

U.S. Fed Watch

April 7, 2017

FLOATINGPATH

Most Recent FOMC Statement

Changes To The FOMC's Policy Statement From February 1, 2017 To March 15, 2017

Information received since the Federal Open Market Committee met in ~~December~~ February indicates that the labor market has continued to strengthen and that economic activity has continued to expand at a moderate pace. Job gains remained solid and the unemployment rate ~~stayed near its~~ **was little changed in** recent ~~low~~ months. Household spending has continued to rise moderately while business fixed investment ~~has remained soft. Measures of consumer and business sentiment have improved of~~ **appears to have firmed somewhat**. Inflation ~~has~~ increased in recent quarters ~~but is still below~~, **moving close to** the Committee's 2 percent longer-run objective; **excluding energy and food prices, inflation was little changed and continued to run somewhat below 2 percent**. Market-based measures of inflation compensation remain low; ~~most~~ survey-based measures of longer-term inflation expectations are little changed, on balance.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace, labor market conditions will strengthen somewhat further, and inflation will ~~rise to~~ **stabilize around** 2 percent over the medium term. Near-term risks to the economic outlook appear roughly balanced. The Committee continues to closely monitor inflation indicators and global economic and financial developments.

In view of realized and expected labor market conditions and inflation, the Committee decided to ~~maintain~~ the target range for the federal funds rate ~~at 1/2 to 3/4 to 3/4~~ **1** percent. The stance of monetary policy remains accommodative, thereby supporting some further strengthening in labor market conditions and a **sustained** 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 developments relative to its symmetric** 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.

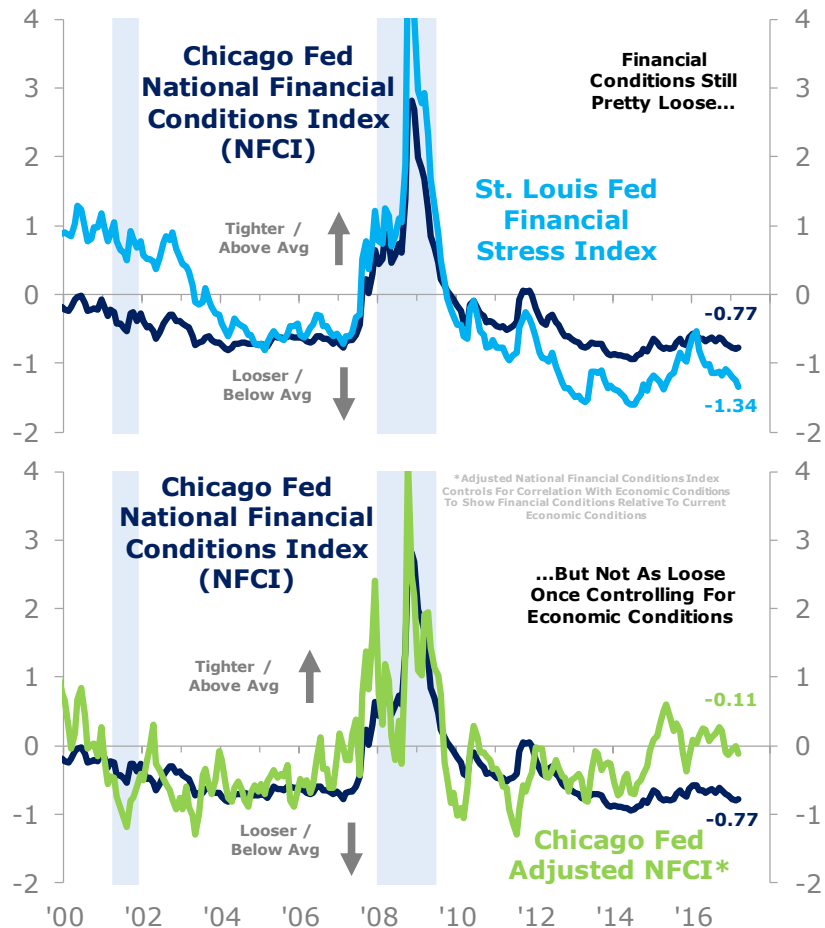
Voting for the FOMC monetary policy action were: Janet L. Yellen, Chair; William C. Dudley, Vice Chairman; Lael Brainard; Charles L. Evans; Stanley Fischer; Patrick Harker; Robert S. Kaplan; ~~Neel Kashkari~~; Jerome H. Powell; and Daniel K. Tarullo. **Voting against the action was Neel Kashkari, who preferred at this meeting to maintain the existing target range for the federal funds rate.**

Source: Floating Path, Federal Reserve

Financial Conditions Still Loose

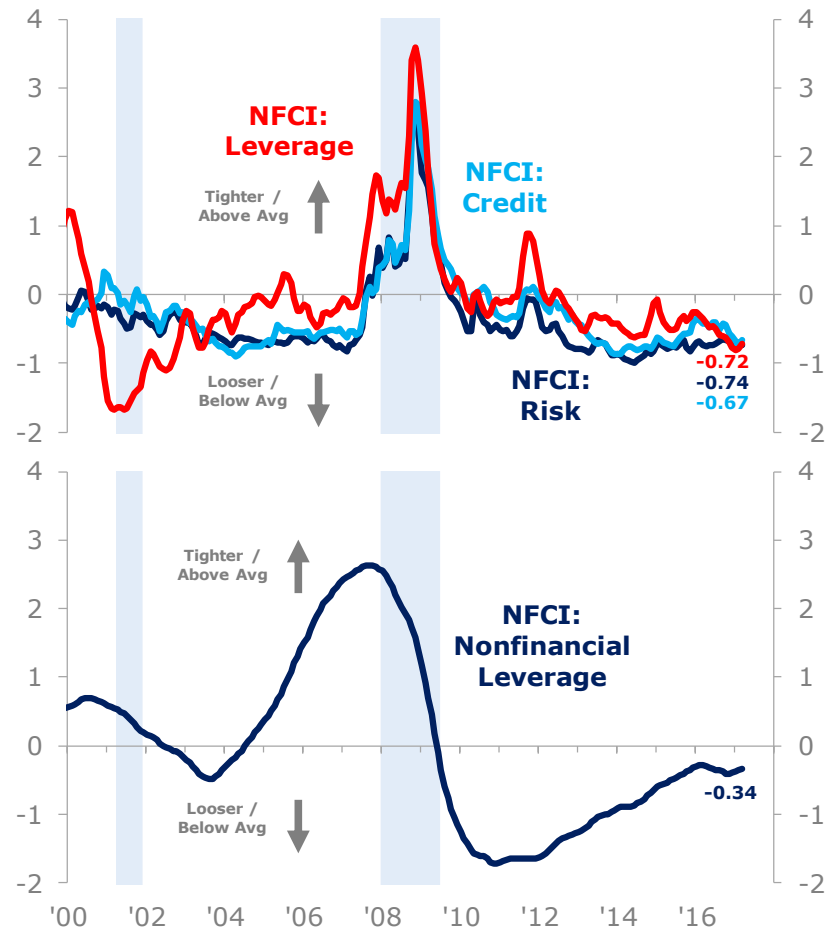
Financial Conditions As The Fed Sees Them Have Not Tightened Materially...

U.S. Financial Conditions



...Nonfinancial Leverage Is Nearly Back To A Neutral Reading

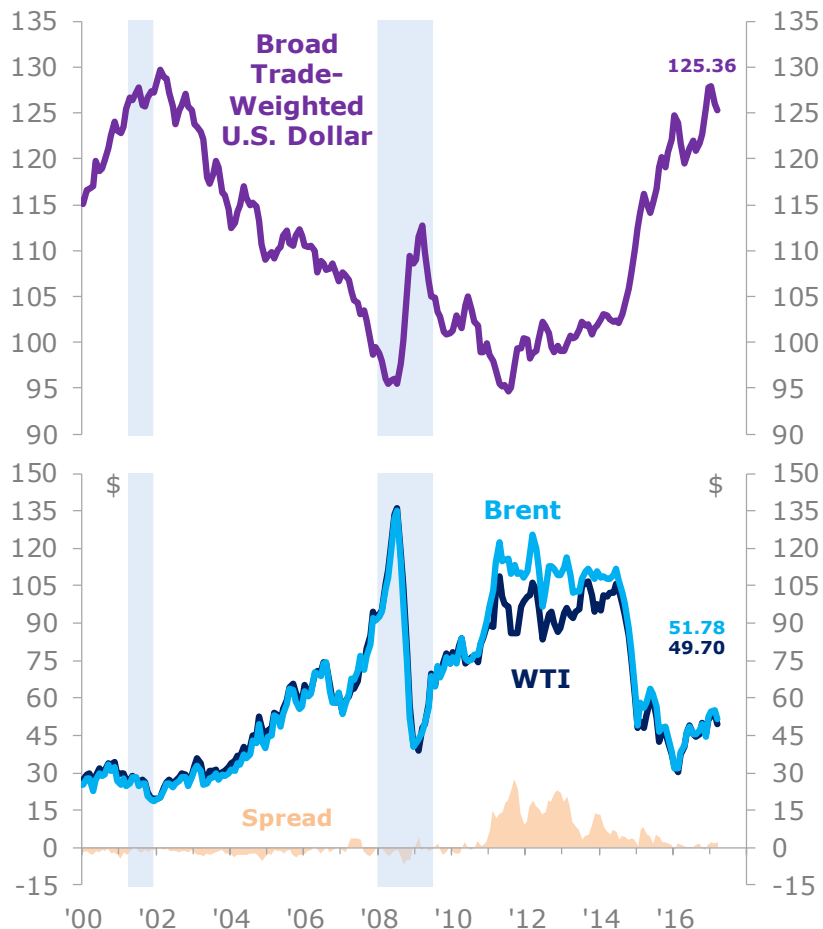
U.S. Financial Conditions



Oil And The U.S. Dollar

After Rising Since 2011, The U.S. Dollar Peak In January Of This Year...

U.S. Dollar And Oil



Source: Floating Path, Federal Reserve, EIA

...Stock Market Volatility Has Been Extremely Quiet

U.S. Market Volatility

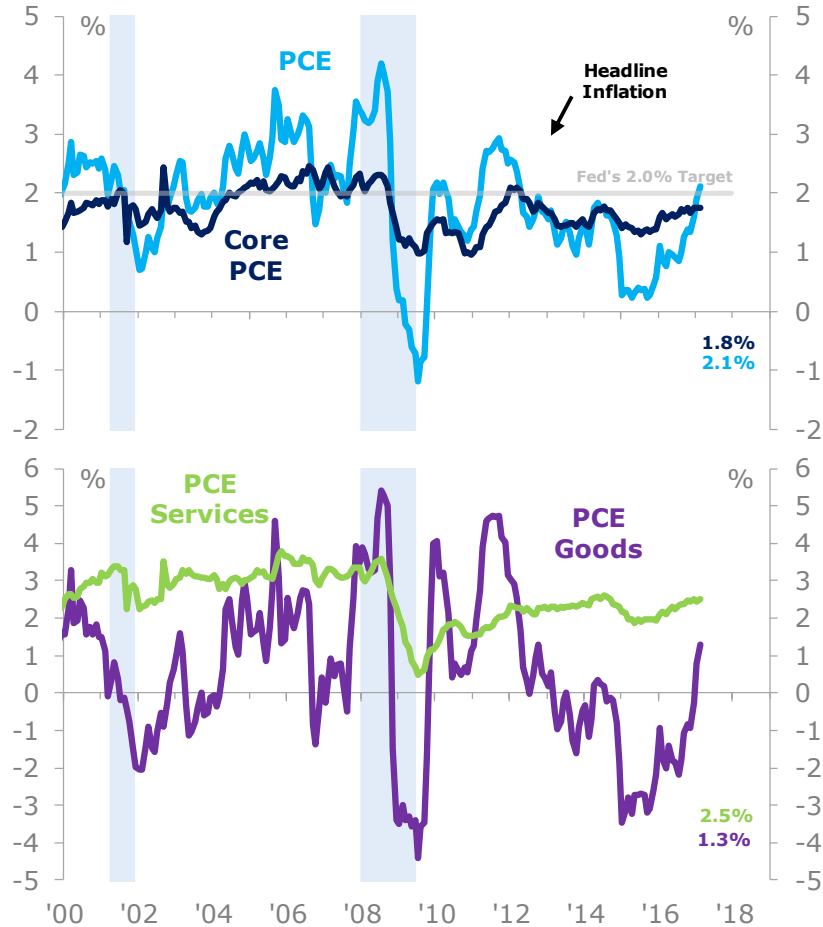


Source: Floating Path, CBOE

The Dual Mandate

PCE Price Inflation, The Fed's Preferred Measure, Is Now Above Its 2.0% Target...

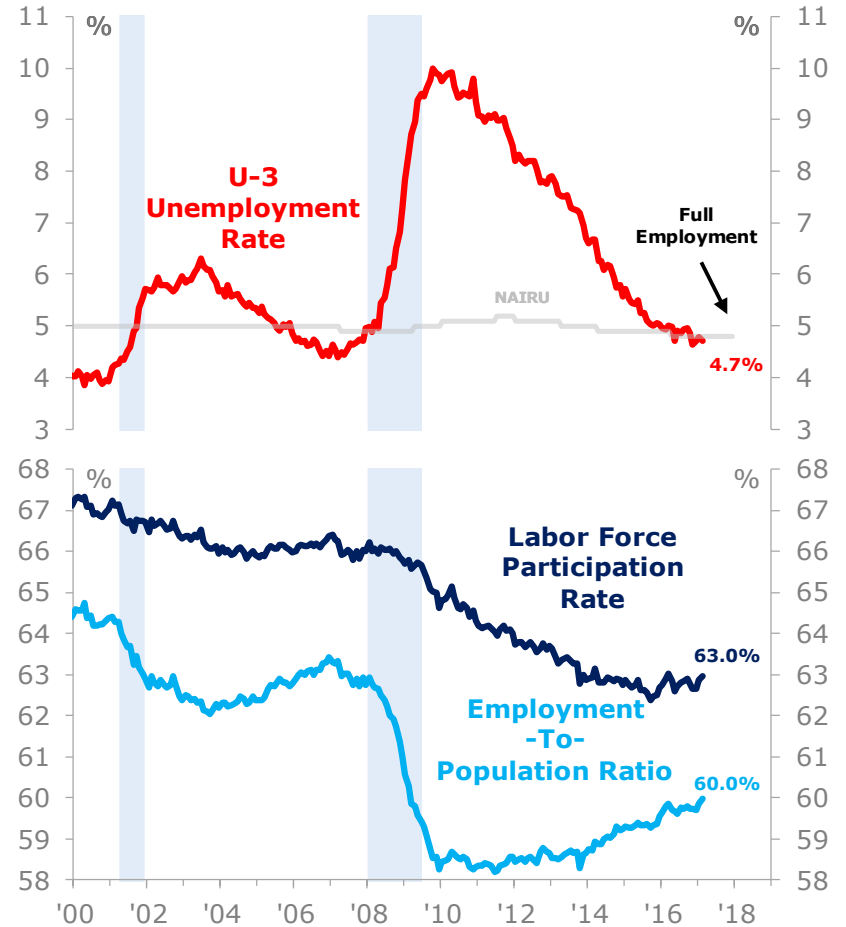
U.S. Price Inflation, YoY



Source: Floating Path, Bureau of Economic Analysis

...And At 4.7% The Unemployment Rate Is Already Lower Than NAIURU

U.S. Unemployment And Labor Participation

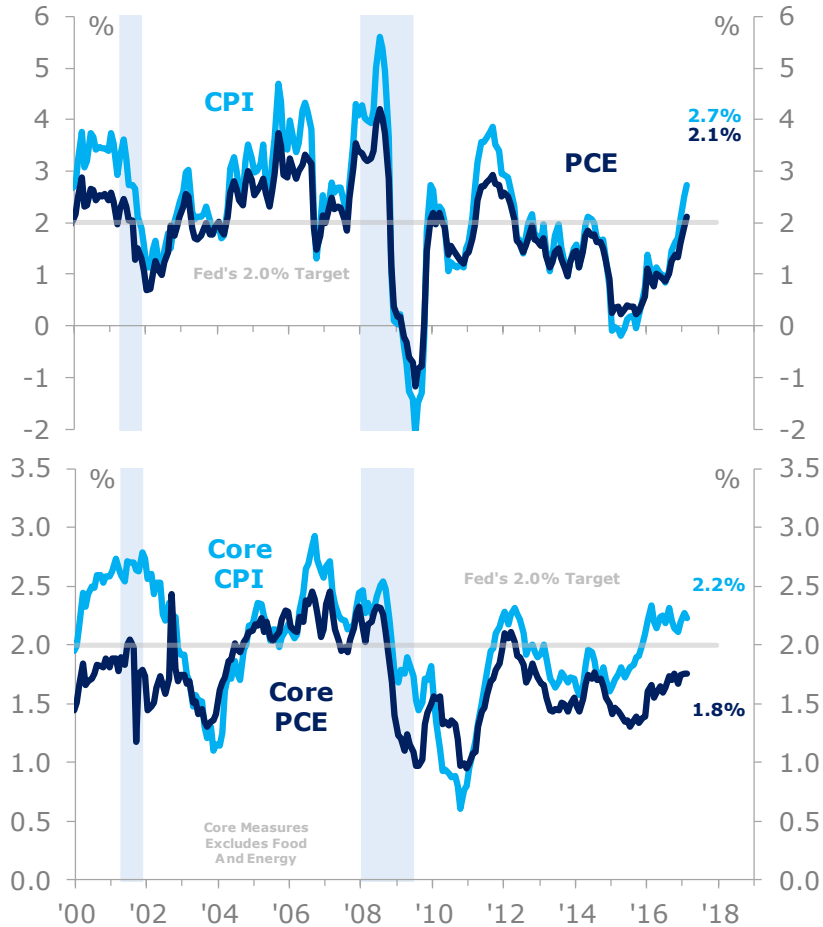


Source: Floating Path, Bureau of Labor Statistics

PCE vs CPI Inflation

Core CPI Has Been Increasing Faster Than Core PCE, The Fed's Preferred Measure...

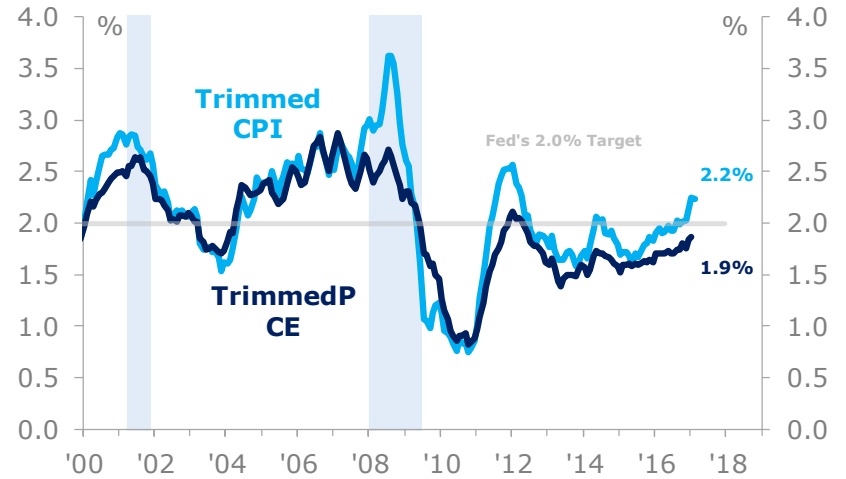
U.S. Inflation Measures YoY



Source: Floating Path, Bureau of Labor Statistics, Bureau of Economic Analysis

...There Is Also A Gap Between The Trimmed Mean Measures

U.S. Inflation Measures YoY



How The CPI And PCE Are Different

Formula Effect - The BLS (CPI) uses the modified Laspeyres formula while the BEA (PCE) uses the Fisher Price formula.

Weight Effect - The relative importance, or weights, accorded to components of the respective indices vary. In addition, CPI rebalances every 2 years while PCE rebalances quarterly.

Scope Effect - CPI captures expenditures by only urban consumers while PCE is broader and includes rural consumers. Unlike the CPI, the PCE includes expenditures from non-profit institutions that serve households. CPI only records out-of-pocket expenditure on medical and health care while PCE includes expenses paid by employers and other federal programs.

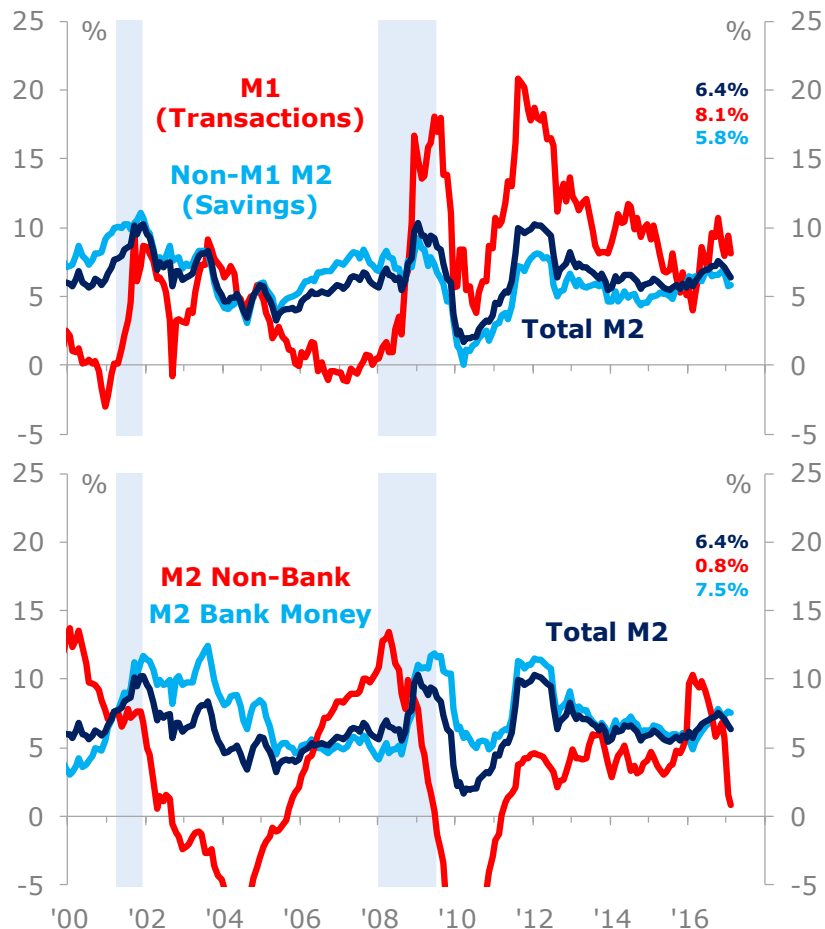
Other Effects - Differences in seasonal adjustments, how things like airline fares are treated, and other residuals.

Source: Floating Path, Bureau of Labor Statistics, Bureau of Economic Analysis

Tracking The Money Supply

The M2 Money Supply Has Grown 6.4% From A Year Ago...

U.S. Money Supply YoY



Source: Floating Path, Federal Reserve

...M1 Has Increased 8.1% Year Over Year While Non-M1 M2 Has Grown 5.8%

U.S. Money Supply

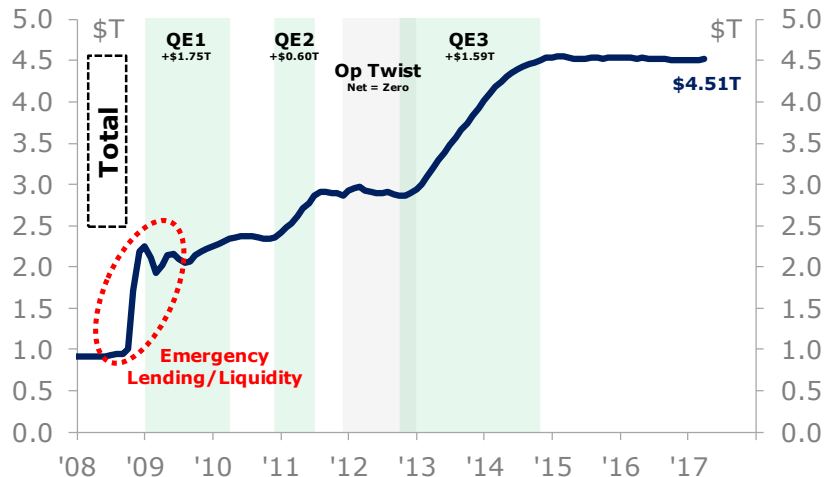
Category	Share	Supply (\$B)	Δ YoY (%)
M2 Money Supply	100.0	13,311	6.4
Currency	10.8	1,433	6.1
Traveler's Checks	0.0	2	-12.5
Demand Deposits	10.4	1,385	10.9
Other Checkable Deposit	4.1	552	6.7
M1 (Transaction Money)	25.3	3,372	8.1
Savings Deposits	67.0	8,921	8.0
Small Time Deposits	2.7	355	-11.2
Retail Money Funds	5.0	663	-8.9
Non-M1 M2 (Savings)	74.7	9,939	5.8
Demand Deposits	10.4	1,385	10.9
Other Checkable Deposit	4.1	552	6.7
Savings Deposits	67.0	8,921	8.0
Small Time Deposits	2.7	355	-11.2
M2 Bank Money	84.2	11,212	7.5
Currency	10.8	1,433	6.1
Traveler's Checks	0.0	2	-12.5
Retail Money Funds	5.0	663	-8.9
M2 Non-Bank Money	15.8	2,099	0.8

Source: Floating Path, Federal Reserve

Balance Sheet Hovering Around \$4.5T

Several Rounds Of Quantitative Easing Have Left The Fed Holding \$4.5T...

U.S. Federal Reserve Balance Sheet



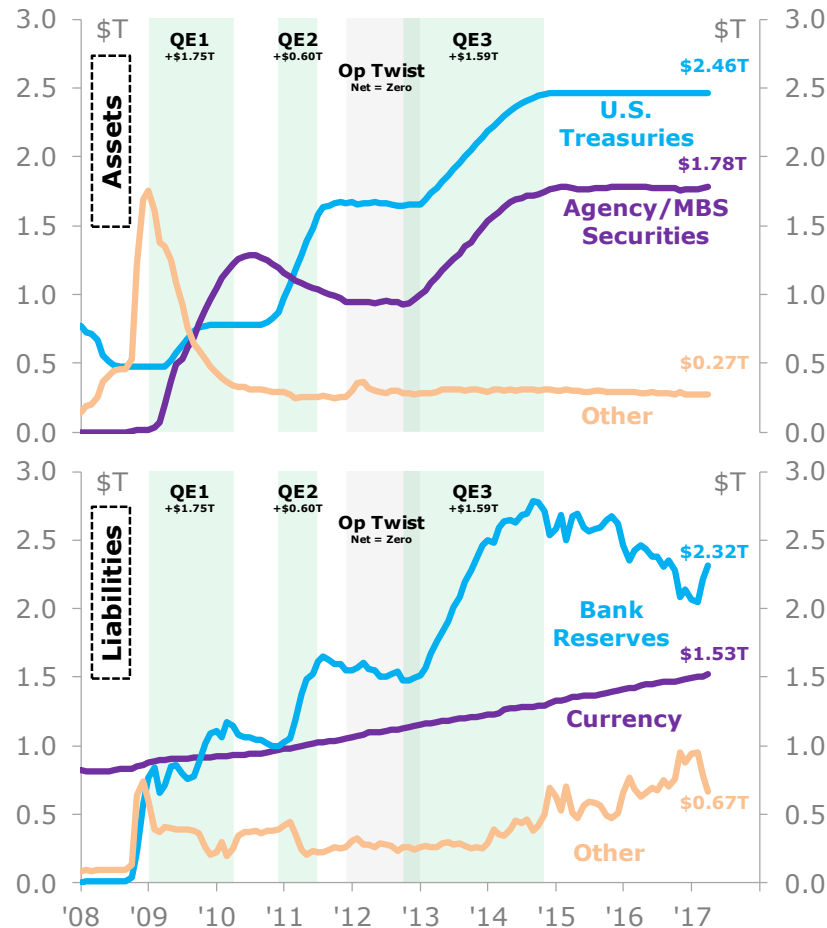
U.S. Unconventional Monetary Policy

Program	Stated	Begin	End	Size (\$T)
QE1 (MBS+UST)	Nov-25-08	Dec-05-08	Mar-24-10	1.75
Reinvest MBS+UST	Aug-10-10	Aug-17-10	Ongoing	Net Zero
QE2 (UST)	Nov-03-10	Nov-08-10	Jun-30-11	0.60
Op. Twist	Sep-21-11	Oct-03-11	Dec-31-12	Net Zero
QE3 (MBS+UST)	Sep-13-12	Sep-14-12	Oct-31-14	1.59
Total QE	Nov-25-08	Dec-05-08	Oct-27-14	3.94

Source: Floating Path, Federal Reserve

...Most Of Which Is U.S. Treasuries And Agency/MBS Securities

U.S. Federal Reserve Balance Sheet

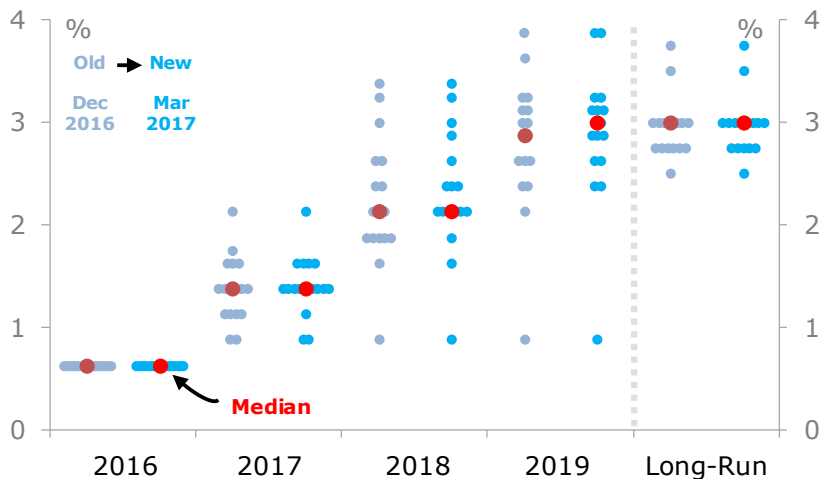


Source: Floating Path, Federal Reserve

Summary Of Economic Projections

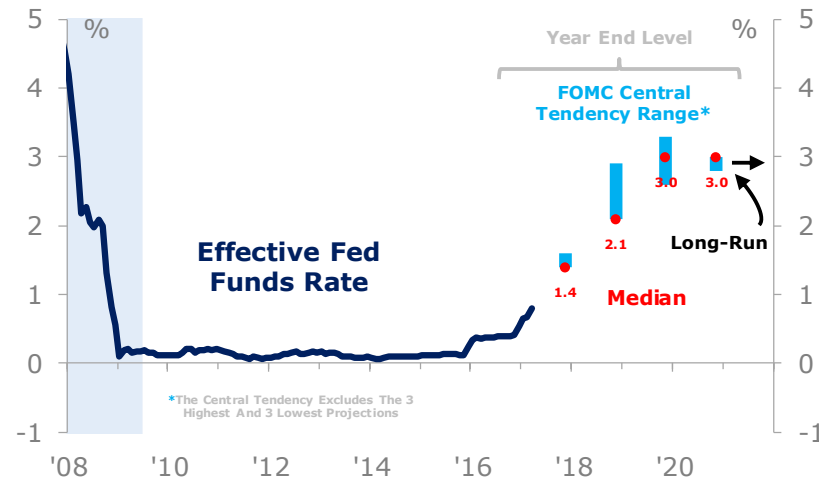
The Median FOMC Member Expects The Fed Funds Rate To Increase To 3.0% By 2019 YE...

U.S. FOMC Dot Plot: Fed Funds Rate Forecasts



...The Long-Run Expected Policy Rate Has Moved Up To 3.0%

U.S. Fed Funds Rate Forecasts



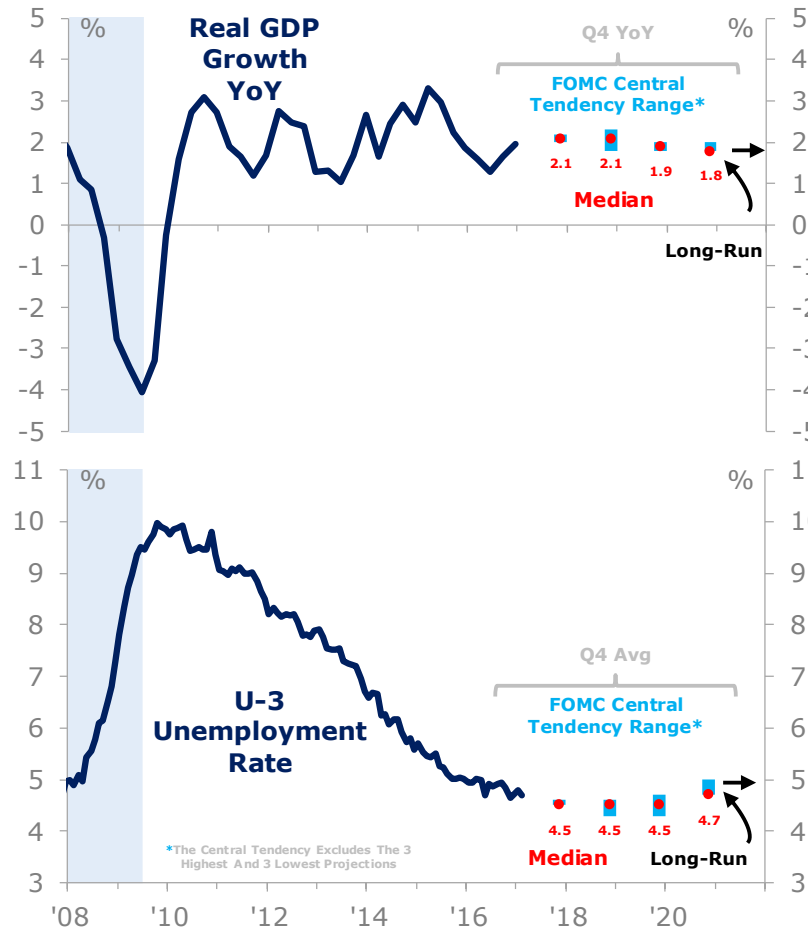
Summary Of Economic Projections March 2017	Median					Central Tendency					Range				
	'16	'17	'18	'19	LR→	'16	'17	'18	'19	LR→	'16	'17	'18	'19	LR→
Change In Real GDP (%) , Q4 to Q4 Chg) December 2016	1.9	2.1	2.1	1.9	1.8	1.9	2.0 - 2.2	1.8 - 2.3	1.8 - 2.0	1.8 - 2.0	1.9	1.7 - 2.3	1.7 - 2.4	1.5 - 2.2	1.6 - 2.2
Unemployment Rate (%) , Avg Rate in Q4) December 2016	4.7	4.5	4.5	4.5	4.7	4.7	4.5 - 4.6	4.3 - 4.6	4.3 - 4.7	4.7 - 5.0	4.7	4.4 - 4.7	4.2 - 4.7	4.1 - 4.8	4.5 - 5.0
PCE Inflation (%) , Q4 to Q4 Chg) December 2016	1.5	1.9	2.0	2.0	2.0	1.5	1.8 - 2.0	1.9 - 2.0	2.0 - 2.1	2.0	1.5	1.7 - 2.1	1.8 - 2.1	1.8 - 2.2	2.0
Core PCE Inflation (%) , Q4 to Q4 Chg) December 2016	1.7	1.9	2.0	2.0	-	1.7	1.8 - 1.9	1.9 - 2.0	2.0 - 2.1	-	1.7	1.7 - 2.0	1.8 - 2.1	1.8 - 2.2	-
Projected Appropriate Policy Path (%) , EOY) December 2016	0.6	1.4	2.1	3.0	3.0	0.6	1.4 - 1.6	2.1 - 2.9	2.6 - 3.3	2.8 - 3.0	0.6	0.9 - 2.1	0.9 - 3.4	0.9 - 3.9	2.5 - 3.8

Source: Floating Path, Federal Reserve

FOMC Economic Forecasts

The Fed Expects Real GDP Will Grow At 1.8% Annually Over The Long-Run...

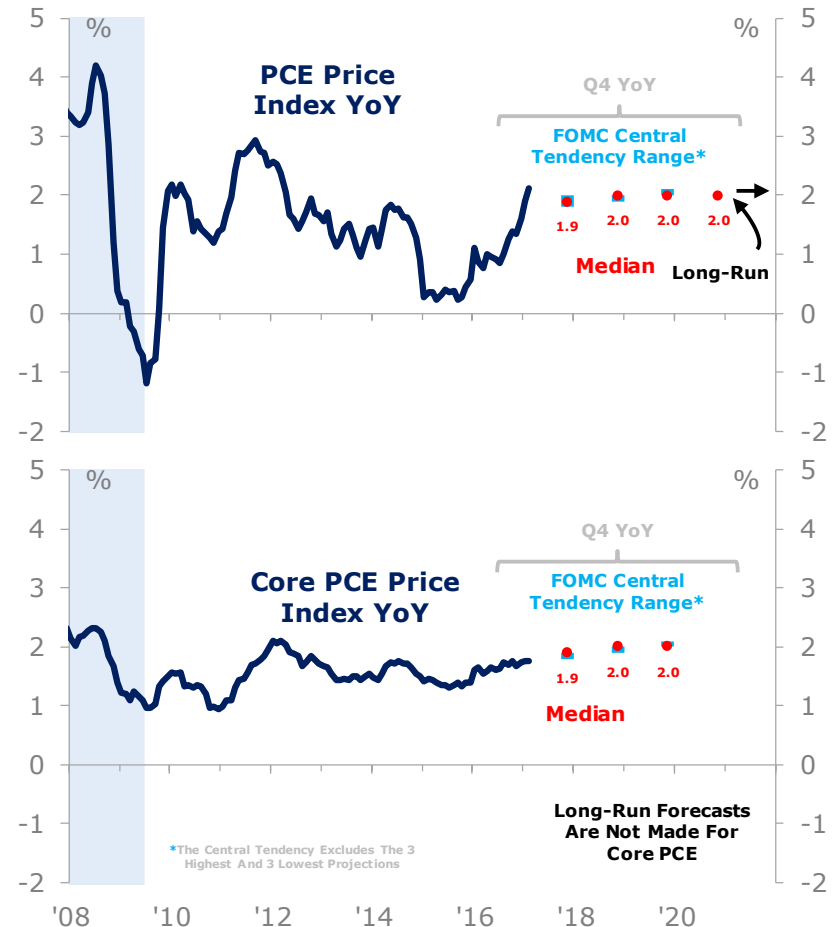
U.S. Fed's GDP And Unemployment Forecasts



Source: Floating Path, Federal Reserve

...Long-Run Inflation Is Expected To Grow At A 2.0% Rate

U.S. Fed's Inflation Forecasts

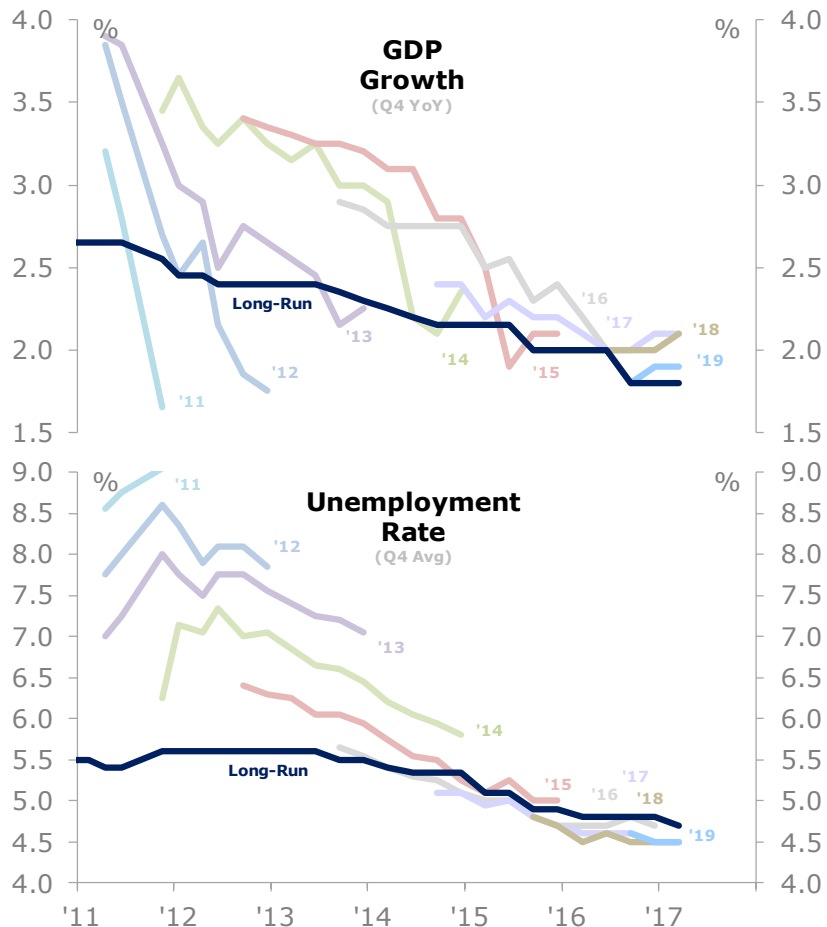


Source: Floating Path, Federal Reserve

Evolving Economic Forecasts

Forecasts For GDP Growth And Unemployment Have Been Getting Revised Down...

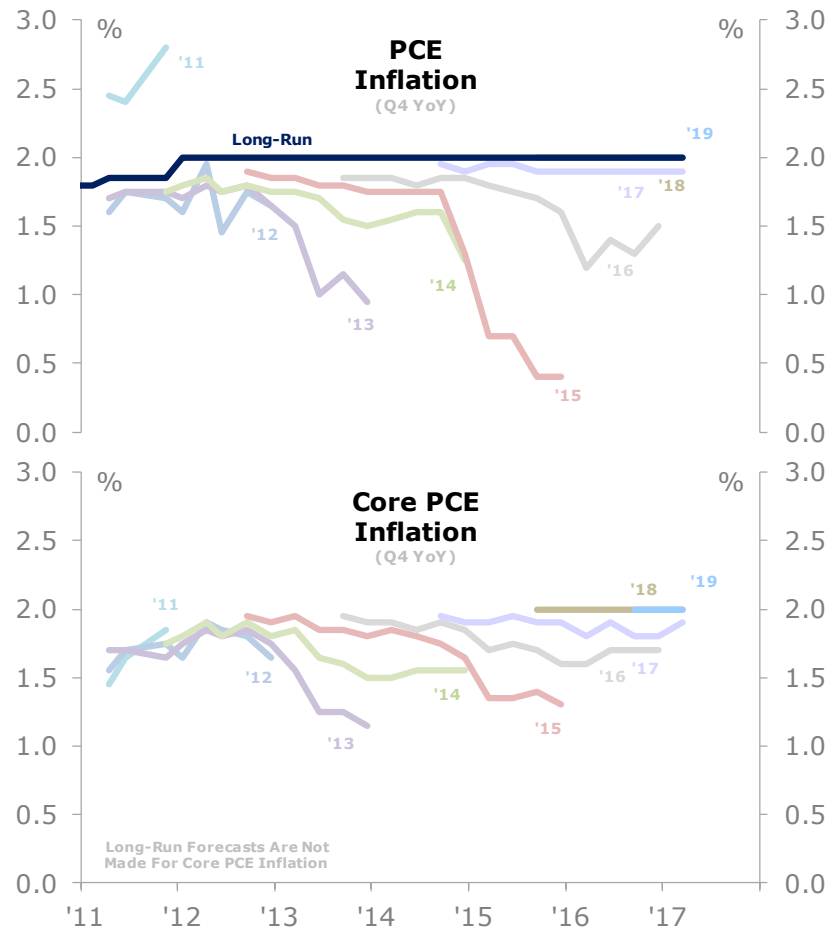
U.S. Fed's Economic Forecasts Over Time



Source: Floating Path, Federal Reserve

...Inflation Has Tended To Occur Slower Than The FOMC Anticipated

U.S. Fed's Economic Forecasts Over Time



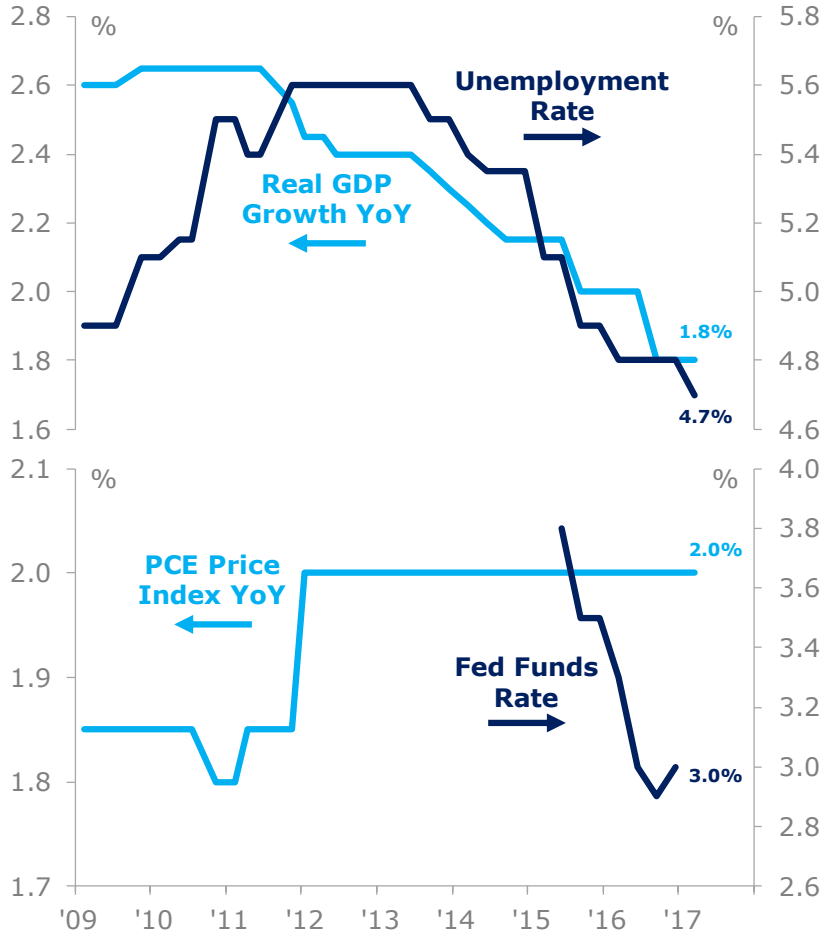
Long-Run Forecasts Are Not Made For Core PCE Inflation

Source: Floating Path, Federal Reserve

Shifting Perceptions Of The Long-Run

FOMC Forecasts For Long-Run GDP Growth And Unemployment Have Been Declining...

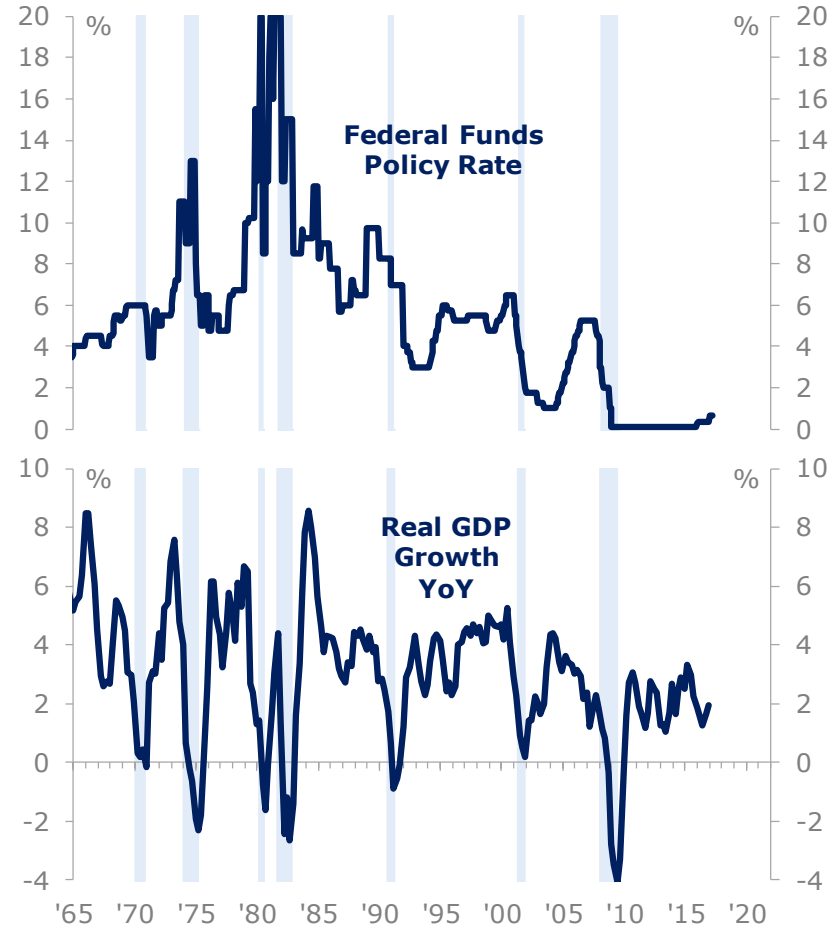
U.S. Fed's Long-Run Economic Forecasts



Source: Floating Path, Federal Reserve

...The Fed Funds Rate Remains Barely Above Historical Lows

U.S. Fed Funds Rate And GDP Growth



Source: Floating Path, Bureau of Economic Analysis, Federal Reserve

Doves, Hawks, And Schedule Ahead

U.S. Federal Open Market Committee (FOMC)

Seat	Member	Position	Voter	Dove ↔ Hawk	TV Faces	
Governors	Janet Yellen	Chair	The Board Of Governors And President Of The New York Fed Always Vote, The Other Regional Bank Presidents Rotate			
	Stanley Fischer	Vice-Chair				
	Daniel Tarullo					
	Lael Brainard					
	Jerome Powell					
	Vacant					
	Vacant					
Regional Fed Presidents	William Dudley	New York				
	Eric Rosengren	Boston	'19			
	Loretta Mester	Cleveland	'18			
	James Bullard	St. Louis	'19			
	Esther George	Kansas City	'19			
	Charles Evans	Chicago	'17	'19		
	Patrick Harker	Philadelphia	'17			
	Neil Kashkari	Minneapolis	'17			
	Robert Kaplan	Dallas	'17			
	Dennis Lockhart	Atlanta	'18			
	John Williams	San Francisco	'18			
	Jeffrey Lacker	Richmond	'18			

Source: Floating Path, Federal Reserve

FOMC Action Calendar

Date	Action	Target FF Rate	Dissent
Jan 28, 2015	Hold	0.00% - 0.25%	No
Mar 18, 2015	Hold	0.00% - 0.25%	No
Apr 29, 2015	Hold	0.00% - 0.25%	No
Jun 17, 2015	Hold	0.00% - 0.25%	No
Jul 29, 2015	Hold	0.00% - 0.25%	No
Sep 17, 2015	Hold	0.00% - 0.25%	Yes
Oct 28, 2015	Hold	0.00% - 0.25%	Yes
Dec 16, 2015	Hike	0.25% - 0.50%	No
Jan 27, 2016	Hold	0.25% - 0.50%	No
Mar 16, 2016	Hold	0.25% - 0.50%	Yes
Apr 27, 2016	Hold	0.25% - 0.50%	Yes
Jun 15, 2016	Hold	0.25% - 0.50%	No
Jul 27, 2016	Hold	0.25% - 0.50%	Yes
Sep 21, 2016	Hold	0.25% - 0.50%	Yes
Nov 2, 2016	Hold	0.25% - 0.50%	Yes
Dec 14, 2016	Hike	0.50% - 0.75%	No
Feb 1, 2017	Hold	0.50% - 0.75%	No
Mar 15, 2017	Hike	0.75% - 1.00%	Yes
May 3, 2017			
Jun 14, 2017			
Jul 26, 2017			
Sep 20, 2017			
Nov 1, 2017			
Dec 13, 2017			

This Dove-Hawk spectrum is designed only to present a broad characterization of FOMC members and their respective leanings in the hopes of providing some context to the many headlines engulfing their frequent media appearances and public statements. FOMC members can and do move along this scale over time as the economic situation changes and new information becomes available.

Source: Floating Path, Federal Reserve