Recession Panel

Francesco Caselli
Three Questions

• Is this recession special?
• If so, why?
• Is the policy response right?
Three Questions

• Is this recession special? (I don’t know)
• If so, why? (I don’t know)
• Is the policy response right? (I don’t know)
Is this recession special?

• A quick look at (US) data
ISM Manufacturing: PMI Composite Index

- Relative to peak
- Months since peak

- Representative Recession
- since Dec 2007
So is it special?

- Since inception: no
- Since summer: yes …
  … but too soon to tell?
Explanation for the recession

- End of house-price bubble
- Banks stop lending to consumers and firms
- Consumption and investment fall
- Employment falls
- Further falls in consumption … etc.
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Somehow does not feel “enough”
The role of fear

• Massive wave of pessimism and uncertainty even for non-credit constrained agents
• Self-fulfilling element could explain “the kink”
• Confidence crisis fuelled by:
  – Visibility of financial sector
  – Over-the-top statements by gurus and policy makers
Policy response

• Massive monetary stimulus, fiscal stimulus, and policies to restore financial-sector stability

• What about confidence?
  – Articulate “animal spirits” view
  – Accept the political risk of sounding optimistic
The Global Economic Crisis:
Meeting the Challenge

Tim Besley
LSE and Bank of England
February 2009
Synchronised Downturn: Manufacturing PMIs

Sources: Bloomberg, CIPs/Markit, Institute for Supply Management and Thompson Datastream

Data are headline purchasing manager indices. A figure over 50 indicates rising output compared with the previous month, and a figure below 50 indicates falling output.
Synchronised Downturn: Industrial Production

Percentage Change on a year earlier, three month average

Sources: Bank Calculations and Thompson Datastream

N.B: Data are weighted according to PPP weights, data to November 2008
Synchronised Downturn: Industrial Production

Percentage Change on a year earlier, three month average

Sources: Bank Calculations and Thompson Datastream
Data to December
International Loosening of Monetary Policy

Percentage Points

Sources: National Central Banks and Thompson Datastream
International Fiscal Stimuli

Sources: National Central Banks and Thompson Datastream

Source: The Economist
The Global Economic Crisis: Meeting the Challenge
The labour market implications of the credit crunch

Christopher Pissarides
What happens to labour in recession?

- Job destruction increases, unemployment inflow increases
- Unemployment goes up
- Job creation goes down, prolongs unemployment spells
- Long-term unemployment builds up, introduces persistence
- Output picks up but unemployment slower to react
Is this recession conforming?

• This scenario was most emphatic in the early 1980s recession
• There are some signs that this recession is following a similar pattern but at a much lower scale
• From early 2008 redundancies are up sharply but unemployment picking up slowly
• Output impact seems minimal
Speculative views

• Despite these early signs, this recession will not hit the labour market badly because of the reforms of 1980s and 1990s

• Decline of unions, reform of unemployment insurance, more strict supervision of benefit rules

• Will bring wage moderation, will not allow big increase in long-term unemployment
Much less impact on unemployment
Despite sharp rise in redundancies
Small unemployment response whichever way you look at it
Employment rates falling but only marginally
Things might get worse because hiring will fall
The Beveridge curve is shifting out a little probably due to redundancies (compare 2005-06 with 2007-08)
Relation between unemployment rate and long-term unemployment tight but some signs that 2008 is different
Long-term (over 12 months) unemployment not rising (may pick up in 2009 a little because of the rise in u in 2008)
Better than US

UK not doing too badly, about the same as eurozone.
Conclusion?

- It’s a recession
- But not a bad one for labour
- Internationally UK not worse off than comparable countries
- Eurozone still to show worst because of rigidities, slow response, slow recovery
- UK should recover faster