Economic Update

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Figure 1
U.S. Regional Home Price Declines: S&P/Case-Shiller Metro Area Indexes

March 2006 - September 2011
Index Level March 2006 = 100

Source: S&P/Case-Shiller / Haver Analytics
Figure 2
Growth in Real GDP Components: Current and Three Previous Recoveries

Source: BEA, NBER / Haver Analytics
Figure 3
Residential Investment Share of GDP Growth: Current and Three Previous Recoveries

Source: BEA, NBER / Haver Analytics
Figure 4
Composition of Household Net Worth: Selected Components

2009

Source: Pew Research Center Tabulations of the Census Bureau's Survey of Income and Program Participation Data
Figure 5
Erosion of Home Equity of Households by Race and Ethnicity
2005 - 2009

Median Home Equity of Households

<table>
<thead>
<tr>
<th>Race</th>
<th>Median Home Equity 2005</th>
<th>Median Home Equity 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>240,000</td>
<td>120,000</td>
</tr>
<tr>
<td>Hispanic</td>
<td>120,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Black</td>
<td>60,000</td>
<td>0</td>
</tr>
<tr>
<td>Asian</td>
<td>180,000</td>
<td>120,000</td>
</tr>
</tbody>
</table>

Decline in Median Home Equity from 2005 - 2009

<table>
<thead>
<tr>
<th>Race</th>
<th>Percent Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>50%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>50%</td>
</tr>
<tr>
<td>Black</td>
<td>100%</td>
</tr>
<tr>
<td>Asian</td>
<td>50%</td>
</tr>
</tbody>
</table>

Source: Pew Research Center Tabulations of the Census Bureau's Survey of Income and Program Participation Data
Figure 6
Employment Growth: Current and Three Previous Recoveries

Source: BLS, NBER / Haver Analytics
Figure 7
Homeowner and Rental Vacancy Rates

1980:Q1 - 2011:Q3

Source: Census Bureau, NBER / Haver Analytics
Housing has been a Major Impediment to Stronger Growth

- Problems in housing have greatly complicated the U.S. recovery
- Residential investment has been unusually weak relative to previous recoveries
- Consumption, business formation, and employment have also been affected by problems in the housing sector
Housing Prices and Monetary Policy

- Falling prices discourage home purchases and many borrowers are unable to refinance.
- This has impacted the ability of monetary policy to have its usual effect on an important interest-sensitive sector.
- Monetary policy accommodation would have a greater impact if households were able to respond to the lower rates.
Figure 8
U.S. Unemployment Rate for Population Age 25 and Older by Educational Attainment

January 1992 - November 2011

Source: BLS, Census Bureau, NBER / Haver Analytics
## Figure 9
Changes in Unemployment Rate by Educational Attainment

<table>
<thead>
<tr>
<th>Educational Attainment</th>
<th>Business Cycle Peak</th>
<th>Current November 2011</th>
<th>Peak-to-Current Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than High School Diploma</td>
<td>7.7%</td>
<td>13.2%</td>
<td>+ 71%</td>
</tr>
<tr>
<td>High School Diploma, No College</td>
<td>4.7%</td>
<td>8.8%</td>
<td>+87%</td>
</tr>
<tr>
<td>Some College or Associate’s Degree</td>
<td>3.8%</td>
<td>7.6%</td>
<td>+100%</td>
</tr>
<tr>
<td>Bachelor’s Degree or Higher</td>
<td>2.1%</td>
<td>4.4%</td>
<td>+110%</td>
</tr>
</tbody>
</table>

Note: Figures are for population age 25 and older

Source: Census Bureau, BLS / Haver Analytics
Figure 10
Employment Cost Index for Civilian Workers

1983:Q1 - 2011:Q3

Source: BLS, NBER / Haver Analytics
Figure 11
Employment Cost Index for Civilian Workers by Occupational Group
2007:Q1 - 2011:Q3

Percent Change from Year Earlier

- Management and Professional
- Sales and Office
- Natural Resources, Construction and Maintenance
- Production, Transportation and Material Moving
- Service Occupations
Figure 12
Employment Cost Index for Civilian Workers by Occupational Group
2009:Q2 - 2011:Q3

Source: BLS / Haver Analytics
Figure 13
Bank Size Relative to Country Size: Assets of Largest Bank as a Share of GDP
as of Year End 2010

Note: Includes the U.S. and all European countries with a bank ranked in the top 50 worldwide as of year end 2010
Source: Global Finance, IMF
Figure 14
Sovereign Credit Default Swap Spreads
as of November 28, 2011

Note: Includes the U.S. and all European countries with a bank ranked in the top 50 worldwide as of year end 2010
Source: Bloomberg
### Figure 15
Stock Prices of Largest Banks in Europe and the United States

<table>
<thead>
<tr>
<th>Largest Banks in Groups of Five</th>
<th>Average Bank Assets Billion Dollars</th>
<th>Average Stock Prices: Index Level Dec 29, 2006 = 100</th>
<th>Average Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Five Largest Banks</td>
<td>2,456</td>
<td>33 30 110</td>
<td>-72 -37</td>
</tr>
<tr>
<td>Next Five Largest Banks</td>
<td>2,019</td>
<td>30 22 104</td>
<td>-79 -44</td>
</tr>
<tr>
<td>Next Five Largest Banks</td>
<td>1,470</td>
<td>41 30 111</td>
<td>-73 -41</td>
</tr>
<tr>
<td>Next Five Largest Banks</td>
<td>1,028</td>
<td>34 22 118</td>
<td>-81 -50</td>
</tr>
</tbody>
</table>

Source: Global Finance, Bloomberg
Figure 16
Dollar Funding Pressures
January 2, 2007 - December 1, 2011

Note: Basis Spread of Implied Dollar Cash Rate from 3-Month Euro-Dollar FX Swap over 3-Month Dollar LIBOR

Source: British Bankers’ Association, Deutsche Bundesbank, Financial Times / Haver Analytics
Recent FOMC Actions

- Expect short-term rates low until mid-2013
- Downward pressure on longer-term interest rates
- Extending the average maturity of our holdings of securities
- To support conditions in mortgage markets, reinvest principal payments from holdings of agency debt and mortgage-backed securities in agency mortgage-backed securities
Monetary Policy Cannot Fully Offset Problems, but Can Mitigate Some Effects

- Reducing unemployment by half a percent means 750,000 jobs
- Unemployment at 8.6% and medium term inflation restrained
- Goal is to restore economy to full employment and 2% inflation
- The sooner the economy improves the more quickly we can normalize interest rates