

FEDERAL RESERVE BANK OF KANSAS CITY

ECONOMIC REVIEW

Third Quarter 2016

Volume 101, Number 3

- Measuring the Stance of Monetary Policy
on and off the Zero Lower Bound 5
By Taeyoung Doh and Jason Choi
- Consumer Spending in China: The Past
and the Future 25
By Jun Nie and Andrew Palmer
- Access to Electronic Payments Systems
by Unbanked Consumers 51
By Fumiko Hayashi

Measuring the Stance of Monetary Policy on and off the Zero Lower Bound

By Taeyoung Doh and Jason Choi

In December 2008, the Federal Open Market Committee (FOMC) lowered its target range for the federal funds rate to 0–25 basis points, effectively hitting the zero lower bound. The economy recovered slowly from the depth of the recession, and the FOMC did not lift the federal funds rate target from its lower bound until December 2015.

The prolonged period at the zero lower bound raises the question of how to measure the overall stance of monetary policy when constraints prevent the FOMC from using its traditional policy tool—the target federal funds rate. Taeyoung Doh and Jason Choi propose a new “shadow short-term interest rate” that reflects both government and private-sector borrowing conditions. Their measure of the new shadow rate closely tracks the effective federal funds rate during the period before the zero lower bound. Furthermore, they find inflation and unemployment respond to the shadow rate much as they did to the effective federal funds rate before the zero lower bound period.

Consumer Spending in China: The Past and the Future

By Jun Nie and Andrew Palmer

After declining for nearly half a century, the share of consumer spending in China’s GDP has recently increased. The rising consumption share has alleviated some concerns about slowing growth in China: economists and policymakers widely agree that the share of consumer spending must increase for China to continue its economic development. Whether this trend is sustainable, however, is unclear.

Jun Nie and Andrew Palmer examine the key factors driving the recent uptick in consumer spending to evaluate whether China can truly become a consumption-driven economy. They find Chinese consumption growth will likely remain strong, at around 9 percent, over the next few years due to relatively stable income growth and an expected decline in the household saving rate. But in the long run, strong household income growth—which will depend heavily on China’s current supply-side reforms to improve technology and investment—will be necessary for China to transition to a consumption-driven economy.

*Access to Electronic Payments Systems
by Unbanked Consumers*
By Fumiko Hayashi

In 2013, nearly 17 million U.S. adults did not have a checking or savings account. Some of these consumers may choose not to have a bank account due to personal preferences. Others, however, may be influenced by factors they cannot control, such as minimum requirements to open accounts and high fees. For these consumers, access to more affordable electronic payment products may enhance their economic well-being by reducing the cost associated with payments and broadening their options of where to make purchases.

Fumiko Hayashi examines the main reasons consumers do not have traditional bank accounts and identifies features of electronic payment products that might attract those consumers. She finds that consumers are primarily deterred from opening bank accounts due to their low or unstable income and banks' high fees. She also finds that some electronic payment products—in particular, general purpose reloadable prepaid cards—may be able to address these issues and thereby attract unbanked consumers.

Economic Review

PRESIDENT AND CHIEF EXECUTIVE OFFICER

Esther L. George

RESEARCH STEERING GROUP

Kelly J. Dubbert, First Vice President and Chief Operating Officer
Troy Davig, Senior Vice President and Director of Research
Kevin L. Moore, Senior Vice President
Barbara S. Pacheco, Senior Vice President
Diane M. Raley, Senior Vice President

ECONOMIC RESEARCH

Craig S. Hakkio, Senior Vice President and Special Advisor on Economic Policy
George A. Kahn, Vice President and Economist
Jonathan L. Willis, Vice President and Economist
Willem Van Zandweghe, Assistant Vice President and Economist
Huixin Bi, Senior Economist
Taeyoung Doh, Senior Economist
Andrew Foerster, Senior Economist
Jun Nie, Senior Economist
Jordan Rappaport, Senior Economist
Nicholas Sly, Senior Economist
Brent Bundick, Economist
José Mustre-del-Río, Economist
A. Lee Smith, Economist
Didem Tüzemen, Economist

PAYMENTS SYSTEM RESEARCH

William T. Mackey, Vice President
Fumiko Hayashi, Senior Economist
Richard J. Sullivan, Senior Economist

REGIONAL AND COMMUNITY AFFAIRS

Alison Felix, Vice President and Branch Executive, Denver Branch
Chad Wilkerson, Vice President and Branch Executive, Oklahoma City Branch
Nathan Kauffman, Assistant Vice President and Branch Executive, Omaha Branch
Jason P. Brown, Senior Economist and Regional Executive
Kelly Edmiston, Senior Economist
Cortney Cowley, Economist
Nida Çakır Melek, Economist

SUPERVISION AND RISK MANAGEMENT

Charles S. Morris, Vice President and Economist
Jim Wilkinson, Assistant Vice President and Economist
Blake Marsh, Economist
Raluca Roman, Economist
Rajdeep Sengupta, Economist

EDITORIAL SUPPORT

Elizabeth Cook Willoughby, Editorial Advisor
Richard A. Babson, Senior Editor
Beth Norman, Layout Designer

Third Quarter 2016, Volume 101, Number 3

The *Economic Review* (ISSN0161-2387) is published quarterly by the Federal Reserve Bank of Kansas City, 1 Memorial Drive, Kansas City, Missouri 64198-0001. Subscriptions and additional copies are available without charge. Send requests to the Public Affairs Department, Federal Reserve Bank of Kansas City, 1 Memorial Drive, Kansas City, Missouri 64198-0001. Periodical postage paid at Kansas City, Missouri.

POSTMASTER: Send address changes to *Economic Review*, Public Affairs Department, Federal Reserve Bank of Kansas City, 1 Memorial Drive, Kansas City, Missouri 64198-0001. The views expressed are those of the authors and do not necessarily reflect the positions of the Federal Reserve Bank of Kansas City or the Federal Reserve System. If any material is reproduced from this publication, please credit the source.