

Data Insights: Federal Reserve

Wednesday, July 31, 2019

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

~~June 19~~[July 31](#), 2019

Federal Reserve issues FOMC statement

For release at 2:00 p.m. EDT

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Information received since the Federal Open Market Committee met in ~~May~~[June](#) indicates that the labor market remains strong and that economic activity ~~is~~[has been](#) rising at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although growth of household spending ~~appears to have~~[has](#) picked up from earlier in the year, ~~indicators~~[growth](#) of business fixed investment ~~have~~[has](#) been soft. On a 12-month basis, overall inflation and inflation for items other than food and energy are running below 2 percent. Market-based measures of inflation compensation ~~have declined~~[remain low](#); 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~~[light](#) of ~~these goals~~[the implications of global developments for the economic outlook as well as muted inflation pressures](#), the Committee decided to ~~maintain~~[lower](#) the target range for the federal funds rate ~~at~~[to](#) 2-1/4 to 2-1/24 percent. ~~The Committee continues to~~[This action supports the Committee's view that](#) sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective ~~as~~[are](#) the most likely outcomes, but uncertainties about this outlook ~~have increased. In light of these uncertainties and muted inflation pressures, remain. As~~ the Committee ~~contemplates the future path of the target range for the federal funds rate, it~~ will ~~closely~~[continue to](#) monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2 percent objective.

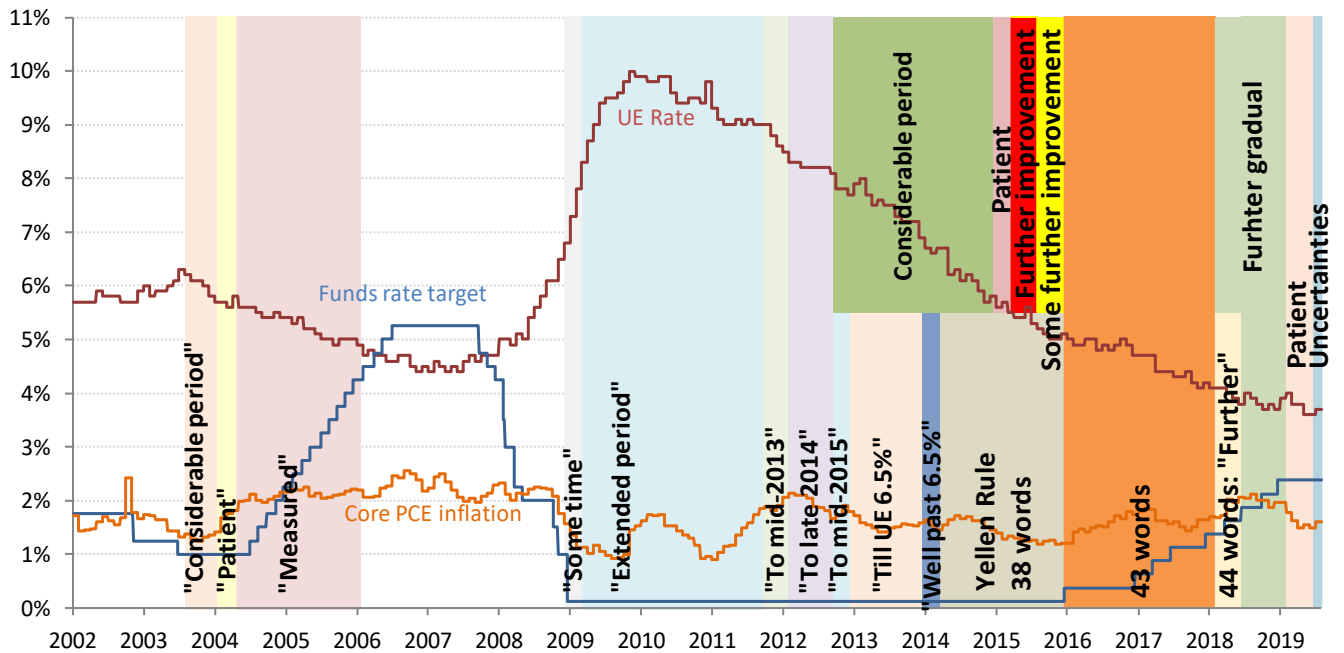
In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2 percent inflation objective. This assessment will take into account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

The Committee will conclude the reduction of its aggregate securities holdings in the System Open Market Account in August, two months earlier than previously indicated.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michelle W. Bowman; Lael Brainard; James Bullard; Richard H. Clarida; Charles L. Evans; and Randal K. Quarles. Voting against the action were Esther L. George; ~~Randal K. Quarles~~; and Eric S. Rosengren. ~~Voting against the action was James Bullard~~, who preferred at this meeting to lower/maintain the target range for the federal funds rate ~~by 25 basis points~~ at 2-1/4 to 2-1/2 percent.

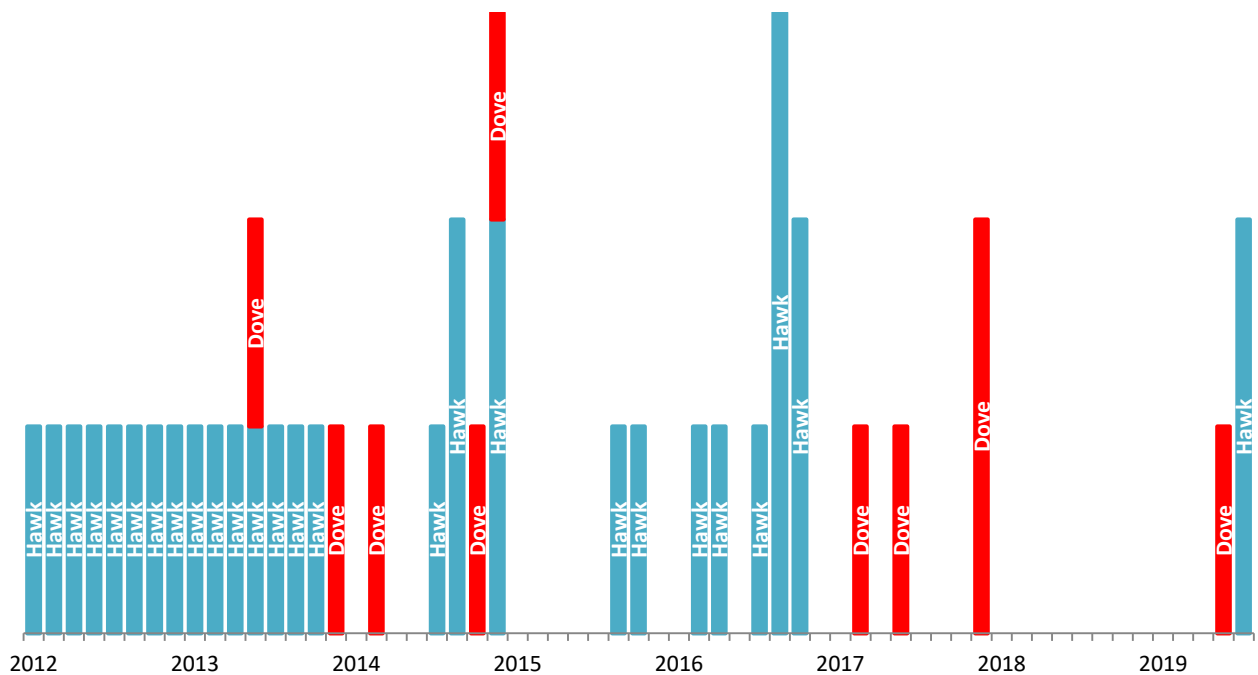
Source: FOMC, TrendMacro analysis

Fedspeak regime change: the evolution of forward guidance



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

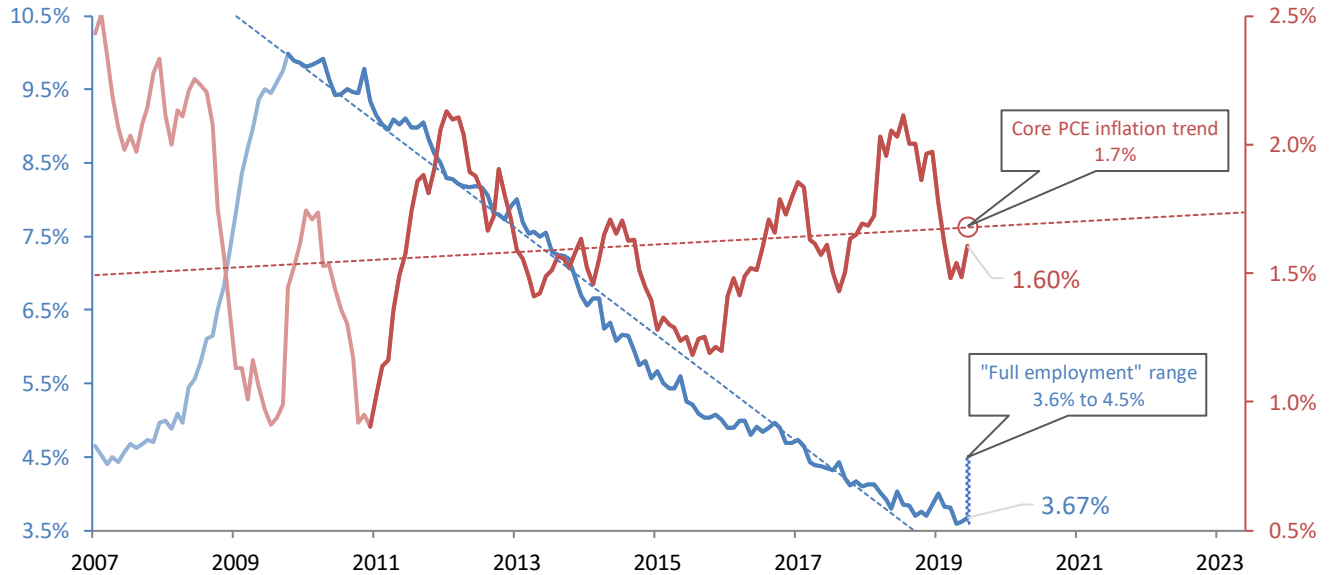
Other voices: number and direction of FOMC decision dissents



Source: FOMC, TrendMacro calculations

The dual mandate: garbage in, garbage out

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

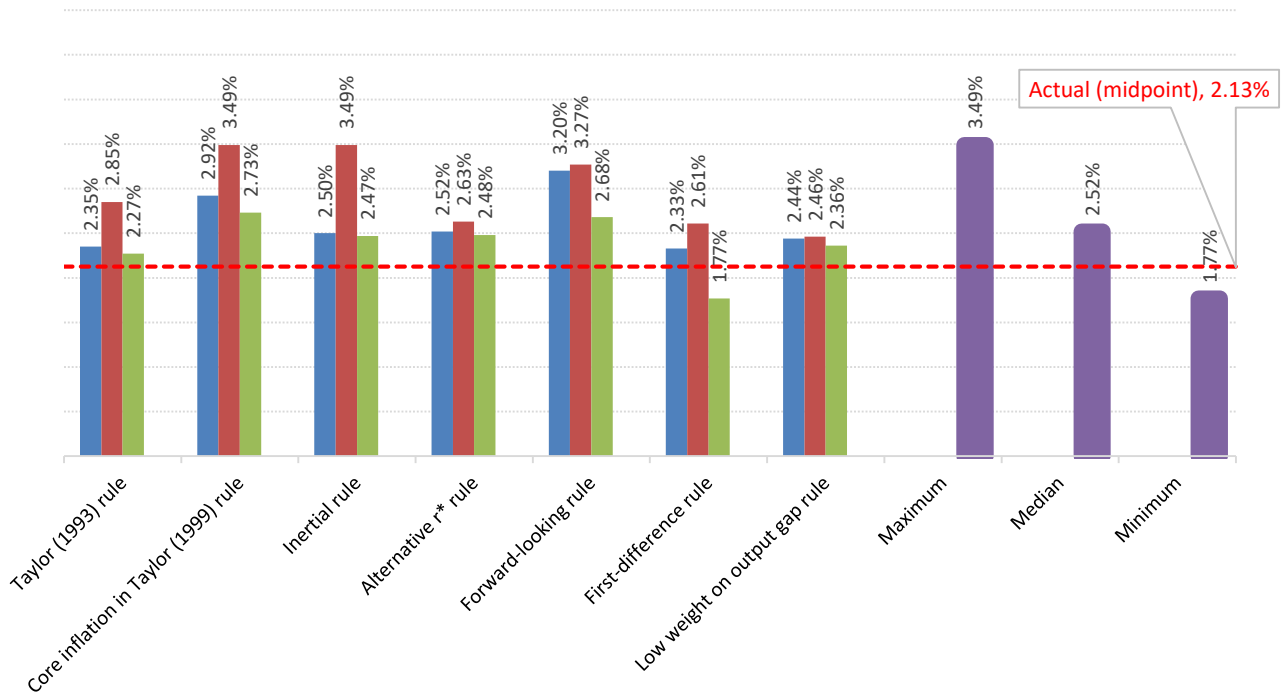


Source: BLS Current Population Survey, TrendMacro calculations

So many policy rules, so little time...

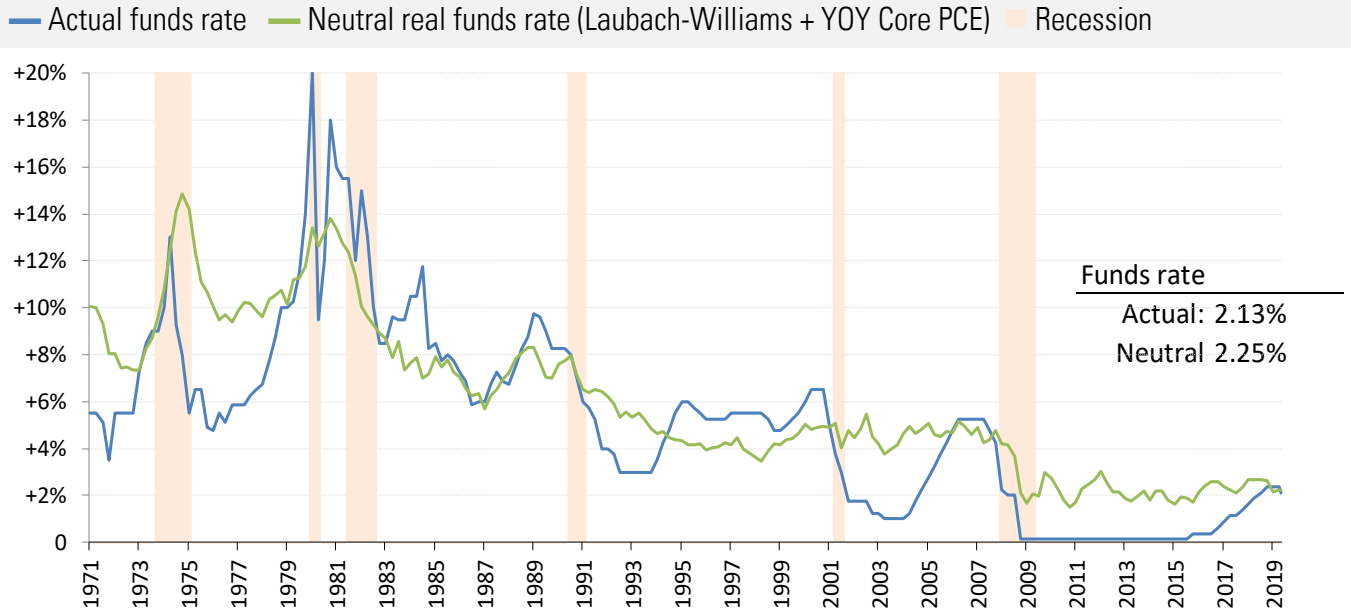
As of May 23, 2019 Based on inputs from:

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



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

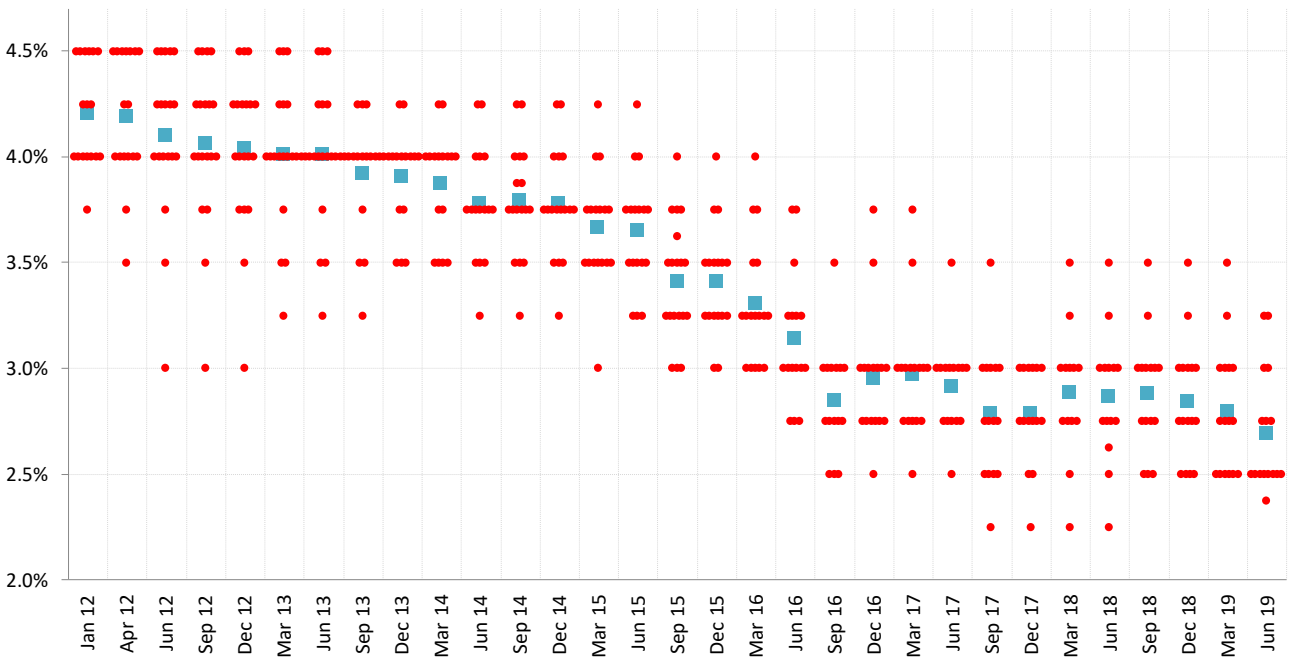
Estimating the "natural rate of interest"



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

"R-star" – the ultimate "dotplot" As of June 2019

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

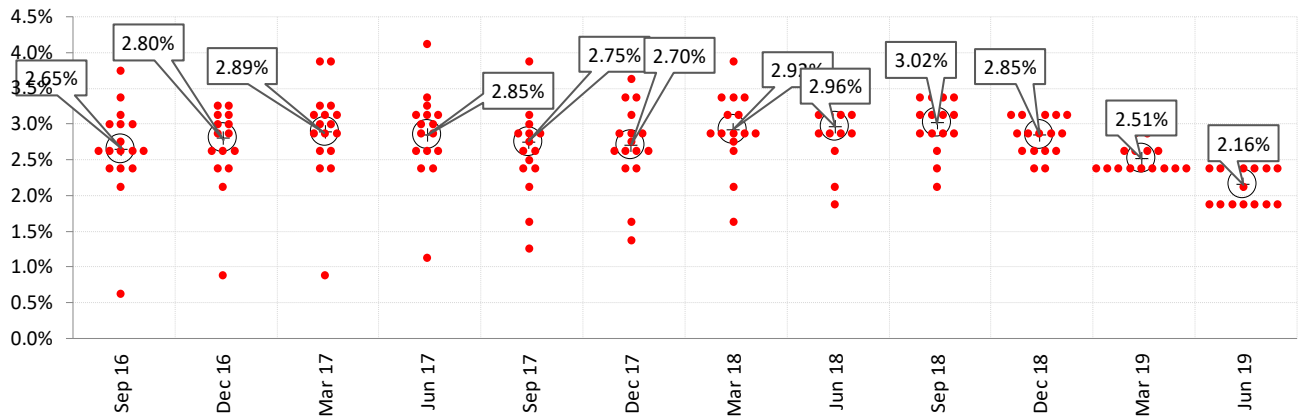


Source: Federal Reserve, TrendMacro calculations

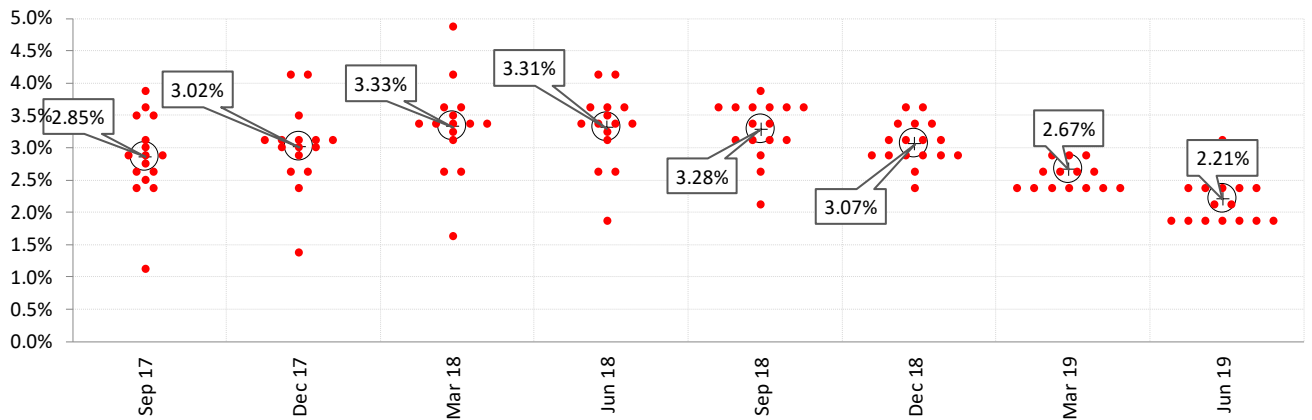
Tracking the "dotplots" year by year As of June 2019

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

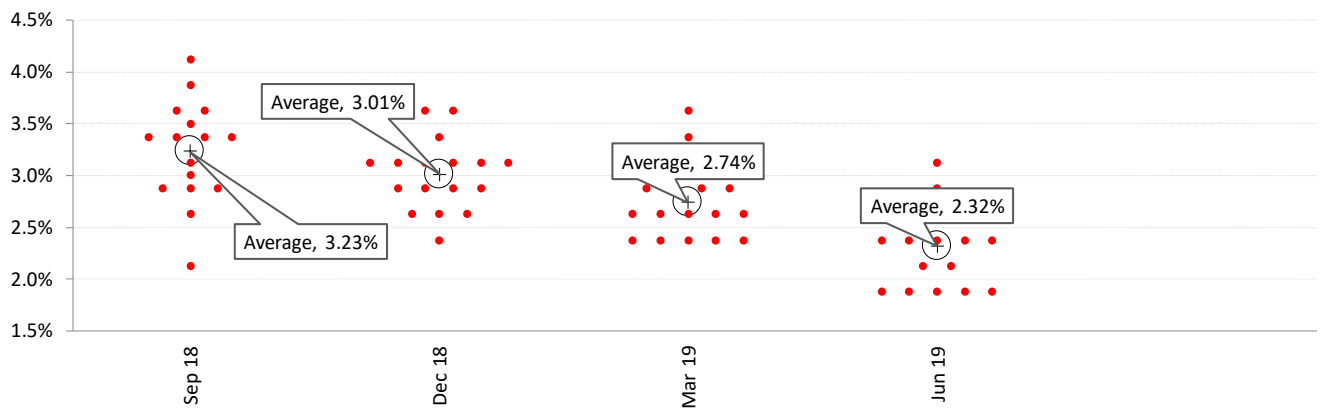
For year-end 2019



For year-end 2020



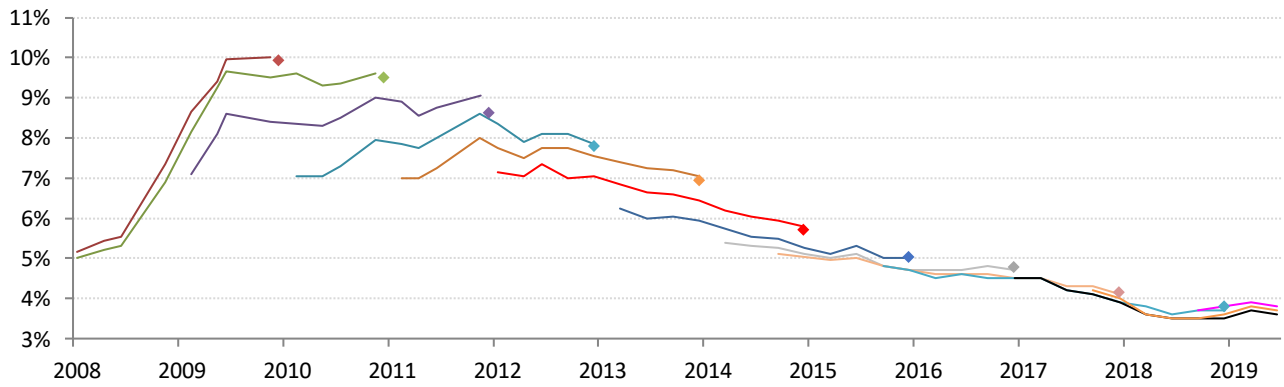
For year-end 2021



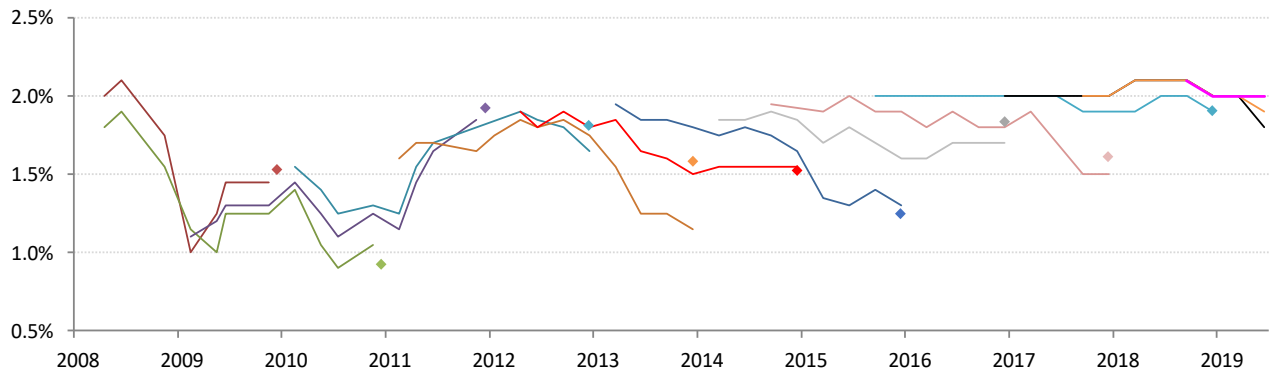
Forecast versus actual: [economic projections](#) of FRB and presidents As of June 2019

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

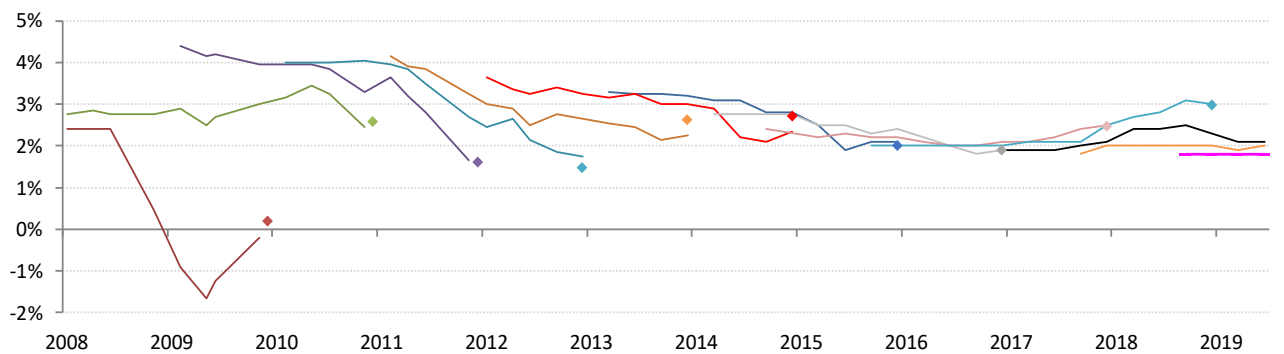
Unemployment



Core PCE inflation



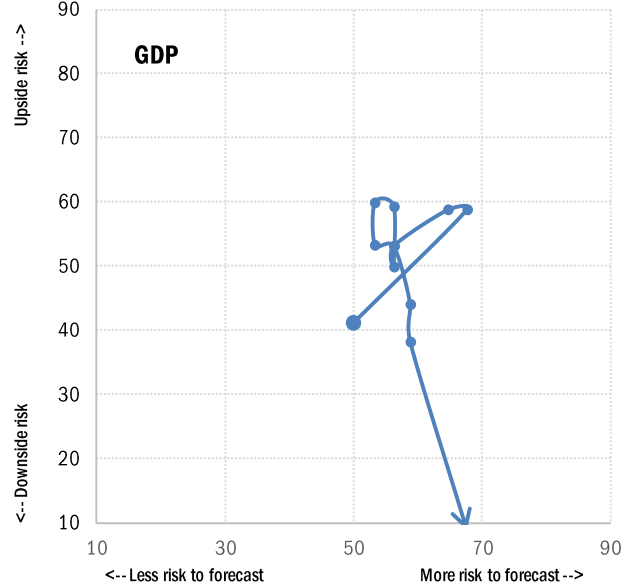
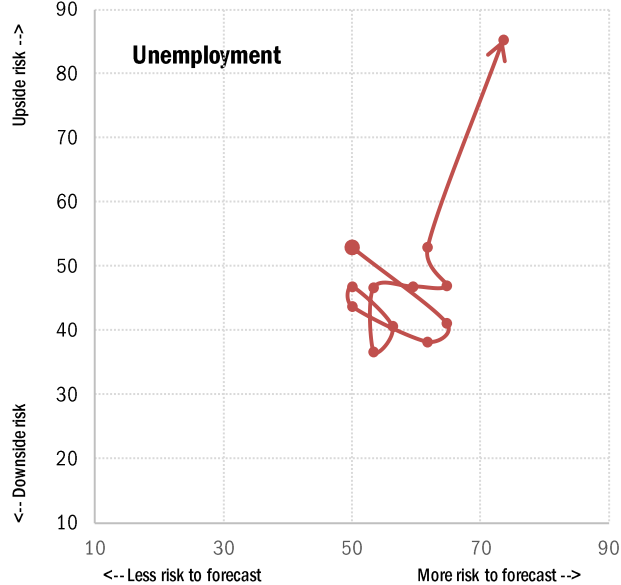
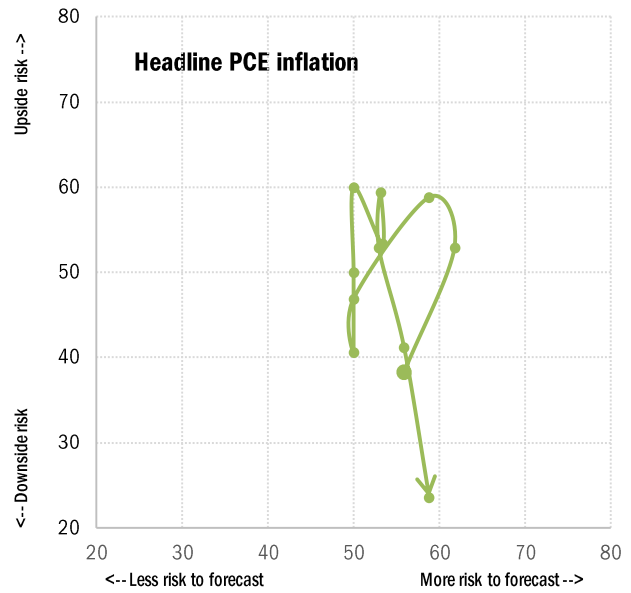
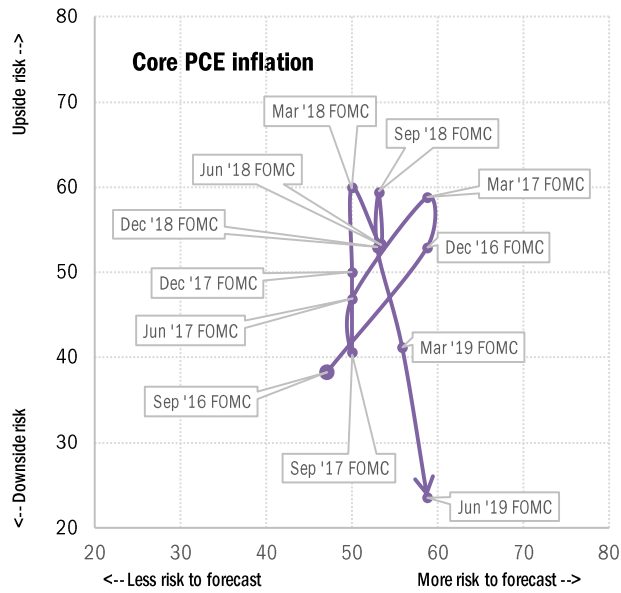
Real GDP



Source: Federal Reserve, BEA, BLS, TrendMacro calculations

The evolution of uncertainty

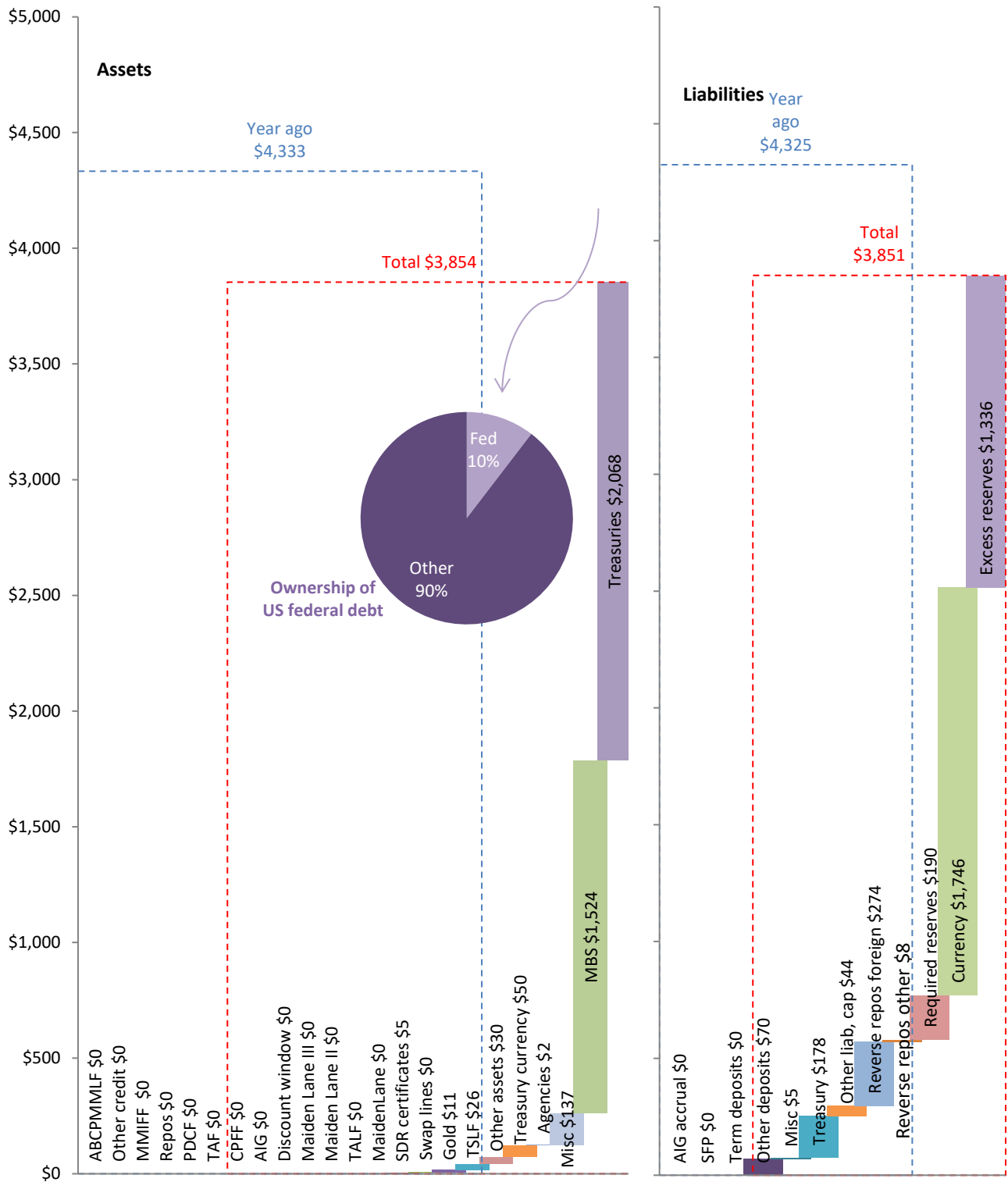
Diffusion indices from FOMC participants' risk self-assessments in [Summary of Economic Projections](#) As of June 2019 FOMC.



Source: Federal Reserve Board, TrendMacro calculations

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

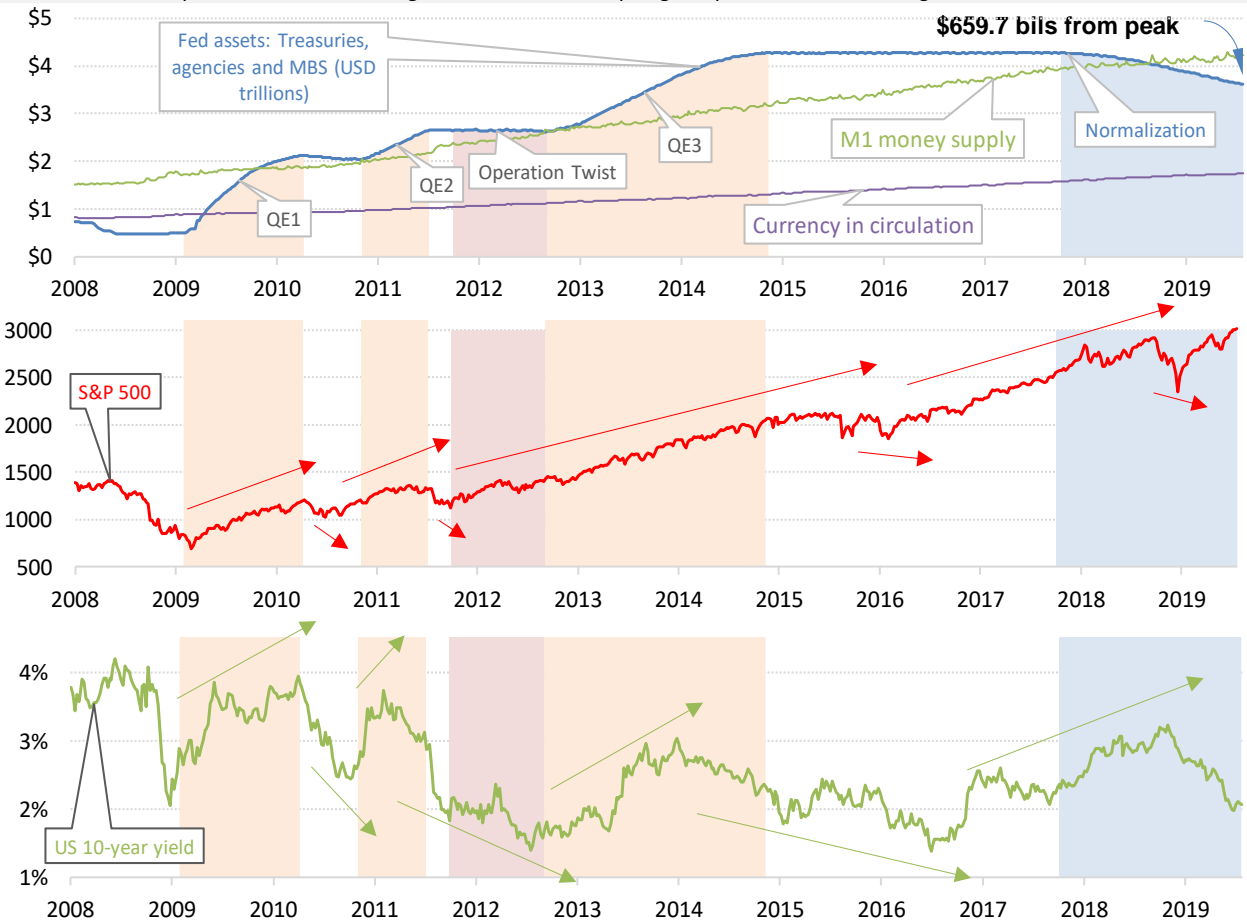
Assets do not perfectly match liabilities because we include unsettled MBS purchases and sales



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

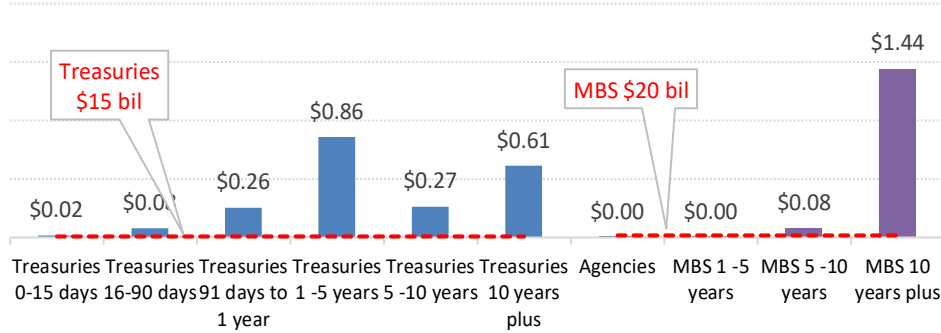
The Fed's asset purchases, and their effects on markets

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

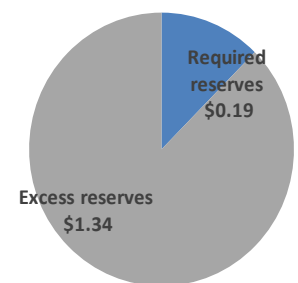


Sector and maturity breakdown of Fed assets, USD trillions

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

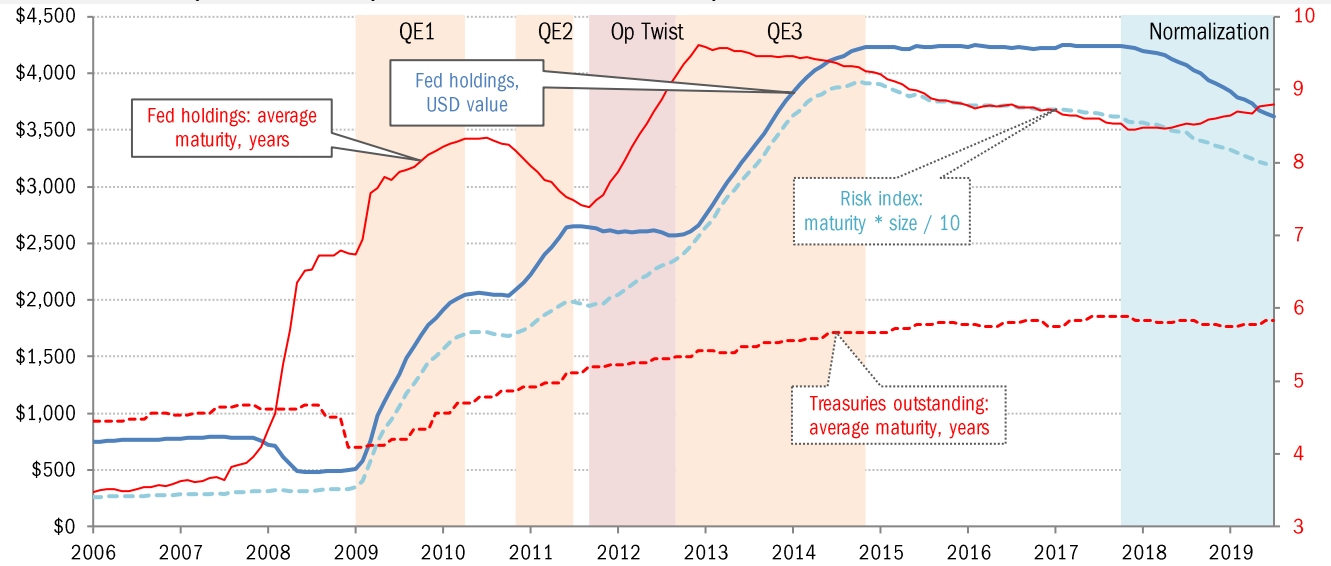


Banking reserves, USD trillions



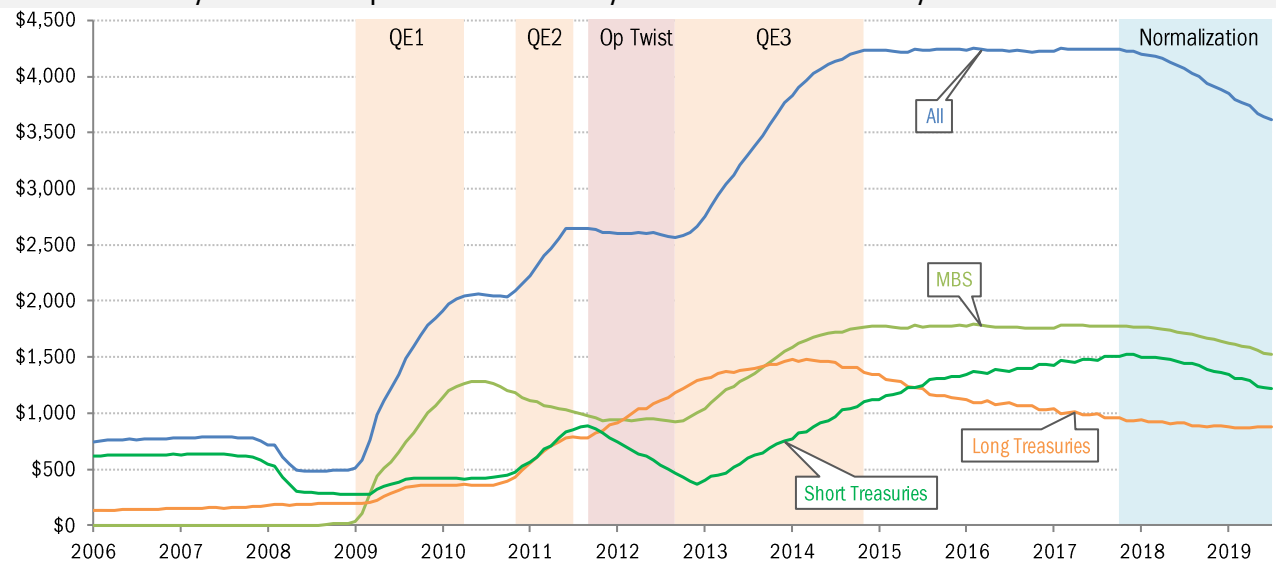
Source: Federal Reserve, Bloomberg, TrendMacro calculations

Fed Treasury and MBS portfolio: size, maturity and risk index



Source: Federal Reserve, Bloomberg, TrendMacro calculations

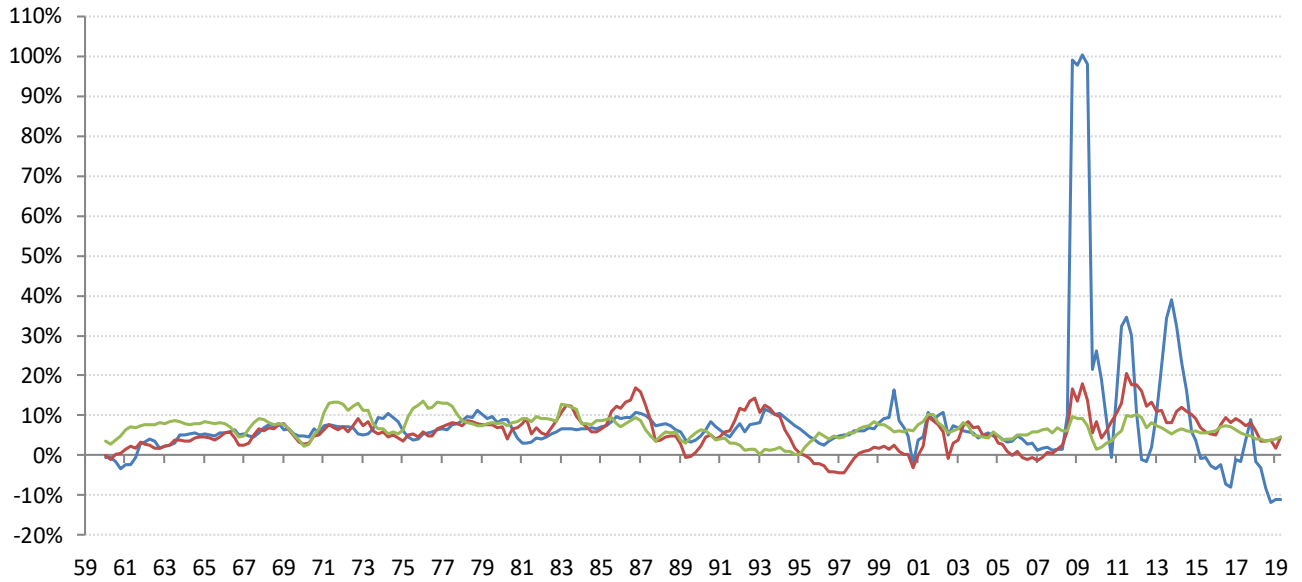
Fed Treasury and MBS portfolio: size by sector and maturity



Source: Federal Reserve, Bloomberg, TrendMacro calculations

Money supply growth, YOY quarterly

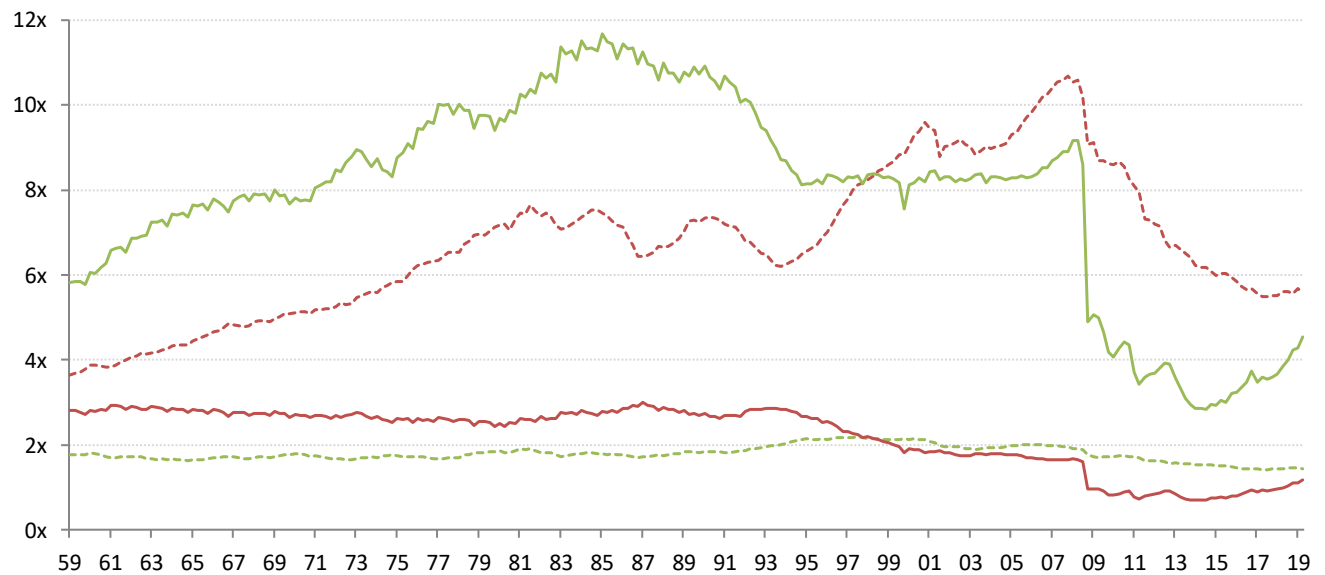
— M1 — M2 — Monetary base



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