TrendMacro

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Data Insights: Federal Reserve

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Today's FOMC statement: how the language changed from prior meeting

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Information received since the Federal Open Market Committee met in ~~December~~February indicates that the labor market has continued to strengthen and that economic activity has continued to expand at a moderate pace. Job gains remained solid and the unemployment rate ~~stayed near its~~was little changed in recent ~~low~~months. Household spending has continued to rise moderately while business fixed investment ~~has remained soft. Measures of consumer and business sentiment~~appears to have ~~improved of late.~~firmed somewhat. Inflation has increased in recent quarters~~ but is still below~~ , moving close to the Committee's 2 percent longer-run objective~~.~~; excluding energy and food prices, inflation was little changed and continued to run somewhat below 2 percent. Market-based measures of inflation compensation remain low;~~ most~~ survey-based measures of longer-term inflation expectations are little changed, on balance.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace, labor market conditions will strengthen somewhat further, and inflation will ~~rise to~~stabilize around 2 percent over the medium term. Near-term risks to the economic outlook appear roughly balanced. The Committee continues to closely monitor inflation indicators and global economic and financial developments.

In view of realized and expected labor market conditions and inflation, the Committee decided to ~~maintain~~raise the target range for the federal funds rate ~~at 1/2~~ to 3/4 to 1 percent. The stance of monetary policy remains accommodative, thereby supporting some further strengthening in labor market conditions and a sustained return to 2 percent inflation.

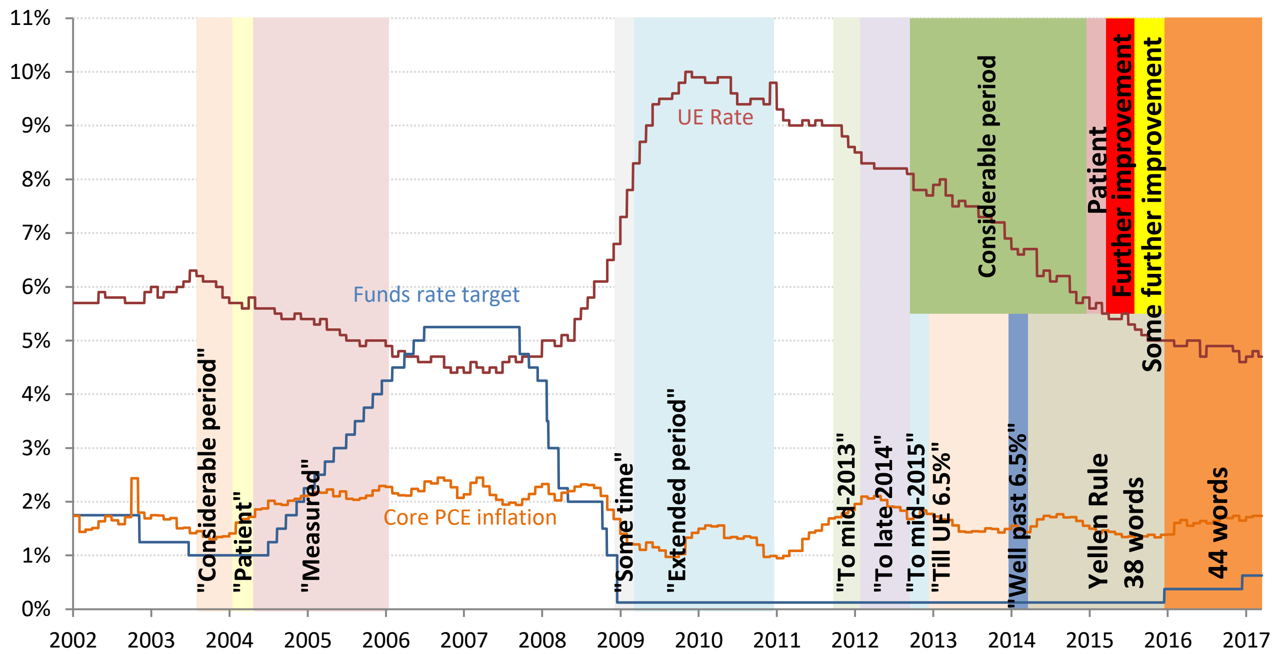
In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. ~~In light of the current shortfall of inflation from 2 percent, the~~The Committee will carefully monitor actual and expected ~~progress toward~~inflation developments relative to its symmetric inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant~~ only~~ gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.

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, and it anticipates doing so until normalization of the level of the federal funds rate is well under way. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.

Voting for the FOMC monetary policy action were: Janet L. Yellen, Chair; William C. Dudley, Vice Chairman; Lael Brainard; Charles L. Evans; Stanley Fischer; Patrick Harker; Robert S. Kaplan; ~~Neel Kashkari;~~ Jerome H. Powell; and Daniel K. Tarullo. Voting against the action was Neel Kashkari, who preferred at this meeting to maintain the existing target range for the federal funds rate.

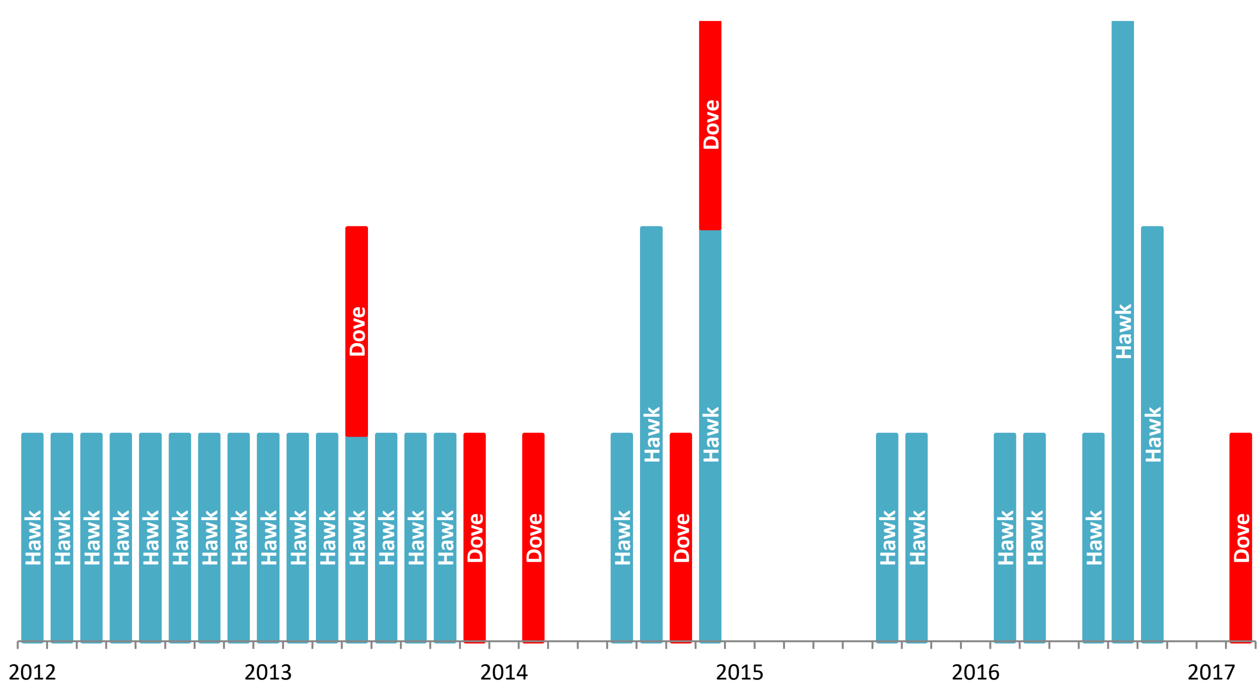
Source: FOMC, TrendMacro analysis

Fedspeak regime change: the evolution of forward guidance



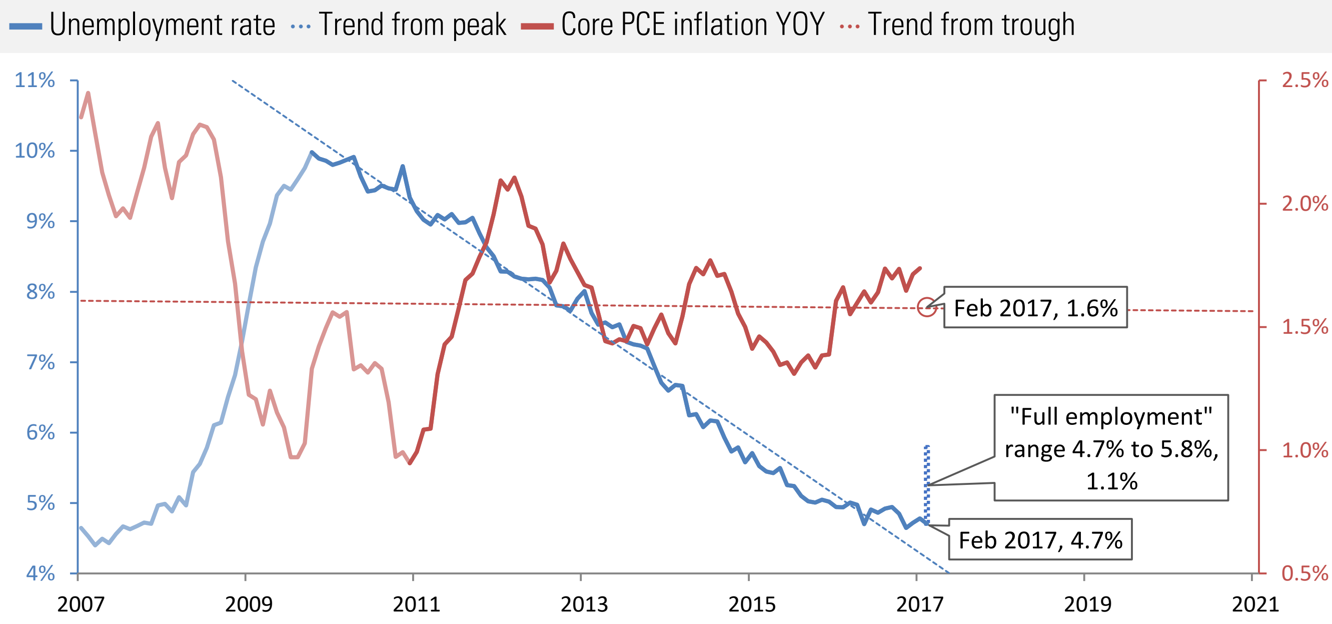
Source: FOMC, Federal Reserve, BLS, BEA, TrendMacro calculations

Other voices: number and direction of FOMC decision dissents



Source: FOMC, TrendMacro calculations

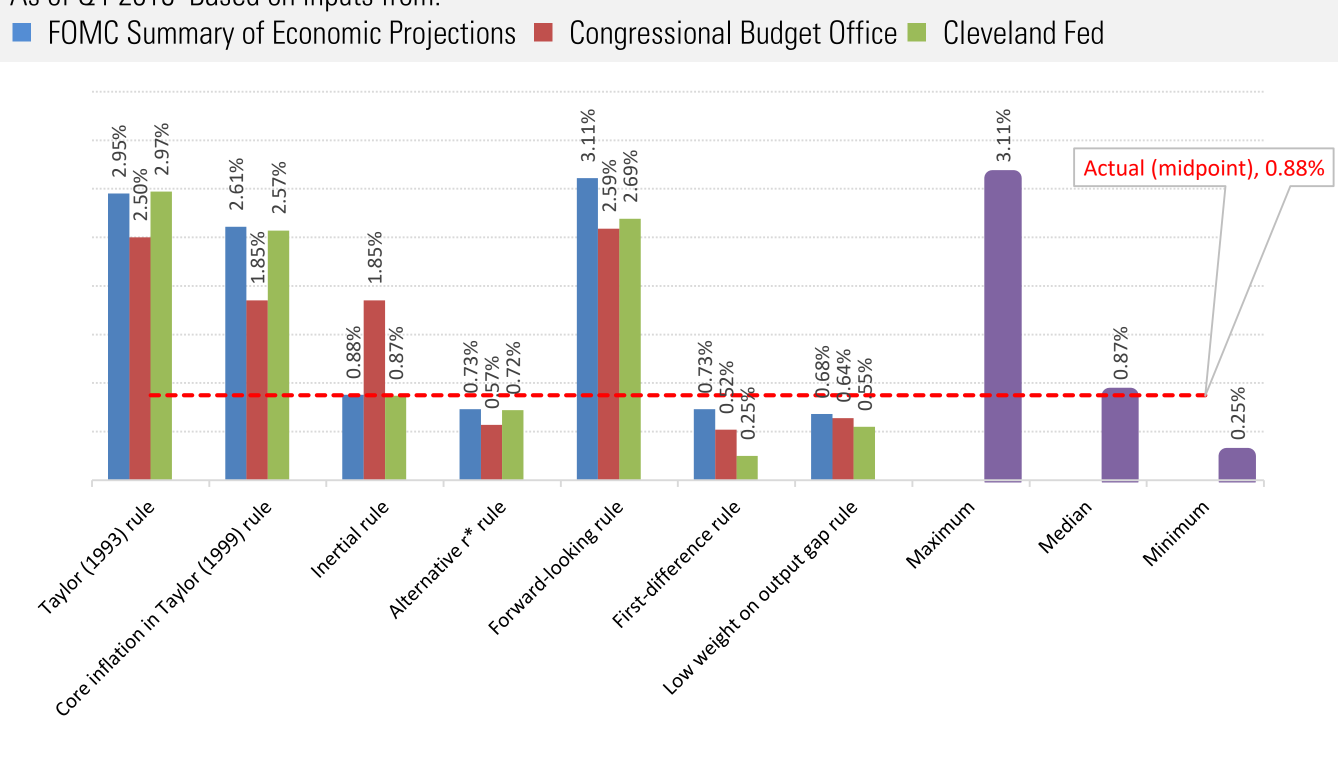
The dual mandate: garbage in, garbage out



Source: BLS Current Population Survey, TrendMacro calculations

So many policy rules, so little time…

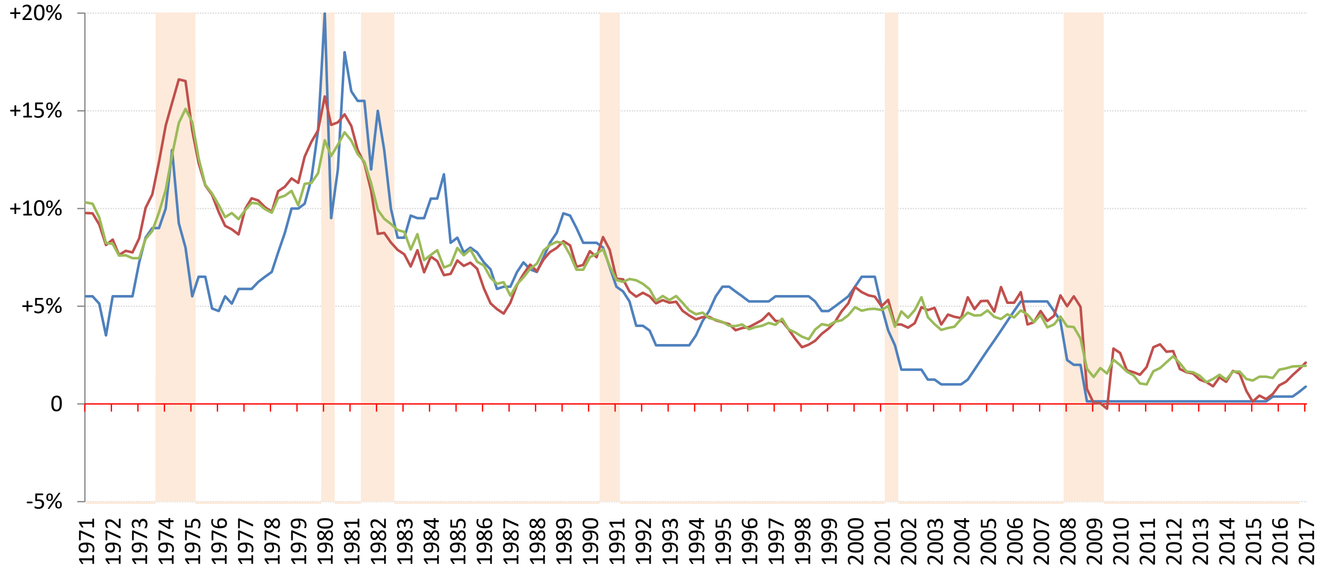
As of Q4-2016 Based on inputs from:



Source: Cleveland Fed, TrendMacro calculations

Estimating the "natural rate of interest"

Actual funds rate · Neutral real funds rate (headline PCE) · Neutral (core) · Recession

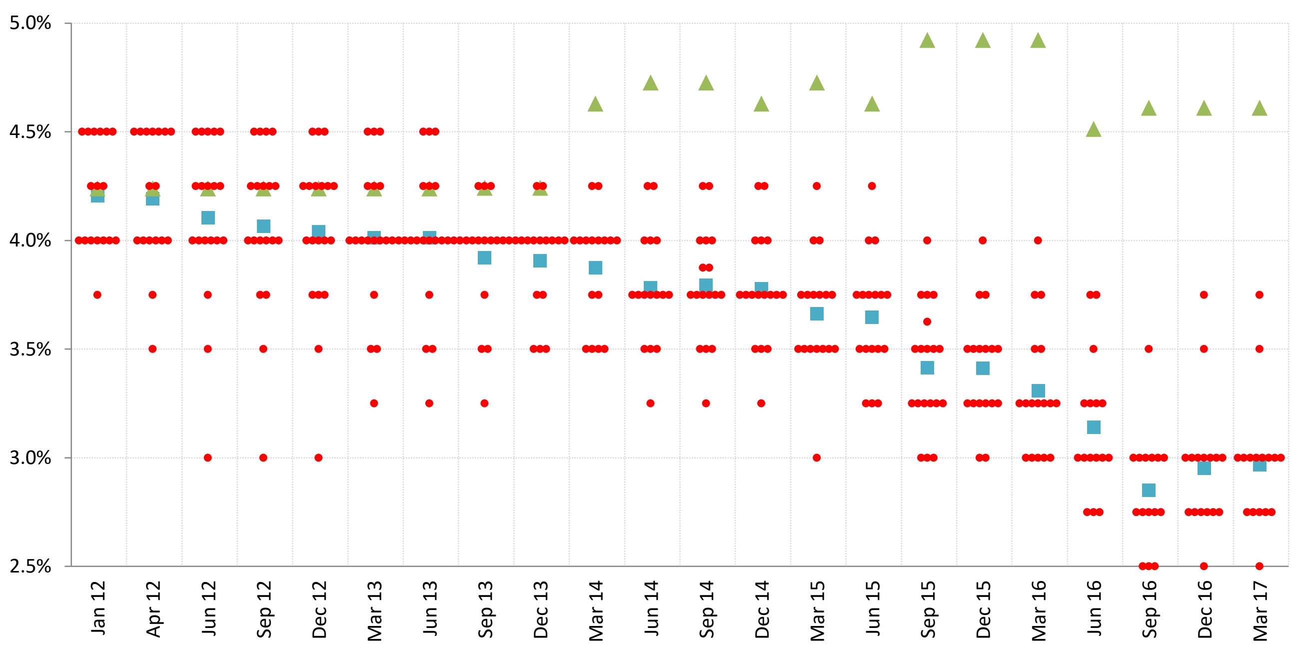


Source: Laubach & Williams, Federal Reserve, BEA, TrendMacro calculations

"R-star" – the ultimate "dotplot"

FOMC participants' estimate of "longer run" target fed funds rate · Vote by individual participant

Weighted average · Taylor Rule rate based on participants' core PCE and UE estimates

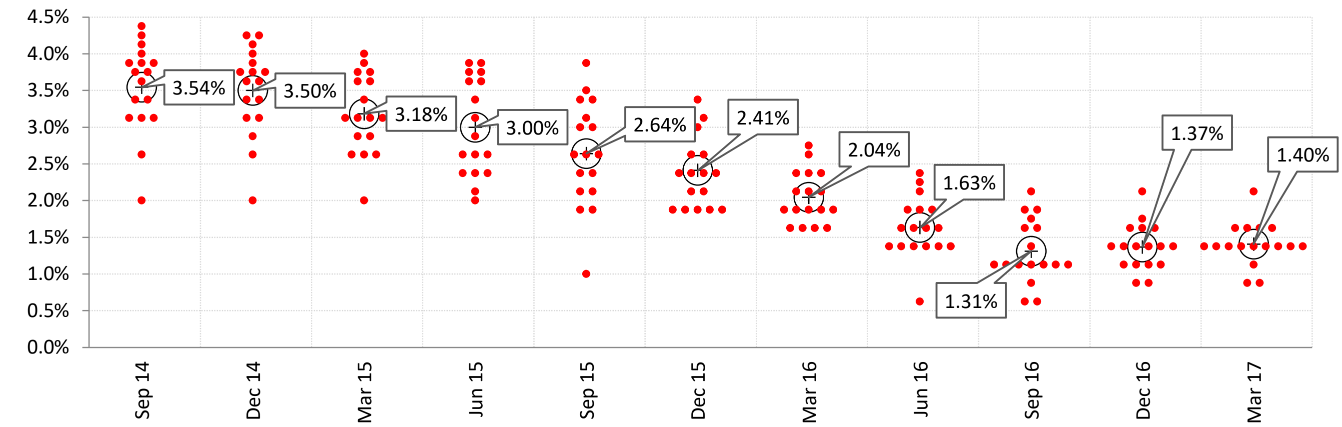


Source: Federal Reserve, TrendMacro calculations

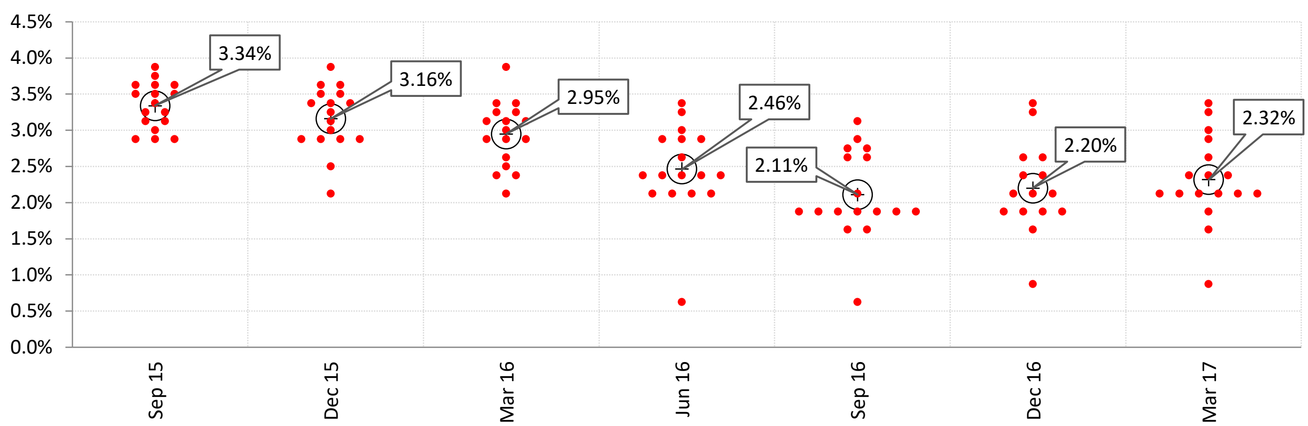
Tracking the "dotplots" year by year

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

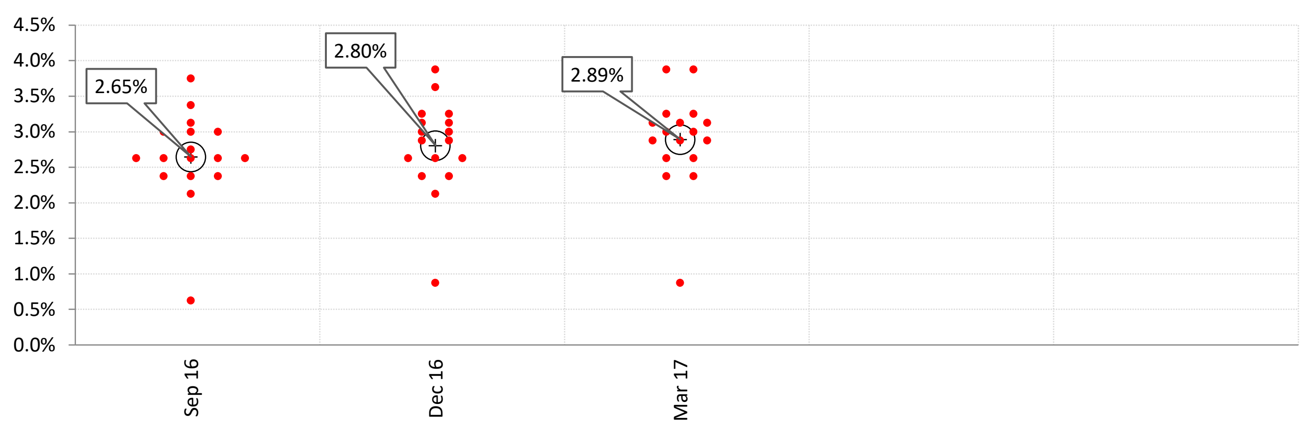
For year-end 2017



For year-end 2018



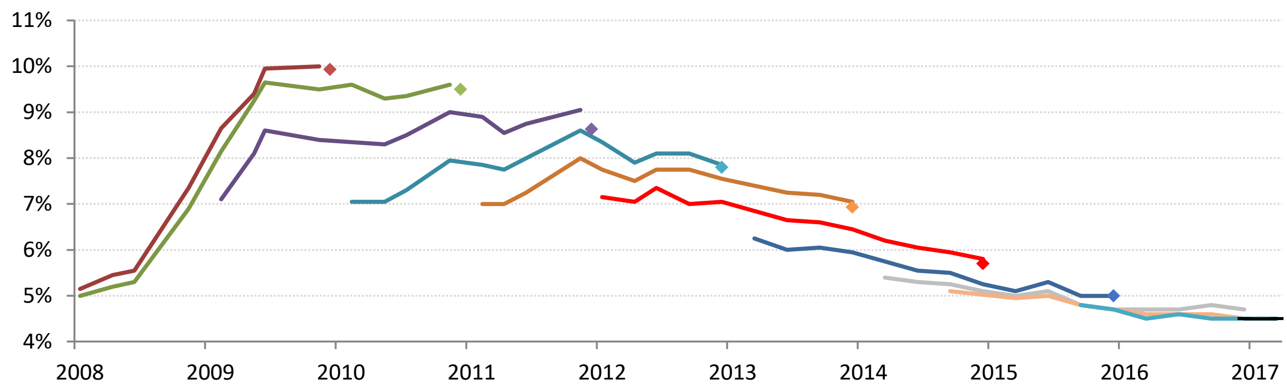
For year-end 2019



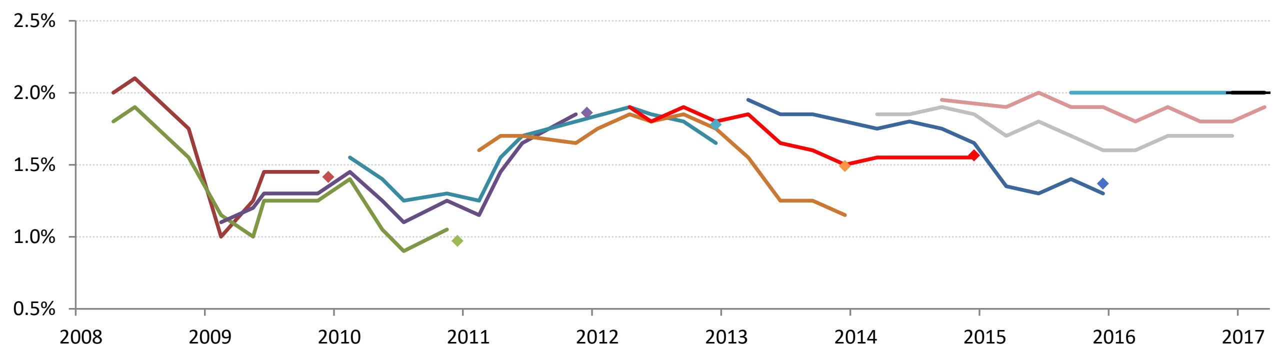
Forecast versus actual: economic projections of the FRB and the presidents

— Forecast ◆ Actual ■ 2009 ■ 10 ■ 11 ■ 12 ■ 13 ■ 14 ■ 15 ■ 16 ■ 17 ■ 18 ■ 2019

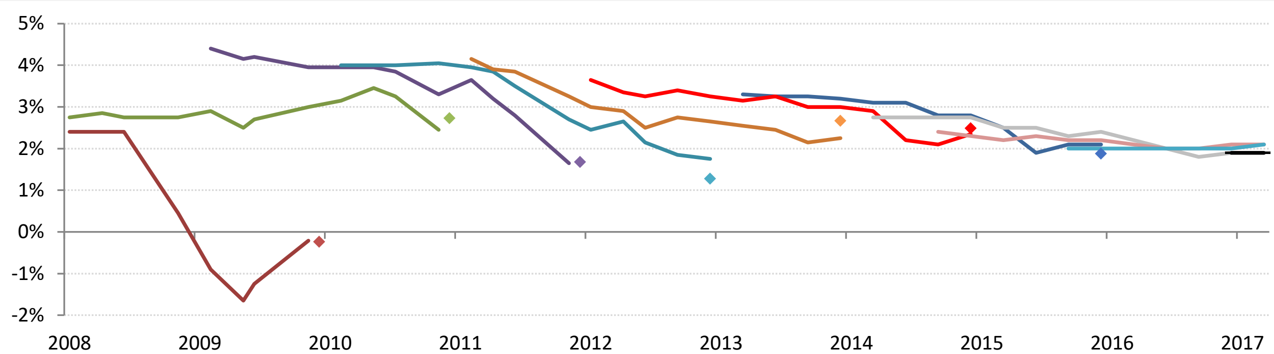
Unemployment



Core PCE inflation



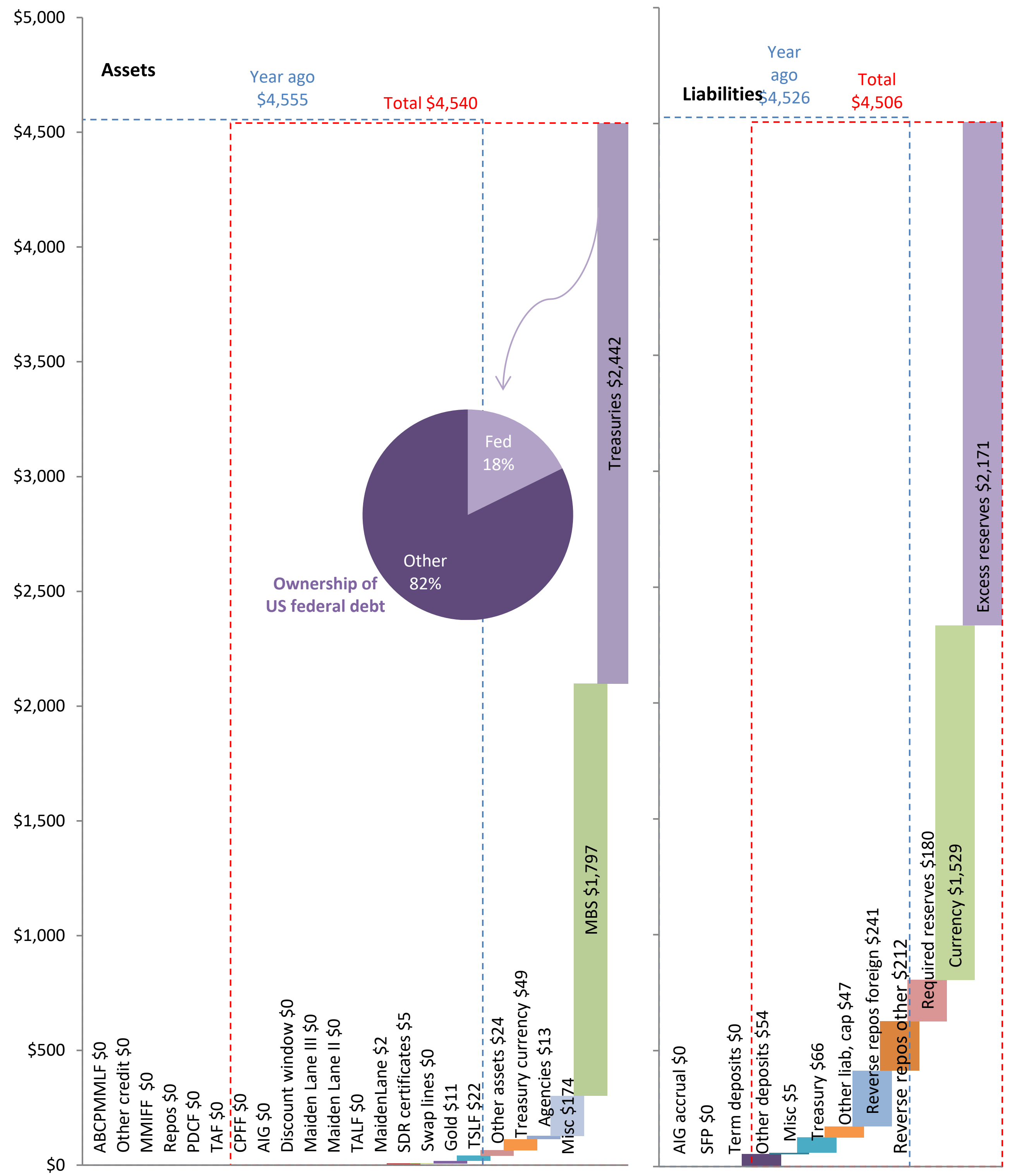
Real GDP



Source: Federal Reserve, BEA, BLS, TrendMacro calculations

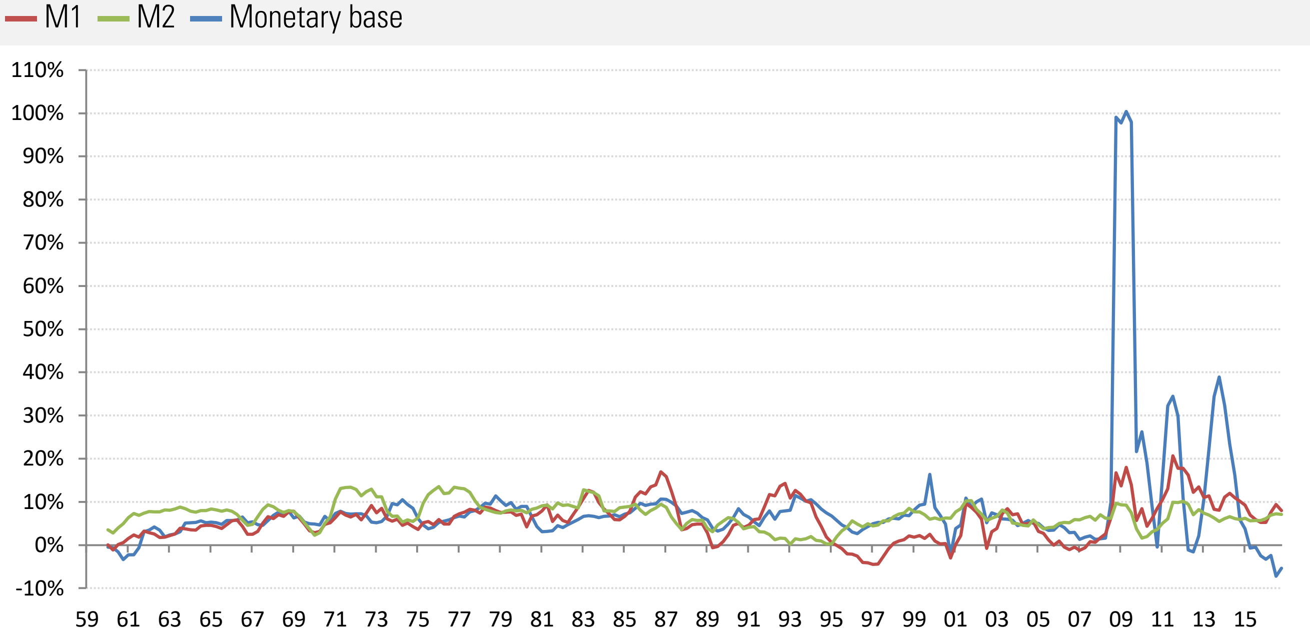
The Fed's assets, and how they are funded (USD billions)

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



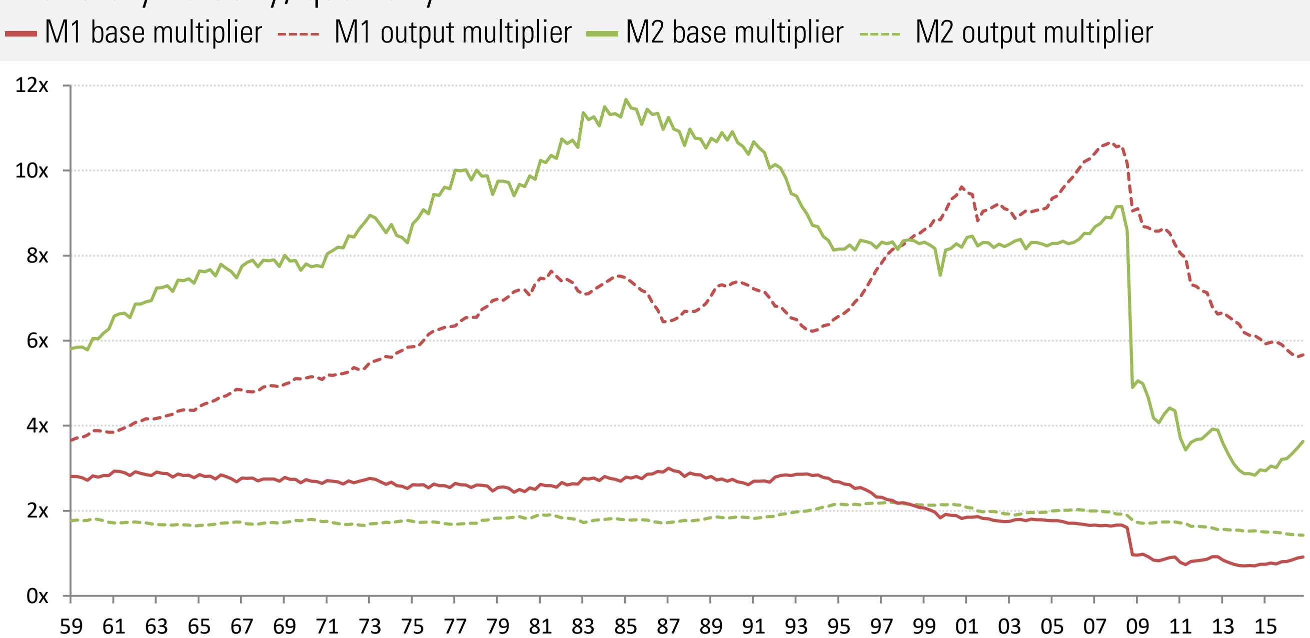
Source: Federal Reserve H.4, US Treasury, TrendMacro calculations

Money supply growth, YOY quarterly



Source: Federal Reserve H.6, TrendMacro calculations

Monetary velocity, quarterly



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