
Data Insights: Federal Reserve

Wednesday, March 20, 2019

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

~~January 30~~ [March 20](#), 2019

Information received since the Federal Open Market Committee met in ~~December~~ [January](#) indicates that the labor market ~~has continued to strengthen and remains strong but~~ that [growth of](#) economic activity has ~~been rising at a~~ [slowed from its](#) solid rate. ~~Job in the fourth quarter. Payroll employment was little changed in February, but job~~ gains have been ~~strong~~ [solid](#), on average, in recent months, and the unemployment rate has remained low. ~~Household~~ [Recent indicators point to slower growth of household](#) spending ~~has continued to grow strongly, while growth of and~~ business fixed investment ~~has moderated from its rapid pace earlier last year in the first quarter.~~ On a 12-month basis, ~~both~~ overall inflation ~~and~~ [has declined, largely as a result of lower energy prices](#); inflation for items other than food and energy ~~remain~~ [remains](#) near 2 percent. ~~Although~~ [On balance](#), market-based measures of inflation compensation have ~~moved lower~~ [remained low](#) in recent months, ~~and~~ survey-based measures of longer-term inflation expectations are little changed.

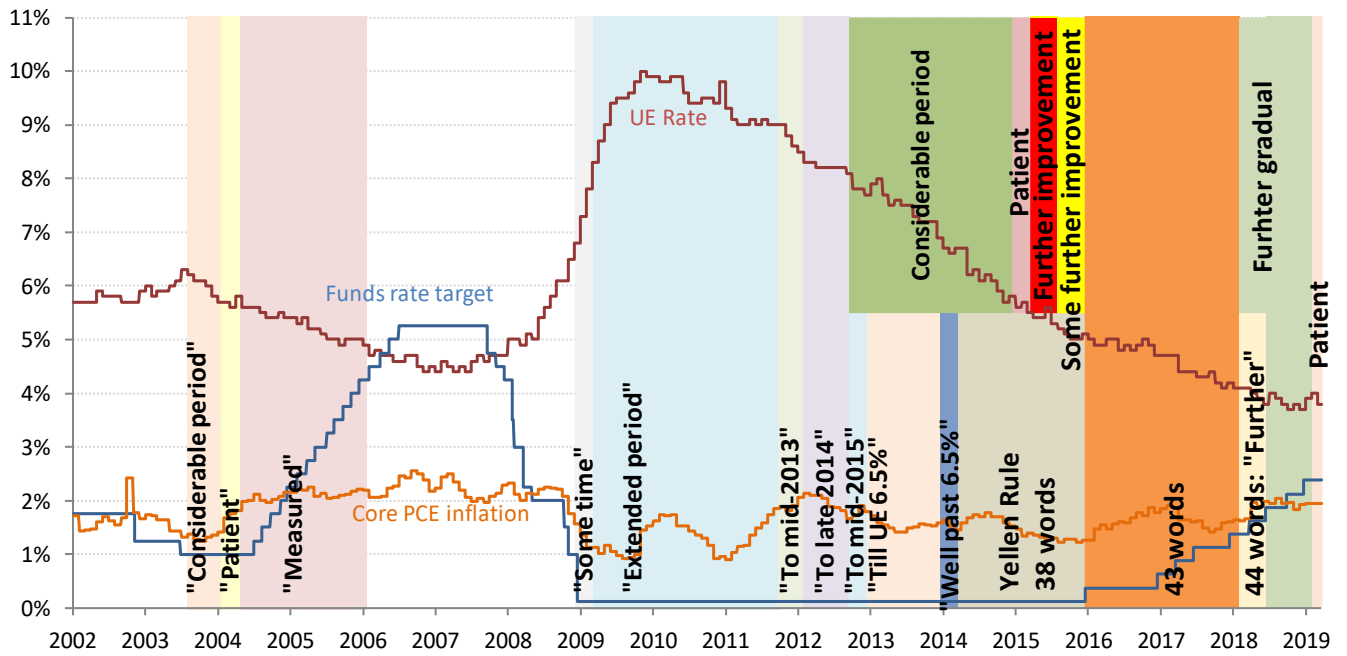
Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In support of these goals, the Committee decided to maintain the target range for the federal funds rate at 2-1/4 to 2-1/2 percent. The Committee continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective as the most likely outcomes. In light of global economic and financial developments and muted inflation pressures, the Committee will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate to support these outcomes.

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; Michelle W. Bowman; Lael Brainard; James Bullard; Richard H. Clarida; Charles L. Evans; Esther L. George; Randal K. Quarles; and Eric S. Rosengren.

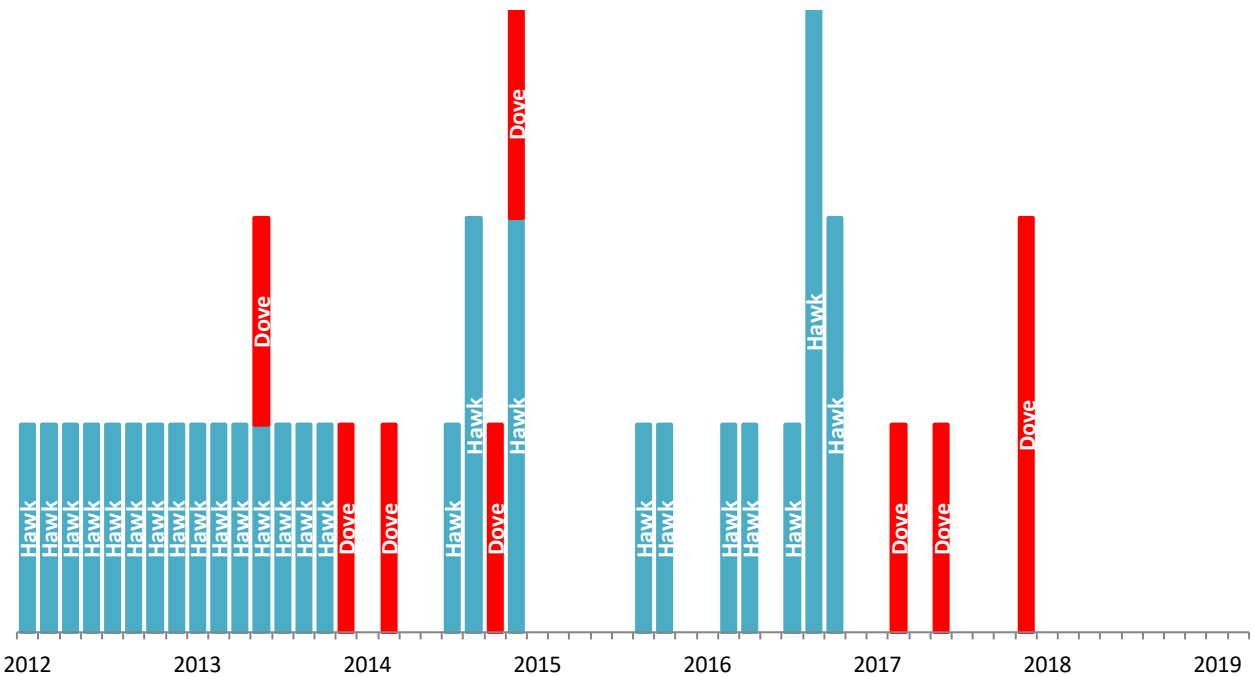
Source: FOMC, TrendMacro analysis

Fedspeak regime change: the evolution of forward guidance



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

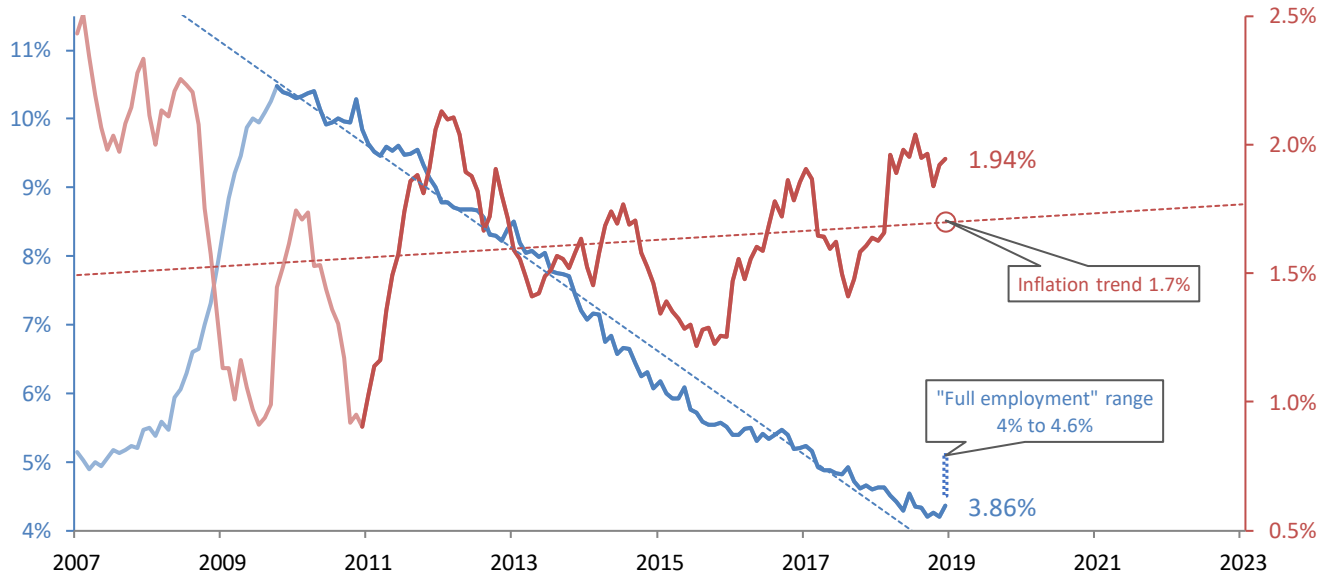
Other voices: number and direction of FOMC decision dissents



Source: FOMC, TrendMacro calculations

The dual mandate: garbage in, garbage out

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

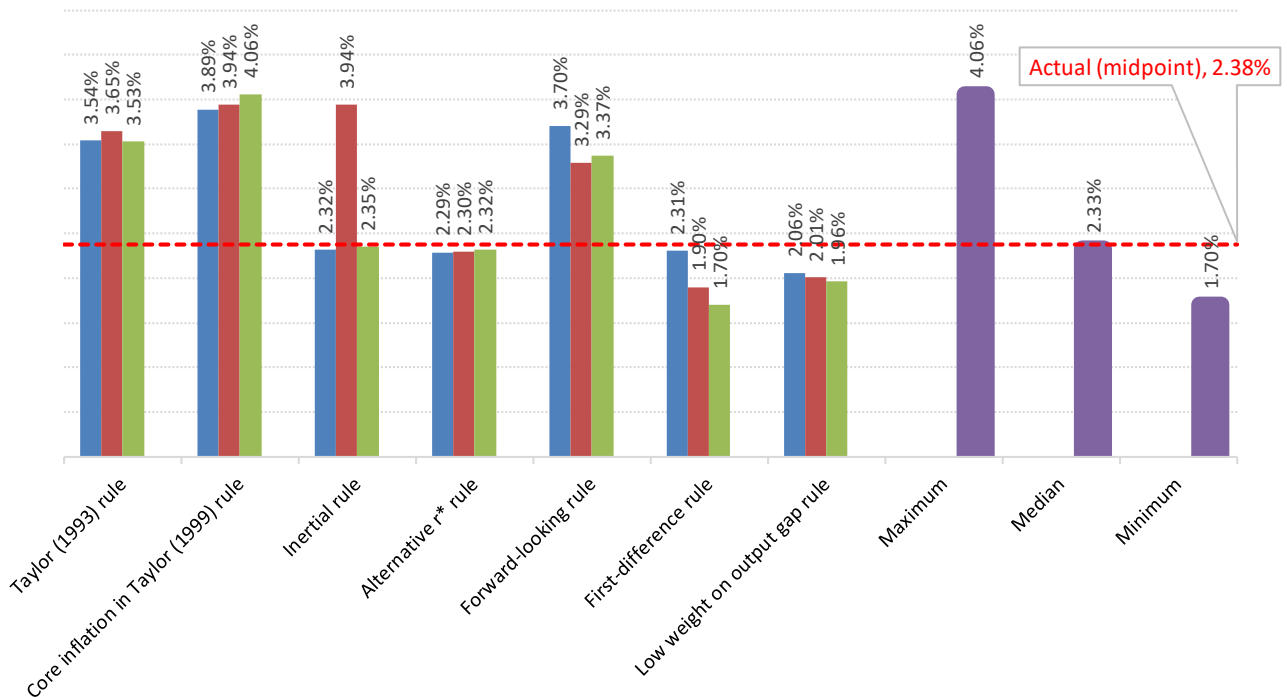


Source: BLS Current Population Survey, TrendMacro calculations

So many policy rules, so little time...

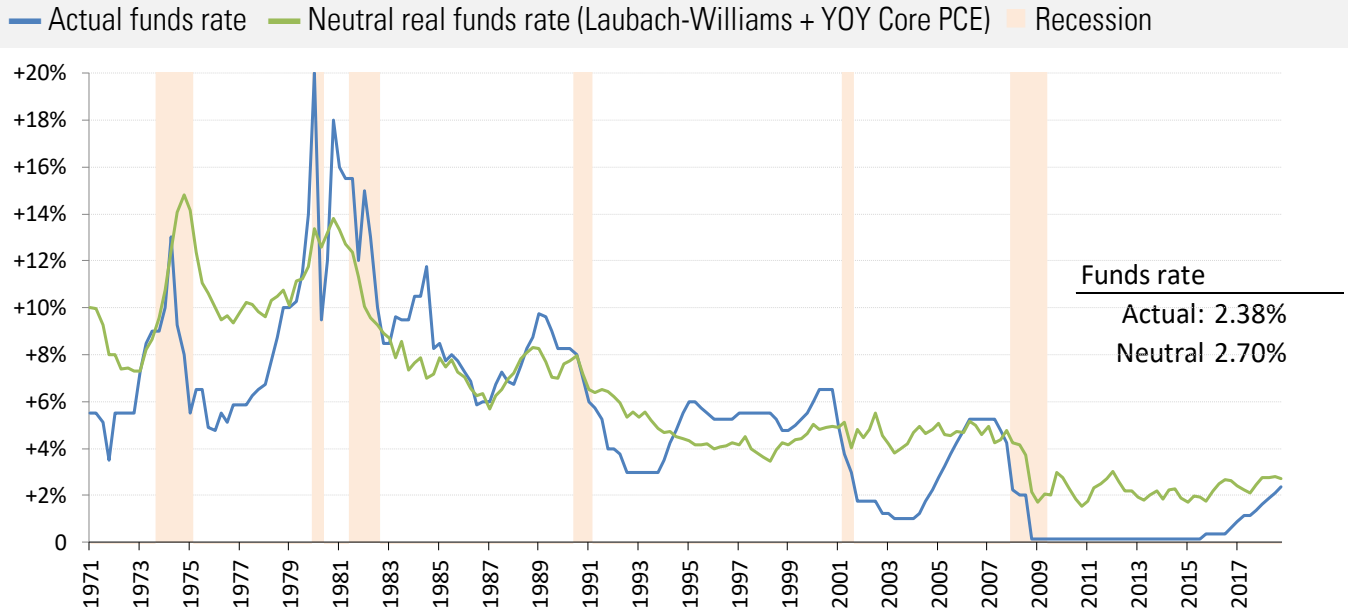
As of November 28, 2018 Based on inputs from:

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



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

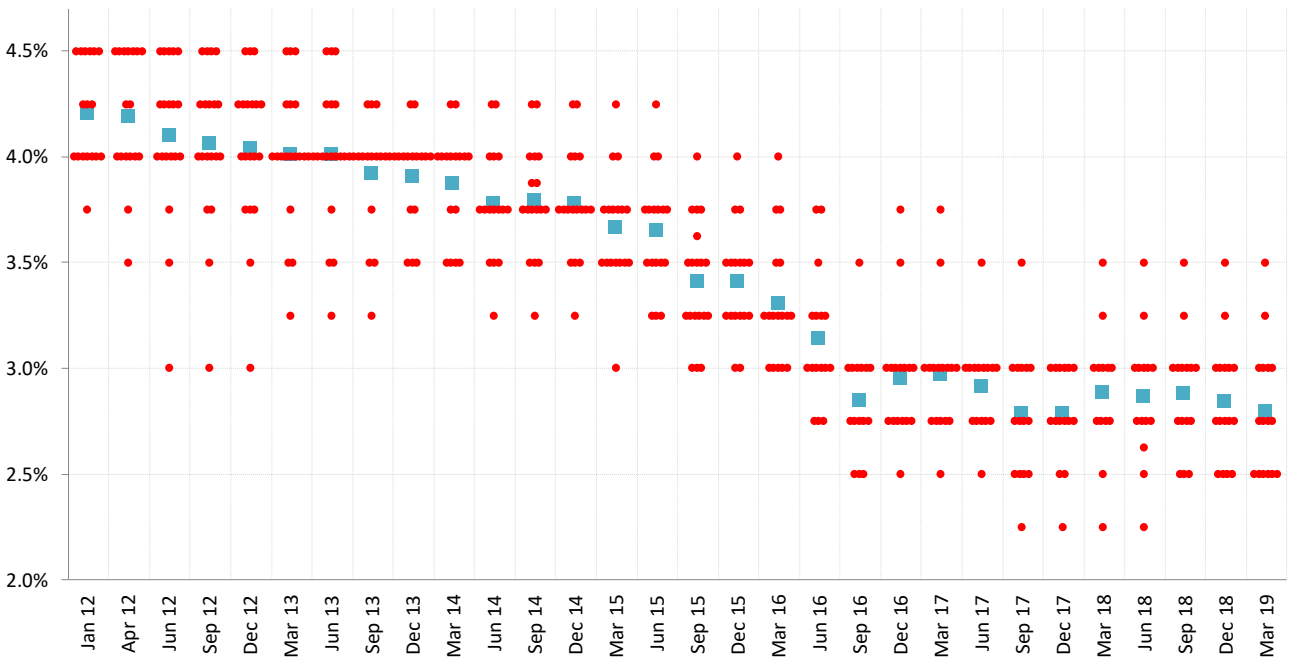
Estimating the "natural rate of interest"



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

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

FOMC participants' estimate of "longer run" target fed funds rate ● Vote by individual participant ■ Weighted average

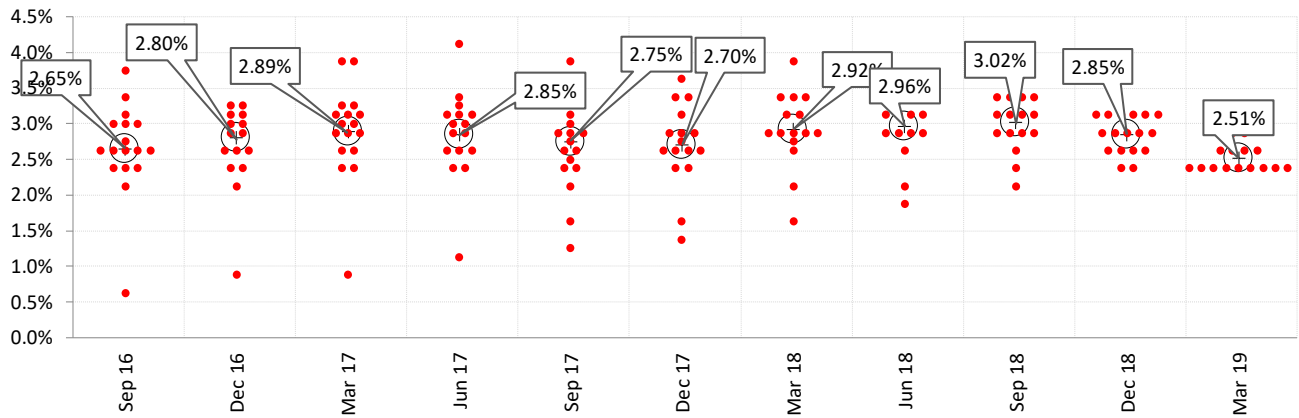


Source: Federal Reserve, TrendMacro calculations

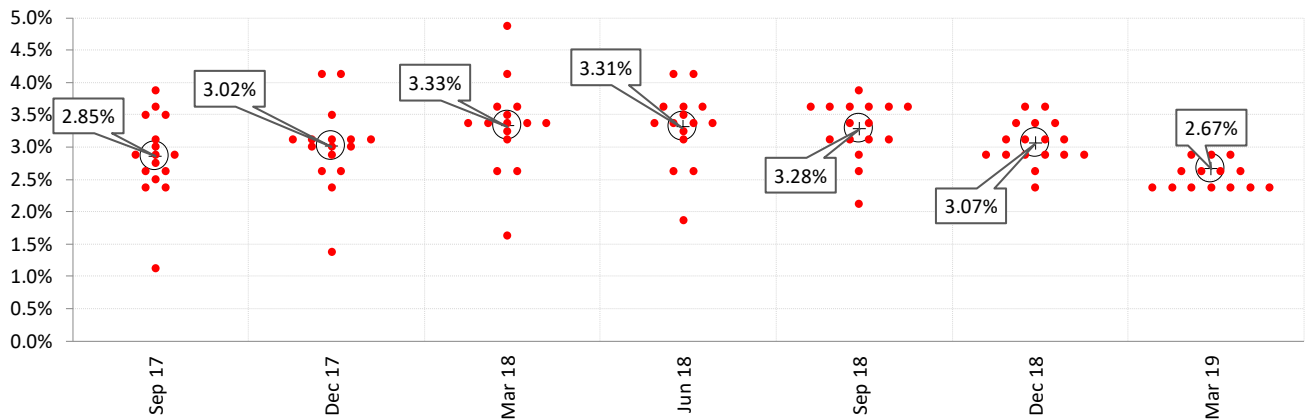
Tracking the "dotplots" year by year As of December 18

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

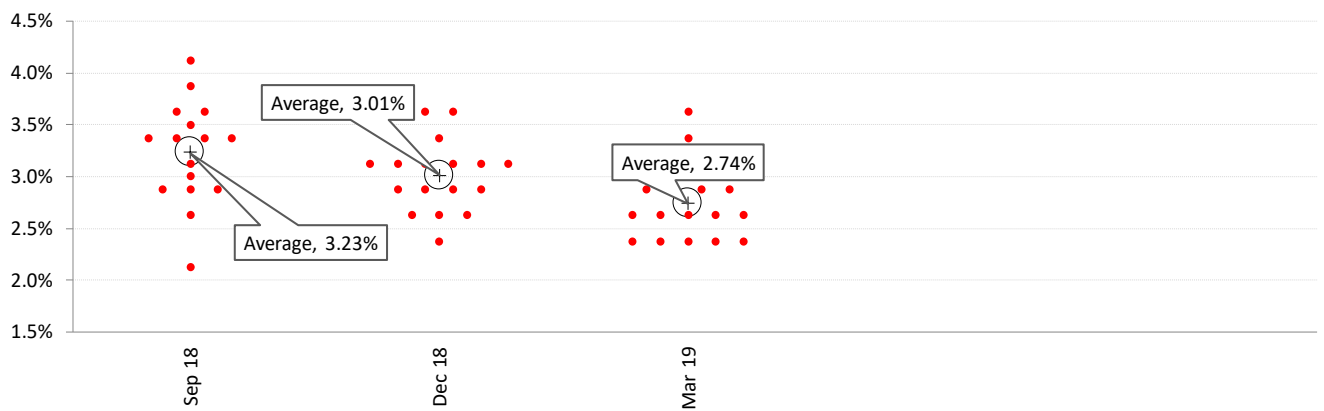
For year-end 2019



For year-end 2020



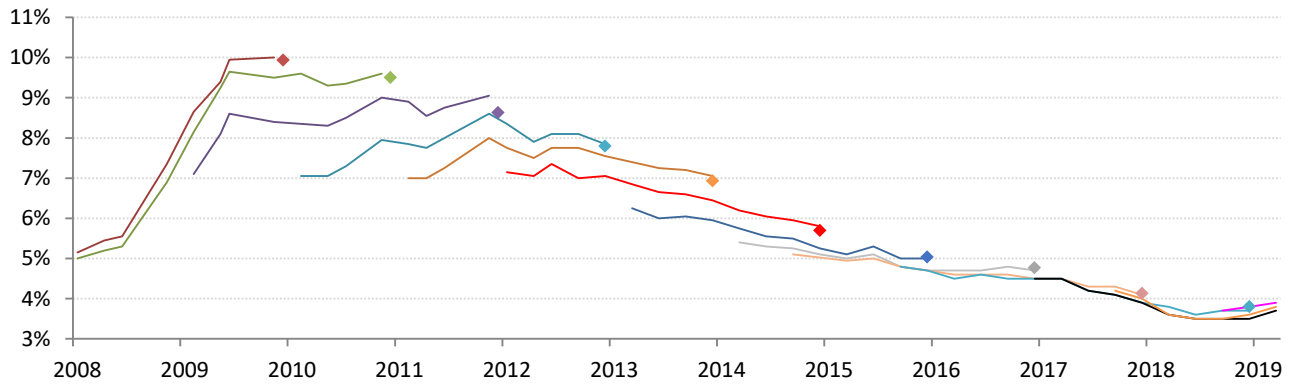
For year-end 2021



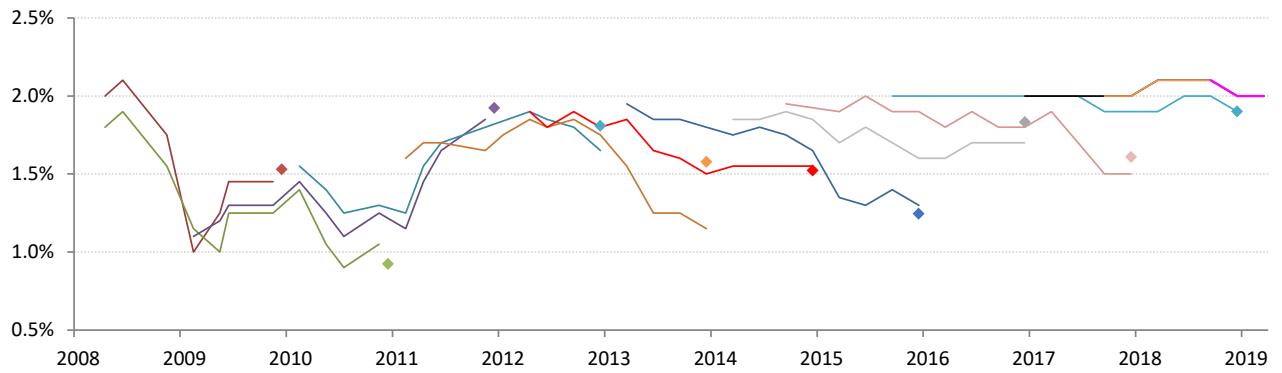
Forecast versus actual: [economic projections](#) of the FRB and presidents As of Dec 18

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

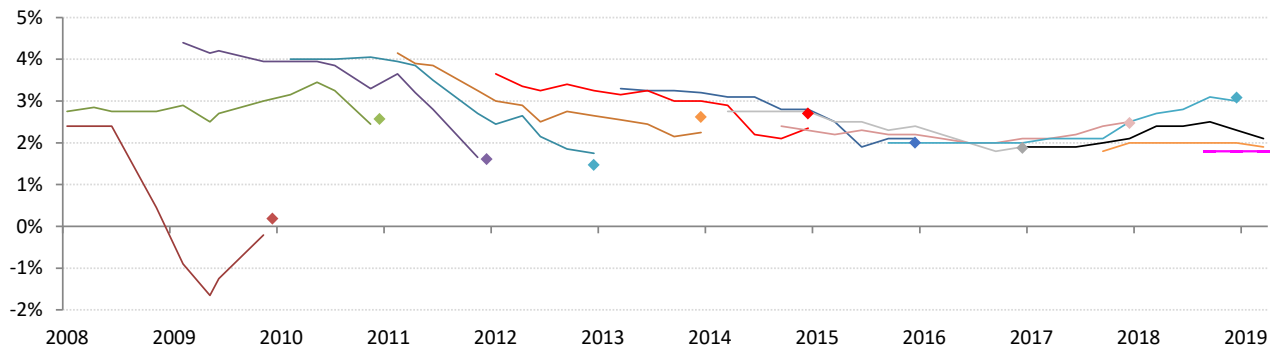
Unemployment



Core PCE inflation



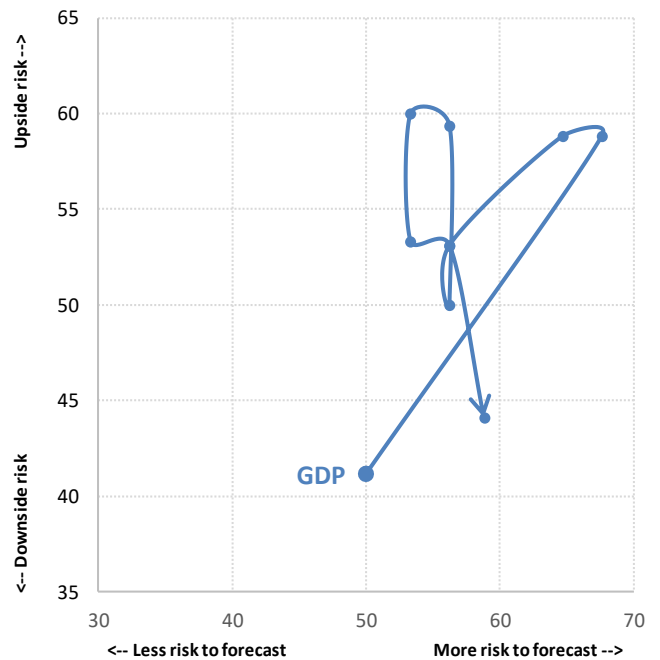
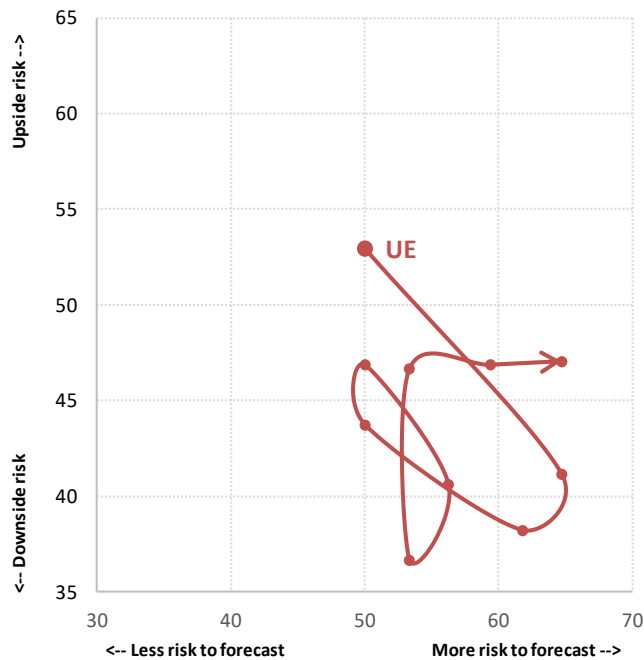
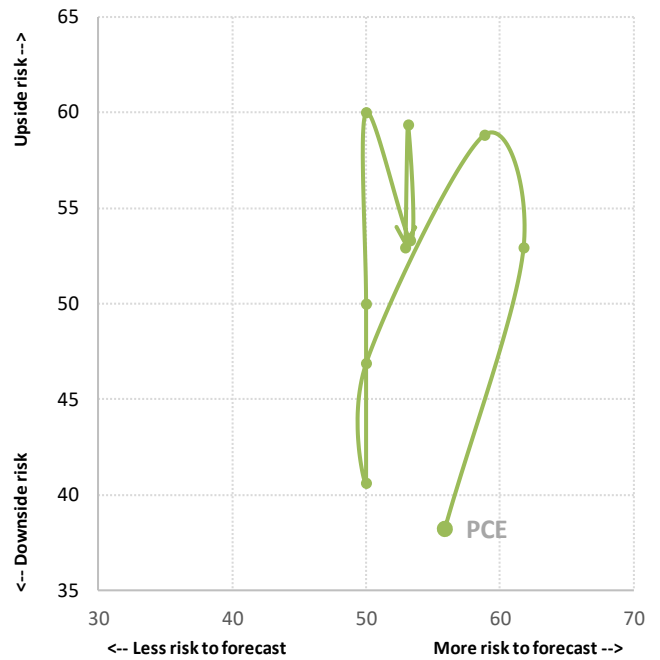
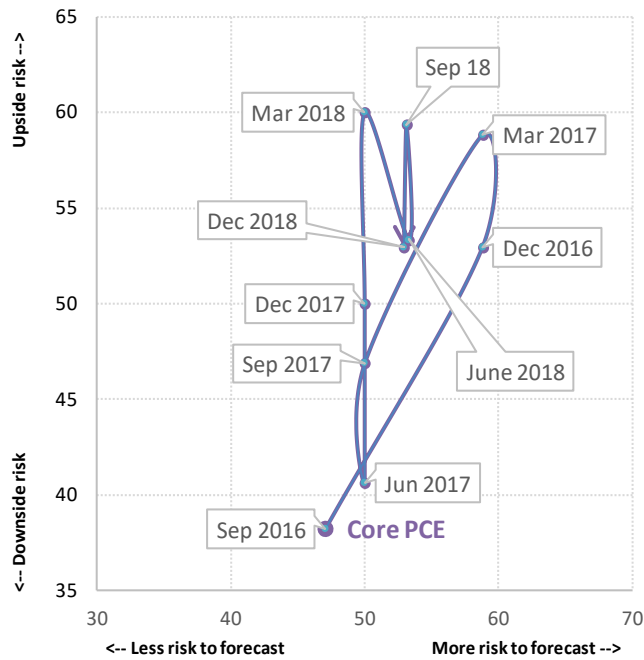
Real GDP



Source: Federal Reserve, BEA, BLS, TrendMacro calculations

The evolution of uncertainty

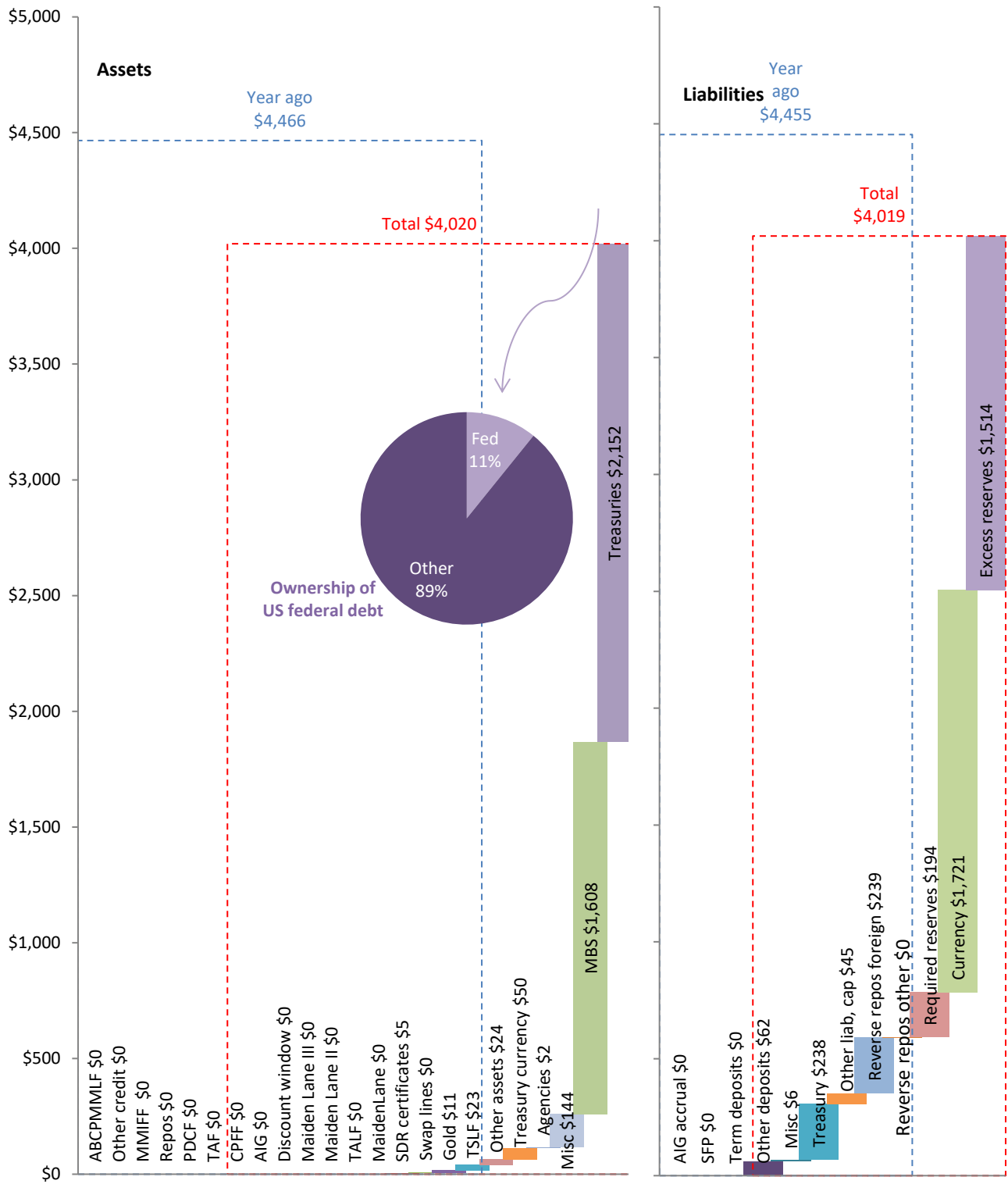
Diffusion indices from FOMC participants' risk self-assessments in [Summary of Economic Projections](#)
 As of December 2018. Updated three weeks after December FOMC in Data Insights: FOMC Minutes



Source: Federal Reserve Board, TrendMacro calculations

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

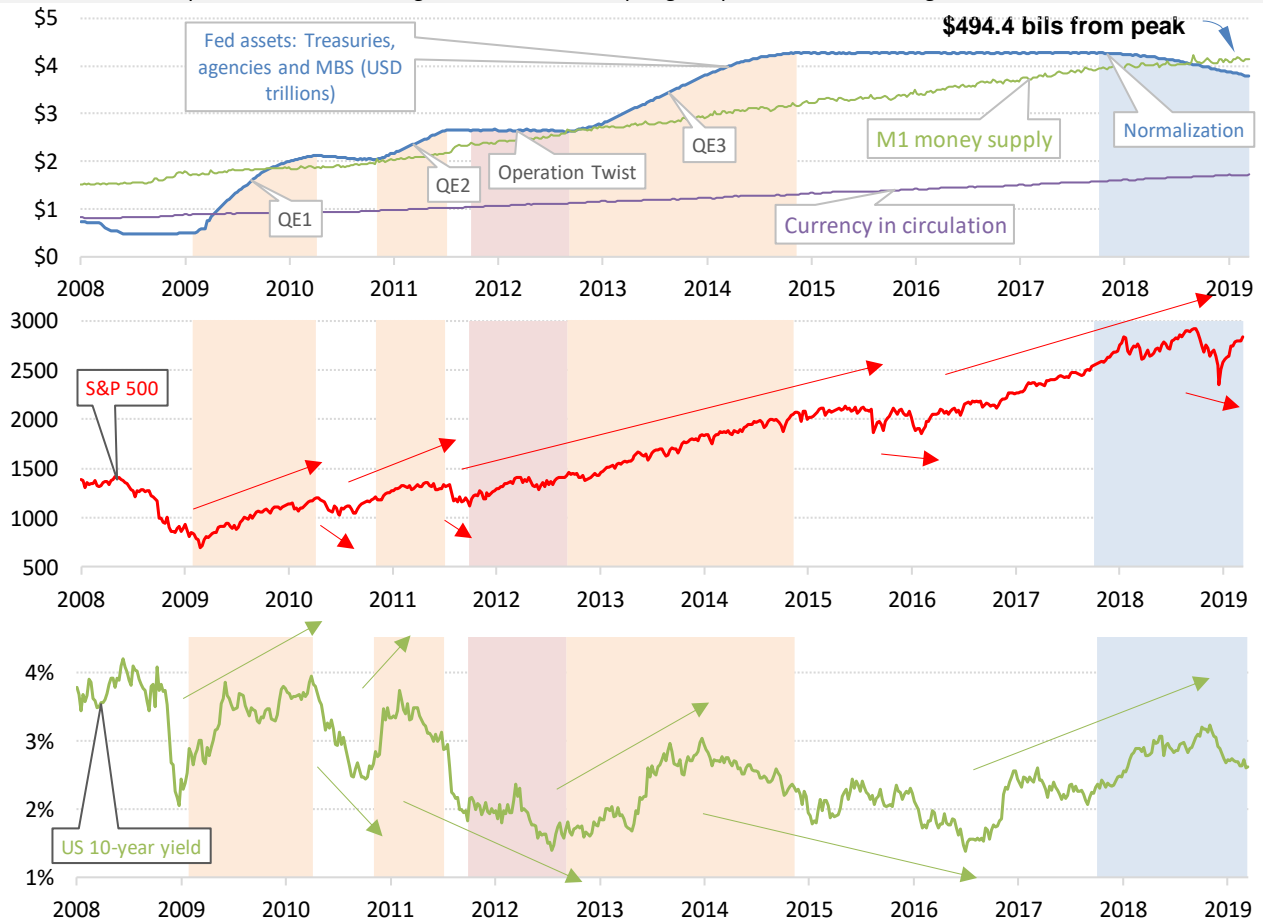
Assets do not perfectly match liabilities because we include unsettled MBS purchases and sales



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

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

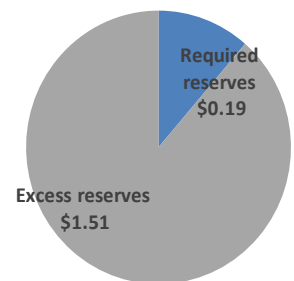
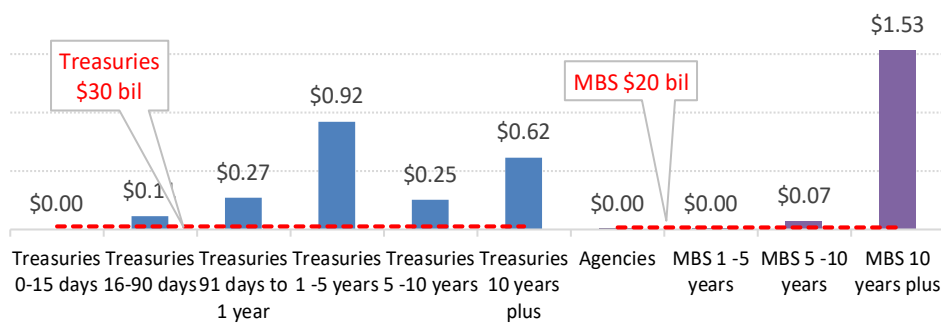
Stocks and bond yields react to changes in Fed Treasury, agency and MBS holdings



Sector and maturity breakdown of Fed assets, USD trillions

Banking reserves, USD trillions

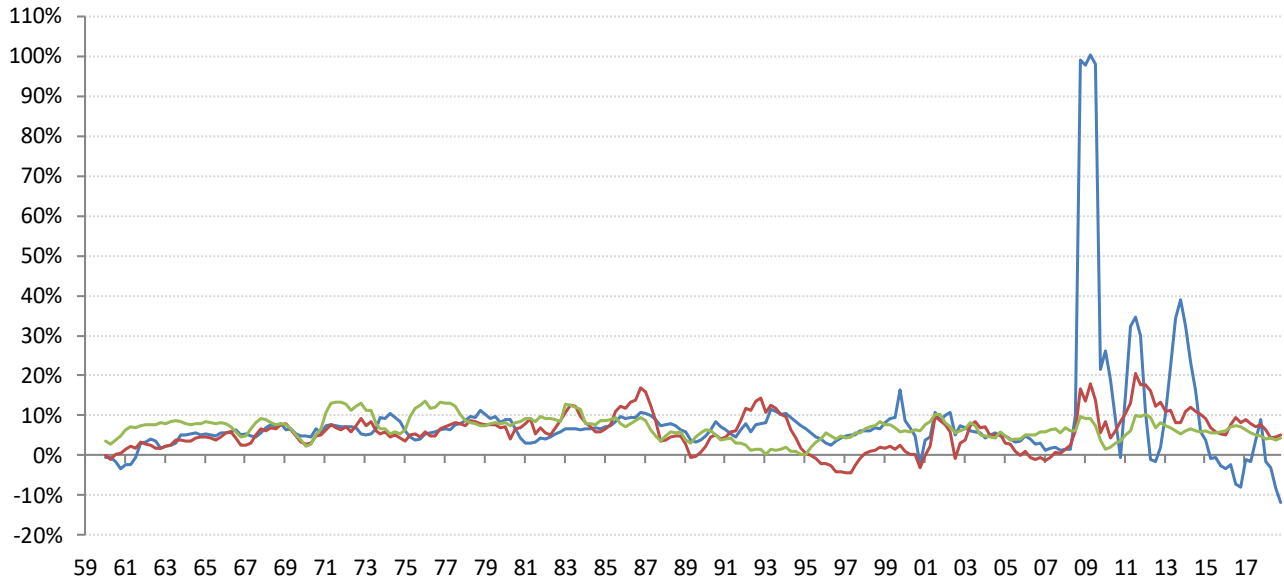
--- Monthly cap on un-reinvested maturities, max effective after 10/31/18



Source: Federal Reserve, Bloomberg, TrendMacro calculations

Money supply growth, YOY quarterly

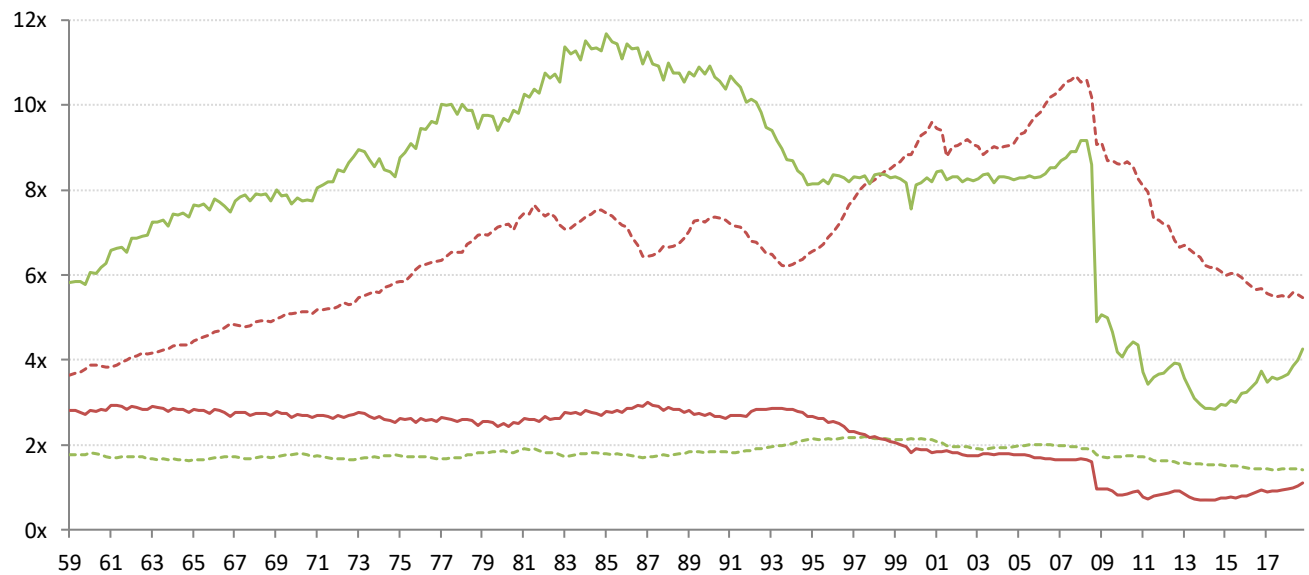
— M1 — M2 — Monetary base



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