



Lessons learned from the financial crisis and Great Recession: Building a better measurement toolkit

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September 26, 2013

What Did We Miss During the Great Recession?

The Economist
JULY 13TH-24TH 2009
Economist.com

Britain agonises about Afghanistan
The rot in Japan's governing party
Europe's energy insecurity
Goldman Sachs's record profits
Summer camp for atheists

MODERN ECONOMIC THEORY

Where it went wrong-and how the crisis is changing it

The McGraw-Hill Companies
APRIL 27, 2009 | BUSINESSWEEK.COM

BusinessWeek

WHAT GOOD ARE Economists ANYWAY

TECH LOOKS POISED TO LEAD A RECOVERY | CREATIVE DESTRUCTION AT PEPSI | BIOFUELS: WHY BIG OIL MAY BE THE BIG WINNER

Why it's important

- Monetary policy
- Fiscal policy
- Allocation of funds
- State and Local planning and allocation of funds
- Business uses
- Household uses
- Research

Monetary Policy Uses

MONETARY POLICY REPORT

Board of Governors of the Federal Reserve System

February 26, 2013

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, December 2012
Percent

Variable	Central tendency ¹					Range ²				
	2012	2013	2014	2015	Longer run	2012	2013	2014	2015	Longer run
Change in real GDP.....	1.7 to 1.8	2.3 to 3.0	3.0 to 3.5	3.0 to 3.7	2.3 to 2.5	1.6 to 2.0	2.0 to 3.2	2.8 to 4.0	2.5 to 4.2	2.2 to 3.0
September projection	1.7 to 2.0	2.5 to 3.0	3.0 to 3.8	3.0 to 3.8	2.3 to 2.5	1.6 to 2.0	2.3 to 3.5	2.7 to 4.1	2.5 to 4.2	2.2 to 3.0
Unemployment rate.....	7.8 to 7.9	7.4 to 7.7	6.8 to 7.3	6.0 to 6.6	5.2 to 6.0	7.7 to 8.0	6.9 to 7.8	6.1 to 7.4	5.7 to 6.8	5.0 to 6.0
September projection	8.0 to 8.2	7.6 to 7.9	6.7 to 7.3	6.0 to 6.8	5.2 to 6.0	8.0 to 8.3	7.0 to 8.0	6.3 to 7.5	5.7 to 6.9	5.0 to 6.3
PCE inflation.....	1.6 to 1.7	1.3 to 2.0	1.5 to 2.0	1.7 to 2.0	2.0	1.6 to 1.8	1.3 to 2.0	1.4 to 2.2	1.5 to 2.2	2.0
September projection	1.7 to 1.8	1.6 to 2.0	1.6 to 2.0	1.8 to 2.0	2.0	1.5 to 1.9	1.5 to 2.1	1.6 to 2.2	1.8 to 2.3	2.0
Core PCE inflation ³	1.6 to 1.7	1.6 to 1.9	1.6 to 2.0	1.8 to 2.0		1.6 to 1.8	1.5 to 2.0	1.5 to 2.0	1.7 to 2.2	
September projection	1.7 to 1.9	1.7 to 2.0	1.8 to 2.0	1.9 to 2.0		1.6 to 2.0	1.6 to 2.0	1.6 to 2.2	1.8 to 2.3	

NOTE: Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, the price index for personal consumption expenditures (PCE) and the price index for PCE excluding food and energy. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy. The September projections were made in conjunction with the meeting of the Federal Open Market Committee on September 12-13, 2012.

1. The central tendency excludes the three highest and three lowest projections for each variable in each year.
2. The range for a variable in a given year includes all participants' projections, from lowest to highest, for that variable in that year.
3. Longer-run projections for core PCE inflation are not collected.

Fiscal Policy Uses

Federal

- OMB: Sensitivity of the Budget to Economic Assumptions

[Fiscal years; billions of dollars]

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total 2013-2023
OMB Budgetary effects of 1 percent lower real GDP growth												
Sustained during 2012-2022, with no change in unemployment:												
Receipts	-16.4	-50.6	-93.9	-143.4	-200.4	-262.1	-330.1	-402.1	-480.2	-564.0	-654.4	-3,197.6
Outlays	-0.3	-0.7	-0.9	0.1	4.9	14.8	28.0	41.7	57.1	75.6	97.0	317.2
Increase in deficit (+)	16.1	49.9	93.0	143.5	205.3	276.9	358.1	443.8	537.3	639.6	751.4	3,514.8

- Recovery Act & GDP

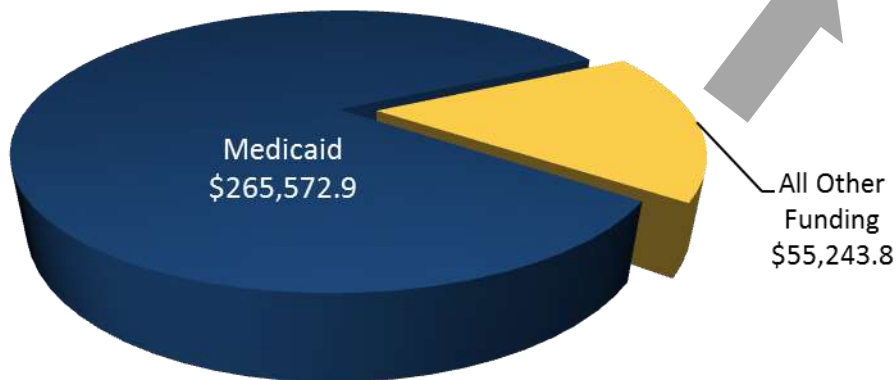
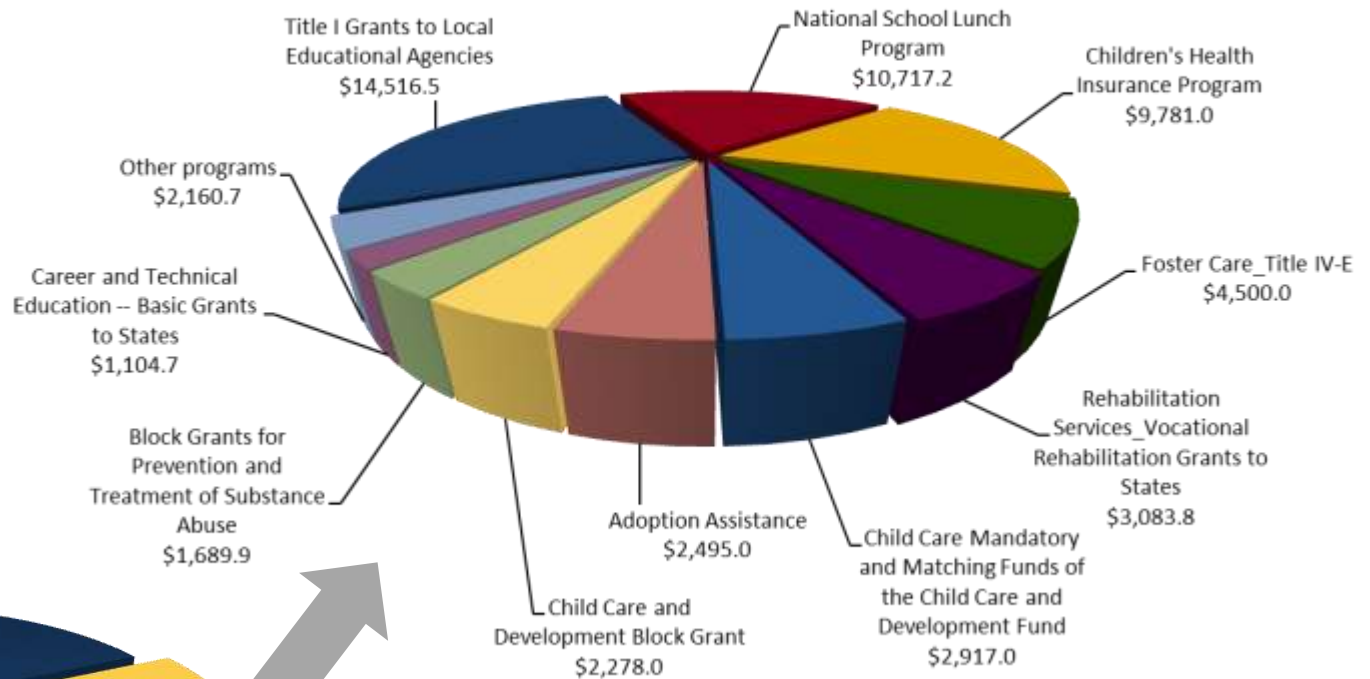
State & Local

- 18 states have statutory limits on revenues and spending tied to state personal income or some of its components
- Most state agencies use BEA data for tax revenue forecasts

Source: OMB, *2013 Analytical Perspectives*, p. 17.

Use in the Allocation of Federal Funds

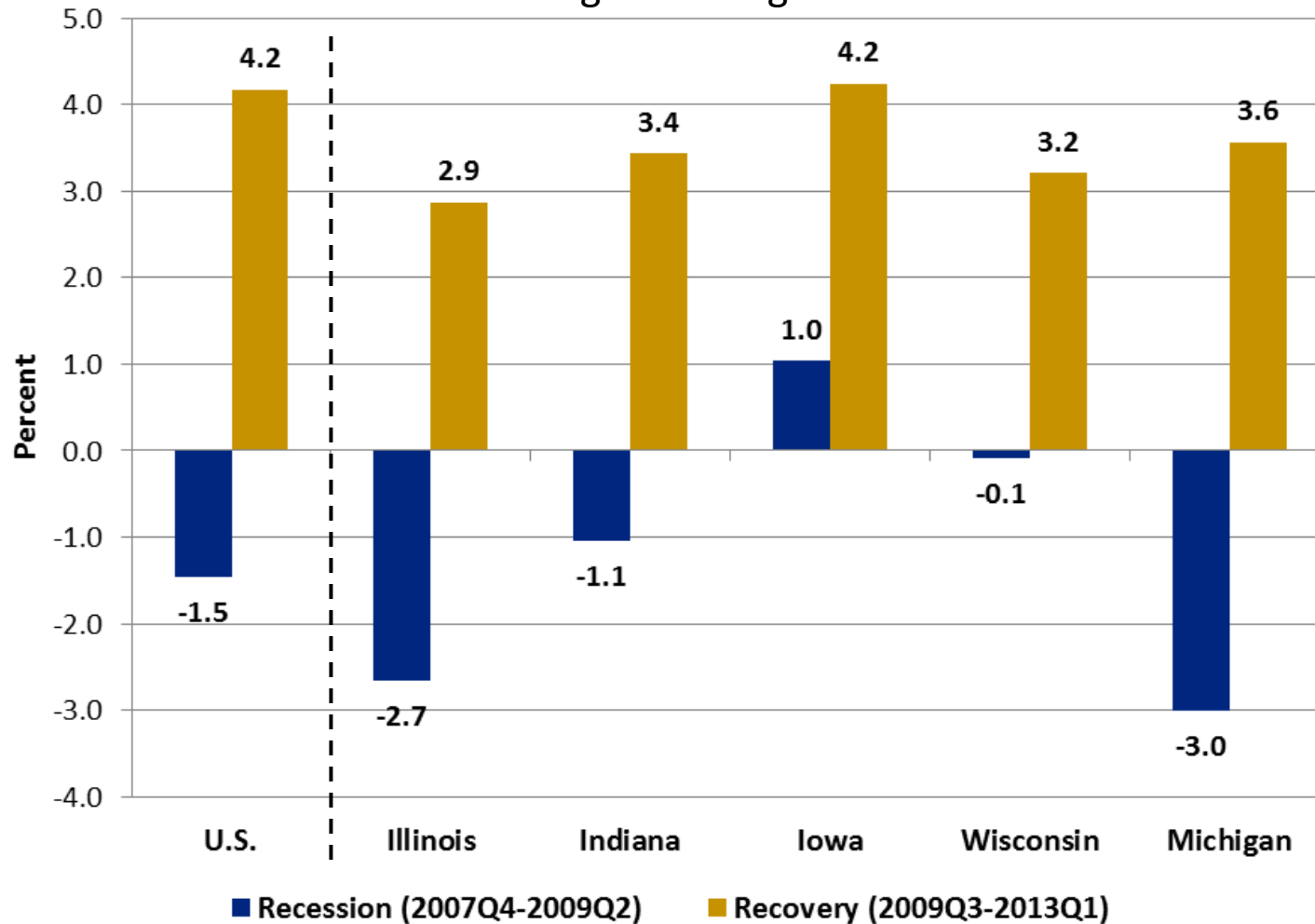
- BEA Regional Income & Product Account Estimates Used to Distribute \$320.8 Billion in Federal Funds in FY2012



Sources: Catalog of Federal Domestic Assistance (4/29/2013), 2013 President's Budget, Appalachian Regional Commission, Department of Agriculture, Department of Commerce, Department of Education, Department of Health and Human Services, Department of Homeland Security, Department of Interior.

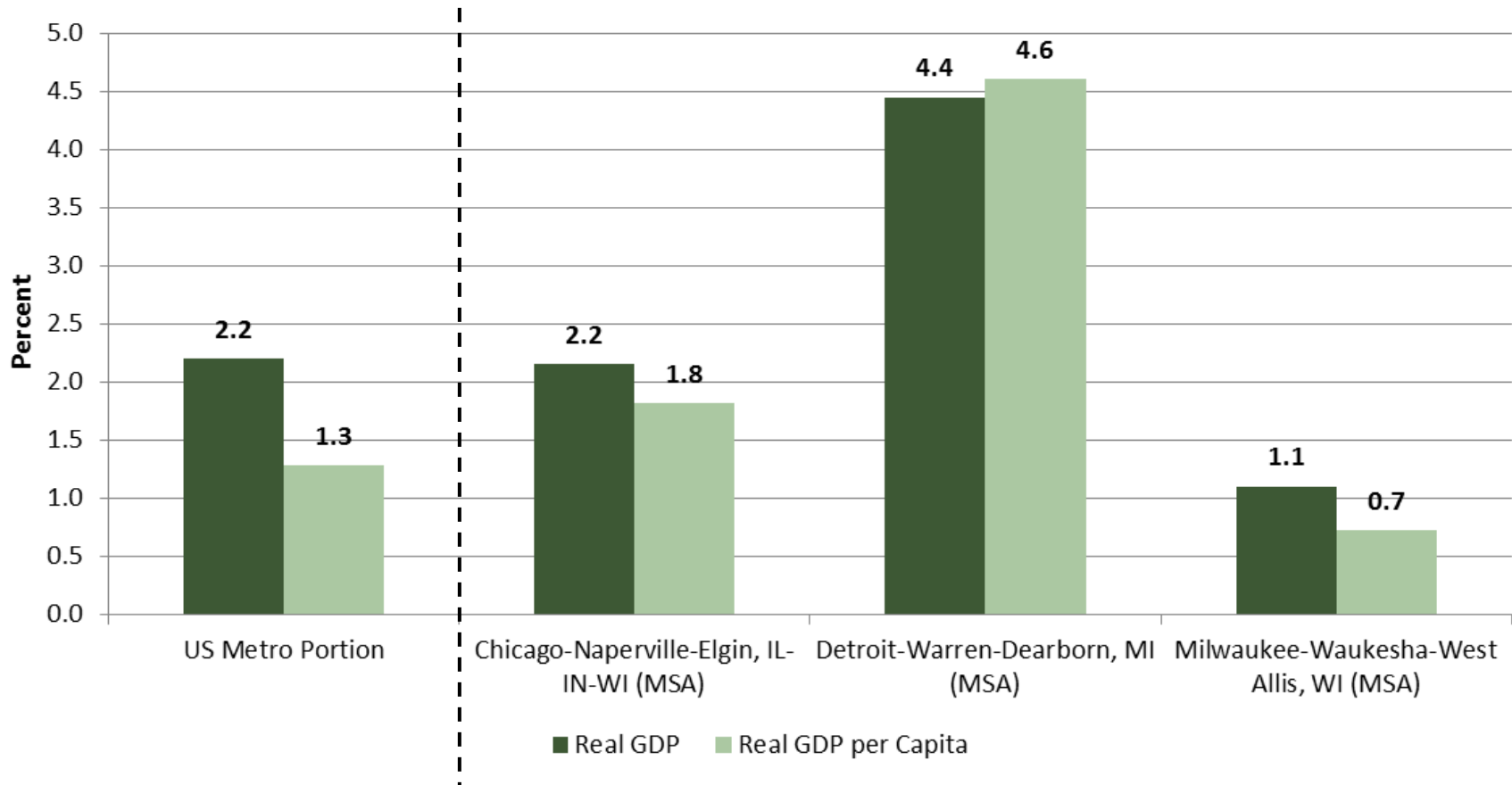
Recession vs. Recovery

Quarterly State Personal Income
Average annual growth



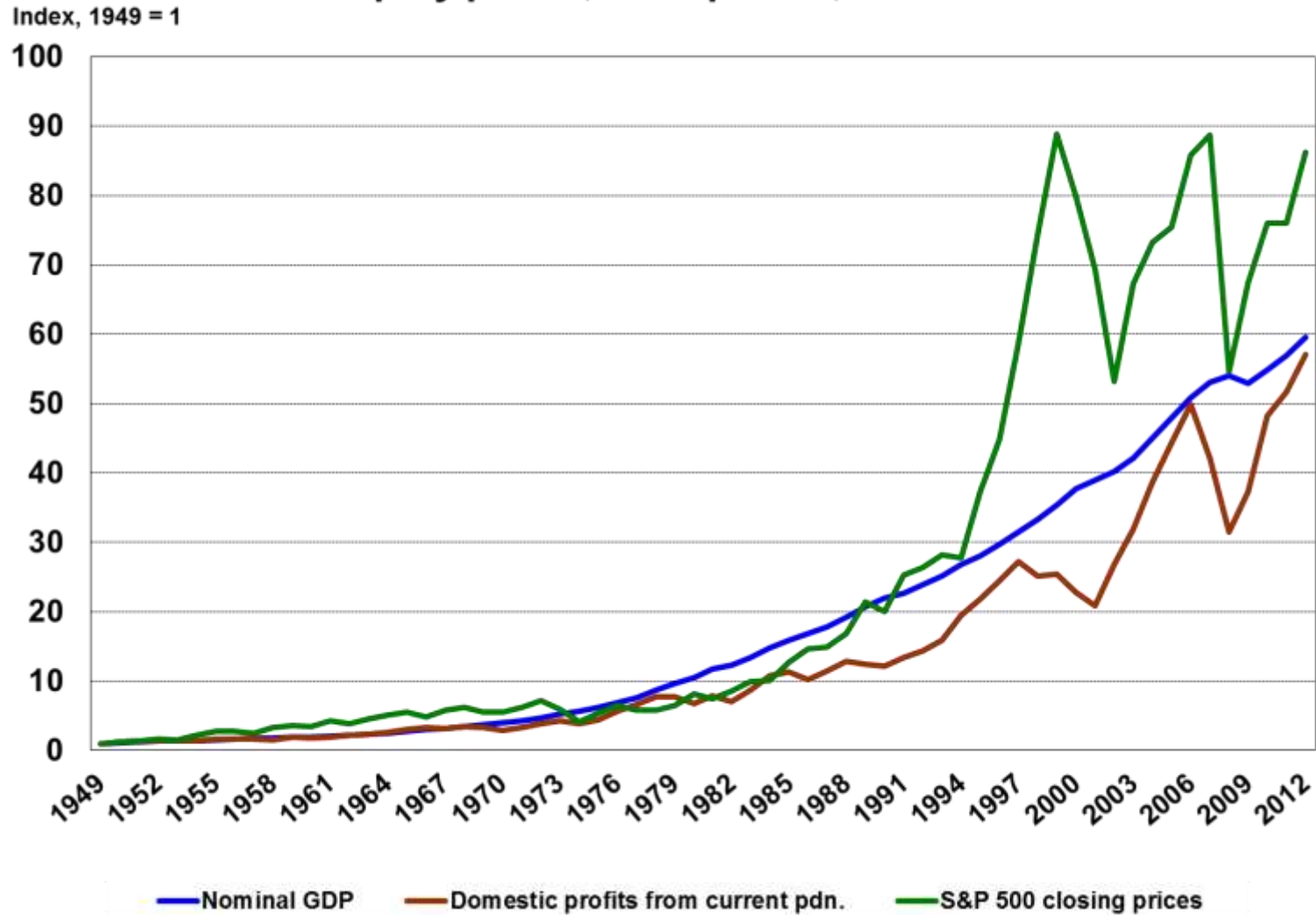
Real GDP by Metro Area

Average annual growth, 2009-2012

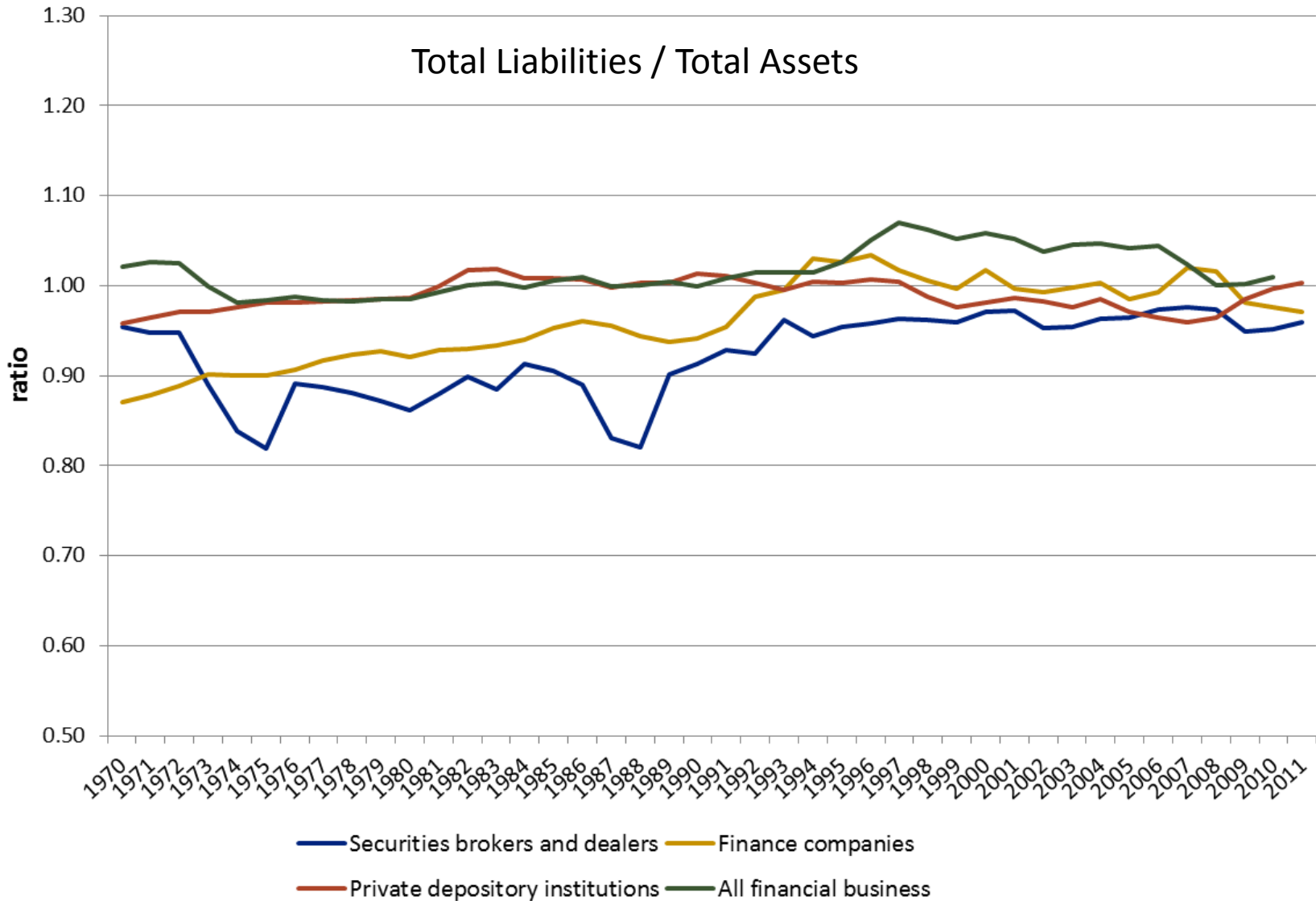


Post Financial Crisis & Great Recession Challenges: How Did We “Miss” the Stock Price Bubble?

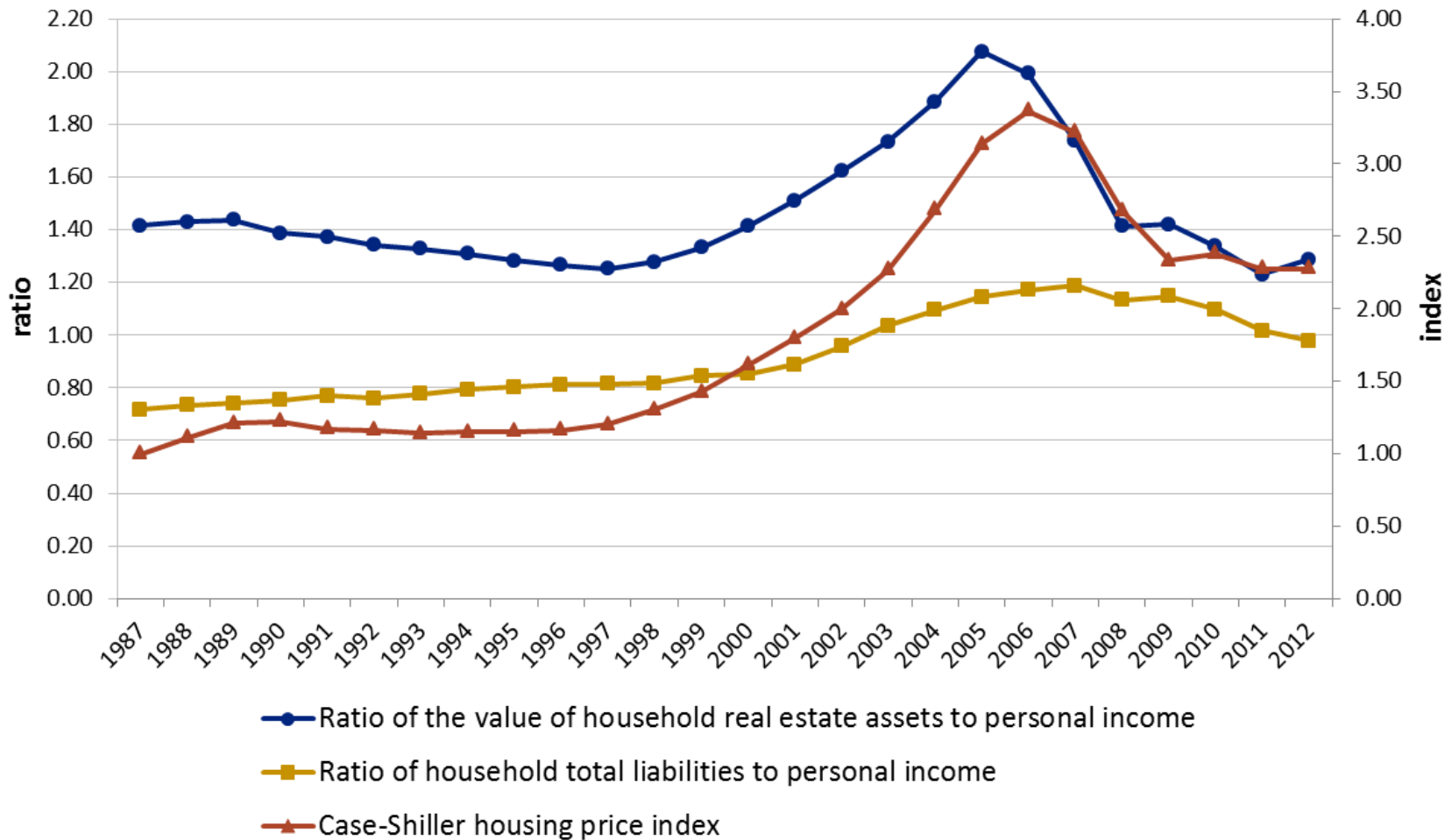
Equity prices, NIPA profits, and GDP



Where's the Debt?

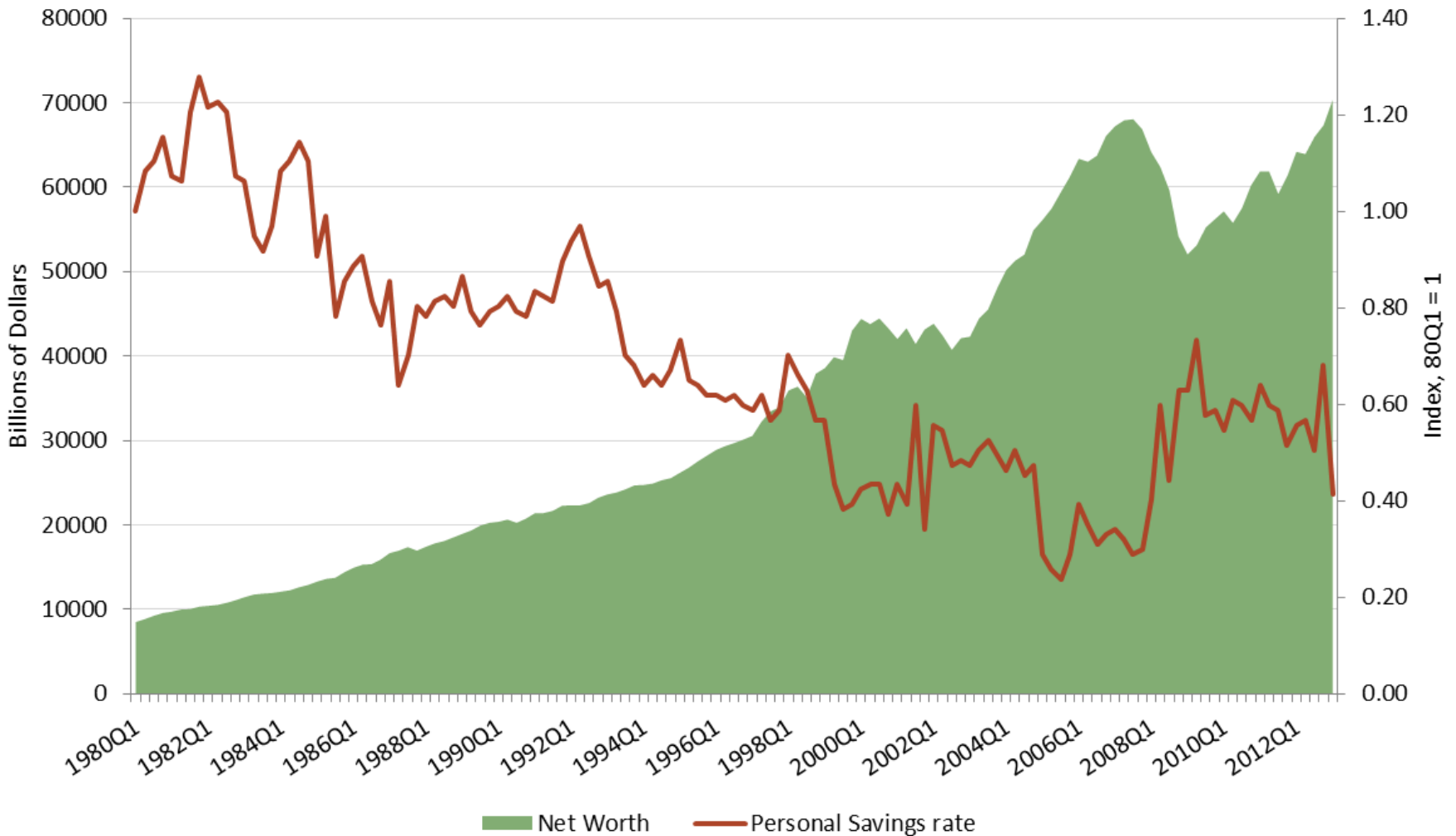


How Did We “Miss” the Housing Bubble?

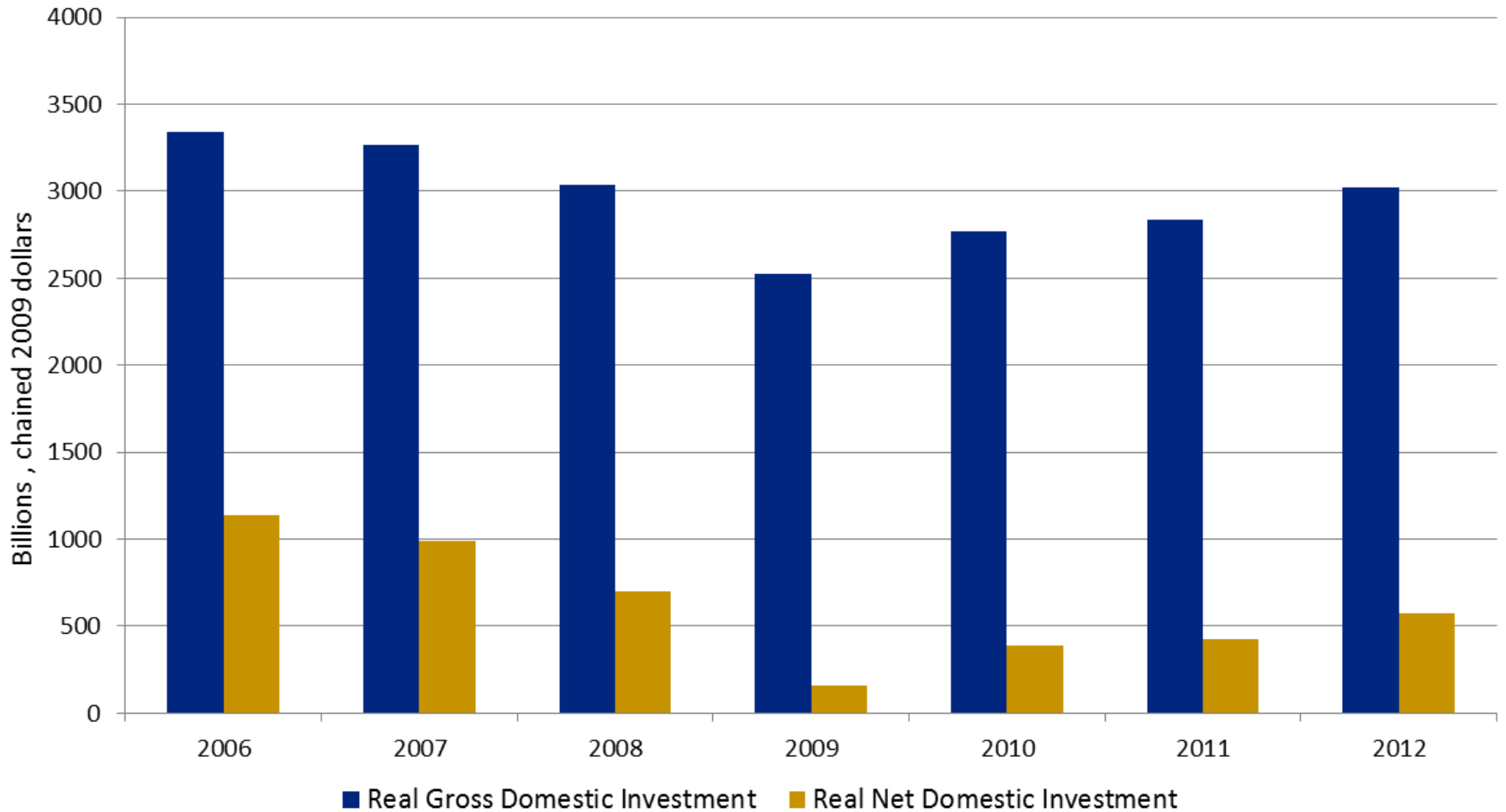


Source: BEA, FRB, Standard & Poor's

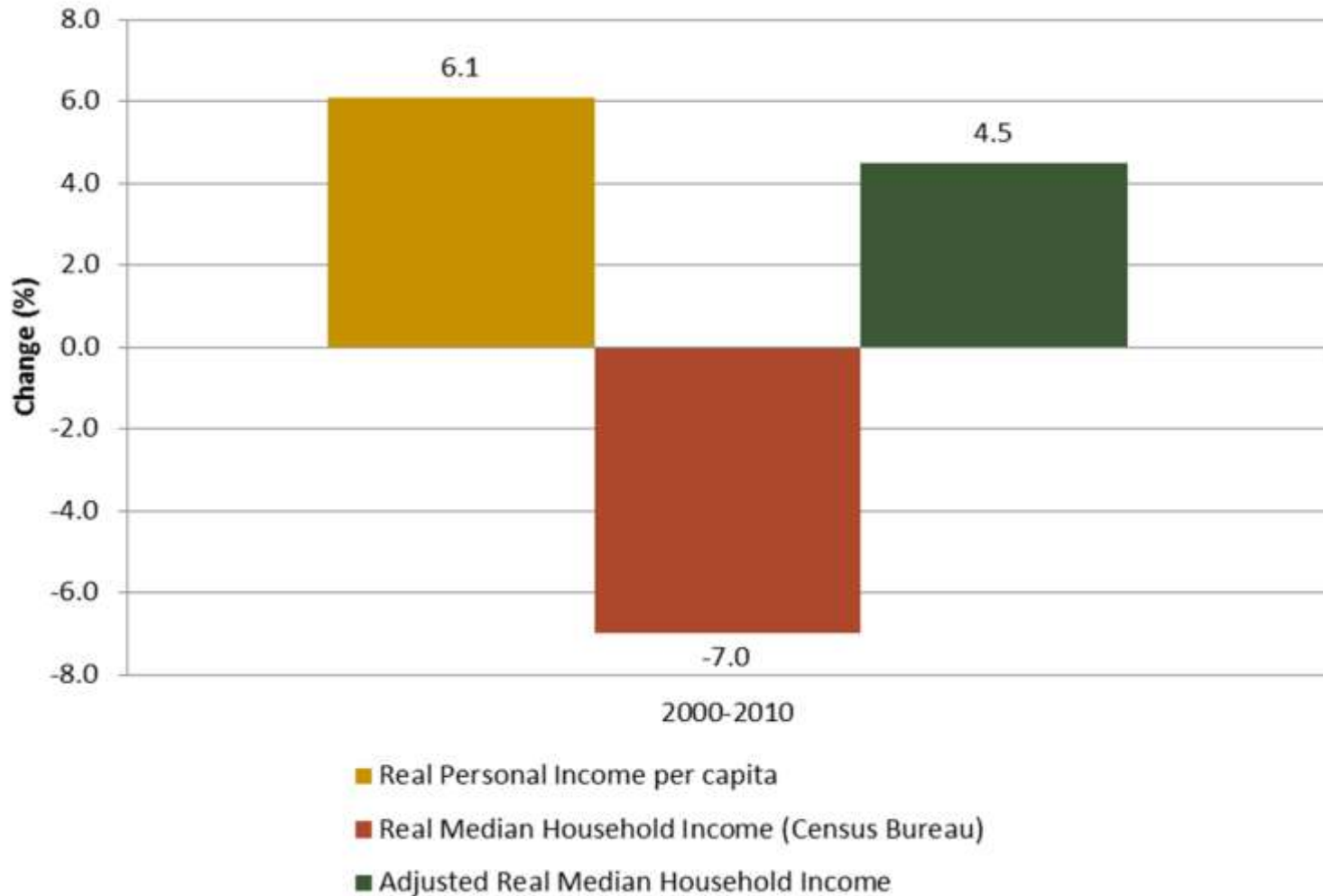
Unsustainable Savings & Consumption



Sustainable Investment?



Economic Growth & Welfare: Growing or Shrinking Living Standards



Updating and Filling Gaps in a Era of Shrinking Resources

- Partnerships with business respondents, owners of “big” data, and data users:
 - Improving estimates and survey efficiency, accuracy, timeliness, and relevance, while reducing respondent burden.
 - Benchmarking, weighting, and extrapolating using big data.
- Production and IT Efficiencies
- Prioritization

Broad Based Priorities for Fact-Based Policy

- Financial regulation
- Immigration
- Manufacturing
- Health care
- Taxes and small business
- Competitiveness
- Innovation
- Skill gaps

Help With Detailed Priorities

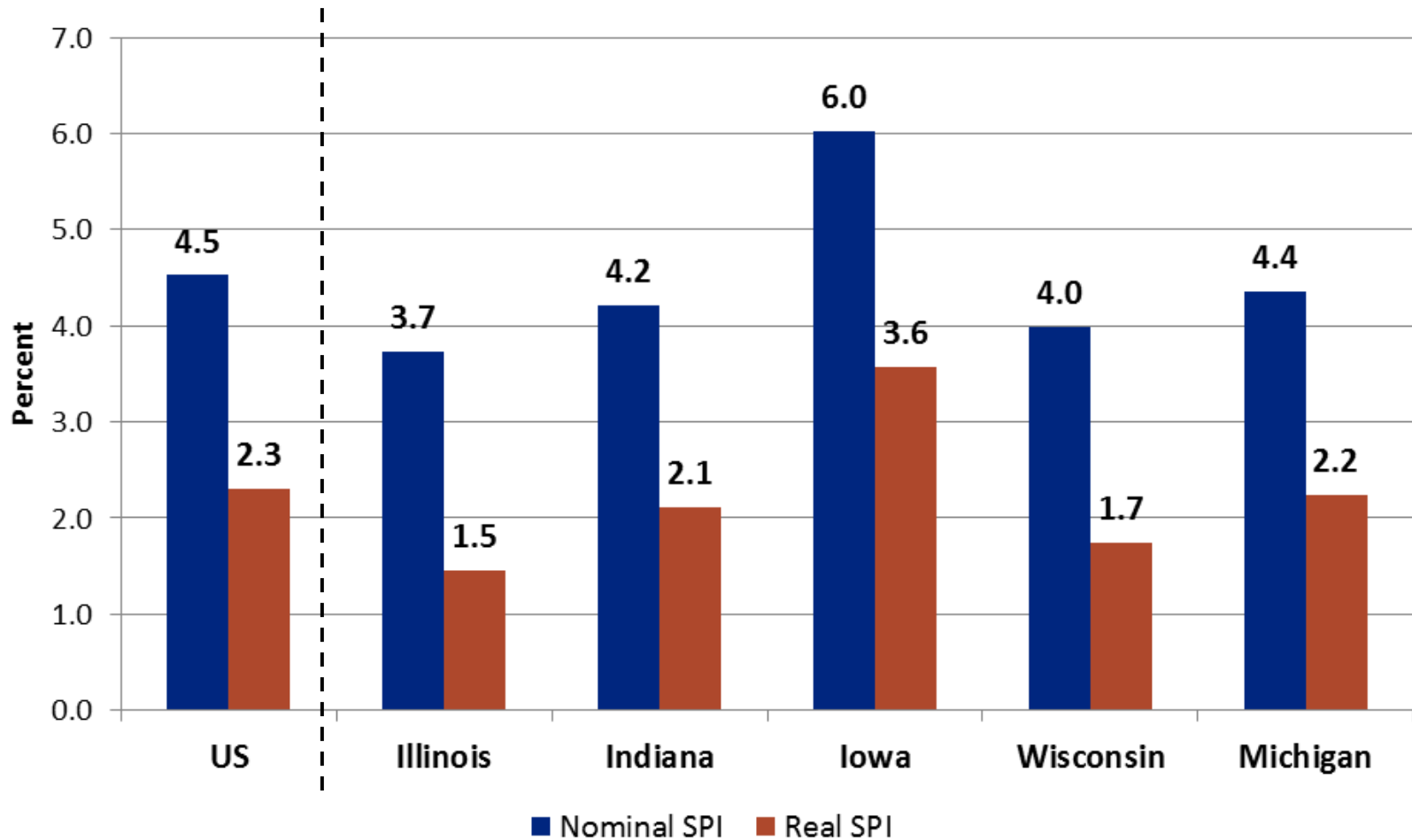
- Funding critical updates through efficiencies and programmatic cuts
 - Criteria:
 - GDP or feed into GDP
 - Required by law
 - Required for the administration of Federal Law
 - Major Programmatic Reductions:
 - RIMS
 - Detailed statistics on Local Area Personal Income
 - FDI Analytical Products
 - Delay or loss of source data (BLS & Census)

New Products

- R&D and Intellectual Property
- Accrual-based Pensions
- Quarterly Integrated FRB-BEA Accounts, International Investment Position
- Quarterly GDP by Industry
- Annual Integrated BLS-BEA Industry Level Production Accounts
- Distribution of income and spending
- Real State Personal Income & Prototype PCE by State
- Accelerated local area data
- Economic Sustainability Indicators

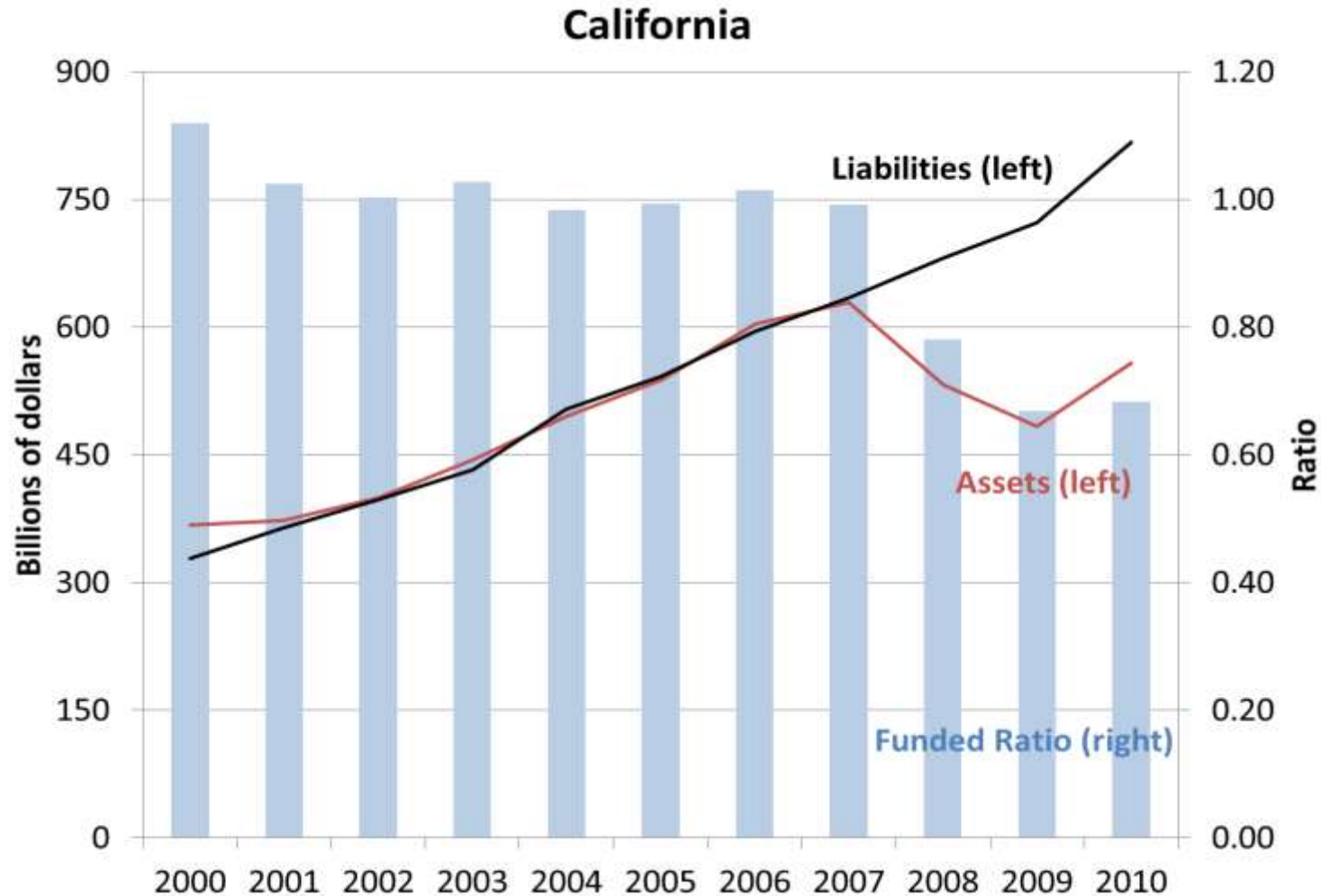
Examples of Newly Available: Inflation Adjusted Personal Income by RPPs

Average annual growth, 2009-2011



New Accrual Approach to Pension Accounting

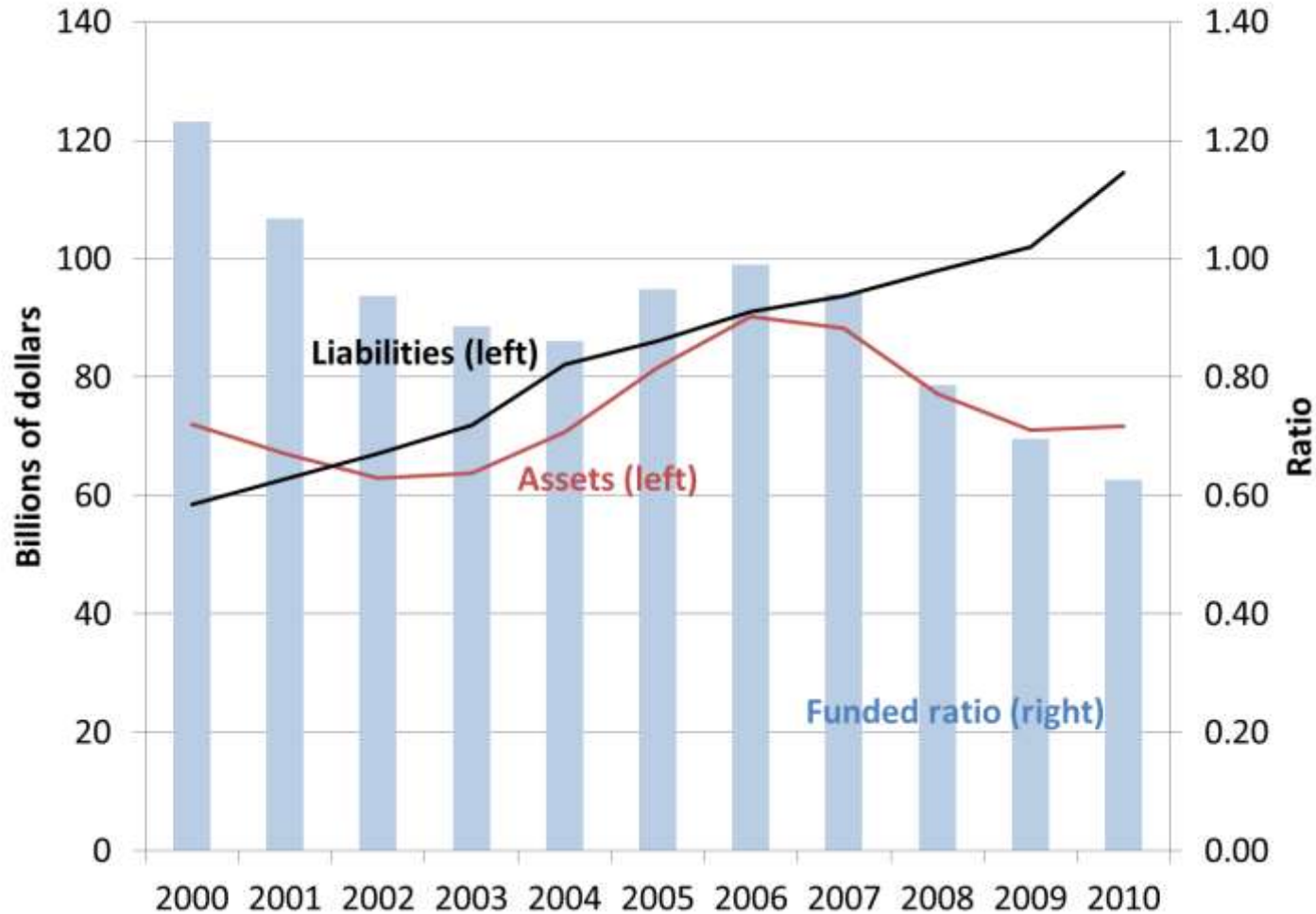
State & local Defined Benefit Pension Assets and Liabilities



New Accrual Approach to Pension Accounting

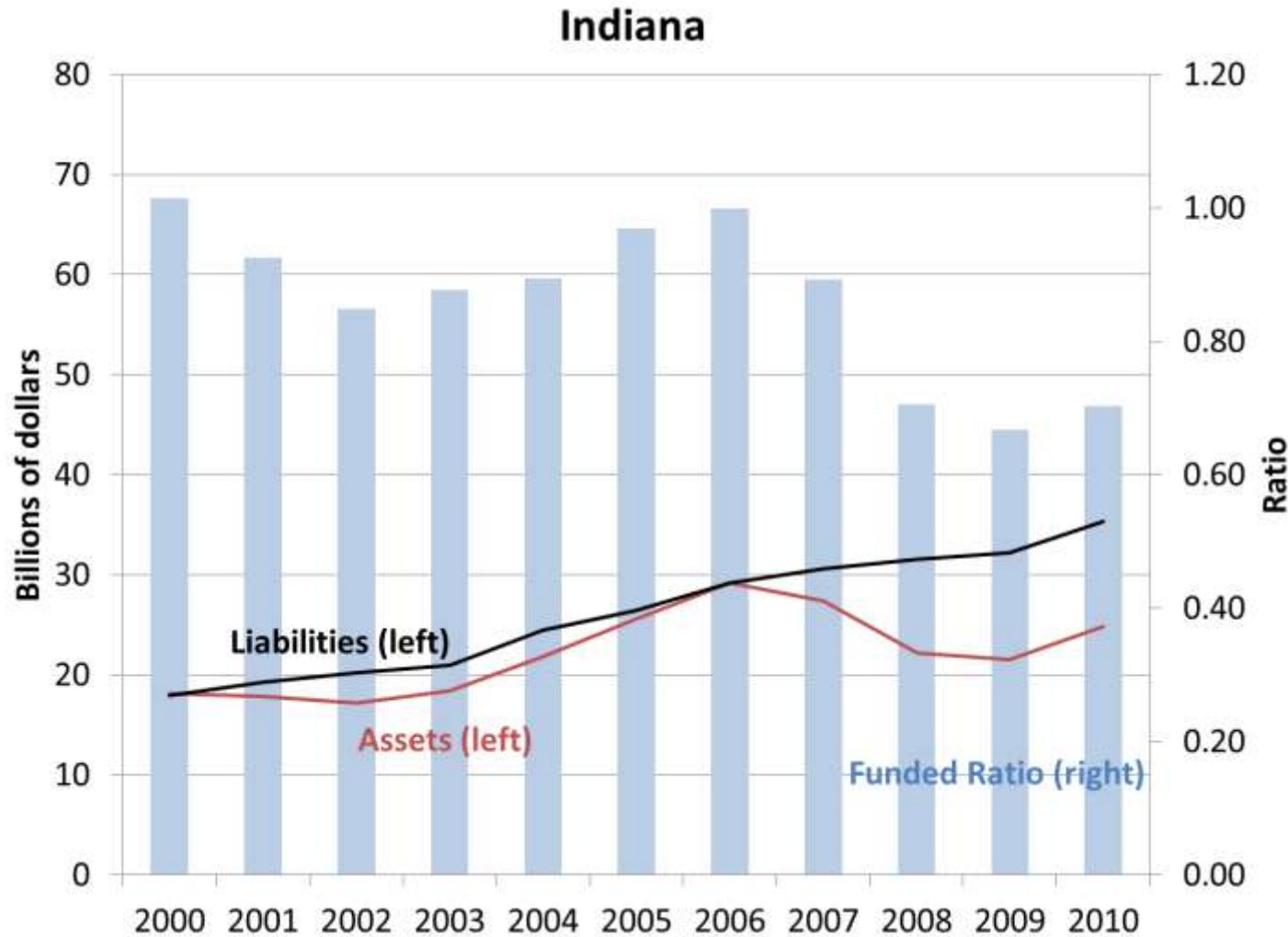
State & local Defined Benefit Pension Assets and Liabilities

Michigan



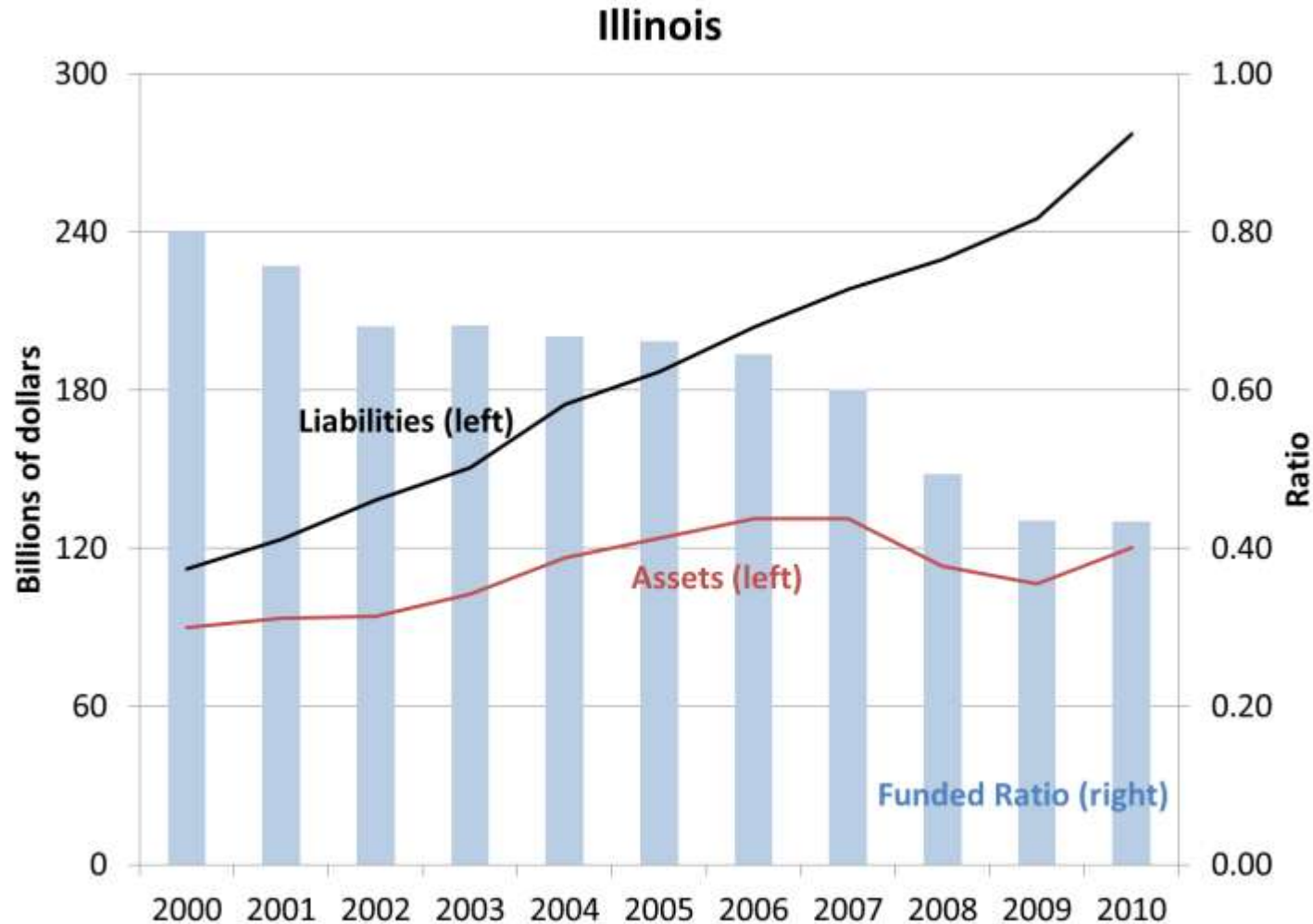
New Accrual Approach to Pension Accounting

State & local Defined Benefit Pension Assets and Liabilities



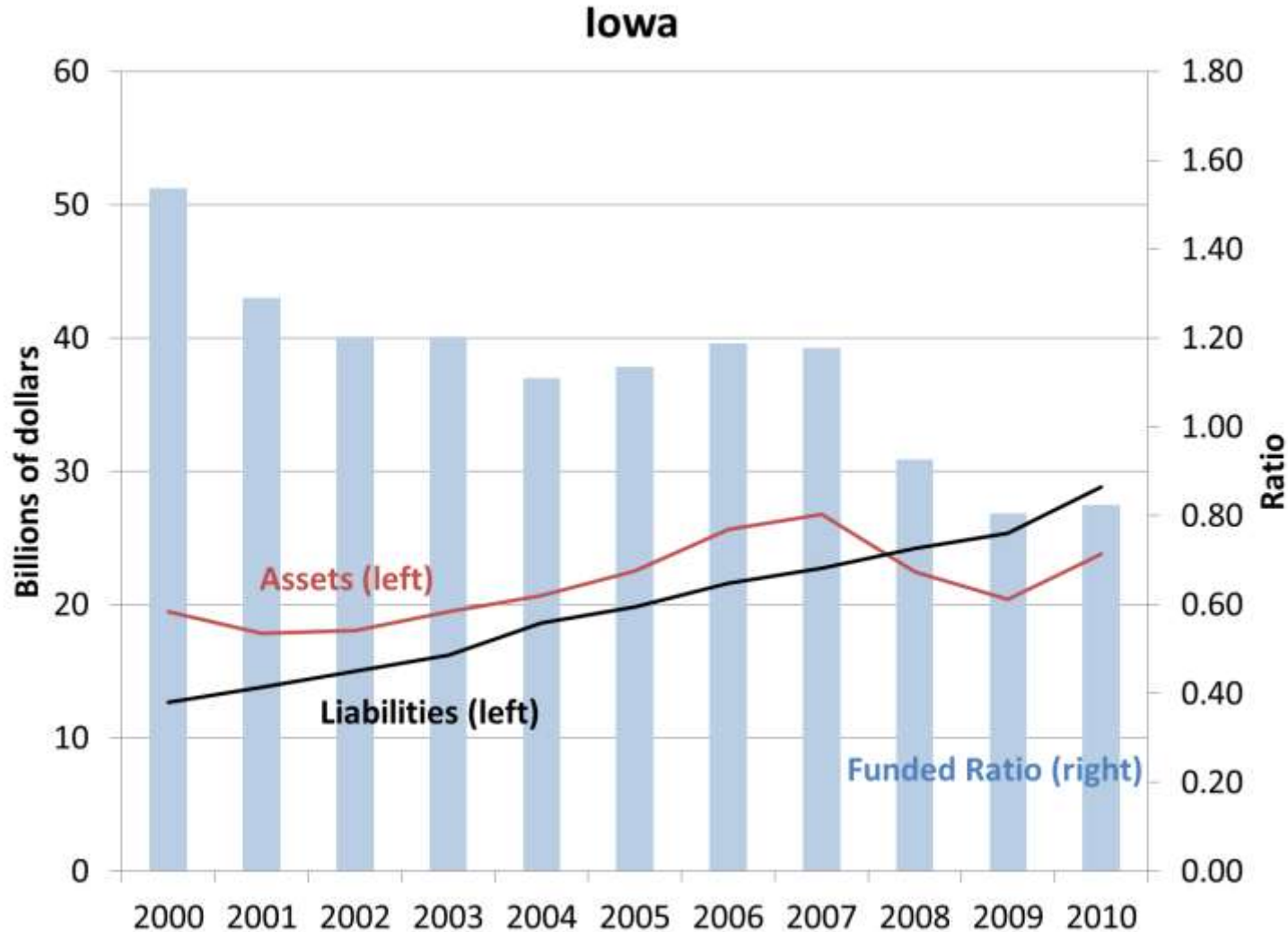
New Accrual Approach to Pension Accounting

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Wisconsin

