
Data Insights: Federal Reserve

Wednesday, March 21, 2018

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

~~January 31~~ [March 21](#), 2018

Federal Reserve issues FOMC statement

For release at 2:00 p.m. ~~EST~~EDT

Information received since the Federal Open Market Committee met in ~~December~~ [January](#) indicates that the labor market has continued to strengthen and that economic activity has been rising at a ~~solid~~ [moderate](#) rate. ~~Gains~~ [Job gains have been strong in employment, recent months, and the unemployment rate has stayed low. Recent data suggest that growth rates of household spending, and business fixed investment have been solid, and the unemployment rate has stayed low, moderated from their strong fourth-quarter readings.](#) On a 12-month basis, both overall inflation and inflation for items other than food and energy have 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. [The economic outlook has strengthened in recent months.](#) The Committee expects that, with further gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace [in the medium term](#) and labor market conditions will remain strong. Inflation on a 12--month basis is expected to move up [this year in coming months](#) 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 ~~maintain~~ [raise](#) the target range for the federal funds rate ~~at~~to 1-1/4~~2~~ to 1-~~1/2~~-~~3/4~~ percent. The stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return to 2 percent inflation.

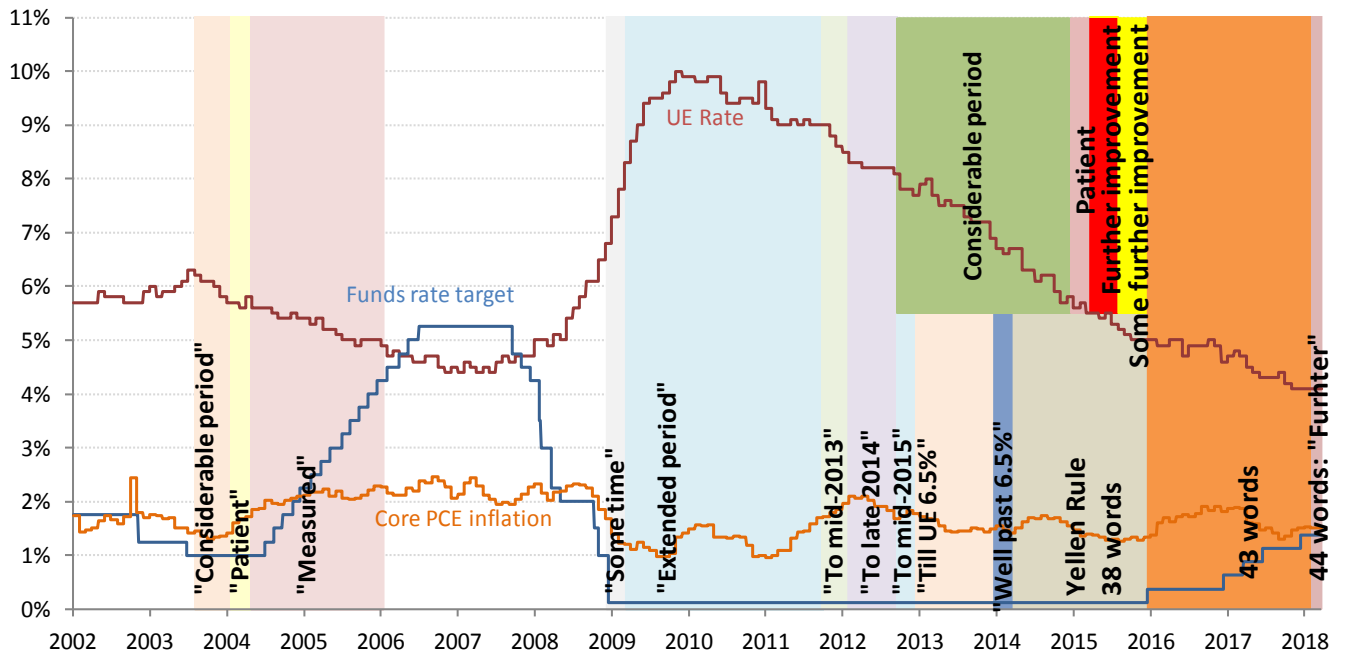
In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of 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~~ Jerome H. Powell, Chairman; William C. Dudley, Vice Chairman; Thomas I. Barkin; Raphael W. Bostic; Lael Brainard; Loretta J. Mester; ~~Jerome H. Powell~~; Randal K. Quarles; and John C. Williams.

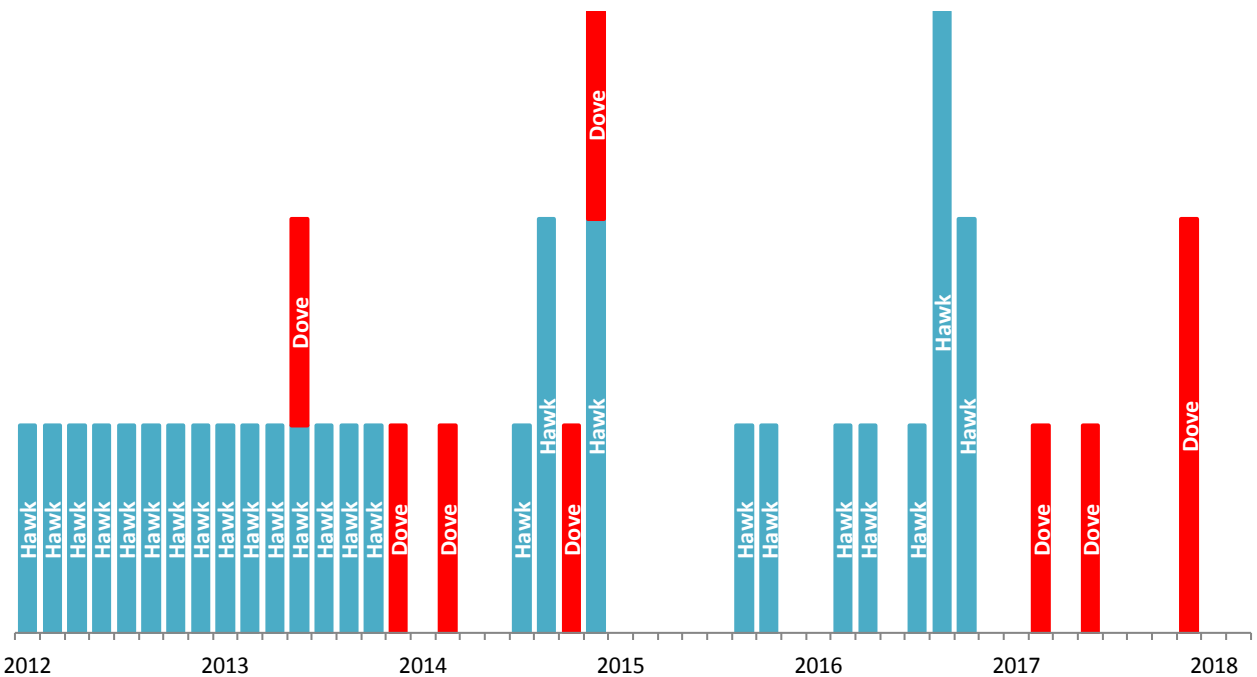
Source: FOMC, TrendMacro analysis

Fedspeak regime change: the evolution of forward guidance



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

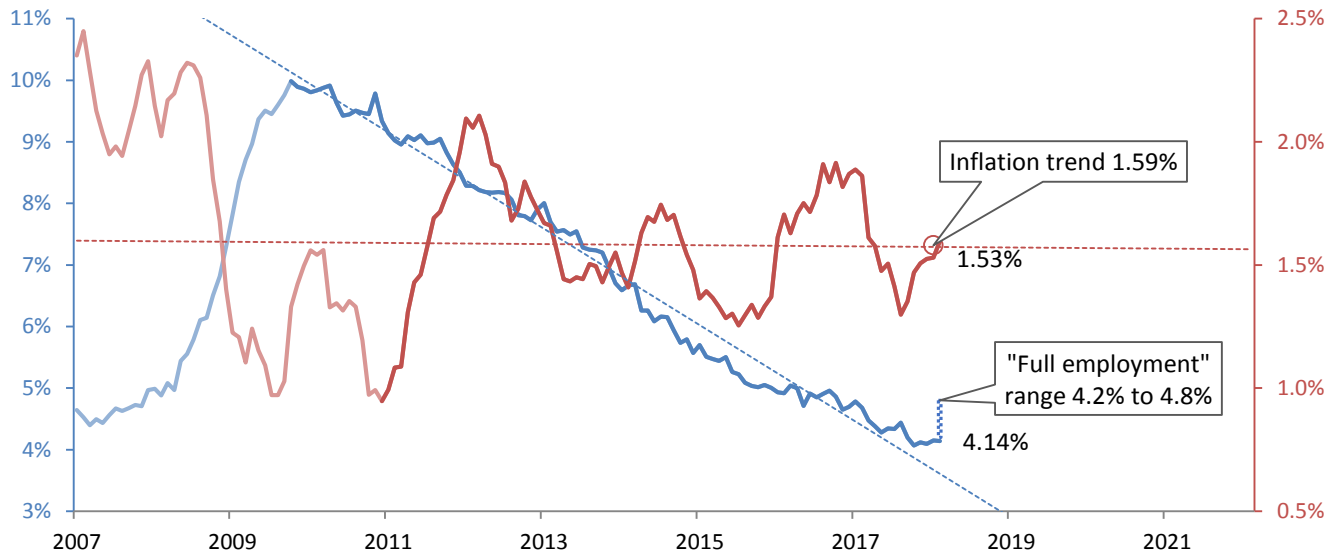
Other voices: number and direction of FOMC decision dissents



Source: FOMC, TrendMacro calculations

The dual mandate: garbage in, garbage out

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

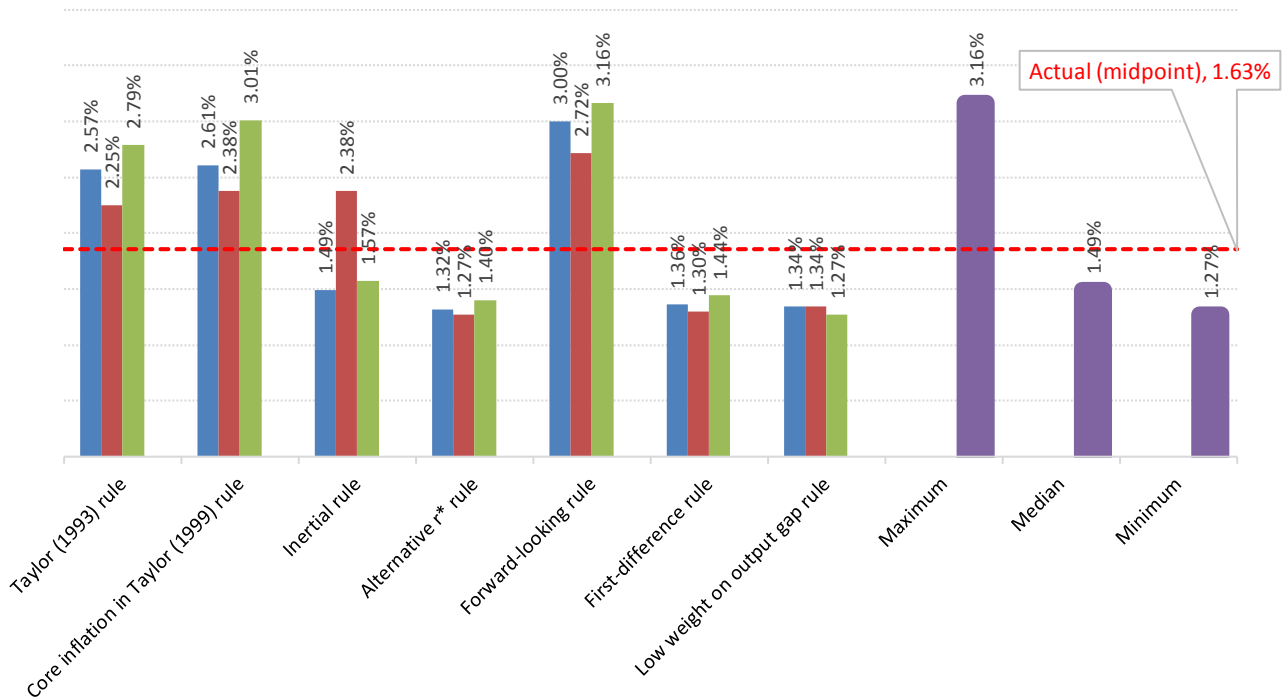


Source: BLS Current Population Survey, TrendMacro calculations

So many policy rules, so little time...

As of November 21, 2017 Based on inputs from:

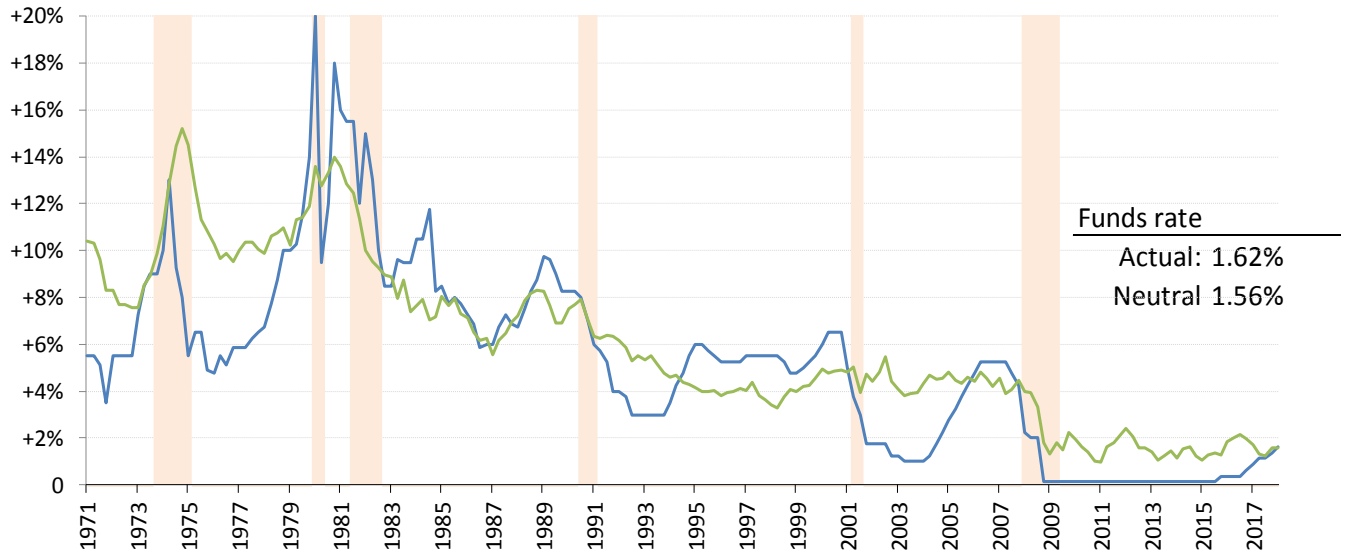
■ FOMC Summary of Economic Projections ■ Congressional Budget Office ■ Cleveland Fed



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

Estimating the "natural rate of interest"

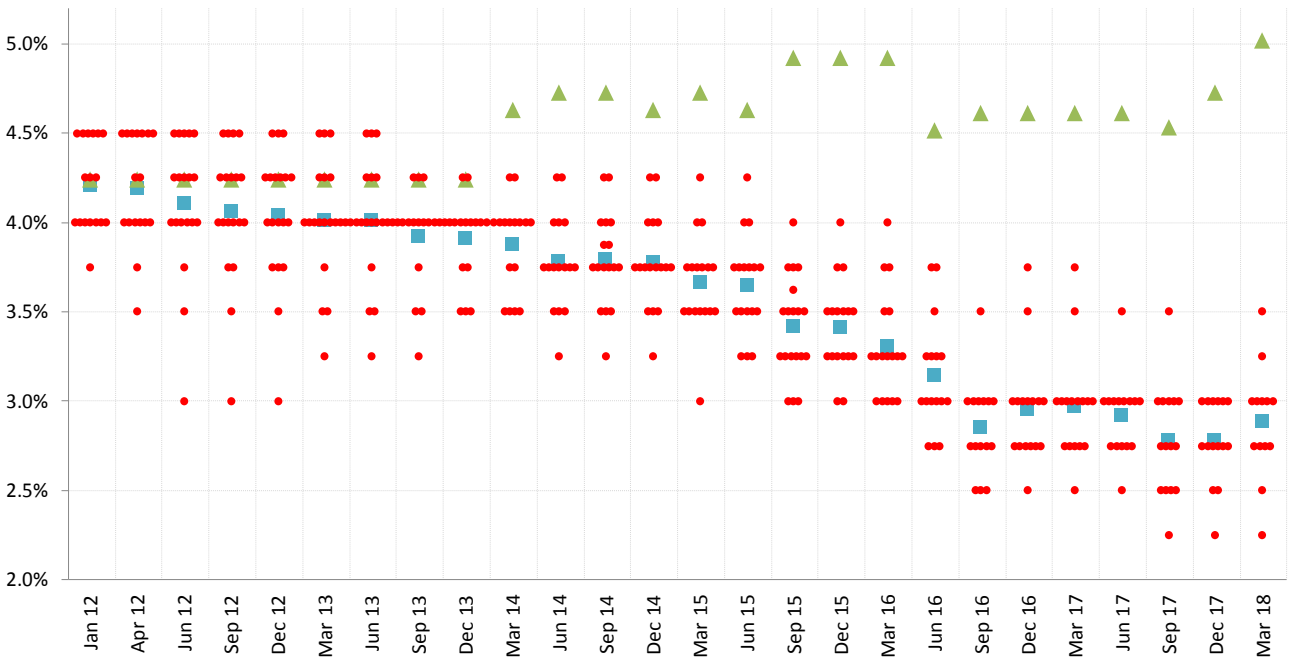
— Actual funds rate — Neutral real funds rate (Laubach-Williams + YOY Core PCE) — Recession



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

"R-star" – the ultimate "dotplot"

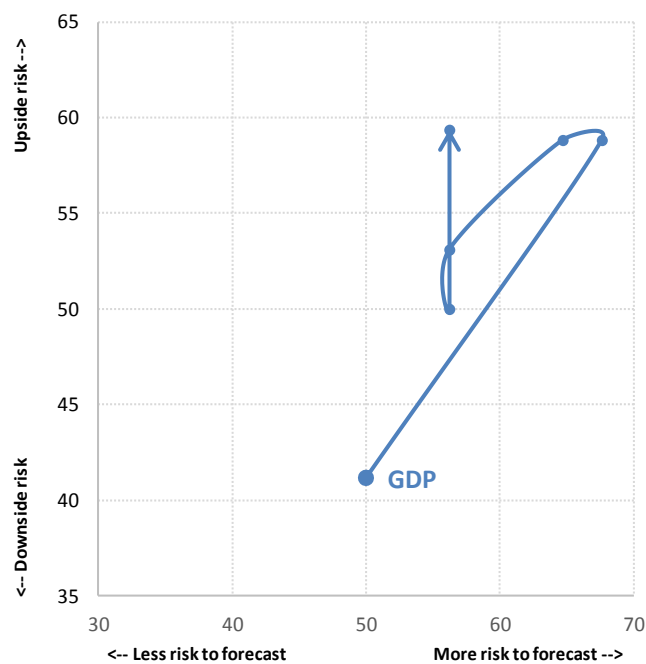
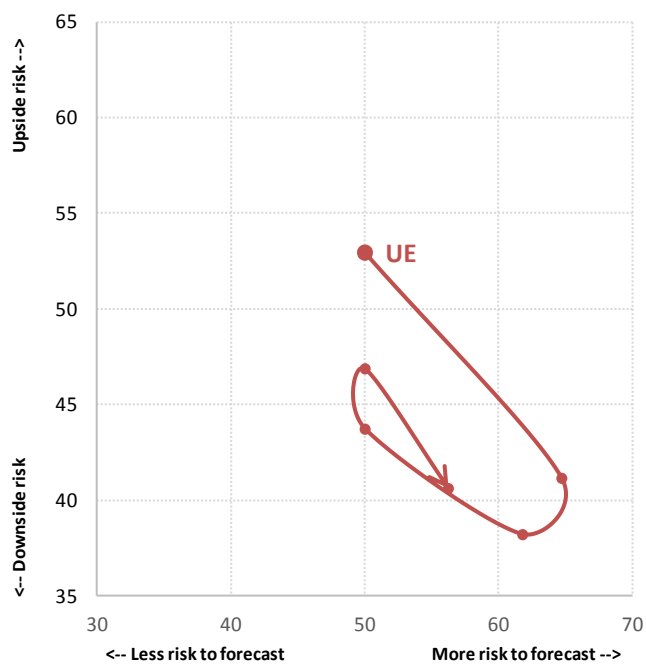
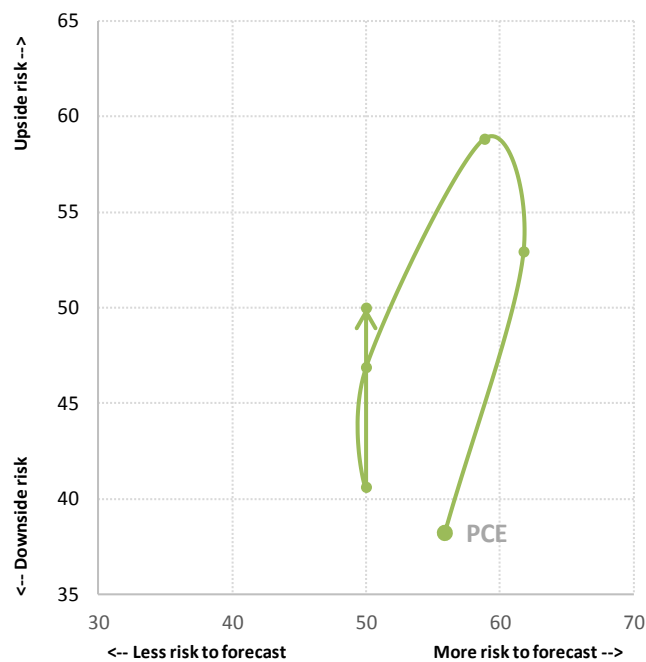
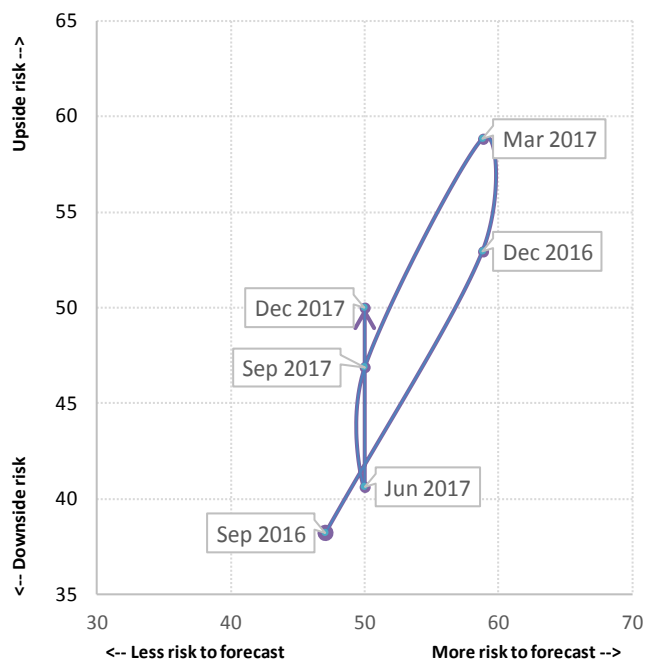
FOMC participants' estimate of "longer run" target fed funds rate ● Vote by individual participant
 ■ Weighted average ▲ Taylor Rule rate based on participants' core PCE and UE estimates



Source: Federal Reserve, TrendMacro calculations

The evolution of uncertainty

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

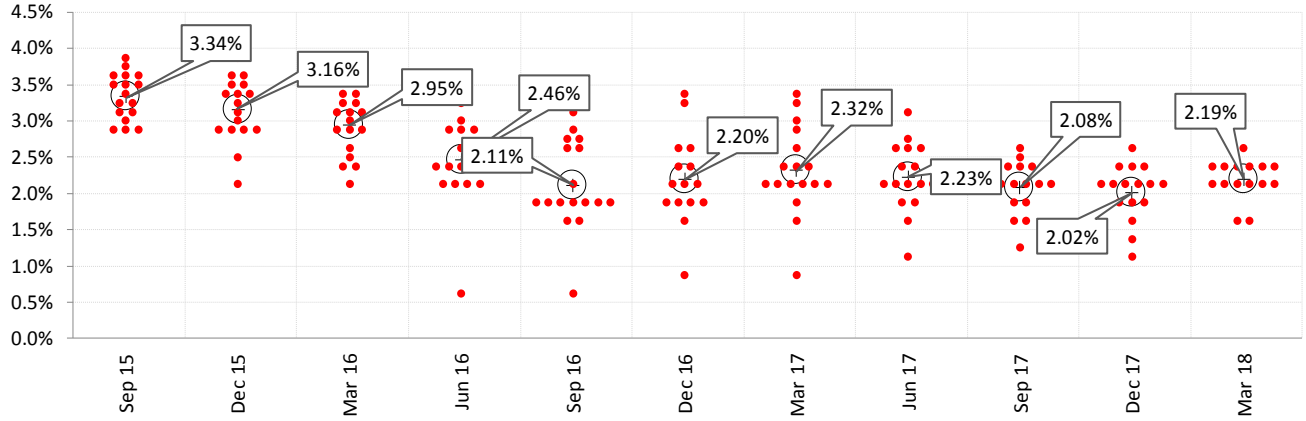


Source: Federal Reserve Board, TrendMacro calculations

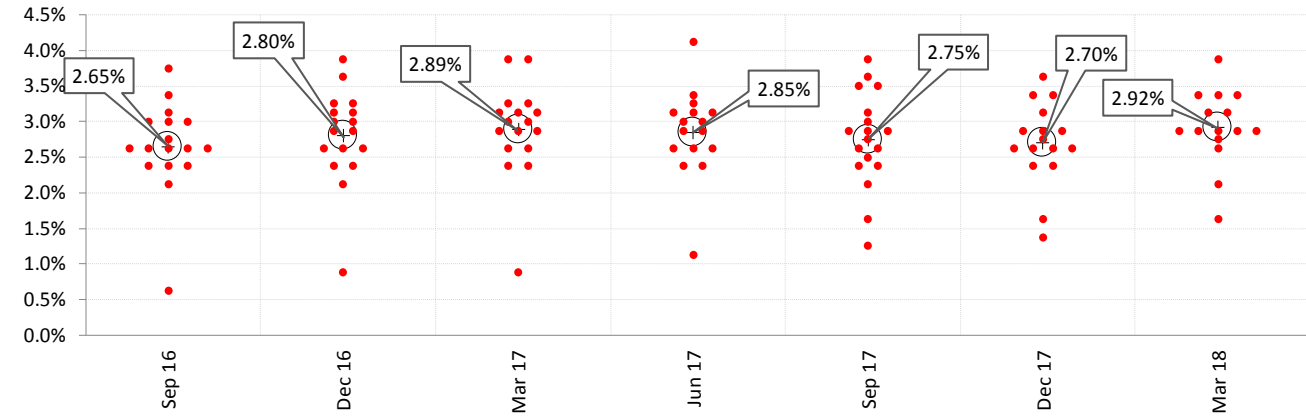
Tracking the "dotplots" year by year

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

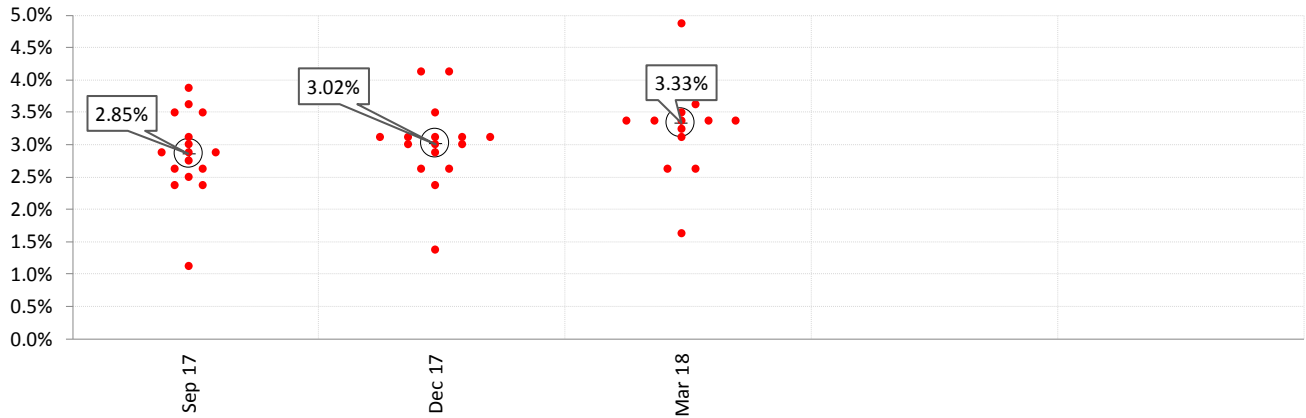
For year-end 2018



For year-end 2019



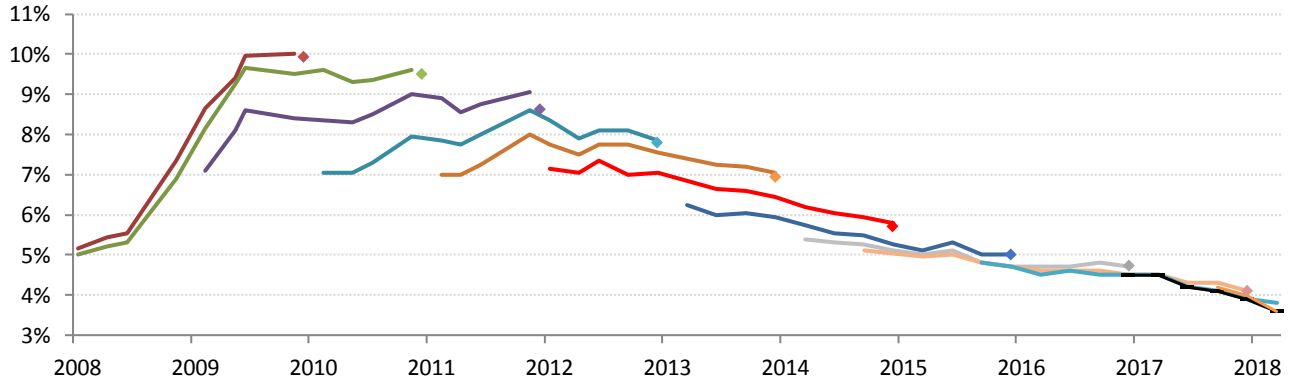
For year-end 2020



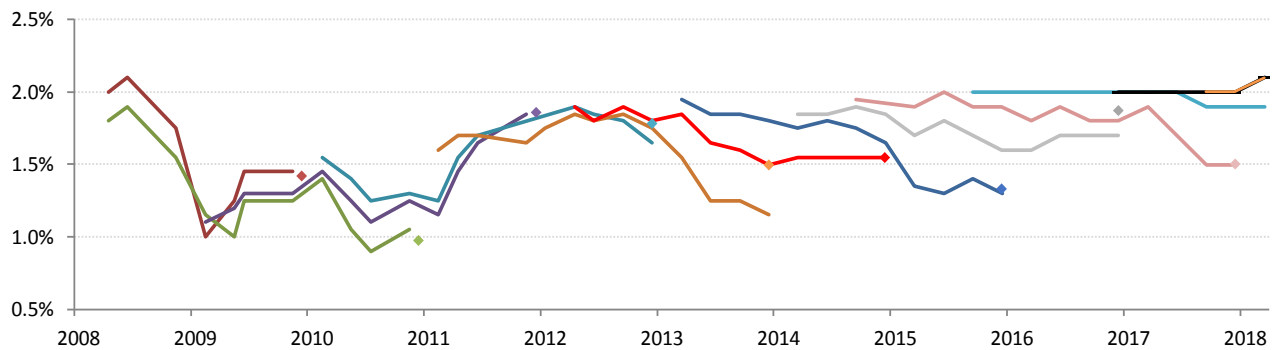
Forecast versus actual: economic projections of the FRB and the presidents

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

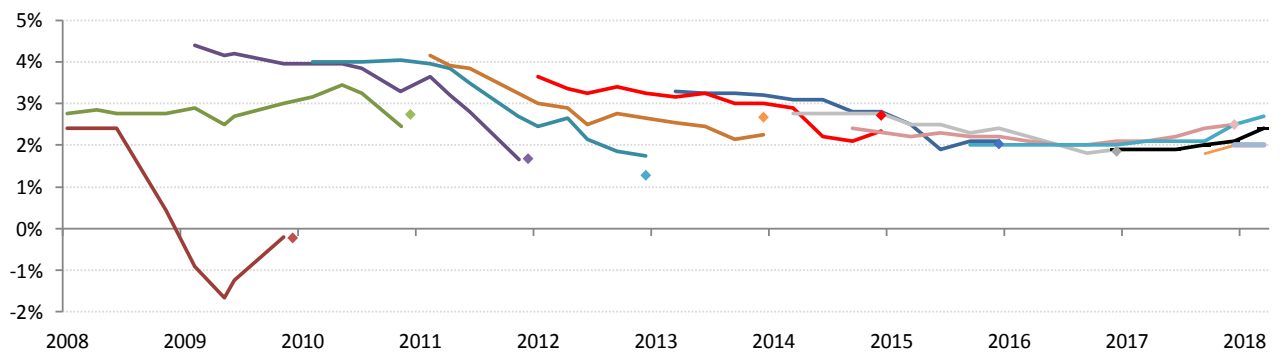
Unemployment



Core PCE inflation



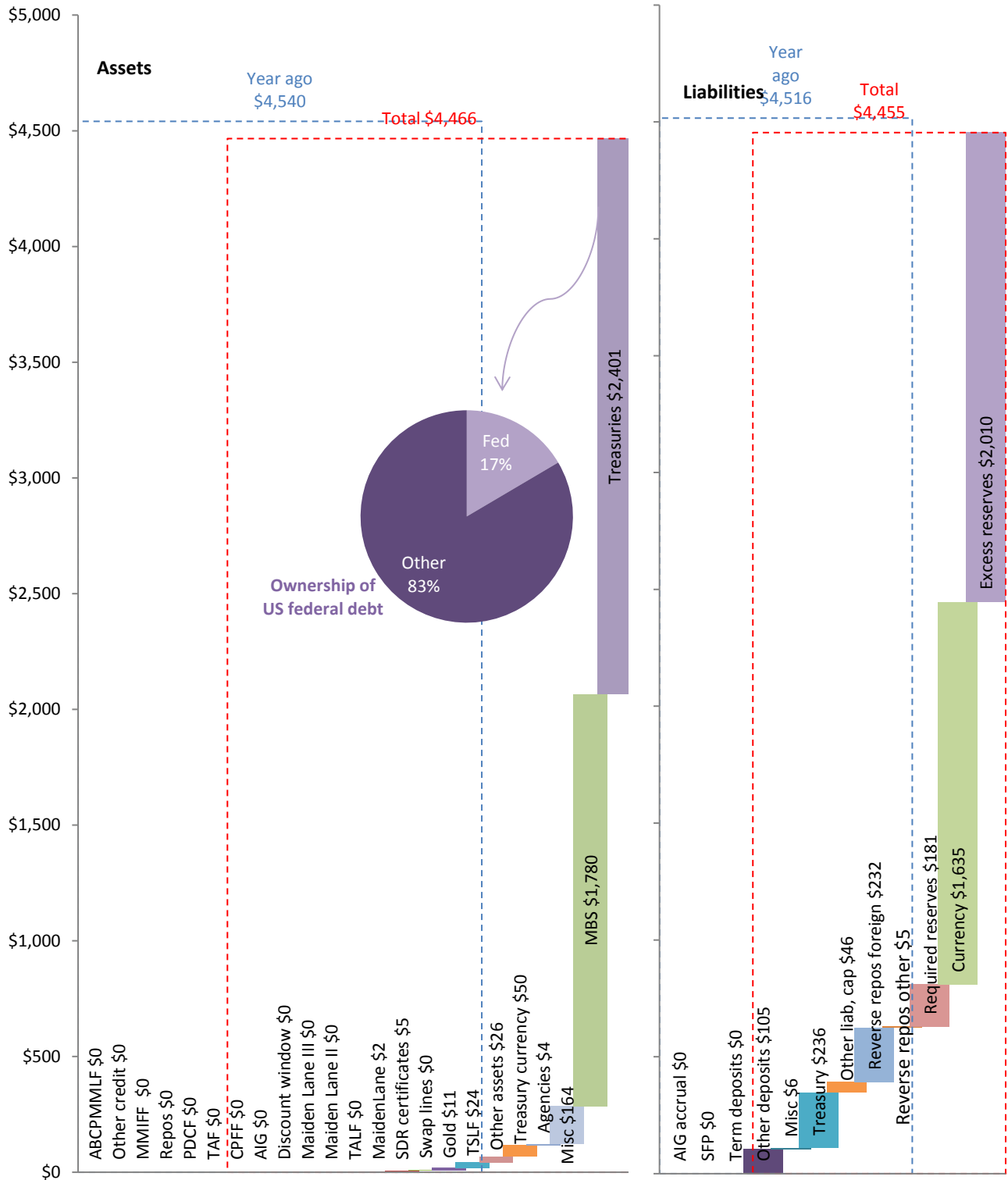
Real GDP



Source: Federal Reserve, BEA, BLS, TrendMacro calculations

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

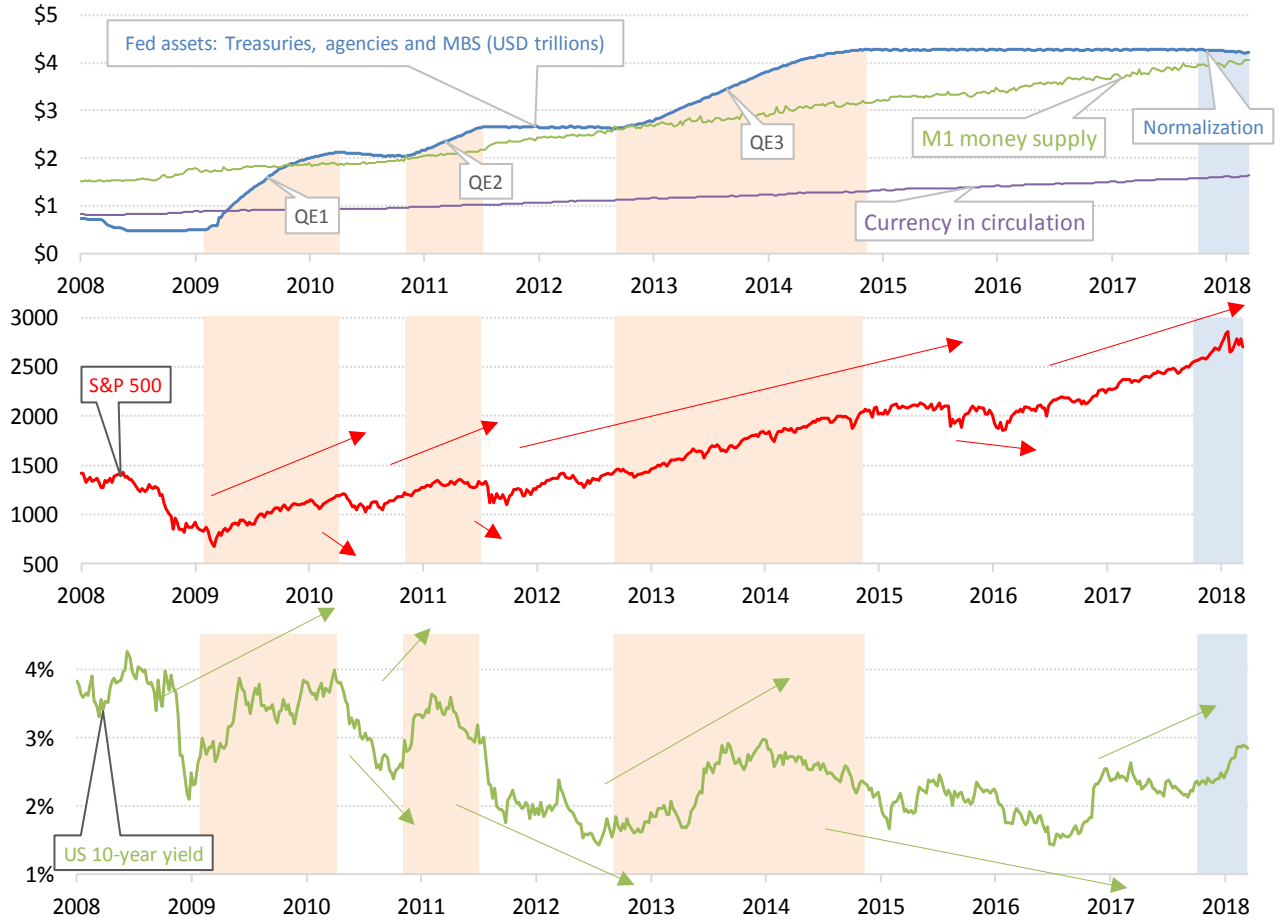
Assets do not perfectly match liabilities because we include unsettled MBS purchases and sales



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

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

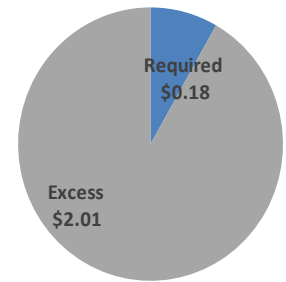
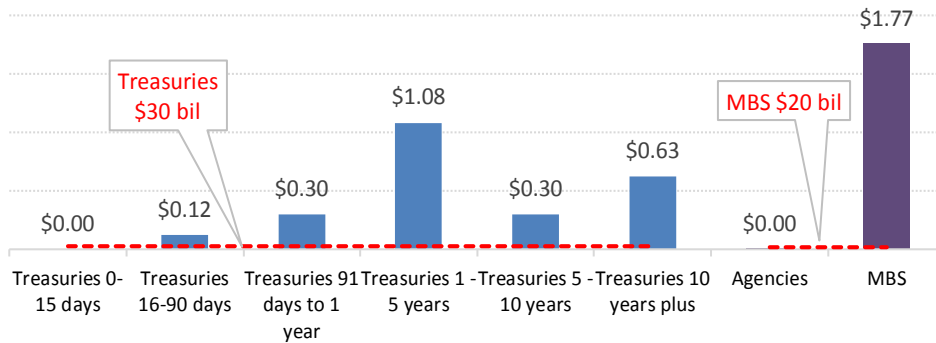
Stocks and bond yields react to changes in Fed Treasury, agency and MBS holdings



Sector and maturity breakdown of Fed assets, USD trillions

Banking reserves, USD trillions

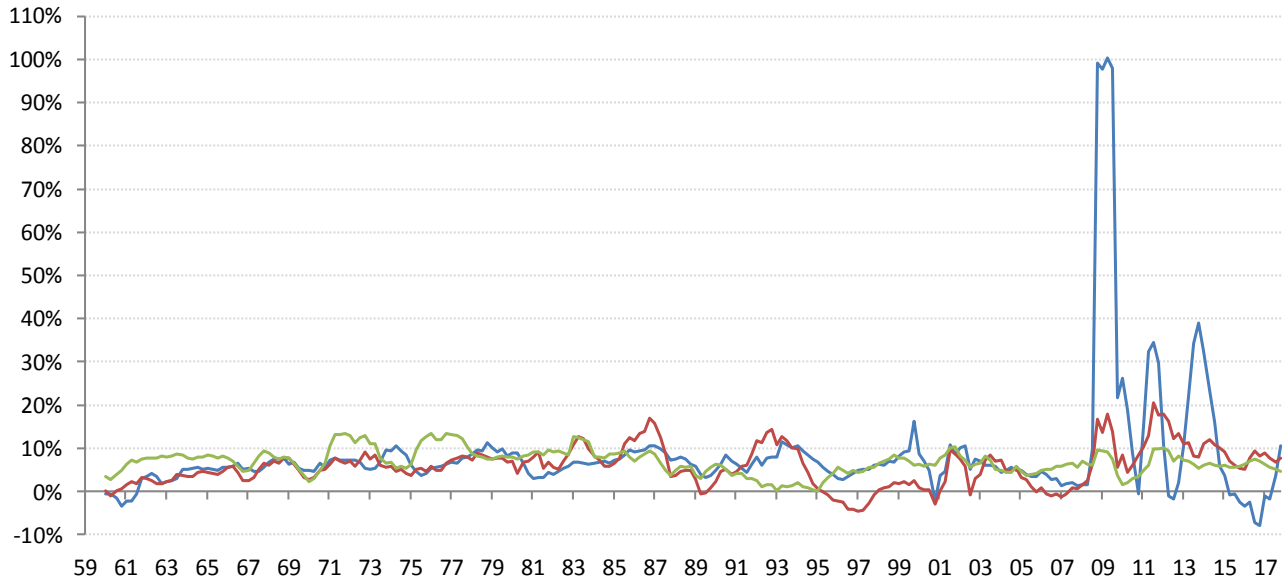
--- Monthly cap on un-reinvested maturities



Source: Federal Reserve, Bloomberg, TrendMacro calculations

Money supply growth, YOY quarterly

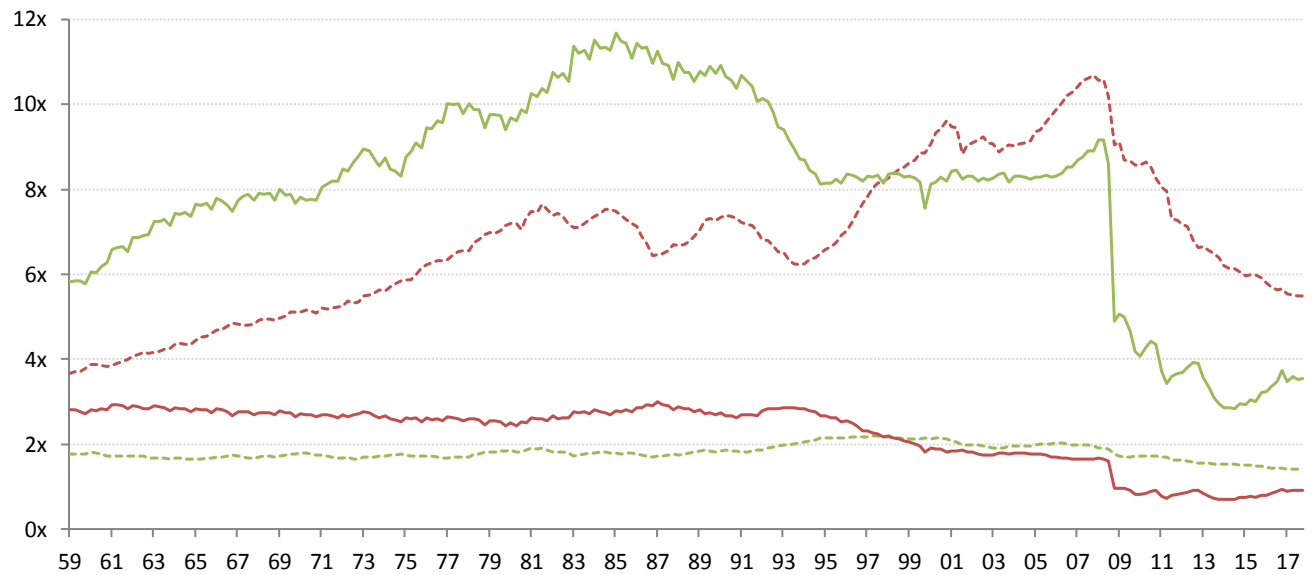
— M1 — M2 — Monetary base



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