EXECUTIVE OFFICE OF THE PRESIDENT COUNCIL OF ECONOMIC ADVISERS
NOTES ON ECONOMIC DEVELOPMENTS FOR THE FIRST 100 DAYS IN OFFICE

APRIL 21, 2009

IN JANUARY 2009 WE INHERITED A TROUBLED ECONOMIC SITUATION

The pace of the economy's decline became faster towards the end of 2008 and continued to quicken through January.

- Payroll employment declines, which had averaged 137,000 per month during the first eight months of the year, worsened during the next several months: September (–321,000), October (380,000), November (597,000), December (681,000), and January (741,000).
- **By January 2009, 3.8 million jobs had already been lost** since the business–cycle peak in December 2007.
- The unemployment rate averaged an increase of 0.1 percentage point per month for the first nine months of 2008 but experienced an increased 0.3 percentage point per month increase during the four months from October to January.
- **By January 2009, the unemployment rate had climbed to 7.6%,** up 2.7 percentage points from its December 2007 level.

Output had been roughly stable during the first three quarters of 2008, but plunged towards the end of 2008.

- Real GDP which had edged up slightly on average during the first three quarters of 2008, dropped at a sharp 6.3% annual rate in 2008:Q4.
- Industrial production, which had fallen at a 4.3% annual rate during the first eight months of 2008, deteriorated much more swiftly at a 18.3 % annual rate during the five months from August to January.
- Motor vehicle sales, which had averaged 14.3 million units at an annual rate during the first eight months of 2008, dropped off sharply to 10.3

million units at an annual rate in 2008:Q4, the lowest quarterly rate since 1982. Sales dropped further, to a 9.5 million unit rate in January. Motor vehicle production was cut to the lowest level since at least 1967, and Chrysler and GM requested Federal government help to stay in business.

The housing market continued to deteriorate.

- Housing starts plummeted from a peak of 2.12 million at an annual rate in 2006:Q1 to only 448,000 in January 2009. Housing permits and new home sales showed similar declines.
- Housing prices have fallen sharply from their peak. By January, the Federal Housing Finance Agency (FHFA) index had fallen 9.6% from its peak, while the Case-Shiller index had fallen 29%. The decline in house prices led to an increase in foreclosures and consequent decline in values for mortgage backed securities.

Financial markets became increasingly distressed in late September and October and remained that way through January.

- Equity markets reached their peak in October 2007 and declined 15.5% through the end of August 2008, as measured by Dow-Jones Total Stock Market Index (TSM). From the end of August through the end of January, the TSM fell another 36%.
- Mortgage delinquencies, which have been rising since early 2006, continued their sharp increase during the first three quarters of 2008 with the combined share of loans in foreclosure and at least one payment past due reaching 10.0% in 2008:Q3. This rate rose even higher in 2008:Q4 jumping 1.2 percentage points to 11.2%, the largest one-quarter increase and the highest rate ever recorded in the Mortgage Bankers Association (MBA) delinquency survey.
- The premium above Treasury securities demanded by investors to hold BAA corporate bonds soared from below 2 percentage points in October 2007 to 4 percentage points in September 2008. Corporate bonds spreads moved up even higher throughout the rest of the year, reaching 6 percentage points in December, the highest since at least the 1950s.

- CDS spreads at the major banks—an indicator of market perceptions of the risk associated with banks—skyrocketed in mid-September 2008. These spreads receded somewhat in November, but remained at higher-than-normal levels through January.

WE EXPECT SOME CONTINUED BAD NEWS ON THE ECONOMY IN THE COMING MONTHS

The Blue Chip consensus forecast expects **real GDP to decline in the first and second quarters,** with declines of 5.1% and 2.1% at an annual rate respectively, before returning to positive growth in the second half.

In addition, continued downdrafts are likely to produce significant declines in employment for at least the next several months.

The outlook for U.S. exports seems particularly negative. In particular, the economies of our trading partners have fallen at least as fast of our own.

- For example, during the 12 months through February, industrial production has dropped 17% in the EU, 37% in Japan, compared with 13% in the United States.
- As a result, nominal exports have fallen 24% (not annualized) during the seven months through February. It seems likely that this export contraction has not yet run its course, with consequent negative effects on U.S. GDP.

IN OUR FIRST 100 DAYS, WE HAVE BEGUN TO SEE SOME "GLIMMERS OF HOPE"

As the consensus forecast suggests, we should see moderation in the rate of decline in GDP during the second quarter of the year. This forecast is supported by several important economic events:

- **The housing sector has shown some tentative signs of finding a bottom.**
    - Housing starts increased slightly from January to March.
    - New and existing home sales rose in February (the latest month available).

    - Builder confidence in April rose 5 points from March.

- **The stock market has increased almost 24% from its low point on March 9th.**

- **Consumer sentiment has increased.** The preliminary Michigan index for April (under press embargo) is up 5.6 points from the February level, and the daily Rasmussen consumer index has increased about 17 points from its February average.

- **Orders and shipments of core capital goods increased in February.** Orders rose 7.1% in February and shipments rose 0.6%. A rise in this series could portend a turnaround in investment spending if it continues in the coming months.

THERE ARE SIGNS THAT THE ADMINISTRATION'S BOLD POLICY RESPONSE TO THE CRISIS IS BEGINNING TO WORK

The policy response to the crisis has been the boldest and most far-reaching in history.

- The American Recovery and Reinvestment Act (ARRA) provides $787 billion of fiscal stimulus over the next few years. The stimulus is roughly equally divided between tax cuts, direct government investment spending, and aid to states and people directly hurt by the recession.

- The Financial Stability Plan is a comprehensive plan to restart securitized lending, increase small business lending, create a market for purchasing toxic assets off bank balance sheets, and ensure that banks are adequately capitalized.

- The Homeowner Affordability and Stability Plan is a $75 billion program to stem the tide of foreclosures and enable homeowners to refinance at lower interest rates.

There are early signs that the programs are having the desired impact.

- Federal income tax withholding rates were reduced on April 1st, providing near-term relief to working families.

- The Office of Management & Budget estimates that approximately $58 billion of spending under the ARRA has been obligated and almost **$12 billion in outlays have already occurred**.

- The CEA estimates that in the first 100 days, the ARRA will have saved or created 150,000 jobs.

- By 2010Q4, we estimate that the ARRA will have saved or created 3.5 million jobs.

- Securitized lending through the joint Treasury-Federal Reserve Term Asset-Backed Securities Loan Facility and through private transactions has increased noticeably in the past month.

- Mortgage interest rates are at their lowest rates in decades. **Mortgage refinancing applications have risen about 70% since the homeownership plan was announced on February 18th.**