
Data Insights: Federal Reserve

Wednesday, September 22, 2021

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

~~July 28~~[September 22](#), 2021

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.

With progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the pandemic have ~~shown improvement~~[improved in recent months](#), but ~~have not fully recovered~~[the rise in COVID-19 cases has slowed their recovery](#). Inflation ~~has risen~~[is elevated](#), largely reflecting transitory factors. 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 continues to depend on the course of the virus. Progress on vaccinations will likely continue to reduce the effects of the public health crisis on the economy, but risks to the economic outlook remain.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation having run 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. Last December, the Committee indicated that it would 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 its maximum employment and price stability goals. Since then, the economy has made progress toward these goals, ~~and, if progress continues broadly as expected, the Committee will continue to assess progress~~[judges that a moderation in coming meetings the pace of asset purchases may soon be warranted](#). 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.

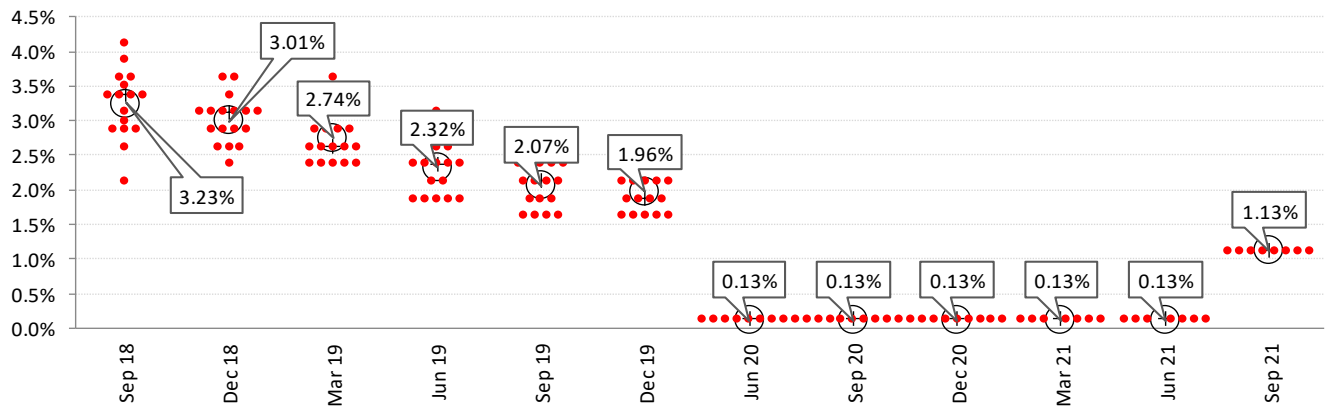
Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Thomas I. Barkin; Raphael W. Bostic; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; Mary C. Daly; Charles L. Evans; Randal K. Quarles; and Christopher J. Waller.

Source: FOMC, TrendMacro analysis

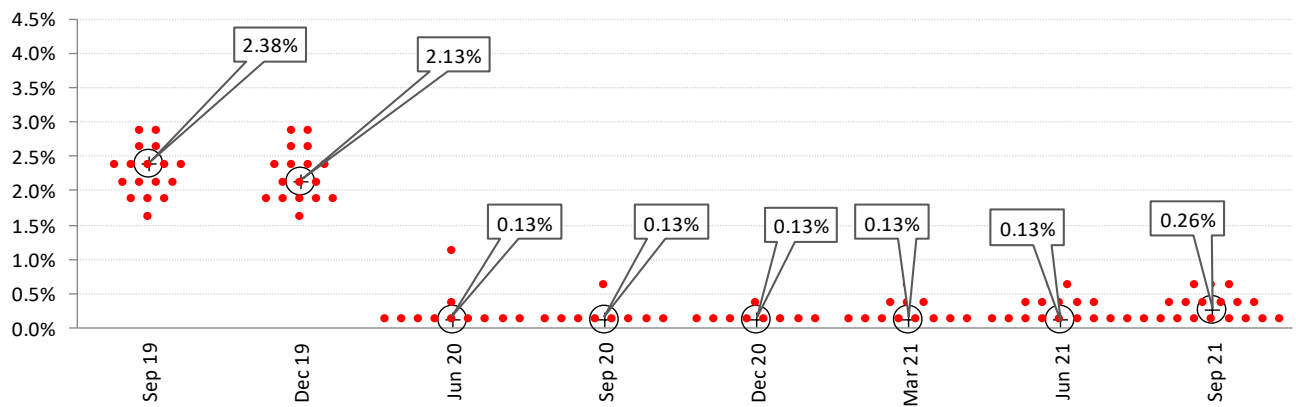
Tracking the "dotplots" year by year

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

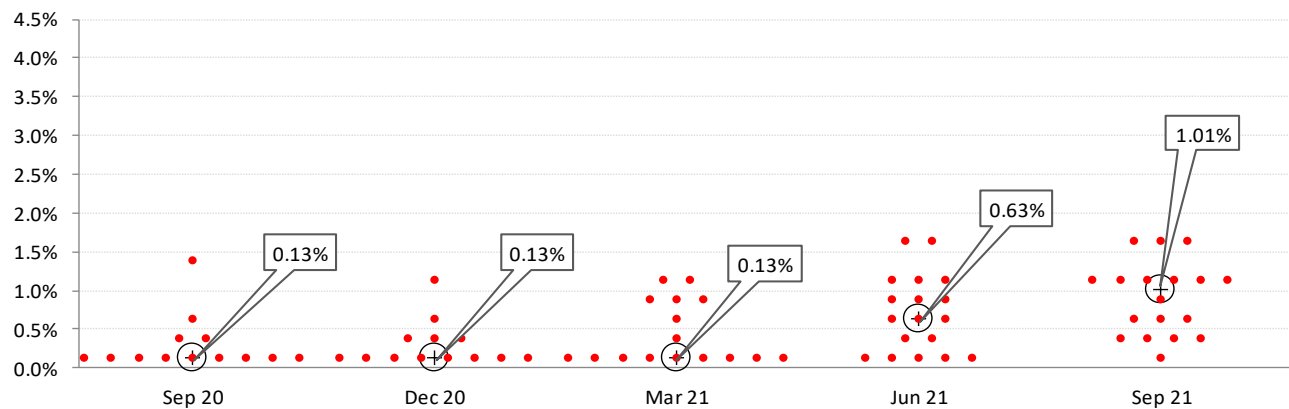
For year-end 2021



For year-end 2022



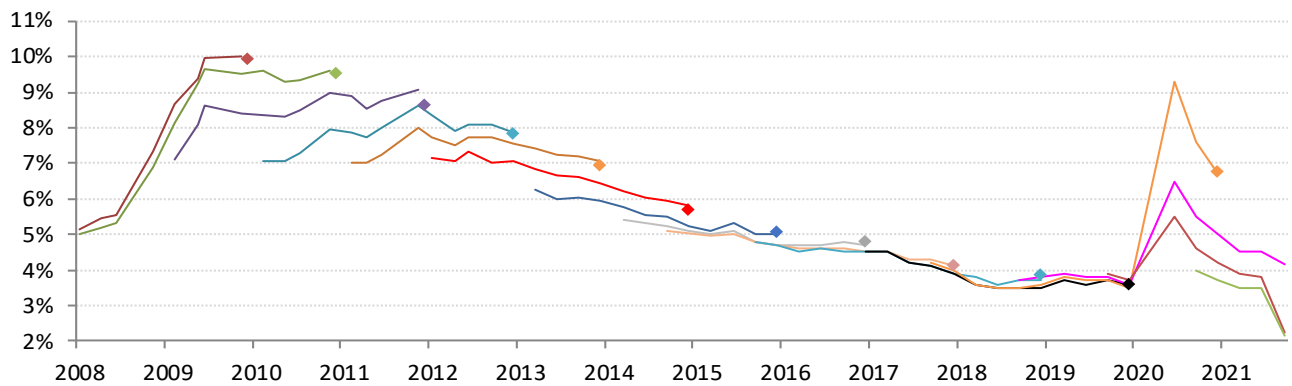
For year-end 2023



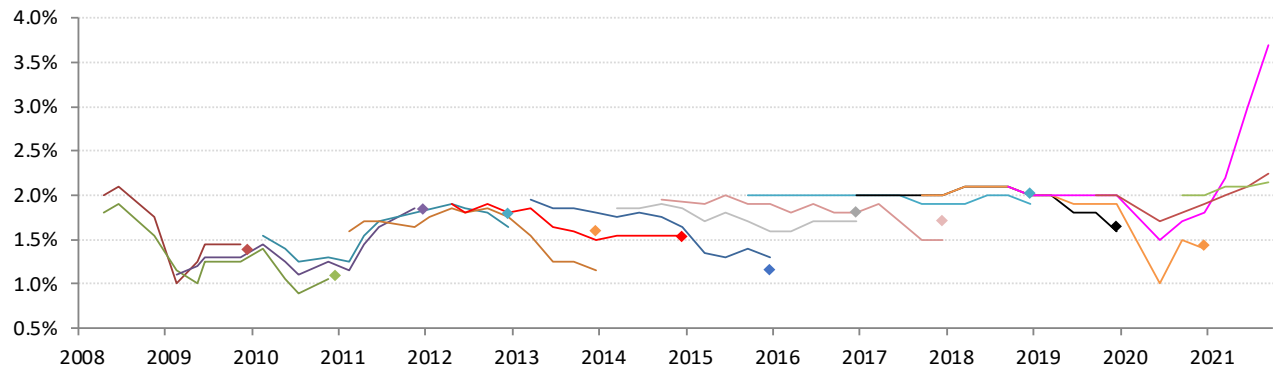
Forecast v actual: [economic projections](#) FRB and presidents

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

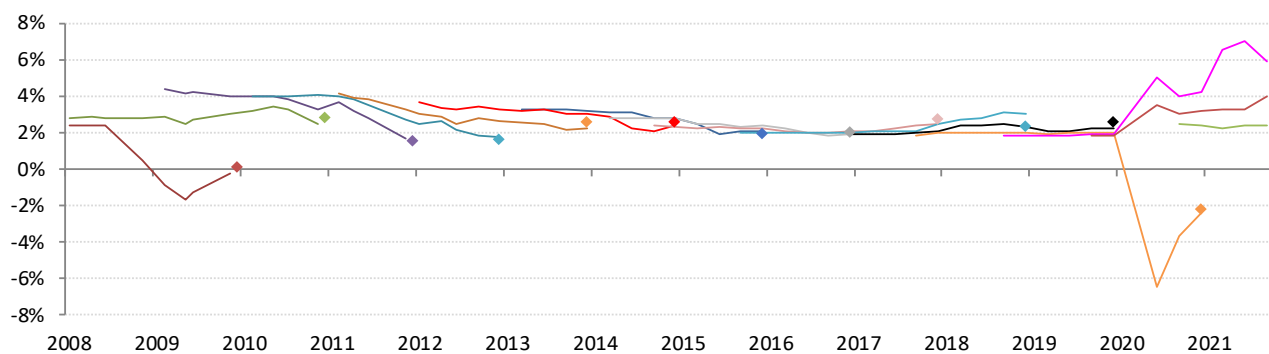
Unemployment



Core PCE inflation



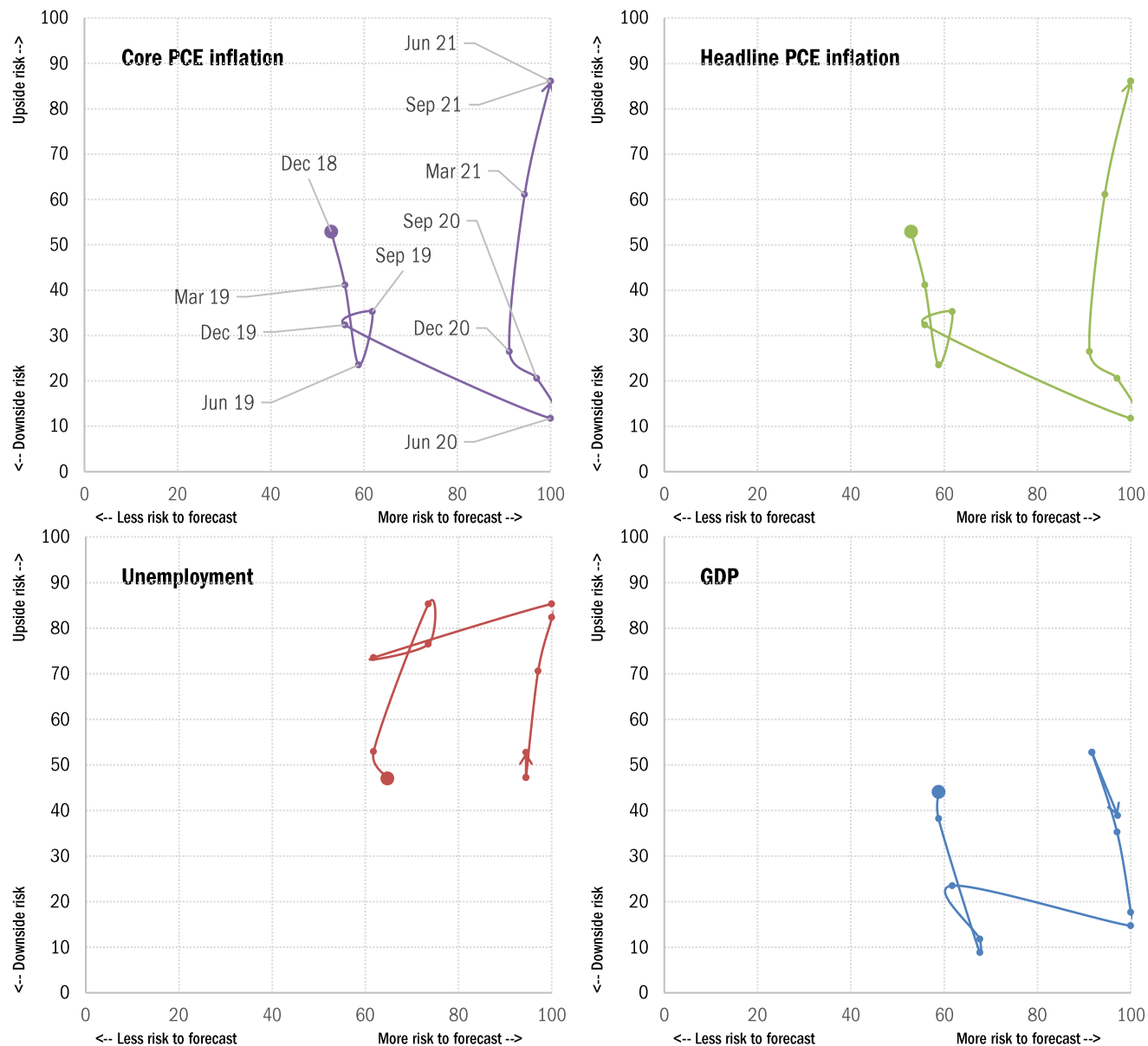
Real GDP



Source: Federal Reserve, BEA, BLS, TrendMacro calculations

The evolution of uncertainty

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

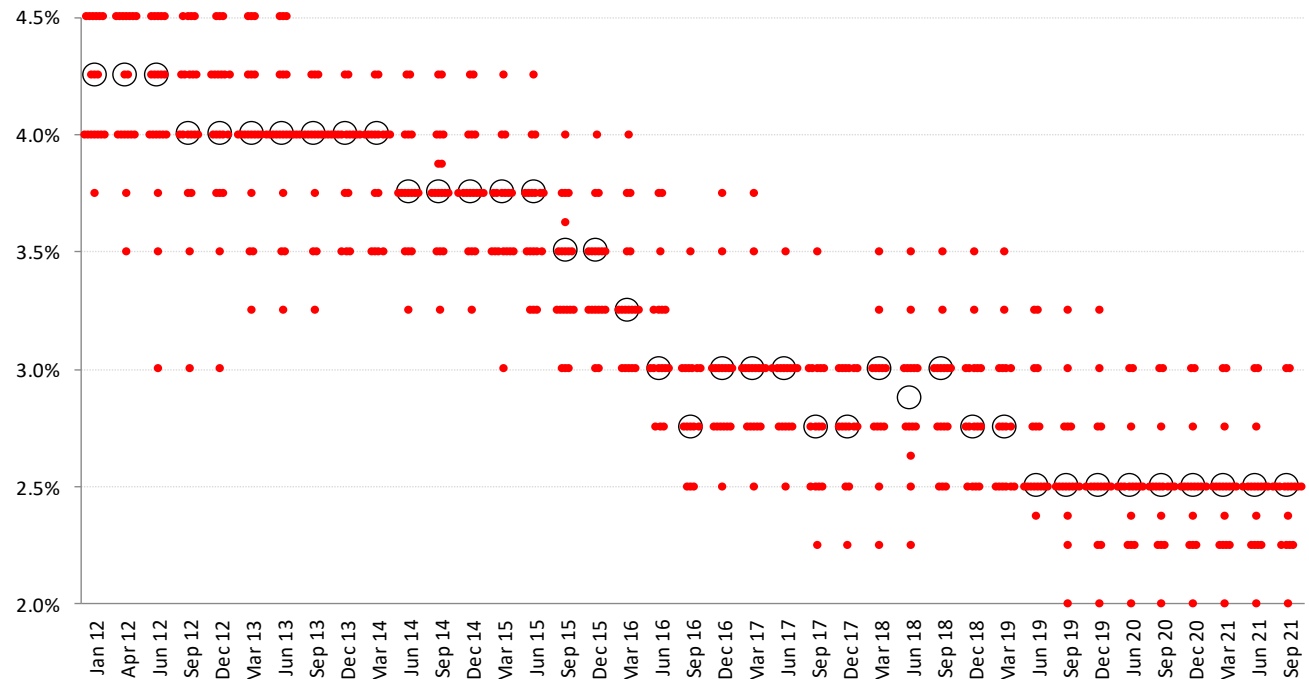


Source: Federal Reserve Board, TrendMacro calculations

"R-star" – the ultimate

FOMC participants' estimate of "longer run" target funds rate

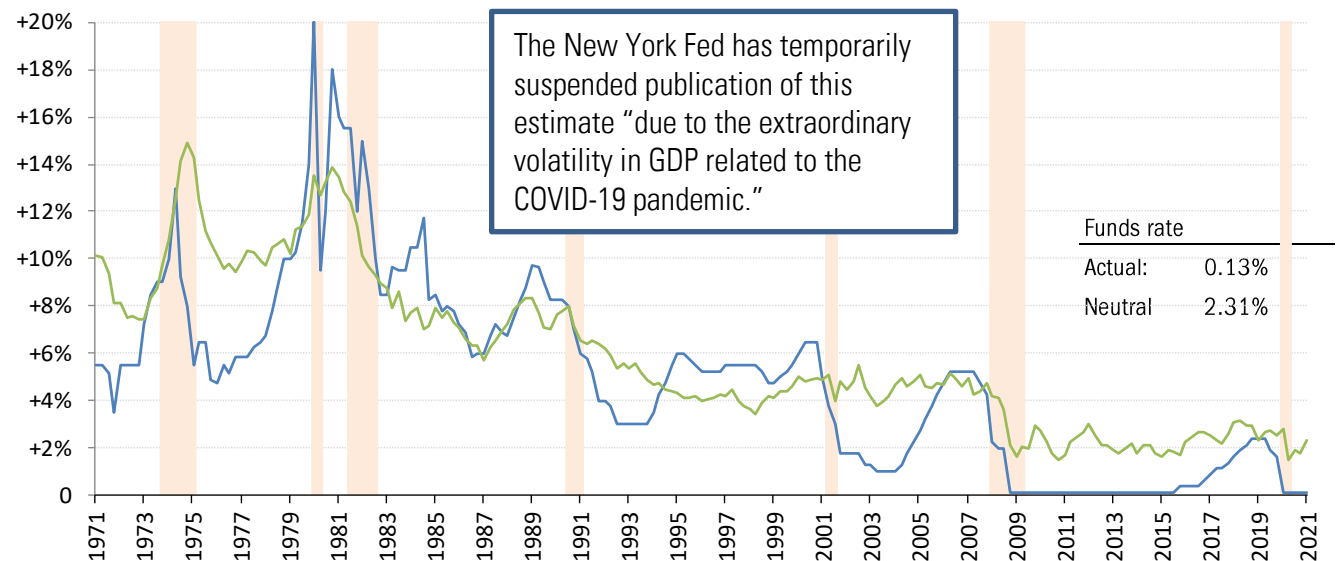
● Individual participant ○ Median



Source: Federal Reserve, TrendMacro calculations

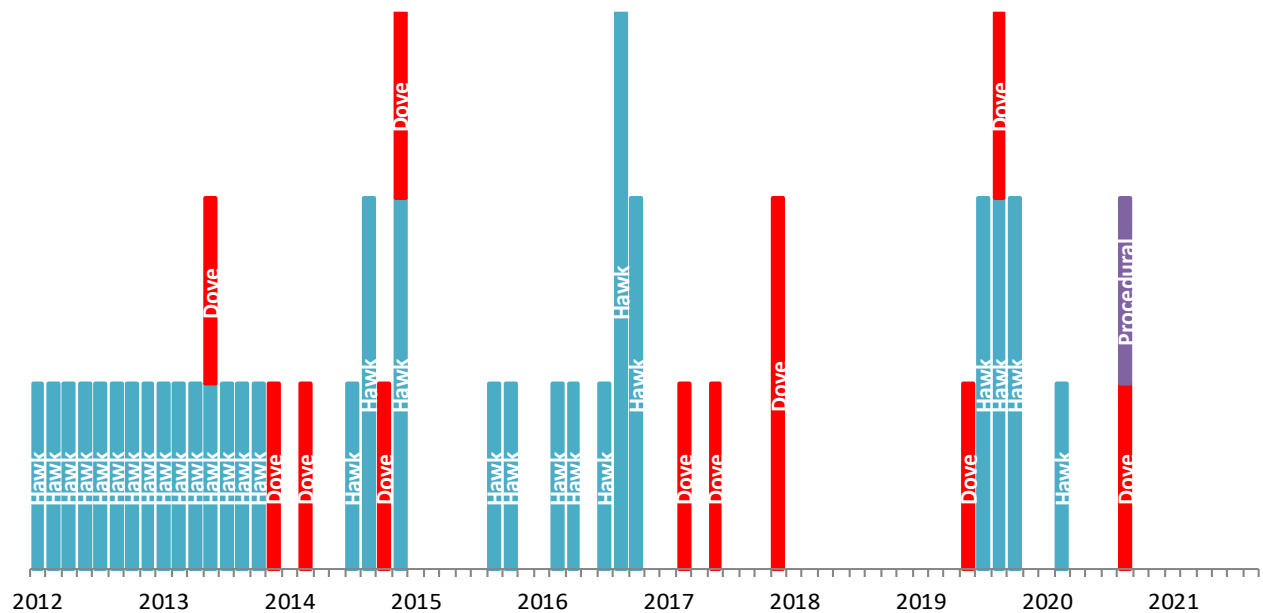
Estimating the "natural rate of interest"

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



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

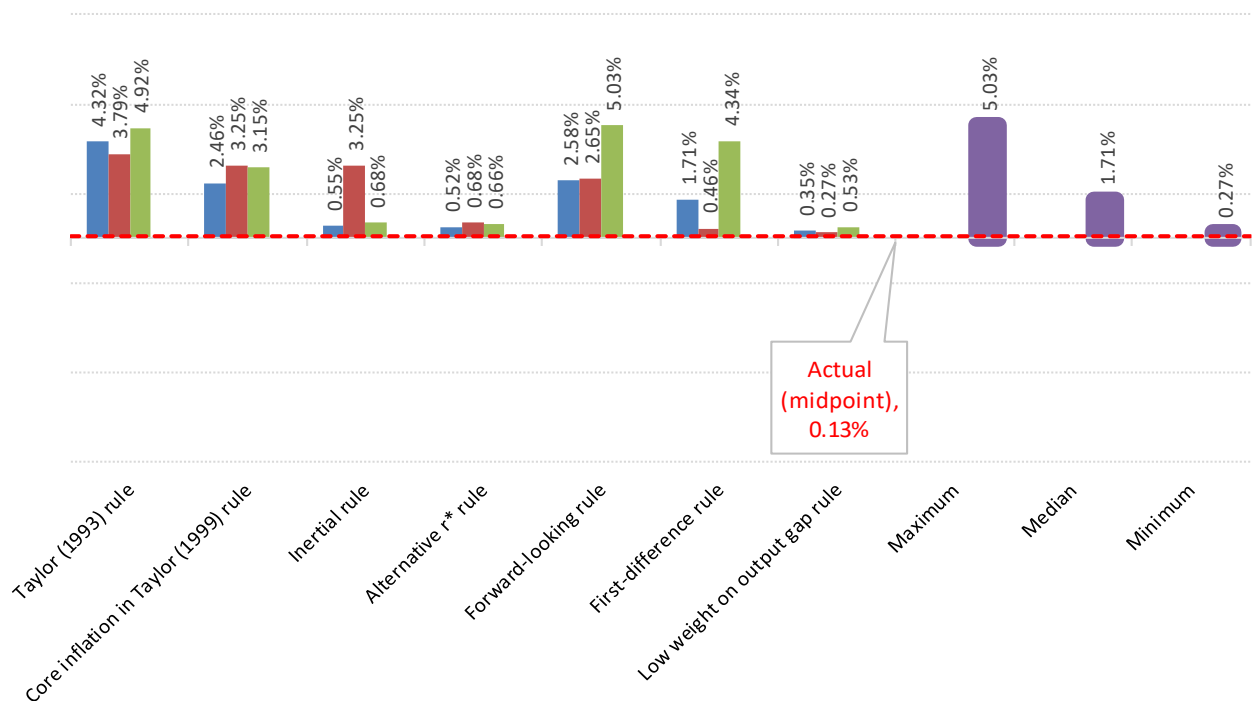
Other voices: number and direction of FOMC decision dissents



Source: FOMC, TrendMacro calculations

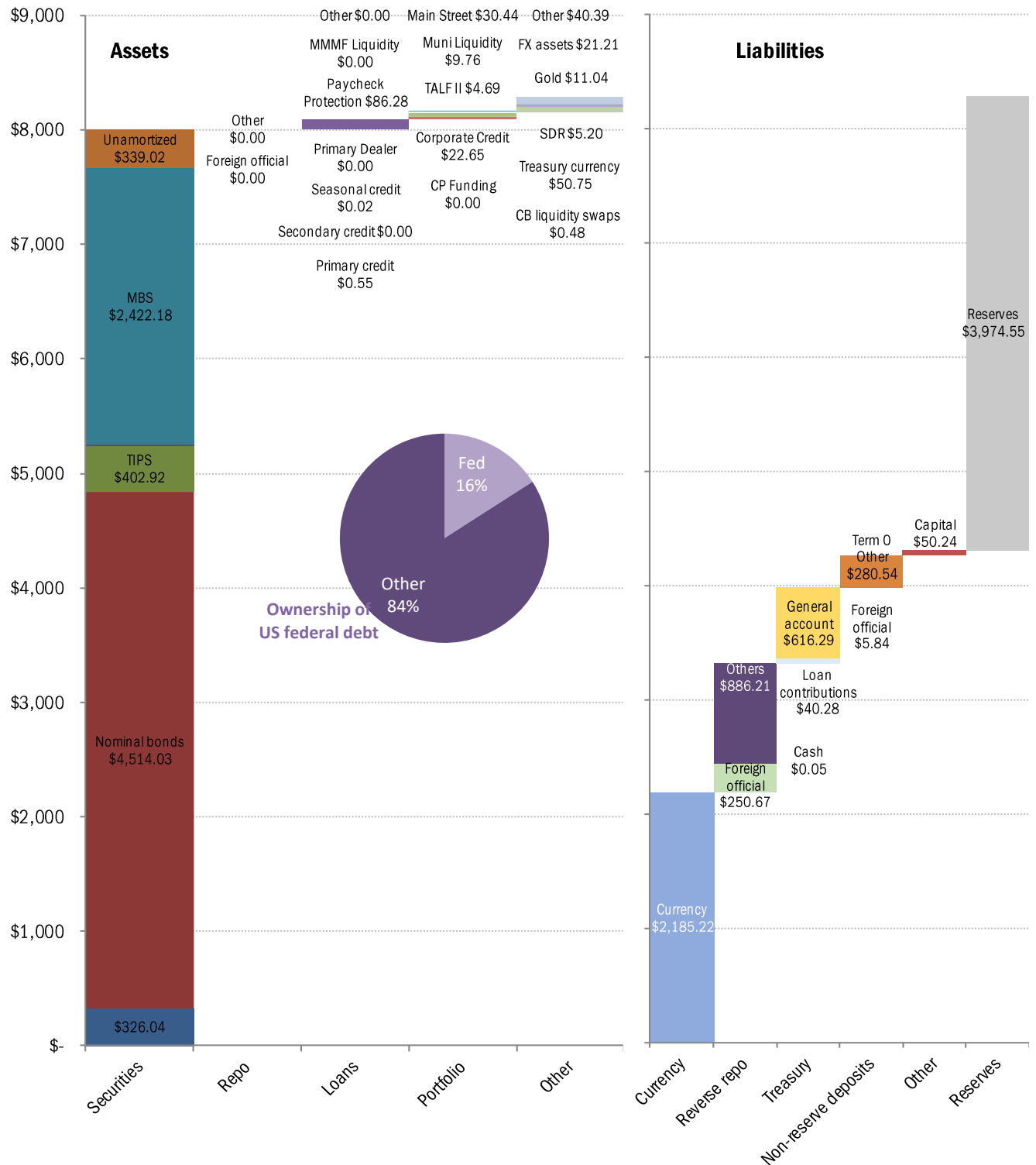
So many policy rules, so little time...

As of September 8, 2021 Based on inputs from: FOMC SEP CBO Cleveland Fed



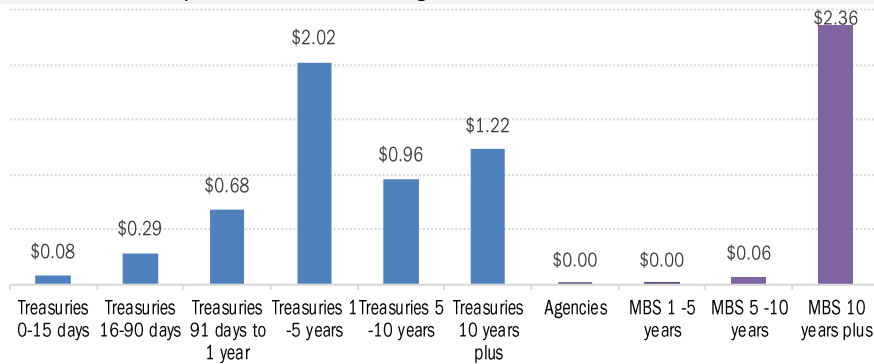
Source: [Cleveland Fed](#), TrendMacro calculations

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

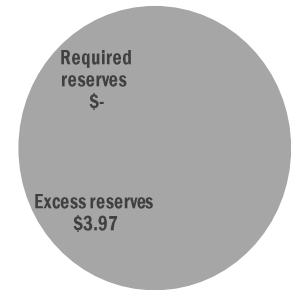


Source: Federal Reserve H.4, US Treasury, TrendMacro calculations

Sector and maturity breakdown of Fed government securities, USD trillions



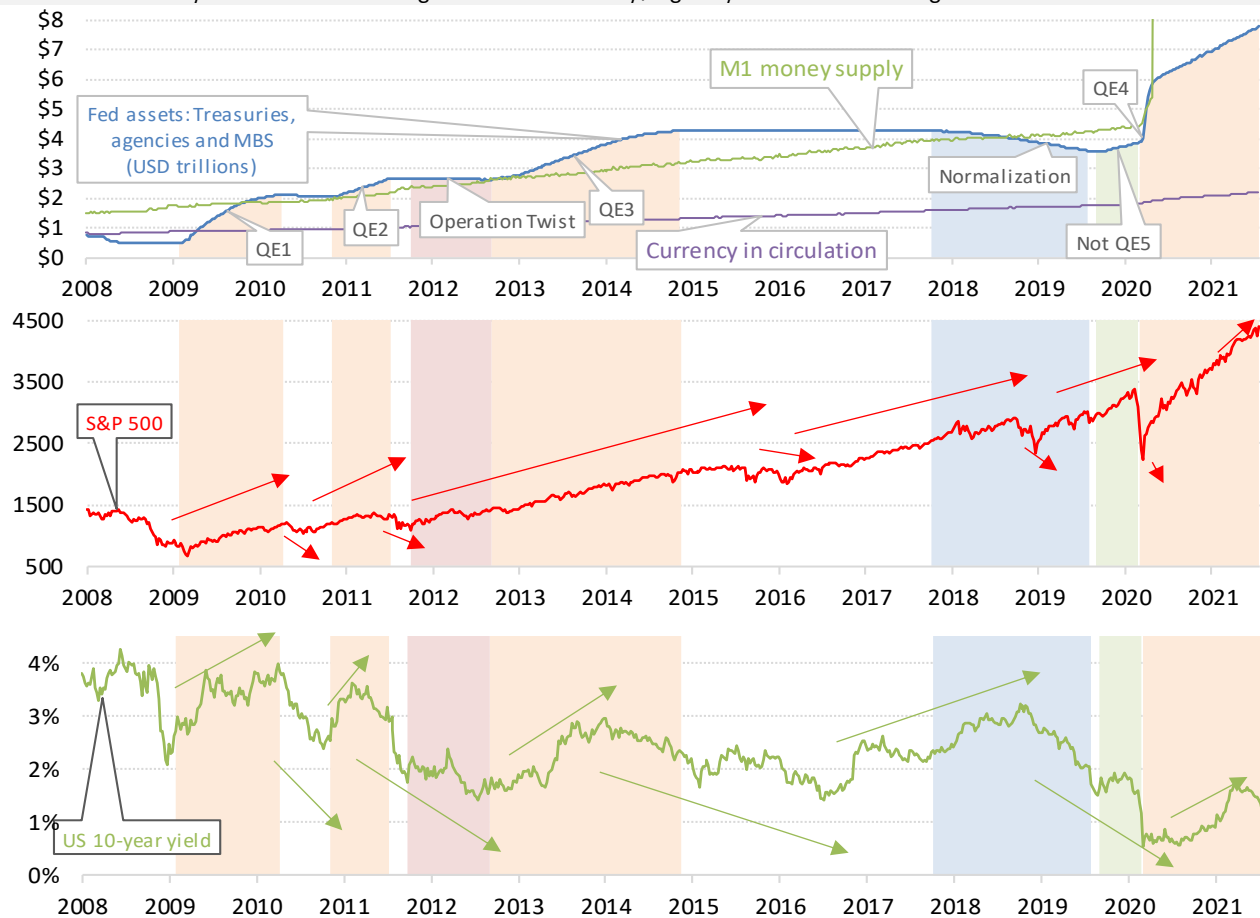
Banking reserves, USD trillions



Source: Federal Reserve, Bloomberg, TrendMacro calculations

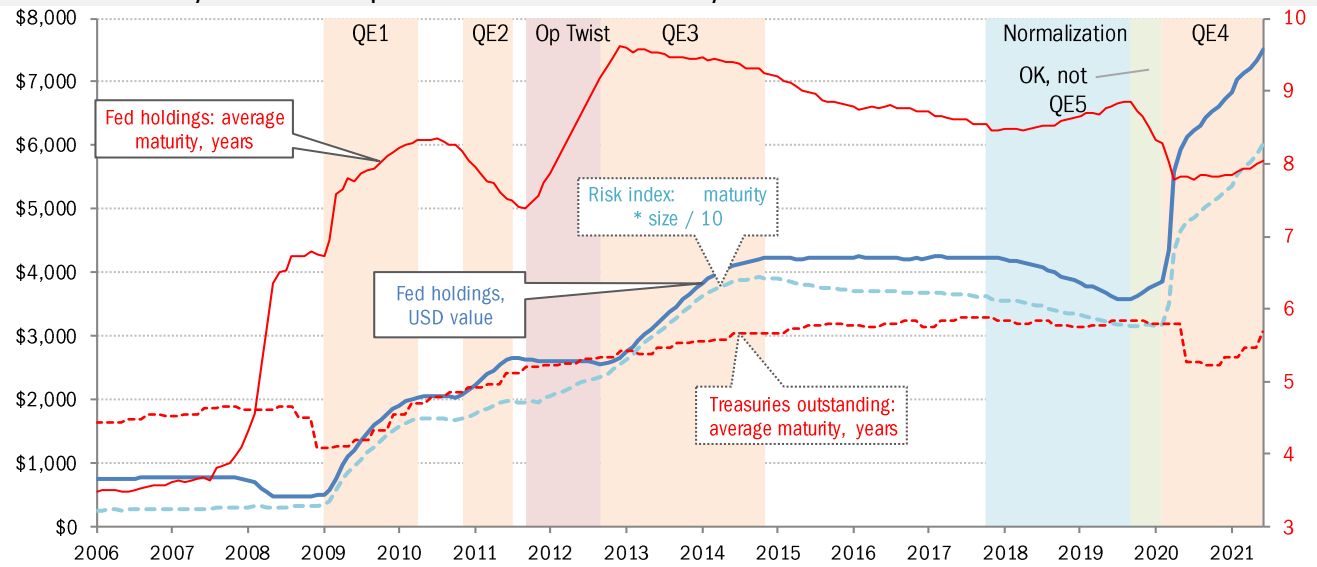
The Fed's asset purchases, and their effects on markets

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



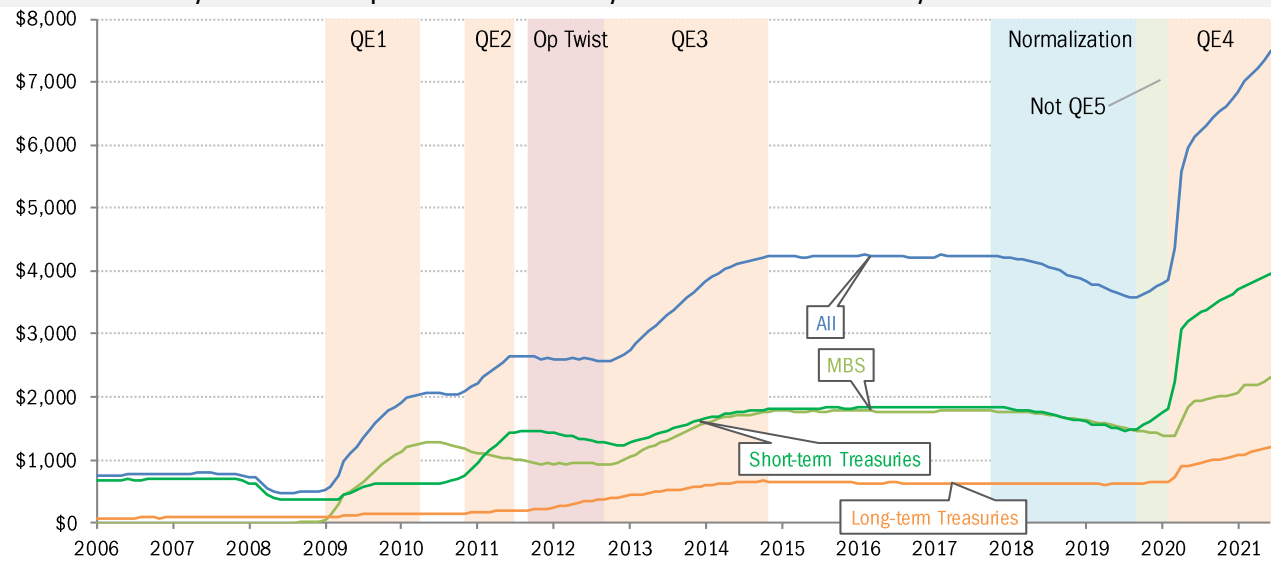
Source: Federal Reserve, Bloomberg, TrendMacro calculations

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



Source: Federal Reserve, Bloomberg, TrendMacro calculations

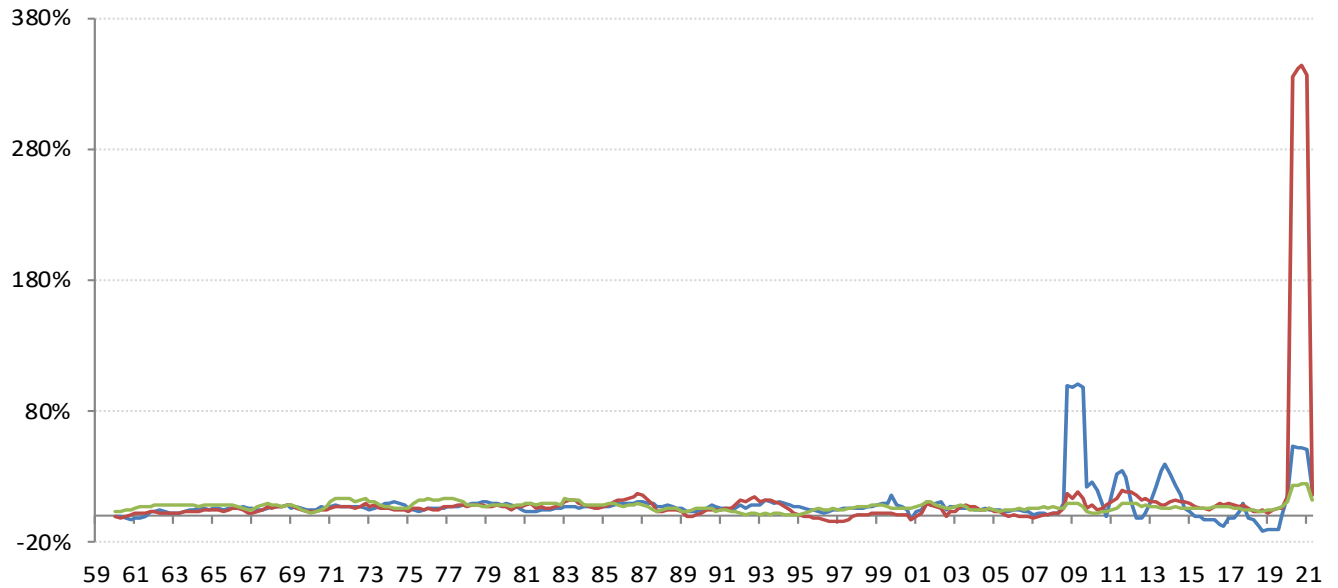
Fed Treasury and MBS portfolio: size by sector and maturity



Source: Federal Reserve, Bloomberg, TrendMacro calculations

Money supply growth, YOY quarterly

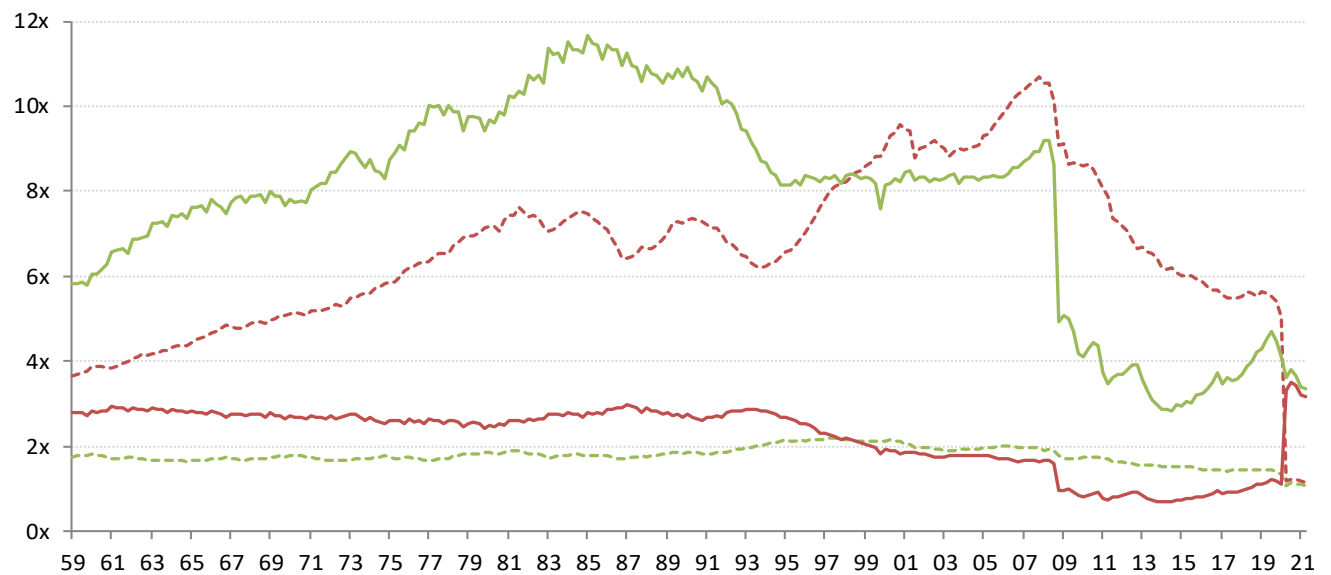
— M1 — M2 — Monetary base



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