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Data Insights: Federal Reserve

Wednesday, September 16, 2020

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

~~July 29~~September 16, 2020

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~~COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. ~~Following sharp declines, economic~~Economic activity and employment have picked up ~~somewhat~~ in recent months but remain well below their levels at the beginning of the year. Weaker demand and significantly lower oil prices are holding down consumer price inflation. Overall financial conditions have improved in recent months, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will continue to 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~~seeks to achieve maximum employment ~~objective~~ and ~~its symmetric~~inflation at the rate of 2 percent over the longer run. With inflation ~~objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of~~running persistently below this longer-run goal, the Committee will aim to achieve inflation ~~pressures and~~ moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations~~, and readings on financial and international developments.~~

~~To support the flow of credit to households and businesses,~~ remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. In addition, over coming months the Federal Reserve will increase its holdings of Treasury securities and agency ~~residential and commercial~~ mortgage-backed securities at least at the current pace to sustain smooth market functioning~~,~~ and help foster accommodative financial conditions, 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 developments and is prepared to adjust its plans as appropriate~~supporting the flow of credit to households and businesses.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and 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; Richard H. Clarida; Patrick Harker; ~~Robert S. Kaplan; Neel Kashkari;~~ Loretta J. Mester; and Randal K. Quarles.

~~Implementation Note issued July 29, 2020~~

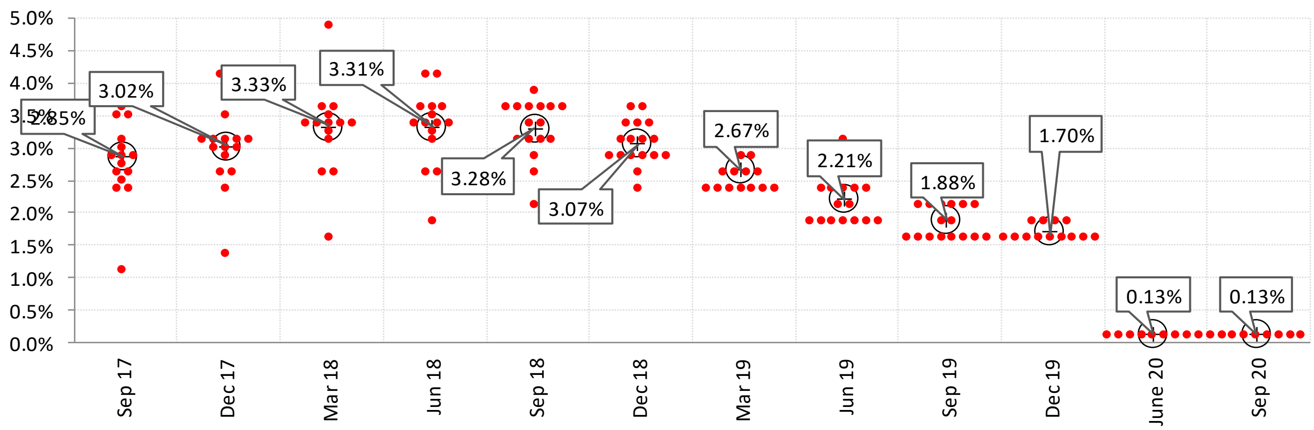
Voting against the action were Robert S. Kaplan, who expects that it will be appropriate to maintain the current target range until the Committee is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals as articulated in its new policy strategy statement, but prefers that the Committee retain greater policy rate flexibility beyond that point; and Neel Kashkari, who prefers that the Committee to indicate that it expects to maintain the current target range until core inflation has reached 2 percent on a sustained basis.

Source: FOMC, TrendMacro analysis

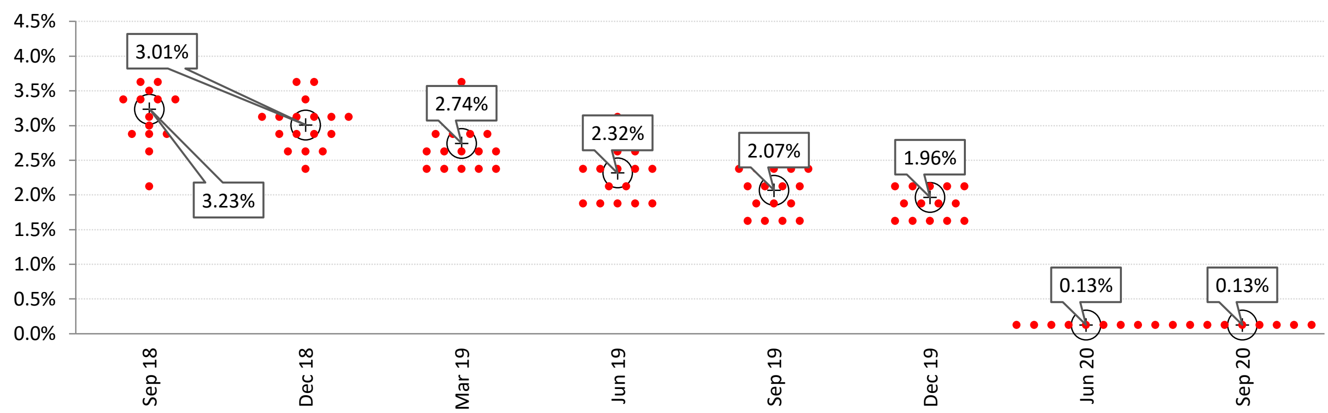
Tracking the ["dotplots"]() year by year

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

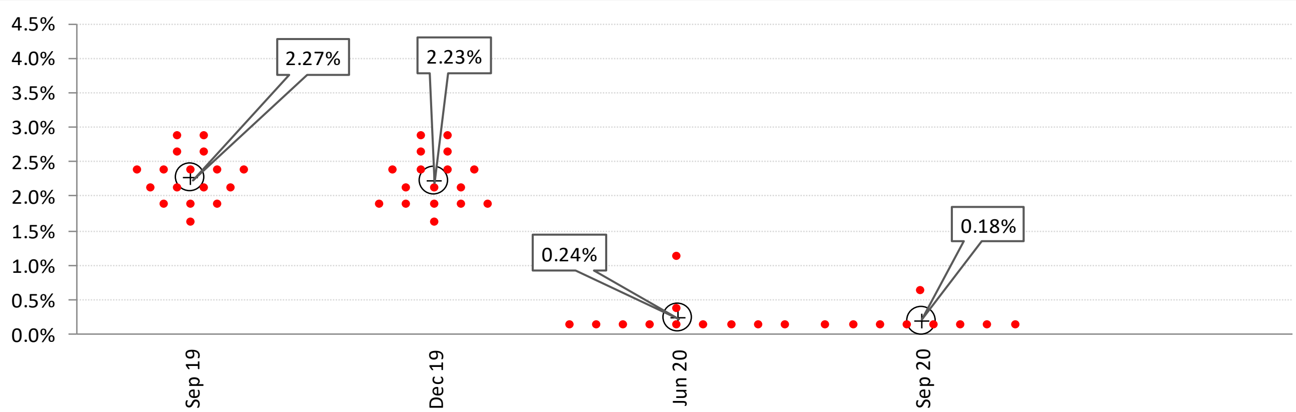
For year-end 2020



For year-end 2021



For year-end 2022

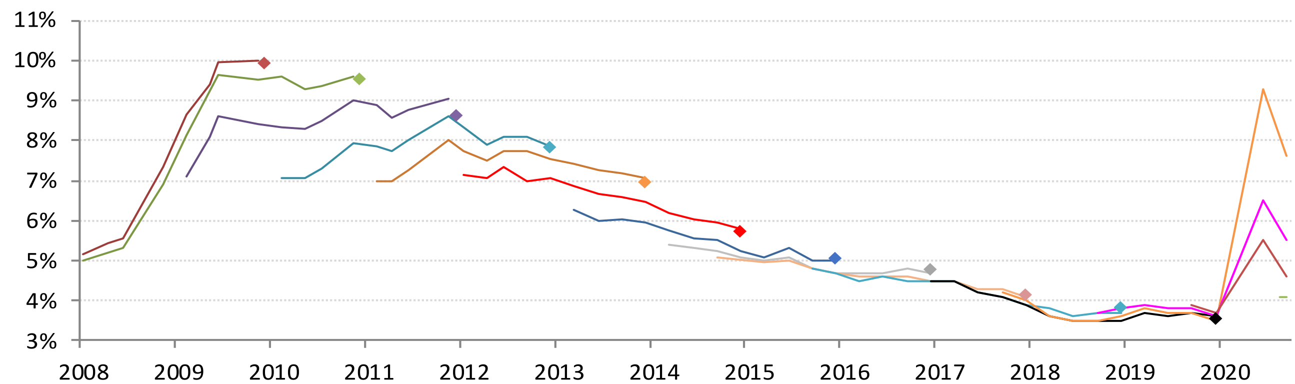


For year-end 2023

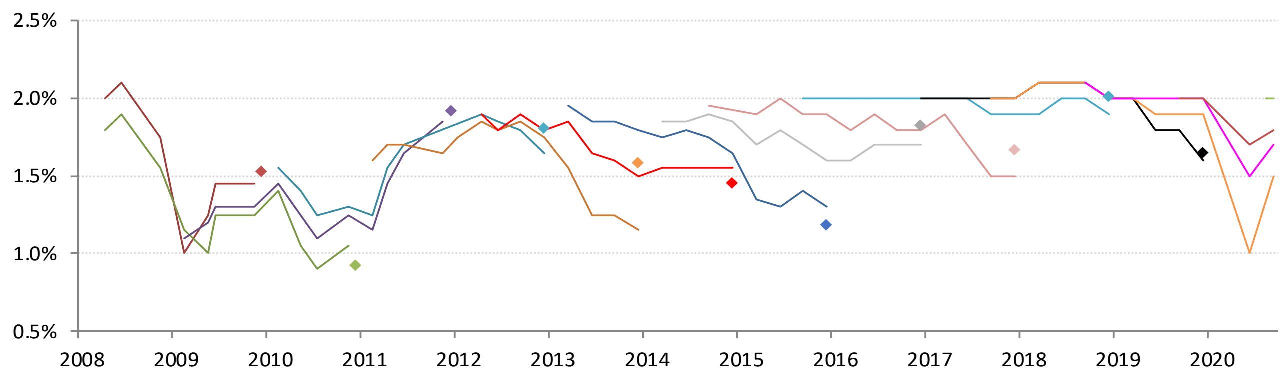
Forecast vs actual: economic projections of FRB and presidents

— Forecast ◆ Actual ■ 2009 ■ 10 ■ 11 ■ 12 ■ 13 ■ 14 ■ 15 ■ 16 ■ 17 ■ 18 ■ 19 ■ 20 ■ 21 ■ 22 ■ 2023

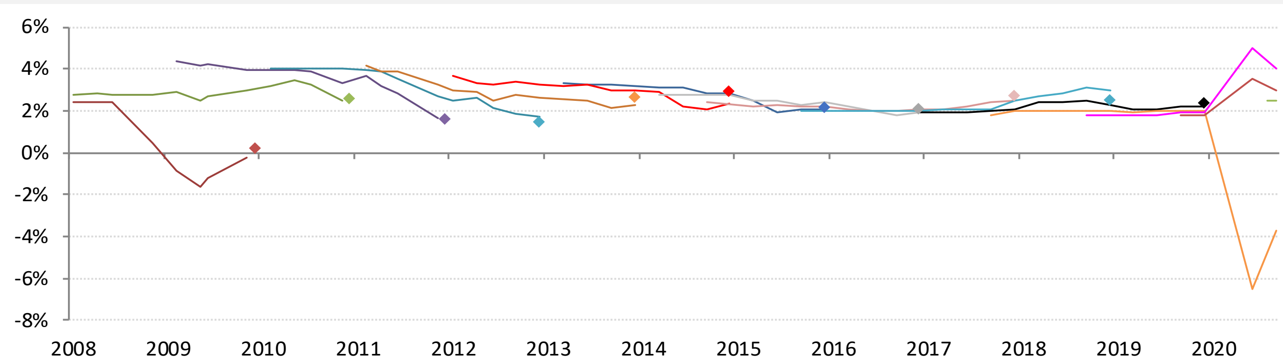
Unemployment



Core PCE inflation



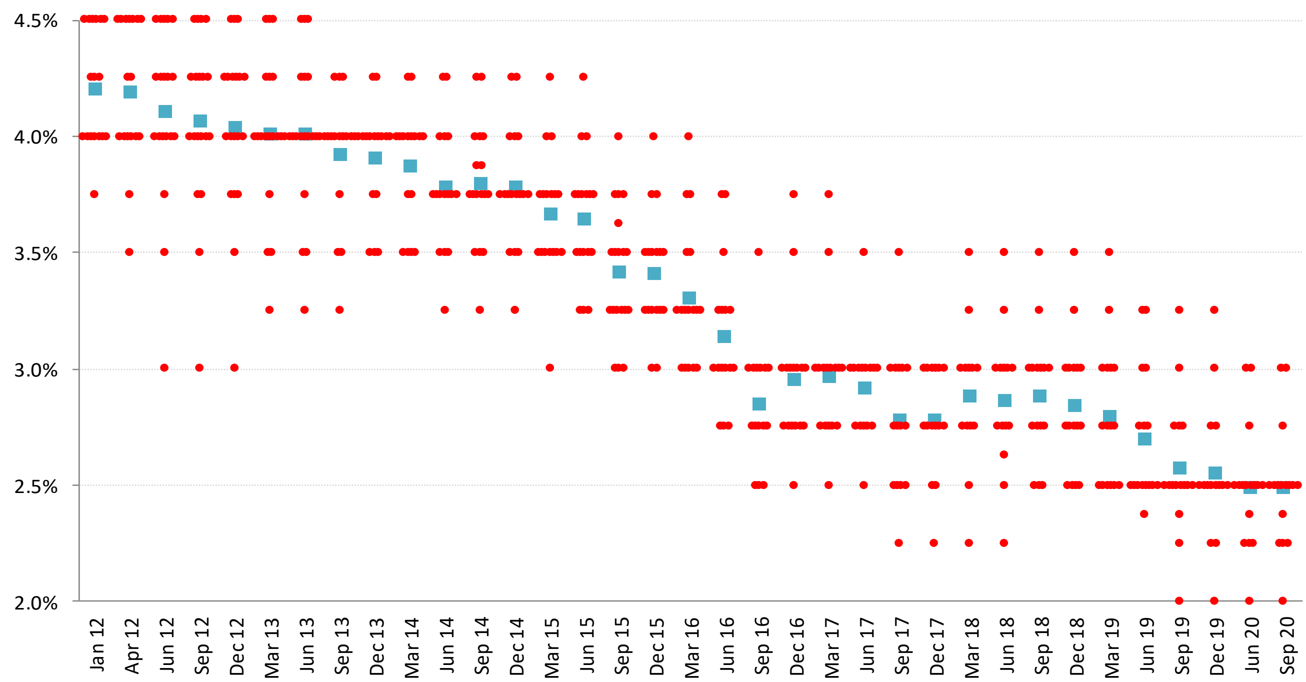
Real GDP



Source: Federal Reserve, BEA, BLS, TrendMacro calculations

"R-star" – the ultimate "dotplot"

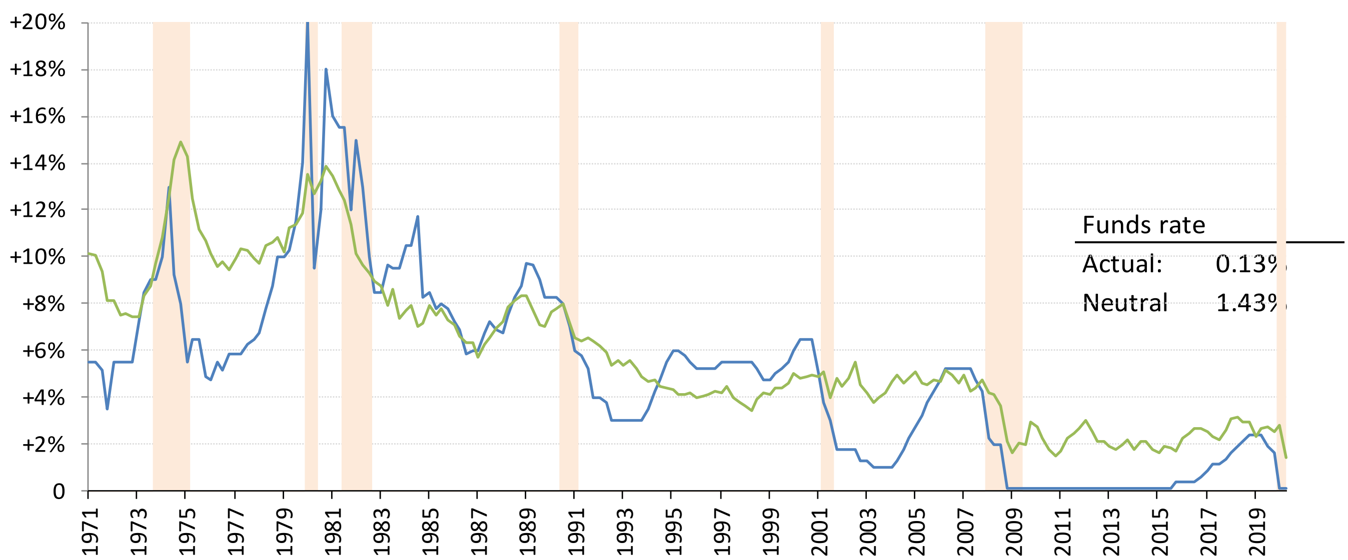
FOMC participants' estimate of "longer run" target funds rate ● Vote by individual participant ■ Average



Source: Federal Reserve, TrendMacro calculations

Estimating the "natural rate of interest"

Actual funds rate — Neutral real funds rate (Laubach-Williams + YOY Core PCE) — Recession



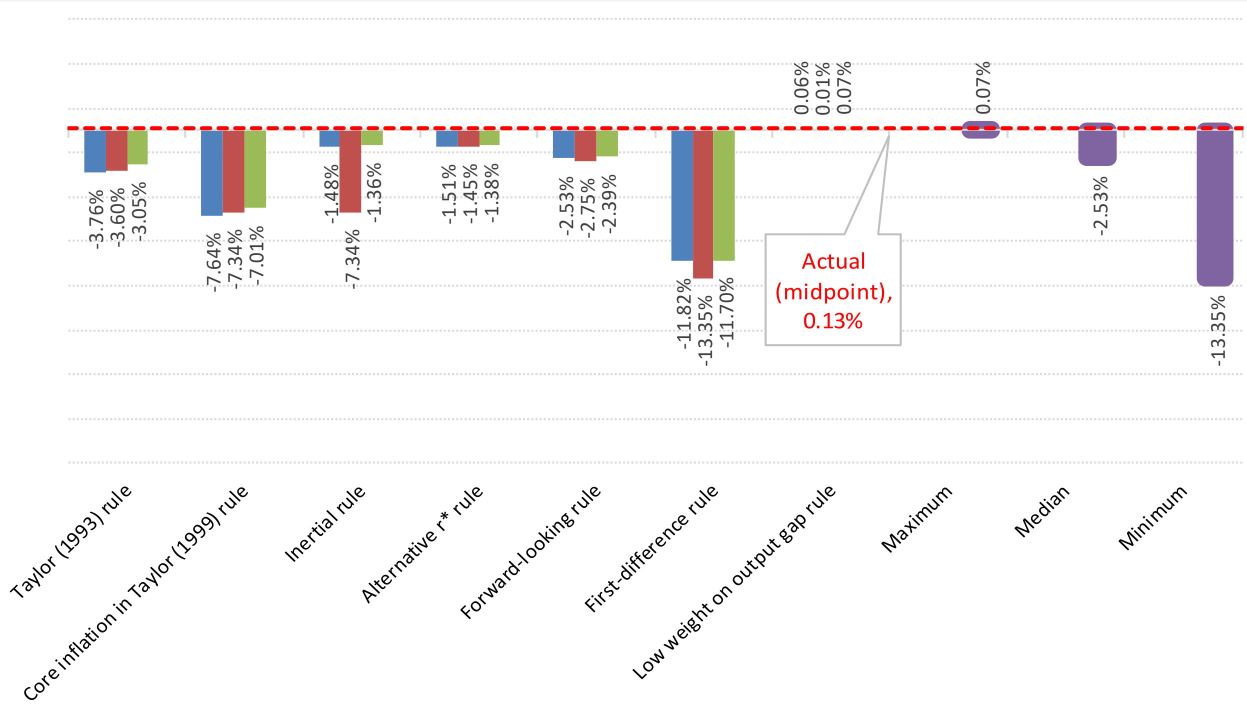
Source: New York Fed, Federal Reserve, BEA, TrendMacro calculations

Other voices: number and direction of FOMC decision dissents

Source: FOMC, TrendMacro calculations

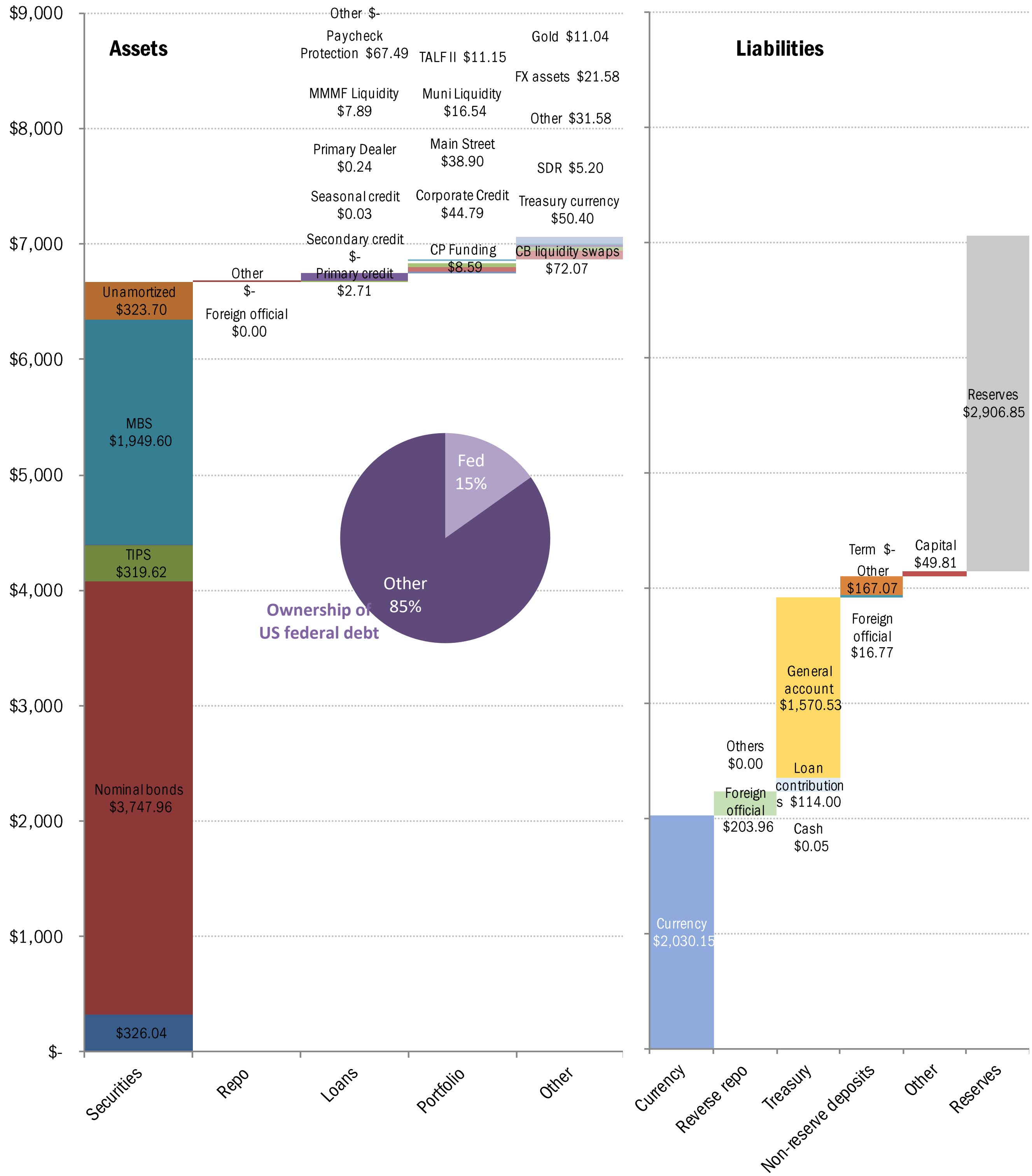
So many policy rules, so little time…

As of September 3, 2020 Based on inputs from: FOMC SEP CBO Cleveland Fed



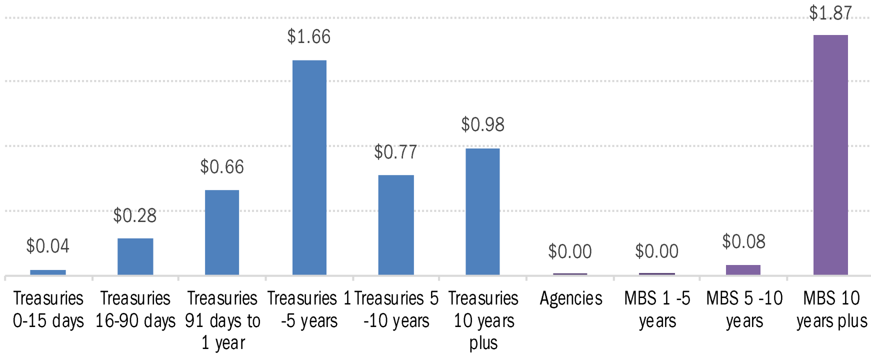
Source: Cleveland Fed, TrendMacro calculations

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

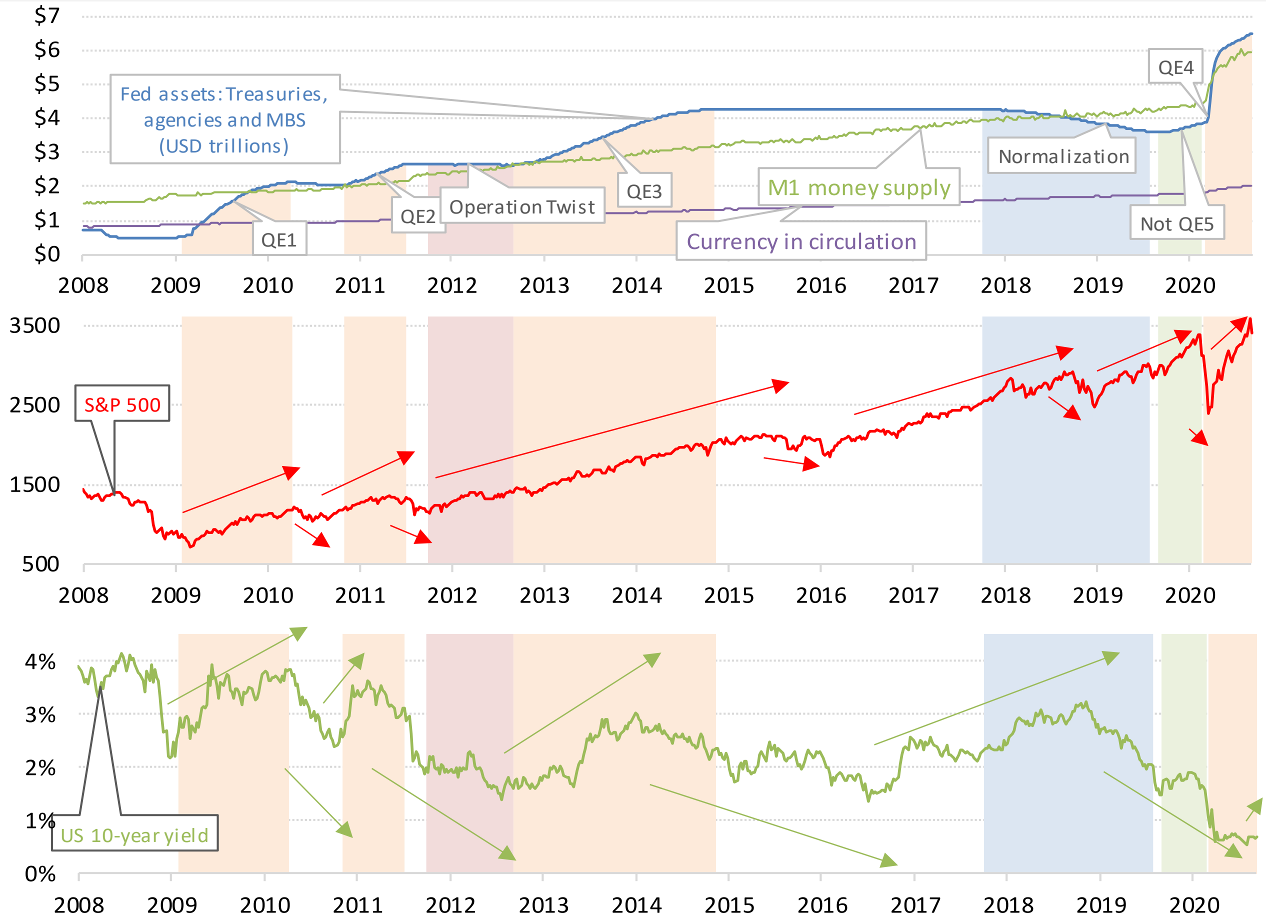


Banking reserves, USD trillions

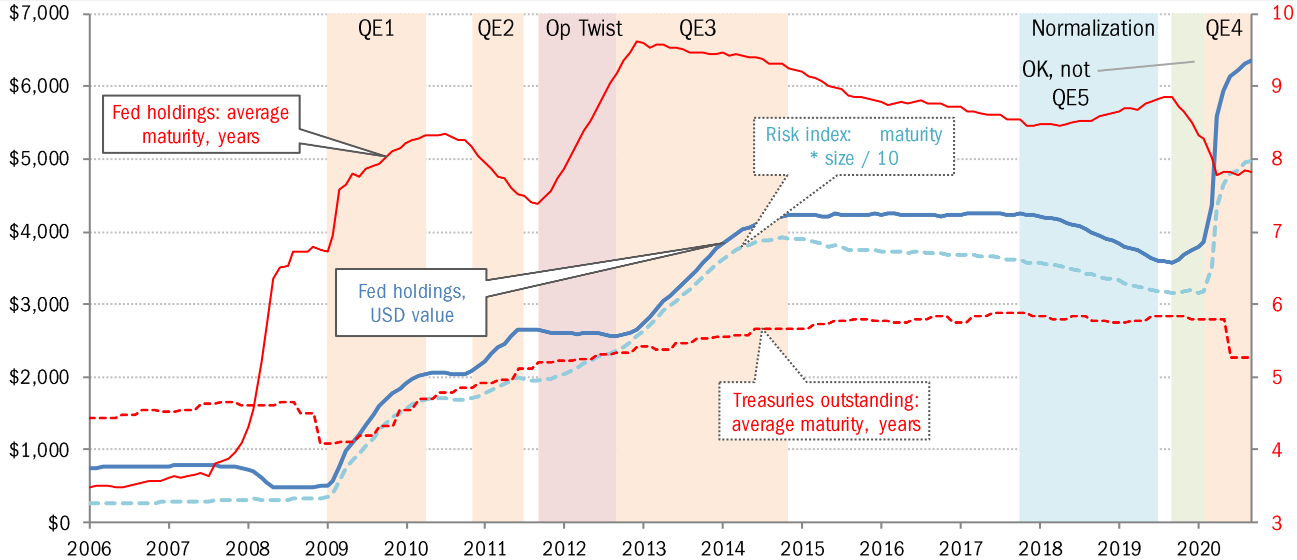
Source: Federal Reserve, Bloomberg, TrendMacro calculations

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

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

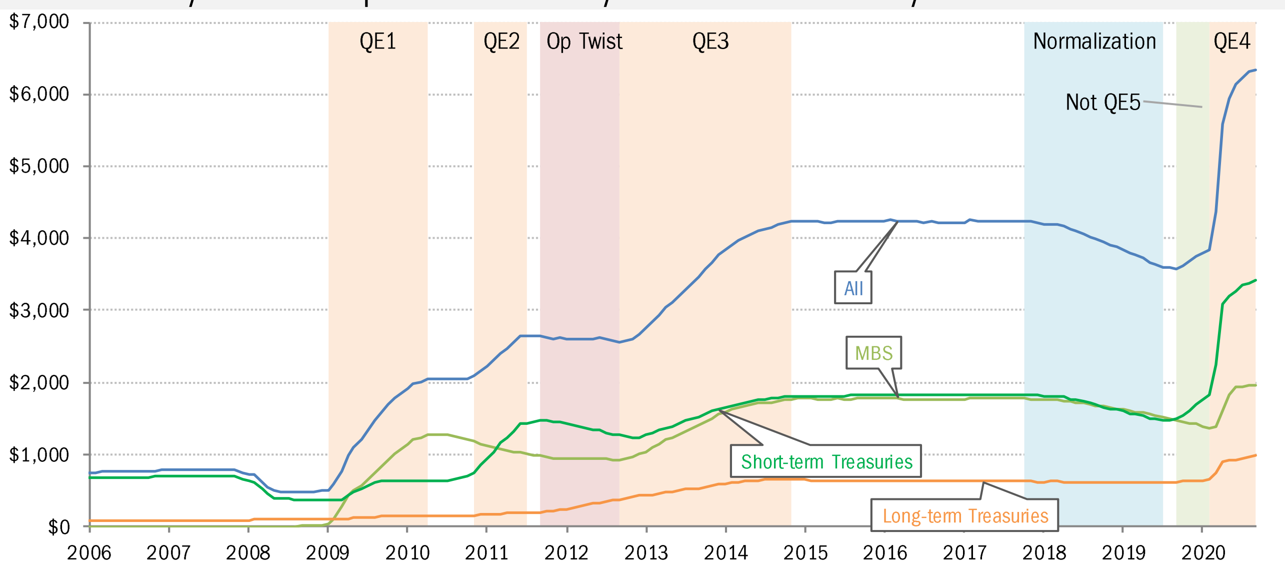


Fed Treasury and MBS portfolio: size, maturity and risk index



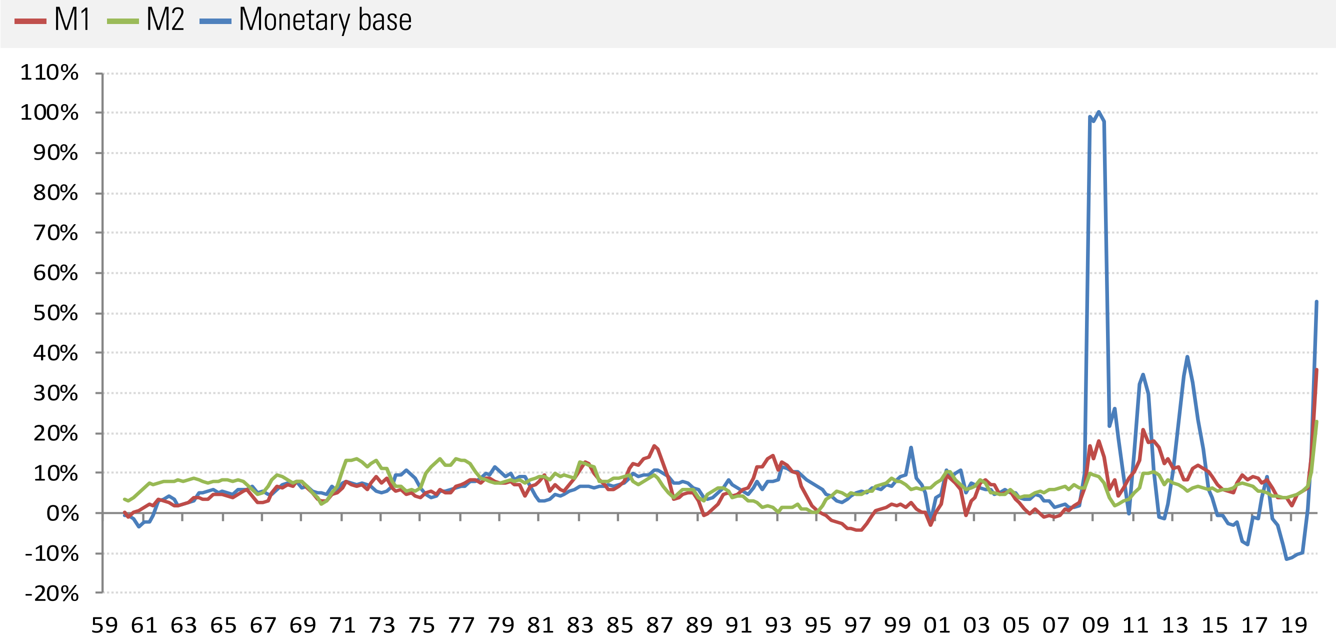
Source: Federal Reserve, Bloomberg, TrendMacro calculations

Fed Treasury and MBS portfolio: size by sector and maturity



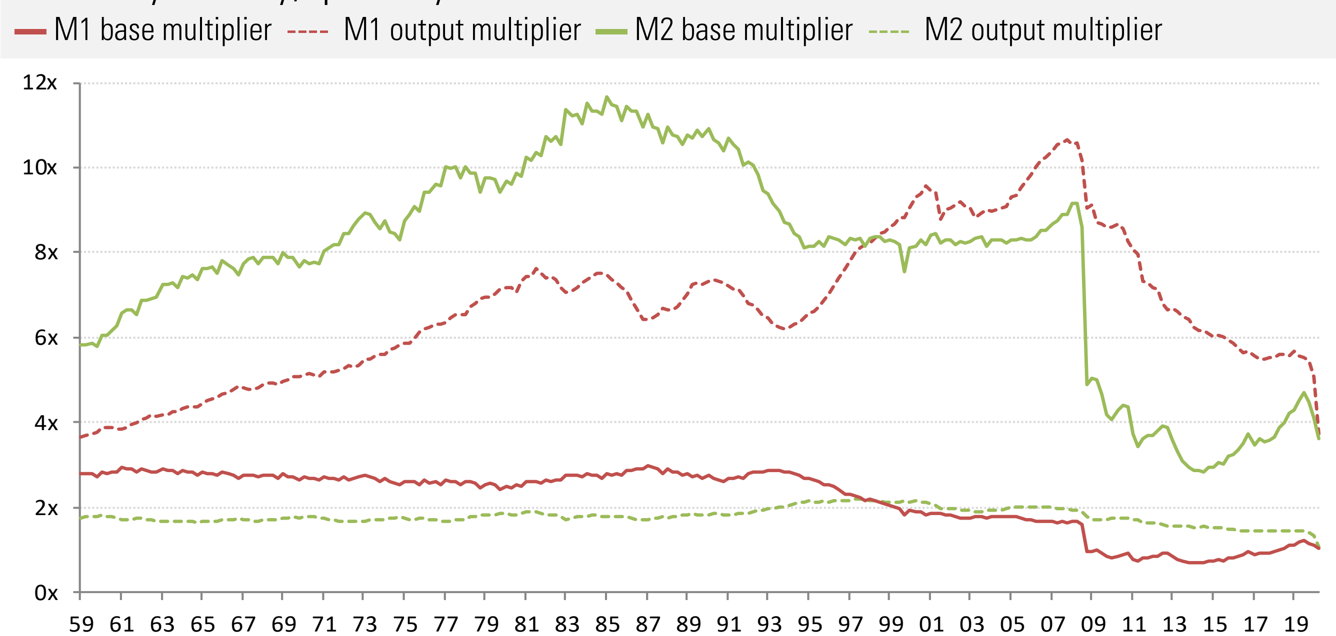
Source: Federal Reserve, Bloomberg, TrendMacro calculations

Money supply growth, YOY quarterly



Source: Federal Reserve H.6, TrendMacro calculations

Monetary velocity, quarterly



Source: BEA, Federal Reserve H.6, TrendMacro calculations