Virginia’s Economy: The next 1,000 days

June 12, 2009

Household Net Worth

Source: Board of Governors of the Federal Reserve System
TED Spread: Borrowing Risks

Lehman Brothers Fails

Source: Economagic

Monetary Base

Big injection

Little injection

Source: Board of Governors of the Federal Reserve System
Standard & Poor’s Index

Stock market bottom?

Index

Source: Economagic

Real Personal Consumption Expenditures

% change

Source: Bureau of Economic Analysis
Personal Savings Rate

Value of Residential Construction

Source: Bureau of Economic Analysis

Source: U.S. Census Bureau
Foreign Exchange Rate

Source: Board of Governors of the Federal Reserve System

Current Account Trade Balance

Source: Bureau of Economic Analysis
Consumer Price Index

% change over year earlier

Source: Bureau of Labor Statistics

Oil Prices

$ per barrel West Texas Intermediate crude, spot price

Source: U.S. Department of Energy
Monetary Policy Response

Source: Board of Governors of the Federal Reserve System

The Fiscal Policy Response

- American Recovery and Relief Act of 2009
  - $787 Billion
  - Compares to $152 Billion for Economic Stimulus Act of 2008
The Rationale--offset effect of financial crisis on aggregate demand

- Household Net Worth
  - Net worth fell $12 trillion ($4 trillion home values and $8 trillion financial assets)
  - Every $ decline in household net worth reduces consumer spending by 5 cents (-$300 billion)
- Credit Market Tightening (-$325 billion)
- Energy Cost Decreases
  - Every $1 per gallon decline results in savings to consumers of $100 billion (+$200 billion)
- $425 Billion in Fiscal Stimulus needed in 2009

Source: Mark Zandi, economy.com

Initial Unemployment Claims

Source: Bureau of Labor Statistics
**Growth Predictions**

Most economists predict third quarter growth.


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**Housing Permits**

% of 2000 Census housing units

Source: U.S. Census Bureau
Housing Price Changes

Source: Federal Housing Finance Agency

Retail Sales

Source: Virginia Department of Taxation

Source: Bureau of Economic Analysis

Unemployment Rate Graph

The local unemployment rate tracks Virginia’s.

Source: Bureau of Labor Statistics (last point in April 2009)
September 2008
A darkening cloud over the Commonwealth.

Source: Bureau of Labor Statistics

October 2008
A darkening cloud over the Commonwealth.

Source: Bureau of Labor Statistics
November 2008
A darkening cloud over the Commonwealth.

Source: Bureau of Labor Statistics

December 2008
A darkening cloud over the Commonwealth.

Source: Bureau of Labor Statistics
January 2009
A darkening cloud over the Commonwealth.

Source: Bureau of Labor Statistics

February 2009
A darkening cloud over the Commonwealth.

Source: Bureau of Labor Statistics
March 2009
A darkening cloud over the Commonwealth.

Source: Bureau of Labor Statistics

Looking at Long-Term Trends
The two Virginia’s are growing further apart.
Sources of Growth

• Investment
• Institutions
• Entrepreneurship

Investment

• Save or borrow?
• Investment raises productivity
• Private investment
  – Facilities, knowledge, human capital
• Public investment
  – Infrastructure, public goods (human capital)
• Seeds of our current dilemma
Institutions

• Public institutions can help or harm
• Minimize corruption
• Facilitate market transactions
• Regulate efficiently
  – Self-interested regulatory boards
• Using prices to achieve public ends
• Choosing the appropriate level of gov’t
• Managing implicit entitlements

Entrepreneurship

• The prime mover
  – Once institutions are in place
• Private entrepreneurship
  – Channeled by institutions to do good
  – As if by an invisible hand
• Public entrepreneurship
  – An untapped source of creative energy
  – Learning to encourage as well as harness it
Prescription for Growth

• Investing for growth
  – Save more/invest wisely
  – Invest in institutions
  – Encourage entrepreneurship