

Data Insights: Federal Reserve

Wednesday, May 1, 2019

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

~~March 20~~[May 01](#), 2019

Federal Reserve issues FOMC statement

Information received since the Federal Open Market Committee met in ~~January~~[March](#) indicates that the labor market remains strong ~~but~~[and](#) that ~~growth of~~ economic activity ~~has slowed from its~~[rose at a solid rate](#) ~~in the fourth quarter. Payroll employment was little changed in February, but job. Job~~ gains have been solid, on average, in recent months, and the unemployment rate has remained low. ~~Recent indicators point to slower growth~~[Growth](#) of household spending and business fixed investment ~~slowed~~ in the first quarter. On a 12-month basis, overall inflation ~~has declined, largely as a result of lower energy prices; and~~ inflation for items other than food and energy ~~remains near~~[have declined and are running below](#) 2 percent. On balance, market-based measures of inflation compensation have remained low in recent months, and survey-based measures of longer-term inflation expectations are little changed.

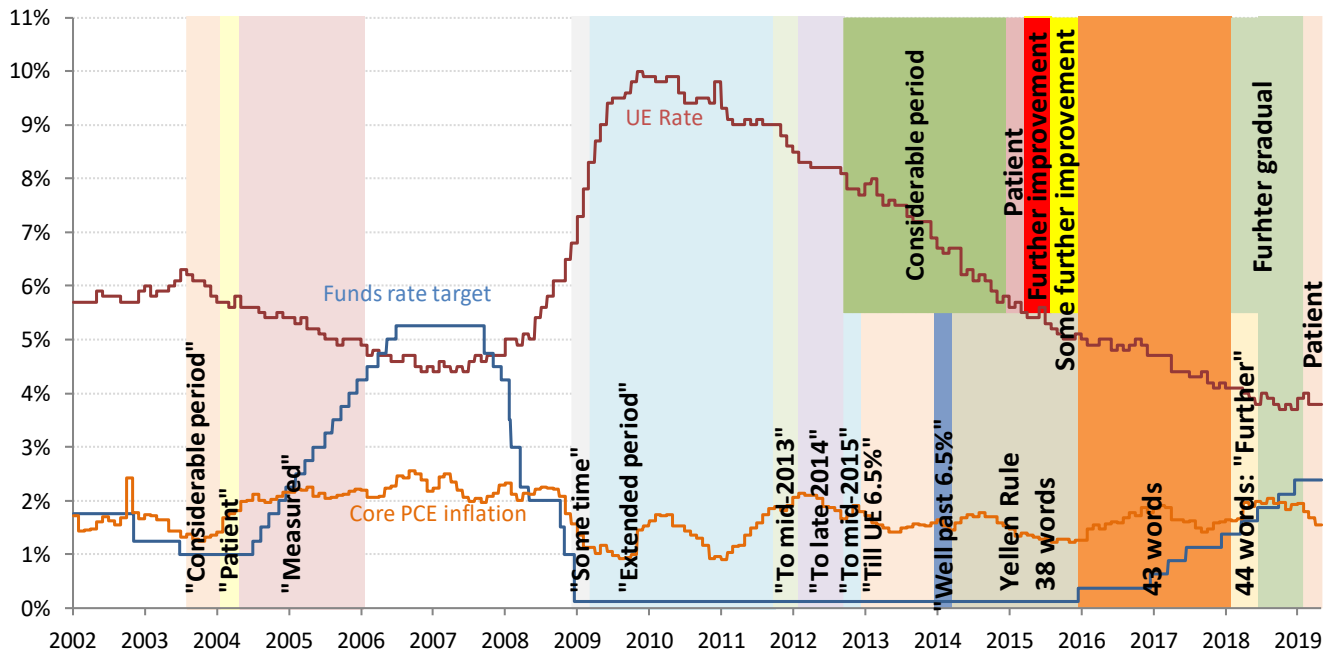
Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In support of these goals, the Committee decided to maintain the target range for the federal funds rate at 2-1/4 to 2-1/2 percent. The Committee continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective as the most likely outcomes. In light of global economic and financial developments and muted inflation pressures, the Committee will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate to support these outcomes.

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~~[Chair](#); John C. Williams, Vice ~~Chairman~~[Chair](#); Michelle W. Bowman; Lael Brainard; James Bullard; Richard H. Clarida; Charles L. Evans; Esther L. George; Randal K. Quarles; and Eric S. Rosengren.

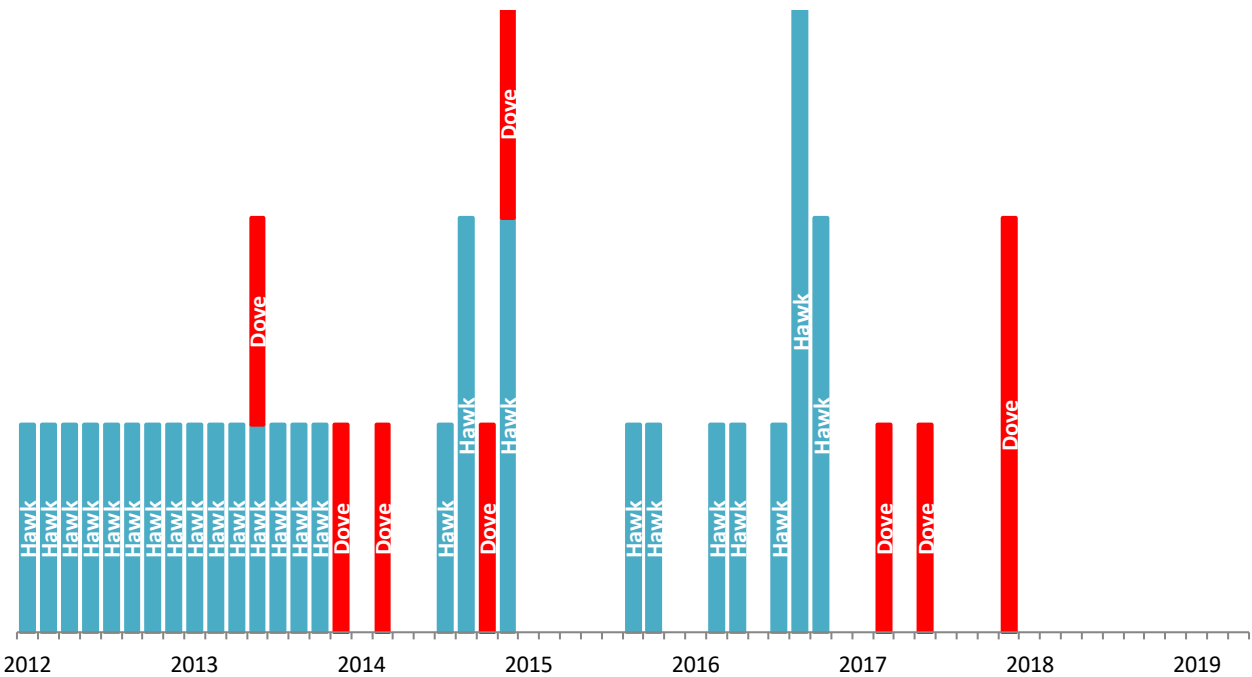
Source: FOMC, TrendMacro analysis

Fedspeak regime change: the evolution of forward guidance



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

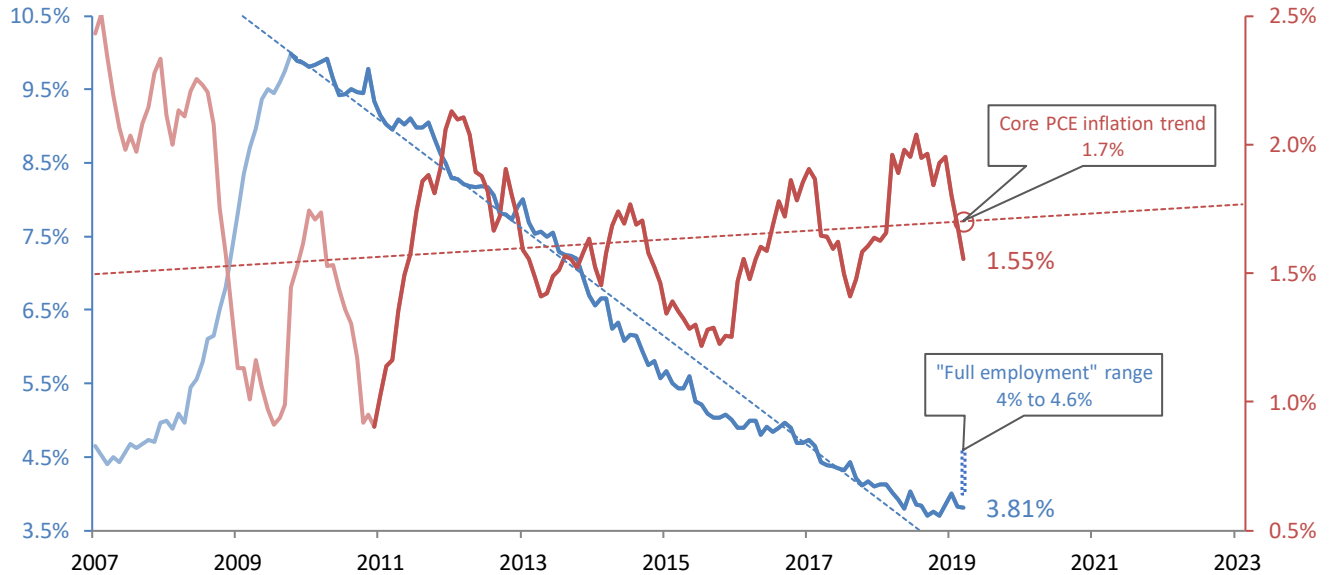
Other voices: number and direction of FOMC decision dissents



Source: FOMC, TrendMacro calculations

The dual mandate: garbage in, garbage out

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

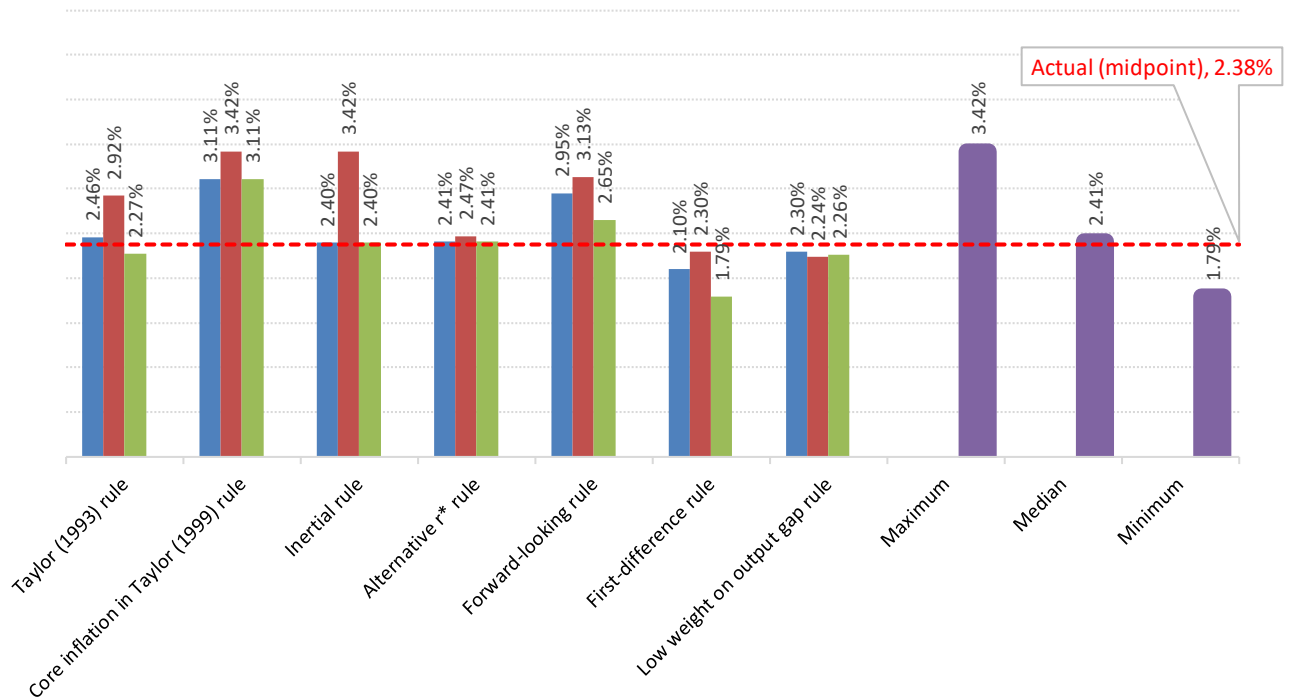


Source: BLS Current Population Survey, TrendMacro calculations

So many policy rules, so little time...

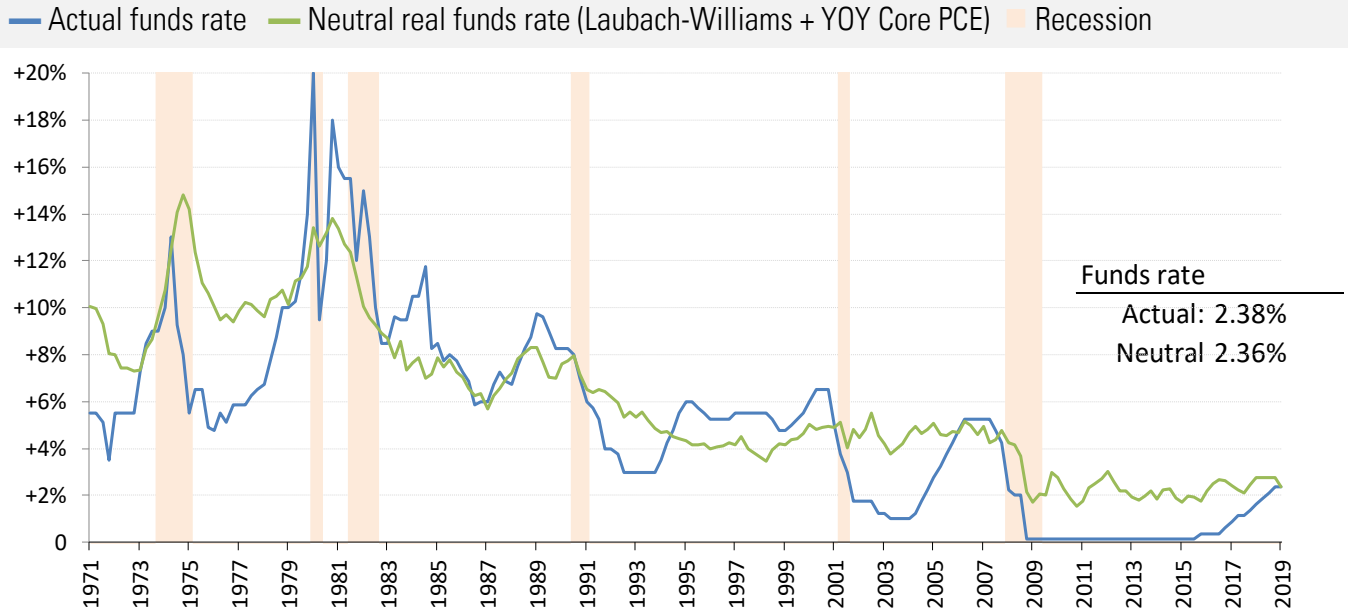
As of March 22, 2019 Based on inputs from:

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



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

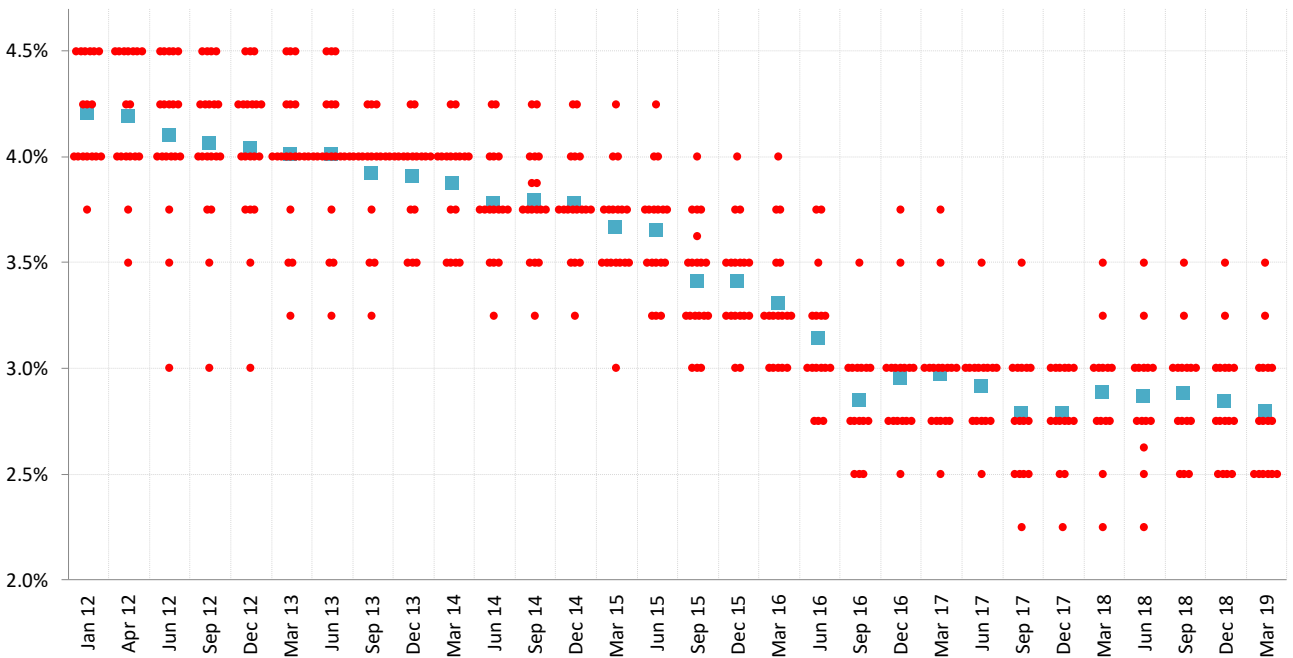
Estimating the "natural rate of interest"



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

"R-star" – the ultimate "dotplot" As of March 20

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

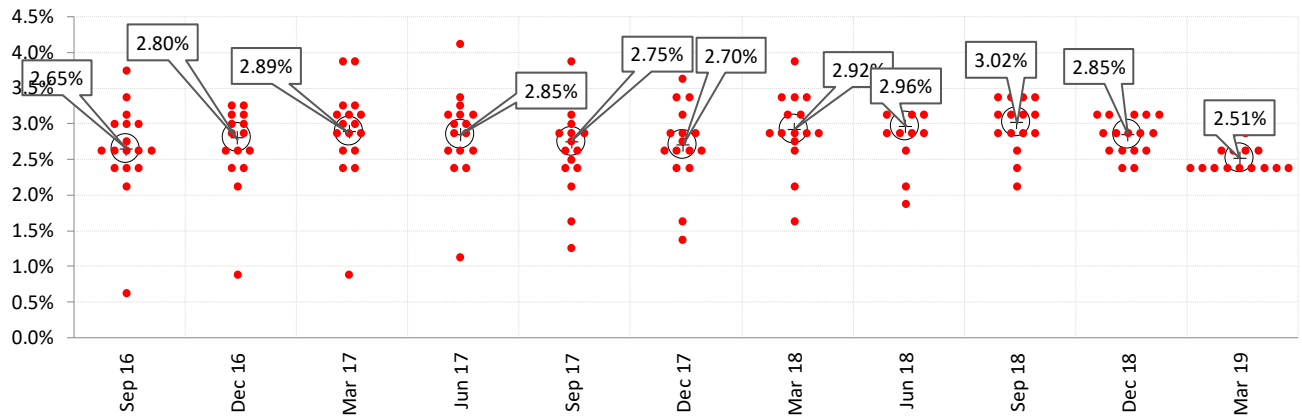


Source: Federal Reserve, TrendMacro calculations

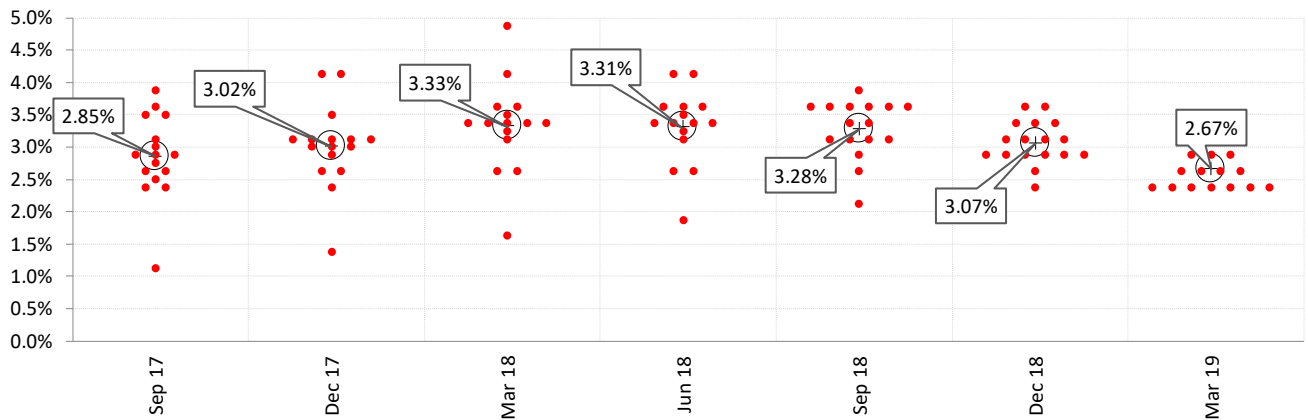
Tracking the "dotplots" year by year As of March 20

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

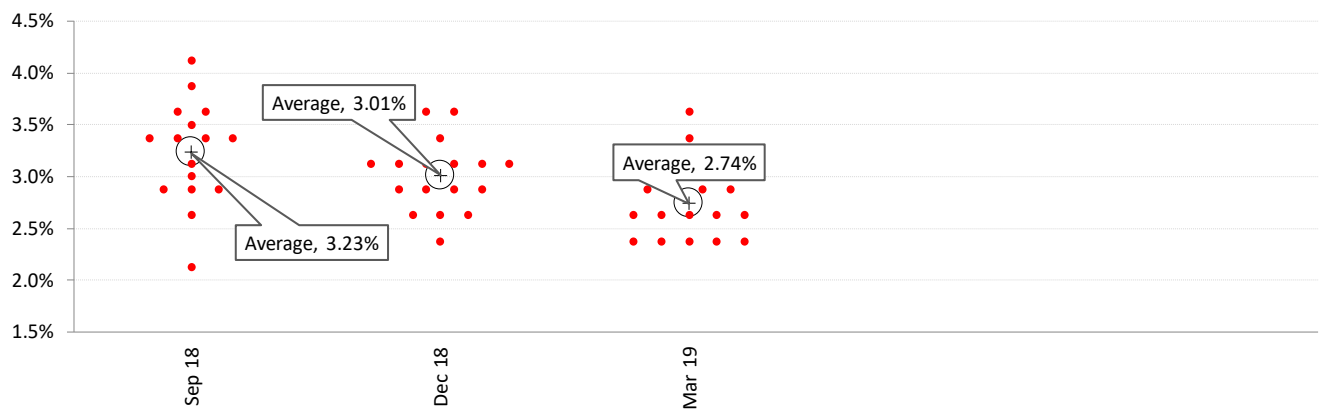
For year-end 2019



For year-end 2020



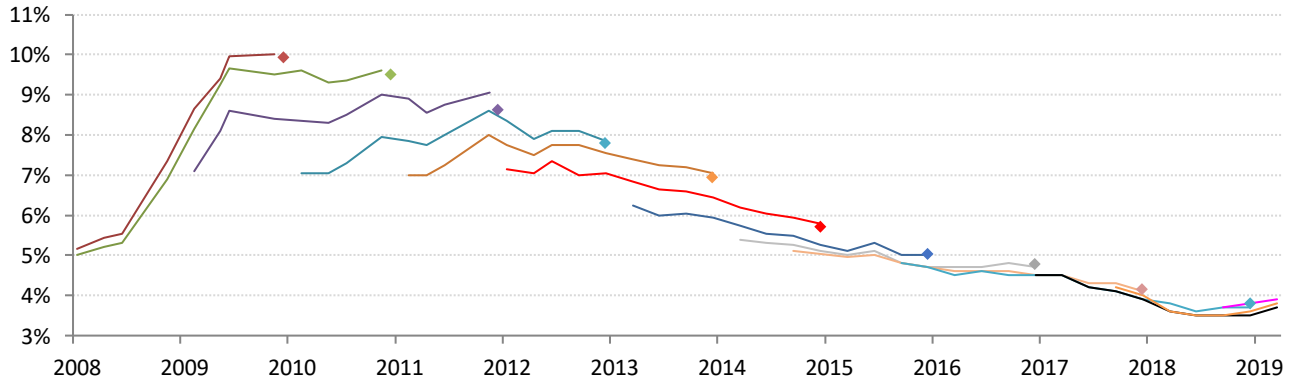
For year-end 2021



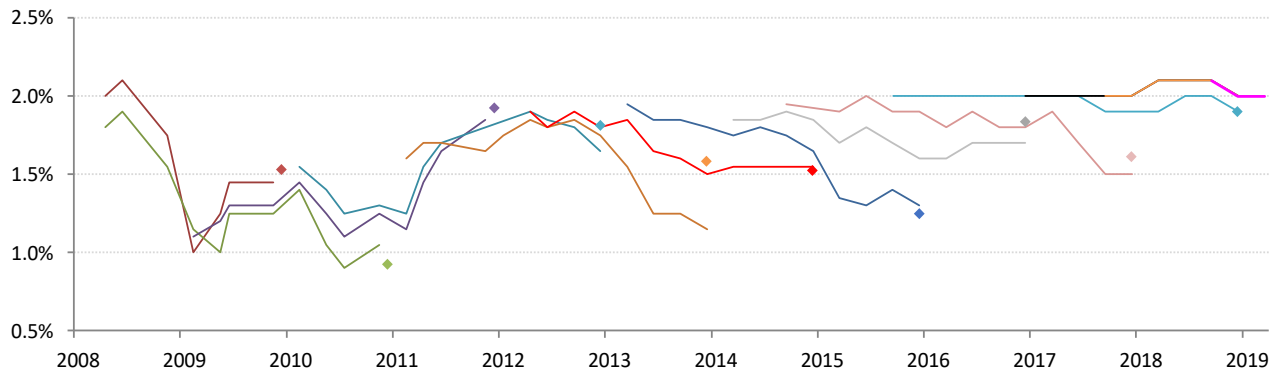
Forecast versus actual: [economic projections](#) of the FRB and presidents As of Mar 20

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

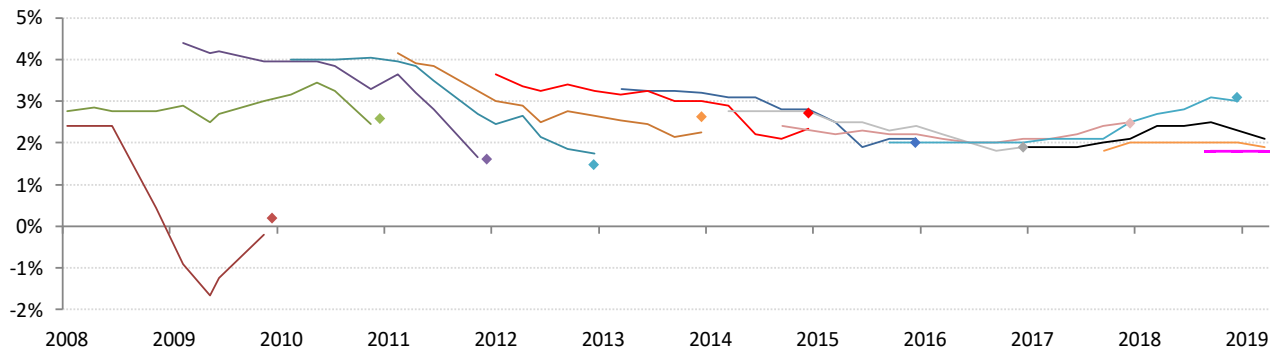
Unemployment



Core PCE inflation



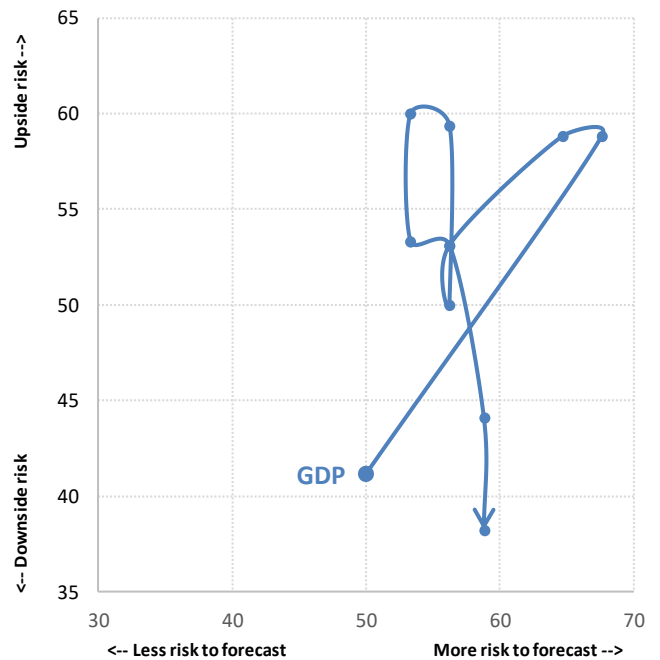
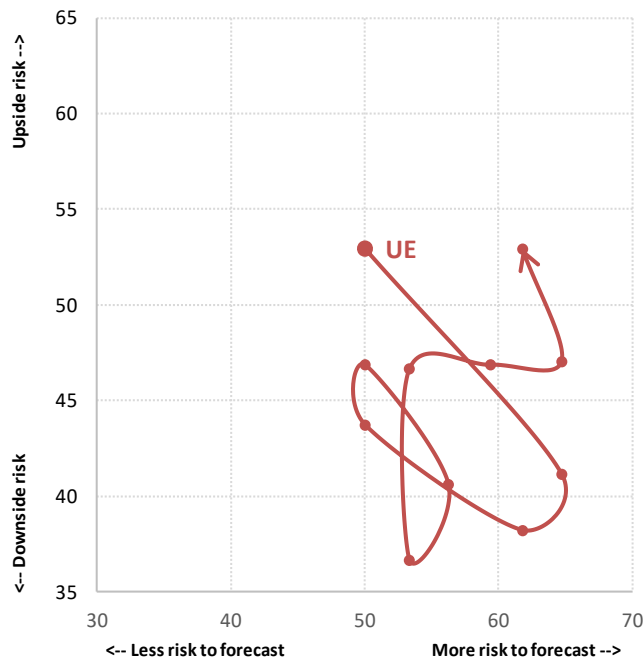
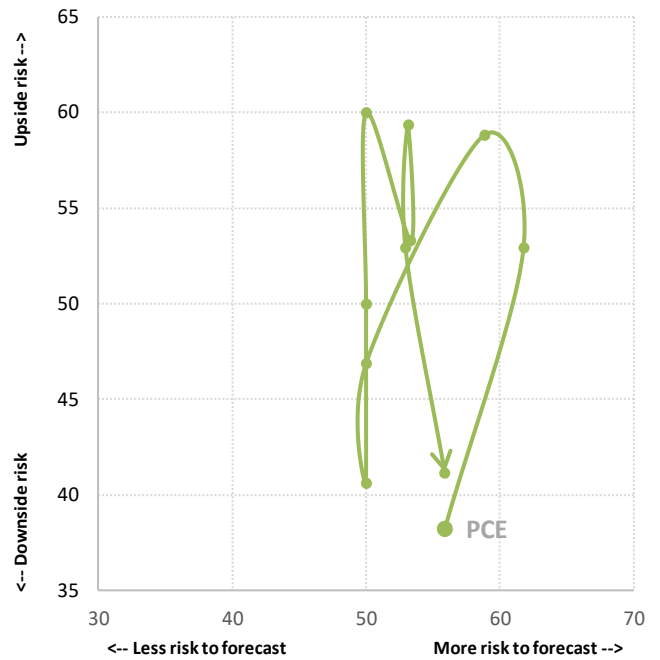
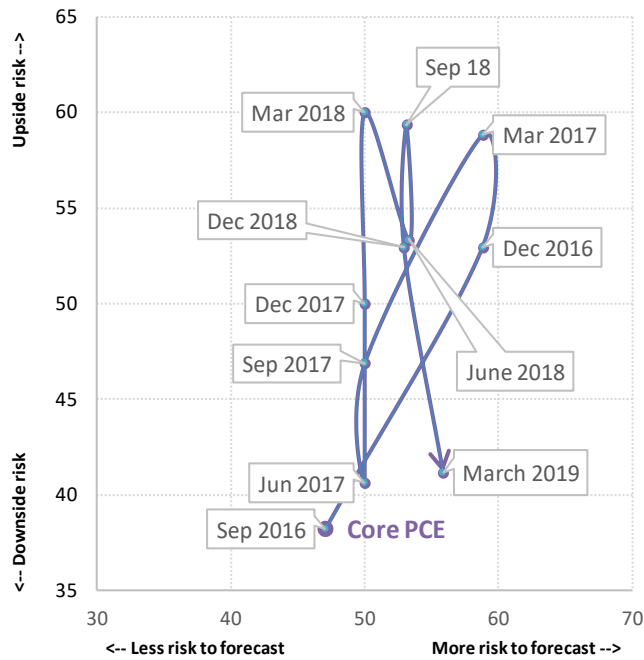
Real GDP



Source: Federal Reserve, BEA, BLS, TrendMacro calculations

The evolution of uncertainty

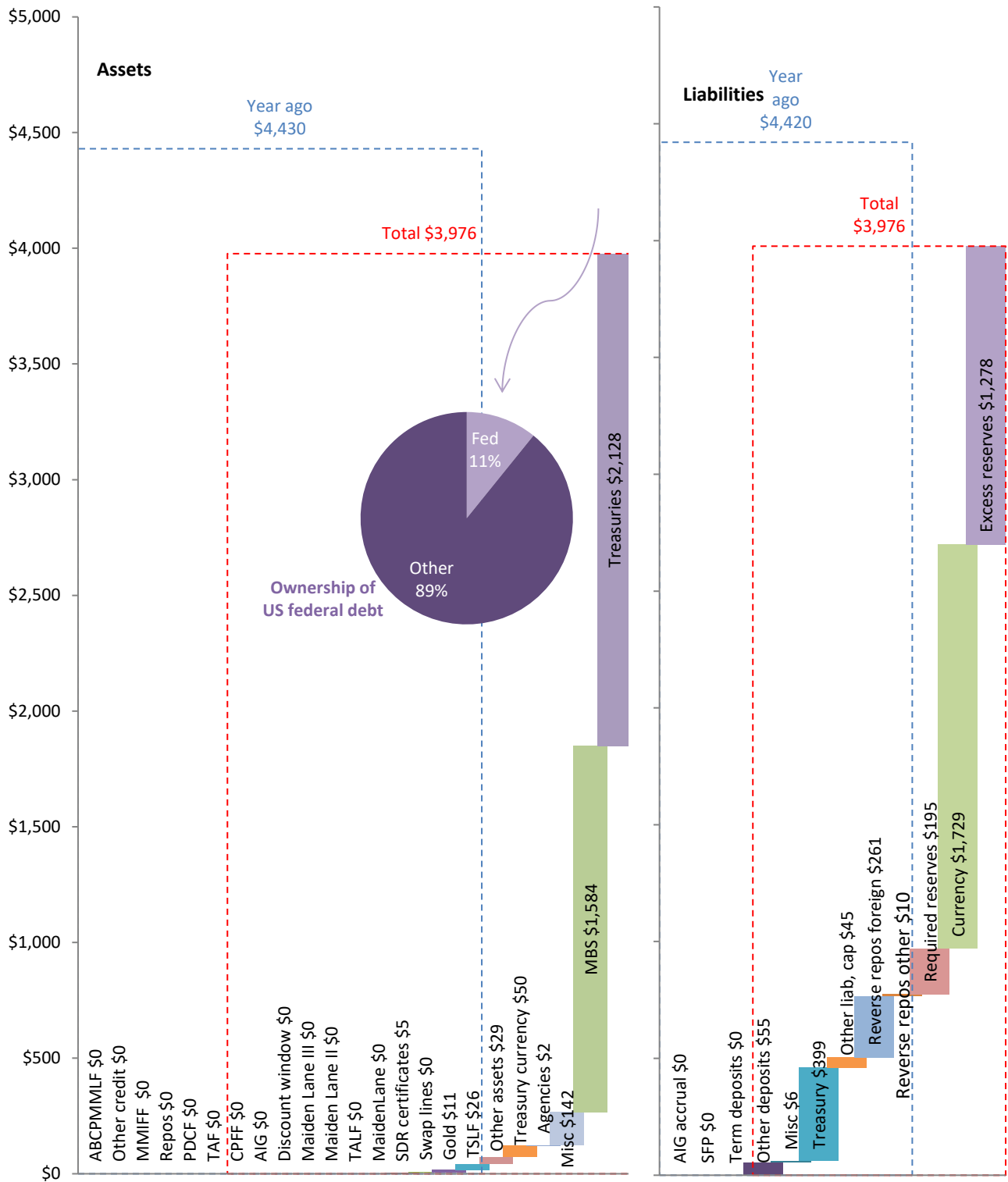
Diffusion indices from FOMC participants' risk self-assessments in [Summary of Economic Projections](#)
 As of March 20. Updated three weeks after March FOMC in Data Insights: FOMC Minutes



Source: Federal Reserve Board, TrendMacro calculations

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

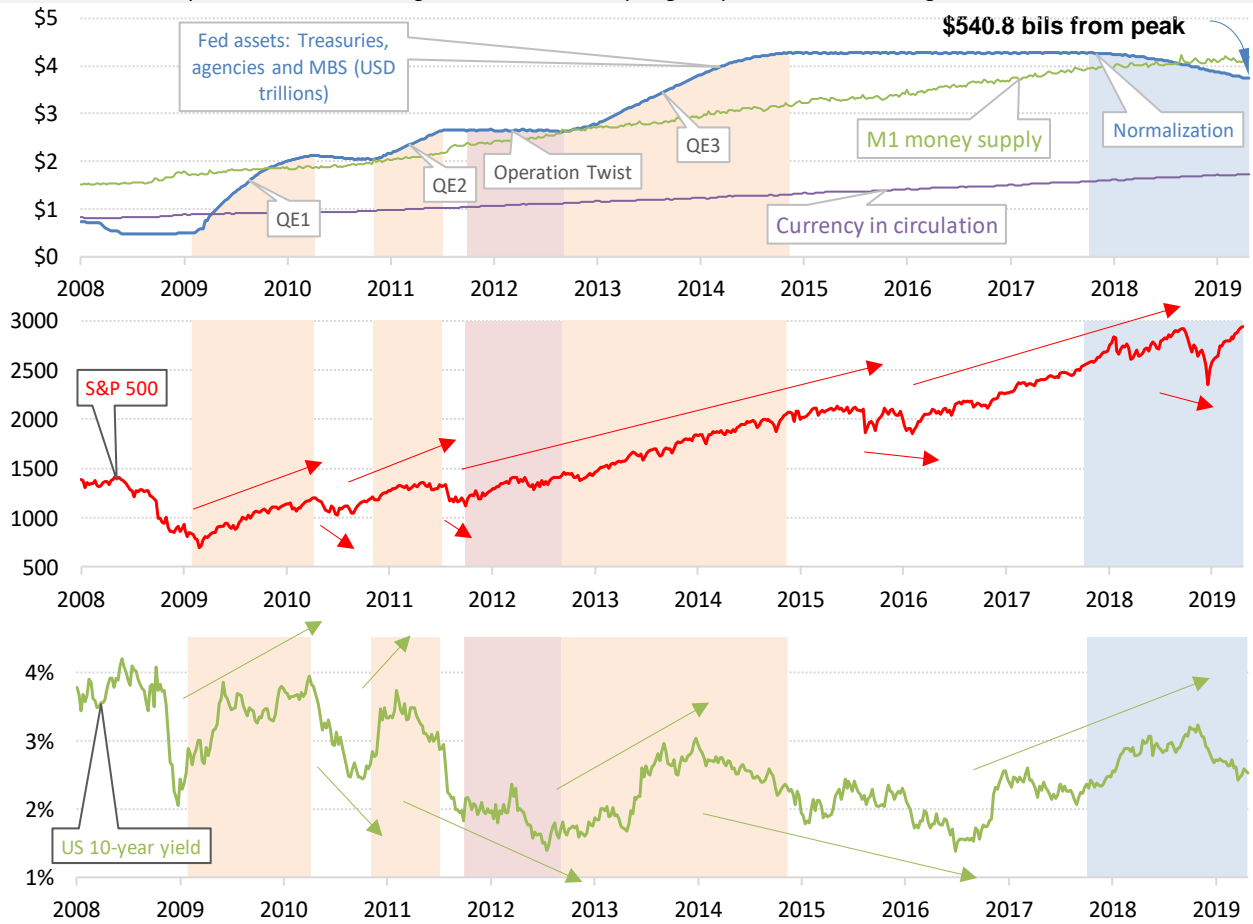
Assets do not perfectly match liabilities because we include unsettled MBS purchases and sales



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

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

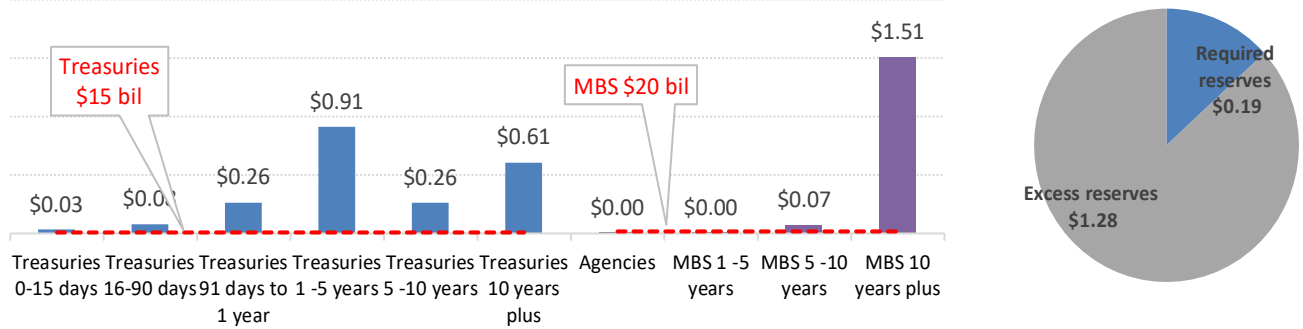
Stocks and bond yields react to changes in Fed Treasury, agency and MBS holdings



Sector and maturity breakdown of Fed assets, USD trillions

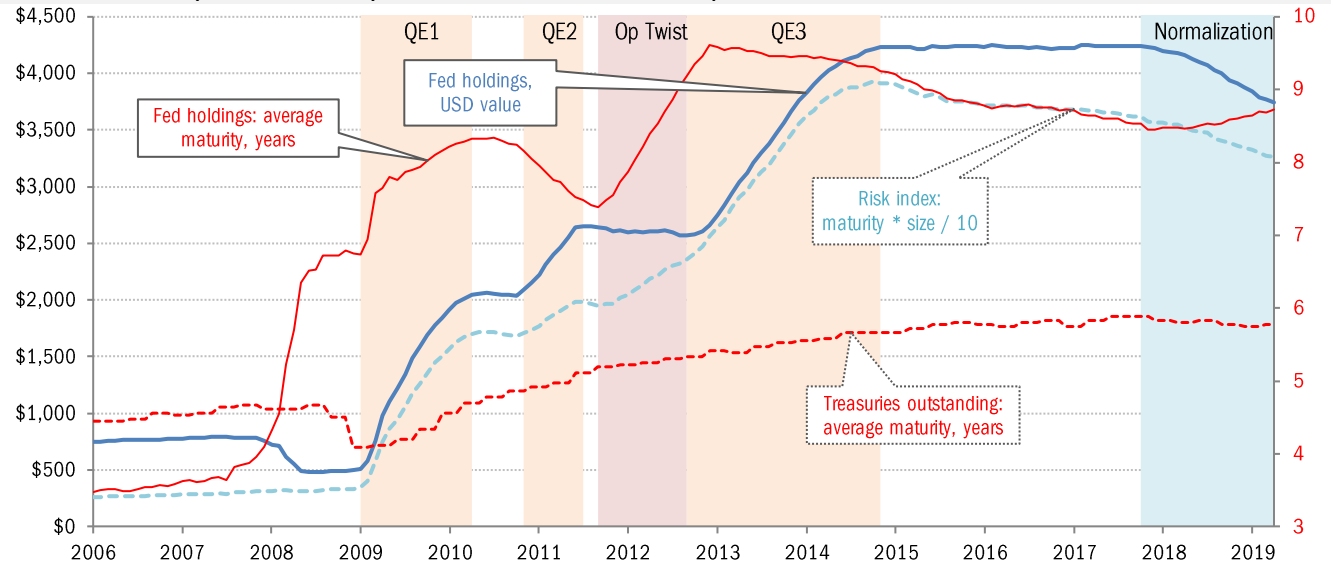
--- Monthly cap on un-reinvested maturities, max effective after 10/31/18

Banking reserves, USD trillions



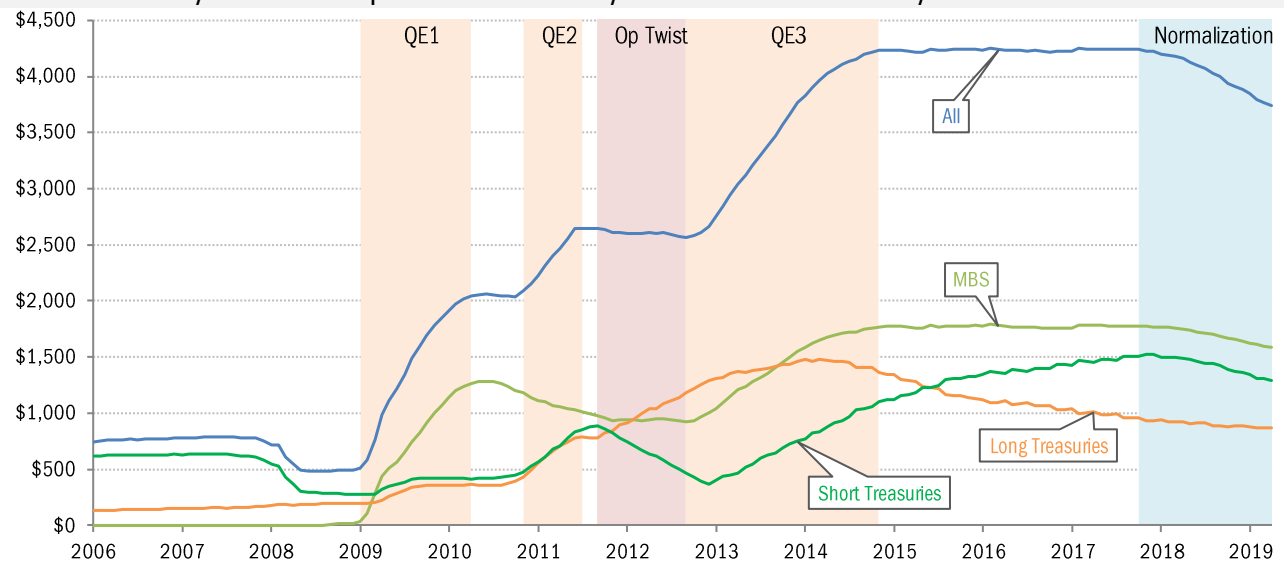
Source: Federal Reserve, Bloomberg, TrendMacro calculations

Fed Treasury and MBS portfolio: size, maturity and risk index



Source: Federal Reserve, Bloomberg, TrendMacro calculations

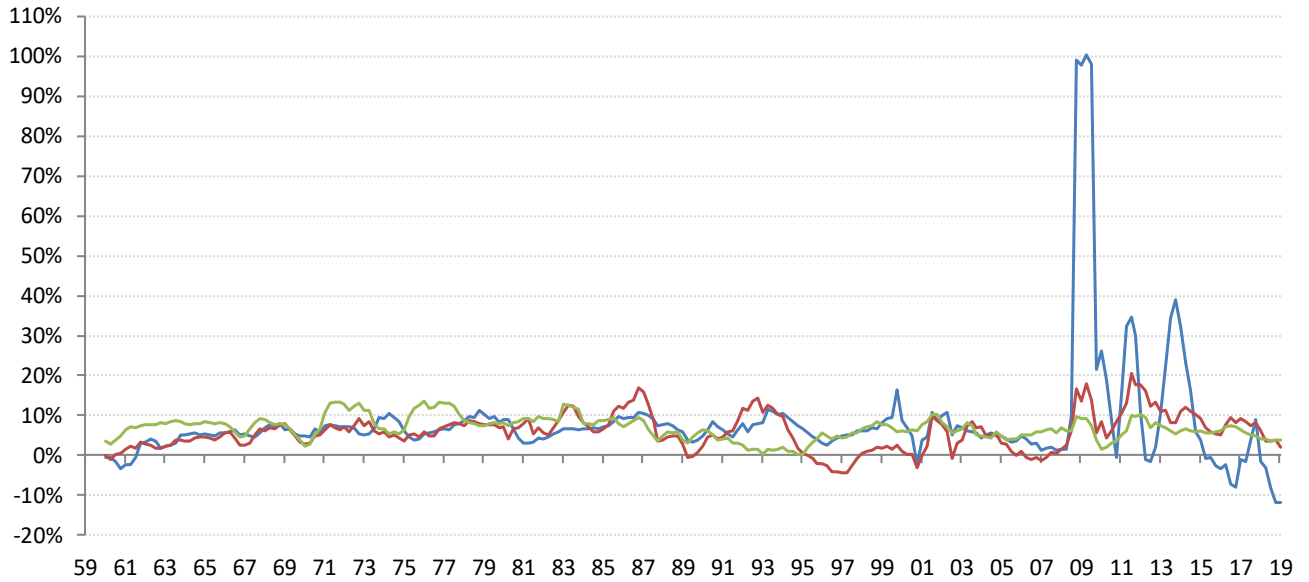
Fed Treasury and MBS portfolio: size by sector and maturity



Source: Federal Reserve, Bloomberg, TrendMacro calculations

Money supply growth, YOY quarterly

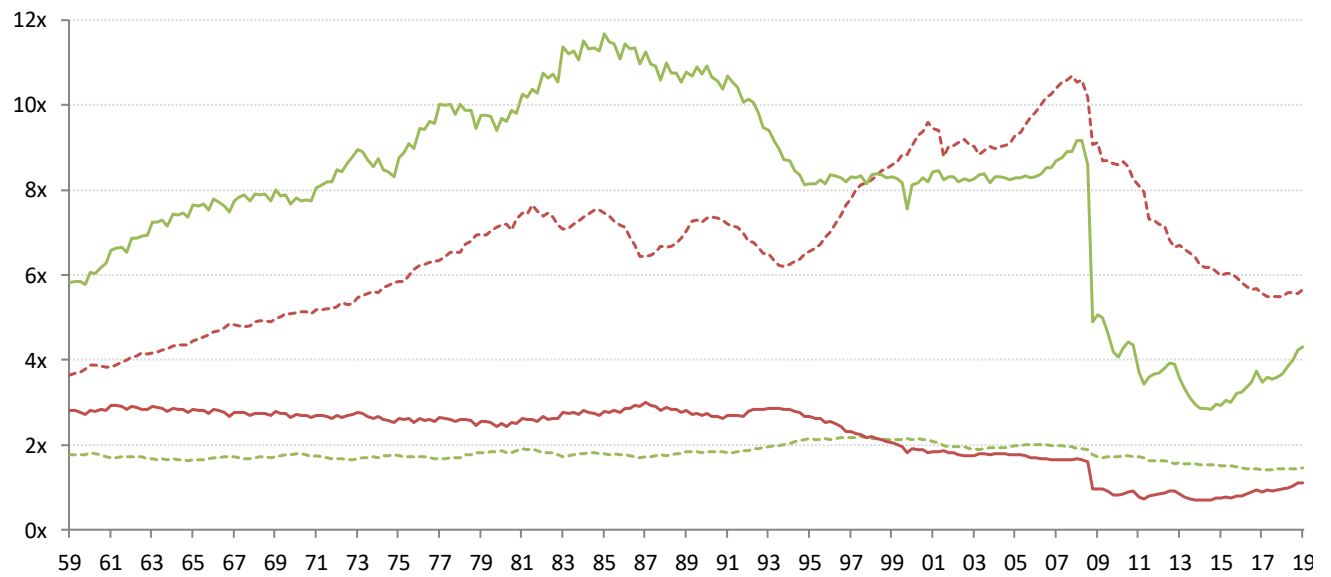
— M1 — M2 — Monetary base



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