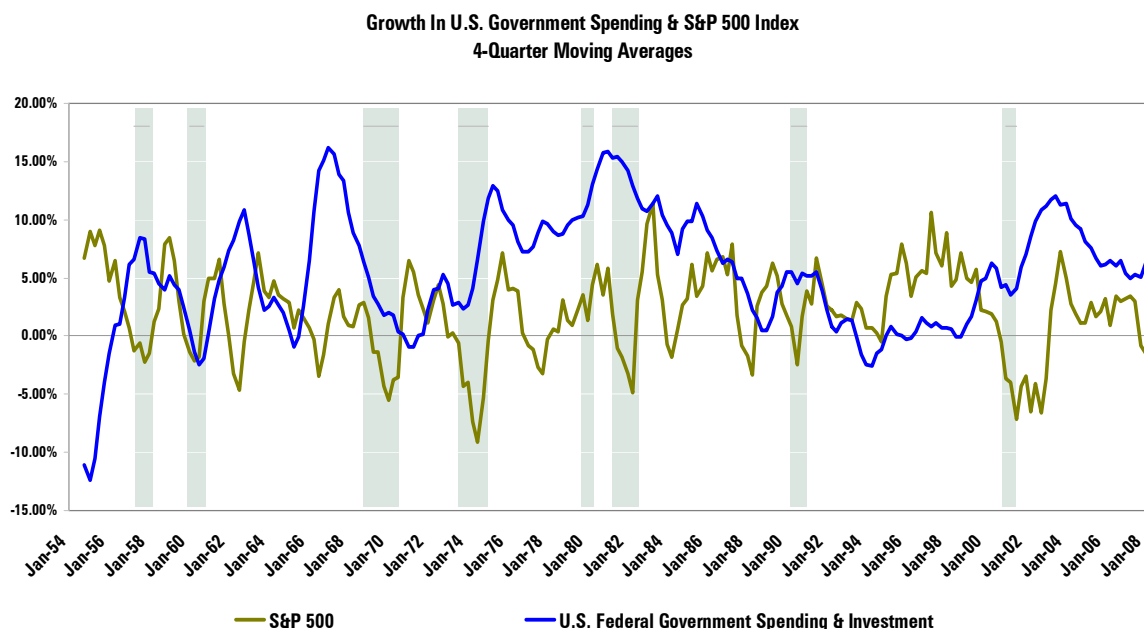


Government Spending in Response to Economic Downturns



- Market reaction to increased government spending is mixed, suggesting that while government spending might induce production and encourage consumption, investors react to the **outcome** of market intervention **not** its **expected consequences**.
- The chart above shows that spikes in government spending and investment rarely occur during recessions. One exception – the 1957-58 recession – came at the tail end of two years of federal budget surpluses. The government was most involved in spurring economic growth through spending on infrastructure. Anecdotally, auto sales during that recession were off by -31% and according to the U.S. Dept. of Commerce, year-to-date 2008 auto sales are down -39%.