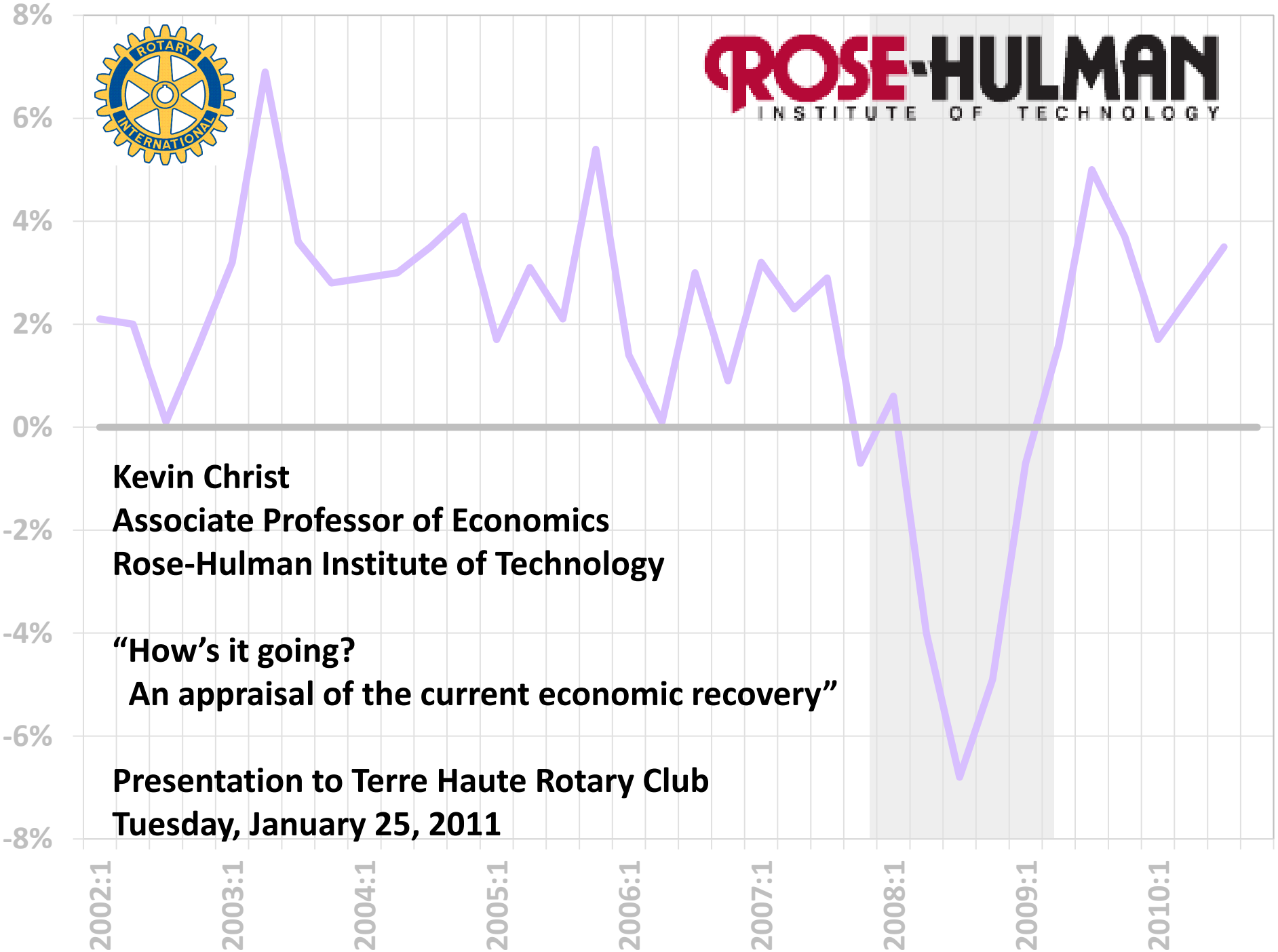
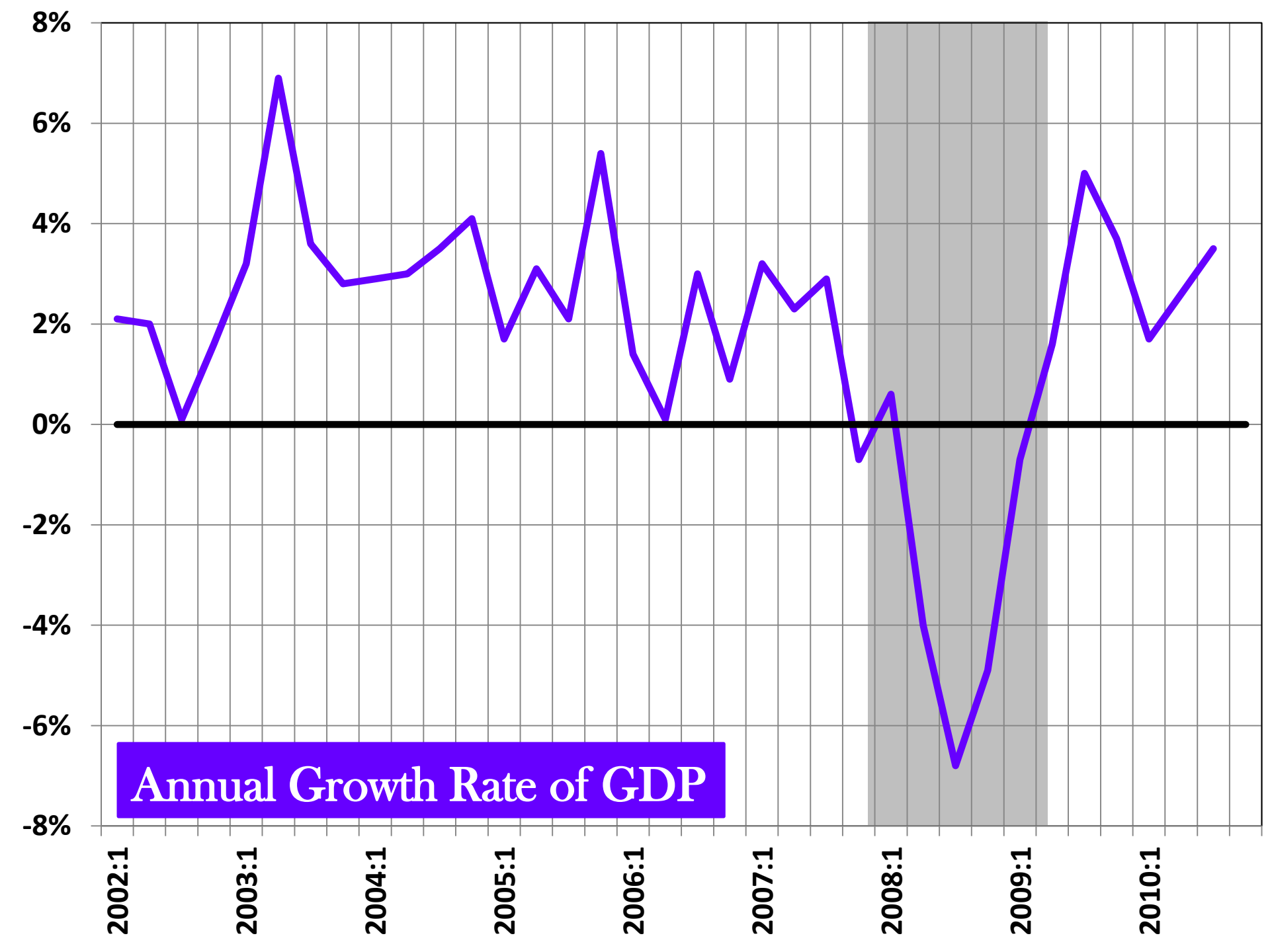


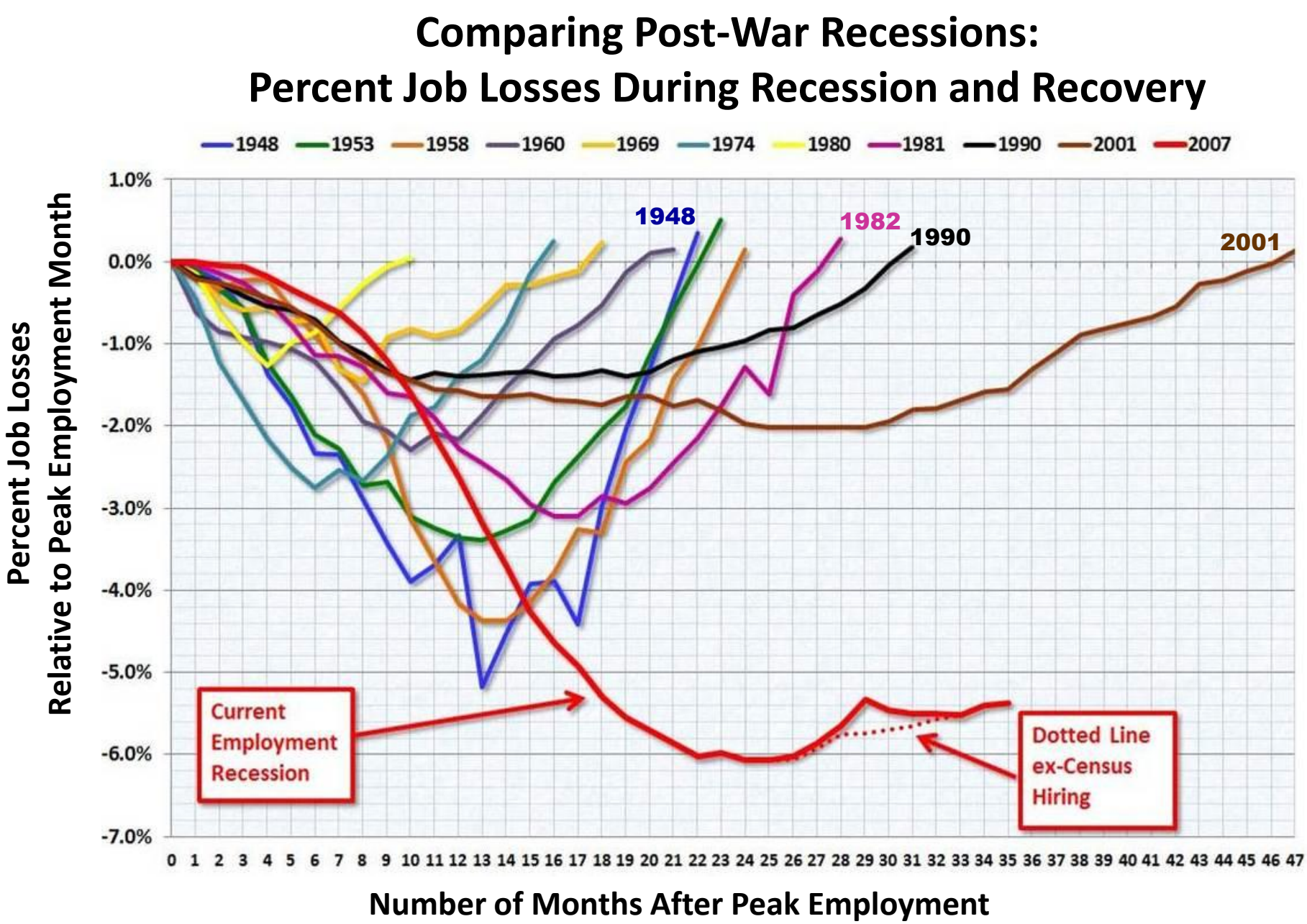
Kevin Christ
Associate Professor of Economics
Rose-Hulman Institute of Technology

"How's it going?
An appraisal of the current economic recovery"

Presentation to Terre Haute Rotary Club
Tuesday, January 25, 2011

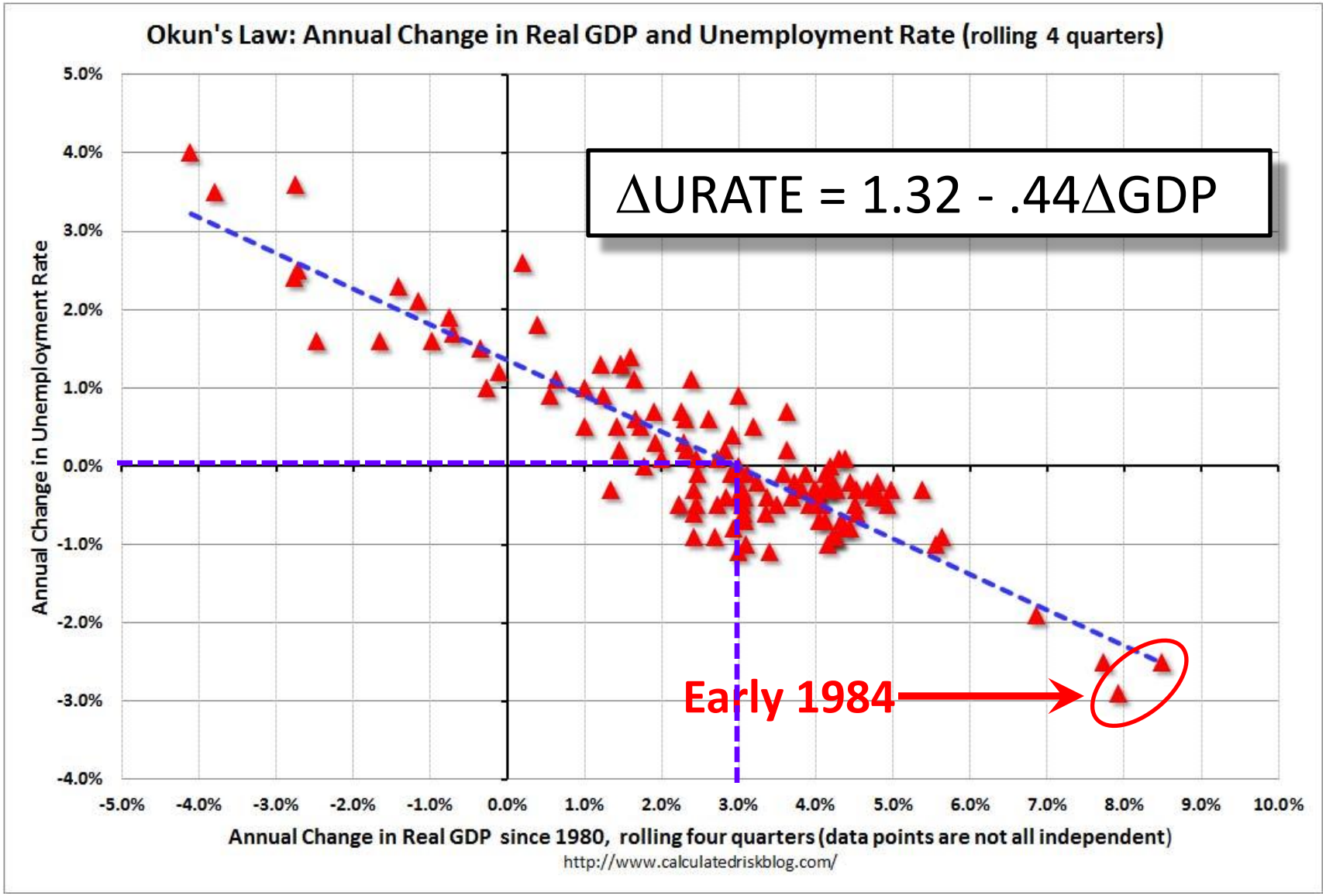

8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
Annual Growth Rate of GDP
2002:1
2003:1
2004:1
2005:1
2006:1
2007:1
2008:1
2009:1
2010:1

Why Is the Recovery Proceeding So Slowly?



Source: http://www.calculatedriskblog.com

Why the Unemployment Rate Is Likely to Still be 8% in December 2011



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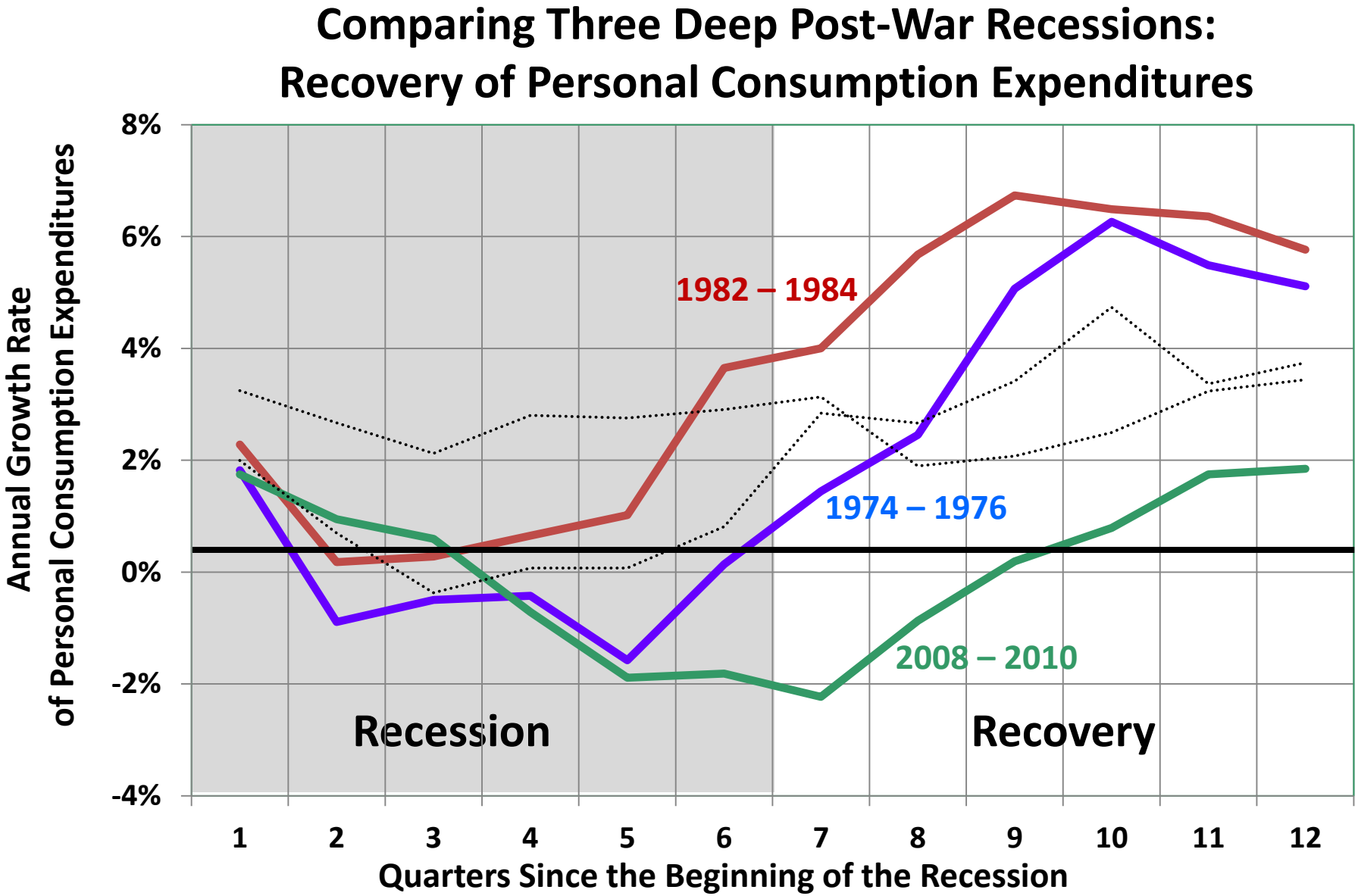

Light dotted lines correspond to the 1990 and 2001 recessions, which were both relatively mild.

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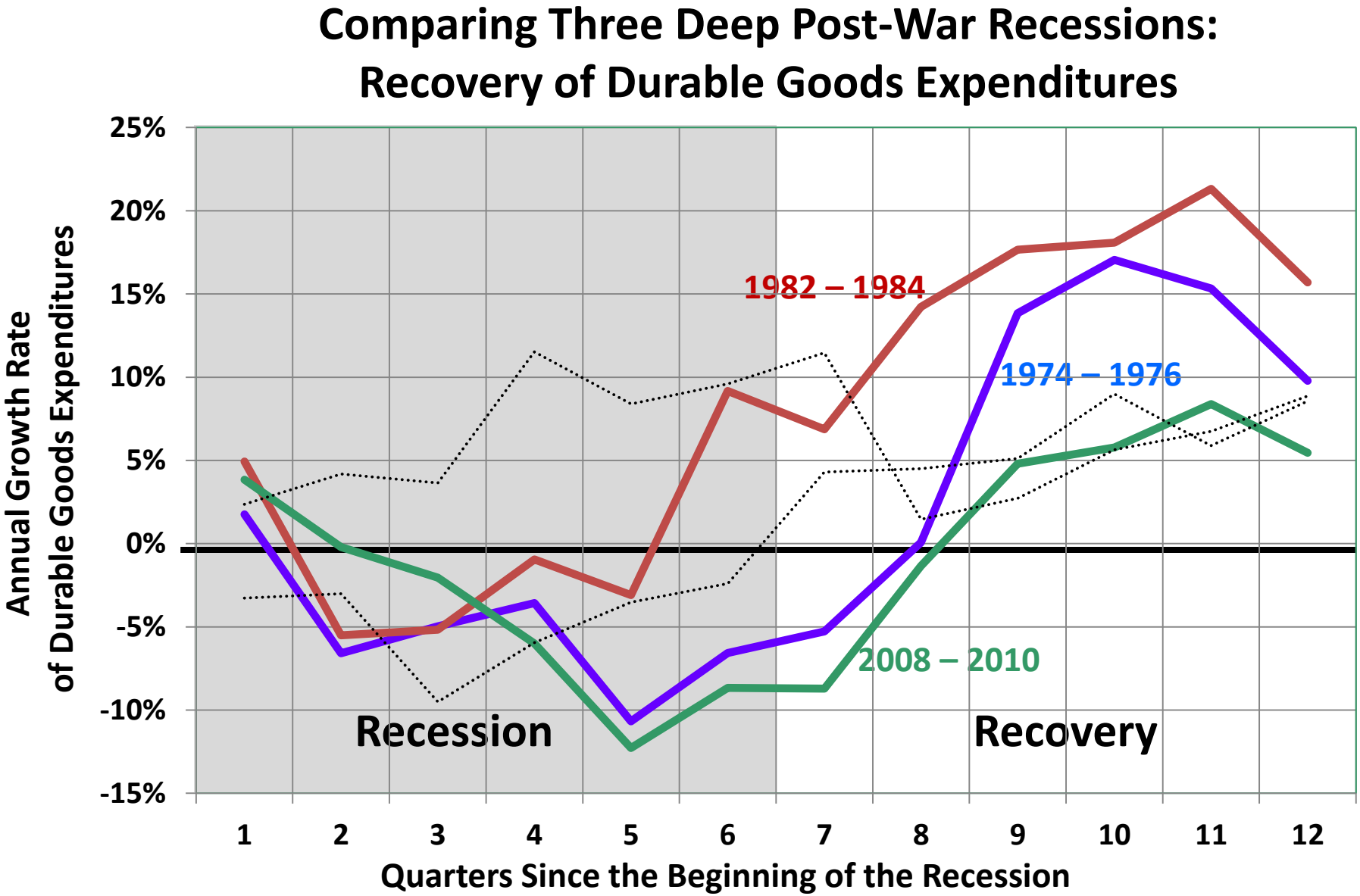

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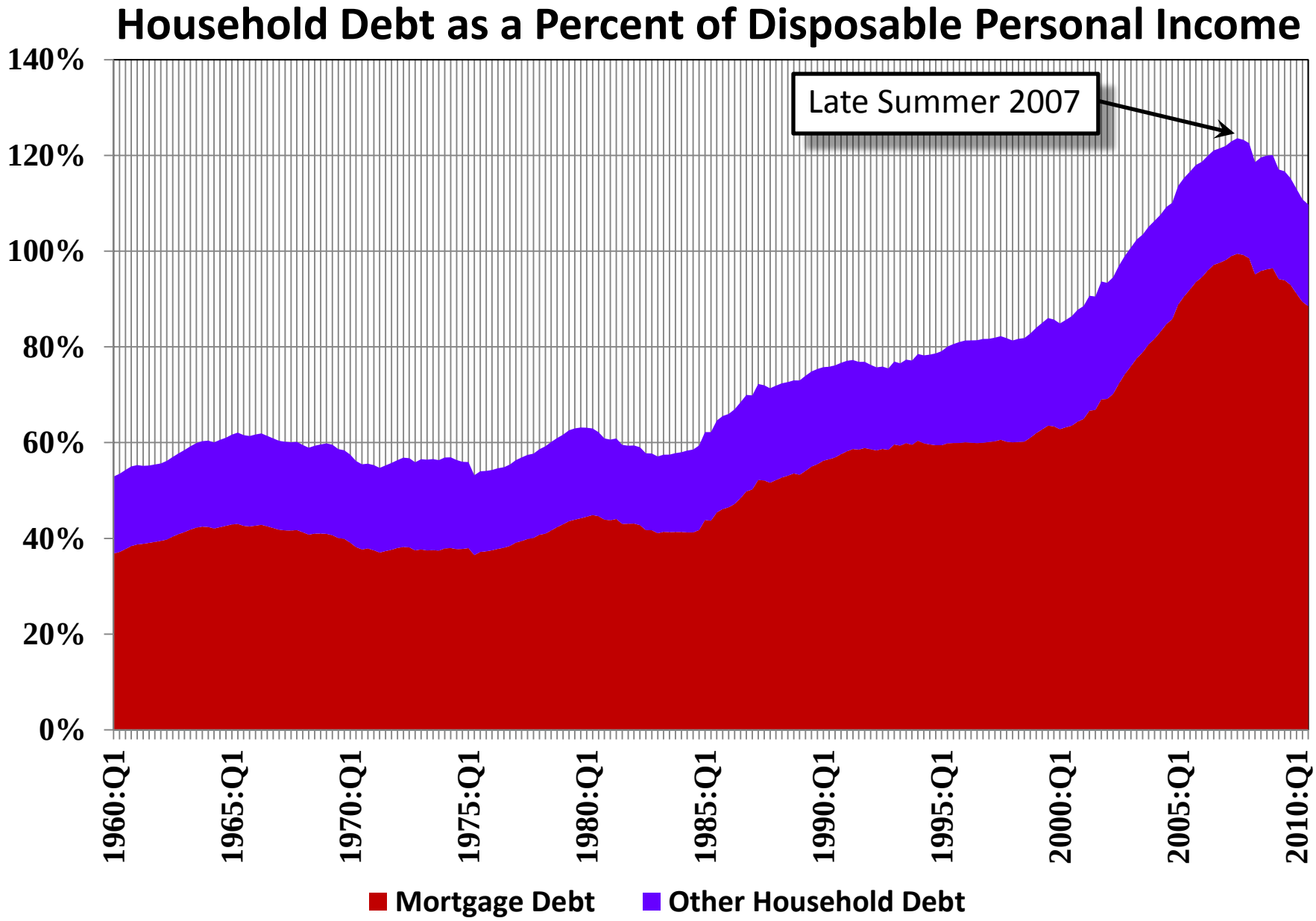
What Started All of This Anyway?



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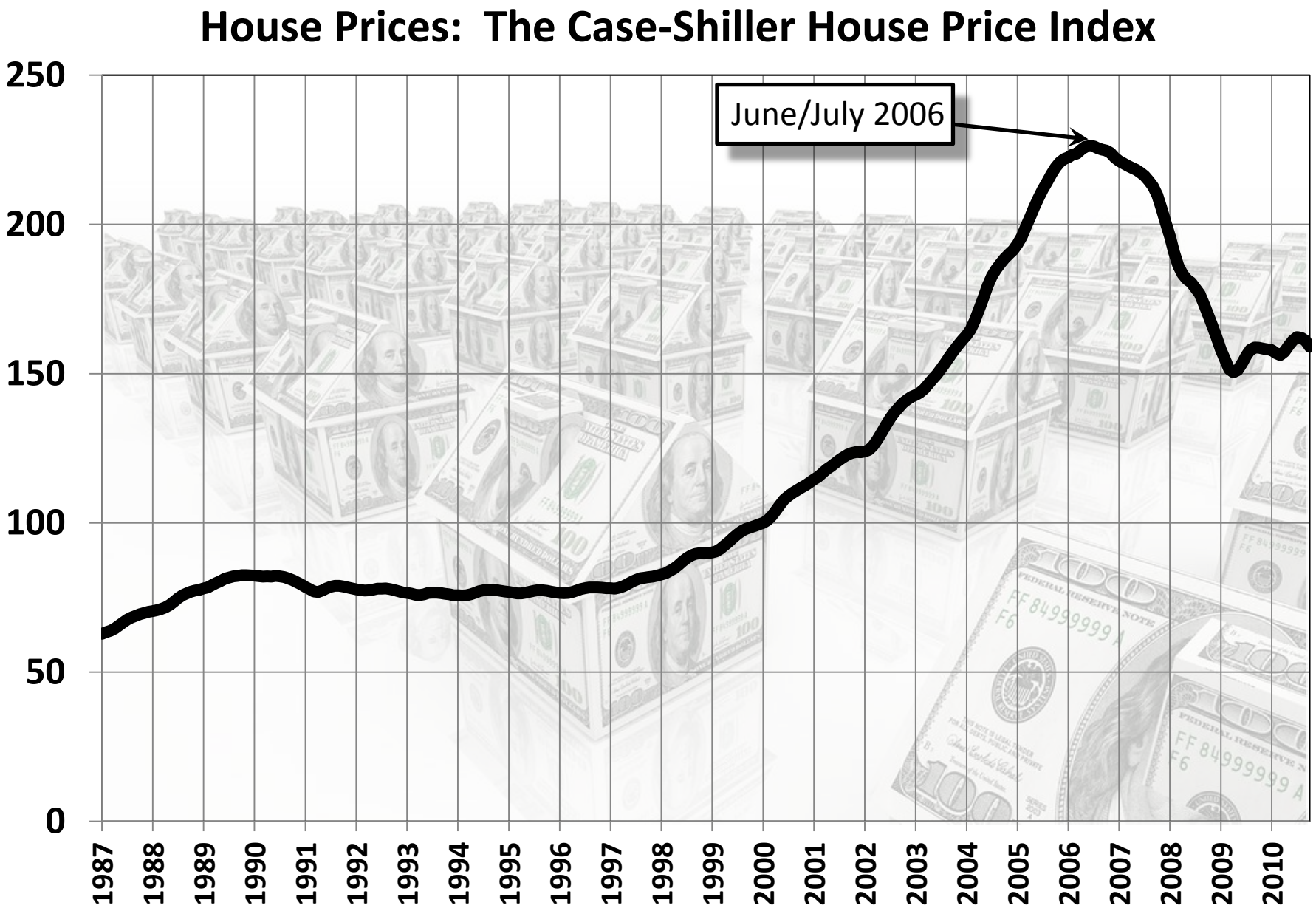


Why Didn't Anyone See This Coming? (Some Did)

"*I believe we're going to have two years of negative economic growth. The last two recessions lasted only eight months each ... This time around this is going to be three times as long, three times as deep. This is going to be the worst recession the US has experienced since the 1980s*."

Nouriel Roubini
September 7, 2006

Why Didn't Anyone See This Coming? (Some Did)

The New York Times

August 25, 2006

OP-ED COLUMNIST

Housing Gets Ugly

By PAUL KRUGMAN

... Housing has been the main engine of U.S. economic growth over the past three years, and with that engine now going into reverse, it's hard to see how we can avoid a serious slowdown.

Why Didn't Anyone See This Coming? (Some Did)

The New York Times

August 8, 2005

OP-ED COLUMNIST

That Hissing Sound

By PAUL KRUGMAN

This is the way the bubble ends: not with a pop, but with a hiss ...
the news that the U.S. housing bubble is over won't come in the form of plunging prices; it will come in the form of falling sales and rising inventory, as sellers try to get prices that buyers are no longer willing to pay. And the process may already have started ... we're starting to hear a hissing sound, as the air begins to leak out of the bubble. And everyone should be worried.

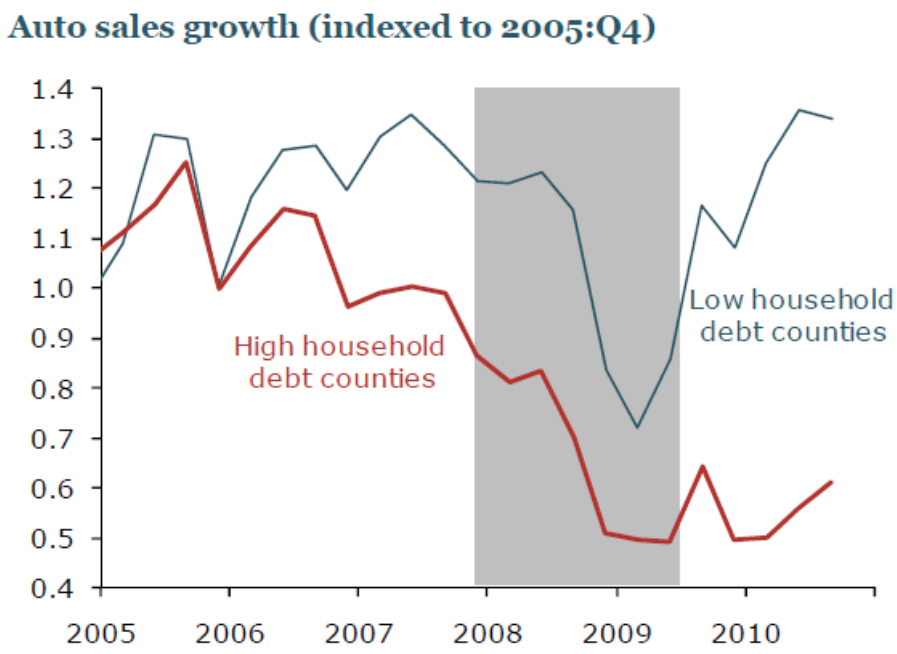
Why Didn't Anyone See This Coming? (Some Did)

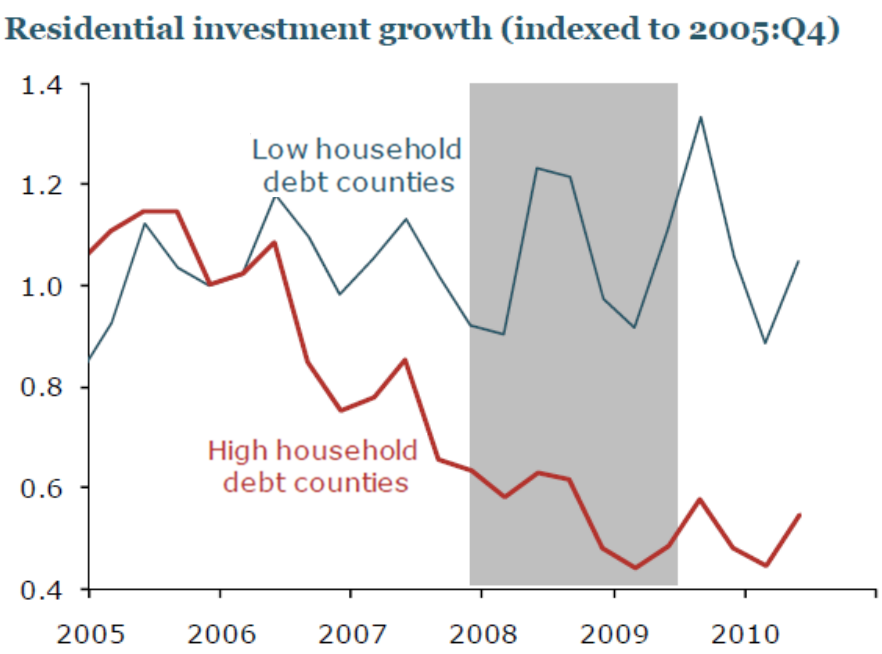
"… the most important concern is whether banks will be able to provide liquidity to financial market so that if the tail risk does materialize, financial positions can be unwound and losses allocated so that the consequences to the real economy are minimized

… trends suggest that even though there are far more participants today able to absorb risk, the financial risks that are being created by the system are indeed greater."

Raghuram Rajan
Jackson Hole
August 26, 2005

A Debt Hangover?

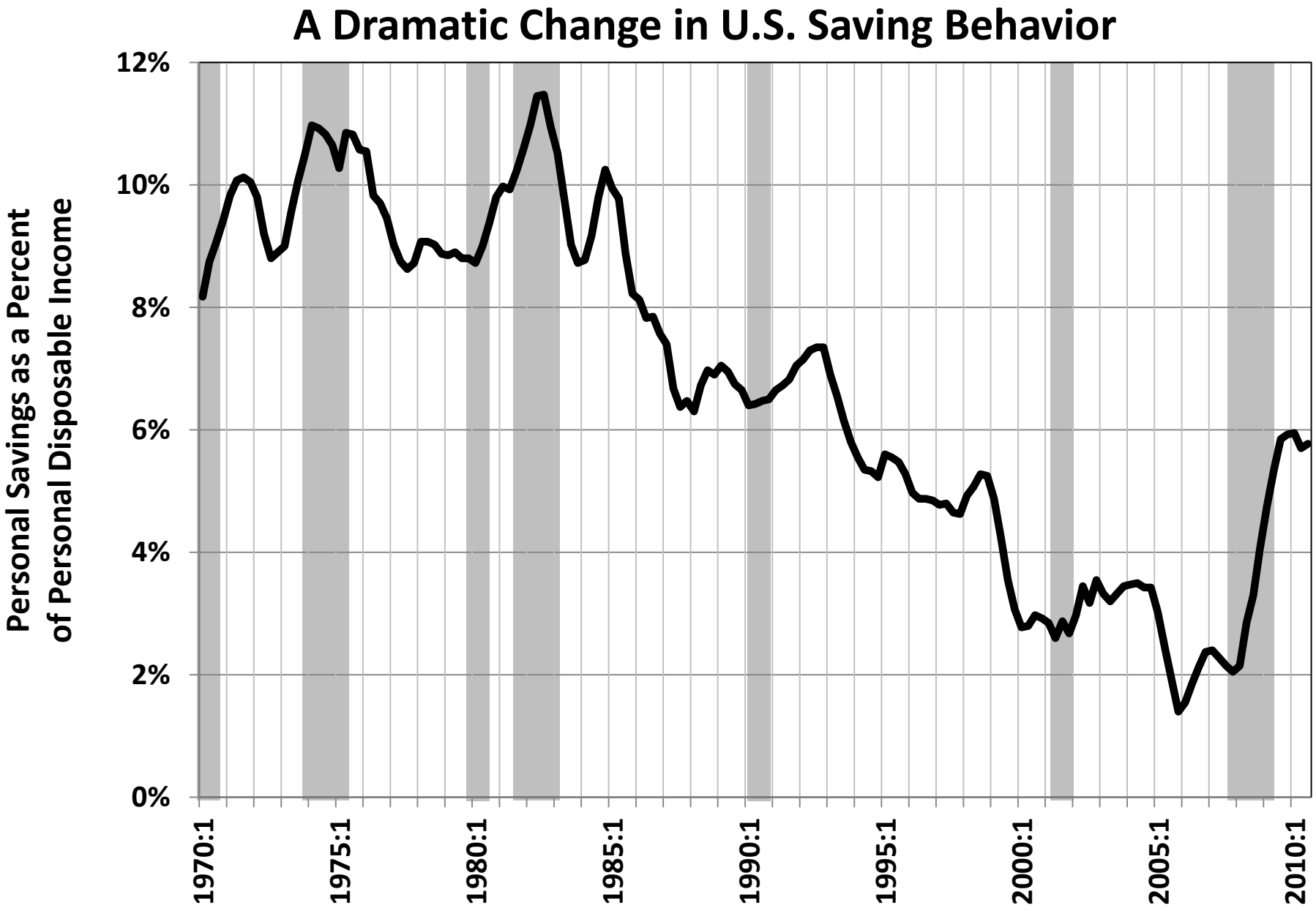




Mian and Sufi, Federal Reserve Bank of San Francisco, January 18, 2011:

"Overall, the evidence strongly suggests that credit demand is weak because of an overleveraged household sector. This view is supported by survey evidence that the main worry of businesses is sales, not financing … The evidence is more consistent with the view that problems related to household balance sheets and house prices are the primary culprits of the weak economic recovery."

Why Are Things Different This Time?

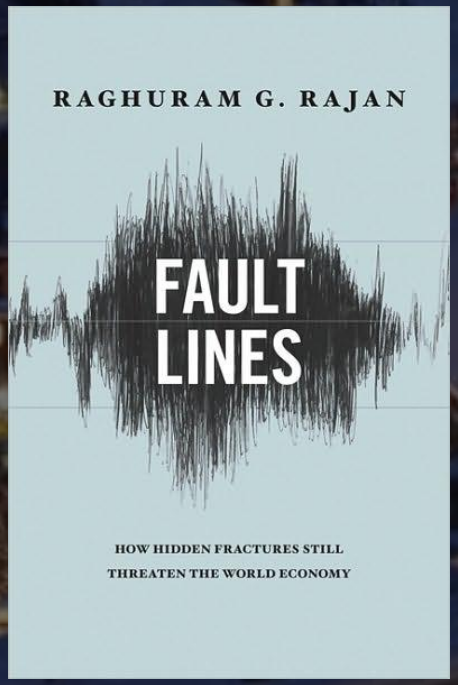


Scenes from a Crisis: January 28, 2009

"This crisis is attributable to a variety of factors and the major ones are: inappropriate macroeconomic policies of some economies and their unsustainable model of development characterized by prolonged low savings and high consumption; excessive expansion of financial institutions in a blind pursuit of profit; lack of self-discipline among financial institutions and rating agencies and the ensuing distortion of risk information and asset pricing; and the failure of financial supervision and regulation to keep up with financial innovations, which allowed the risks of financial derivatives to build and spread. As the saying goes, 'A fall in the pit, a gain in your wit,' we must draw lessons from this crisis and address its root causes. In other words, we must strike a balance between savings and consumption, between financial innovation and regulation, and between the financial sector and real economy."

Chinese Premier Wen Jiabao at the World Economic Forum, Davos, Switzerland,
January 28, 2009

The Global Imbalances Story



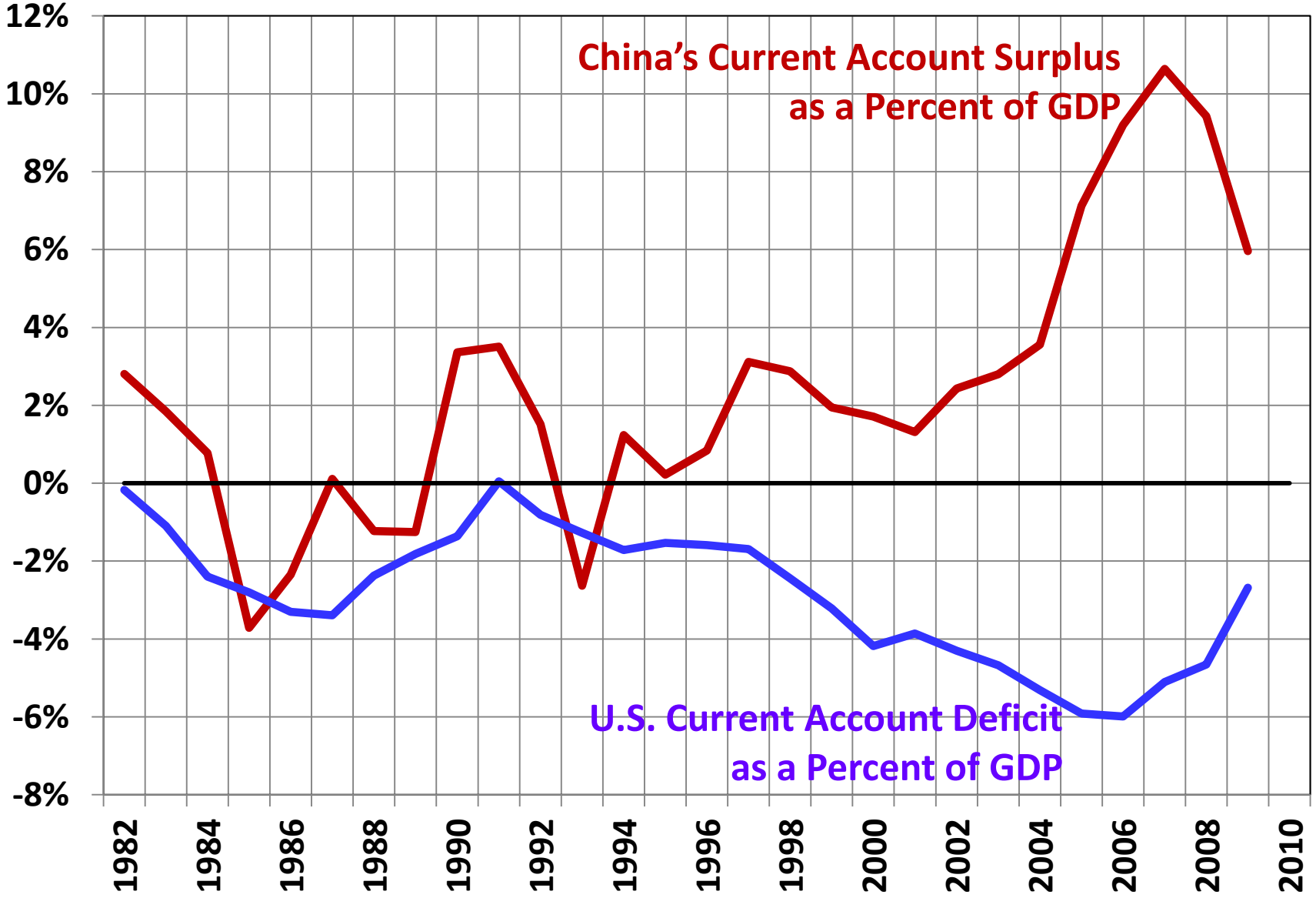
Raghuram Rajan, *Fault Lines* (2010), pages 203 – 204:

… the United States (and a few other rich industrial countries like Spain and the United Kingdom) have been spending more than they produce or earn and thus borrowing to finance the difference. Poorer countries like China or Vietnam have been doing the opposite …

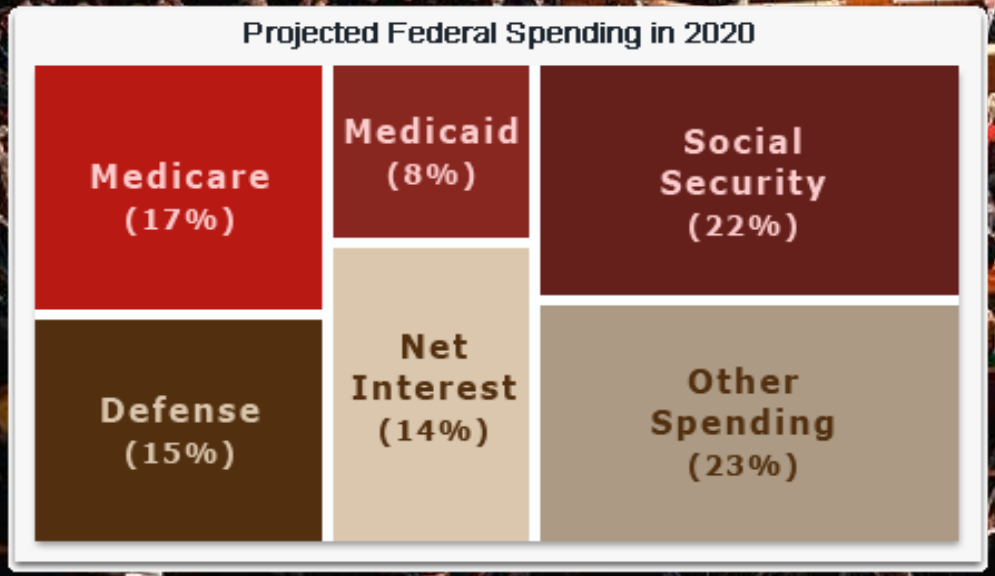
This mutually beneficial but ultimately unsustainable equilibrium has been disrupted by the financial crisis and the subsequent downturn … Indebted U.S. households, weighed down by houses that are worth less than mortgages they owe, have started saving more …

Prudent macroeconomic management suggests that large-deficit countries should be more careful about spending and save more. If the world economy is not to slow considerably, the countries with trade surpluses will have to offset this shift by spending more … the poorer but fast-growing developing countries like China and Vietnam should gradually reduce their emphasis on exports and promote domestic consumption.

Global Imbalances Tend to Correct Themselves – But Not as Quickly as We Might Like



State of the Union Address
Washington, D.C., January 25



Source: Congressional Budget Office

"Well, you being an economist, a little pessimism is perfectly normal."

joocartoon.weebly.com