
Data Insights: Federal Reserve

Wednesday, March 19, 2014

Today's FOMC statement: how the language changed from prior meetingRelease Date: ~~January 29~~March 19, 2014**For immediate release**

Information received since the Federal Open Market Committee met in ~~December~~January indicates that growth in economic activity ~~picked up~~slowed during the winter months, in ~~recent quarters~~part reflecting adverse weather conditions. Labor market indicators were mixed but on balance showed further improvement. The unemployment rate ~~declined but, however,~~ remains elevated. Household spending and business fixed investment ~~advanced more quickly in recent months~~continued to advance, while the recovery in the housing sector ~~slowed somewhat~~remained slow. Fiscal policy is restraining economic growth, although the extent of restraint is diminishing. Inflation has been running below the Committee's longer-run objective, but 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 and ~~the unemployment rate~~labor market conditions will continue to improve gradually ~~decline, moving~~ toward ~~levels~~those the Committee judges consistent with its dual mandate. The Committee sees the risks to the outlook for the economy and the labor market as ~~having become more~~ nearly balanced. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, and it is monitoring inflation developments carefully for evidence that inflation will move back toward its objective over the medium term.

~~Taking into account the extent of federal fiscal retrenchment since the inception of its current asset purchase program, the~~The Committee ~~continues to see the improvement in economic activity and labor market conditions over~~currently judges that ~~period as consistent with growing~~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 ~~February~~April, the Committee will add to its holdings of agency mortgage-backed securities at a pace of \$25 billion per month rather than \$30 billion per month ~~rather than \$35 billion per month~~, and will add to its holdings of longer-term Treasury securities at a pace of \$30 billion per month rather than \$35 billion per month ~~rather than \$40 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 of asset purchases in further measured steps at future meetings. 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 ~~will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. The Committee also reaffirmed its expectation that the current exceptionally low target range for the federal funds rate of 0 to 1/4 percent will be appropriate at least as long as the unemployment rate remains above 6 1/2 percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional~~ 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 ~~well past~~for a considerable time after the ~~time that the unemployment rate declines below 6 1/2 percent~~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.

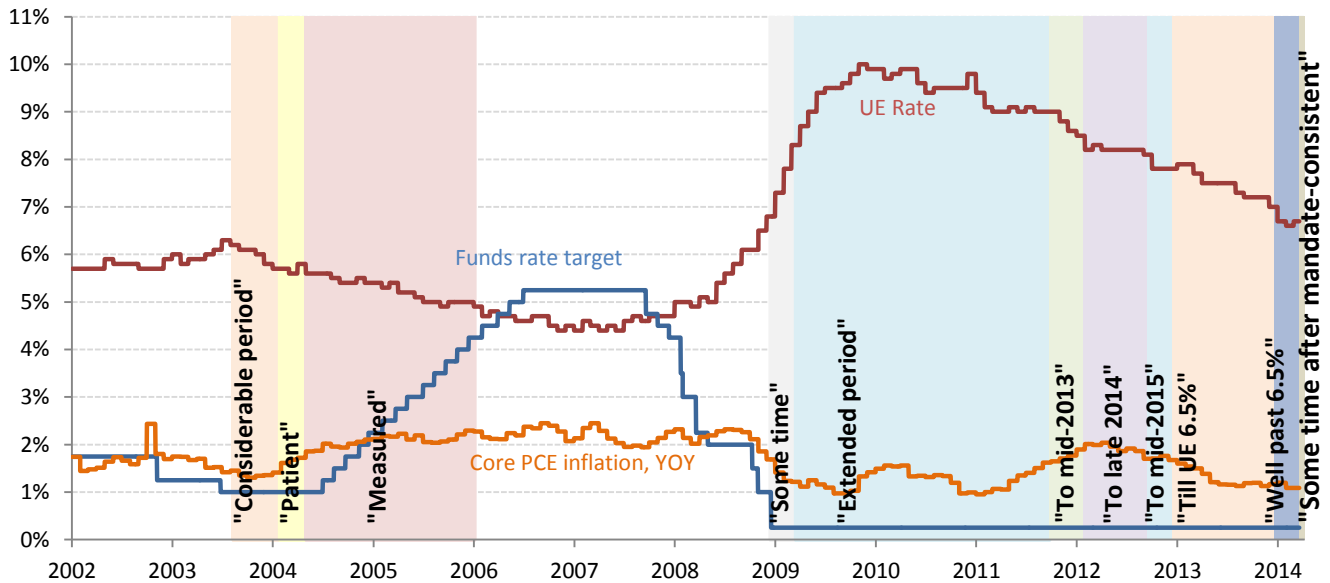
With the unemployment rate nearing 6-1/2 percent, the Committee has updated its forward guidance. The change in the Committee's guidance does not indicate any change in the Committee's policy intentions as set forth in its recent statements.

Voting for the FOMC monetary policy action were: [Ben S. Bernanke, Chairman](#), [Janet L. Yellen, Chair](#); William C. Dudley, Vice Chairman; Richard W. Fisher; [Narayana Kocherlakota](#); Sandra Pianalto; Charles I. Plosser; Jerome H. Powell; Jeremy C. Stein; [and Daniel K. Tarullo](#); [and Janet L. Yellen](#).

[Voting against the action was Narayana Kocherlakota, who supported the sixth paragraph, but believed the fifth paragraph weakens the credibility of the Committee's commitment to return inflation to the 2 percent target from below and fosters policy uncertainty that hinders economic activity.](#)

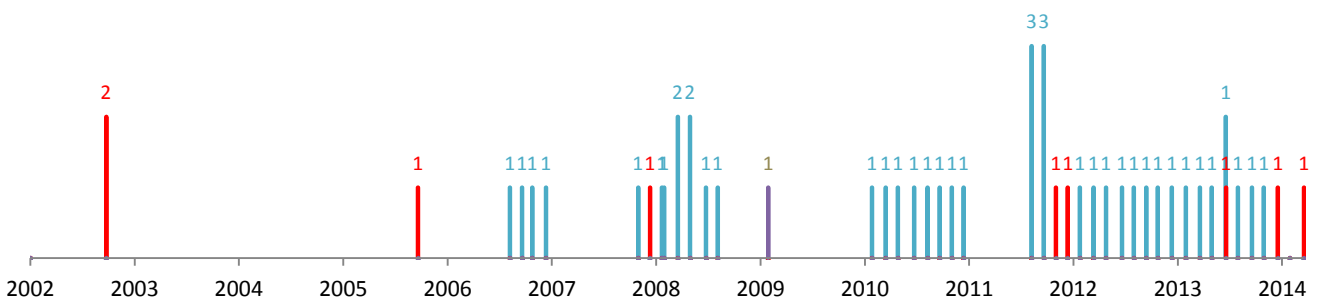
Source: FOMC, TrendMacro analysis

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

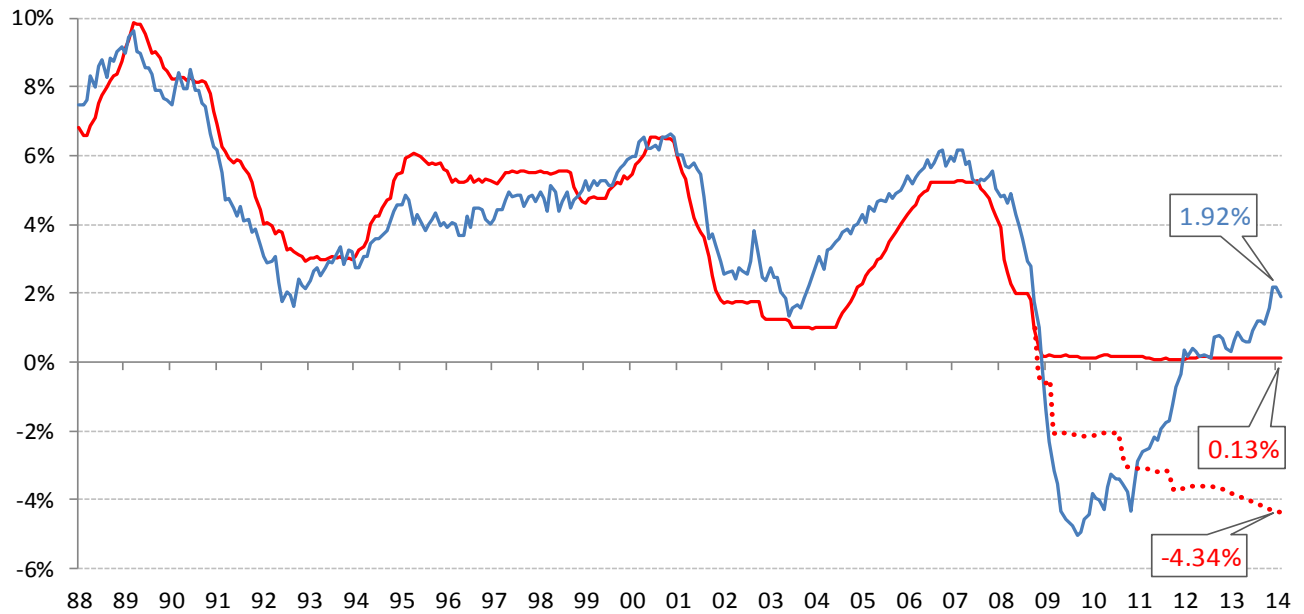


Source: FOMC, TrendMacro calculations

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

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

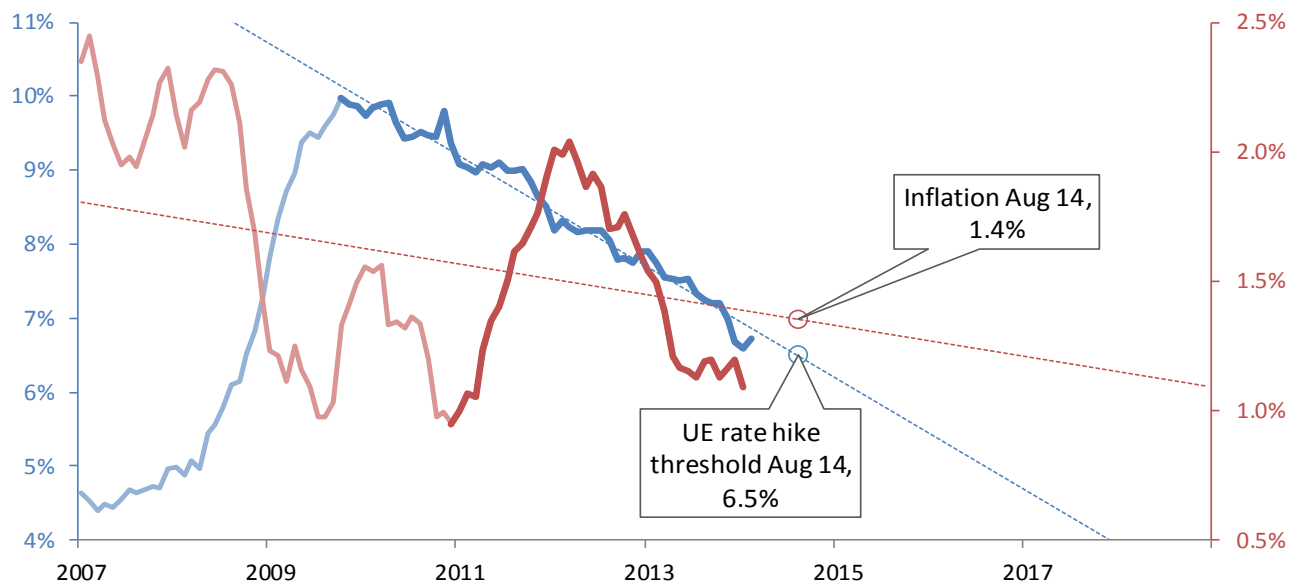
— Actual funds rate ···· Balance sheet-augmented funds rate



Source: BLS Current Population Survey, TrendMacro calculations

Yellen's [Evans Rule](#): When will the Fed start hiking rates?

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

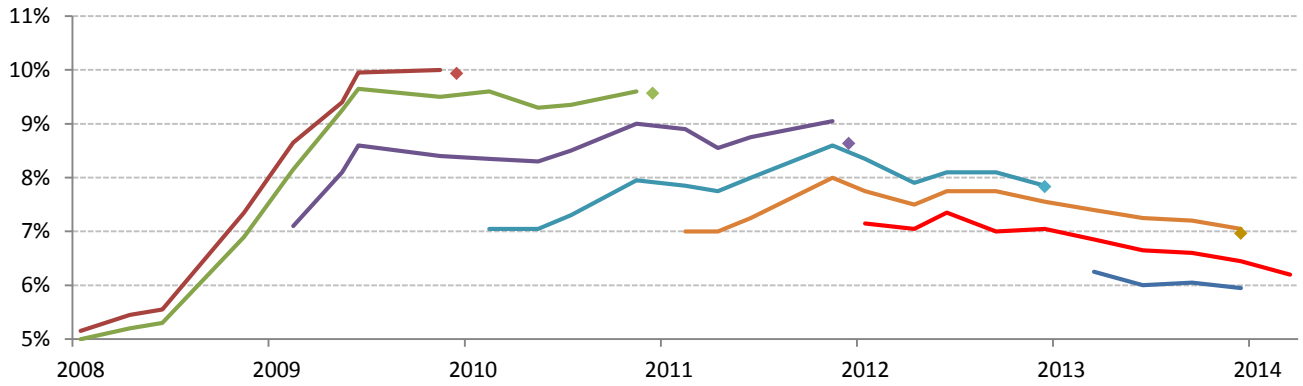


Source: BLS, BEA, TrendMacro calculations

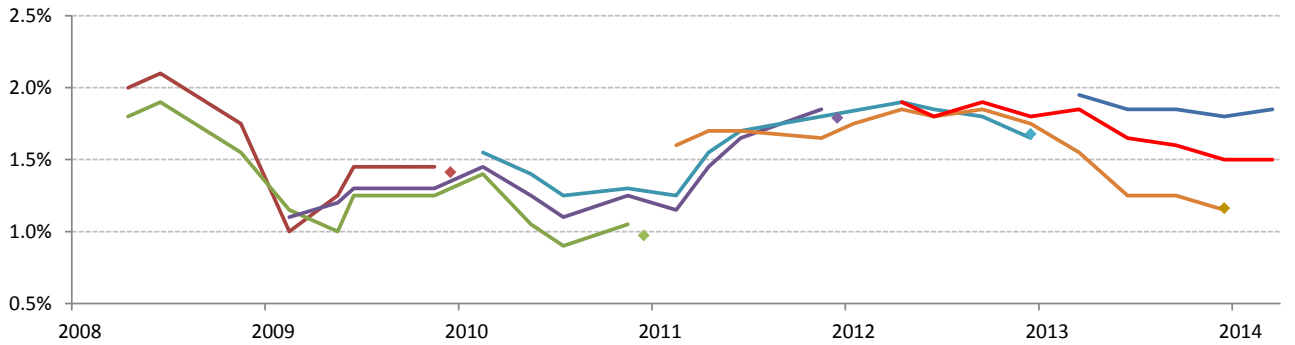
Forecast versus actual: economic projections of the FRB and the presidents

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

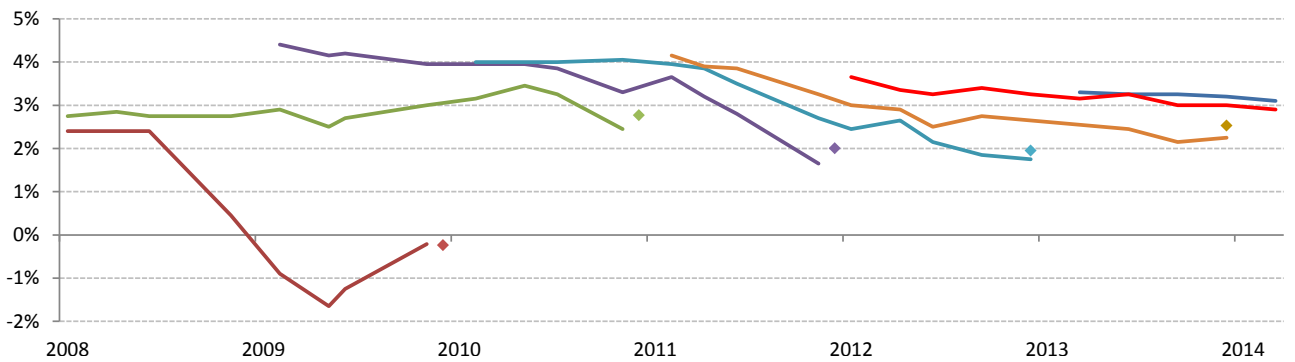
Unemployment



Core PCE inflation



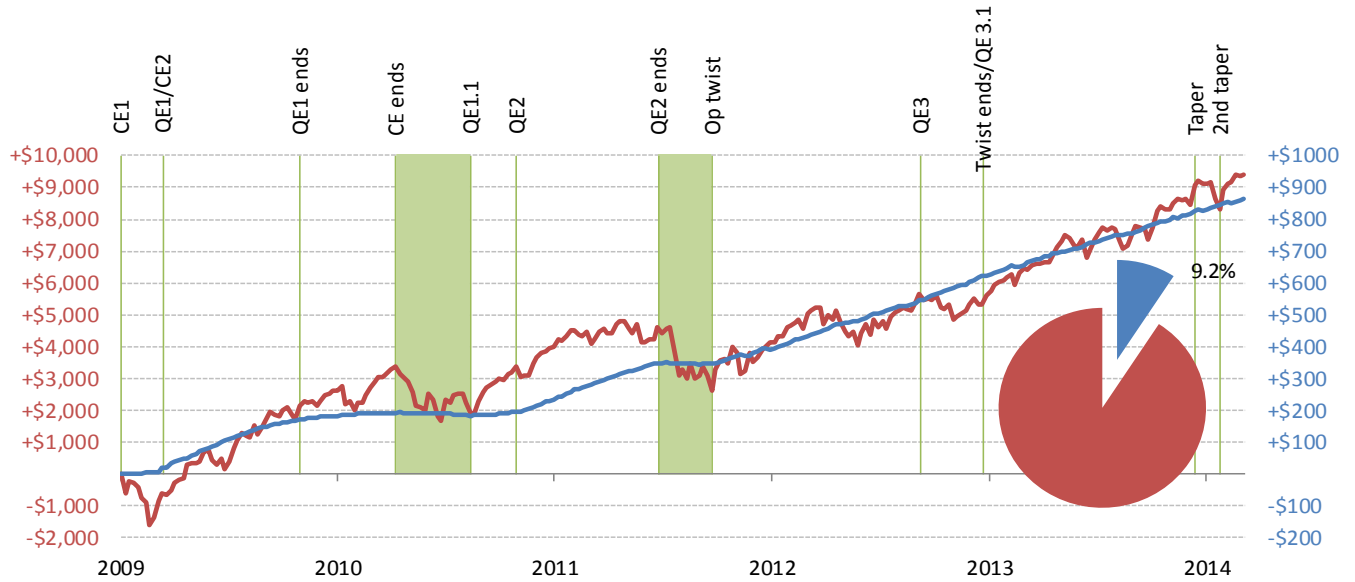
Real GDP



Source: Federal Reserve, BEA, BLS, TrendMacro calculations

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

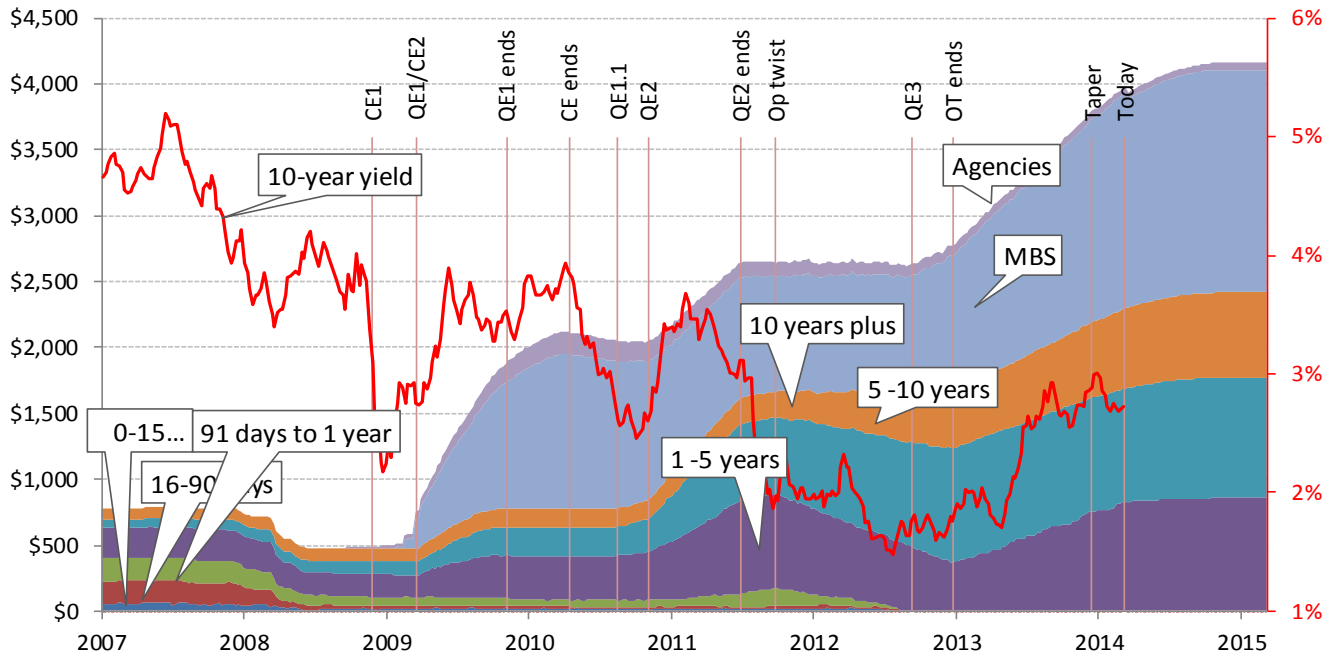
S&P 500 change from January 2009, USD billions — Market cap — Fed balance sheet risk equivalent



Source: Bloomberg, TrendMacro calculations

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

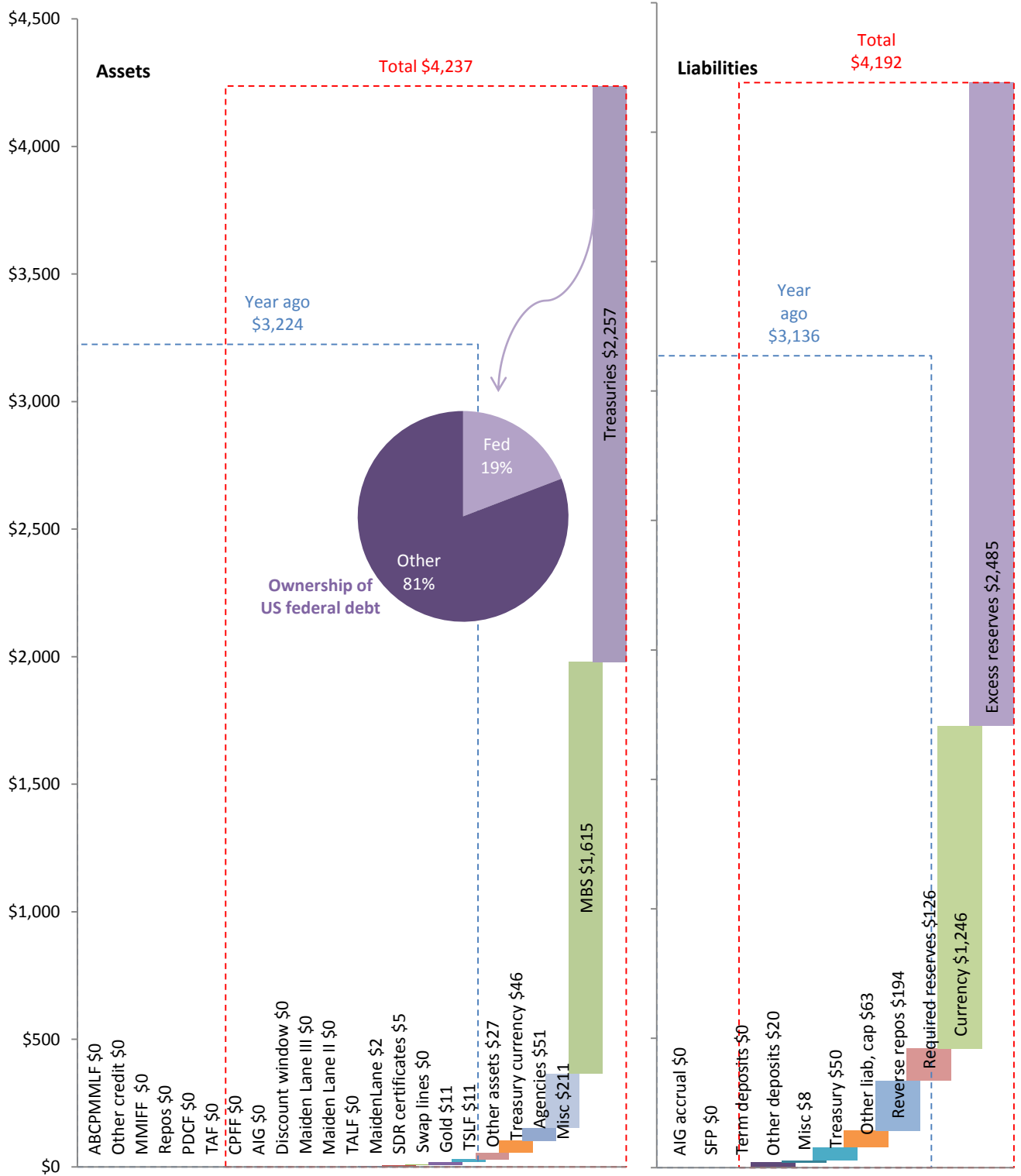
Projected at current run-rates



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

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

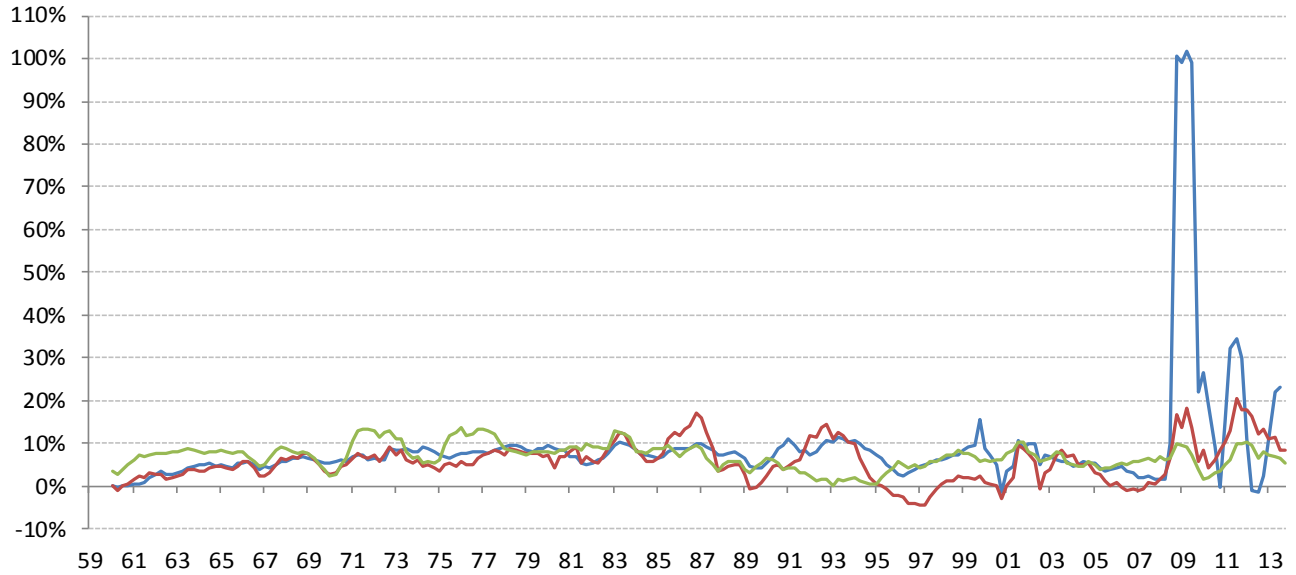
Assets do not perfectly match liabilities because we include unsettled MBS purchases and sales



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

Money supply growth, YOY quarterly

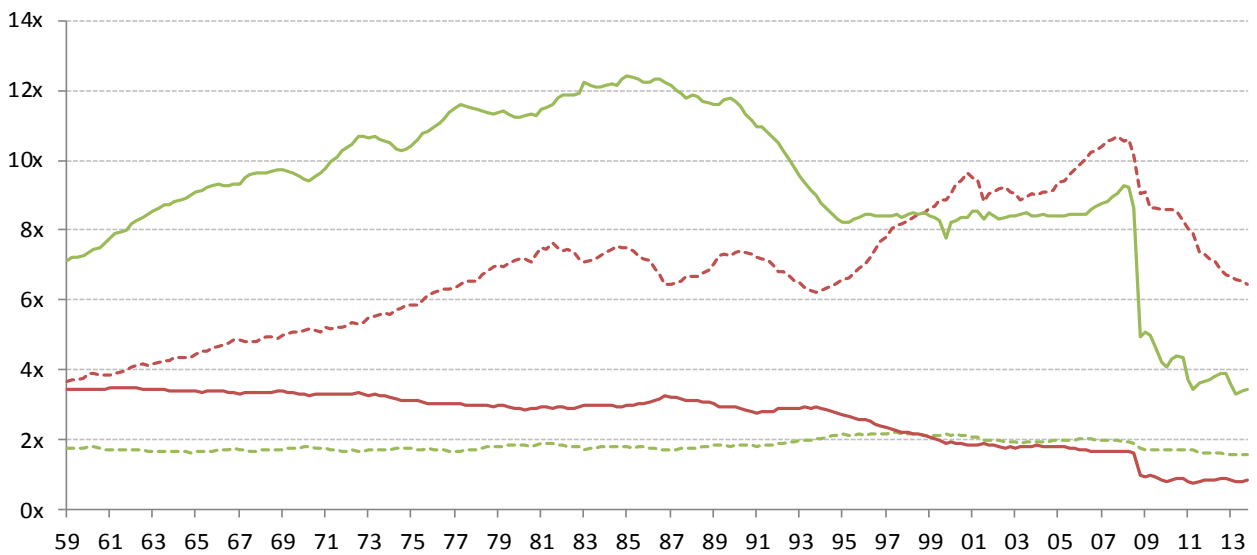
— M1 — M2 — Monetary base



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