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Data Insights: Federal Reserve

Wednesday, April 29, 2015

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

Release Date: ~~March 18~~April 29, 2015

For immediate release

Information received since the Federal Open Market Committee met in ~~January~~March suggests that economic growth ~~has moderated somewhat. Labor market conditions have improved further, with strong~~ slowed during the winter months, in part reflecting transitory factors. The pace of job gains moderated, and ~~a lower~~the unemployment rate~~.~~ remained steady. A range of labor market indicators suggests that underutilization of labor resources ~~continues to diminish. Household spending is rising moderately; declines in energy prices have boosted~~ was little changed. Growth in household ~~purchasing power.~~spending declined; households' real incomes rose strongly, partly reflecting earlier declines in energy prices, and consumer sentiment remains high. Business fixed investment ~~is advancing, while~~softened, the recovery in the housing sector ~~remains~~remained slow, and ~~export growth has weakened~~exports declined. Inflation ~~has declined further~~continued to run below the Committee's longer-run objective, ~~largely~~partly reflecting earlier declines in energy prices and decreasing prices of non-energy imports. Market-based measures of inflation compensation remain low; survey-based measures of 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~~Although growth in output and employment slowed during the first quarter, the Committee continues to expect that, with appropriate policy accommodation, economic activity will expand at a moderate pace, with labor market indicators continuing to move toward levels the Committee judges consistent with its dual mandate. The Committee continues to see the risks to the outlook for economic activity and the labor market as nearly balanced. Inflation is anticipated to remain near its recent low level in the near term, but the Committee expects inflation to rise gradually toward 2 percent over the medium term as the labor market improves further and the transitory effects of ~~energy price~~ declines in energy and ~~other factors~~import prices dissipate. The Committee continues to monitor inflation developments closely.

To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that the current 0 to 1/4 percent target range for the federal funds rate remains appropriate. In determining how long to maintain this target range, 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 and international developments. ~~Consistent with its previous statement, the Committee judges that an increase in the target range for the federal funds rate remains unlikely at the April FOMC meeting.~~ The Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term. ~~This change in the forward guidance does not indicate that the Committee has decided on the timing of the initial increase in the target range.~~

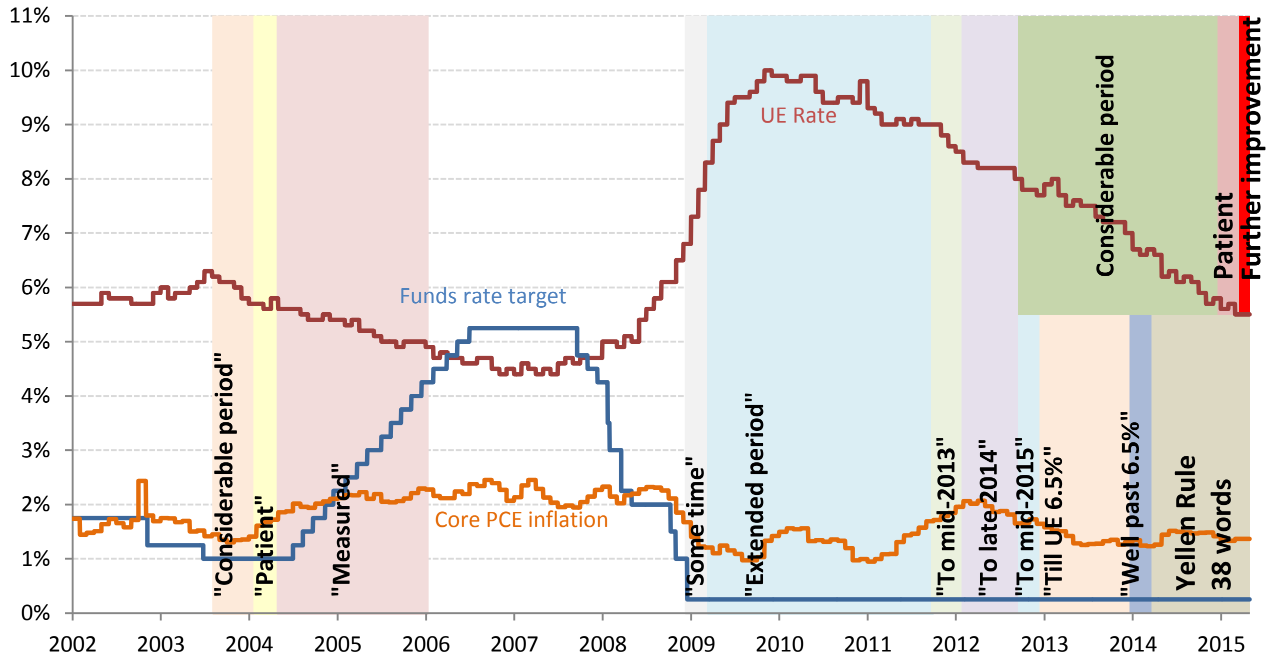
The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.

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~~.~~.

Voting for the FOMC monetary policy action were: Janet L. Yellen, Chair; William C. Dudley, Vice Chairman; Lael Brainard; Charles L. Evans; Stanley Fischer; Jeffrey M. Lacker; Dennis P. Lockhart; Jerome H. Powell; Daniel K. Tarullo; and John C. Williams.

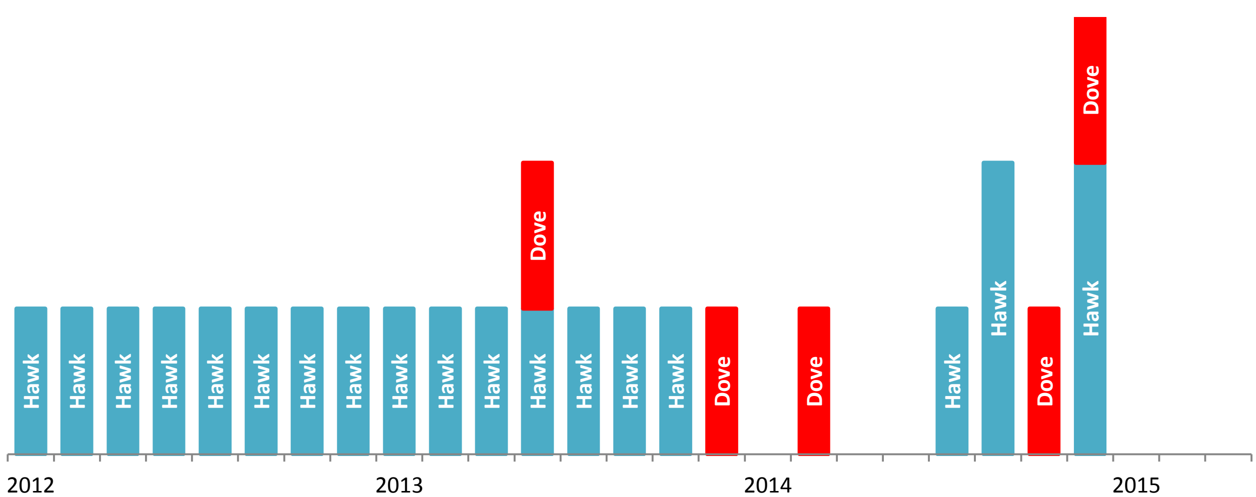
Source: FOMC, TrendMacro analysis

Fedspeak regime change: the evolution of forward guidance



Source: FOMC, Federal Reserve H.15, BLS, BEA, TrendMacro calculations

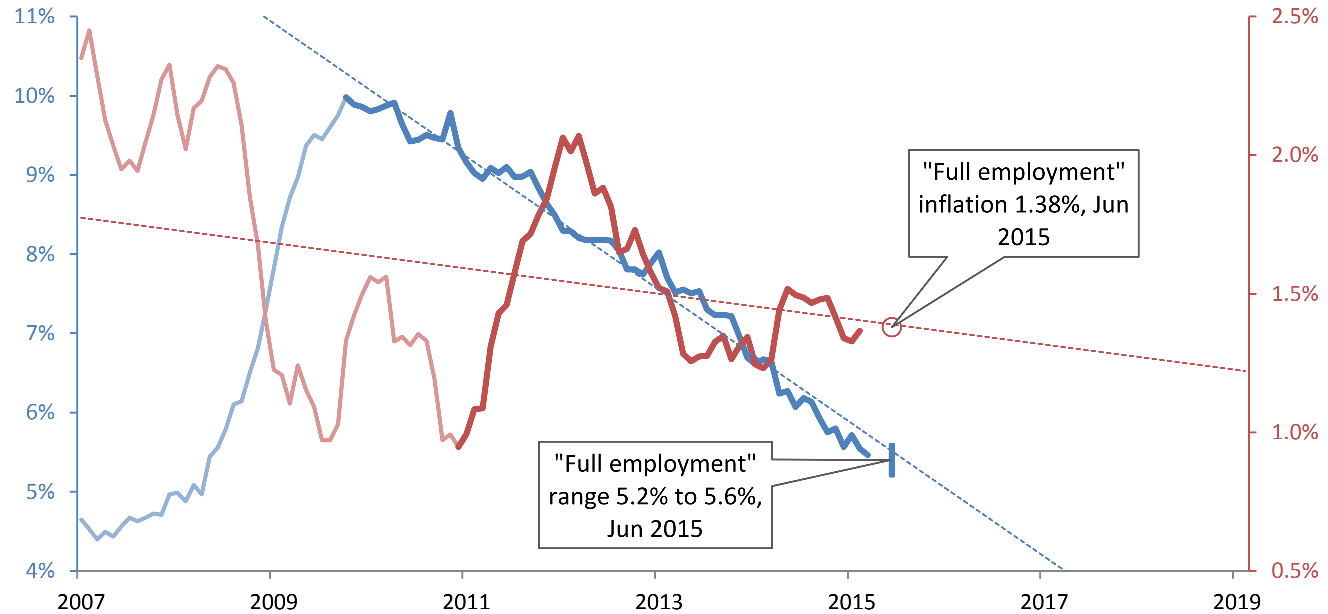
Other voices: number and direction of FOMC decision dissents



Source: FOMC, TrendMacro calculations

Yellen beyond the Evans Rule: the outer limit of the zero bound

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

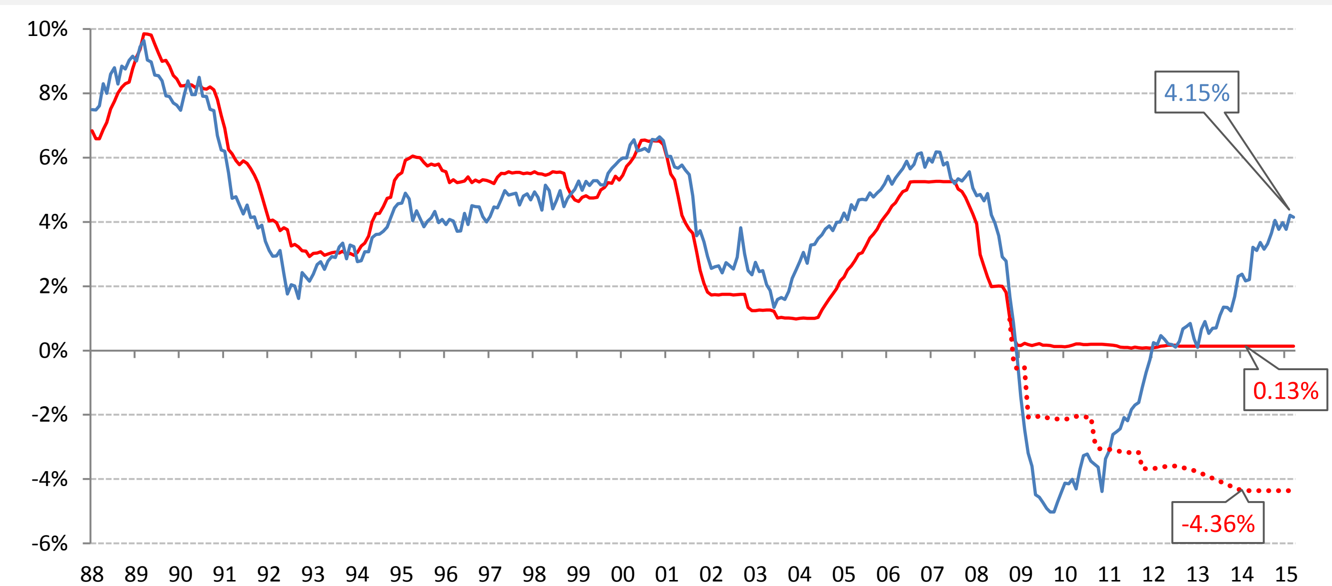


Source: BLS Current Population Survey, TrendMacro calculations

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

Rule: 2.07 + 1.28 x 12-mo core PCE inflation - 1.95 x (UE - CBO natural rate)

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

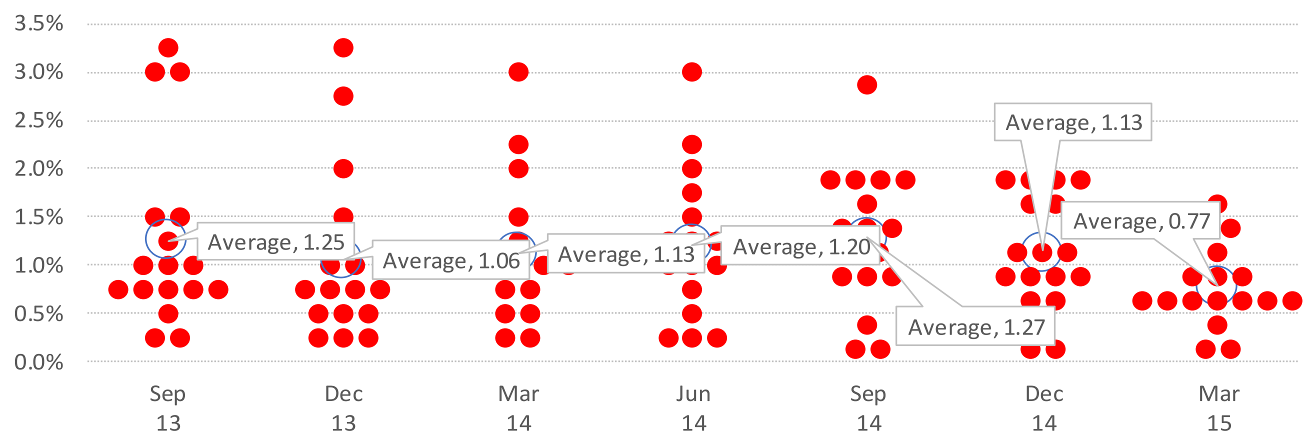


Source: BLS, BEA, TrendMacro calculations

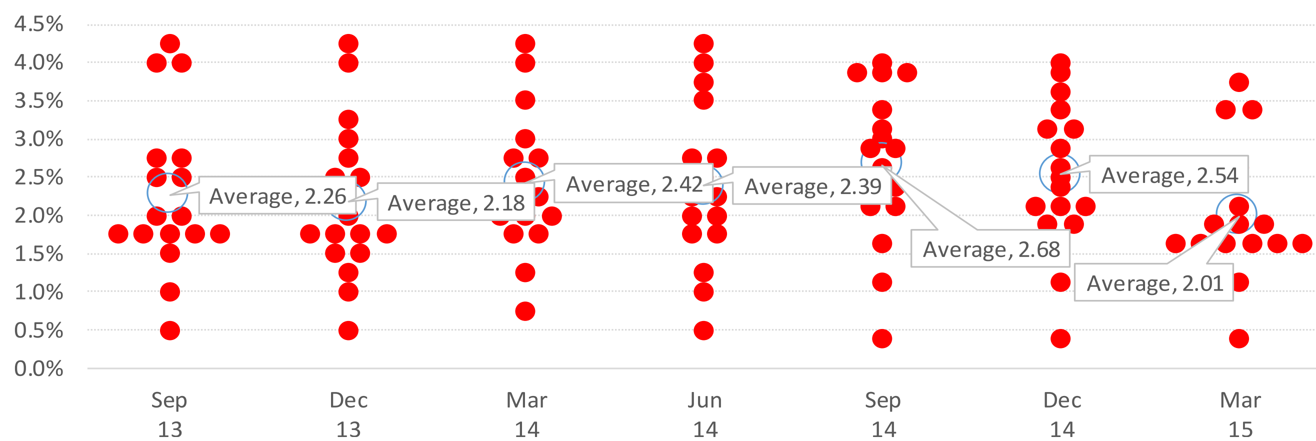
Tracking the "dotplots"

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

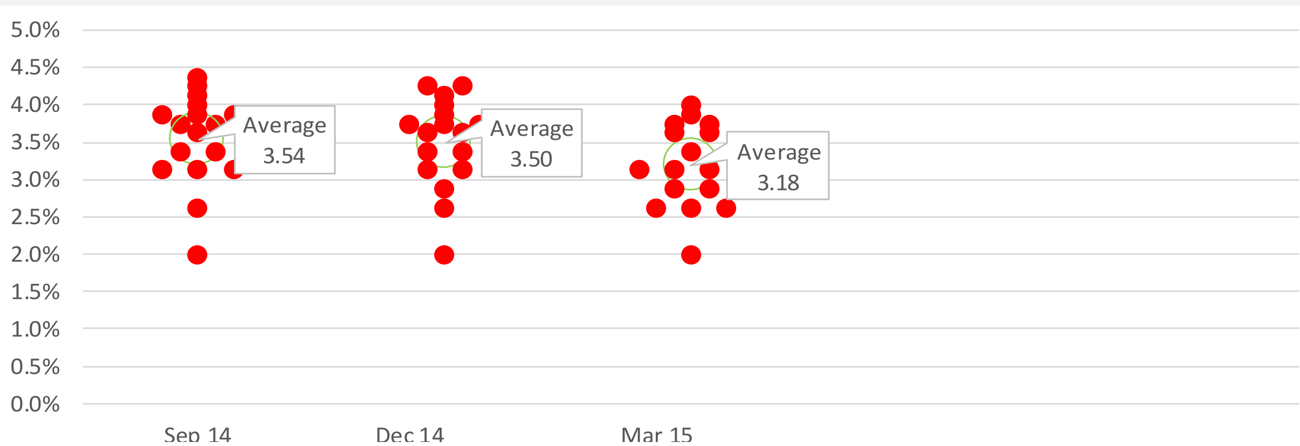
For year-end 2015



For year-end 2016



For year-end 2017

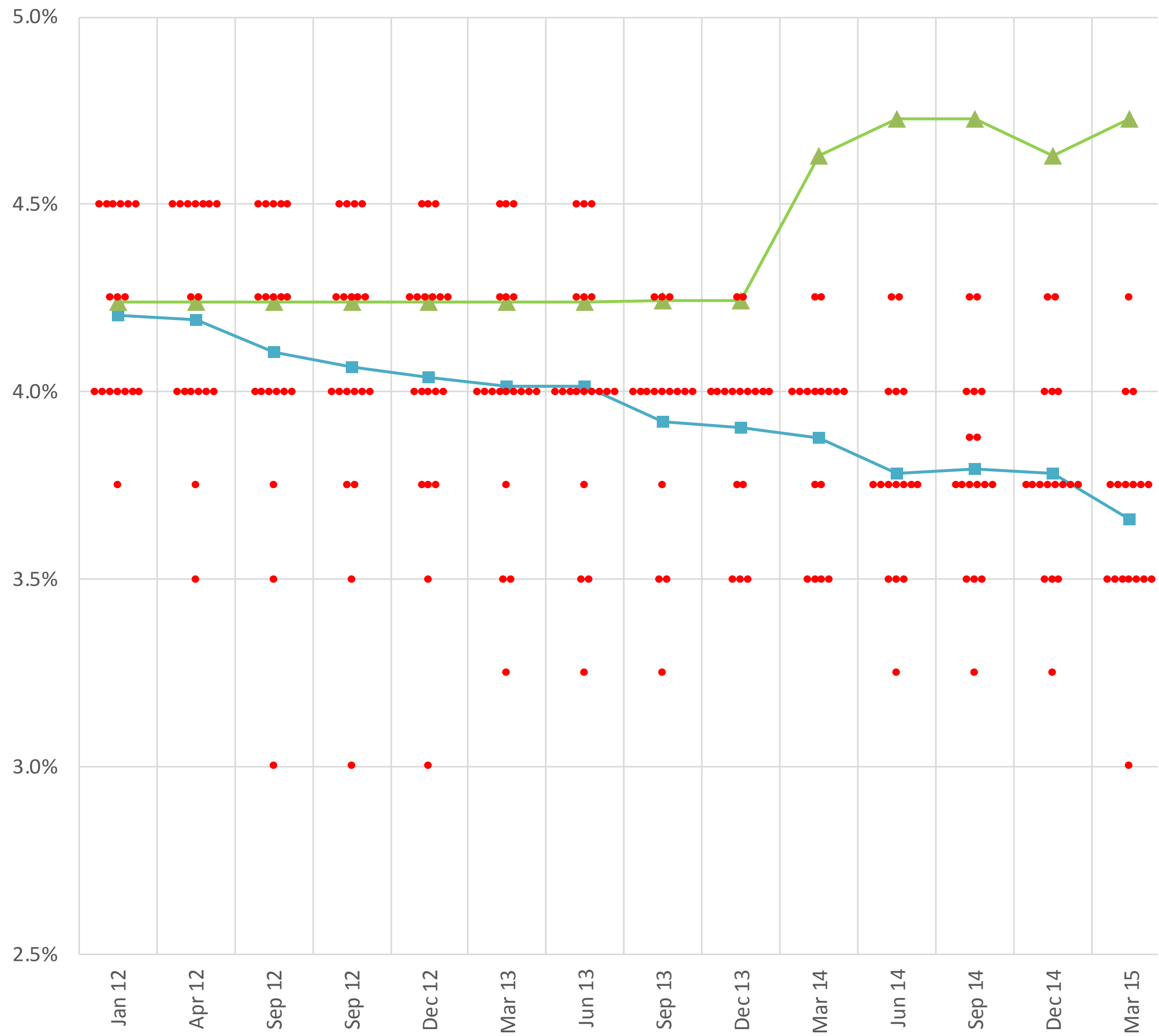


Source: Federal Reserve, TrendMacro calculations

The ultimate dots

FOMC participants' estimate of "appropriate" target fed funds rate ● Vote by individual participant
■ Weighted average ▲ Taylor Rule rate based on participants' core PCE and UE estimates

For "longer run"

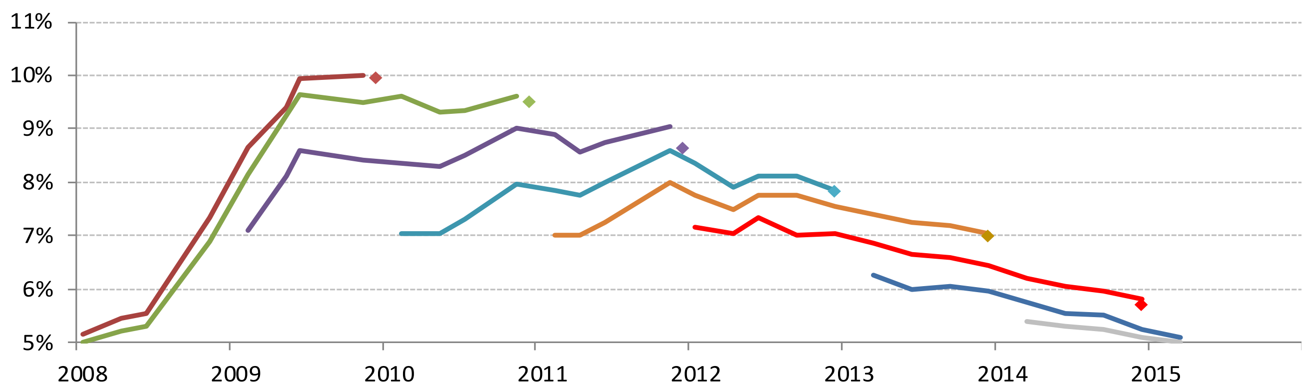


Source: Federal Reserve, TrendMacro calculations

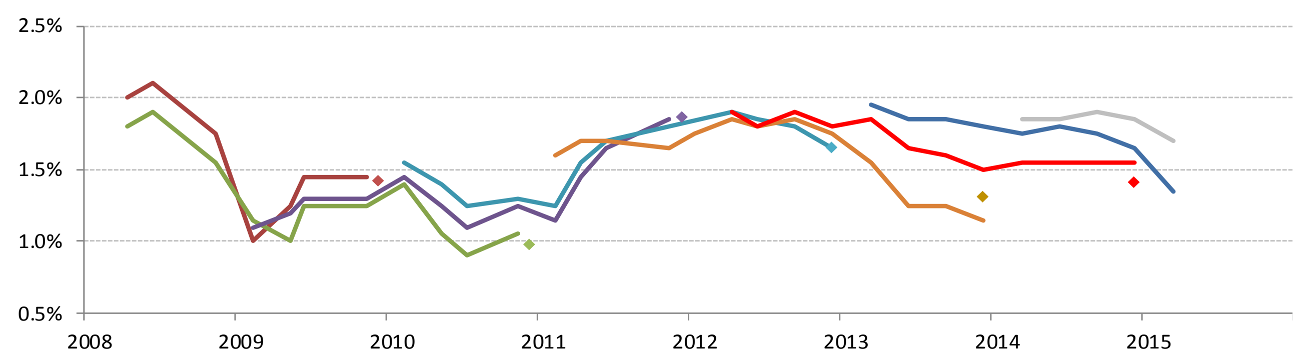
Forecast versus actual: economic projections of the FRB and the presidents

— Forecast ◆ Actual ■ for 2009 ■ 2010 ■ 2011 ■ 2012 ■ 2013 ■ 2014 ■ 2015 ■ 2016

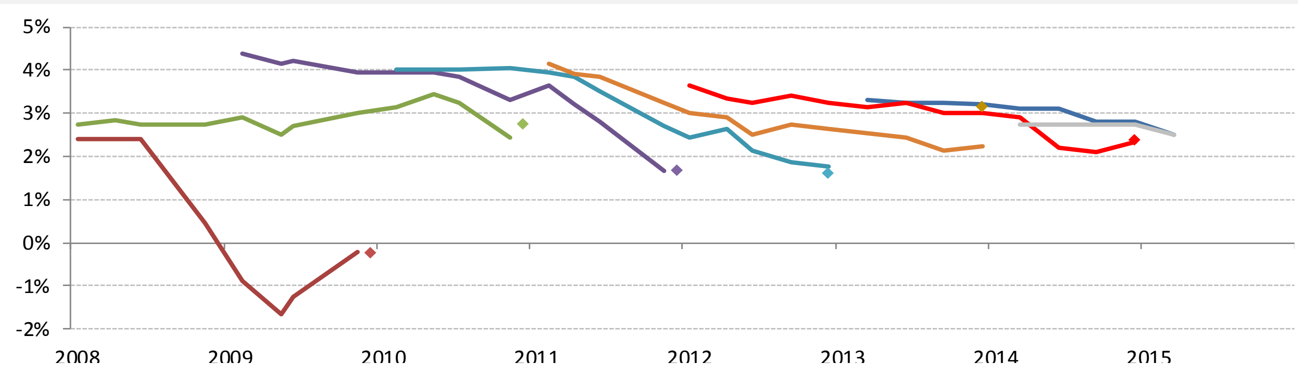
Unemployment



Core PCE inflation



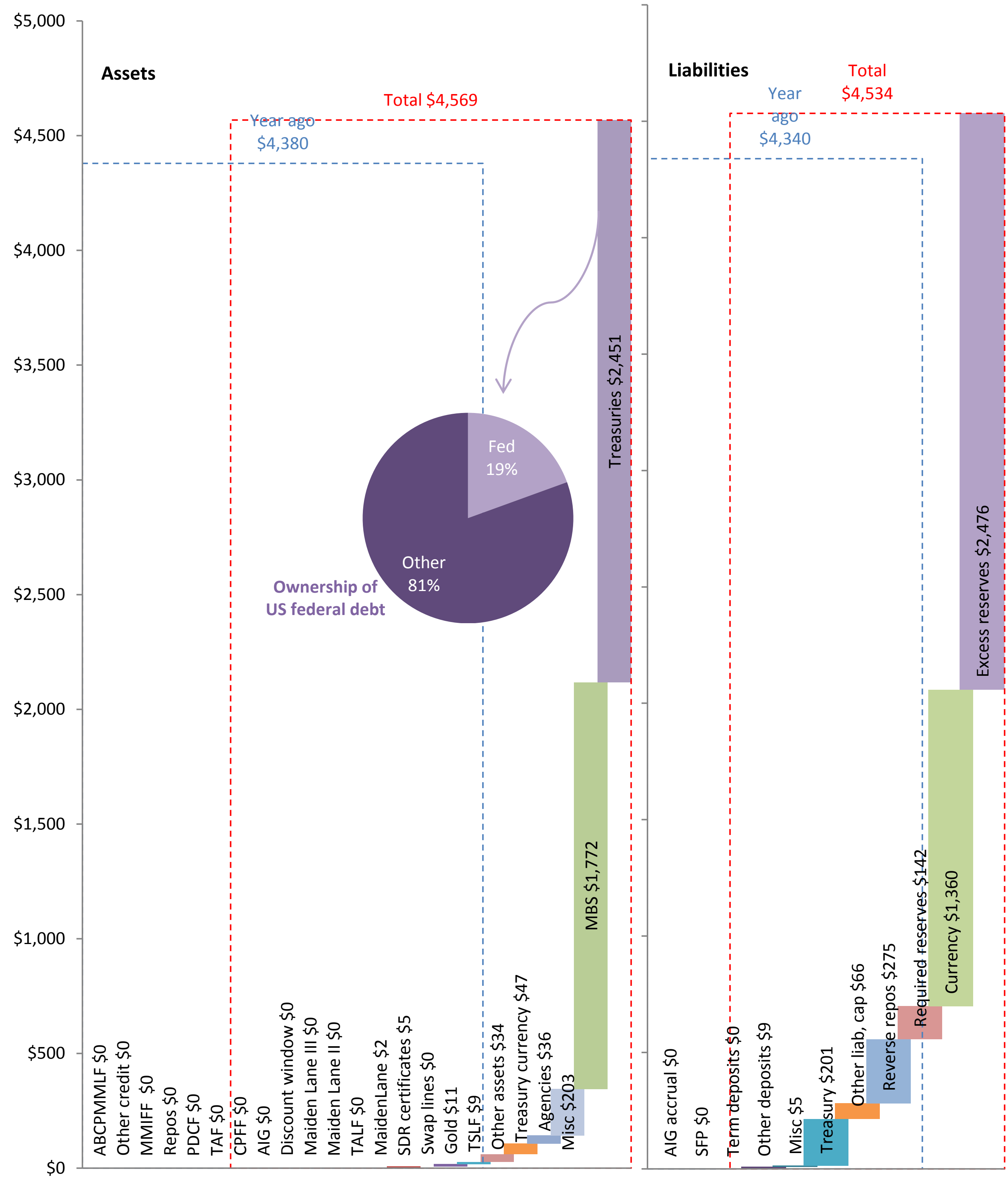
Real GDP



Source: Federal Reserve, BEA, BLS, TrendMacro calculations

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

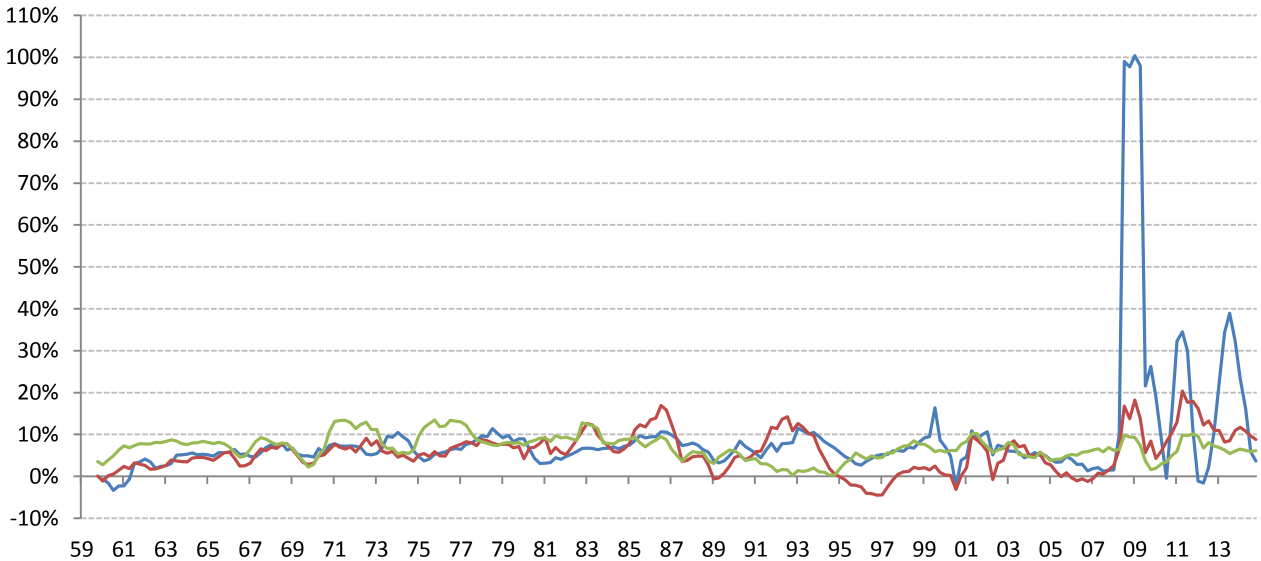
Assets do not perfectly match liabilities because we include unsettled MBS purchases and sales



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

Money supply growth, YOY quarterly

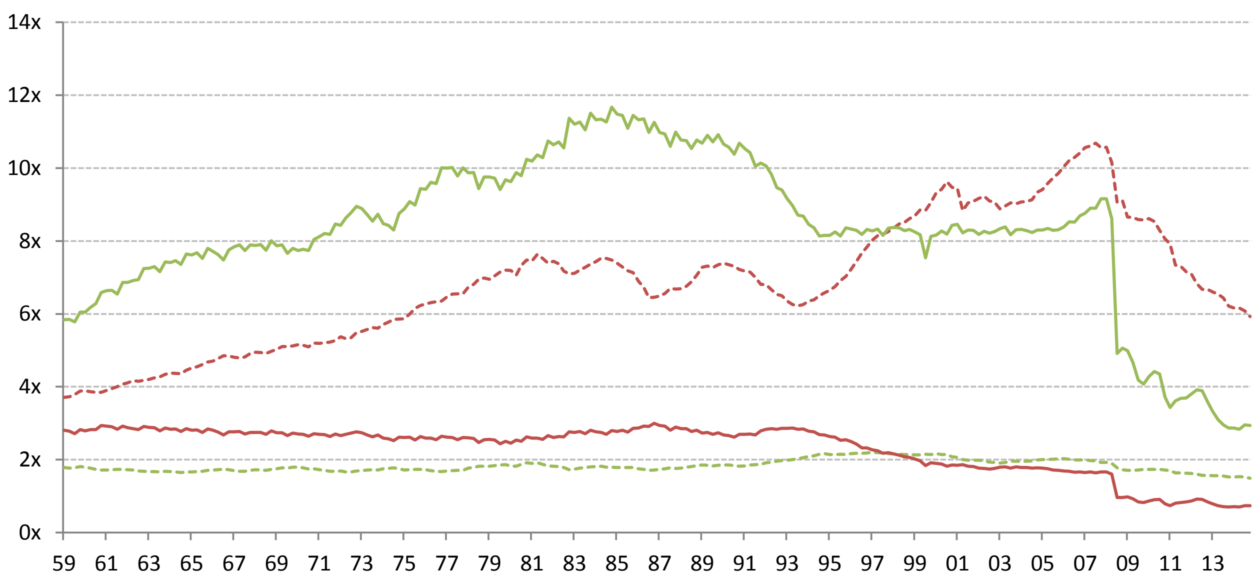
M1 M2 Monetary base



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