Key Issues

• Adverse Feedback Loop
• V-Shaped or U-Shaped Recovery?
• The Risk of Deflation

House Prices Closing in on “Normal” Level

It Started with Subprime, then Spread to Prime

Households Deep in Debt...

and Suffering from Fall in Wealth

Over 5 Million Jobs Lost So Far
V-Shaped or U-Shaped Recovery?

Arguments for V-Shaped Recovery

- Typical pattern of past severe recessions
- Pent-up demand for housing and cars, and inventory rebuilding
- Sizable monetary and fiscal stimulus

Arguments for U-Shaped Recovery

- Banking/financial crises followed by slow recoveries; healing of banks will take time
- Heightened uncertainty exerts drag on investment
- Global recession
- Monetary policy limited by zero bound

Has Housing Hit Bottom (Again)?

Unemployment Continues to Rise

The Risk of Deflation