

Data Insights: Federal Reserve

Wednesday, December 11, 2019

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

~~October 30~~[December 11](#), 2019

Information received since the Federal Open Market Committee met in ~~September~~[October](#) indicates that the labor market remains strong and that economic activity 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 household spending has been rising at a strong pace, business fixed investment and exports remain weak. 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 remain low; survey-based measures of longer-term inflation expectations are little changed.

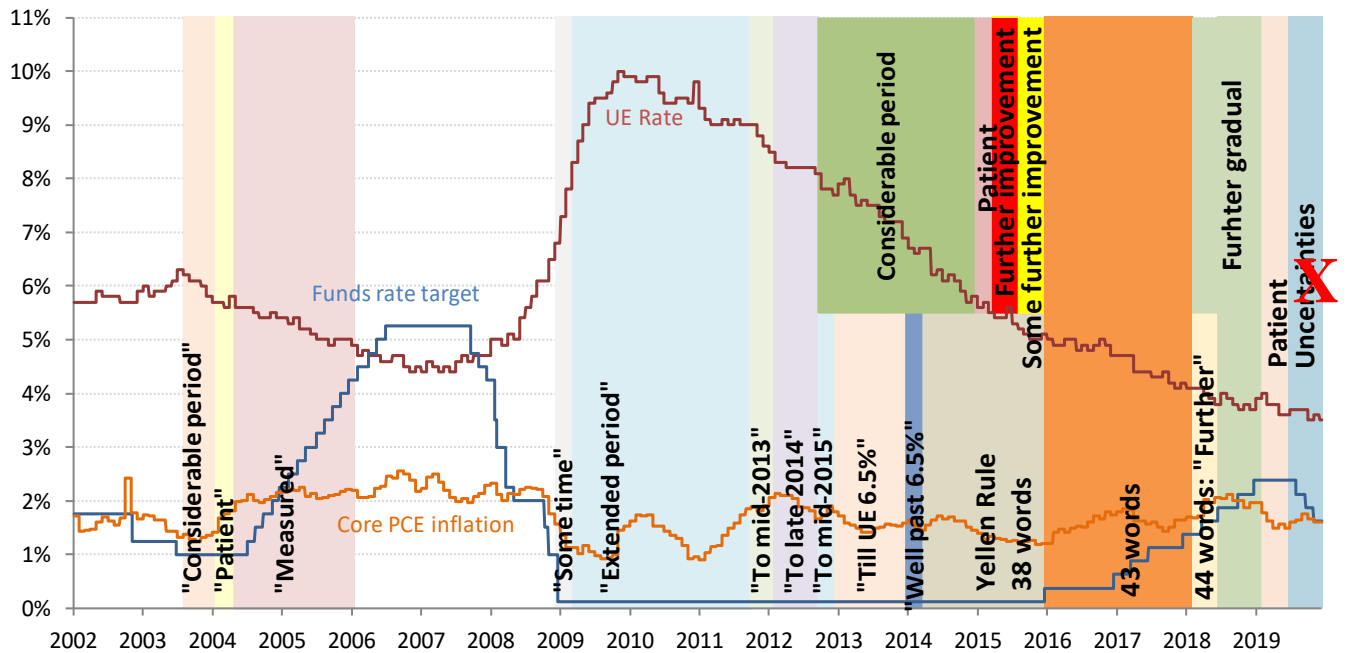
Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. ~~In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the~~[The](#) Committee decided to ~~lower~~[maintain](#) the target range for the federal funds rate ~~at~~ 1--1/2 to 1-3/4 percent. ~~This action supports the Committee's view~~[The Committee judges](#) that ~~the current stance of monetary policy is appropriate to support~~ sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective ~~are the most likely outcomes, but uncertainties about this outlook remain.~~ The Committee will continue to monitor the implications of incoming information for the economic outlook, [including global developments and muted inflation pressures](#), as it assesses the appropriate path of the target range for the federal funds rate.

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 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~~ [Esther L. George](#); Randal K. Quarles. ~~Voting against this action were: Esther L. George and ; and Eric S. Rosengren, who preferred at this meeting to maintain the target range at 1 3/4 percent to 2 percent.~~

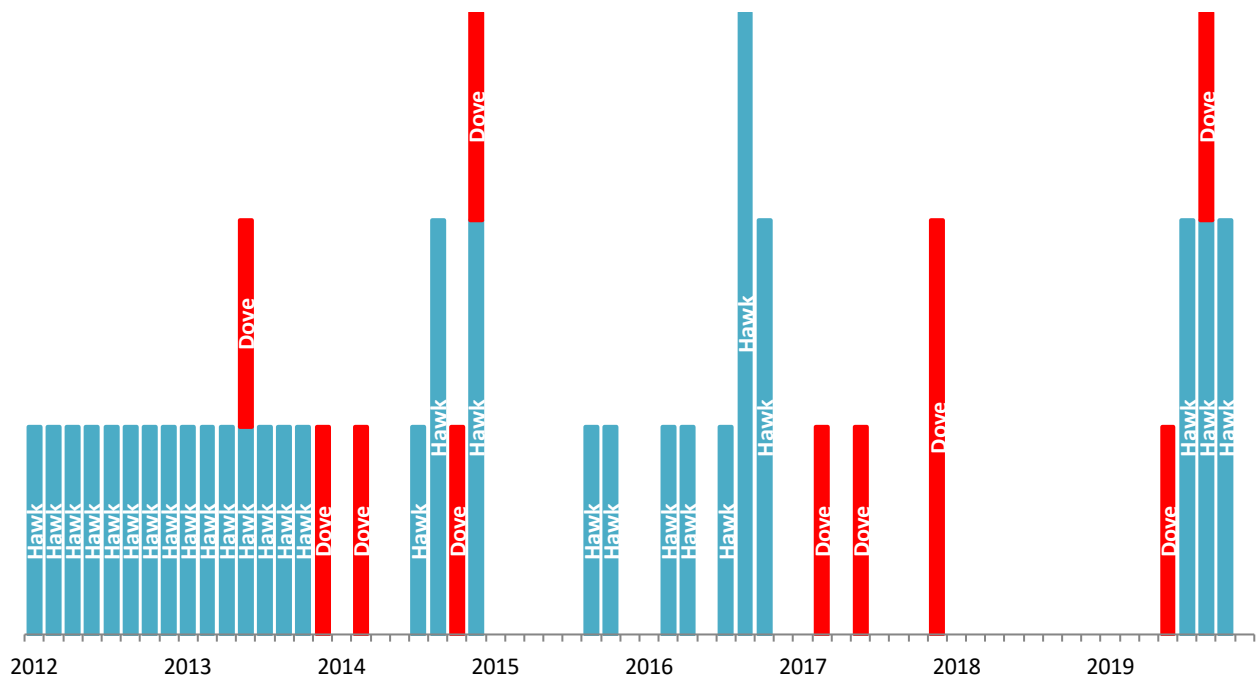
Source: FOMC, TrendMacro analysis

Fedspeak regime change: the evolution of forward guidance



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

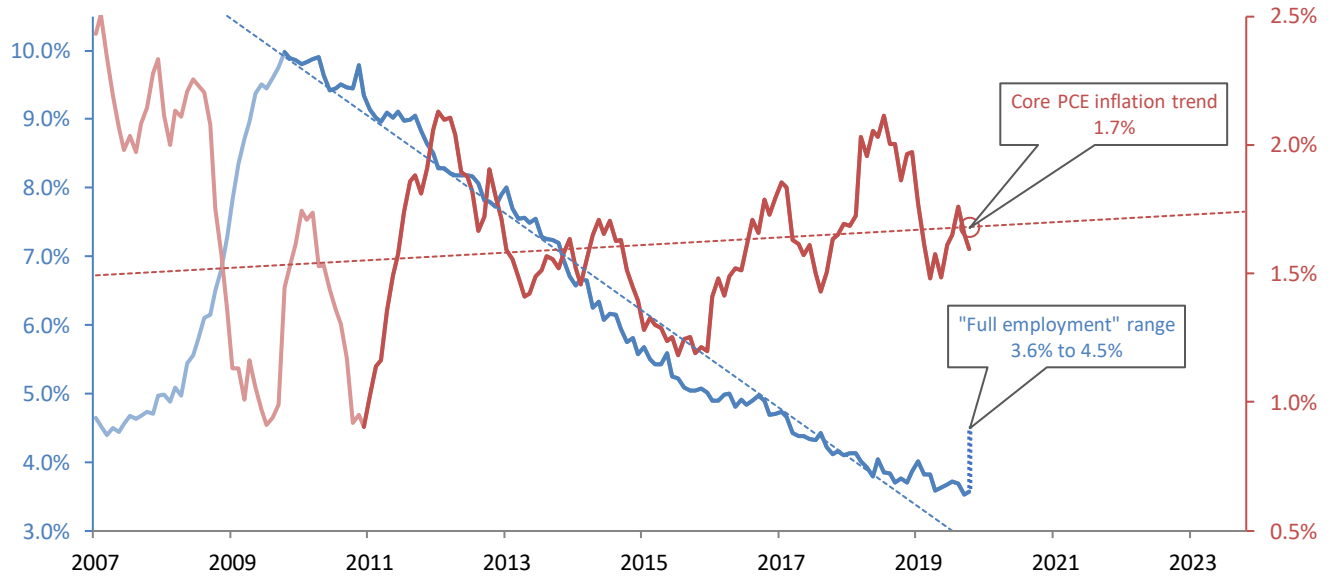
Other voices: number and direction of FOMC decision dissents



Source: FOMC, TrendMacro calculations

The dual mandate: garbage in, garbage out

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

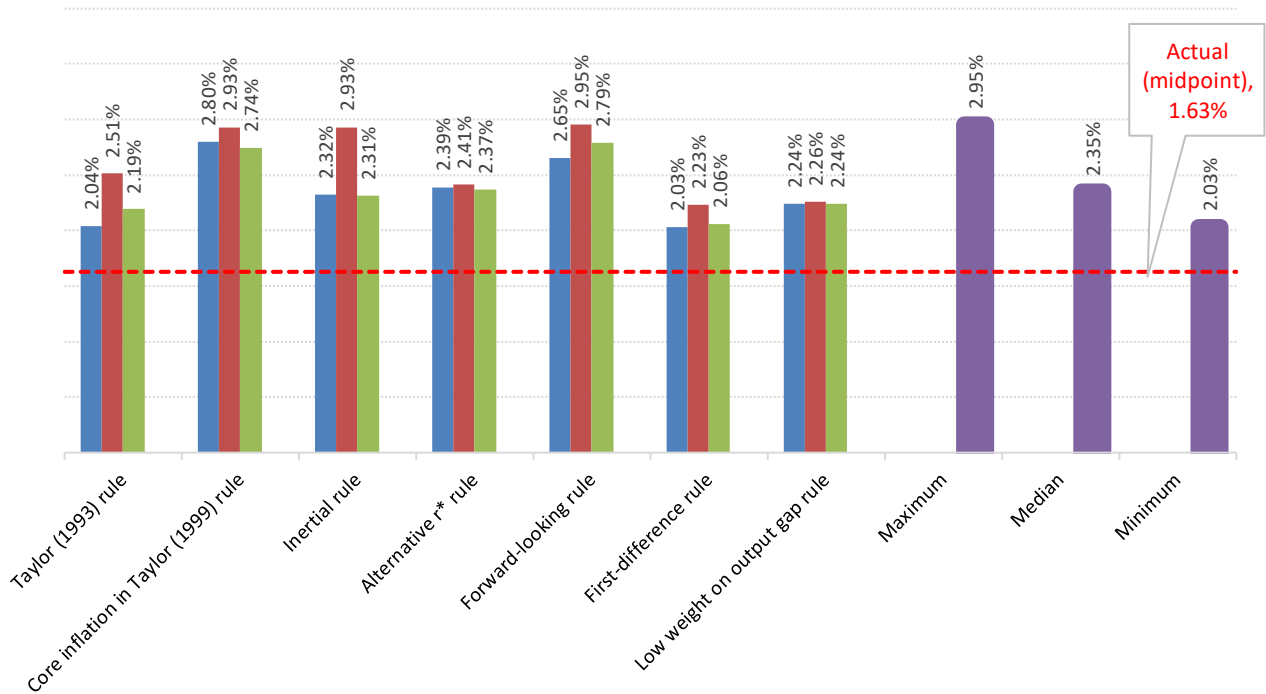


Source: BLS Current Population Survey, TrendMacro calculations

So many policy rules, so little time...

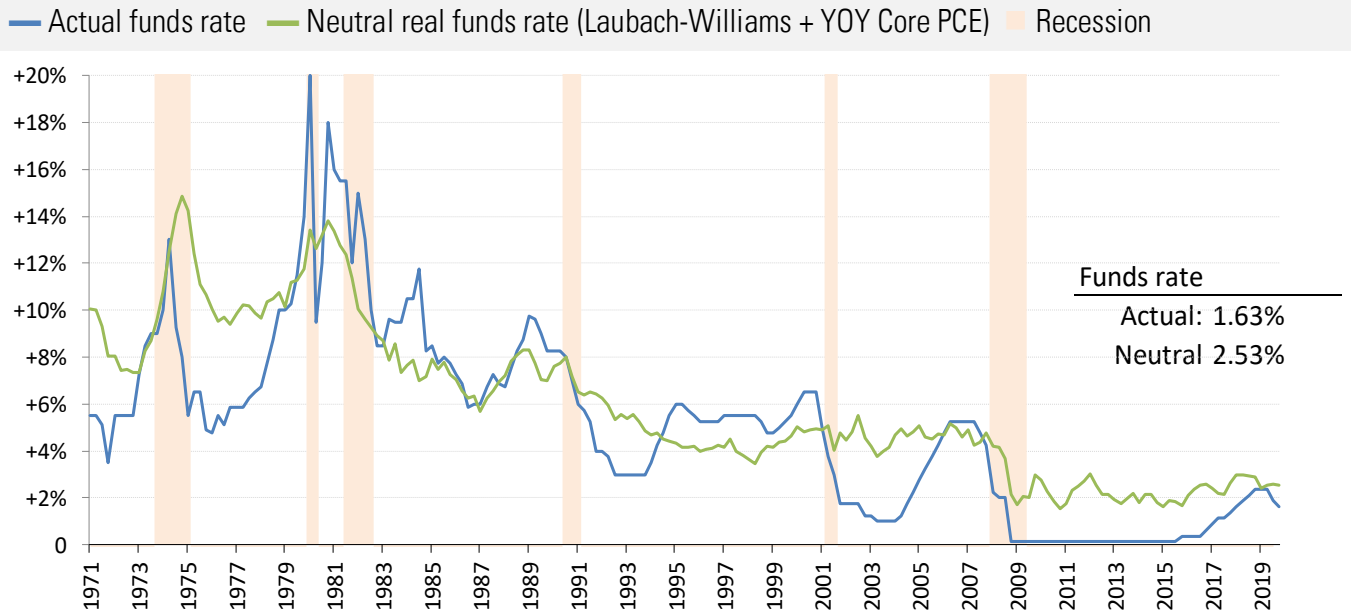
As of November 25, 2019 Based on inputs from:

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



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

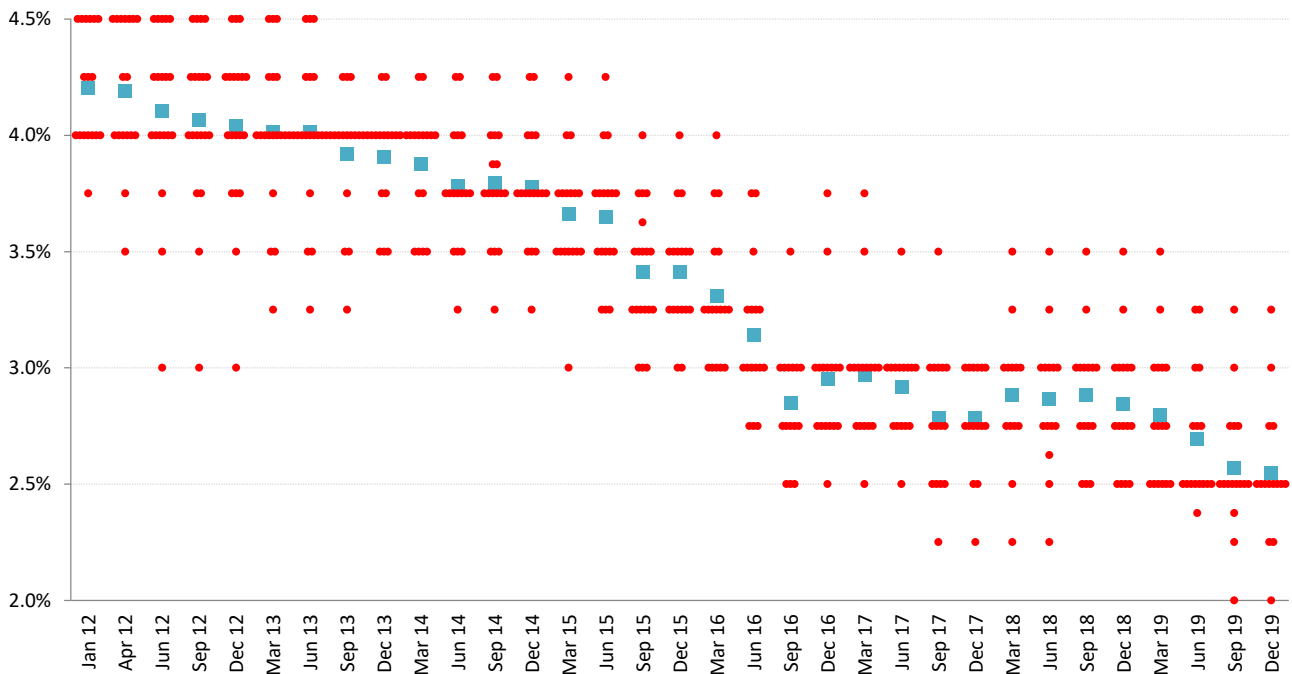
Estimating the "natural rate of interest"



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

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

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

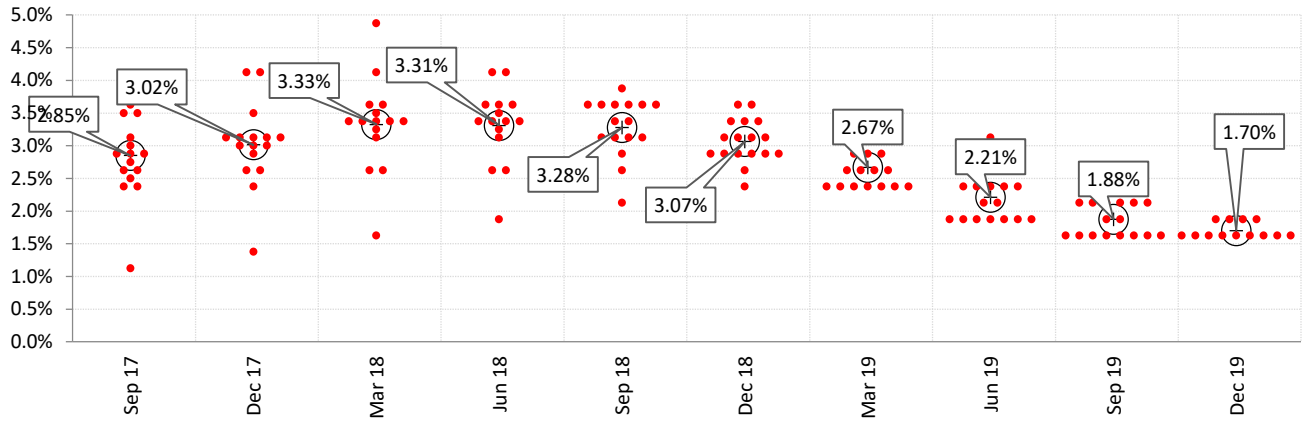


Source: Federal Reserve, TrendMacro calculations

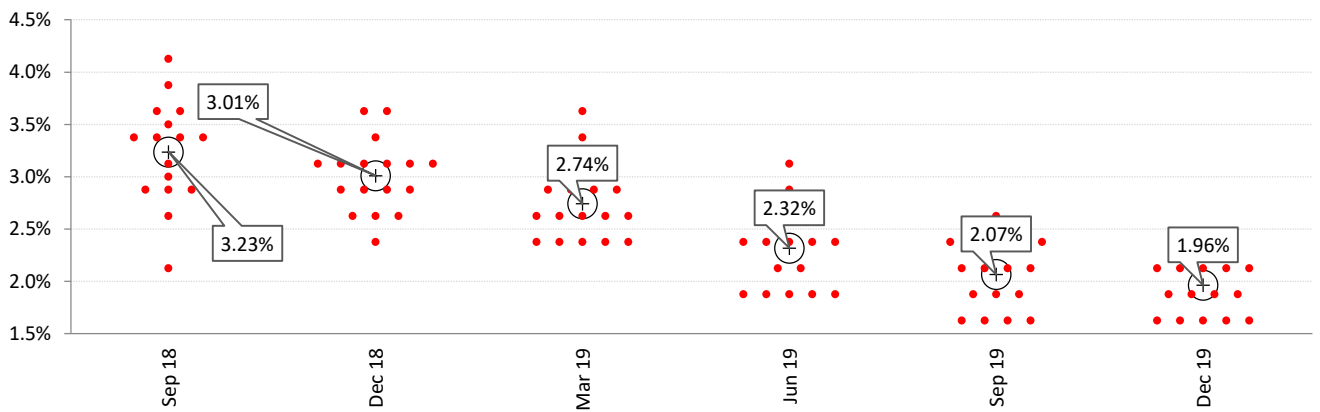
Tracking the "dotplots" year by year As of September 2019

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

For year-end 2020



For year-end 2021



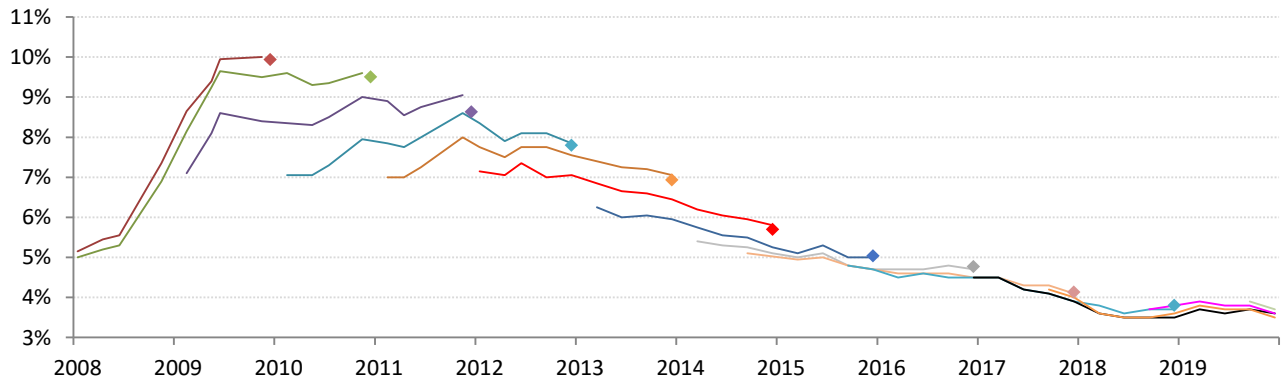
For year-end 2022



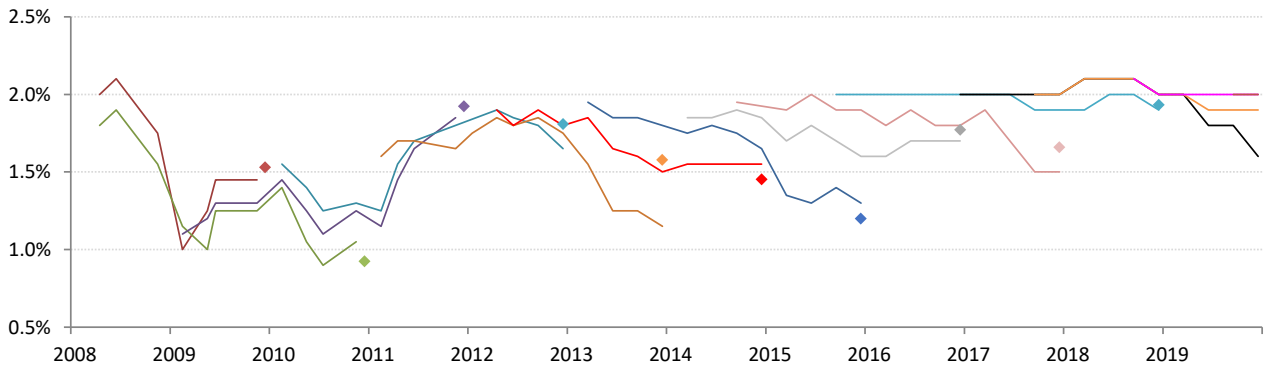
Forecast versus actual: [economic projections](#) of FRB and presidents As of Sep 2019

— Forecast ◆ Actual 2009 10 11 12 13 14 15 16 17 18 19 20 21 22

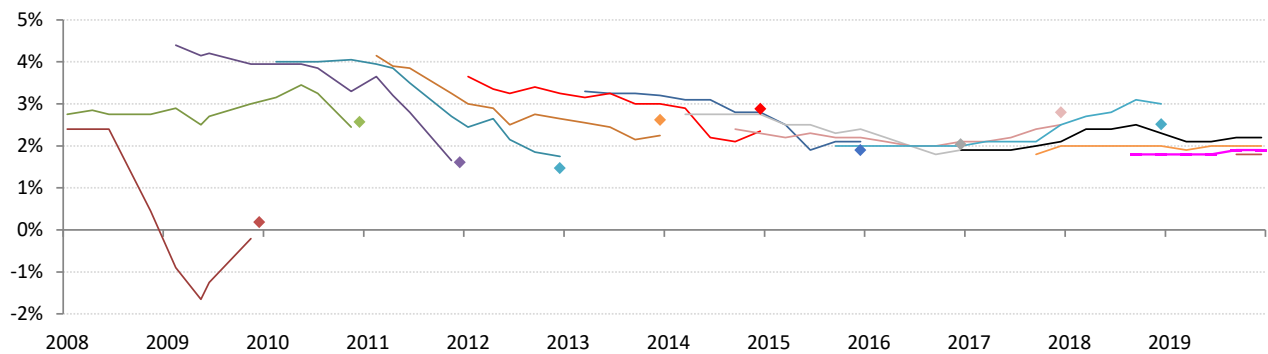
Unemployment



Core PCE inflation



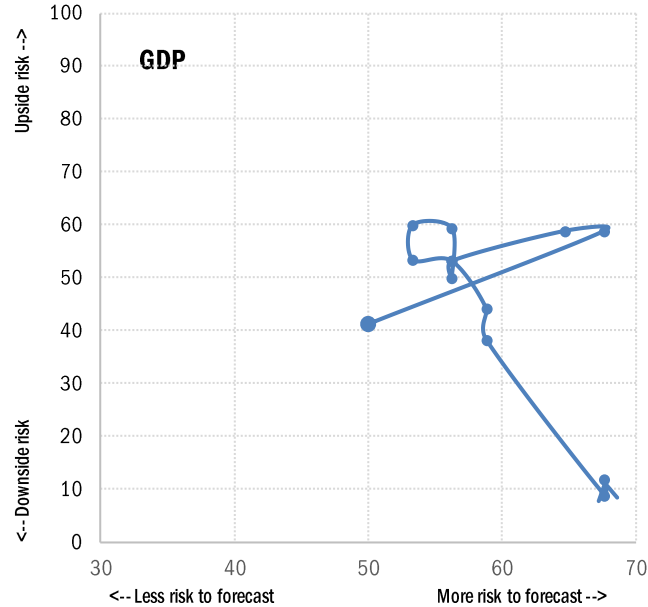
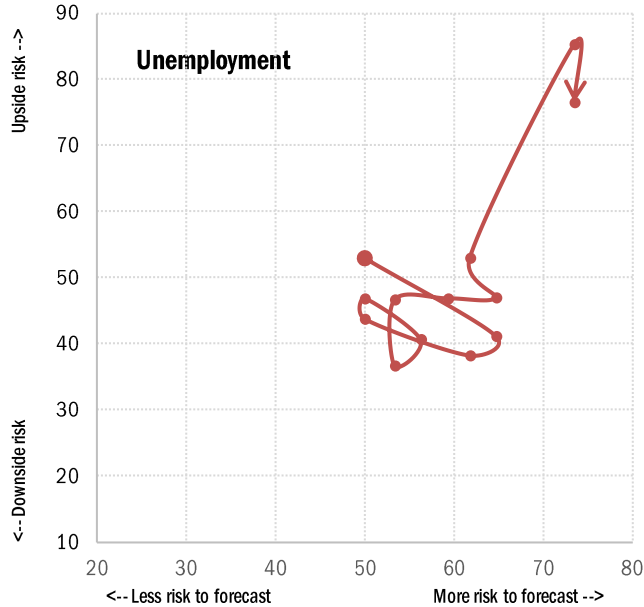
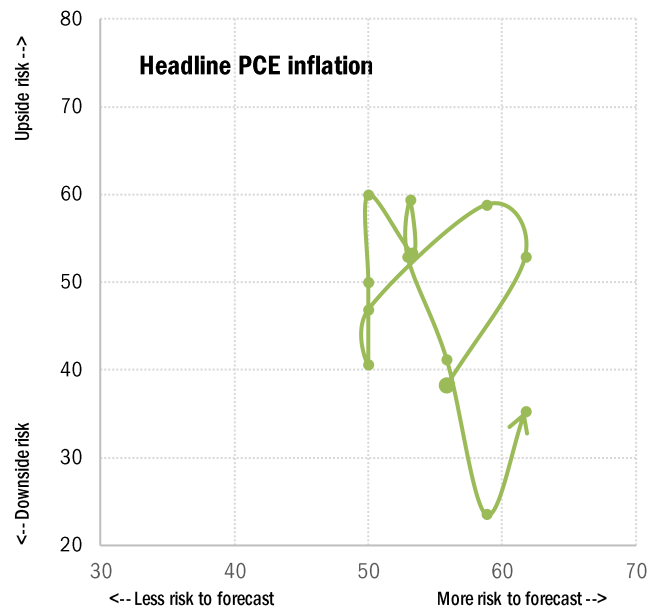
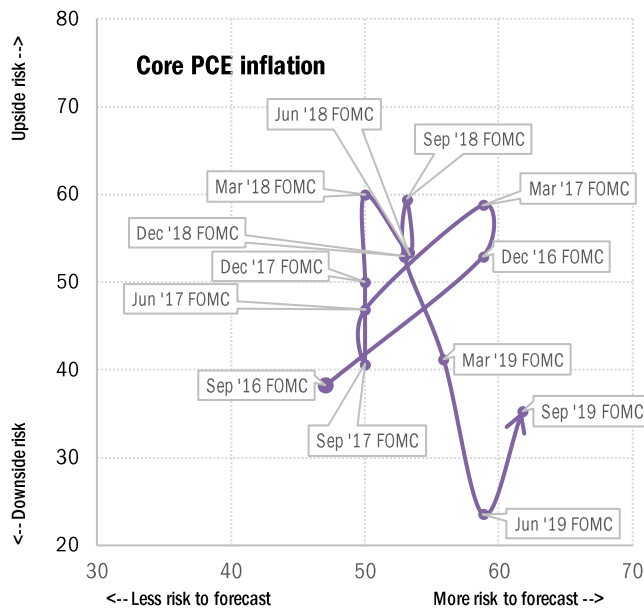
Real GDP



Source: Federal Reserve, BEA, BLS, TrendMacro calculations

The evolution of uncertainty

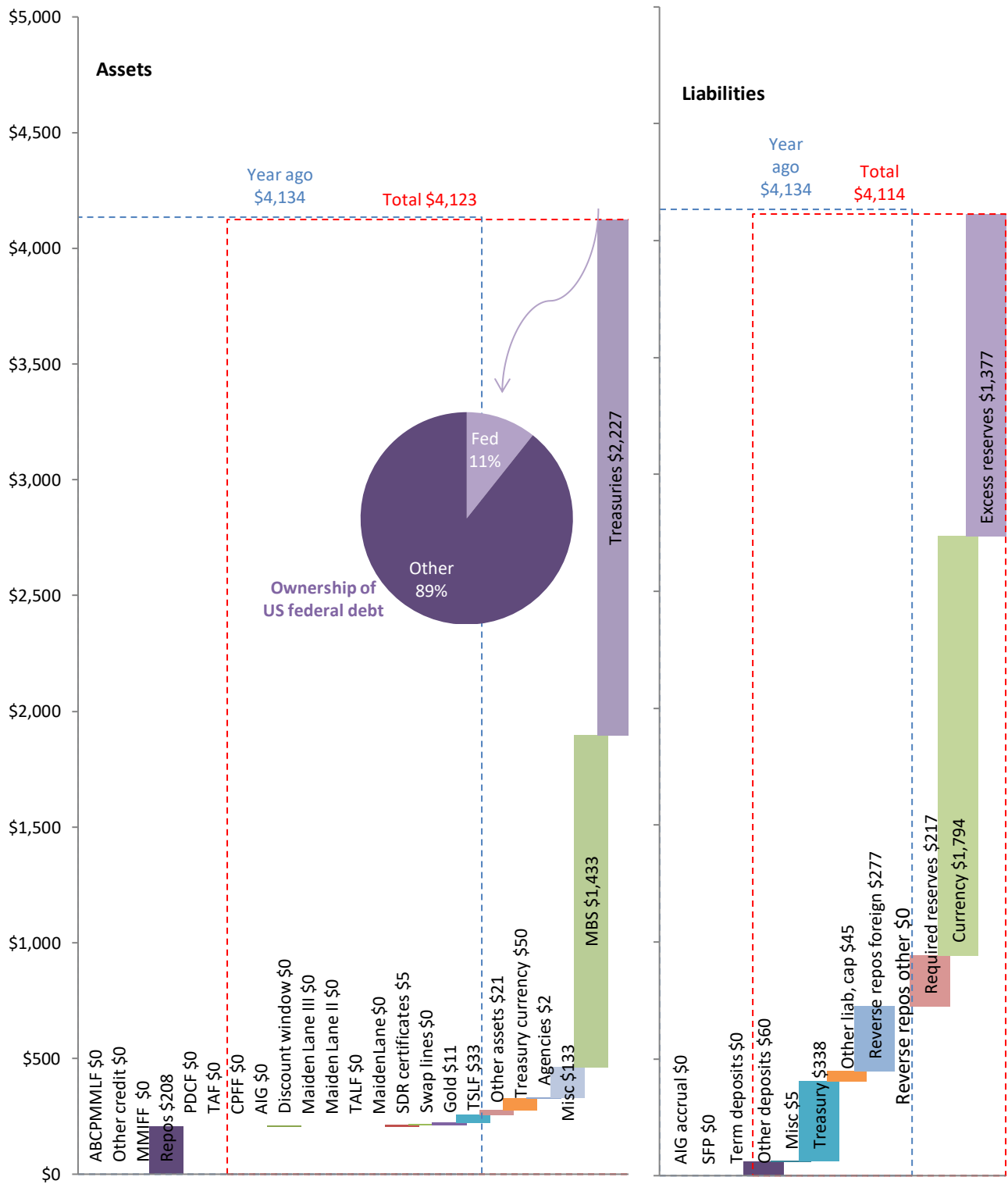
Diffusion indices from FOMC participants' risk self-assessments in [Summary of Economic Projections](#)
 As of September 2019 FOMC (updated for December FOMC in three weeks when minutes are published).



Source: Federal Reserve Board, TrendMacro calculations

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

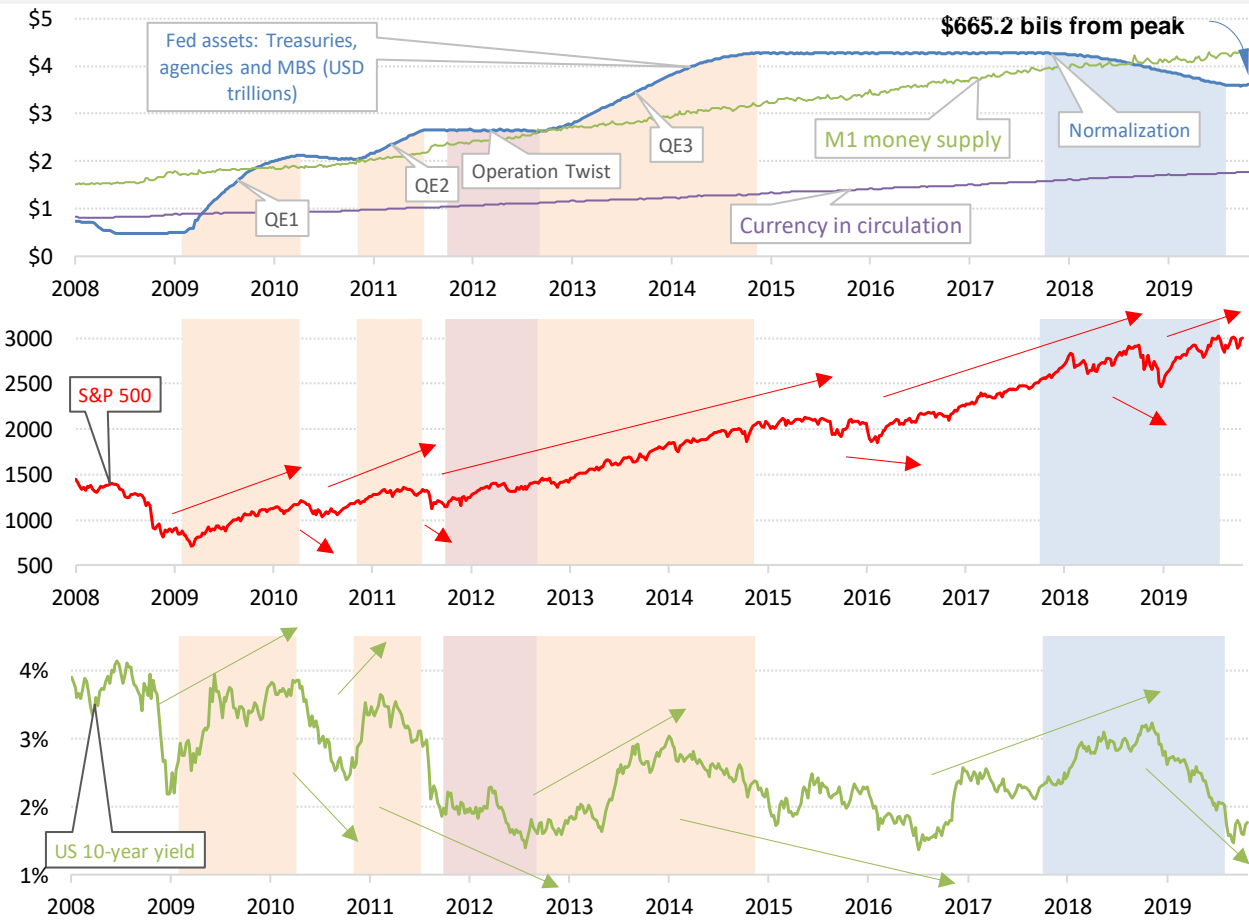
Assets do not perfectly match liabilities because we include unsettled MBS purchases and sales



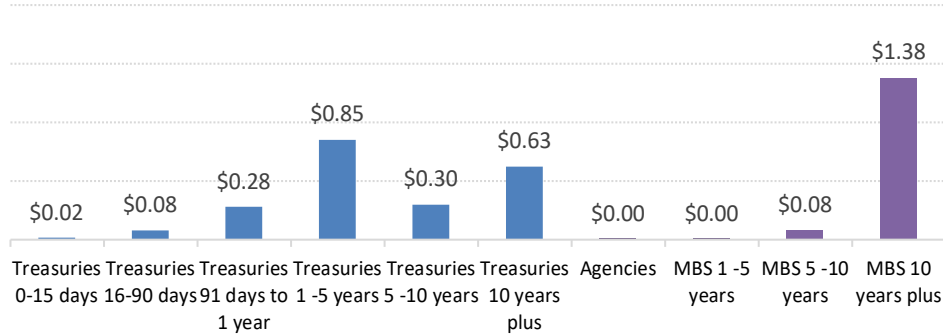
Source: Federal Reserve H.4, US Treasury, TrendMacro calculations

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

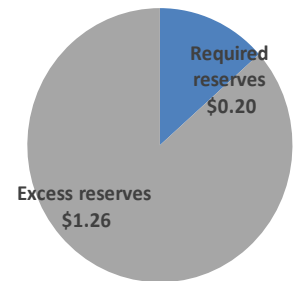
Stocks and bond yields react to changes in Fed Treasury, agency and MBS holdings



Sector and maturity breakdown of Fed assets, USD trillions

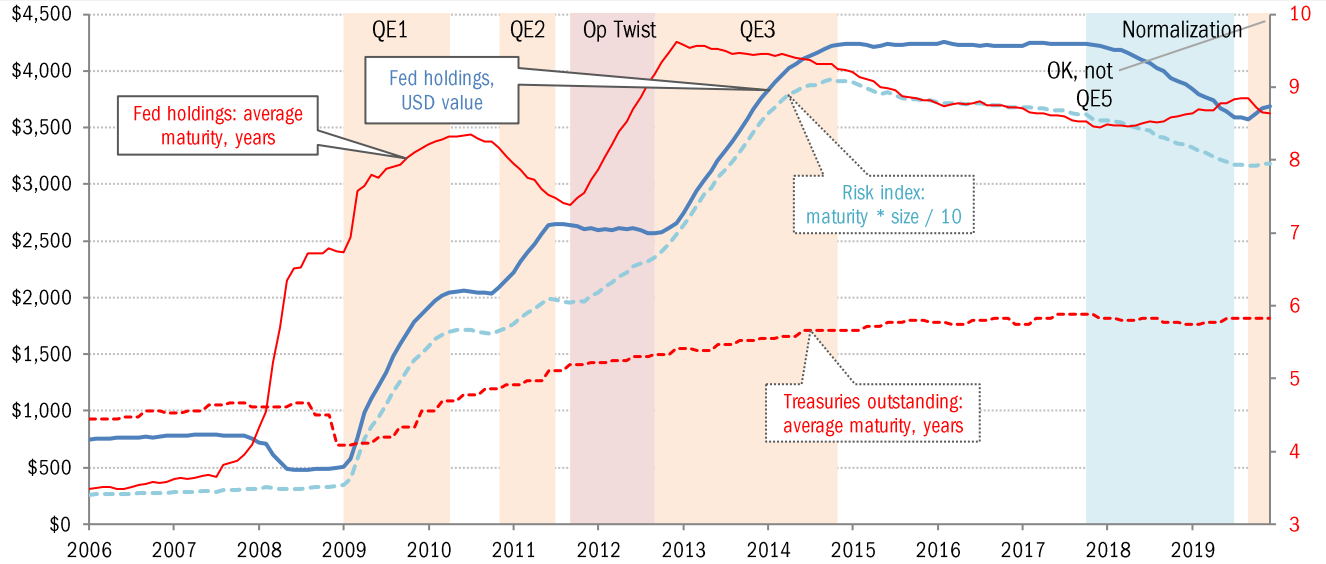


Banking reserves, USD trillions



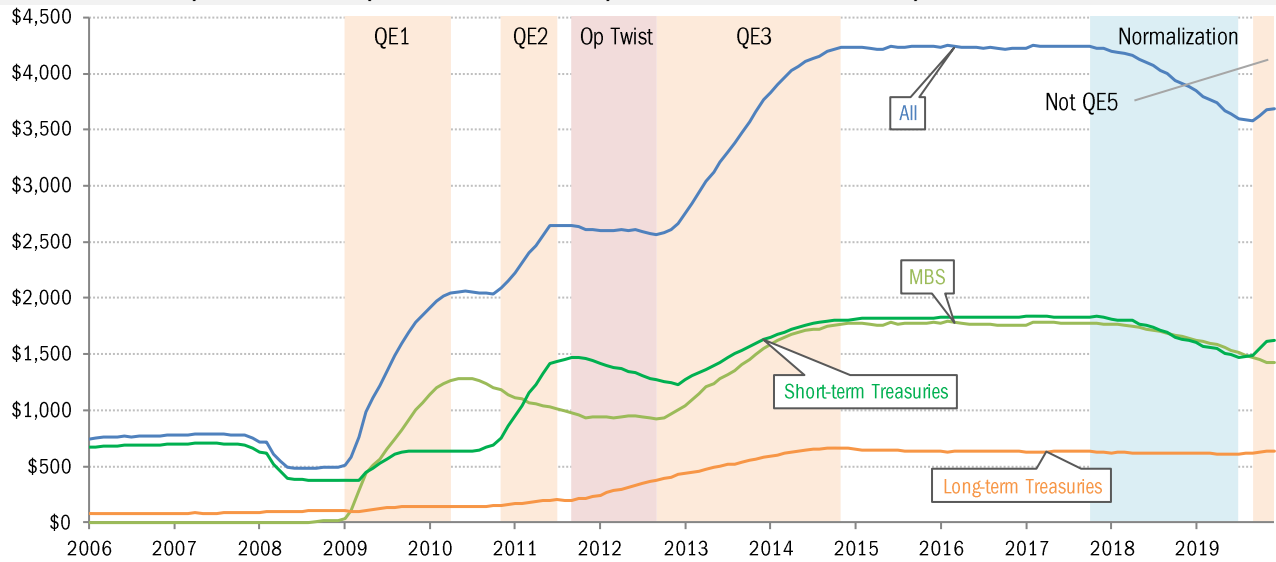
Source: Federal Reserve, Bloomberg, TrendMacro calculations

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



Source: Federal Reserve, Bloomberg, TrendMacro calculations

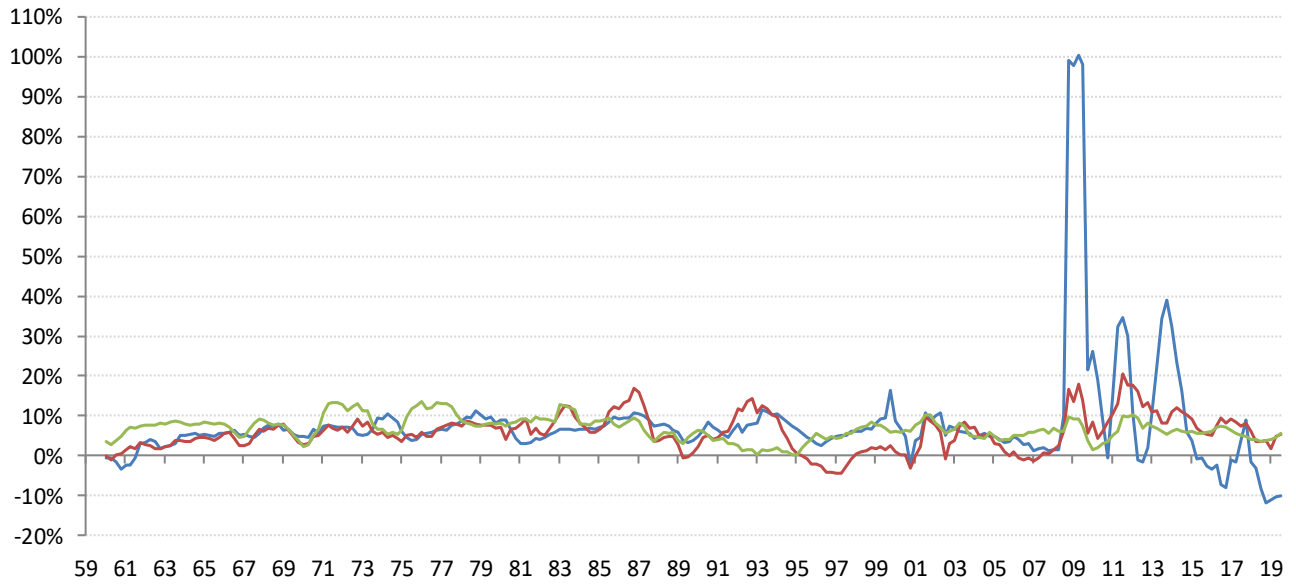
Fed Treasury and MBS portfolio: size by sector and maturity



Source: Federal Reserve, Bloomberg, TrendMacro calculations

Money supply growth, YOY quarterly

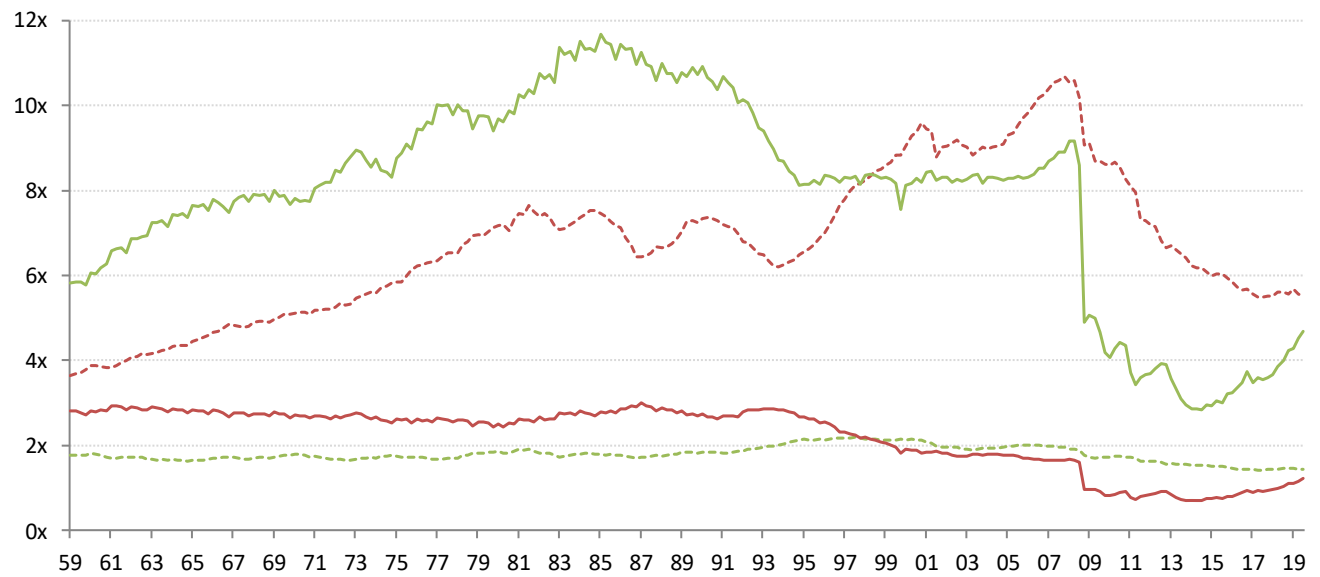
— M1 — M2 — Monetary base



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