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RECENT ECONOMIC DEVELOPMENTS

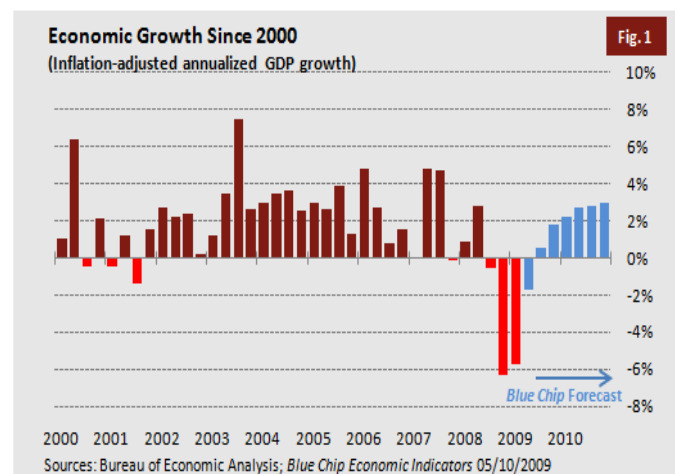
JUNE 2, 2009

GREEN SHOOTS: SIGNALS OF A SLOWING PACE OF CONTRACTION?

The unemployment rate rose to 8.9% in April, significantly higher than the 5.0% rate a year earlier and a near-term low of 4.4% in March 2007. Non-farm payroll employment fell by 539,000 jobs in April and by 5.7 million since the beginning of the recession. The inflation-adjusted (real) gross domestic product (GDP) fell at a 5.7% annualized rate in the 1st quarter, revised up from an earlier estimate of a 6.1% decline. GDP declined at a 6.3% annualized rate in the 4th quarter of last year and a 0.5% rate in the 3rd quarter. Significant declines in GDP and exports were experienced by economies around the world.

Highlights

- GDP declined at a 5.7% annualized rate in the 1st quarter, the third consecutive quarterly decline in real GDP (Fig. 1).
- The *unemployment rate* rose to 8.9% in April, the highest since September 1983 (Fig. 2, next page).
- *Payroll employment* fell by 539,000 in April and 5.7 million over the past 16 months (Fig. 3, next page).
- *Oil prices* have risen to over \$60 a barrel recently, up from around \$40 at the beginning of the year (Fig. 4, next page).
- *Interest rates* on longer-term U.S. Treasury securities have risen significantly since the beginning of the year (Fig. 5, next page).



GDP Declined at a 5.7% Annualized Rate in the 1st Quarter

Real GDP fell at a 5.7% annualized rate in the 1st quarter, following a 6.3% rate of decline in the 4th quarter of last year and a 0.5% decline in the 3rd quarter (Fig. 1). The drop in 1st-quarter GDP primarily reflected negative contributions from: exports (down 28.7%), business equipment and software investment (down 33.5%), inventory investment (the change in which subtracted 2.34 percentage points from the 1st-quarter change in real GDP); nonresidential structures investment (down 42.3%), and residential investment (down 38.7%). Residential investment has declined for 13 consecutive quarters, reducing real GDP growth over that period by an average of 0.94 percentage point. Consumer spending increased at an annualized 1.6% rate in the 1st quarter, following declines of 4.3% in the 4th quarter of last year and 3.8% in the 3rd quarter. Exports fell at a 28.7% annualized rate in the 1st quarter and a 23.6% rate in the 4th quarter of last year.

Unemployment Rises to 8.9%; 16 Consecutive Months of Payroll Job Declines

The *unemployment rate* rose to 8.9% in April, the highest in over 25 years, and has risen by 4 percentage points since the beginning of the recession (Fig. 2, next page). *Payroll employment* fell by 539,000 jobs in April, following declines of 699,000 in March, and 681,000 in February. Federal government payrolls increased by 66,000 jobs in April, partly reflecting increases in hiring for the Census. Since the beginning of the recession in December 2007, payroll job losses have totaled 5.7 million (Fig. 3, next page). Reflecting adjustments in the housing sector, construction employment fell by 110,000 in April and is down by 1.2 million jobs since the start of the recession. Employment in the service-producing sector declined by 269,000 in April and is down by 2.9 million since the start of the recession. Manufacturing employment fell by 149,000 in April and is down by 1.6 million since the start of the recession.

Oil and Gasoline Prices are on the Rise

Prices of crude oil and refined products, such as gasoline, have been rising since the beginning of the year. For example, the spot price of a barrel of West Texas Intermediate crude oil has risen from around \$40 in the beginning of the year to over \$62 last week (Fig. 4). The average U.S. retail price of a gallon of regular gasoline has risen from around \$1.75 at the beginning of the year to \$2.44 last week. Despite a cumulative increase of nearly 39 cents in gas prices over the past four weeks, the price was still \$1.50 below the average of a year ago. However, it has been estimated that every one cent increase in gas prices costs consumers \$1 billion annually. So, the 70 cent increase in gas prices so far this year, if sustained, would be an increase in Americans' driving bills of around \$70 billion.

Longer-Term Treasury Rates are on the Rise

While the Federal Reserve has been keeping its target for overnight interest rates at close to zero, yields on longer-term Treasury securities have been moving briskly upward. There are a number of possible explanations. One is that higher yields on longer-term Treasuries reflect healing in financial markets. According to this explanation, risk aversion in financial markets has eased somewhat, and financial market participants are increasingly willing to take additional risks. This would mean that investors are moving away from the safety of Treasuries and toward relatively riskier alternatives. Another explanation is that longer-term Treasury yields are being bid up because financial market participants are demanding higher premiums to reflect increasing concerns about inflation and the souring U.S. fiscal outlook. Either or both explanations are plausible. In any case, rising long-term Treasury yields serve as a warning that massive fiscal expansion is not without significant cost.

A Global Recession and Depressed Global Trade

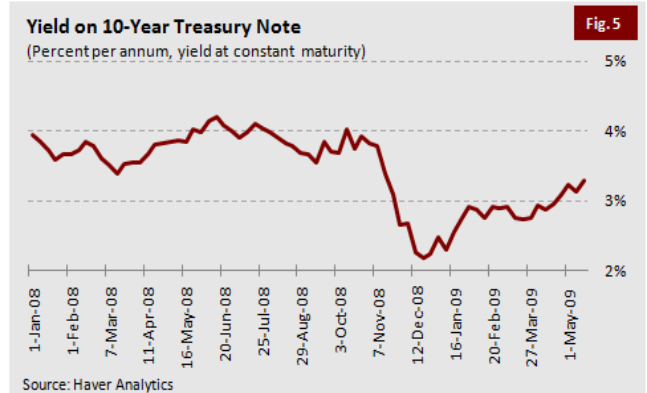
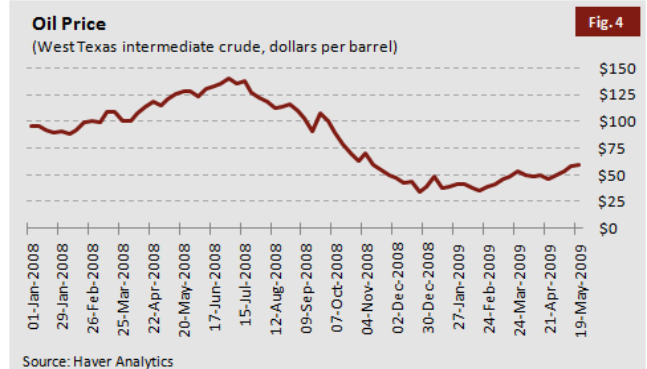
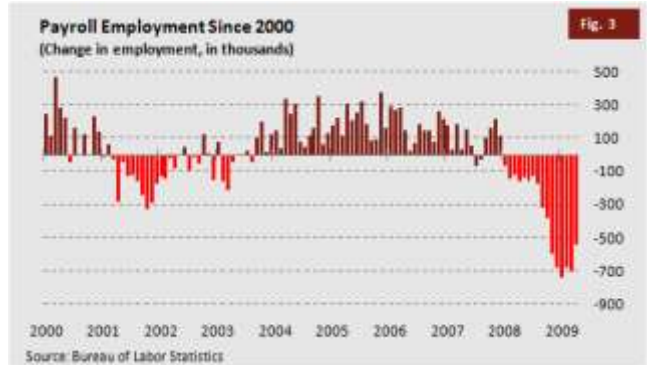
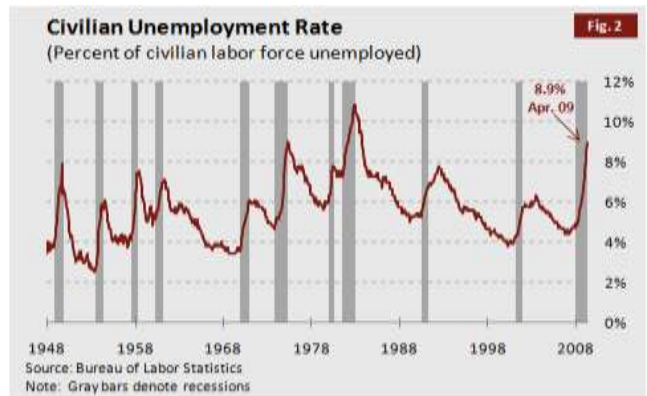
Evidence of the global nature of the recession can be found in data on 1st-quarter GDP declines across major economies.

| Country/ Area | Real GDP | | Exports | |
|------------------|------------------------------------|------------------------|------------------------------------|------------------------|
| | % Change Relative to 2009:Q4 | Annualized % Change | % Change Relative to 2009:Q4 | Annualized % Change |
| U.S. | -1.5 | -5.7 | -8.1 | -28.7 |
| Euro- Area* | -2.5 | -9.6 | -6.6** | -24.4** |
| Germany | -3.8 | -14.4 | -9.7 | -33.5 |
| Japan | -4.0 | -15.2 | -26.1 | -70.1 |

China's economy, too, has experienced a significant slowdown, with 1st quarter growth being the lowest in decades. As the table indicates, declines in exports hit economies especially hard as global trade dried up.

*Euro-area is represented by the 16-nation currency area.

**Includes intra-European trade.



Upcoming Indicators

Employment – The Bureau of Labor Statistics reports on the May employment situation on *June 5*.

Inflation – The Consumer Price Index for May is scheduled for release on *June 17*.

Federal Reserve – The Fed's next policy meeting is scheduled for *June 23 and 24*.

GDP – The final estimate of the 1st quarter GDP is scheduled for release on *June 25*.