
Data Insights: Federal Reserve

Wednesday, September 17, 2014

[Today's FOMC statement](#): how the language changed from [prior meeting](#)

Release Date: ~~July 30~~ [September 17, 2014](#)

For immediate release

Information received since the Federal Open Market Committee met in ~~June indicates~~ [July suggests](#) that ~~growth in~~ economic activity ~~rebounded in the second quarter. Labor is expanding at a moderate pace. On balance, labor~~ market conditions improved, ~~with somewhat further; however,~~ the unemployment rate ~~declining further. However, is little changed and~~ a range of labor market indicators suggests that there remains significant underutilization of labor resources. Household spending appears to be rising moderately and business fixed investment is advancing, while the recovery in the housing sector remains slow. Fiscal policy is restraining economic growth, although the extent of restraint is diminishing. Inflation has ~~moved somewhat closer to been running below~~ the Committee's longer-run objective. Longer-term inflation expectations have remained stable.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic activity will expand at a moderate pace, with labor market indicators and inflation moving toward levels the Committee judges consistent with its dual mandate. The Committee sees the risks to the outlook for economic activity and the labor market as nearly balanced and judges that the likelihood of inflation running persistently below 2 percent has diminished somewhat—[since early this year.](#)

The Committee currently judges that there is sufficient underlying strength in the broader economy to support ongoing improvement in labor market conditions. In light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions since the inception of the current asset purchase program, the Committee decided to make a further measured reduction in the pace of its asset purchases. Beginning in ~~August~~ [October](#), the Committee will add to its holdings of agency mortgage-backed securities at a pace of ~~\$5 billion per month rather than \$10 billion per month—rather than \$15 billion per month,~~ and will add to its holdings of longer-term Treasury securities at a pace of ~~\$10 billion per month rather than \$15 billion per month—rather than \$20 billion per month.~~ The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee's sizable and still-increasing holdings of longer-term securities should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.

The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of

price stability. If incoming information broadly supports the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective, the Committee will ~~likely reduce the pace~~end its current program of asset purchases ~~in further measured steps~~ at ~~future meetings~~its next meeting. However, asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's outlook for the labor market and inflation as well as its assessment of the likely efficacy and costs of such purchases.

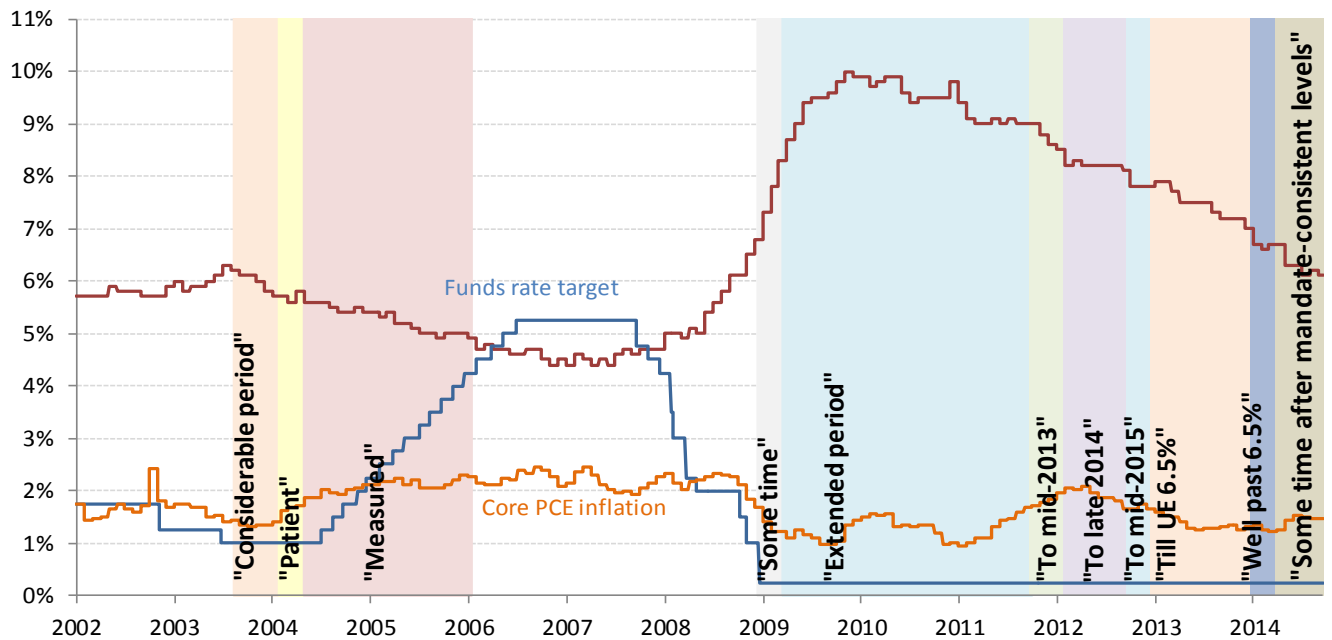
To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy remains appropriate. In determining how long to maintain the current 0 to 1/4 percent target range for the federal funds rate, the Committee will assess progress--both realized and expected--toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. The Committee continues to anticipate, based on its assessment of these factors, that it likely will be appropriate to maintain the current target range for the federal funds rate for a considerable time after the asset purchase program ends, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored.

When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

Voting for the FOMC monetary policy action were: Janet L. Yellen, Chair; William C. Dudley, Vice Chairman; Lael Brainard; Stanley Fischer; ~~Richard W. Fisher~~; Narayana Kocherlakota; Loretta J. Mester; Jerome H. Powell; and Daniel K. Tarullo. Voting against ~~was Charles I. Plosser who~~the action were Richard W. Fisher and Charles I. Plosser. President Fisher believed that the continued strengthening of the real economy, improved outlook for labor utilization and for general price stability, and continued signs of financial market excess, will likely warrant an earlier reduction in monetary accommodation than is suggested by the Committee's stated forward guidance. President Plosser objected to the guidance indicating that it likely will be appropriate to maintain the current target range for the federal funds rate for "a considerable time after the asset purchase program ends," because such language is time dependent and does not reflect the considerable economic progress that has been made toward the Committee's goals.

Source: FOMC, TrendMacro analysis

Fedspeak regime change: the evolution of forward guidance



Source: FOMC, Federal Reserve H.15, BLS, BEA, TrendMacro calculations

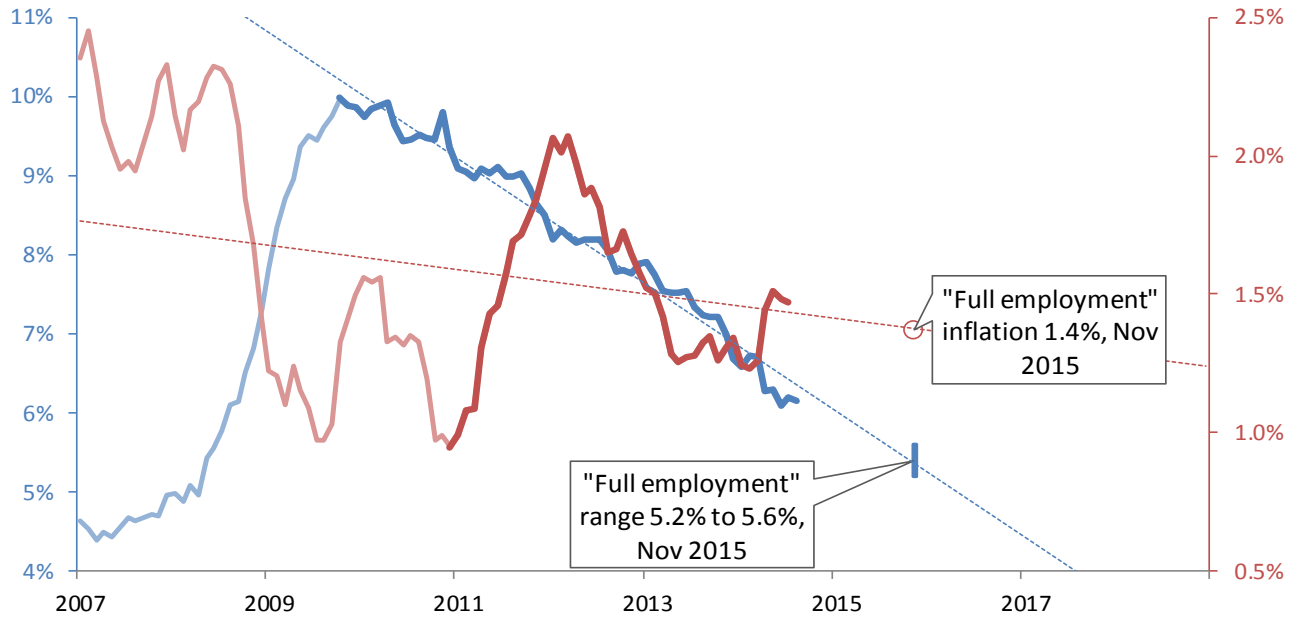
Other voices: number of FOMC decision dissents



Source: FOMC, TrendMacro calculations

Yellen beyond the [Evans Rule](#): the outer limit of the zero bound

— Unemployment rate ··· Trend from peak — Core PCE inflation YOY ··· Trend from trough

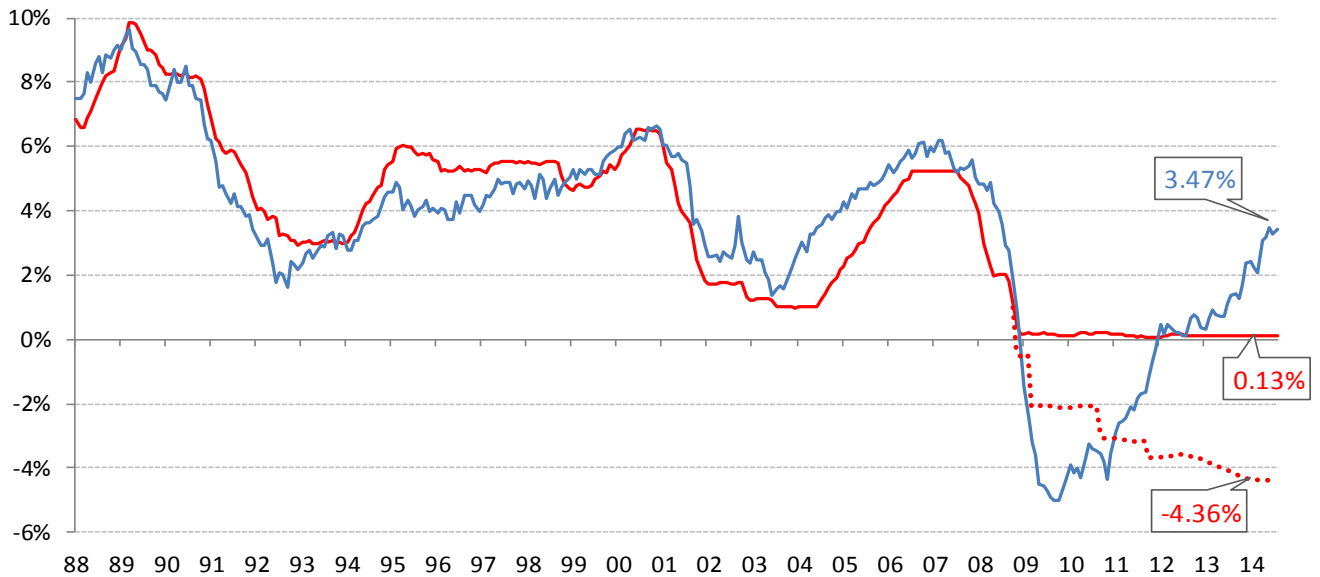


Source: BLS Current Population Survey, TrendMacro calculations

— Yellen's Taylor Rule (per [Rudebusch 2009](#)): Is the Fed tight or loose?

Rule: $2.07 + 1.28 \times 12\text{-mo core PCE inflation} - 1.95 \times (\text{UE} - \text{CBO natural rate})$

— Actual funds rate ····· Balance sheet-augmented funds rate

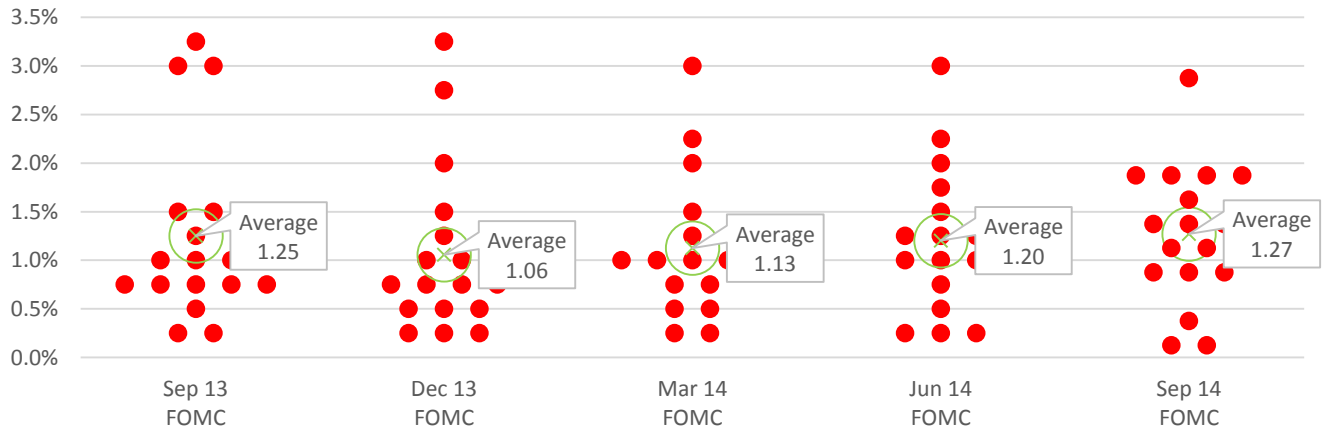


Source: BLS, BEA, TrendMacro calculations

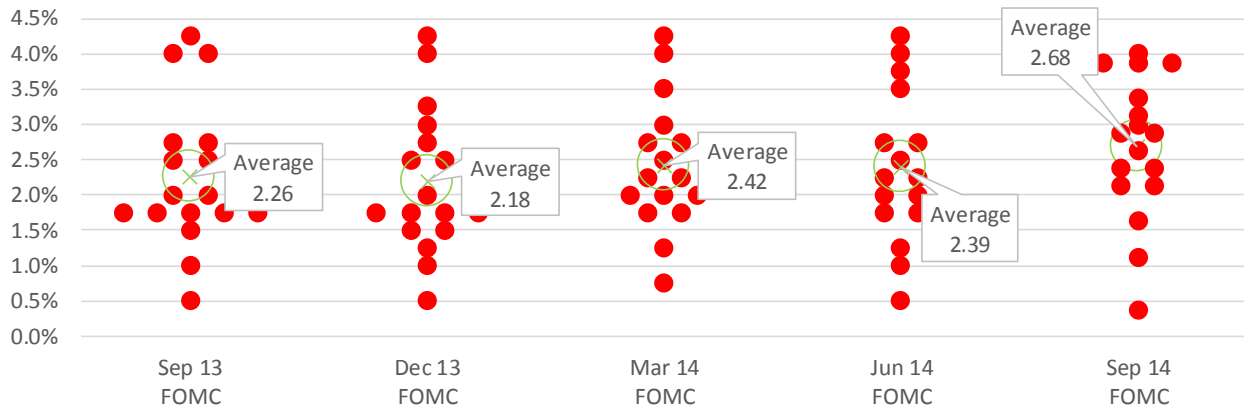
Tracking the "dotplots"

FOMC participants' estimate of "appropriate" target fed funds rate ● Vote by individual participant

For year-end 2015



For year-end 2016



For year-end 2017

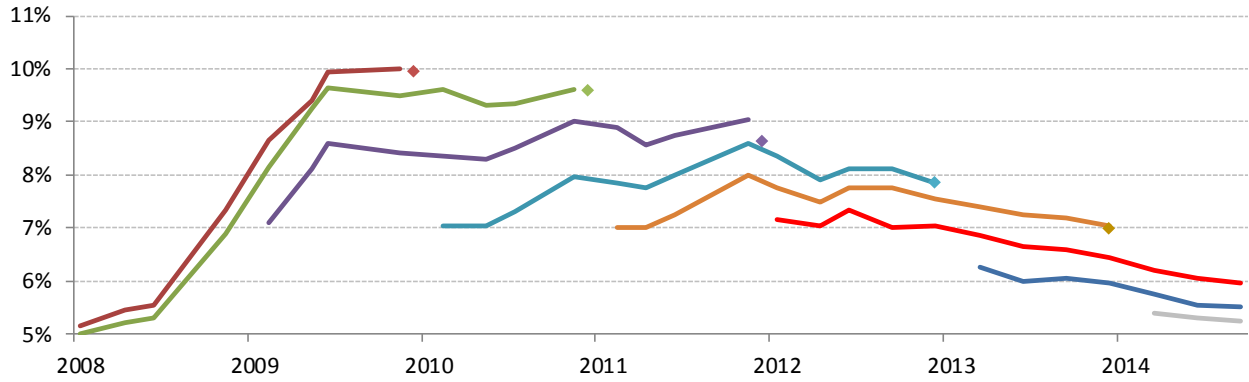


Source: Federal Reserve, TrendMacro calculations

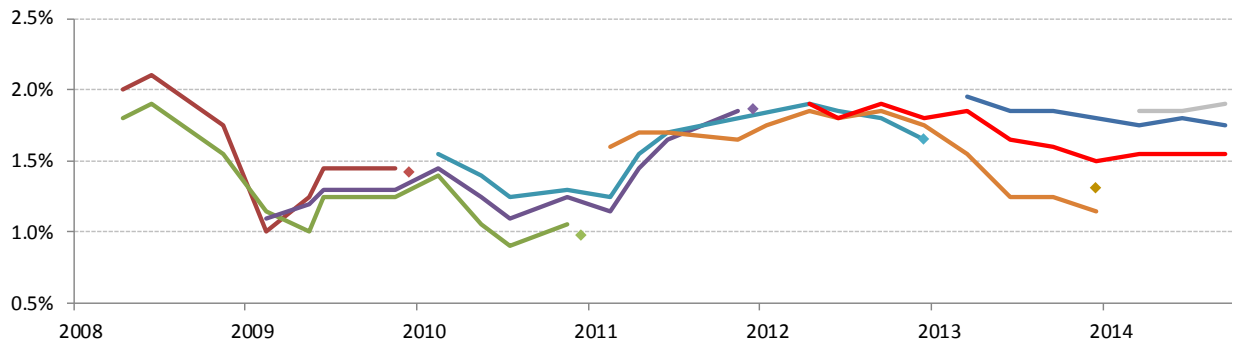
Forecast versus actual: economic projections of the FRB and the presidents

— Forecast ◆ Actual ■ for 2009 ■ 2010 ■ 2011 ■ 2012 ■ 2013 ■ 2014 ■ 2015 ■ 2016

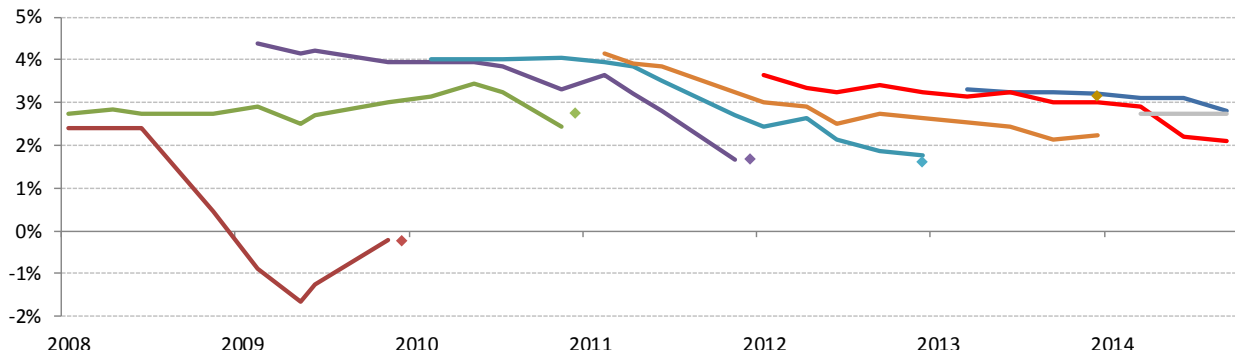
Unemployment



Core PCE inflation



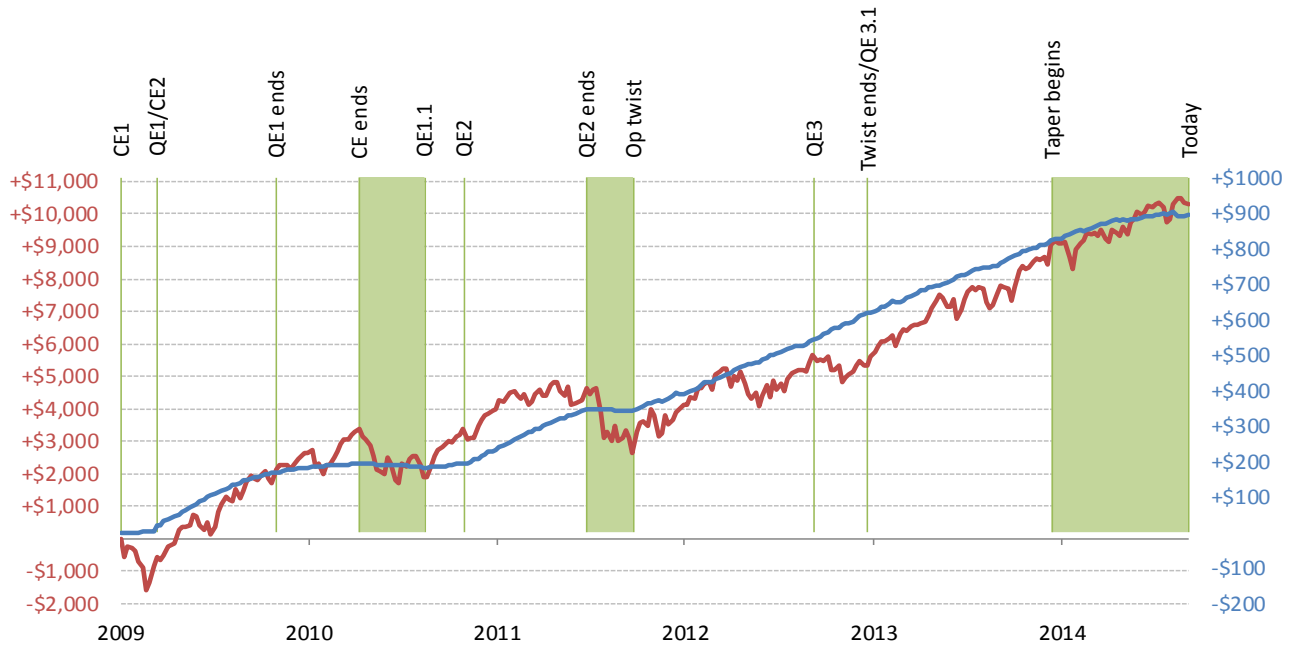
Real GDP



Source: Federal Reserve, BEA, BLS, TrendMacro calculations

How much of the US stock market is effectively owned by the Fed?

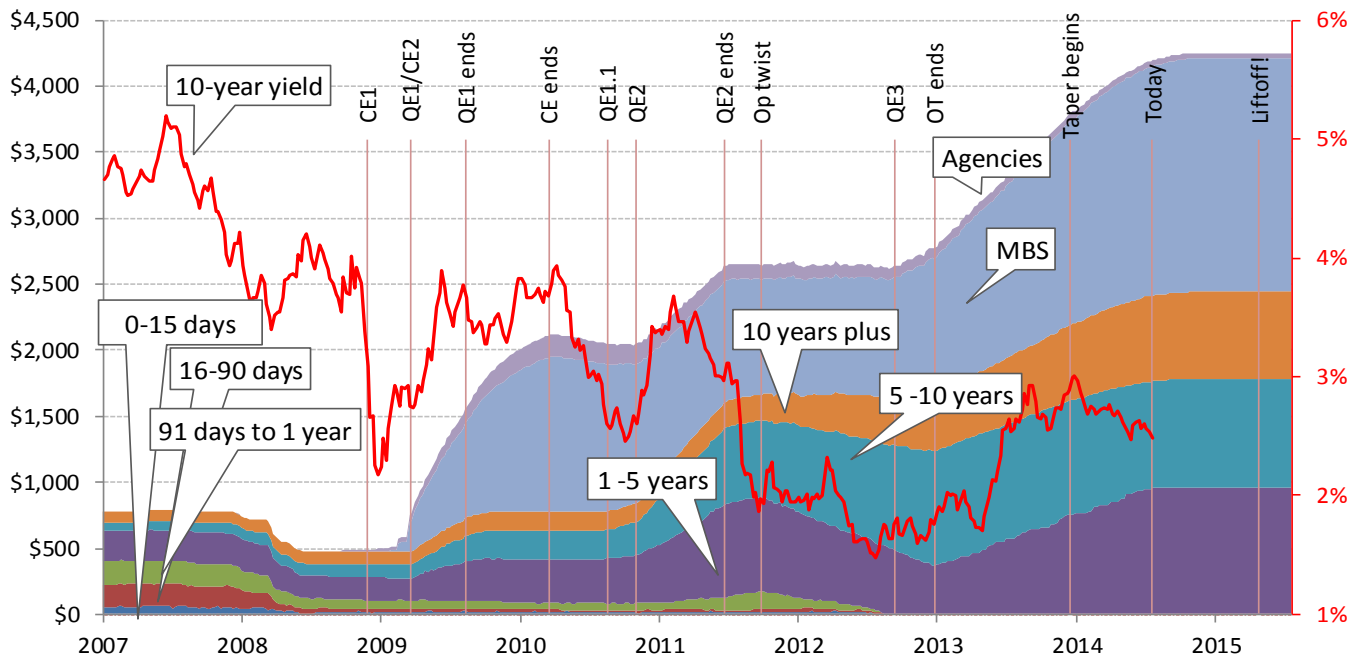
S&P 500 change from January 2009, USD billions — Market cap — Fed balance sheet risk equivalent



Source: Bloomberg, TrendMacro calculations

Actual and projected Fed LSAPs (Large-Scale Asset Purchases) vs. Treasury yield

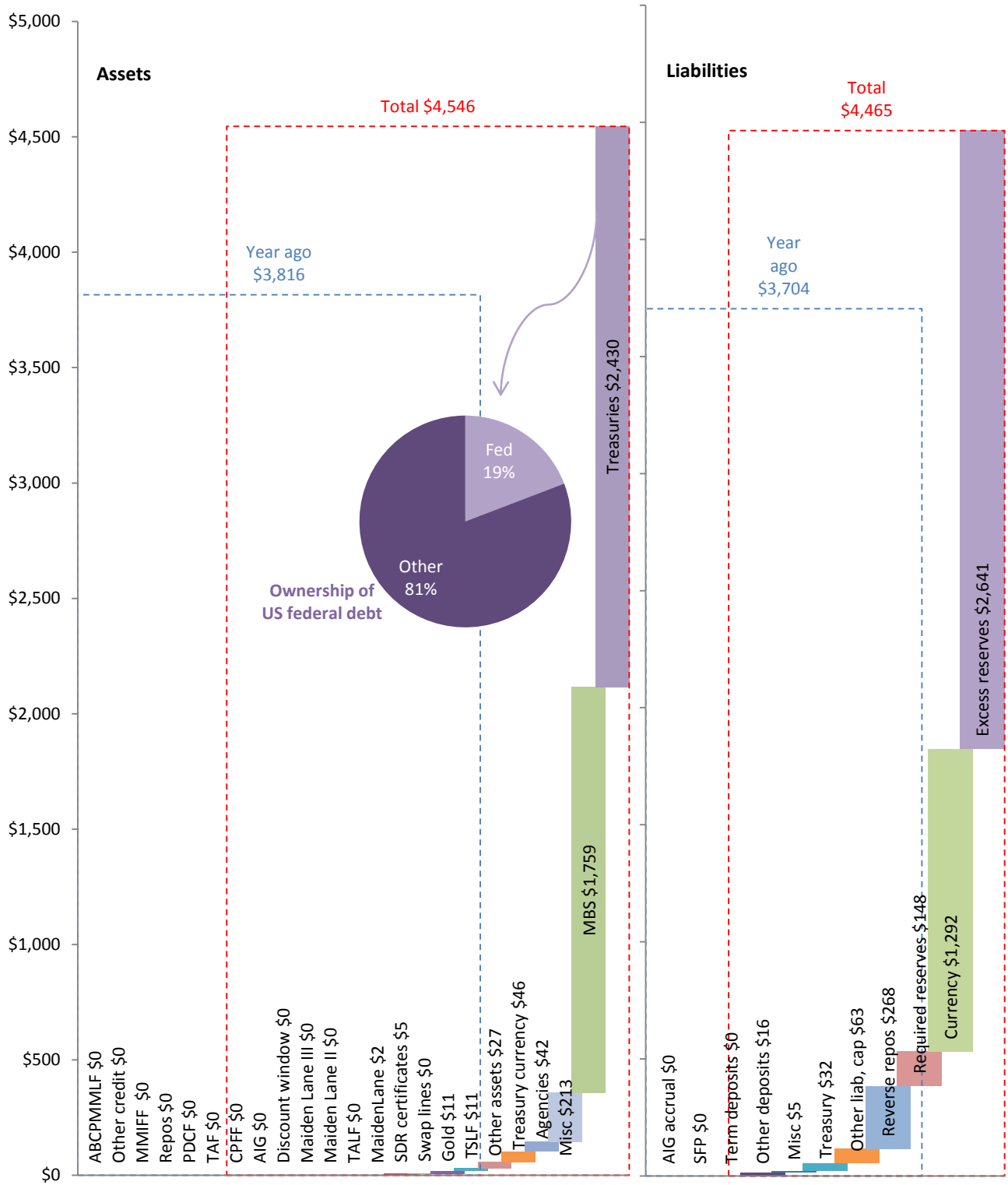
Projected at current run-rates



Source: Federal Reserve H.4, H.15, TrendMacro calculations

The Fed's assets, and how they are funded (USD billions)

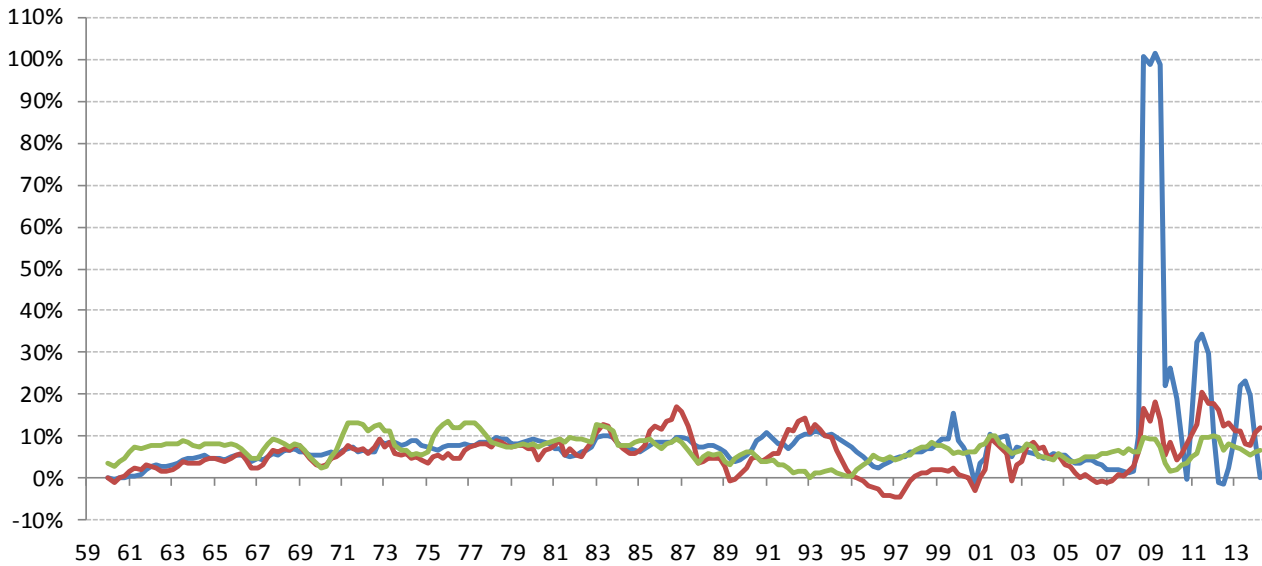
Assets do not perfectly match liabilities because we include unsettled MBS purchases and sales



Source: Federal Reserve H.4, US Treasury, TrendMacro calculations

Money supply growth, YOY quarterly

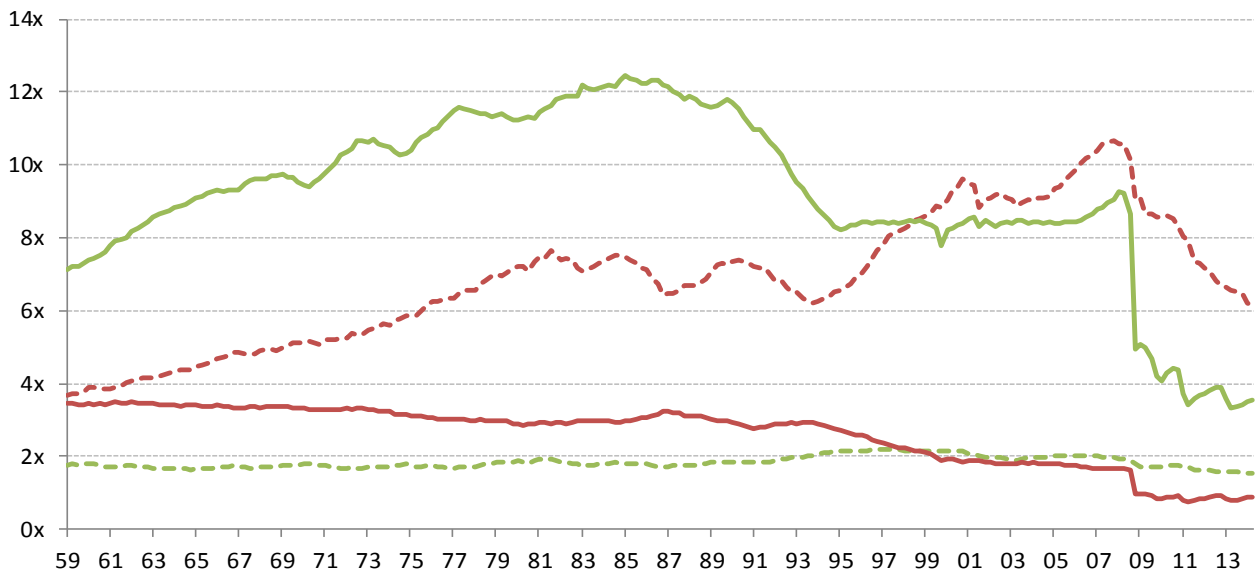
— M1 — M2 — Monetary base



Source: Federal Reserve H.6, TrendMacro calculations

Monetary velocity, quarterly

— M1 base multiplier - - - M1 output multiplier — M2 base multiplier - - - M2 output multiplier



Source: BEA, Federal Reserve H.6, TrendMacro calculations