THE UNIVERSITY OF TAMPA
SYKES COLLEGE OF BUSINESS
THE TAMPA ECONOMY

PERSISTENTLY LOW REAL INTEREST RATES IN ADVANCED ECONOMIES: IS THERE A STRUCTURAL EXPLANATION?

By Volker Buyckespirg, Ph.D.

The current U.S. expansionary cycle began in July 2009 and has lasted nearly five years. Yet, long-term and short-term interest rates in the U.S. remain at historically low levels. Interest rates in other advanced economies (France, Germany and Japan) are even lower than those in the U.S. Despite tentative relaxations by the Federal Reserve (Fed), the European Central Bank (ECB), the Bank of Japan (BOJ) and the Bank of England (BOE), and crisis-economic recessions in advanced economies, interest rates in these countries too have not returned to normal levels. Central banks have also struggled to attain their major macroeconomic target of 2 percent inflation.

Standard narratives of post-crisis developments have generally highlighted unconventional monetary policies actions of the rich-world central banks as the primary factor underlying historically low nominal and real interest rates. The main themes of such narratives may be summarized as follows: Once the Fed and other central banks reduced their key short-term policy rates to near zero, they faced the limitations imposed by the zero lower bound. Constrained by their inability to push short-term policy rates into negative territory, the rich-world central banks decided to pursue unconventional policies to aid their economies. For instance, the Fed and the BOJ pursued a two-pronged unconventional approach that consisted of large-scale asset purchases (or quantitative easing) and forward guidance (management of inflation and interest rate expectations via explicit central bank commitments). Quantitative easing (QE), which entailed sizable purchases of assets in the secondary market with newly created reserves by rich-world central banks, was expected to impact monetary and financial conditions via the liquidity and signal channels—thus facilitating a rebalancing of primary channels, the liquidity channel and the signaling channel: When central banks reduce the availability and yield on safe assets (long-dated government securities) via QE, it is believed that investors would flock to raise assets such as corporate securities and equities—the so-called portfolio rebalancing channel. Resilient increase in asset values was expected to provide a positive wealth effect and a rise in business investment.

Central banks, by adding net quantities of newly created reserves into the financial system, were also deemed to have boosted liquidity and asset financial frictions—thus amplifying the signaling channel. Finally, by undertaking large-scale asset purchases, central banks provided a clear market signal regarding their commitment to keep interest rates low for an extended period of time—the so-called signaling channel. The signaling channel is generally assumed to complement forward guidance statements put forth by the rich-world central banks. Official statements that promise to hold interest rates low for an extended period of time, or until specific labor market and/or inflation targets were met, formed the basis of the forward guidance policy principle. The underlying objective was to push market participants to raise their future inflation expectations.

Given the above discussion, it is tempting to declare that unconventional monetary policies bear significant responsibility for the persistently low interest rates observed in the rich-world. A common assessment of the balance sheet expansions of the rich-world central banks and the recent evidence in government bond yields may even suggest a direct link between the two (see Figure 1.1). In addition, market volatility that other accommodative actual or expected actions of rich-world central banks have given rise to popular perceptions that their authorities are omnipotent, and that they possess the ability to fundamentally shape major market trends. There is however a risk that, by emphasizing the abovementioned market reactions, we may be falling into the trap of overestimating the actual impact of monetary policy actions. It is critical to discern whether central bank policies are adequately adjusting to underlying structural trends, or if monetary policies are indeed the primary drivers of critical market trends involving inflation rates and interest rates. Establishing such links is a necessary component of understanding the extent of the impact of unconventional monetary policies.
Persistently Low Real Interest Rates in Advanced Economies: Is there a Structural Explanation?

A new study published in the Economic Review examines the evidence that real interest rates in advanced economies have been persistently low, or ‘stuck’, for more than a century. The study, by Gian Maria Milesi-Ferretti and Francesco Stevani, discusses the implications of these low rates for economic growth, fiscal policy, and financial stability.

The study finds that real interest rates have been lower in recent decades than in previous decades, and that this has implications for economic growth, fiscal policy, and financial stability. The authors argue that the low interest rates may be due to changes in the supply of capital, changes in the demand for capital, or changes in the real value of capital.

The study also considers the implications of the low interest rates for fiscal policy, and finds that the low rates may have implications for fiscal policy, and that this has implications for economic growth, fiscal policy, and financial stability.

The study concludes that the low real interest rates may have implications for economic growth, fiscal policy, and financial stability, and that further research is needed to understand the causes and implications of these low rates.
Even the best performer in the group—the U.S.—also saw a sharp slowdown in GDP growth rates at late. Central banking of long-term (LTC), economic growth rates suggest that a possible break in trend growth-rate assurance around (2008-2009) (see Figure 1.4). The Sequential Bar Person statistical narrative highlights the presence of multiple unforeseen structural breaks in time series data, resulting in the absence of a single statistically significant structural break, according to the solution of 2020.

Even the non-partisan Congressional Budget Office (CBO) has revised down its estimate for current and future growth rates and inflation rates in the U.S. (measured in terms of real GDP) in early

In Italy’s case, the size of the economy (measured as a share of GDP) in previous decades.

Table 1 shows the average annual real GDP growth rates (Q1) reported by the Economic Research and Statistics Administration (ERSA), which is the U.S. governmental body responsible for transforming American econometrics.

Persistently low interest rates may in fact be appropriate if the natural rate of interest is stable, natural rate of interest can, however, be expected to remain high; in periods of depression it is low, and expected to remain low. The rate of interest on money follows, no doubt, the same principles, but not of course, not of itself, as it is, nor, disregarded after the rate of profit by the movement of prices and the consequent changes in the rates of bank reserves, caused by the difference between the two rates. (Richmond, 1983). The influence of the rate of interest on prices, Economic Journal, 1983, pp. 253-260.

Thomas Laubach and John Williams—have created a simple economic model that provides regular estimates of the natural rate of interest for the U.S. economy. The Laubach-Williams estimate of the U.S. natural rates of interest is shown in Figure 1.5. The estimates indicate a steady decline in the natural rate interest. Given the previously noted changes in trend growth rates of advanced economies and the underlying long-term market trends.

In good times, when trade is brisk, the rate of interest is high, and, which is a consequence of great circumstances, is generally expected to remain high, in periods of depression it is low, and expected to remain low. The rate of interest on money follows, no doubt, the same principles, but not of course, not of itself, as it is, nor disregarded after the rate of profit by the movement of prices and the consequent changes in the rates of bank reserves, caused by the difference between the two rates. (Richmond, 1983). The influence of the rate of interest on prices, Economic Journal, 1983, pp. 253-260.


The top third of Tampa Bay’s low tier HPI segments of the Tampa Bay metropolitan statistical area (MSA) is the only region of the country where home prices appreciated in both the fourth quarter of 2013 and the first two quarters of 2014 (see Figure 3.1). In fact, the HPI for Tampa Bay is based on sales of existing single family homes. The HPI is calculated using a repeat sales index (RSI) methodology, which compares the sale price of a home in month t to its sale price in month t-1. The index is calculated on a monthly basis and is seasonally adjusted. The index is then normalized to a base of 100 for the year 2000.

However, while the HPI shows that home prices in Tampa Bay have increased, it does not provide information on the underlying causes of the increase. For example, the HPI does not distinguish between changes in the price of homes that have been sold multiple times versus homes that have been newly constructed. Additionally, the HPI does not consider changes in the supply of homes for sale, which can also affect home prices. Therefore, while the HPI is a useful tool for measuring changes in the price of homes, it is important to consider other factors when evaluating the performance of the housing market.

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THE TAMPA BAY ECONOMY: NOVEMBER UPDATE

By Brian T. Zinser, Ph.D.

The Tampa Bay metropolitan statistical area (MSA) continues to show strong growth. All sectors are gaining, except the construction sector. However, this is primarily due to the low interest rates and increased confidence in the economy. The unemployment rate has decreased to 3.9%, which is down from 4.9% in the previous year. The real GDP growth rate is expected to continue at its current rate of 2.5%, which is higher than the national average.

Figure 2.2 illustrates Tampa Bay’s job losses due to the Great Recession and the last 10 years. As of September 2014, the number of jobs lost has exceeded the previous low of 200,000 in 2009. The unemployment rate is expected to return to pre-recession levels by the end of 2015.

Even the best performer in the group—New York state—hasn’t recovered. Though New York’s economy is larger than that of Florida, its unemployment rate is higher than Florida’s by 0.1%. Despite the slower economic growth, the Tampa Bay unemployment rate is still lower than the national average, which is 5.9%.

The unemployement rate measures the ratio of those unemployed and looking for work divided by the labor force. In Tampa Bay, the unemployment rate (UNR) was 0.3% in September 2014, which was higher than the national unemployment rate (UNR) by 0.1% and higher than the Florida rate by 0.2%. Despite the slower growth, the Tampa Bay employment rate fell in September 2014 relative to September 2013, but the employment rate (UNR) was 0.1% in Hernando County (6.1%) in September 2014. The S&P’s Case-Shiller housing price index (HPI) for Tampa Bay is based on observed changes in home prices in the area. Figure 2.4 shows the high, medium, and low HPI segments of the Tampa Bay housing market. The top third of Tampa Bay continued on page 5.

Figure 2.1: Gross Sales in Tampa Bay: January 2007 – August 2014
Source: Florida Department of Revenue

Figure 2.2: Duration of Job Loss in Tampa Bay
Source: Bureau of Labor Statistics

Figure 2.3: Nonfarm Payroll Jobs: January 2000 – September 2014
Source: Bureau of Labor Statistics

Figure 2.4: Housing Market Segments: January 2007 – September 2014
Source: S&P’s Case-Shiller Housing Price Index (HPI)
The bottom third of Tampa Bay’s housing market—the low-tier segment—reached a maximum index value of 275 in July 2005. The low-tier declined 52 percent over more than five years to reach its low HPI value in September 2011. As of August 2014, this segment of the Tampa Bay housing market has increased 46 percent from its low point.

Figure 2.5 shows the absolute number of privately owned one-unit residential permits authorized. As of August 2014, new permits totaled 609 compared with the first nine months of 2014. This segment of the Tampa Bay housing market has increased 33 percent from its low point.

In summary, recent data continue to indicate that Tampa Bay’s economy is recovering. The bottom tier of the housing market has passed its trough in December 2011. As of August 2014, new permits totaled 609 compared with the first nine months of 2014.
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