

Economic Crisis of 2008-2009

- **Worst recession since Great Depression**
- **Economic growth drops to -6.8% in 4th quarter of 2008**
- **800,000 jobs lost in January 2009 alone, unemployment surging**
- **Housing market crisis ripples through economy – homebuilding and sales plummet, record foreclosures**
- **Financial market crisis threatens global economic collapse – lending frozen**

Economists Blinder and Zandi on Federal Government Response to Financial Crisis and Recession

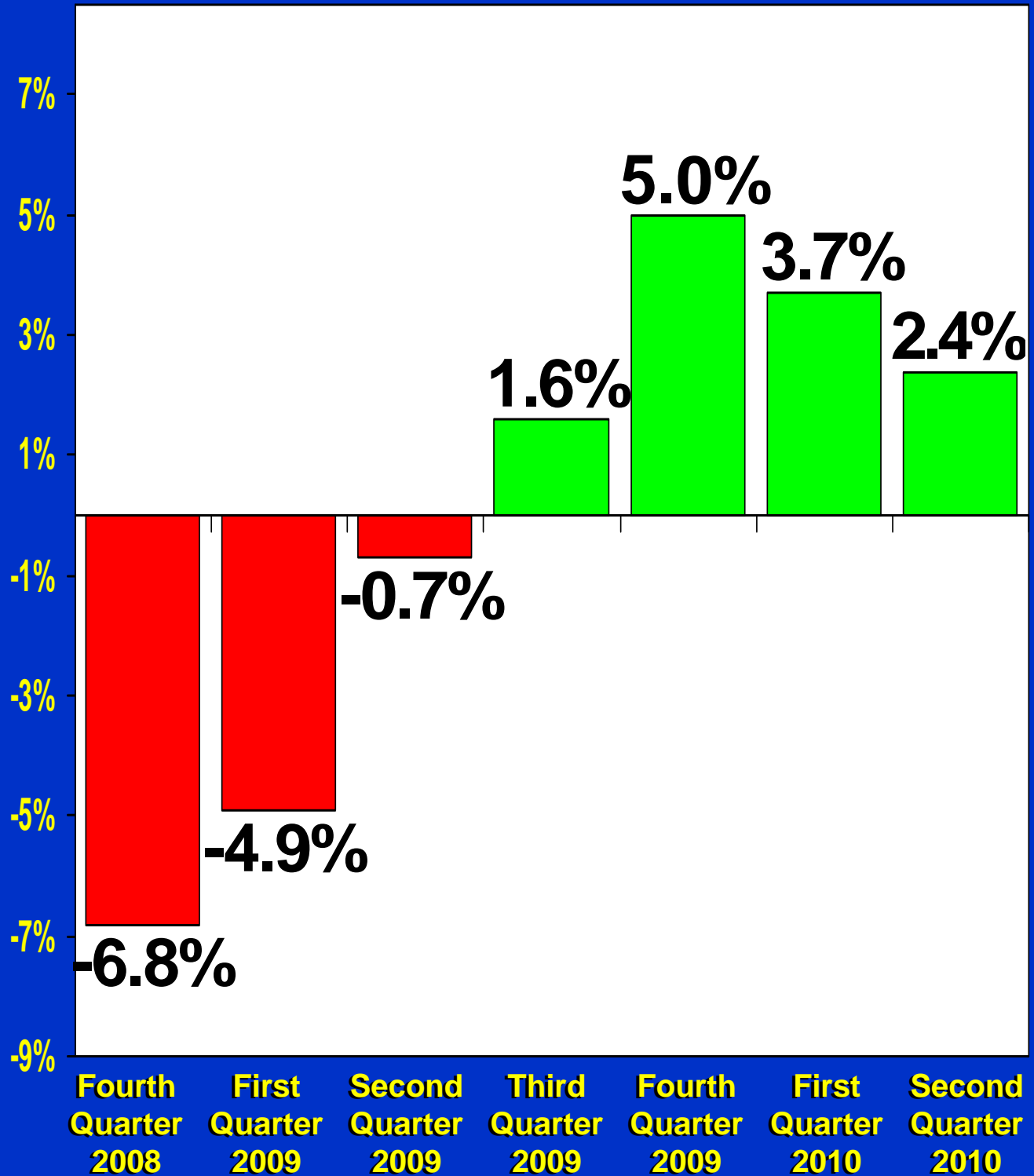
“We find that its effects on real GDP, jobs, and inflation are huge, and probably averted what could have been called Great Depression 2.0. For example, we estimate that, without the government’s response, GDP in 2010 would be about 6 ½ percent lower, payroll employment would be less by some 8 ½ million jobs, and the nation would now be experiencing deflation.

“...When all is said and done, the financial and fiscal policies will have cost taxpayers a substantial sum, but not nearly as much as most had feared and not nearly as much as if policymakers had not acted at all. If the comprehensive policy responses saved the economy from another depression, as we estimate, they were well worth their cost.”

**– Alan S. Blinder and Mark Zandi
“How We Ended the Great Recession”
July 27, 2010**

Economic Performance

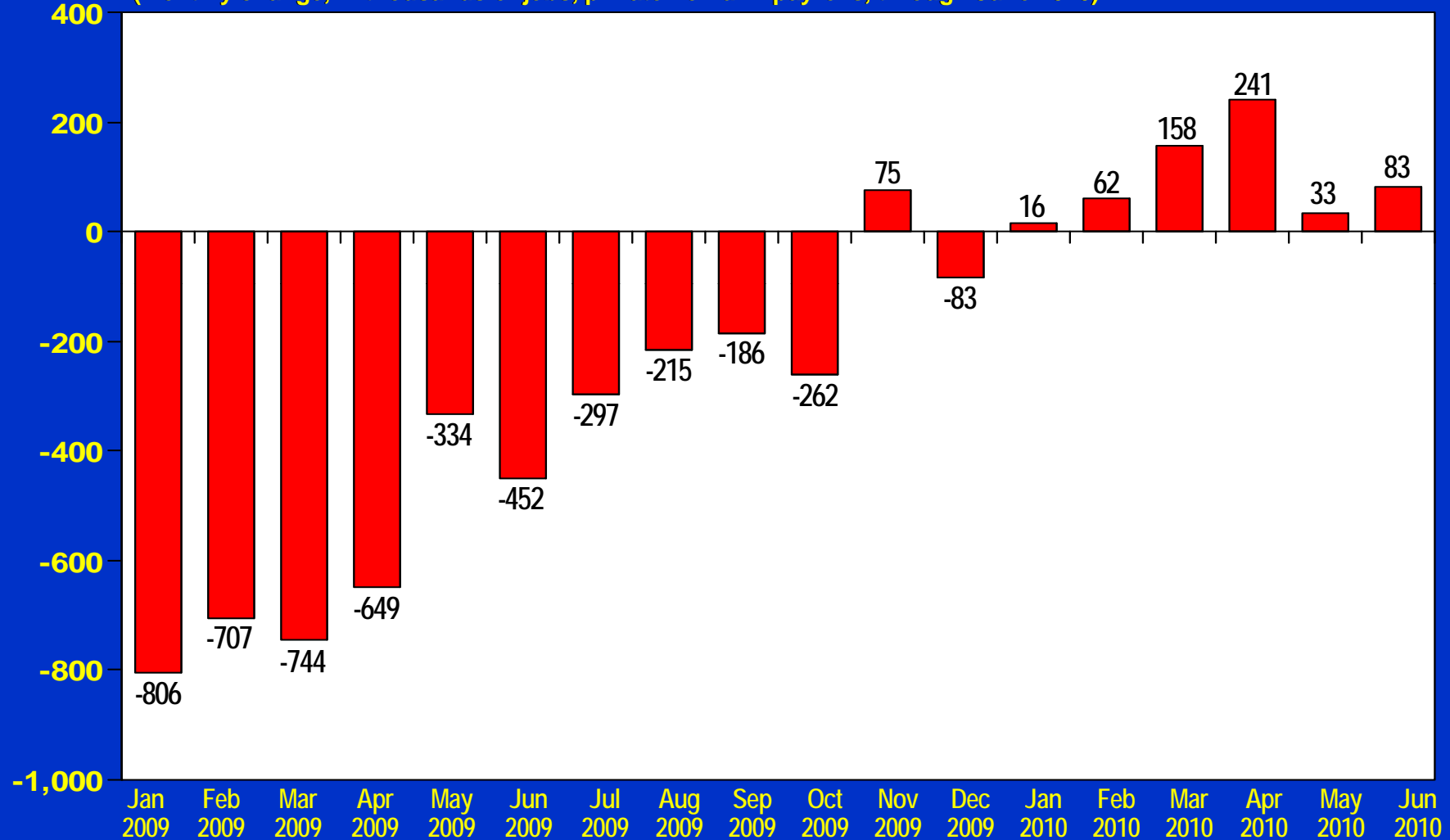
(Percent growth of real GDP, annual rate)



Source: U.S. Department of Commerce

Private-Sector Jobs Picture

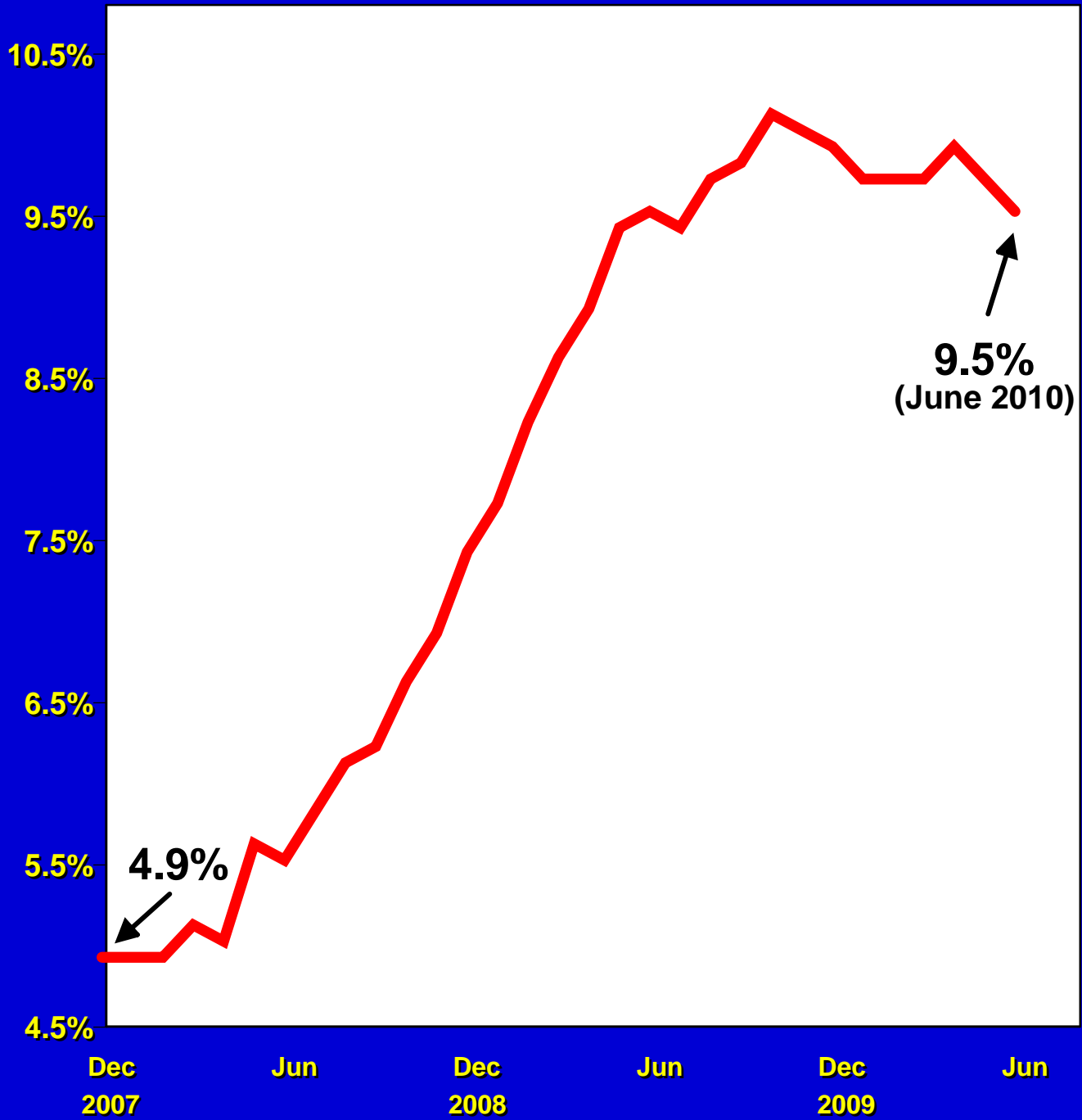
(Monthly change, in thousands of jobs, private nonfarm payrolls, through June 2010)



Sources: Bureau of Labor Statistics, U.S. Department of Labor

Unemployment Rate Remains High

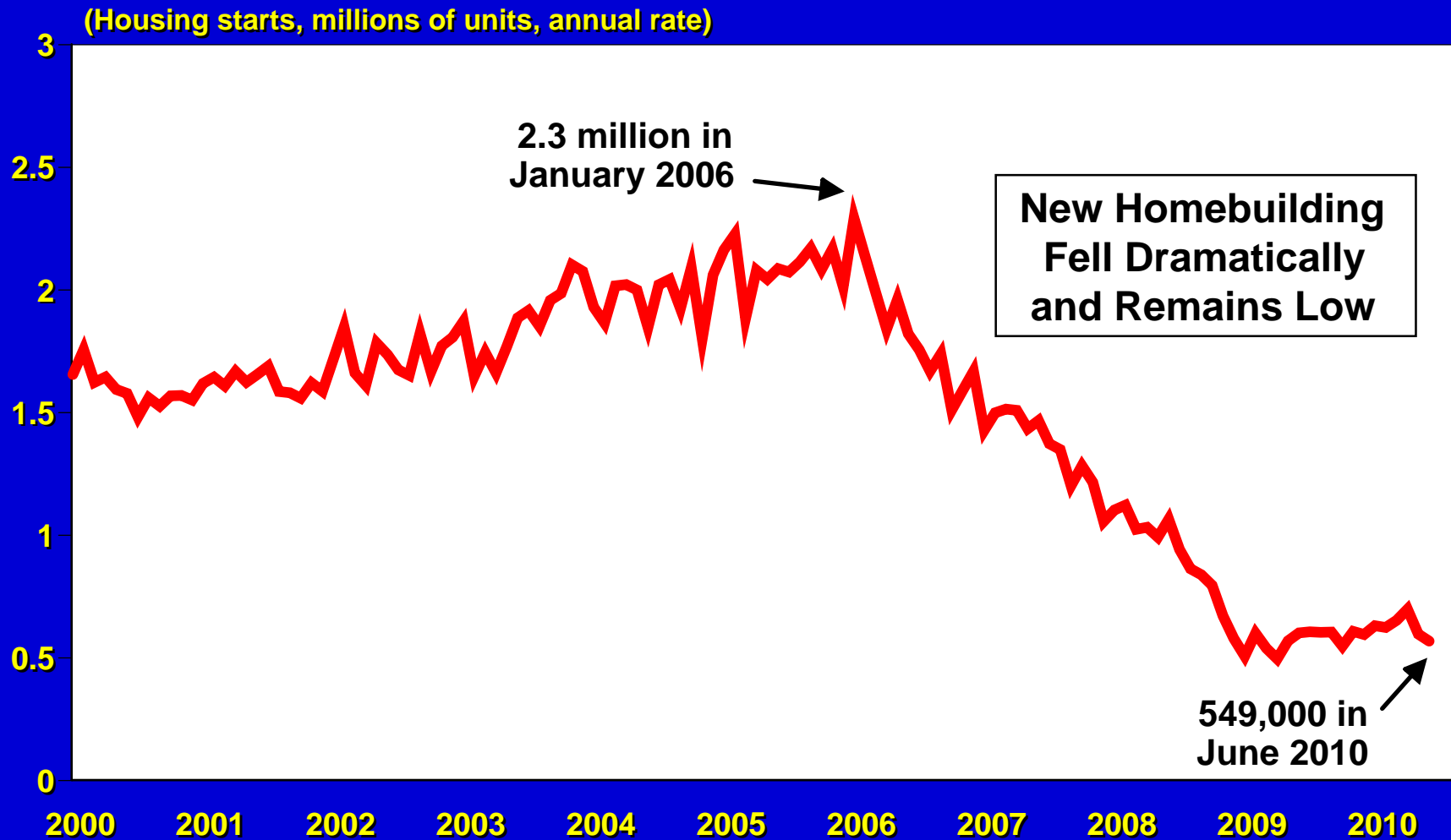
(Monthly data through June 2010)



Sources: Bureau of Labor Statistics, U.S. Department of Labor

Note: Percent of civilian labor force

Housing Slump Continues



Source: Census Bureau, U.S. Department of Commerce
Note: Monthly data through June 2010



Tuesday, July 6, 2010

Expect lots of layoffs at state, local levels

Tight budgets, lack of Medicaid help put governments in a bind

By Paul Davidson
USA TODAY

Here's another headwind for a sputtering job market: State and local governments plan many more layoffs to close wide budget gaps.

Up to 400,000 workers could lose jobs in the next year as states, counties and cities grapple with lower revenue and less federal funding, says Mark Zandi, chief economist for Moody's Economy.com.

The development could slow an already lackluster recovery. Friday, the Labor Department said employers cut 125,000 jobs, mostly because 225,000 temporary U.S. Census workers completed their stints. The private sector added 83,000 jobs, fewer than expected, as the jobless rate fell to 9.5% from 9.7%.

Layoffs by state and local governments moderated in June, with 10,000 jobs trimmed. That was down from 85,000 job losses the first five months of the year and about 190,000 since June 2009.

But the pain is likely to worsen. States face a cumulative \$140 billion budget gap in fiscal 2011, which began July 1 for most, says the Center on Budget and Policy Priorities.

While general-fund tax revenue is projected to rise 3.7% as the economy rebounds in the coming year, it still will be 8%, or \$53 billion, below fiscal 2008 levels, according to the National Association of State Budget Officers.

Meanwhile, federal aid is shrinking. Money for states from the economic stimulus is expected to fall by \$55 billion, says the National Governors Association. And the Senate last week failed to pass a measure to provide states \$16 billion for extra Med-

icaid funding, an initiative that would have extended benefits from last year's stimulus. The House approved \$25 billion in enhanced Medicaid funding.

Philippa Dunne, who surveys state financial officials for a newsletter, the *Liscio Report*, says most plan to intensify layoffs the coming year after relying largely on furloughs.

"The downturn has gone on so long, all the low-hanging fruit has been taken," says Scott Pattison, head of the state budget officers group.

Wells Fargo economist Mark Vitner expects state and local governments to cut about 200,000 workers this year if Medicaid benefits aren't extended. That's largely why Wells Fargo cut forecasts for third-quarter economic growth to 1.5% from 1.9%.

Even if Congress extends Medicaid subsidies, Zandi expects 325,000 job cuts the next year, though Vitner says losses could be far less.

Among cuts planned and made:

- ▶ New York City is planning 4,500 layoffs, and more if the Medicaid subsidies aren't approved, says the Center on Budget and Policy Priorities.

- ▶ Washington state would have to chop 6,000 jobs without the Medicaid money.

- ▶ The city of Maywood, Calif., laid off all 68 of its employees July 1 and is contracting out police services, partly because of a \$450,000 budget deficit.



See the latest jobs forecast for 384 metro areas and all 50 states at money.usatoday.com.

CUTS IN EUROPE STOKE GLOBAL FEARS

Britain and Germany plan drastic austerity measures that may hamper recovery in the United States.

DON LEE
REPORTING FROM
WASHINGTON

HENRY CHU
REPORTING FROM LONDON

TOM PETRUNO
REPORTING FROM
LOS ANGELES

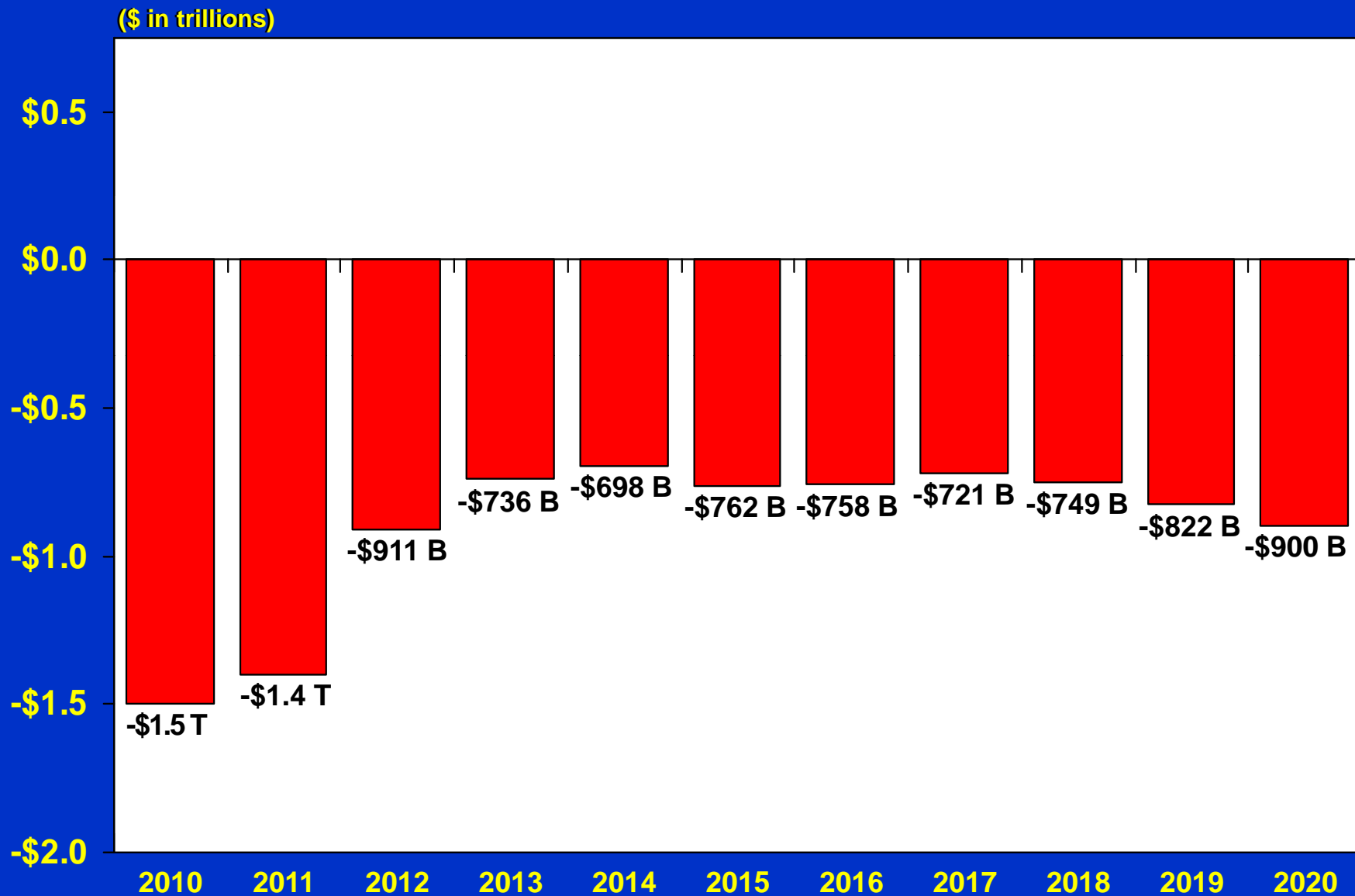
Europe's debt crisis sent more shockwaves around the world Monday as Britain's new prime minister announced drastic cutbacks in government spending and Germany pressed ahead with its own austerity plans — steps that are likely to impede the U.S. and global economic recoveries.

British Prime Minister David Cameron warned that spending cuts would be felt "for years, perhaps even decades." And German Chancellor Angela Merkel, who presides over Europe's biggest economy, announced similar plans for spending reductions, higher taxes and other belt-tightening measures.

The British and German actions reflect concern about the consequences of government debt crises in Greece, Spain and other weaker European economies, but they also amount to a blunt rejection of the Obama administration's warnings that cutbacks now could imperil the global recovery.

Europe's woes already

Deficit Under Obama Budget

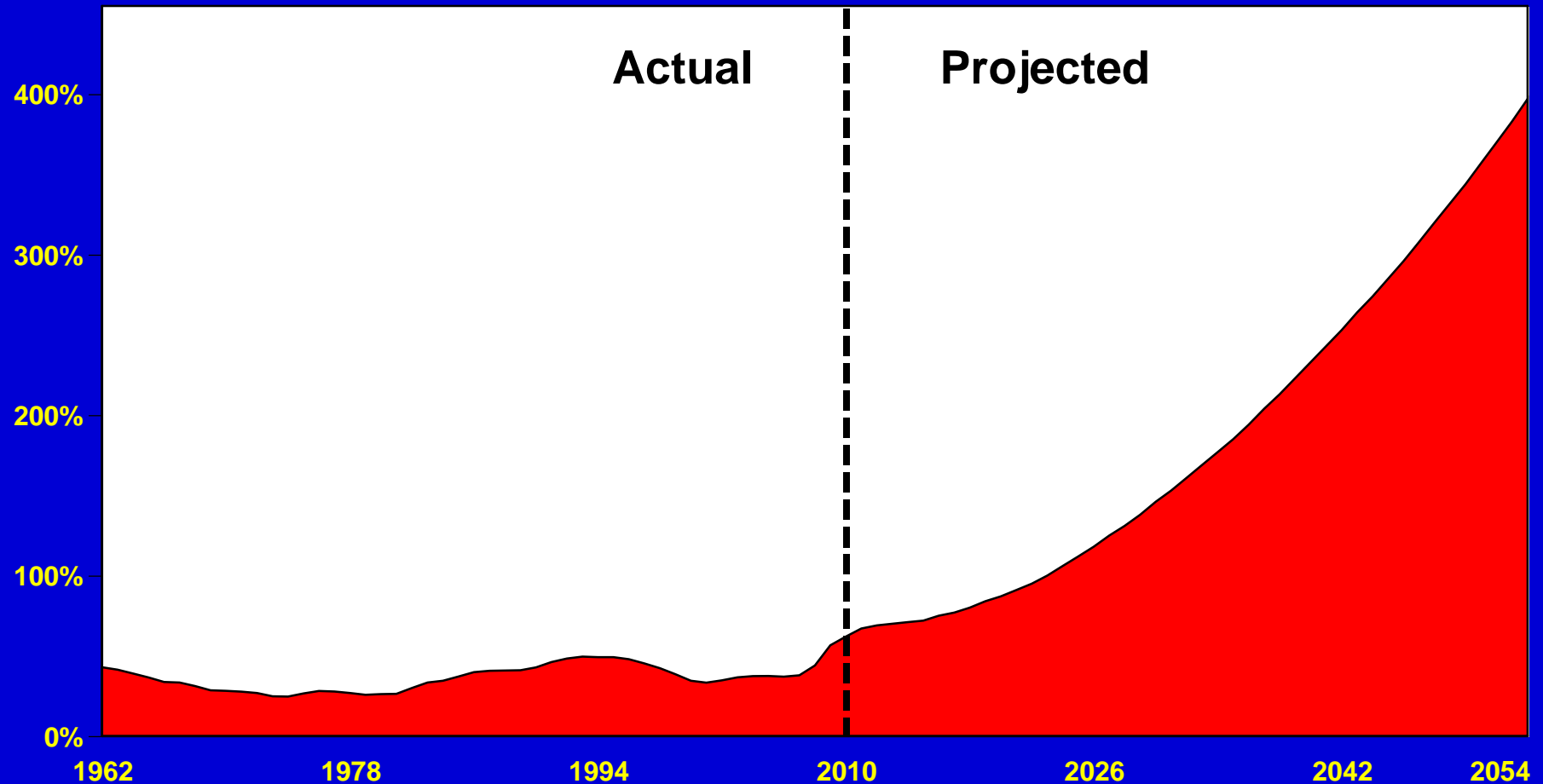


Source: OMB

Note: OMB Mid-Session Review, Budget of the U.S. Government, Fiscal Year 2011, July 2010.

Federal Debt Soars Under CBO Long-Term Budget Scenario

(Debt held by the public as a percent of GDP)



Source: CBO Long-Term Budget Outlook, June 2010

Note: CBO alternative fiscal scenario with tax cuts made permanent (except for rate reductions that apply to high-income taxpayers), AMT indexed for inflation, adjustments to certain health care reform policies, and Medicare physician payments growing with higher MEI rate.

Fed Chairman Bernanke on Need for “Credible Plan” to Achieve Long-Term Fiscal Sustainability

“... A sharp near-term reduction in our fiscal deficit is probably neither practical nor advisable. However, nothing prevents us from beginning now to develop a credible plan for meeting our long-run fiscal challenges. Indeed, a credible plan that demonstrated a commitment to achieving long-run fiscal sustainability could lead to lower interest rates and more rapid growth in the near term.”

**– Federal Reserve Chairman Ben Bernanke
Remarks to Dallas Regional Chamber
April 7, 2010**