The Effect of the Financial Crisis on the “Real Economy”

Separating Financial from Real Effects in the Current GDP Statistics

Carol E. Moylan

BEA Advisory Meeting
November 7, 2008
Overview

- Motivation
  - Provide awareness of the parts of GDP effected
  - Macro fact checking
- Behavioral effects on GDP statistics
  - Anticipate the effects on the demand components of GDP
  - Ensure source data & methods capturing these effects
- Current financial interventions by the Federal Government
  - Separate the financial treatments from real effects in the GDP statistics
- Roundtable discussion
Economic Effect of Credit Crisis on GDP Statistics

- **Consumption:**
  - Wealth effect
  - Credit constraints
  - Precautionary effects

- **Investment:**
  - Housing market
  - Credit constraints
  - Demand effects
Economic Effect of Credit Crisis on GDP Statistics (cont’d)

- Net exports
  - Global markets
- Government:
  - State & local:
    - Property taxes
    - Sales taxes
    - Credit constraints
  - Federal:
    - Administrative costs
## Selected Current Financial Interventions by the Federal Government

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Action</th>
<th>Possible Effect on:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Flow of Funds</td>
</tr>
<tr>
<td>TARP</td>
<td>• Authority for purchases up to $700b</td>
<td>• Federal government</td>
</tr>
<tr>
<td></td>
<td>• Of which $250b available to purchase senior preferred shares in banks and thrifts</td>
<td>• Banks and thrifts</td>
</tr>
<tr>
<td>AIG</td>
<td>• Two-year secured loan from FRB of up to $122.8b</td>
<td>• Federal Reserve</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Funding corps (AIG)</td>
</tr>
<tr>
<td>Fannie Mae and Freddie Mac (GSEs)</td>
<td>• Placed in conservatorship</td>
<td>• Federal government</td>
</tr>
<tr>
<td></td>
<td>• Purchases of:</td>
<td>• GSEs</td>
</tr>
<tr>
<td></td>
<td>• Senior preferred stock</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Mortgage-back securities</td>
<td></td>
</tr>
<tr>
<td>Bear Stearns</td>
<td>• Asset purchase for $28.8b through Maiden Lane LLC controlled by the FRB</td>
<td>• Federal Reserve</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Funding corps (Maiden Lane)</td>
</tr>
</tbody>
</table>