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The U.S. unemployment and mortgage rates: A relationship study

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Abstract

The persistent levels of high unemployment (8+ percent) since 2009 in the United States have produced a number of causes/conclusions for the market failure and heated political exchanges between parties and candidates seeking re-election or new positions. All the rhetoric and discussions have led some to suggest new approaches to the unemployment problem or the so-called "new norm."

Recent monetary policy's effort to curb unemployment in the United States, presents an interesting twist on the Federal Reserve's (Fed's) role in the economy. The buying of mortgage bonds by the Fed's appears to be a new unchartered path to reduce the unemployment rate. The conceived idea that by buying mortgage backed securities (MBS) will reduce the mortgage rates and keep interest rates relatively low; thus, they will create a stimulus for growth with employment opportunities assumes a significant relationship between mortgage rates and the unemployment rate in the United States.

The purpose of this paper is to explore the main research question: Is there a significant relationship between the unemployment rate and mortgage rates? Subsequent questions were raised and tested for statistical significance. The variables used were the unemployment rate, the 30-Year fixed mortgage rates, the Case/Shiller housing index, and the 10-Year Treasury rate. This study examines the relationship between the unemployment rate and the other variables from before, during, and after the period known as the "2007 global financial meltdown" precipitated by the housing bubble burst. There appears to be an inverse relationship that is statistically significant between the unemployment rate and 10 year treasury rates which will be affected by the latest Fed's round of quantitative easing by buying mortgage backed securities.