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## Data Insights: Federal Reserve

Wednesday, June 10, 2020

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

~~April 29~~ June 10, 2020

### Federal Reserve issues FOMC statement

For release at 2:00 p.m. EDT

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~~ have induced 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~~ Financial conditions have improved, in part reflecting policy measures to support the economy and 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 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.

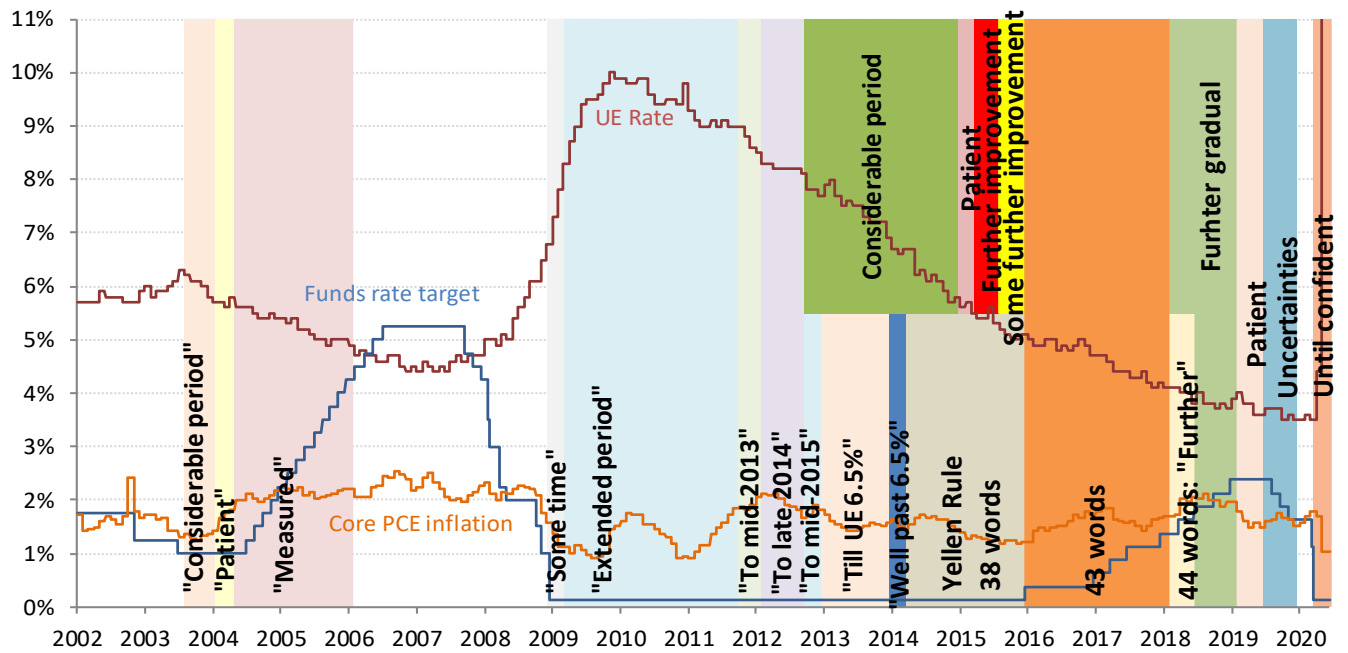
The Committee will continue to monitor the implications of incoming information for the economic outlook, including information related to public health, as well as global developments and muted inflation pressures, and will use its tools and act as appropriate to support the economy. In determining 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.

To support the flow of credit to households and businesses, over coming months the Federal Reserve will ~~continue to purchase~~ increase its holdings of Treasury securities and agency residential and commercial mortgage-backed securities ~~in at least at the amounts needed~~ current pace to ~~support~~ sustain smooth market functioning, thereby fostering effective transmission of monetary policy to broader financial conditions. In addition, the Open Market Desk will continue to offer large-scale overnight and term repurchase agreement operations. The Committee will closely monitor ~~market conditions~~ developments 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; Loretta J. Mester; and Randal K. Quarles.

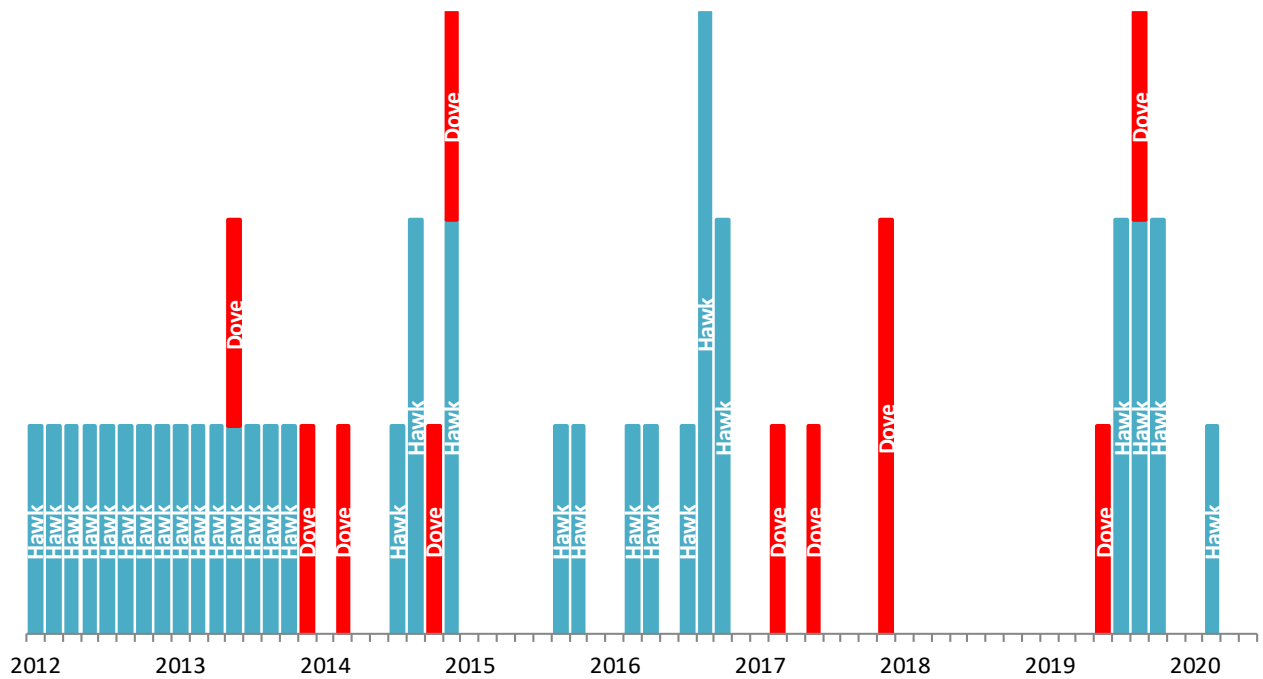
Source: FOMC, TrendMacro analysis

## Fedspeak regime change: the evolution of forward guidance



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

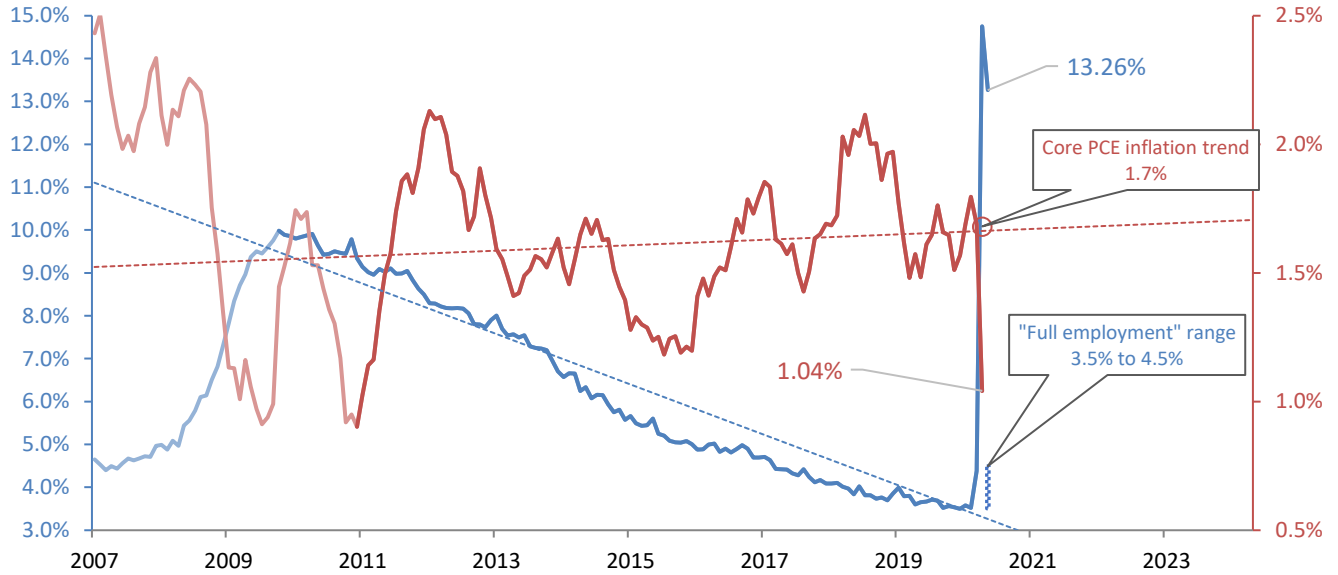
## Other voices: number and direction of FOMC decision dissents



Source: FOMC, TrendMacro calculations

## The dual mandate: garbage in, garbage out

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

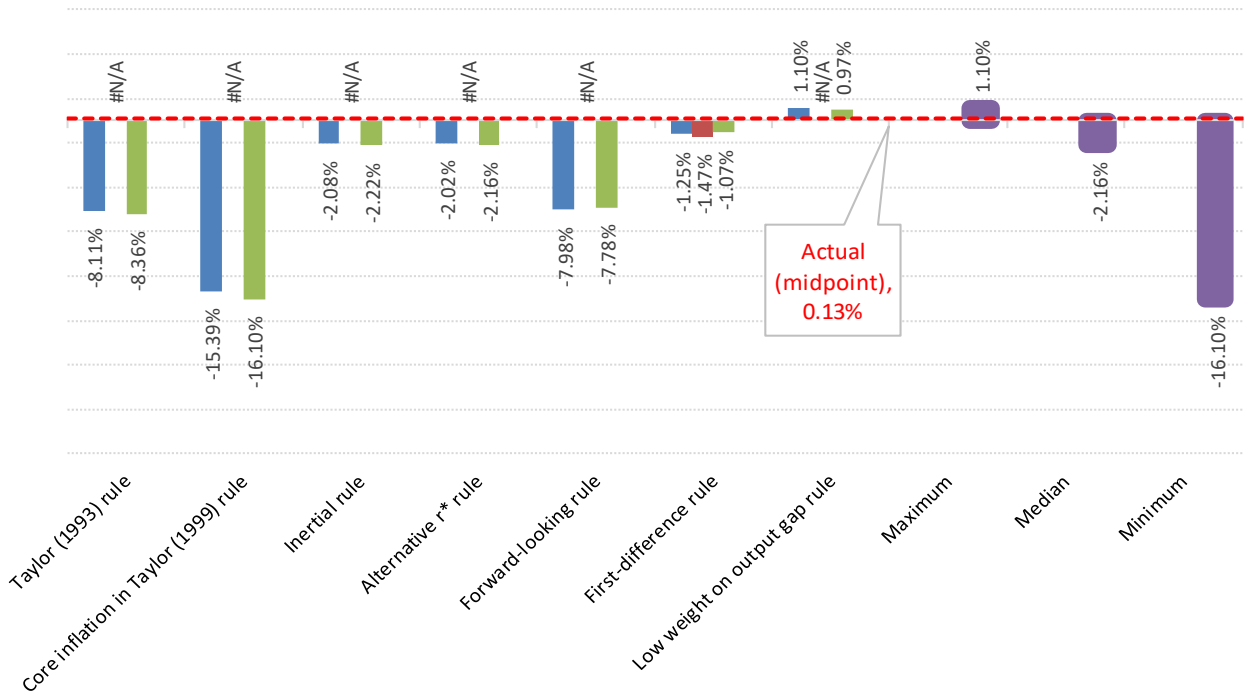


Source: BLS Current Population Survey, TrendMacro calculations

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

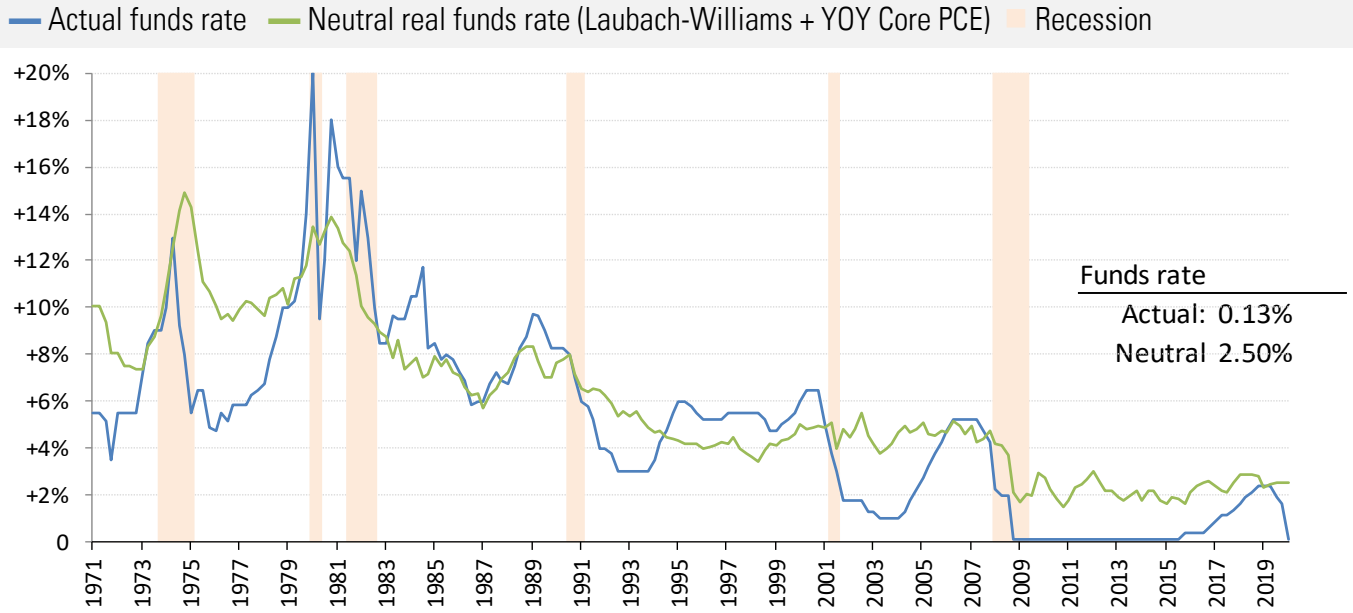
As of May 26, 2020    Based on inputs from:

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



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

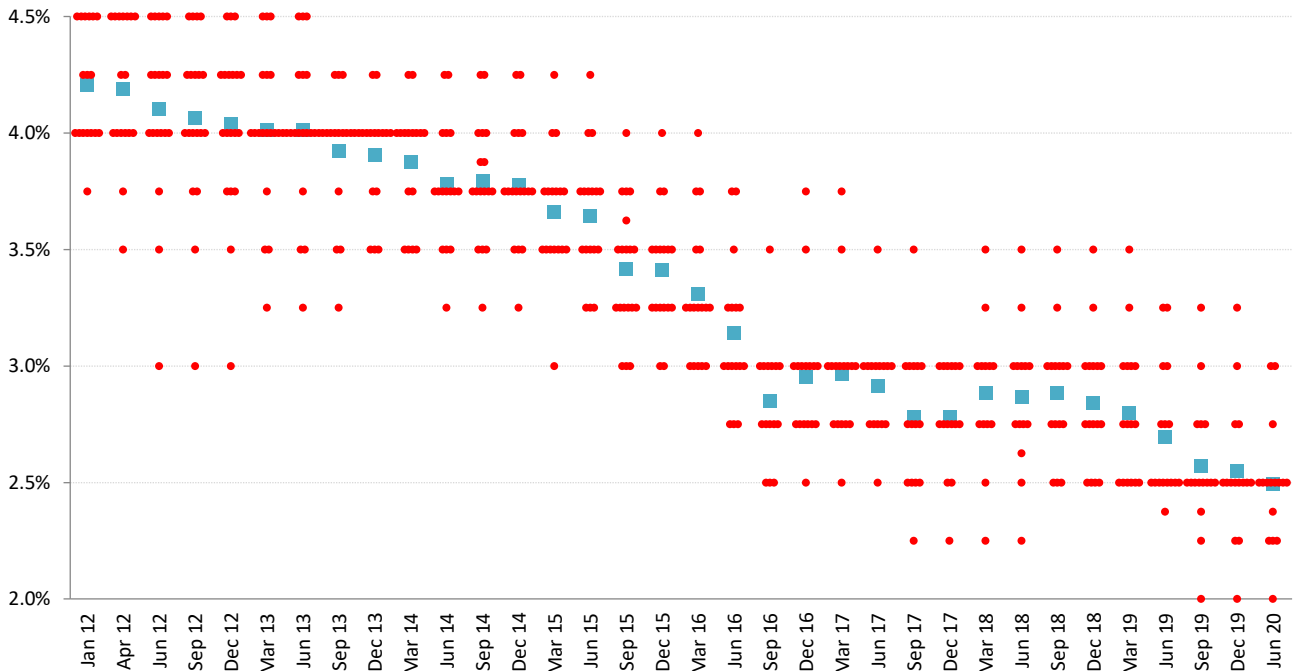
# Estimating the "natural rate of interest"



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

# "R-star" – the ultimate "dotplot"

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

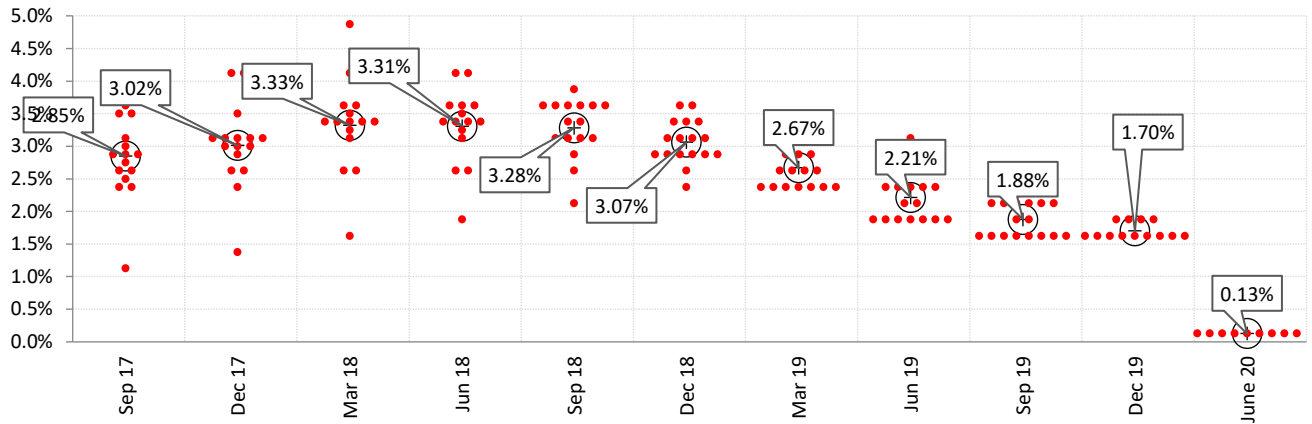


Source: Federal Reserve, TrendMacro calculations

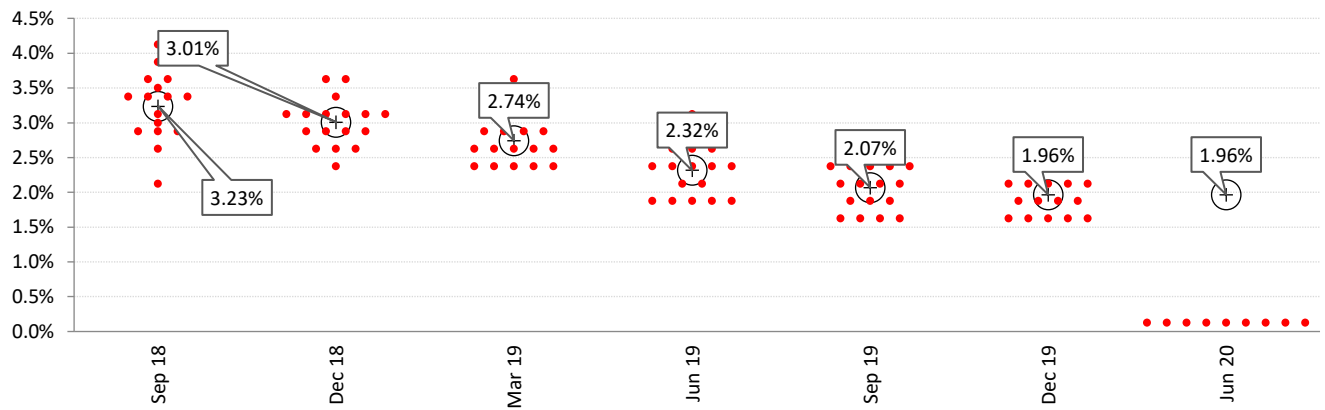
# Tracking the "dotplots" year by year

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

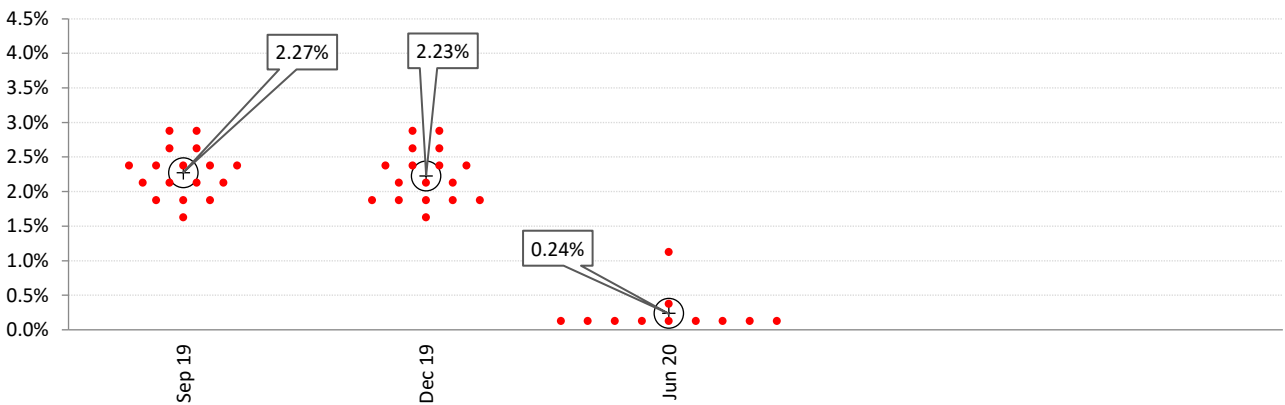
## For year-end 2020



## For year-end 2021



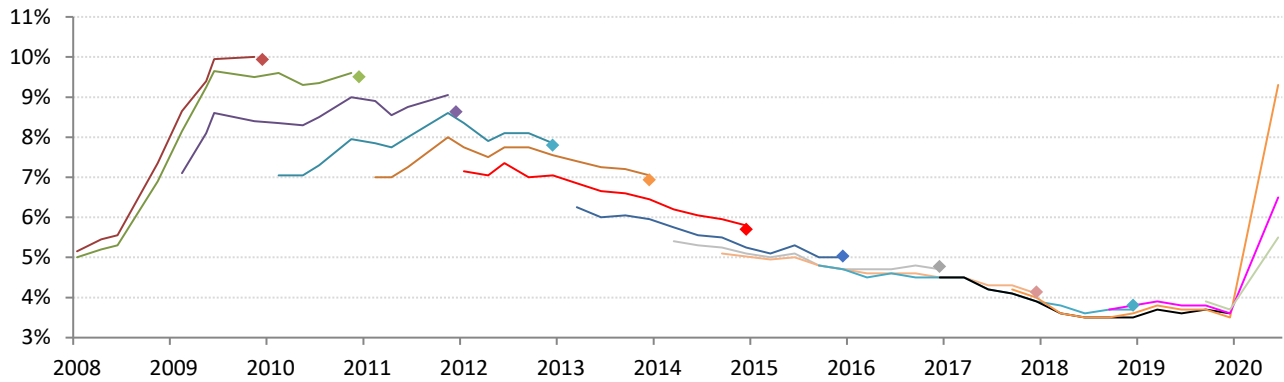
## For year-end 2022



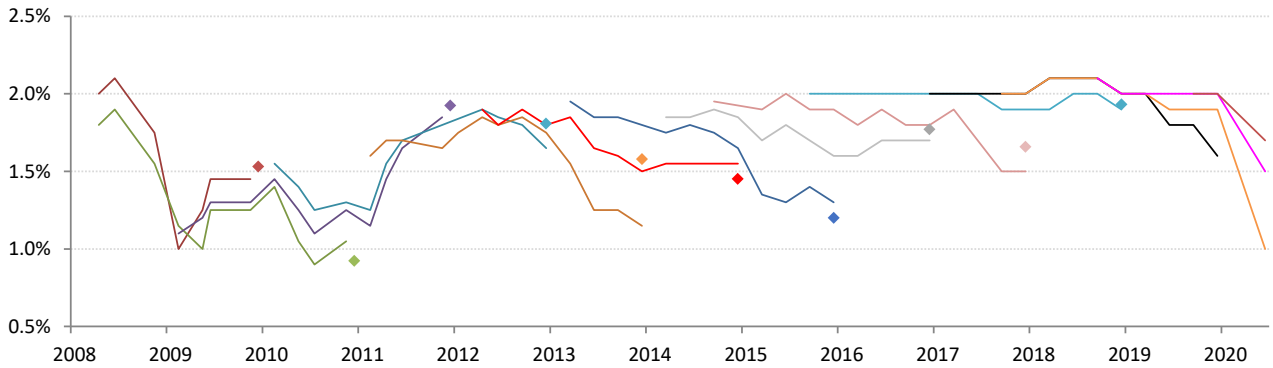
# Forecast vs actual: [economic projections](#) of FRB and presidents

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

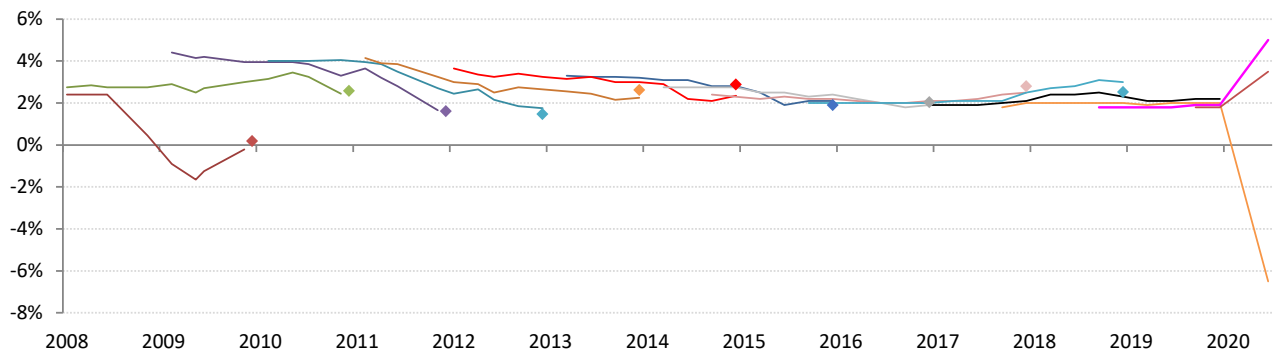
## Unemployment



## Core PCE inflation

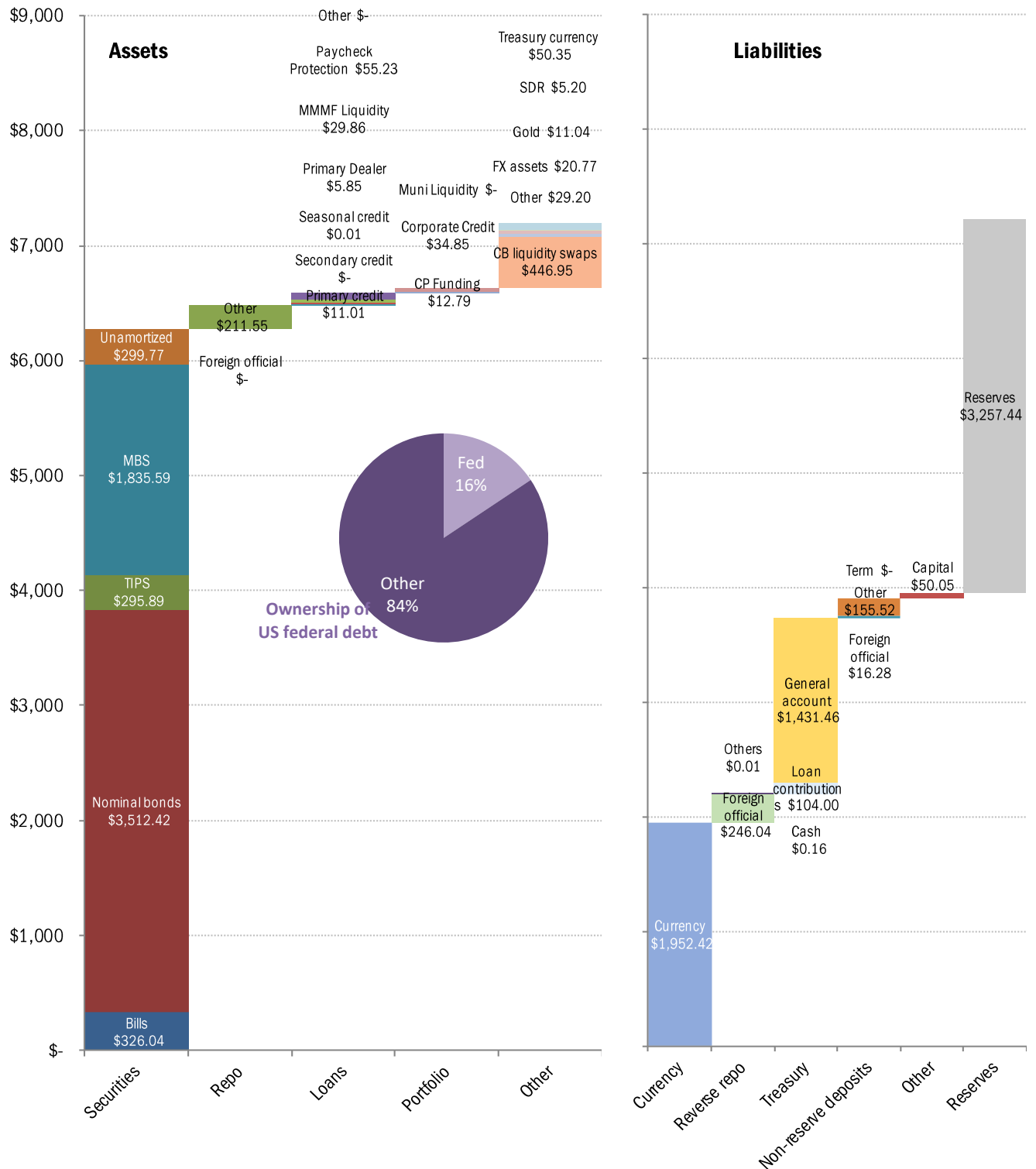


## Real GDP



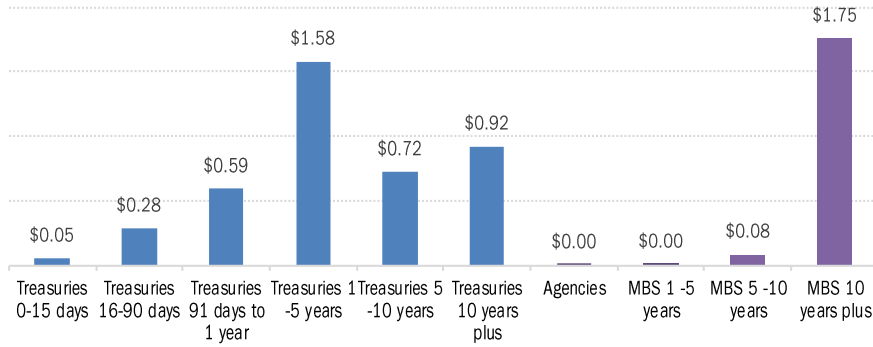
Source: Federal Reserve, BEA, BLS, TrendMacro calculations

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

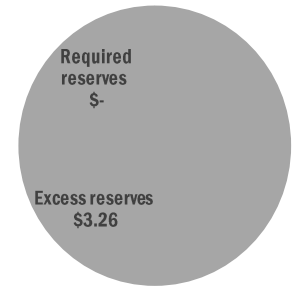


Source: Federal Reserve H.4, US Treasury, TrendMacro calculations

## Sector and maturity breakdown of Fed government securities, USD trillions



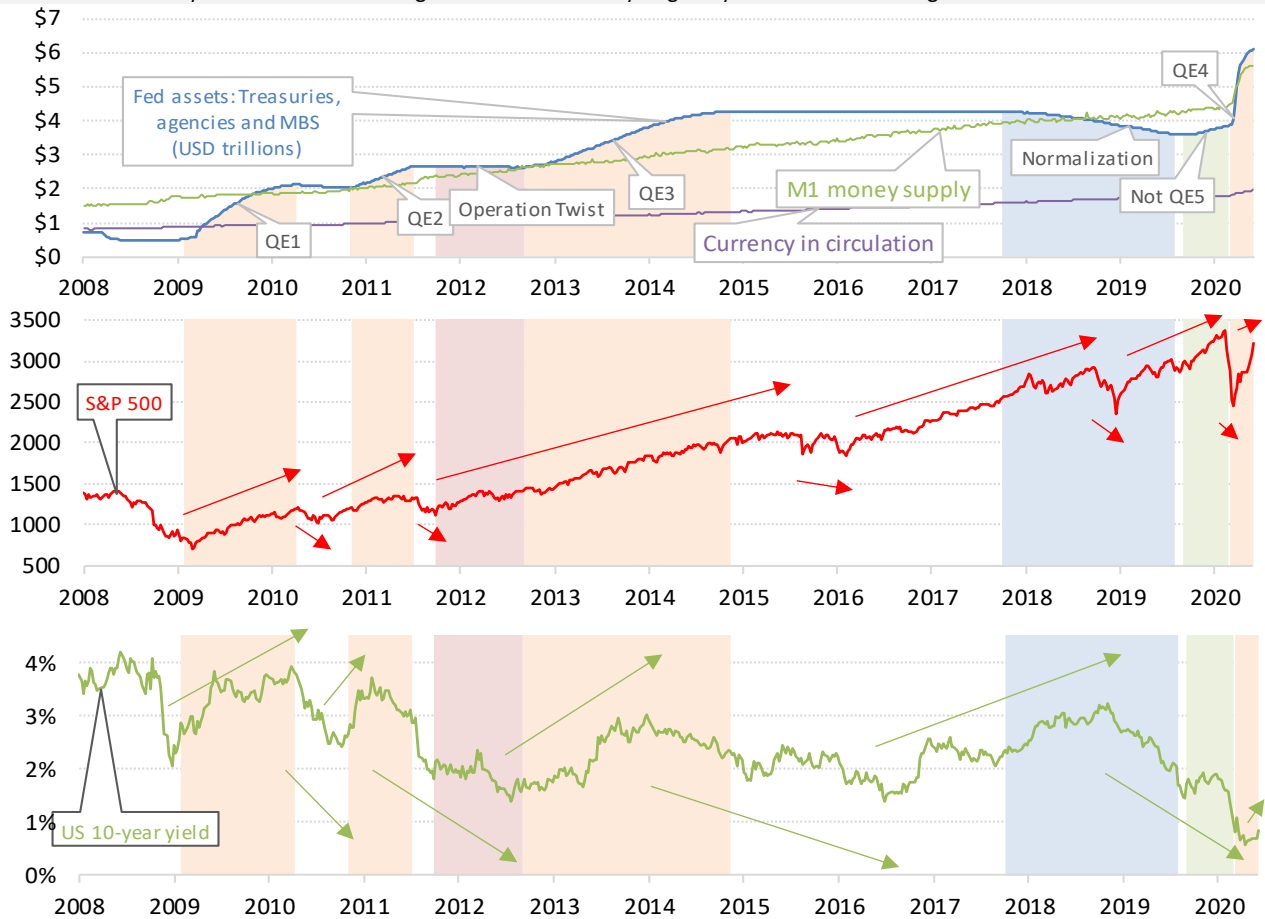
## Banking reserves, USD trillions



Source: Federal Reserve, Bloomberg, TrendMacro calculations

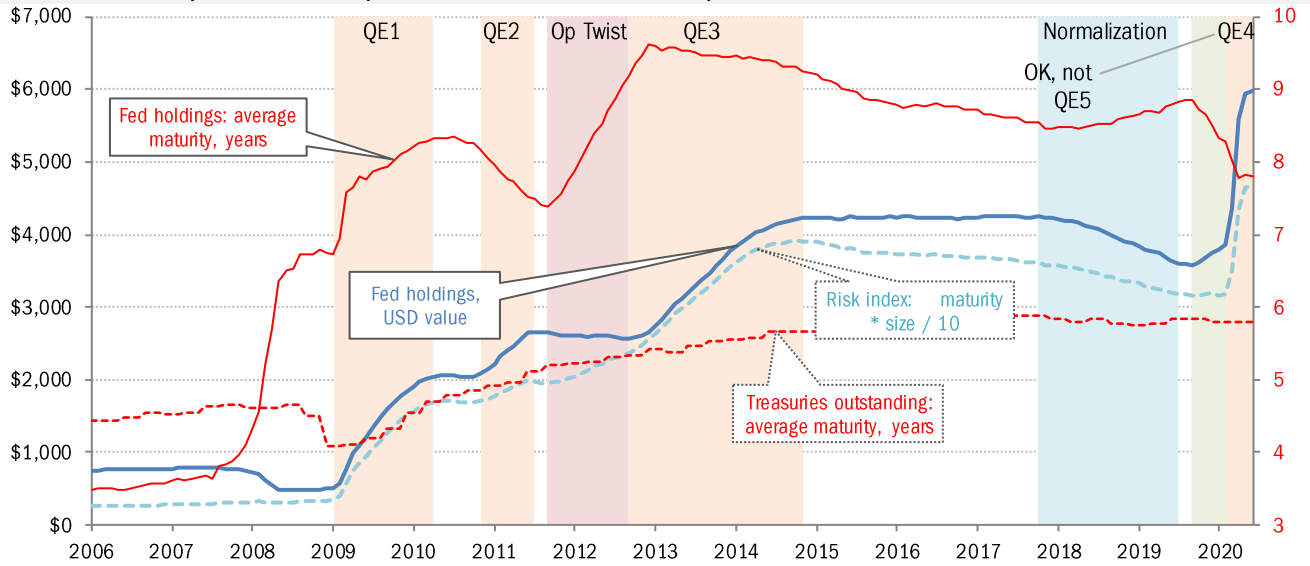
## The Fed's asset purchases, and their effects on markets

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



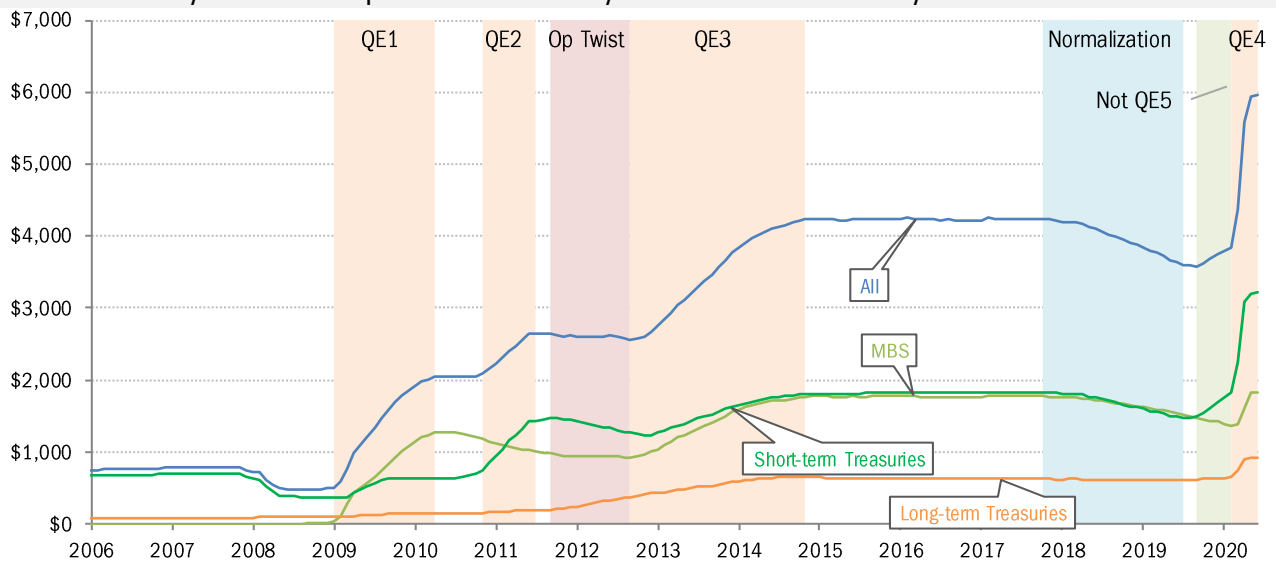


## Fed Treasury and MBS portfolio: size, maturity and risk index



Source: Federal Reserve, Bloomberg, TrendMacro calculations

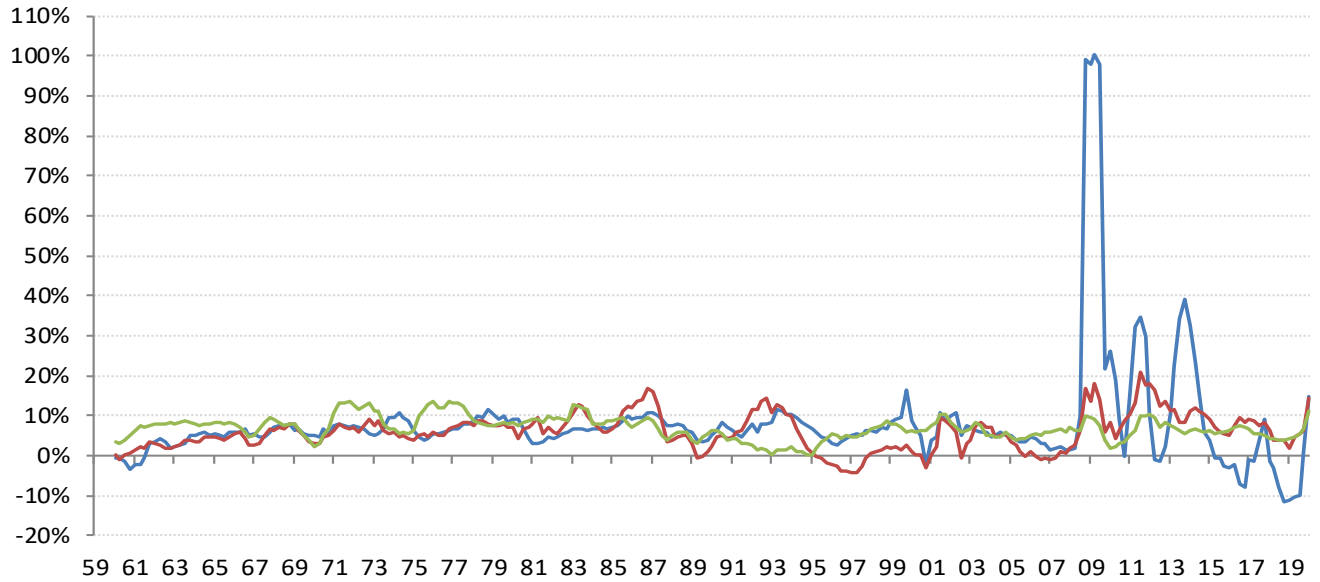
## Fed Treasury and MBS portfolio: size by sector and maturity



Source: Federal Reserve, Bloomberg, TrendMacro calculations

## Money supply growth, YOY quarterly

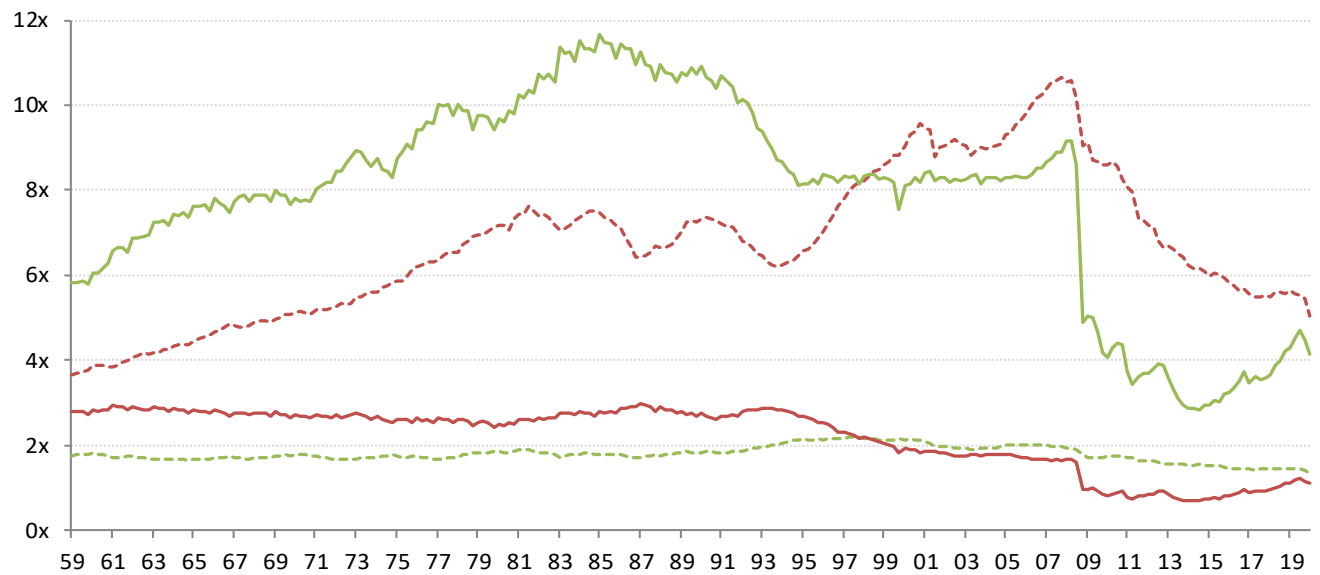
— M1 — M2 — Monetary base



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