Disclaimer

The views expressed are my own and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.
Today’s Talk

- Overview of the Federal Reserve System and of the Federal Reserve Bank of Minneapolis
- Discuss the national economy and the thinking behind recent monetary policy decisions
- Compare national economy to:
  - State economies of Minnesota and Wisconsin
  - Twin Cities metro economy
The Federal Reserve System
The Federal Reserve System

- Central bank of the U.S.
  - Established by Act of Congress in 1913

- Two previous U.S. central banks:
  - First Bank of the United States (1791-1811)
    Promoted by Alexander Hamilton, the first Secretary of the Treasury
  - Second Bank of the United States (1816-1836)
    Ended when President Andrew Jackson vetoed reauthorization of the bank
Responsibilities of the Federal Reserve System

- *Supervise and regulate banks*
  - Mainly large bank holding companies
    - JPMorgan Chase, Wells Fargo, Goldman Sachs, Citigroup

- *Provide financial services*
  - Manage (‘clear’) financial payments
  - Help banks meet short-term demands for cash
    - “Lender of Last Resort”

- *Set monetary policy*
Structure of the Federal Reserve System

12 “District” banks carry out operating duties of Federal Reserve

BOG Chair, Jerome Powell
The Federal Reserve Banks
The Minneapolis Fed’s job is to:
• Supervise banks & offer financial services in this district
• Monitor developments in this regional economy
• Represent the interests of the 9th district when monetary policy is set in Washington D.C. 8 times per year
The Federal Open Market Committee (12 Voting Members)

**Board of Governors**
- 7 Governors = 7 votes
- 4 seats currently unfilled

**District bank presidents**
- = 5 votes
  - NY Fed permanent vote
  - 4 rotating votes among remaining 11 District banks

Minneapolis Fed President Neel Kashkari not voting 2018

FOMC = 7 + 1 + 4
Currently: 3 + 1 + 4
The Federal Open Market Committee
Monetary Policy: The Dual Mandate

- In 1977, Congress directed the Board of Governors of the Federal Reserve System and the Federal Open Market Committee to set monetary policy in order to promote the goals of:
  - “maximum employment”
  - “stable prices”

- Known as the “dual mandate”
Maximum Employment
National Unemployment Rate
percent

Unemployment rate (U-3)*
Under-employment rate (U-6)*

*Dashed lines indicate 2006-2007 average.

Source: Bureau of Labor Statistics
National and Regional Unemployment Rates

U-3

U-6

Source: Bureau of Labor Statistics
Local Unemployment Rates
U-3 only, percent

Source: Bureau of Labor Statistics
Employment-population and Labor Force Participation Ratios

percent

E/P*  LFP*

Source: Bureau of Labor Statistics

*Dashed lines indicate 2006-2007 average.
Employment-population and Labor Force Participation Ratios
25-54, percent

Source: Bureau of Labor Statistics

*Dashed lines indicate 2006-2007 average.
Employment-population and Labor Force Participation Ratios

percent

E/P

LFP

Source: Bureau of Labor Statistics
Stable Prices
PCE Inflation
12-month percent change

Source: Bureau of Economic Analysis
Annualized Monthly Changes in Core PCE

Source: Bureau of Economic Analysis.
**Survey-based Inflation Expectations**

percent

- **UMich, next 5 to 10 years**
- **SPF, 10 years PCE**

*3-month moving average.

Source: Survey of Consumers, University of Michigan; Survey of Professional Forecasters, Federal Reserve Bank of Philadelphia
Market-based Inflation Expectations
weekly averages, percent

5yr/5yr Swaps  2yr/3yr Swaps

18th percentile  30th percentile

Source: Bloomberg
Labor Costs
12-month or 4-quarter percent change

Source: Bureau of Labor Statistics
Average Weekly Earnings
12-month percent change, 3-month moving average

Source: Bureau of Labor Statistics
Average Weekly Earnings
12-month percent change, 3-month moving average

Rochester
Twin Cities

Source: Bureau of Labor Statistics
Take-Aways

- National economy continues to get stronger
  - Are we at maximum employment?
  - Prices are stable and are expected to remain so
  - Wages and compensation growth remain modest
- Comparatively speaking, MN and Twin Cities metro:
  - Are doing better than national economy
  - Wages growth remains strong, but has slowed down recently
Thank you!

Questions?

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