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## Data Insights: Federal Reserve

Wednesday, November 1, 2017

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

~~September 20~~[November 01](#), 2017

### Federal Reserve issues FOMC statement

Information received since the Federal Open Market Committee met in ~~July~~[September](#) indicates that the labor market has continued to strengthen and that economic activity has been rising ~~moderately so far this year. Job gains have remained at a solid rate despite hurricane-related disruptions. Although the hurricanes caused a drop in recent months, and payroll employment in September,~~ the unemployment rate ~~has stayed low~~[declined further](#). Household spending has been expanding at a moderate rate, and growth in business fixed investment has picked up in recent quarters. ~~On a 12-month basis, Gasoline prices rose in the aftermath of the hurricanes, boosting overall inflation and the measure excluding in September; however, inflation for items other than food and energy prices remained soft. On a 12-month basis, both inflation measures~~ have declined this year and are running below 2 percent. Market-based measures of inflation compensation remain low; survey-based measures 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. ~~Hurricanes Harvey, Irma, and Maria have devastated many communities, inflicting severe hardship. Storm Hurricane-related disruptions and rebuilding will~~ [continue to](#) affect economic activity, [employment, and inflation](#) in the near term, but past experience suggests that the storms are unlikely to materially alter the course of the national economy over the medium term. Consequently, the Committee continues to expect that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace, and labor market conditions will strengthen somewhat further. ~~Higher prices for gasoline and some other items in the aftermath of the hurricanes will likely boost inflation temporarily; apart from that effect, inflation~~[Inflation](#) on a 12-month basis is expected to remain somewhat below 2 percent in the near term but to stabilize around the Committee's 2 percent objective over the medium term. Near-term risks to the economic outlook appear roughly balanced, but the Committee is monitoring inflation developments closely.

In view of realized and expected labor market conditions and inflation, the Committee decided to maintain the target range for the federal funds rate at 1 to 1-1/4 percent. The stance of monetary policy remains accommodative, thereby supporting some further strengthening in labor market conditions and a sustained return to 2 percent inflation.

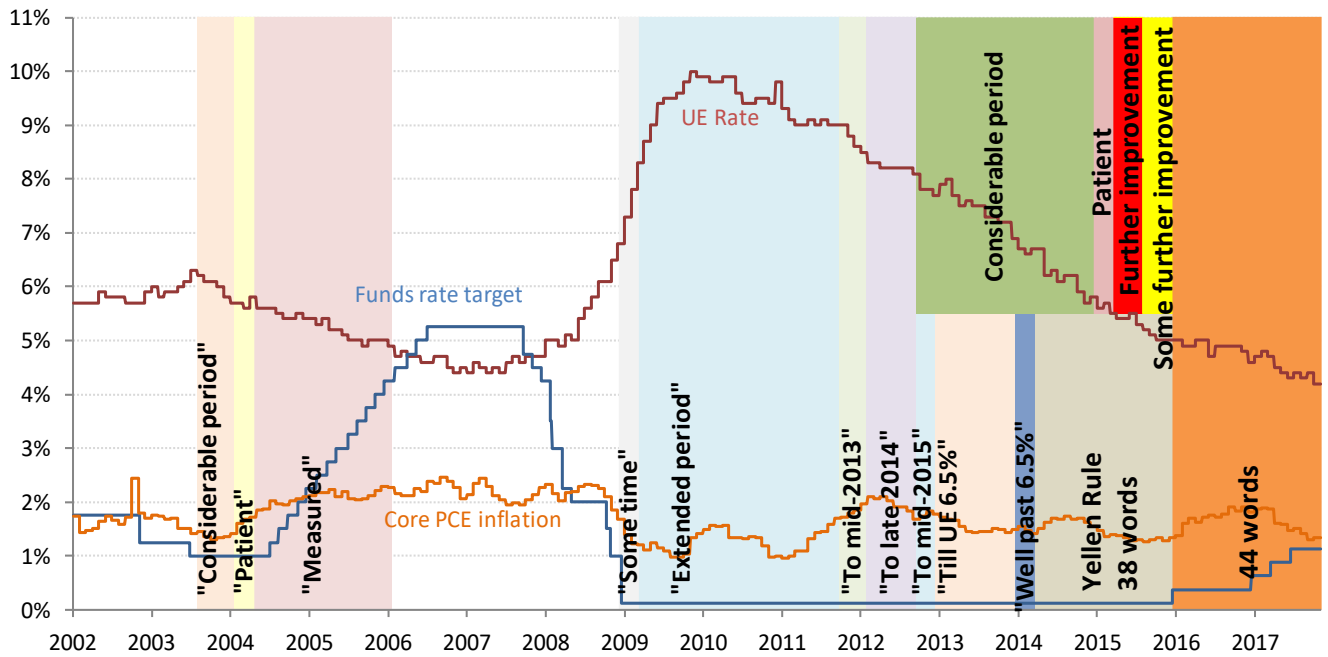
In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The Committee will carefully monitor actual and expected inflation developments relative to its symmetric inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.

~~In October, the Committee will initiate the~~ The balance sheet normalization program ~~described~~ initiated in ~~the June~~ October 2017 ~~Addendum to the Committee's Policy Normalization Principles and Plans~~ is proceeding.

Voting for the FOMC monetary policy action were: Janet L. Yellen, Chair; William C. Dudley, Vice Chairman; Lael Brainard; Charles L. Evans; ~~Stanley Fischer~~; Patrick Harker; Robert S. Kaplan; Neel Kashkari; ~~and~~ Jerome H. Powell; and Randal K. Quarles.

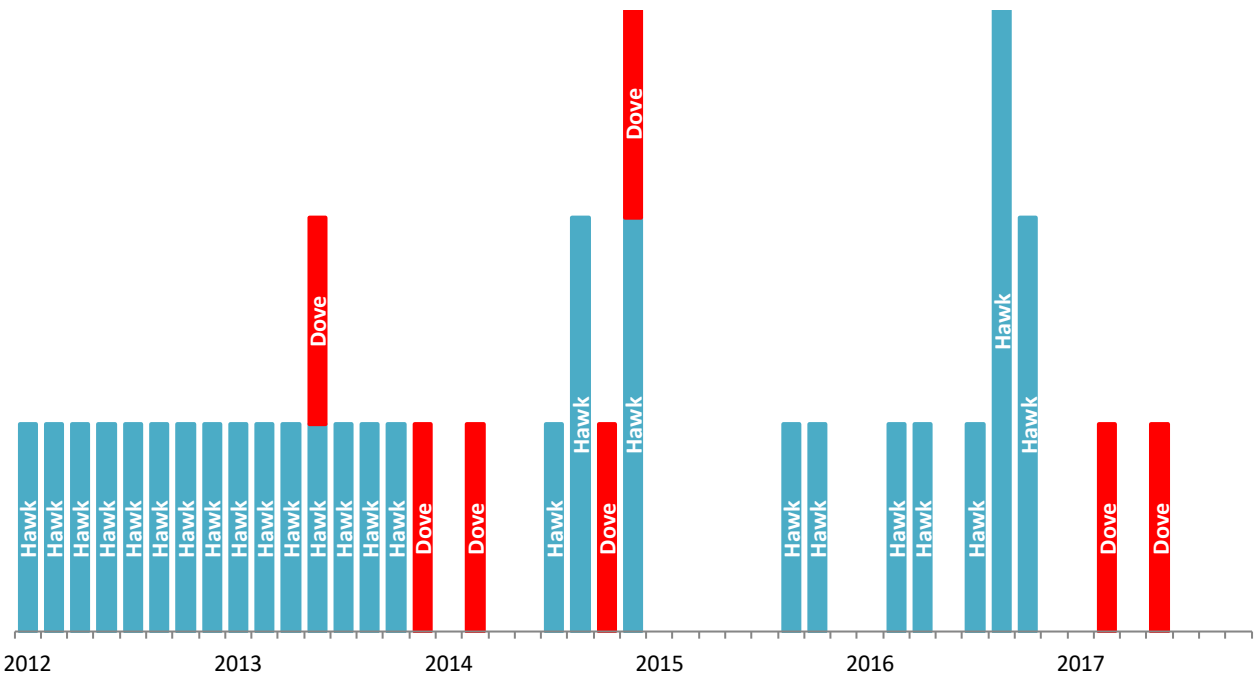
Source: FOMC, TrendMacro analysis

## Fedspeak regime change: the evolution of forward guidance



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

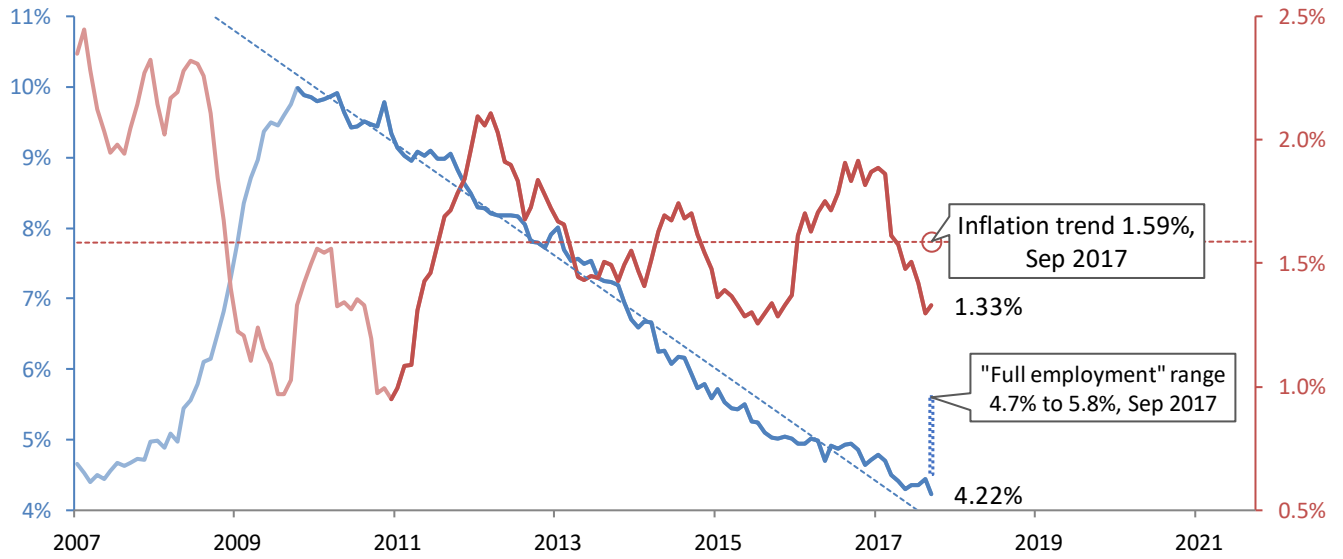
## Other voices: number and direction of FOMC decision dissents



Source: FOMC, TrendMacro calculations

## The dual mandate: garbage in, garbage out

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

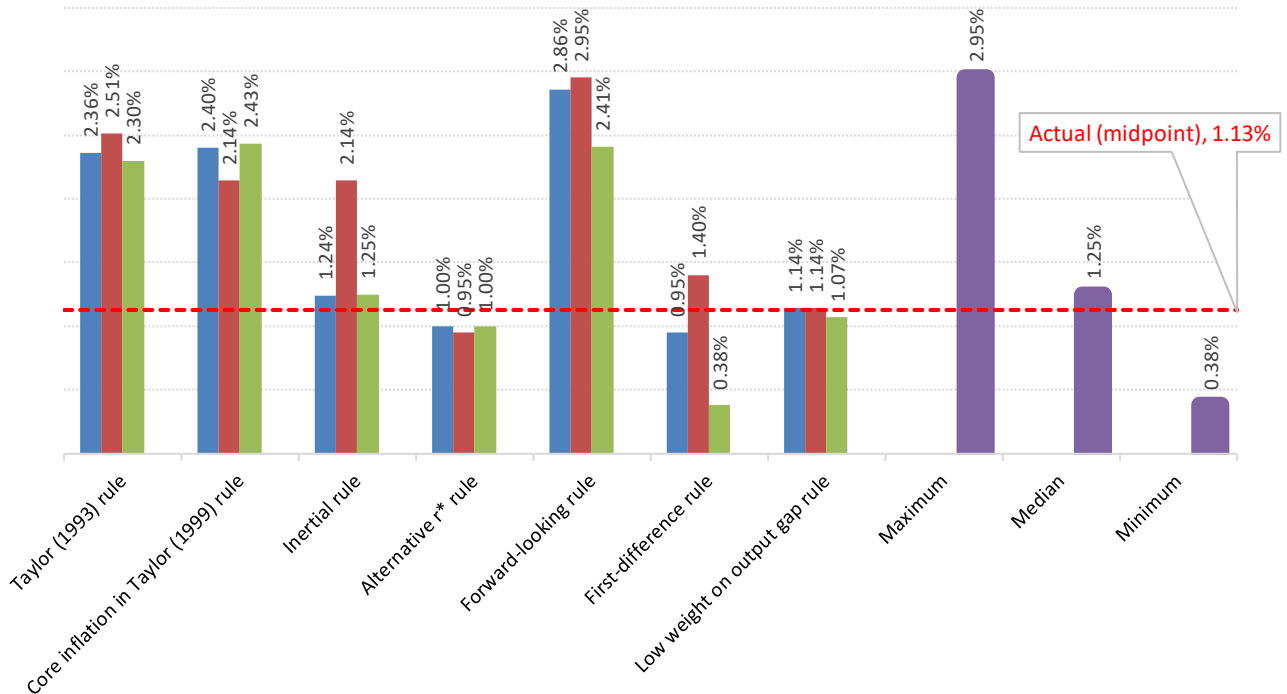


Source: BLS Current Population Survey, TrendMacro calculations

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

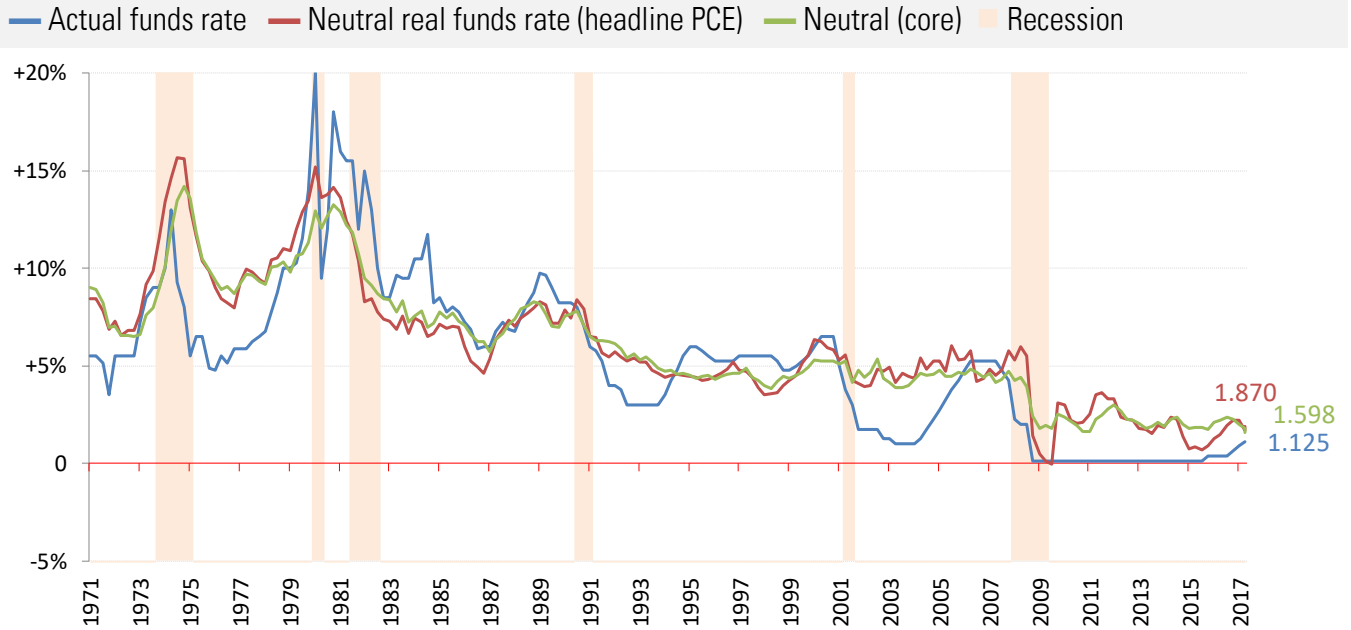
As of August 22, 2017 Based on inputs from:

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



Source: Cleveland Fed, TrendMacro calculations

## Estimating the "natural rate of interest"

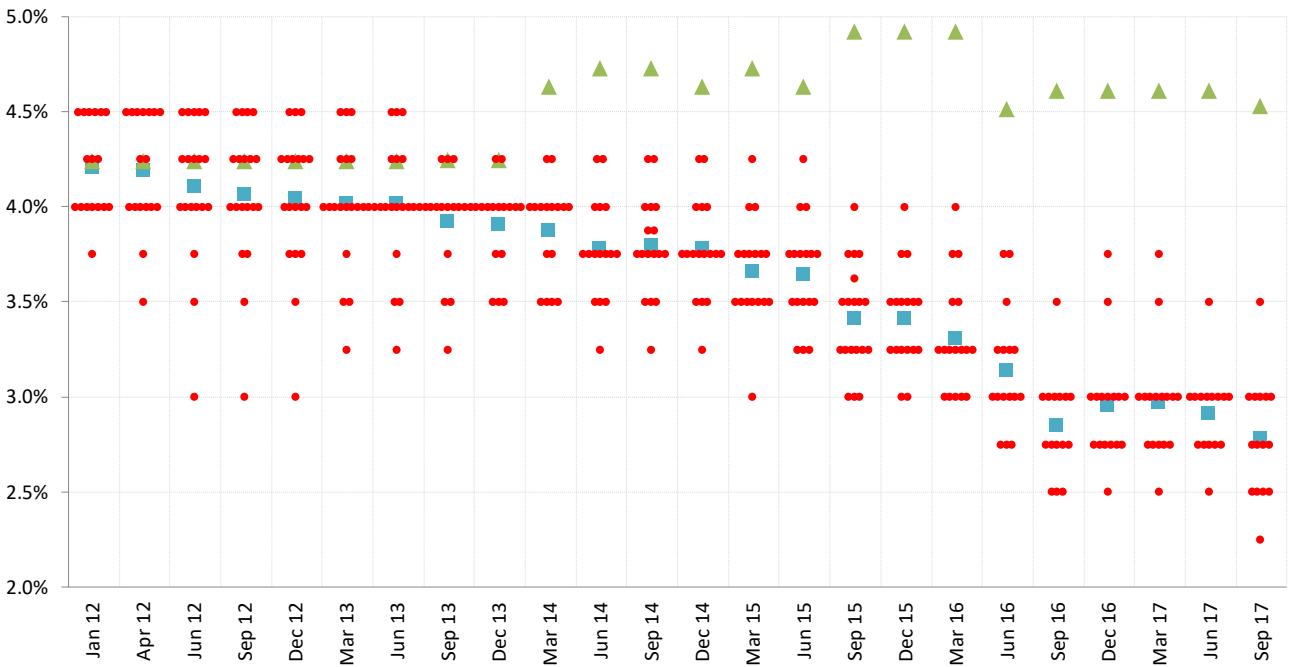


Source: [San Francisco Fed](#), Federal Reserve, BEA, TrendMacro calculations

## "R-star" – the ultimate "dotplot"

FOMC participants' estimate of "longer run" target fed funds rate

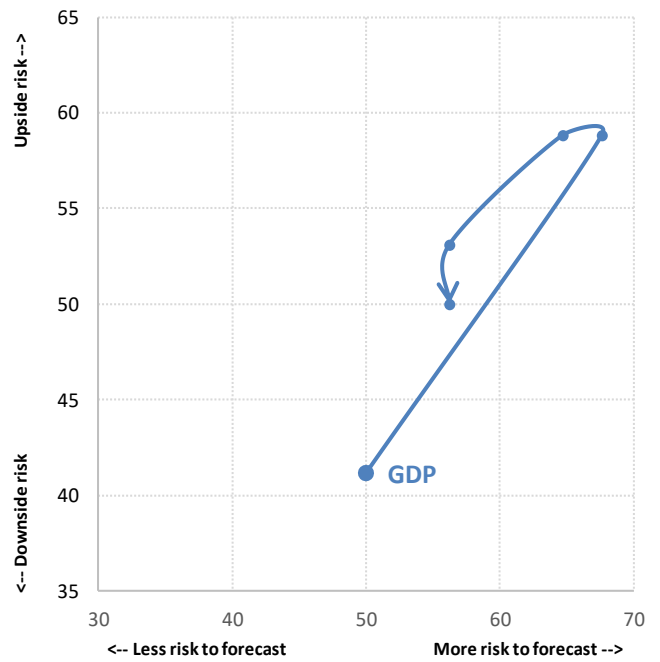
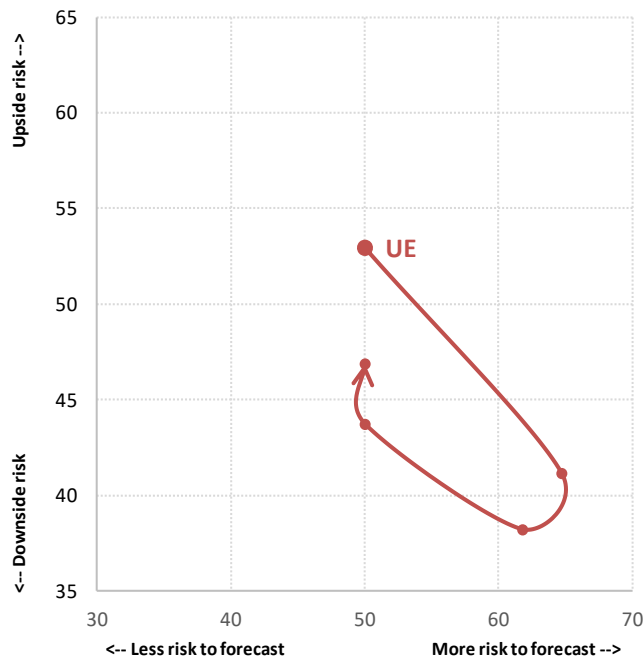
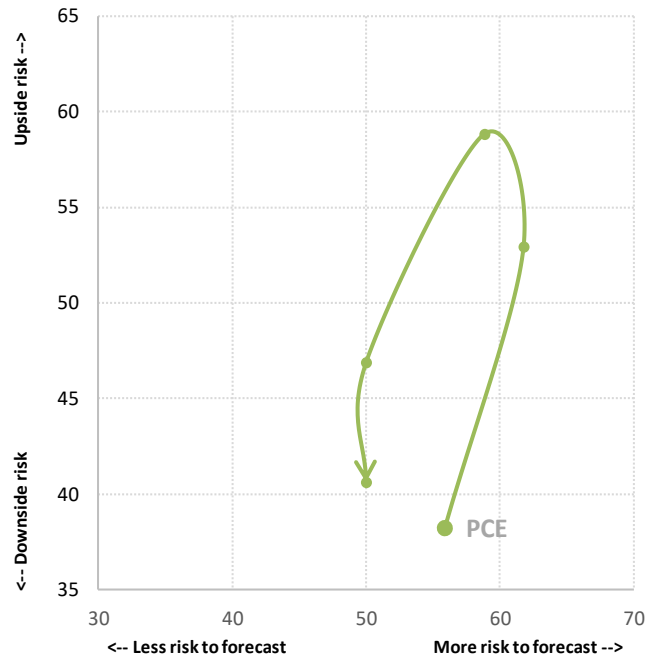
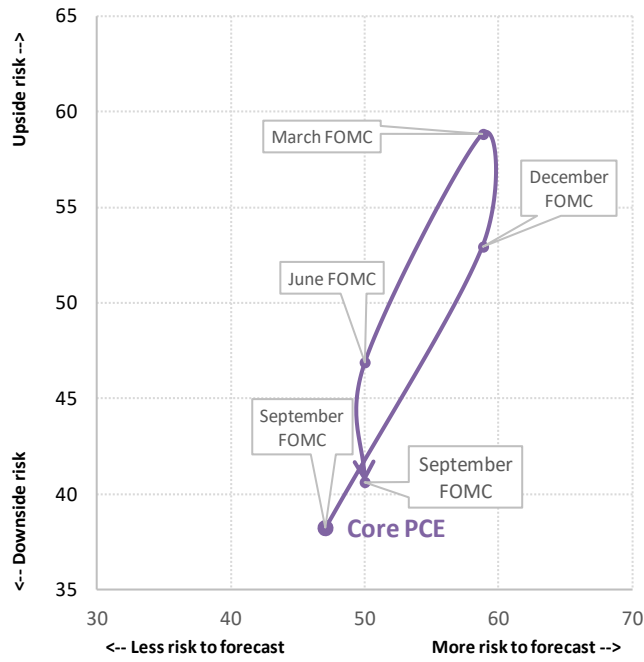
- Vote by individual participant
- Weighted average
- ▲ Taylor Rule rate based on participants' core PCE and UE estimates



Source: Federal Reserve, TrendMacro calculations

# The evolution of uncertainty

Diffusion indices from FOMC participants' risk self-assessments in Summary of Economic Projections

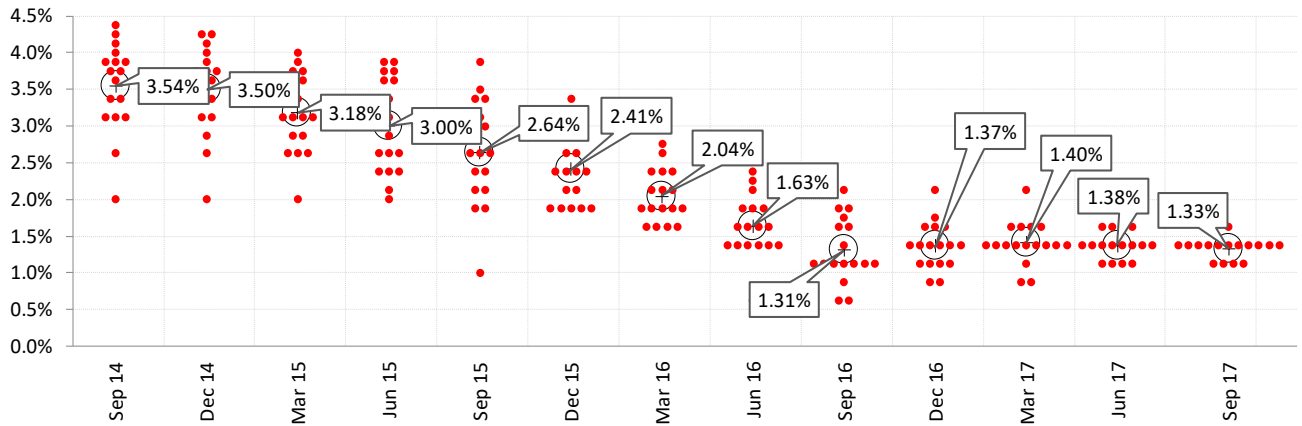


Source: Federal Reserve Board, TrendMacro calculations

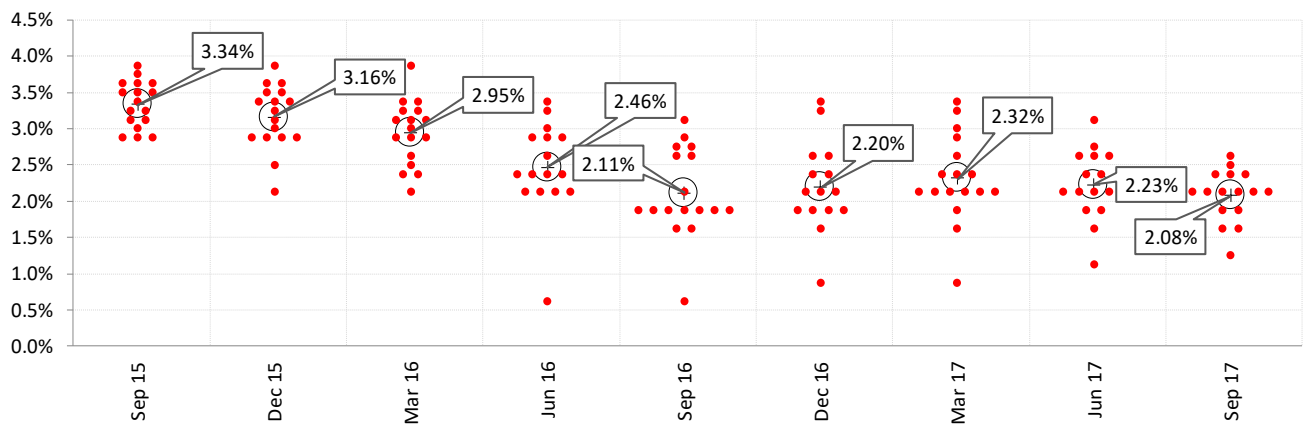
# Tracking the "dotplots" year by year

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

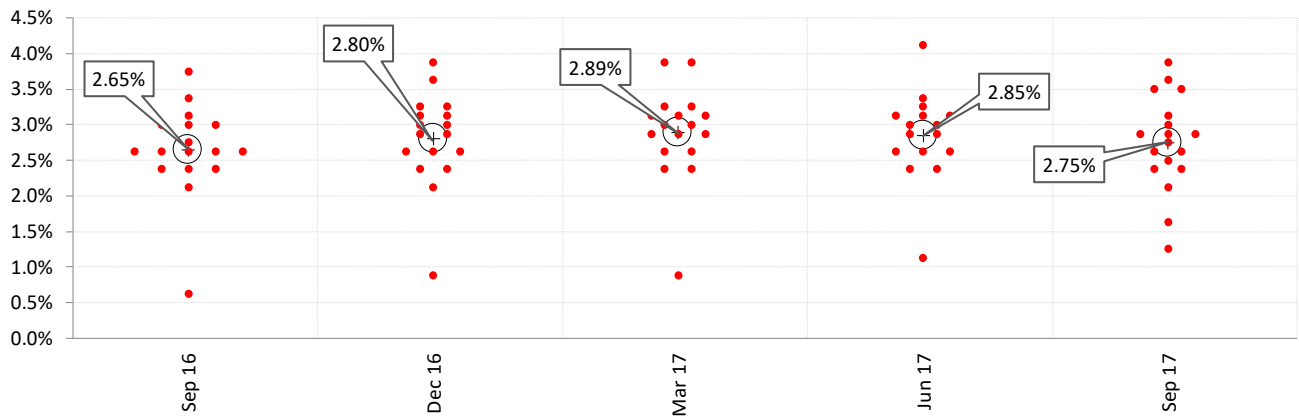
## For year-end 2017



## For year-end 2018



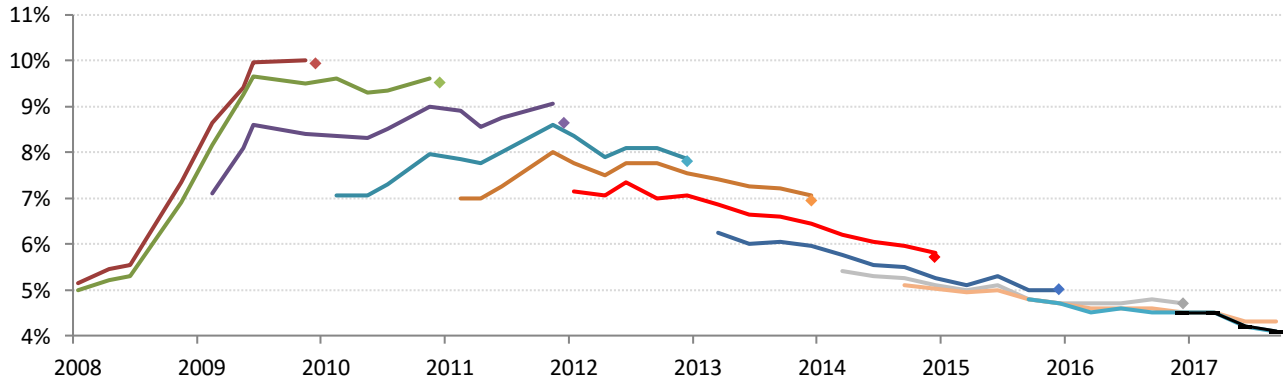
## For year-end 2019



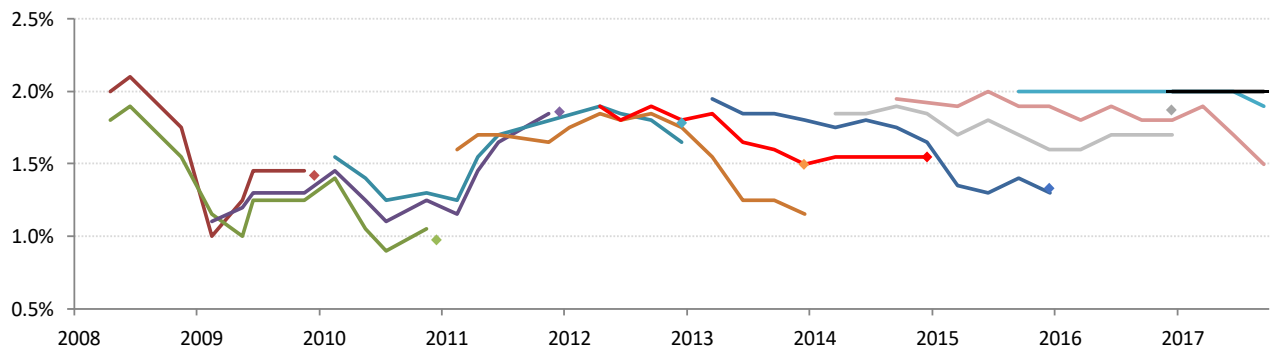
# Forecast versus actual: economic projections of the FRB and the presidents

— Forecast ◆ Actual 2009 10 11 12 13 14 15 16 17 18 2019

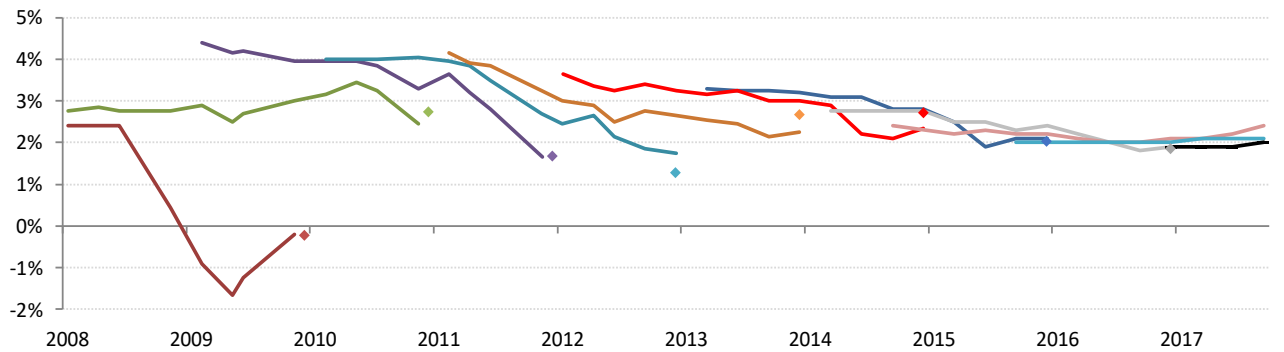
## Unemployment



## Core PCE inflation



## Real GDP

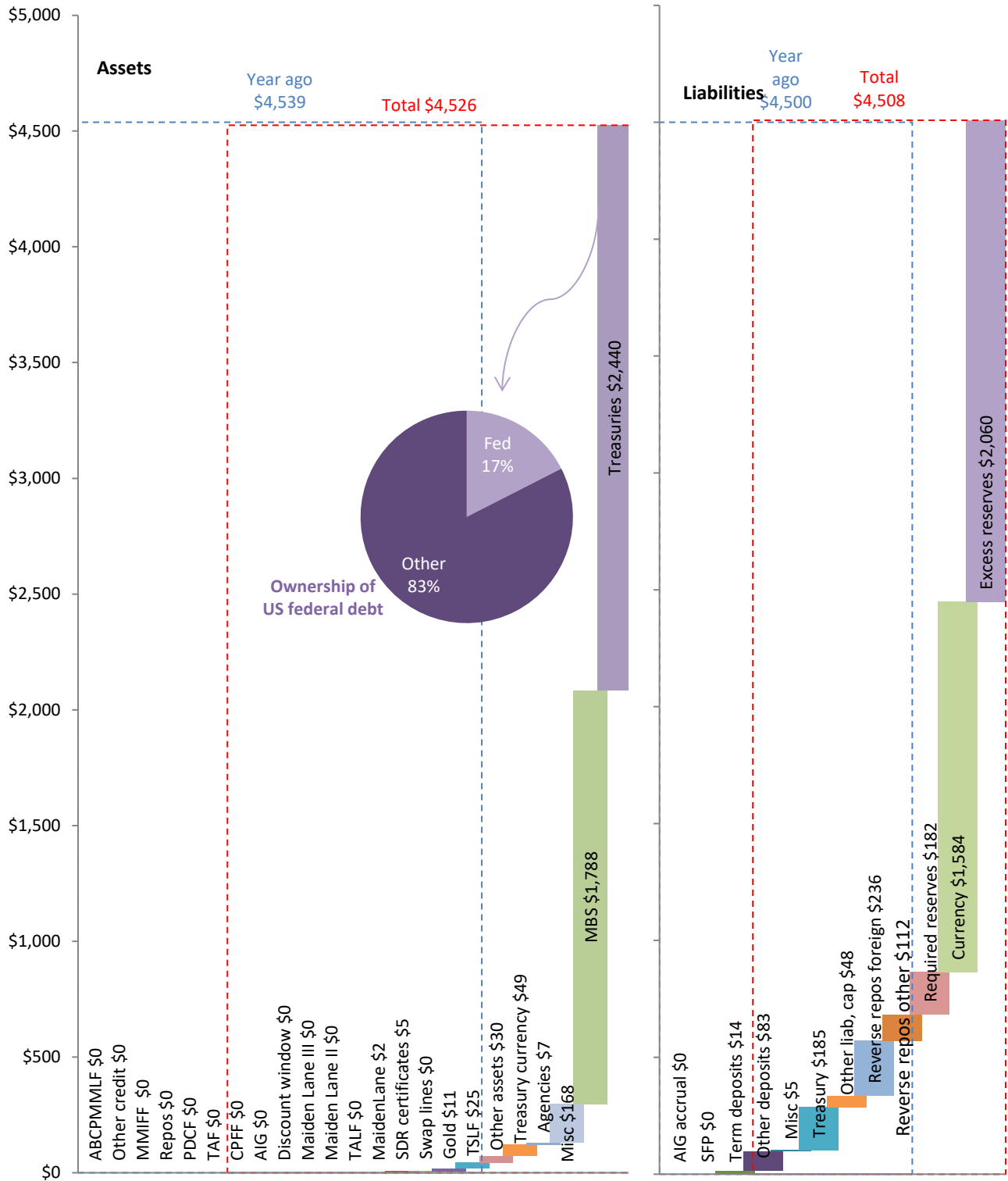


Source: Federal Reserve, BEA, BLS, TrendMacro calculations



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

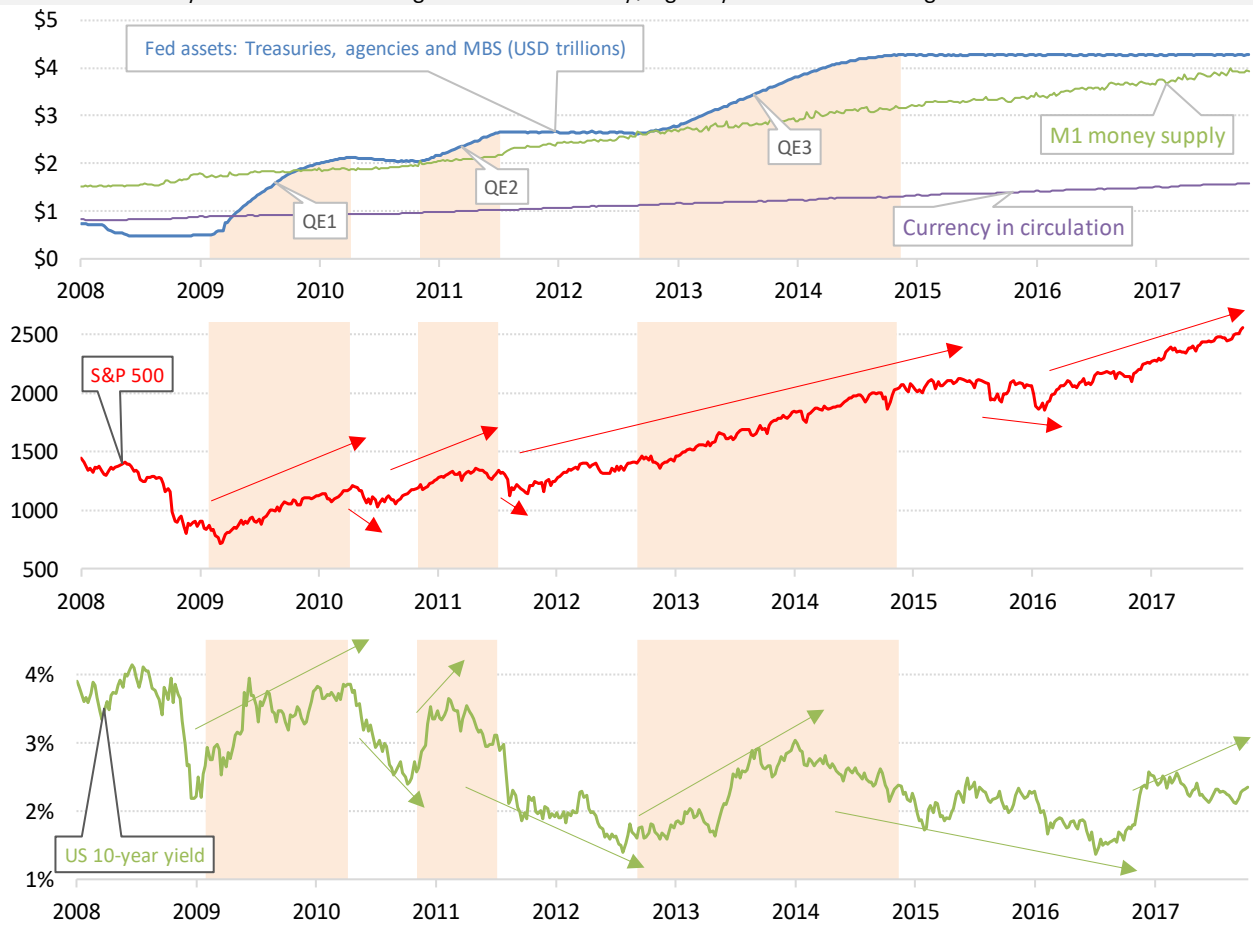
Assets do not perfectly match liabilities because we include unsettled MBS purchases and sales



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

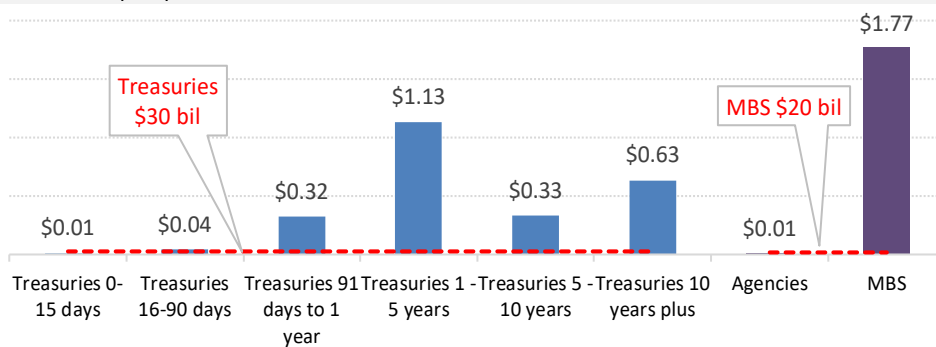
# The Fed's asset purchases, and their effects on markets

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

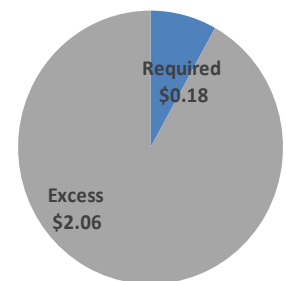


## Sector and maturity breakdown of Fed assets, USD trillions

--- Monthly cap on un-reinvested maturities



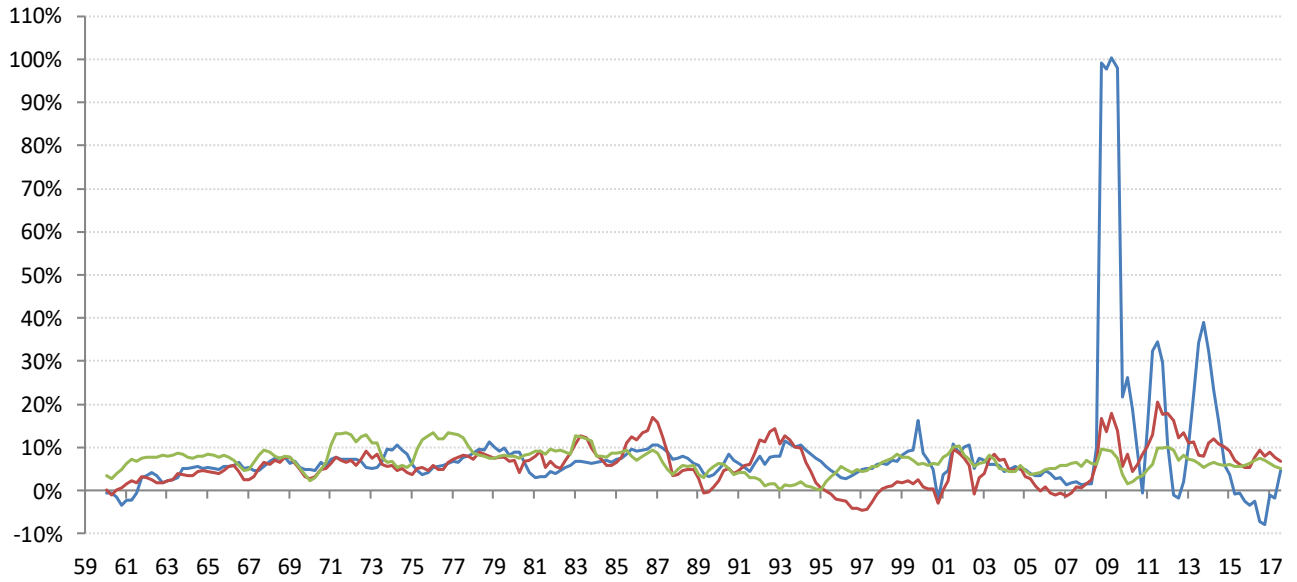
## Banking reserves, USD trillions



Source: Federal Reserve, Bloomberg, TrendMacro calculations

## Money supply growth, YOY quarterly

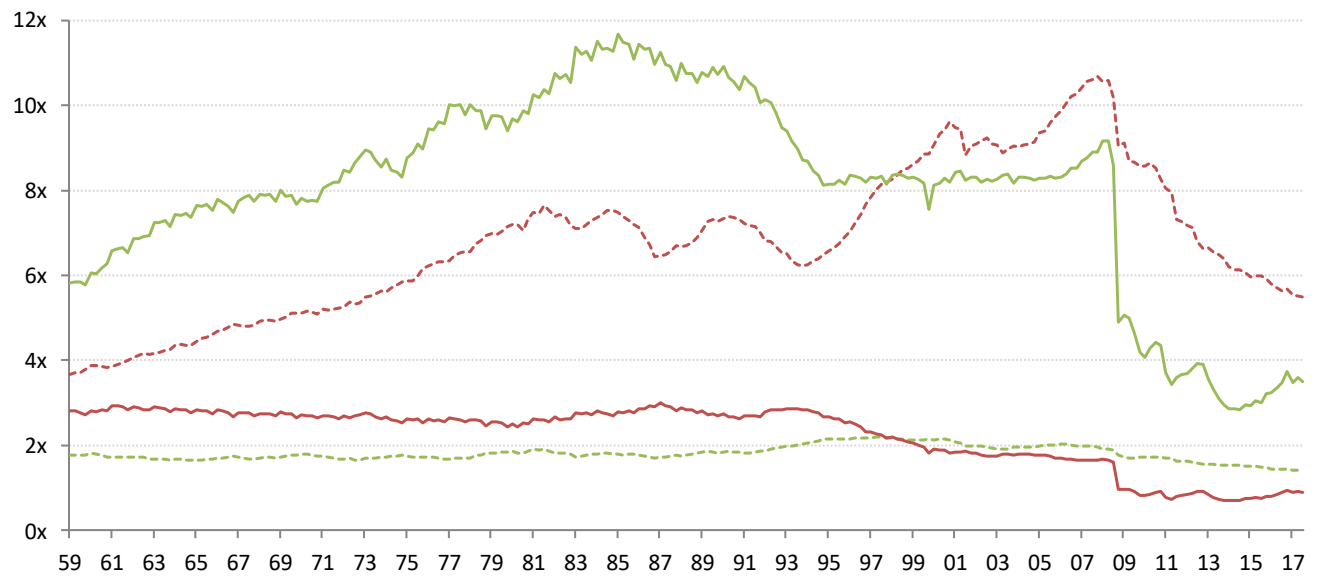
— M1 — M2 — Monetary base



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