



The U.S. Economy and Recent Monetary Policy

Finance Professional Association

February 22, 2019

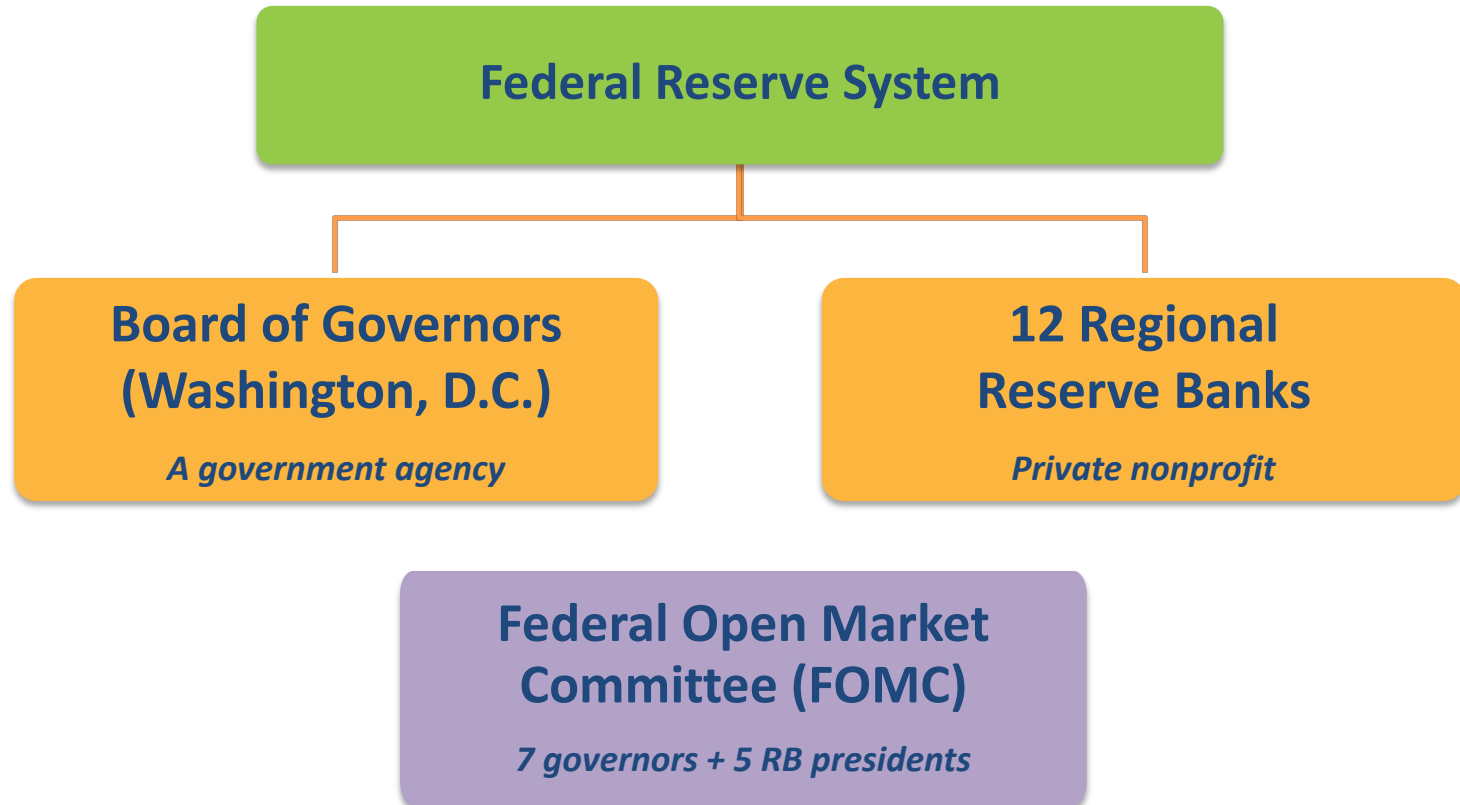
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How is the Fed Structured?



Federal Reserve Bank Districts

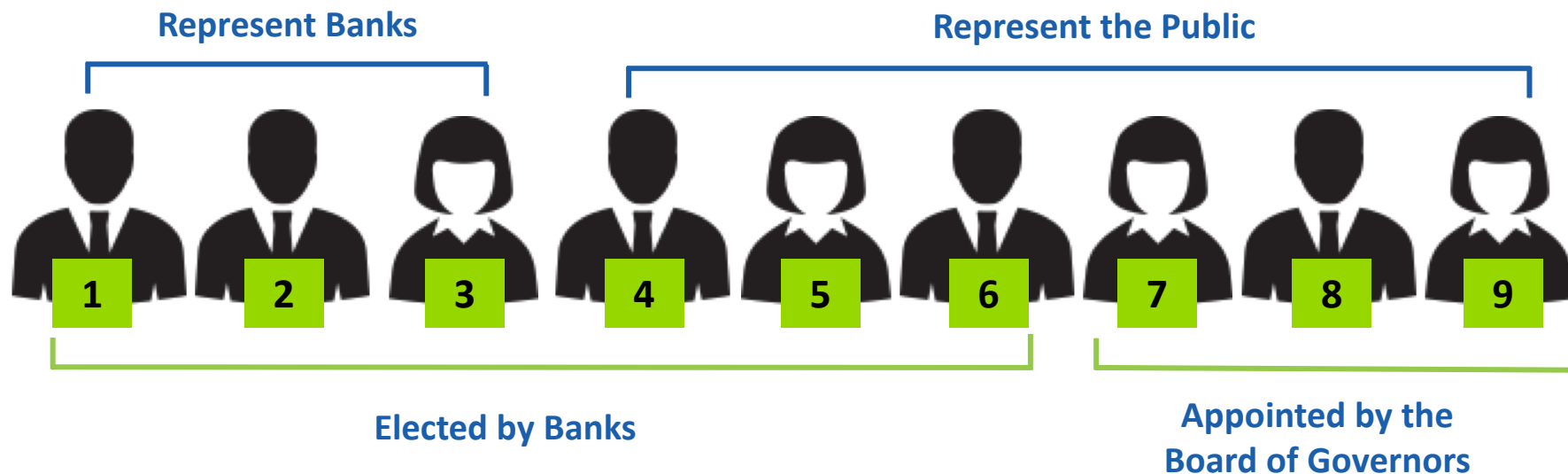


Reserve Bank Governance

Each Reserve Bank has a Board of Directors that:

- Oversees Reserve Bank operations
- Provides “grassroots” information on economic conditions

Board members that represent the public appoint Reserve Bank presidents.



Monetary Policy

Definition

Actions taken by the central bank to influence interest rates in the economy

Objectives (mandate from Congress)

1. Maximum employment
2. Stable prices
3. Moderate long-term interest rates



Goals of Monetary Policy

Explicit price stability goal

- Inflation is determined primarily by monetary policy
- Inflation goal (specified by FOMC): 2 percent on average

No explicit employment goal

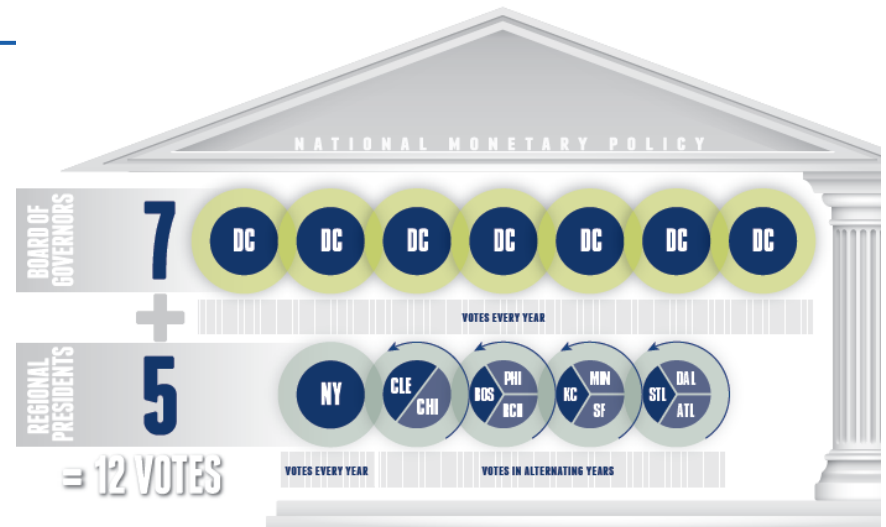
- In long run, employment is determined by factors outside monetary policy
- So, not appropriate to set fixed employment goal



Process of Monetary Policy

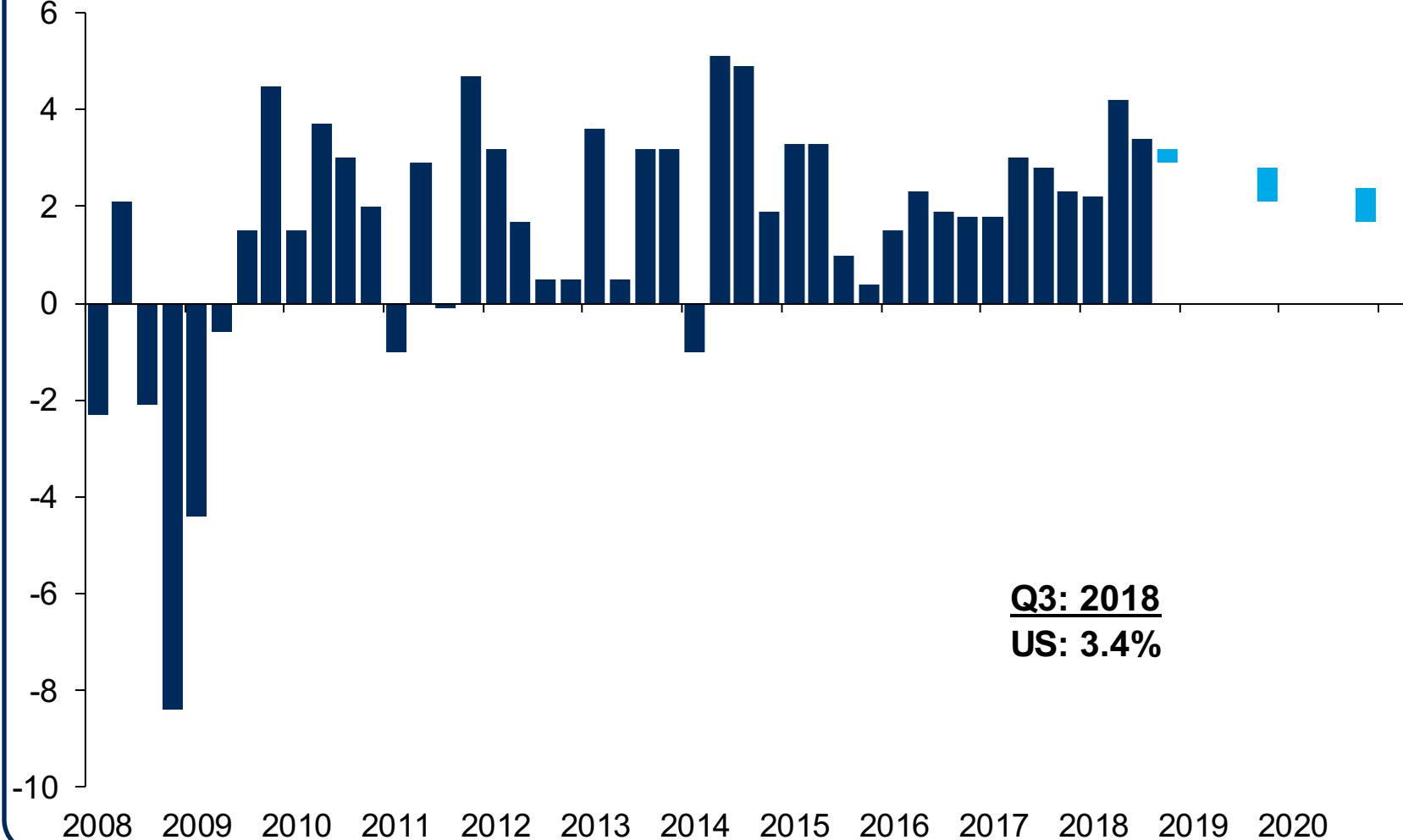
The Federal Open Market Committee (FOMC)

- 7 governors + 5 Reserve Bank presidents (4 rotating)
- Meets 8 times per year
- Analyzes economic conditions
- Determines policy



U.S. Real Gross Domestic Product

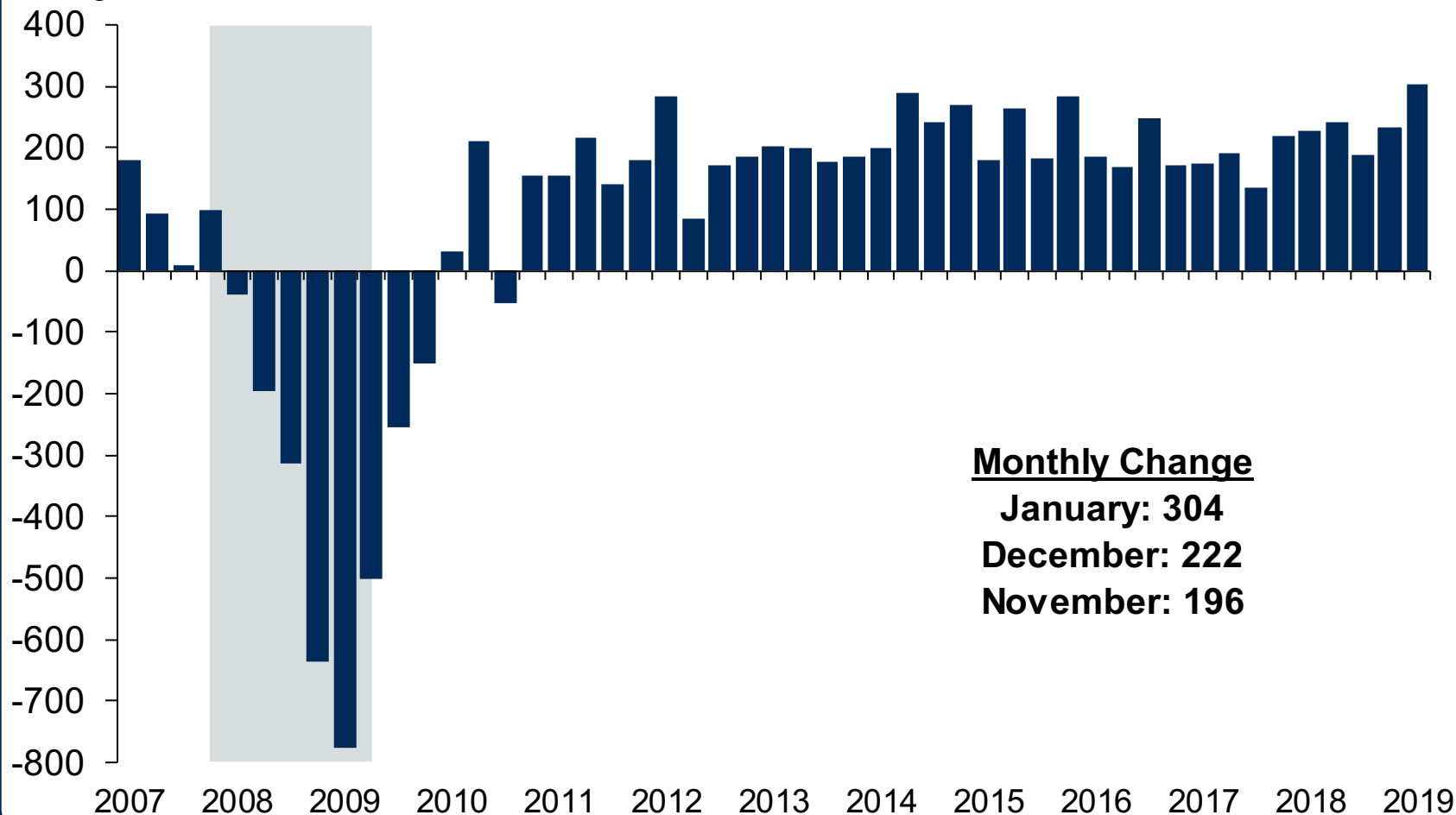
% Change, SAAR



Source: Bureau of Economic Analysis, Federal Reserve Board /Haver Analytics

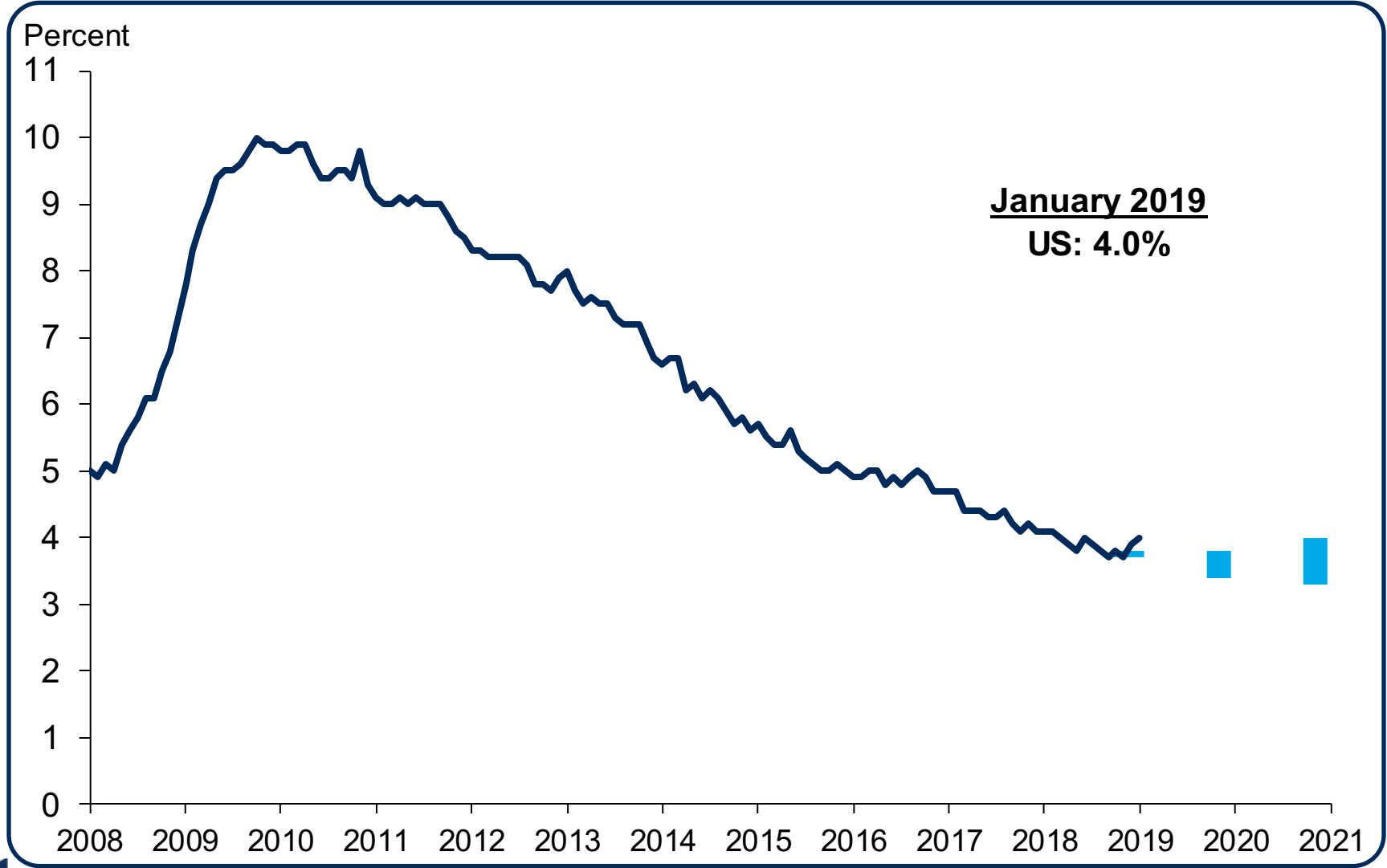
Total Employment Growth

Average Monthly
Change, Thous.



Source: Bureau of Labor Statistics/Haver Analytics

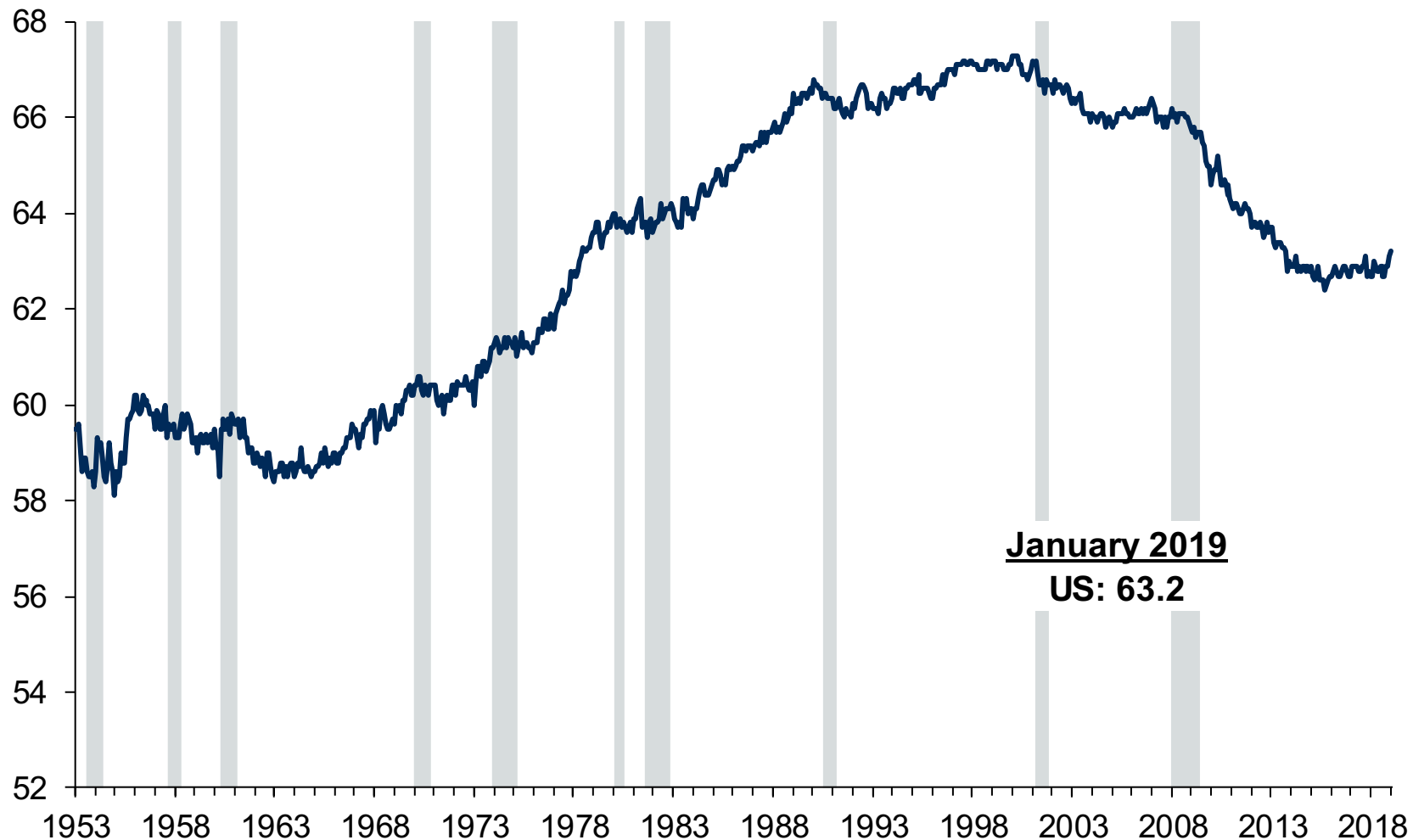
Unemployment Rate



Source: Bureau of Labor Statistics, Federal Reserve Board of Governors/Haver Analytics

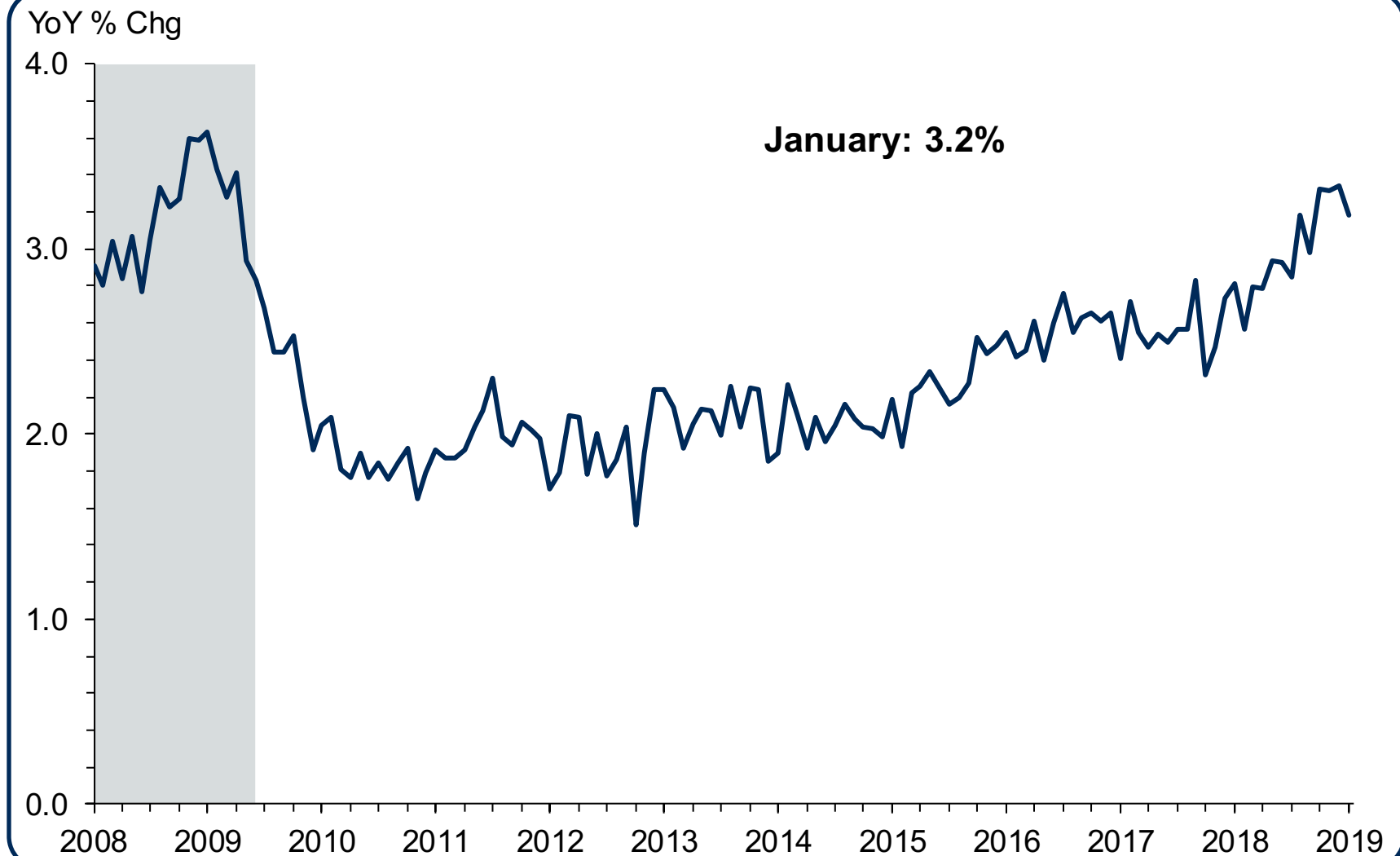
Labor Force Participation Rate

Percent of Population



Source: Bureau of Labor Statistics/Haver Analytics

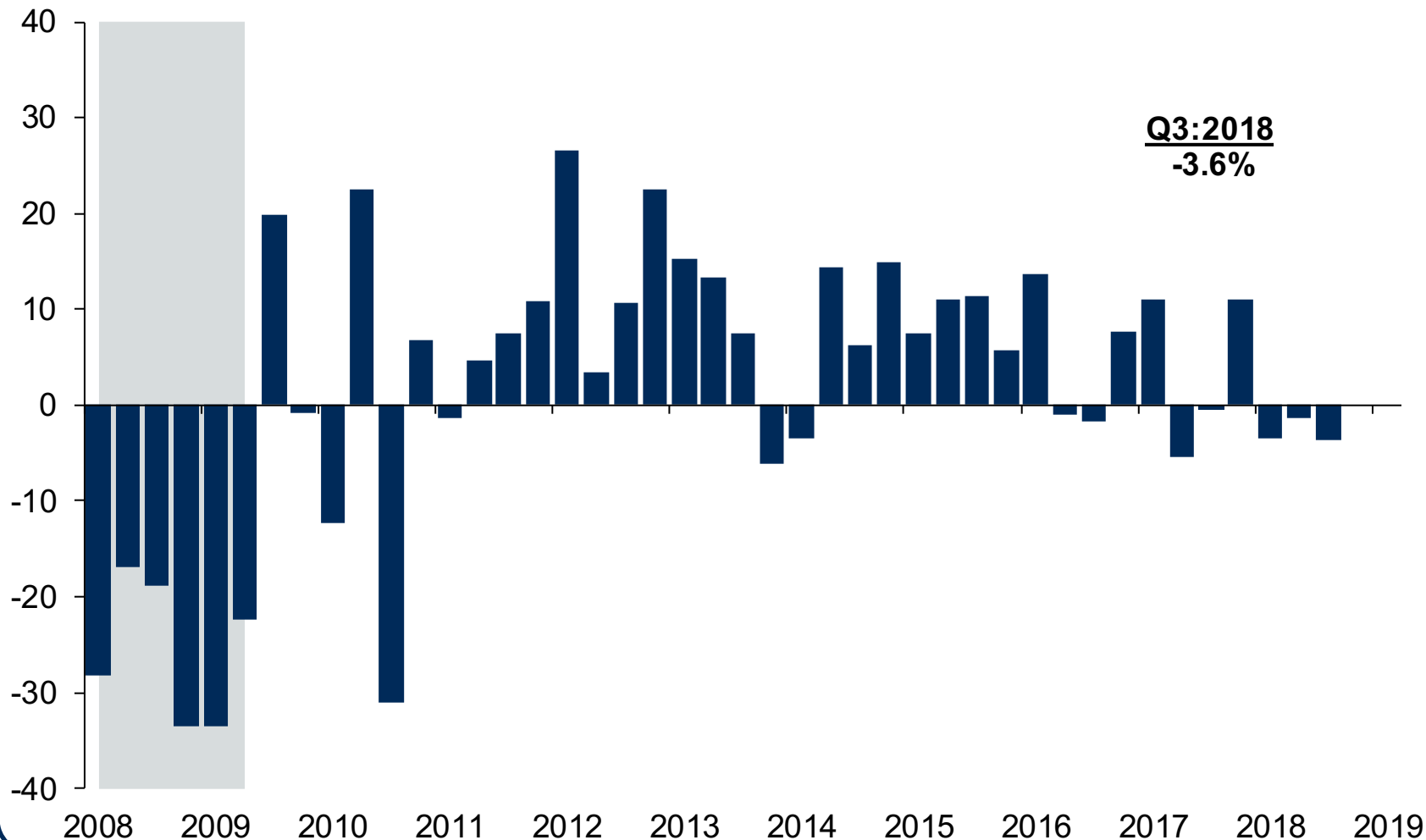
Average Hourly Earnings



Source: Bureau of Labor Statistics/Haver Analytics

Residential Fixed Investment

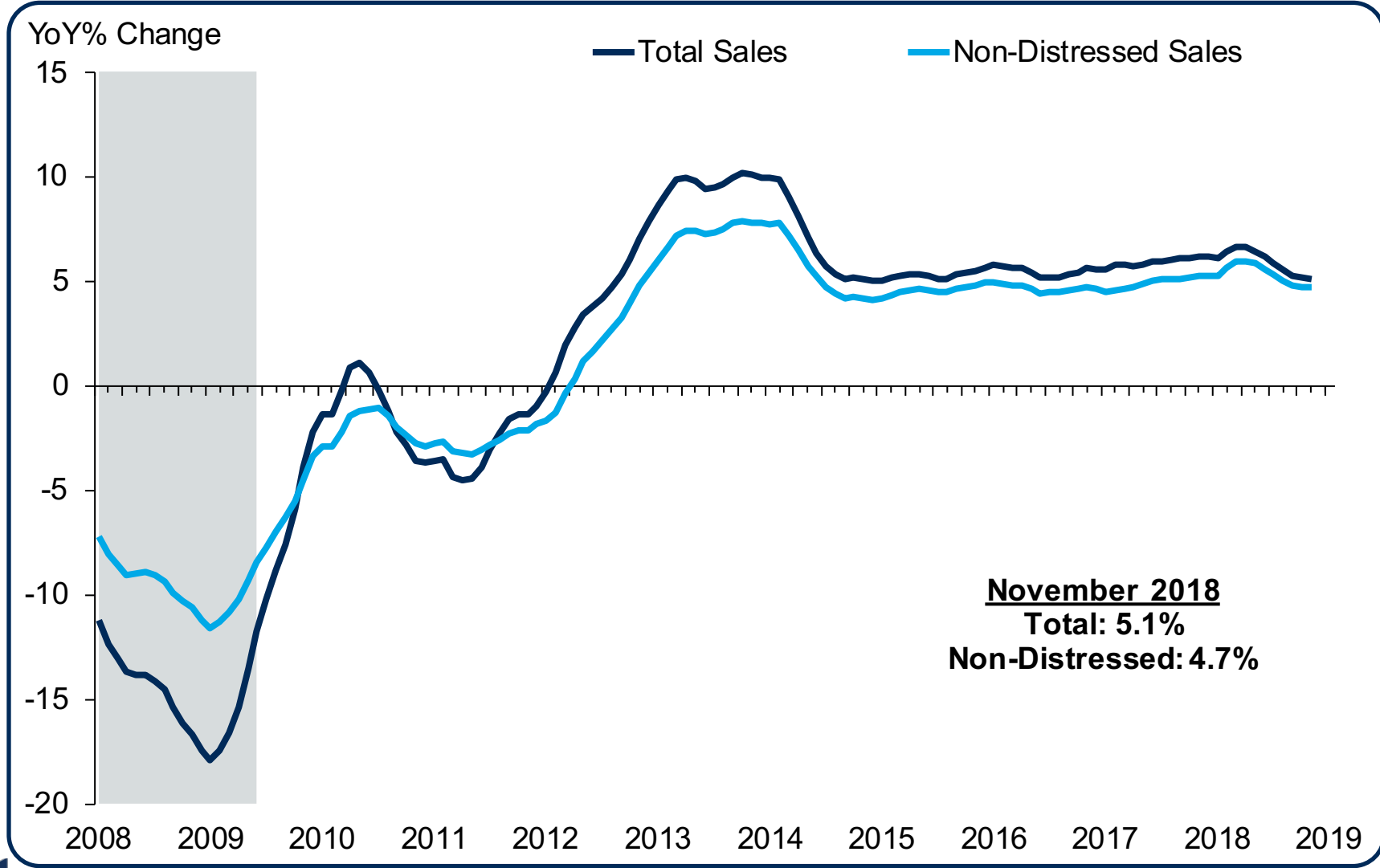
% Change, SAAR



Q3:2018
-3.6%

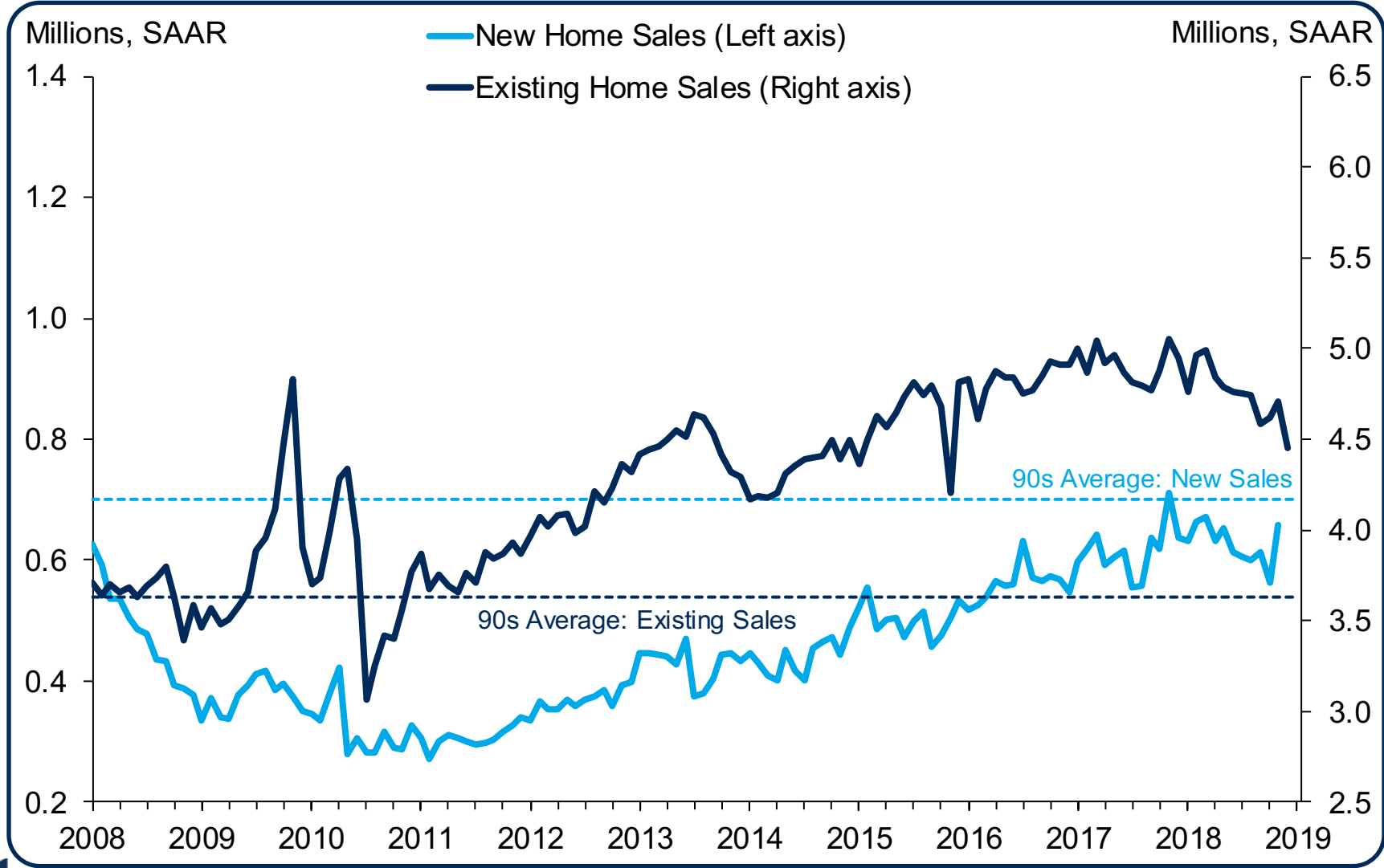
Source: Bureau of Labor Statistics/Haver Analytics

National House Prices



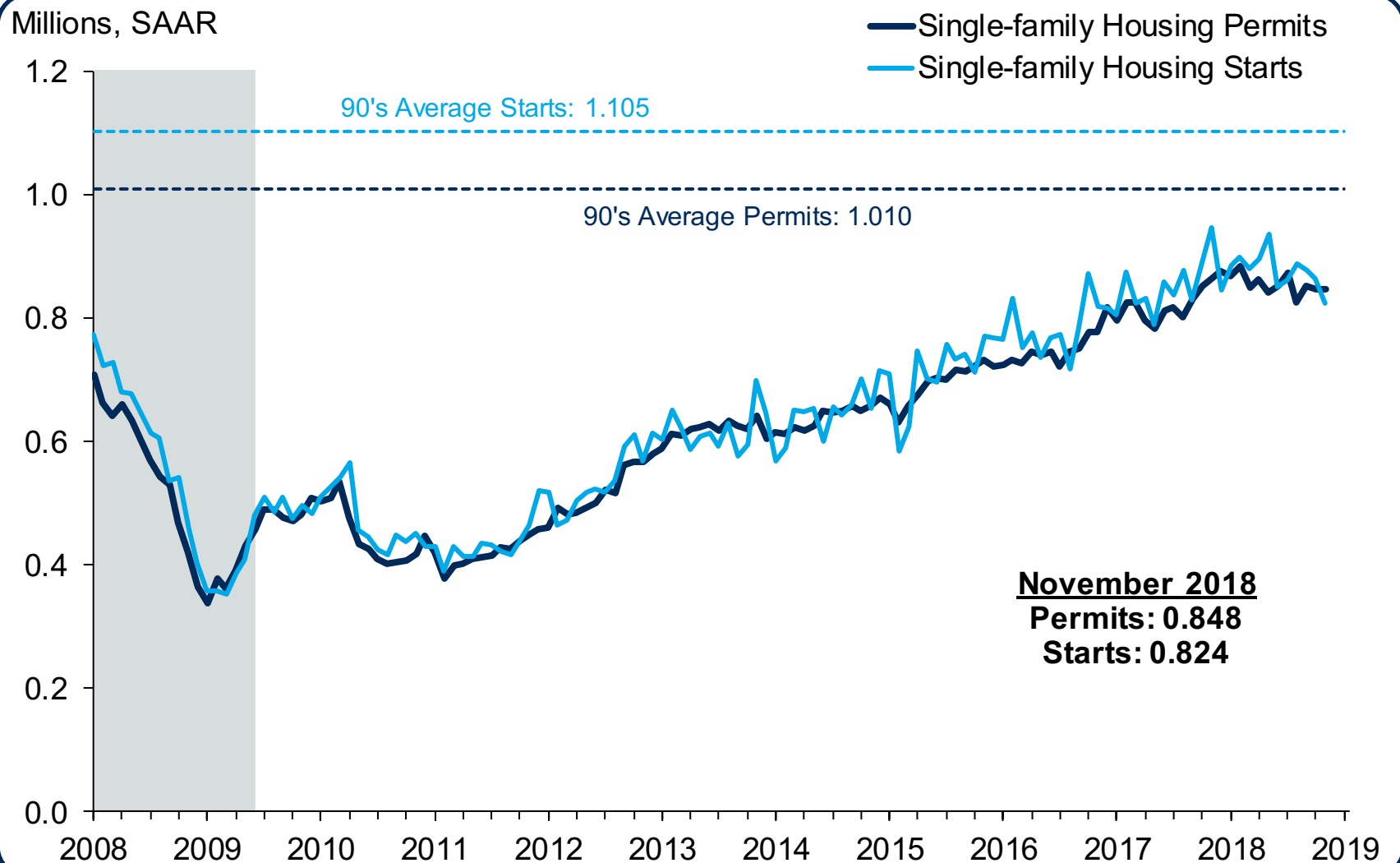
Source: CoreLogic Information Solutions, Inc.

Home Sales: United States



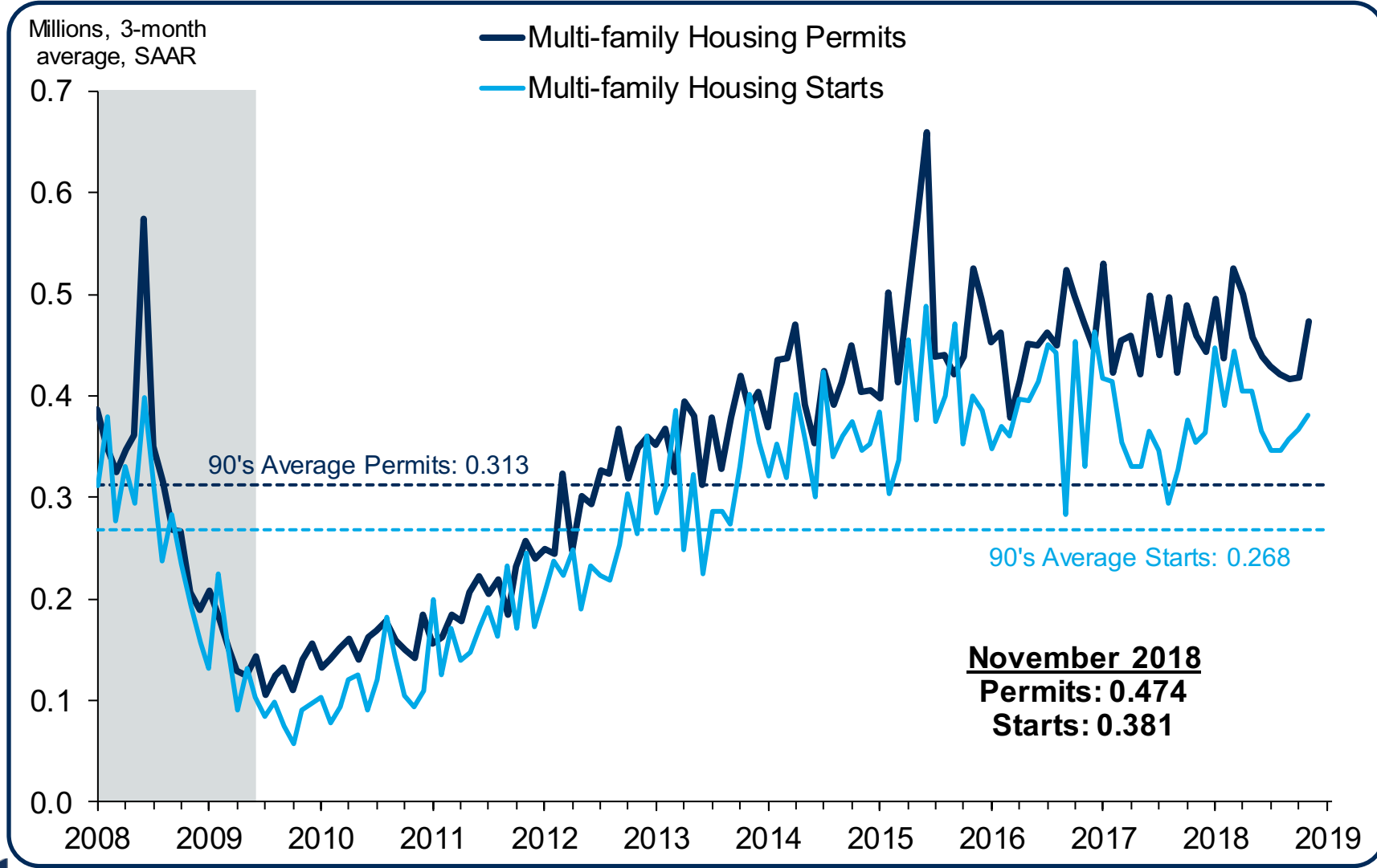
Source: National Association of Realtors/Haver Analytics

Private Single-family Housing Starts & Permits



Source: U.S. Census Bureau/Haver Analytics

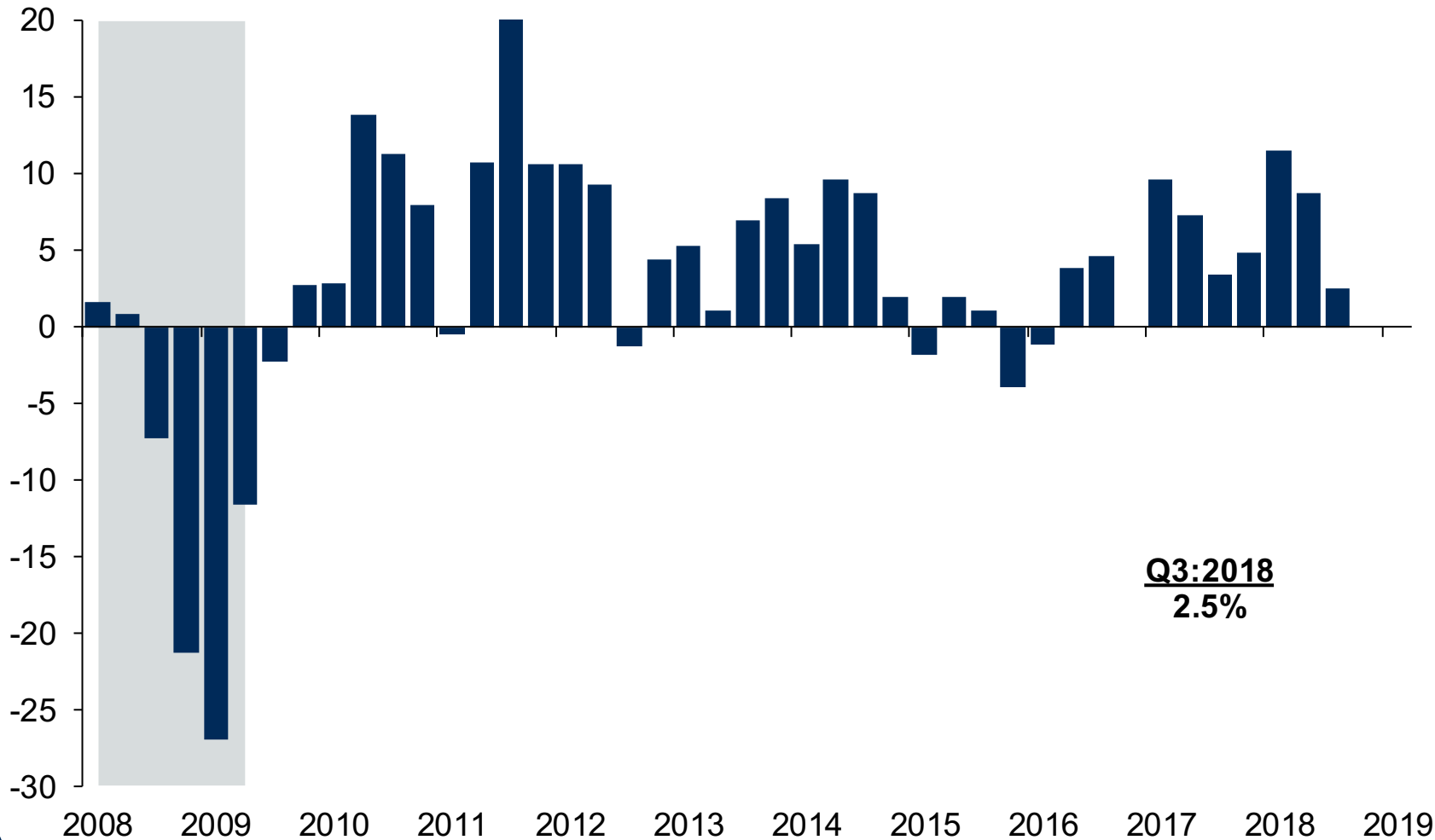
Private Multi-family Housing Starts & Permits



Source: U.S. Census Bureau/Haver Analytics

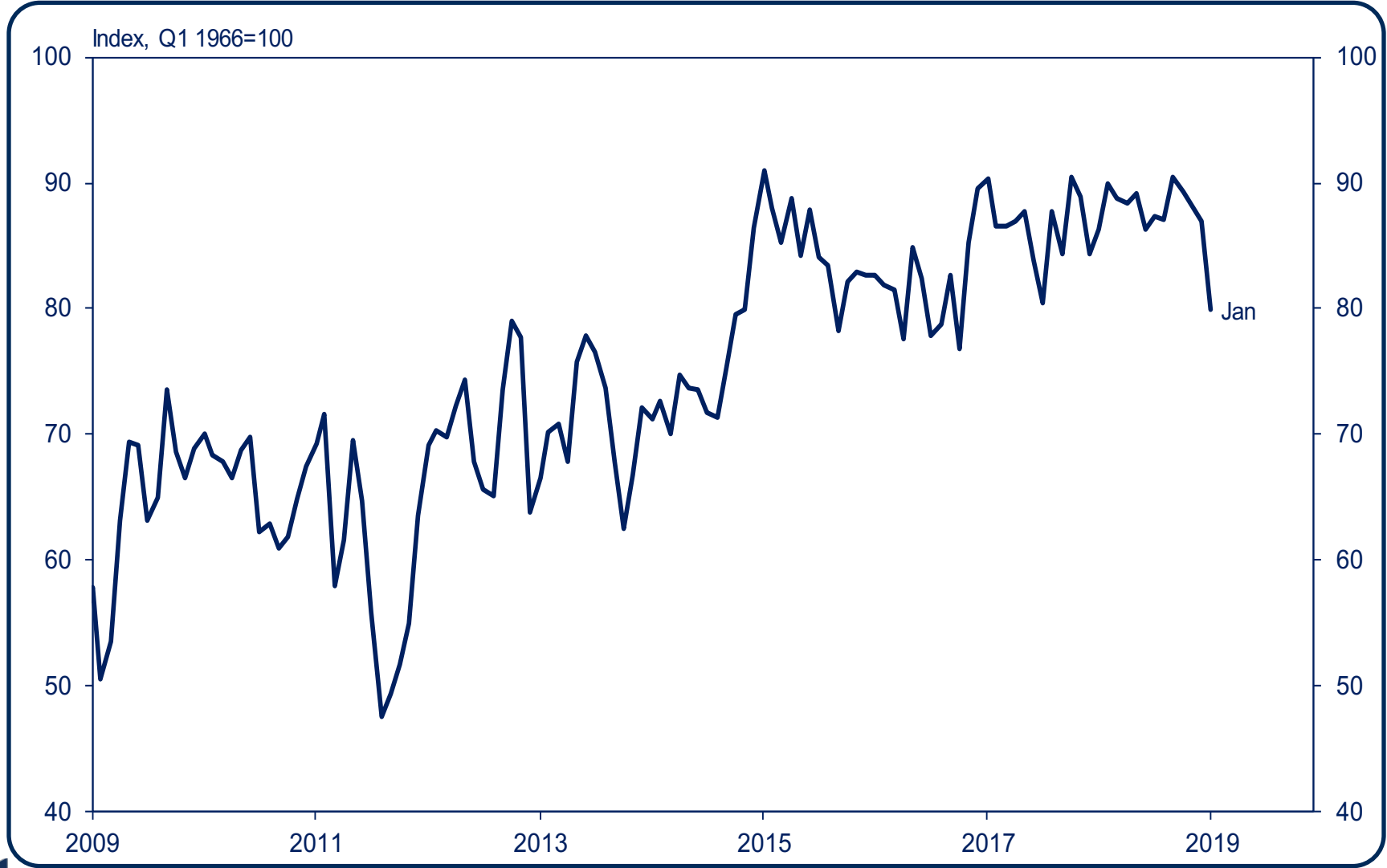
Non-residential Fixed Investment

% Change, SAAR



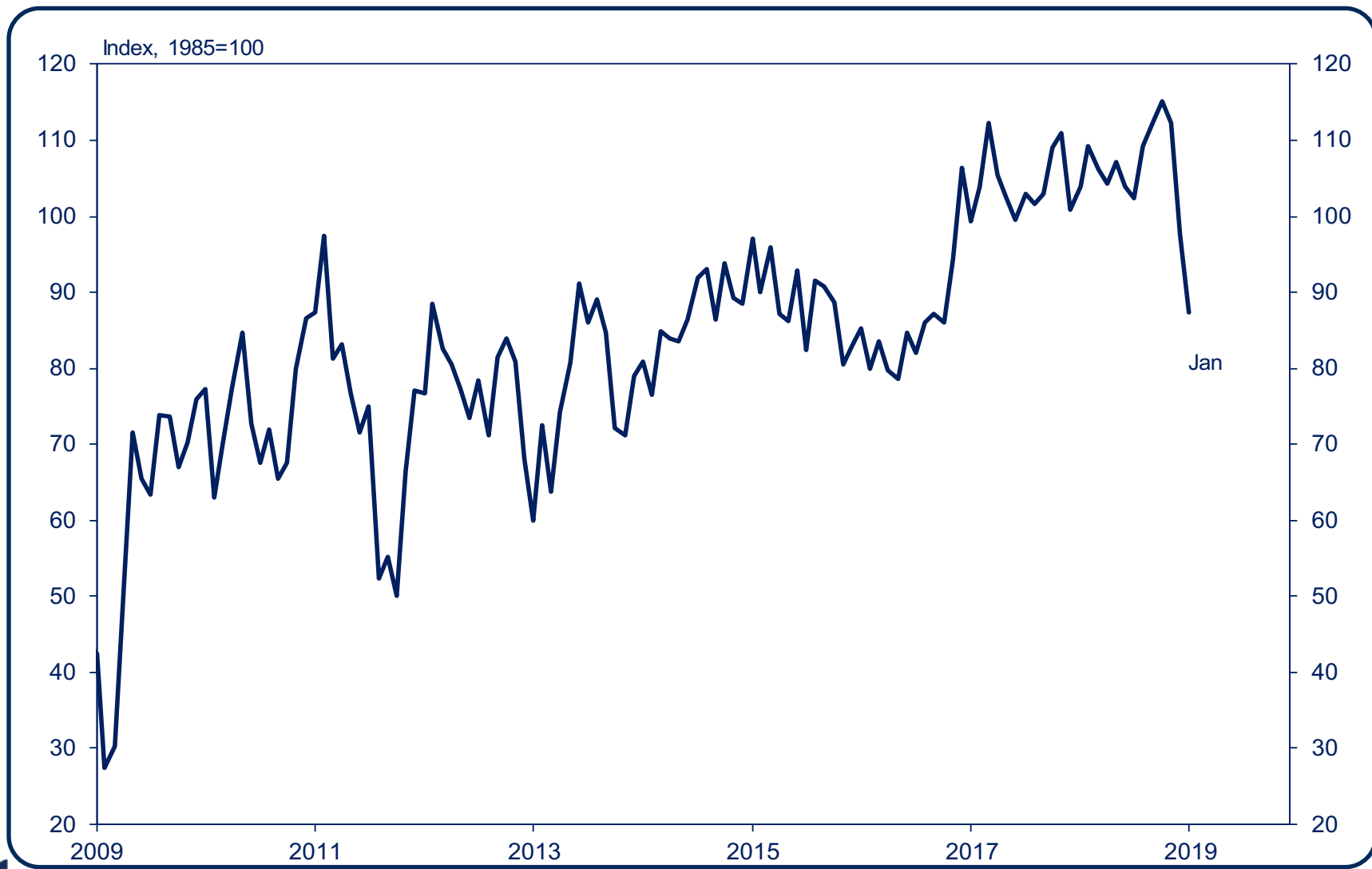
Source: Bureau of Economic Analysis via Haver Analytics

University of Michigan Consumer Expectations



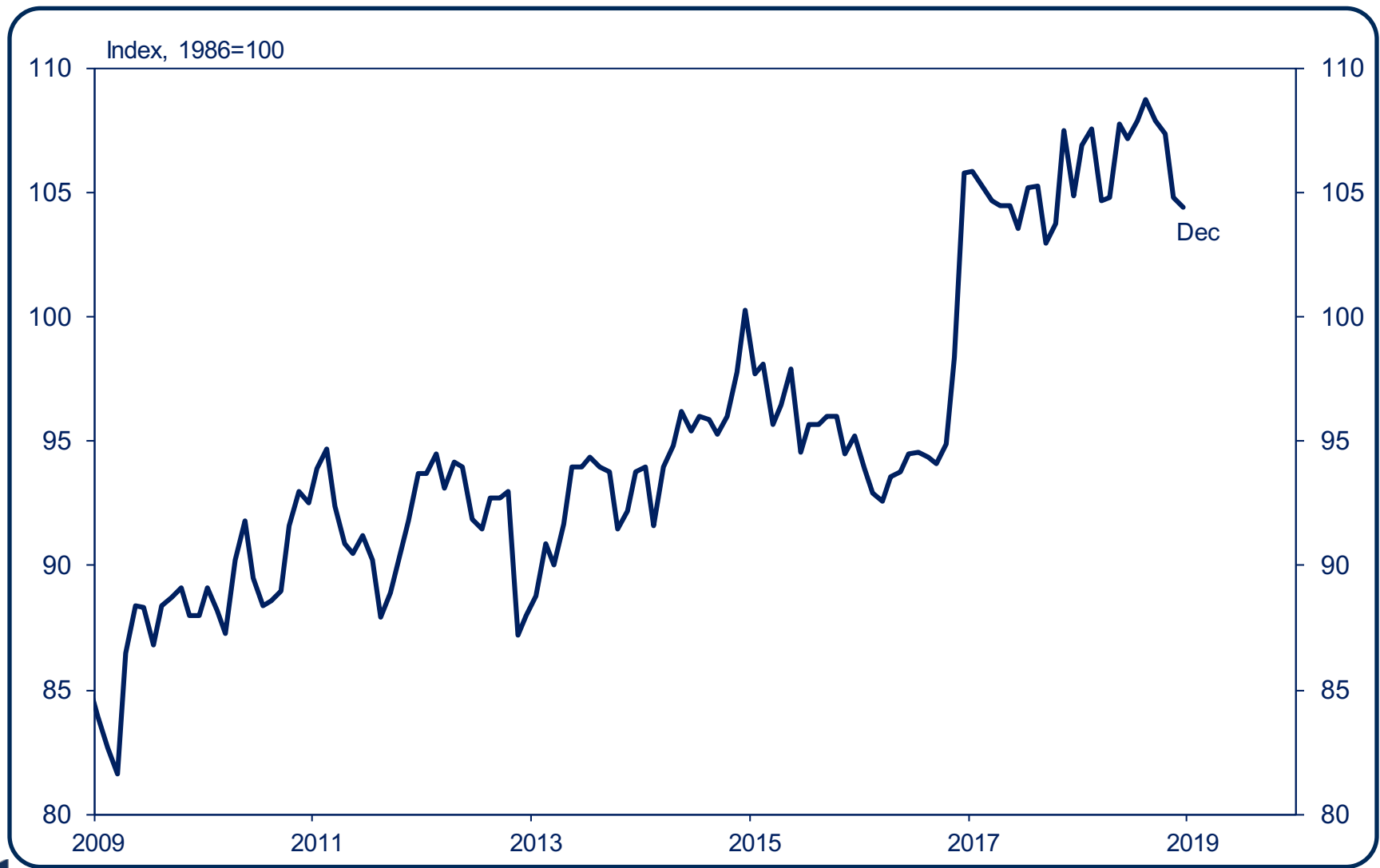
Source: University of Michigan via Haver Analytics

Conference Board Consumer Expectations



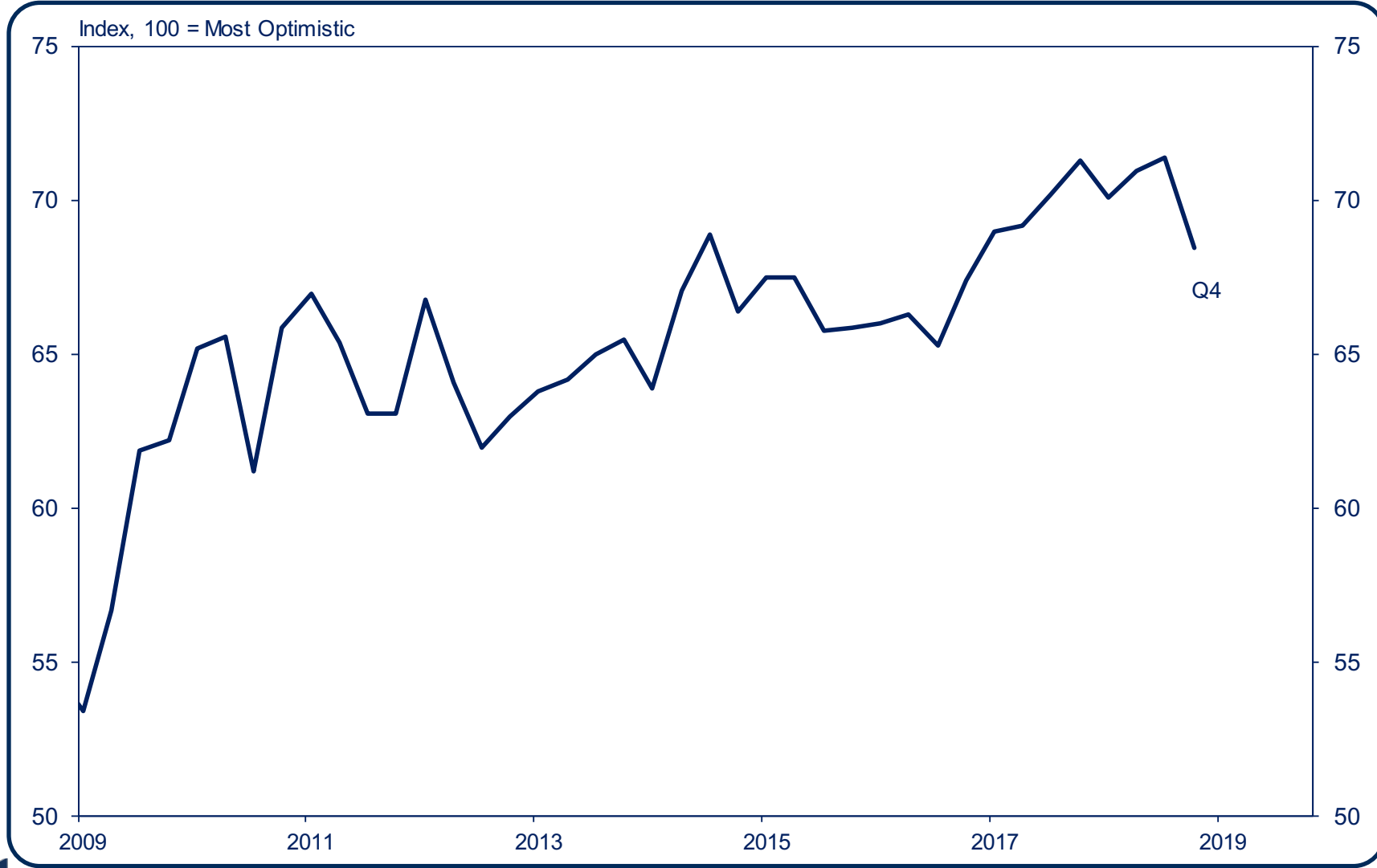
Source: The Conference Board via Haver Analytics

National Federation of Independent Business



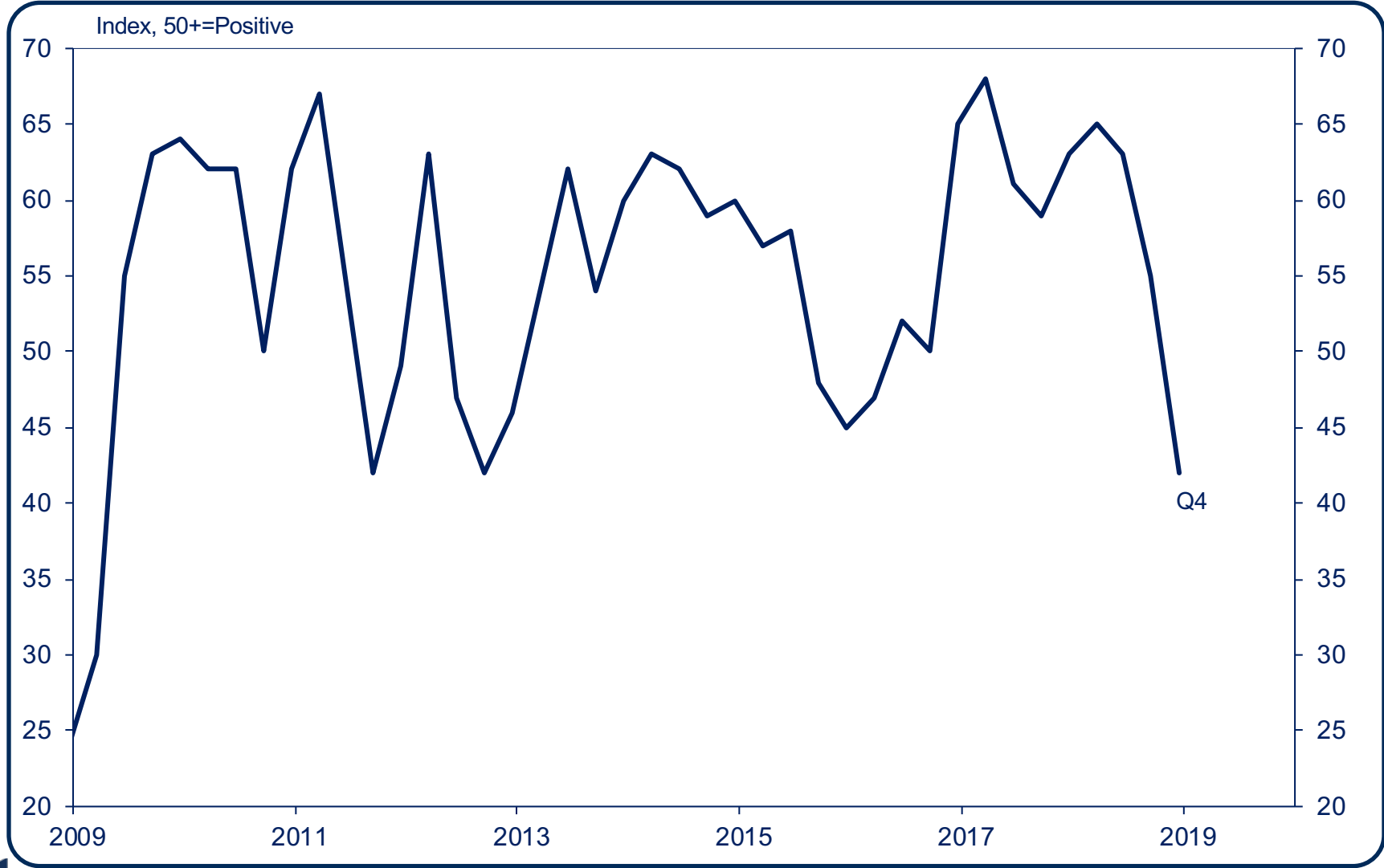
Source: NFIB via Haver Analytics

Duke/CFO Survey



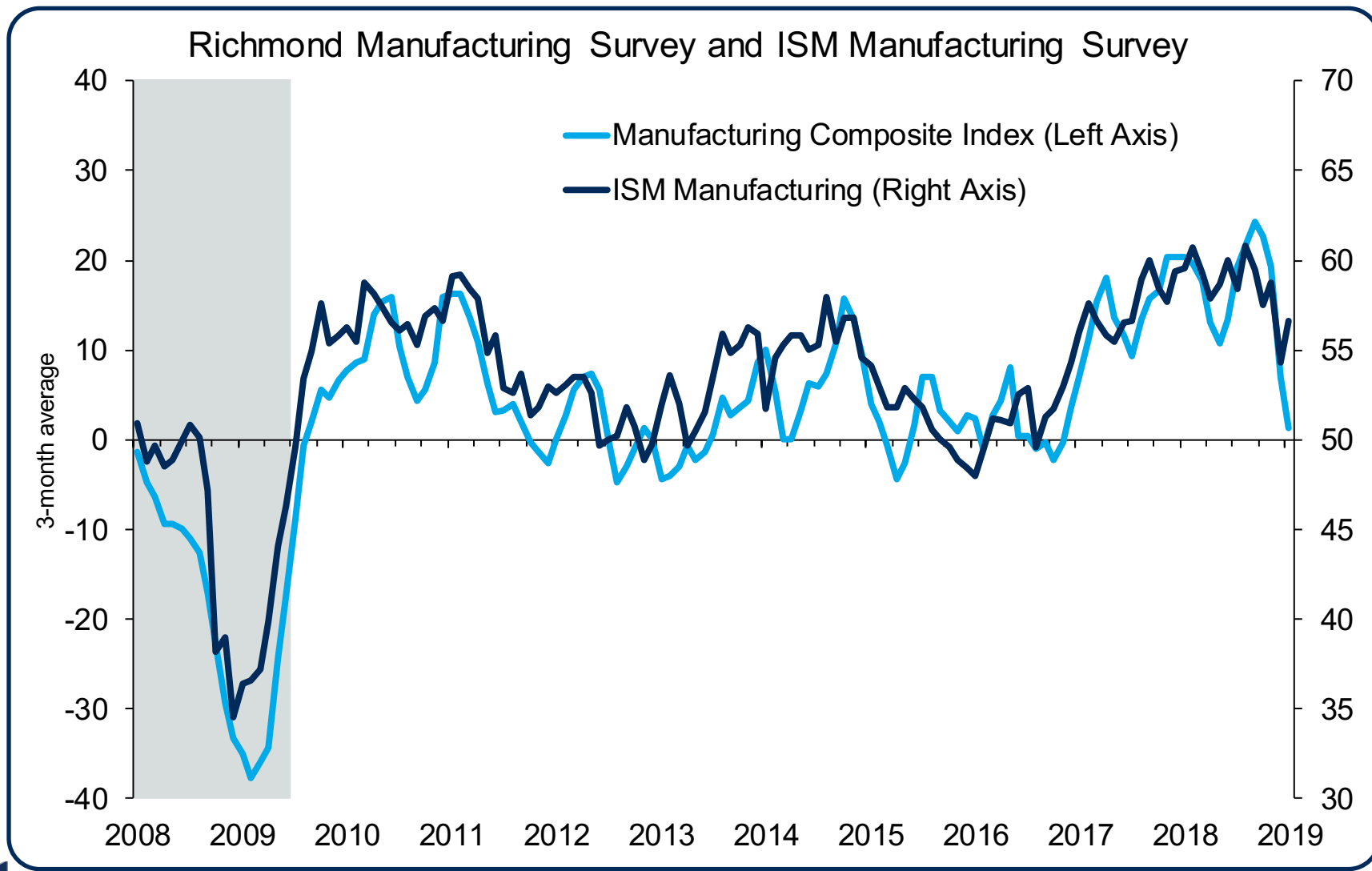
Source: Duke/CFO via Haver Analytics

Conference Board CEO Confidence



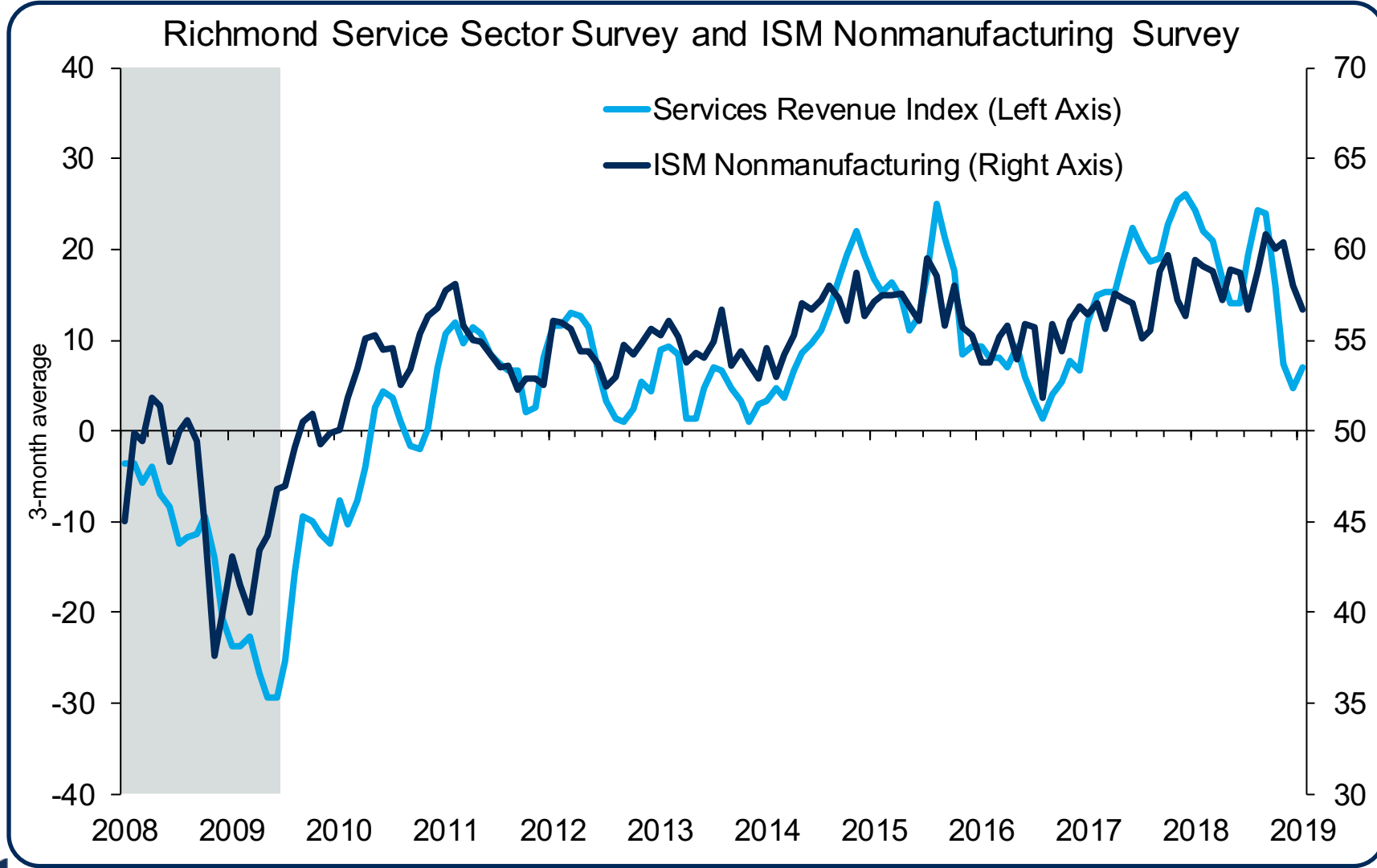
Source: The Conference Board via Haver Analytics

Economic Activity in the Fifth District Manufacturing Sector



Source: The Federal Reserve Bank of Richmond/Institute of Supply Management

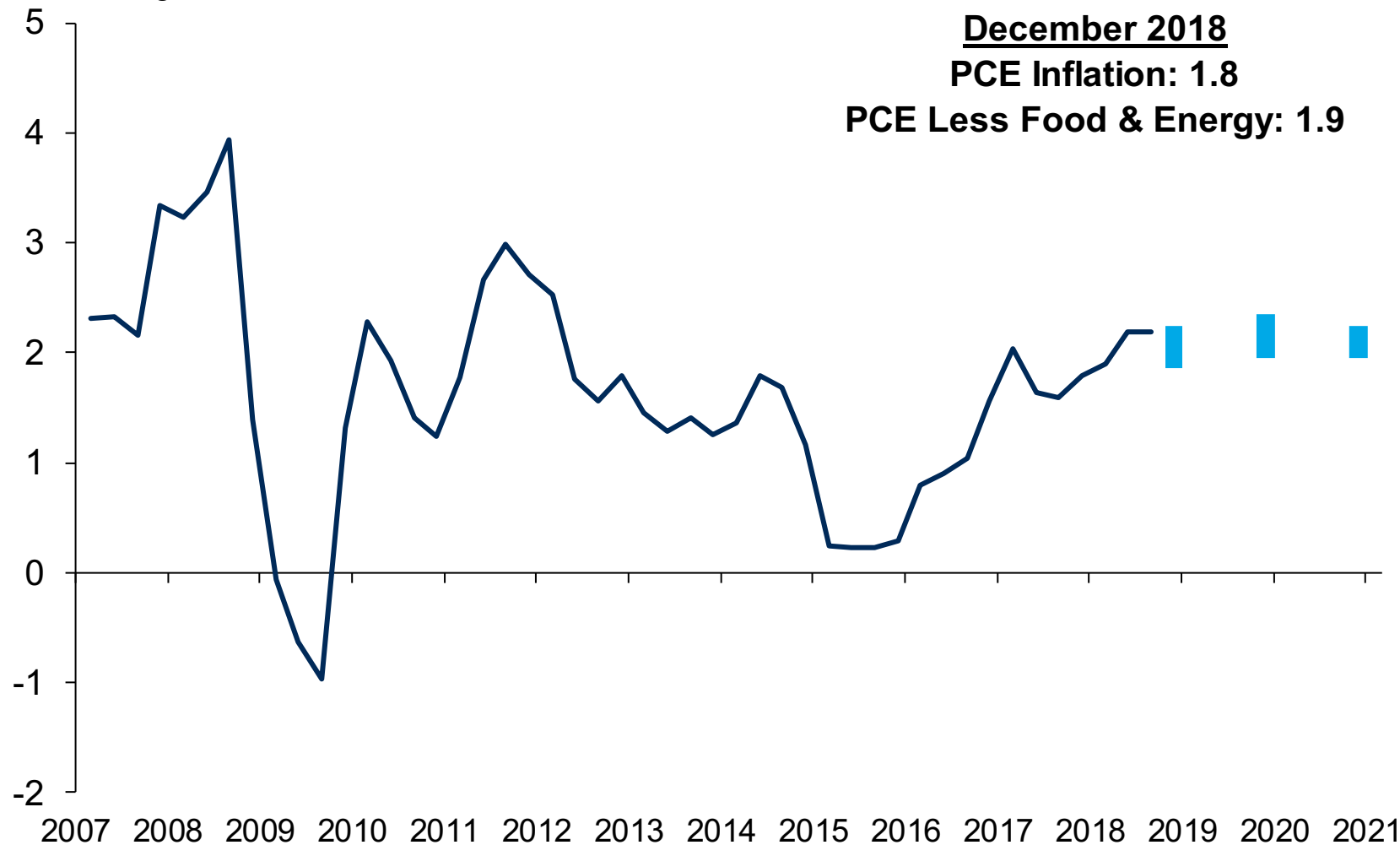
Economic Activity in the Fifth District Service Sector



Source: The Federal Reserve Bank of Richmond/Institute of Supply Management

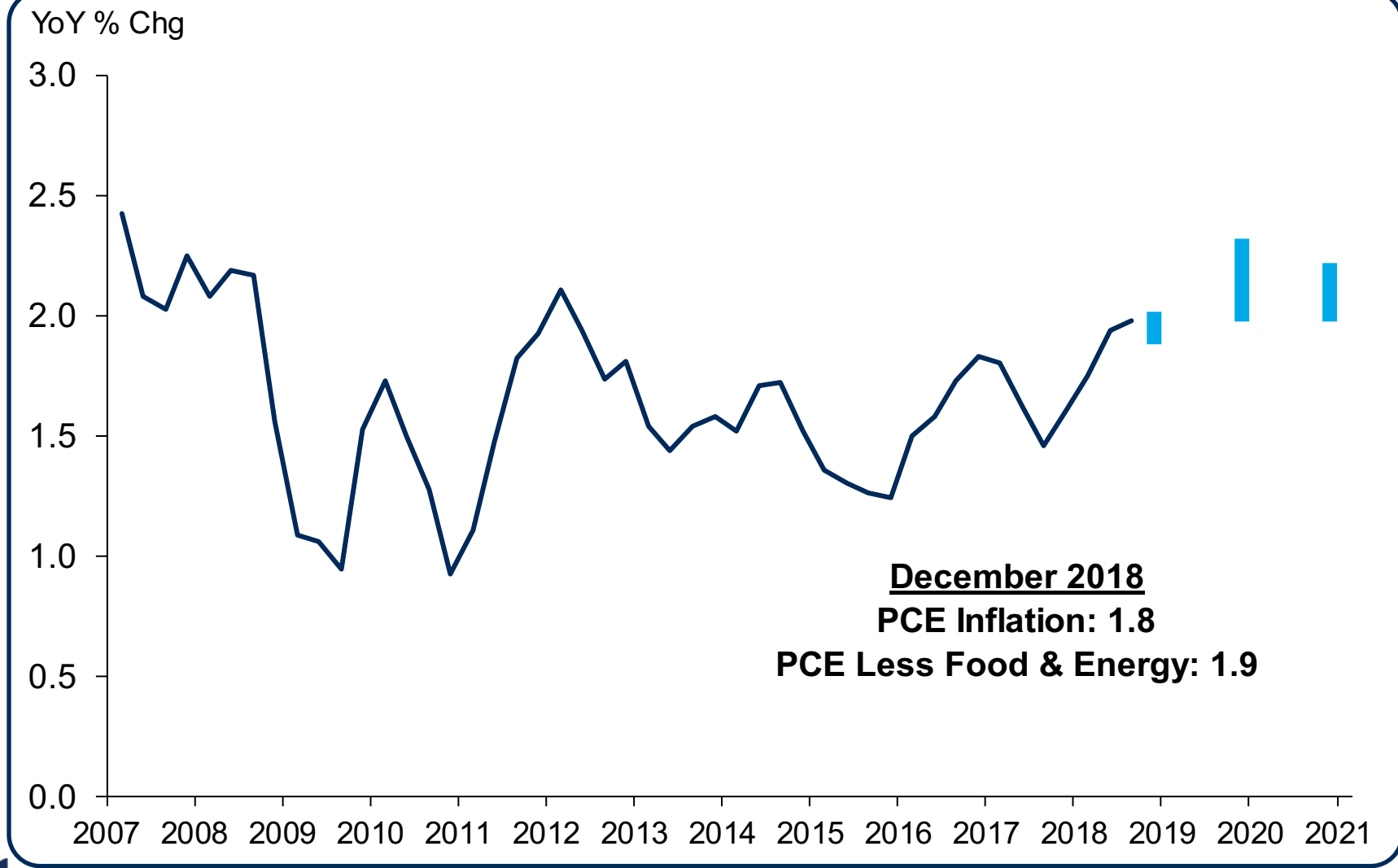
PCE Inflation

YoY % Chg



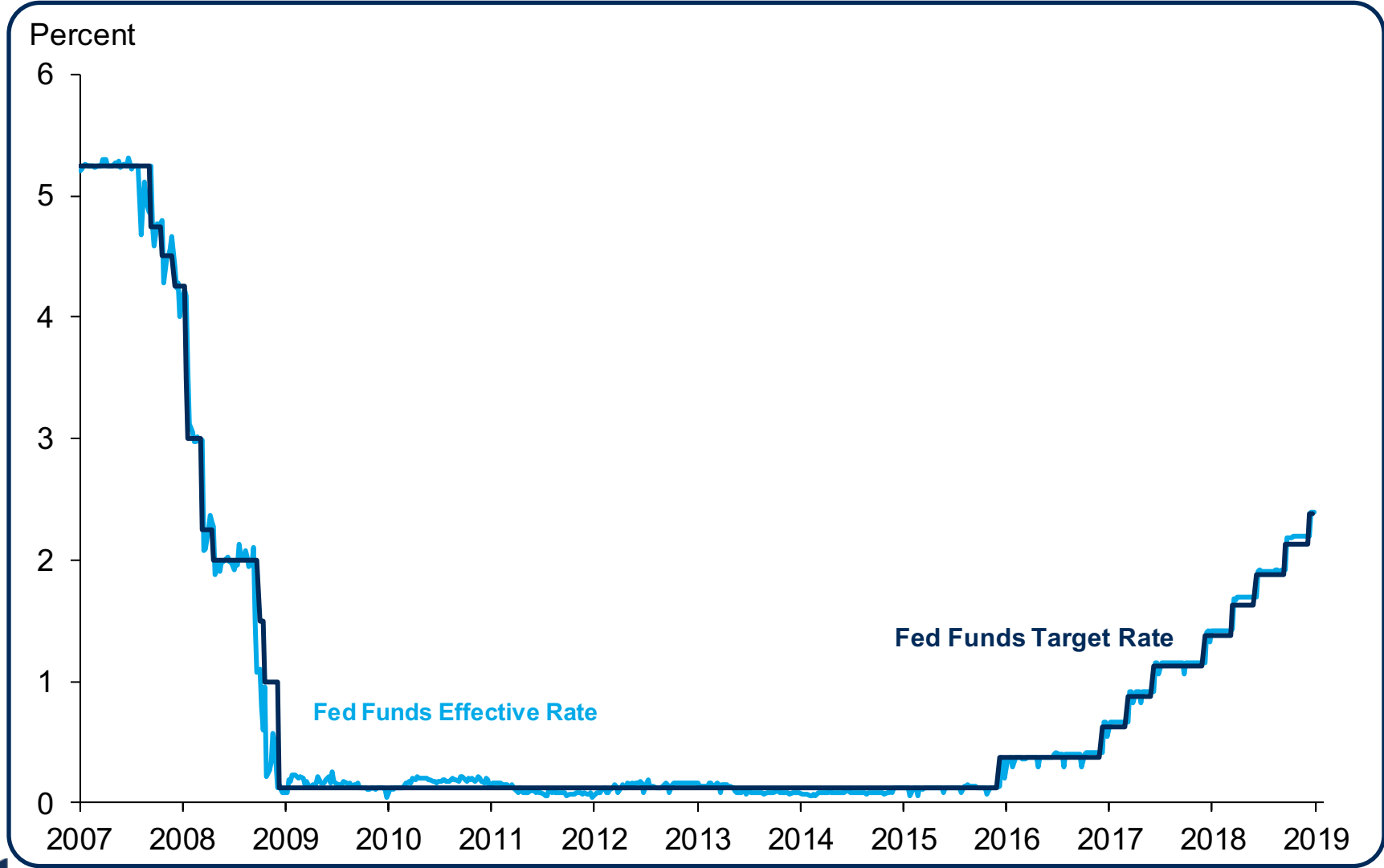
Source: Bureau of Economics Analysis, Federal Reserve Board of Governors/Haver Analytics

PCE Core Inflation



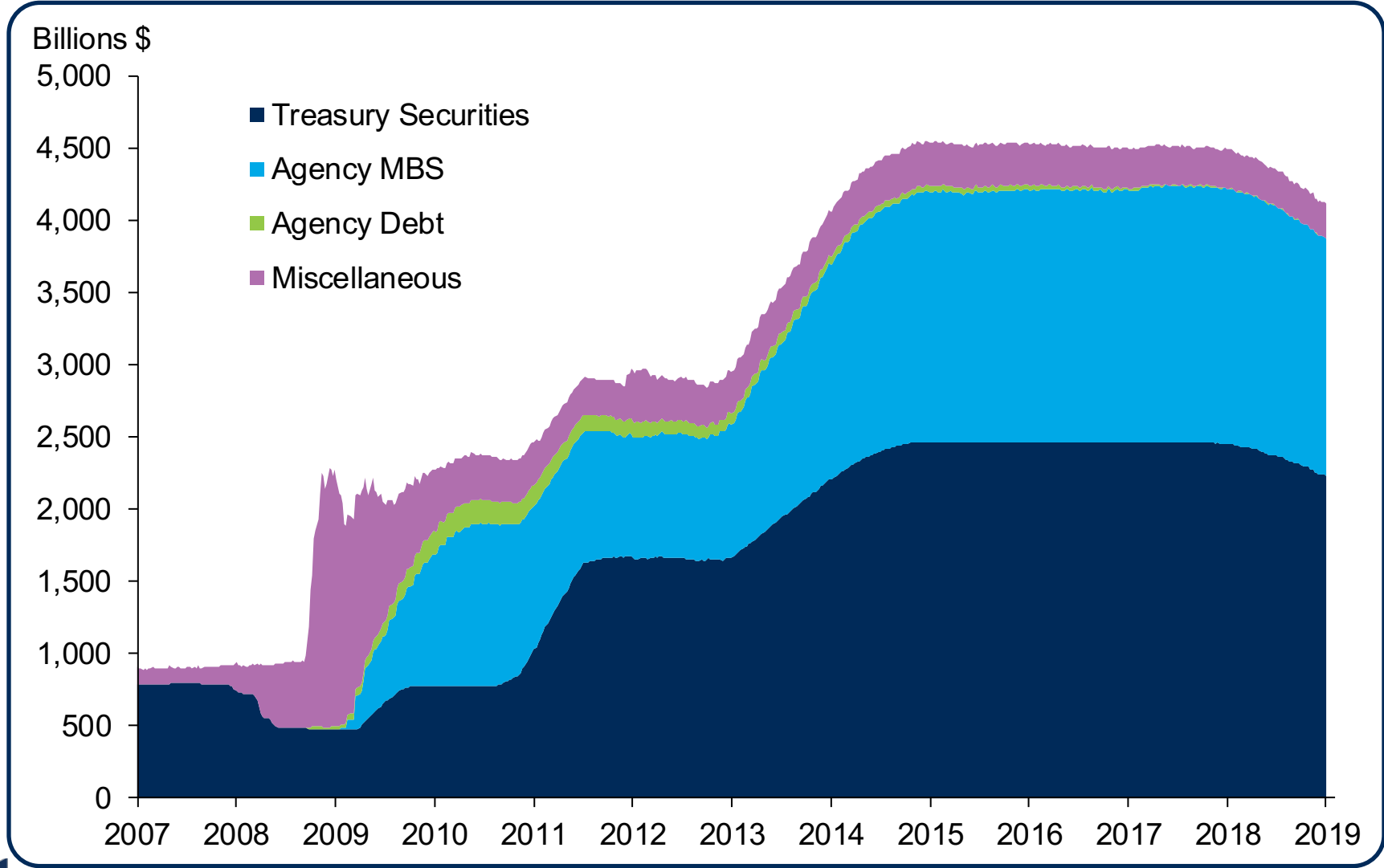
Source: Bureau of Economic Analysis, Federal Reserve
Board of Governors/Haver Analytics

Federal Funds Rate



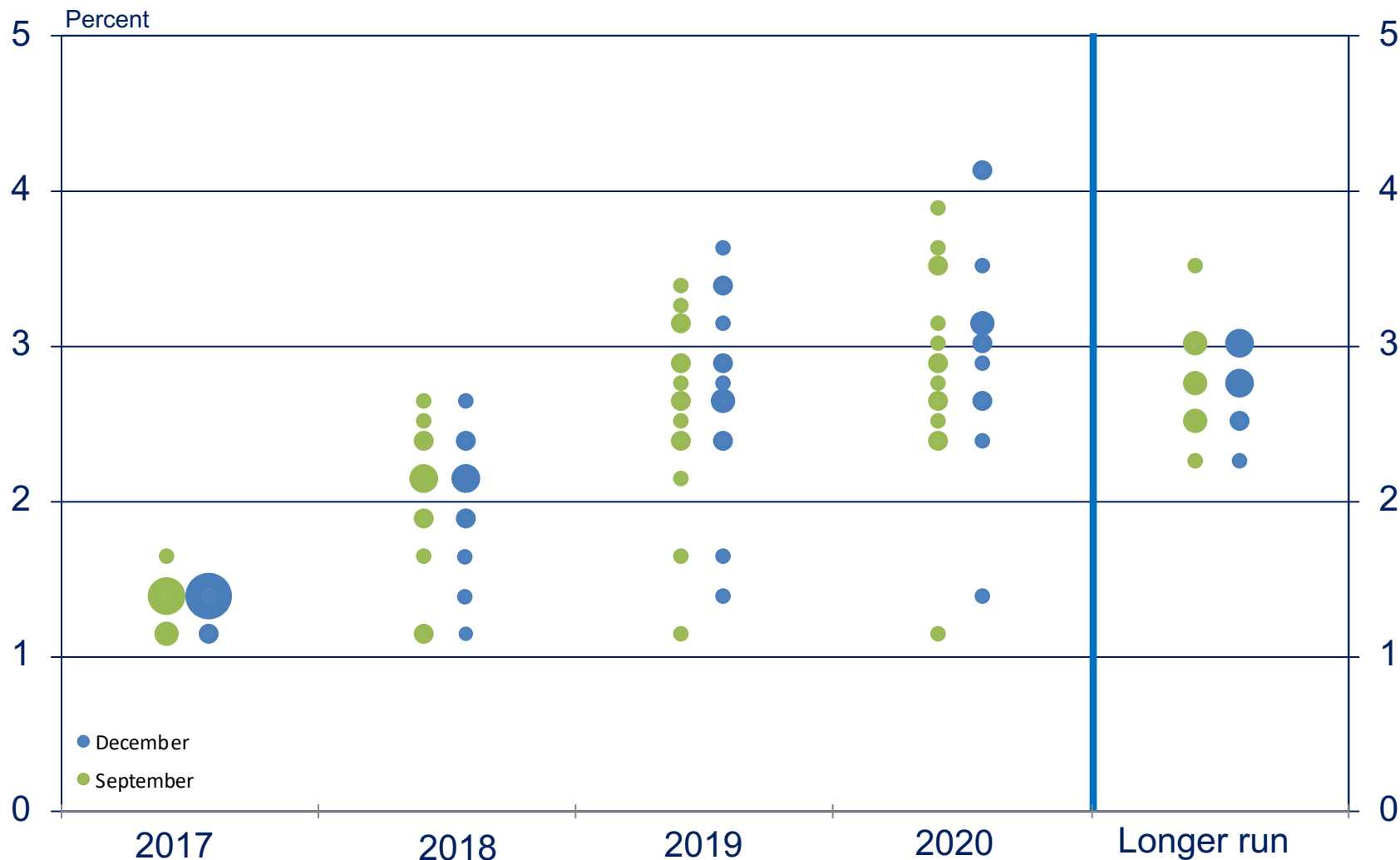
Source: Federal Reserve board and FRBNY via Haver Analytics

Federal Reserve System Assets



Source: Board of Governors via Haver Analytics

The dot plot for the Fed Funds Rate has changed very little



Note: Each dot in the chart represents the value of an FOMC participant's judgment of the midpoint of the appropriate target range (or the appropriate target level) for the federal funds rate at the end of the calendar year. Projections made for the September and December 2017 meetings.

Source: Board of Governors

FOMC Statement – January 30, 2019

Information received since the FOMC met in December indicates that the **labor market has continued to strengthen** and that **economic activity has been rising at a strong rate**...On a 12-month basis, **both overall inflation and inflation for items other than food and energy remain near 2 percent**...In support of these goals [of employment and price stability] the Committee decided to maintain the target range for the federal funds rate at 2-1/4 to 2-1/2 percent.

The Committee continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective as the most likely outcomes. In light of global economic and financial developments and muted inflation pressures, the Committee **will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate to support these outcomes.**

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 maximum employment objective and its symmetric 2 percent inflation objective.

Source: Board of Governors, January 30, 2019

Summary

- Reasons for optimism:
 - Current performance strong in the U.S. and macro performance is persistent *up to shocks*
 - Monetary policy is moving deliberately, sensitively, openly
 - Foreign economies, while not booming, not busting either
 - Shutdown effects likely to be small for macro performance
- Headwinds and Potential Risks
 - Labor constraints
 - Policy uncertainty (shutdown, trade policy, Brexit); etc.

Questions?

... and thank you!

The views and opinions expressed herein are those of the author. They do not represent an official position of the Federal Reserve Bank of Richmond or the Federal Reserve System.