William C Dudley: Beyond the macroeconomy

Remarks by Mr William C Dudley, President and Chief Executive Officer of the Federal Reserve Bank of New York, at the Economic Press Briefing, Federal Reserve Bank of New York, New York City, 4 November 2015.

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Aysegul Sahin and Joseph Tracy assisted in preparing these remarks.

Good afternoon and welcome once again to the Federal Reserve Bank of New York's Economic Press Briefing. I am pleased to have this opportunity to speak with you. Today I want to focus on how economic outcomes often differ substantially across different segments of the population. As always, what I have to say reflects my own views and not necessarily those of the Federal Open Market Committee (FOMC) or the Federal Reserve System.

The Federal Reserve has a dual mandate of maximum employment and price stability. While these mandates are expressed at an aggregate national level, it is important for policymakers to understand how they impact different groups of individuals across the country. Consequently, in addition to monitoring macroeconomic conditions closely on a day-to-day basis, economists at the New York Fed have been doing a substantial amount of work to understand how economic experiences differ across individuals and regions. As highlighted by the Nobel Prize Committee's recent recognition of Professor Angus Deaton's work, analyzing individual outcomes is vital to fully understanding the workings of the macroeconomy. With that in mind, I want to talk about two important areas that impact household well-being: labor income and housing opportunities.

Let me start with labor income, which for most households is the dominant source of household income. As one would expect, differences in labor income across individuals of a given age tend to increase as people get older. Some of this is due to education and occupation choices – and how they impact income growth—and some is due to various events that individuals face in their working lives. Unemployment risk is an example of an adverse development that can substantially affect people's careers and labor income during their lifetime. Over the period from 1976 to 2015, the overall unemployment rate averaged around 6.5 percent, but unemployment varied substantially across regions and across worker backgrounds. Unemployment was especially high for workers with lower earnings, a group that tends to have little savings to draw upon. Looking across demographic groups, younger workers, less-educated workers and those in manual occupations, as well as workers who identify as Black or Hispanic, experienced significantly higher average unemployment rates when compared to older and college-educated workers. These stark differences across demographic groups in terms of levels of unemployment are also evident in terms of how unemployment changed over business cycles, including the Great Recession. While the overall unemployment rate increased from 5 percent in December 2007 to 10 percent in October 2009, it increased substantially more for workers with lower earnings. In other words, looking at the national unemployment rate tells only part of the story of the labor market experiences for different groups of individuals. Understanding this diversity is critical to better understanding the health of the labor market and the overall economy, and is important for informing policy.

Now let's turn to housing. Macroeconomists focus on aggregate residential construction as a measure of how the housing sector is contributing to overall economic growth. It is important to note, however, that housing market experiences vary substantially across individuals in ways not reflected in the aggregate construction data. For example, the type of housing units typically occupied by low-income households saw higher-than-average rent inflation from 2009 to 2011. Much of this difference appears to be due to contrasting ways that additions to the housing stock enter into different segments of the housing market. For households in the highest income quintile, new construction more than accounts for the net increase in housing units, which in turn tends to hold down rent increases for these households. However, as one moves down the income distribution, new construction represents a smaller share of the net increase in housing units. For households in the lowest income quintile, additions to rental supply come more from units that with age have depreciated and are no longer rented by higher income households. These supply additions tend to have higher rents than existing units rented by low-income households, thus putting upward pressure on rental costs.

The diversity of experiences is also evident with respect to access to mortgage credit, both for households attempting to transition to homeownership and for homeowners who want to trade up. We have also been monitoring mortgage originations at the zip code level using the New York Fed's Consumer Credit Panel. When we rank zip codes by their 2012 average adjusted gross income, we see mortgage origination volume in the lowest quintile locations was 38 percent of the volume for the highest quintile locations in 2007. By early 2015, this ratio had fallen to only 14 percent.

As highlighted by these examples, and as you'll hear during today's presentation, data at the aggregate level and at a more micro-level illustrate different sides of the same picture. As such, both must be considered as we work toward fully understanding the economy.

I will now ask Aysegul Sahin to provide a detailed account of how various economic outcomes vary across individuals, households and regions.