

The Fed and the Economic Outlook

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FEDERAL RESERVE BANK *of* MINNEAPOLIS



Disclaimer

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

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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



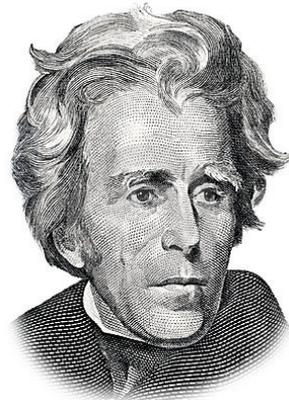
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The Federal Reserve System



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



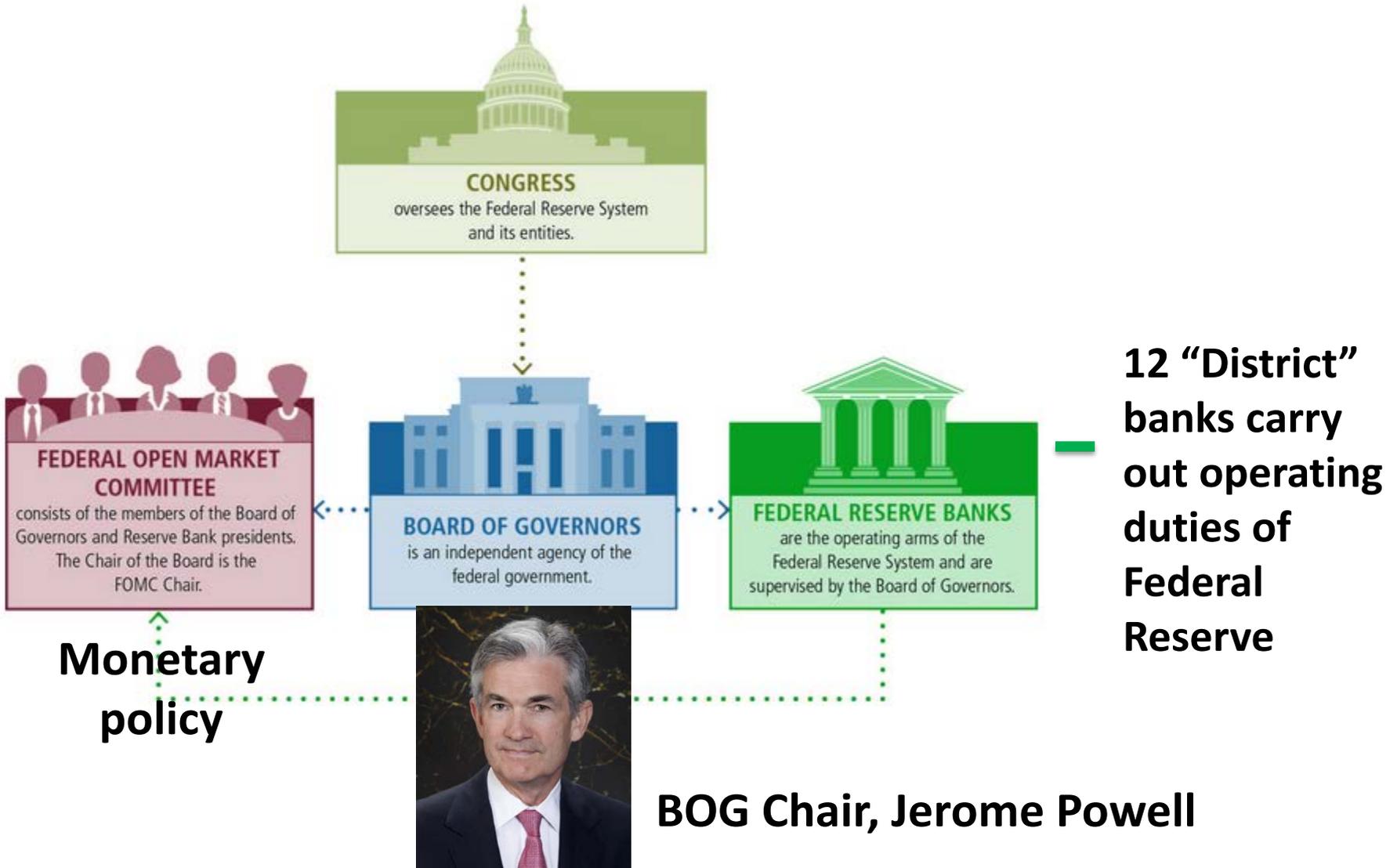


Responsibilities of the Federal Reserve System

- 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

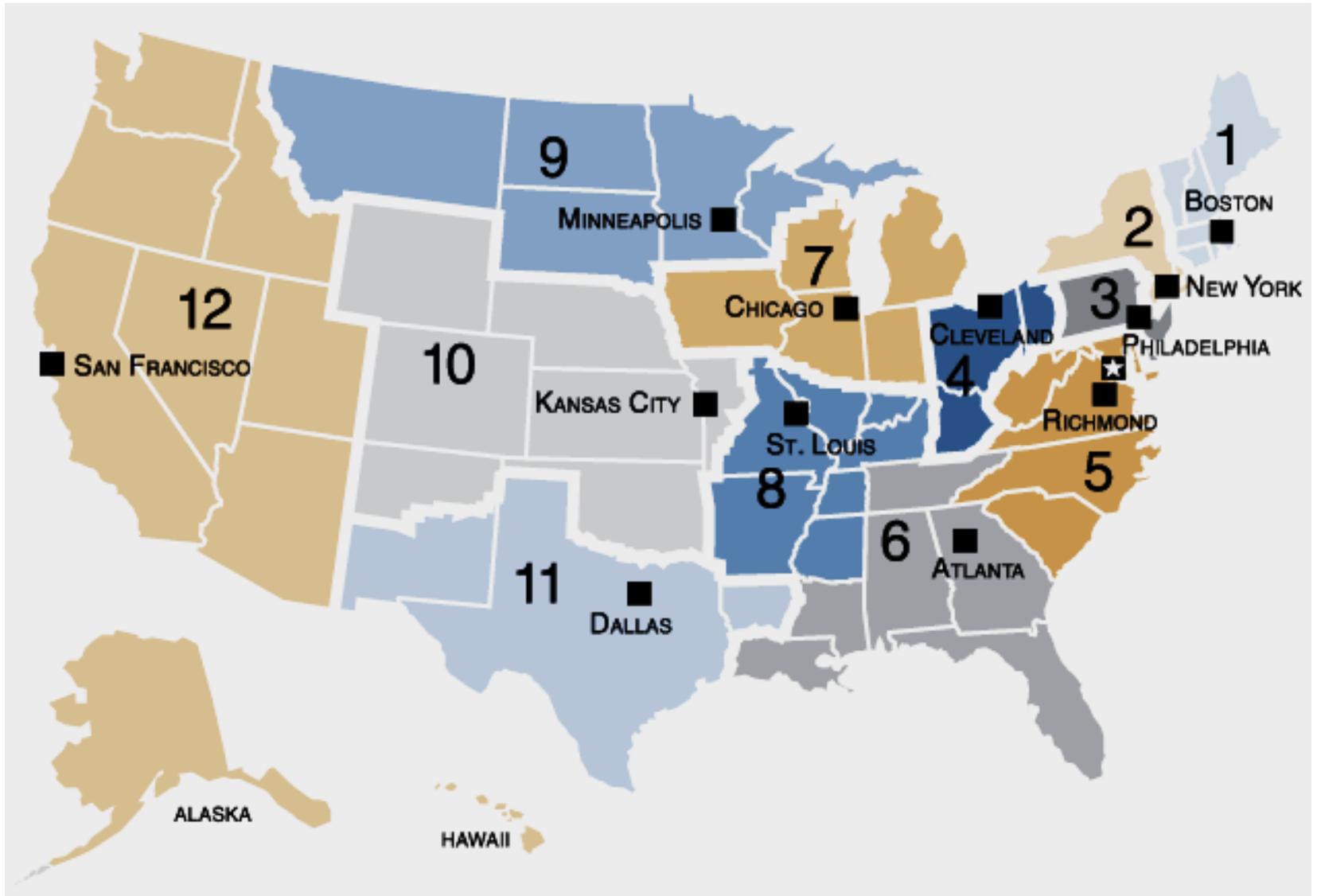


Structure of the Federal Reserve System





The Federal Reserve Banks





The Federal Open Market Committee

(12 Voting Members)



BOARD OF GOVERNORS
is an independent agency of the
federal government

Board of Governors

7 Governors = 7 votes

4 seats currently unfilled



FEDERAL RESERVE BANKS
are the operating arms of the
Federal Reserve System and are
supervised by the Board of Governors.

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



FEDERAL OPEN MARKET COMMITTEE

consists of the members of the Board of
Governors and Reserve Bank presidents.
The Chair of the Board is the
FOMC Chair.

FOMC = 7 + 1 + 4

Currently: 3 + 1 + 4



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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”



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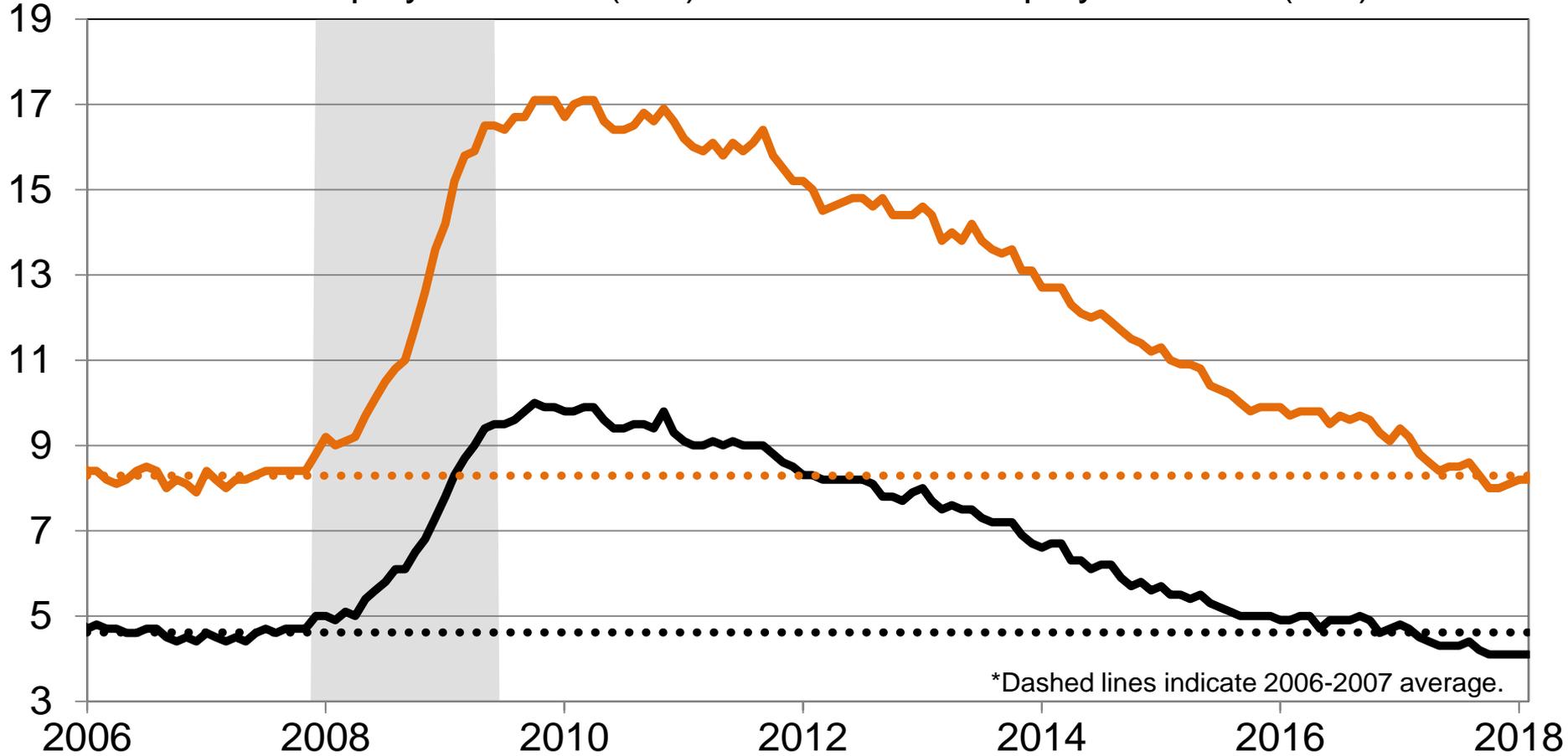
Maximum Employment



National Unemployment Rate

percent

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



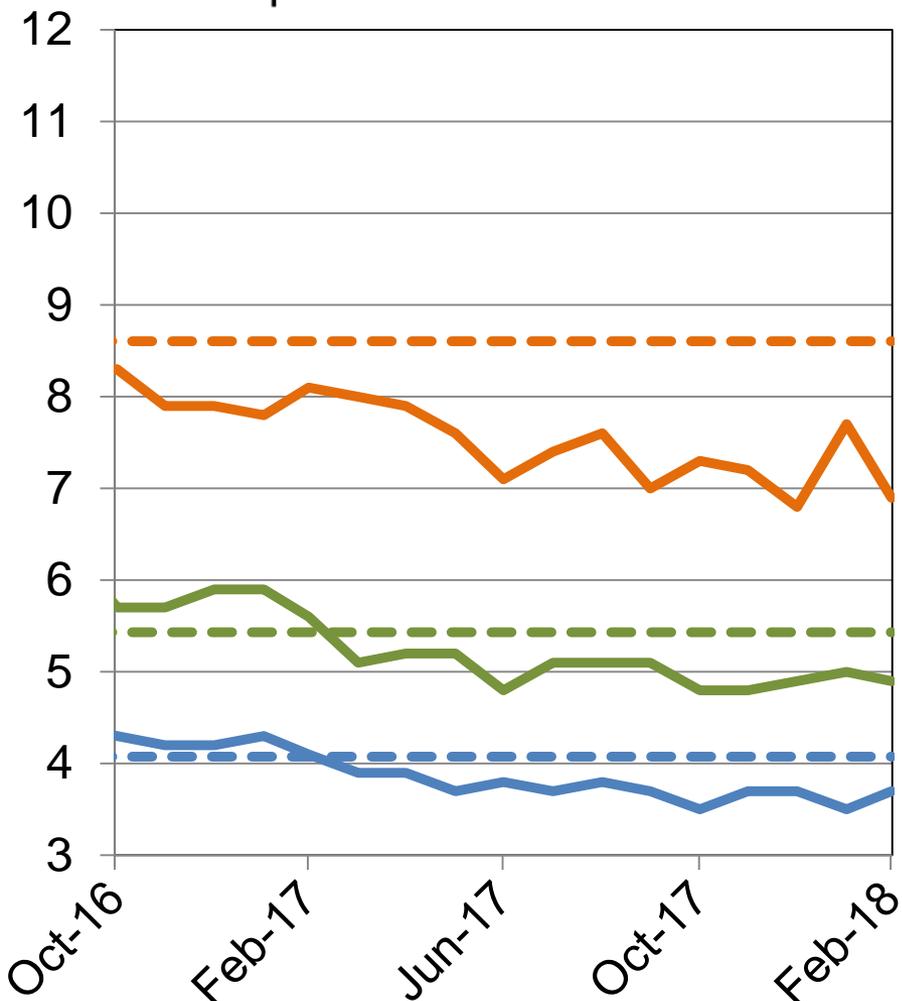
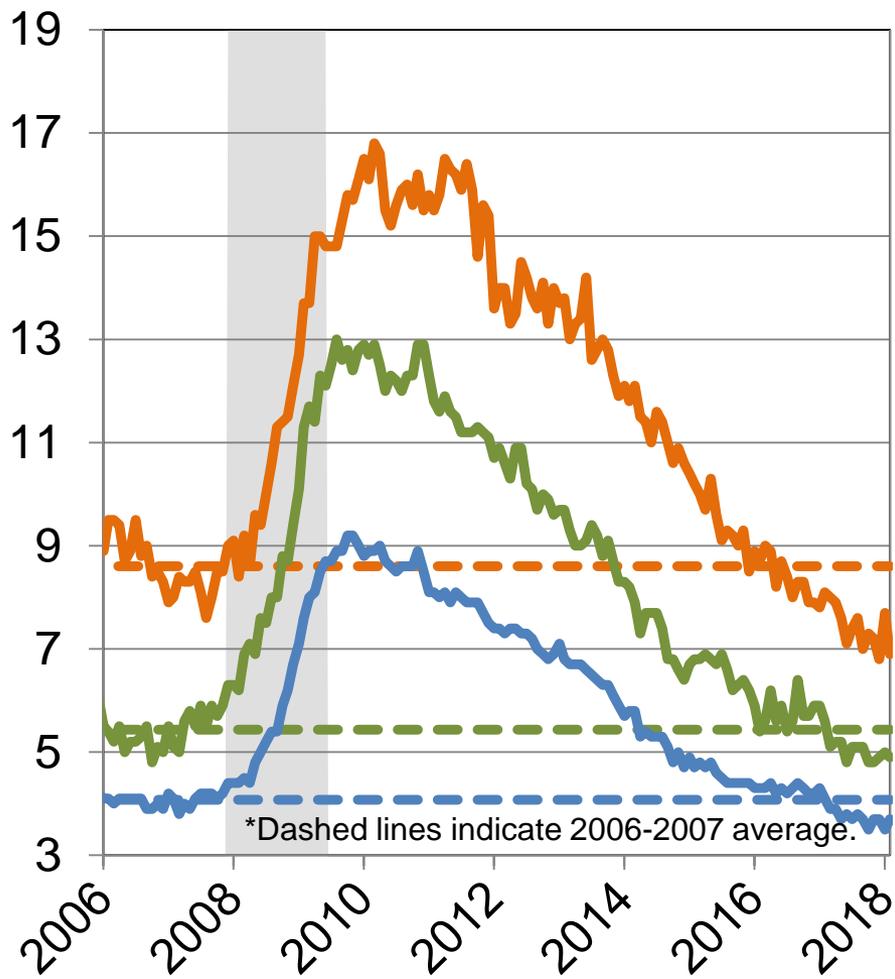
*Dashed lines indicate 2006-2007 average.



Unemployment Rate

percent

White* Black* Hispanic*

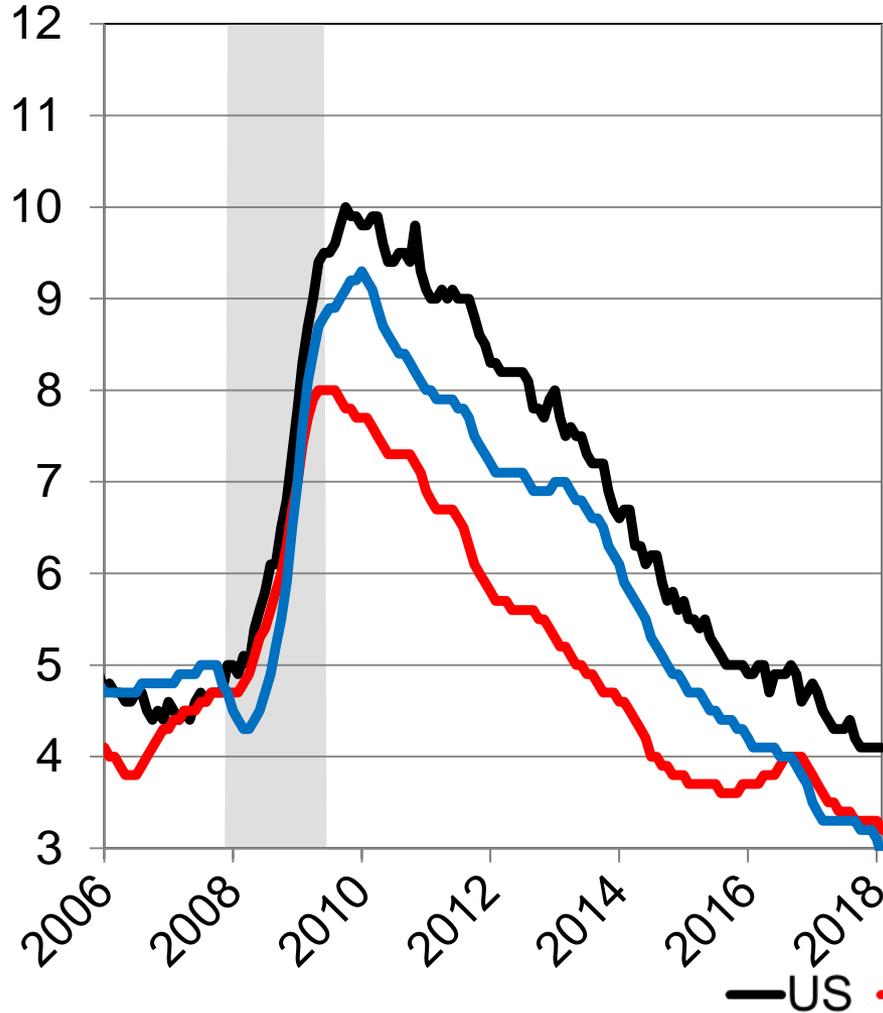




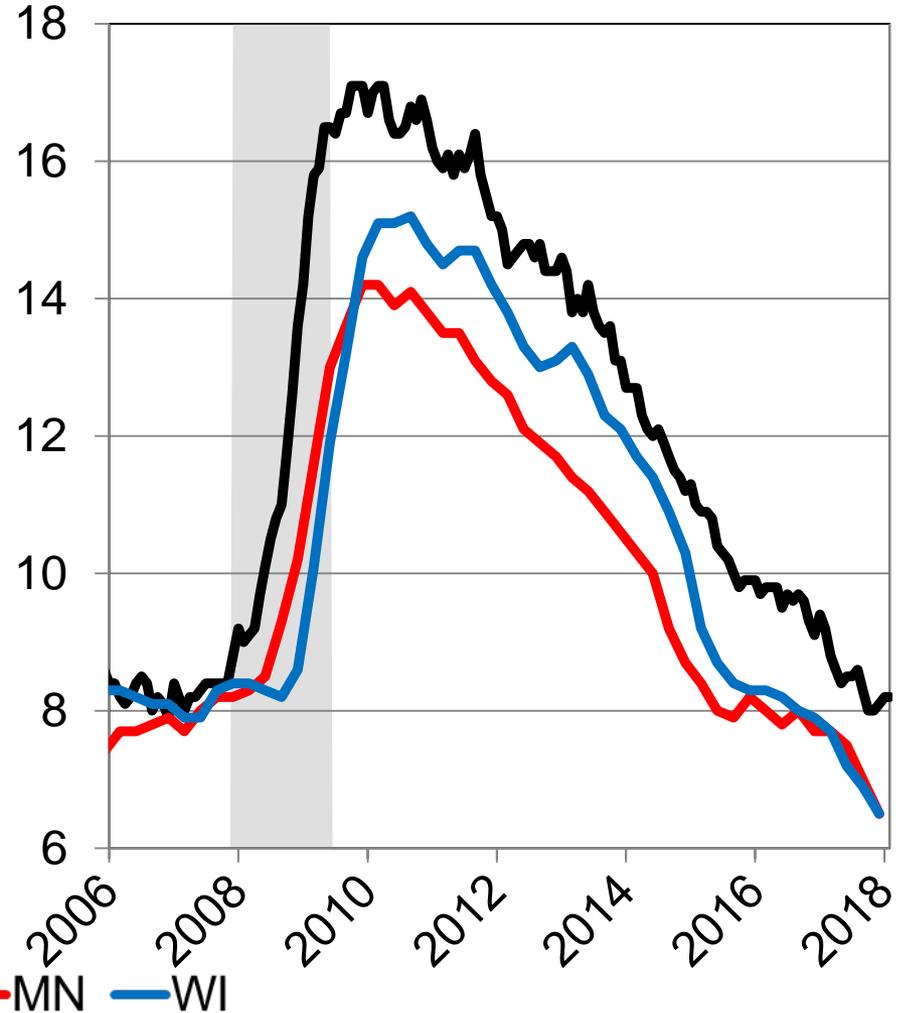
National and Regional Unemployment Rates

percent

U-3



U-6



— US — MN — WI

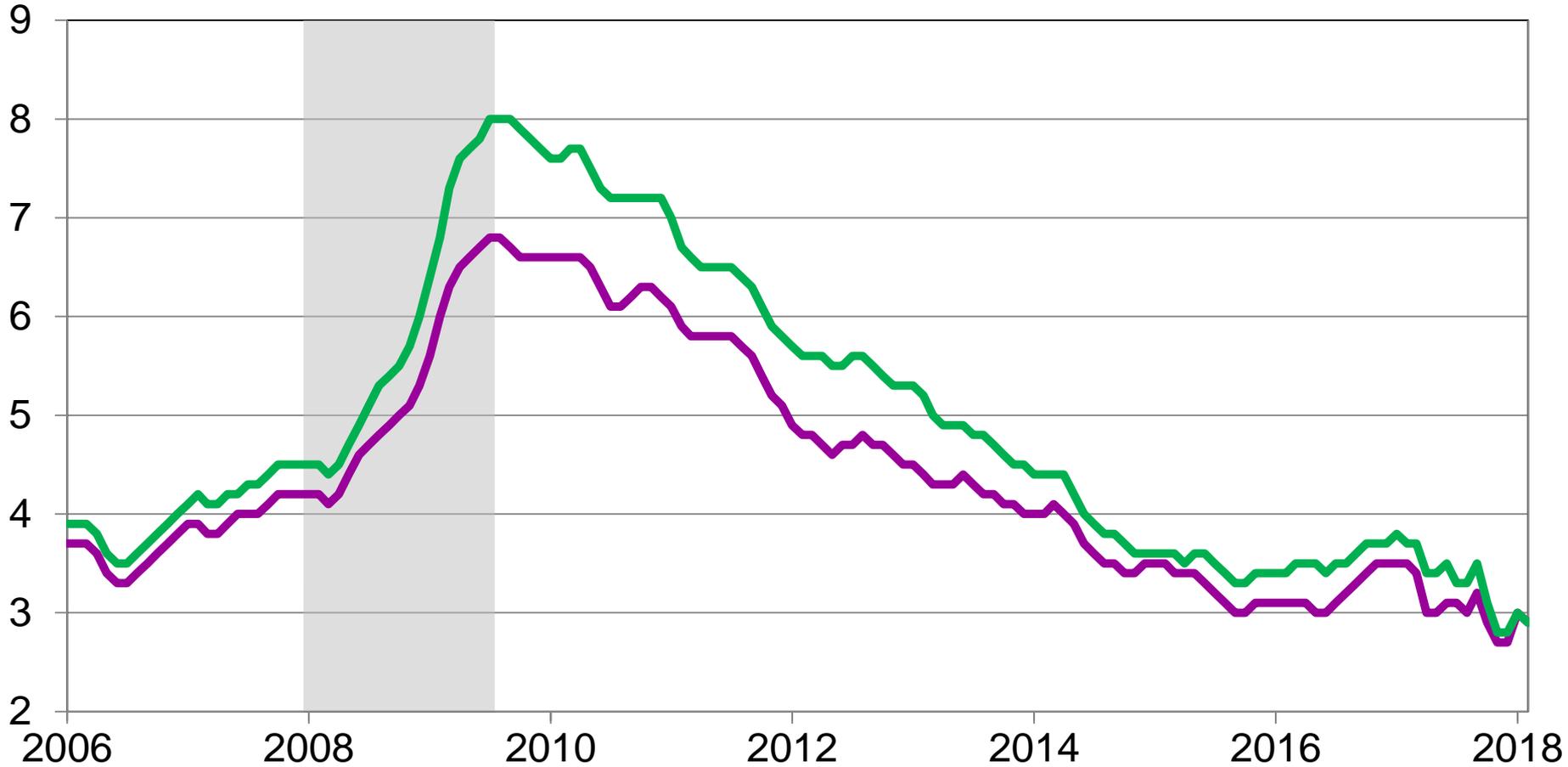
Source: Bureau of Labor Statistics



Local Unemployment Rates

U-3 only, percent

Rochester Twin Cities

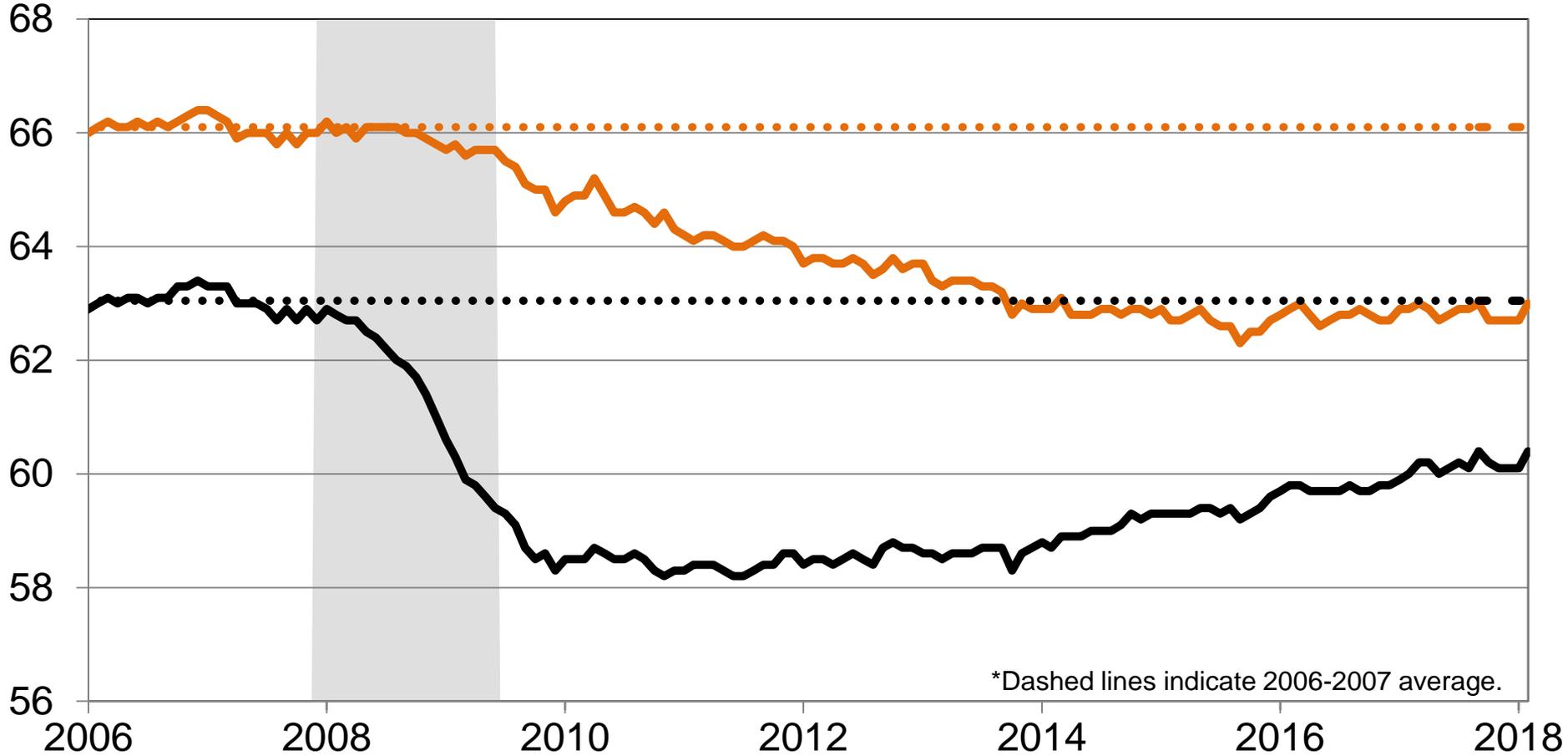




Employment-population and Labor Force Participation Ratios

percent

— E/P* — LFP*



*Dashed lines indicate 2006-2007 average.

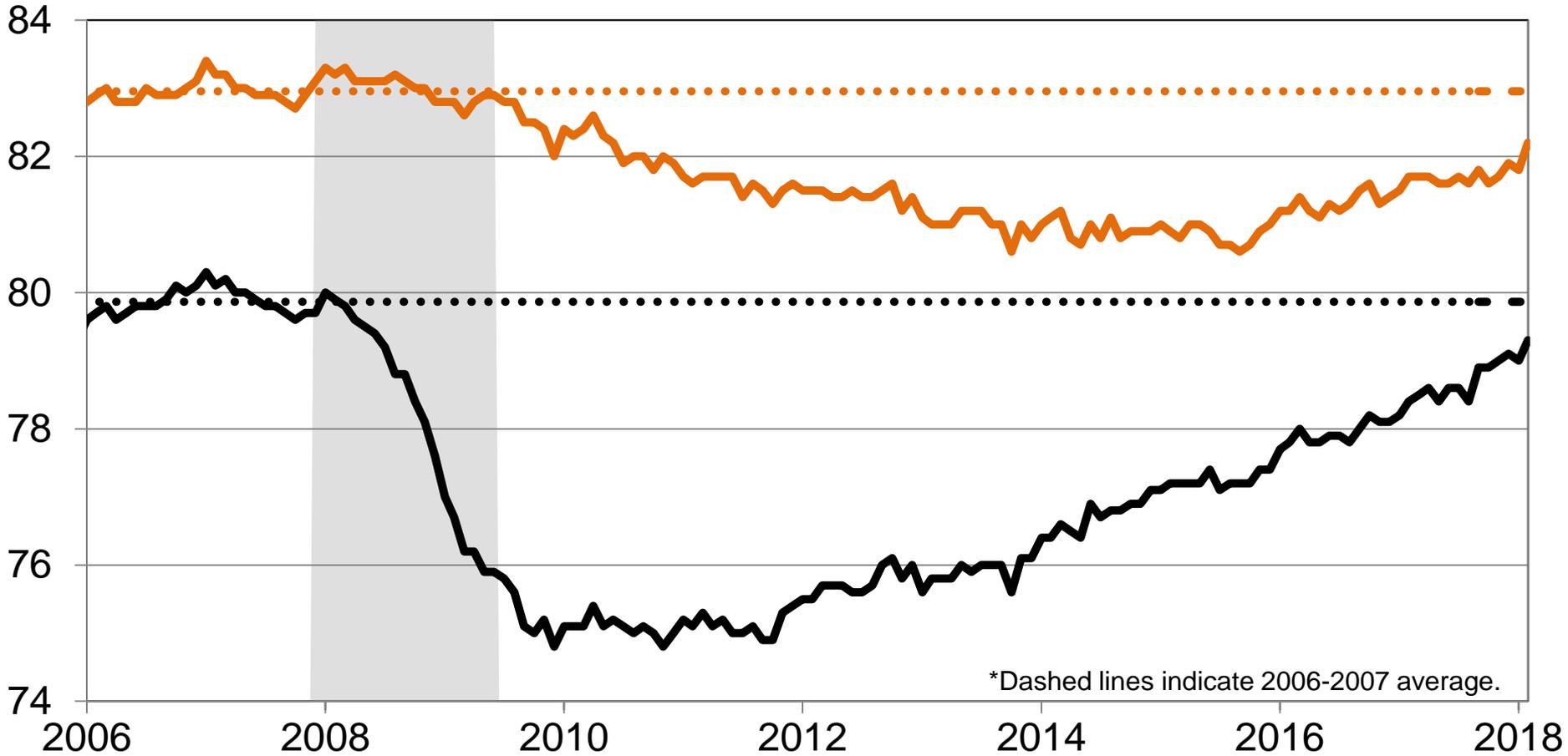


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Employment-population and Labor Force Participation Ratios

25-54, percent

— E/P — LFP



*Dashed lines indicate 2006-2007 average.

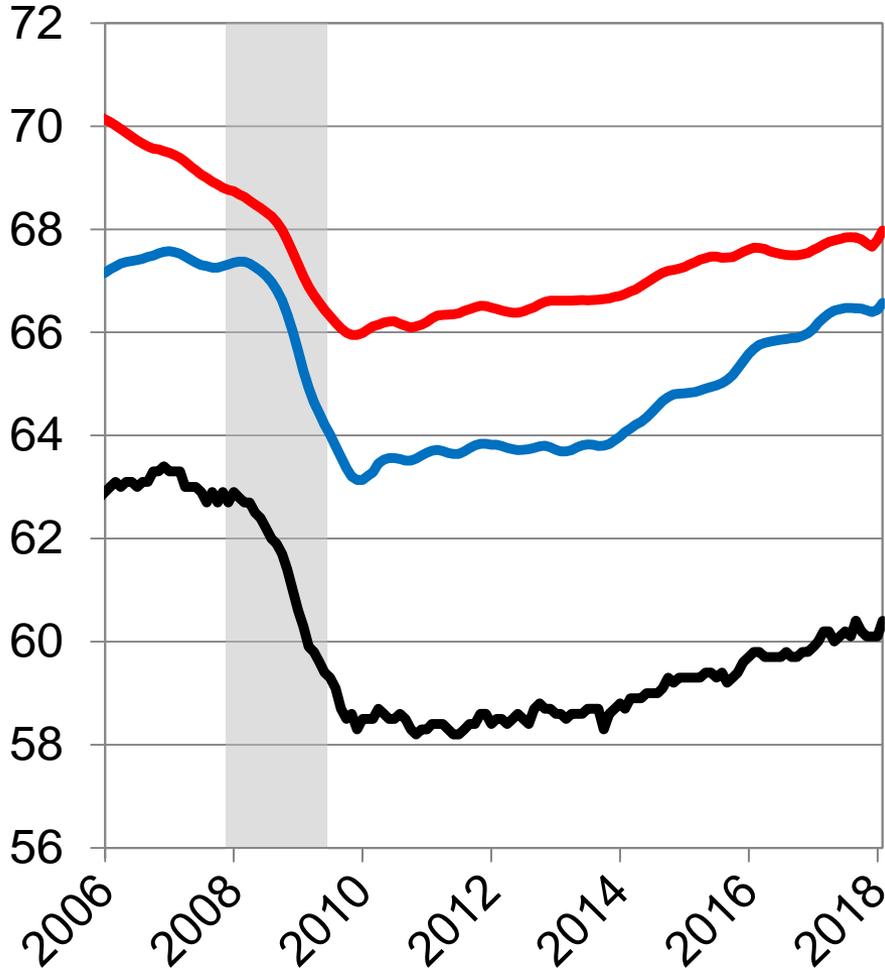
Source: Bureau of Labor Statistics



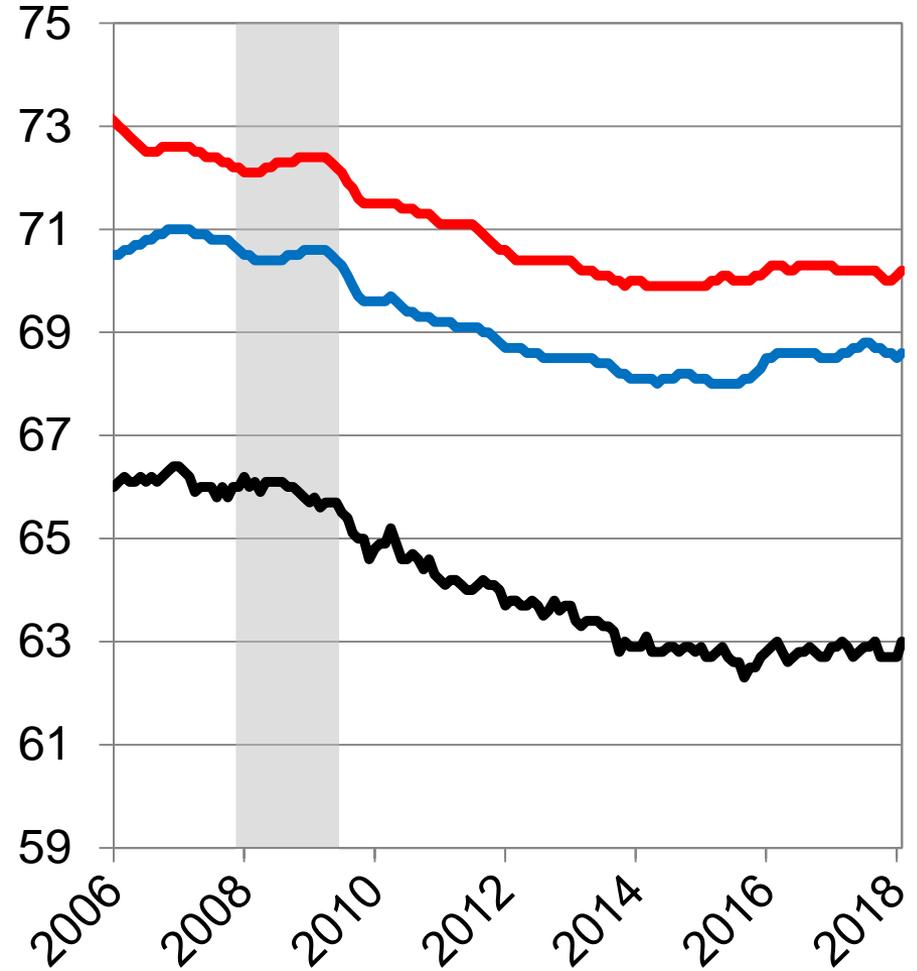
Employment-population and Labor Force Participation Ratios

percent

E/P



LFP



— US — MN — WI

Source: Bureau of Labor Statistics



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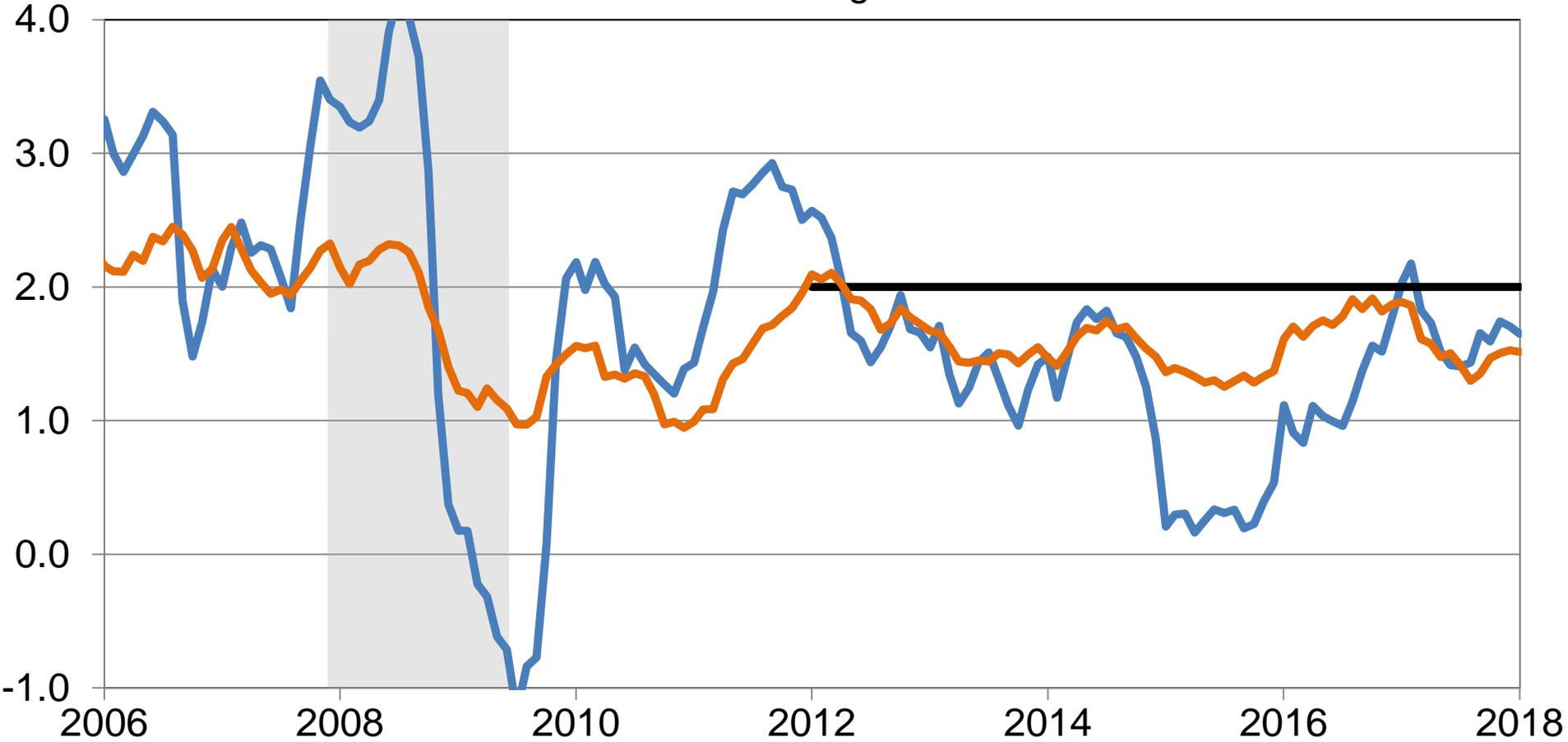
Stable Prices



PCE Inflation

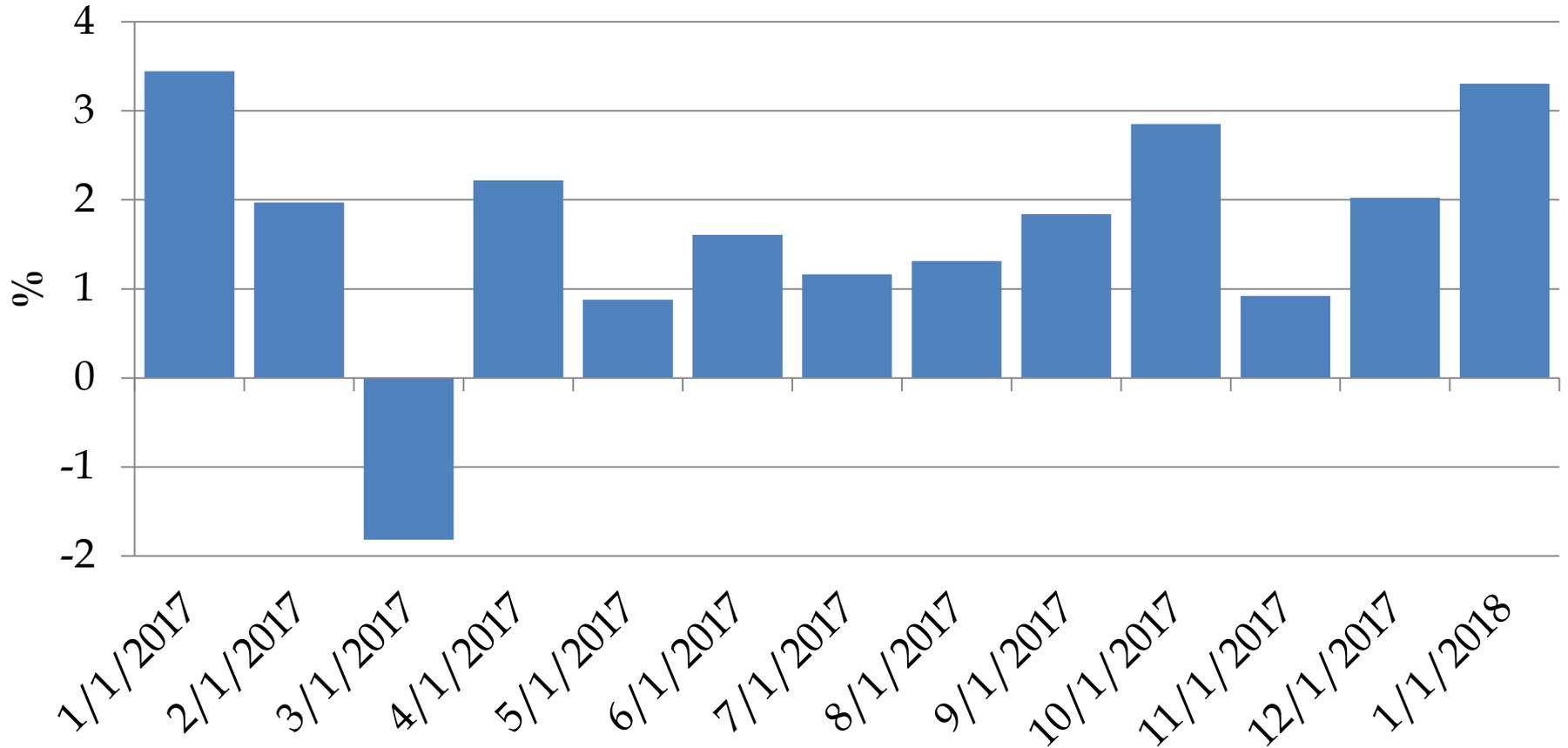
12-month percent change

— Headline — Target — Core





Annualized Monthly Changes in Core PCE



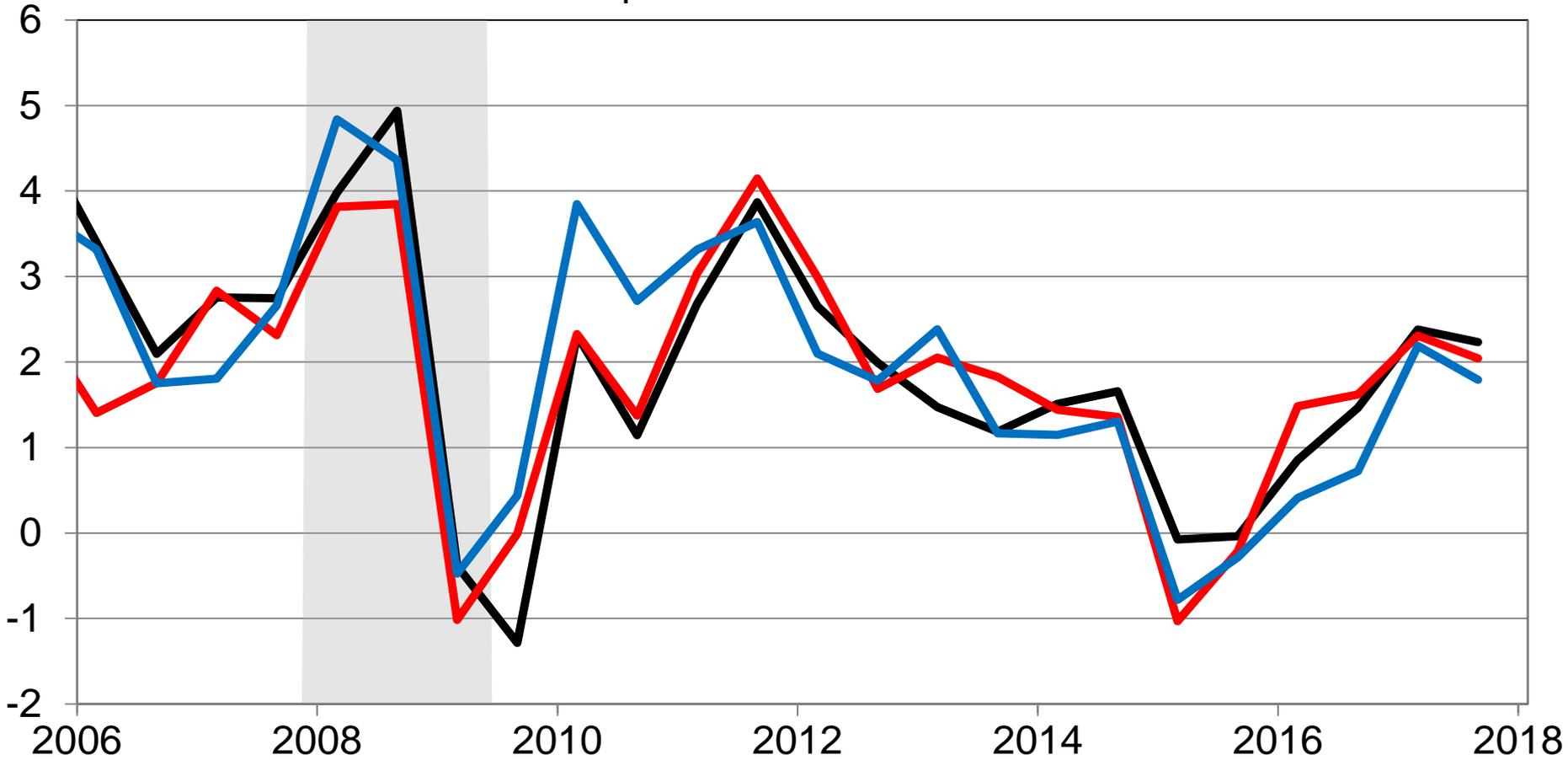
Source: Bureau of Economic Analysis.



Consumer Price Index

4-quarter percent change

— US — Minneapolis-St Paul — Milwaukee-Racine



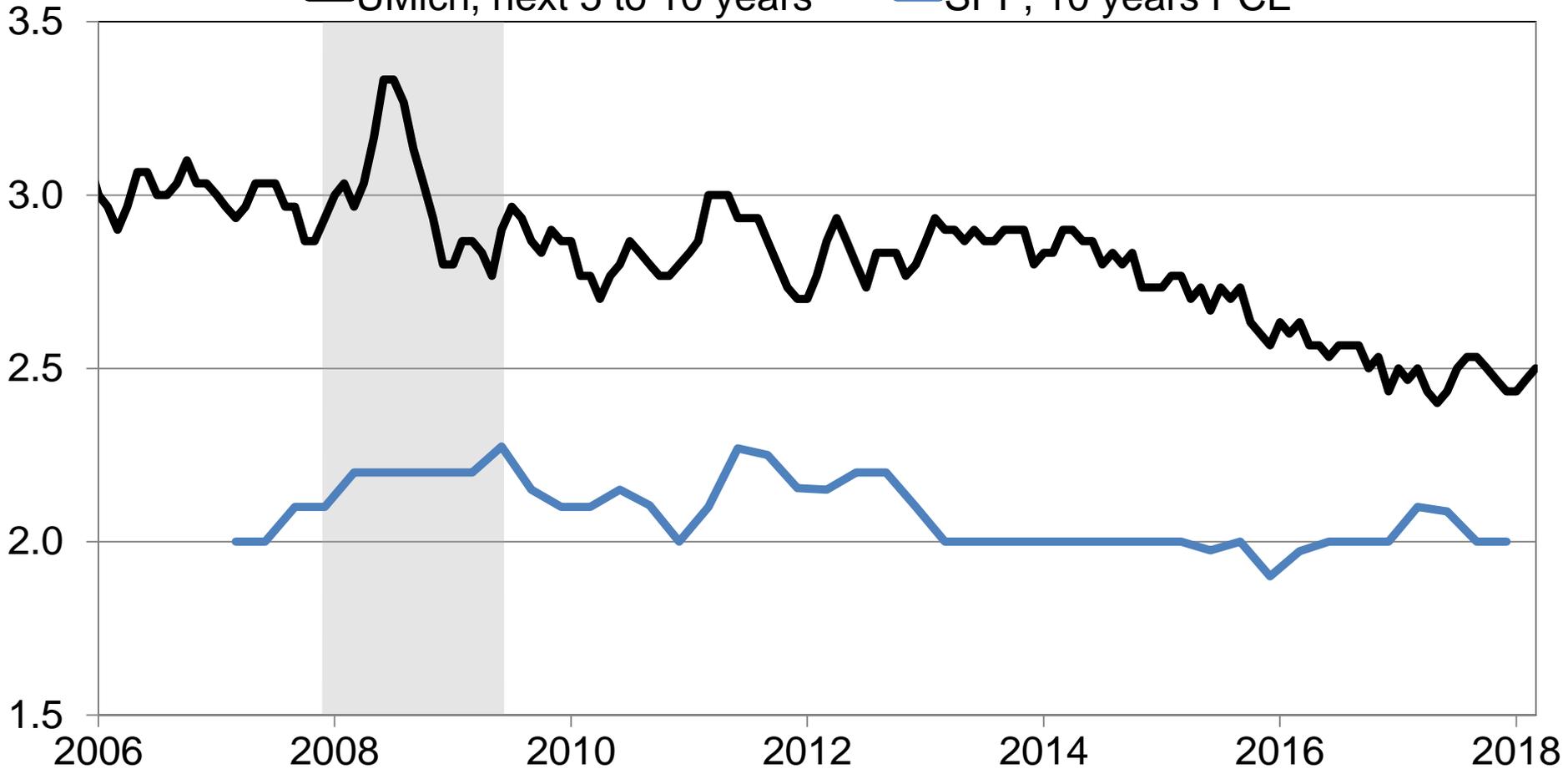


Survey-based Inflation Expectations

percent

— UMich, next 5 to 10 years*

— SPF, 10 years PCE



*3-month moving average.

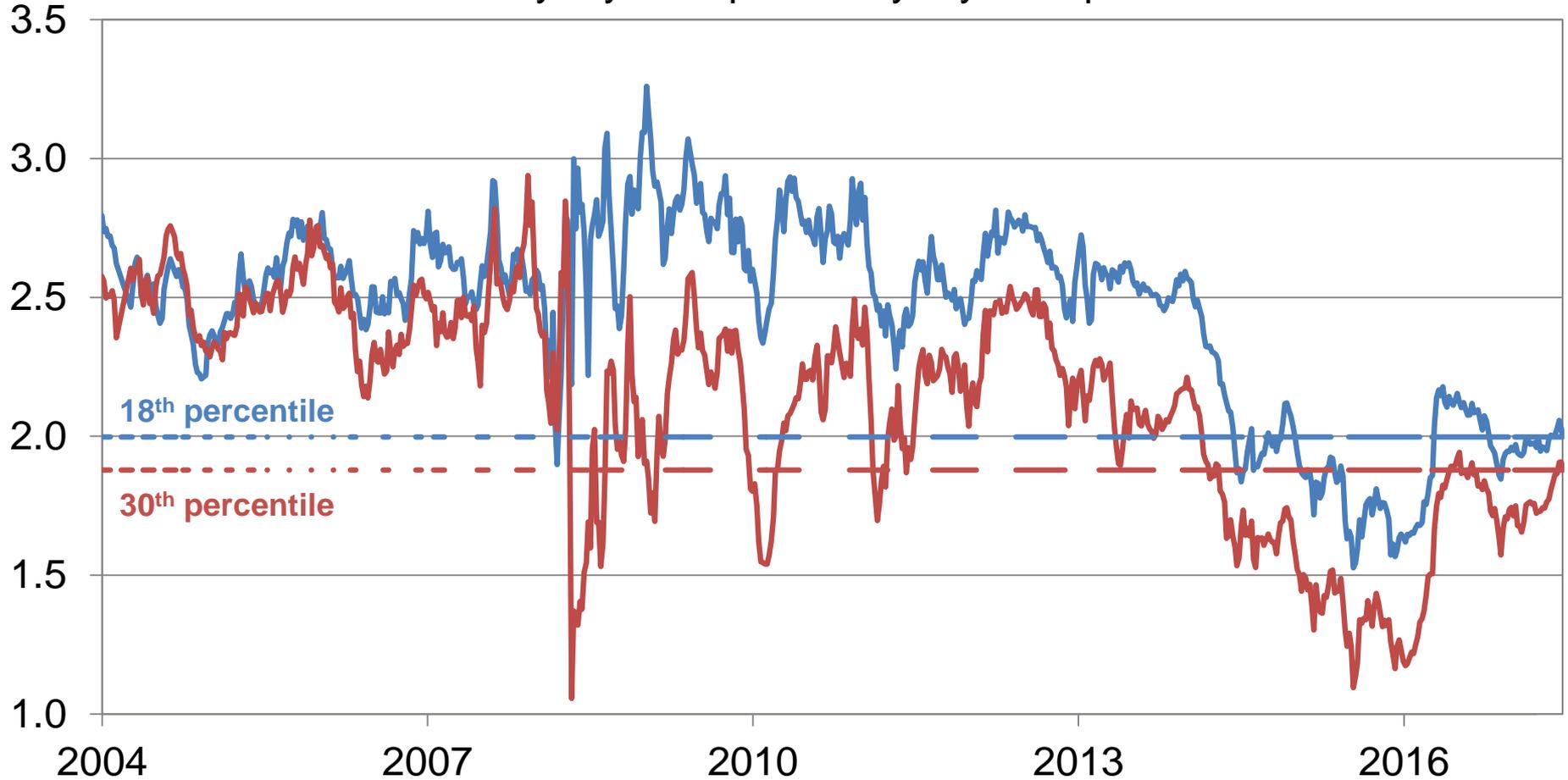
Source: Survey of Consumers, University of Michigan; Survey of Professional Forecasters, Federal Reserve Bank of Philadelphia



Market-based Inflation Expectations

weekly averages, percent

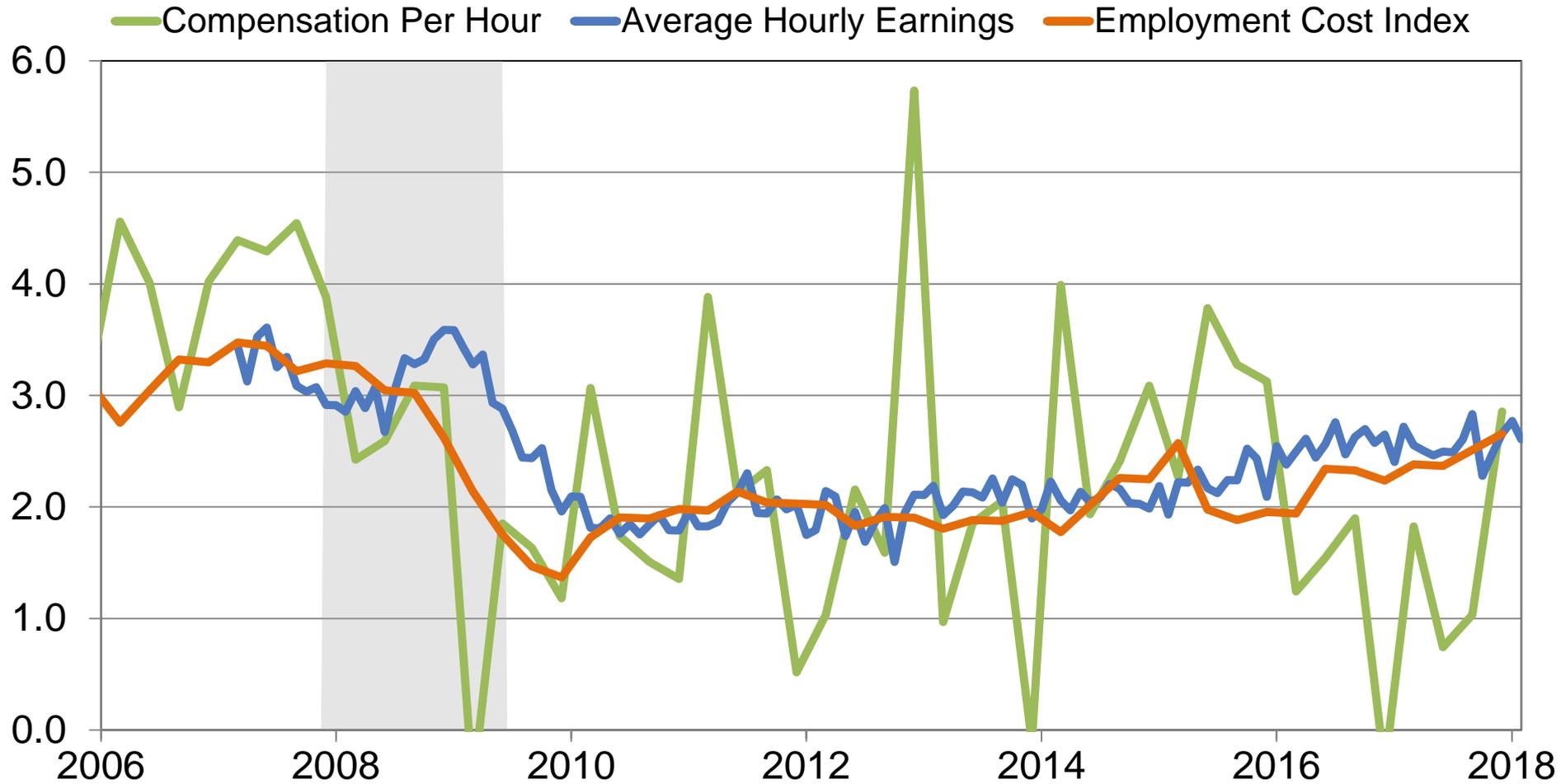
— 5yr/5yr Swaps — 2yr/3yr Swaps





Labor Costs

12-month or 4-quarter percent change

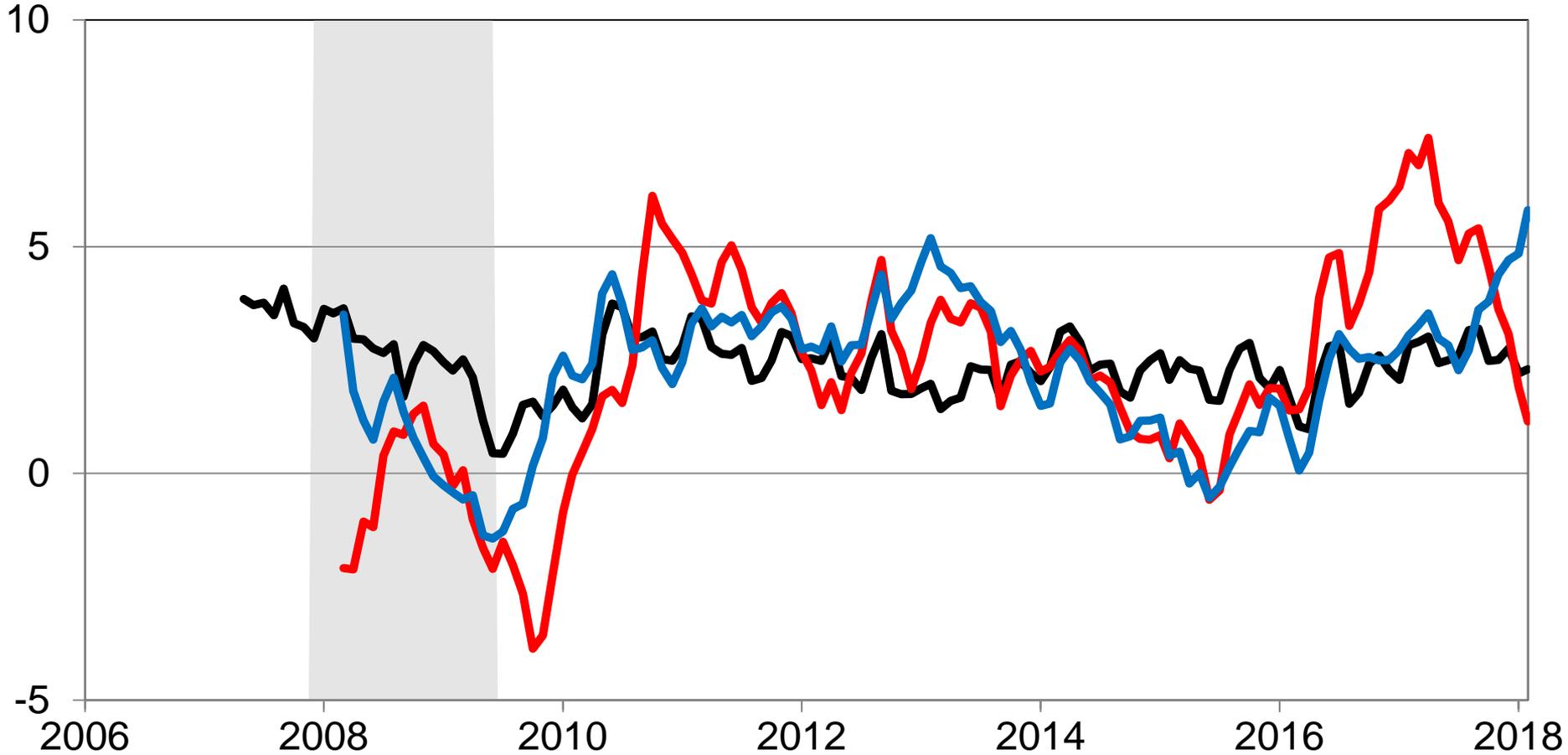




Average Weekly Earnings

12-month percent change, 3-month moving average

—US —MN —WI

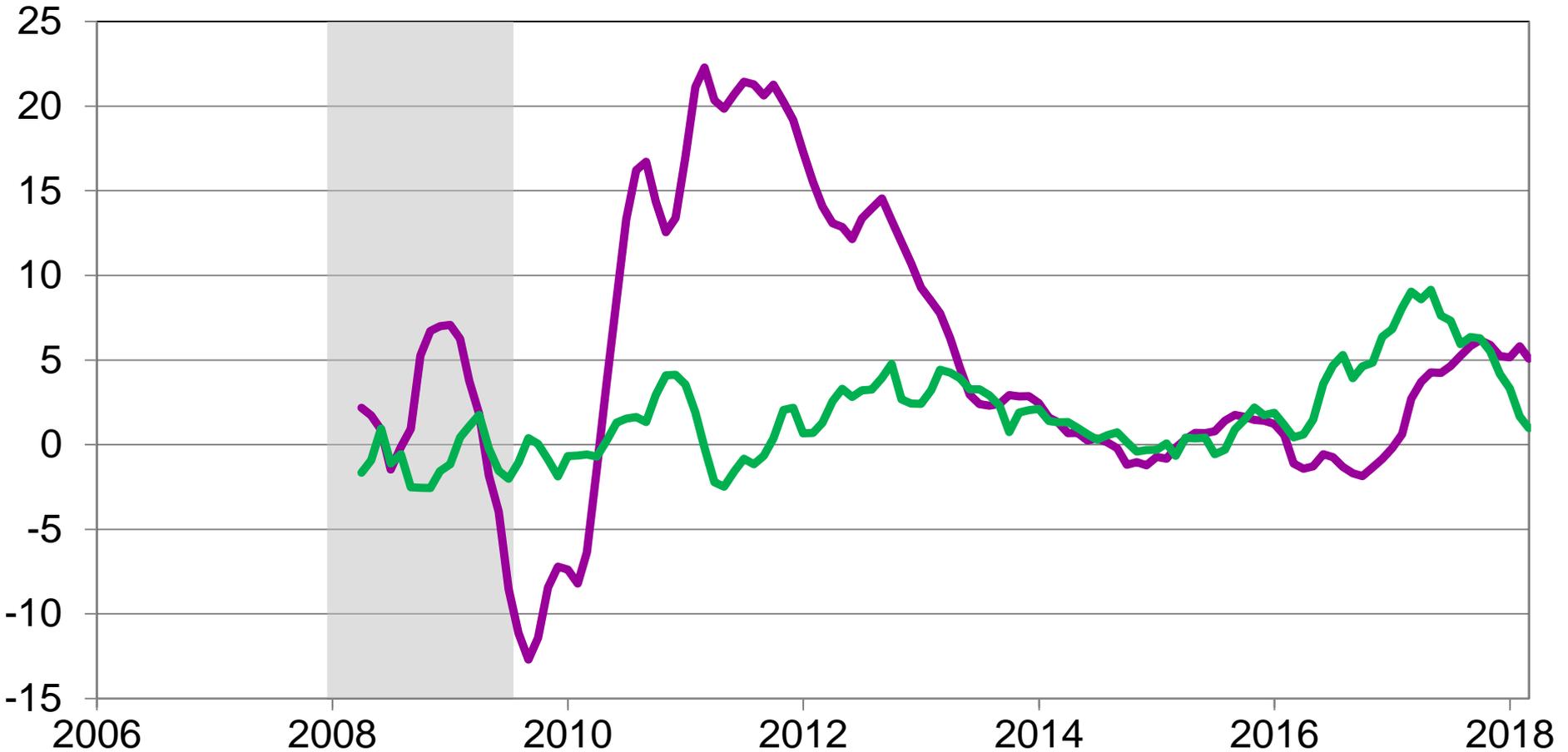




Average Weekly Earnings

12-month percent change, 3-month moving average

Rochester Twin Cities





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



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Thank you!

Questions?

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