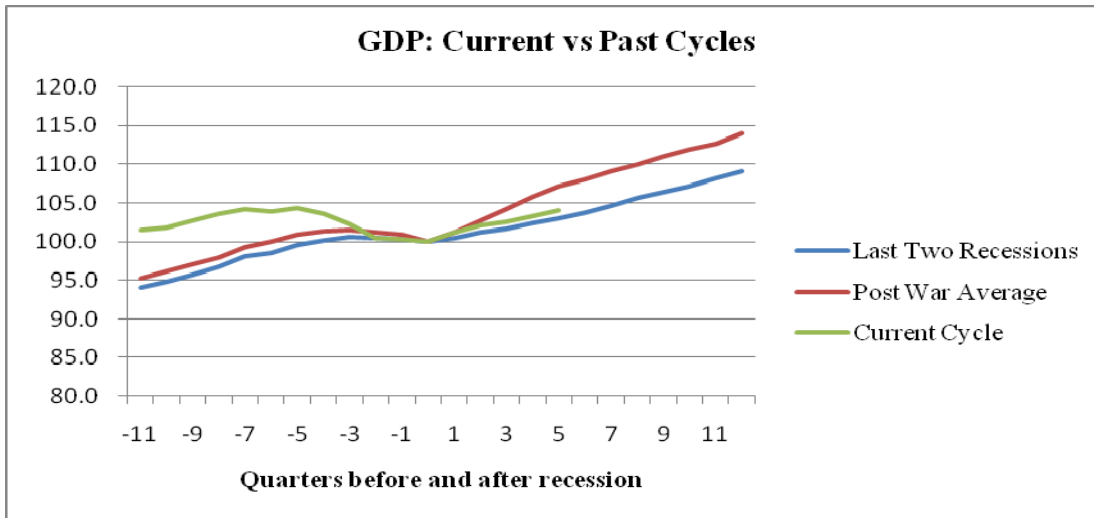


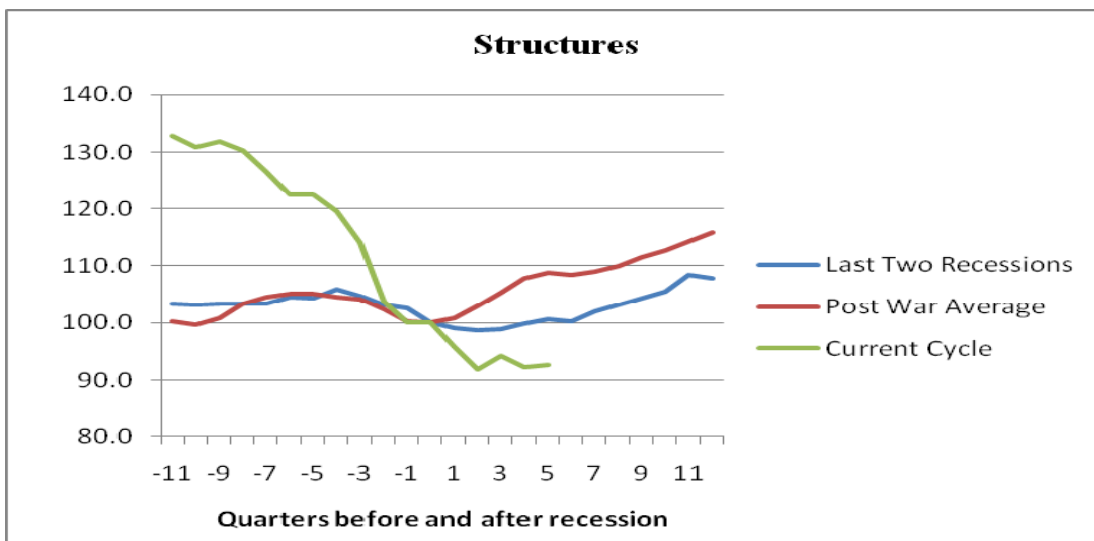


APRIL 2011
THE GREAT RECESSION

In order to put this recovery into context, we have compared the change of GDP around recessions to prior periods. By indexing GDP to the recession low, we can see the rate of decline and recovery for different periods. We examine a six year window around the recession trough for the 10 recessions after World War II.



As you can see, the recovery has been similar to past recoveries with the growth rate and pattern matching the last two recessions. The pronounced decline from the peak in 2007 is what differentiates it from past cycles.

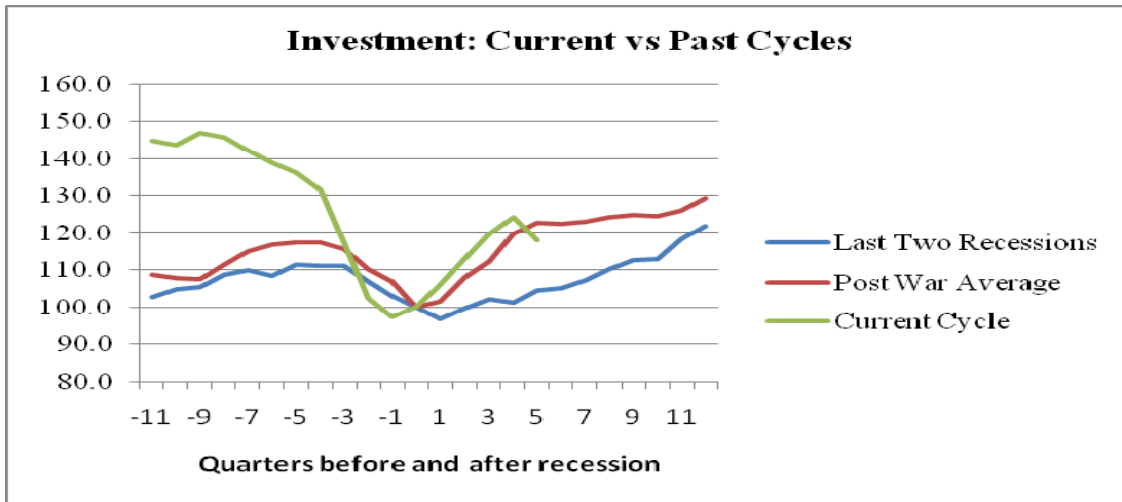


The decline in construction has been dramatic and explains some of the decline in GDP from high levels before the recession. In recent quarters, construction has been flat.

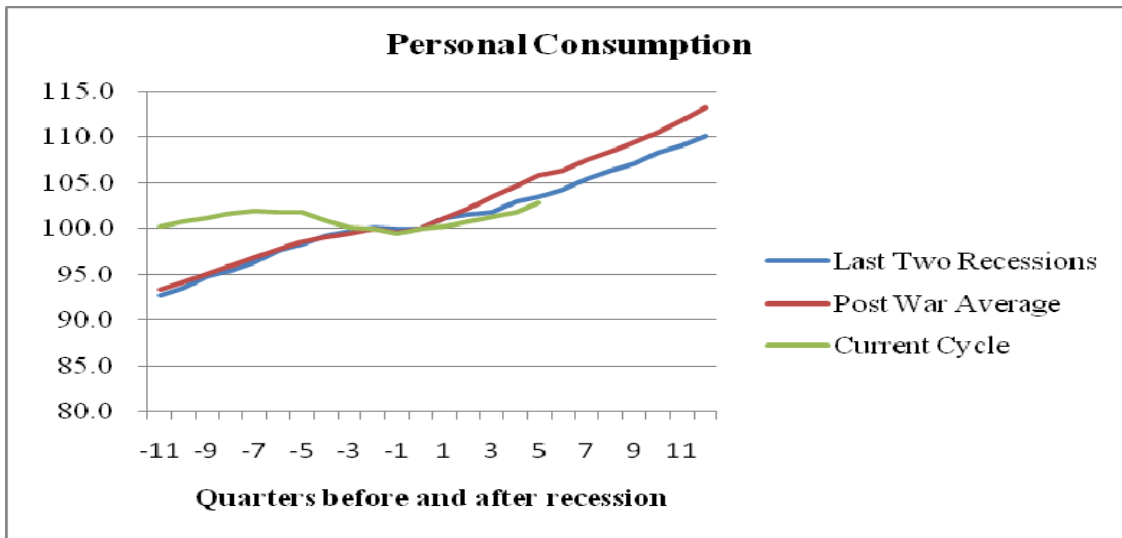


Therefore, there should not be any significant positive or negative contribution to GDP, especially since structures represent less than 10% of GDP.

Another unusual characteristic of this cycle is the large and rapid change in investment. While close to a third of the decline in investment was a reduction in inventories, almost 90% of the gain in investment came from additions to inventories. Furthermore, the recent downtick in investment was entirely attributable to inventories. The change in investment and inventories was a function not only of proactive companies but also reduced credit and trade finance.

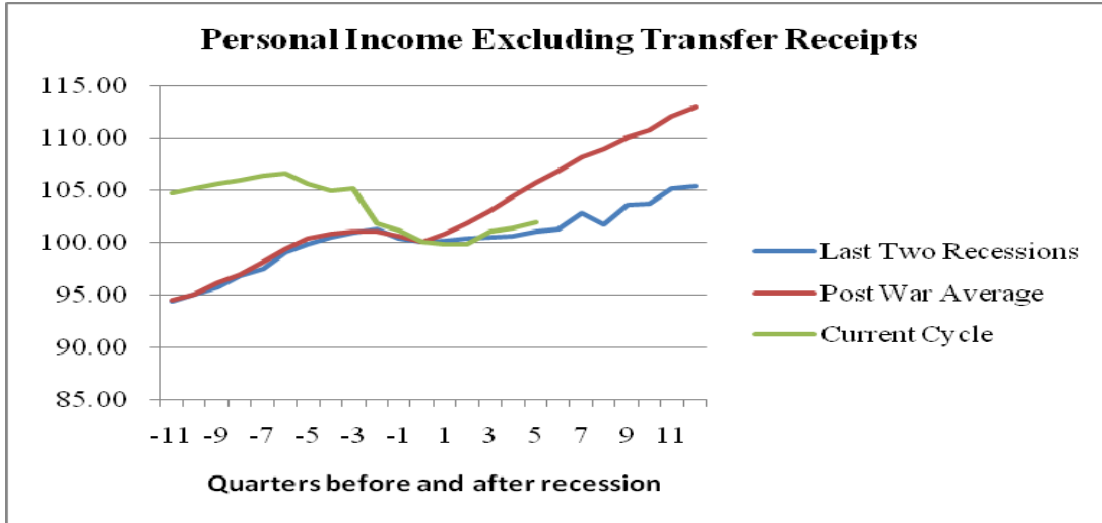


Importantly, inventories have recovered, but investment has lagged. Although investment in structures may contribute little to growth over the next year, investment in equipment and software may add to growth.

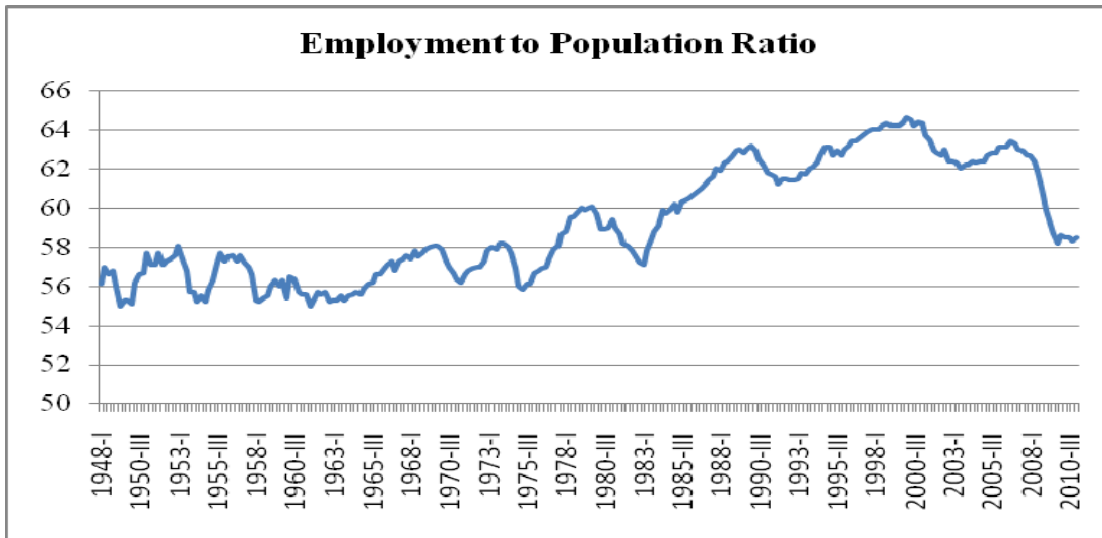


The graph above is very consistent with the GDP graph and implies that the consumer has recovered to the prior consumption peak.

Unfortunately, personal income excluding transfers (or government support) is still below the 2007 level. The chart below illustrates this lack of a recovery to previous income levels, which explains the low level of consumer confidence in current conditions.



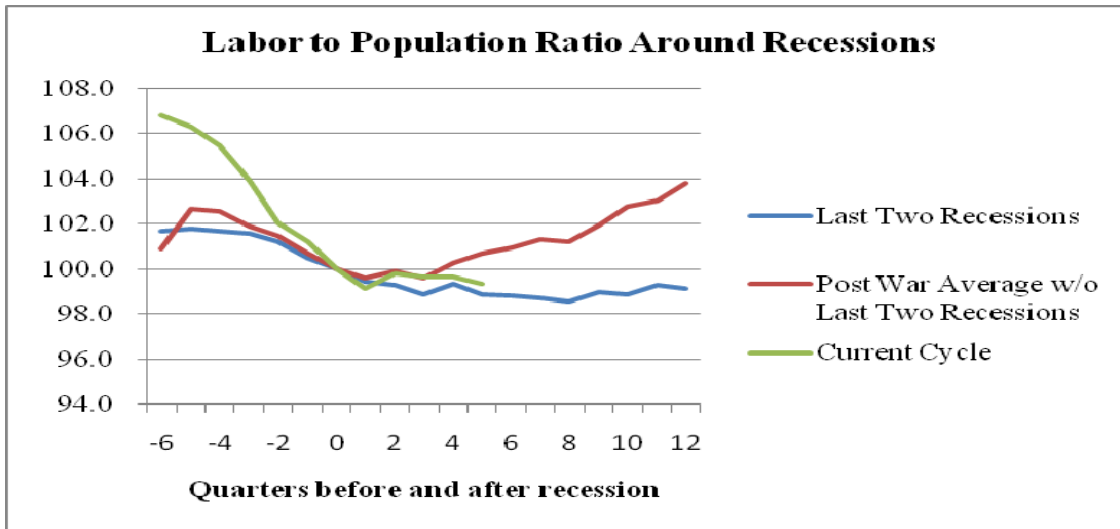
In contrast to the picture of personal consumption, this series takes out the effect of government transfer payments. These transfer payments include all government social benefits. Presumably high unemployment explains the lagging personal income figures.



The table above illustrates the broad employment picture. This statistic avoids some of the problems around measures of unemployment that count how many people are actively seeking work that may be confounded by the availability of jobs and unemployment insurance. The graph also illustrates past demographic trends such as the increasing labor participation by women which began in the 1970s. The magnitude of the recent decline may also reflect baby boomers and retiring.



Since the population is relatively stable in the short-term, the decline in those employed as a percent of the population is a good measure of how many people have left the work force. Therefore, the drop in employment correlates well with the decline in personal income.



Finally, the chart above indicates that the current cycle is again tracking the last two recessions in terms of the economy creating jobs - another “jobless” recovery. Given the large number of jobs that were lost and the pattern of past recoveries, regaining the lost jobs will take years, and the recovery will continue to be disappointing and dependent on government programs.