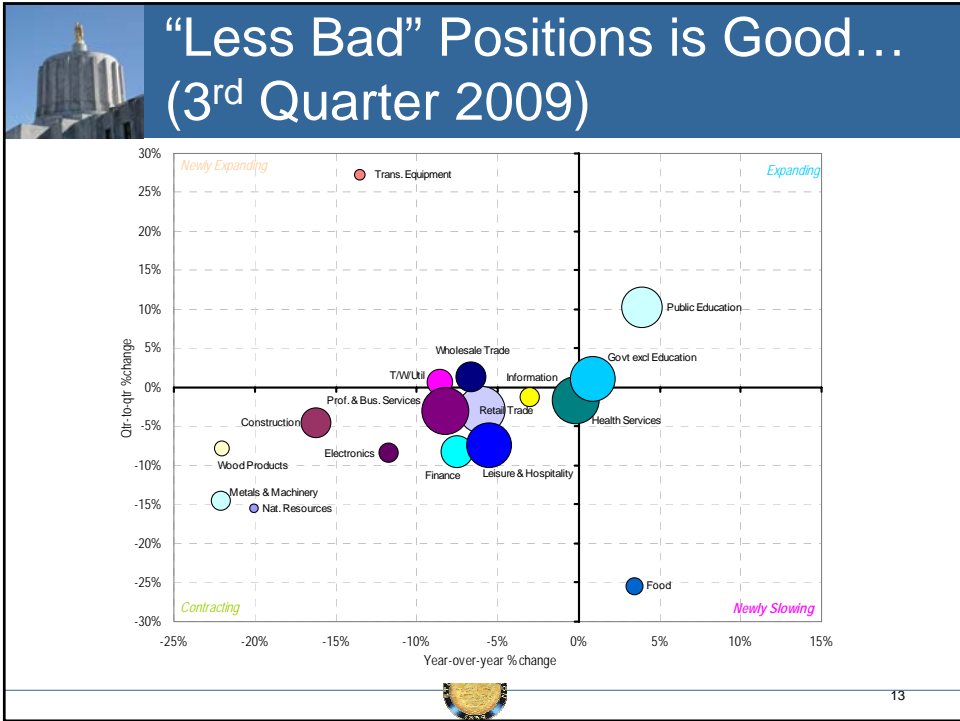
## Historical Comparison

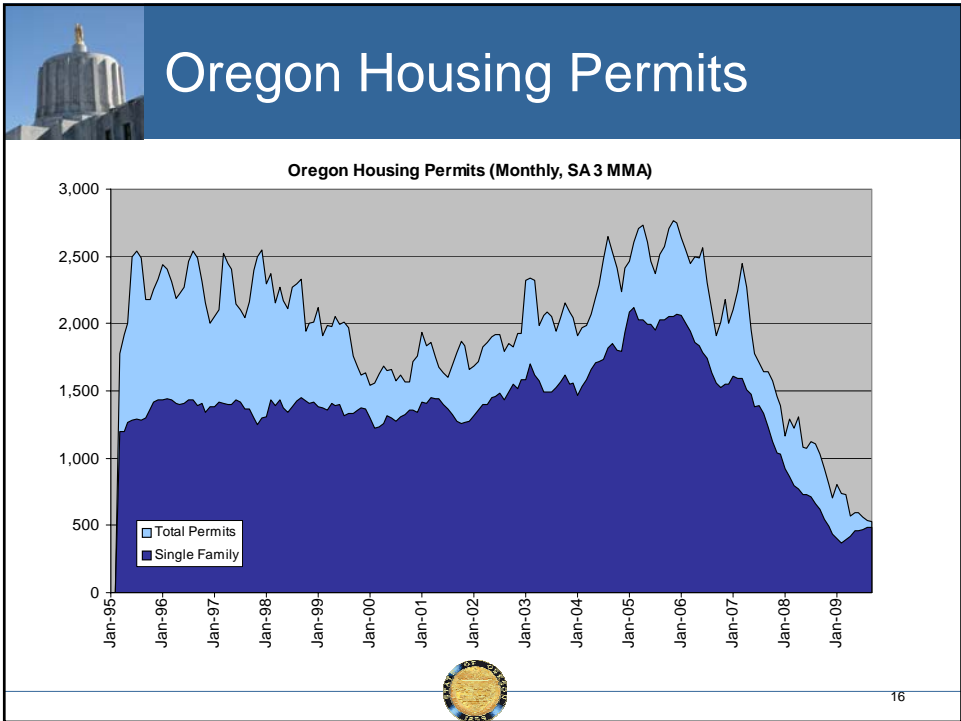
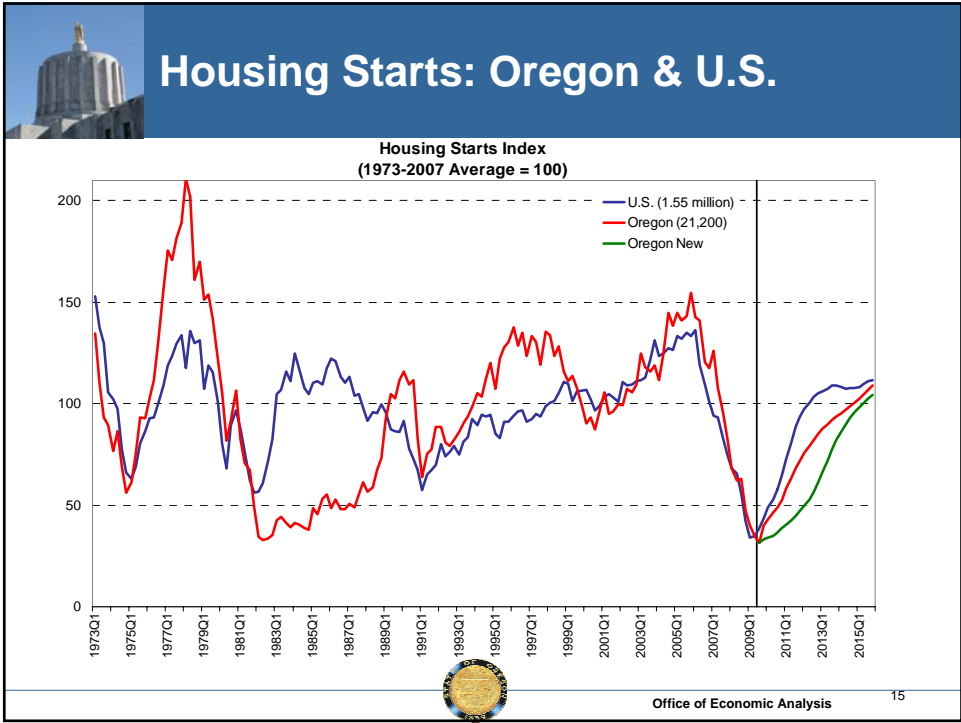
Recession	1981-82		1980-82		1990-91		2001		2008-?? *	
	U.S.	Oregon	U.S.	Oregon	U.S.	Oregon	U.S.	Oregon	U.S.	Oregon
Employment										
Loss (in 000s)	2,734.3	123.3	1,498.3	12.3	2,657.3	60.1	7,586.3	121.4		
% Change	(2.99)	(11.50)	(1.37)	(0.97)	(2.01)	(3.69)	(5.50)	(7.00)		
Duration										
Peak-to-Trough	5 Qtrs	12 Qtrs	5 Qtrs	3 Qtrs	9 Qtrs	10 Qtrs	9 Qtrs	8 Qtrs		
Return to Peak	8 Qtrs	28 Qtrs	10 Qtrs	5 Qtrs	15 Qtrs	16 Qtrs	20 Qtrs	21 Qtrs		


\* Estimates based on Global Insight and OEA forecasts










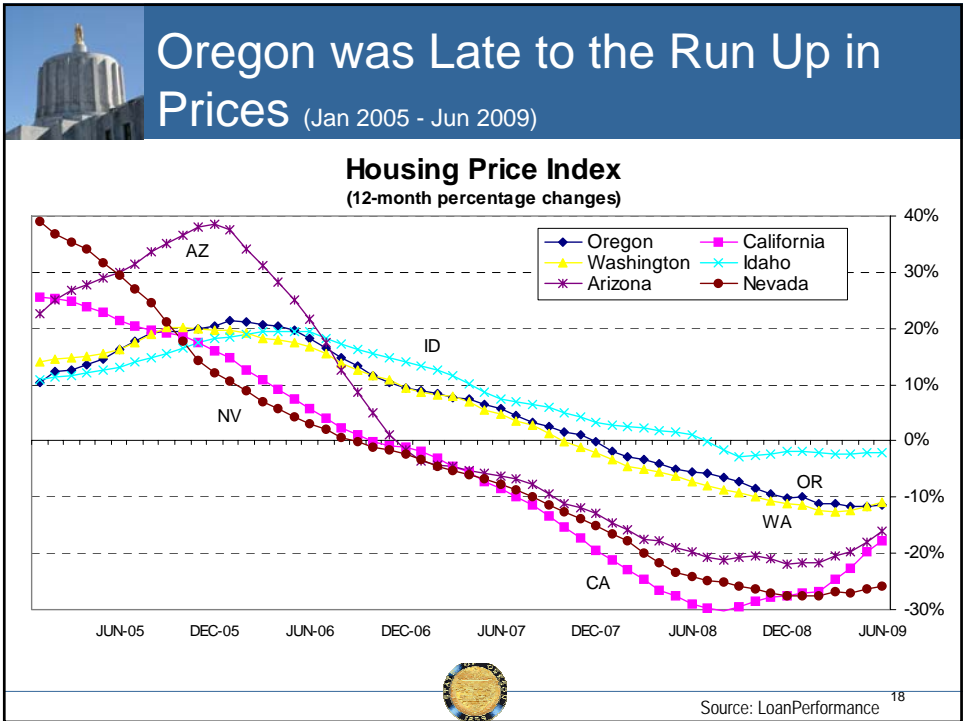


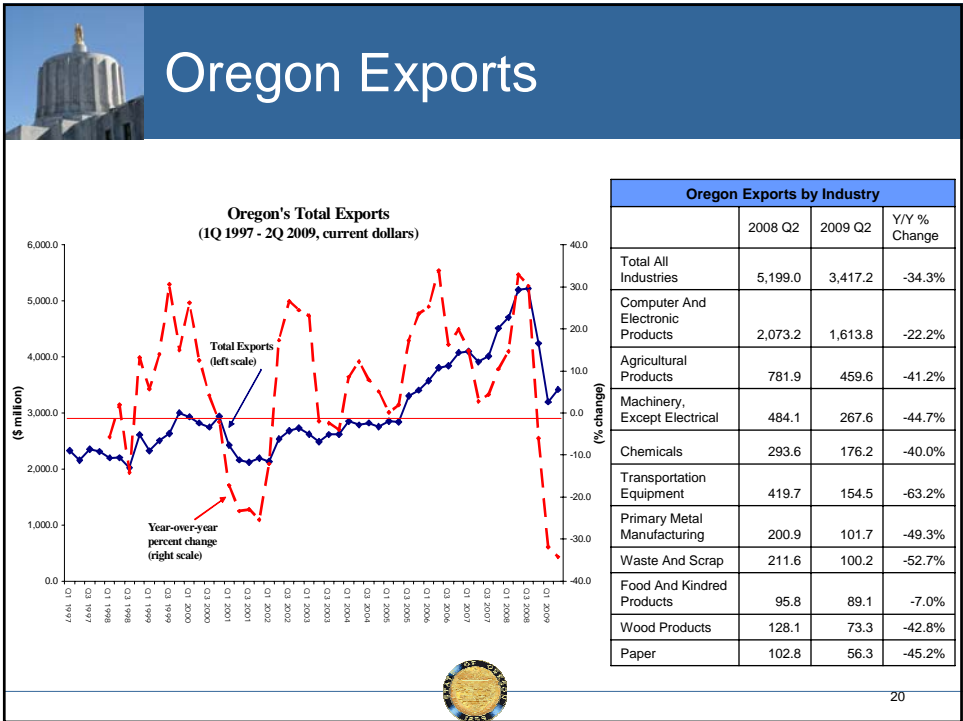
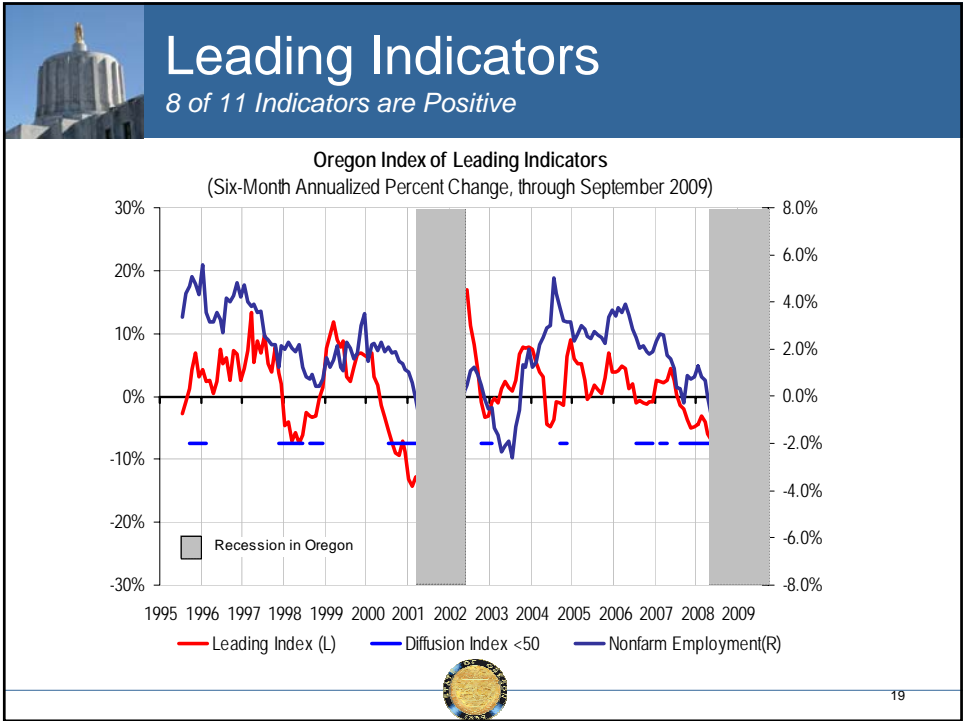
### Residential Building Permits Percent Change (September Year to Date)

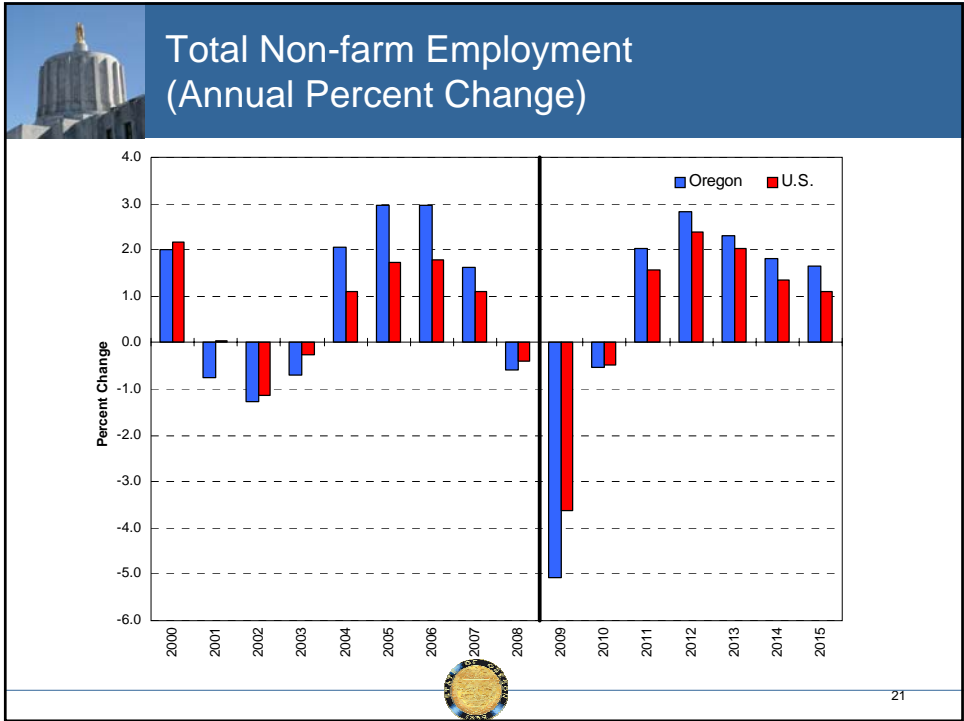
Area	Total Building Permits	Single Family Permits
Oregon	-44.4%	-35.9%
Bend	-54.0%	-52.1%
Eugene-Springfield	-38.8%	-36.0%
Medford	-34.7%	-25.3%
Portland-Vancouver-Beaverton	-58.7%	-38.5%
Salem	-41.7%	-37.0%
U.S.	-41.9%	-31.2%



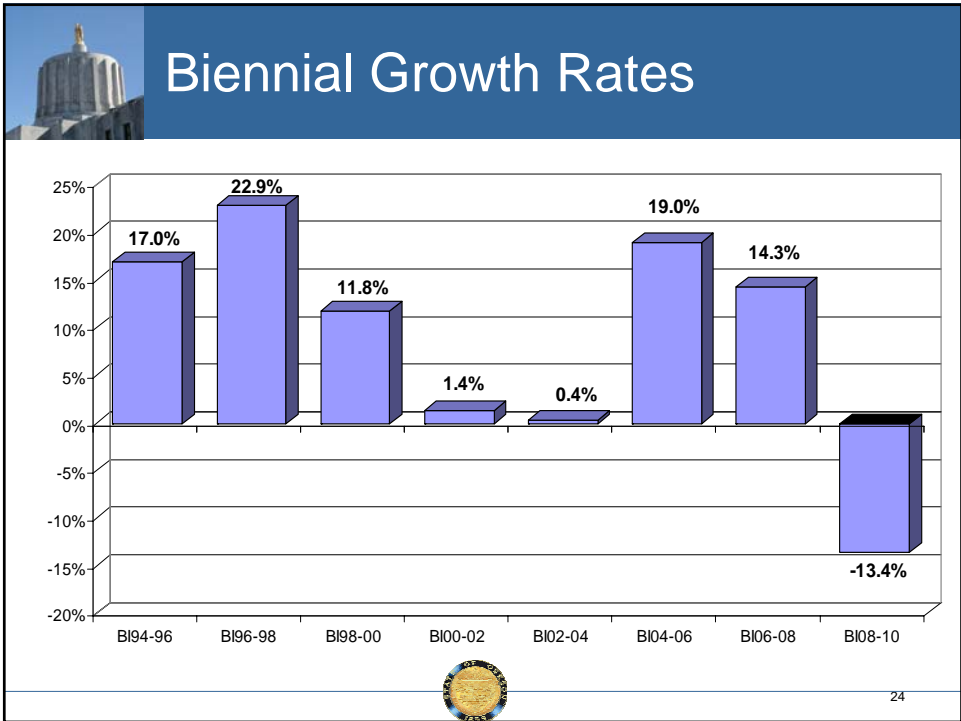
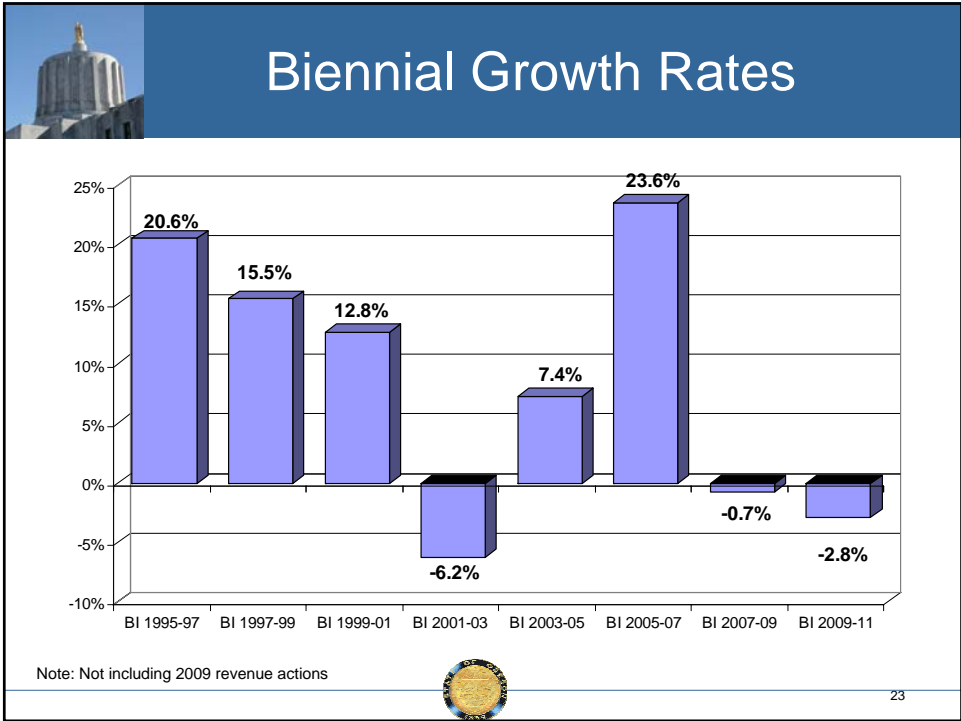
Source: U.S. Census Bureau 17

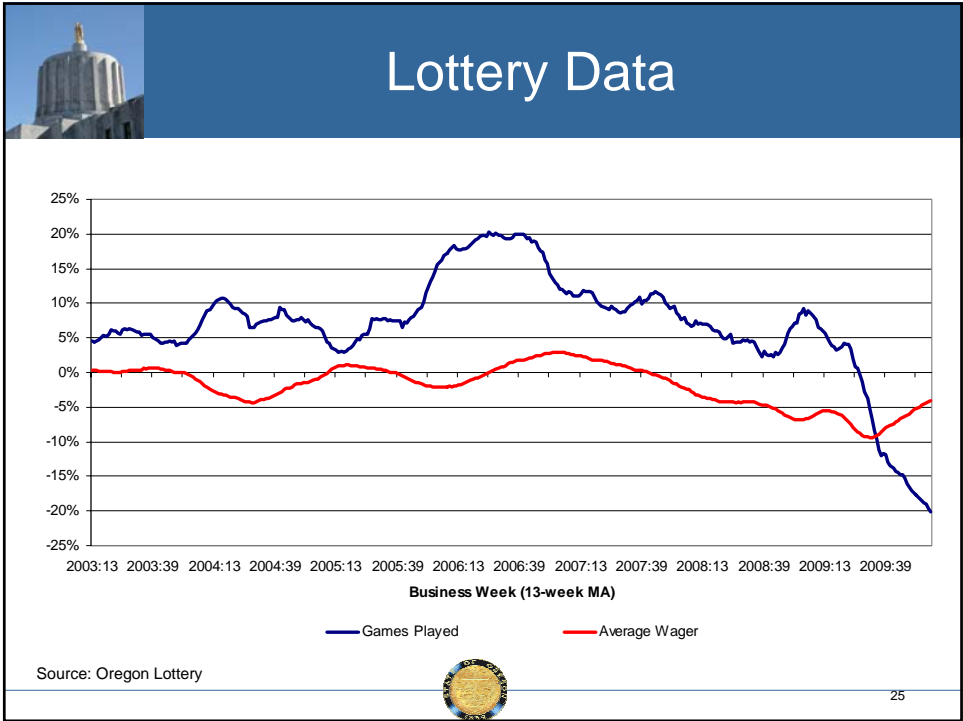






- ### Risks to the Forecast...
- Downside and Upside...
- Credit Markets
  - H1N1
  - Export Markets
  - Geopolitical
  - Initiatives, referendums, referrals, ...
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**For More Information**

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