

# The Financial Crisis and the Economic Outlook

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## Housing Bubble and Financial Crisis Culprits

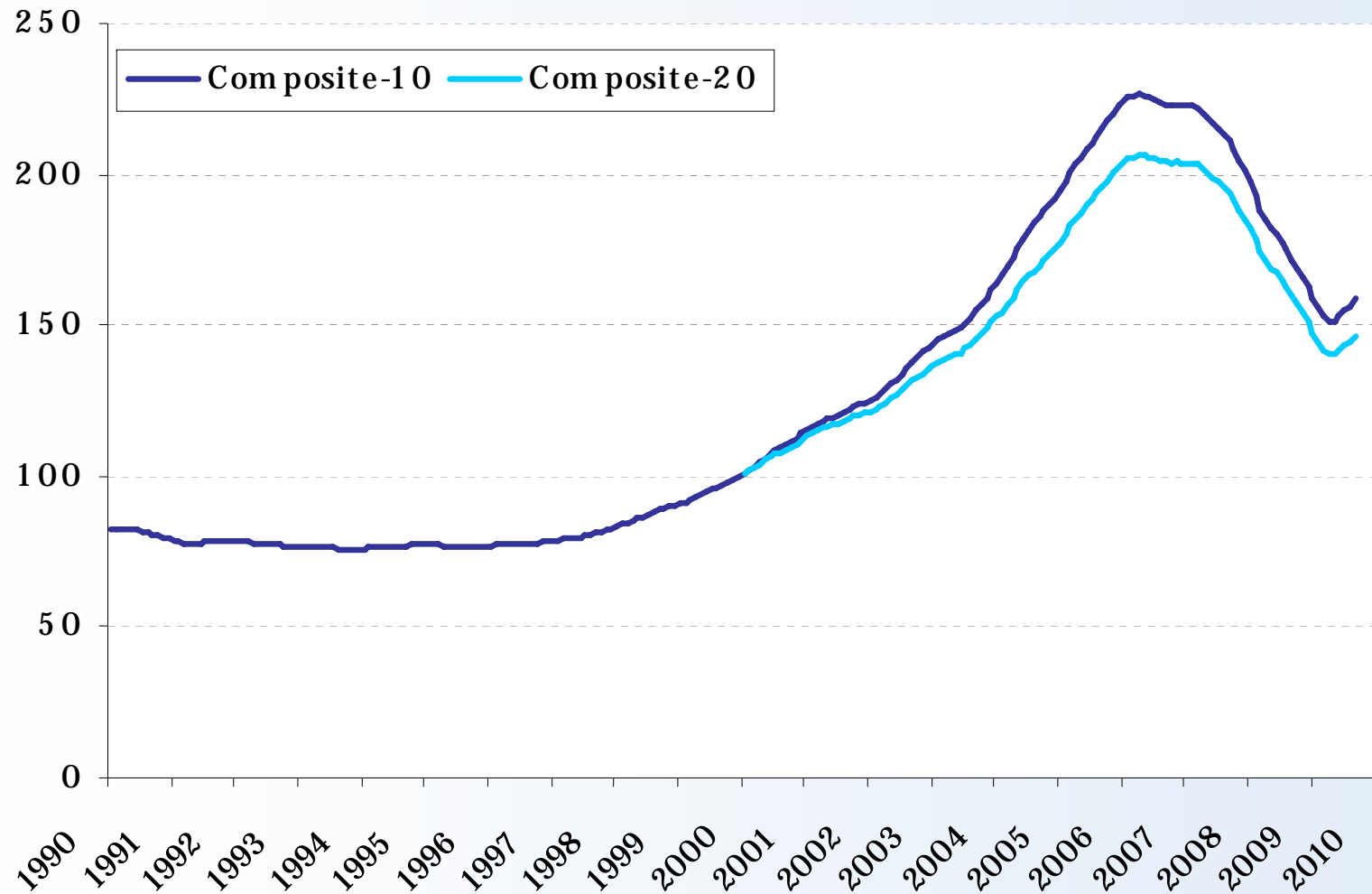
### Housing Bubble

- Psychology (animal spirits).
- Global imbalances (searching for yield).
- Fed funds rate (Greenspan's put).
- Housing tax policies.
- Government-sponsored enterprises (GSEs).
- Deteriorating underwriting standards.

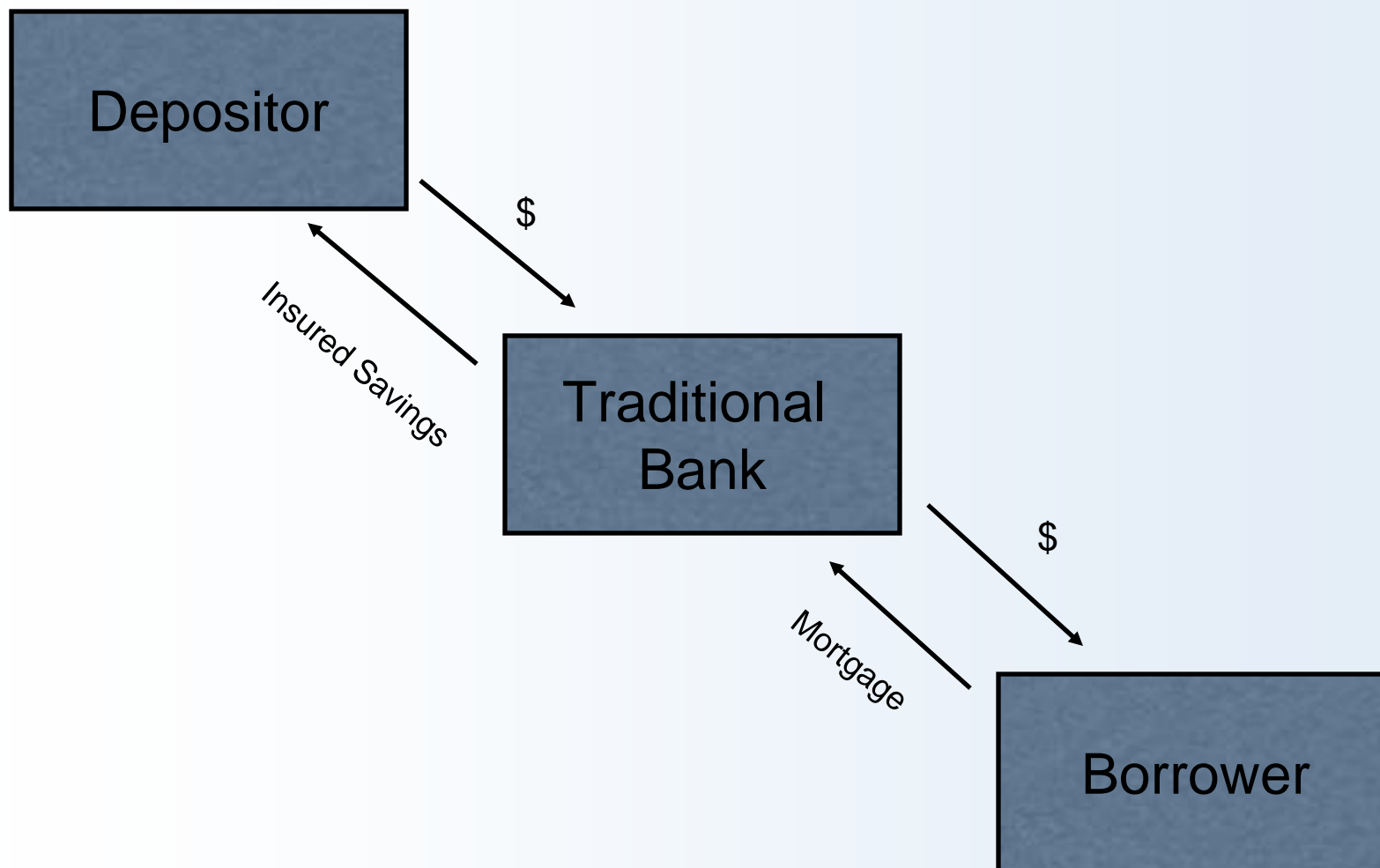
### Financial Crisis

- Poor risk-based models (mispriced risk).
- Credit rating agencies.
- Risk-based capital requirements and regulatory arbitrage.
- High leverage and low liquidity.

## Case-Shiller Home Price Indices

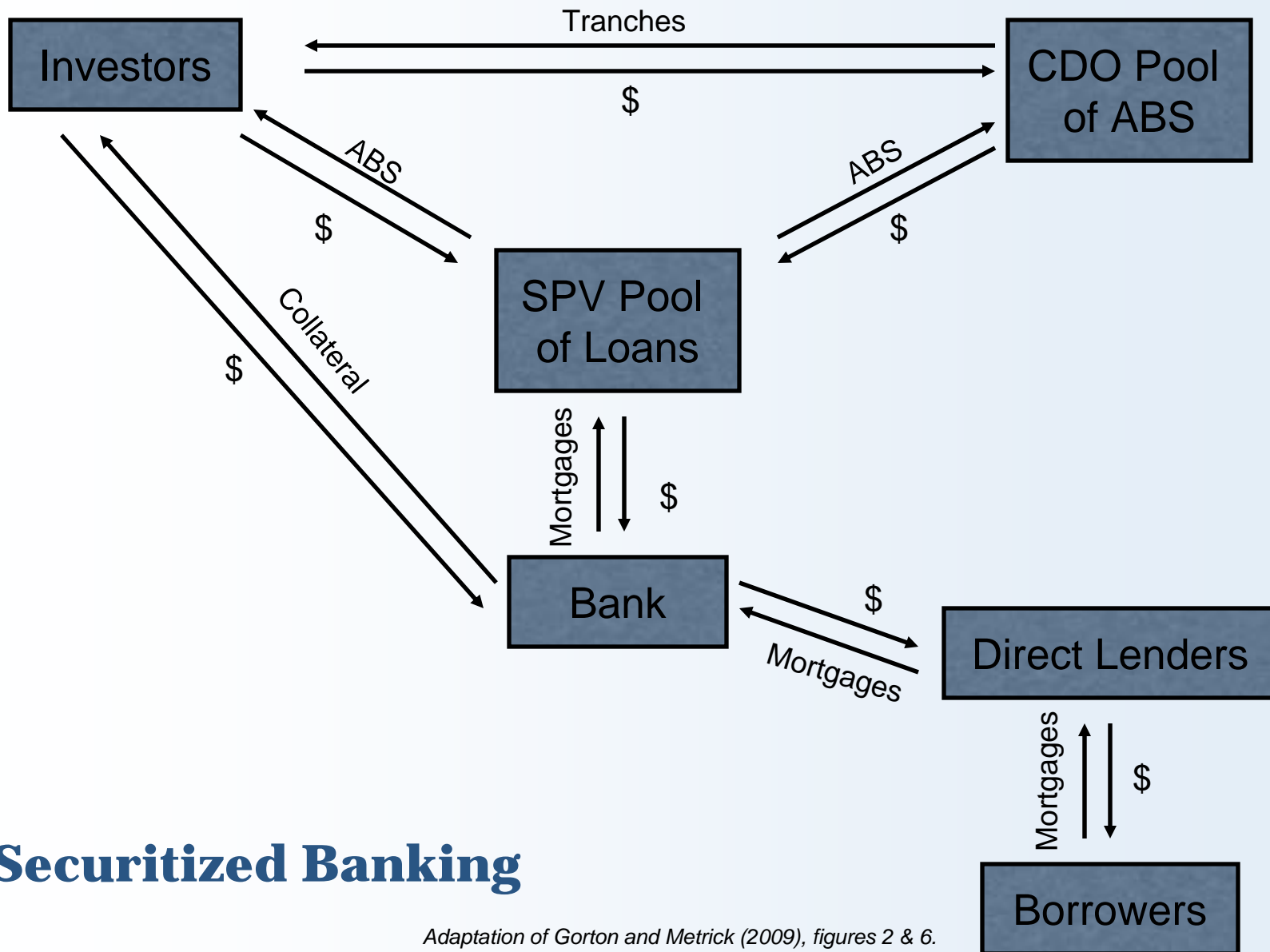


S&P/Case-Shiller 10 and 20-city composite indices.

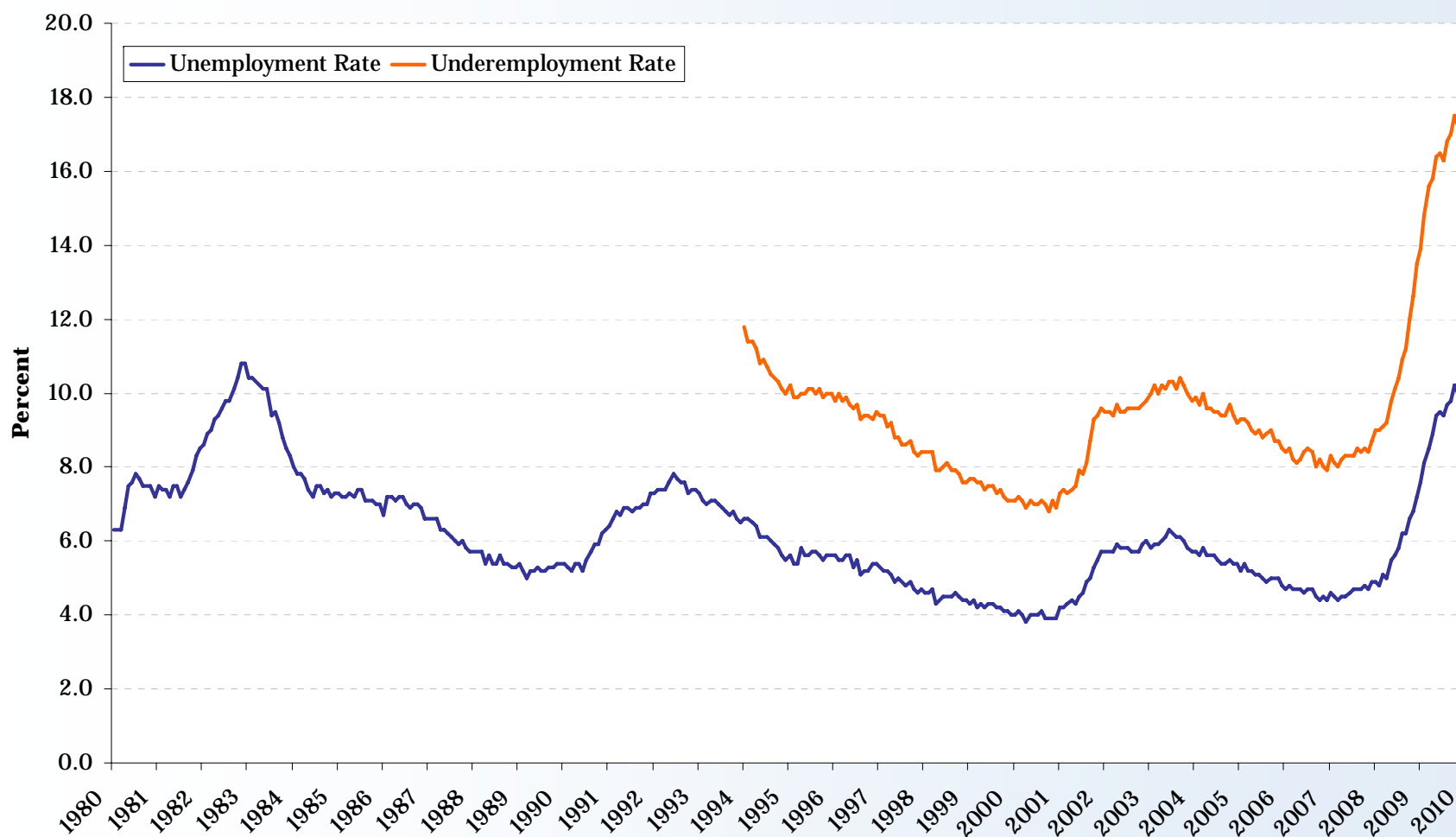


## Traditional Banking

Gary B. Gorton and Andrew Metrick, "Securitized Banking and the Run on Repo." Working Paper 15223 (Cambridge, Mass.: National Bureau of Economic Research, August 2009): figure 1.

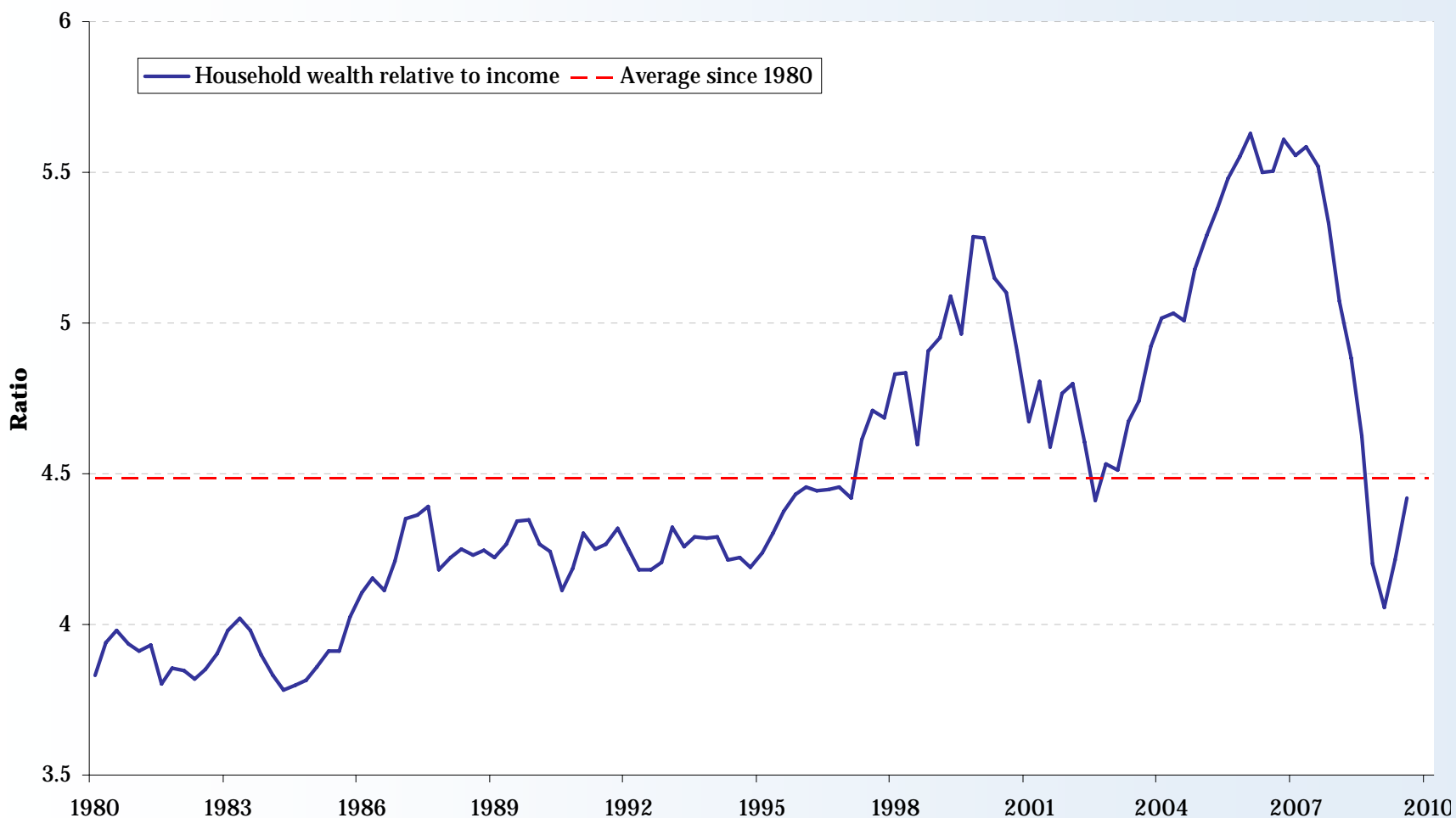


## Weak Labor Markets



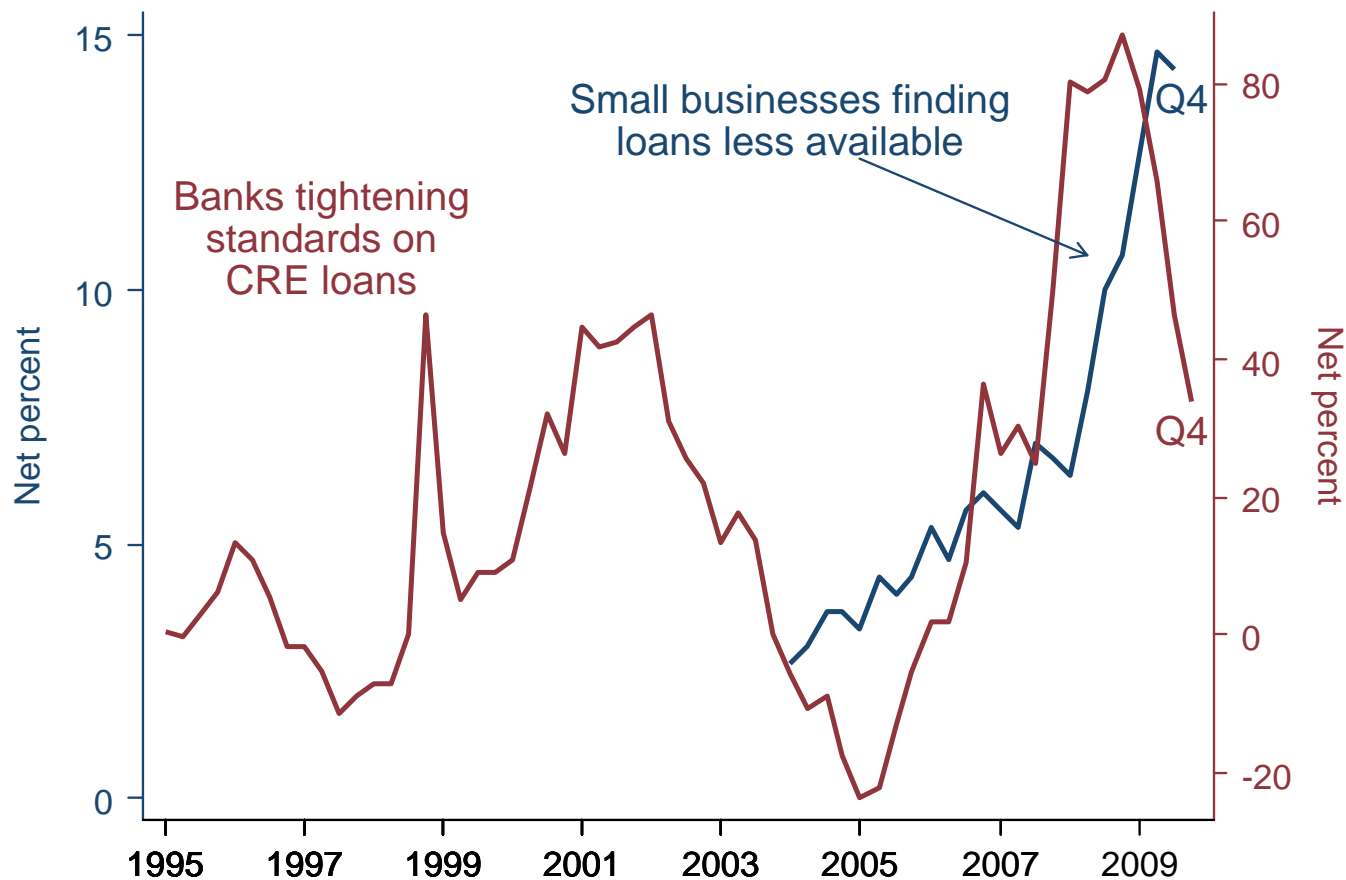
Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis, & BLS.

## Plunge in Household Wealth



*Federal Reserve Board, Flow of Funds, & FRED.*

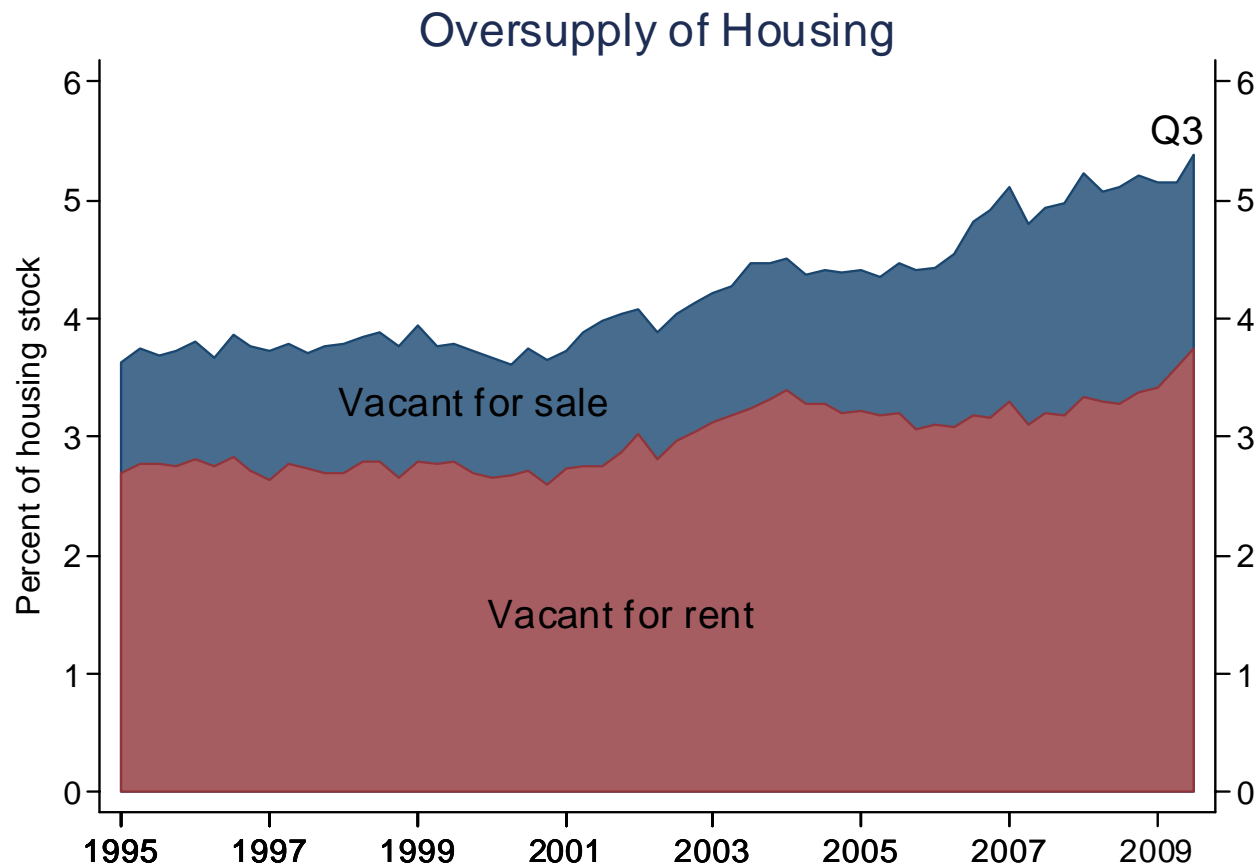
## Lending Conditions: CRE and Small Businesses



Federal Reserve Board, "Senior Loan Officer Opinion Survey on Bank Lending Policies" (Oct. 2009), & National Federation of Independent Business "Small Business Economic Trends."



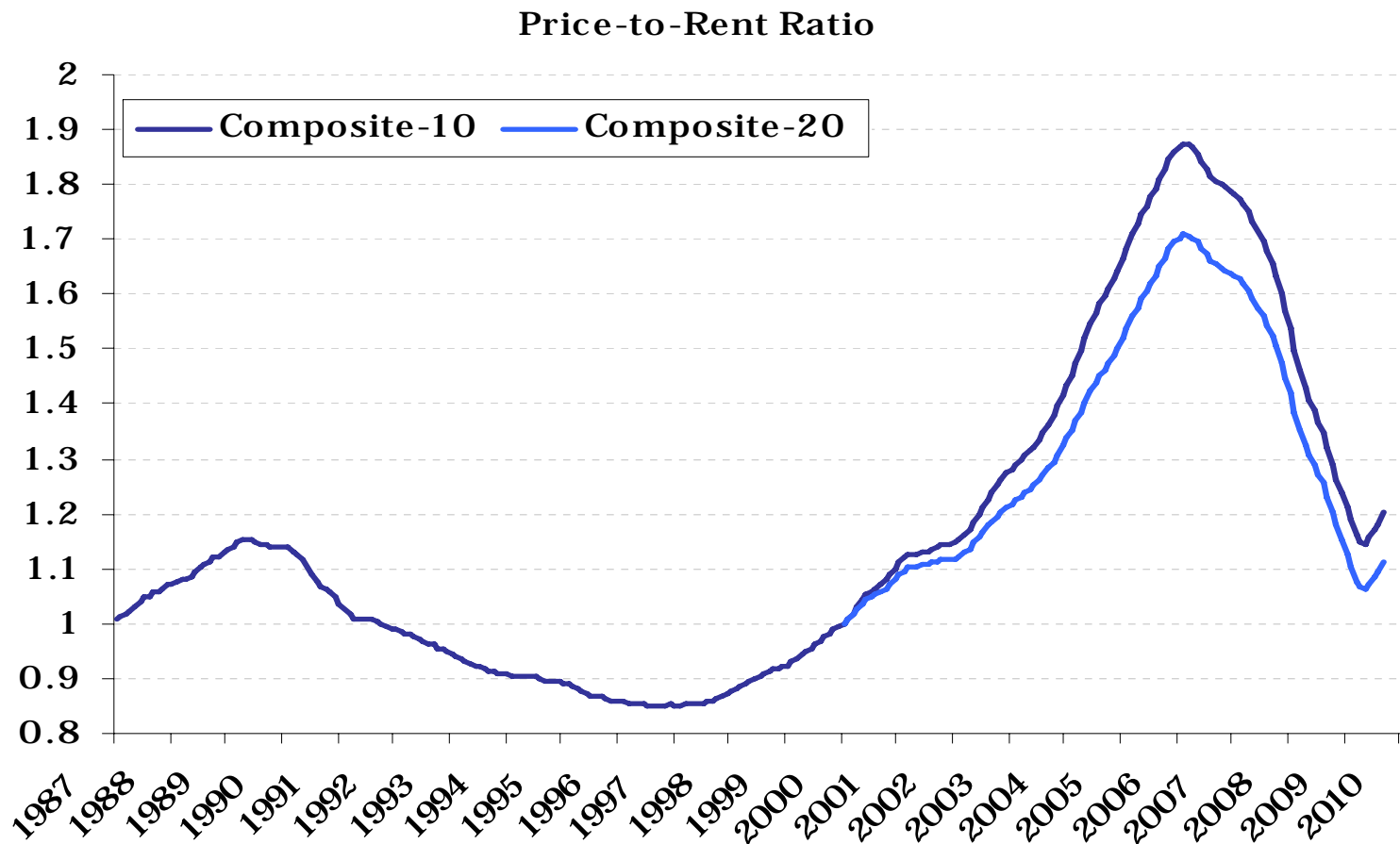
## Housing Market Fundamentals



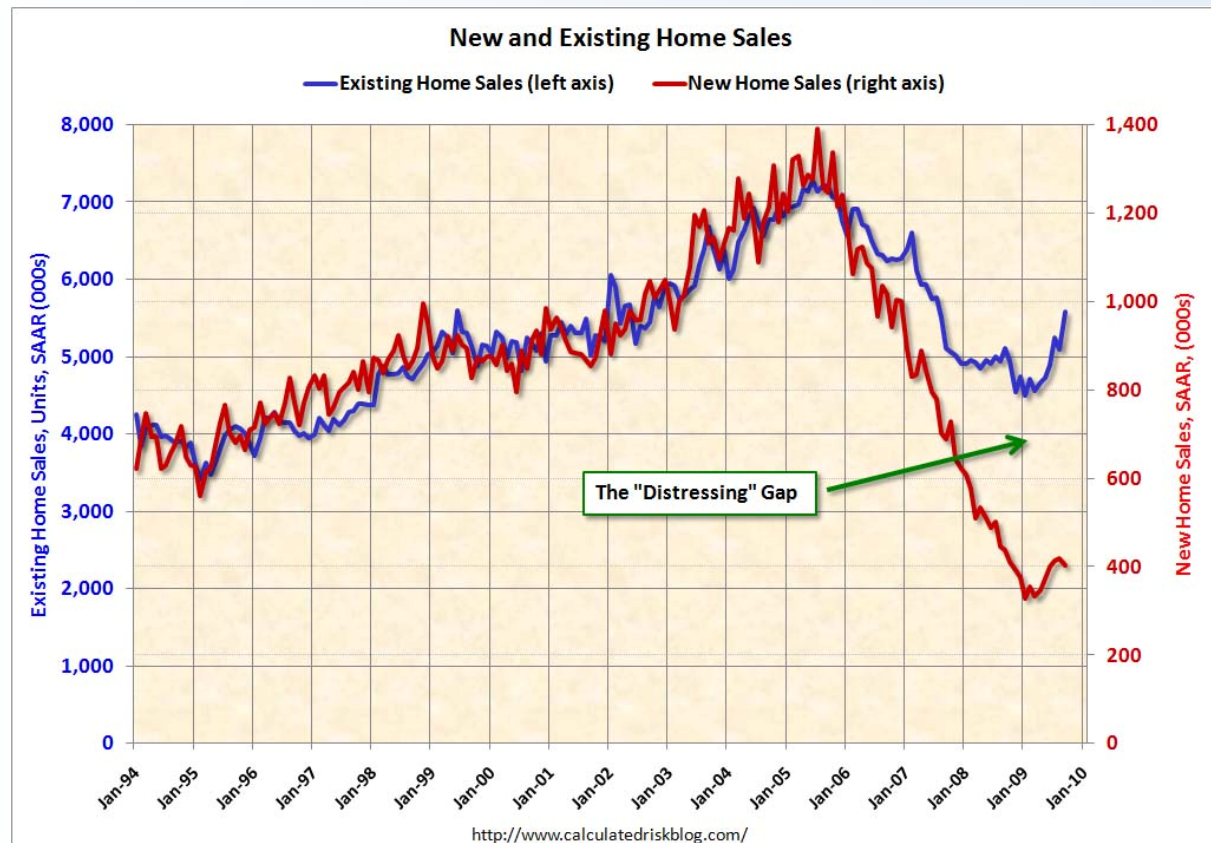
## Housing Market Fundamentals

	Percent of mortgaged property underwater	Loan to value ratio
California	35%	72%
Florida	45%	87%
Arizona	48%	91%
Nevada	65%	114%
Michigan	37%	84%
New York	6%	49%
Nation	23%	70%

## Housing Market Fundamentals

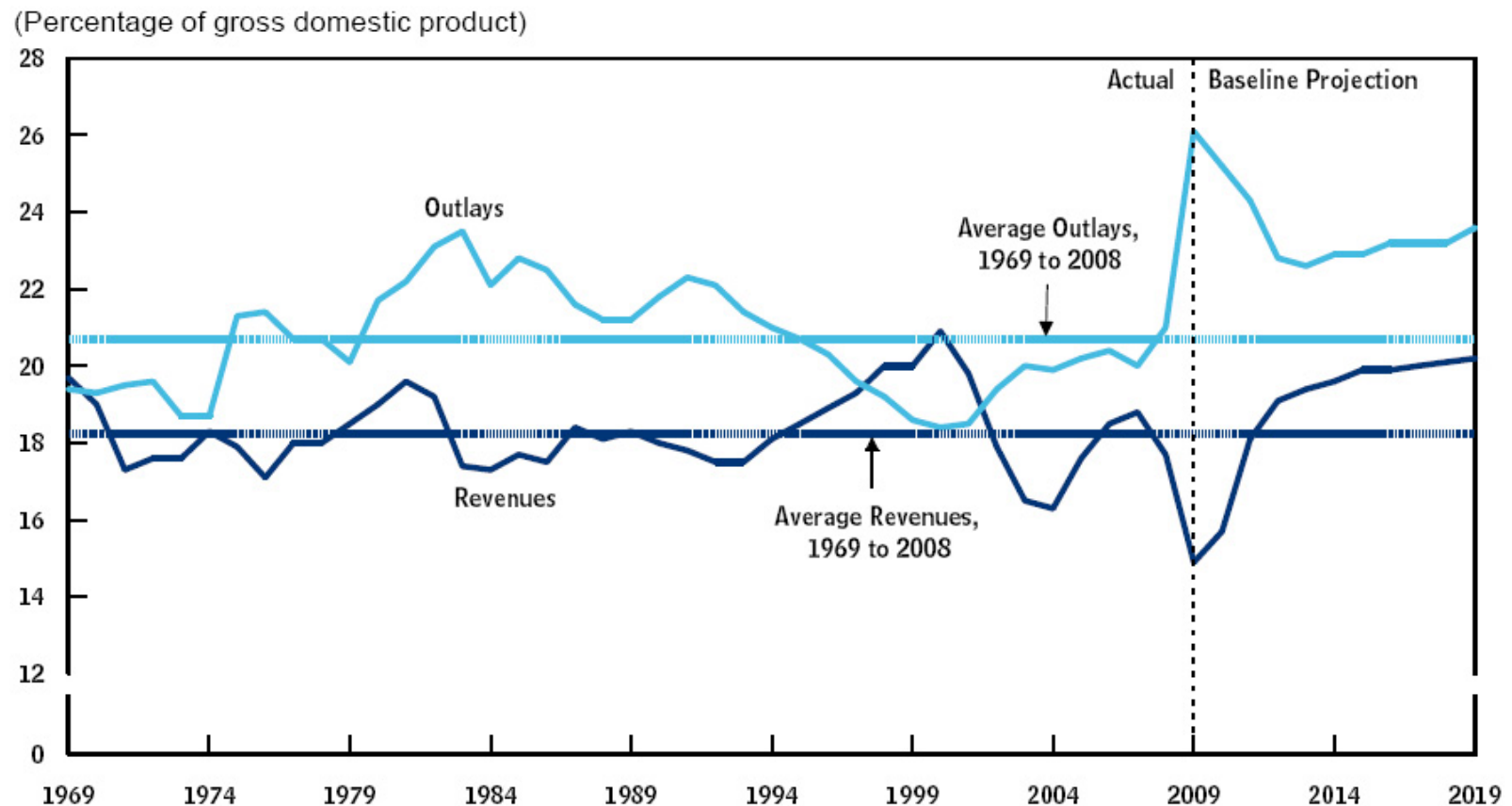


# Housing Market Fundamentals



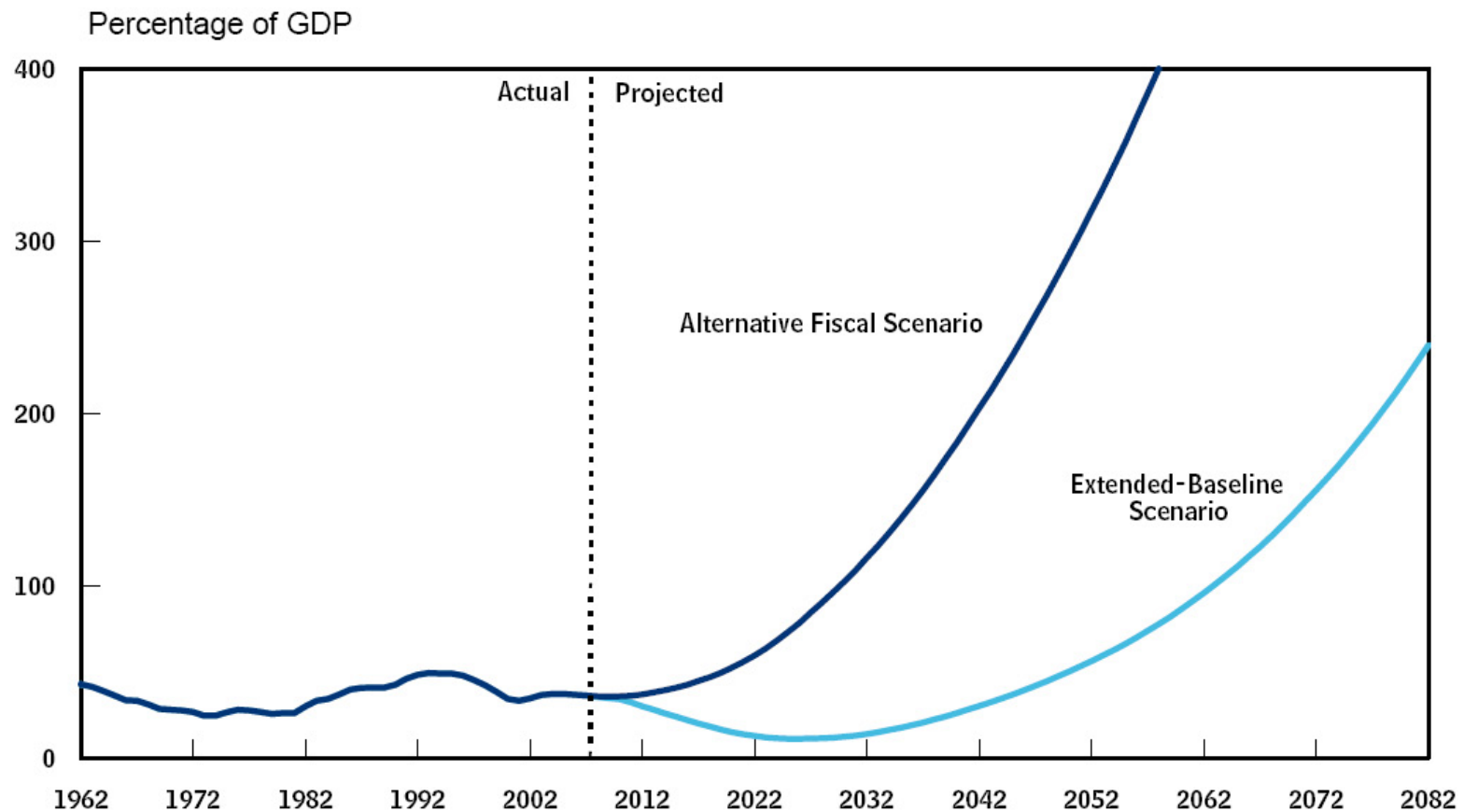
*"New and Existing Home Sales: The Distressing Gap," Calculated Risk: Finance & Economics (October 28, 2009).*

## Revenues & Outlays in CBO's Baseline, 1969-2019

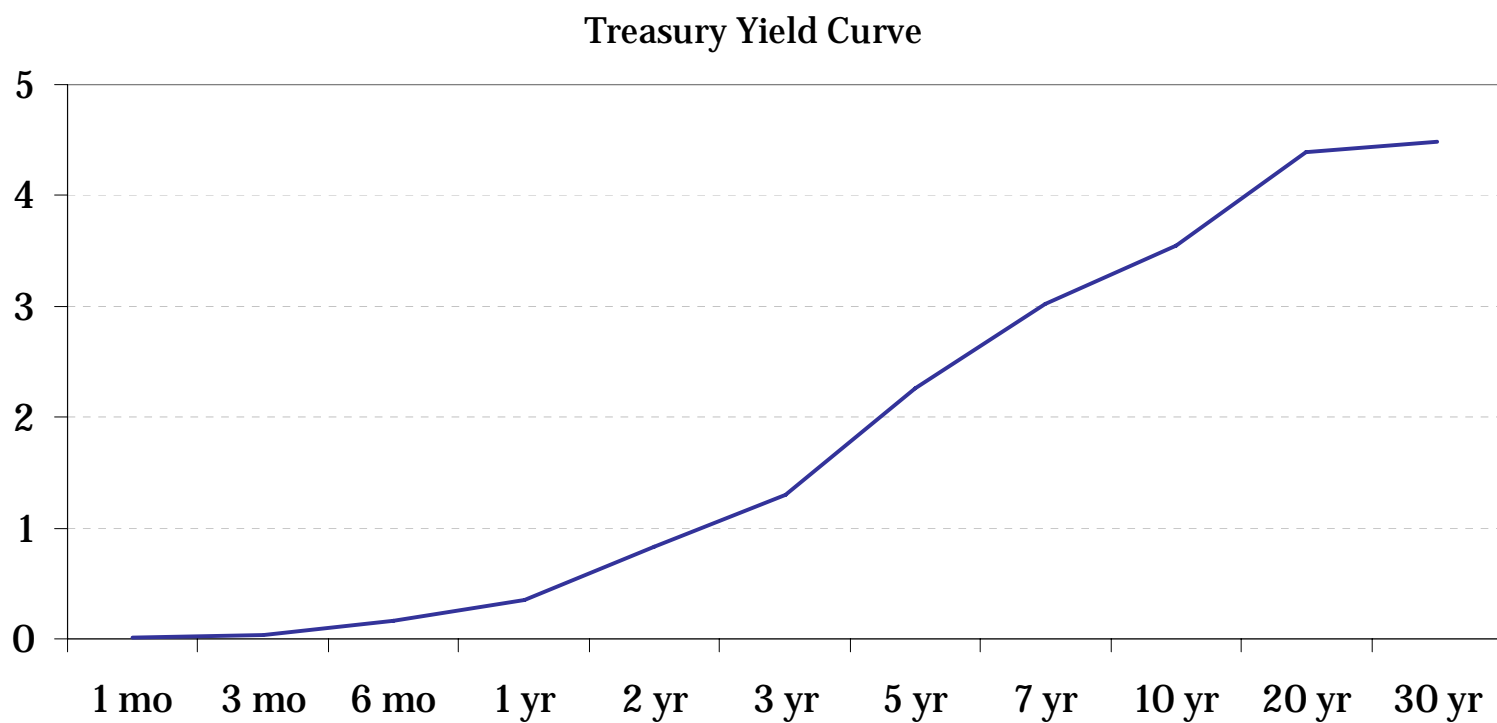


Douglas W. Elmendorf, "The Budget and Economic Outlook." Presentation to the National Economists Club (September 24, 2009).

## Federal Debt Held by the Public



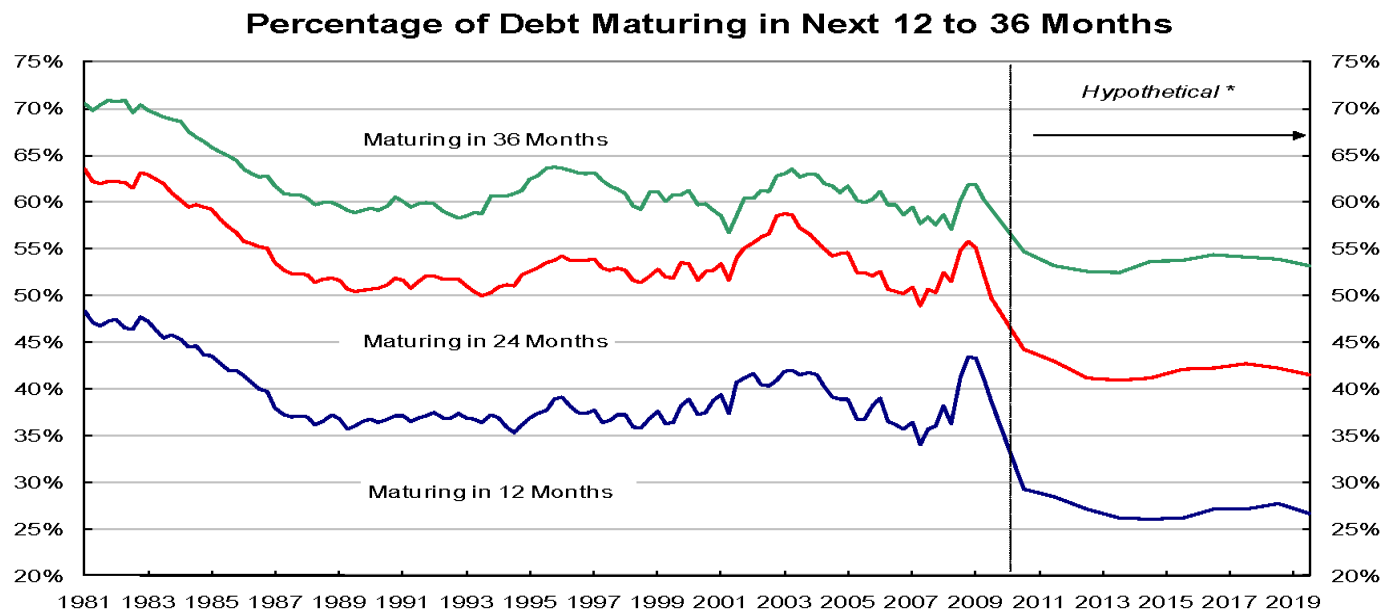
## Treasury Yield Curve



*Treasury rates as of 12/11/2009*

*U.S. Department of the Treasury, Daily Treasury Yield Curve Rates (December 11, 2009).*

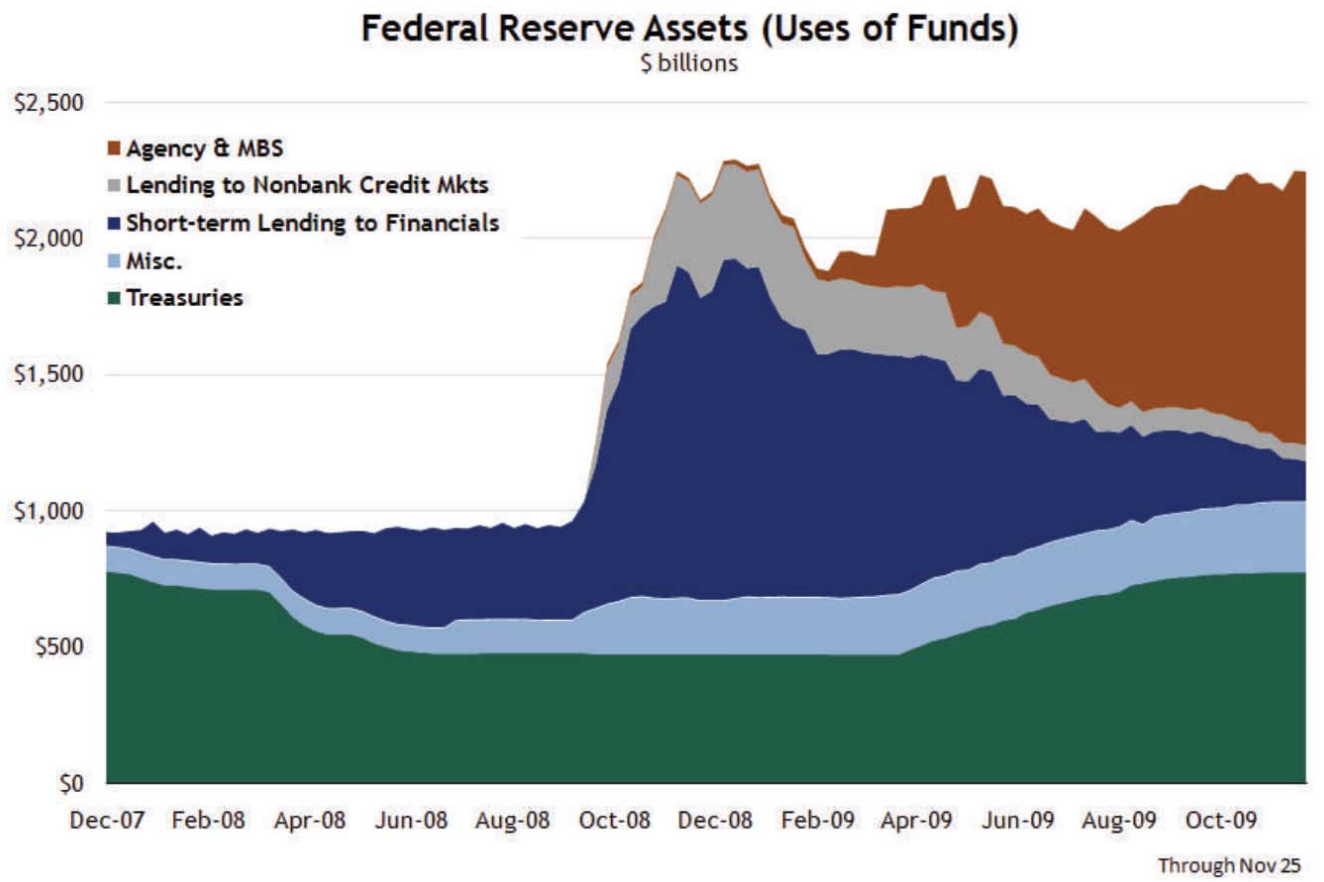
## Debt Maturity



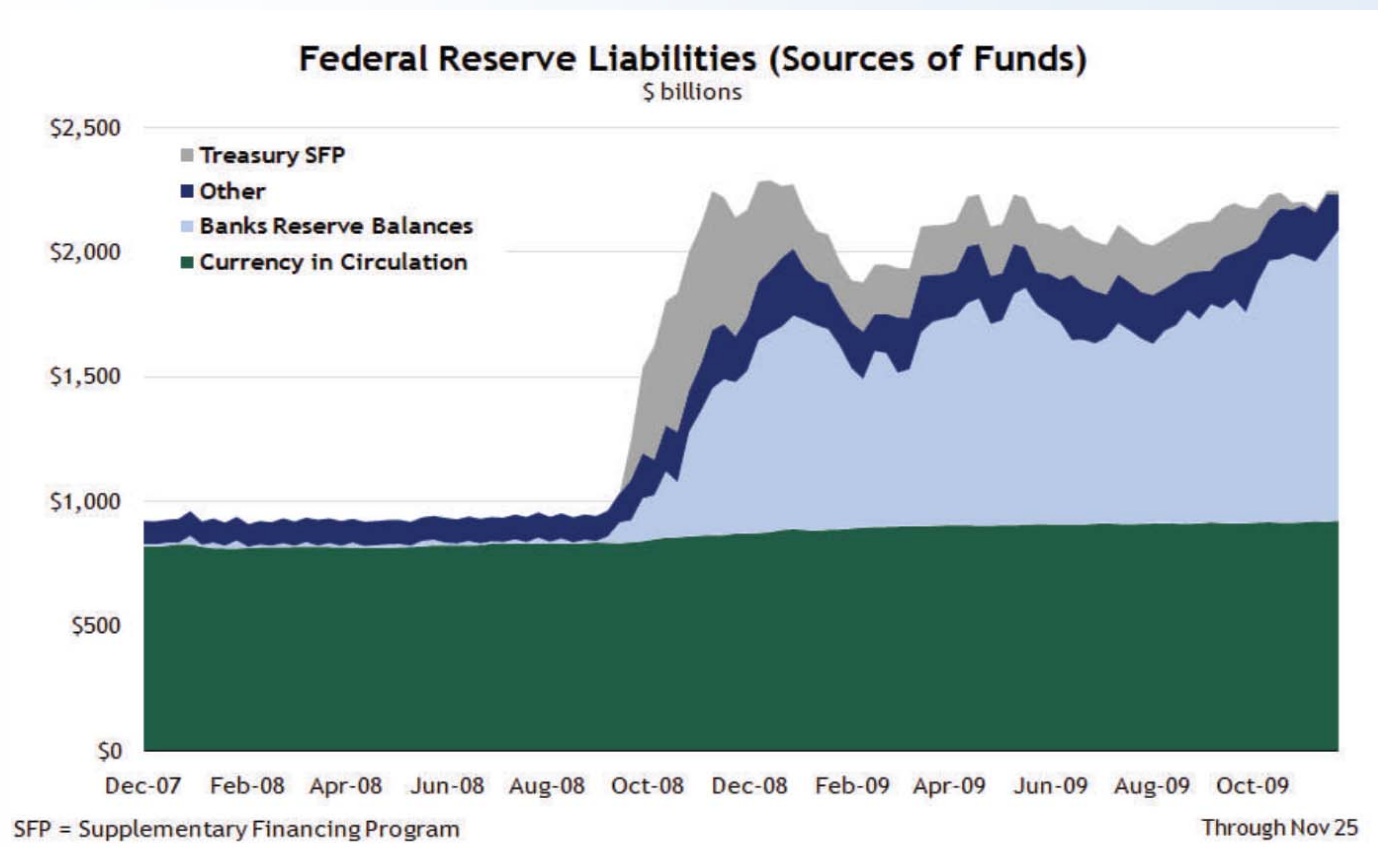
\*Net financing projections for FY 2010-2019 are based on OMB 2010 MSR Budget estimates released August 2009. Future residual financing needs are spread proportionally across auctioned securities and are derived from hypothetical auction sizes. Initial sizes are based on announced coupon amounts as of October 23, 2009 and assume the outstanding level of bills on September 30, 2009. All projections exclude CMB issuance and maturing amounts.



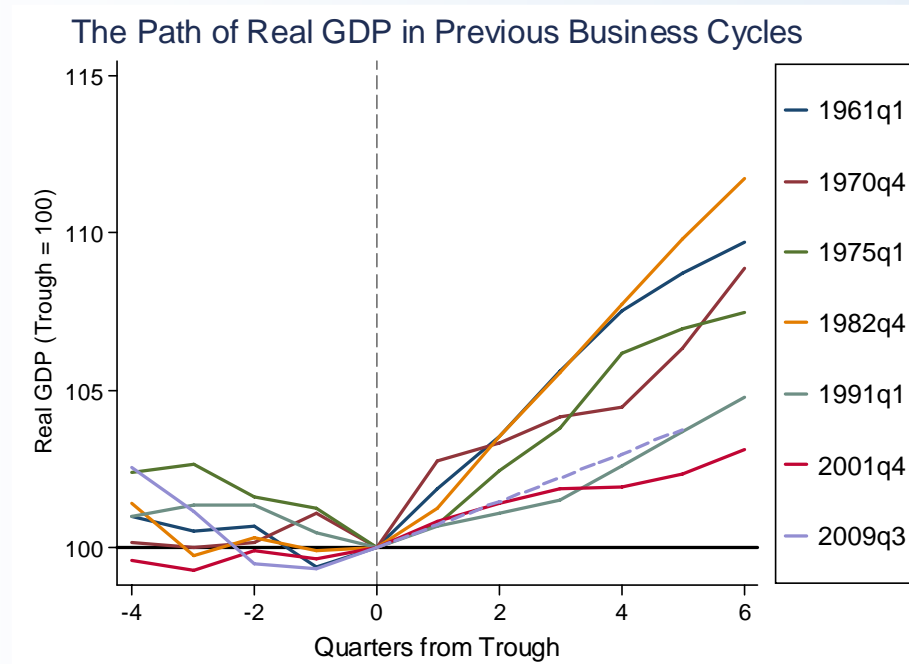
## Federal Reserve Balance Sheet: Assets



## Federal Reserve Balance Sheet: Liabilities



## The Path of Real GDP in Previous Business Cycles



- WSJ Survey of Forecasters (12/11/09): Modest Recovery
  - GDP growth = 3% through 2010
  - Unemployment rate of 9.6% at end of next year.