

Recession Panel

Francesco Caselli

Three Questions

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

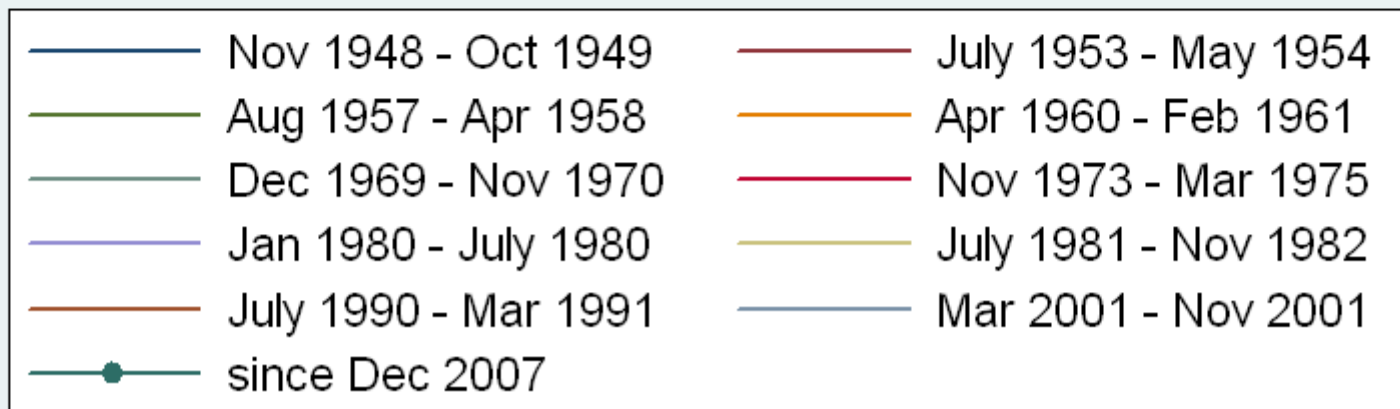
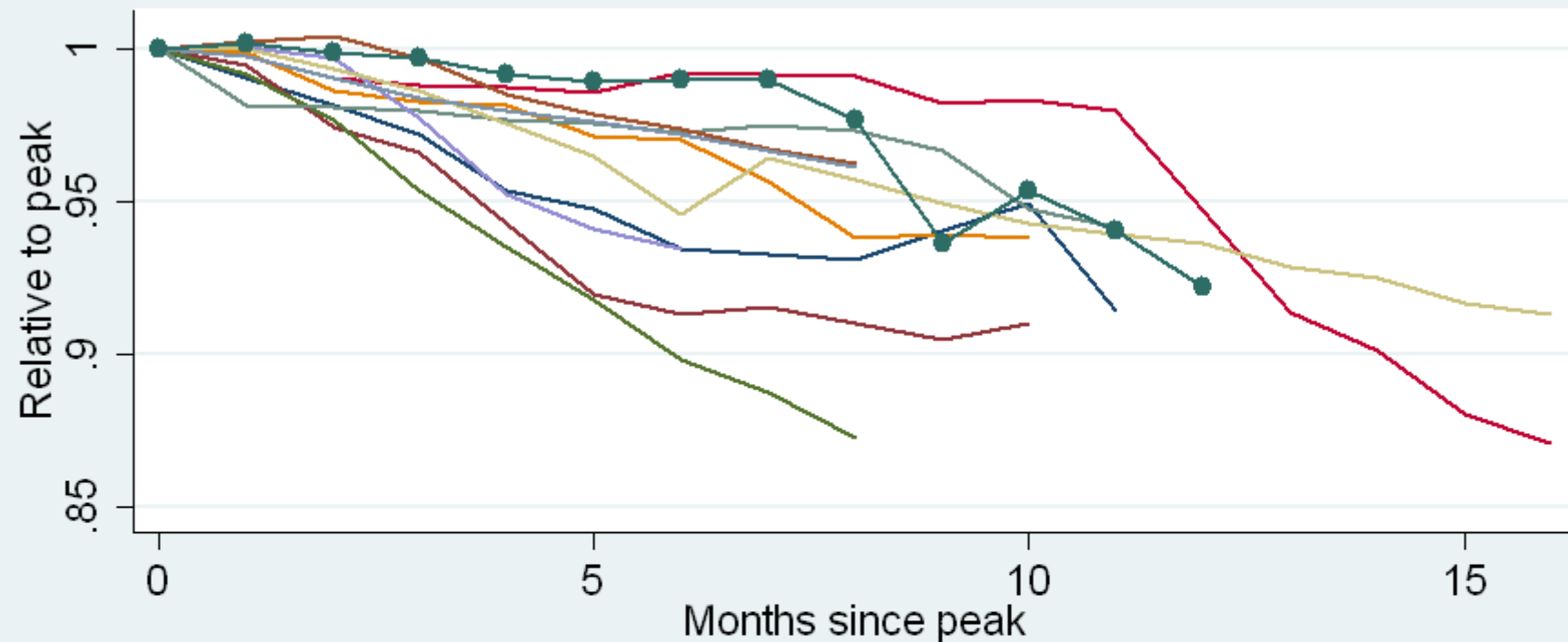
Three Questions

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

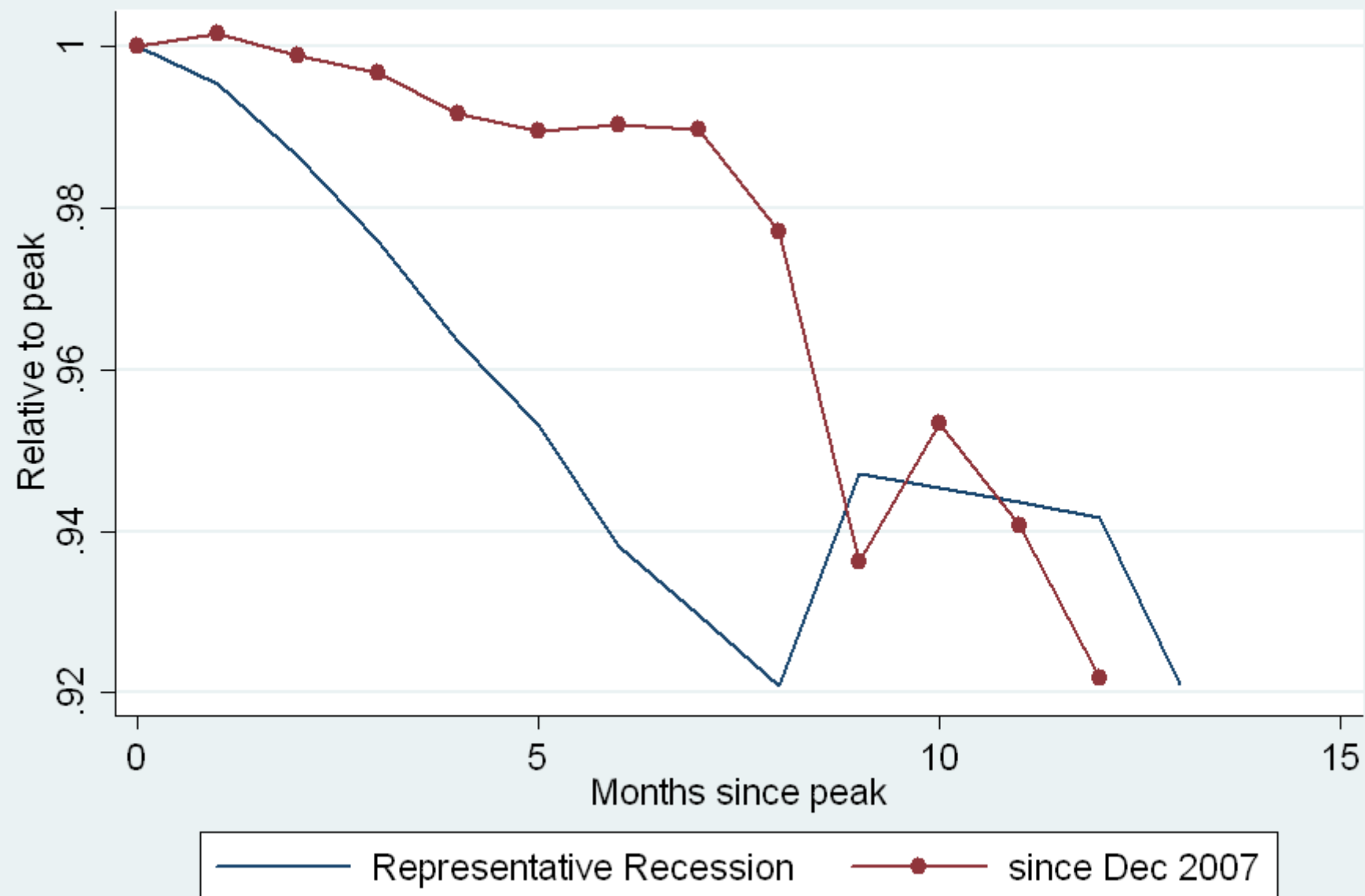
Is this recession special?

- A quick look at (US) data

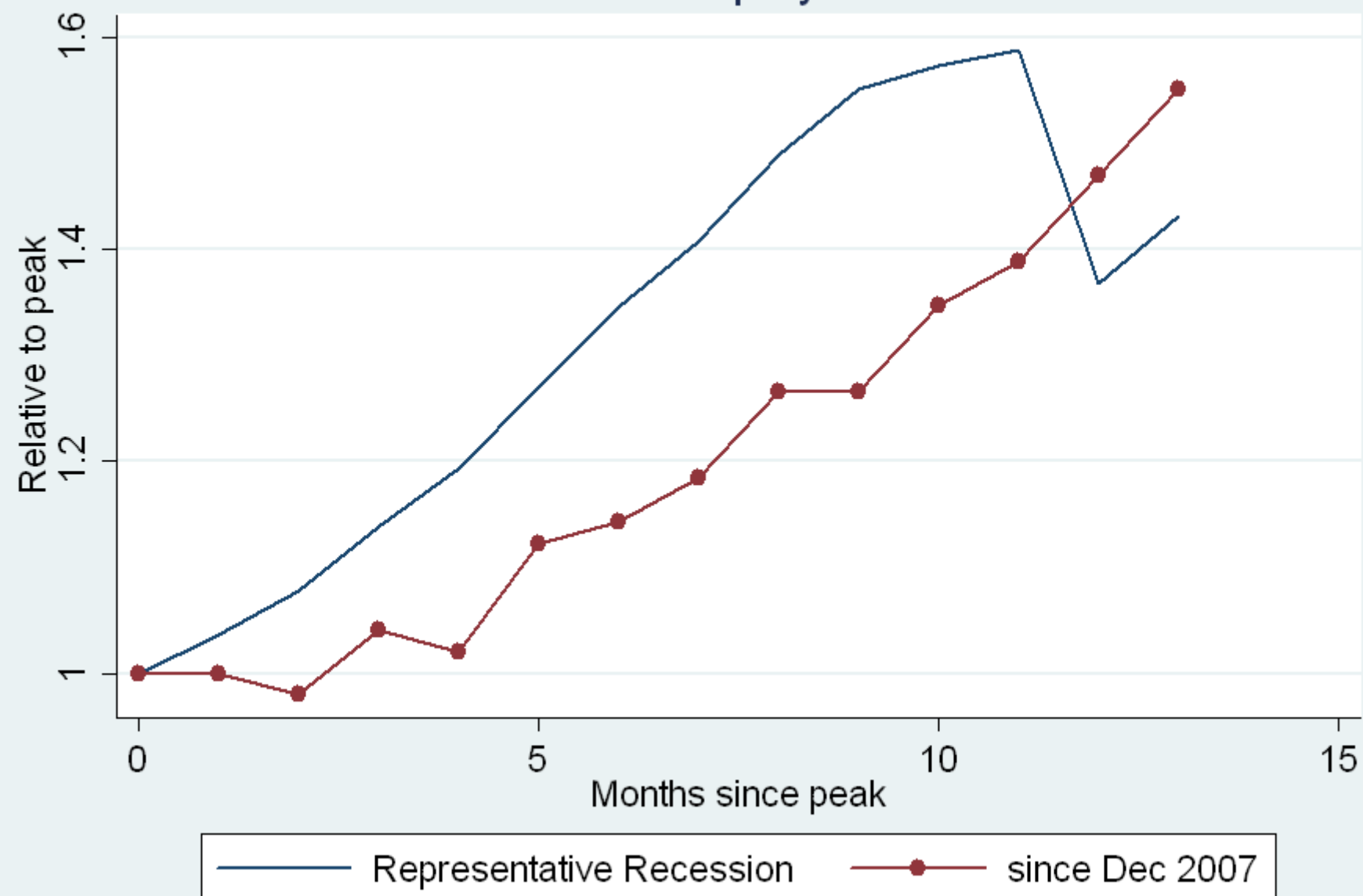
Industrial Production



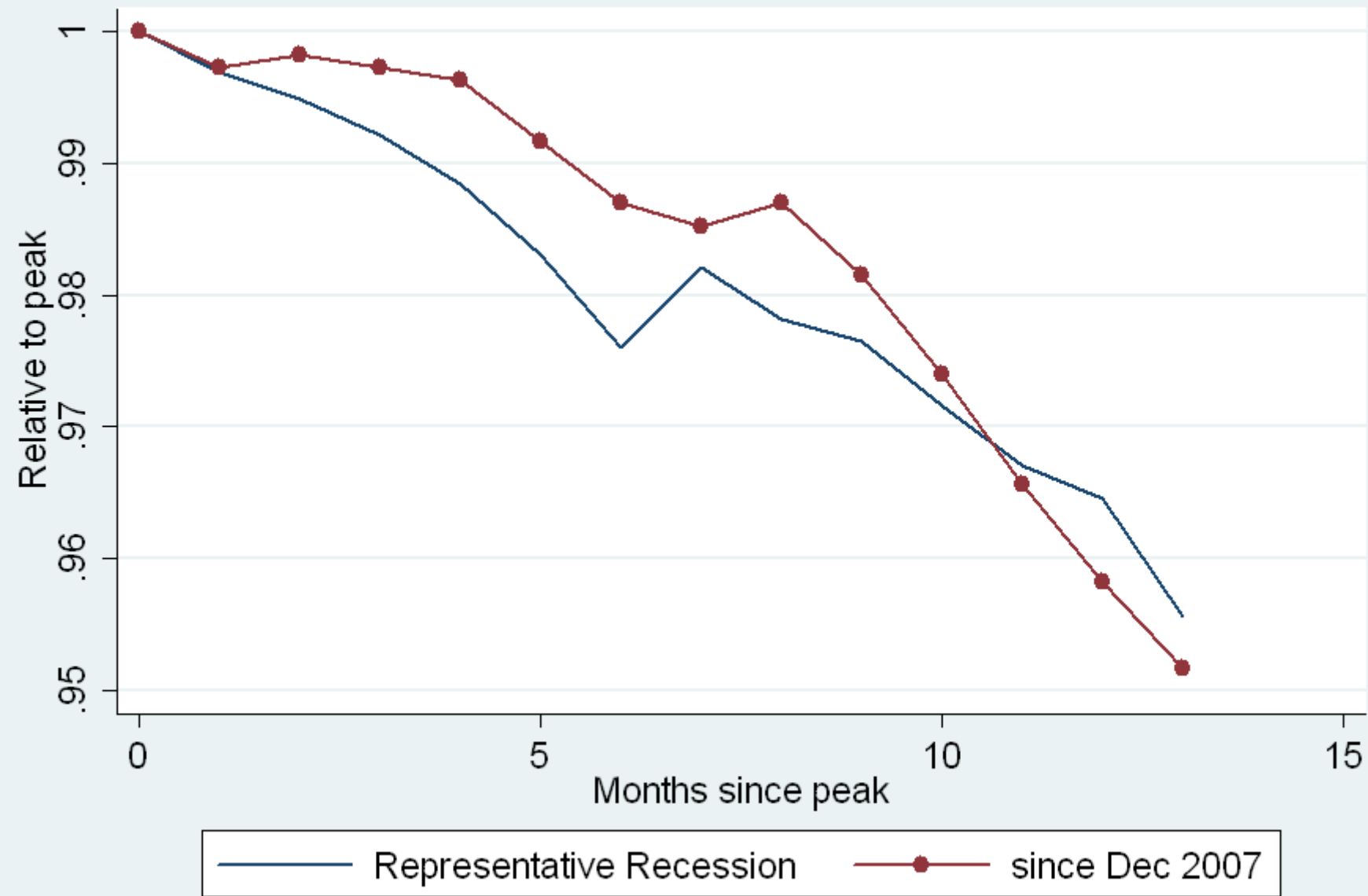
Industrial Production



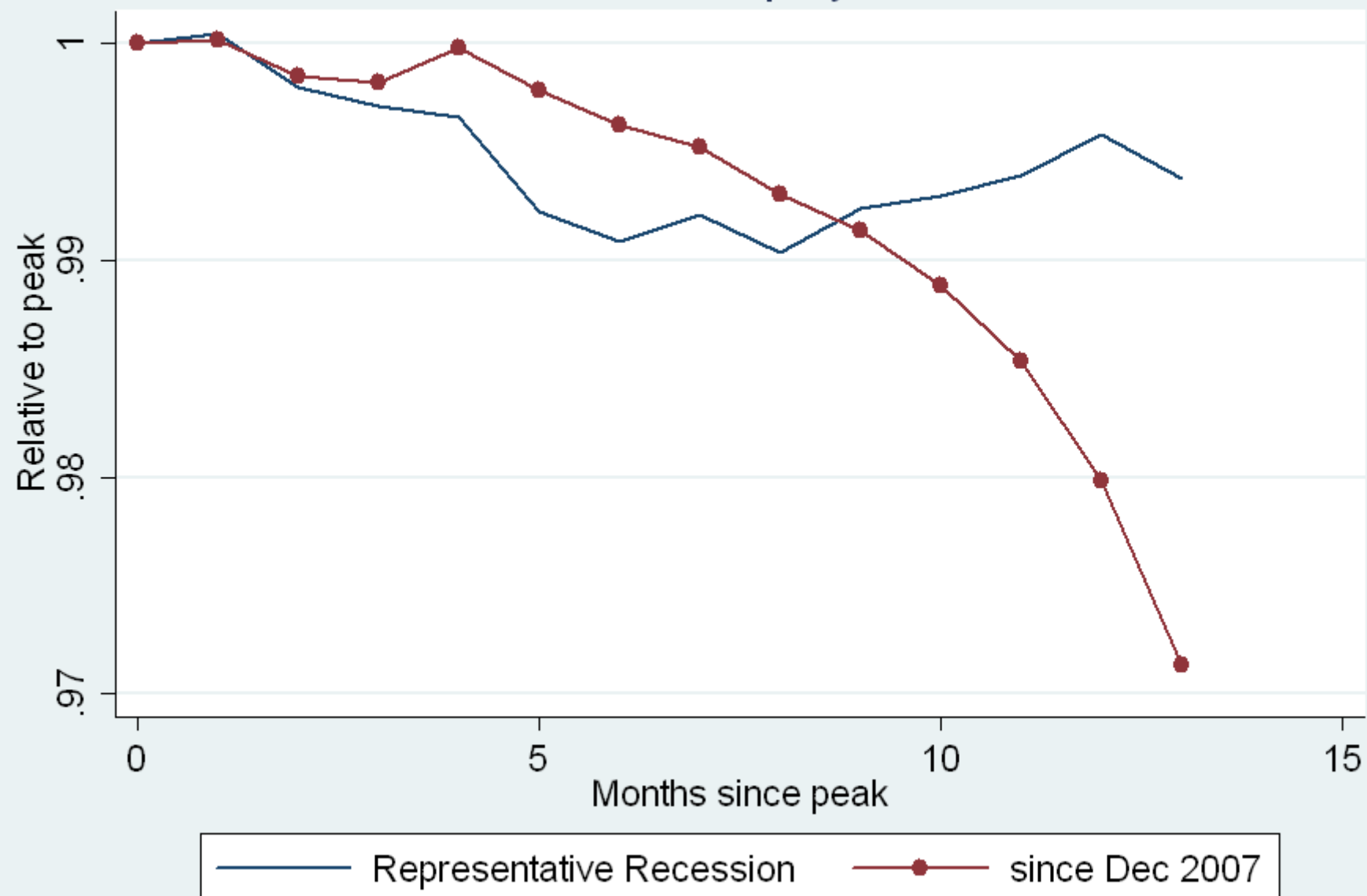
Civilian Unemployment Rate



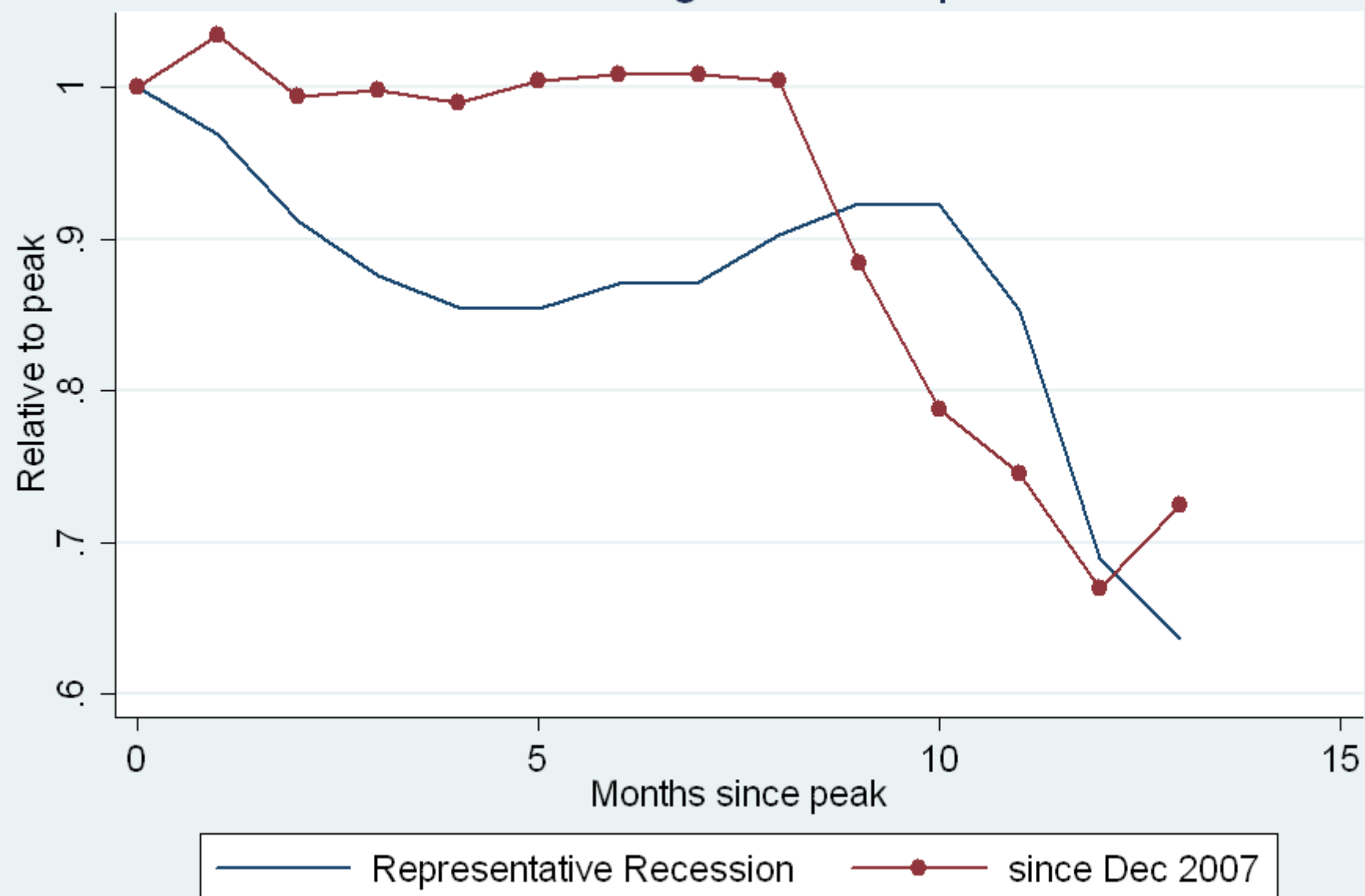
Aggregate Weekly Hours: Total Private Industries



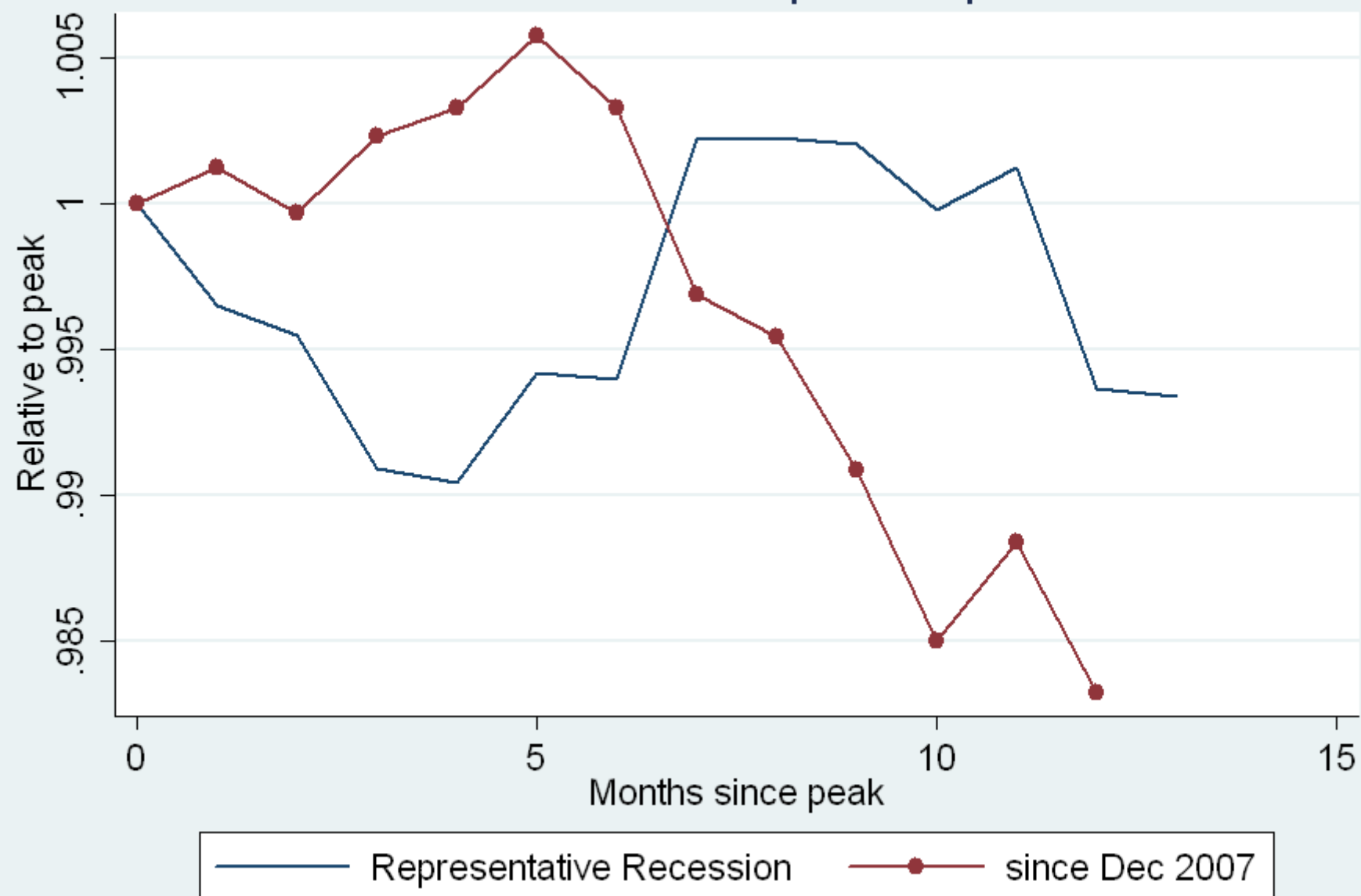
Civilian Employment



ISM Manufacturing: PMI Composite Index



Real Personal Consumption Expenditures



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