Recession Panel

Francesco Caselli

Three Questions

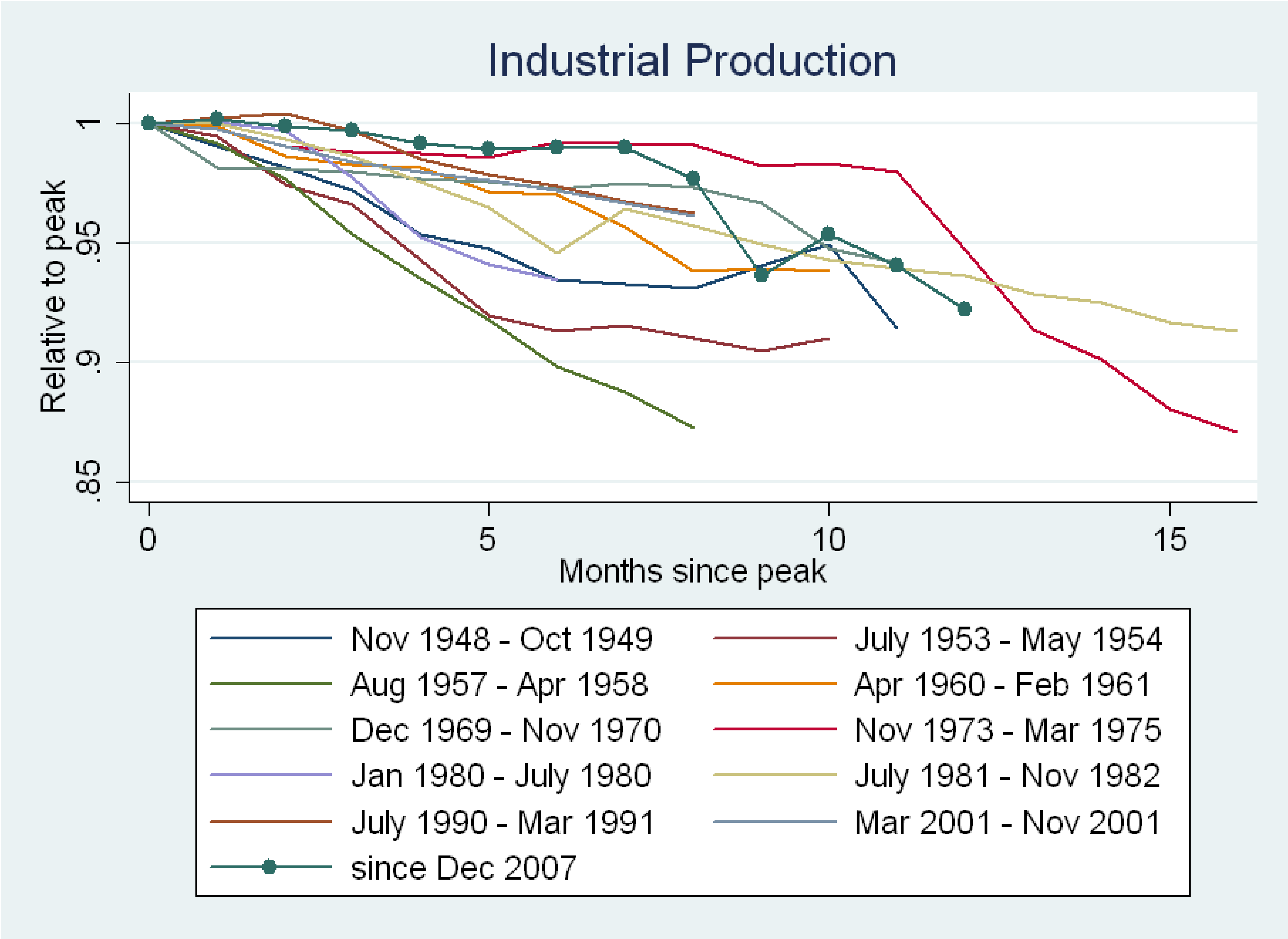
- Is this recession special?
- If so, why?
- Is the policy response right?

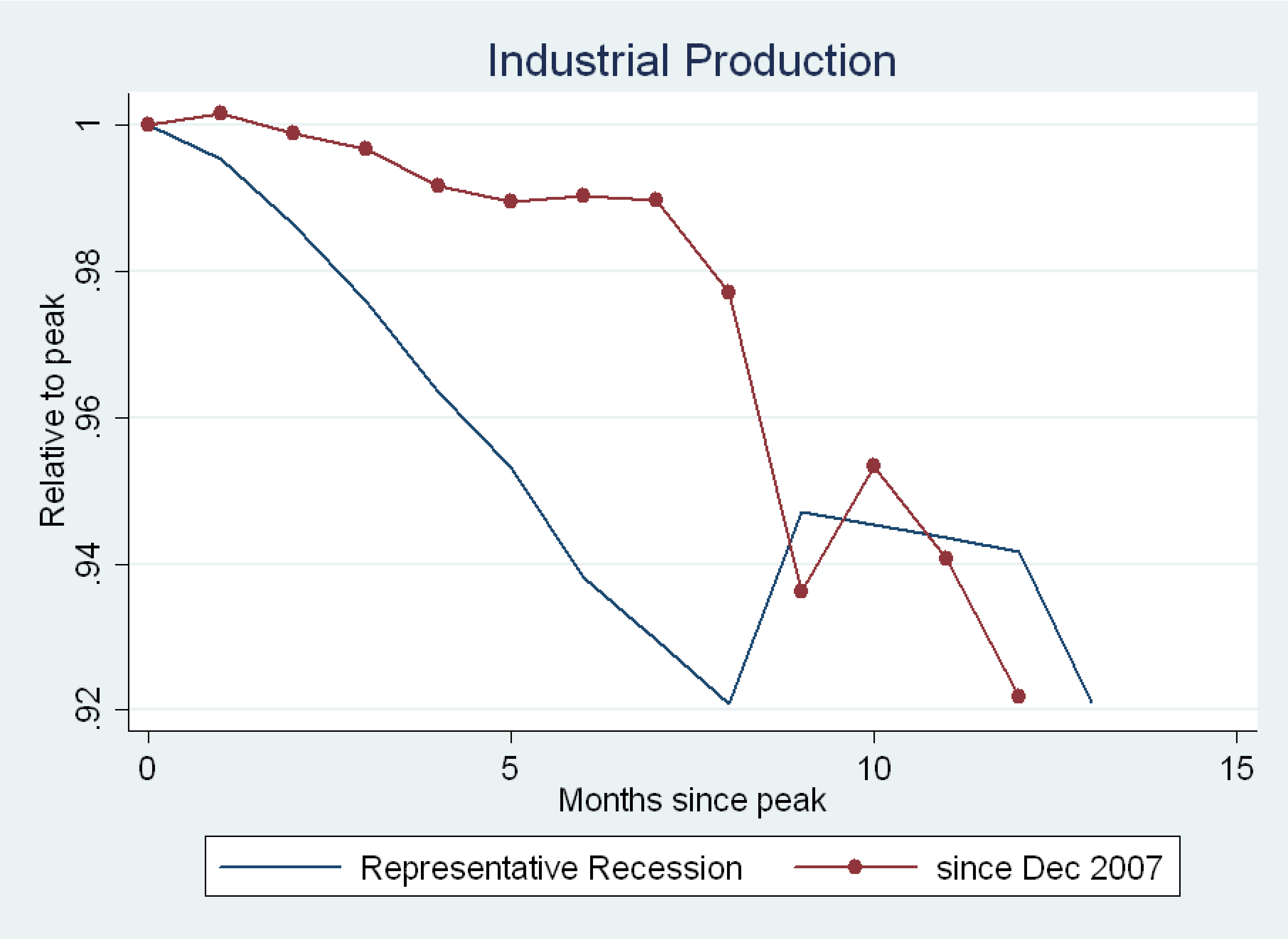
Three Questions

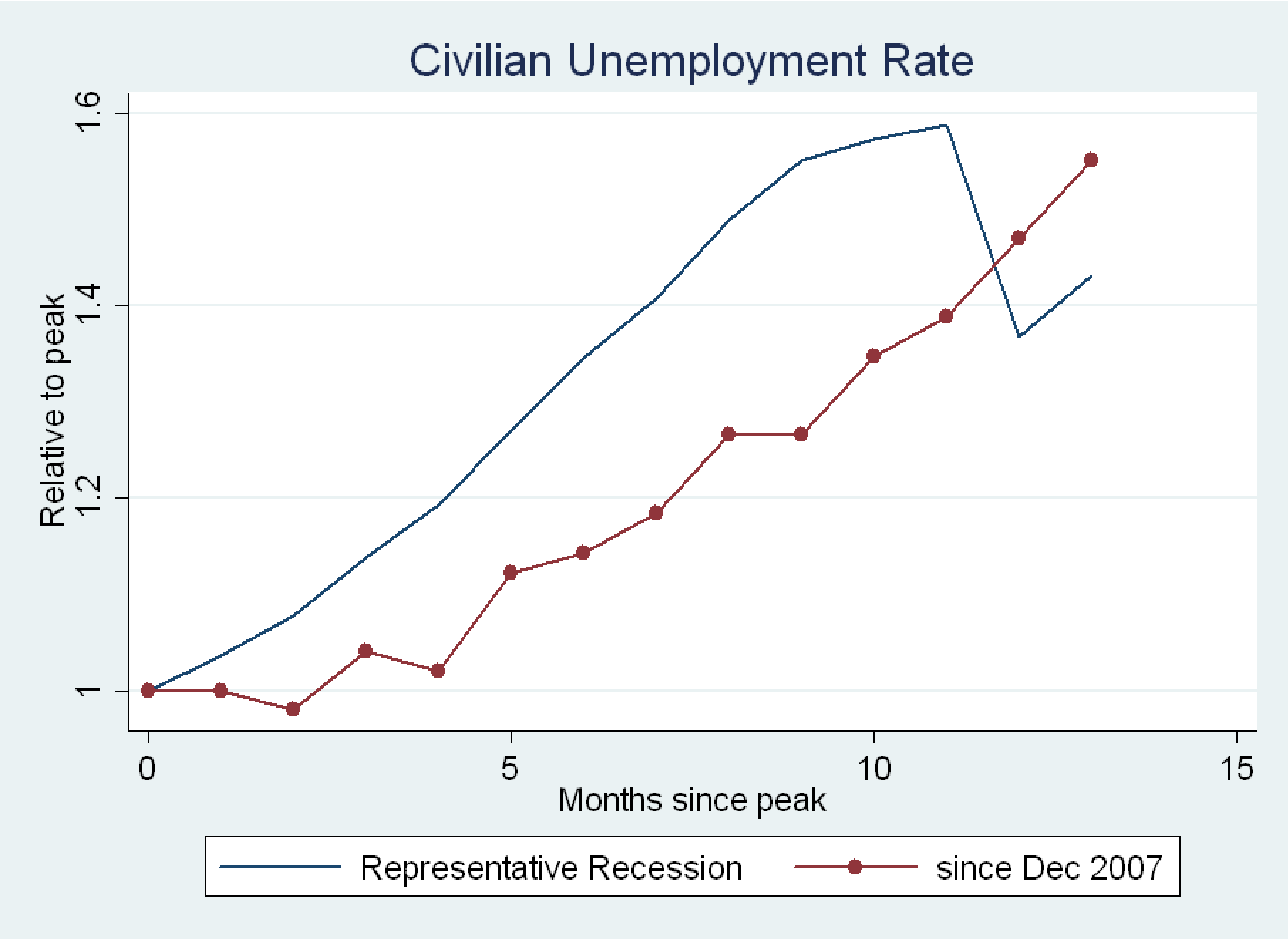
- Is this recession special? (I don’t know)
- If so, why? (I don’t know)
- Is the policy response right? (I don’t know)

Is this recession special?

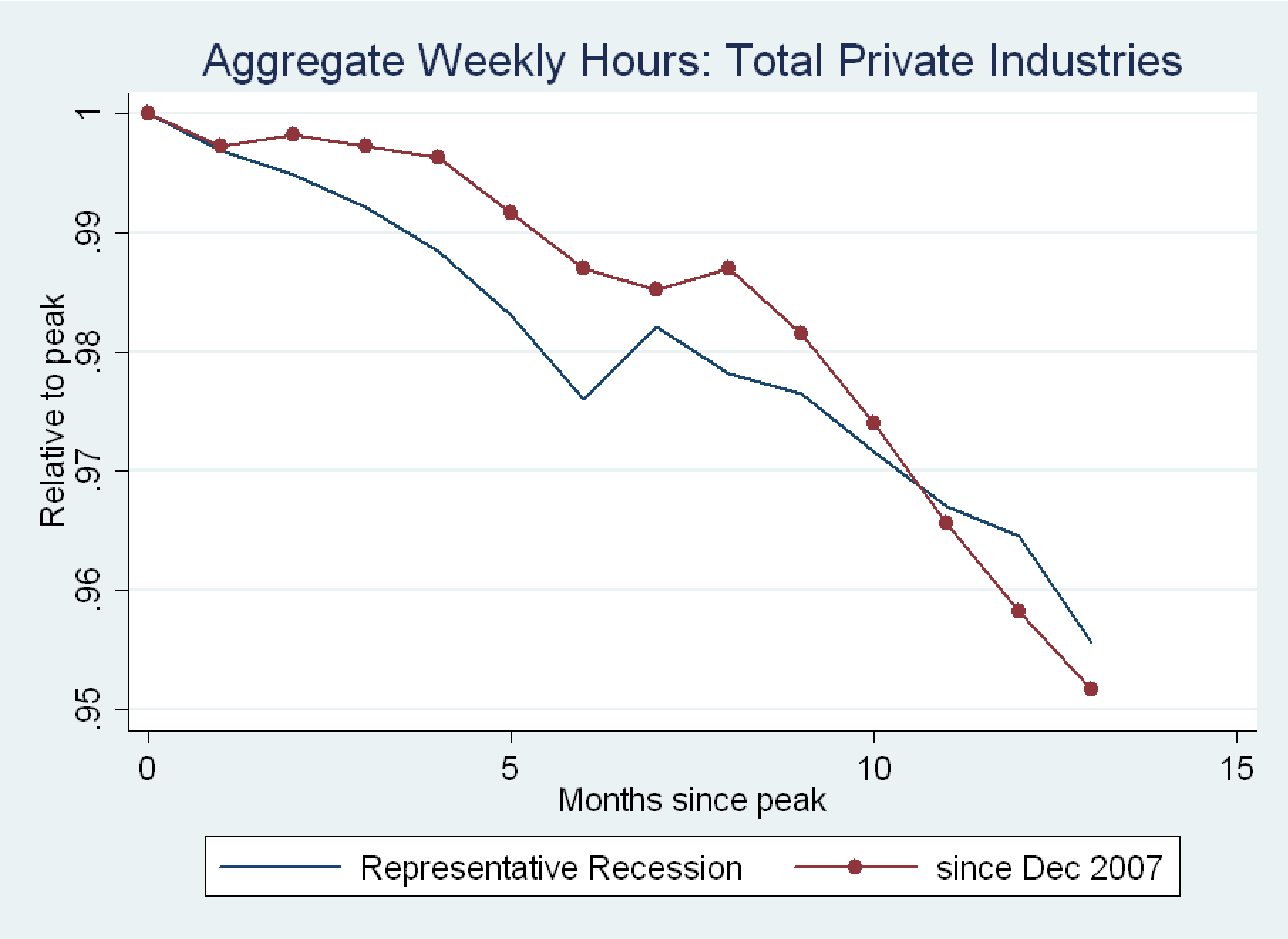
- A quick look at (US) data


Industrial Production
Relative to peak
1
.95
.9
.85
0
5
10
15
Months since peak
Nov 1948 - Oct 1949
July 1953 - May 1954
Aug 1957 - Apr 1958
Apr 1960 - Feb 1961
Dec 1969 - Nov 1970
Nov 1973 - Mar 1975
Jan 1980 - July 1980
July 1981 - Nov 1982
July 1990 - Mar 1991
Mar 2001 - Nov 2001
since Dec 2007


Industrial Production
Relative to peak
1
.98
.96
.94
.92
0
5
10
15
Months since peak
Representative Recession
since Dec 2007

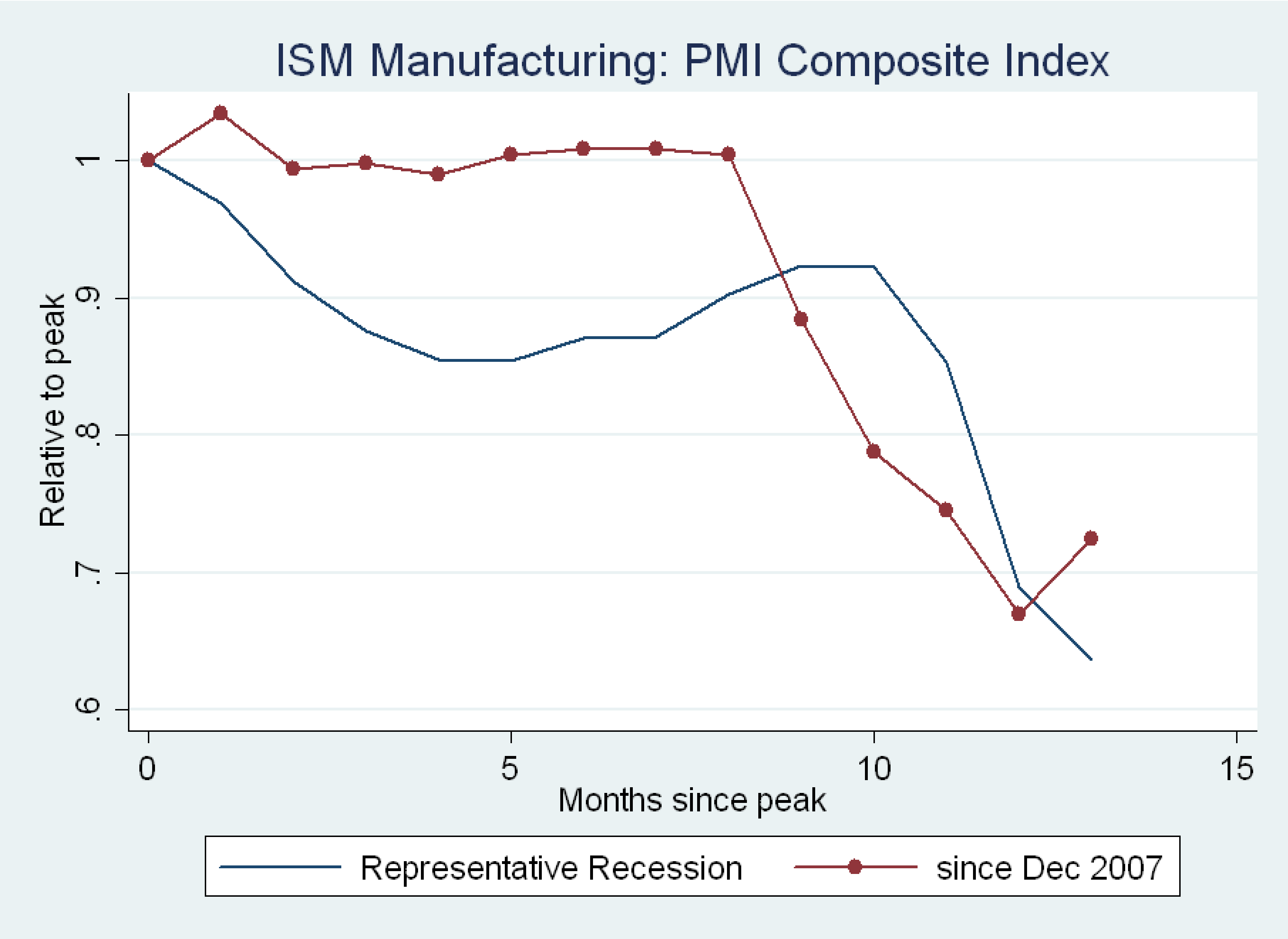


Civilian Unemployment Rate
Relative to peak
1
1.2
1.4
1.6
0
5
10
15
Months since peak
Representative Recession
since Dec 2007

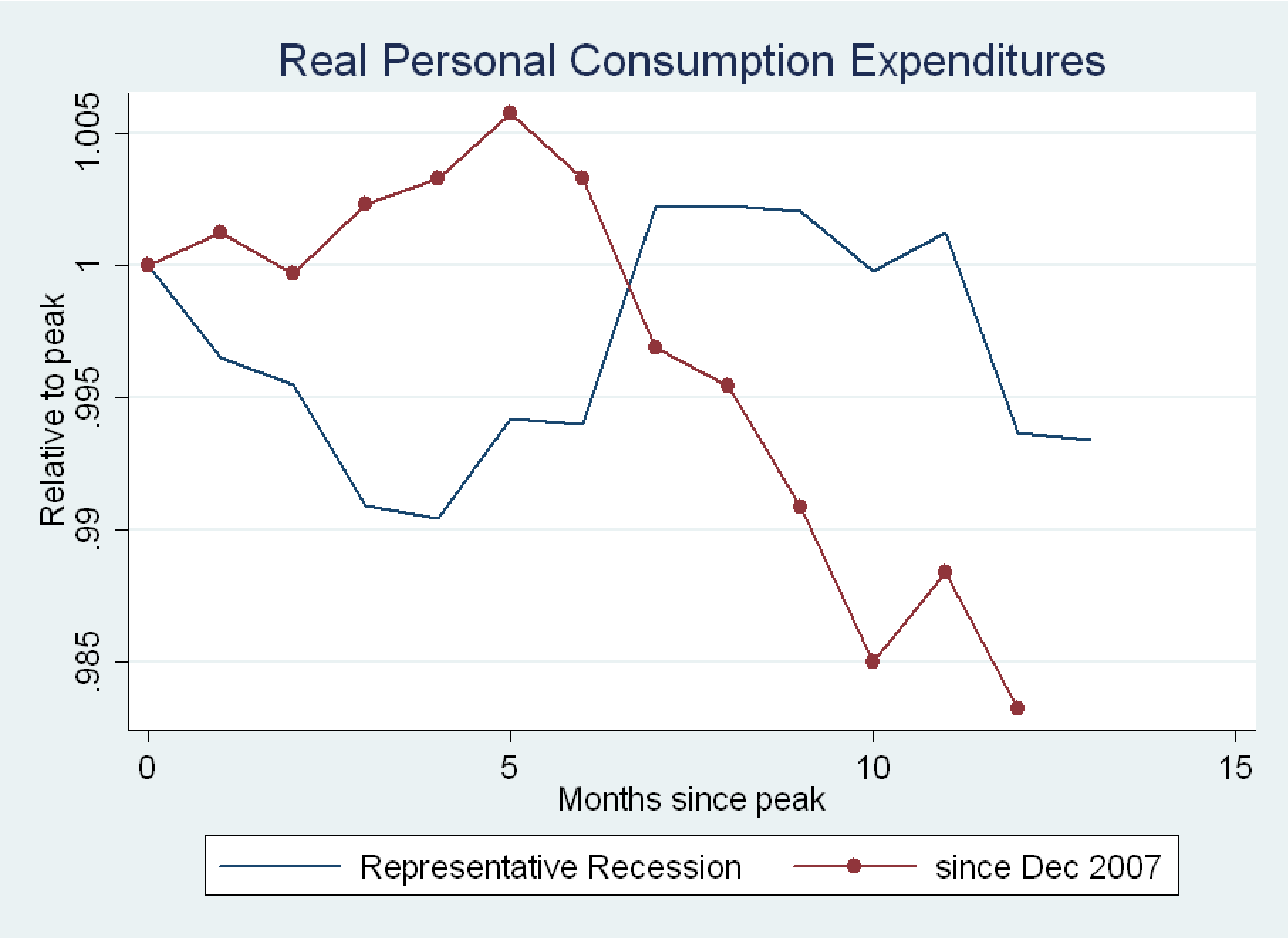


Aggregate Weekly Hours: Total Private Industries
Relative to peak
1
.99
.98
.97
.96
.95
0
5
10
15
Months since peak
Representative Recession
since Dec 2007


Civilian Employment
Relative to peak
1
.99
.98
.97
0
5
10
15
Months since peak
Representative Recession
since Dec 2007



ISM Manufacturing: PMI Composite Index
Relative to peak
.6
.7
.8
.9
1
0
5
10
15
Months since peak
Representative Recession
since Dec 2007


Real Personal Consumption Expenditures
Relative to peak
1.005
1
.995
.99
.985
0
5
10
15
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:

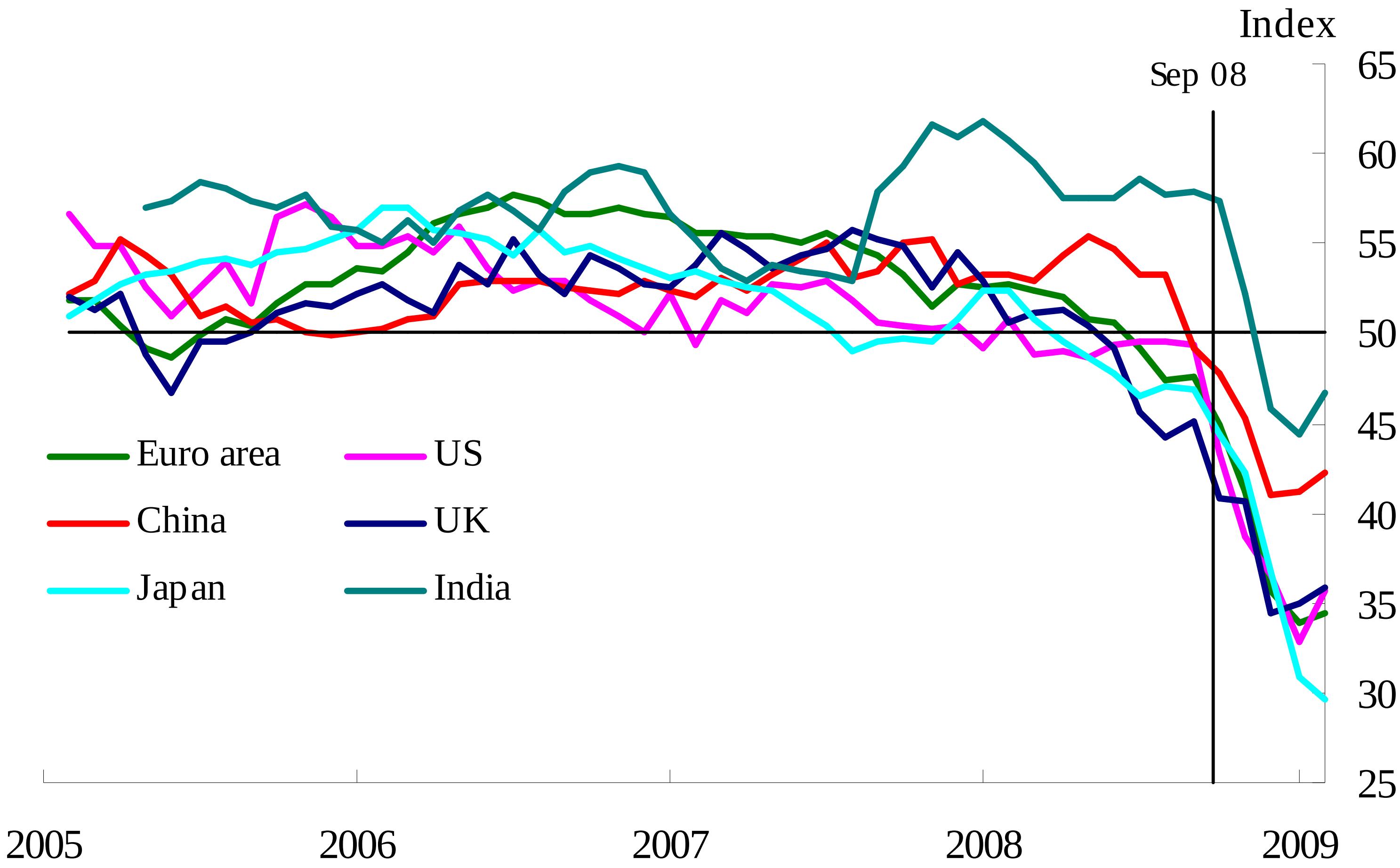
Meeting the Challenge

Tim Besley

LSE and Bank of England

February 2009

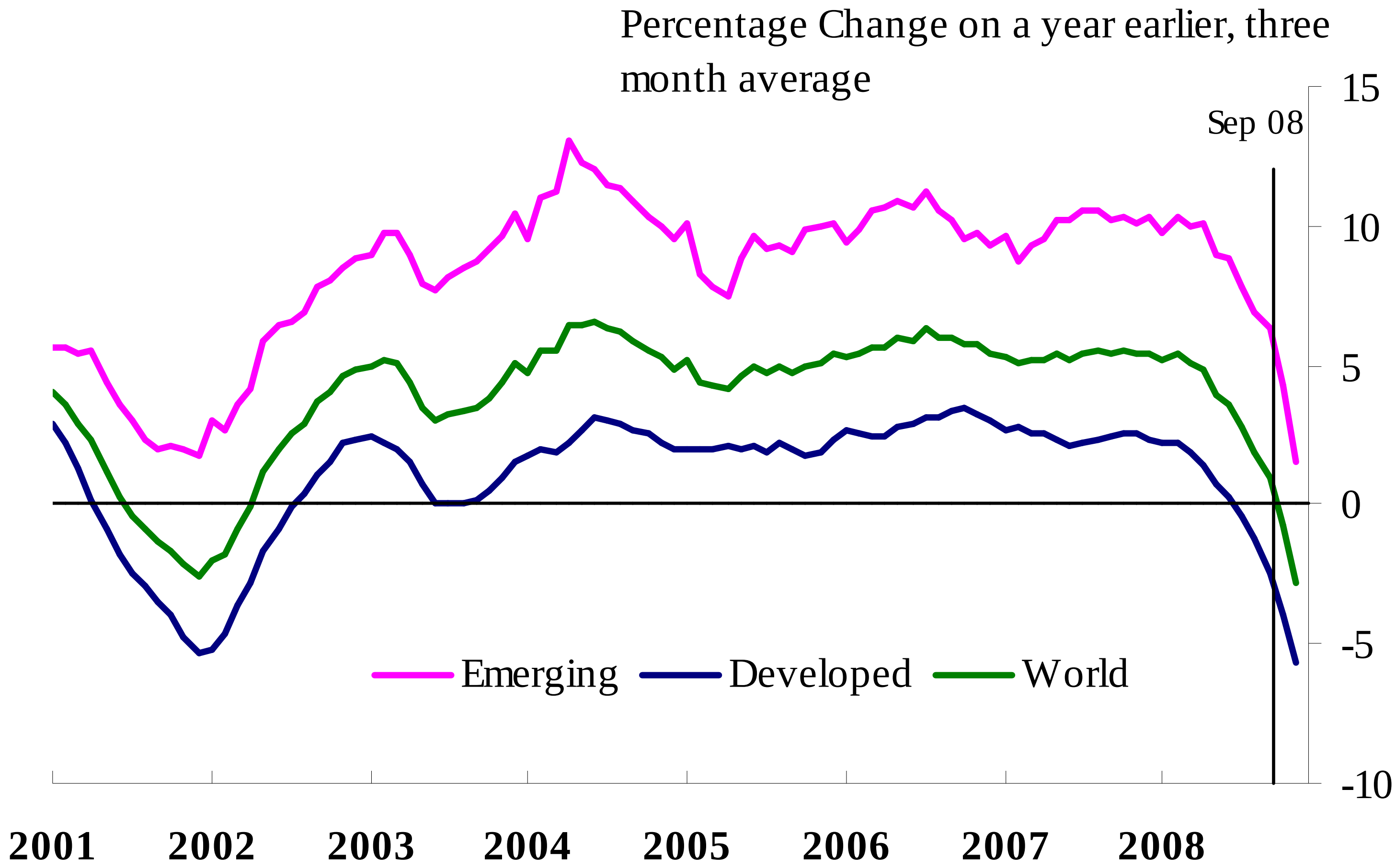
Synchronised Downturn: Manufacturing PMIs



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.

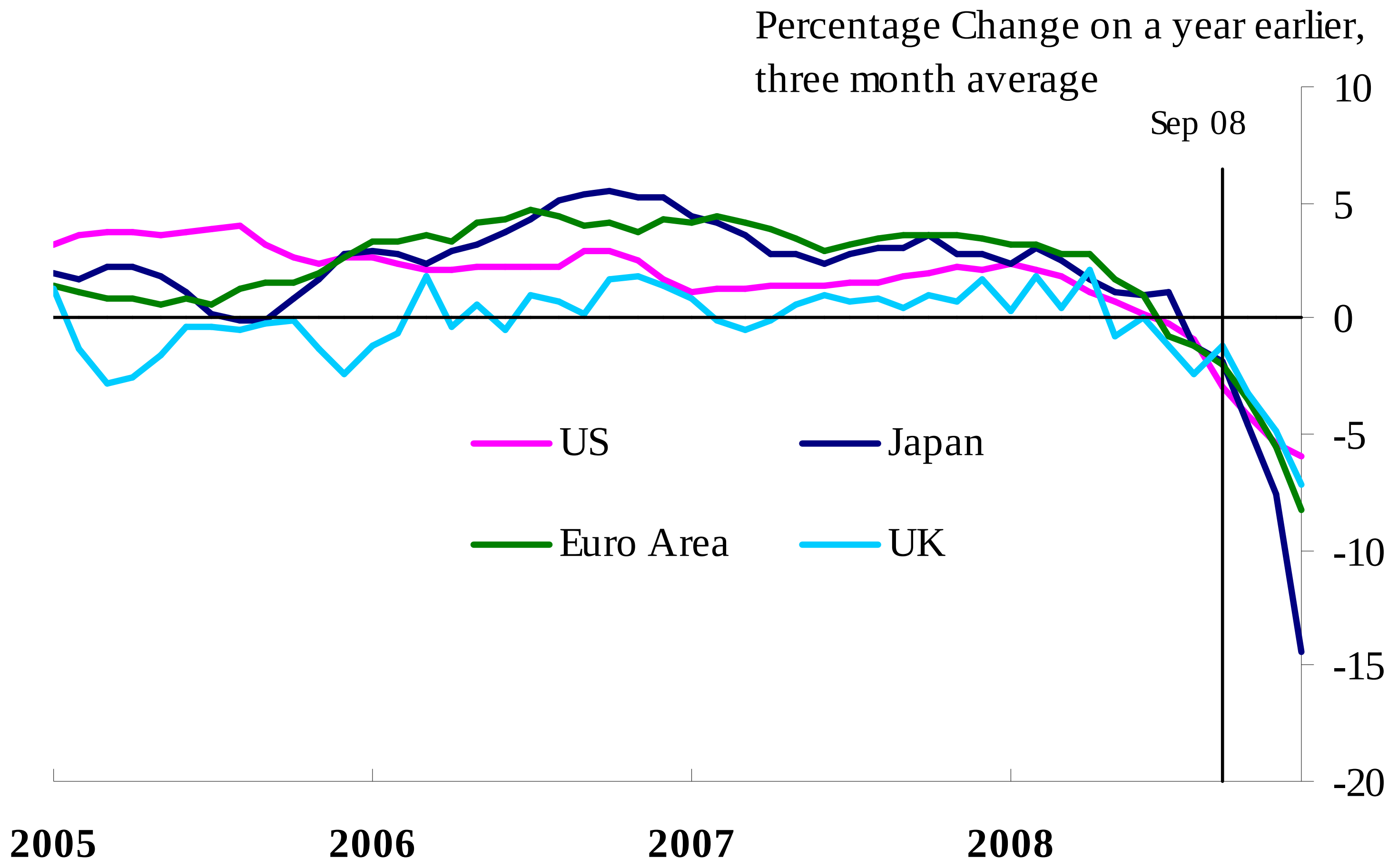
Synchronised Downturn: Industrial Production



Sources: Bank Calculations and Thompson Datastream

N.B: Data are weighted according to PPP weights, data to November 2008

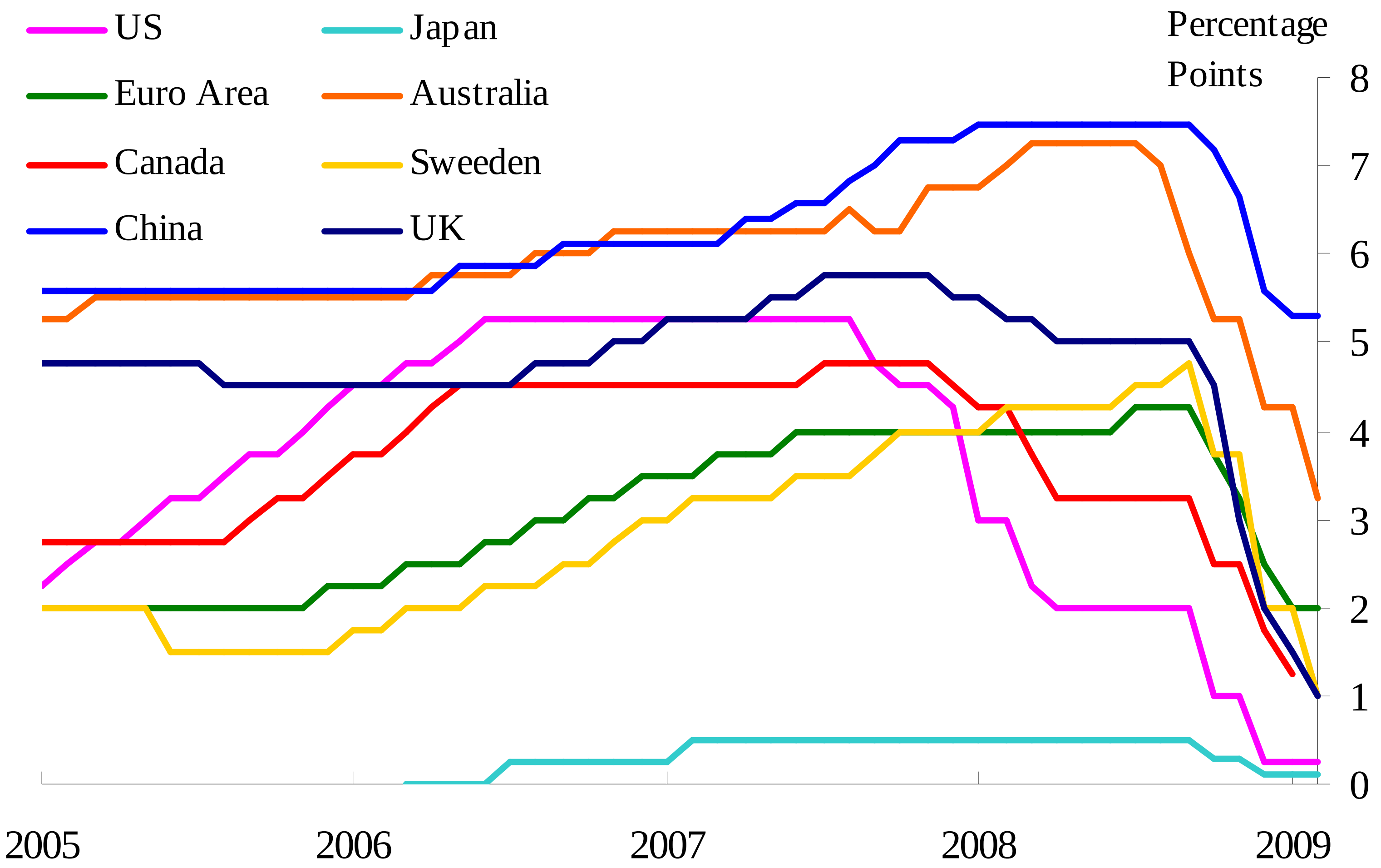
Synchronised Downturn: Industrial Production



Sources: Bank Calculations and Thompson Datastream

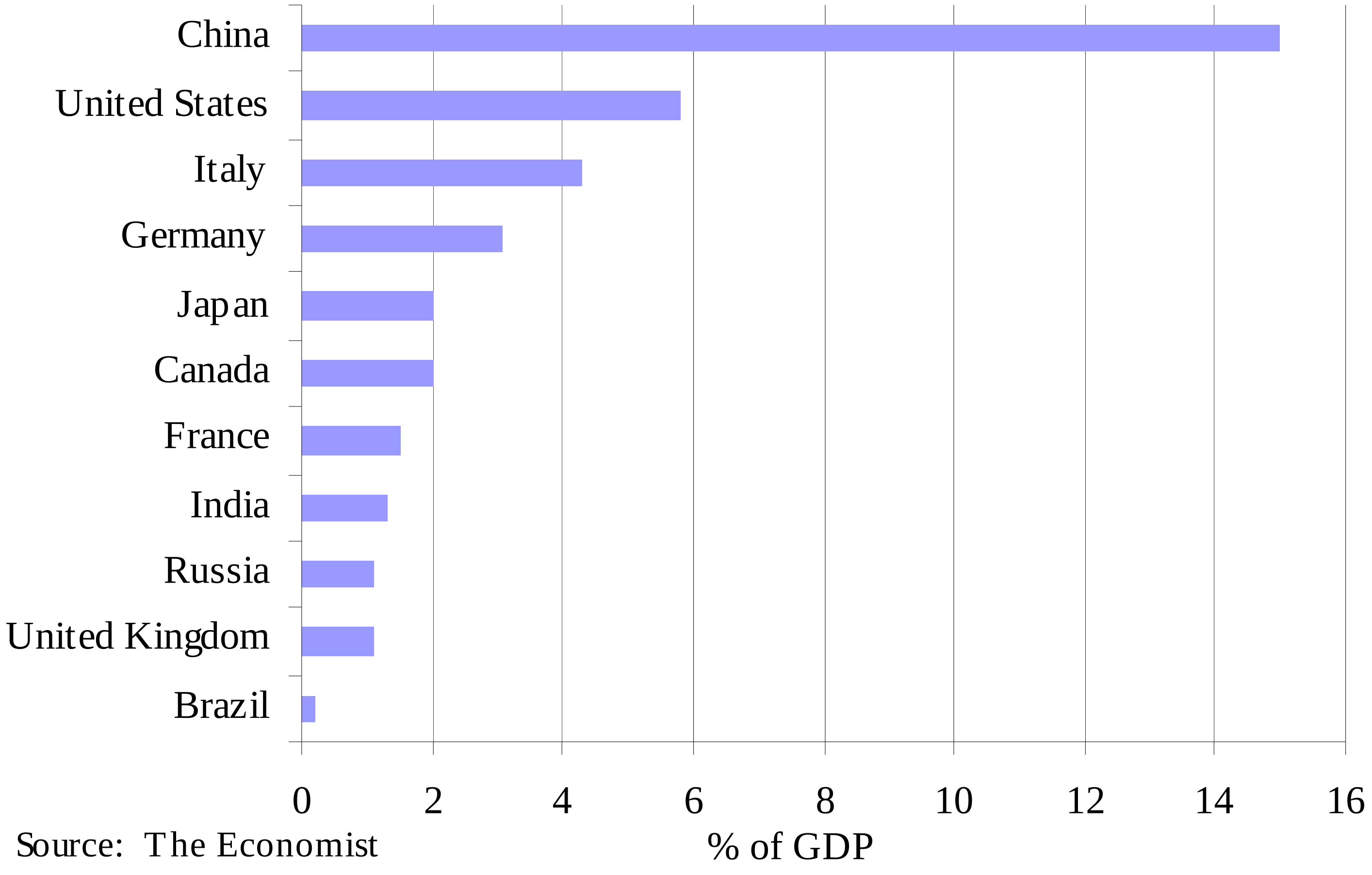
Data to December

International Loosening of Monetary Policy



Sources: National Central Banks and Thompson Datastream

International Fiscal Stimuli



Source: The Economist

Sources: National Central Banks and Thompson Datastream

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

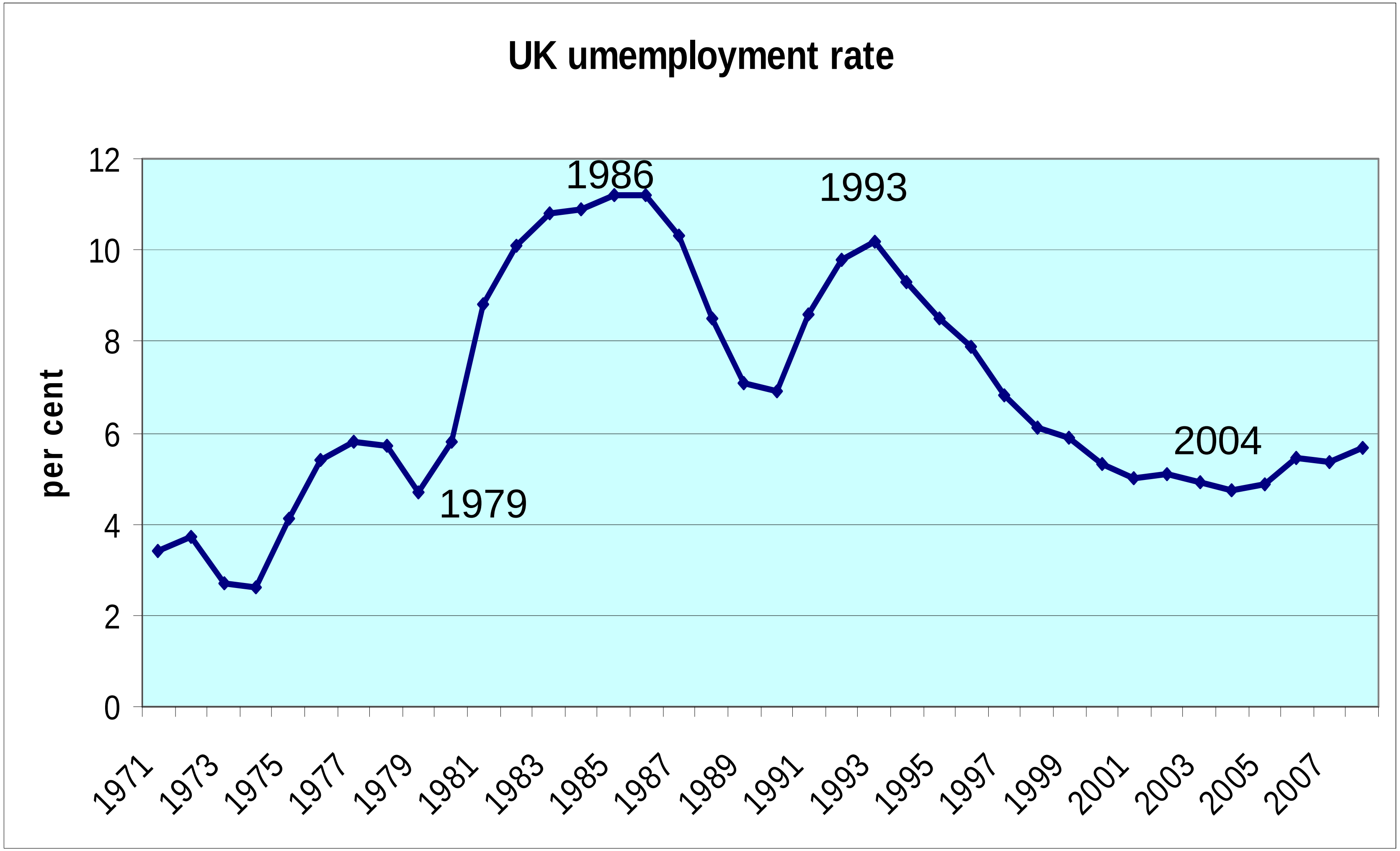
Is this recession conforming?

- 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

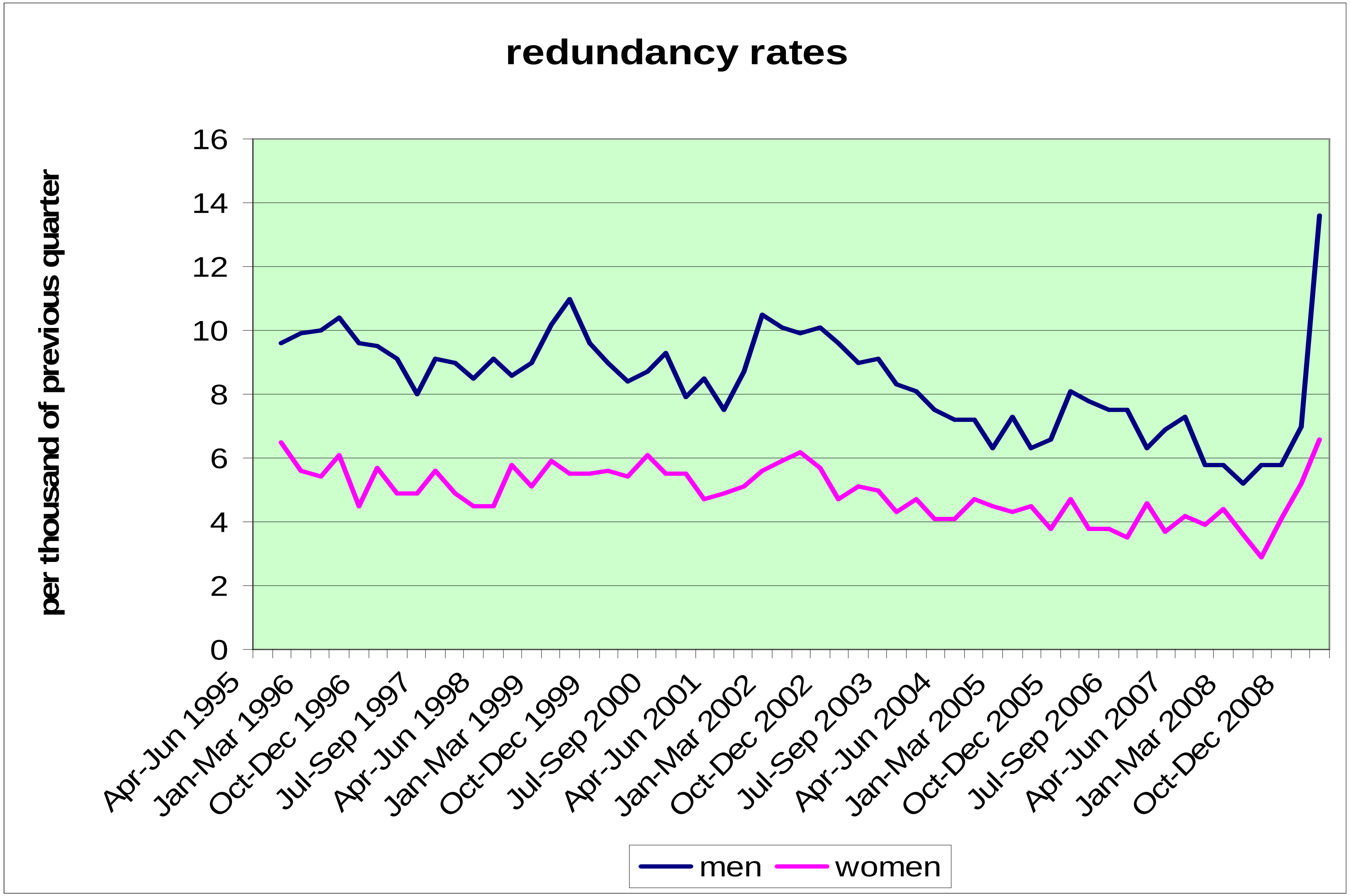
Speculative views

- 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

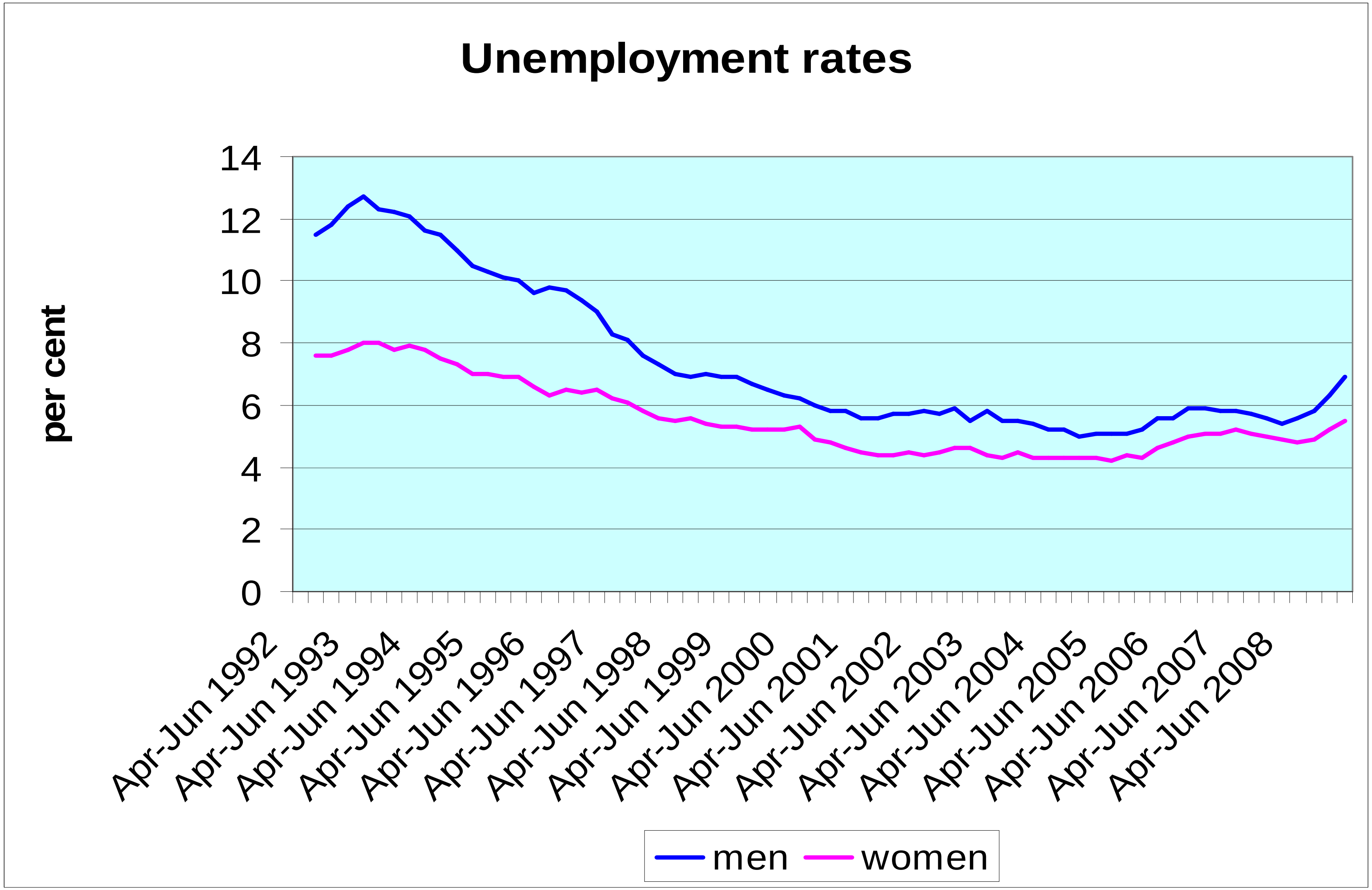
Much less impact on unemployment



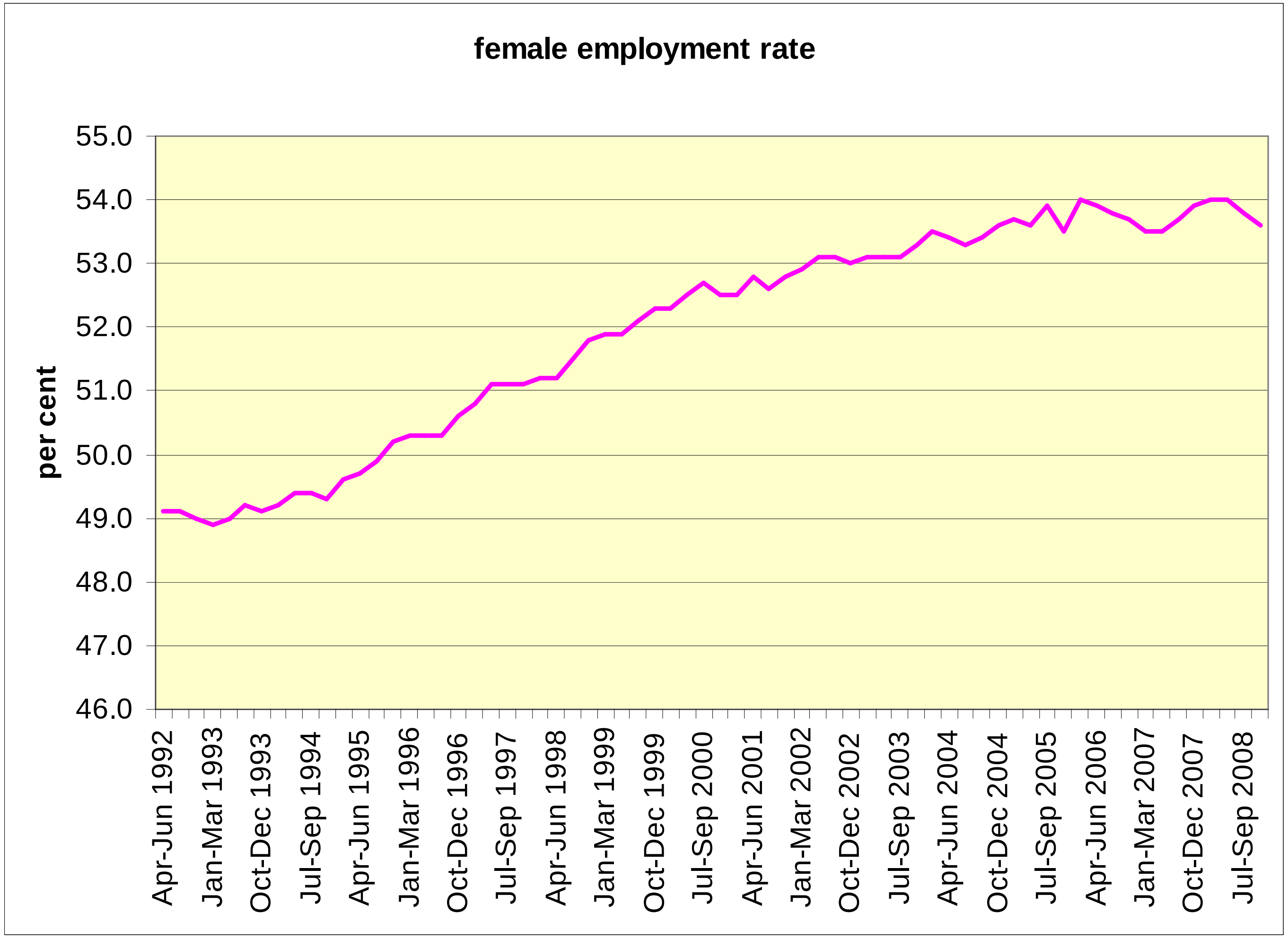
Despite sharp rise in redundancies

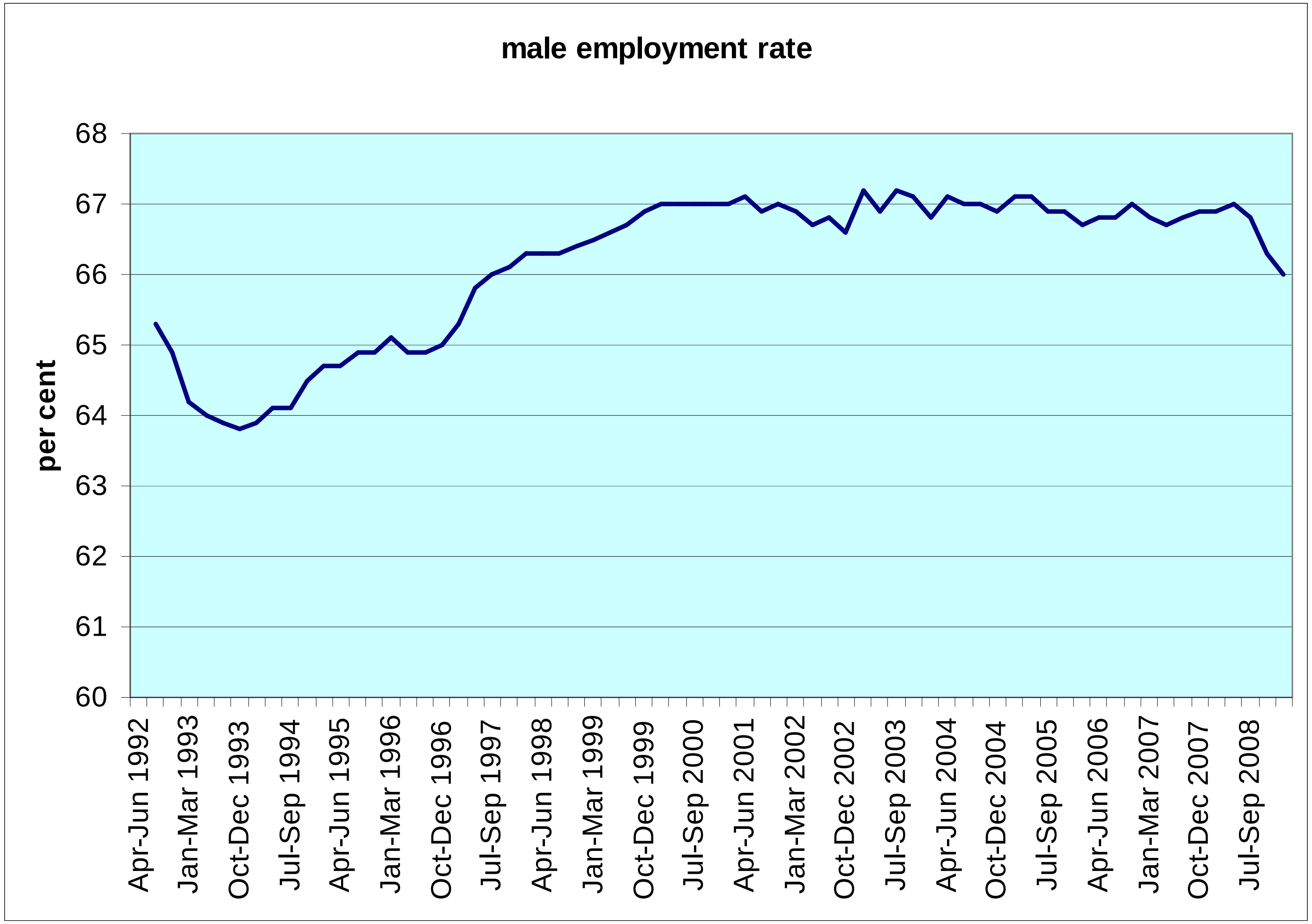


Small unemployment response whichever way you look at it

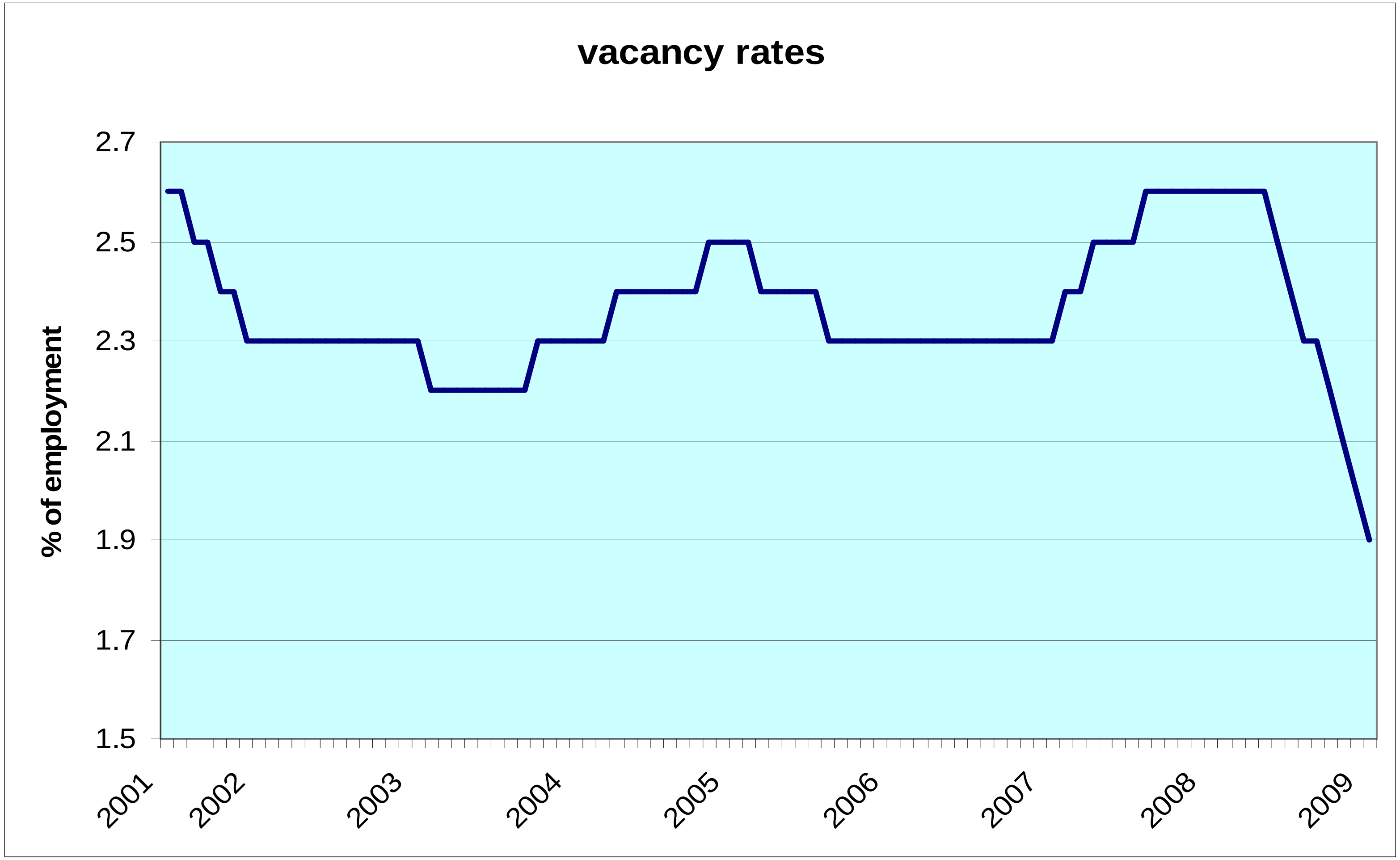


Employment rates falling but only marginally

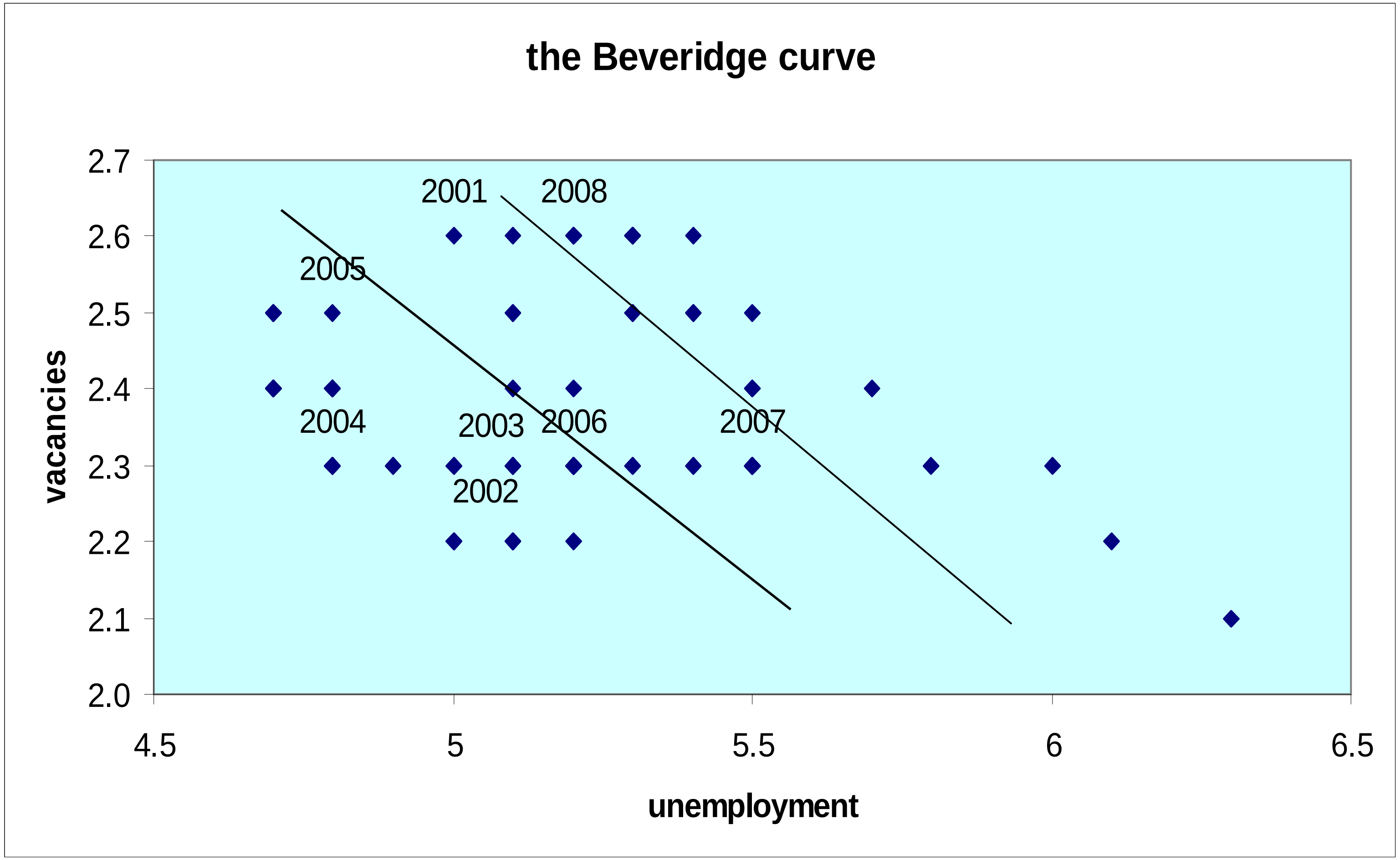



male employment rate
per cent
68
67
66
65
64
63
62
61
60
Apr-Jun 1992
Jan-Mar 1993
Oct-Dec 1993
Jul-Sep 1994
Apr-Jun 1995
Jan-Mar 1996
Oct-Dec 1996
Jul-Sep 1997
Apr-Jun 1998
Jan-Mar 1999
Oct-Dec 1999
Jul-Sep 2000
Apr-Jun 2001
Jan-Mar 2002
Oct-Dec 2002
Jul-Sep 2003
Apr-Jun 2004
Oct-Dec 2004
Jul-Sep 2005
Apr-Jun 2006
Jan-Mar 2007
Oct-Dec 2007
Jul-Sep 2008

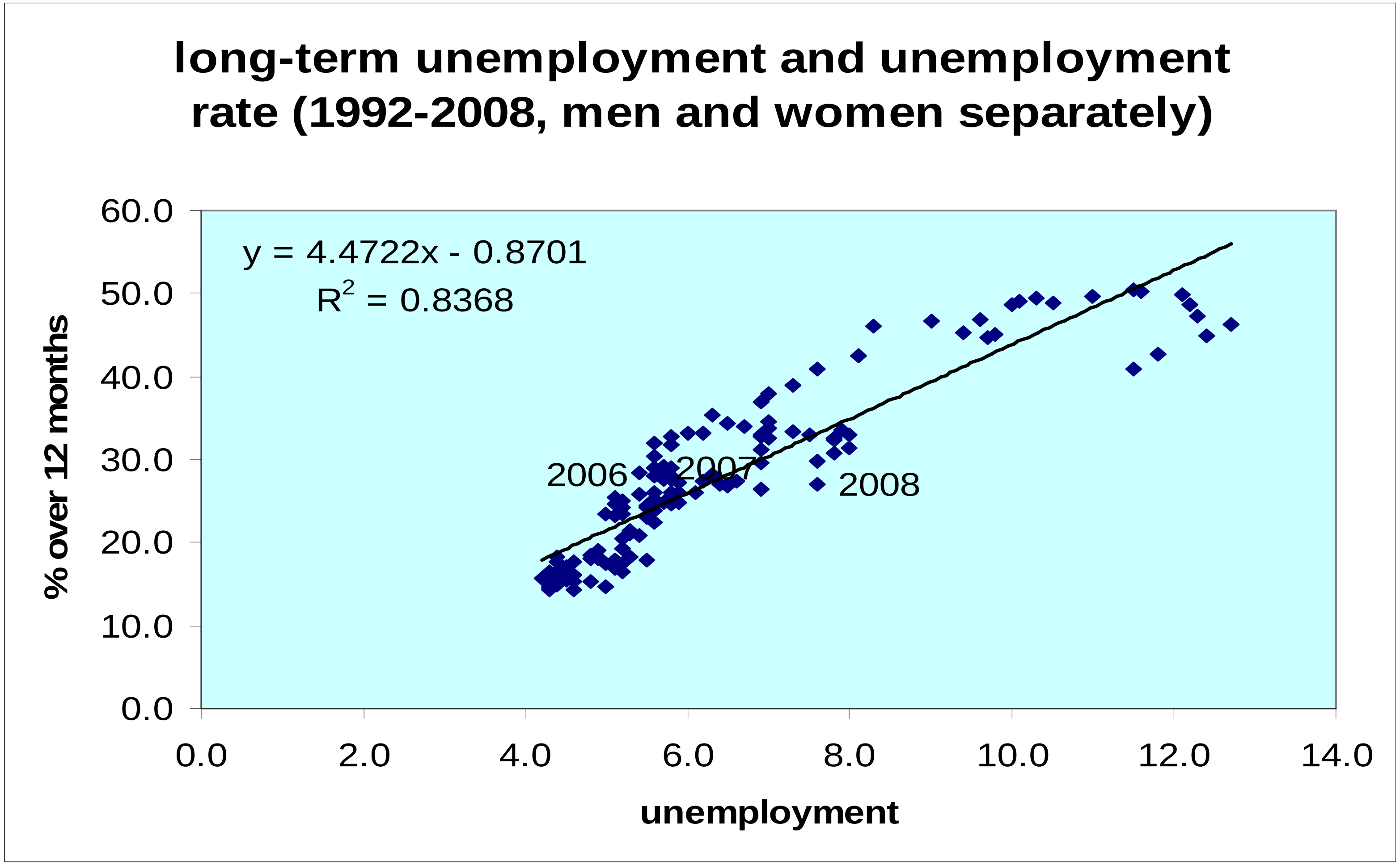
Things might get worse because hiring will fall



The Beveridge curve is shifting out a little probably due to redundancies (compare 2005-06 with 2007-08)

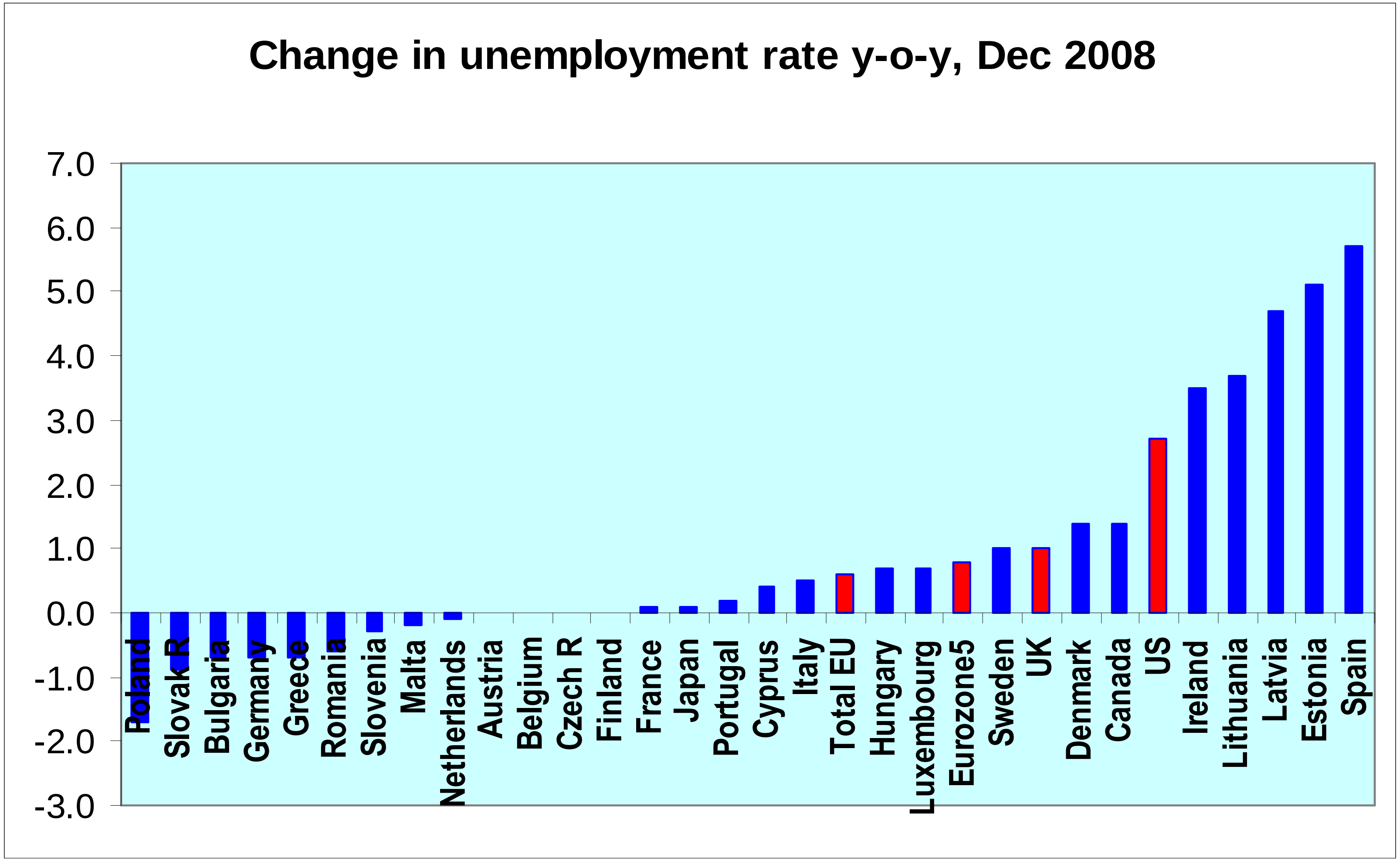


Relation between unemployment rate and long-term unemployment tight but some signs that 2008 is different



Long-term unemployment not rising
(may pick up in 2009 a little because of the rise in u in 2008)

UK not doing too badly, about the same as eurozone, better than US



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