

Fed's Rosengren: Need better research on mkts, economy link

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NEW YORK, June 5 (Reuters) - A better understanding of the interaction between financial markets and the economy may have helped forecasters recognize the severity of the global downturn earlier, the president of the Federal Reserve Bank of Boston said on Friday.

Eric Rosengren, speaking at a Federal Reserve conference in Washington, said the increased importance of liquidity disruptions and changes in the securitization markets are likely to have a "long-lasting impact on financial markets and perhaps on how economists perceive them".

"Even after serious problems in housing and financial markets were revealed, many forecasters underestimated the size and severity and length of the downturn," he said.

"The financial crisis of the last 20 months highlights the need for better understanding of the links between financial intermediaries, financial markets and the real economy."

Rosengren noted that a range of financial institutions and markets have been changing significantly as a result of liquidity concerns during the crisis.

"These disruptions have not been short-lived, even more than 20 months into the crisis many markets are still not functioning as they did," Rosengren said.

Investors in money market mutual funds have shifted away from commercial paper -- which companies use to cover short-term funding needs -- to more liquid government securities since the financial crisis escalated in October, Rosengren said.

"I suspect that the shift in money-market funds' liquidity preferences is likely to have longer-term repercussions for the medium-term financing needs of firms," he said.
(Reporting by Kristina Cooke, Editing by Chizu Nomiyama)