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## Data Insights: Federal Reserve

Wednesday, July 29, 2015

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

Release Date: ~~June 17~~ [July 29](#), 2015

### For immediate release

Information received since the Federal Open Market Committee met in ~~April suggests~~ [June indicates](#) that economic activity has been expanding moderately ~~after having changed little during the first quarter. The pace of job gains picked up while the unemployment rate remained steady. On balance, a range of labor market indicators suggests that underutilization of labor resources diminished somewhat in recent months.~~ Growth in household spending has been moderate and the housing sector has shown ~~some~~ [additional](#) improvement; however, business fixed investment and net exports stayed soft. ~~The labor market continued to improve, with solid job gains and declining unemployment. On balance, a range of labor market indicators suggests that underutilization of labor resources has diminished since early this year.~~ Inflation continued to run below the Committee's longer-run objective, partly reflecting earlier declines in energy prices and decreasing prices of non-energy imports; ~~energy prices appear to have stabilized.~~ 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 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 earlier declines in energy and 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. The Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen [some](#) further improvement in the labor

market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term.

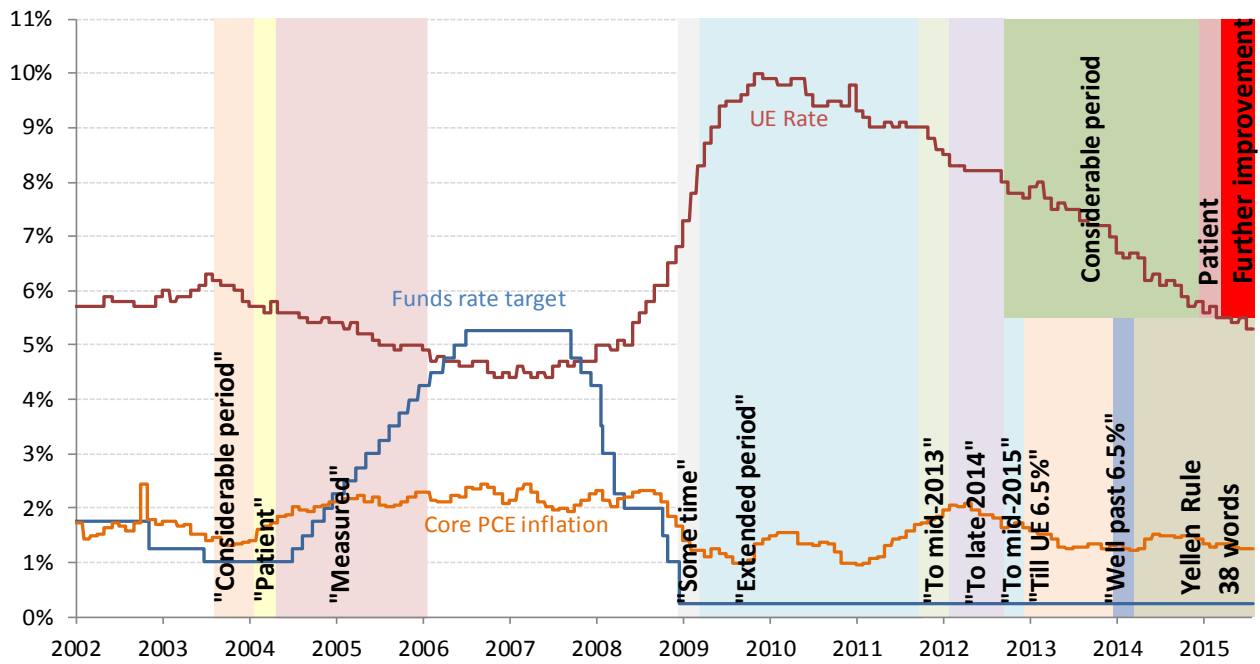
The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. This policy, by keeping the Committee's holdings 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.

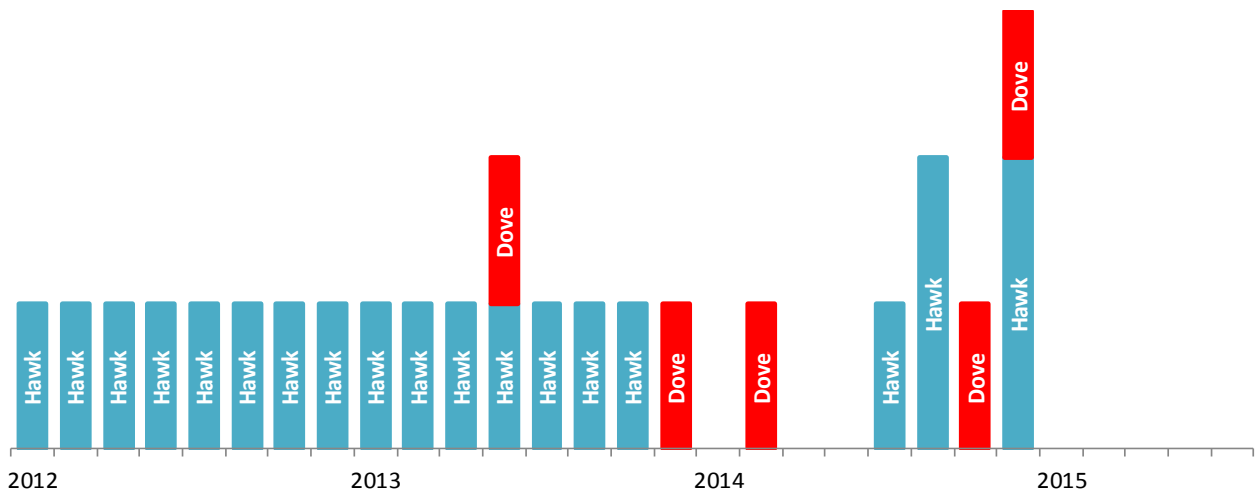
Source: FOMC, TrendMacro analysis

## Fedspeak regime change: the evolution of forward guidance



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

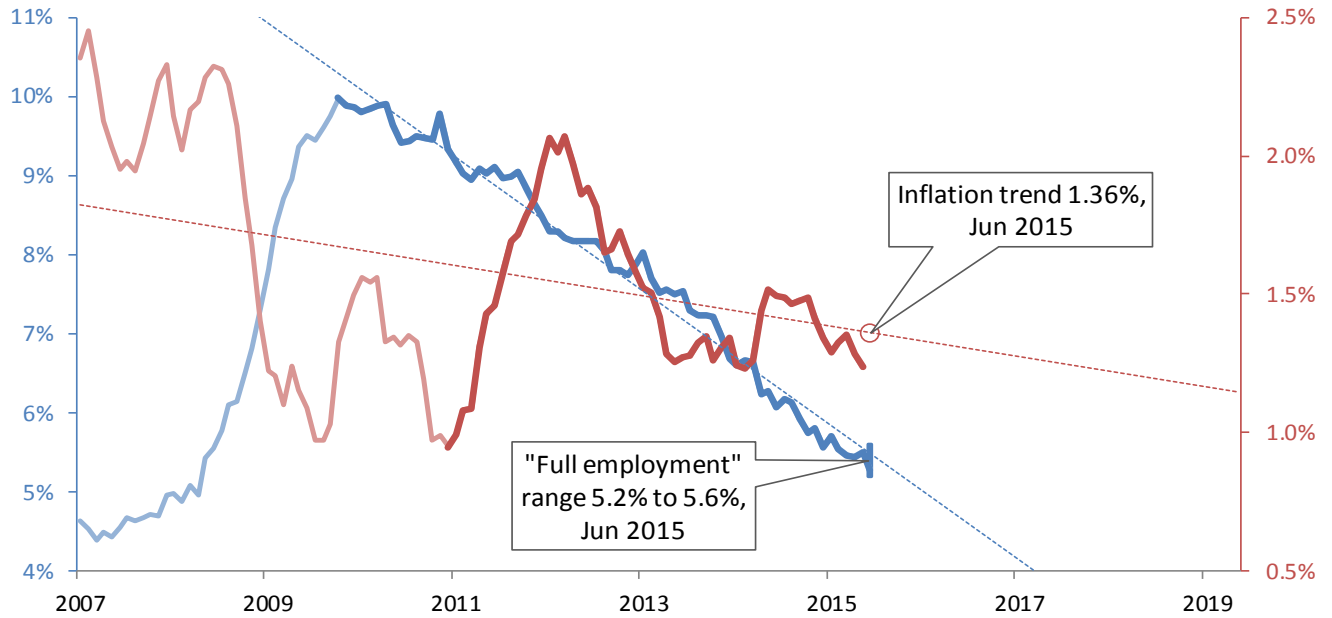
## Other voices: number and direction of FOMC decision dissents



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

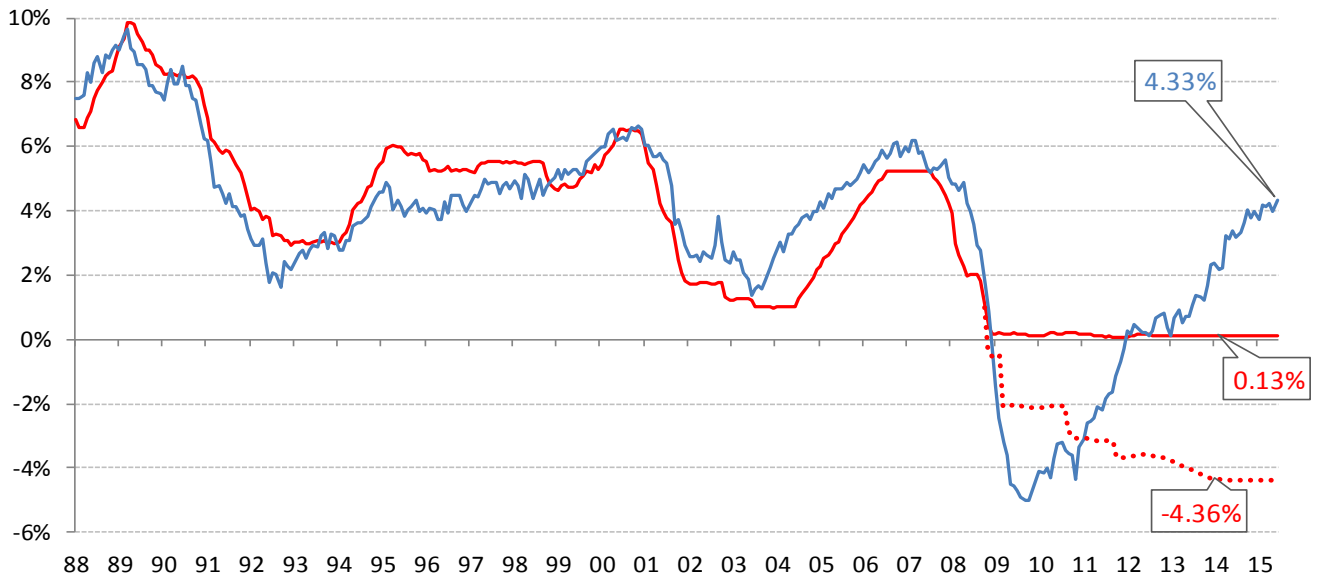


Source: BLS Current Population Survey, TrendMacro calculations

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

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

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

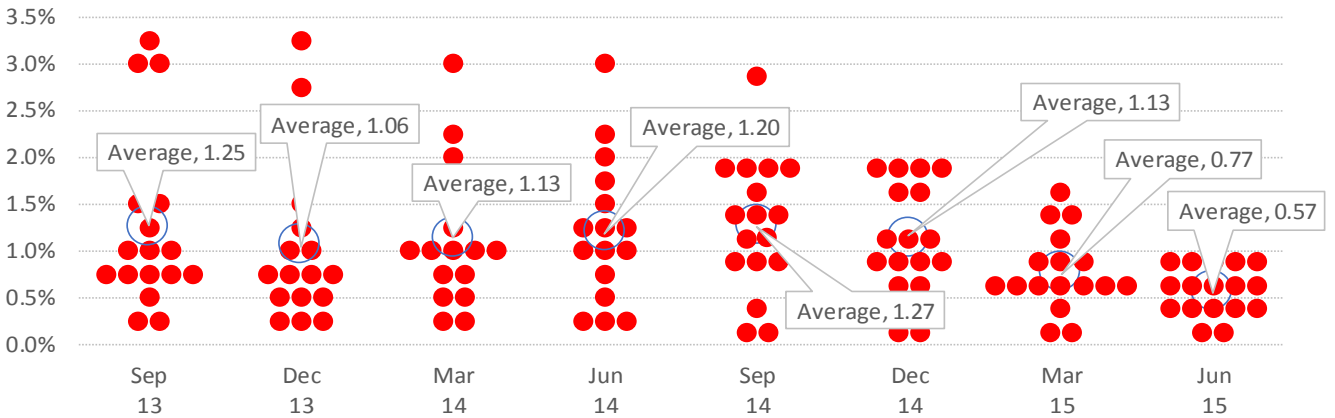


Source: BLS, BEA, TrendMacro calculations

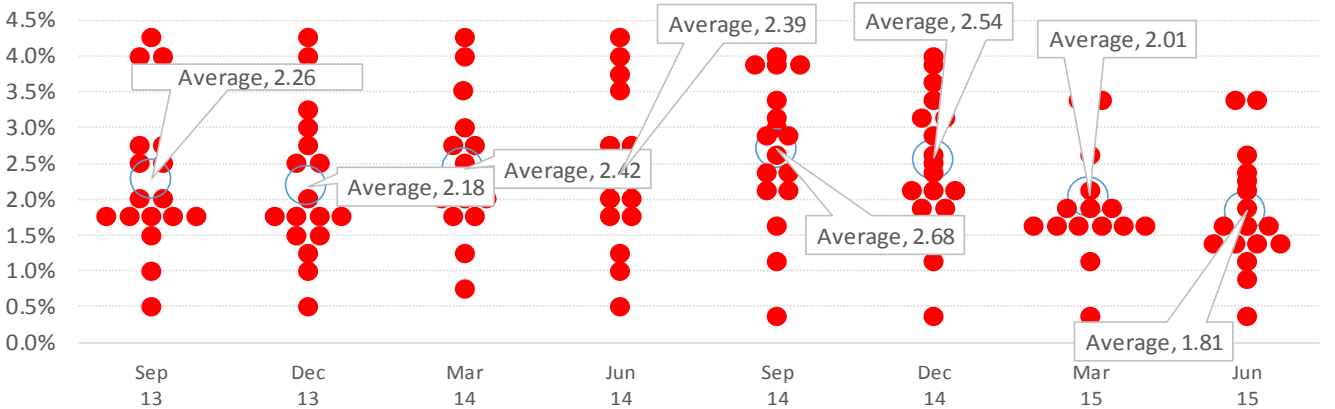
# Tracking the "dotplots"

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

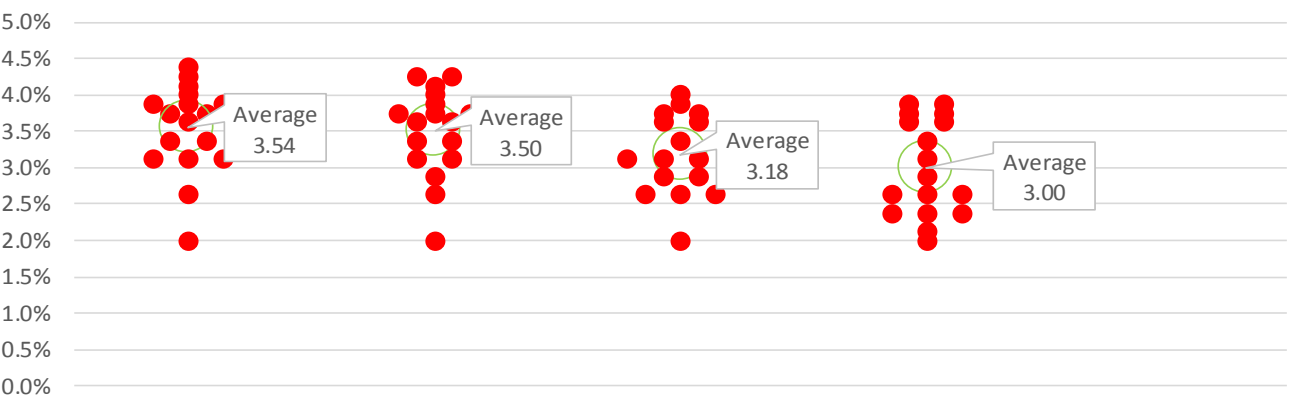
## For year-end 2015



## For year-end 2016



## For year-end 2017

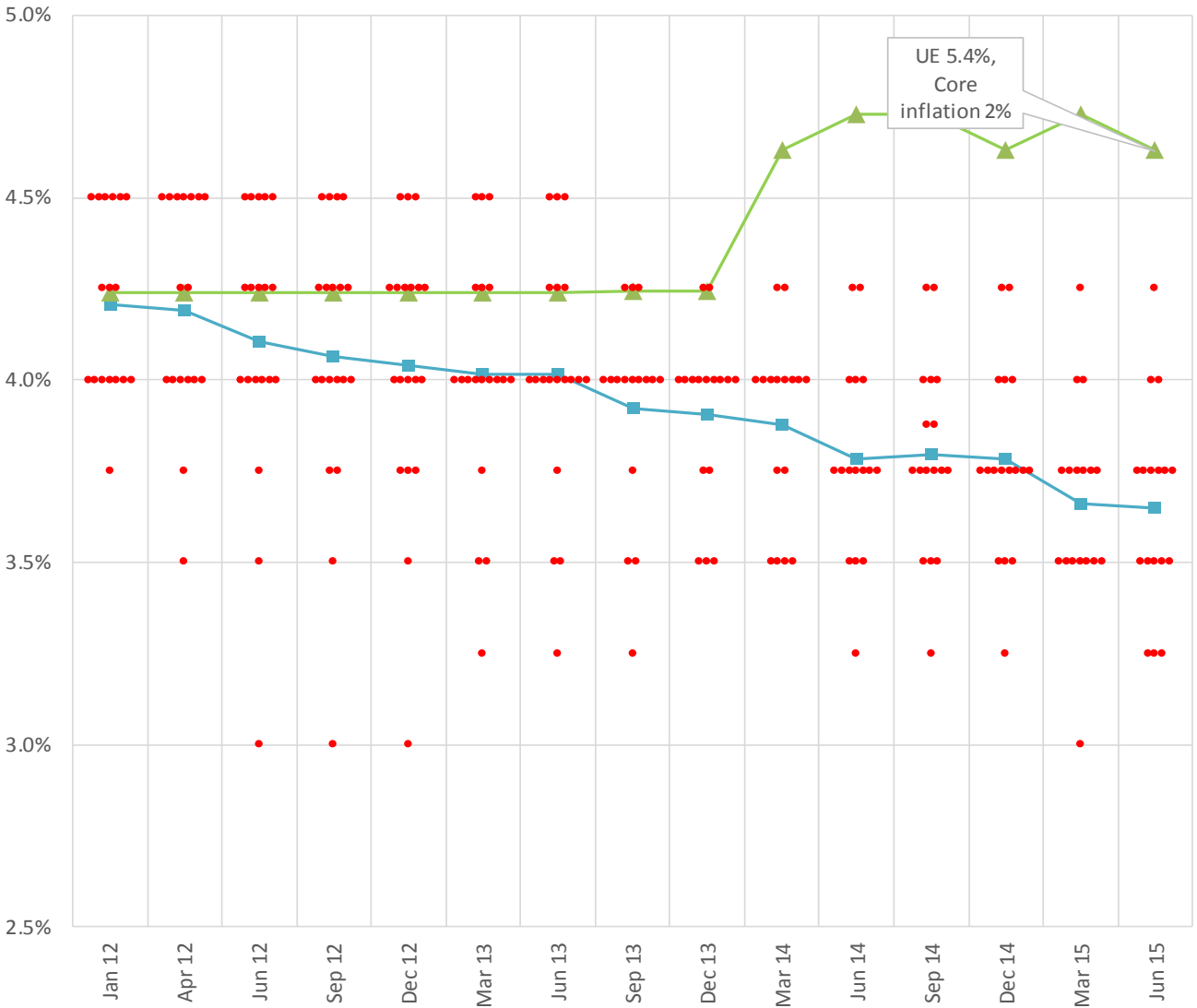


Source: Federal Reserve, TrendMacro calculations

## 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"

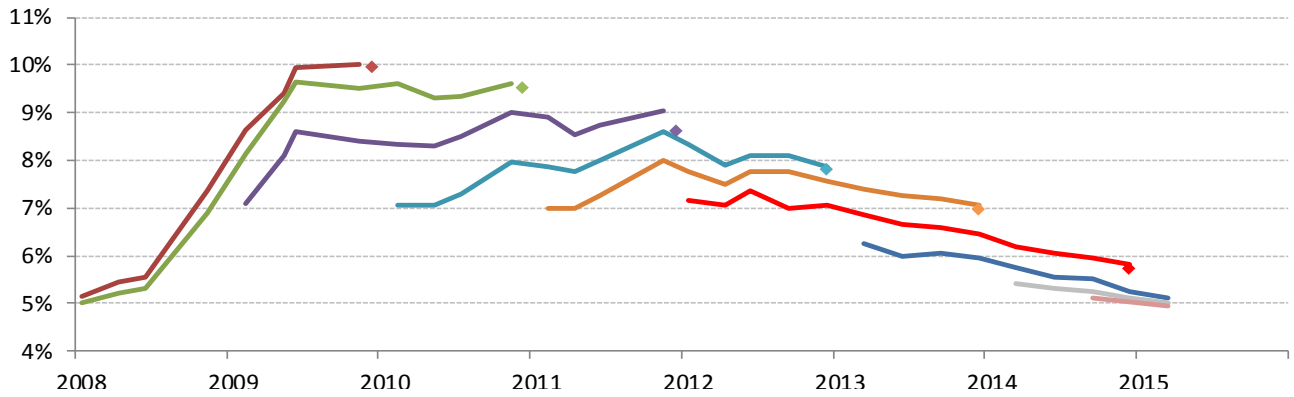


Source: Federal Reserve, TrendMacro calculations

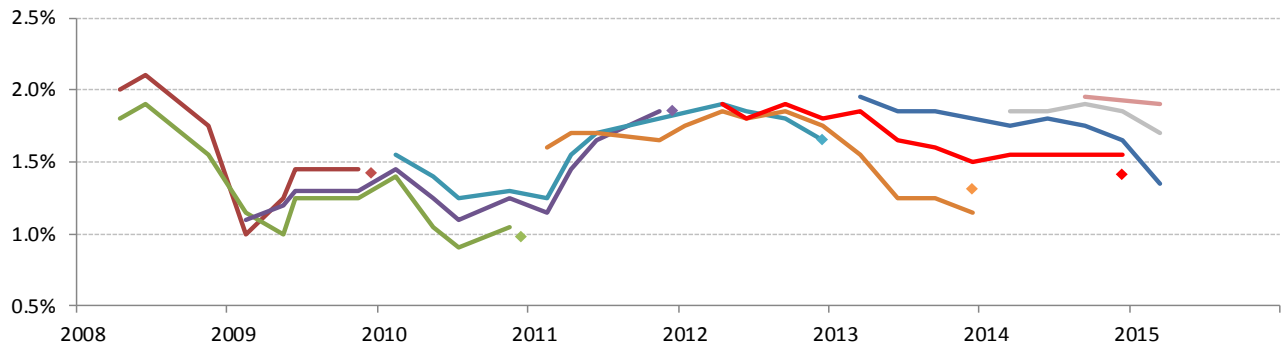
# Forecast versus actual: economic projections of the FRB and the presidents

— Forecast ◆ Actual ■ for 2009 ■ 2010 ■ 2011 ■ 2012 ■ 2013 ■ 2014 ■ 2015 ■ 2016 ■ 2017

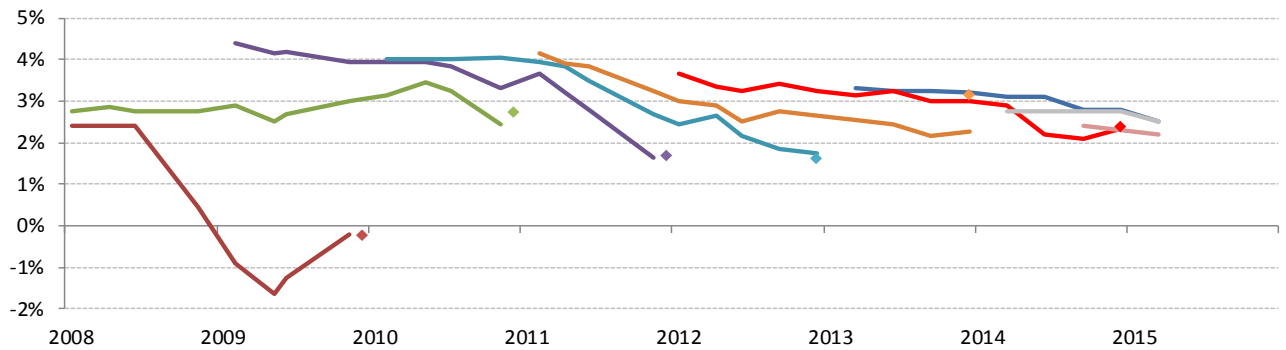
## Unemployment



## Core PCE inflation



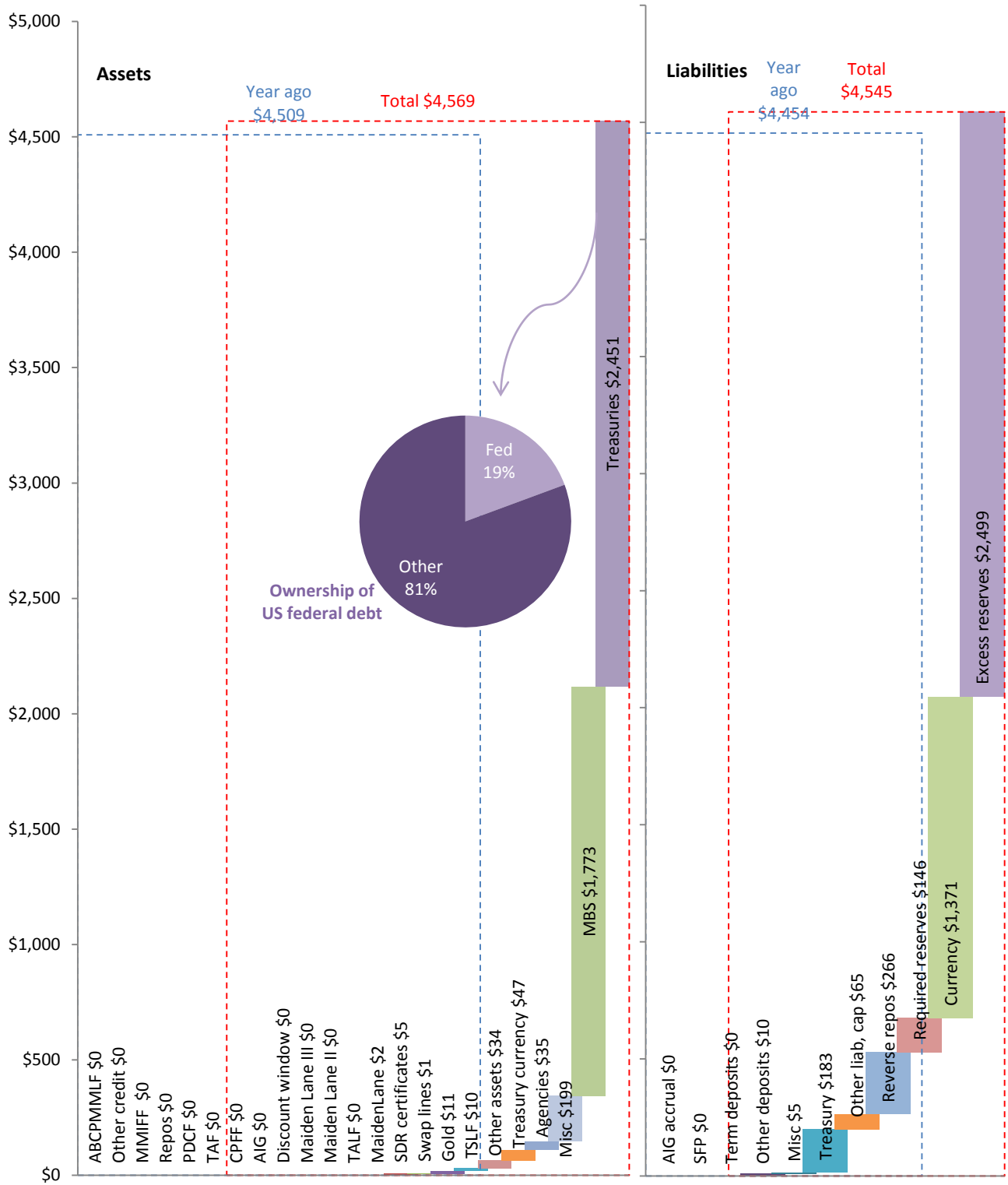
## Real GDP



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

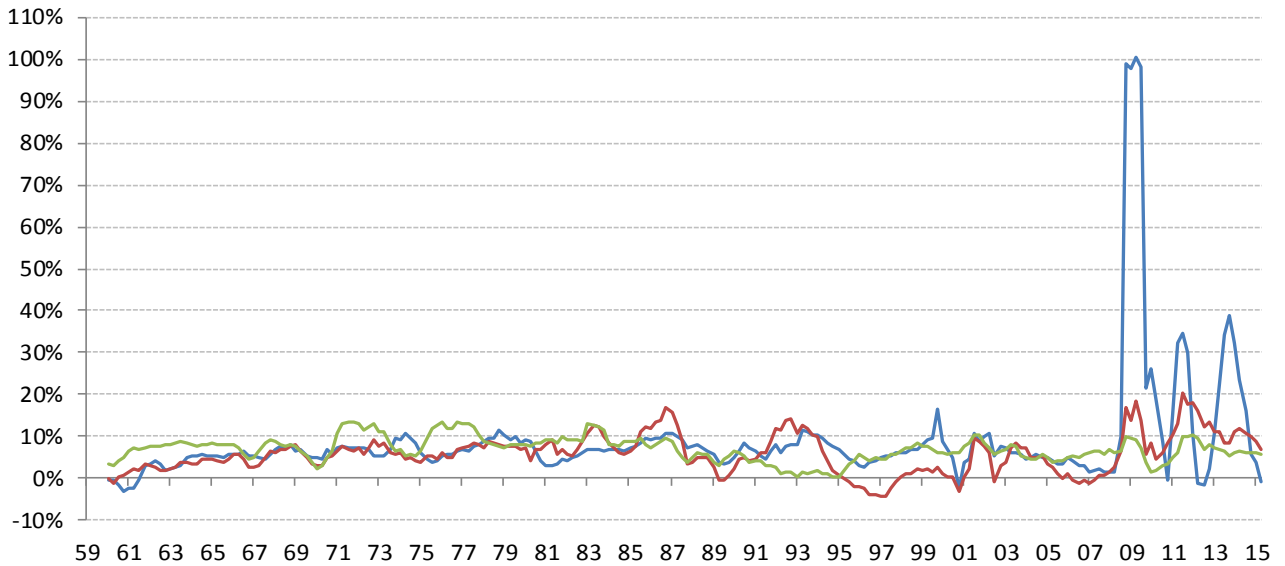


Source: Federal Reserve H.4, US Treasury, TrendMacro calculations



## Money supply growth, YOY quarterly

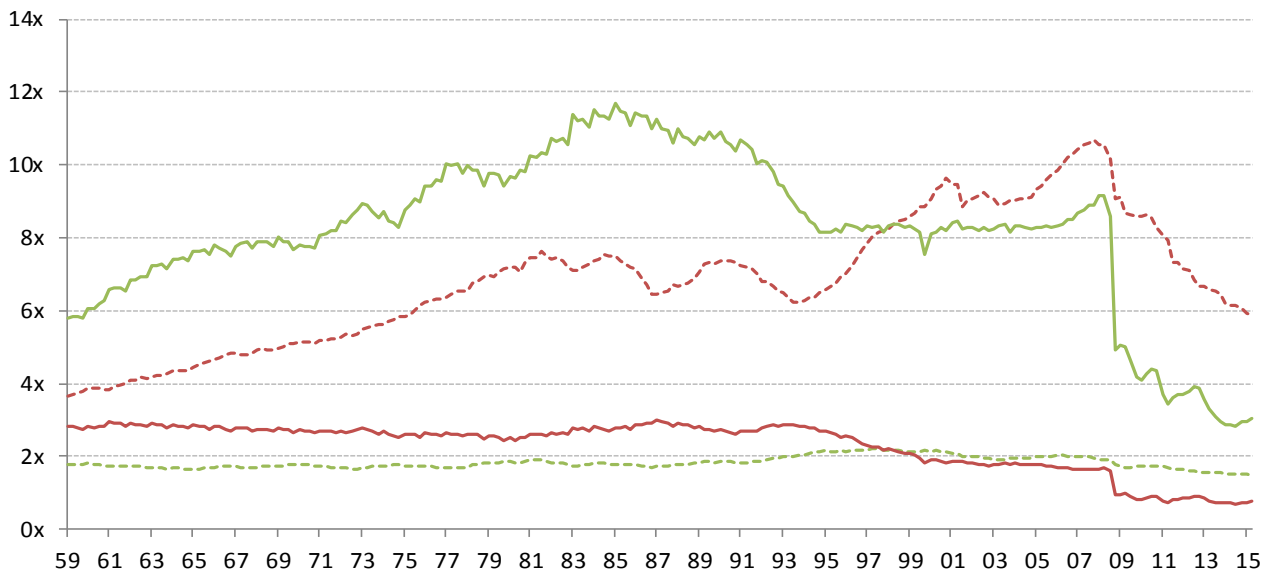
— M1 — M2 — Monetary base



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