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Data Insights: Federal Reserve

Wednesday, May 3, 2017

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

For release at 2:00 p.m. EDT

Information received since the Federal Open Market Committee met in ~~February~~March indicates that the labor market has continued to strengthen ~~and that~~ even as growth in economic activity ~~has continued to expand at a moderate pace.~~slowed. Job gains ~~remained~~were solid, on average, in recent months, and the unemployment rate ~~was little changed in recent months.~~declined. Household spending ~~has continued to rise moderately while business~~rose only modestly, but the fundamentals underpinning the continued growth of consumption remained solid. Business fixed investment ~~appears to have~~ firmed ~~somewhat~~. Inflation ~~has increased in recent quarters, moving~~measured on a 12-month basis recently has been running close to the Committee's 2 percent longer-run objective~~; excluding~~. Excluding energy and food, consumer prices~~,~~ declined in March and inflation ~~was little changed and~~ continued to run somewhat below 2 percent. Market-based measures of inflation compensation remain low; 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~~The Committee views the slowing in growth during the first quarter as likely to be transitory and continues to expect 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 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 ~~raise~~maintain the target range for the federal funds rate ~~to~~at 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.

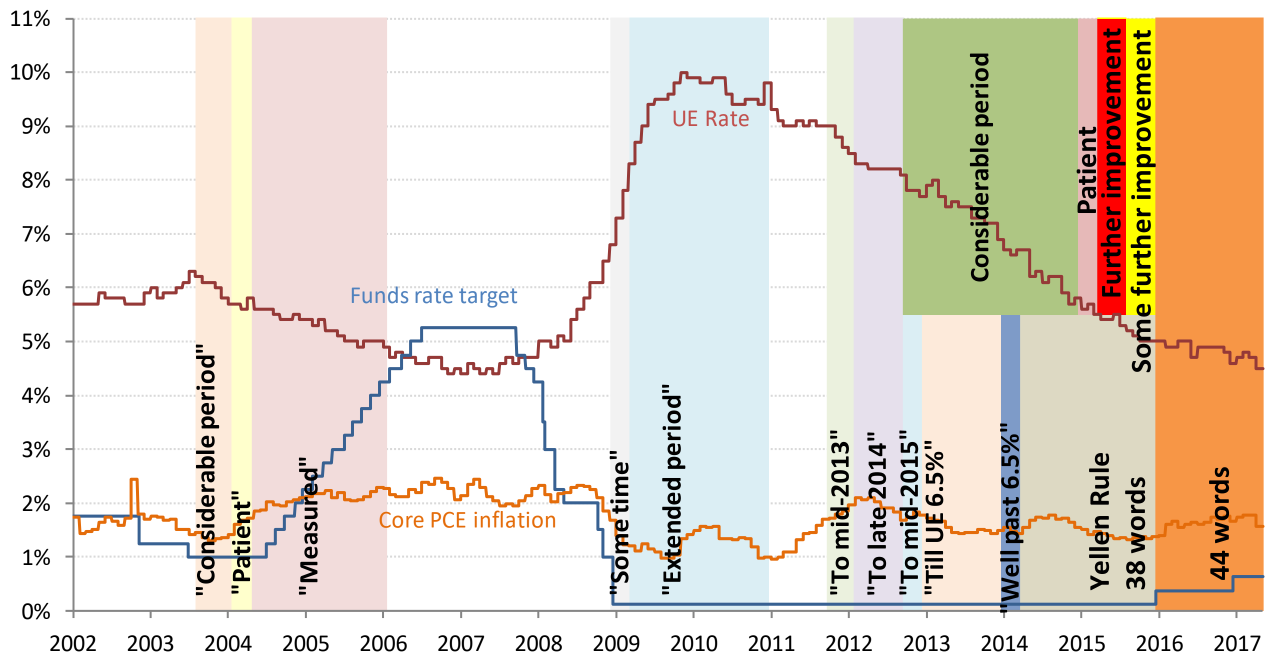
In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The Committee will carefully monitor actual and expected inflation developments relative to its symmetric inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant 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; 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~~Kaplan; Neel Kashkari; and Jerome H. Powell.

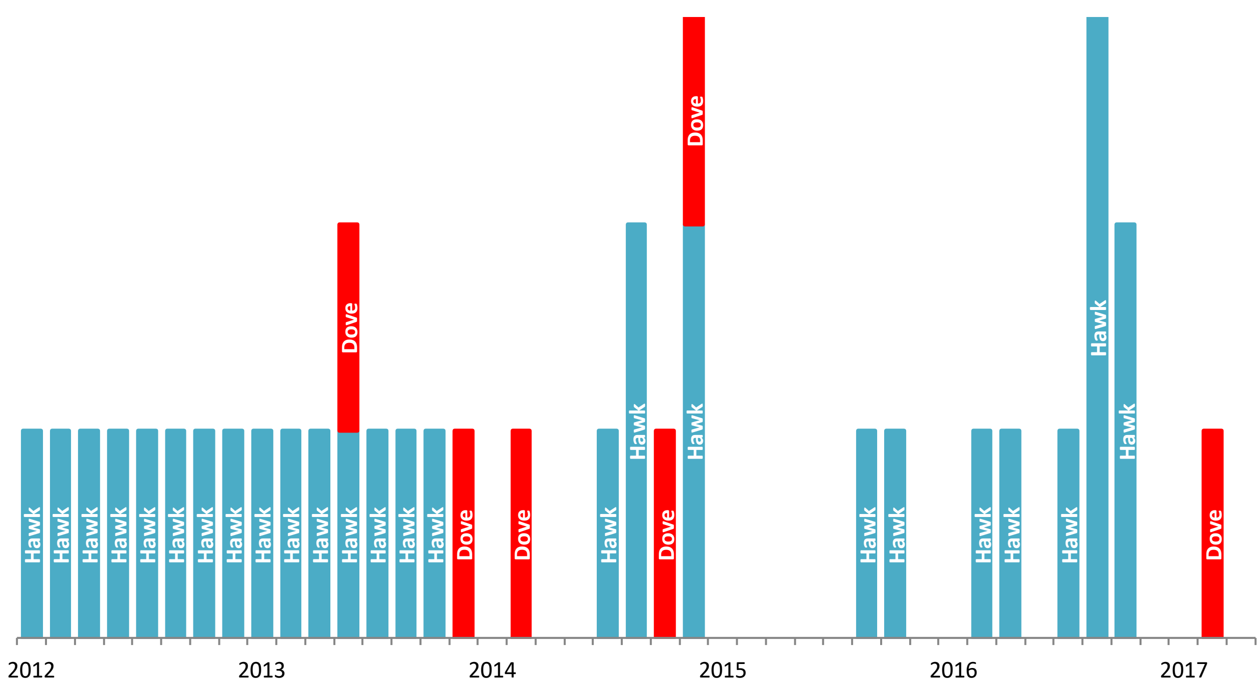
Source: FOMC, TrendMacro analysis

Fedspeak regime change: the evolution of forward guidance



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

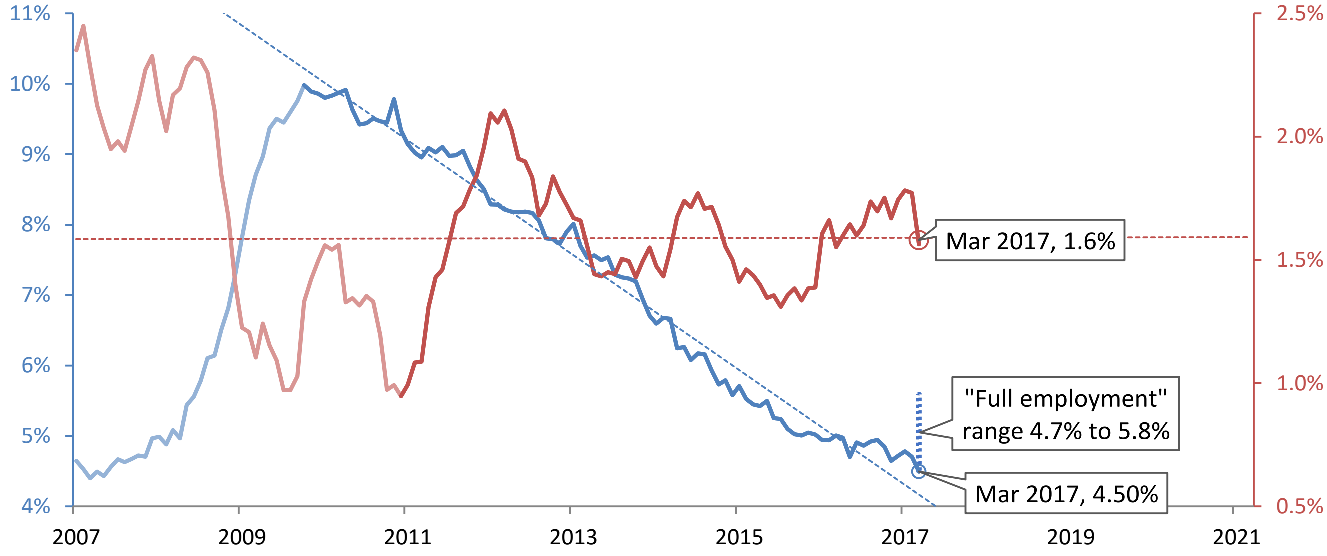
Other voices: number and direction of FOMC decision dissents



Source: FOMC, TrendMacro calculations

The dual mandate: garbage in, garbage out

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

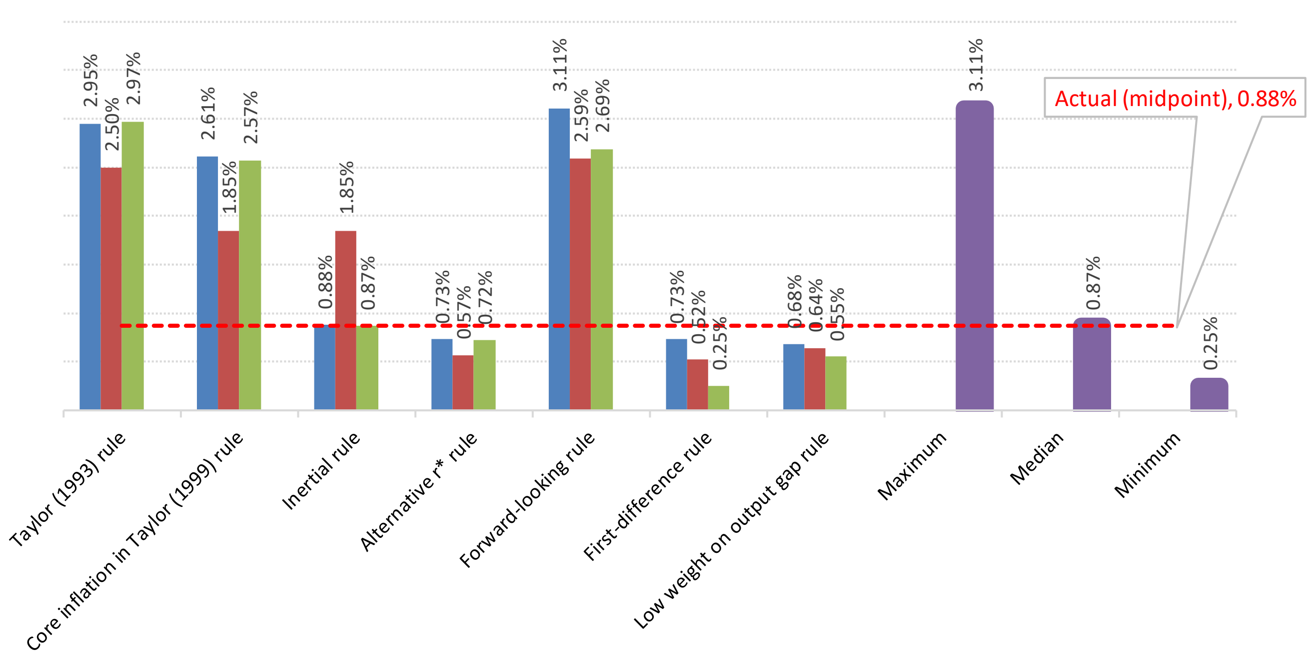


Source: BLS Current Population Survey, TrendMacro calculations

So many policy rules, so little time…

As of February 16, 2017 Based on inputs from:

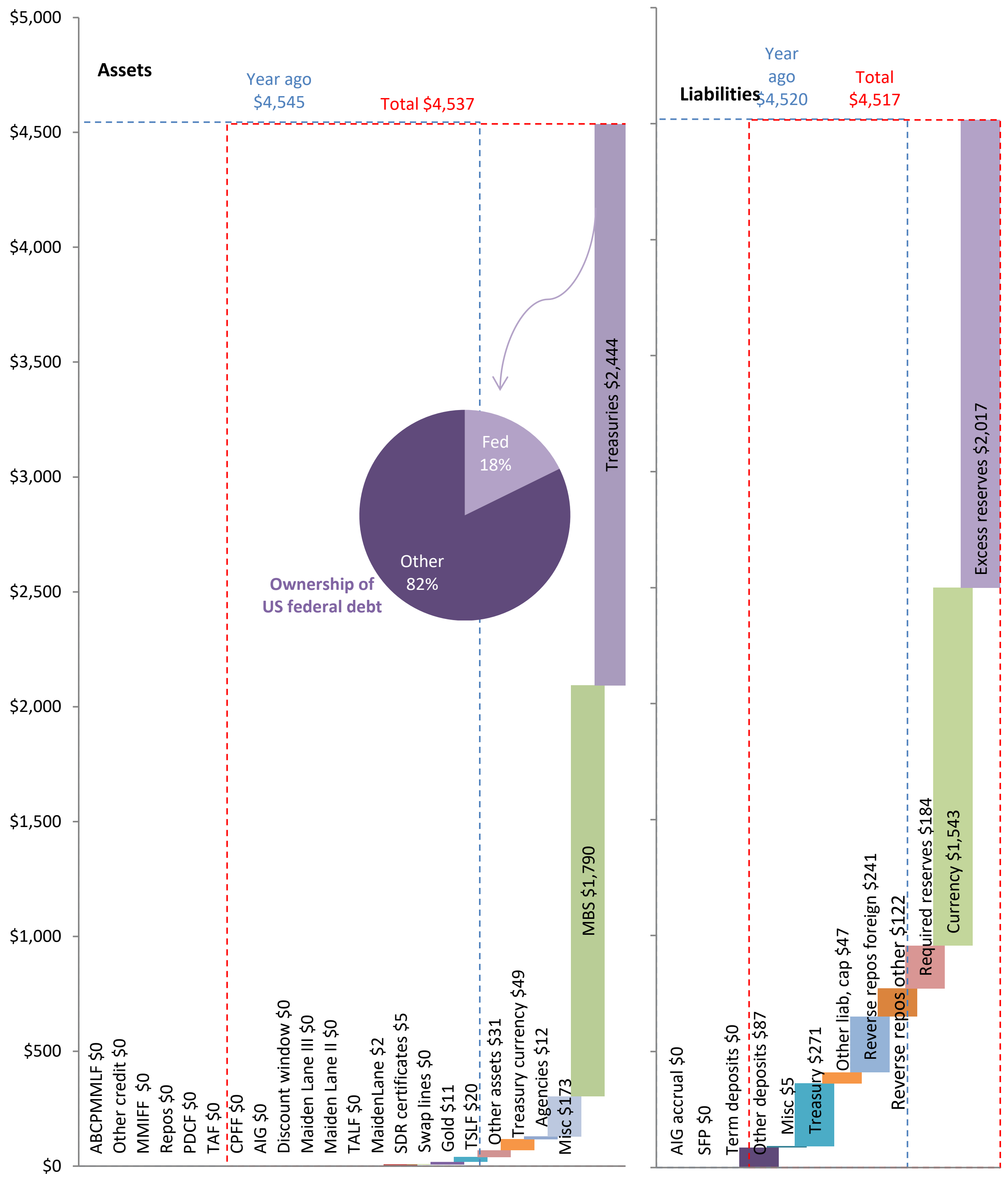
FOMC Summary of Economic Projections Congressional Budget Office Cleveland Fed



Source: Cleveland Fed, TrendMacro calculations

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

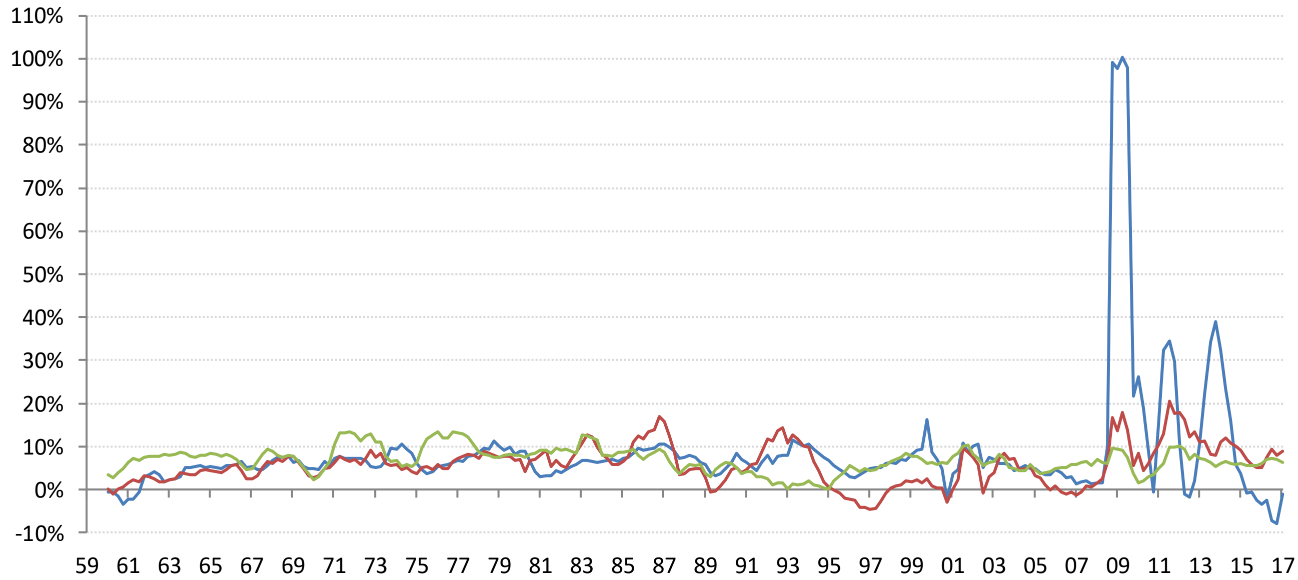
Assets do not perfectly match liabilities because we include unsettled MBS purchases and sales



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

Money supply growth, YOY quarterly

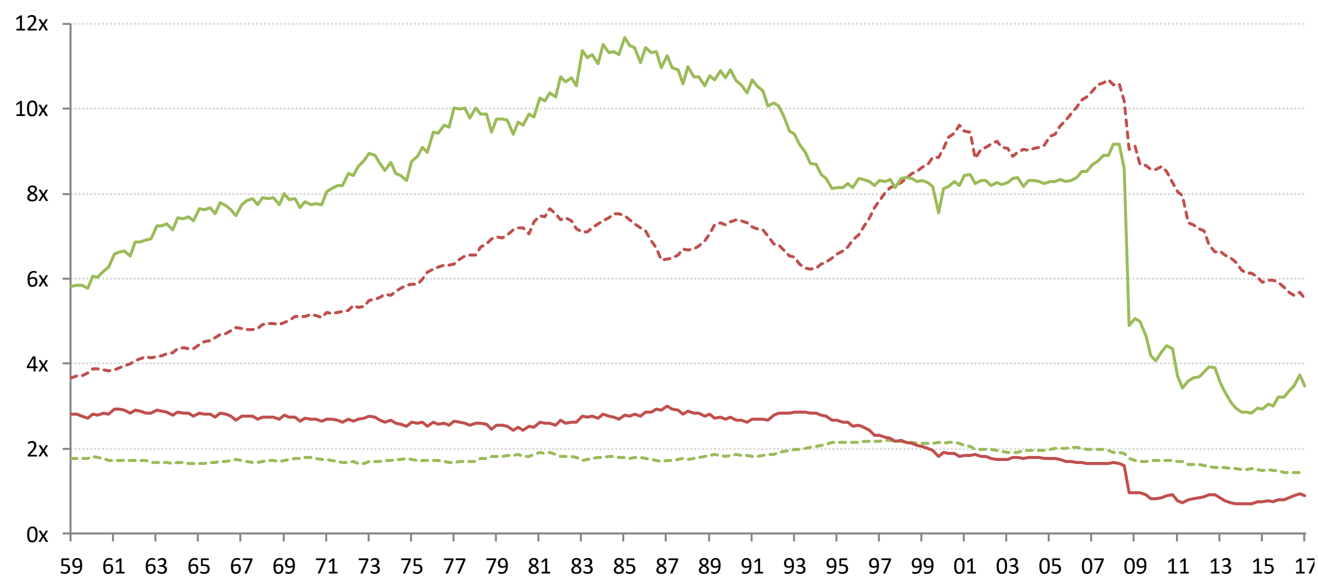
M1 M2 Monetary base



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