



No Exit?

Some Comments on Monetary Policy in Economic Transition

Prepared for the Georgia State University Economic Forecasting Conference

Atlanta, GA

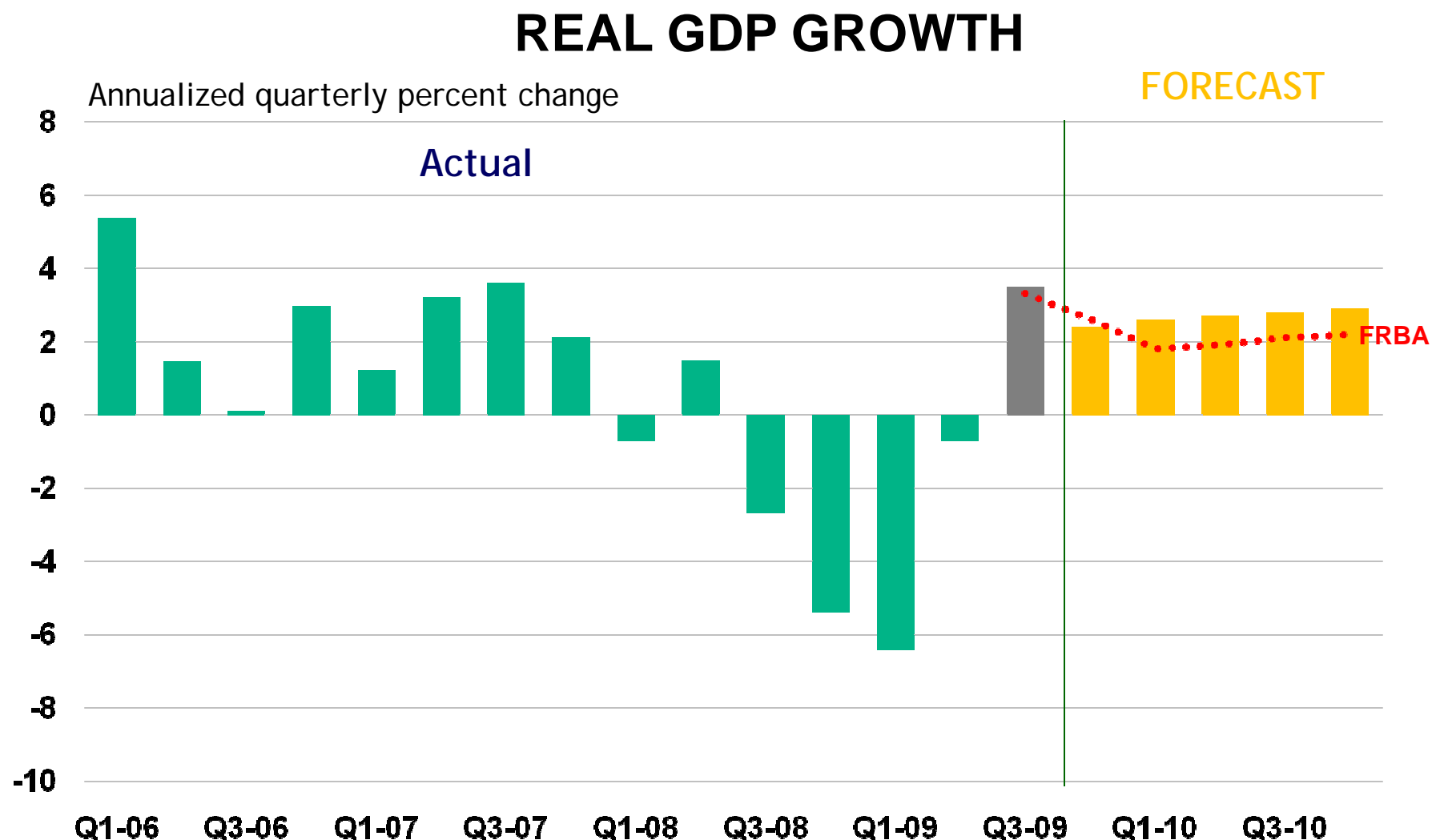
November 18, 2009

The views expressed are mine, and not necessarily those of the Atlanta Fed or the Federal Reserve System.



**FEDERAL
RESERVE
BANK
of ATLANTA**

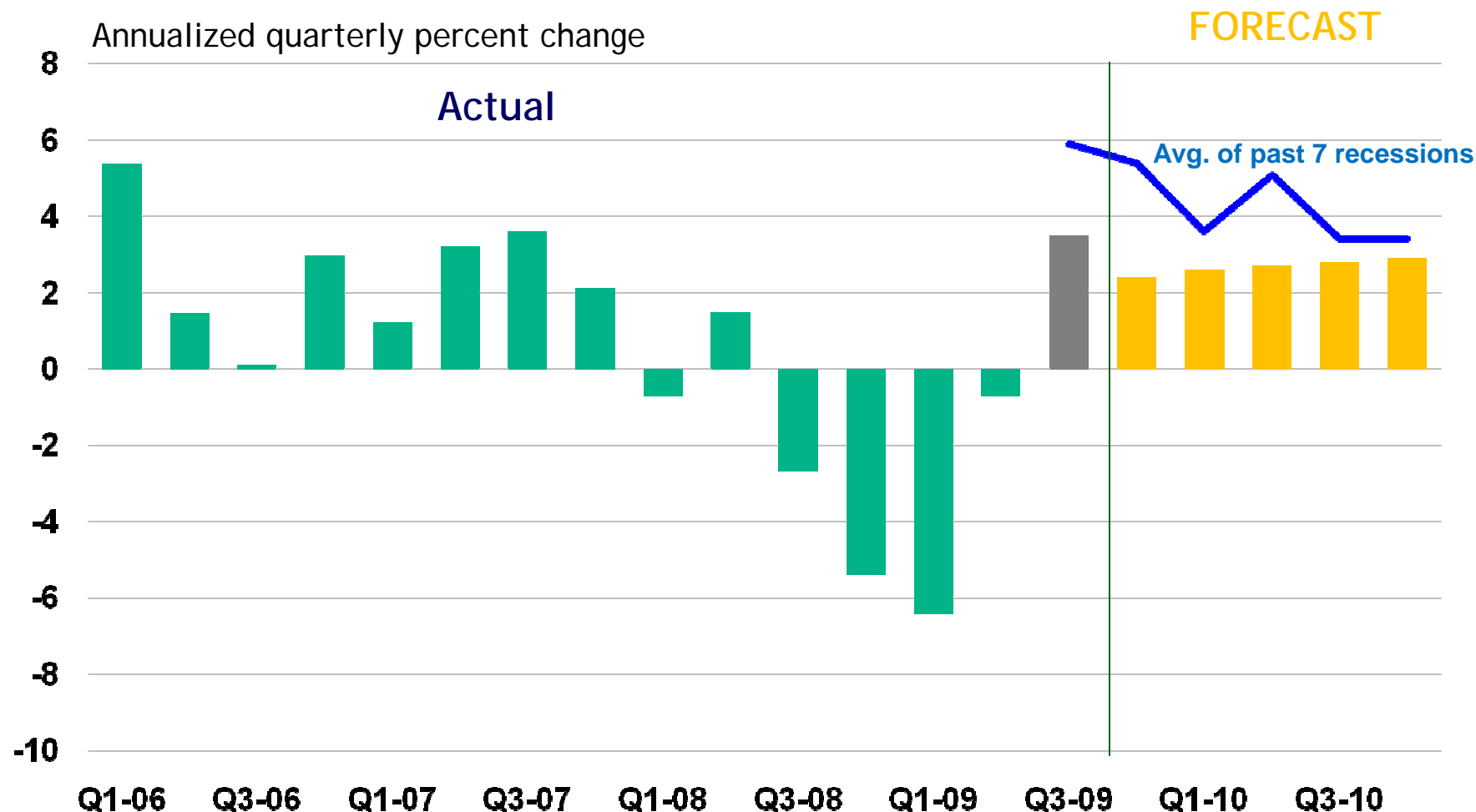
The recent forecast of the Federal Reserve Bank of Atlanta remains on the modest-side of the consensus.



SOURCES: Blue Chip panel of economists, October 10, 2009, Federal Reserve Bank of Atlanta

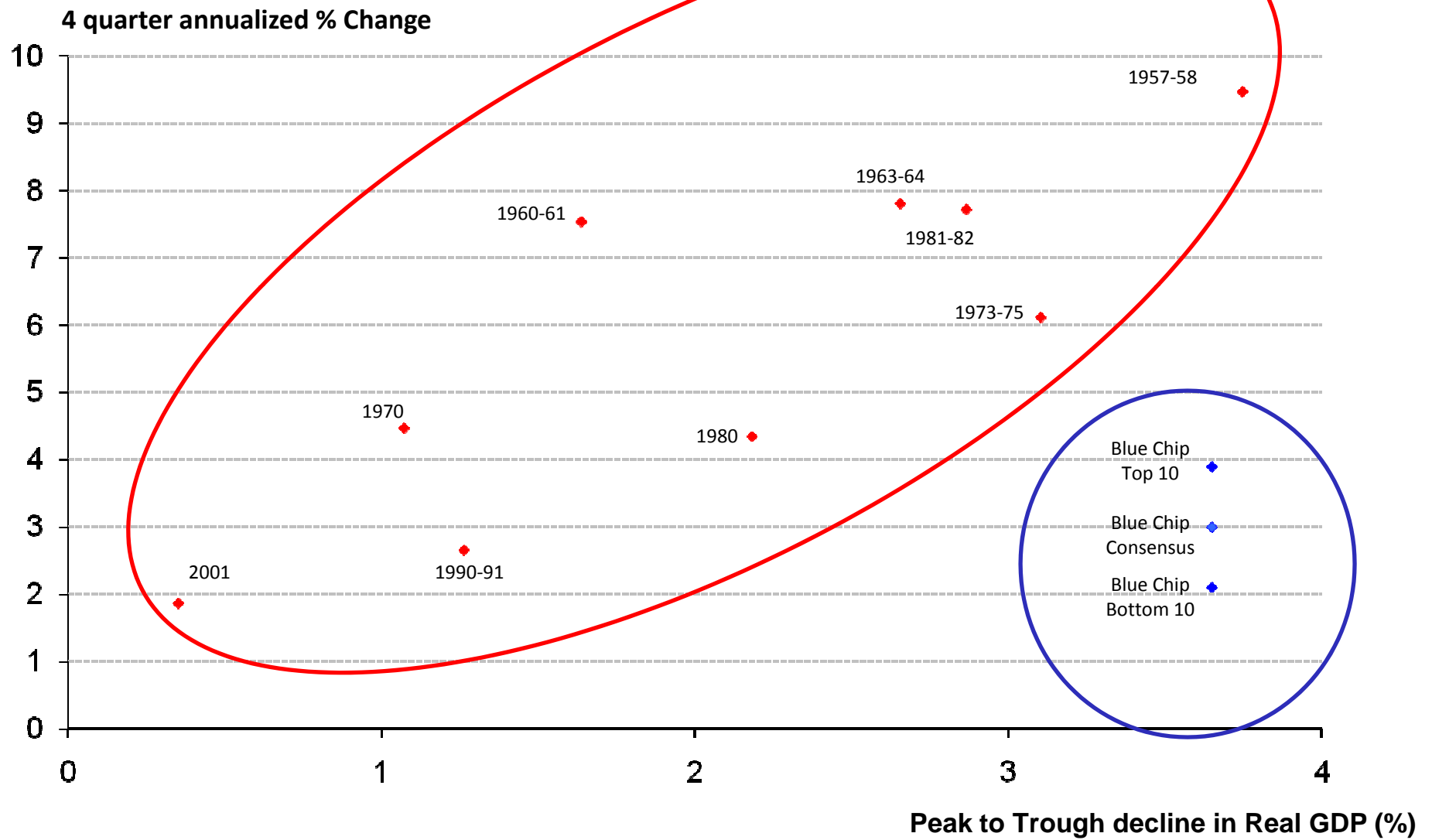
The GDP turnaround is expected to be very subdued relative to the “typical” recovery experience.

REAL GDP GROWTH



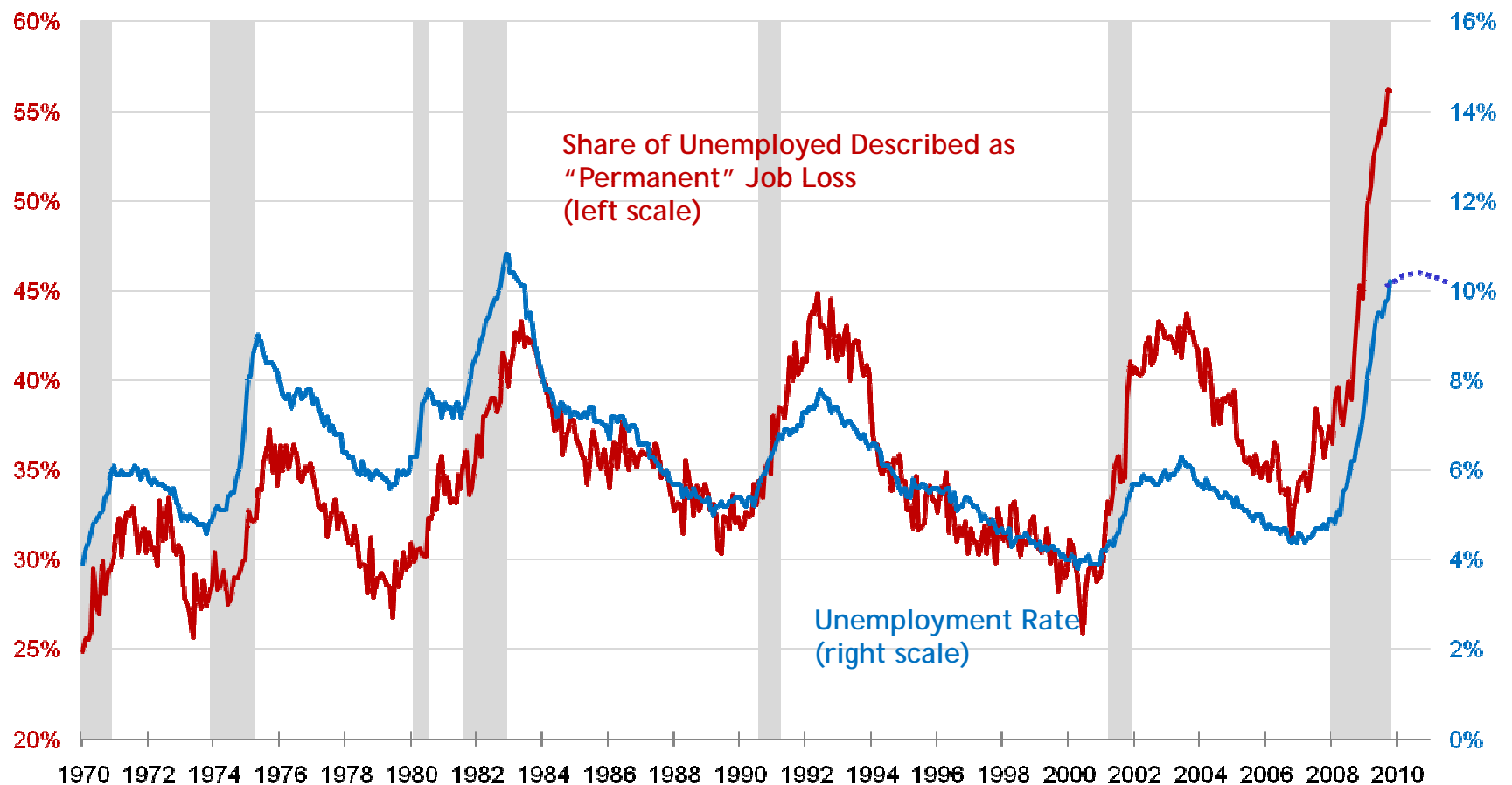
SOURCES: Bureau of Economic Analysis, Blue Chip panel of economists, October 10, 2009

Current forecasts are very pessimistic in historical context



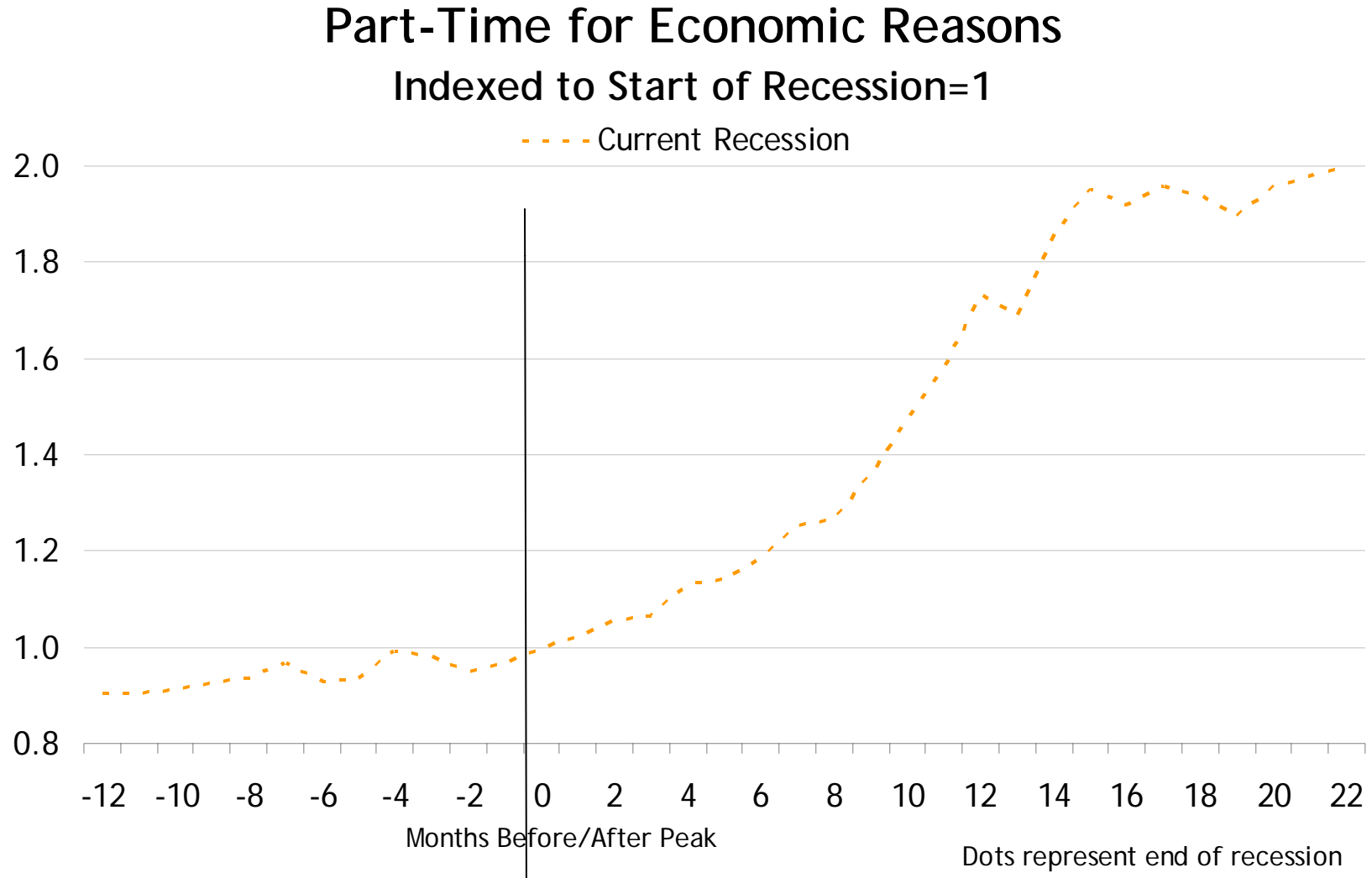
Source: BEA, Blue Chip

Unemployment is still rising and the share of joblessness attributed to permanent job loss has surged

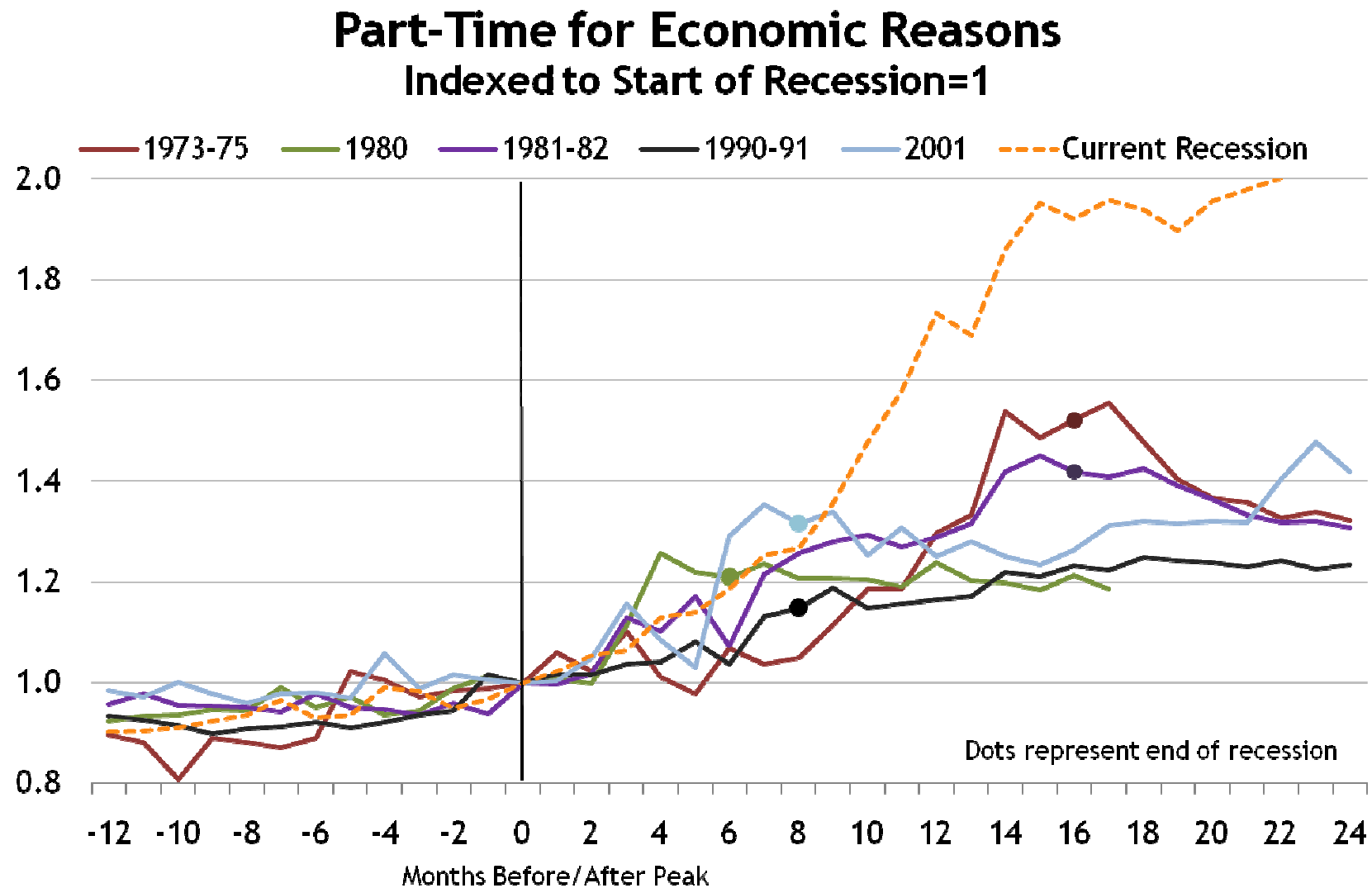


Source: Bureau of Labor Statistics (through October)

Underemployment is significantly higher than in past recessions.



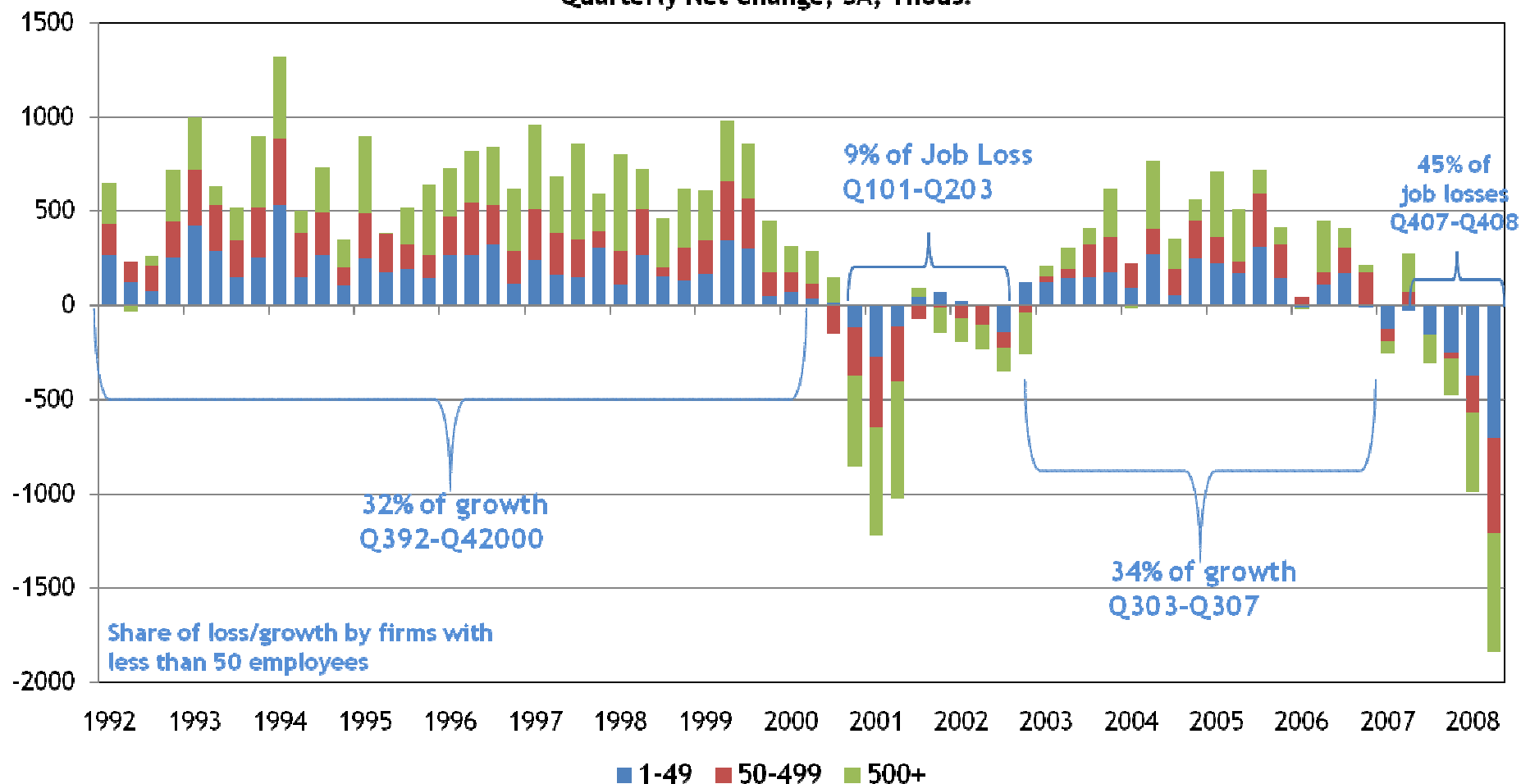
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Employment at firms with less than 50 employees have been most affected by the current recession.

Distribution of Net Gain in Employment by Firm Size

Quarterly Net Change, SA, Thous.



Policy changes usually lag unemployment peaks

Historical lag between end of recession, unemployment rate peak, and beginning of funds rate tightening cycle

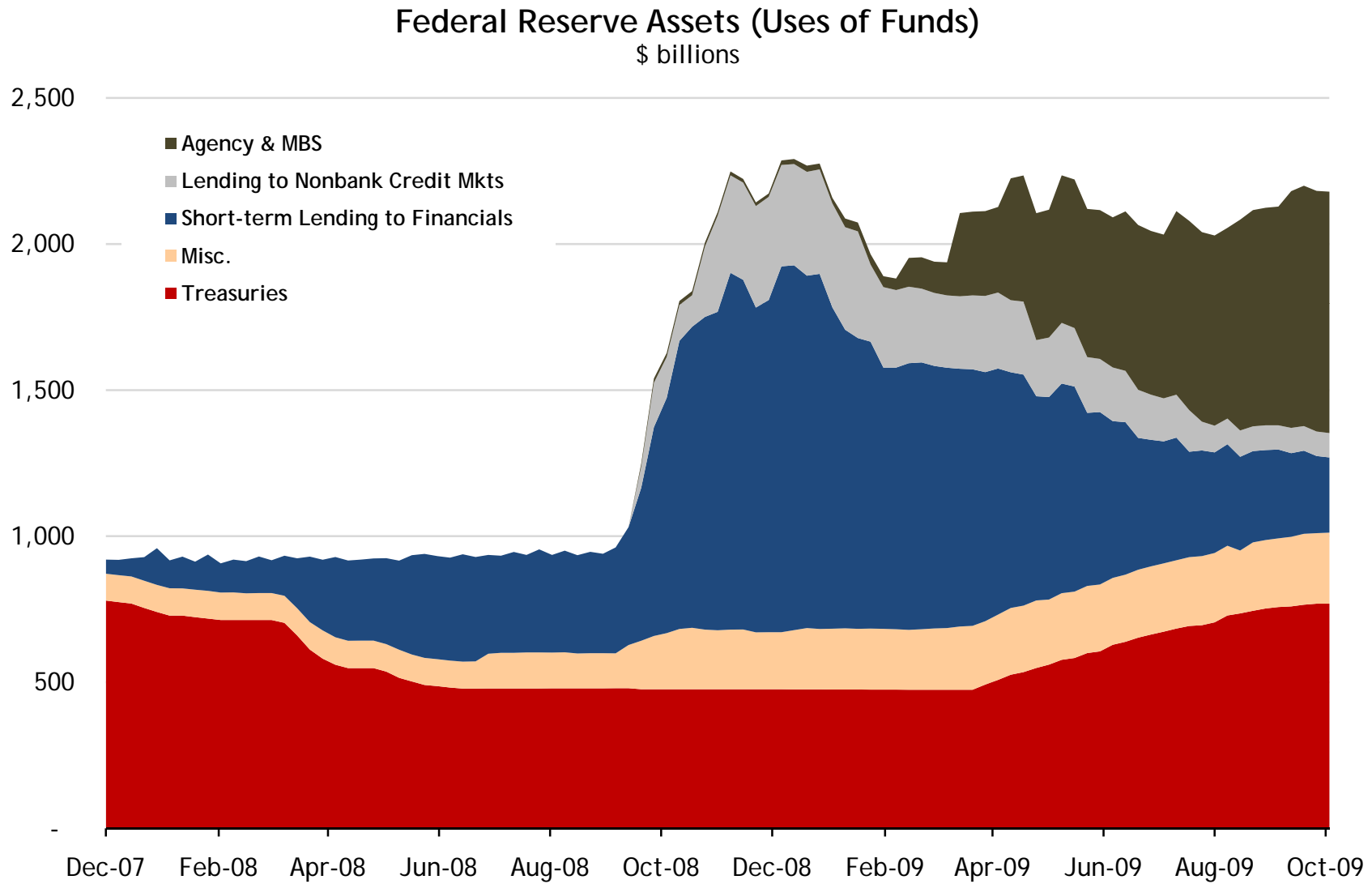
End of Recession	Unemployment rate peak	Beginning of funds rate tightening cycle	Months from end of recession to unemployment peak	Months from unemployment peak to beginning of funds rate tightening cycle
Nov-01	Jun-03	Jul-04	19	13
Mar-91	Jun-92	Feb-94	15	20
Nov-82	Dec-82	Jun-83	1	6
(Jul 1980)				
Mar-75	May-75	May-76	2	12
Nov-70	Aug-71	Mar-72	9	7
	(Dec 1970)		(1)	(15)



President Lockhart says:

I do not think that time has yet come, and to be consistent with my outlook, I think it may well be some time before a comprehensive exit (from monetary stimulus) need be under way.

Exit stage 1: The credit facilities wind down

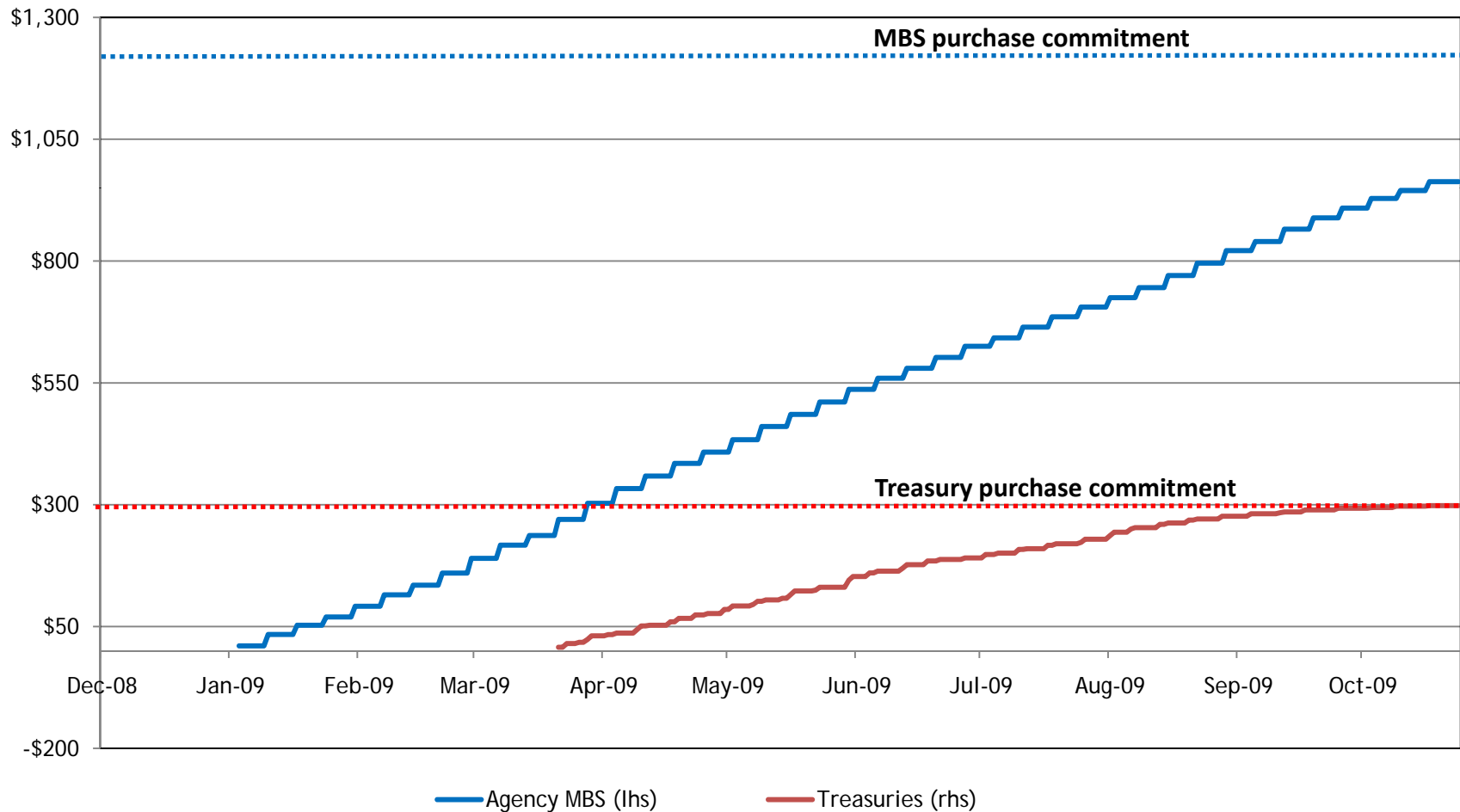


SOURCE: Federal Reserve Board

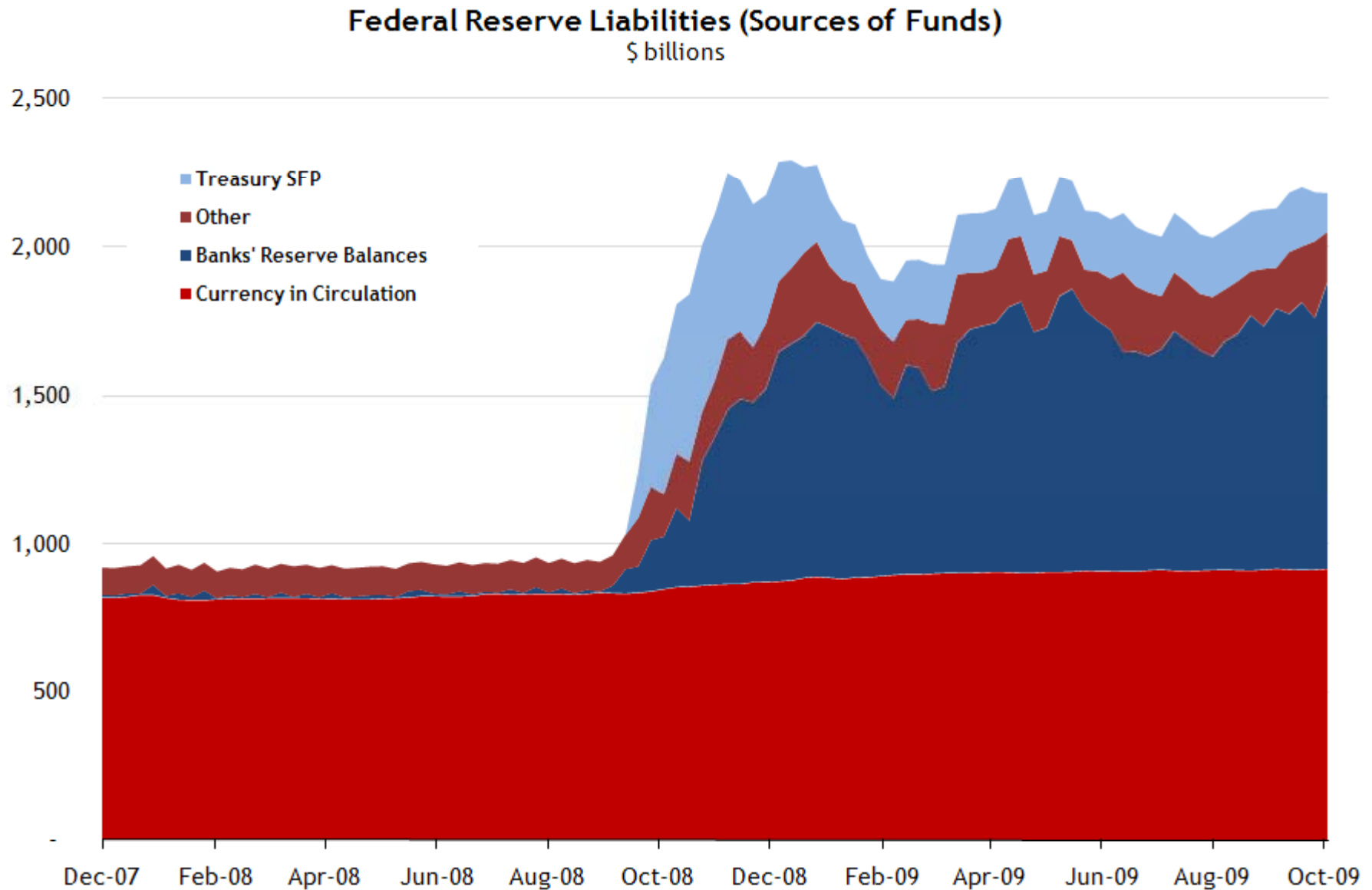
Exit stage 2: LSAP completed

Treasury and Agency MBS Purchases

Daily cumulative total, Billions \$



The Fed's (really big) balance sheet



SFP = Supplementary Financing Program

SOURCE: Federal Reserve Board

Exit stage 3: Sucking up the excess reserves

- **We can just sell the assets we own (i.e. Treasury securities or mortgage-backed securities)**
- **We can rent out the assets we own (reverse repos)**

Exit stage 4: Interest rates on the move

- Will the balance sheet still be big?

--- Ans: Don't know, but I wouldn't rule it out

- Time to think about the interest paid on bank reserves as the new (or transition) policy instrument



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