

Policy Analysis in the Post Great Recession Era

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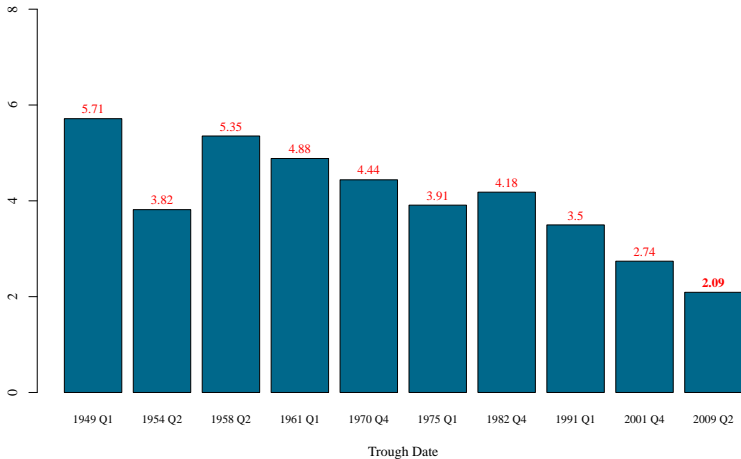
October 17, 2014

Issues Facing Various Policy Makers

- US economy and the Fed
 - slow growth
 - labor market weak
 - inflation low
 - households deleveraging
 - cash holdings are high
- Europe economies also very weak

GDP Growth During an Expansion

Average, annualized rate of change

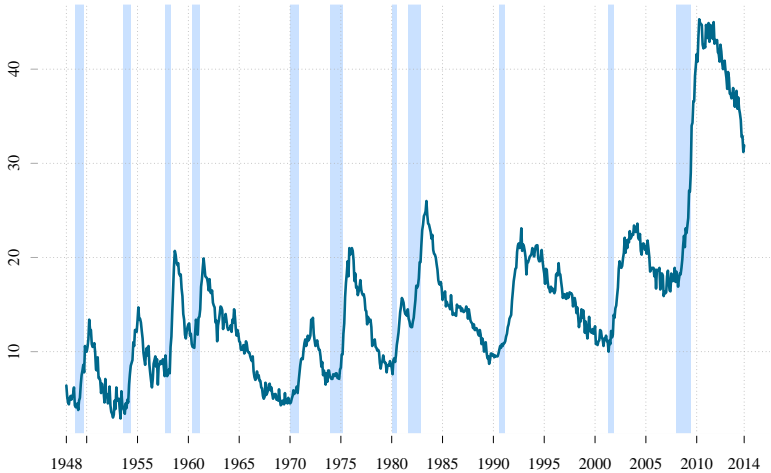


Economic Forecast Project

Source: BEA

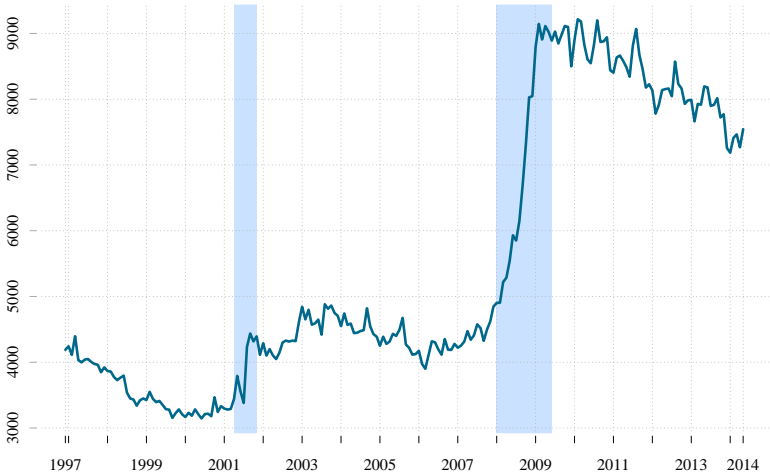
Of Unemployed, Percent 27 Weeks and Over

Percent



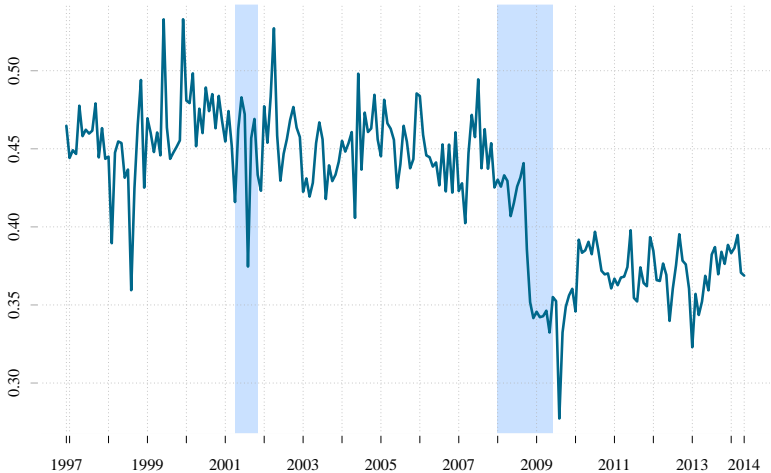
Employed Part-time for Economic Reasons

Thousands of persons, Seasonally Adjusted



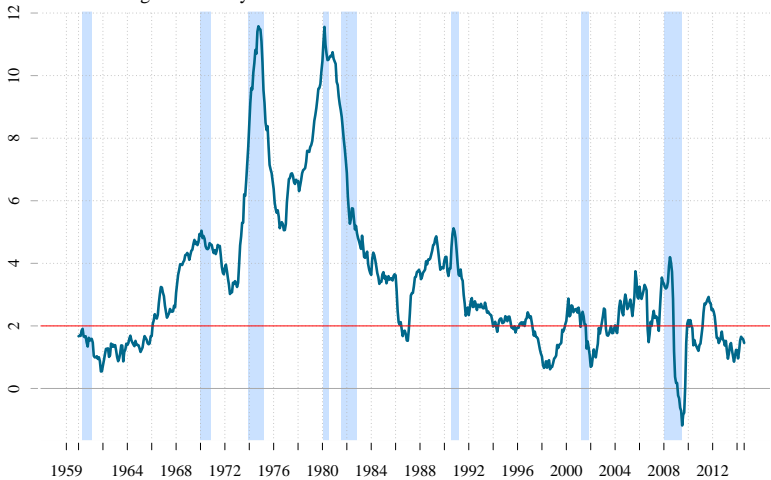
Transition Rate from Part-time for Economic Reasons to Full-time

Probability of getting a full time job during the year, Seasonally Adjusted



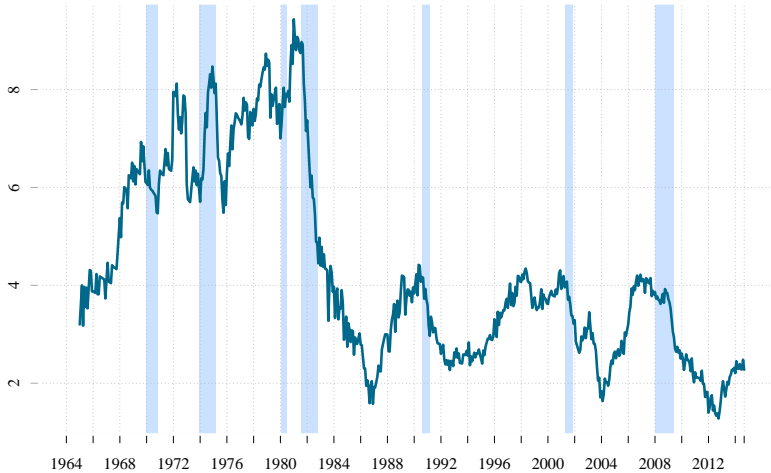
Personal Consumption Expenditures, Chain-type Price Index

Percent change from last year



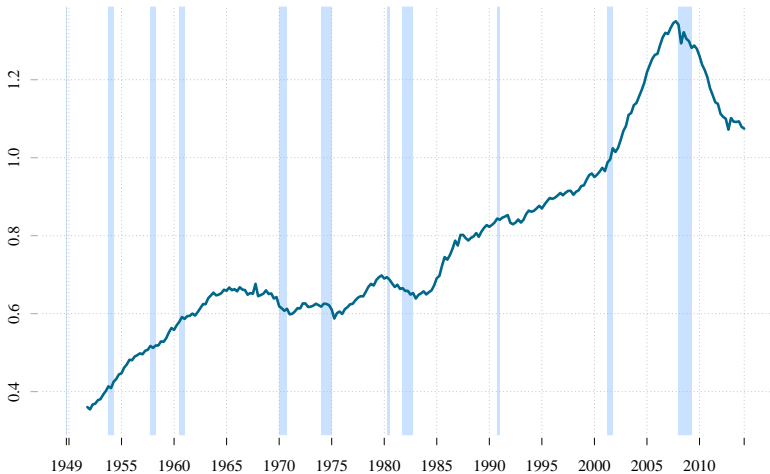
Average Hourly Earnings, Production and Salary Workers, Total Private

Percent change from a year ago



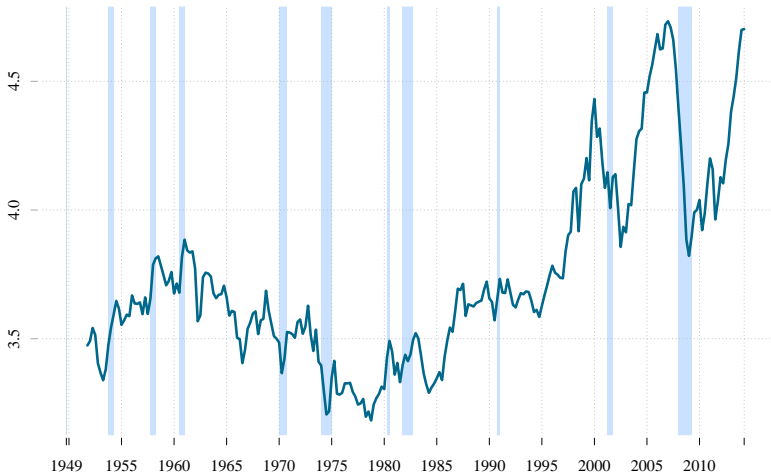
Household Leverage

Liabilities to Income



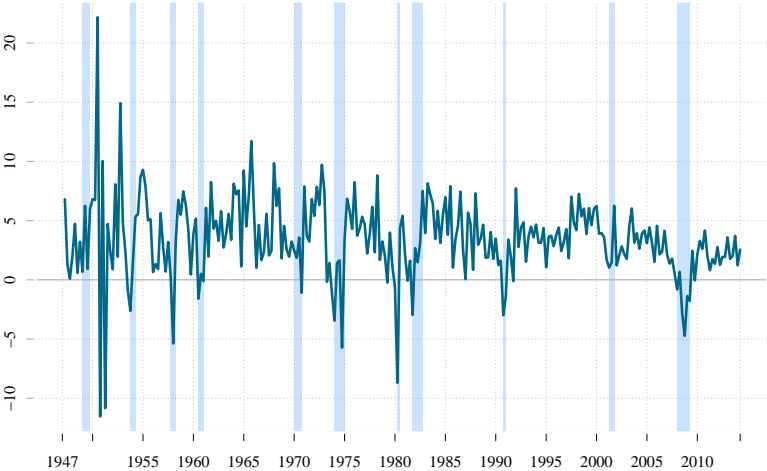
Household Net Worth (Assets–Liabilities)

Ratio to GDP



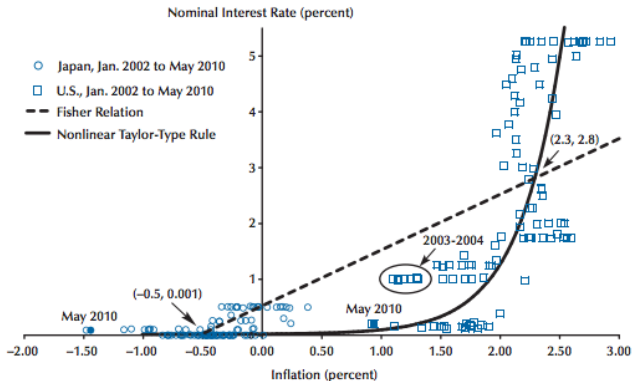
Real Personal Consumption Expenditures

Annualized percent change from last quarter



So?

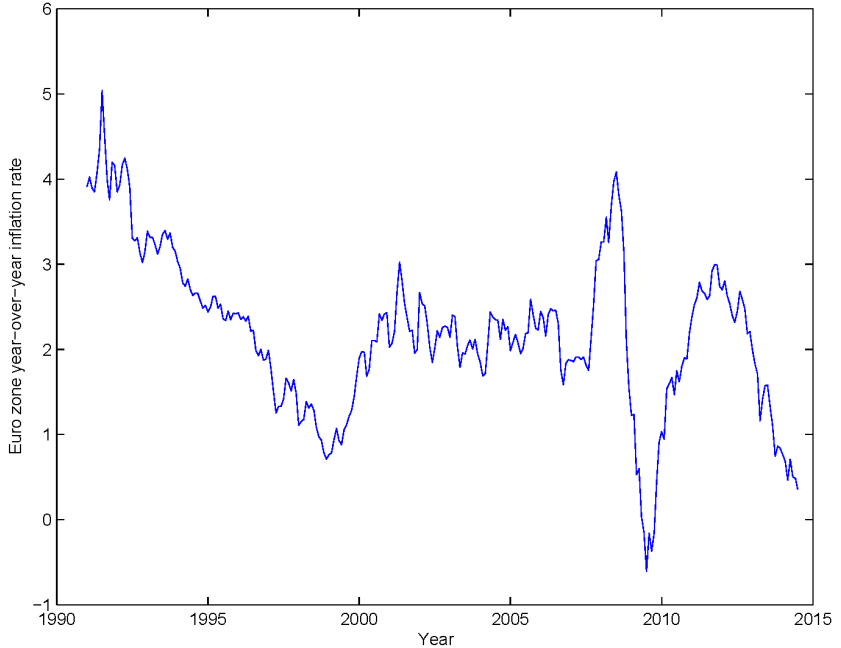
- what problems are we facing?
 - are we stuck somehow?
 - Benhabib, Schmitt-Grohe, Uribe (2001)

Figure 1**Interest Rates and Inflation in Japan and the U.S.**

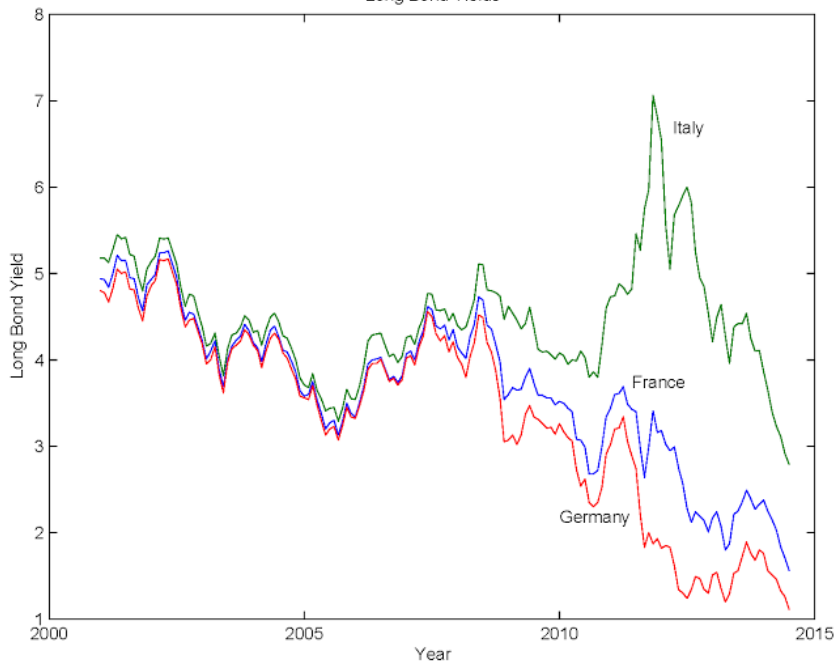
NOTE: Short-term nominal interest rates and core inflation rates in Japan and the United States, 2002-10.

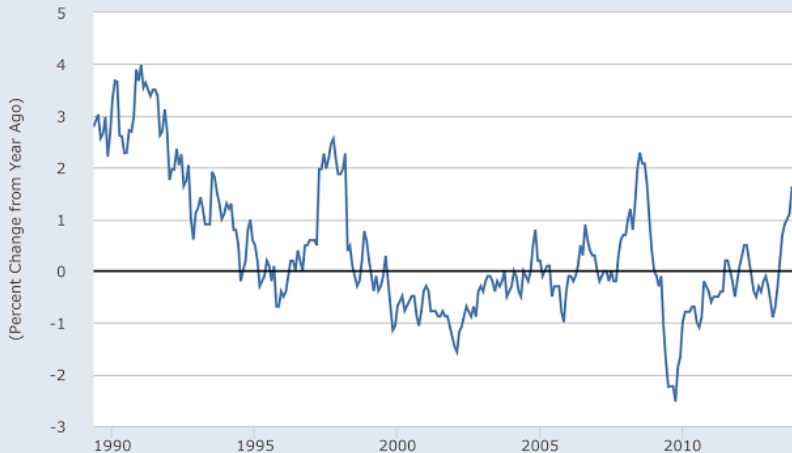
SOURCE: Data from the Organisation for Economic Co-operation and Development.

Euro zone inflation rate



Long Bond Yields





Source: Organisation for Economic Co-operation and Development
 2014 research.stlouisfed.org

— Long-Term Government Bond Yields: 10-year: Main (Including Benchmark) for Japan©



Source: Organisation for Economic Co-operation and Development
 2014 research.stlouisfed.org

Waiting for a Rate Change?

- don't hold your breath
 - given substantial weakness in the labor market
 - and no evidence of inflation in sight

What Next?

- increase nominal rates?
- ECB presumably wants to increase inflation..how?

What Next?

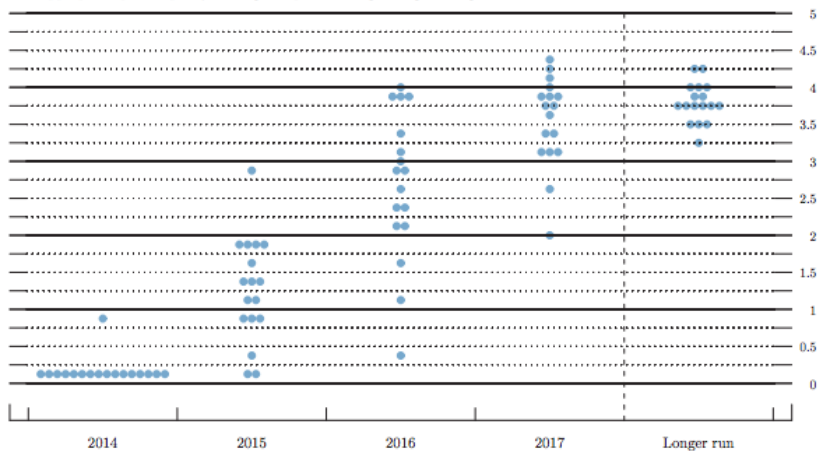
- QE?
 - Draghi: “So QE is an outright purchase of assets. To give an example: rather than accepting these assets as collateral for lending, the ECB would outright purchase these assets. That’s QE. It would inject money into the system.”
- why should that matter?
- TLTRO: subsidized lending...how does expansion of credit or reallocation lead to inflation?
- reducing refinancing rate (0.05%) and interest on reserves (-0.20%)...here think about the Bullard picture above
 - “policy” trap

What Next?

- forward guidance?

Percent

Appropriate pace of policy firming: Midpoint of target range or target level for the federal funds rate

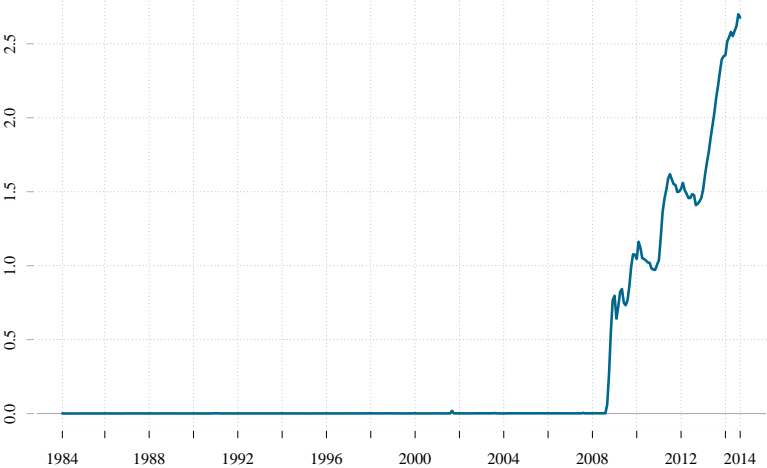


What Next?

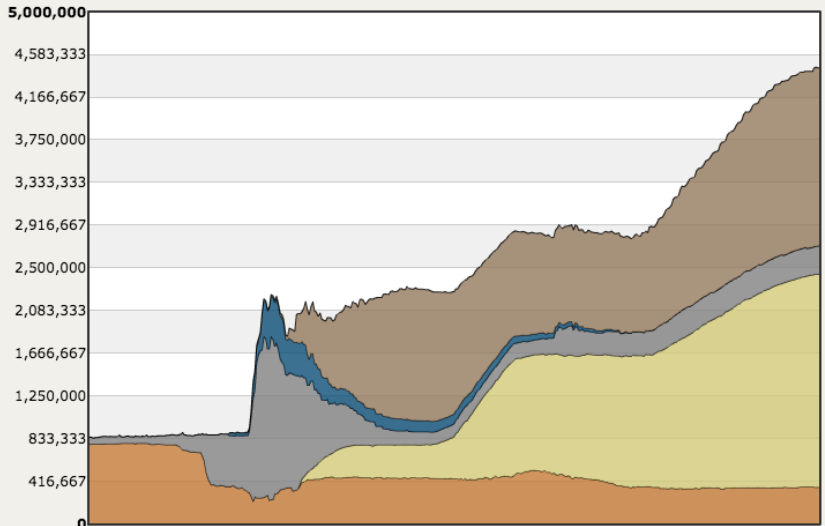
- but lots of uncertainty remains in the US
 - too-big-to-fail and bailouts

Excess Reserves

Trillions of Dollars



SUMMARY VIEW
Millions of Dollars



01/07/07 01/07/09 01/08/09 01/09/09 01/10/10 01/11/10 01/12/10 01/07/12 01/03/13 01/07/13 01/10/14

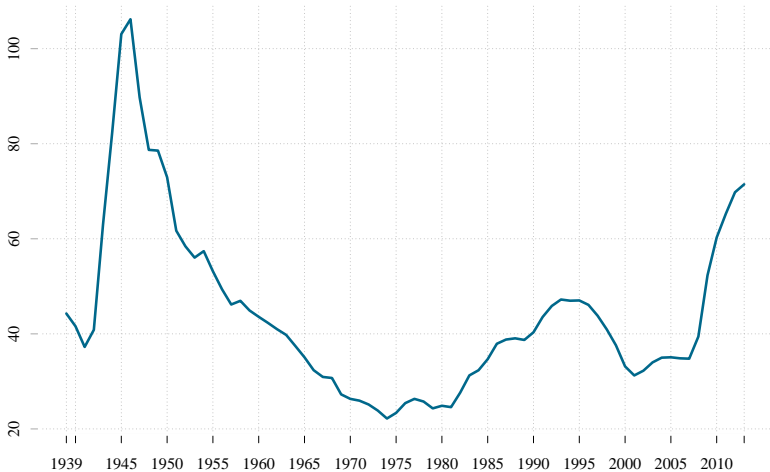
● Traditional Security Holdings
 ● Long Term Treasury Purchases
 ● Lending to Financial Institutions
 ● Liquidity to Key Credit Markets
 ● Fed Agency Debt Mortgage-Backed Securities Purch

What Next?

- growth is the way out
 - not stimulus
- structural reform is key
 - labor markets, business climate, deficits, etc.

Gross Federal Debt Held by the Public

Percent of GDP



Thank You