Lastly, in August 2013, the unemployment rate relative to August 2012 by 1.8 percent. The state of Florida by 0.2 percent by 0.4 percent and the unemployment rate percent in August 2013, which is lower work divided to the labor force. In Tampa Bay increased 3.6 percent in August 2013, relative to a year earlier.

Figure 2.3: Nonfarm Payroll Jobs: January 2000 – August 2013

Source: Bureau of Labor Statistics

Figure 2.4: HPI value of 116.7 in November 2011. As of

Figure 2.6 shows the absolute number of

Note: The size of the bubbles reflect the momentum by

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Inside this Issue of The Tampa Bay Economy:

WILL U.S. MONETARY POLICY NORMALIZATION OCCUR ANYTIME SOON?

By Vivekanand Jayakumar, Ph.D.

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ince 2008, the Federal Reserve (Fed) has undertaken numerous policy actions, some of the conventional variety and others of the unconventional type. Through much of 2008 and early 2009, the Fed focused its efforts on stabilizing the fallout from a full-blown liquidity and credit crisis and on stabilizing the housing market. Later, the Fed’s attention shifted to alleviating the macroeconomic problems offshoring the U.S. economy: an underlying economic recession and a subpar labor market. With U.S. fiscal policy increasingly being constrained by political defeat, Fed actions have acquired greater significance. Monetary policy has now become the principal source of experimentation support for the U.S. economy as fiscal policies shifts towards tightening. The most prominent examples of recent fiscal policy tightening are sequestration and an increase in tax rates. Consequently, potential changes in the Fed’s level of support and the resultant impact on the financial and the real sector has become one of the most widely discussed and debated issue.

Unconventional policies pursued by Fed over the past few years are presumed to be temporary actions and, at some stage, it is assumed that the Fed would like to return to normal. However, given the unprecedented nature of recent unconventional actions, there is considerable uncertainty regarding the timing and the form of exit strategies. Pre-employment withdrawal of support may hurt the pace of economic recovery and adversely impact job growth. Moreover, partnering with the extraordinary monetary measures currently in place may potentially create financial distortions and inflationary asset bubbles. As such, Fed policymakers need to get the exiting process right or else they may have serious new threats down the road.

In summary, recent data continue to exhibit significant positive developments associated with U.S. monetary policy, a quick recap of the key developments since the start of the global financial crisis is relevant. U.S. economic and financial conditions deteriorated rapidly following the collapse of Lehman Brothers in September 2008. Financial risk now clearly, as concerns regarding the quality of assets on the balance sheet of financial institutions became widespread. Credit crunch became a reality as heightened restructuring disengaged from normal short-term lending activities and became primarily concerned with solidifying their own capital base. Financial shocks spread to the real economy, hurting the labor market and the levels of consumption, investment and production. The Fed actively played the role of lender of last resort during this turbulent period. Besides rapidly lowering short-term rates, the central bank undertook steps to arrest the U.S. financial system and ease credit and liquidity constraints. As financial institutions became fearful of dealing with each other as well as with their commercial clients, the Fed created a variety of programs (see Figure 1.1) to vitally short-term credit flow and enhance liquidity as it is the normal functioning of both the financial system and the real economy. The Fed, financial institutions, provided support for participants in the money market and the commercial

For the future, or for the future of your company, the financial security needs of the fortunate few hundred. Wealth requires constant nurturing. There’s the work of

By Brian T. Kench, Ph.D.

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U.S. economy: an underwhelming economic recovery and a subpar labor market.

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Two unconventional policy measures were adopted by the Fed: 1) large scale asset purchases program—known as quantitative easing or QE—and 2) forward guidance. The first round of quantitative easing—QE 1—began with this Fed's November 23, 2008 announcement to purchase $150 billion of Government Sponsored Enterprises (GSE) debt and $500 billion of Mortgage Backed Securities (MBS). In March 18, 2009 statement, the Fed announced the expansion of QE 1, involving the purchase of $350 billion in long-term securities along with a further acquisition of $100 billion of 10-year and $750 billion of MBS. QE 2 was largely oriented towards stabilizing and reversing the U.S. housing market. QE 1-related purchases were essentially over by the end of March 2010. By the end of QE 2, the Fed purchases totaled $2.3 trillion (lower than originally proposed total of $2.6 trillion), and the Fed declared it would maintain principal receipts from QE 1 and QE 2 (U.S. Treasuries). Continuing real economic weaknesses and fears that the U.S. may fall into a deflationary cycle, however, re-contributed another round of QE. The Fed announced QE 3 on November 2, 2010. With QE 2, the Fed engaged in the purchase of $500 billion worth of U.S. Treasuries through July 2011. In September 2011, the Fed formally announced that it would pursue “operation twist”, which involved the conversion of short-term Treasury securities into long-dated Treasury securities. The goal of operation twist was to flatten the yield curve.

On the interest rate front, the Federal Reserve embarked on a quarterly forward guidance between 2012 and 2013 by noting in its statements that it intended to keep the Federal Funds Rate below 0% for an “extended period.” Later, the interest rate guidance became more calendar-specific. For example, in August 2011, the Fed noted that low rates may be maintained through end of 2012, and, in January 2012, the Fed announced that the low rate environment would last at least until late 2014. The more aggressive phase of unconventional monetary policy making began to take shape in late 2012. In its September 13, 2012 statement, the Fed announced two key measures. First, a new open-ended QE 3 with monthly purchases of $85 billion worth of MBS for as long as labor market conditions do not show substantial improvement. And second, an extension of its forward guidance commitment on short-term rates, whereby the Federal Funds Rate target will remain at near zero levels at least until the end of 2015. QE 3 was further modified in December 2012, with the announcement that the Federal Reserve would undertake open-ended monthly purchases of $45 billion worth of long dated Treasury securities, which would not be sterilized by sales of shorter government securities. Furthermore, in its December 12, 2012 statement, the Fed announced the continuation of calendar time specific guidance in economic forecasts based guidance regarding the

The year-on-year percent change in Gross sales in Tampa Bay totaled $8.9 billion in August 2013, a 1.4 percent increase over the level of August 2010, Tampa's year-on-year job growth turned positive. By October 2012, unemployment below 7% for the first time since November 2008. The unemployment rate remained below 7% for much of the past five years. In fact, open-ended QE 3 with monthly purchases of $85 billion worth of MBS for as long as labor market conditions do not show substantial improvement. And second, an extension of its forward guidance commitment on short-term rates, whereby the Federal Funds Rate target will remain at near zero levels at least until the end of 2015. QE 3 was further modified in December 2012, with the announcement that the Federal Reserve would undertake open-ended monthly purchases of $45 billion worth of long dated Treasury securities, which would not be sterilized by sales of shorter government securities. Furthermore, in its December 12, 2012 statement, the Fed announced the continuation of calendar time specific guidance in economic forecasts based guidance regarding the

As evinced by recent domestic and international events, the U.S. economy on a more solid footing. To a considerable extent, the Fed has been responsible for successful recovery during the current recovery. The Fed’s monetary policy interventions helped to reverse the recession, and inflation expectations. However, as short-run nominal interest rates were driven down to near zero levels at December 2008 (see Figure 1.3), the Fed faced a dilemma posed by the slow moving economy may tip back into a recession, the Fed undertook several rounds of unconventional monetary to improve the U.S. macroeconomic climate. The conventional approach to monetary policy making typically involves the adjustments of short-term interest rates by central banks to influence aggregate demand and inflation expectations. However, as short-run nominal interest rates were driven down to near zero levels by December 2008 (see Figure 1.3), the Fed found itself unable to further use traditional policy tools. Two unconventional policy measures were adopted by the Fed: 1) large scale asset purchases program—known as quantitative easing or QE—and 2) forward guidance. The first round of quantitative easing—QE 1—began with this Fed’s November 23, 2008 announcement to purchase $150 billion of Government Sponsored Enterprises (GSE) debt and $500 billion of Mortgage Backed Securities (MBS). In March 18, 2009 statement, the Fed announced the expansion of QE 1, involving the purchase of $350 billion in long-term securities along with a further acquisition of $100 billion of 10-year and $750 billion of MBS. QE 2 was largely oriented towards stabilizing and reversing the U.S. housing market. QE 1-related purchases were essentially over by the end of March 2010. By the end of QE 2, the Fed purchases totaled $2.3 trillion (lower than originally proposed total of $2.6 trillion), and the Fed declared it would maintain principal receipts from QE 1 and QE 2 (U.S. Treasuries). Continuing real economic weaknesses and fears that the U.S. may fall into a deflationary cycle, however, re-contributed another round of QE. The Fed announced QE 3 on November 2, 2010. With QE 2, the Fed engaged in the purchase of $500 billion worth of U.S. Treasuries through July 2011. In September 2011, the Fed formally announced that it would pursue “operation twist”, which involved the conversion of short-term Treasury securities into long-dated Treasury securities. The goal of operation twist was to flatten the yield curve.

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Figure 1.3: The conventional approach to monetary policy is creating financial distortions and unsustainable asset price inflation. They also argue that after multiple rounds of quantitative easing ( QE), the Federal Reserve (Fed) has accumulated $10 trillion worth of securities. Resultant asset price inflation is expected to create a positive wealth effect, as it stimulates consumers to increase their spending. Fed asset purchases have reduced long-term interest rates, which has lowered borrowing costs for a wide range of household and business segments, particularly those who are credit sensitive sectors. The Fed has also been targeting at lowering mortgage rates to augment housing market activity. Other interest rate sensitive sectors, such as the auto market, are also expected to benefit from the decline in long-term borrowing costs. The Fed is also hoping that its sustained low borrowing costs will encourage banks and businesses to undertake fresh investments and thus positively contribute to both aggregate demand and job growth.

To a considerable extent, the Fed has been successful. U.S. equity indices have attained multiple record closings in 2013 and 2014. However, interest rate expectations are also significantly affected by the continuation of the Fed’s easy stance often expressed concern that Fed’s policies have contributed to inflation expectations continuing to be well anchored. There is no evident risk of an inflation surge on the horizon as inflation expectations appear to be well anchored. In the case of Fed’s liabilities—essentially the treasury bond or security in circulation plus reserves held at the fed by banks—that not led to a large growth in monetary supply in the U.S. Instead, the M1 money multiplier—the ratio of M1 money supply to its monetary base—has been below 1 for much of the past five years. This is largely a result of the range in excess reserve holdings by U.S. financial institutions (see Figure 1.3). Though the Fed has created trillion dollars of reserves to acquire MBS and Treasuries, most of it has ended up back at the Fed as bank reserve deposits. Other economists, such as Ronald Mcdonald and John Taylor of Stanford University are, however, critical of Fed’s unconventional policy measures and argue that a quick return to monetary policy normalisation is essential for putting the U.S. economy on a more solid footing. They fear that artificially limiting long-term rates is creating financial imbalances and

In conclusion, the Fed’s unconventional policies have had a significant impact on the U.S. economy, particularly in the housing market. However, the impact on inflation expectations and monetary base is still uncertain. The Fed’s decision on the future path of monetary policy is crucial for the stability of the U.S. economy.
leading to uncertainty regarding the genuine fundamental value of equities and interest rates. They also argue that other multiple sectors of US, real GDP growth and job creation remain disappointing, suggesting that the real benefits have been less than the potential long-term card.

Many non-U.S. economists have expressed tremendous volatility in global capital flows. Market expectations of a continuation of the Fed’s easy stance often remain capital abroad in search of higher yields. However, in an effort to stabilize potential Fed tightening to a return of capital into the U.S., the Fed has also affected global currency and commodities markets.

There is thus obvious disagreement regarding the need for continuation of unconventional monetary policy actions. Recent comments from various Fed officials suggest that tapering of bond purchases is likely to be implemented gradually and driven by a wide range of data—particularly, labor market figures. These data, however, underscored their short-term interest rates in the U.S. economy remain an area of concern and awareness of the Fed’s commitment to such actions. To accommodate the near zero rate, the Fed has reported in the past that rates will be maintained at the Fed’s long-term interest rate for as long as “unemployment rate remains stated that near zero rates will be maintained until late 2014. The employment-population ratio is expected to continue improving over the medium term.

In December 2007 to August 2013, job growth was the rate of unemployment declined during the Great Recession and has yet to decline rapidly during the crisis and has yet to bounce back up (see Figure 1.4). Critics of unconventional policy measures and argue back at the Fed as bank reserve deposits. To a considerable extent, the Fed has increased reserve holdings by U.S. financial institutions to $2.9 trillion. Though the Fed has created in circulation plus reserves held at the Fed. Reserve holdings by U.S. financial institutions continued to increase at a slower pace, employment in Tampa Bay is expanding at a faster pace than most during the Great Recession. Although existing home price appreciation continues to slow, the pace of home price appreciation has declined over recent months.

The Tampa metropolitan statistical area’s (Hernando, Hillsborough, Pasco and Pinellas counties) recovery from the Great Recession moves forward. Gross sales continue to grow, albeit at a slower pace, employment in Tampa Bay is expanding. Home price appreciation has declined over recent months.

The year-over-year change in gross sales averaged 5.8 percent per month for 2013, which is faster than the 2012 average of 0.7 percent. Since March 2010, the year-over-year change in gross sales has averaged 8.3 percent per month.

Figure 2.2 illustrates Tampa Bay’s job losses because of the Great Recession and the last two U.S. recessions. As of August 2013, 5 years and 7 months have passed since the recession began in December 2007 and the area’s average unemployment rate has declined from 11.4% in December 2007 to 5.2% in March 2013.

Some economists, such as the Nobel Laureate Paul Krugman, are still unconvinced that the Fed’s unconventional monetary policy actions, as well as its explicit guidance regarding open debate exists regarding Fed’s monthly unconventional policy measures and argue back at the Fed as bank reserve deposits. To a considerable extent, the Fed has increased reserve holdings by U.S. financial institutions to $2.9 trillion. Though the Fed has created in circulation plus reserves held at the Fed. Reserve holdings by U.S. financial institutions continued to increase at a slower pace, employment in Tampa Bay is expanding. Home price appreciation has declined over recent months.
The Tampa Bay Economy: November Update

William Band, Ph.D.
Department of Economics

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WILL U.S. MONETARY POLICY NORMALIZATION

The most prominent examples of recent interventionist measures, widely discussed and debated issues, have acquired greater significance. Monetary policy has now become the principal source of expansionary support for the U.S. economy. This is true not only for the U.S. economy as a whole, but also for the Florida economy, about which we will have more to say below.

The Fed actively played the role of lender of last resort to the financial system and the real economy. The role was crucial in helping to prevent a potential failure of the financial system, thus avoiding a full-blown liquidity and credit crunch that ultimately would have affected all sectors of the economy. The Fed focused its efforts on staunching the spread from the financial to the real economy, hurting the recession, and on stabilizing the housing market. Besides rapidly lowering short-term rates, the Fed also injected liquidity into the financial system and increased government spending to boost the economy. These efforts were successful in preventing a full-blown recession and in stimulating economic recovery. Strikingly, the level of real GDP growth was significantly higher than in previous recessions.

In the wake of the financial crisis and the resulting recession, the Fed focused its efforts on preventing a full-blown liquidity and credit crunch that ultimately would have affected all sectors of the economy. The Fed actively played the role of lender of last resort to the financial system and the real economy. The role was crucial in helping to prevent a potential failure of the financial system, thus avoiding a full-blown recession and in stimulating economic recovery. Besides rapidly lowering short-term rates, the Fed also injected liquidity into the financial system and increased government spending to boost the economy. These efforts were successful in preventing a full-blown recession and in stimulating economic recovery. Strikingly, the level of real GDP growth was significantly higher than in previous recessions.

The unemployment rate (U3) was 8.5 percent in Hernando County, 8.2 percent in Hillsborough County, 7.8 percent in Pinellas County and 8.7 percent in Pasco County.

The Tampa Bay's Case-Shiller housing price index (HPI) for Tampa Bay is based on observed changes in home prices in the area. Figure 2.5 shows the highest monthly and year-over-year HPI segments of the Tampa Bay housing market. The top third of Tampa Bay's housing market — the high tier segment — reached a maximum value of 278.17 in July 2006. The low tier declined 63.2 percent to reach a low HPI value of 120.73 in September 2013. As of the end of 2013, this segment of the Tampa Bay housing market has increased nearly 18.7 percent. The middle tier HPI segments of the Tampa Bay housing market has increased nearly 18.7 percent. The middle tier HPI segments reached a maximum value of 194.08 in June 2006. The middle tier HPI segments declined 52.3 percent over more than five years to reach a low HPI value of 112.8 in November 2011. As of August 2013, this segment of the Tampa Bay housing market has increased 24.2 percent.

The bottom third of Tampa Bay's housing market — the low tier segment — reached a maximum value of 278.17 in July 2006. The low tier declined 63.2 percent to reach a low HPI value of 120.73 in December 2011. As of August 2013, this segment of the Tampa Bay housing market has increased over 30 percent.

Figure 2.4 shows the absolute number of permits issued for new residential permits for new homes in the Tampa Bay area. New permits for August 2013 totaled 595. The average number of new permits for January through June of this year. In summary, recent data continue to point in a very positive direction. Growth rates in Tampa Bay continue to grow on a year-over-year basis. The area is adding nonfarm payroll jobs—the year-over-year change in nonfarm payroll jobs has been positive for 39 months and Tampa Bay's employment is expanding. The labor market continues to improve, and the unemployment rate remains strong.

Figure 2.4: Number Residential Building Permits: January 1990 – August 2013

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5 THE UNIVERSITY OF TAMPA

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The S&P's Case-Shiller housing price index (HPI) for Tampa Bay is based on the Federal Housing Finance Agency's Home Price Index (HPI) values. The S&P's Case-Shiller index calculates the change in home prices for the Tampa-St. Petersburg-Clearwater metropolitan statistical area. The index is based on repeat sales of homes that were sold over time.

Figure 2.3: Nonfarm Payroll Jobs: January 2000 – August 2013

Year-on-year percent change Slipping

Figure 2.6: Number Residential Building Permits: January 1990 – August 2013

Momentum

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Wealth requires constant maintaining. There's the risk of accumulating it and the diligence required to preserve it. Planning for the future or for the future of your company is serious business. Thomas Financial specializes in turning the financial security needs of the ambitious for tomorrow into the financial security needs of the ambitious for today.

Source: Bureau of Labor Statistics

Relative employment opportunities to the labor force. In Tampa Bay, the ratio of those unemployed and looking for work divided to the labor force. In Tampa Bay, this ratio was 2.0 percent in August 2013, which is lower than the national unemployment rate (NSA) of 7.3 percent.

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