

## Data Insights: Federal Reserve

Wednesday, December 19, 2018

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

~~November 08~~[December 19](#), 2018

### Federal Reserve issues FOMC statement

Information received since the Federal Open Market Committee met in ~~September~~[November](#) indicates that the labor market has continued to strengthen and that economic activity has been rising at a strong rate. Job gains have been strong, on average, in recent months, and the unemployment rate has ~~declined~~[remained low](#). Household spending has continued to grow strongly, while growth of business fixed investment has moderated from its rapid pace earlier in the year. On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2 percent. Indicators 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~~[judges](#) that [some](#) further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective over the medium term. [Risks](#)~~The Committee judges that risks~~ to the economic outlook ~~appear~~[are](#) roughly balanced, [but will continue to monitor global economic and financial developments and assess their implications for the economic outlook](#).

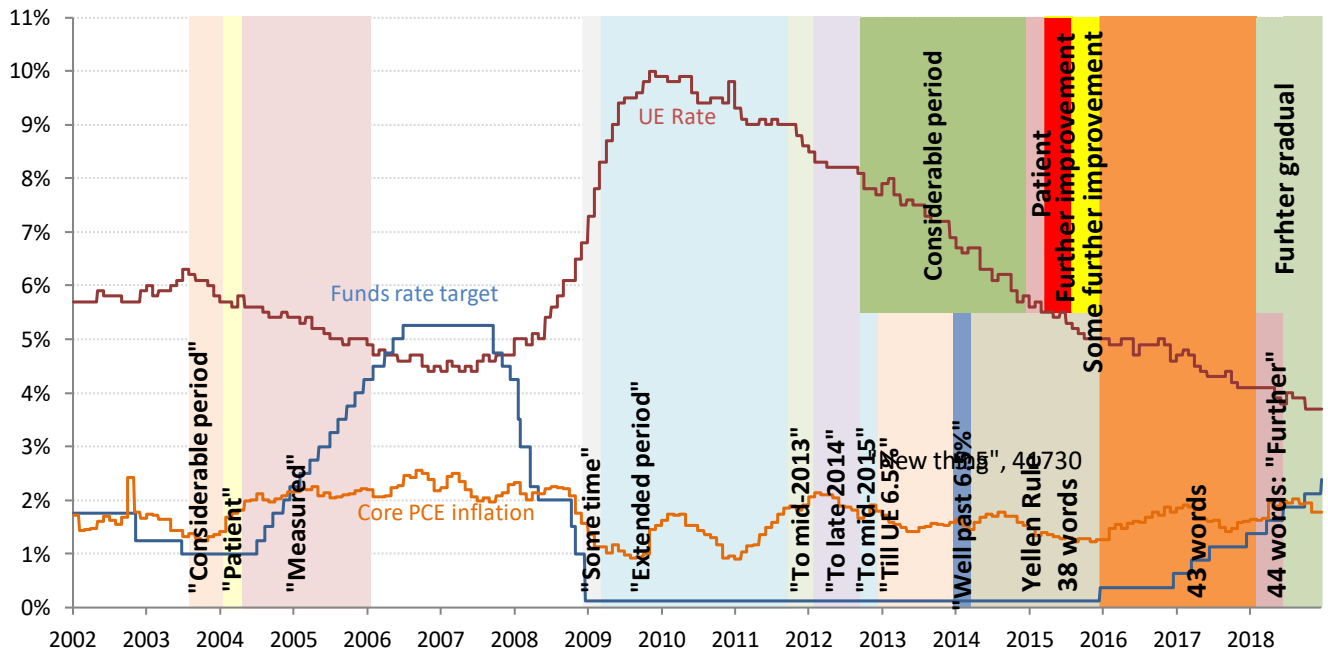
In view of realized and expected labor market conditions and inflation, the Committee decided to ~~maintain~~[raise](#) the target range for the federal funds rate ~~at 2~~ to 2-1/4 [to 2-1/2](#) percent.

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 maximum employment objective and its symmetric 2 percent inflation objective. 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.

Voting for the FOMC monetary policy action were: Jerome H. Powell, Chairman; John C. Williams, Vice Chairman; Thomas I. Barkin; Raphael W. Bostic; [Michelle W. Bowman](#); Lael Brainard; Richard H. Clarida; Mary C. Daly; Loretta J. Mester; and Randal K. Quarles.

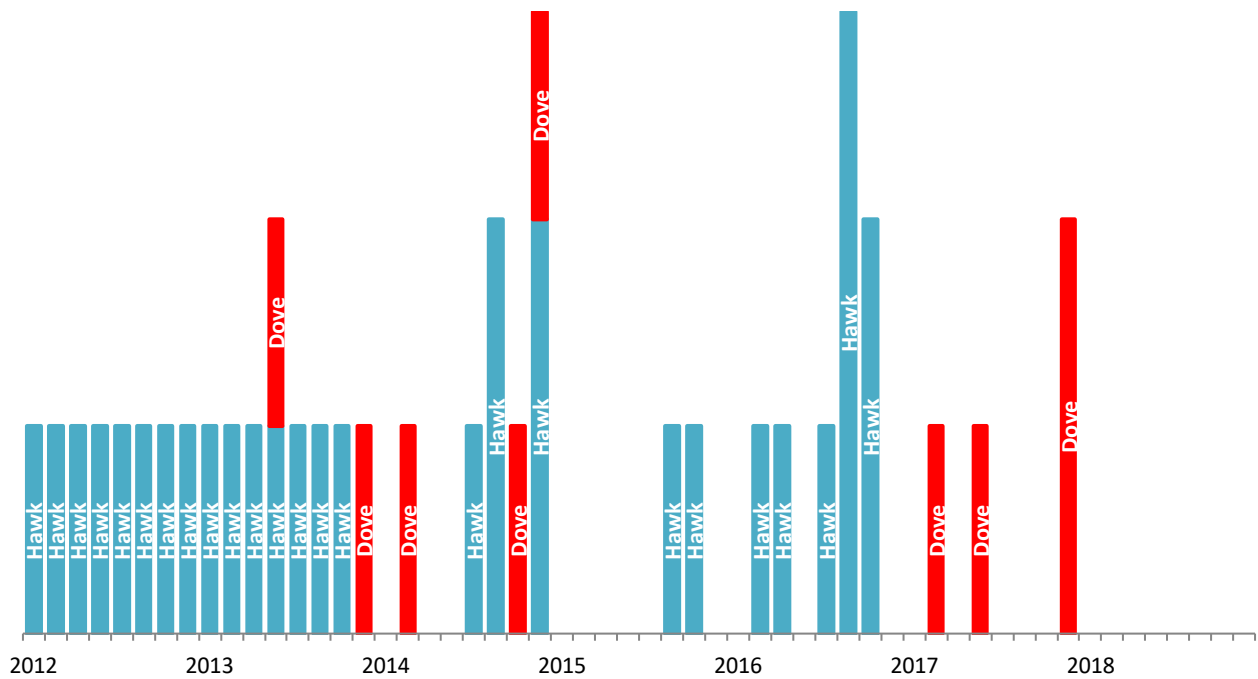
Source: FOMC, TrendMacro analysis

## Fedspeak regime change: the evolution of forward guidance



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

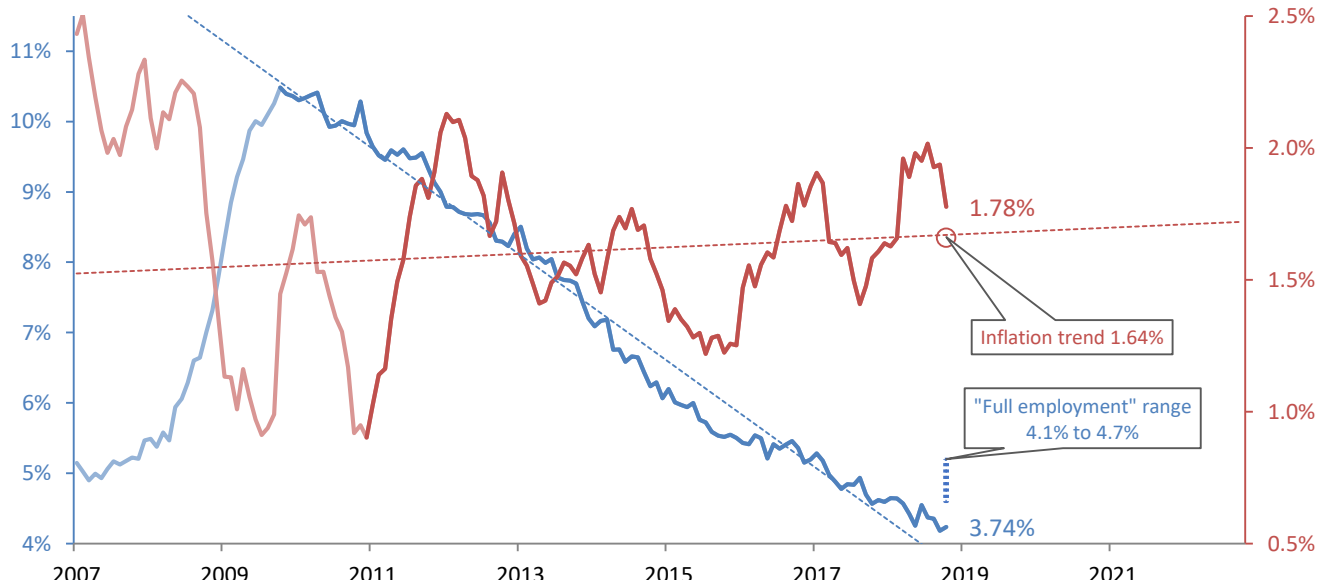
## Other voices: number and direction of FOMC decision dissents



Source: FOMC, TrendMacro calculations

## The dual mandate: garbage in, garbage out

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

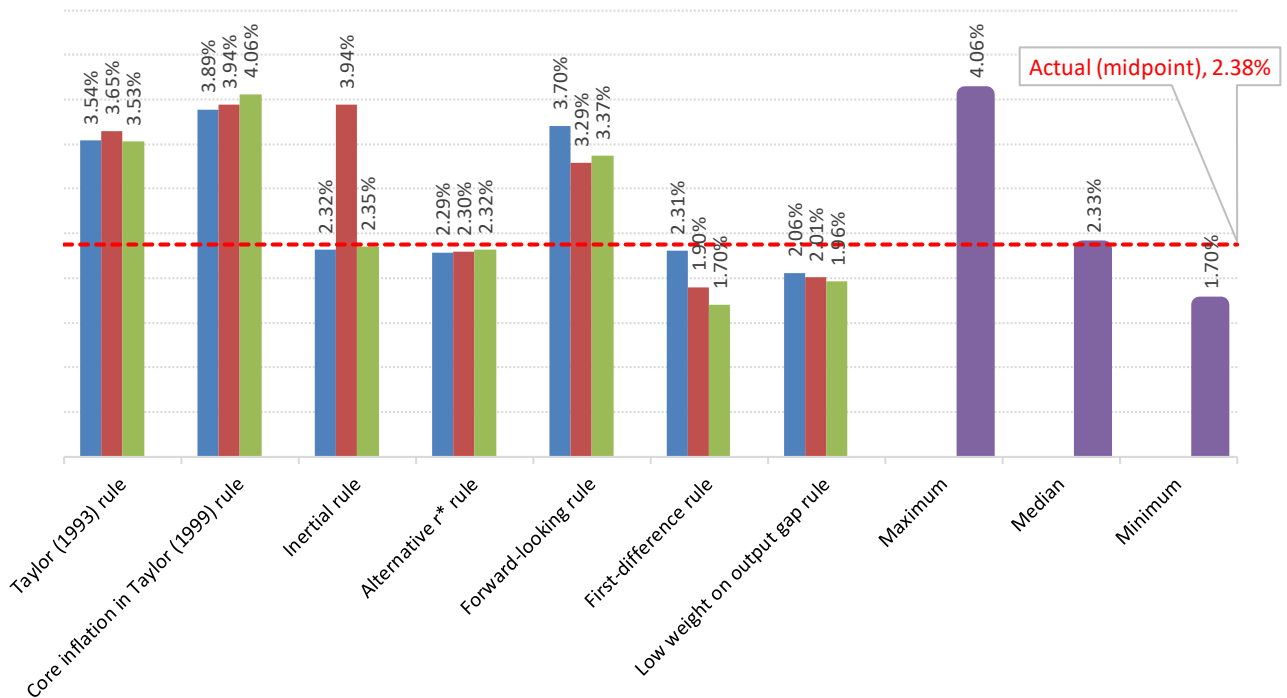


Source: BLS Current Population Survey, TrendMacro calculations

## So many policy rules, so little time...

As of November 28, 2018    Based on inputs from:

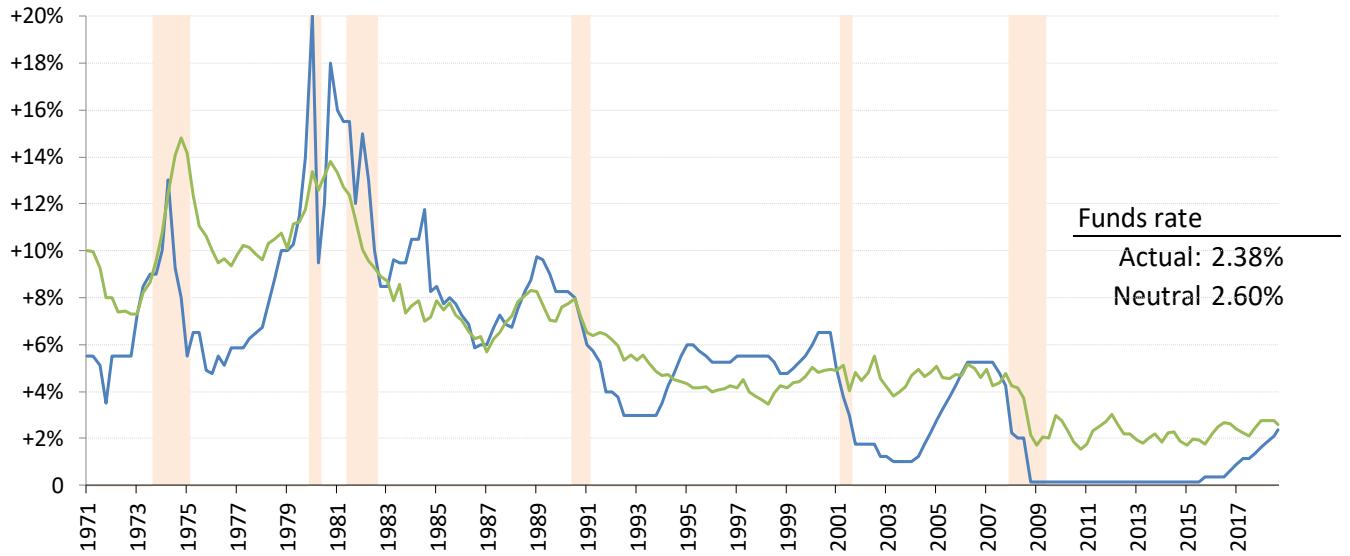
■ FOMC Summary of Economic Projections    ■ Congressional Budget Office    ■ Cleveland Fed



Source: [Cleveland Fed](#), TrendMacro calculations

# Estimating the "natural rate of interest"

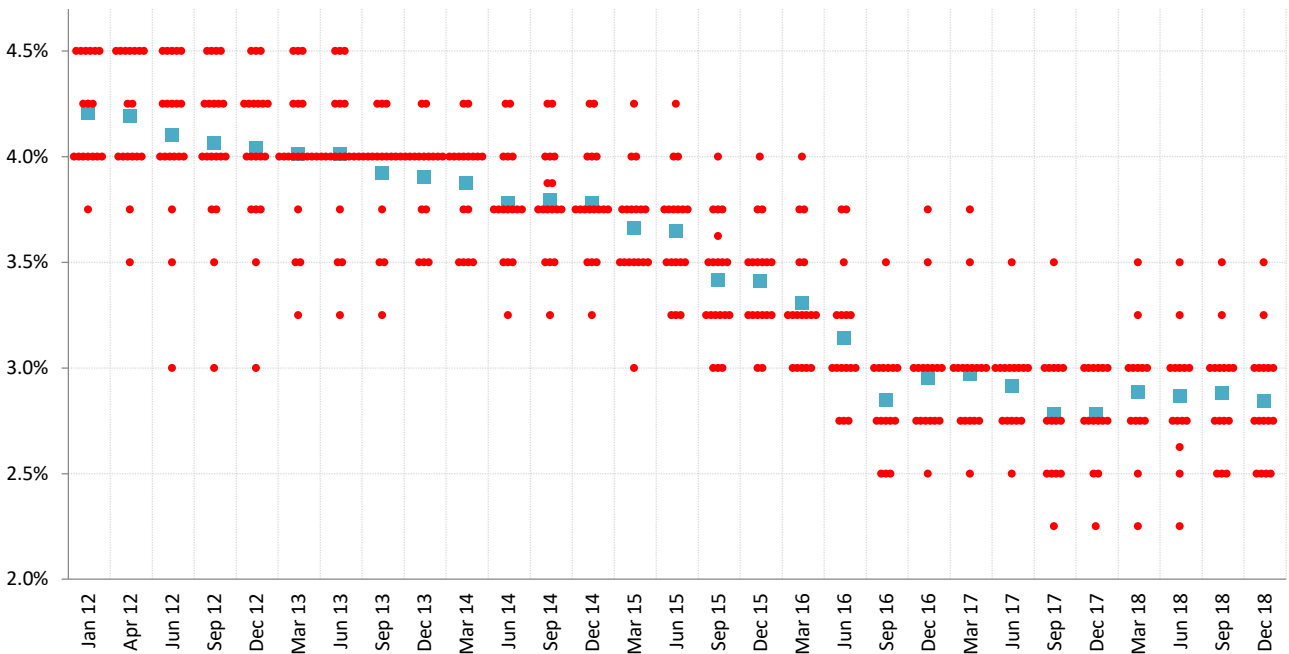
— Actual funds rate — Neutral real funds rate (Laubach-Williams + YOY Core PCE) — Recession



Source: [New York Fed](#), Federal Reserve, BEA, TrendMacro calculations

# "R-star" – the ultimate "dotplot" As of Sep 18

FOMC participants' estimate of "longer run" target fed funds rate ● Vote by individual participant ■ Weighted average

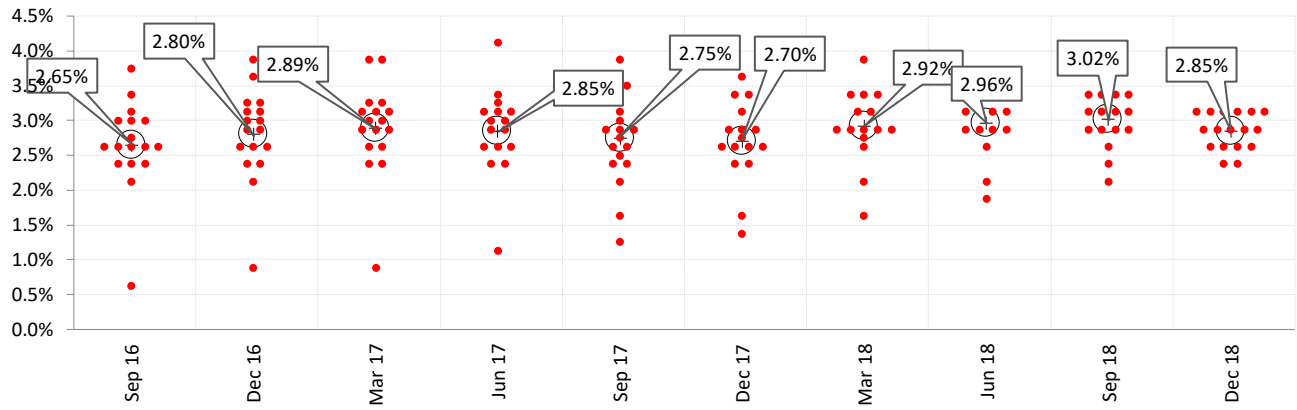


Source: Federal Reserve, TrendMacro calculations

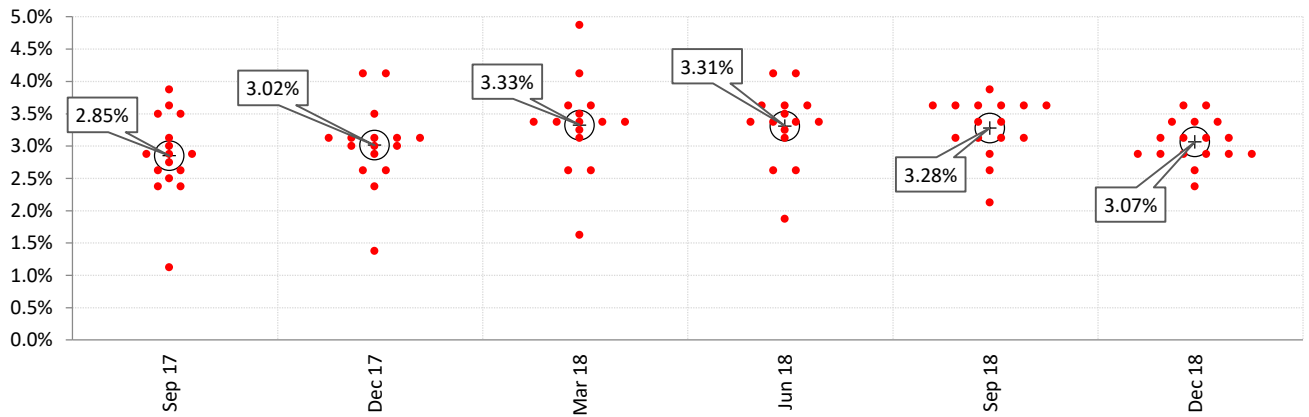
# Tracking the "dotplots" year by year As of Sep 18

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

## For year-end 2019



## For year-end 2020



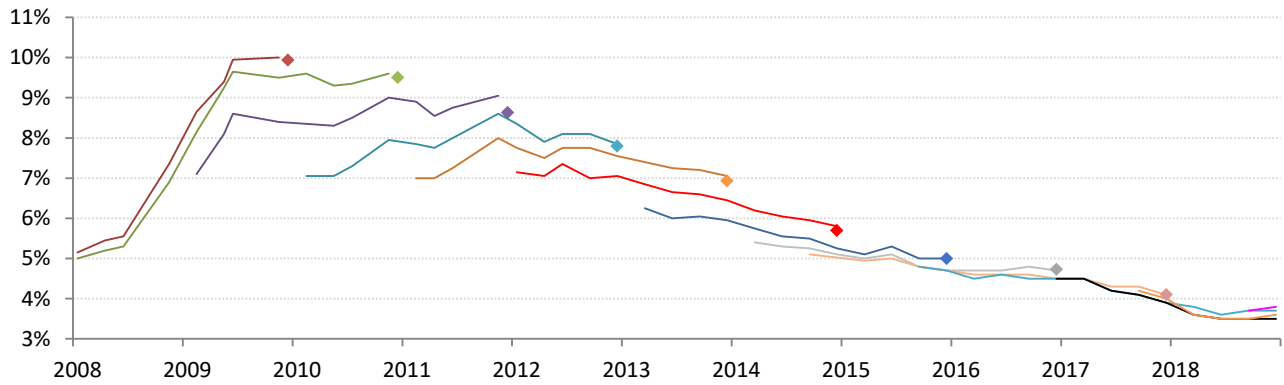
## For year-end 2021



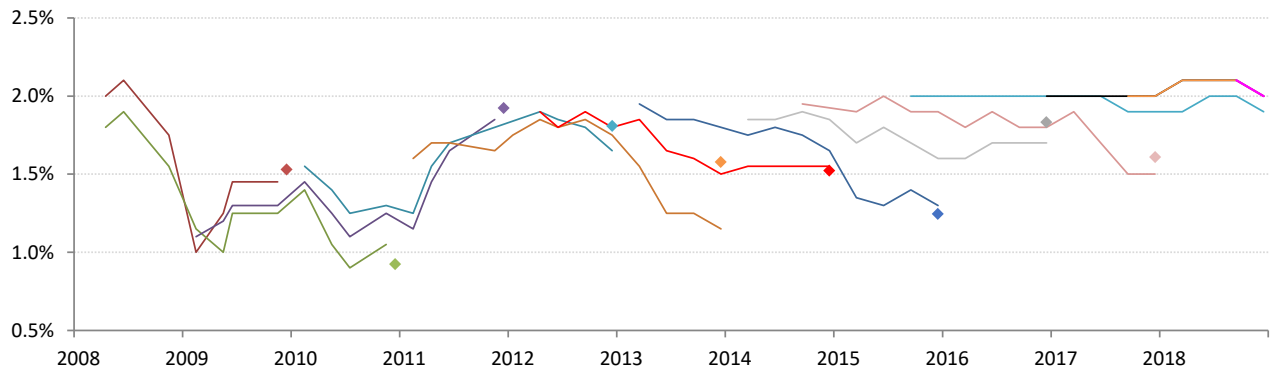
Forecast versus actual: [economic projections](#) of the FRB and presidents As of Sep 18

— Forecast ♦ Actual 2009 10 11 12 13 14 15 16 17 18 19 20 2021

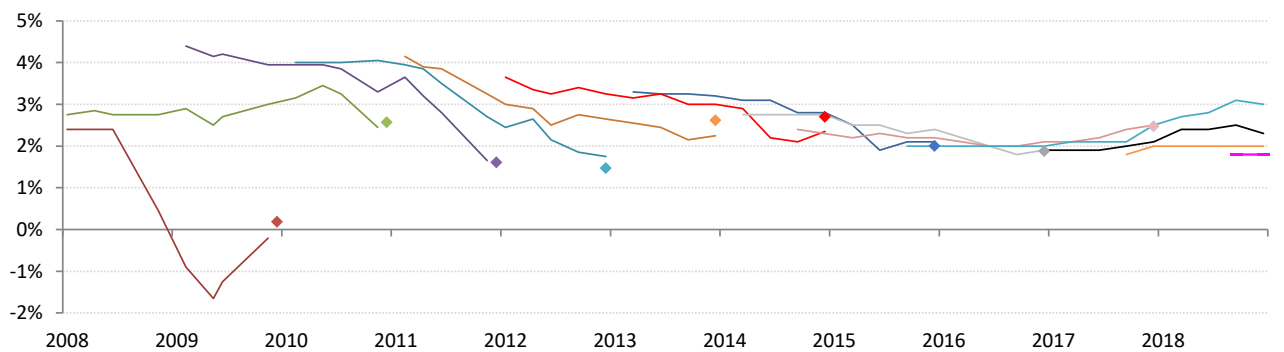
### Unemployment



### Core PCE inflation



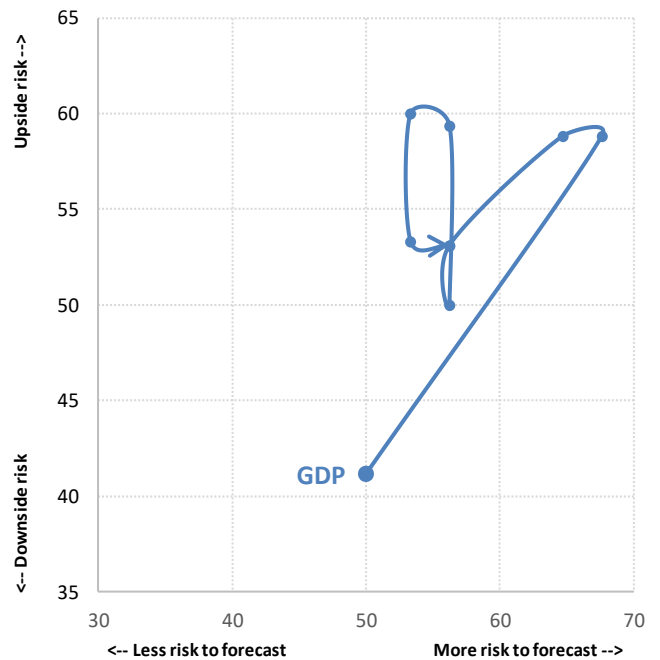
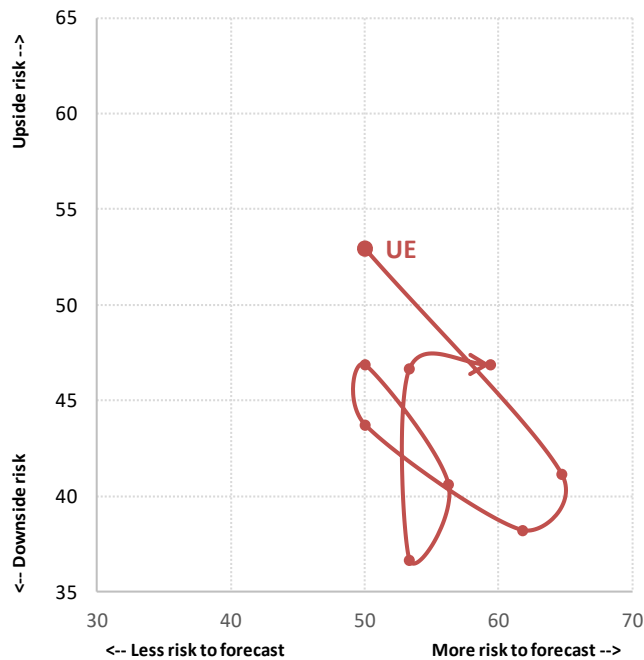
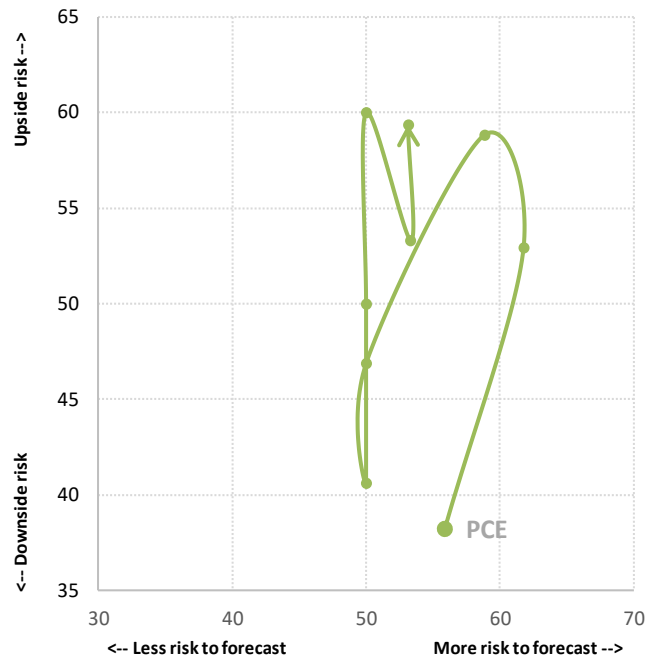
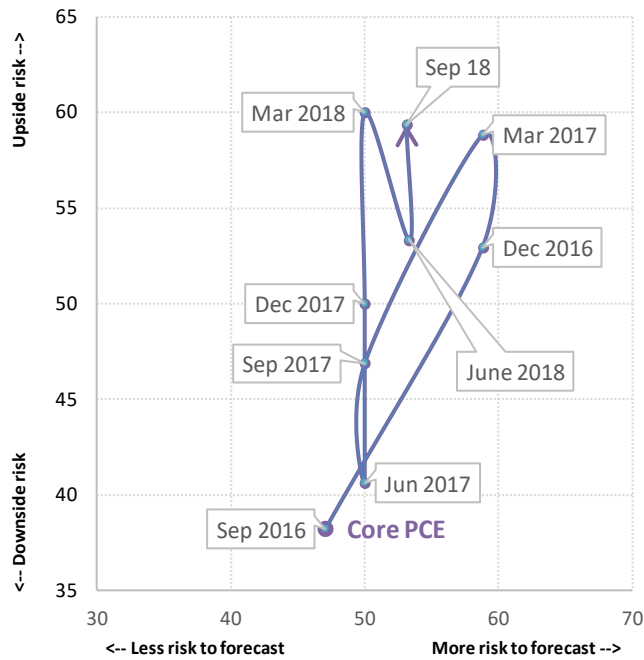
### Real GDP



Source: Federal Reserve, BEA, BLS, TrendMacro calculations

# The evolution of uncertainty

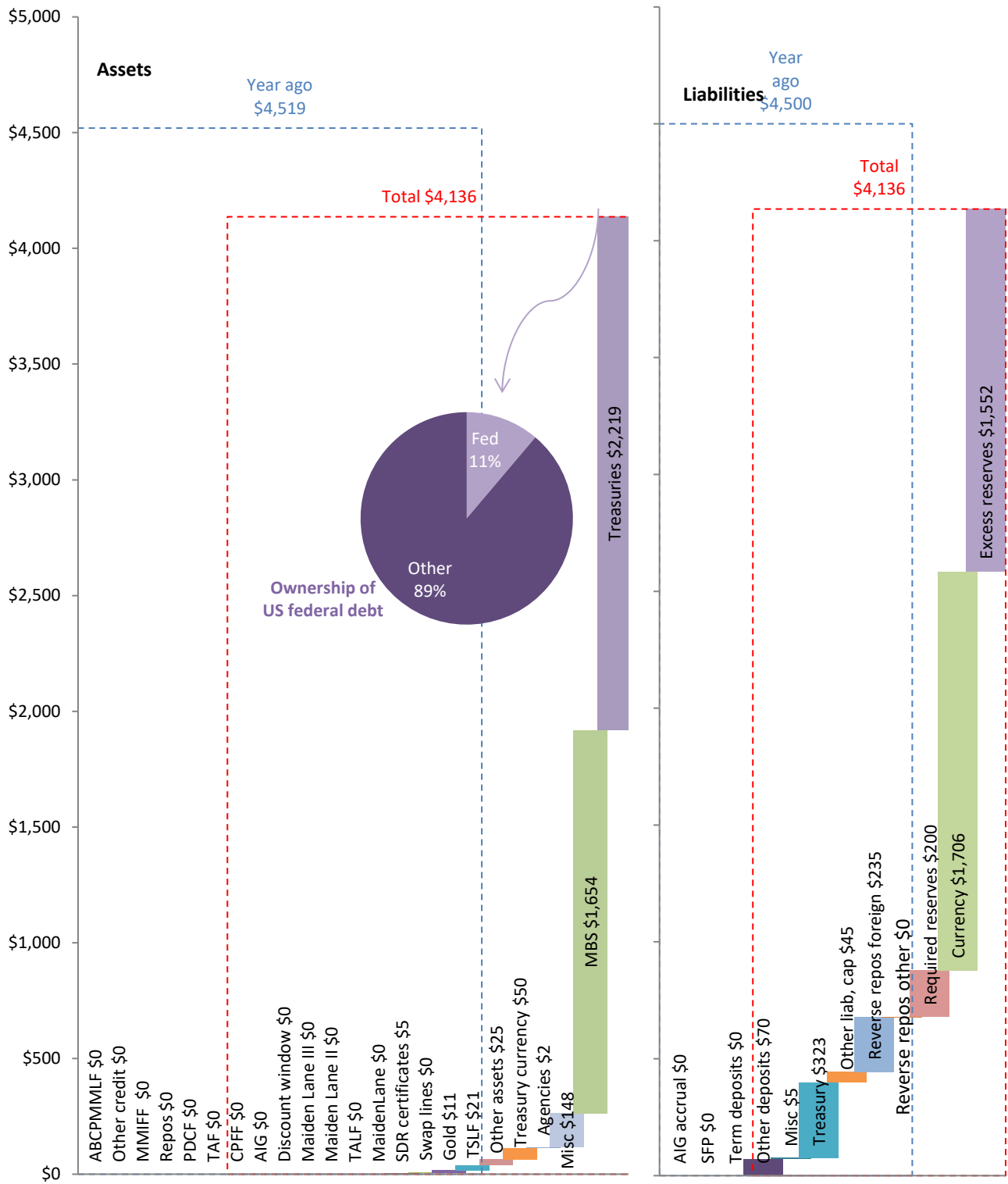
Diffusion indices from FOMC participants' risk self-assessments in [Summary of Economic Projections](#)  
 As of September 2018. Updated three weeks after June FOMC in Data Insights: FOMC Minutes



Source: Federal Reserve Board, 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

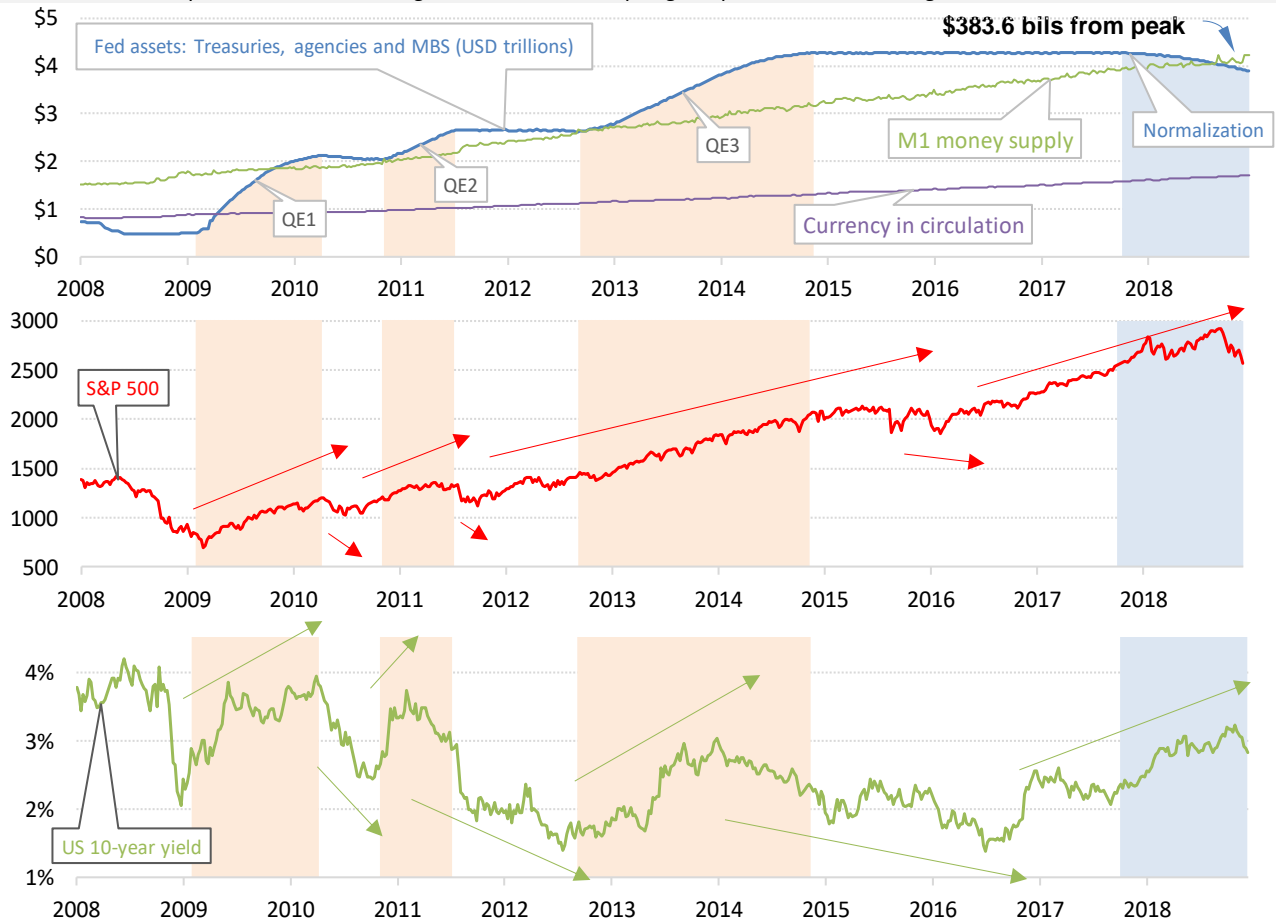


Source: Federal Reserve H.4, US Treasury, TrendMacro calculations



# The Fed's asset purchases, and their effects on markets

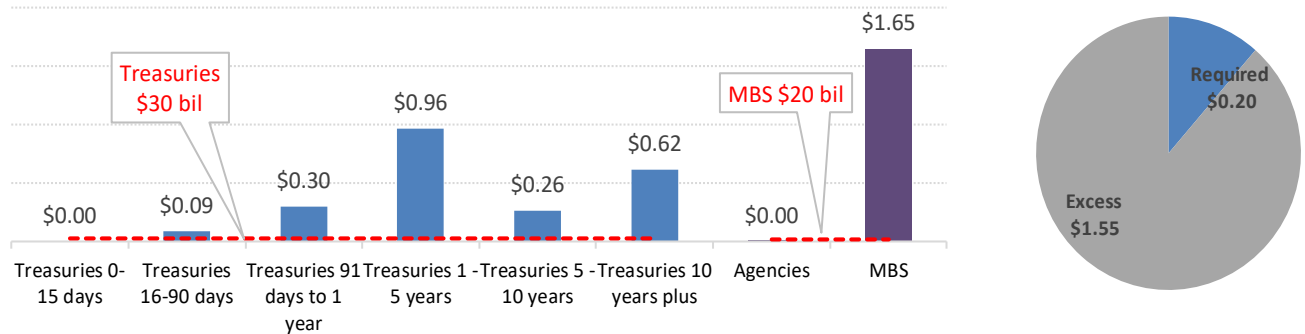
Stocks and bond yields react to changes in Fed Treasury, agency and MBS holdings



## Sector and maturity breakdown of Fed assets, USD trillions

## Banking reserves, USD trillions

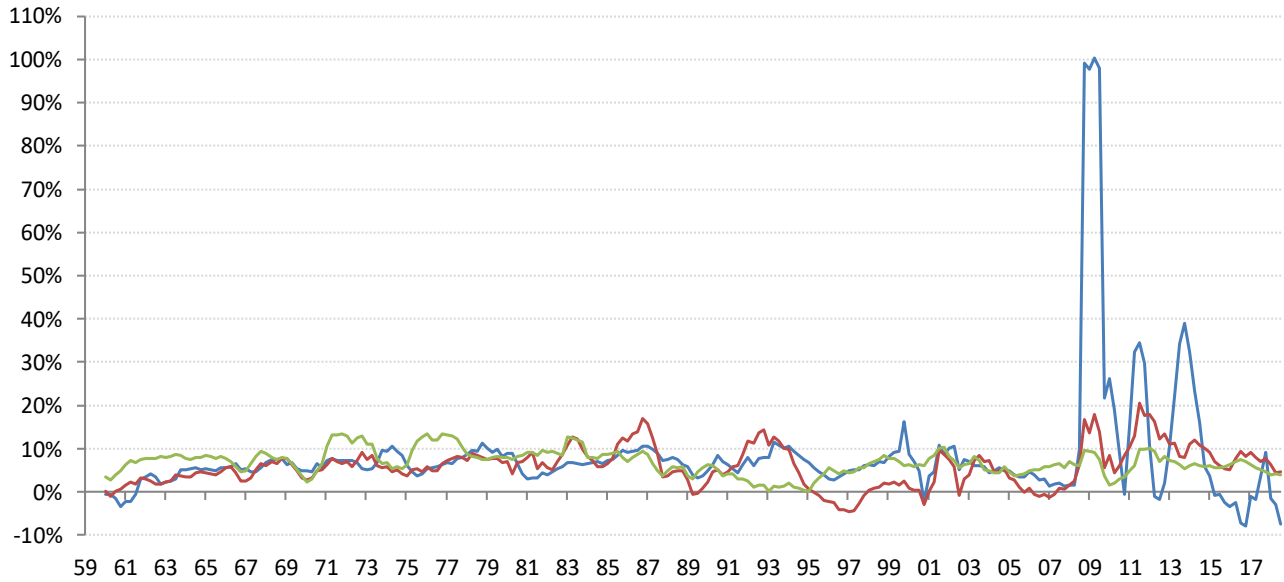
--- Monthly cap on un-reinvested maturities, max effective after 10/31/18



Source: Federal Reserve, Bloomberg, TrendMacro calculations

## Money supply growth, YOY quarterly

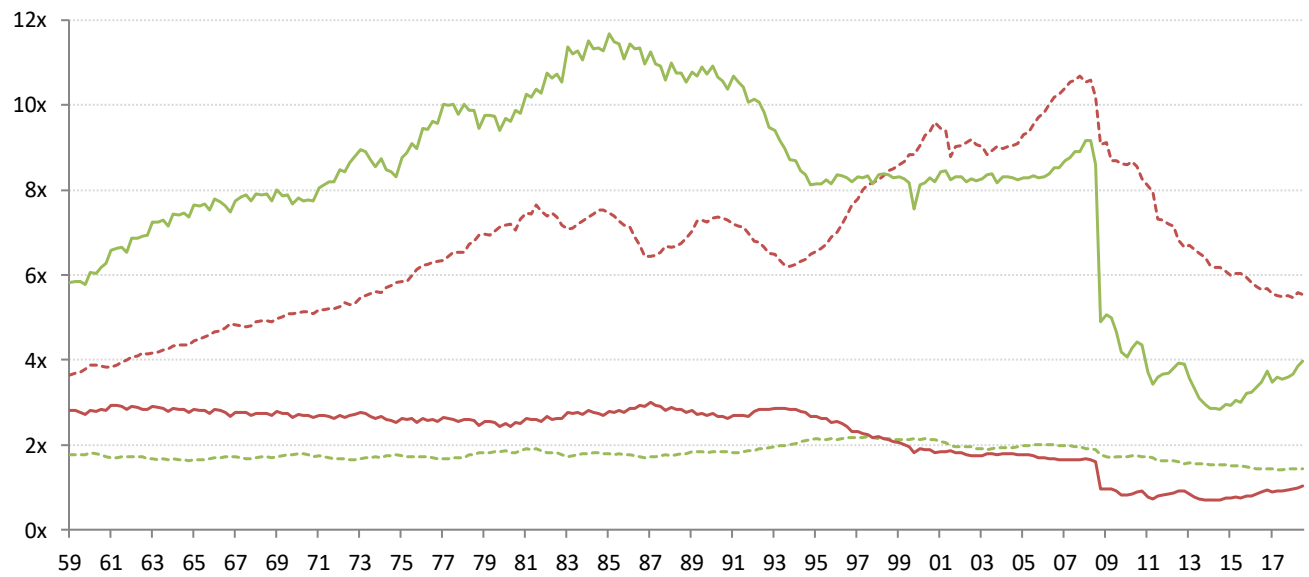
— M1 — M2 — Monetary base



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