
Data Insights: Federal Reserve

Wednesday, January 31, 2018

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

~~December 13, 2017~~

[January 31, 2018](#)

Federal Reserve issues FOMC statement

For release at 2:00 p.m. EST

Information received since the Federal Open Market Committee met in ~~November~~December indicates that the labor market has continued to strengthen and that economic activity has been rising at a solid rate. ~~Averaging through hurricane-related fluctuations, job gains~~Gains in employment, household spending, and business fixed investment 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~~stayed low. On a 12-month basis, both overall inflation and inflation for items other than food and energy have ~~declined this year and are running~~continued to run below 2 percent. Market-based measures of inflation compensation have increased in recent months but 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 have affected economic activity, employment, and inflation in recent months but have not materially altered the outlook for the national economy. Consequently, the Committee continues to expect that, with~~The Committee expects that, with further gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market conditions will remain strong. Inflation on a 12-month basis is expected to ~~remain somewhat below 2 percent in the near term but~~move up this year and 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 ~~raise~~maintain the target range for the federal funds rate ~~at~~ 1-1/4 to 1-1/2 percent. The stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return to 2 percent inflation.

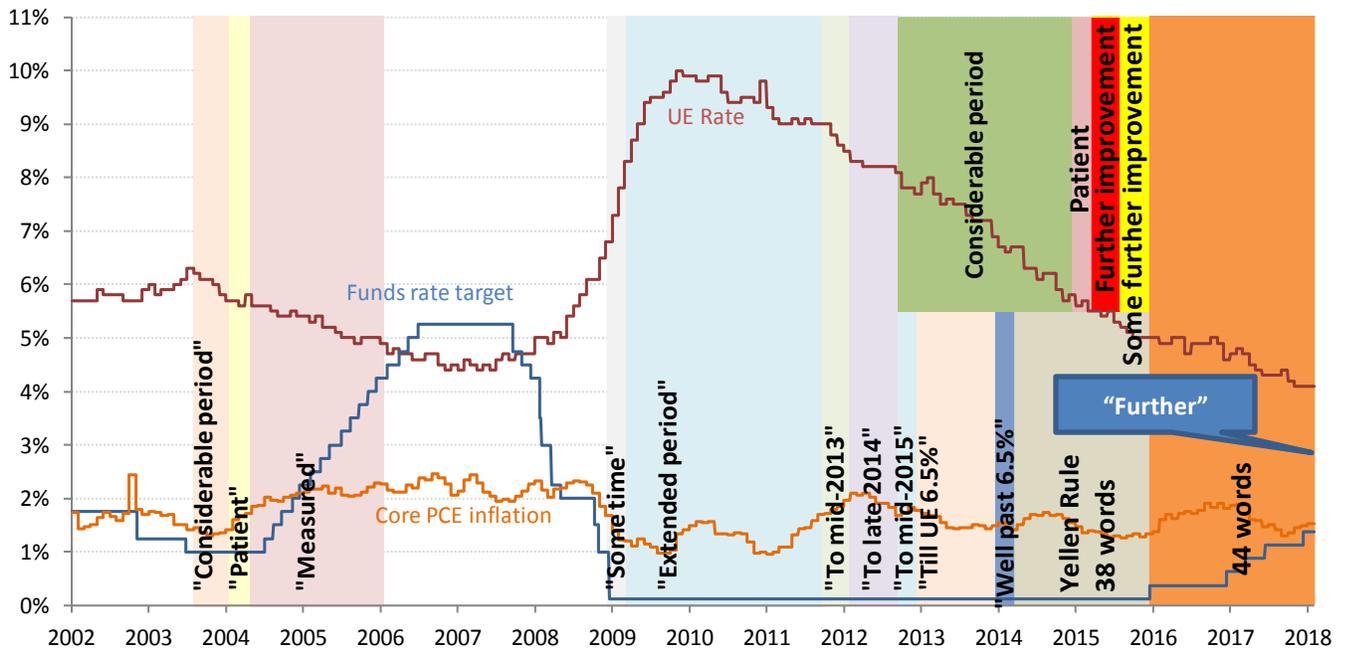
In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of

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 further 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.

Voting for the FOMC monetary policy action were Janet L. Yellen, Chair; William C. Dudley, Vice Chairman; Thomas I. Barkin; Raphael W. Bostic; Lael Brainard; ~~Patrick Harker; Robert S. Kaplan~~Loretta J. Mester; 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; and John C. Williams.~~

Source: FOMC, TrendMacro analysis

Fedspeak regime change: the evolution of forward guidance



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

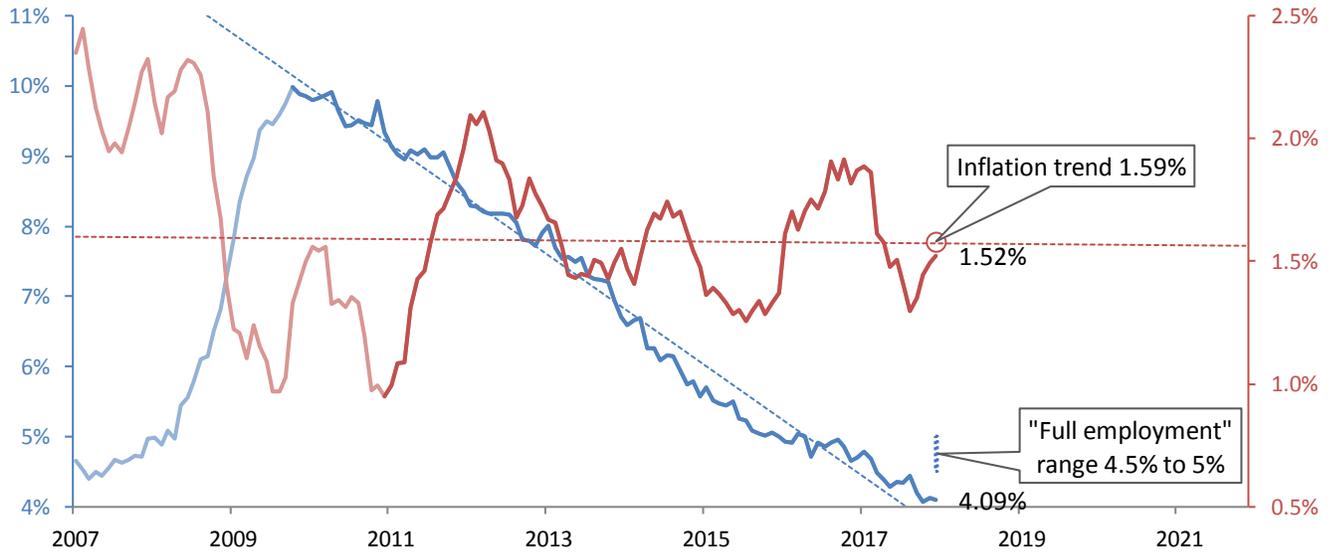
Other voices: number and direction of FOMC decision dissents



Source: FOMC, TrendMacro calculations

The dual mandate: garbage in, garbage out

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

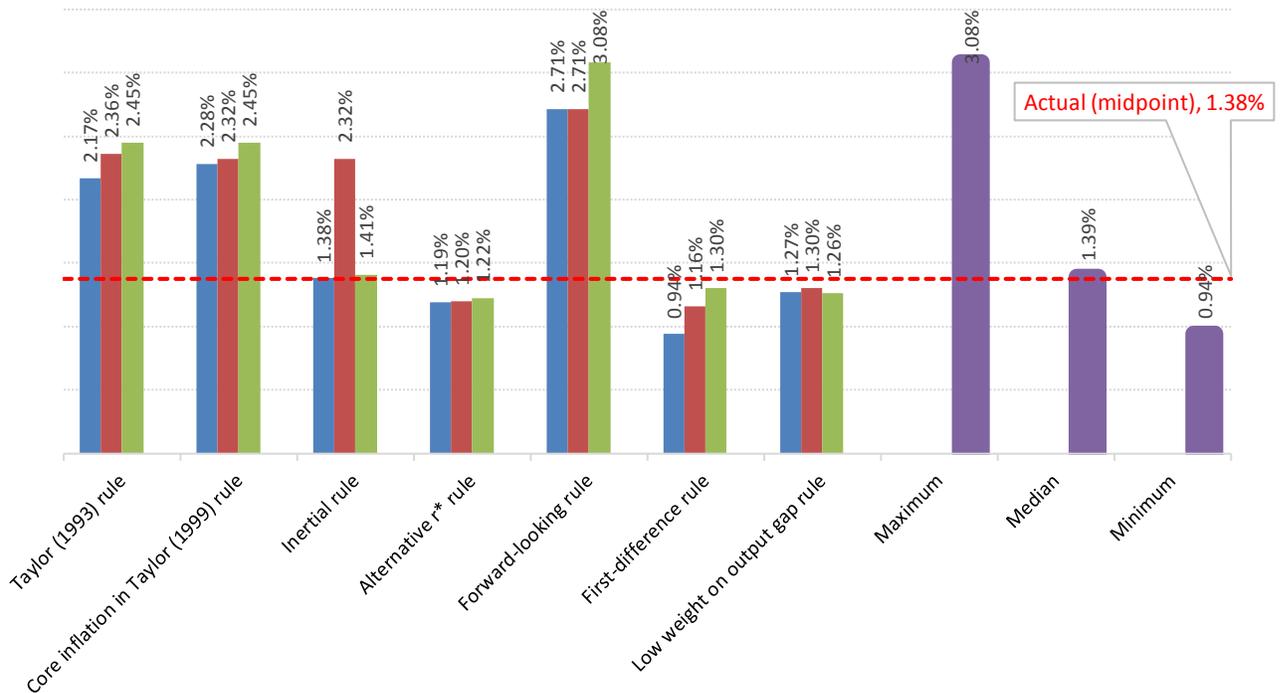


Source: BLS Current Population Survey, TrendMacro calculations

So many policy rules, so little time...

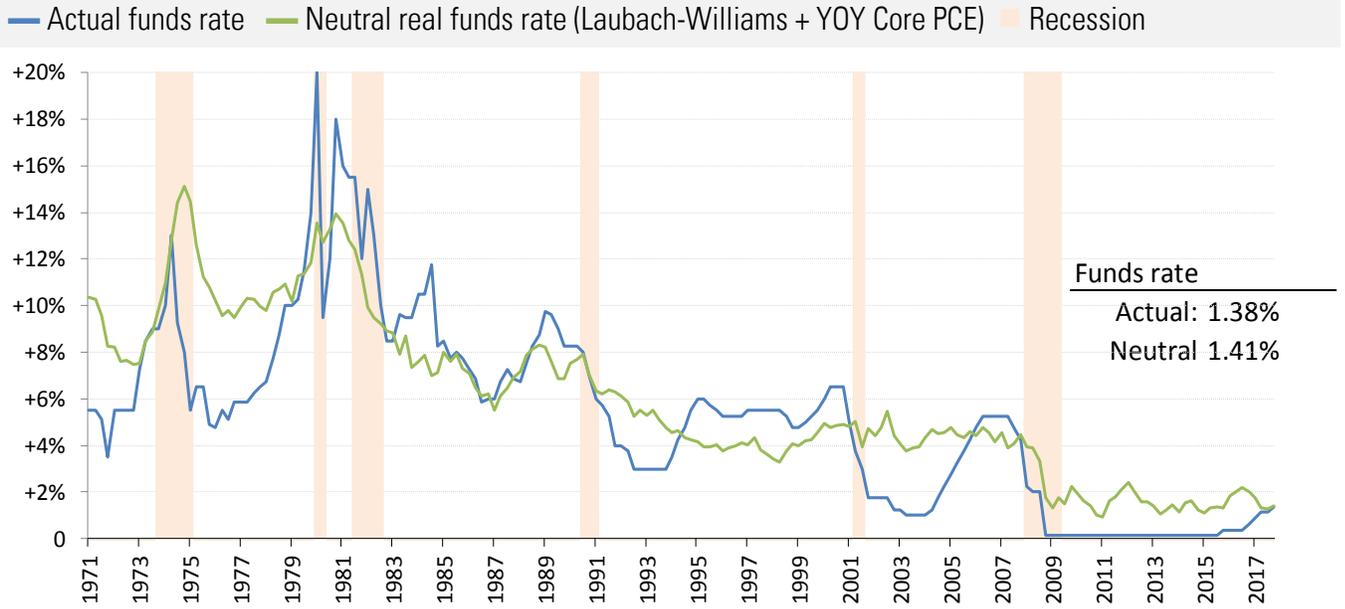
As of November 21, 2017 Based on inputs from:

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



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

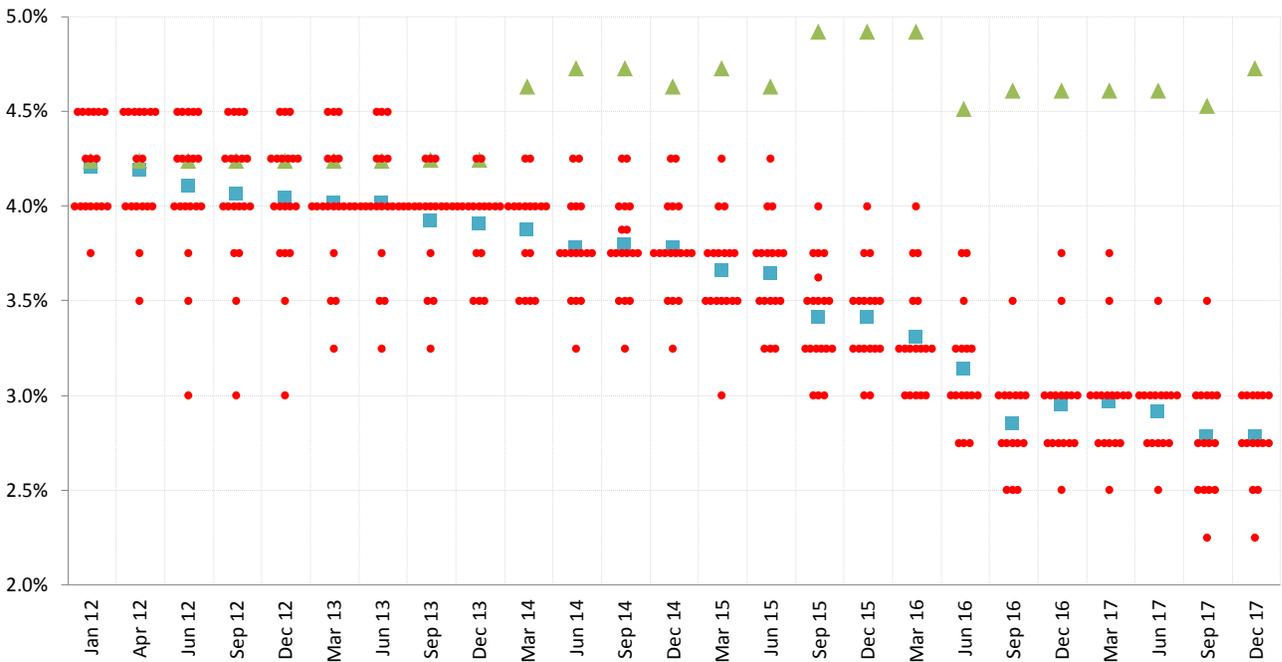
Estimating the "natural rate of interest"



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

"R-star" – the ultimate "dotplot"

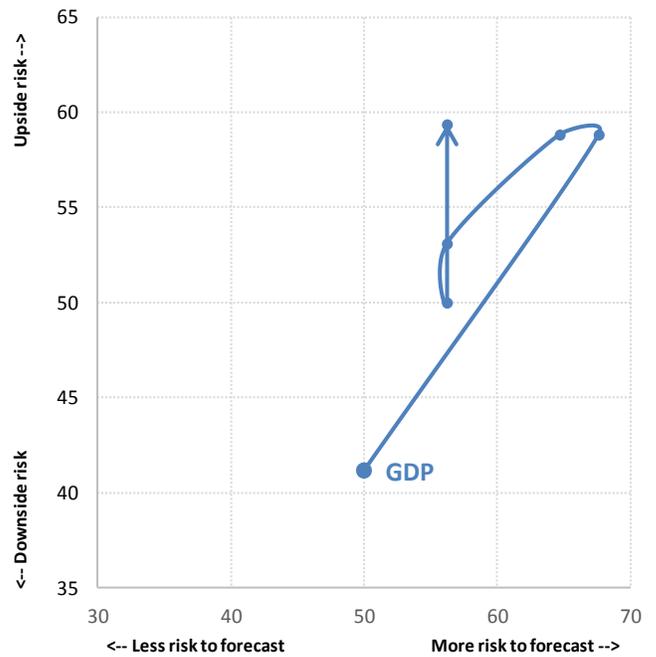
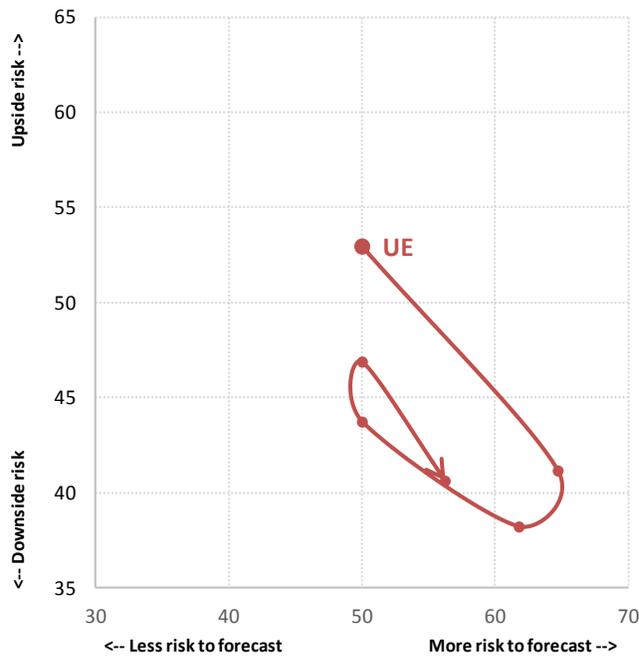
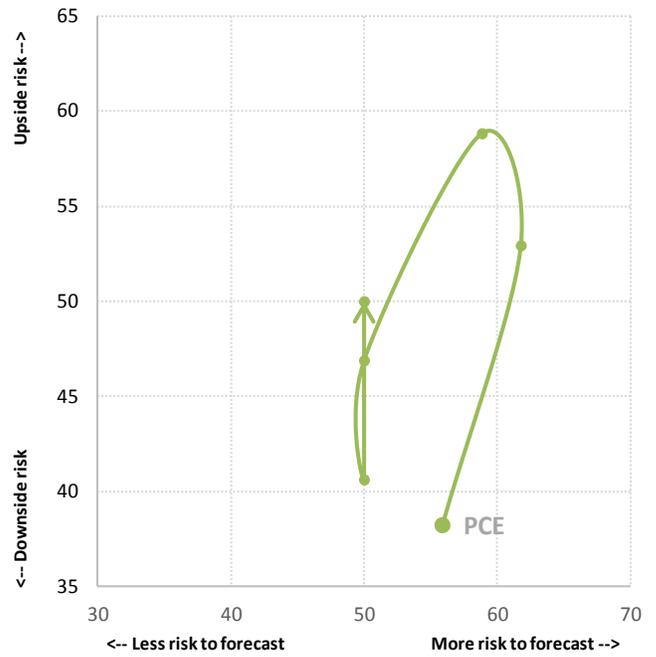
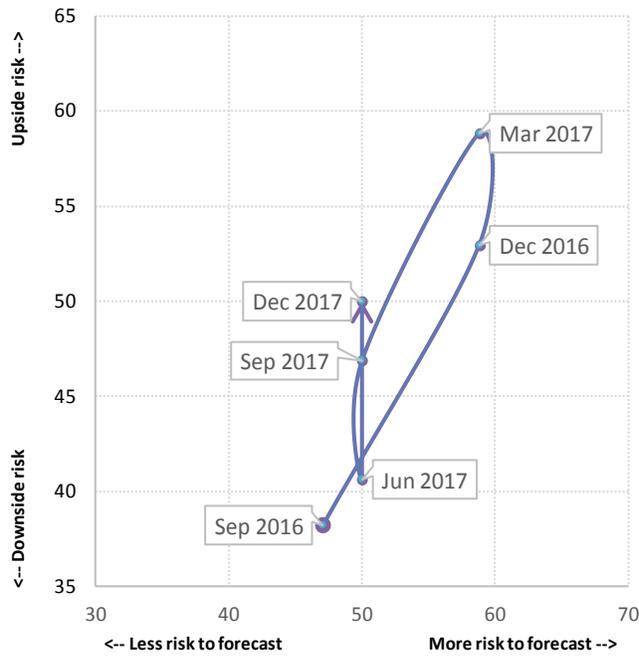
FOMC participants' estimate of "longer run" target fed funds rate ● Vote by individual participant
■ Weighted average ▲ Taylor Rule rate based on participants' core PCE and UE estimates



Source: Federal Reserve, TrendMacro calculations

The evolution of uncertainty

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

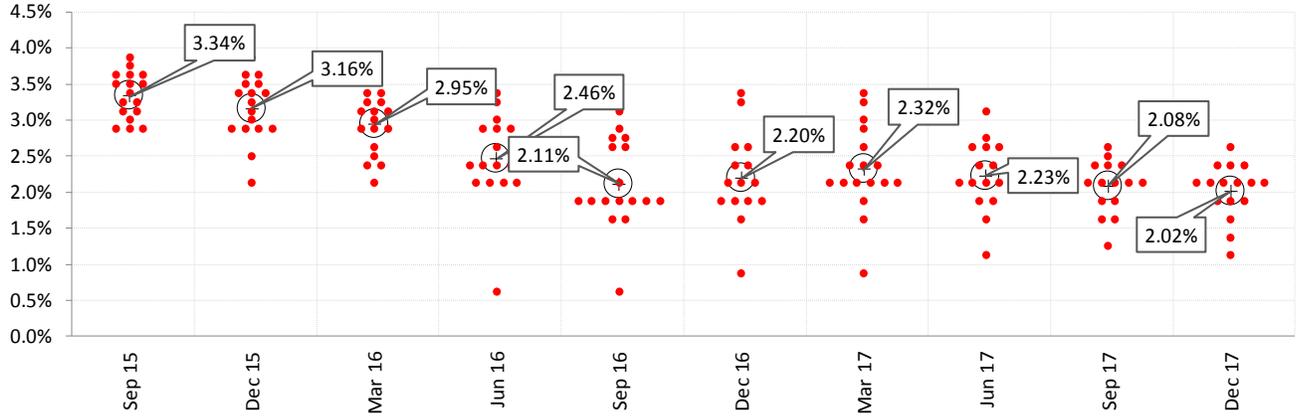


Source: Federal Reserve Board, TrendMacro calculations

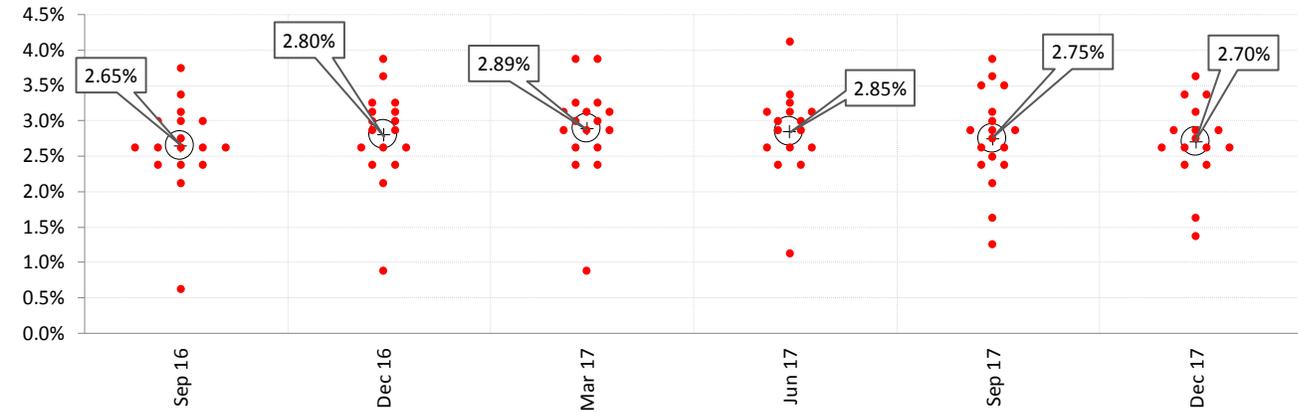
Tracking the "dotplots" year by year

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

For year-end 2018



For year-end 2019



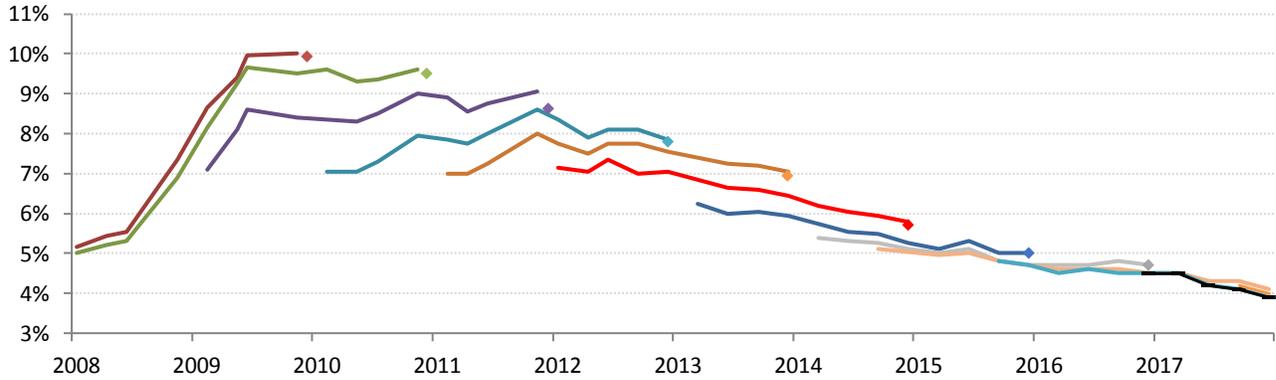
For year-end 2020



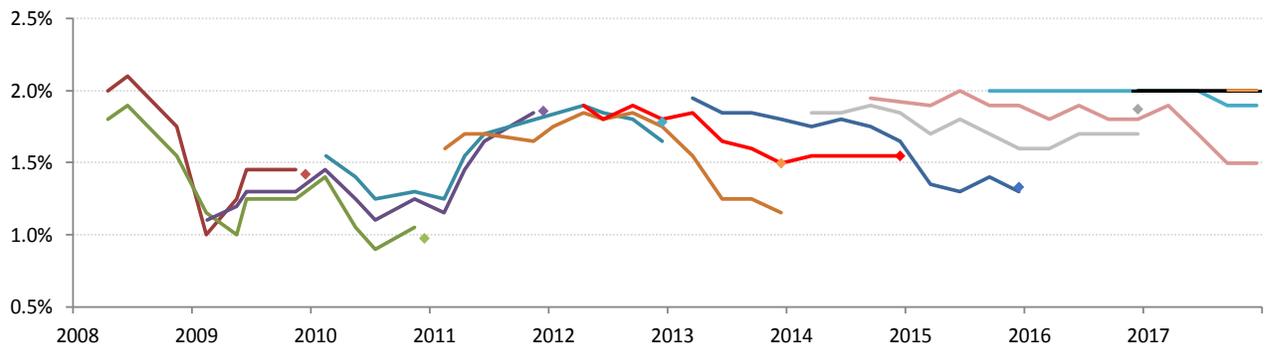
Forecast versus actual: economic projections of the FRB and the presidents

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

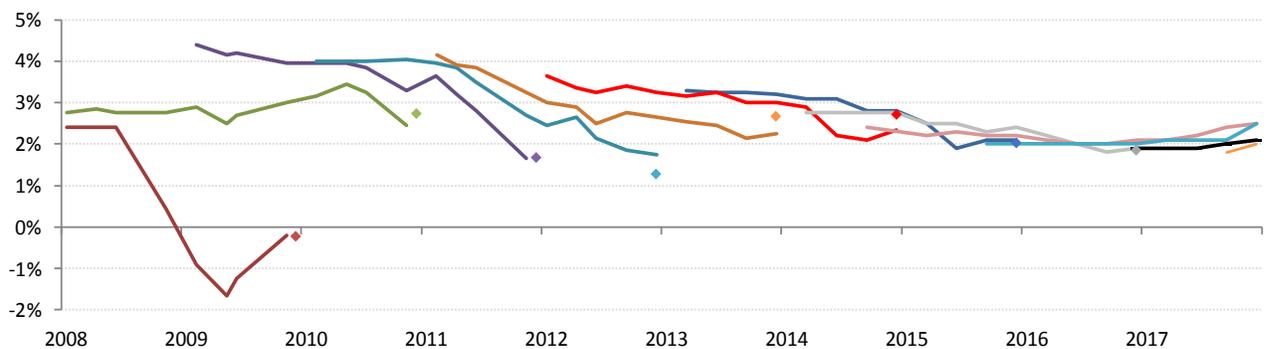
Unemployment



Core PCE inflation



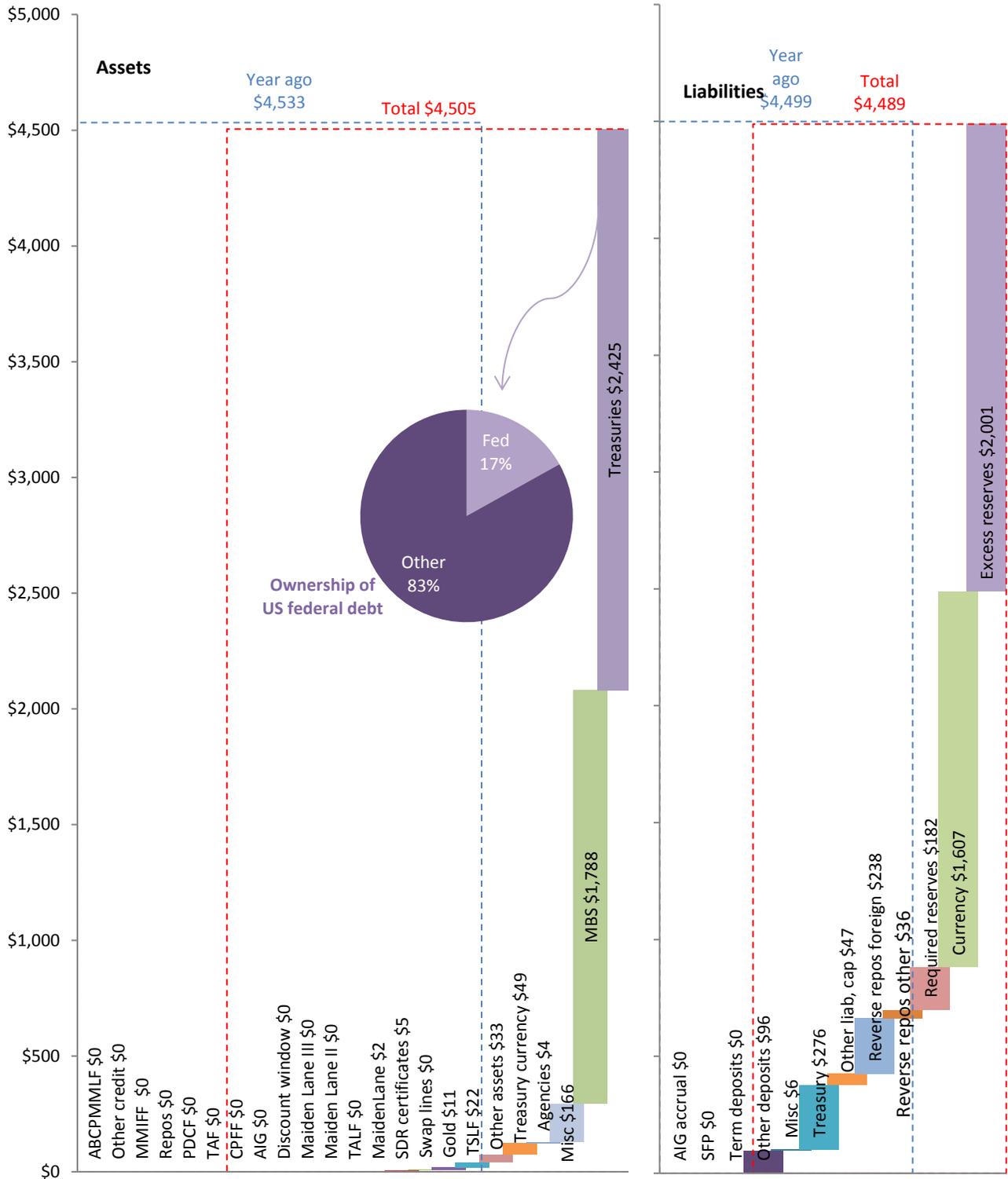
Real GDP



Source: Federal Reserve, BEA, BLS, TrendMacro calculations

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

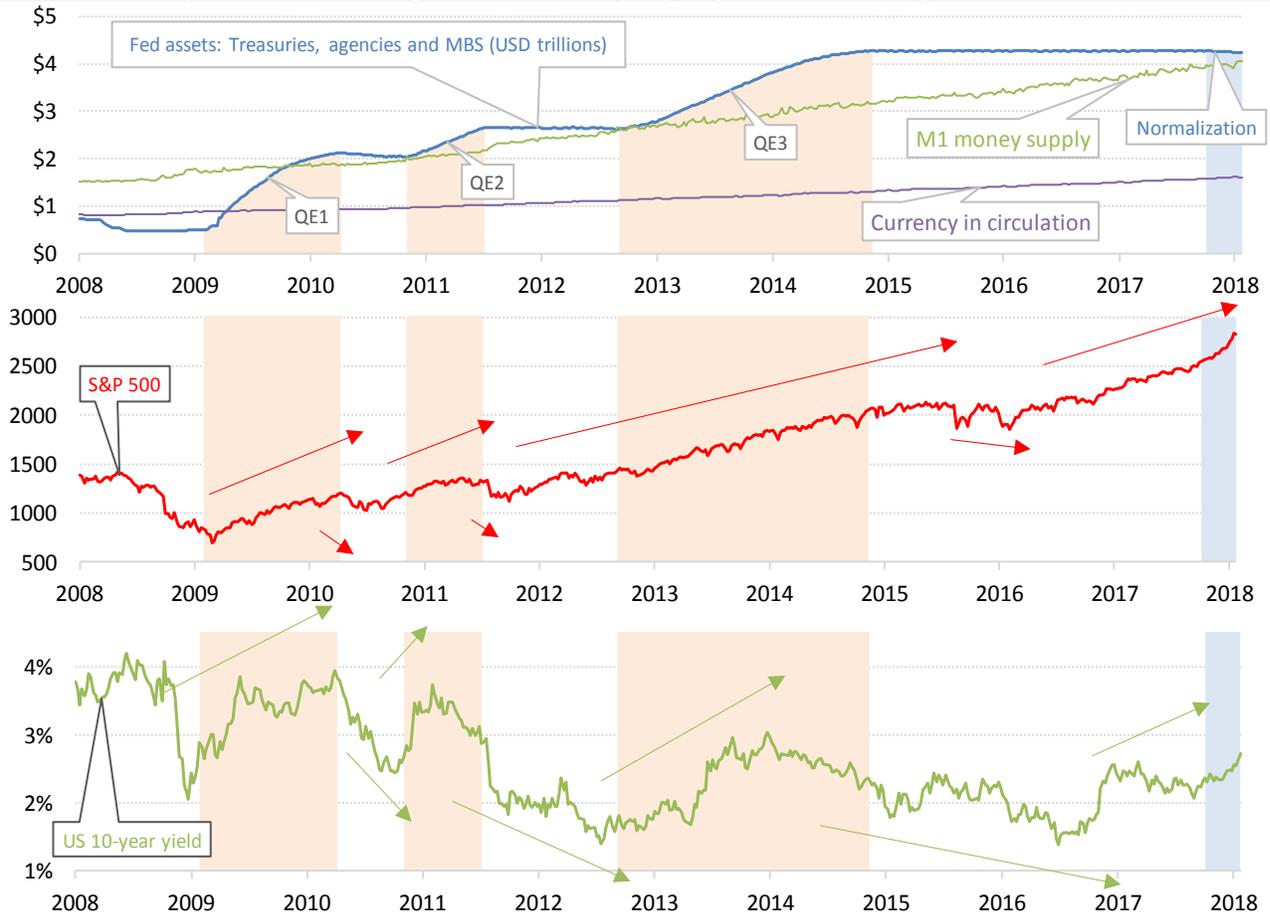
Assets do not perfectly match liabilities because we include unsettled MBS purchases and sales



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



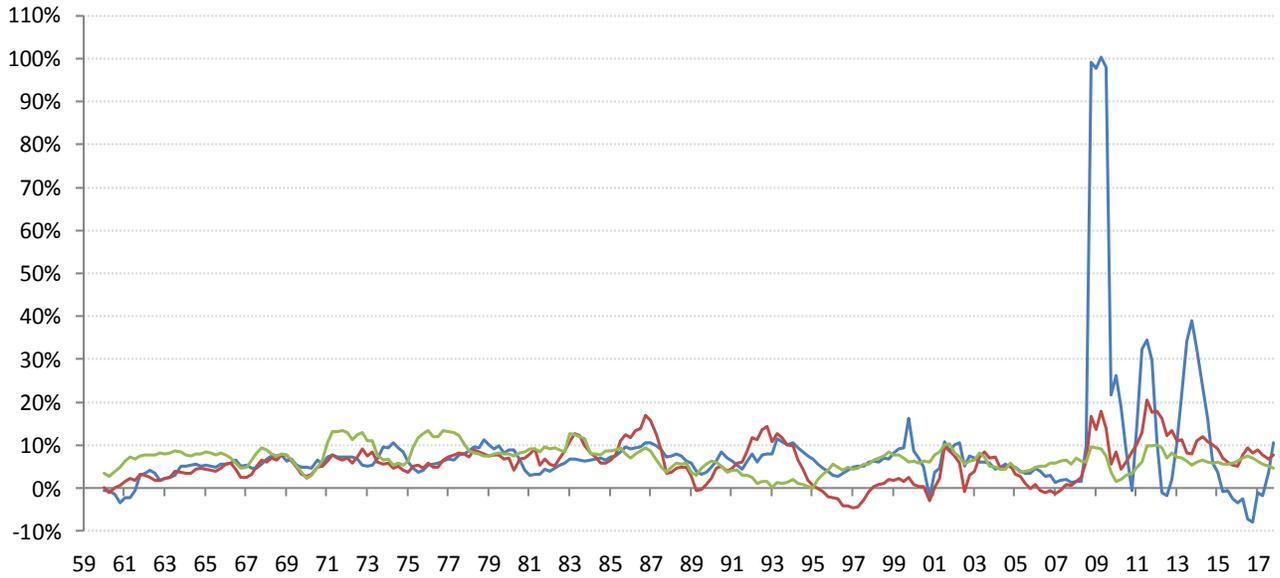
Banking reserves, USD trillions



Source: Federal Reserve, Bloomberg, TrendMacro calculations

Money supply growth, YOY quarterly

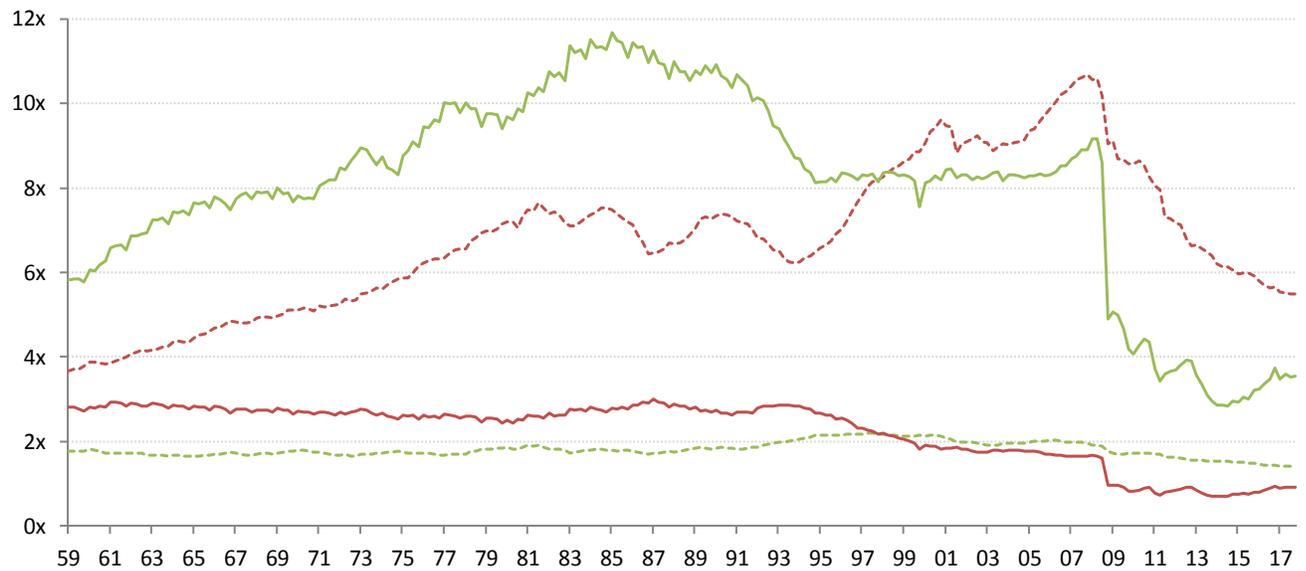
— M1 — M2 — Monetary base



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