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Data Insights: Federal Reserve

Wednesday, September 21, 2016

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

Release Date: ~~July 27~~September 21, 2016

For release at 2:00 p.m. EDT

Information received since the Federal Open Market Committee met in ~~June~~July indicates that the labor market ~~strengthened~~has continued to strengthen and ~~that~~growth of economic activity has ~~been expanding at a moderate~~picked up from the modest pace seen in the first half of this year. Although the unemployment rate~~. Job gains were strong in June following weak growth in May. On balance, payrolls and other labor market indicators point to some increase in labor utilization~~ is little changed in recent months~~.~~, job gains have been solid, on average. Household spending has been growing strongly but business fixed investment has ~~been~~remained soft. Inflation has continued to run below the Committee's 2 percent longer-run objective, partly reflecting earlier declines in energy prices and in prices of non-energy imports. Market-based measures of inflation compensation remain low; most survey-based measures of longer-term inflation expectations are little changed, on balance, in recent months.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee~~ currently~~ expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market ~~indicators~~conditions will strengthen somewhat further. Inflation is expected to remain low in the near term, in part because of earlier declines in energy prices, but to rise to 2 percent over the medium term as the transitory effects of past declines in energy and import prices dissipate and the labor market strengthens further. Near-term risks to the economic outlook ~~have diminished.~~appear roughly balanced. The Committee continues to closely monitor inflation indicators and global economic and financial developments.

Against this backdrop, the Committee decided to maintain the target range for the federal funds rate at 1/4 to 1/2 percent. The Committee judges that the case for an increase in the federal funds rate has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation.

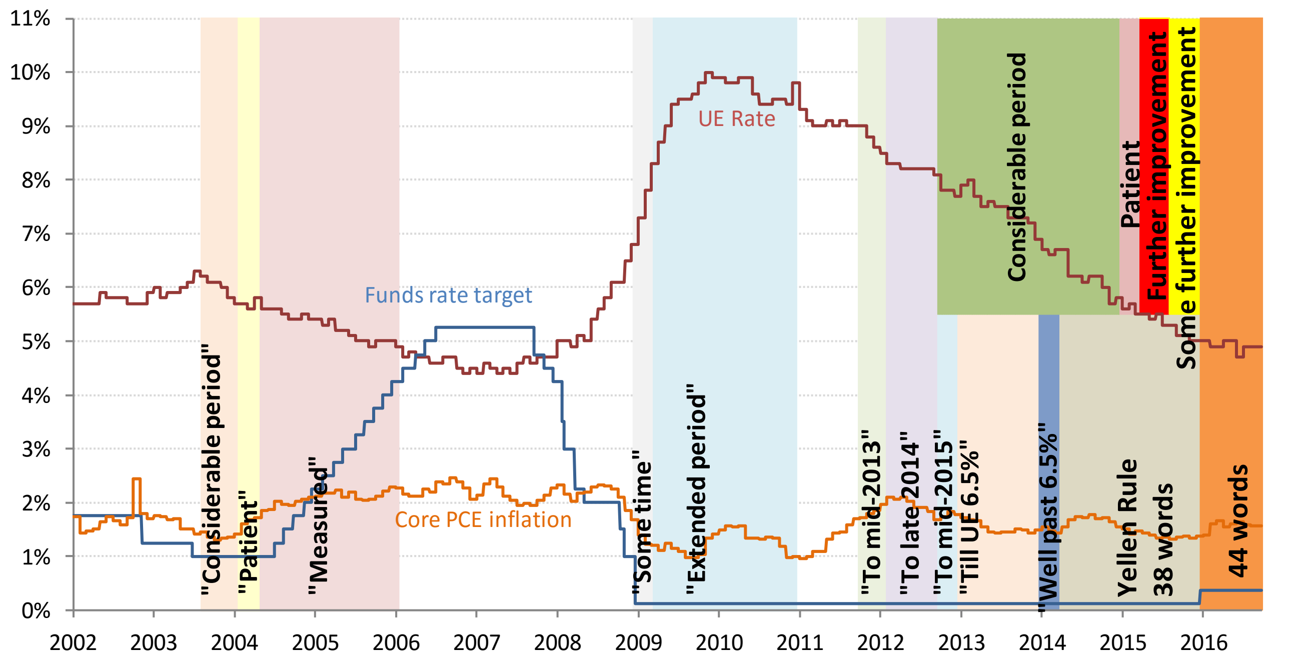
In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. In light of the current shortfall of inflation from 2 percent, the Committee will carefully monitor actual and expected progress toward its inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.

The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction, and it anticipates doing so until normalization of the level of the federal funds rate is well under way. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.

Voting for the FOMC monetary policy action were: Janet L. Yellen, Chair; William C. Dudley, Vice Chairman; Lael Brainard; James Bullard; Stanley Fischer; ~~Loretta J. Mester;~~ Jerome H. Powell; ~~Eric Rosengren;~~ and Daniel K. Tarullo. Voting against the action ~~was~~were: Esther L. George, ~~who~~Loretta J. Mester, and Eric Rosengren, each of whom preferred at this meeting to raise the target range for the federal funds rate to 1/2 to 3/4 percent.

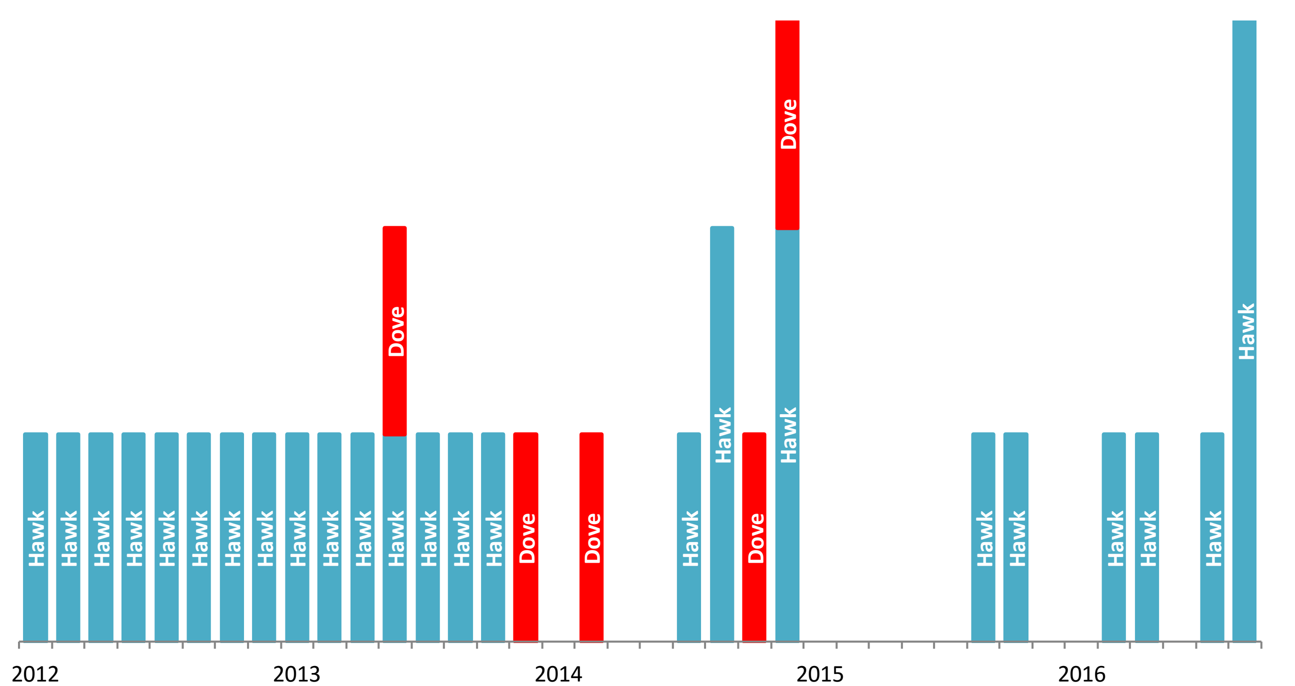
Source: FOMC, TrendMacro analysis

Fedspeak regime change: the evolution of forward guidance



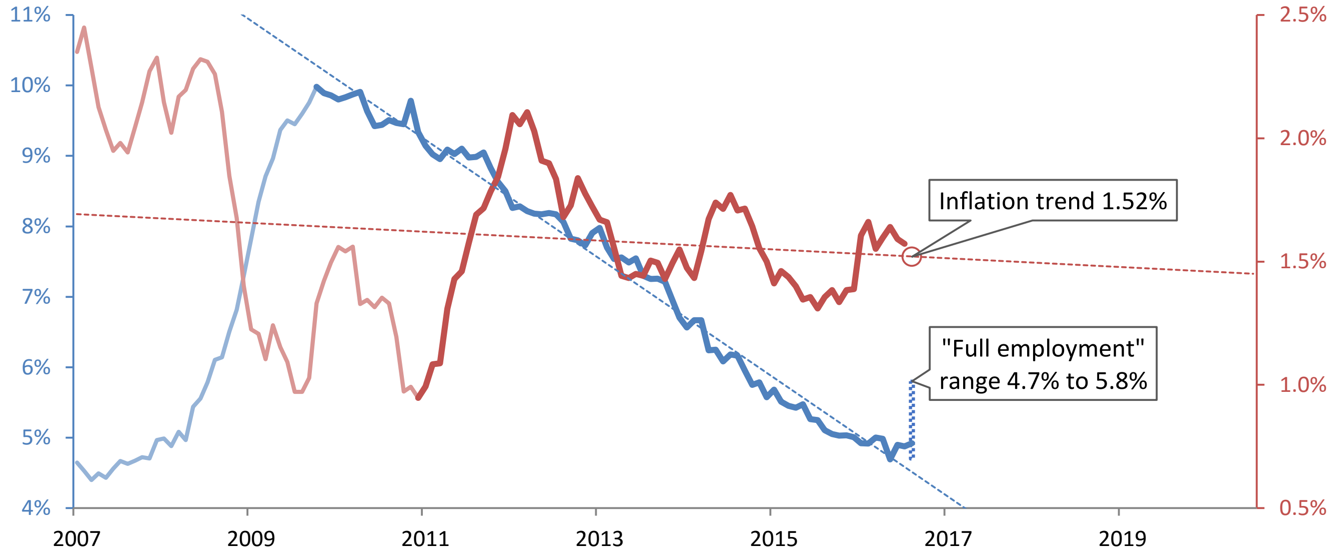
Source: FOMC, Federal Reserve, BLS, BEA, TrendMacro calculations

Other voices: number and direction of FOMC decision dissents



Source: FOMC, TrendMacro calculations

Yellen beyond the Evans Rule

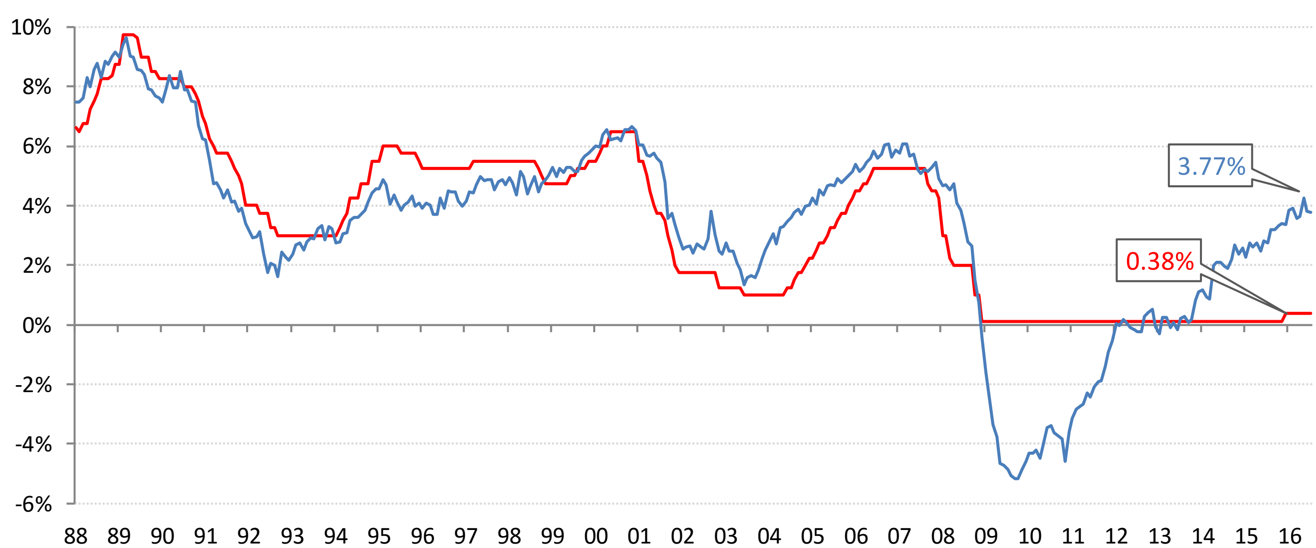


Source: BLS Current Population Survey, TrendMacro calculations

Yellen's Taylor Rule (per Rudebusch 2009): Is the Fed tight or loose?

Rule: 2.07 + 1.28 x 12-mo core PCE inflation - 1.95 x (UE - CBO natural rate)

Actual funds rate

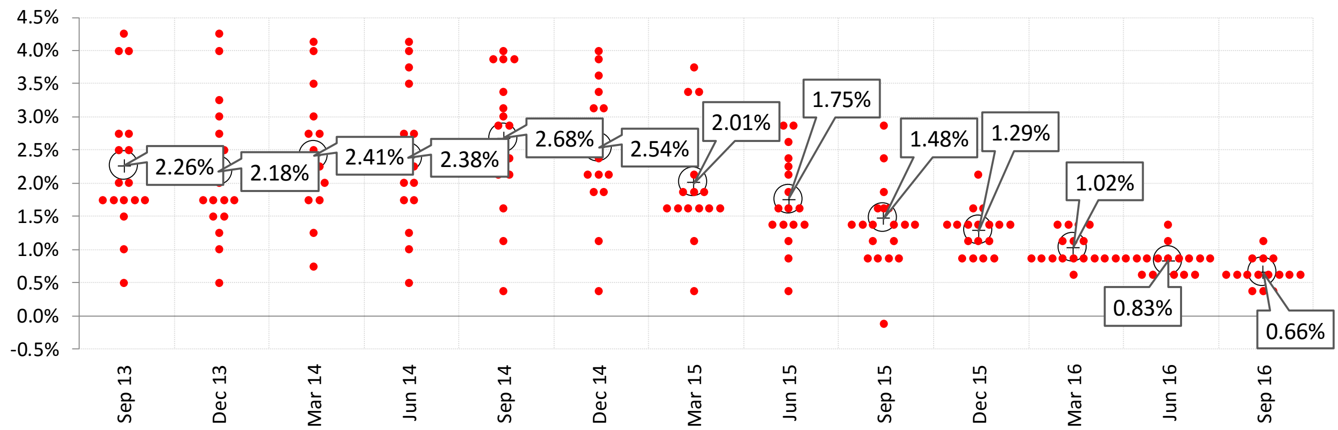


Source: BLS, BEA, TrendMacro calculations

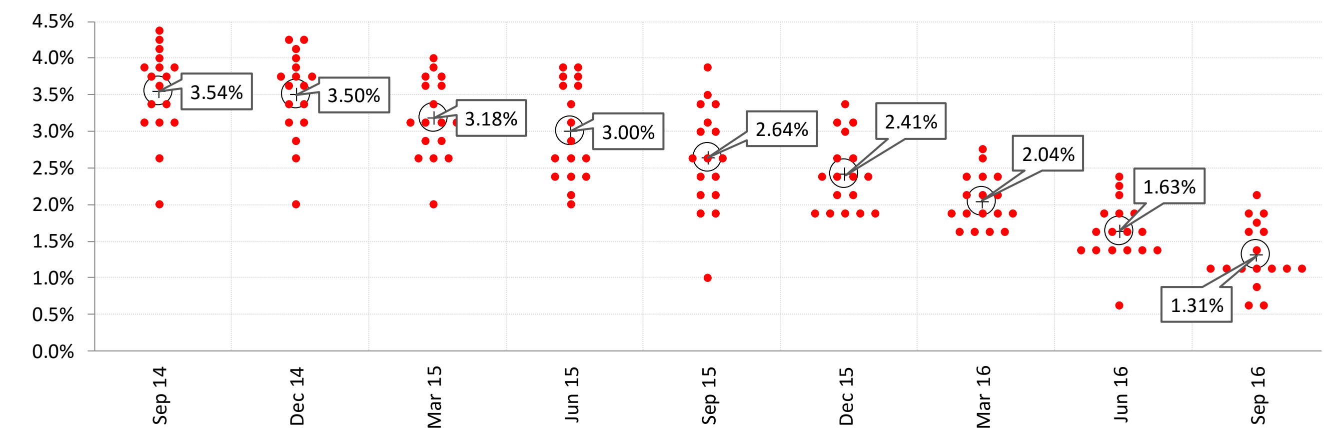
Tracking the "dotplots"

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

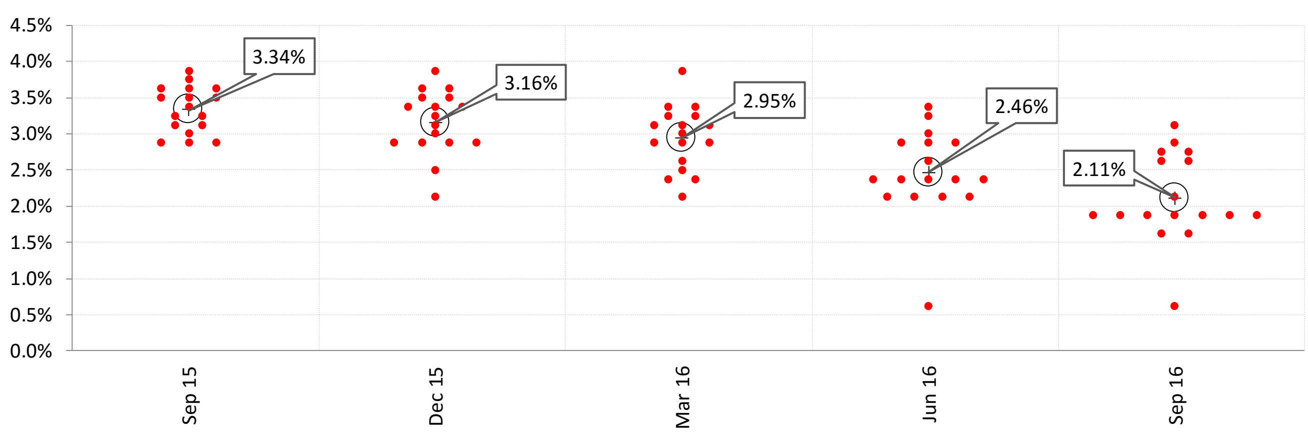
For year-end 2016



For year-end 2017

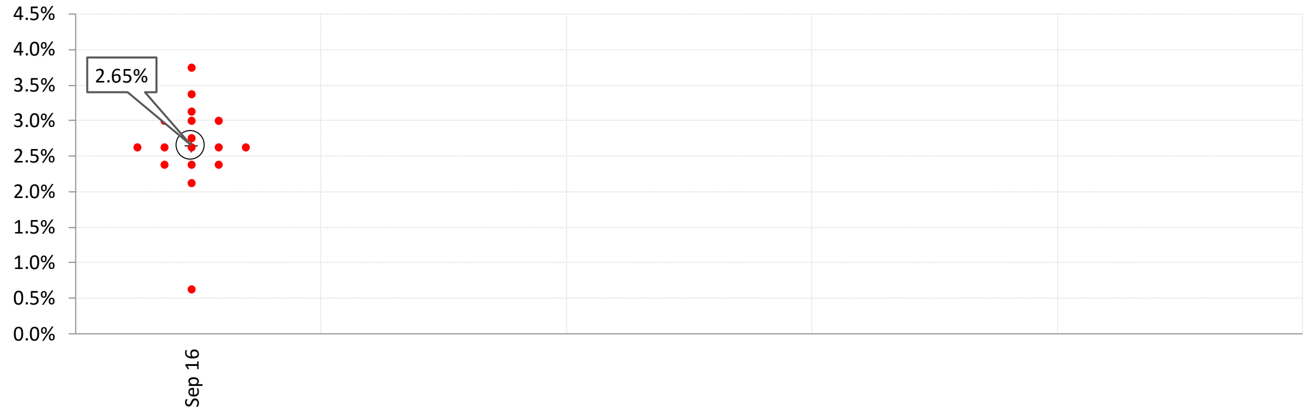


For year-end 2018



Source: Federal Reserve, TrendMacro calculations

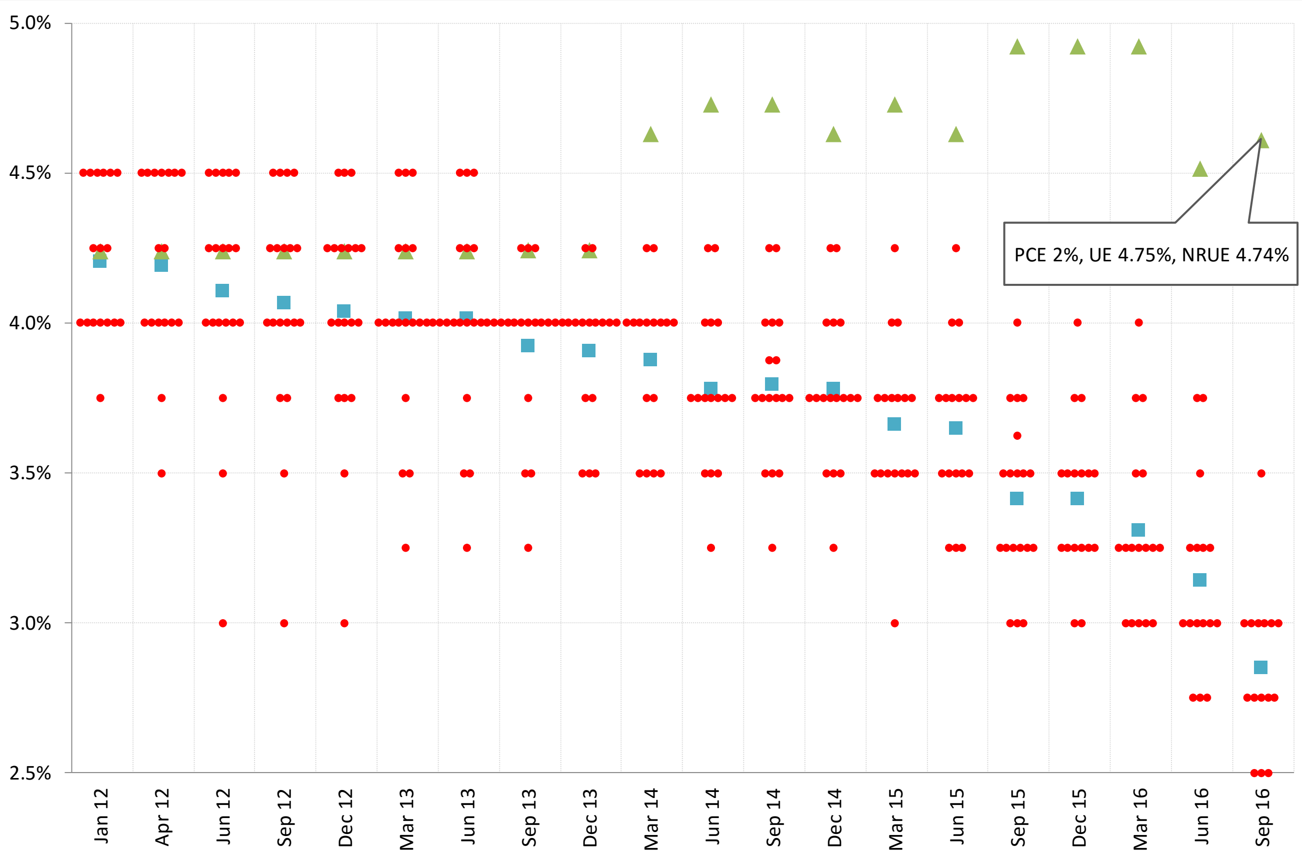
For year-end 2019



The ultimate dots

FOMC participants' estimate of "appropriate" target fed funds rate ● Vote by individual participant
■ Weighted average ▲ Taylor Rule rate based on participants' core PCE and UE estimates

For "longer run"

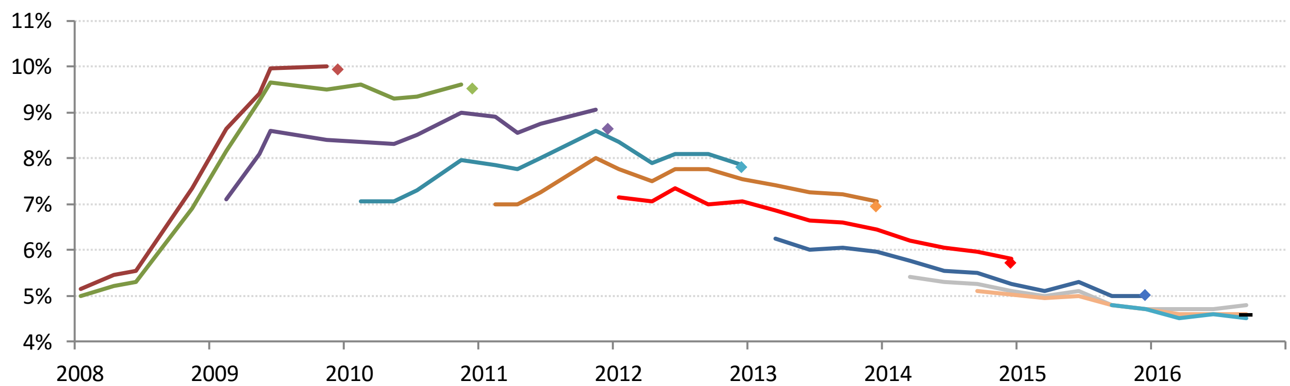


Source: Federal Reserve, TrendMacro calculations

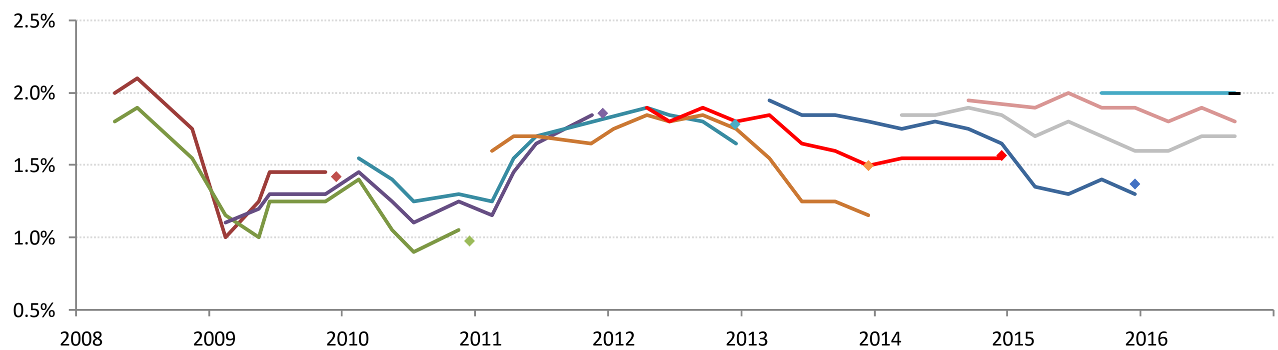
Forecast versus actual: economic projections of the FRB and the presidents

— Forecast ◆ Actual ■ 2009 ■ 10 ■ 11 ■ 12 ■ 13 ■ 14 ■ 15 ■ 16 ■ 17 ■ 18 ■ 2019

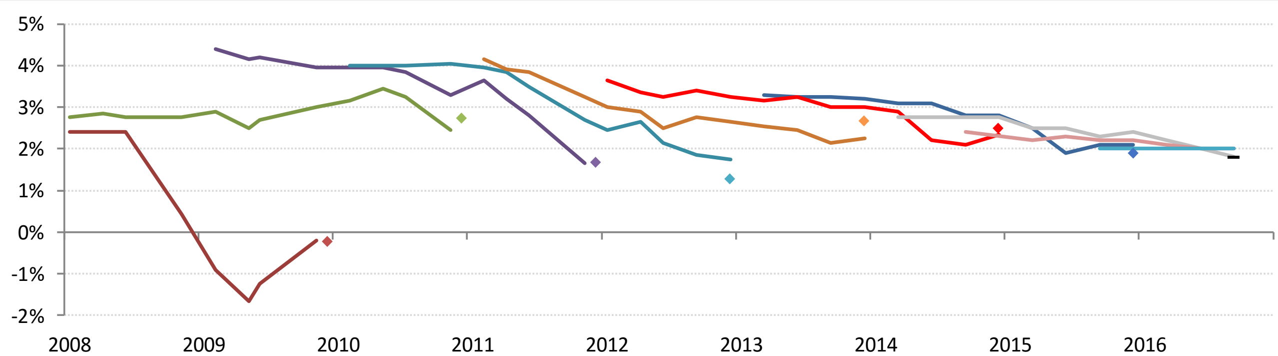
Unemployment



Core PCE inflation



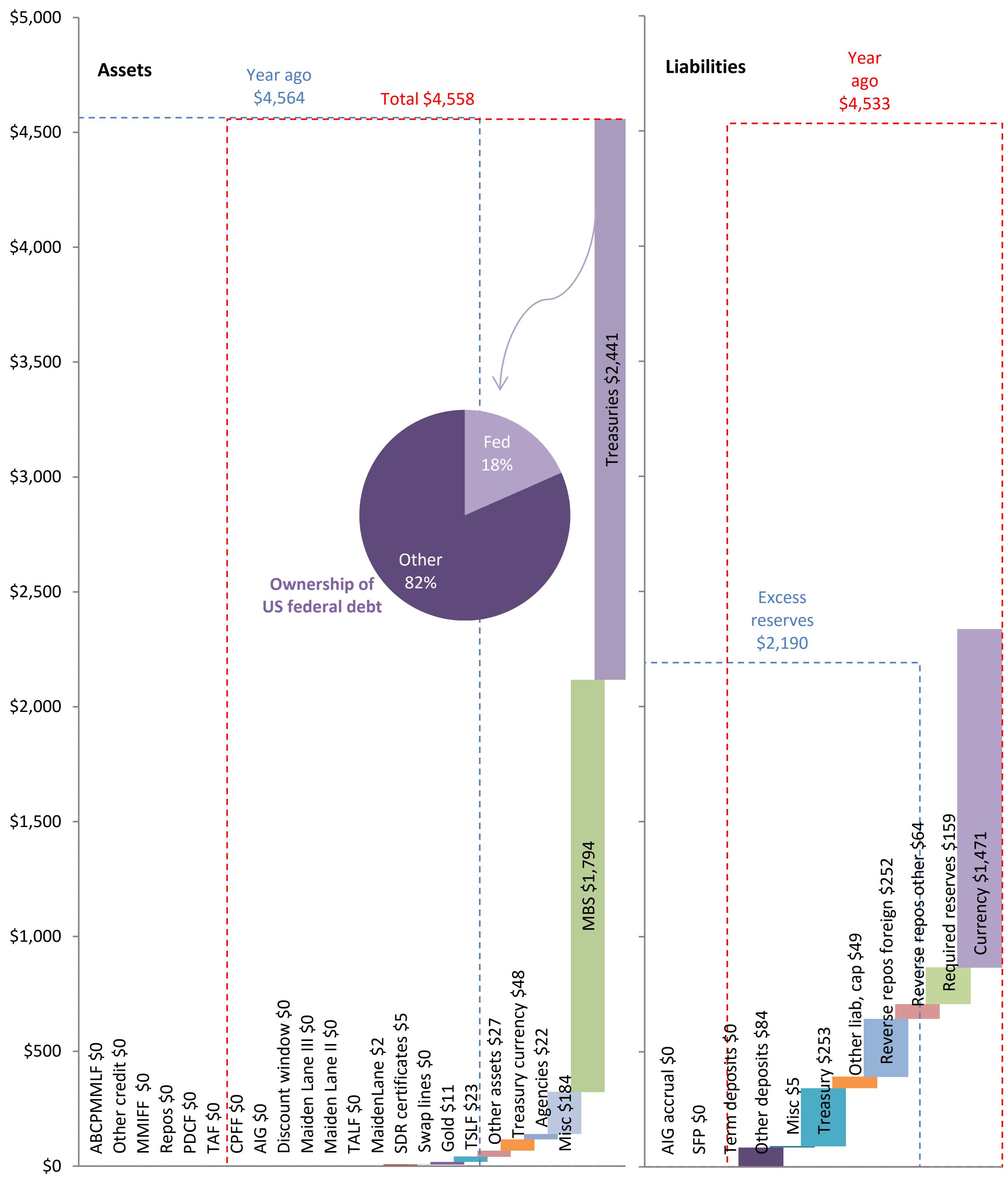
Real GDP



Source: Federal Reserve, BEA, BLS, TrendMacro calculations

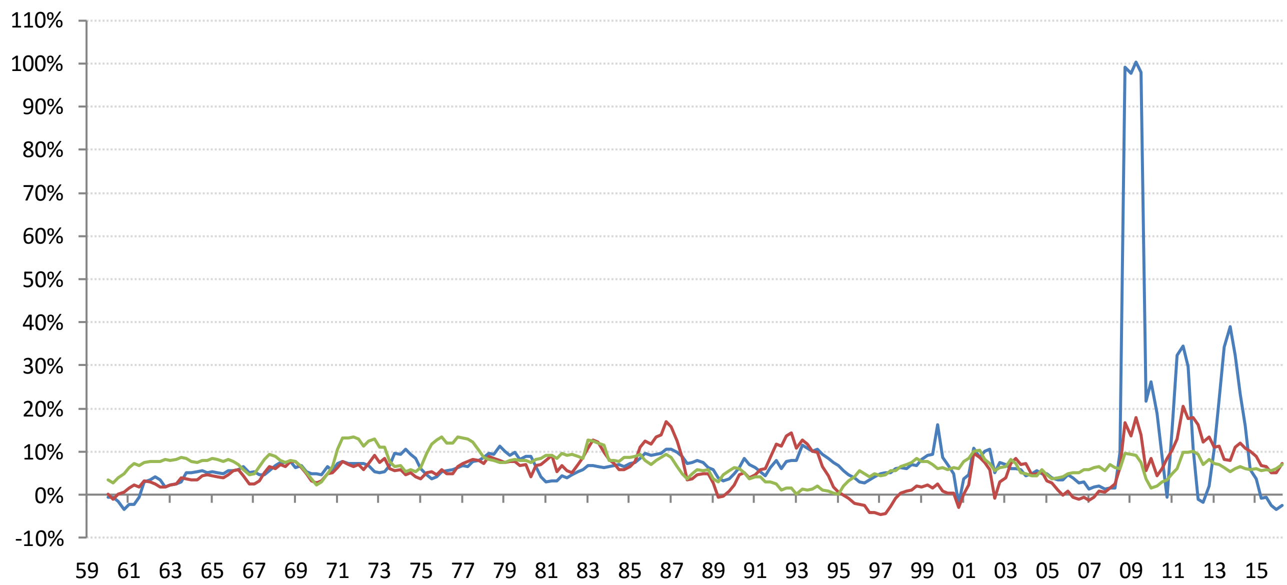
The Fed's assets, and how they are funded (USD billions)

Assets do not perfectly match liabilities because we include unsettled MBS purchases and sales



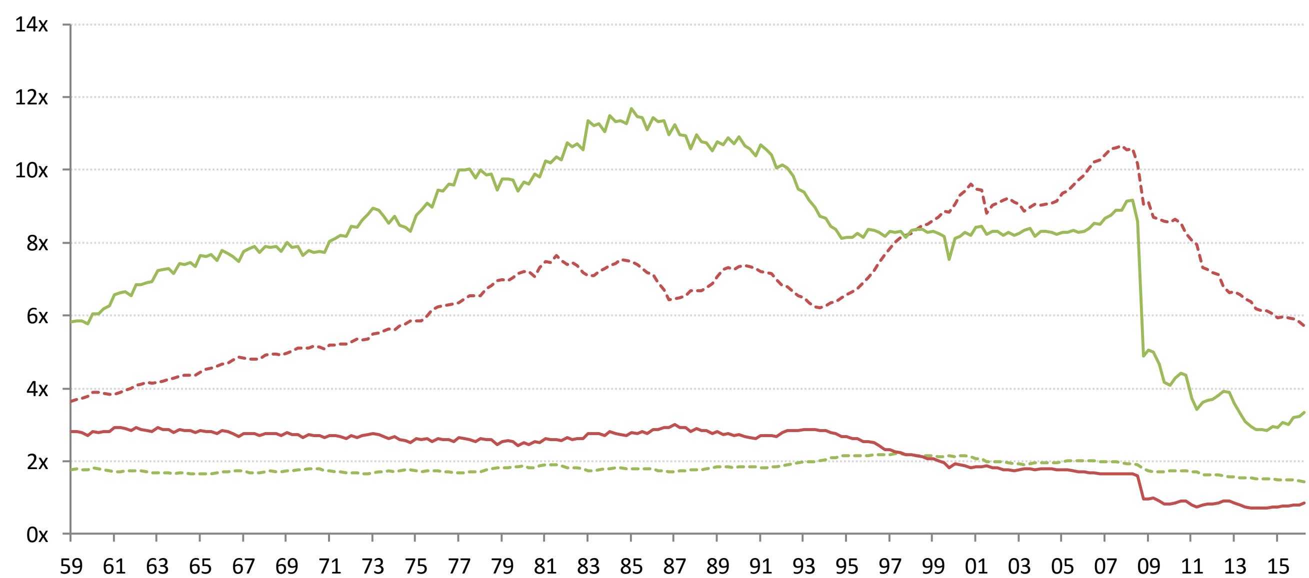
Source: Federal Reserve H.4, US Treasury, TrendMacro calculations

Money supply growth, YOY quarterly



Source: Federal Reserve H.6, TrendMacro calculations

Monetary velocity, quarterly



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