

## Data Insights: Federal Reserve

Wednesday, April 29, 2020

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

~~March 15~~ April 29, 2020

#### Federal Reserve issues FOMC statement

For release at ~~5~~2:00 p.m. EDT

~~The coronavirus outbreak has harmed communities and disrupted economic activity in many countries, including the United States. Global financial conditions have also been significantly affected. Available economic data show that the U.S. economy came into this challenging period on a strong footing. Information received since the Federal Open Market Committee met in January indicates that the labor market remained strong through February and economic activity rose at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although household spending rose at a moderate pace, business fixed investment and exports remained weak. More recently, the energy sector has come under stress. 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; 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. The effects of the coronavirus~~Share

~~The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.~~

~~The coronavirus outbreak is causing tremendous human and economic hardship across the United States and around the world. The virus and the measures taken to protect public health are inducing sharp declines in economic activity and a surge in job losses. Weaker demand and significantly lower oil prices are holding down consumer price inflation. The disruptions to economic activity here and abroad have significantly affected financial conditions and have impaired the flow of credit to U.S. households and businesses.~~

~~The ongoing public health crisis will weigh heavily on economic activity-, employment, and inflation in the near term, and poses considerable risks to the economic outlook- over the medium term. In light of these developments, the Committee decided to lower/maintain the target range for the federal funds rate at 0 to 1/4 percent. The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals. This action will help support economic activity, strong labor market conditions, and inflation returning to the Committee's symmetric 2 percent objective.~~

The Committee will continue to monitor the implications of incoming information for the economic outlook, including information related to public health, as well as global developments and muted inflation pressures, and will use its tools and act as appropriate to support the economy. In determining the timing and size of future adjustments to the stance of monetary policy, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2 percent

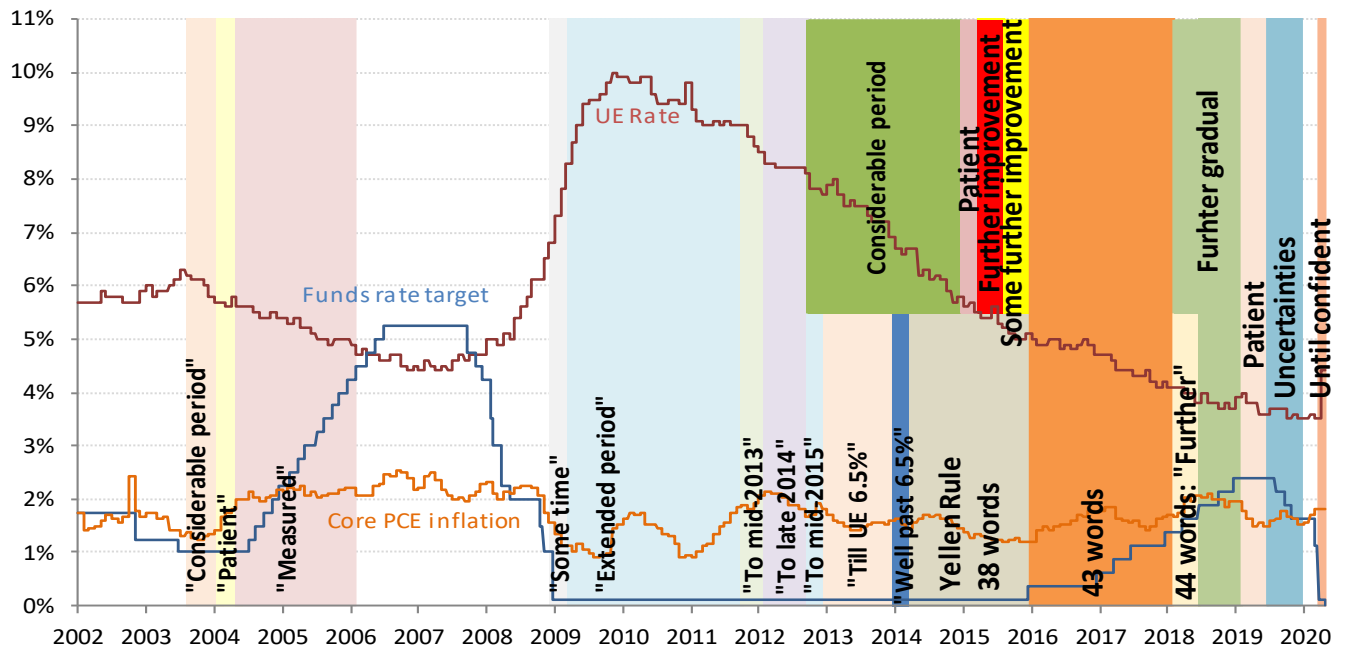
inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.

~~The Federal Reserve is prepared to use its full range of tools to~~ support the flow of credit to households and businesses ~~and thereby promote its maximum employment and price stability goals. To support the smooth functioning of markets for,~~ the Federal Reserve will continue to purchase Treasury securities and agency mortgage-backed securities that are central to the flow of credit to households and businesses, ~~over coming months the Committee will increase its holdings of Treasury securities by at least \$500 billion and its holdings of agency mortgage-backed securities by at least \$200 billion. The Committee will also reinvest all principal payments from the Federal Reserve's holdings of agency debt and agency residential and commercial mortgage-backed securities in~~ agency mortgage-backed securities. ~~the amounts needed to support smooth market functioning, thereby fostering effective transmission of monetary policy to broader financial conditions.~~ In addition, the Open Market Desk ~~has recently expanded its~~ will continue to offer large-scale overnight and term repurchase agreement operations. The Committee will ~~continue to~~ closely monitor market conditions and is prepared to adjust its plans as appropriate.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; Patrick Harker; Robert S. Kaplan; Neel Kashkari; ~~and Randal K. Quarles. Voting against this action was Loretta J. Mester, who was fully supportive of all of the actions taken to promote the smooth functioning of markets and the flow of credit to households and businesses but preferred to reduce the target range for the federal funds rate to 1/2 to 3/4 percent at this meeting~~ Loretta J. Mester; and Randal K. Quarles

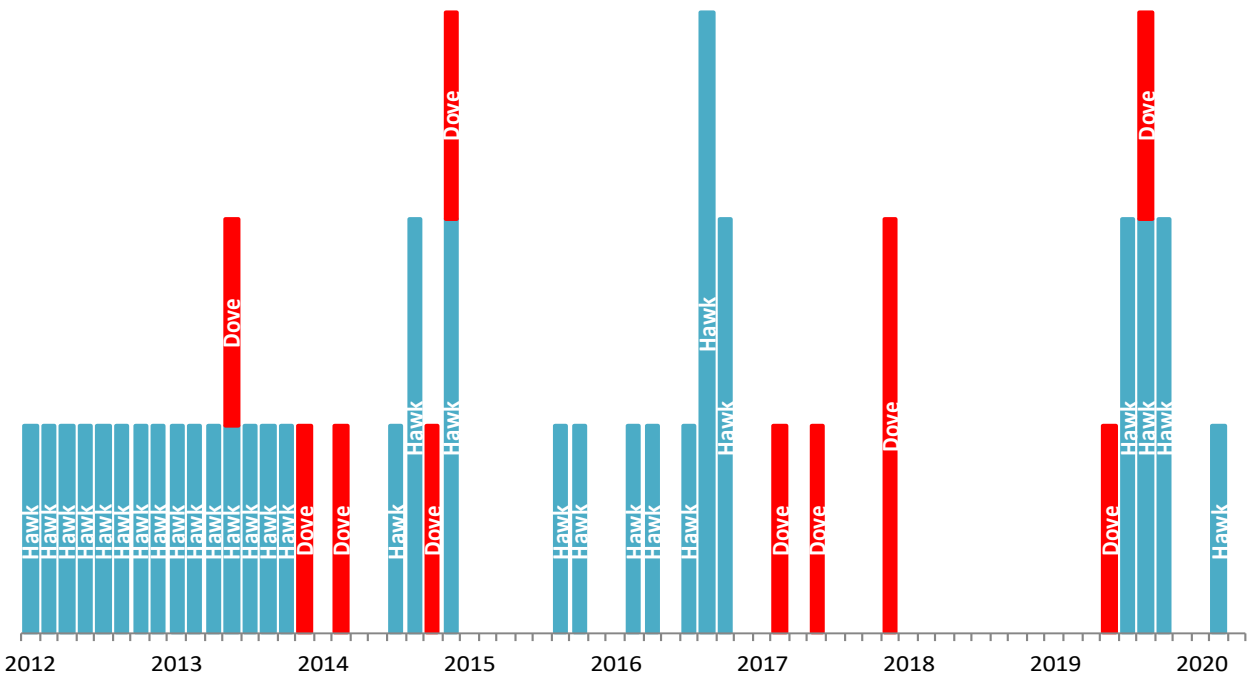
Source: FOMC, TrendMacro analysis

## Fedspeak regime change: the evolution of forward guidance



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

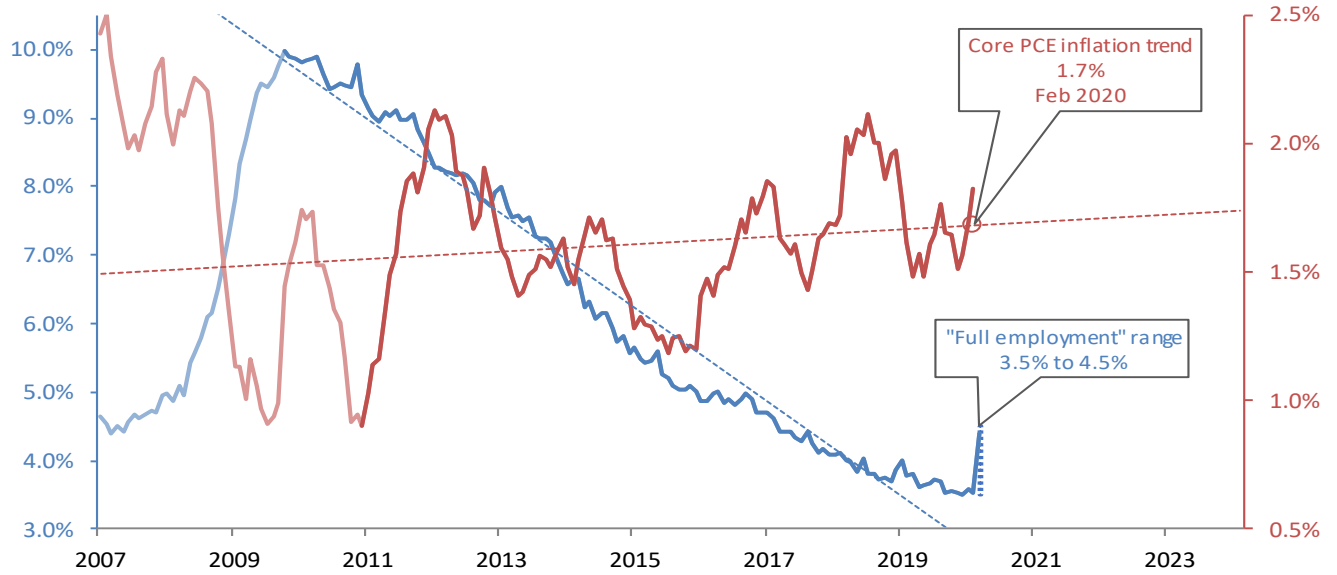
## Other voices: number and direction of FOMC decision dissents



Source: FOMC, TrendMacro calculations

## The dual mandate: garbage in, garbage out

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

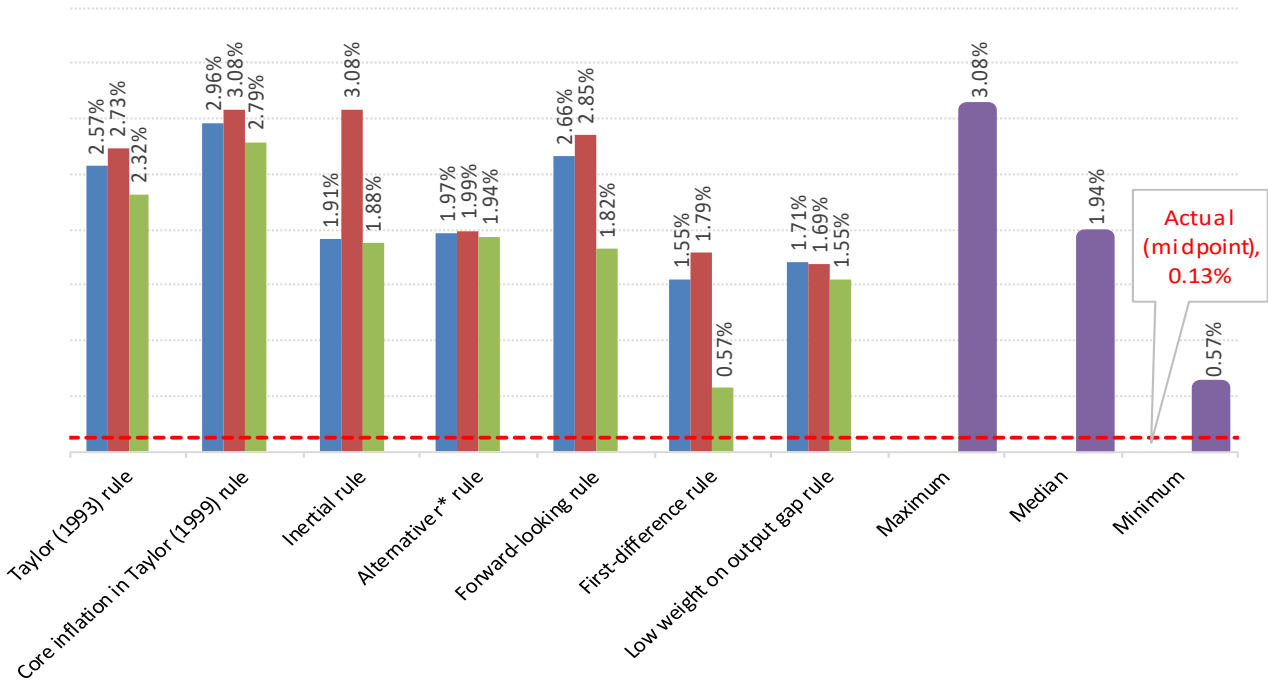


Source: BLS Current Population Survey, TrendMacro calculations

## So many policy rules, so little time...

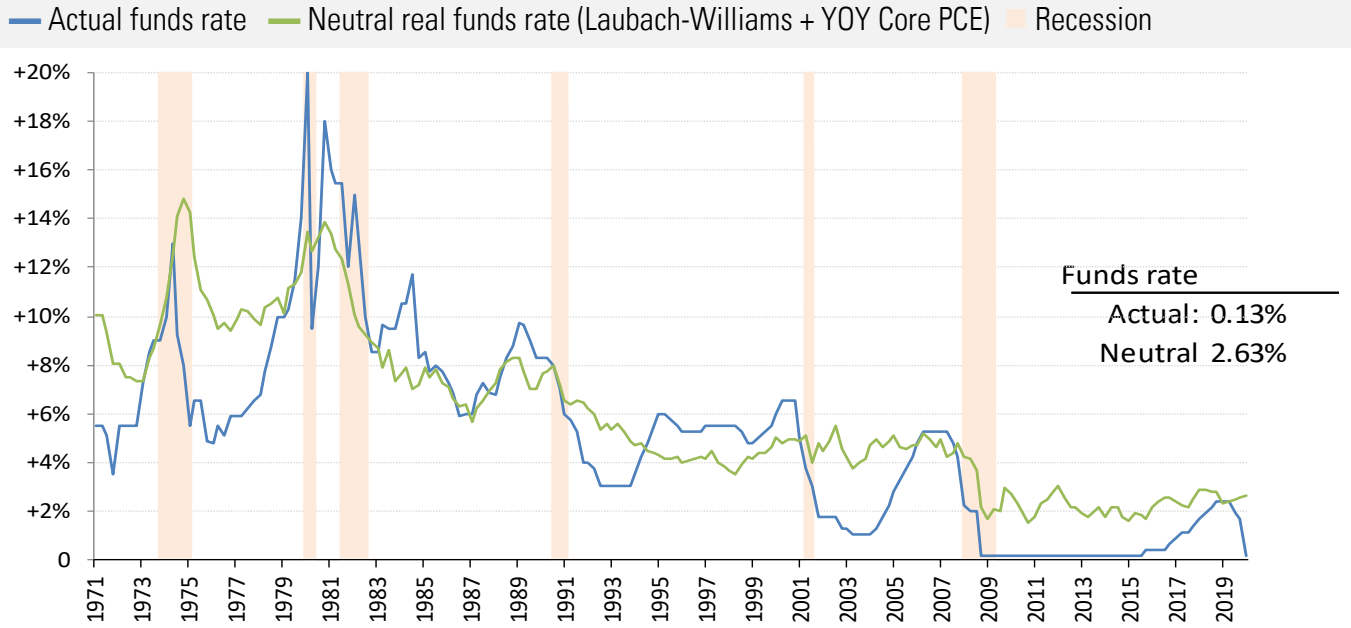
As of March 5, 2020 Based on inputs from:

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



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

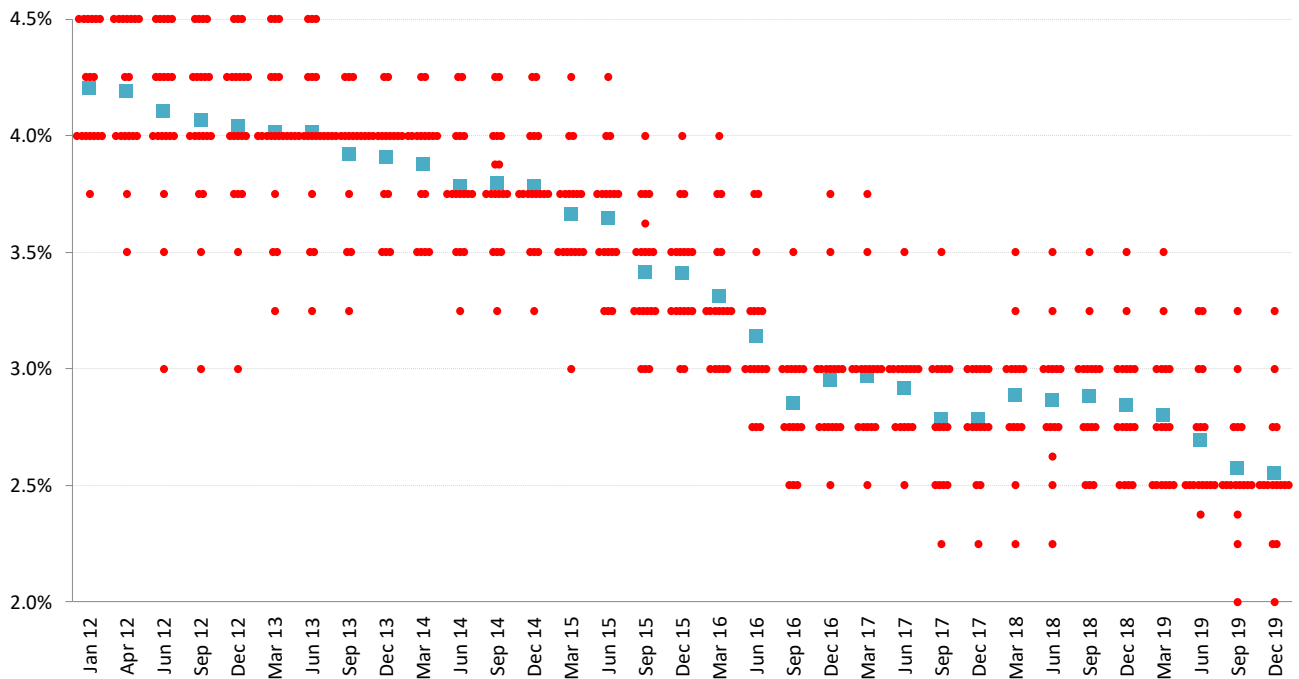
# Estimating the "natural rate of interest"



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

# "R-star" – the ultimate "dotplot" As of December 2019

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

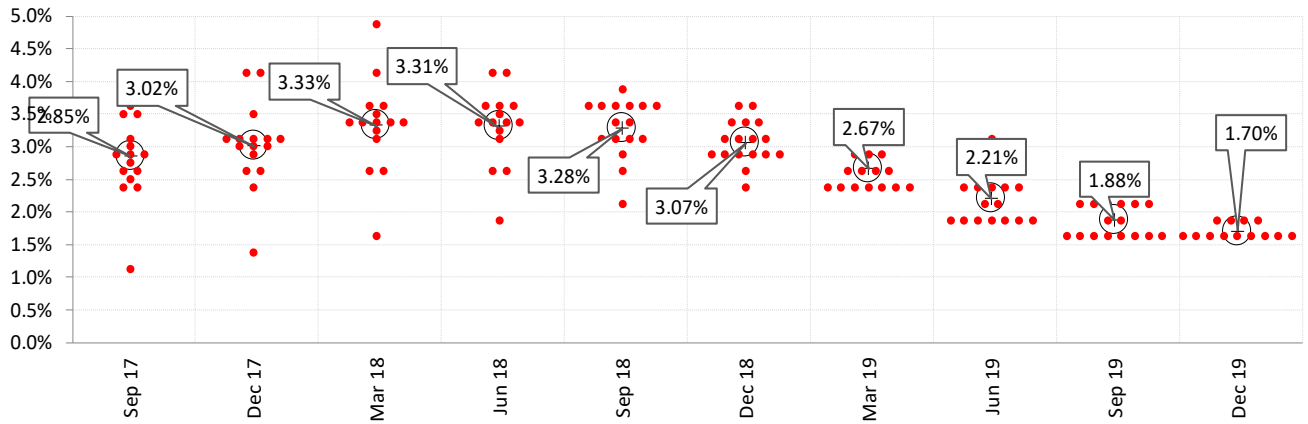


Source: Federal Reserve, TrendMacro calculations

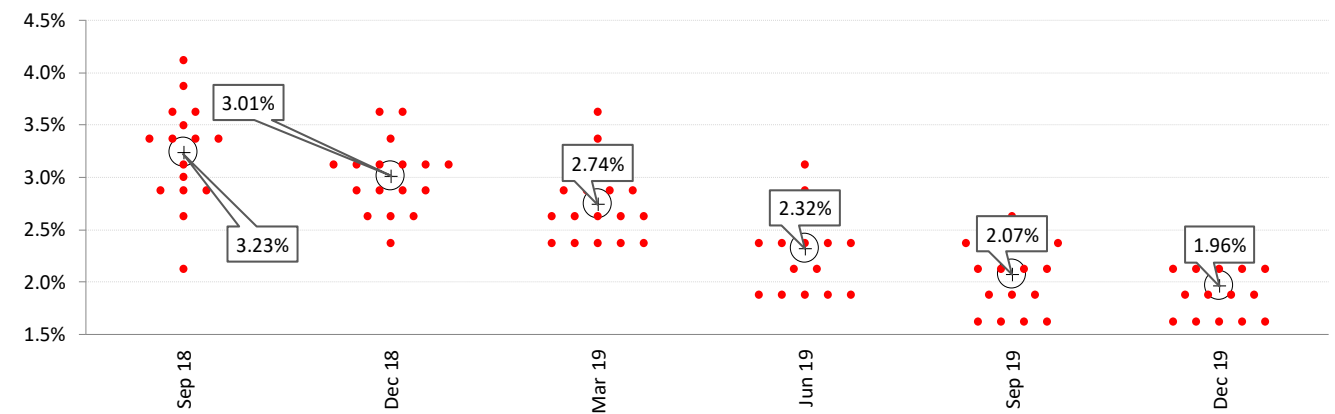
# Tracking the "dotplots" year by year As of December 2019

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

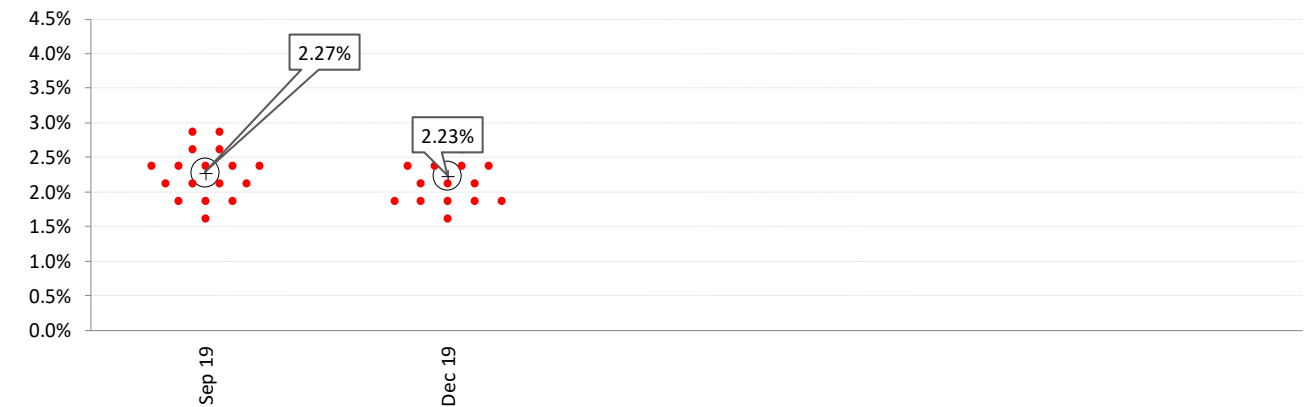
## For year-end 2020



## For year-end 2021



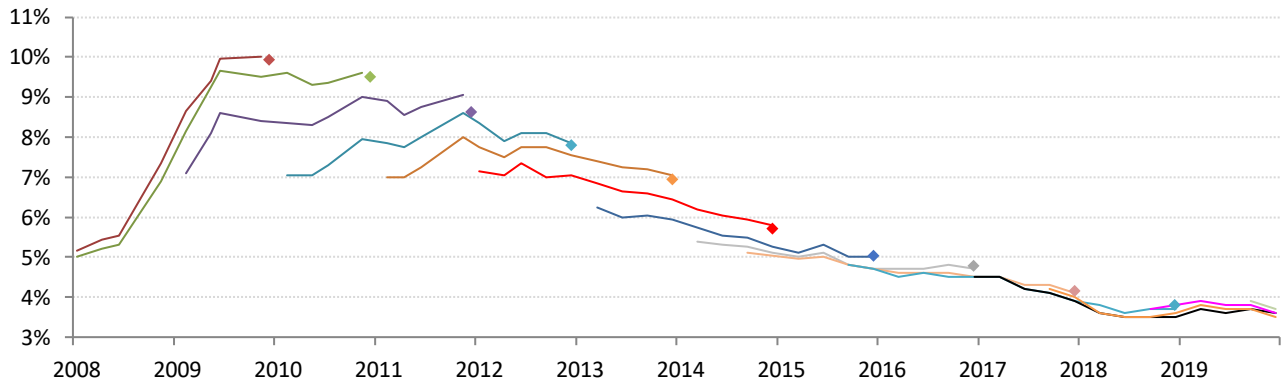
## For year-end 2022



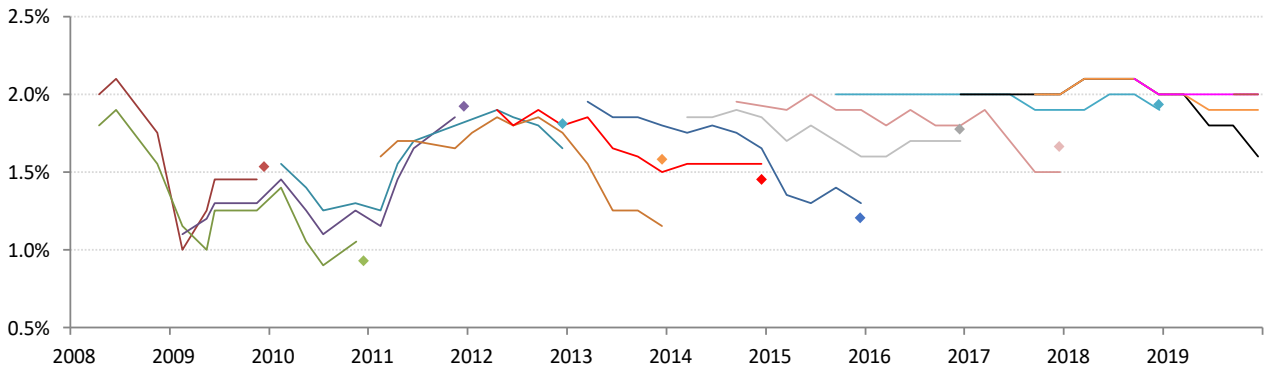
Forecast vs actual: [economic projections](#) of FRB and presidents As of December 2019

— Forecast ♦ Actual 2009 10 11 12 13 14 15 16 17 18 19 20 21 2022

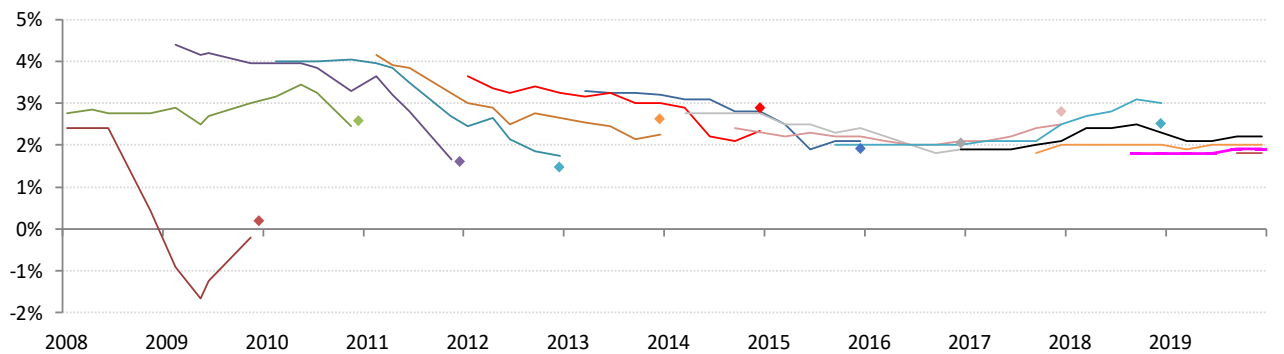
### Unemployment



### Core PCE inflation



### Real GDP

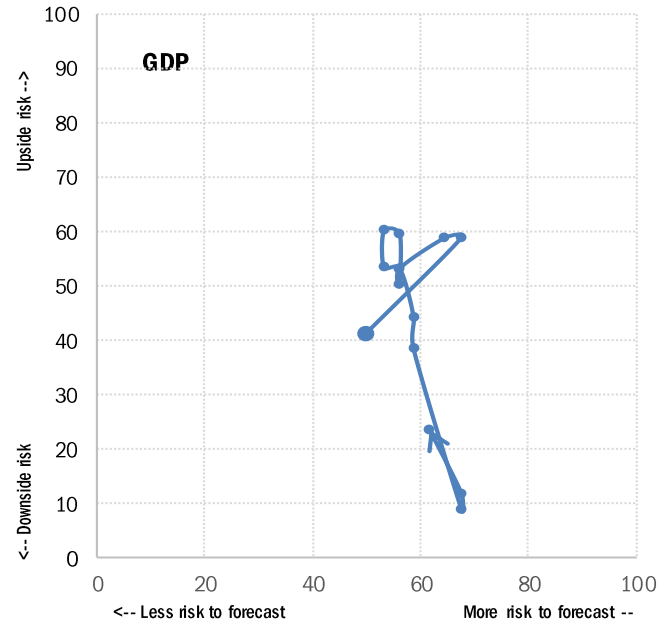
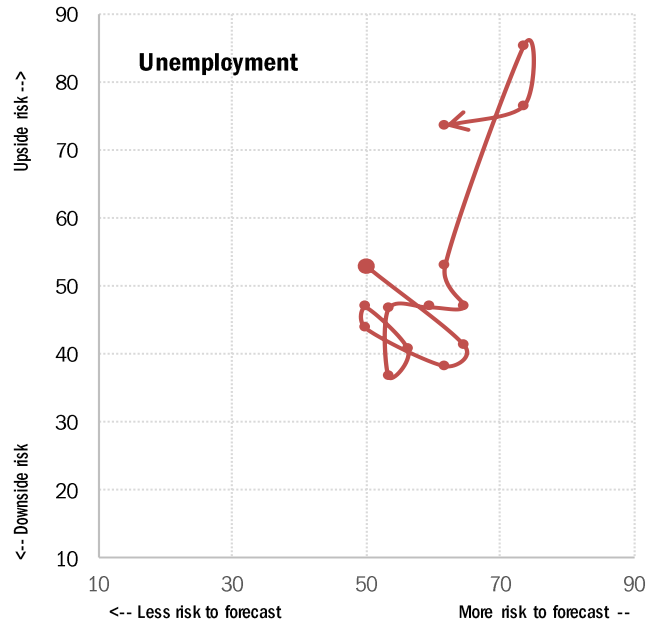
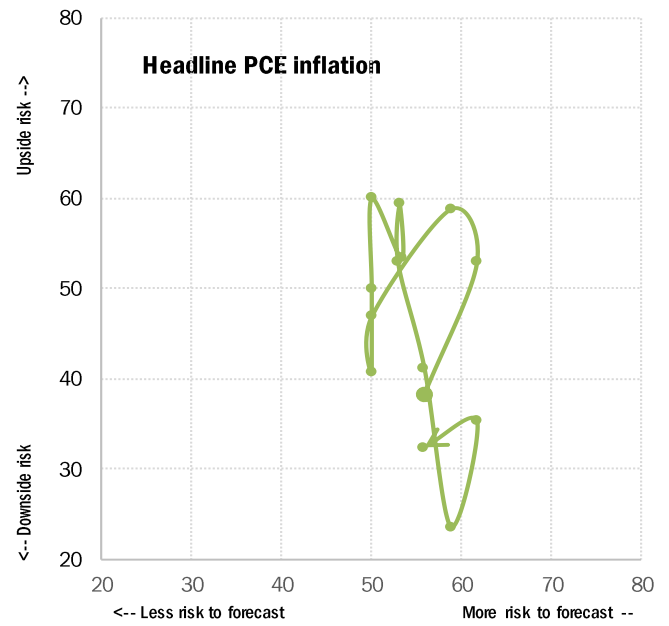
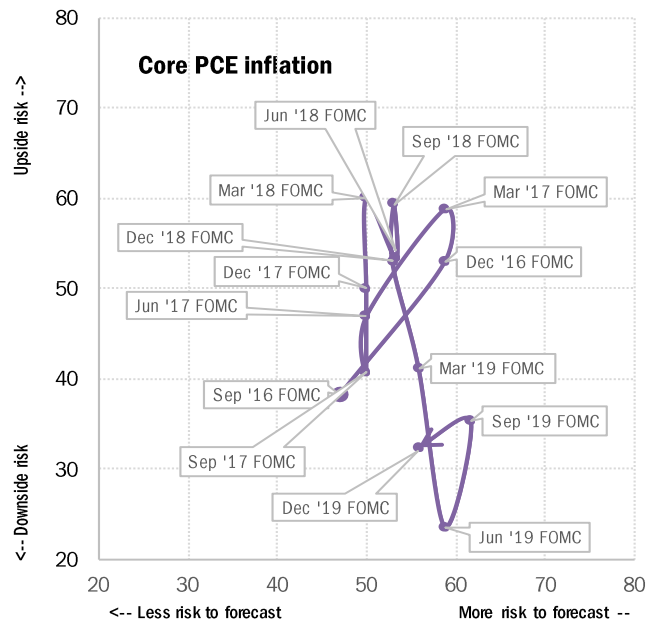


Source: Federal Reserve, BEA, BLS, TrendMacro calculations

# The evolution of uncertainty

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

As of December 2019 FOMC

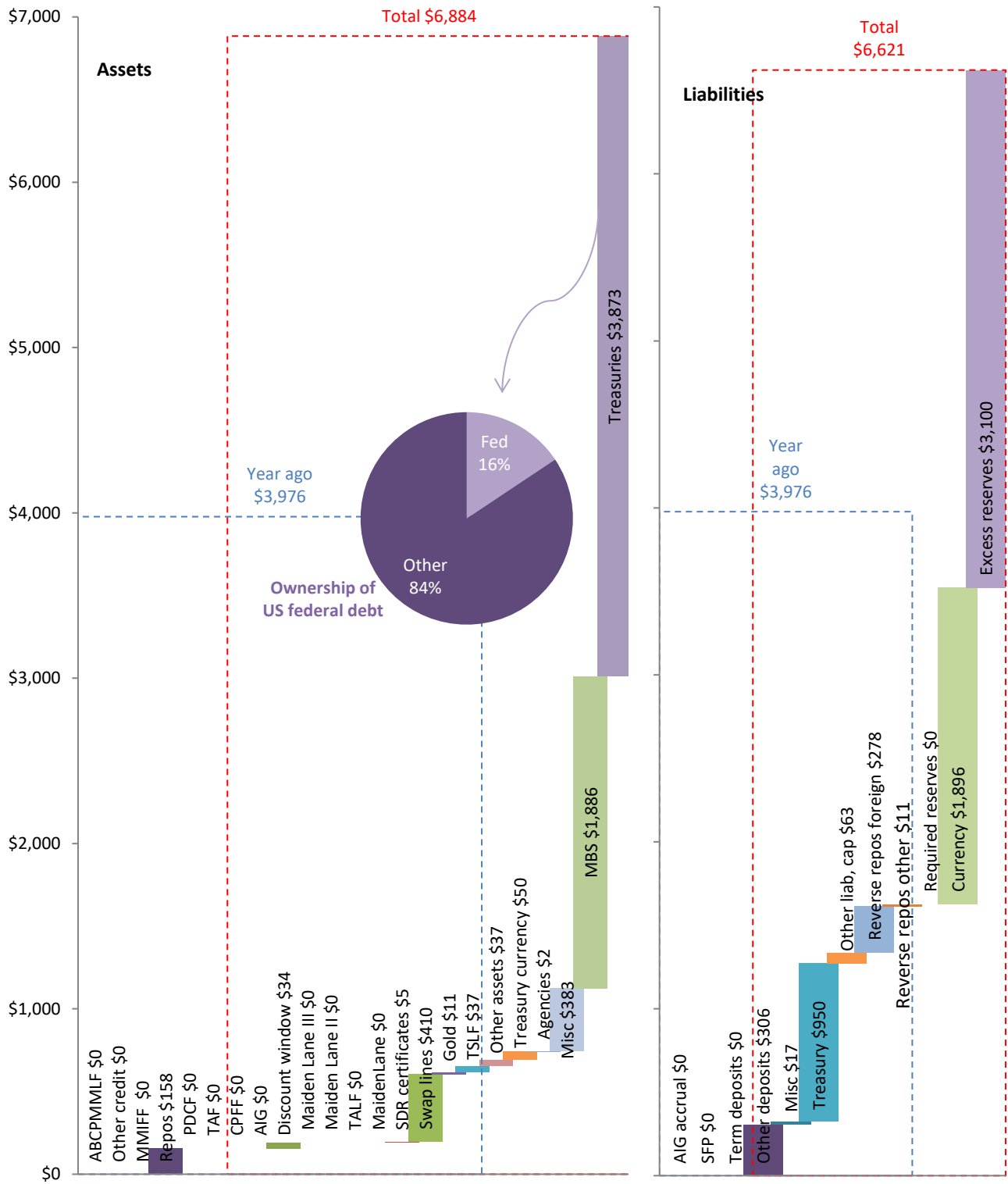


Source: Federal Reserve Board, TrendMacro calculations



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

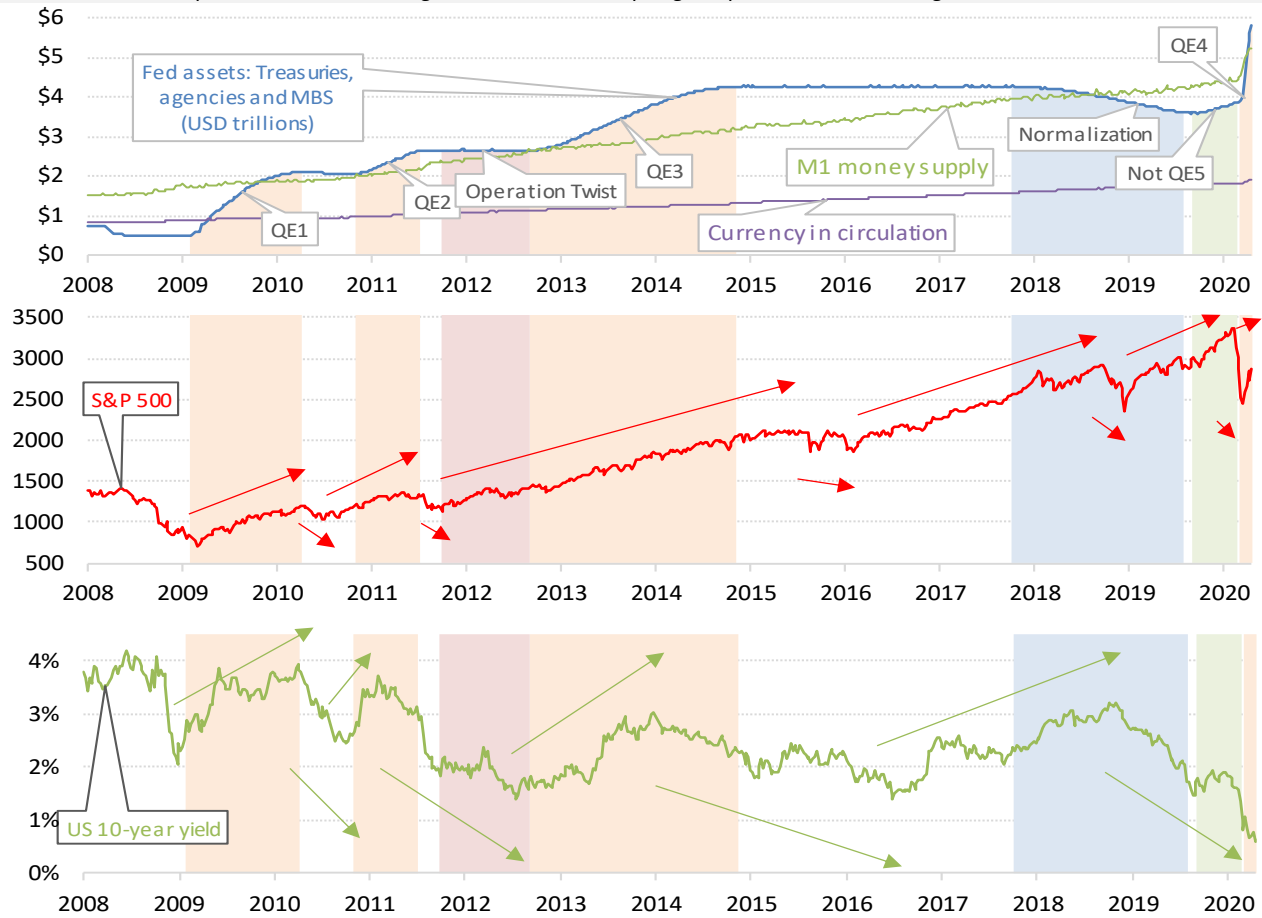
Assets do not perfectly match liabilities because we include unsettled MBS purchases and sales



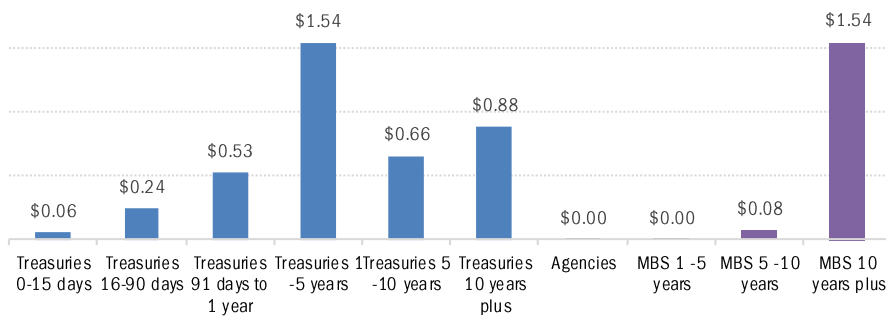
Source: Federal Reserve H.4, US Treasury, TrendMacro calculations

# 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

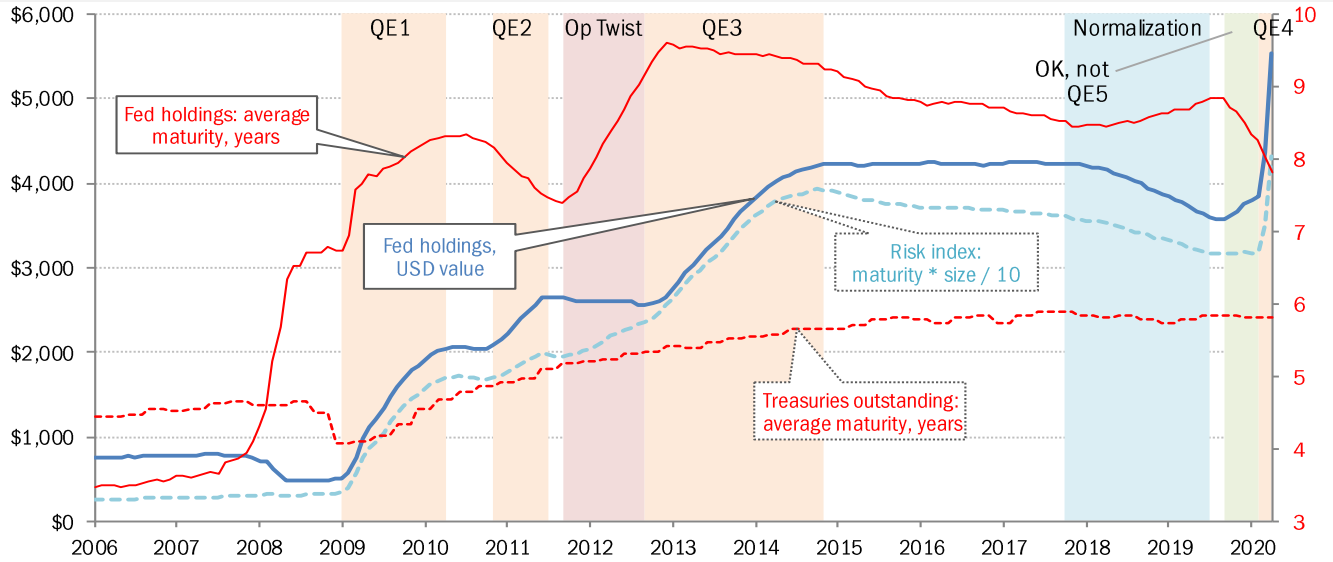


Banking reserves, USD trillions



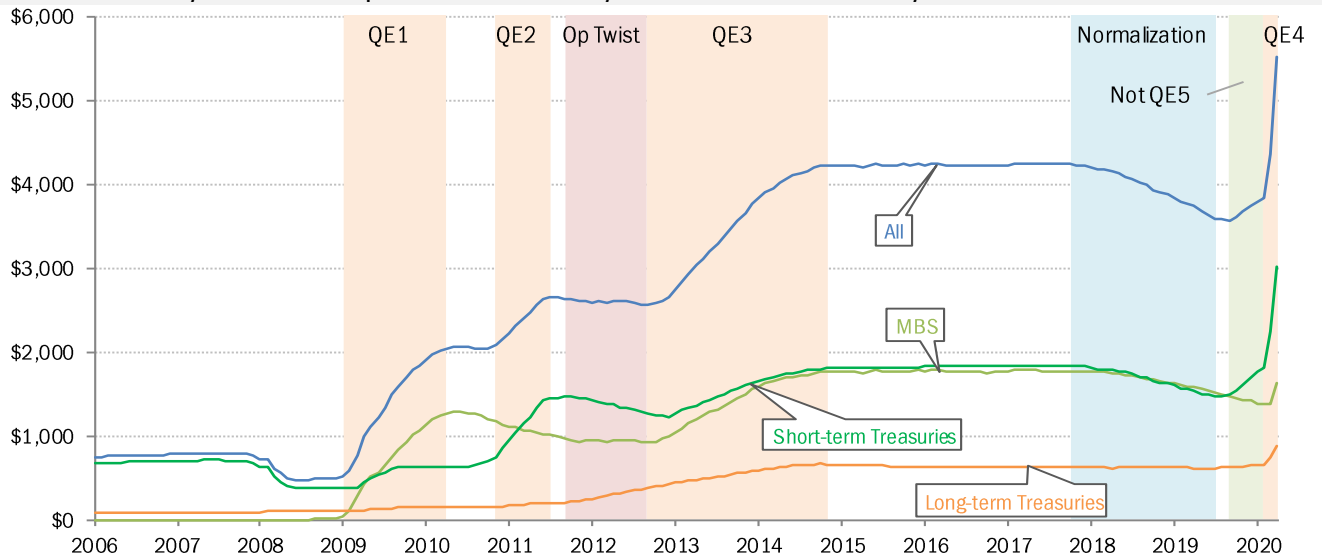
Source: Federal Reserve, Bloomberg, TrendMacro calculations

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



Source: Federal Reserve, Bloomberg, TrendMacro calculations

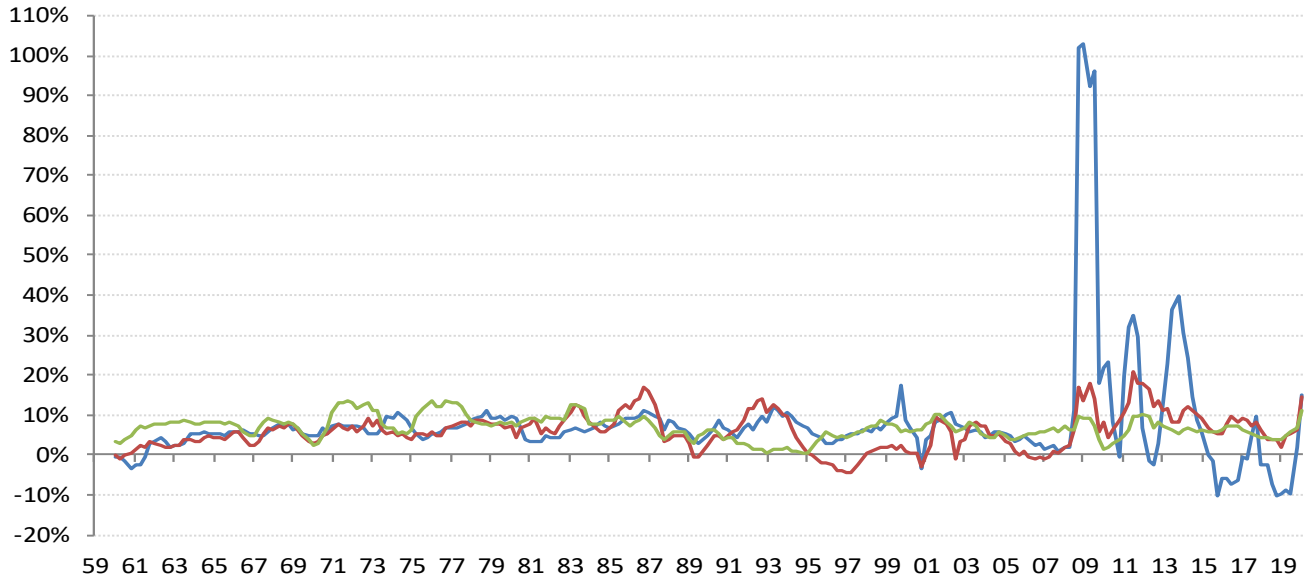
## Fed Treasury and MBS portfolio: size by sector and maturity



Source: Federal Reserve, Bloomberg, TrendMacro calculations

## Money supply growth, YOY quarterly

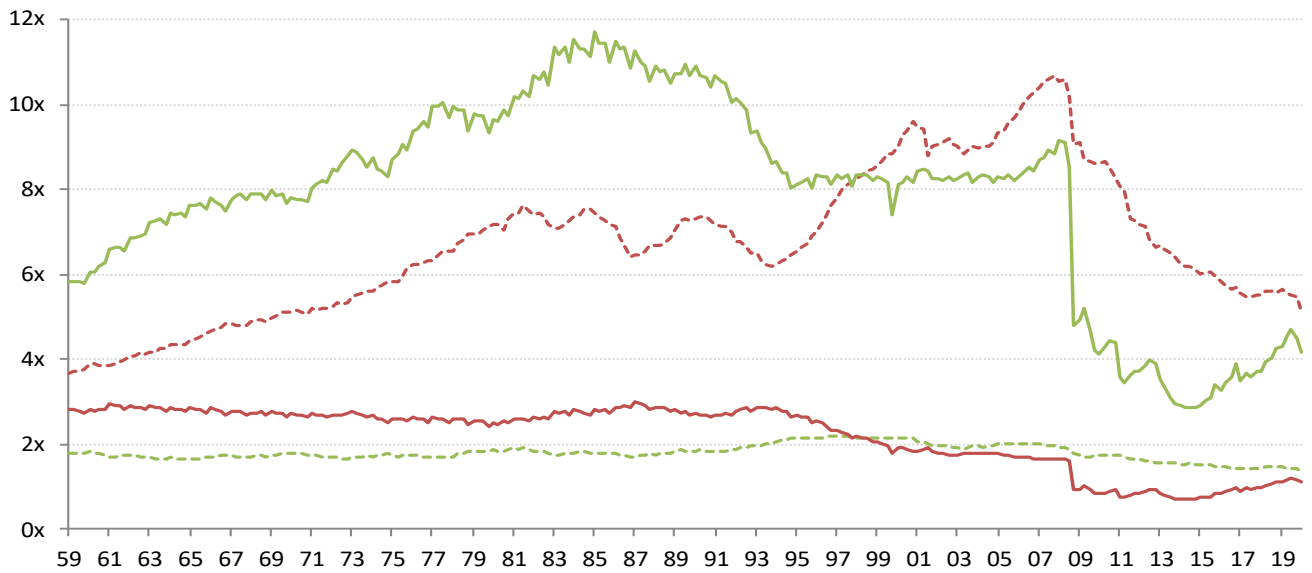
— M1 — M2 — Monetary base



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