What will the recovery look like?

- **Modest recovery in output**
  The global recession that started in late 2007 was one of the worst since the 1930s. Following previous deep recessions, the U.S. economy has often grown rapidly during the recovery phase, but unfortunately this recovery appears to be fairly modest. Experience from around the world suggests that recoveries following banking and financial crises are typically much more drawn out. Consistent with this history of slow growth after financial crises, the U.S. economy faces substantial headwinds. These include tight credit conditions, a desire by households and firms to reduce debt and strengthen their finances, and lingering uncertainty about prospects for jobs, income, and wealth. Forecasters expect these challenges to restrain growth in the next few years.

References:

- **Slow reduction in unemployment**
  Unemployment surged in the recession as employers responded to the collapse in sales and lack of credit by laying off workers. Because the U.S. population continues to rise, the economy must create around 1½ million jobs each year just to keep the rate of unemployment from going up. But with only modest growth in the production of goods and services, businesses may not need many more workers to meet market demand. Thus, unemployment is likely to fall only slowly. This forecast is consistent with global evidence that economies recover slowly from recessions that follow financial crises.

References:

- **Support from monetary and fiscal stimulus**
  Monetary and fiscal stimulus have kept the economy's problems from being even worse. The Federal Reserve cut overnight interest rates to near zero and has purchased large quantities of longer-term Treasury and mortgage-related securities. The resulting lower interest rates help support spending and job creation. Meanwhile, federal fiscal policy actions—tax cuts and temporary increases in government spending—have also supported recovery. Tax cuts in 2009 gave most working families a timely income boost. Federal funding to state governments helped shore up budgets and avoid deeper layoffs of teachers, police, and firefighters. Spending on highways, bridges, and transit have boosted employment and will improve U.S. public works for the future. The federal government has also helped shore up the banking and financial systems, encouraging the availability of the credit needed to support recovery. By design, the effects of the 2009 fiscal stimulus package will subside over the next few years.

References:
- The Economic Outlook and Monetary and Fiscal Policy, testimony by Ben S. Bernanke, Chairman, Federal Reserve Board of Governors, before the Committee on the Budget, U.S. Senate, Washington, D.C., January 7, 2011.
- The Federal Reserve's Asset Purchase Program, speech by Janet L. Yellen, Vice Chair, Board of Governors, at the The Brimmer Policy Forum, Allied Social Science Associations Annual Meeting, Denver, Colorado, January 8, 2011.

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