

Data Insights: Federal Reserve

Wednesday, January 31, 2023

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

~~December 13, 2023~~

January 31, 2024

Recent indicators suggest that ~~growth of~~ economic activity has ~~slowed from its strong~~been expanding at a solid pace ~~in the third quarter.~~ Job gains have moderated since ~~earlier in the early last~~ year but remain strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated.

~~The U.S. banking system is sound and resilient. Tighter financial and credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks.~~

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee judges that the risks to achieving its employment and inflation goals are moving into better balance. The economic outlook is uncertain, and the Committee remains highly attentive to inflation risks.

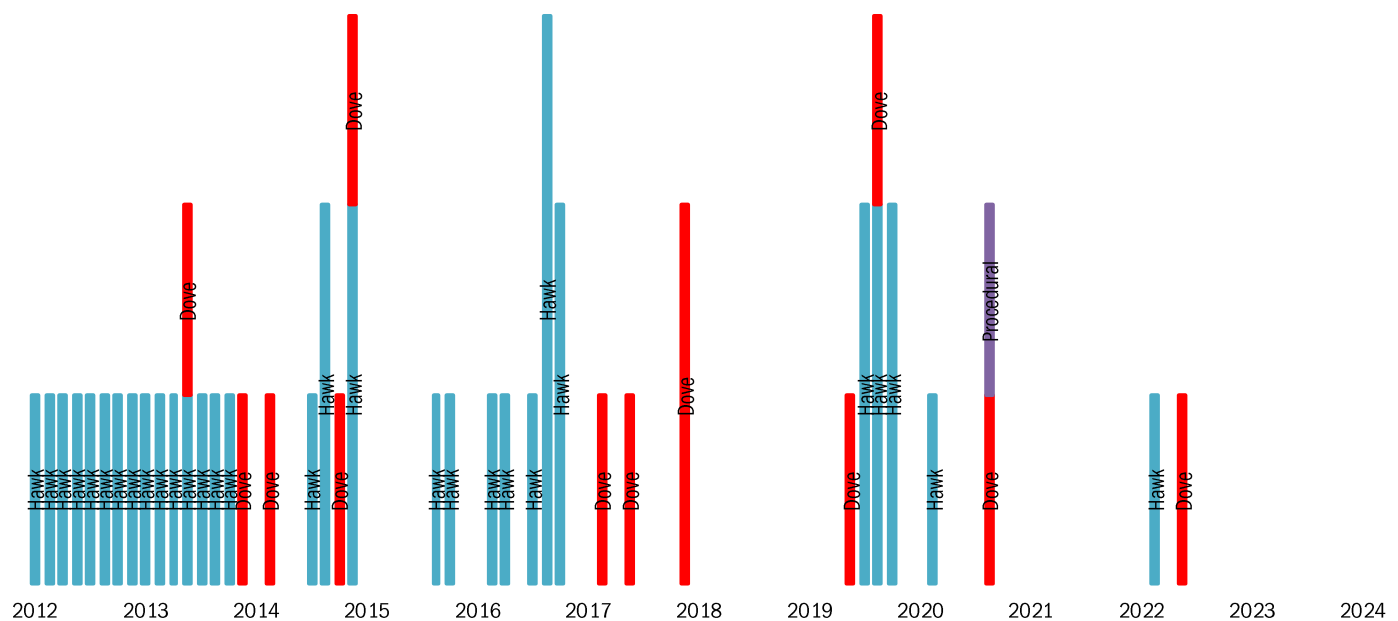
In support of ~~these its~~ goals, the Committee decided to maintain the target range for the federal funds rate at 5-1/4 to 5-1/2 percent. ~~The Committee will continue to assess additional information and its implications for monetary policy. In determining the extent of any additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent.~~ In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is strongly committed to returning inflation to its 2 percent objective.

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 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; Michael S. Barr; Raphael W. Bostic; Michelle W. Bowman; Lisa D. Cook; ~~Austan D. Goolsbee~~; ~~Patrick Harker~~Mary C. Daly; Philip N. Jefferson; ~~Neel Kashkari~~; Adriana D. Kugler; ~~Lorie K. Logan~~Loretta J. Mester; and Christopher J. Waller.

TrendMacro analysis

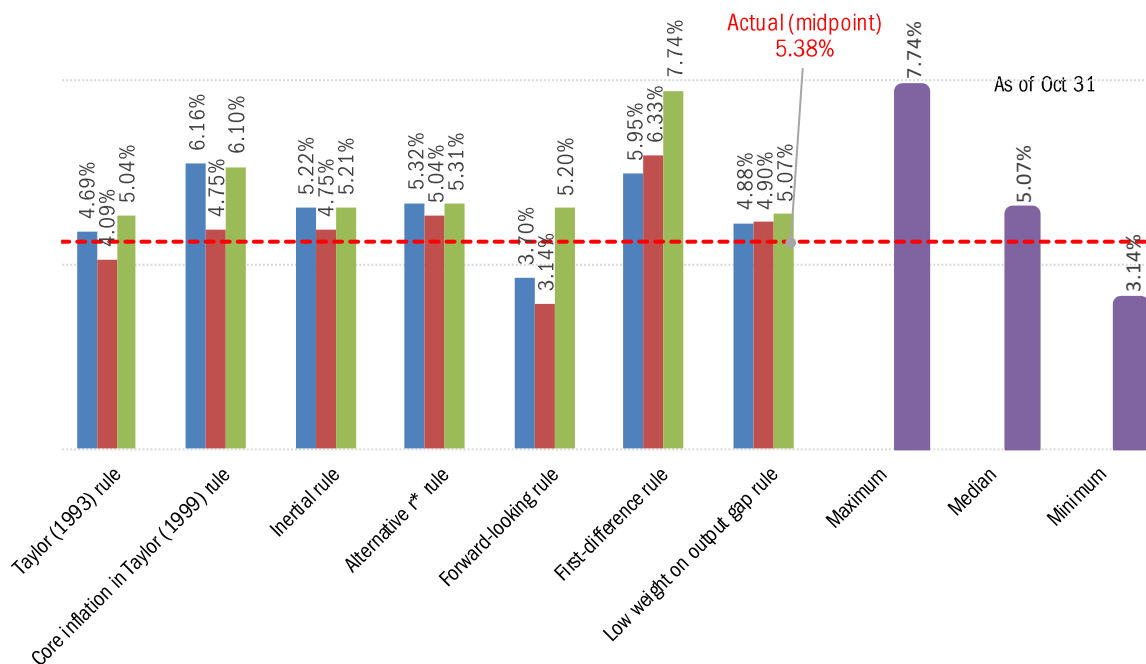
Other voices: number and direction of FOMC decision dissents



Source: FOMC, TrendMacro calculations

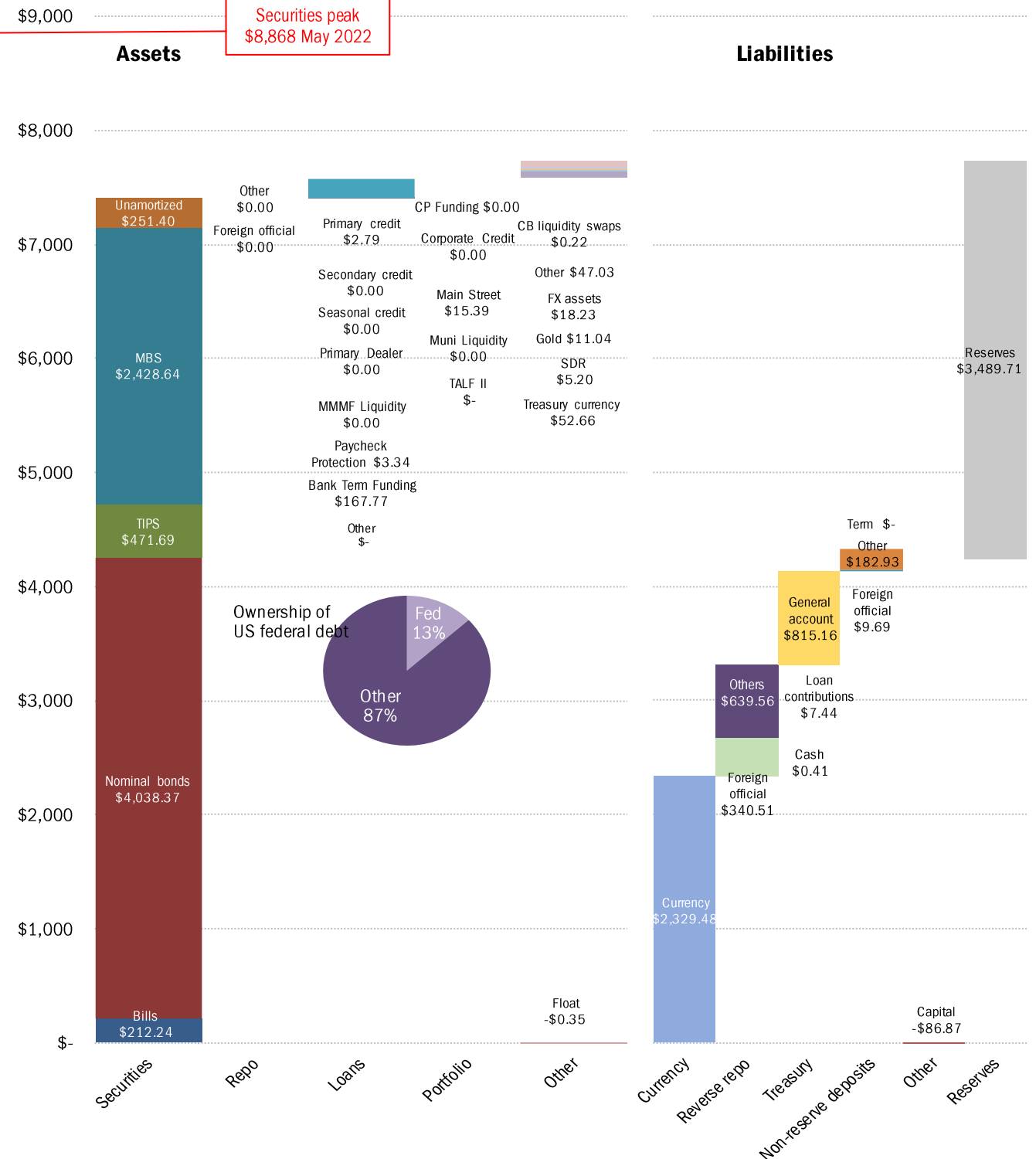
So many policy rules, so little inclination to follow any of them...

As of September 7, 2023 Based on inputs from: ■ FOMC SEP ■ CBO ■ Cleveland Fed



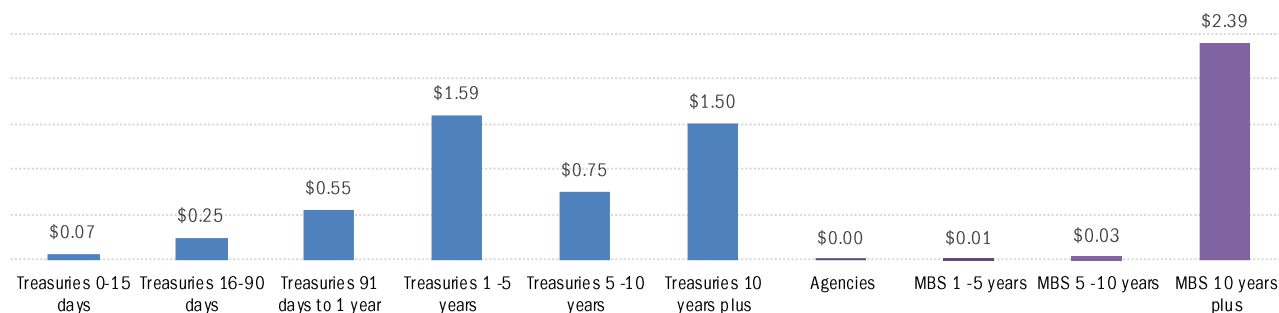
Source: [Cleveland Fed](#), TrendMacro calculations

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



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

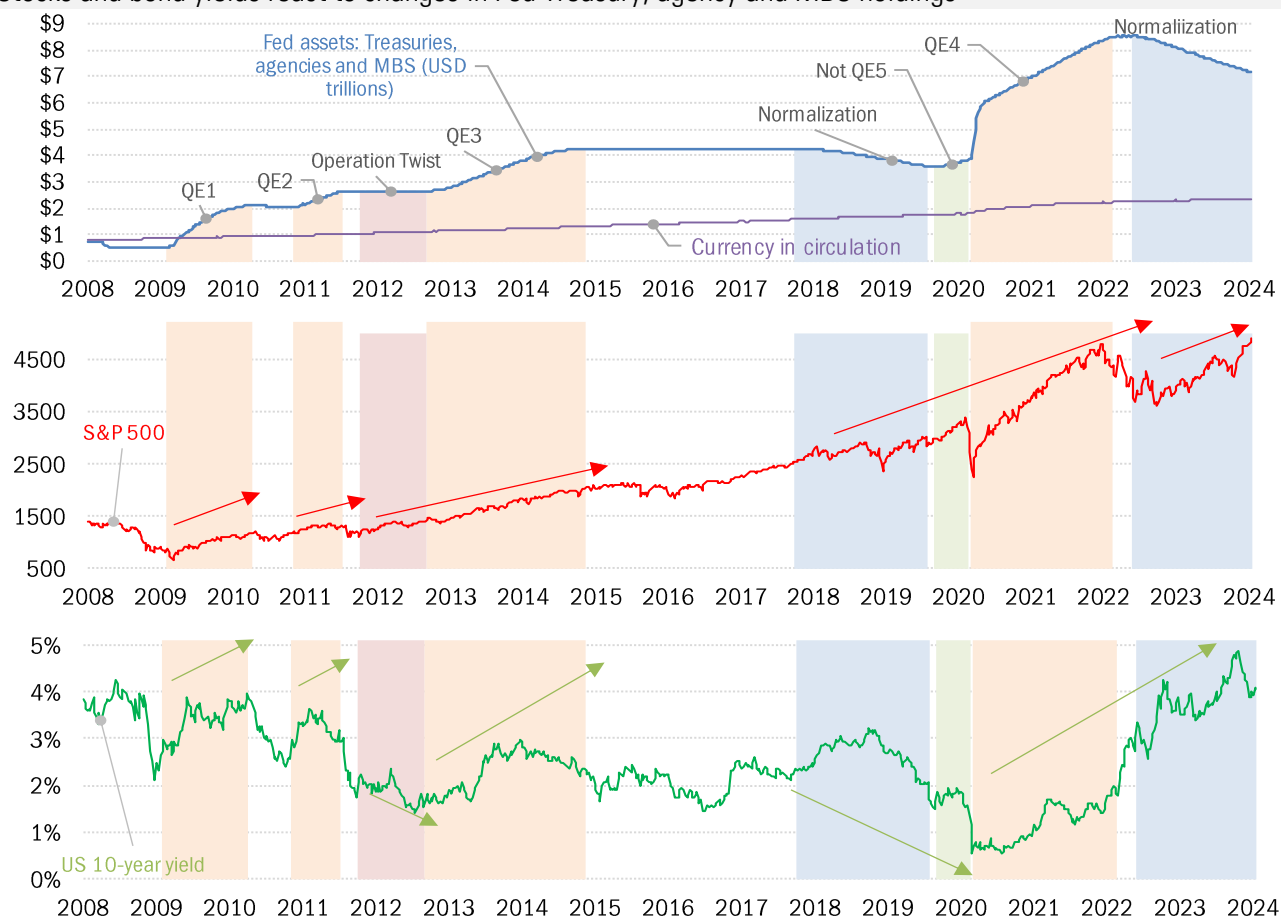
Sector and maturity breakdown of Fed government securities, USD trillions



Source: Federal Reserve, Bloomberg, TrendMacro calculations

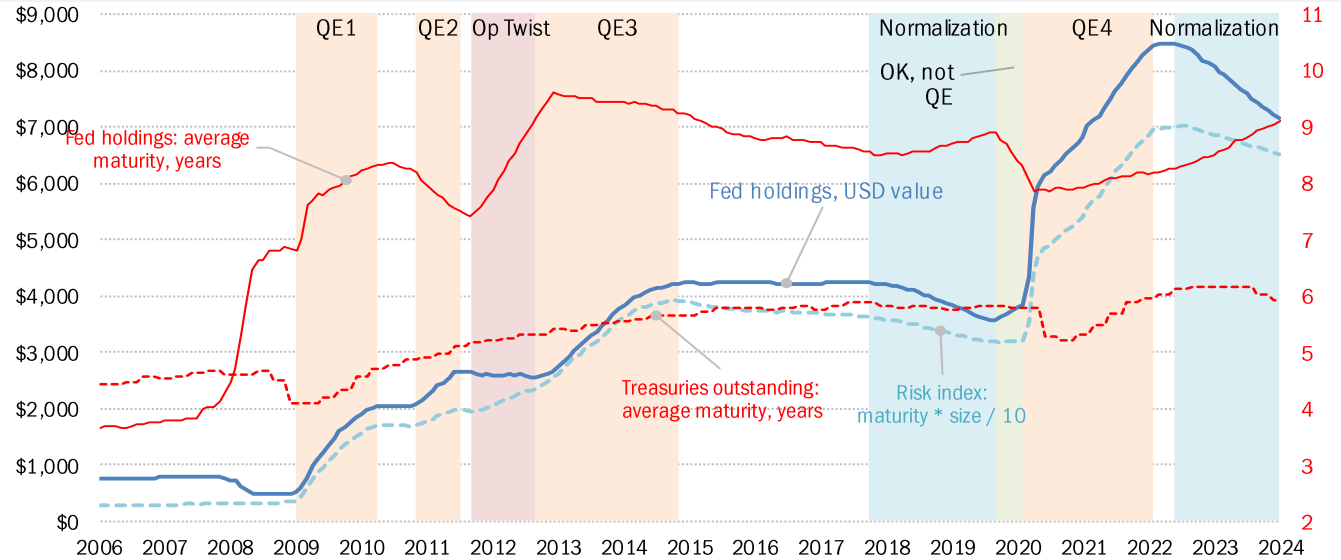
The Fed's asset purchases, and their effects on markets

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



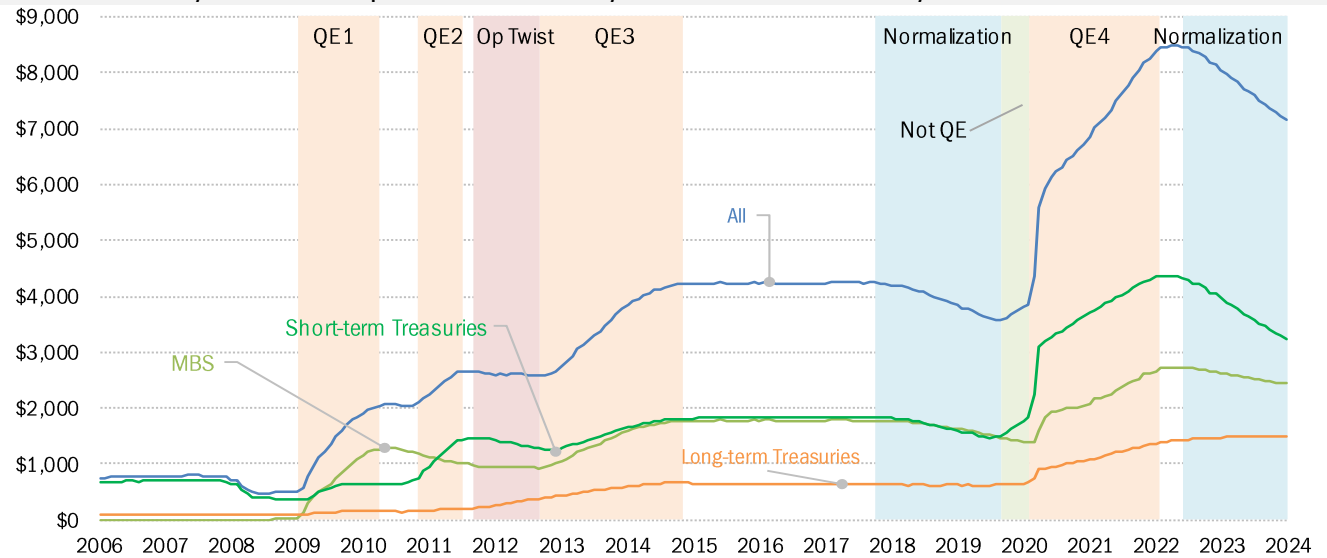
Source: Federal Reserve, Bloomberg, TrendMacro calculations

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



Source: Federal Reserve, Bloomberg, TrendMacro calculations

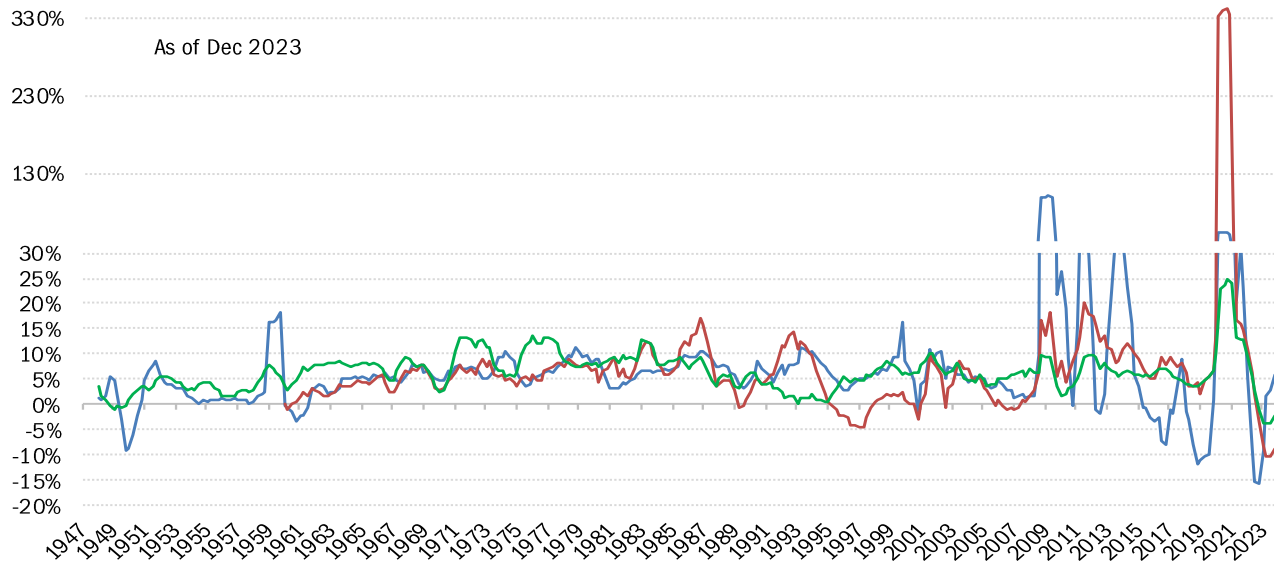
Fed Treasury and MBS portfolio: size by sector and maturity



Source: Federal Reserve, Bloomberg, TrendMacro calculations

Money supply growth, YOY quarterly

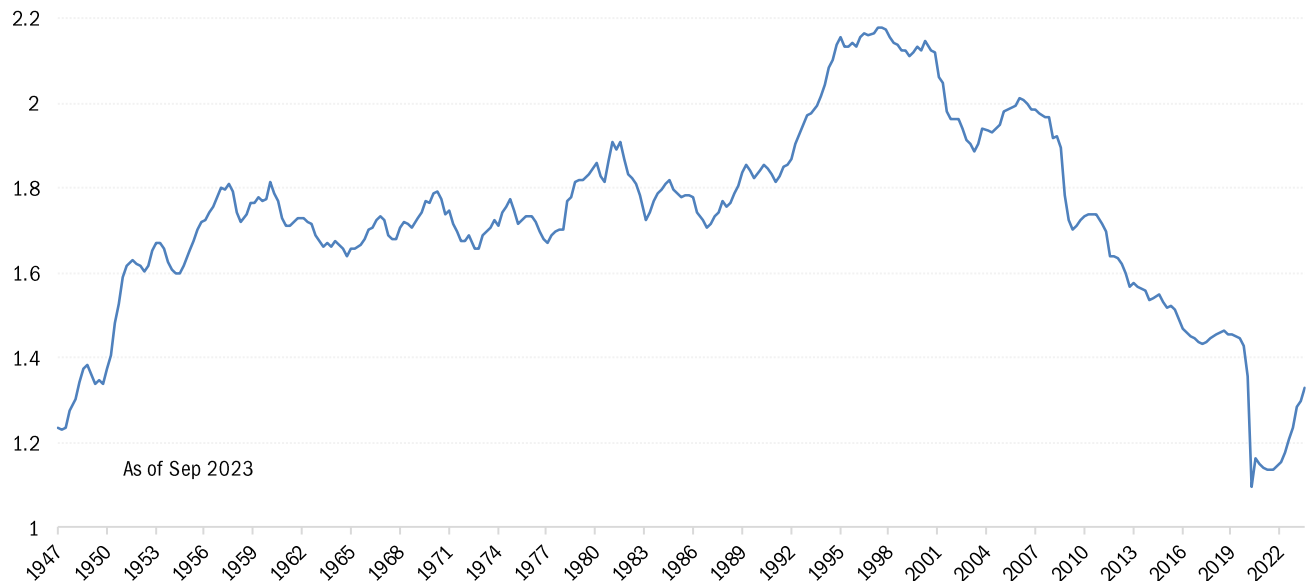
— M1 — M2 — Monetary base



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

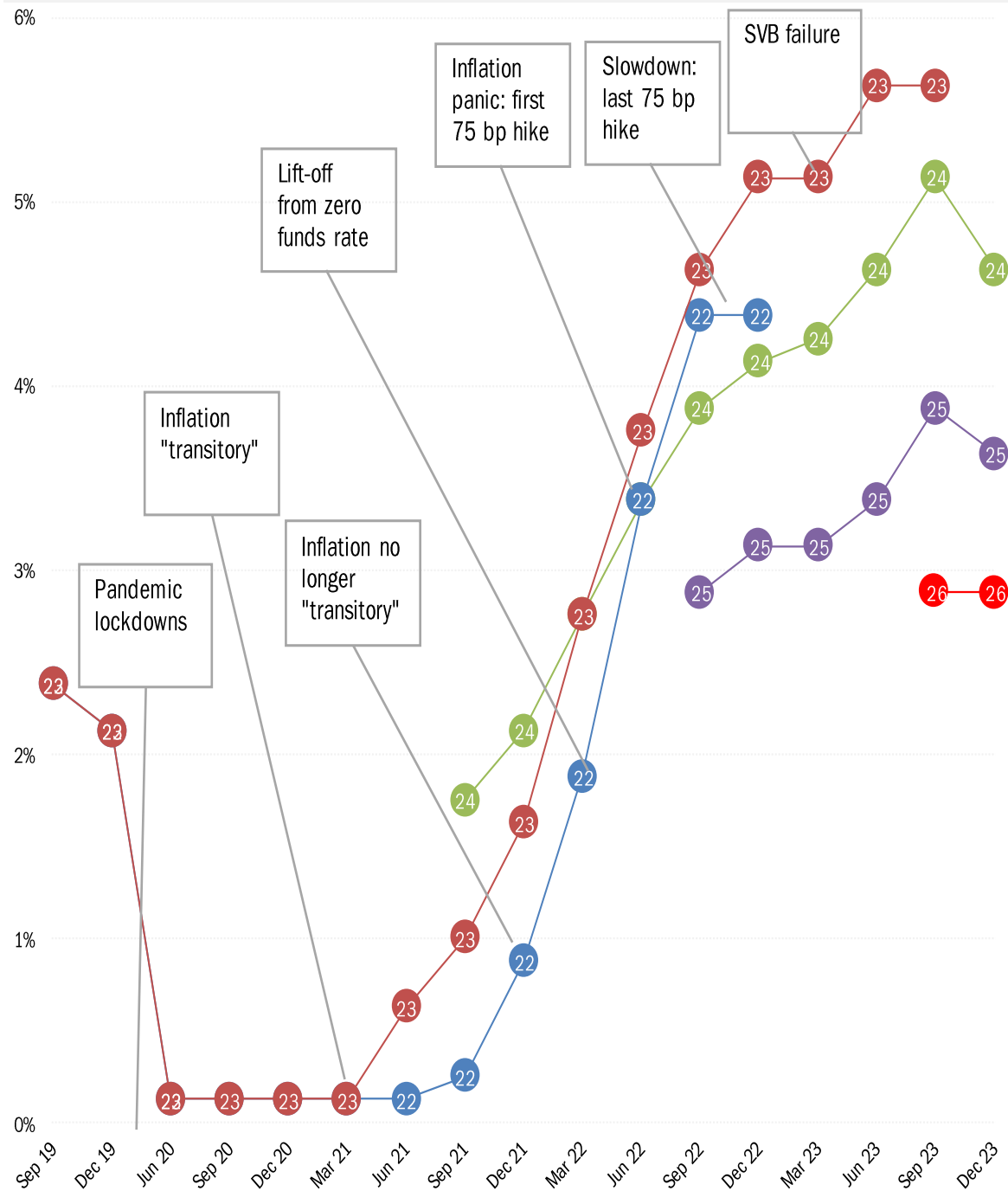
Monetary velocity, quarterly

Derived from the [Equation of Exchange](#): $M2 * V = P * NGDP$



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

"Dot plots" of "appropriate policy path" in the pandemic funds rate cycle As of December FOMC

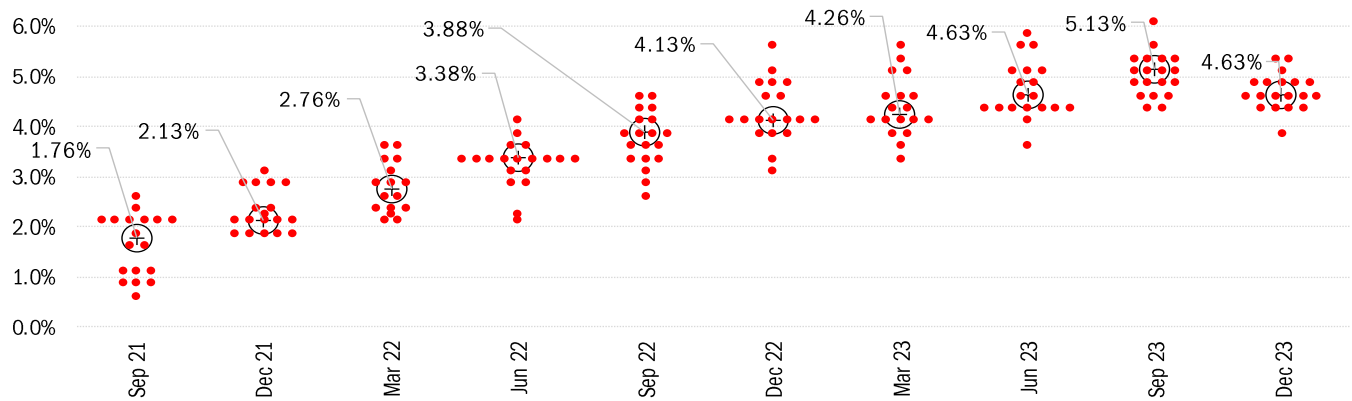


Source: Federal Reserve [SEP](#), TrendMacro calculations

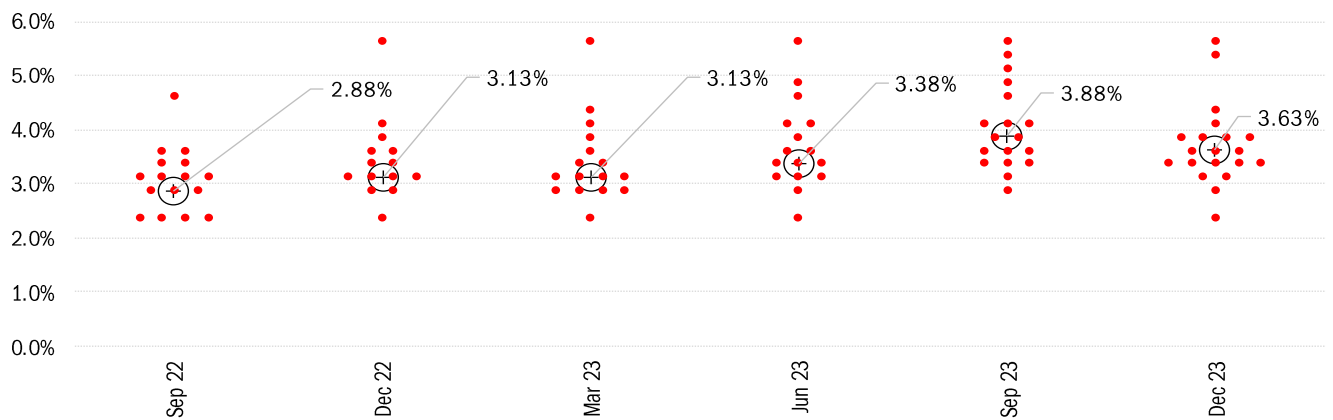
Tracking the "dotplots" in high-res As of December FOMC

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

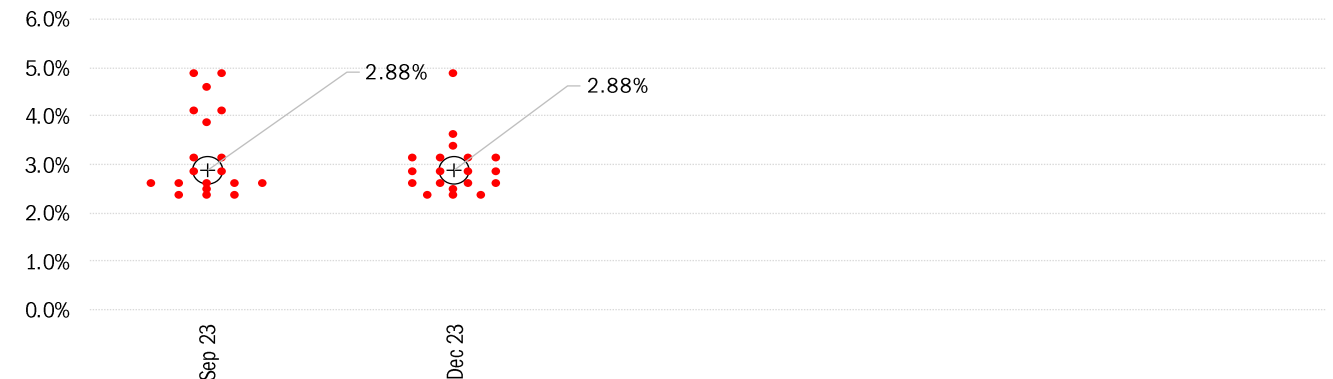
For year-end 2024



For year-end 2025



For year-end 2026



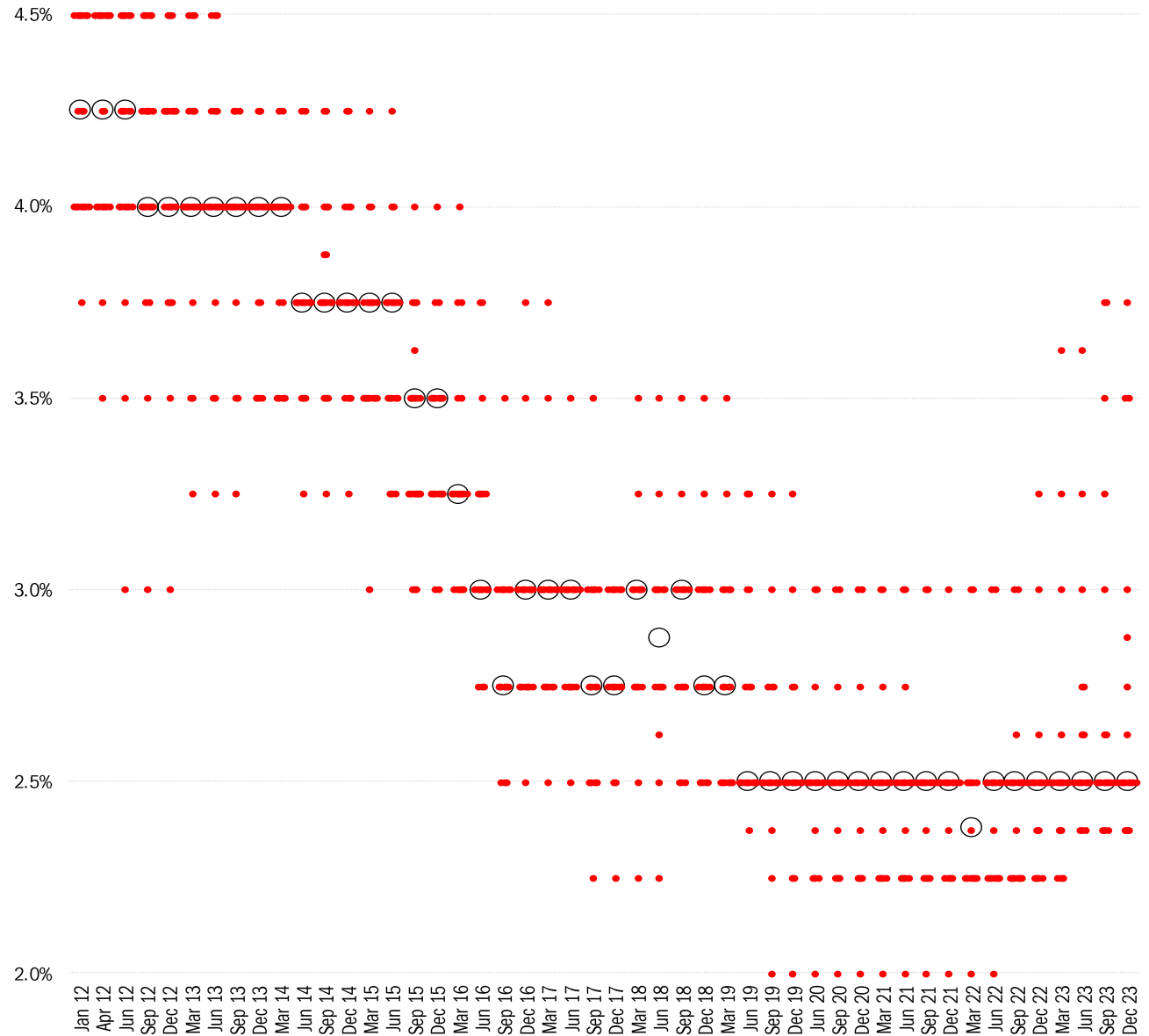
"R-star" – the ultimate dot-plot

As of December FOMC

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

● Individual participant

○ Median



Source: Federal Reserve, TrendMacro calculations

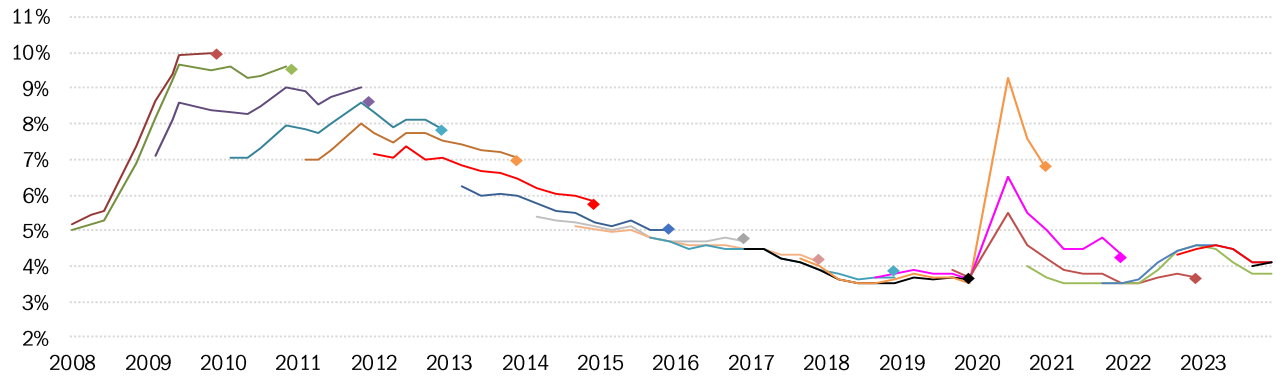
Forecast v actual: [economic projections](#) FRB and presidents

— Forecast ♦ Actual

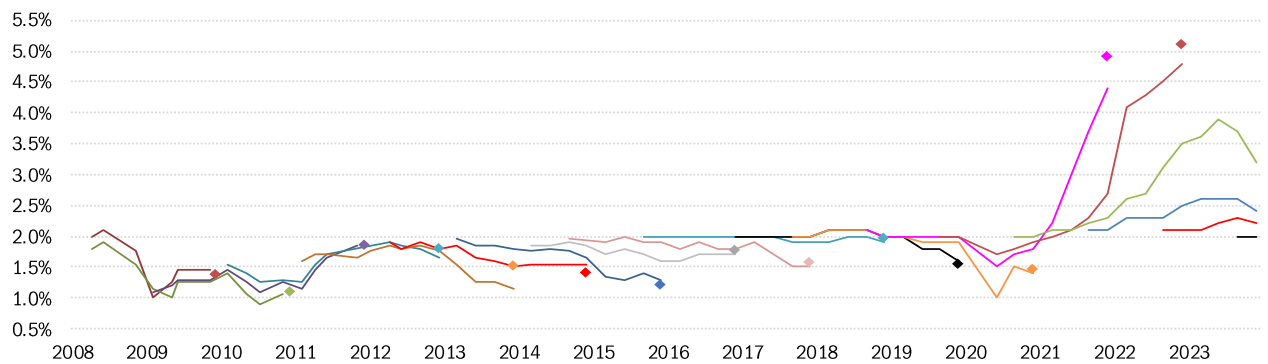
As of December FOMC

■ 2009 ■ 10 ■ 11 ■ 12 ■ 13 ■ 14 ■ 15 ■ 16 ■ 17 ■ 18 ■ 19 ■ 20 ■ 21 ■ 22 ■ 23 ■ 24 ■ 25 ■ 2026

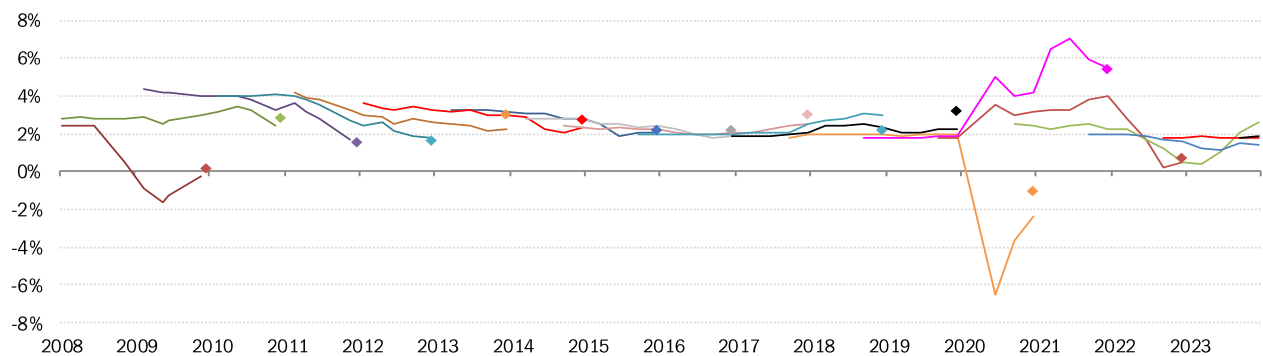
Unemployment



Core PCE inflation



Real GDP

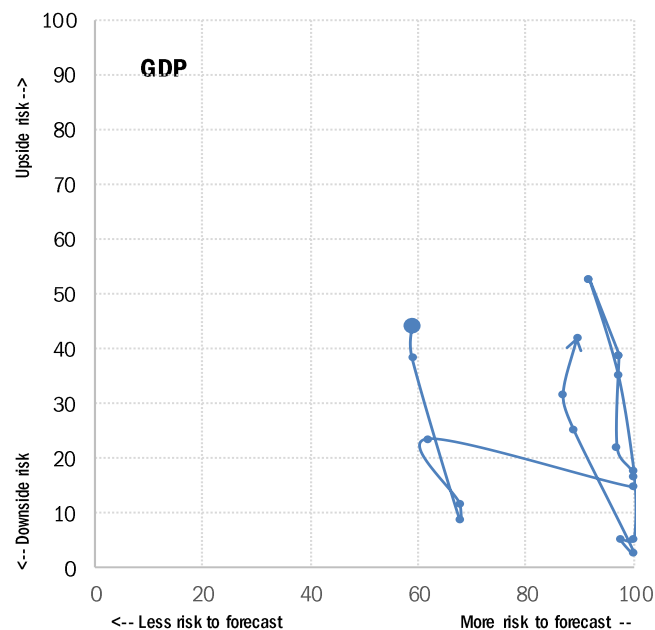
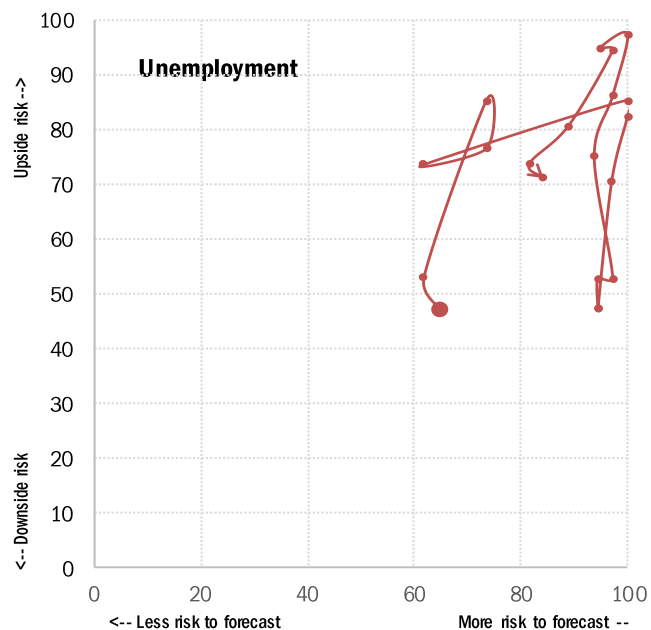
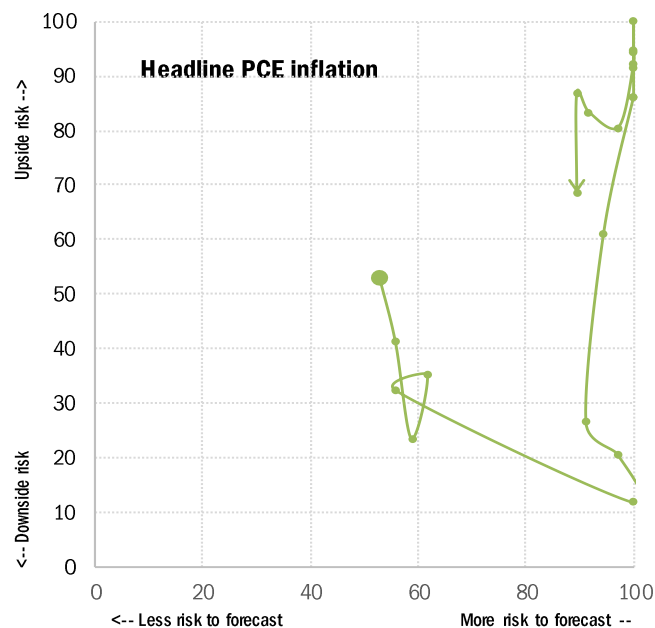
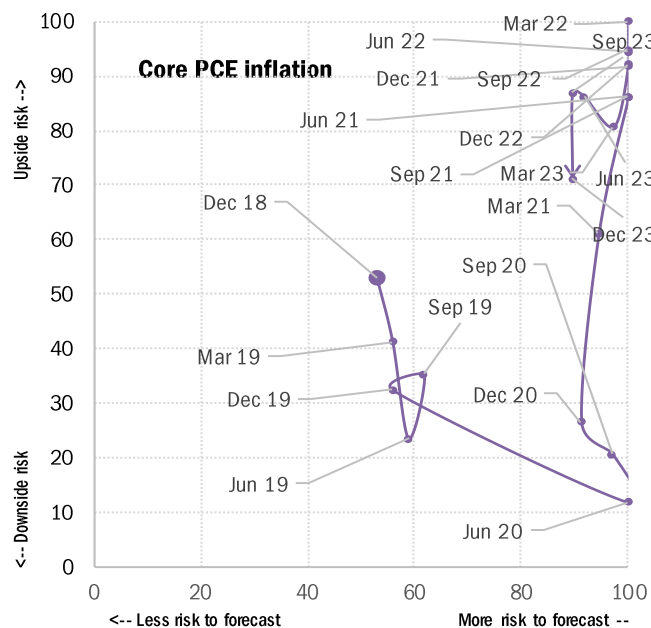


Source: Federal Reserve, BEA, BLS, TrendMacro calculations

The evolution of uncertainty

As of December FOMC

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



Source: Federal Reserve Board, TrendMacro calculations