Monetary, Fiscal, and Financial Stability Policy Tools: Are We Equipped for the Next Recession?

Eric S. Rosengren
President & CEO
Federal Reserve Bank of Boston

April 18, 2018

2018 Economics Department Grossman Lecture
Colby College
Waterville, Maine

bostonfed.org
Figure 1: Mentions of Financial Instability in FOMC Meetings and Periods of Instability


Figure 2: Federal Funds Rate
January 1987 - December 2008

- Black Monday
- Bank of New England Fails
- Asian Crisis
- Russian Crisis/LTCM
- Argentine Debt Default
- Bear Stearns Fails
- Lehman Fails

Recession

Source: Federal Reserve Board, NBER, Haver Analytics
Figure 3: Forecasts for the Longer-Run Federal Funds Rate from the Summary of Economic Projections
January 2012 - March 2018

Note: The central tendency excludes the three highest and three lowest observations.

Source: FOMC, Summary of Economic Projections (SEP)
Figure 4: Federal Funds Rate, Noting Peaks and Troughs
January 1960 - March 2018

Source: Federal Reserve Board, NBER, Haver Analytics
Figure 5: Federal Government Surplus or Deficit as a Percentage of GDP

1987:Q1 - 2008:Q4

Note: Figures are four-quarter moving averages.
Source: BEA, U.S. Treasury, NBER, Haver Analytics
Figure 6: General Government Gross Debt as a Percentage of GDP
1990 - 2022

Note: Actuals are through 2017 for the U.S. and 2016 for all other countries. CBO projections for the U.S. (2018 - 2022) were released on April 9, 2018 and include the recent tax changes and increases in the federal budget.

Source: OMB (U.S.), CBO (U.S.), IMF (France, Germany, U.K.), Haver Analytics
Figure 7: Unemployment Rates and Stress Tests: Actual and Severely Adverse Scenario Peak
2009 - 2018

Note: There was no stress test in 2010.
Source: Federal Reserve Board
Note: Based on implementation date, which is generally twelve months after announcement. The U.K. initially announced a CCyB of 0.5% in March 2016, with an implementation date of March 2017, however in July 2016 the CCyB was lowered to 0%.

Source: European Systemic Risk Board, Bank of England, Hong Kong Monetary Authority
Figure 9: Capitalization Rates by Property Type  
2001:Q1 - 2017:Q4

Note: The capitalization or “cap” rate is the ratio of net operating income produced by a property to the price paid, calculated at the time of a transaction. Based on properties of $2.5 million or more.
Source: Real Capital Analytics, NBER, Haver Analytics
Figure 10: Real Commercial Property Price Indices by Property Type

2000:Q4 - 2017:Q4

Note: Indices are adjusted for inflation using the GDP deflator. Indices are repeat-sales based and include properties of $2.5 million or more.

Source: Real Capital Analytics, BEA, NBER, Haver Analytics
Figure 11: Distribution of S&P 500 Composite Price to Earnings Ratios
June and December, 1968 - 2017

Number of Observations

Note: Excludes 2 outliers – Dec 2008 (60.7) and Jun 2009 (122.4)
Figure 12: Distribution of Shiller Cyclically-Adjusted S&P 500 Composite Price to Earnings Ratios

June and December, 1968 - 2017

Source: Robert Shiller, Haver Analytics