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## Data Insights: Federal Reserve

Wednesday, December 13, 2017

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

~~November 04~~[December 13](#), 2017

### Federal Reserve issues FOMC statement

For release at 2:00 p.m. ~~EDTEST~~

Information received since the Federal Open Market Committee met in ~~September~~[November](#) indicates that the labor market has continued to strengthen and that economic activity has been rising at a solid rate ~~despite. Averaging through~~ hurricane-related ~~disruptions. Although the hurricanes caused a drop in payroll employment in September; fluctuations, job gains have been solid, and~~ the unemployment rate declined further. Household spending has been expanding at a moderate rate, and growth in business fixed investment has picked up in recent quarters. ~~Gasoline prices rose in the aftermath of the hurricanes, boosting~~ ~~On a 12-month basis, both~~ overall inflation ~~in September; however, and~~ inflation for items other than food and energy ~~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. Hurricane-related disruptions and rebuilding ~~will continue to affect~~[have affected](#) economic activity, employment, and inflation in ~~the near term; recent months~~ but ~~past experience suggests that the storms are unlikely to~~[have not](#) materially ~~alter~~[altered](#) the ~~course of outlook for~~ 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~~[remain strong](#). 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~~[raise](#) the target range for the federal funds rate ~~at 1~~ to 1-1/4 ~~to~~ 1-1/2 percent. The stance of monetary policy remains accommodative, thereby supporting ~~some further strengthening in~~[strong](#) 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.

~~The balance sheet normalization program initiated in October 2017 is proceeding.~~

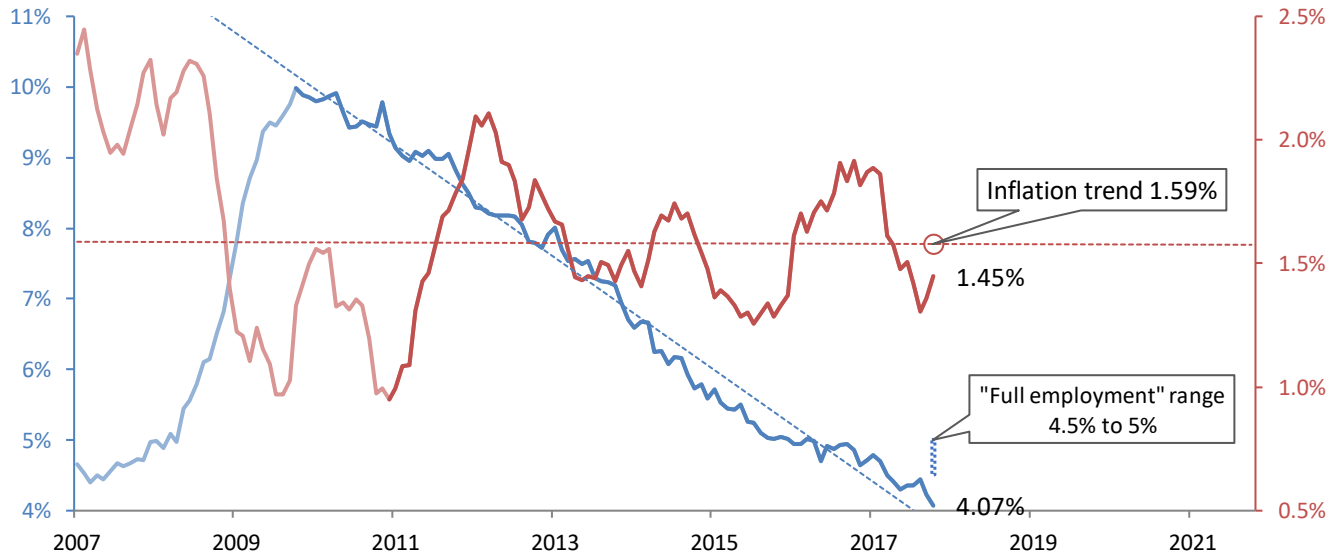
Voting for the FOMC monetary policy action were: Janet L. Yellen, Chair; William C. Dudley, Vice Chairman; Lael Brainard; ~~Charles L. Evans~~; Patrick Harker; Robert S. Kaplan; ~~Neel Kashkari~~; Jerome H. Powell; and Randal K. Quarles. Voting against the action were Charles L. Evans and Neel Kashkari, who preferred at this meeting to maintain the existing target range for the federal funds rate.

Source: FOMC, TrendMacro analysis



## The dual mandate: garbage in, garbage out

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

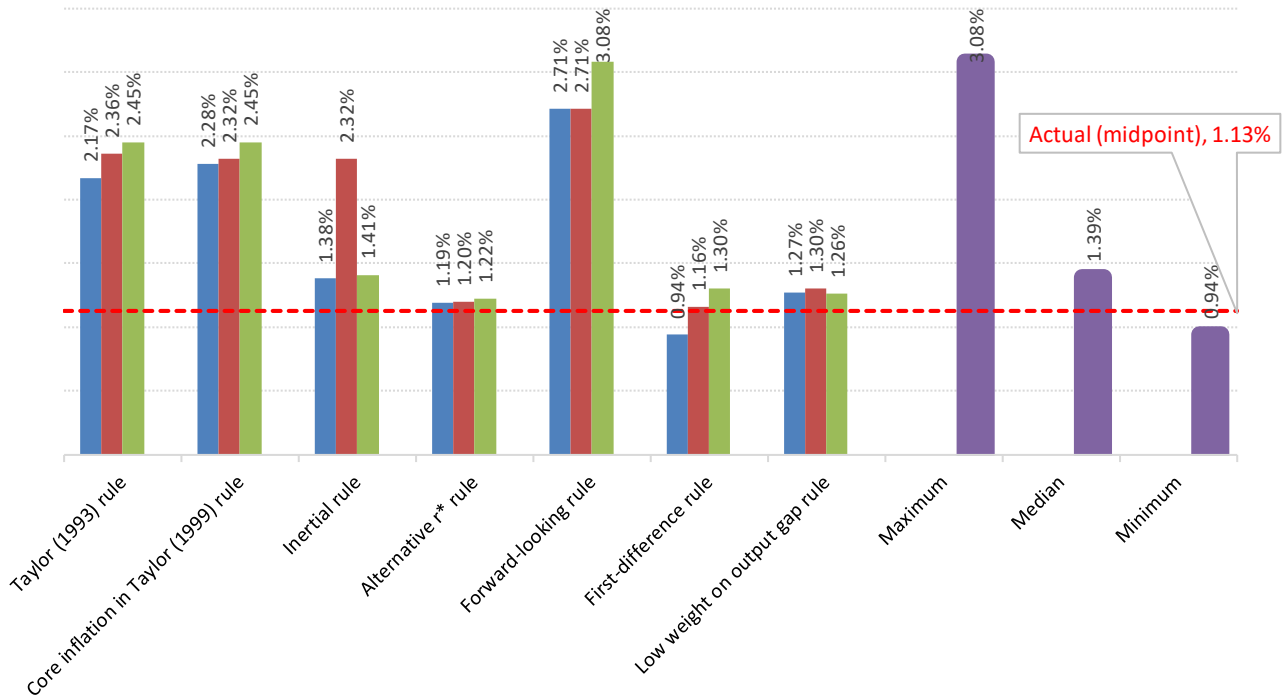


Source: BLS Current Population Survey, TrendMacro calculations

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

As of November 21, 2017    Based on inputs from:

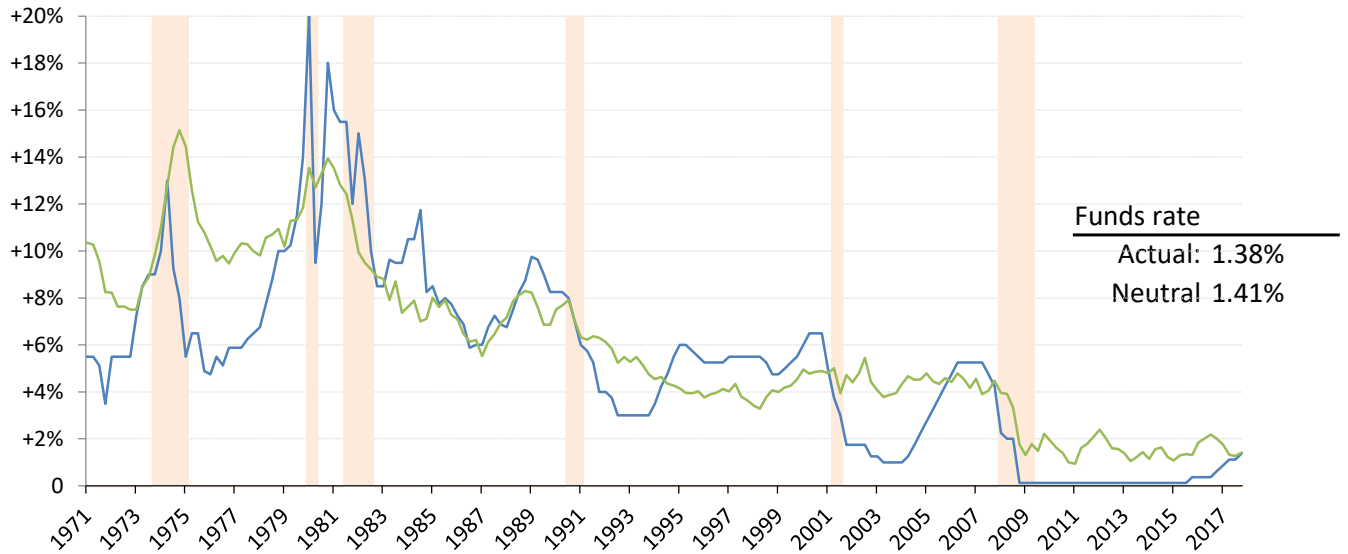
■ FOMC Summary of Economic Projections    ■ Congressional Budget Office    ■ Cleveland Fed



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

## Estimating the "natural rate of interest"

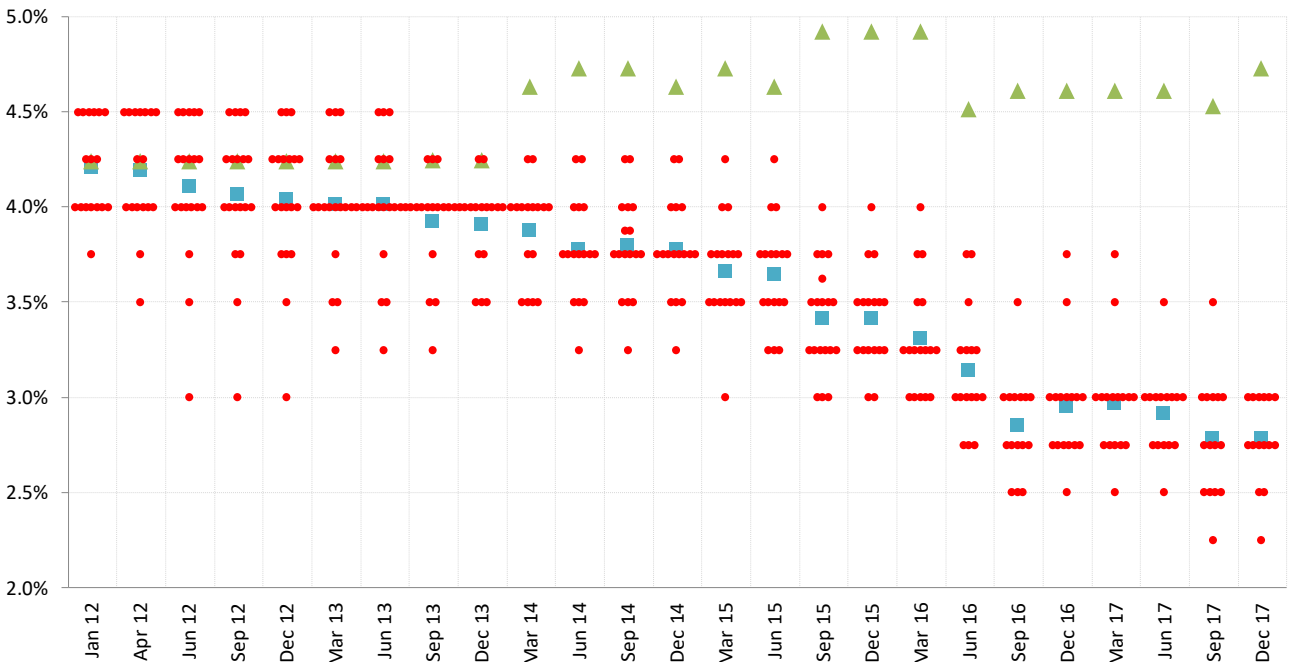
— Actual funds rate — Neutral real funds rate (Laubach-Williams + YOY Core PCE) — Recession



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

## "R-star" – the ultimate "dotplot"

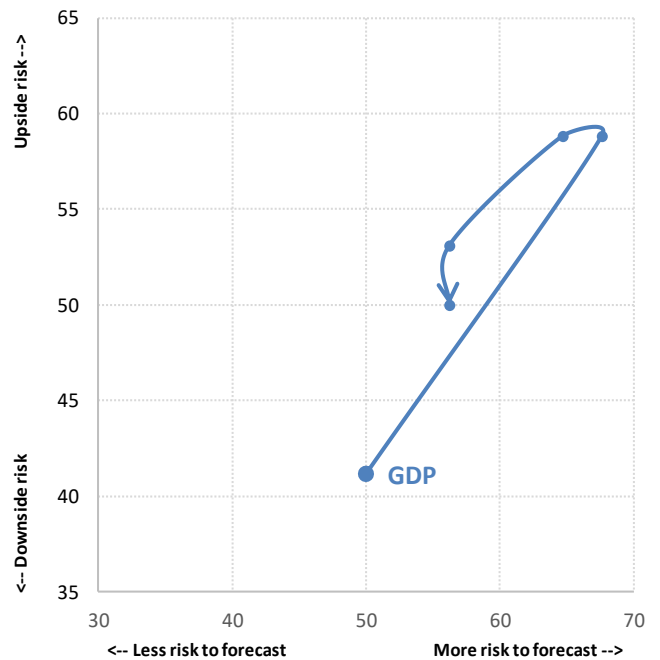
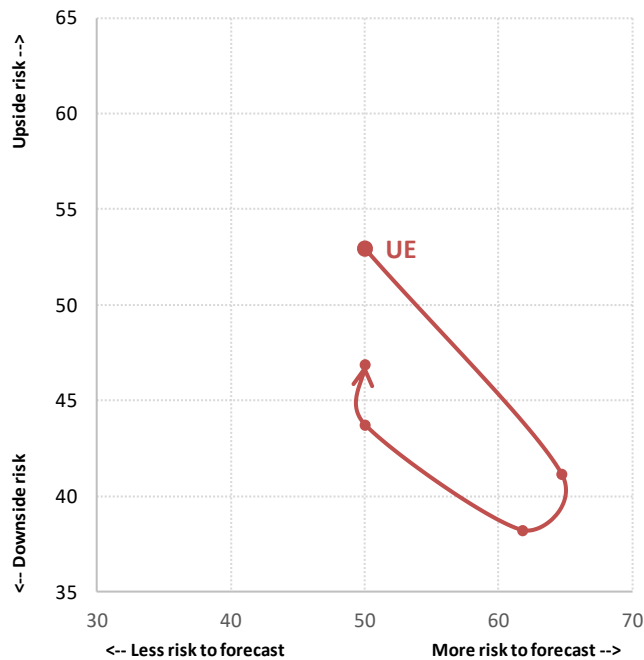
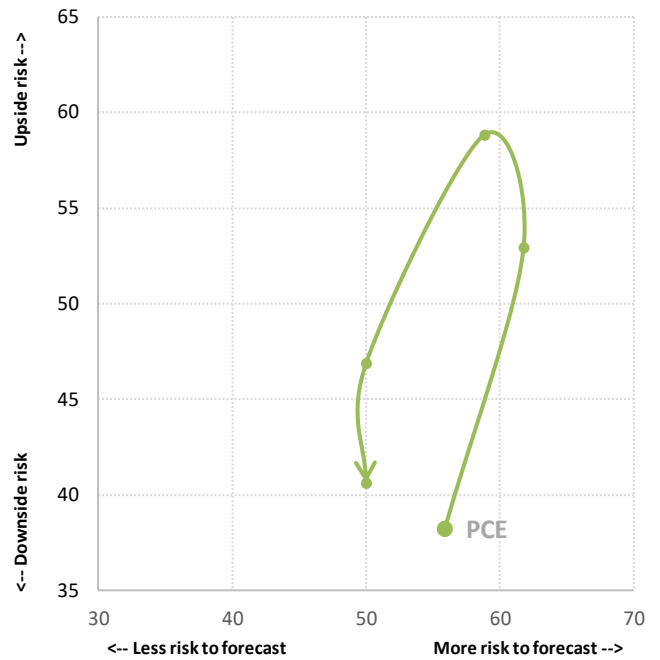
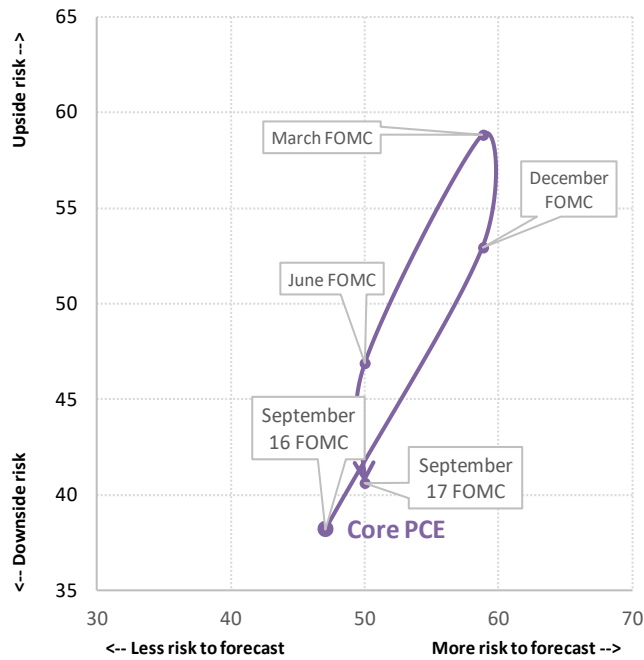
FOMC participants' estimate of "longer run" target fed funds rate ● Vote by individual participant  
 ■ Weighted average ▲ Taylor Rule rate based on participants' core PCE and UE estimates



Source: Federal Reserve, TrendMacro calculations

# The evolution of uncertainty

Diffusion indices from FOMC participants' risk self-assessments in Summary of Economic Projections  
 As of September 2017. Updated in three weeks in Data Insights: FOMC Minutes

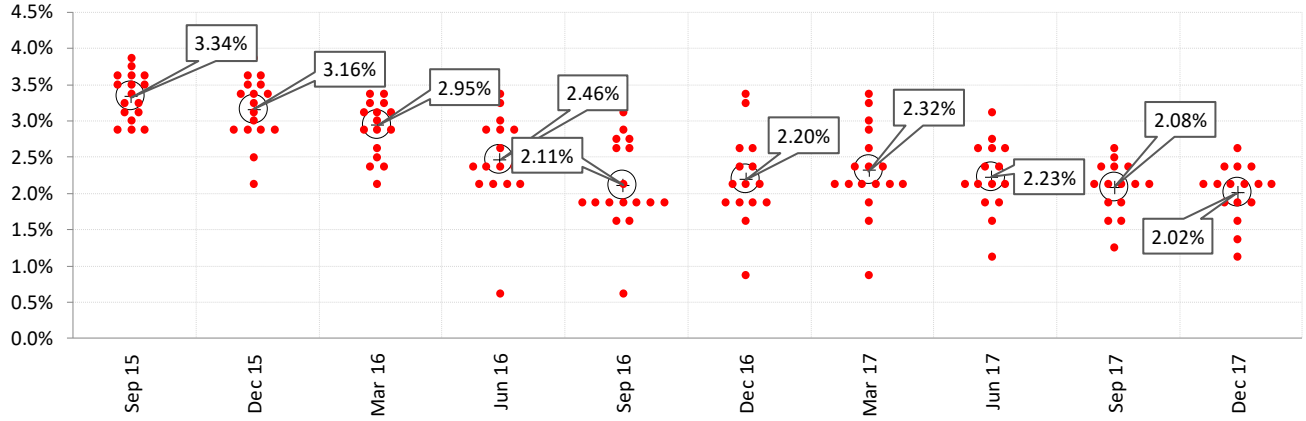


Source: Federal Reserve Board, TrendMacro calculations

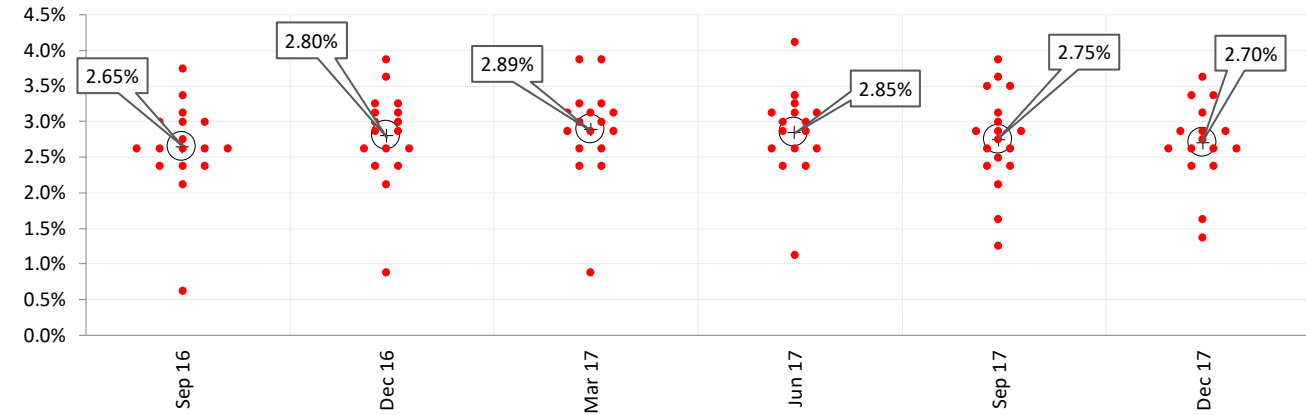
# Tracking the "dotplots" year by year

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

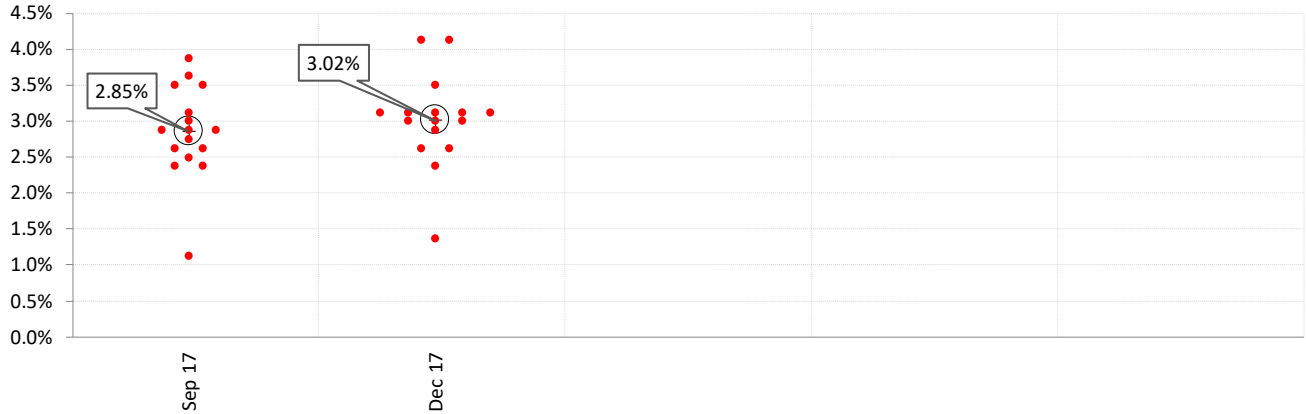
## For year-end 2018



## For year-end 2019



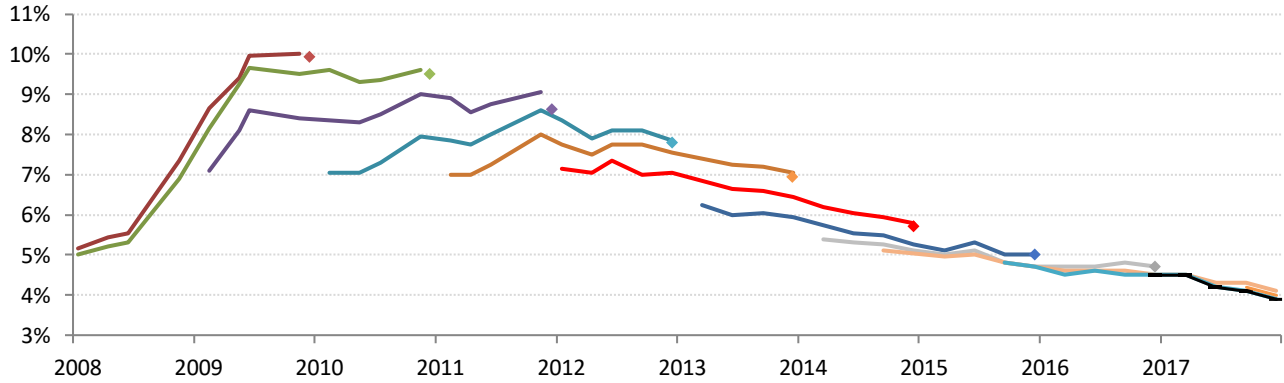
## For year-end 2020



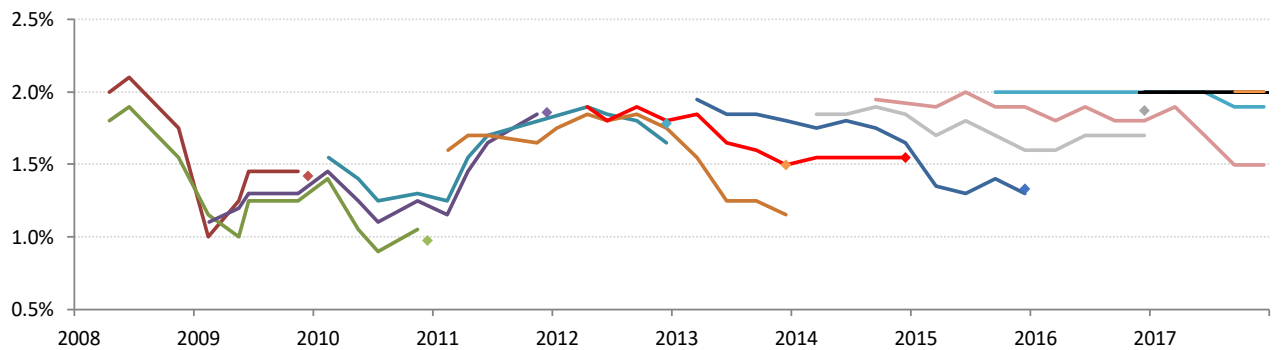
# Forecast versus actual: economic projections of the FRB and the presidents

— Forecast ◆ Actual 2009 10 11 12 13 14 15 16 17 18 19 2020

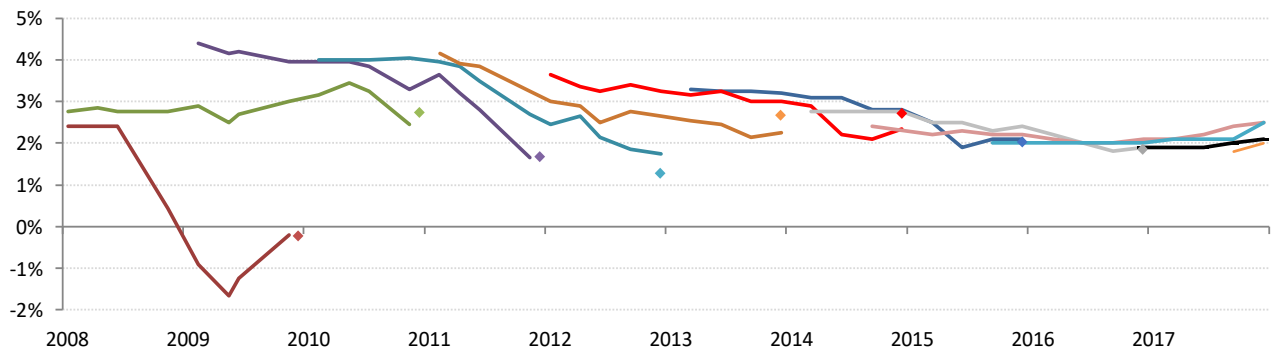
## Unemployment



## Core PCE inflation



## Real GDP

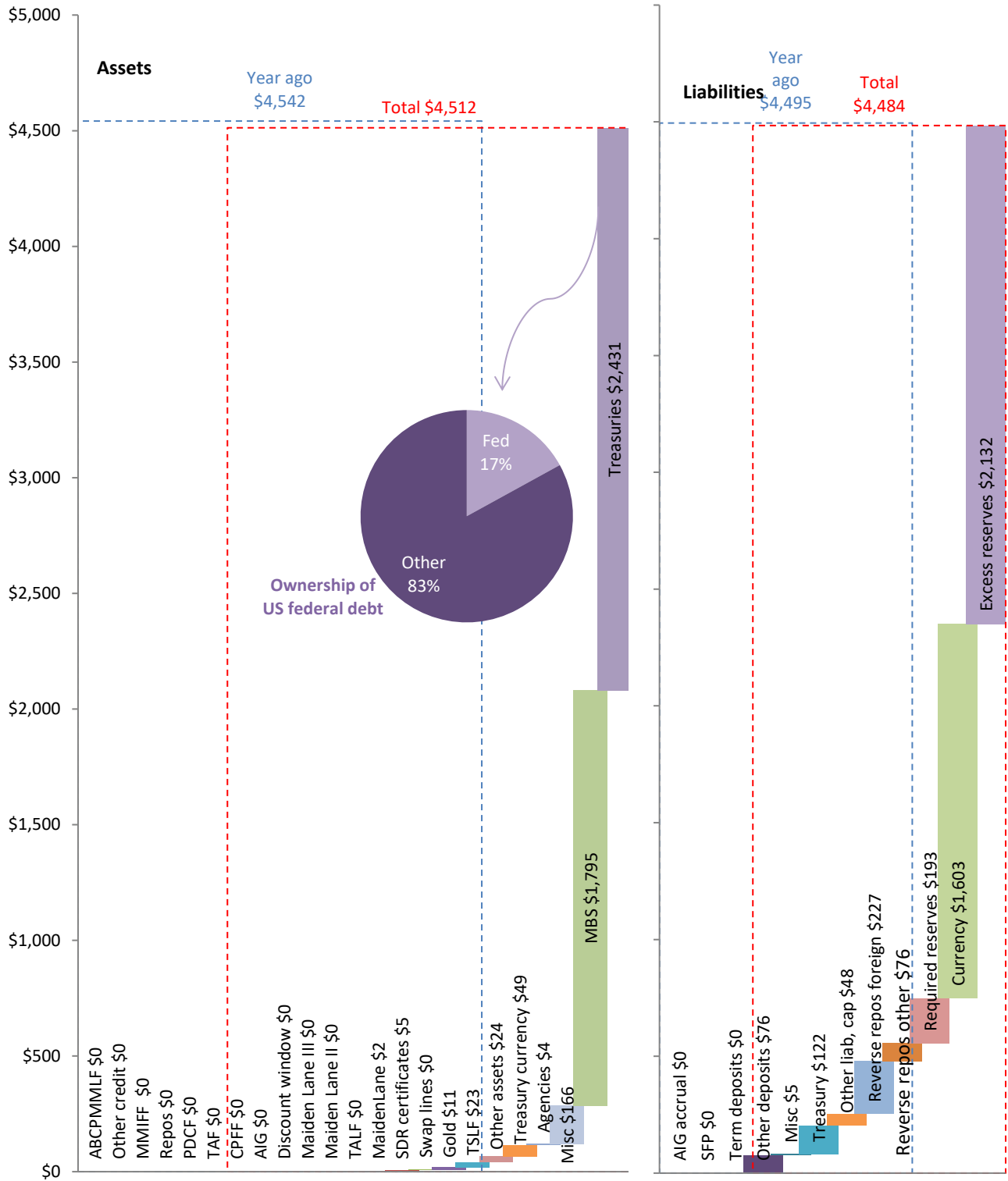


Source: Federal Reserve, BEA, BLS, TrendMacro calculations



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

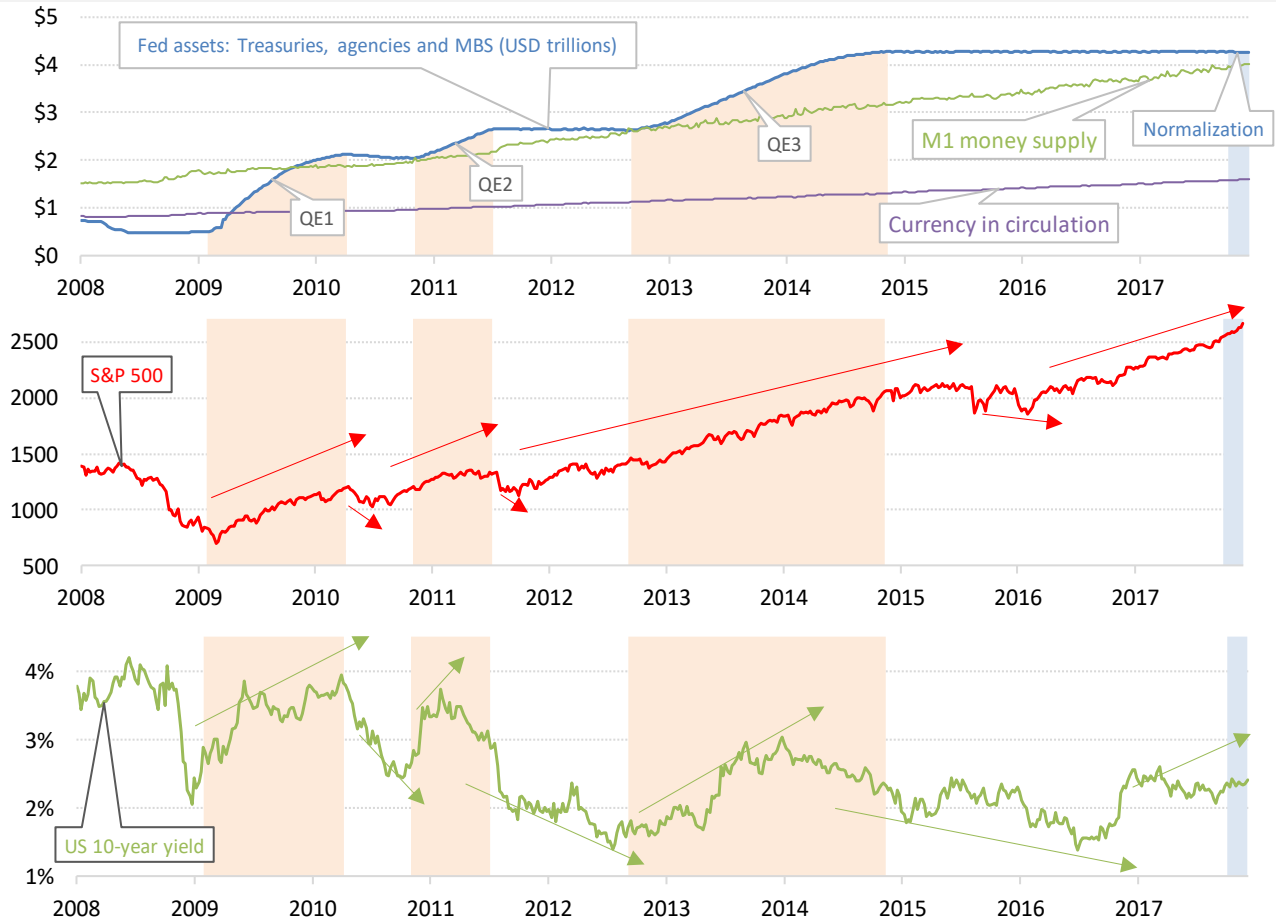
Assets do not perfectly match liabilities because we include unsettled MBS purchases and sales



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

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

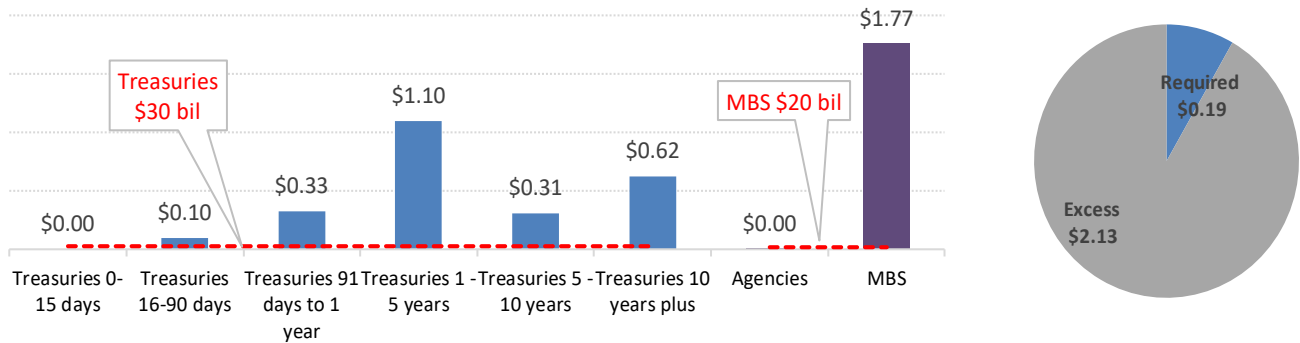
Stocks and bond yields react to changes in Fed Treasury, agency and MBS holdings



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

--- Monthly cap on un-reinvested maturities

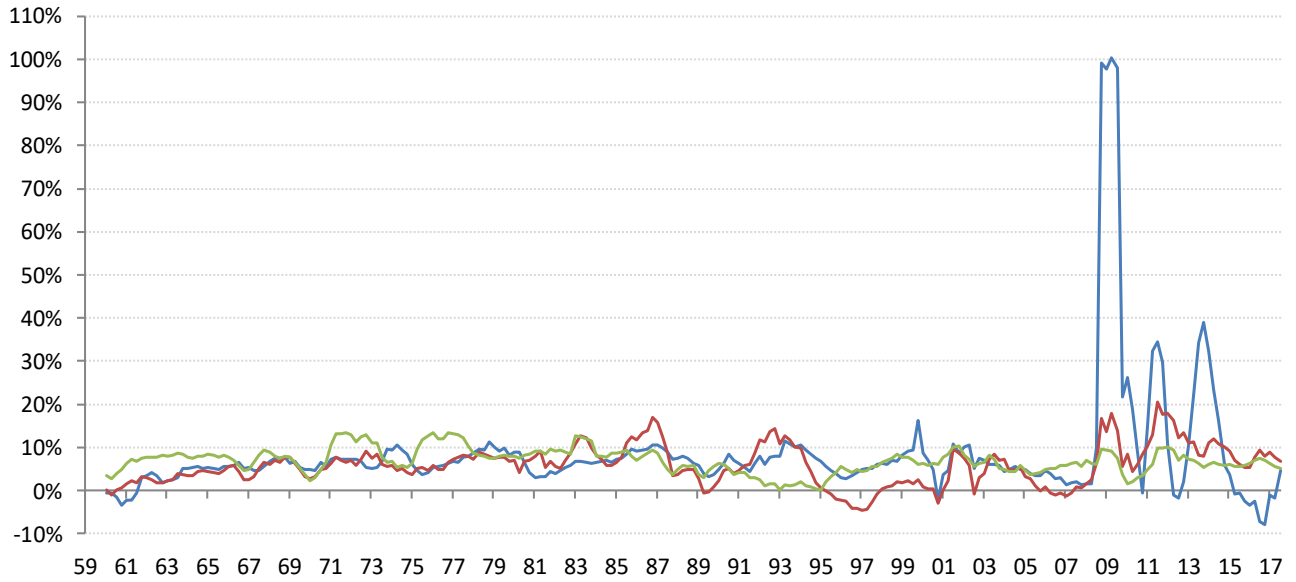
## Banking reserves, USD trillions



Source: Federal Reserve, Bloomberg, TrendMacro calculations

## Money supply growth, YOY quarterly

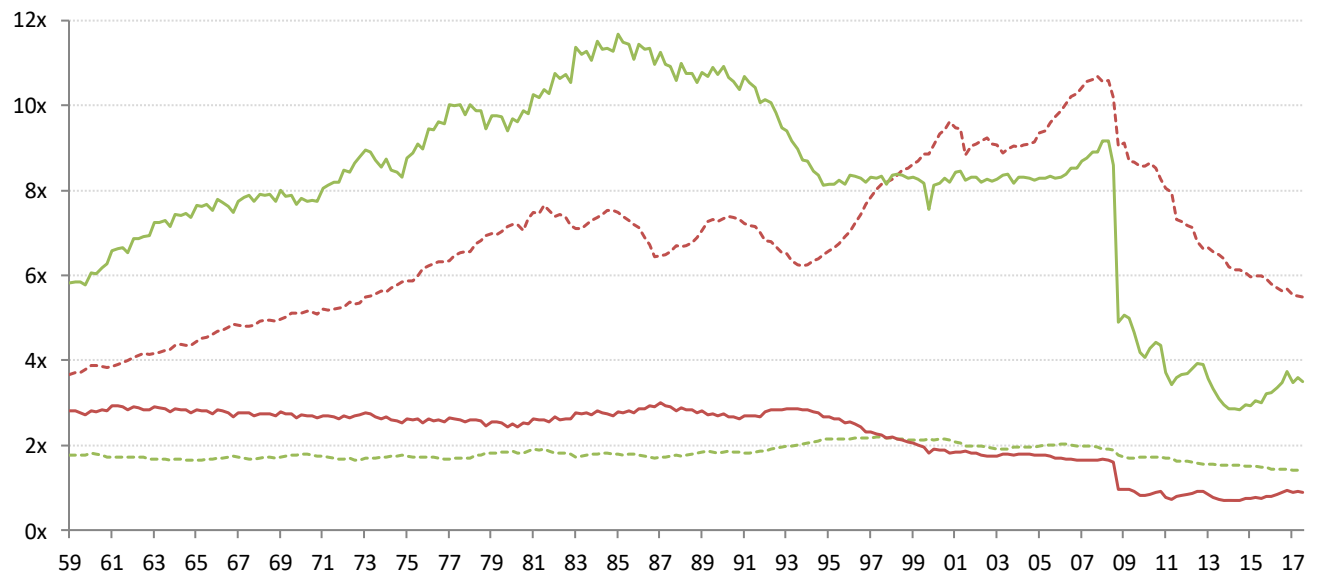
— M1 — M2 — Monetary base



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