

Data Insights: Federal Reserve

Wednesday, December 15, 2021

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

~~November 03~~ [December 15](#), 2021

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

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 improved in recent months, but ~~the summer's rise in continue to be affected by COVID-19 cases. Job gains have been solid in recent months, and the unemployment rate~~ has ~~slowed their recovery. Inflation is elevated, largely reflecting factors that are expected to be transitory, declined substantially.~~ Supply and demand imbalances related to the pandemic and the reopening of the economy have ~~contributed~~ [continued](#) to ~~sizable price increases in some sectors~~ [contribute to elevated levels of 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 continues to depend on the course of the virus. Progress on vaccinations and an easing of supply constraints are expected to support continued gains in economic activity and employment as well as a reduction in inflation. Risks to the economic outlook remain, [including from new variants of the virus](#).

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~~ [In support of these goals](#), 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, With inflation having exceeded 2 percent for some time, the Committee~~ 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 light of [inflation developments and the substantial](#) ~~further progress improvement in the economy has made toward the Committee's goals since last December~~ [labor market](#), the Committee decided to ~~begin reducing~~ [reduce](#) the monthly pace of its net asset purchases by ~~\$400~~ [\\$510](#) billion for Treasury securities and ~~\$510~~ [\\$300](#) billion for agency mortgage-backed securities. Beginning ~~later this month in January~~, the Committee will increase its holdings of Treasury securities by at least ~~\$700~~ [\\$350](#) billion per month and of agency mortgage-backed securities by at least ~~\$35 billion per month. Beginning in December, the Committee will increase its holdings of Treasury securities by at least \$60 billion per month and of agency mortgage-backed securities by at least \$300~~ [\\$300](#) billion per month. The Committee judges that similar reductions in the pace of net asset purchases will likely be appropriate each month, but it is prepared to adjust the pace of purchases if warranted by changes in the economic outlook. The Federal Reserve's ongoing purchases and holdings of securities will continue to 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.

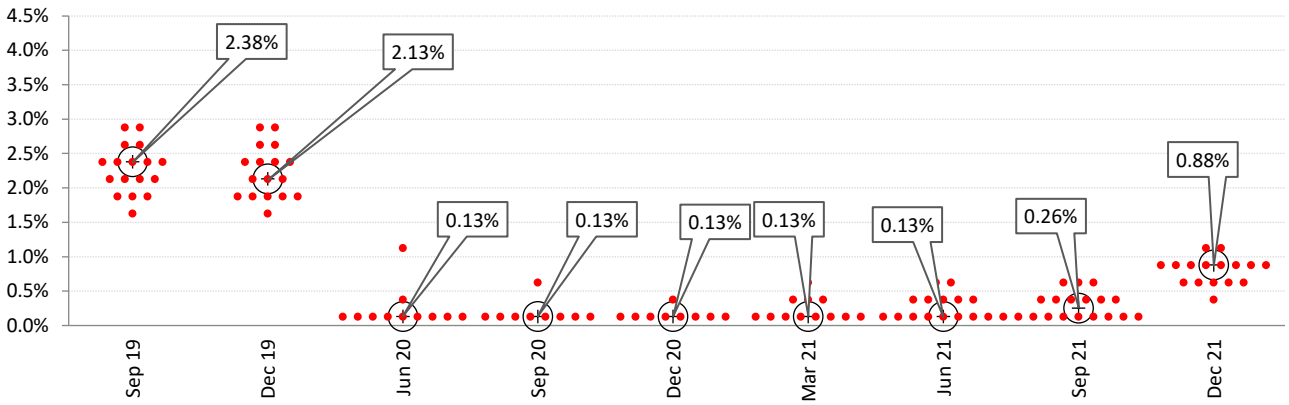
Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Thomas I. Barkin; Raphael W. Bostic; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; Mary C. Daly; Charles L. Evans; Randal K. Quarles; and Christopher J. Waller.

Source: FOMC, TrendMacro analysis

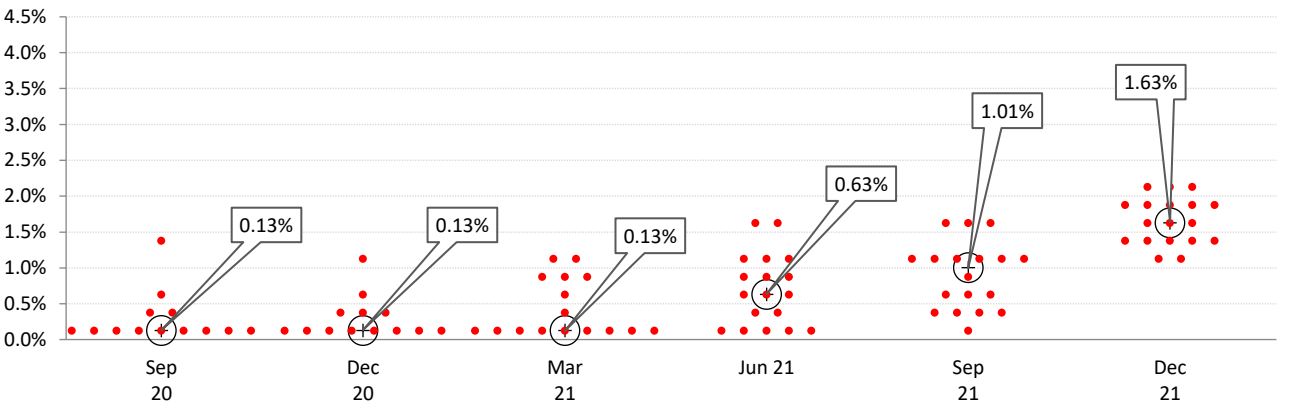
Tracking the "dotplots" year by year *As of December 2021 FOMC*

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

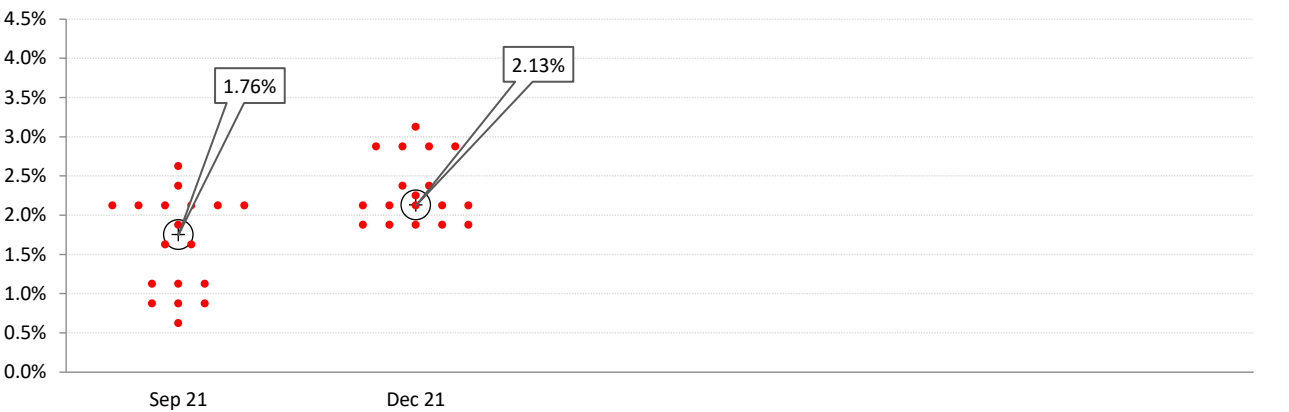
For year-end 2022



For year-end 2023



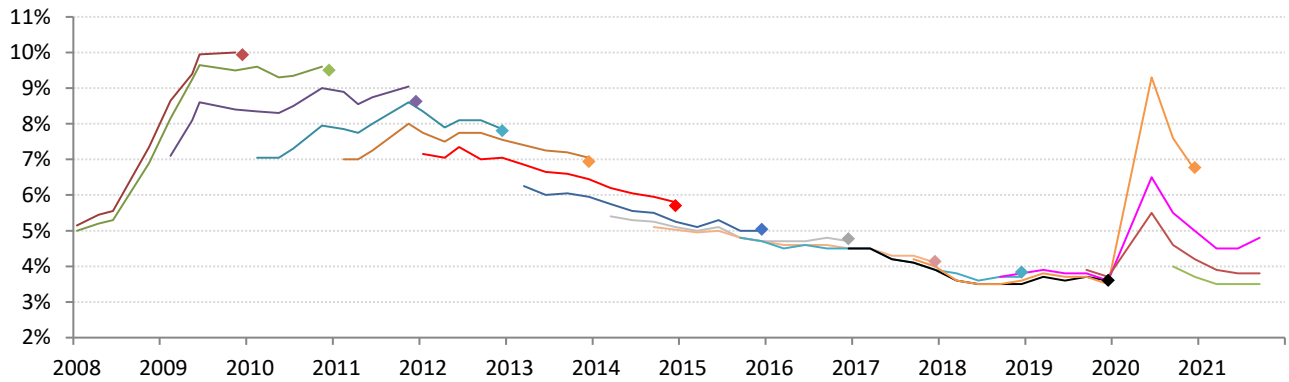
For year-end 2024



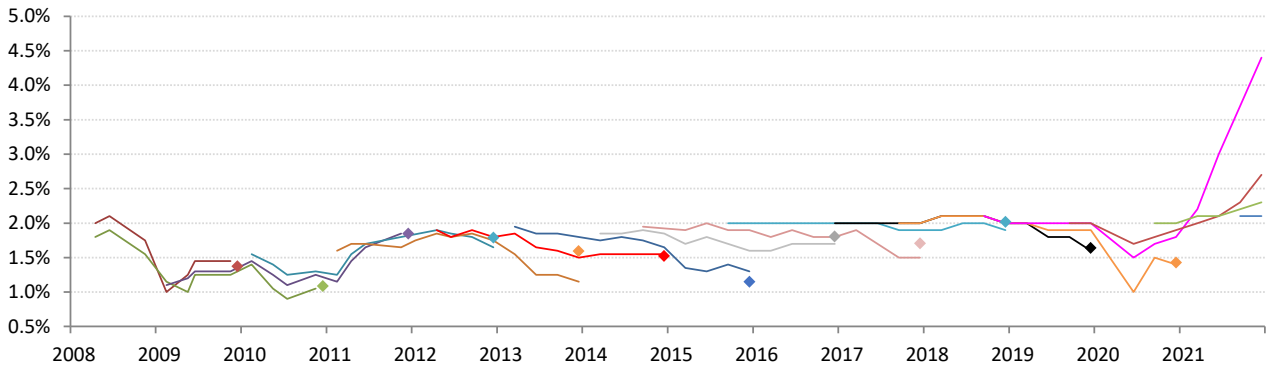
Forecast v actual: [economic projections](#) FRB and presidents *As of Dec 2021 FOMC*

— Forecast ◆ Actual 2009 10 11 12 13 14 15 16 17 18 19 20 21 22 23 2024

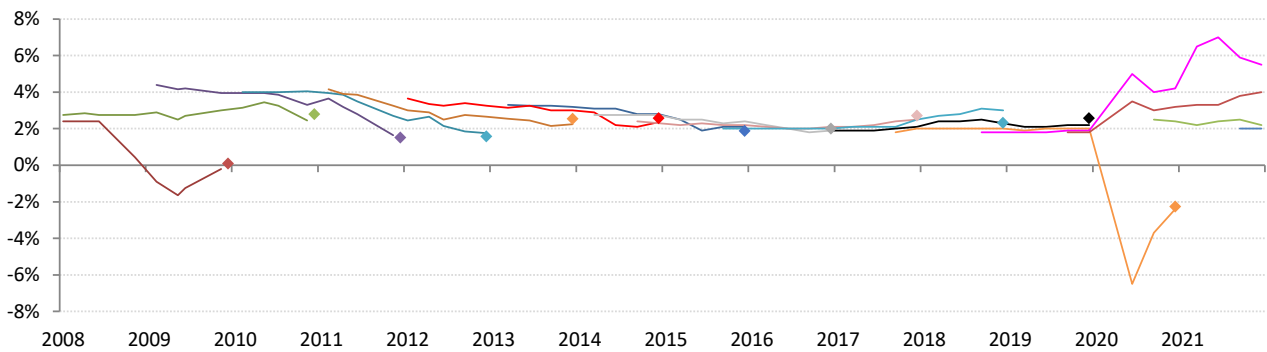
Unemployment



Core PCE inflation



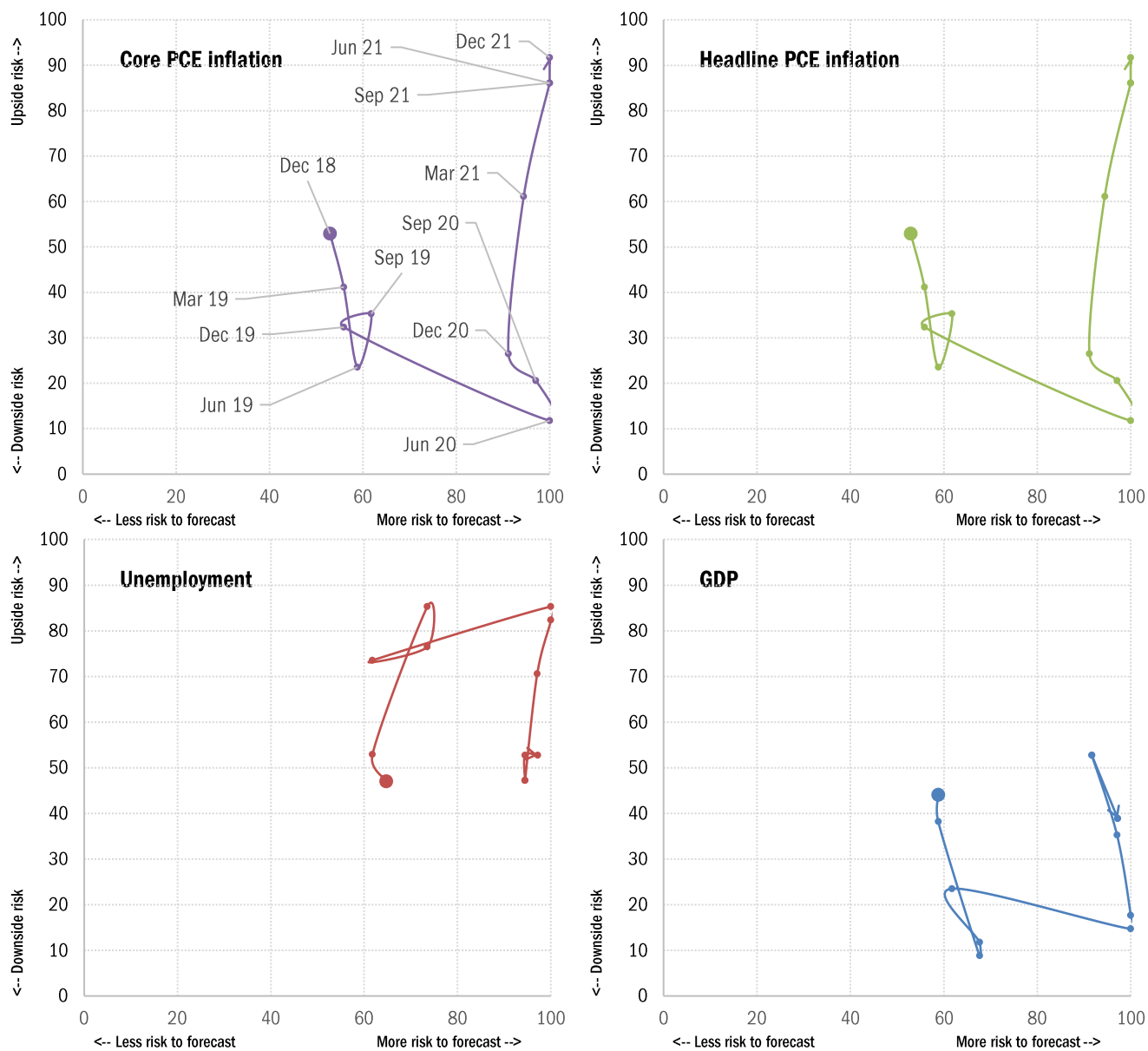
Real GDP



Source: Federal Reserve, BEA, BLS, TrendMacro calculations

The evolution of uncertainty *As of December 2021 FOMC*

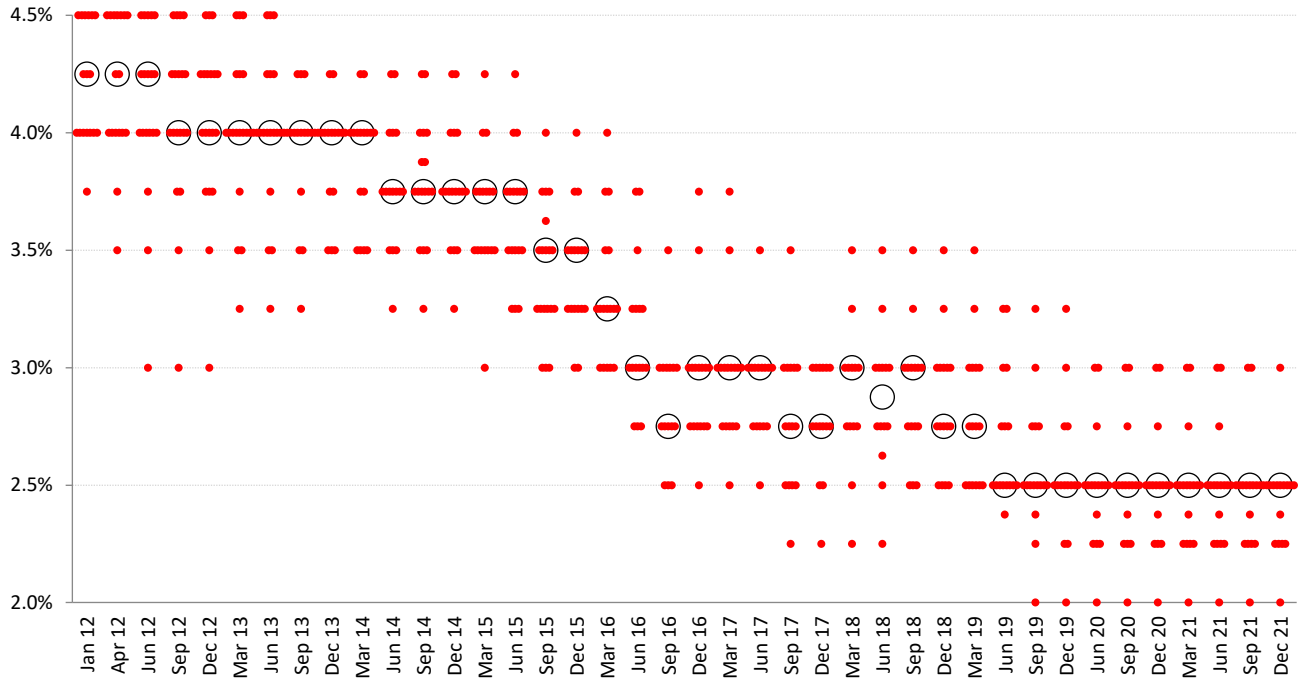
Diffusion indices from FOMC participants' risk self-assessments in [Summary of Economic Projections](#)



Source: Federal Reserve Board, TrendMacro calculations

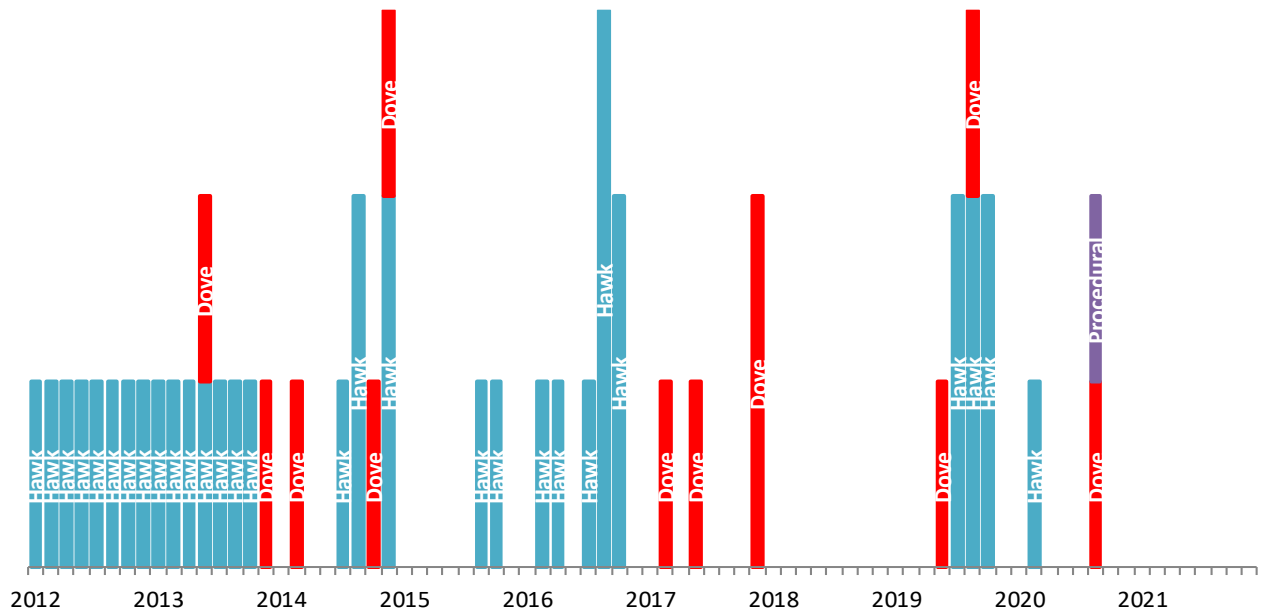
"R-star" – the ultimate dot-plot *As of December 2021 FOMC*

FOMC participants' estimate of "longer run" target funds rate ● Individual participant ○ Median



Source: Federal Reserve, TrendMacro calculations

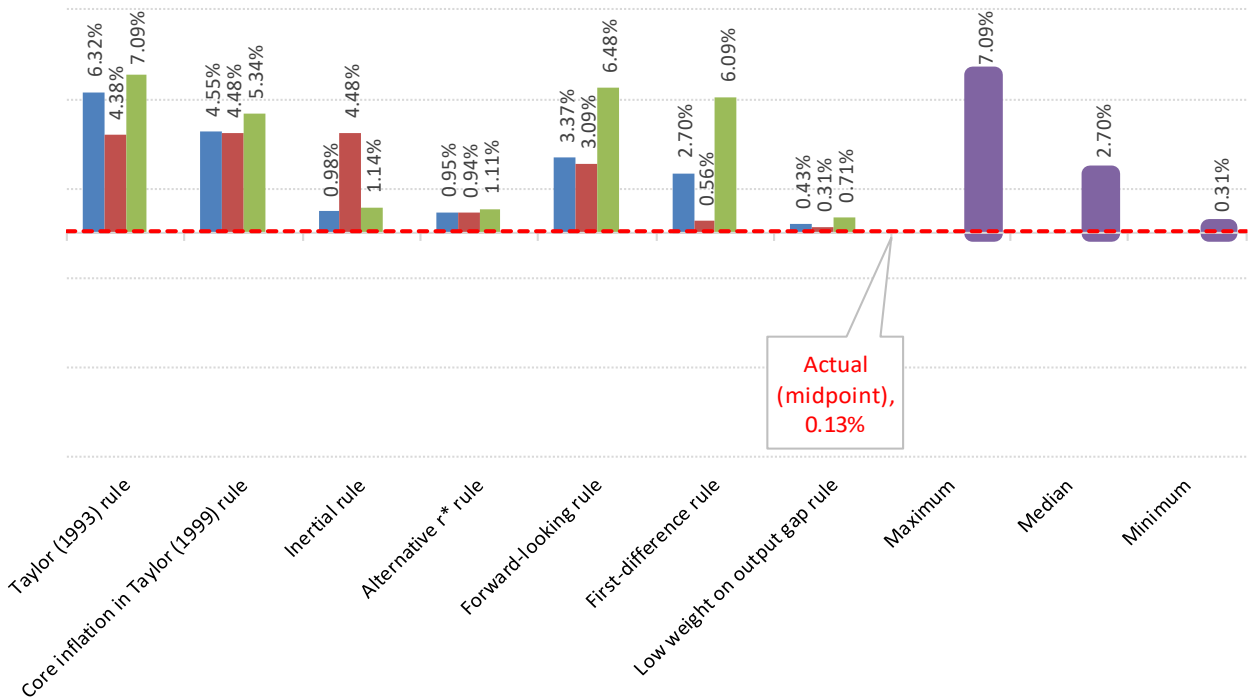
Other voices: number and direction of FOMC decision dissents



Source: FOMC, TrendMacro calculations

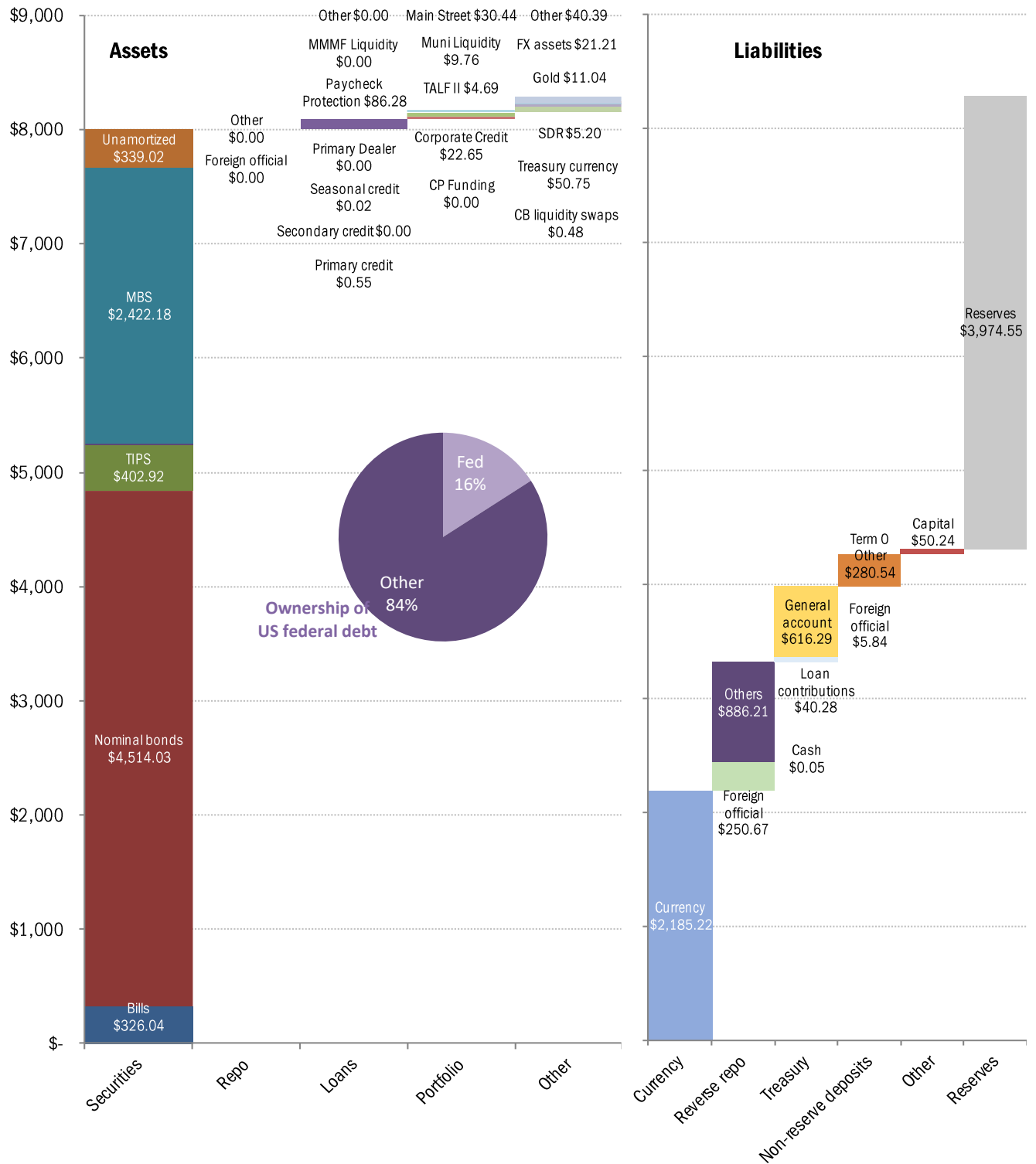
So many policy rules, so little time...

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



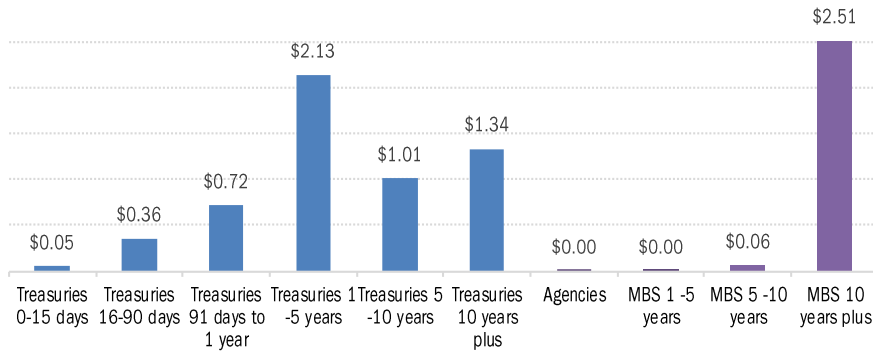
Source: [Cleveland Fed](#), TrendMacro calculations

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

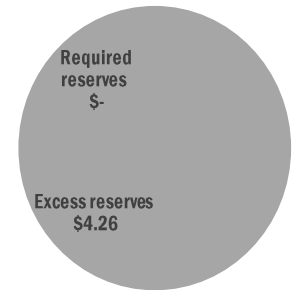


Source: Federal Reserve H.4, US Treasury, TrendMacro calculations

Sector and maturity breakdown of Fed government securities, USD trillions



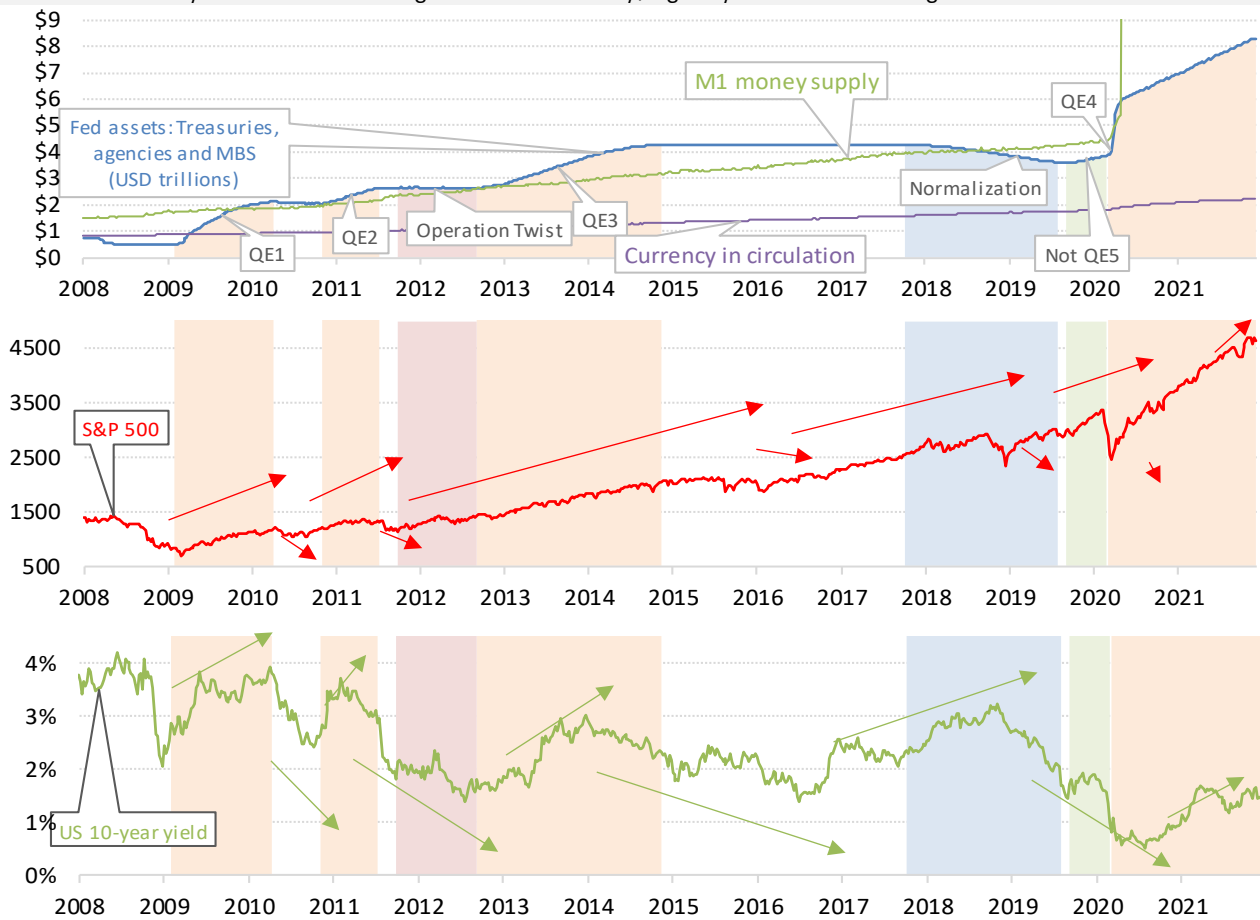
Banking reserves, USD trillions



Source: Federal Reserve, Bloomberg, TrendMacro calculations

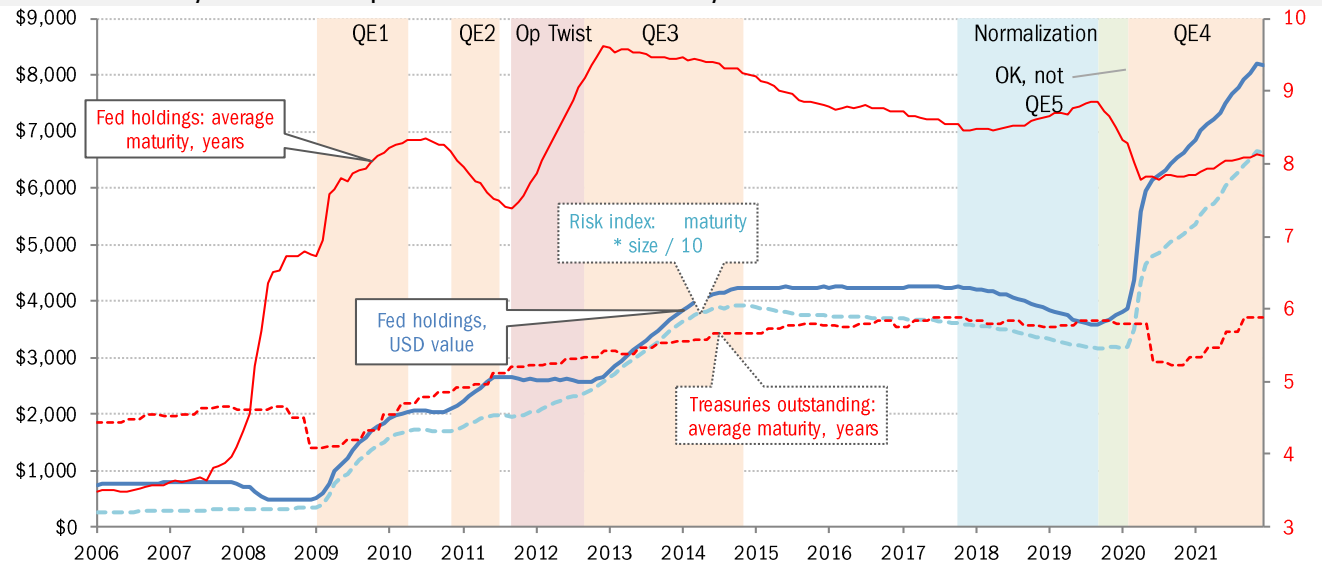
The Fed's asset purchases, and their effects on markets

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



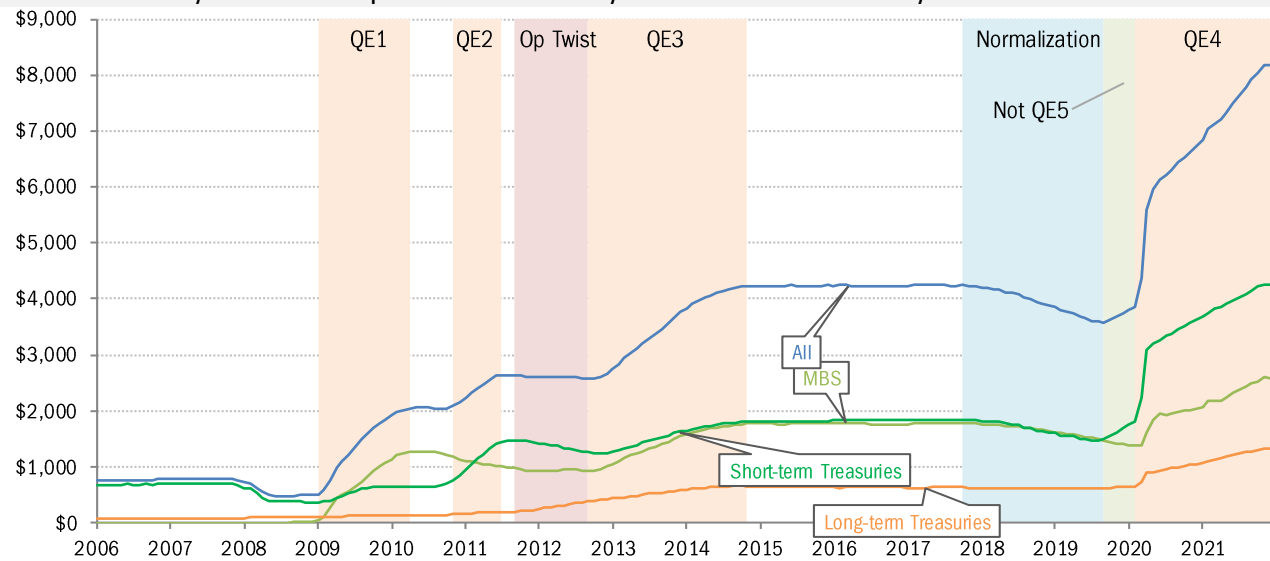
Source: Federal Reserve, Bloomberg, TrendMacro calculations

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



Source: Federal Reserve, Bloomberg, TrendMacro calculations

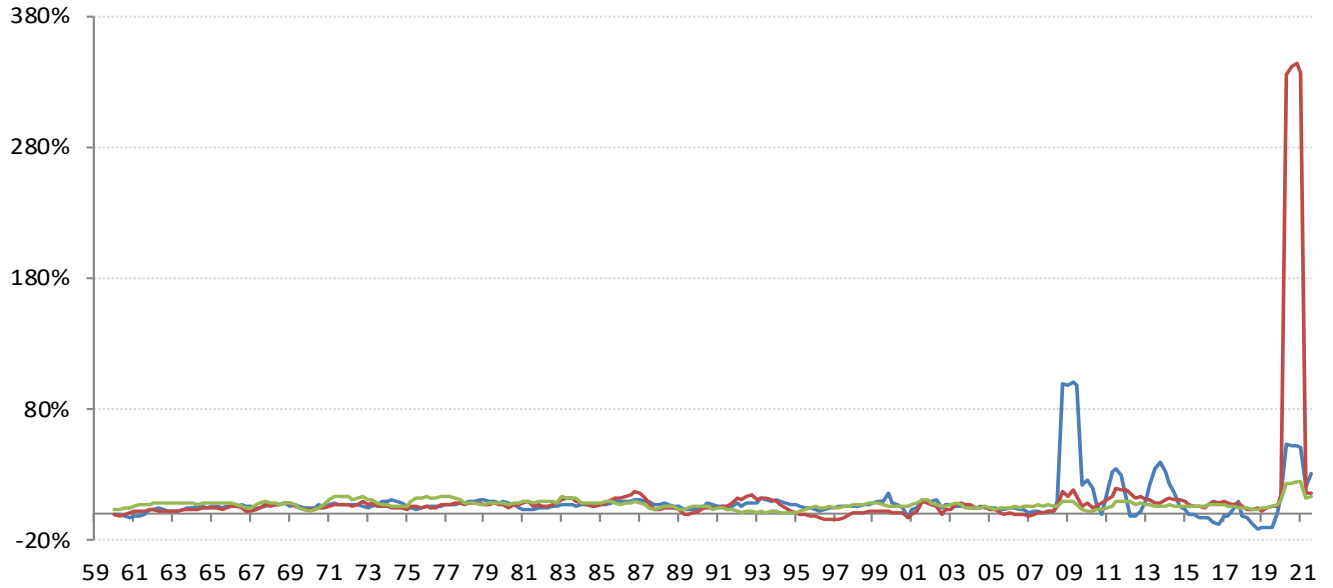
Fed Treasury and MBS portfolio: size by sector and maturity



Source: Federal Reserve, Bloomberg, TrendMacro calculations

Money supply growth, YOY quarterly

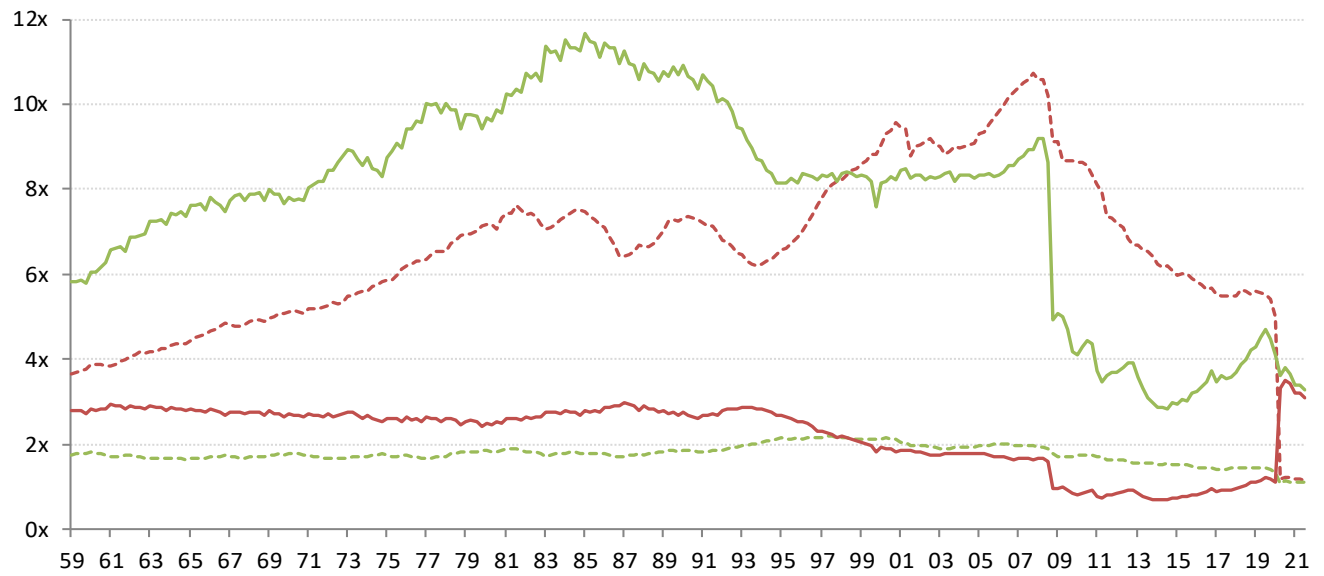
— M1 — M2 — Monetary base



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