
Data Insights: Federal Reserve

Thursday, November 8, 2018

Today's FOMC statement: how the language changed from prior meeting

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

Information received since the Federal Open Market Committee met in ~~August~~September indicates that the labor market has continued to strengthen and that economic activity has been rising at a strong rate. Job gains have been strong, on average, in recent months, and the unemployment rate has ~~stayed low~~declined. Household spending ~~and~~has continued to grow strongly, while growth of business fixed investment ~~have grown strongly~~has moderated from its rapid pace earlier in the year. On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2 percent. Indicators 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 Committee expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective over the medium term. Risks to the economic outlook appear roughly balanced.

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~~ 2 to 2-1/4 percent.

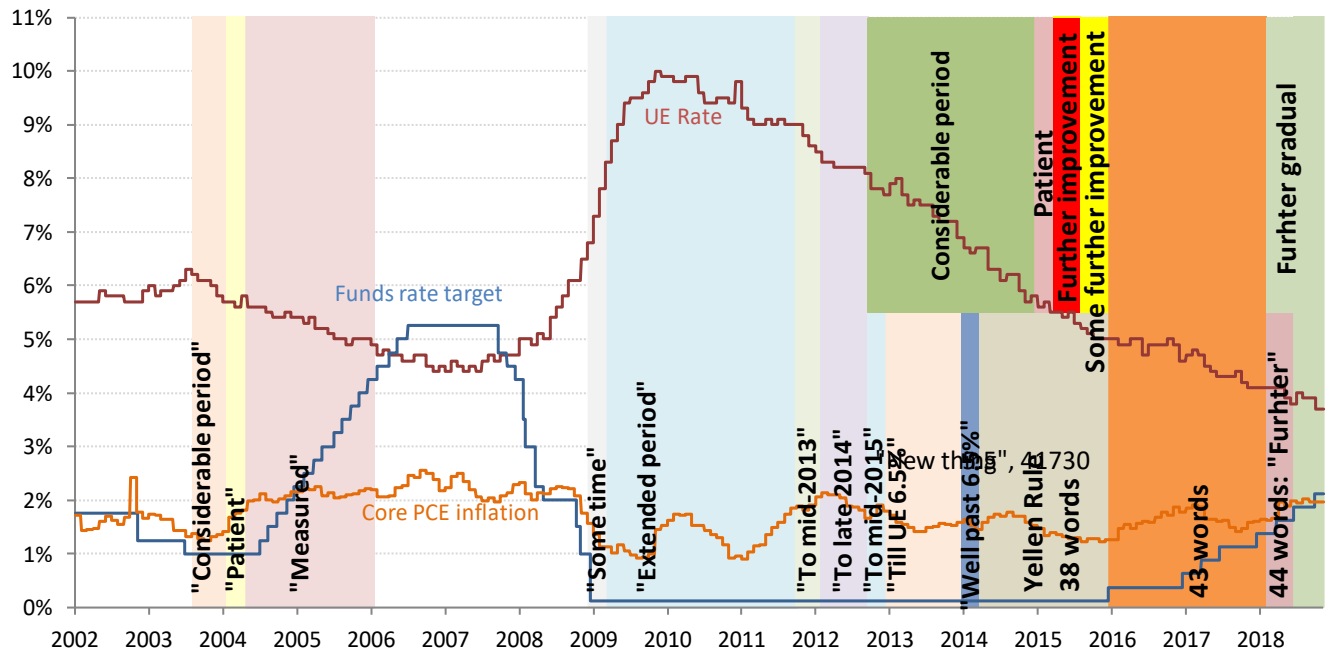
In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2 percent inflation objective. This assessment will take into account 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.

Voting for the FOMC monetary policy action were: Jerome H. Powell, Chairman; John C. Williams, Vice Chairman; Thomas I. Barkin; Raphael W. Bostic; Lael Brainard; Richard H. Clarida; ~~Esther L. George~~Mary C. Daly; Loretta J. Mester; and Randal K. Quarles.

Implementation Note issued September 26, 2018

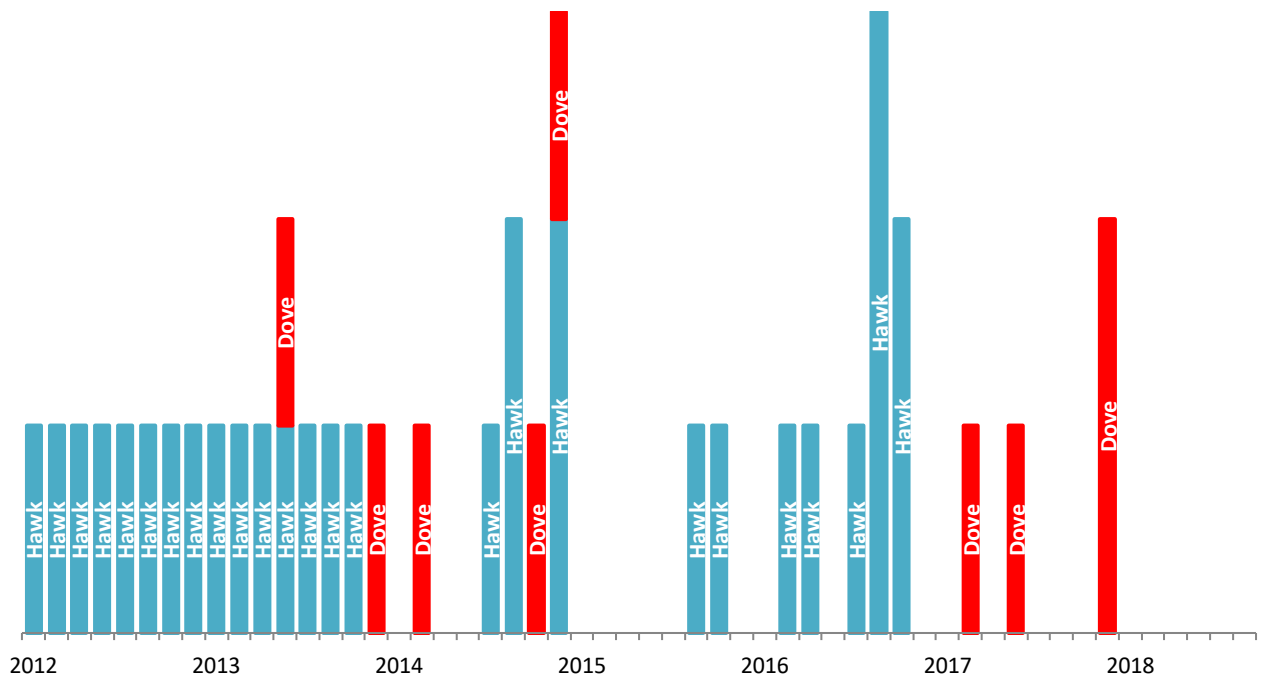
Source: FOMC, TrendMacro analysis

Fedspeak regime change: the evolution of forward guidance



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

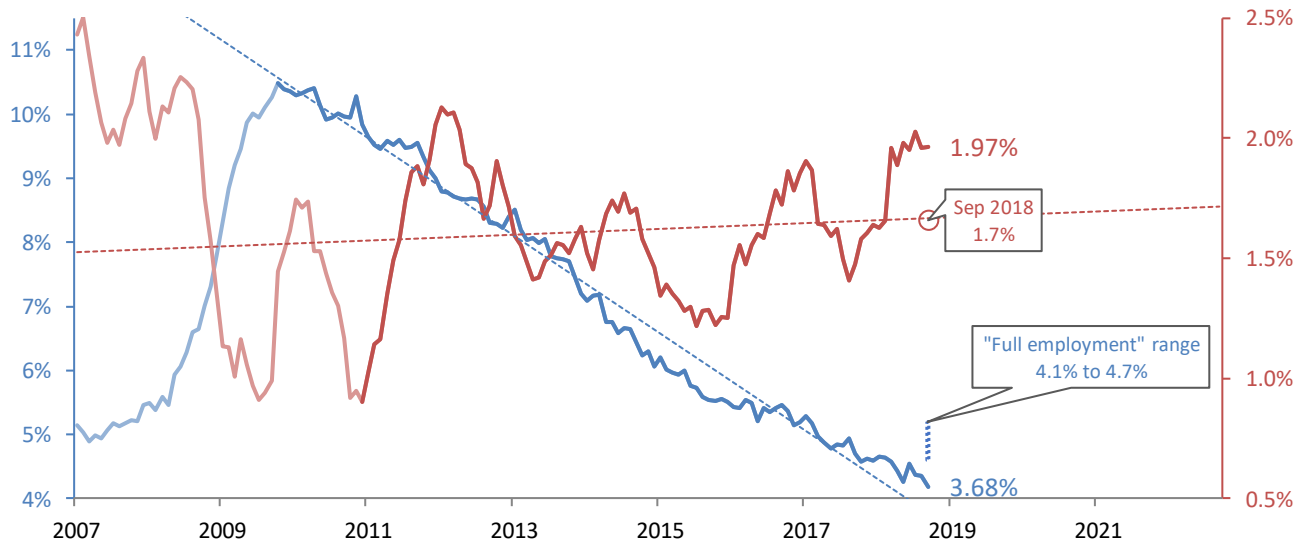
Other voices: number and direction of FOMC decision dissents



Source: FOMC, TrendMacro calculations

The dual mandate: garbage in, garbage out

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

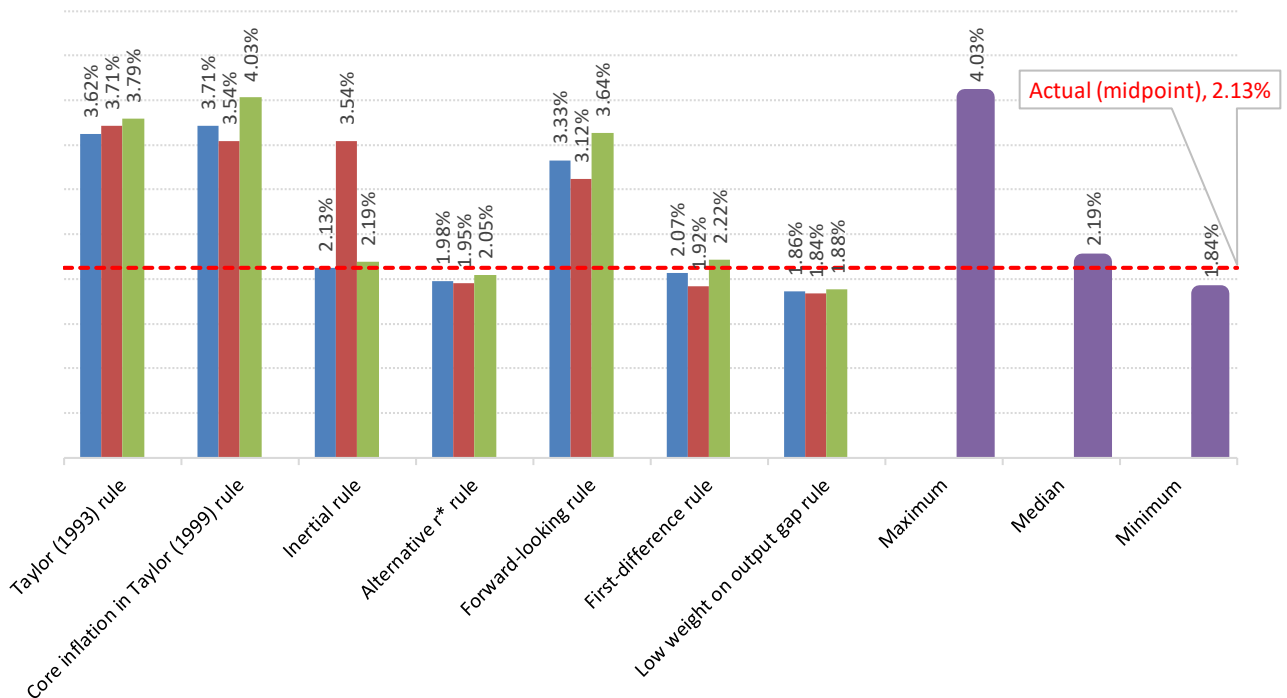


Source: BLS Current Population Survey, TrendMacro calculations

So many policy rules, so little time...

As of August 30, 2018 Based on inputs from:

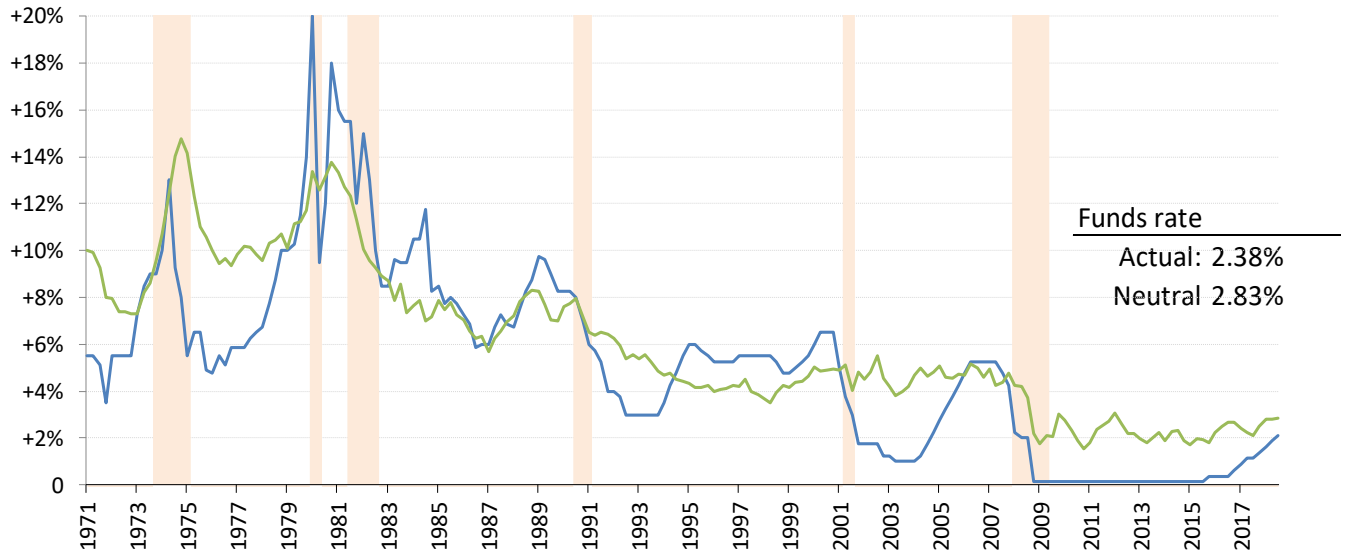
■ FOMC Summary of Economic Projections ■ Congressional Budget Office ■ Cleveland Fed



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

Estimating the "natural rate of interest"

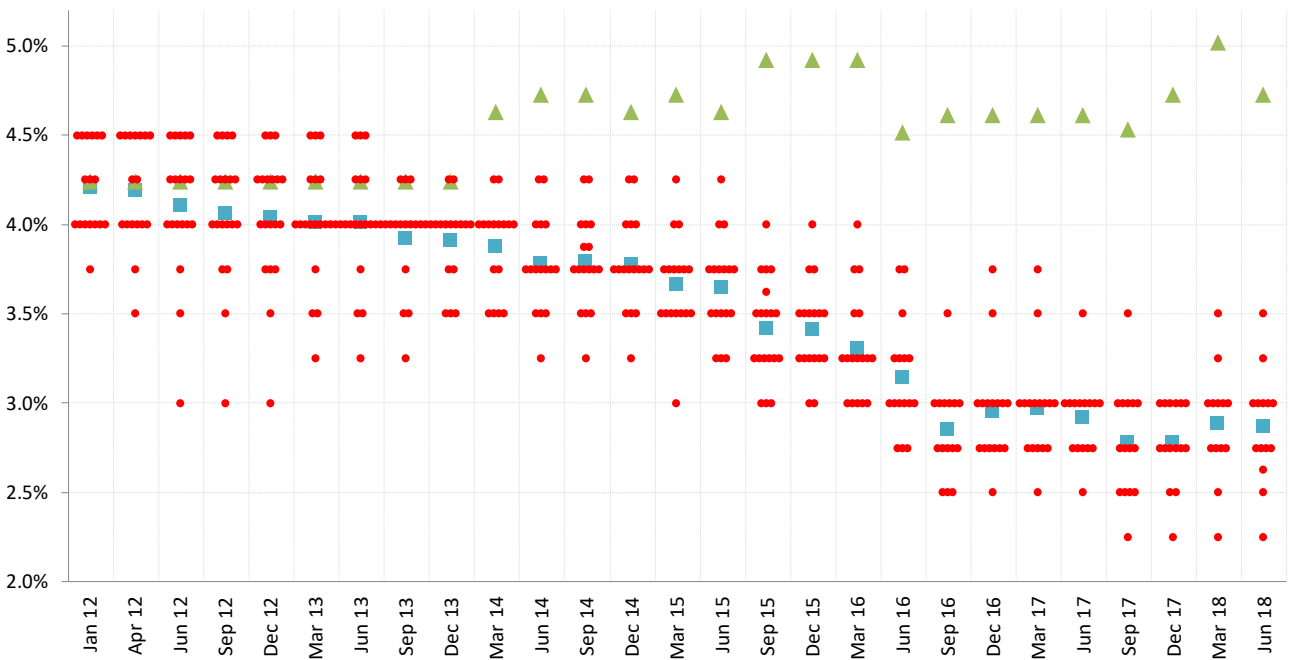
— Actual funds rate — Neutral real funds rate (Laubach-Williams + YOY Core PCE) — Recession



Source: [New York Fed](#), Federal Reserve, BEA, TrendMacro calculations

"R-star" – the ultimate "dotplot" As of Sep 18

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

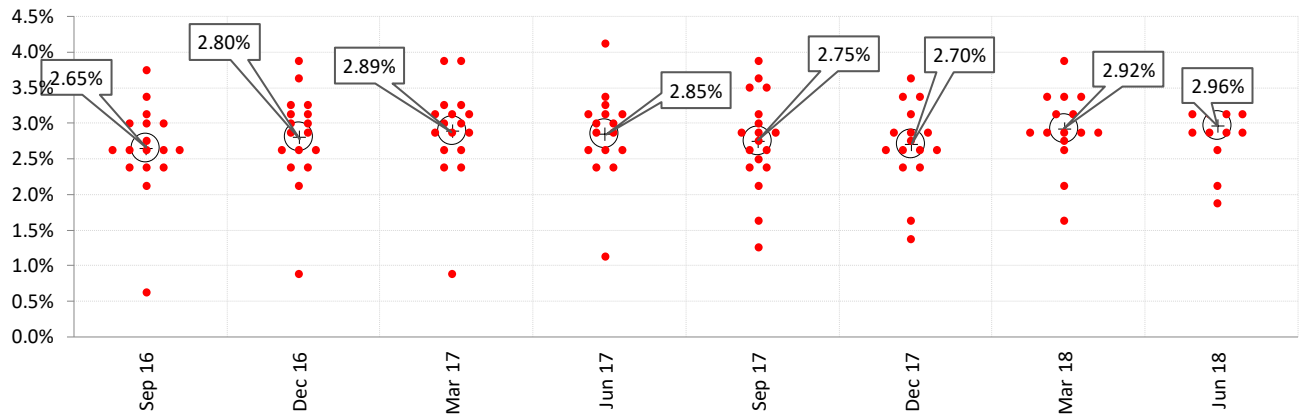


Source: Federal Reserve, TrendMacro calculations

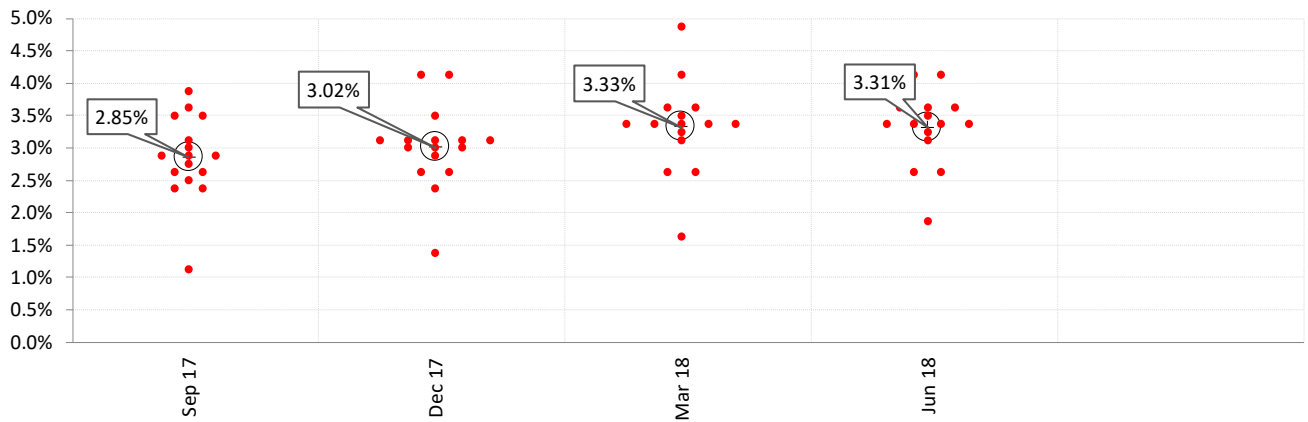
Tracking the "dotplots" year by year As of Sep 18

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

For year-end 2019



For year-end 2020



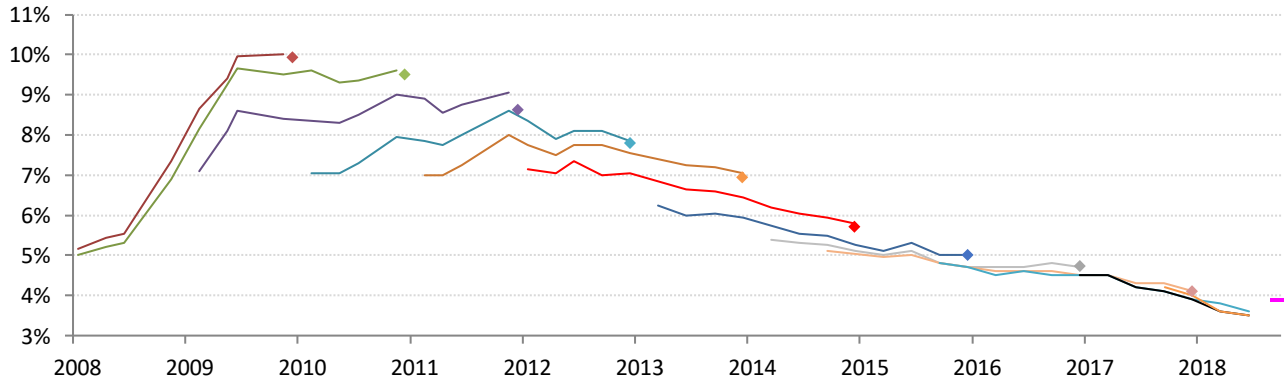
For year-end 2021



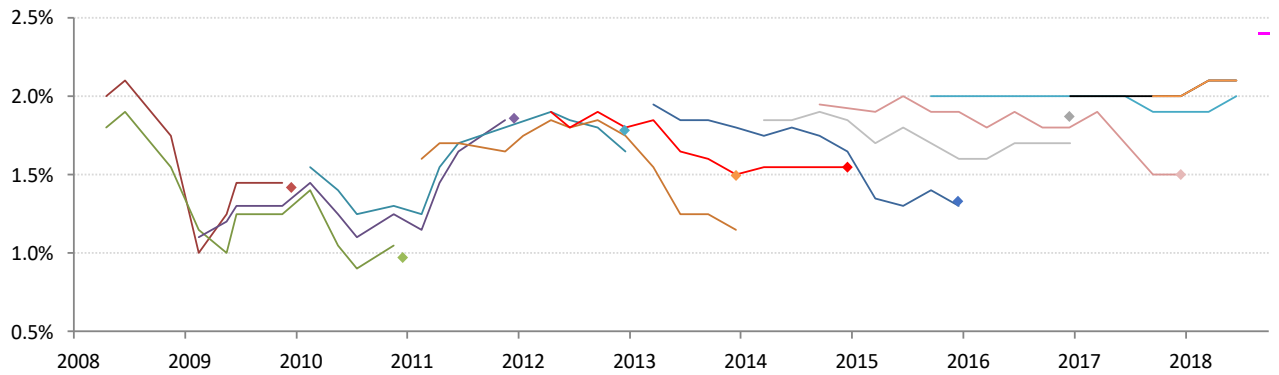
Forecast versus actual: [economic projections](#) of the FRB and presidents As of Sep 18

— Forecast ♦ Actual ■ 2009 ■ 10 ■ 11 ■ 12 ■ 13 ■ 14 ■ 15 ■ 16 ■ 17 ■ 18 ■ 19 ■ 20 ■ 2021

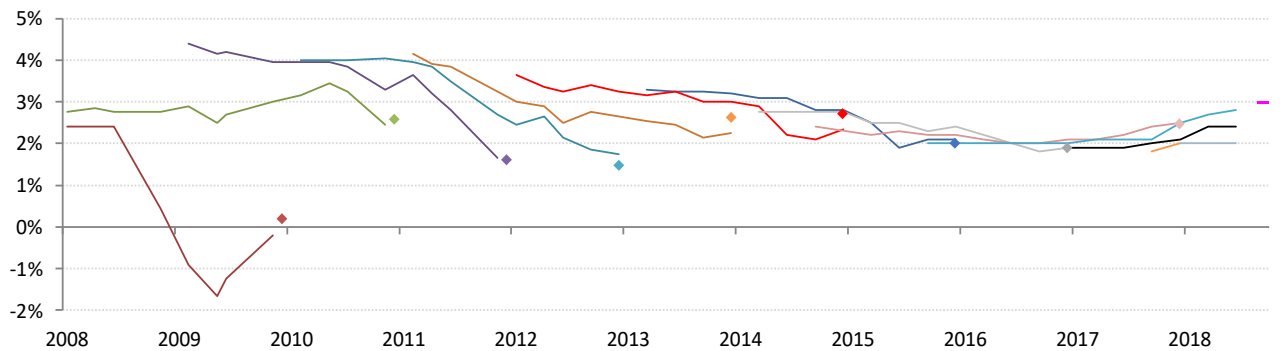
Unemployment



Core PCE inflation



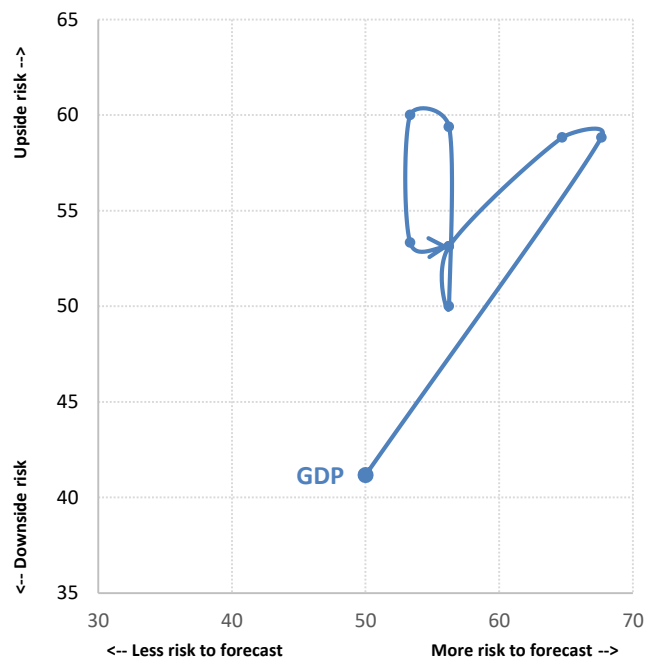
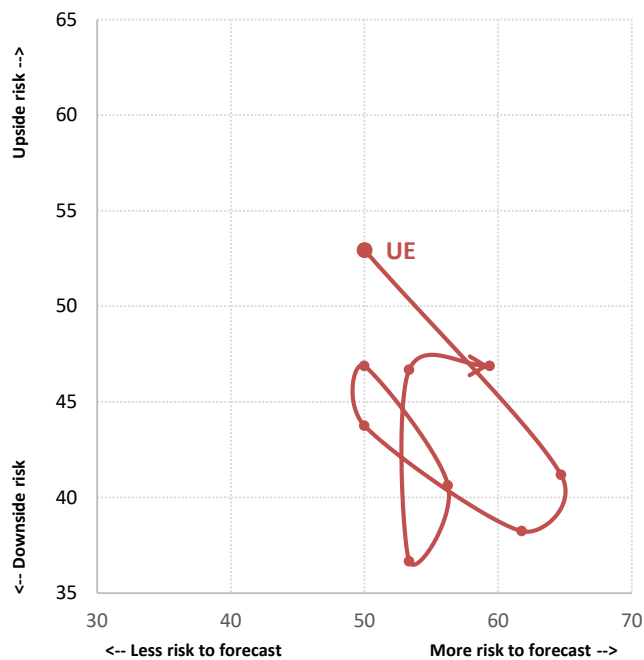
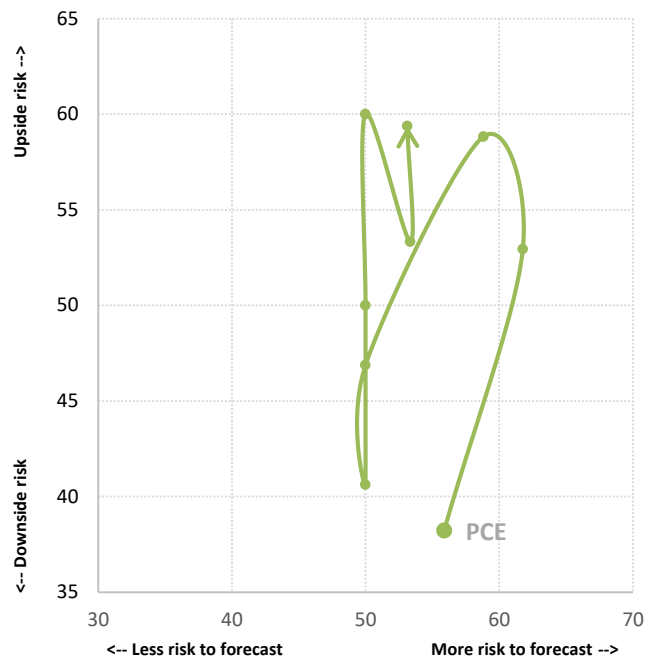
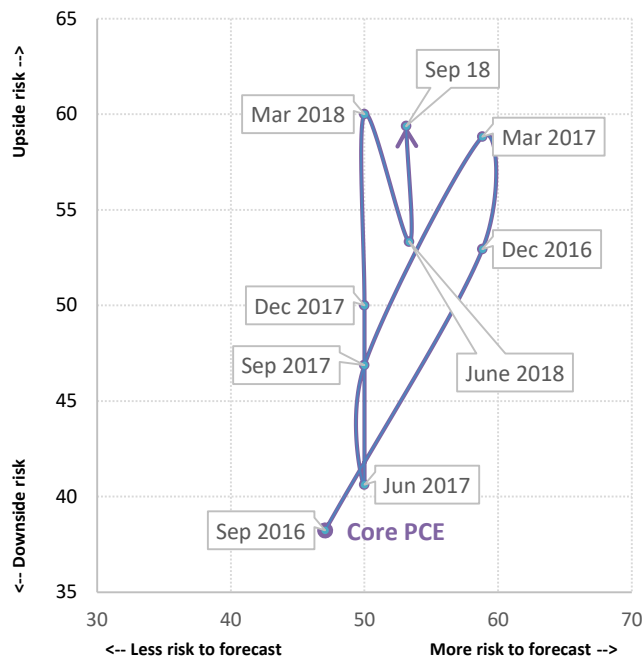
Real GDP



Source: Federal Reserve, BEA, BLS, TrendMacro calculations

The evolution of uncertainty

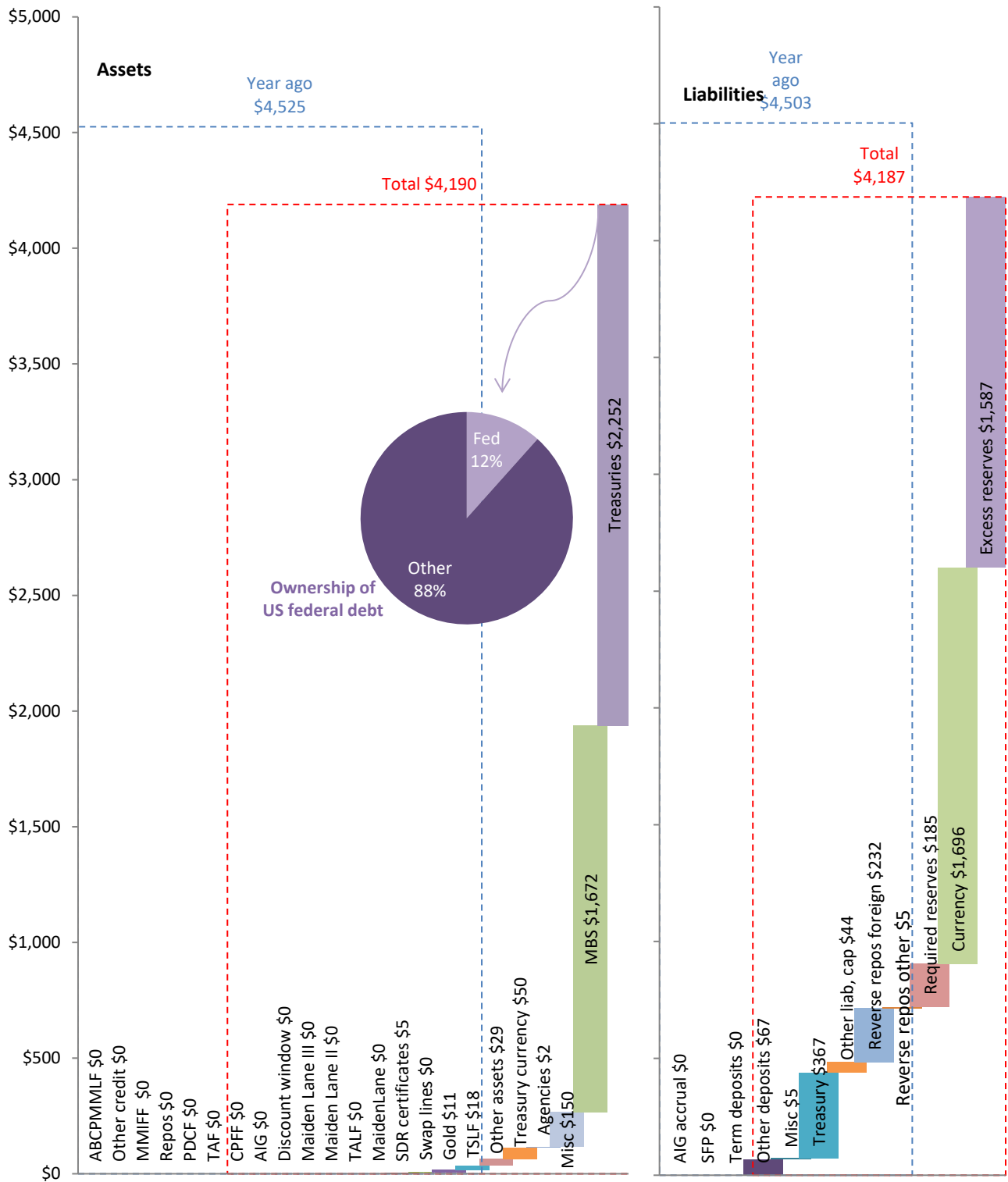
Diffusion indices from FOMC participants' risk self-assessments in [Summary of Economic Projections](#)
 As of September 2018. Updated three weeks after June FOMC in Data Insights: FOMC Minutes



Source: Federal Reserve Board, TrendMacro calculations

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

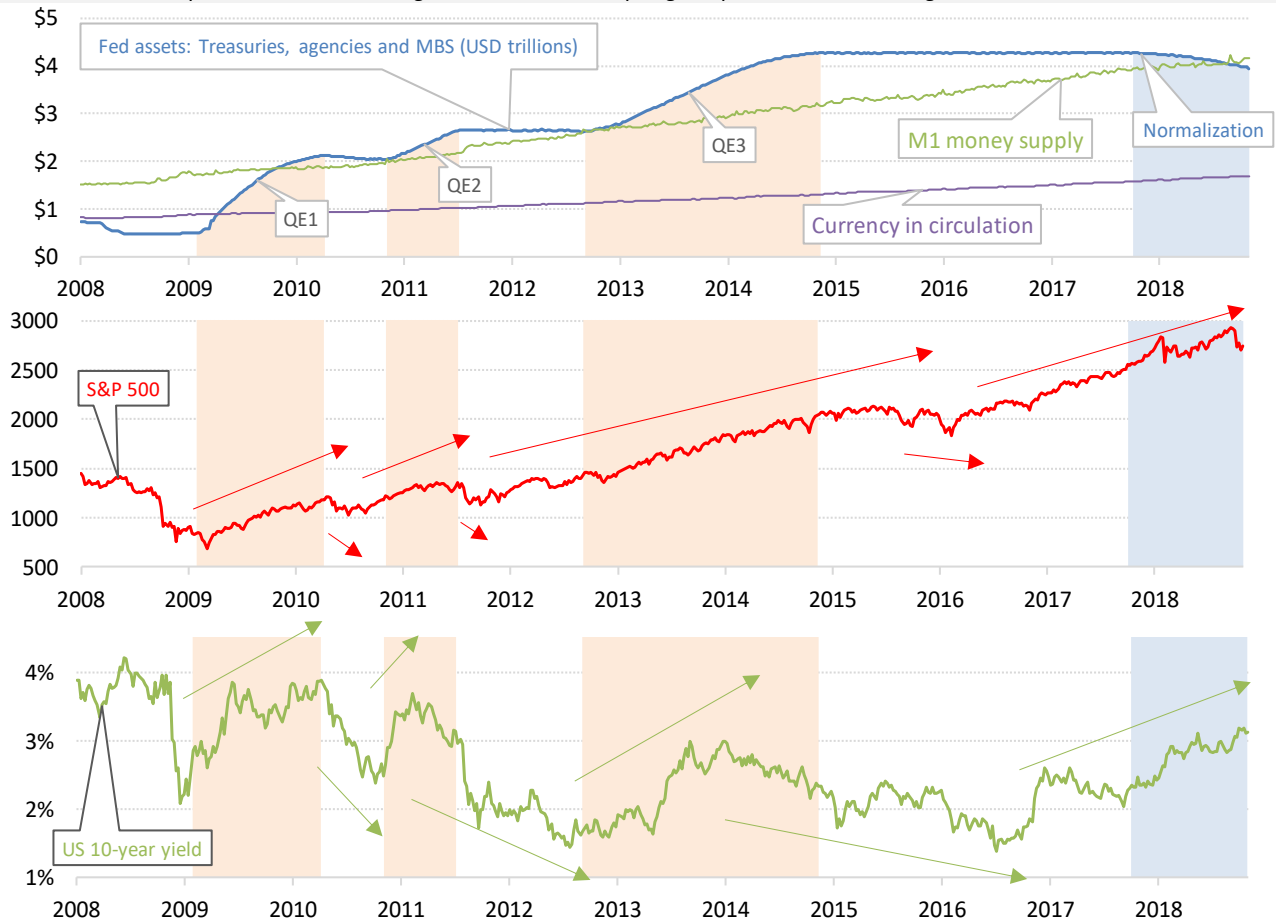
Assets do not perfectly match liabilities because we include unsettled MBS purchases and sales



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

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

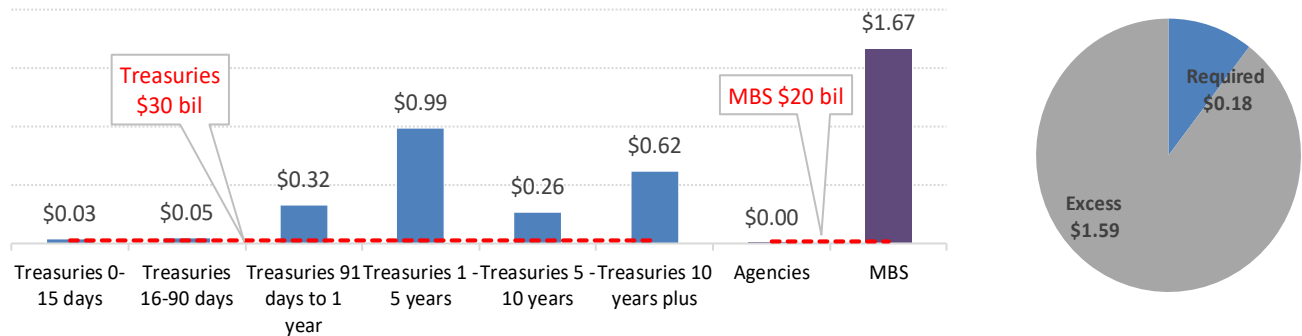
Stocks and bond yields react to changes in Fed Treasury, agency and MBS holdings



Sector and maturity breakdown of Fed assets, USD trillions

Banking reserves, USD trillions

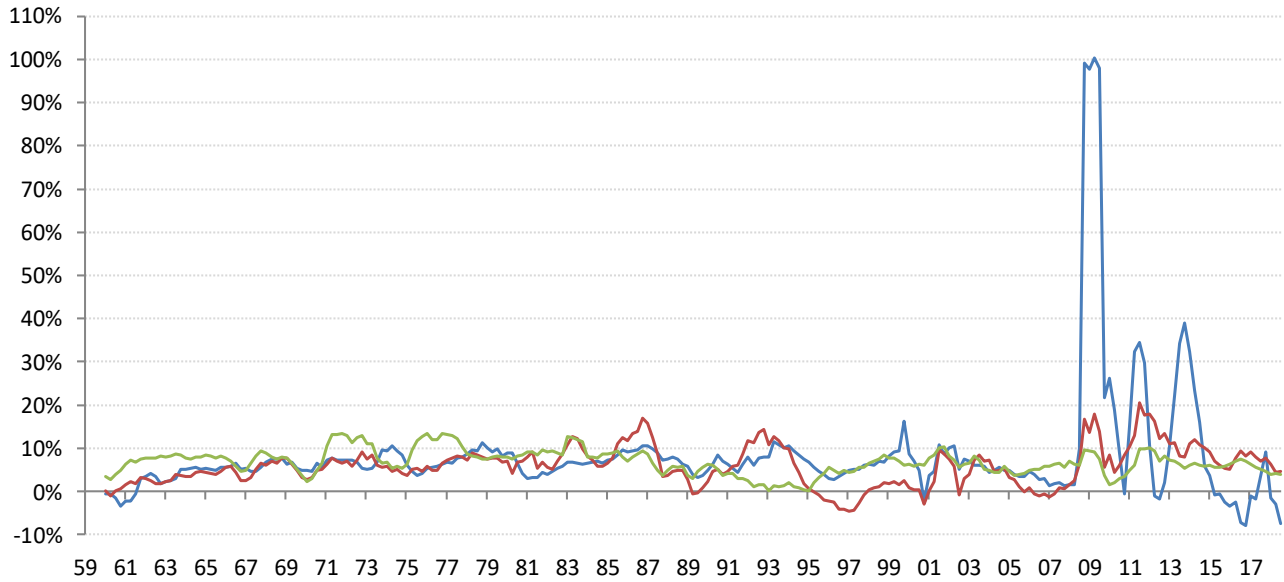
--- Monthly cap on un-reinvested maturities, max effective after 10/31/18



Source: Federal Reserve, Bloomberg, TrendMacro calculations

Money supply growth, YOY quarterly

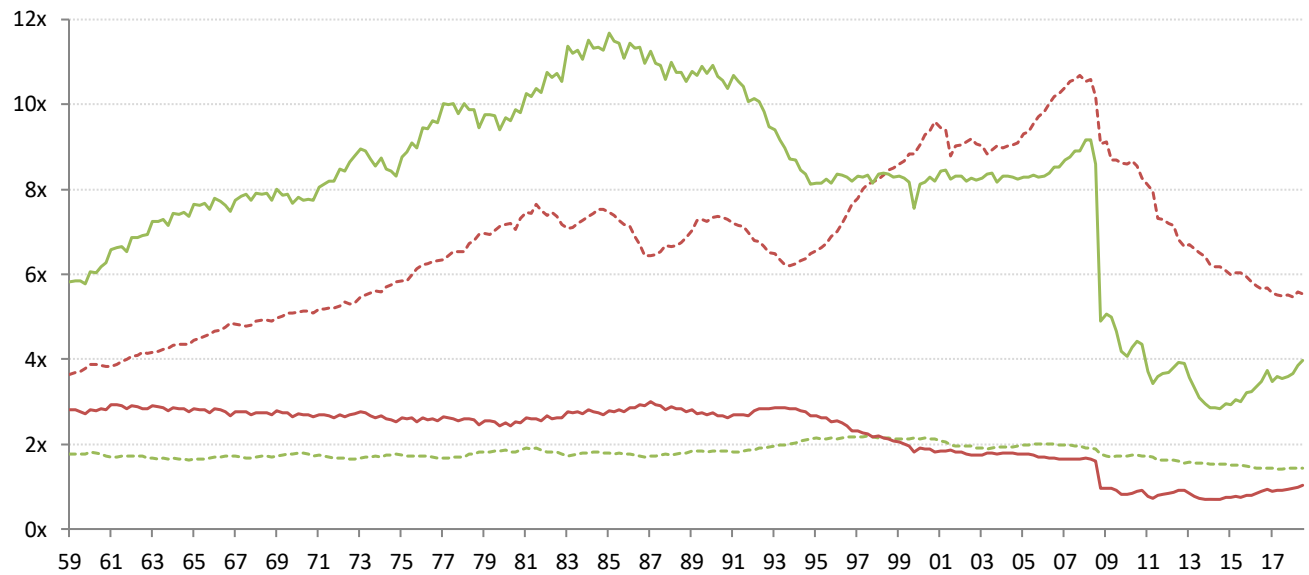
— M1 — M2 — Monetary base



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