Trend Macrolytics, LLC
Donald Luskin, Chief Investment Officer
Thomas Demas, Managing Director
Michael Warren, Energy Strategist

Data Insights: Federal Reserve

Wednesday, January 27, 2021

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

~~December 16, 2020~~

January 27, 2021

Federal Reserve issues FOMC statement

For release at 2:00 p.m. EST

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 COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. ~~Economic~~The pace of the recovery in economic activity and employment ~~have continued to recover but remain well below their levels at the beginning of the year~~has moderated in recent months, with weakness concentrated in the sectors most adversely affected by the pandemic. Weaker demand and earlier declines in oil prices have been holding down consumer price inflation. Overall financial conditions remain accommodative, 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~~.~~, including progress on vaccinations. The ongoing public health crisis ~~will continue~~continues to weigh on economic activity, employment, and inflation~~ in the near term~~, and poses considerable risks to the economic outlook~~ over the medium term~~.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer~~-~~-term inflation expectations 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, the Federal Reserve will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage~~-~~-backed securities by at least $40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals. These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby 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.

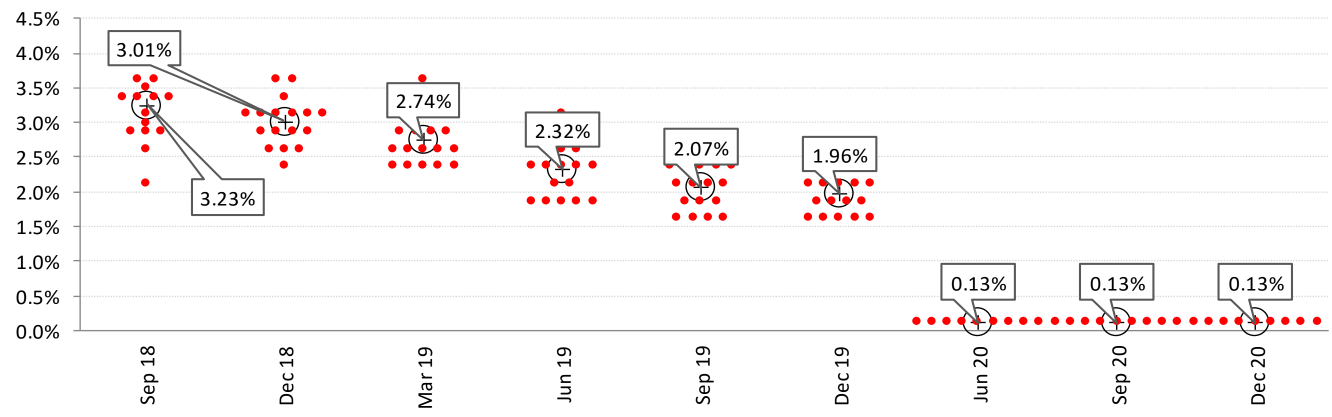
Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Thomas I. Barkin; Raphael W. Bostic; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; ~~Patrick Harker; Robert S. Kaplan; Neel Kashkari; Loretta J. Mester; and~~ Mary C. Daly; Charles L. Evans; Randal K. Quarles; and Christopher J. Waller.

Source: FOMC, TrendMacro analysis

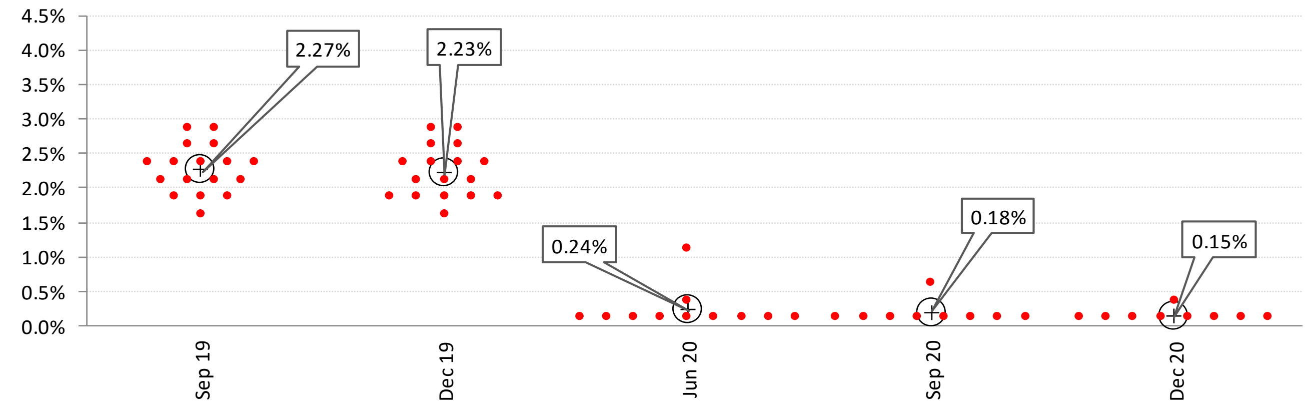
Tracking the "dotplots" year by year AS OF DEC 2020 FOMC

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

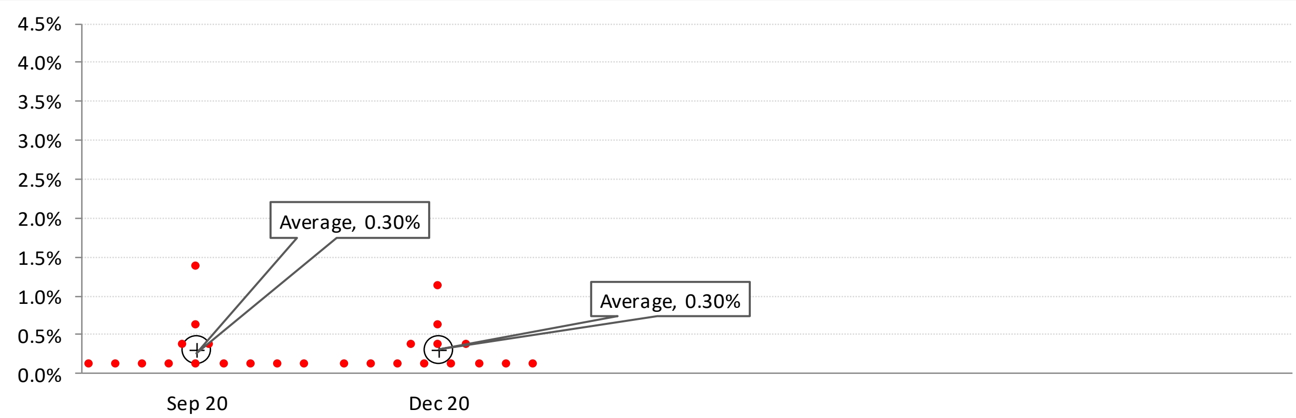
For year-end 2021



For year-end 2022



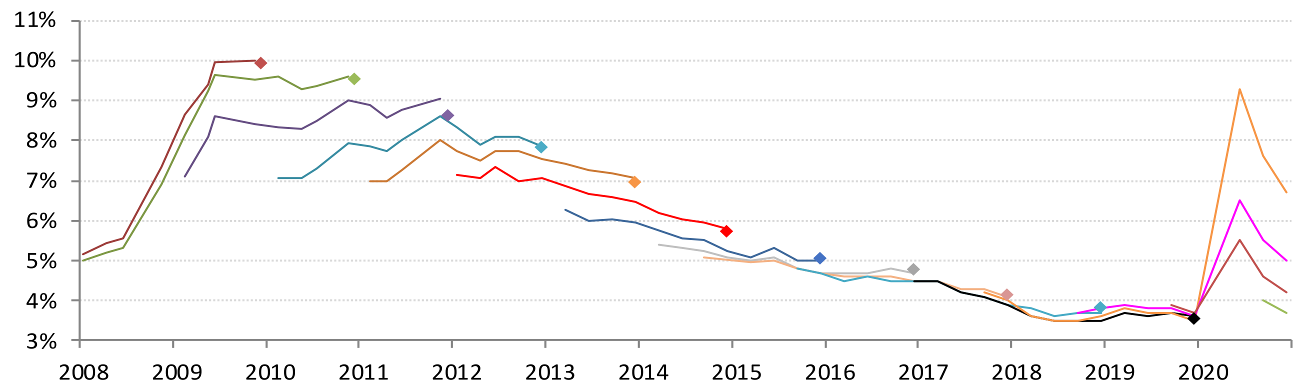
For year-end 2023



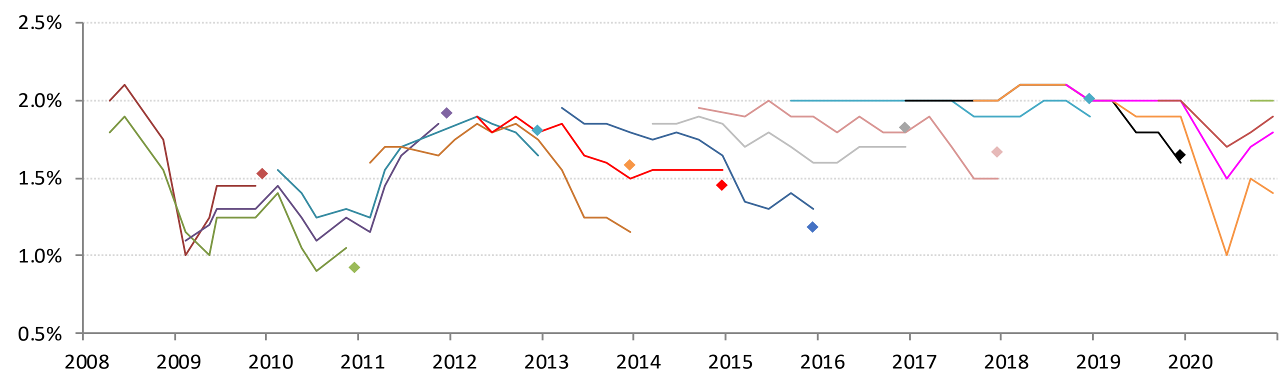
Forecast v actual: economic projections FRB and presidents AS OF DEC 2020 FOMC

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

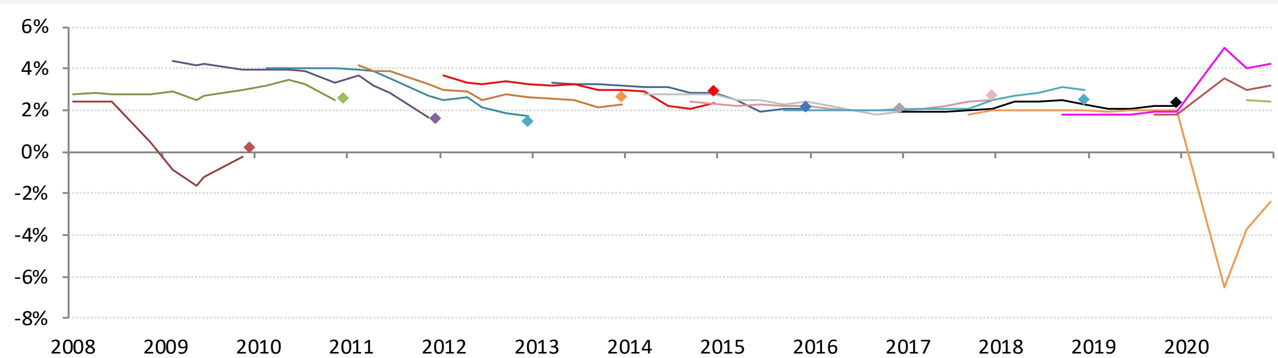
Unemployment



Core PCE inflation



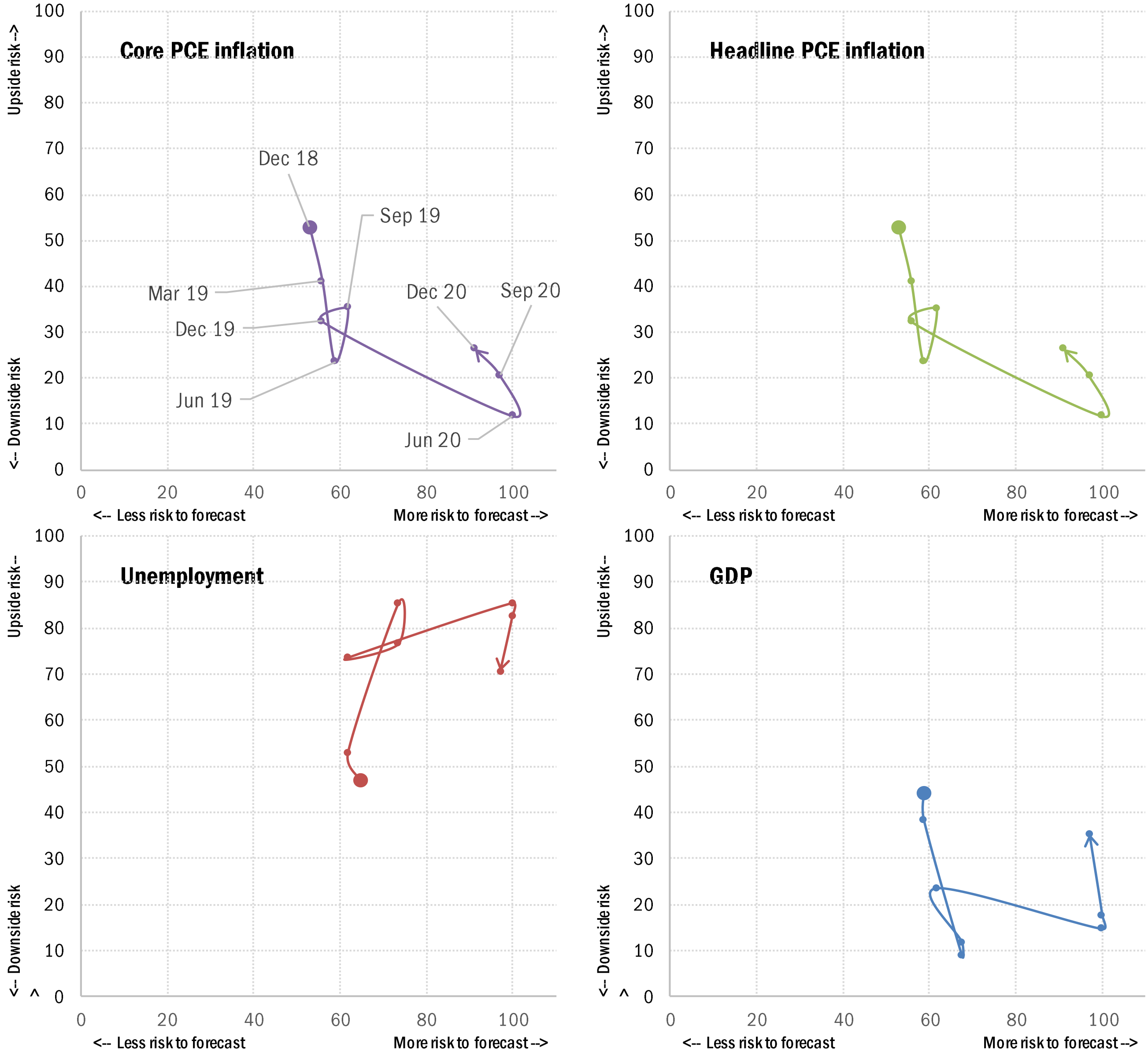
Real GDP



Source: Federal Reserve, BEA, BLS, TrendMacro calculations

The evolution of uncertainty AS OF DEC 2020 FOMC

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

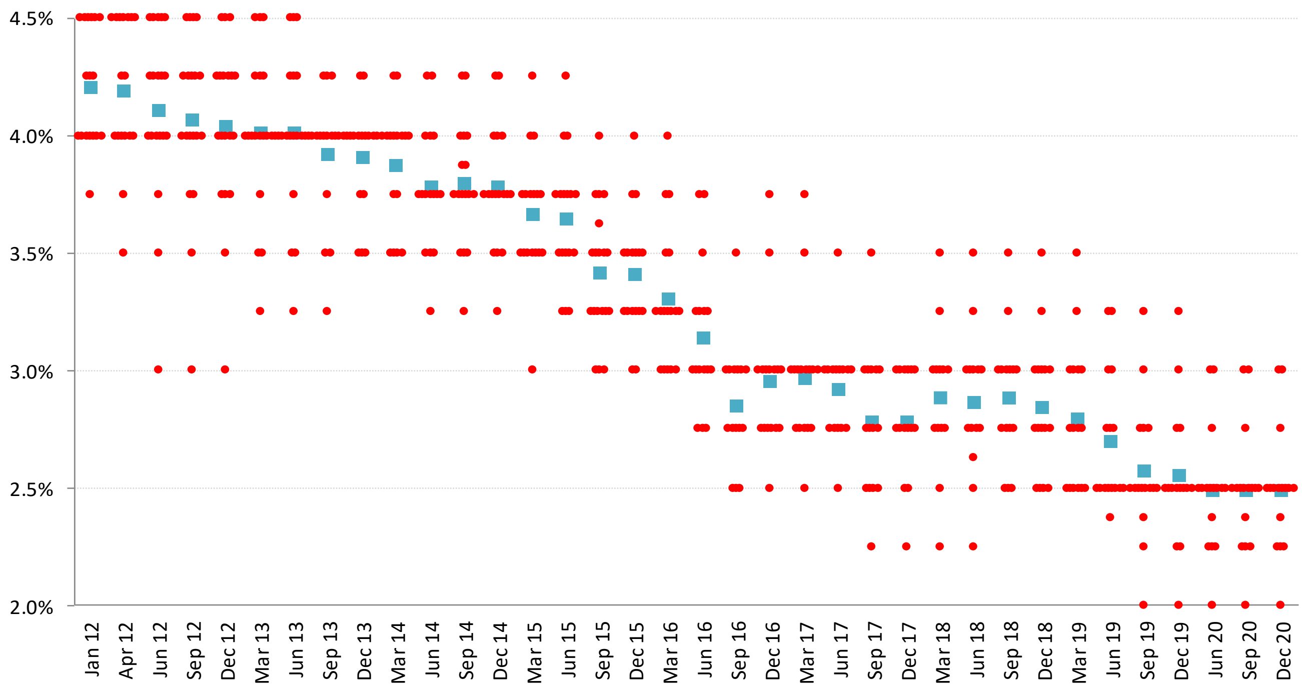


Source: Federal Reserve Board, TrendMacro calculations

"R-star" – the ultimate ["dotplot"]

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

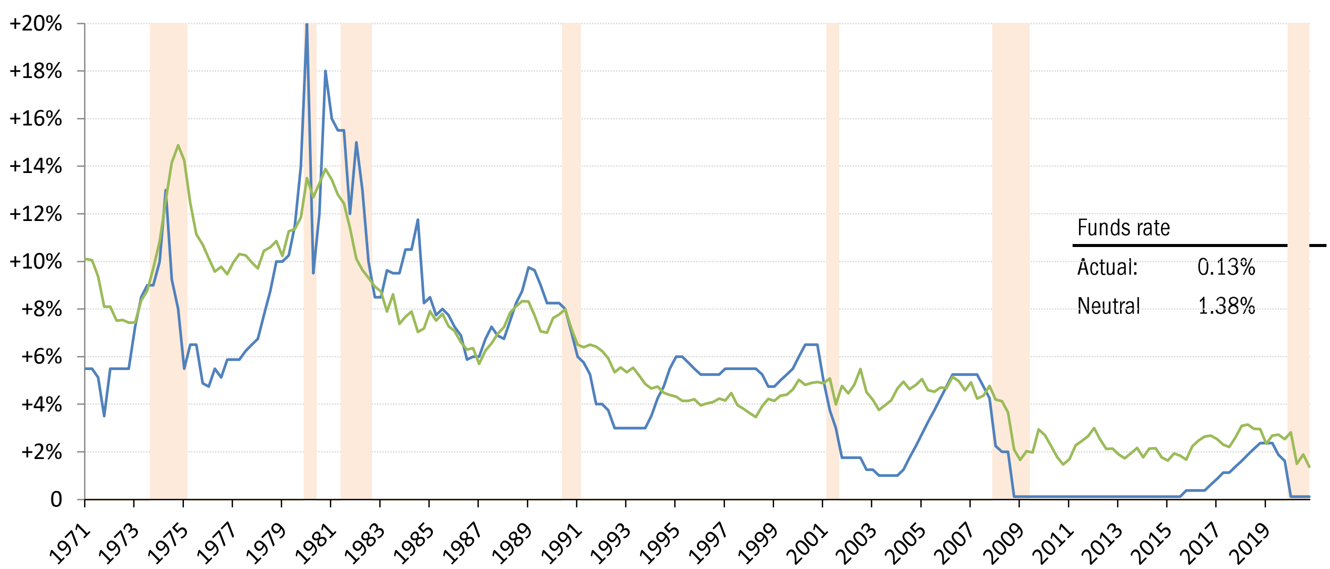
AS OF DEC 2020 FOMC



Source: Federal Reserve, TrendMacro calculations

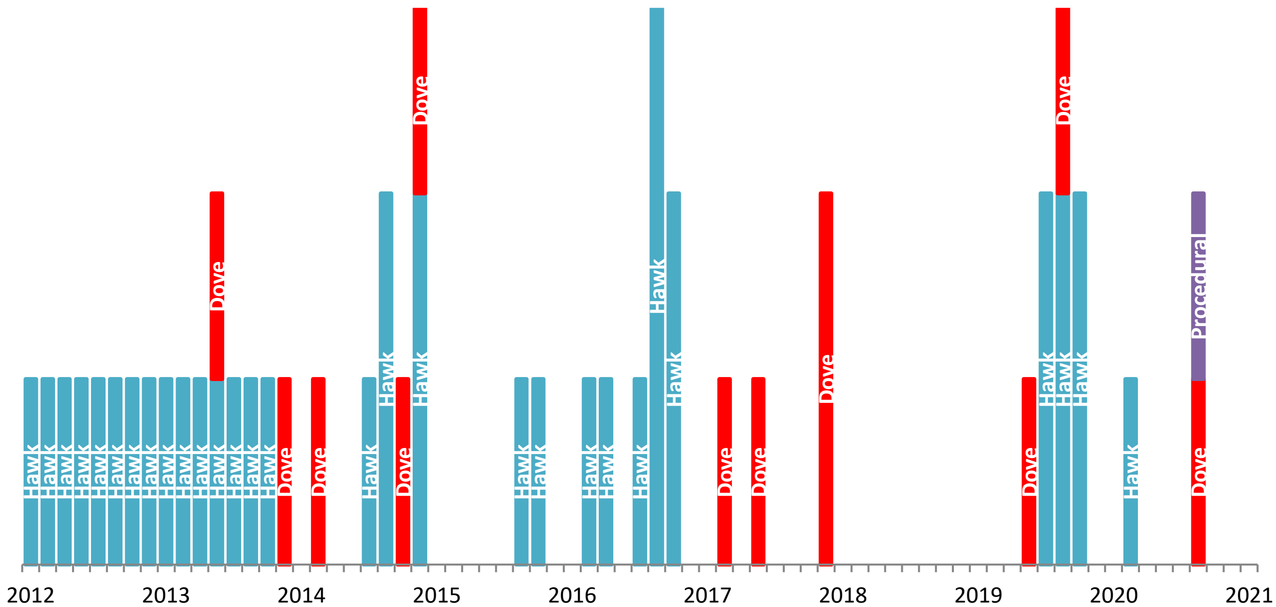
Estimating the "natural rate of interest"

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



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

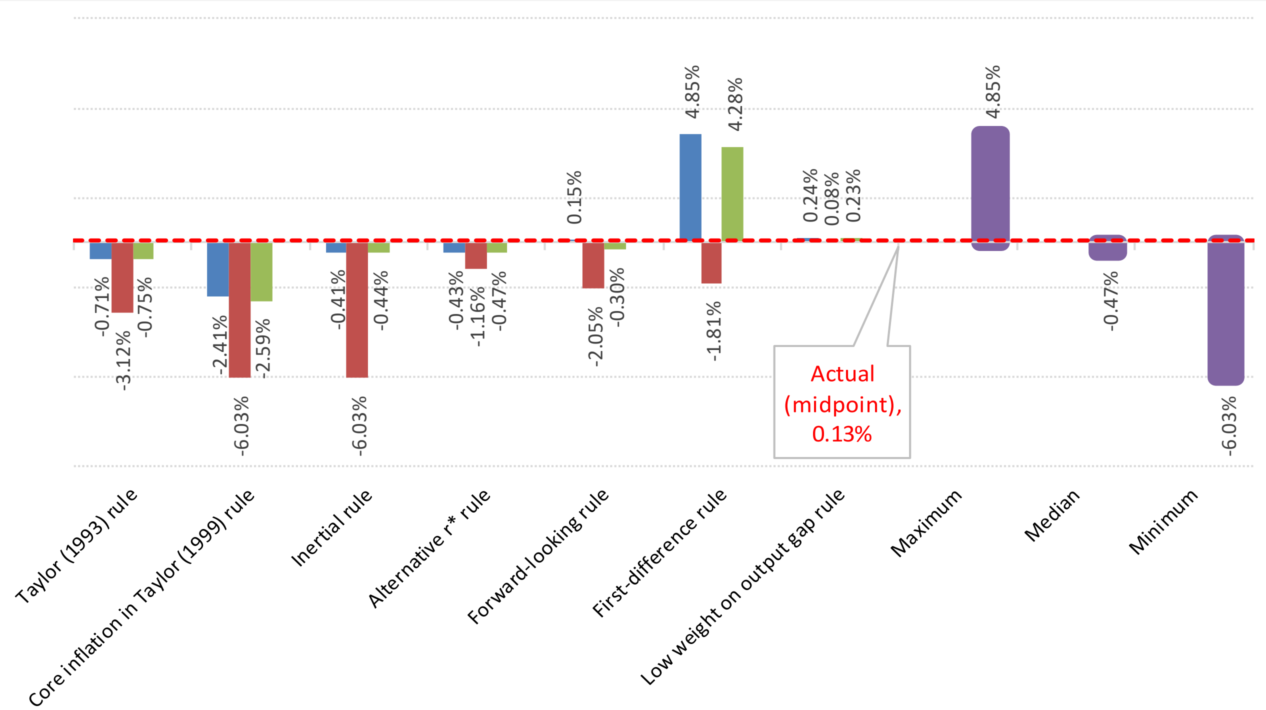
Other voices: number and direction of FOMC decision dissents



Source: FOMC, TrendMacro calculations

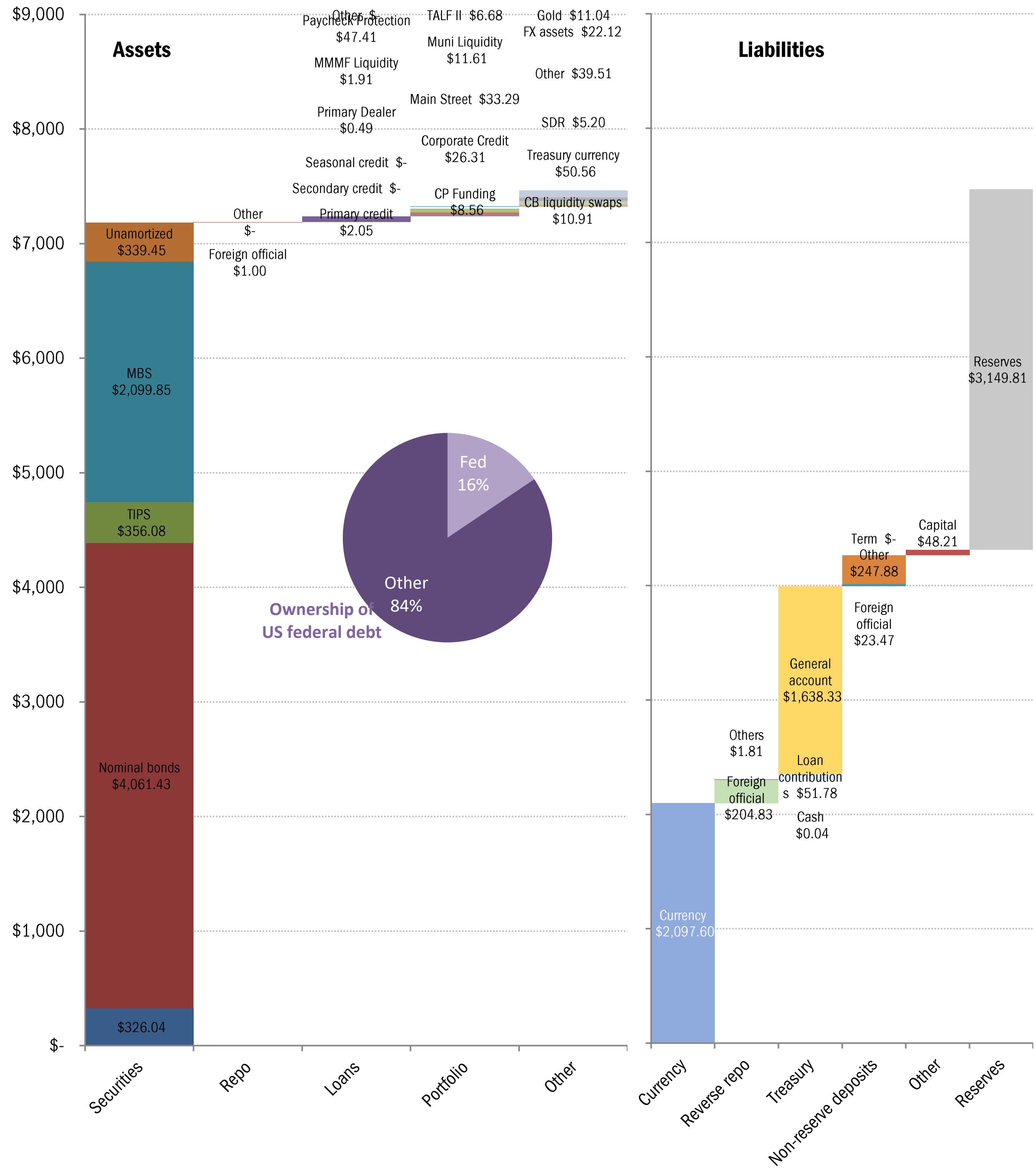
So many policy rules, so little time…

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



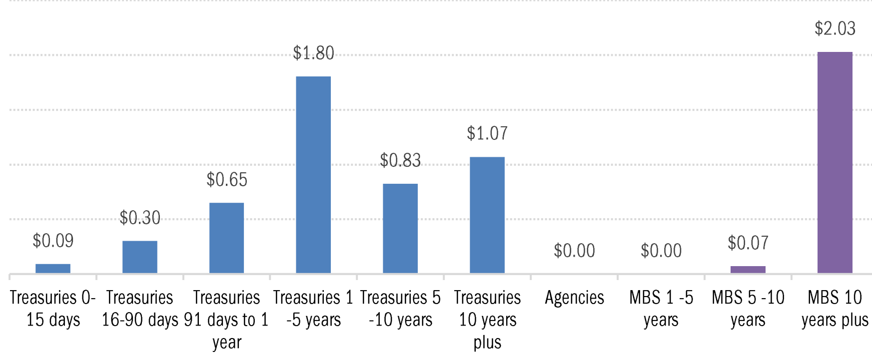
Source: Cleveland Fed, TrendMacro calculations

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

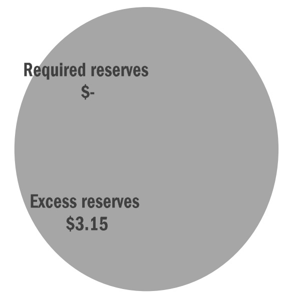


Source: Federal Reserve H.4, US Treasury, TrendMacro calculations

Sector and maturity breakdown of Fed government securities, USD trillions



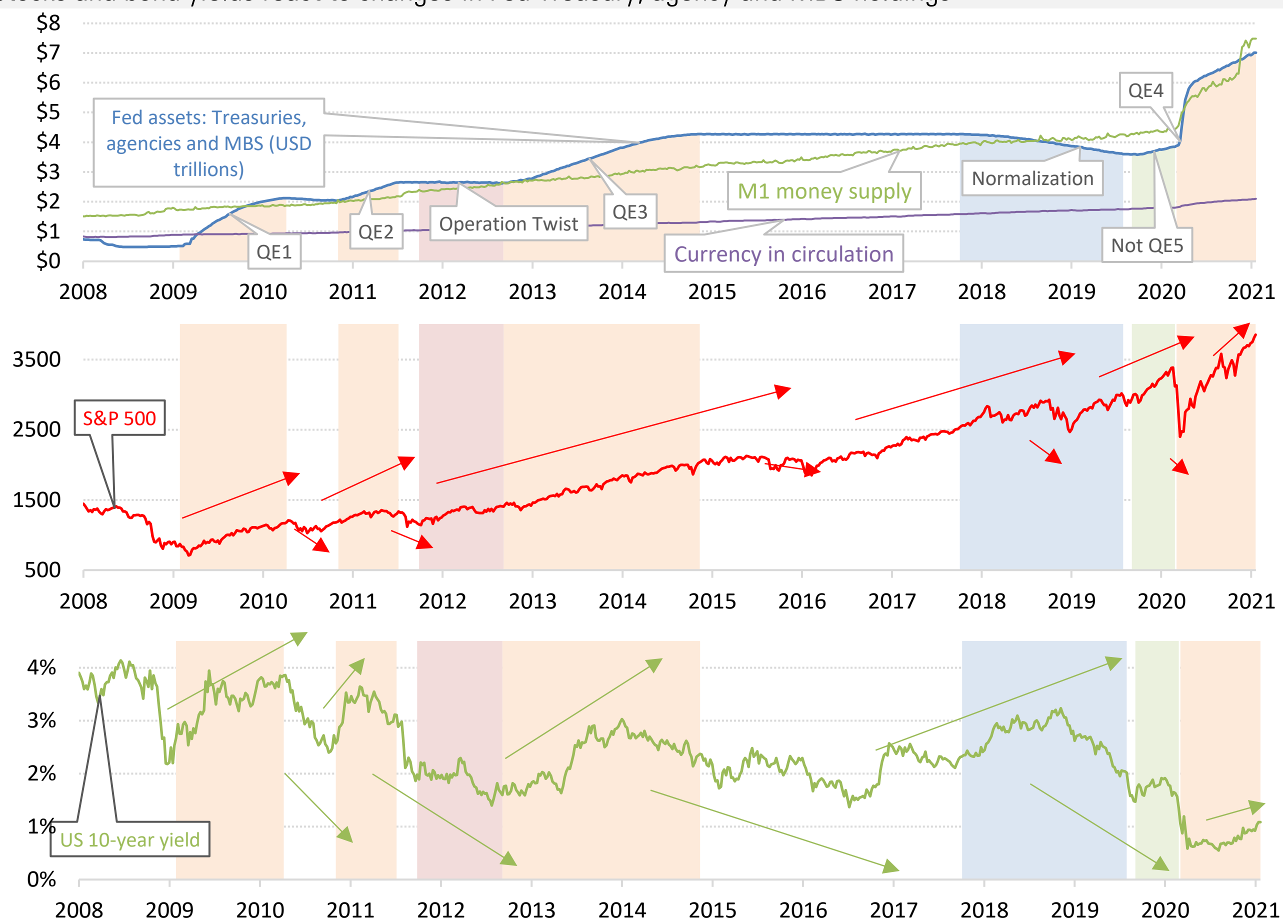
Banking reserves, USD trillions



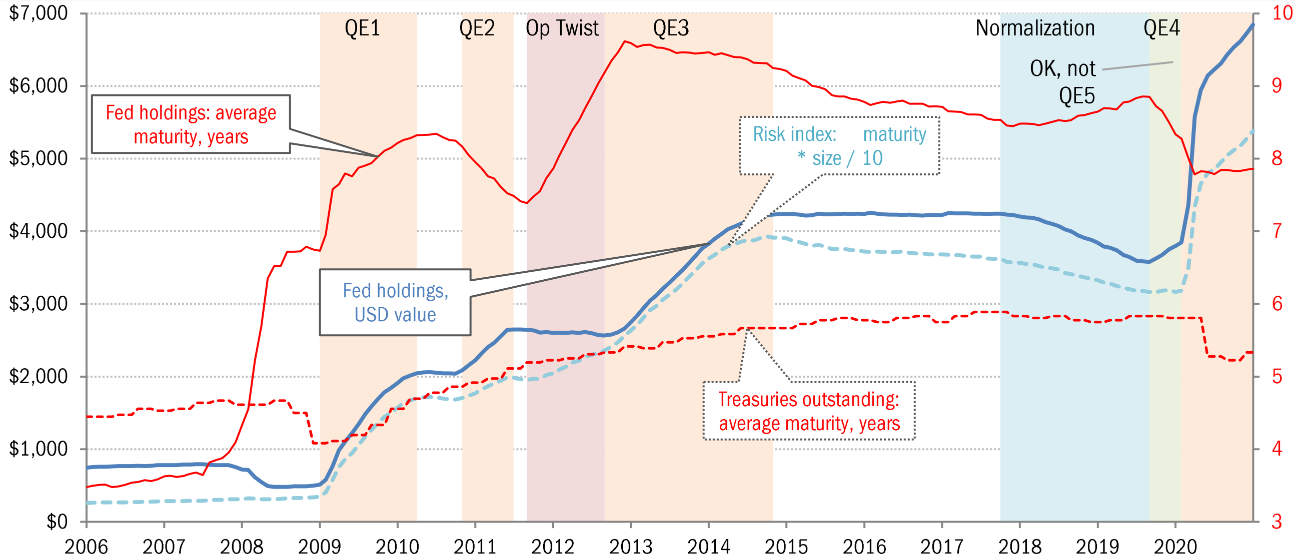
Source: Federal Reserve, Bloomberg, TrendMacro calculations

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

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

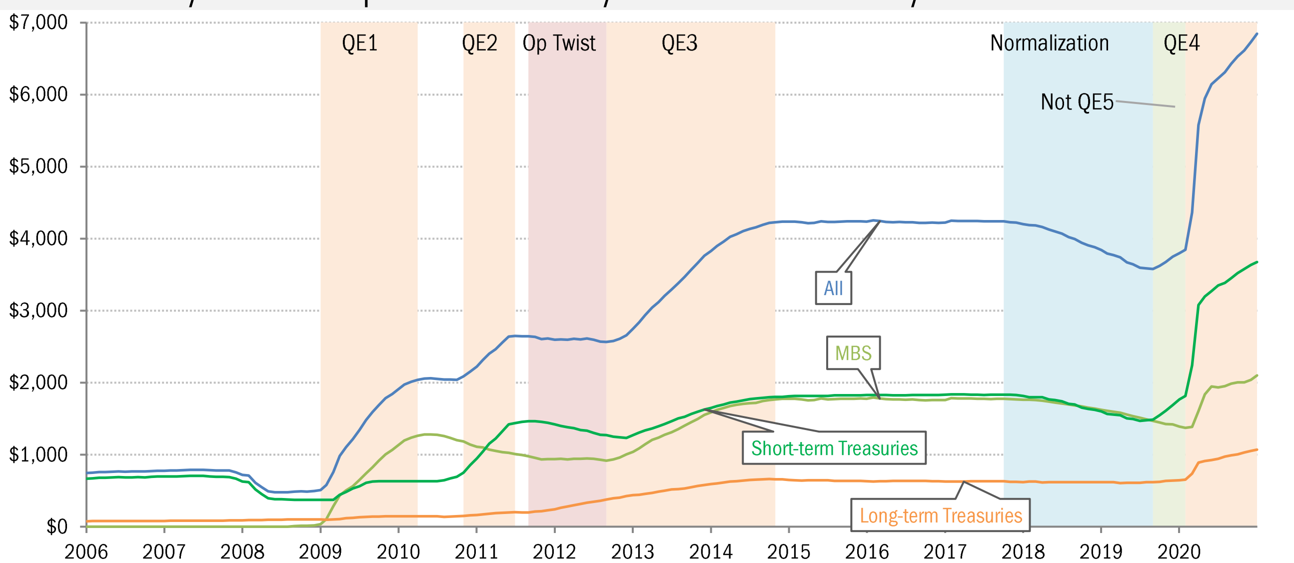


Fed Treasury and MBS portfolio: size, maturity and risk index



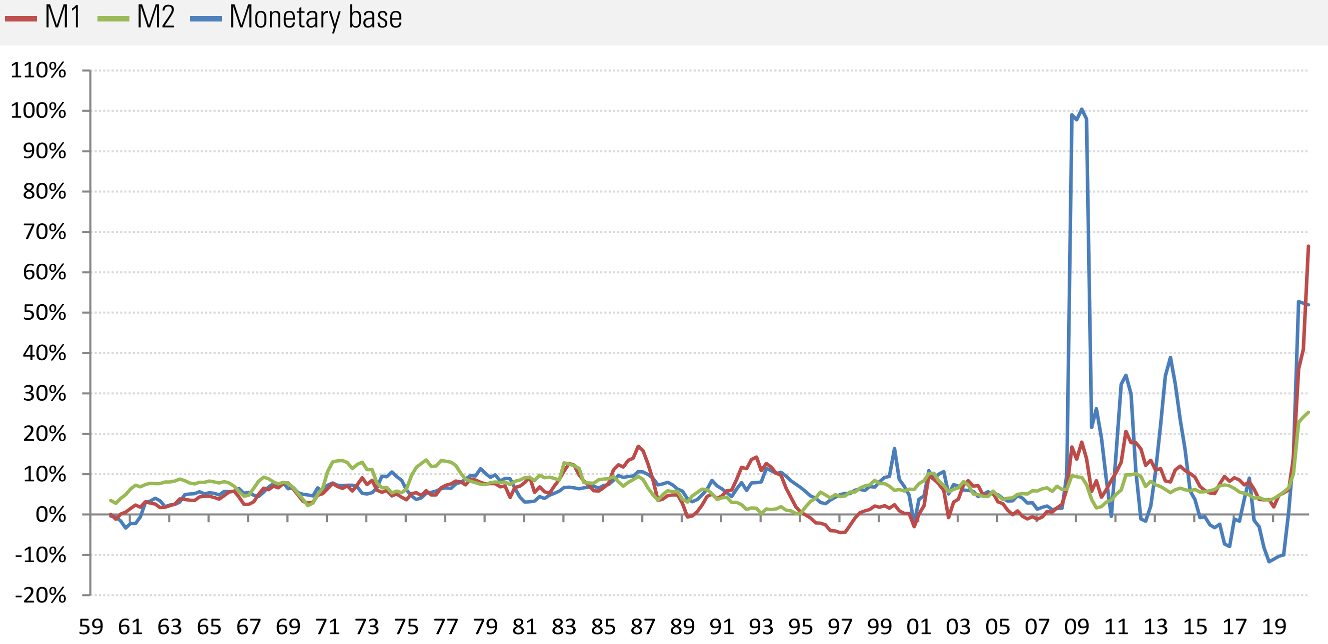
Source: Federal Reserve, Bloomberg, TrendMacro calculations

Fed Treasury and MBS portfolio: size by sector and maturity



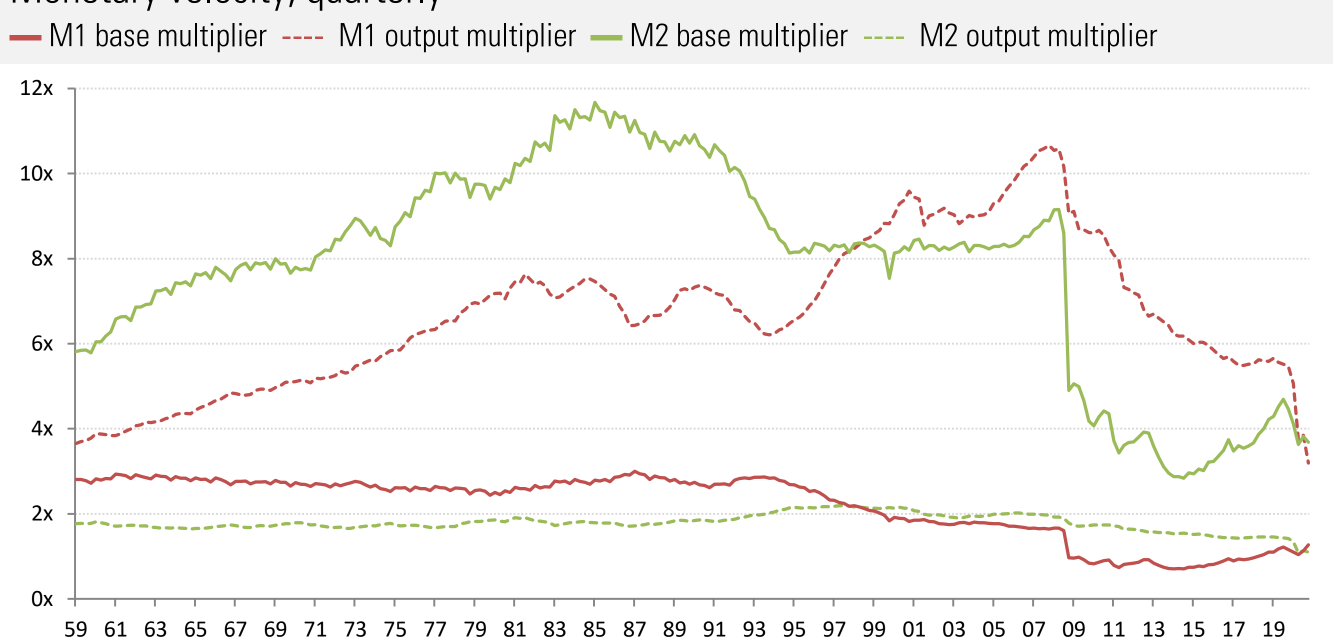
Source: Federal Reserve, Bloomberg, TrendMacro calculations

Money supply growth, YOY quarterly



Source: Federal Reserve H.6, TrendMacro calculations

Monetary velocity, quarterly



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