

THE FEDERAL RESERVE AND MONETARY POLICY DURING COVID

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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**
- The impact of COVID on the economy
- The Federal Reserve's response:
 - Monetary policy
 - Financial markets functioning
 - Updated statement on longer-run goals and monetary policy strategy

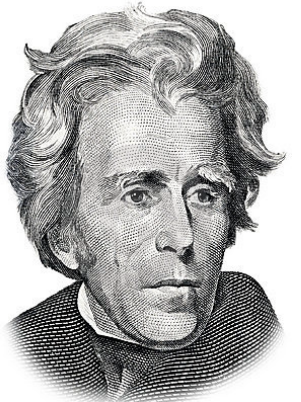




**THE FEDERAL RESERVE
SYSTEM**

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

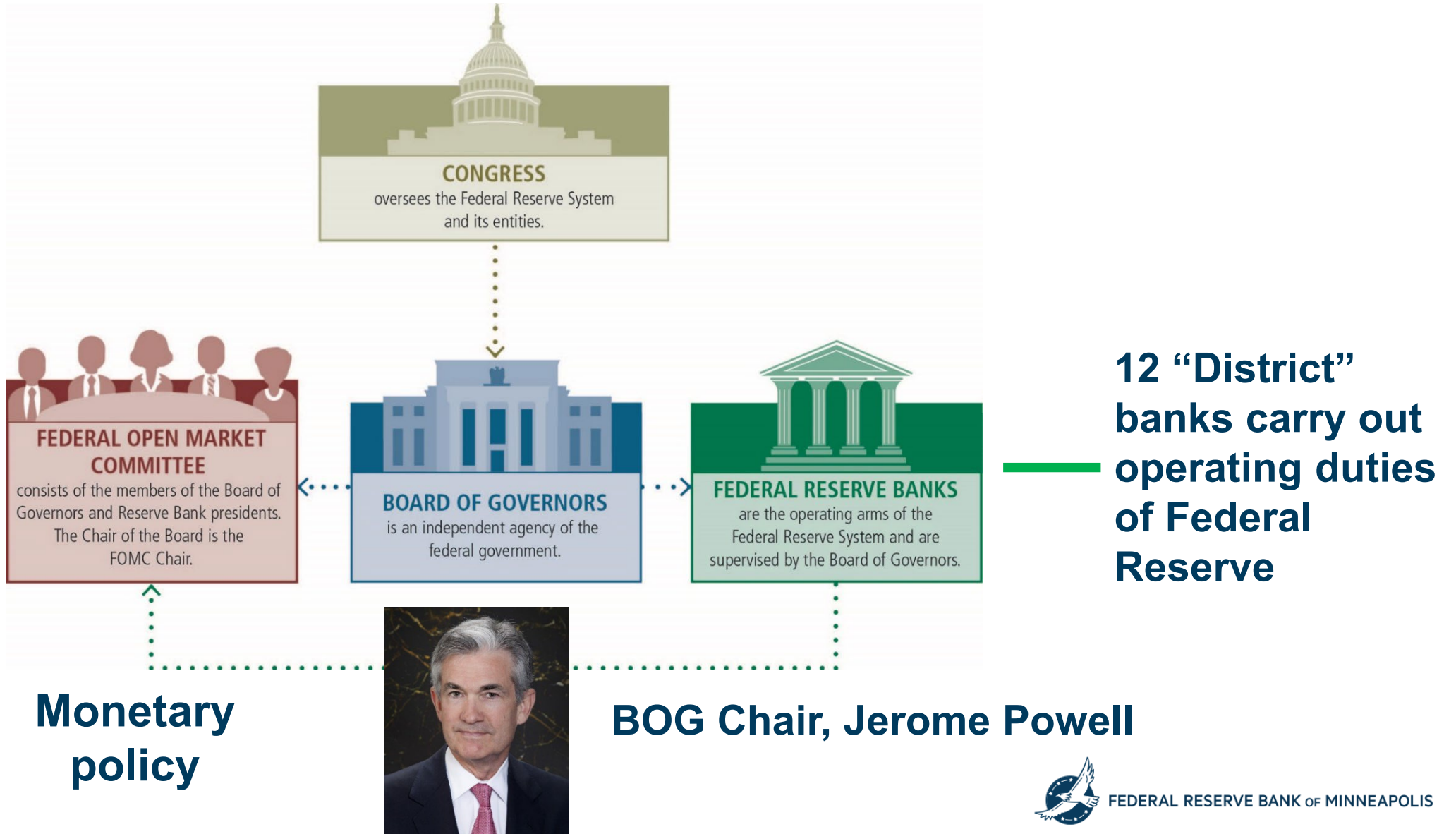


RESPONSIBILITIES OF THE FEDERAL RESERVE SYSTEM

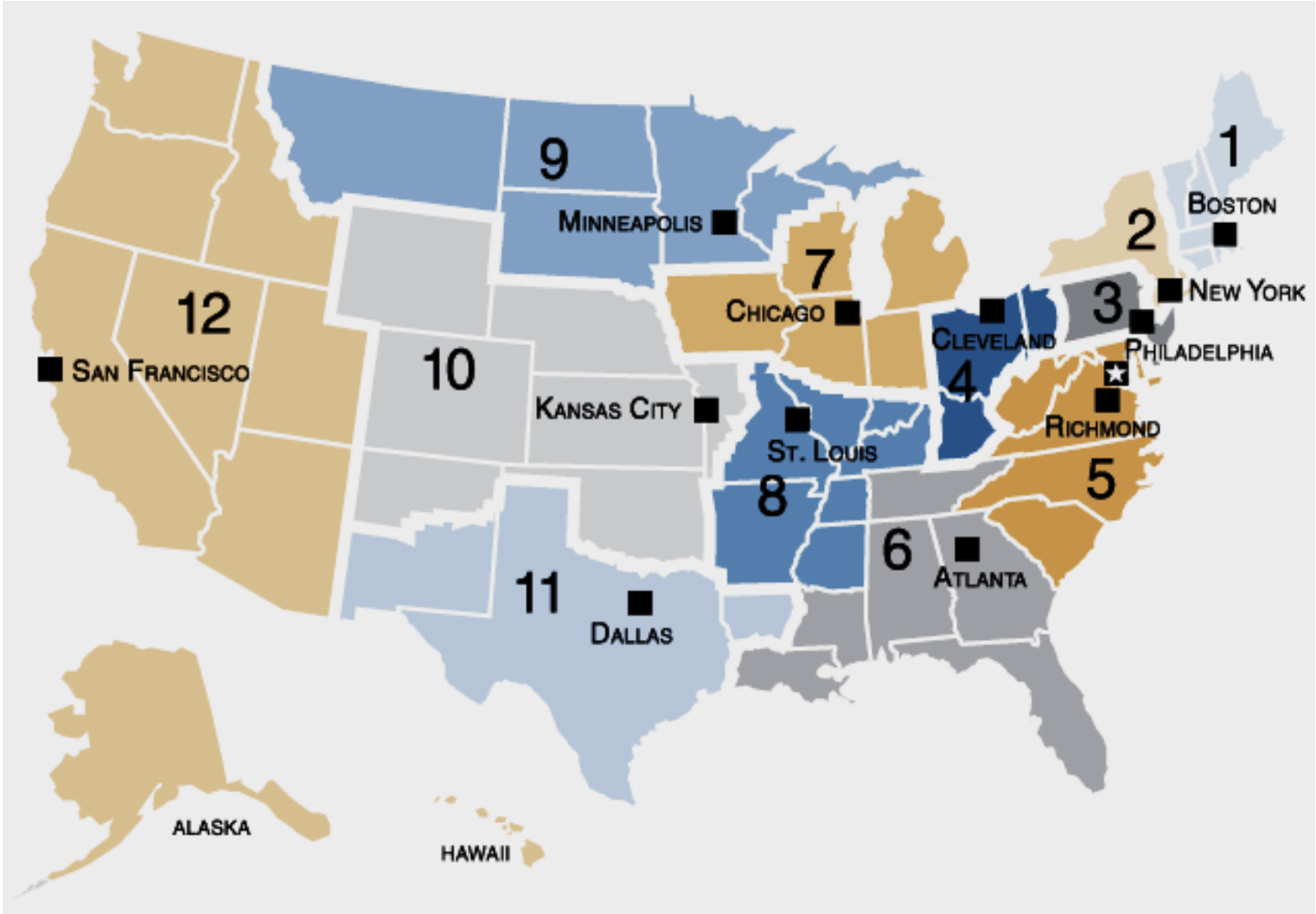
- Supervise and regulate banks
 - Mainly large bank holding companies
 - JPMorgan Chase, Wells Fargo, Goldman Sachs, Citigroup
- Provide financial services
 - Manage ('clear') financial payments
 - Help banks meet short-term demands for cash
 - "Lender of Last Resort"
- Set monetary policy



STRUCTURE OF THE FEDERAL RESERVE SYSTEM



THE FEDERAL RESERVE BANKS



MINNEAPOLIS FED'S NINTH DISTRICT



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
2 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 voting in 2020



FOMC = 7 + 1 + 4
Currently: 5 + 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”

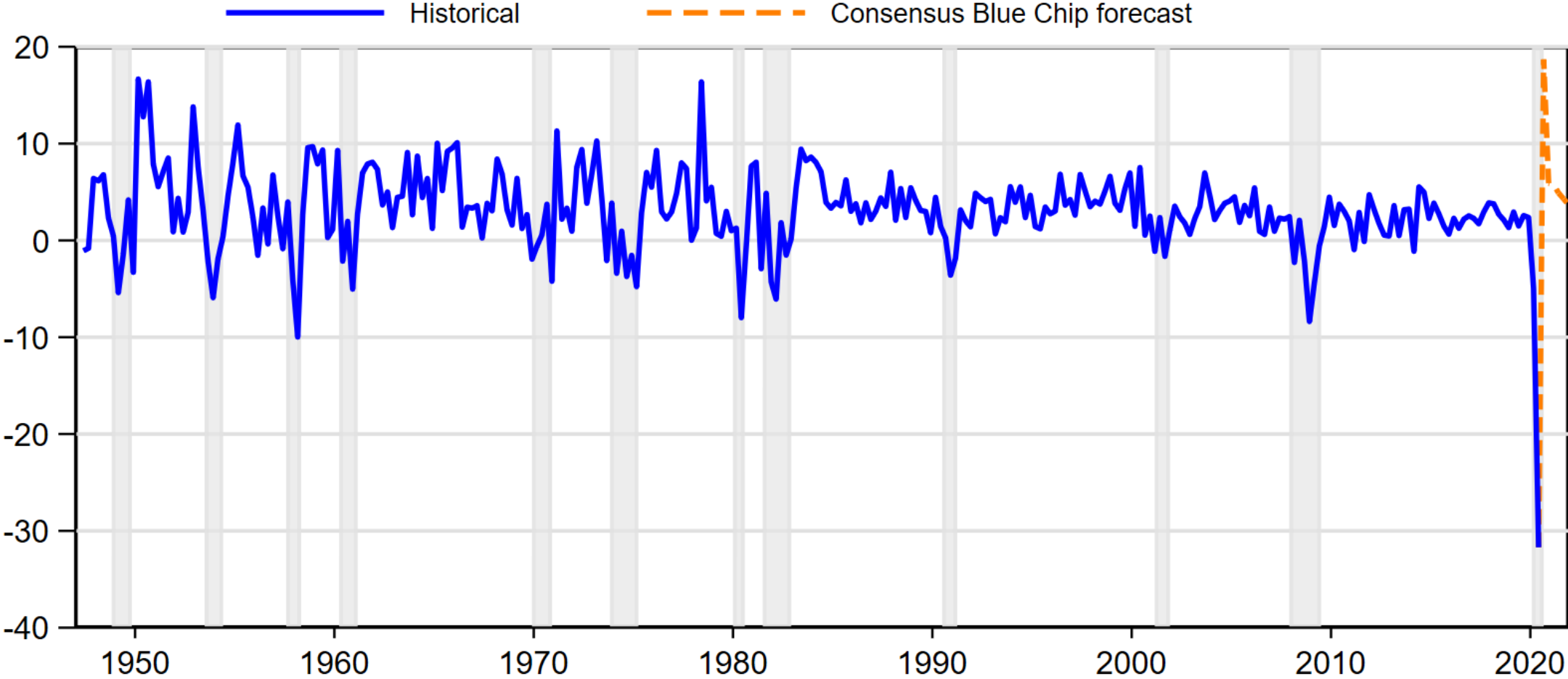
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HISTORICAL SETTING – UNPRECEDENTED COLLAPSE

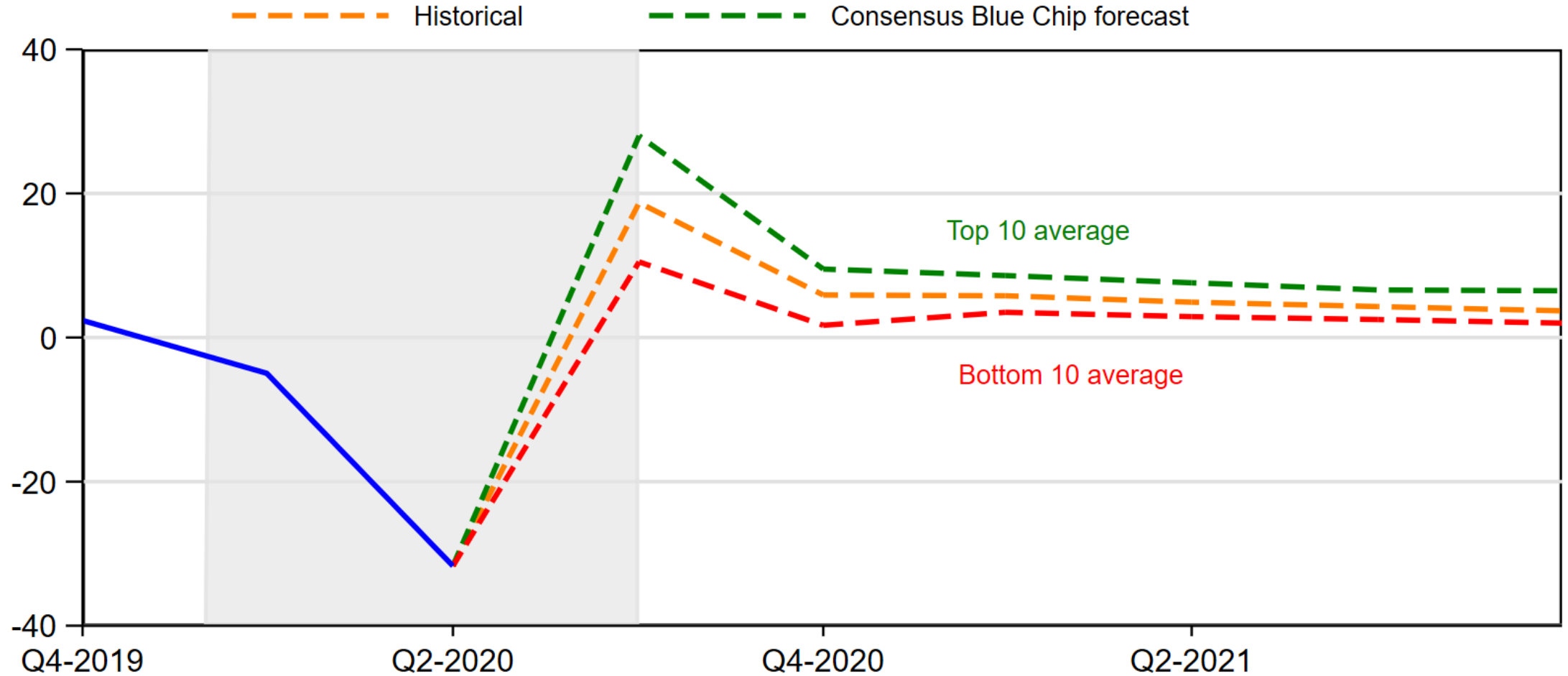
REAL GDP
PERCENT, ANNUALIZED QUARTERLY GROWTH RATES



Source: U.S. Bureau of Economic Analysis, Blue Chip.

HISTORICAL SETTING – UNPRECEDENTED COLLAPSE

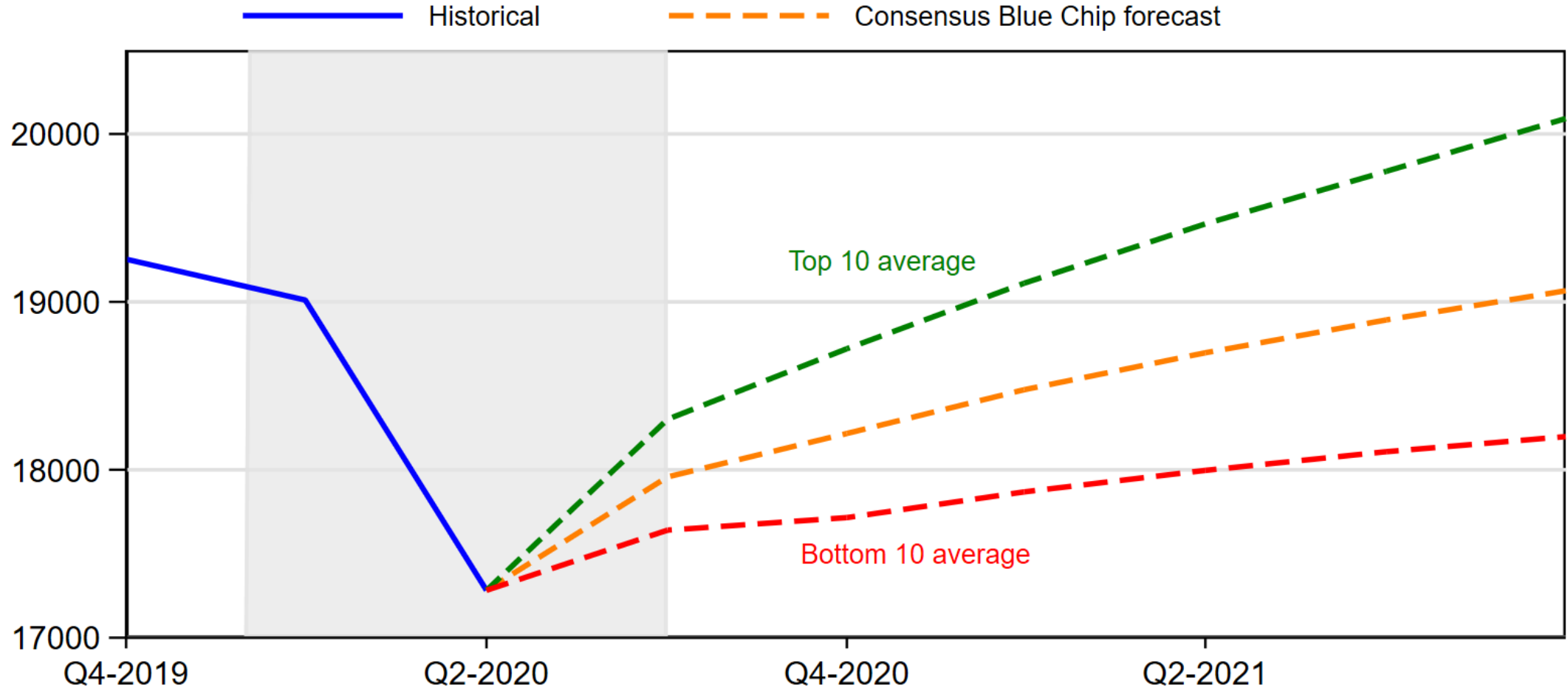
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HISTORICAL SETTING – UNPRECEDENTED COLLAPSE

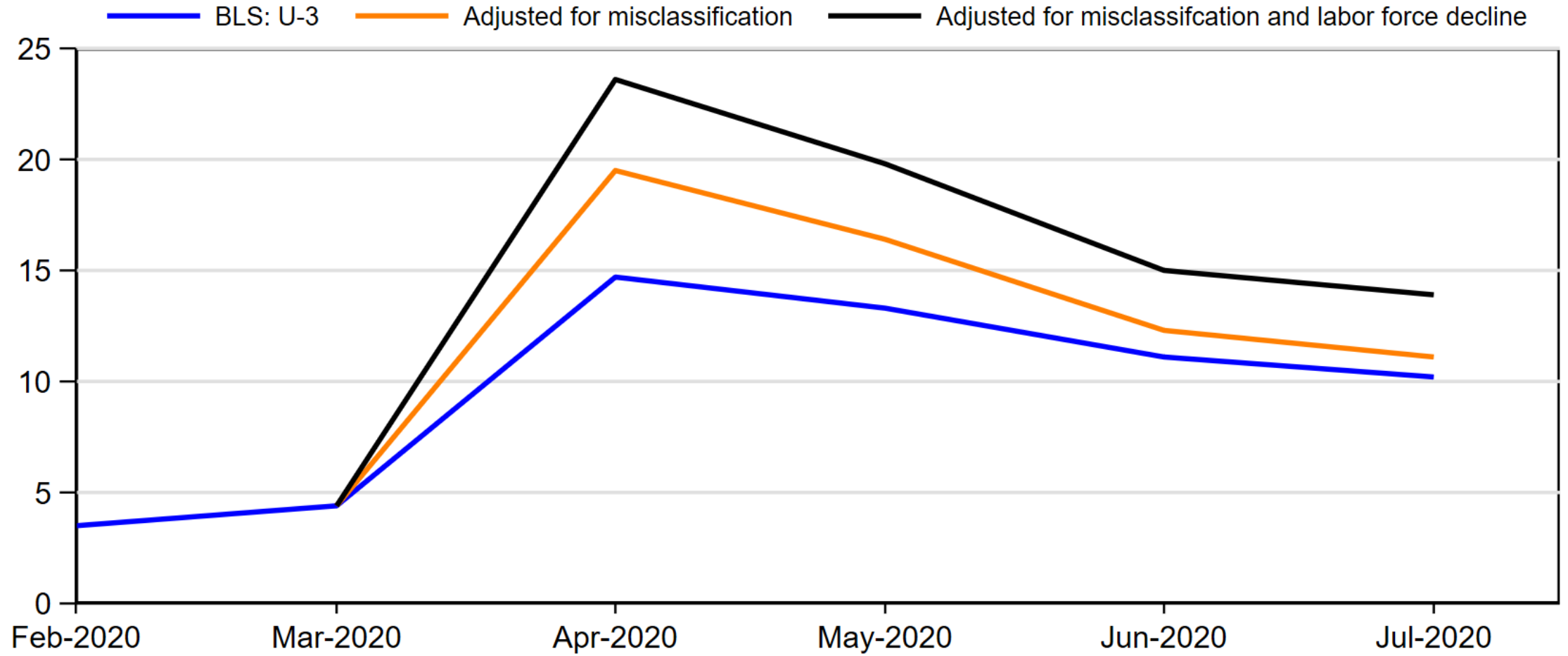
REAL GDP
BIL. \$



Source: U.S. Bureau of Economic Analysis, Blue Chip.

CURRENT: UNEMPLOYMENT

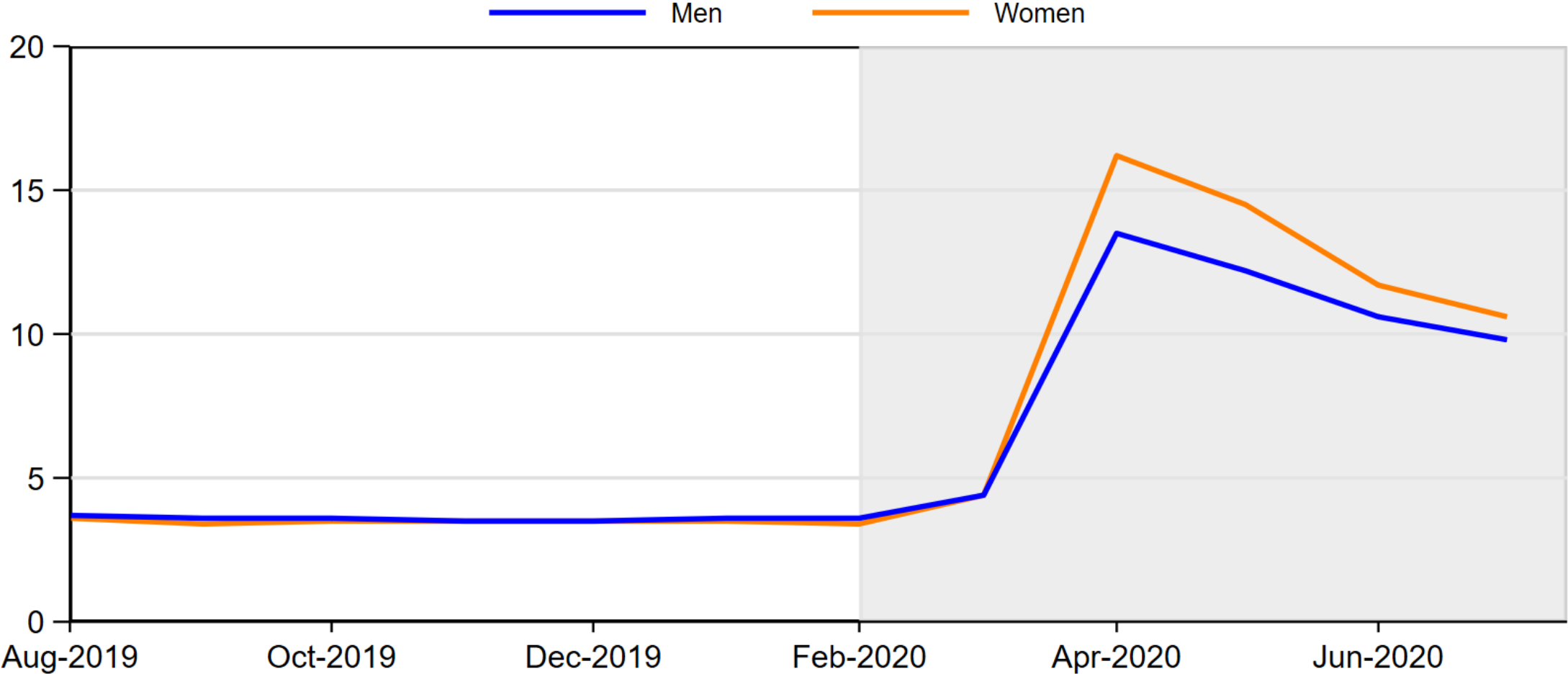
UNEMPLOYMENT RATE PERCENT



Source: Bureau of Labor Statistics.

CURRENT: EMPLOYMENT

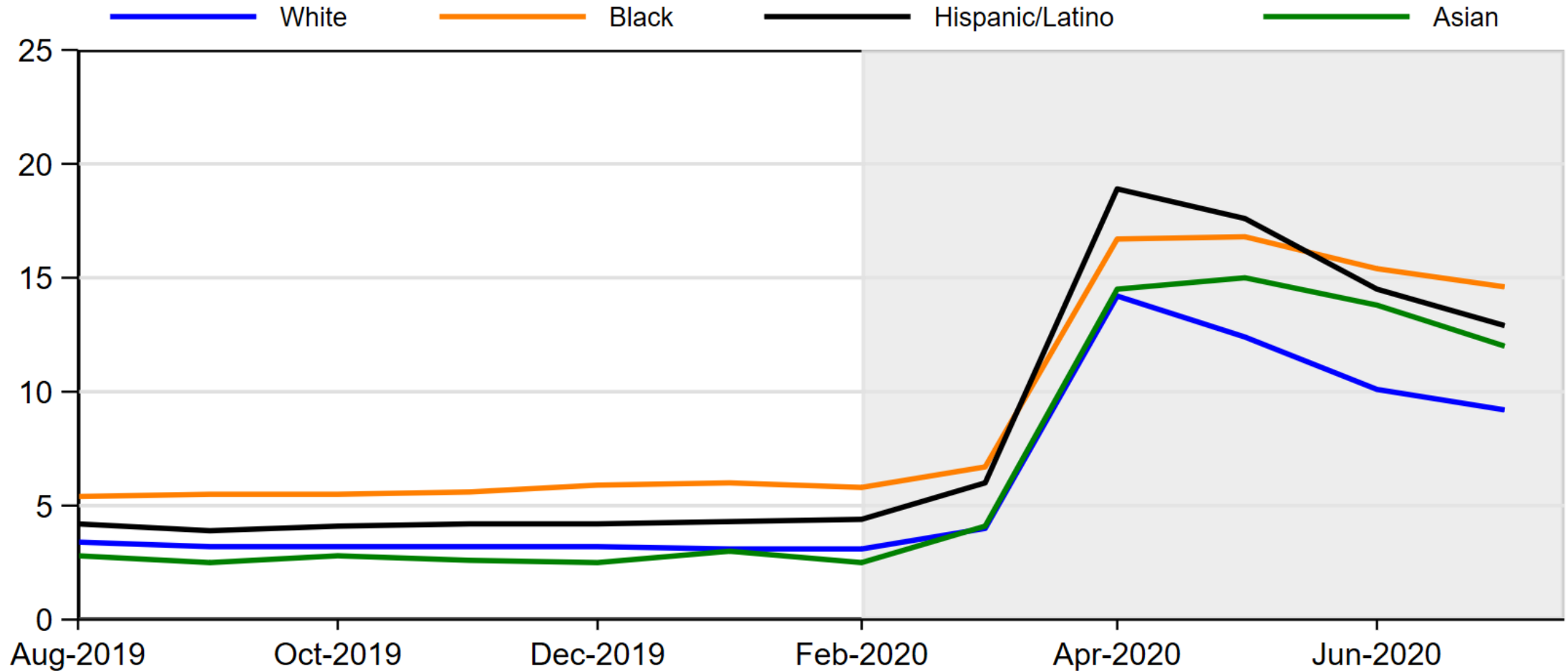
UNEMPLOYMENT RATE BY GENDER PERCENT



Source: Bureau of Labor Statistics.

CURRENT: EMPLOYMENT

UNEMPLOYMENT RATE BY ETHNICITY PERCENT

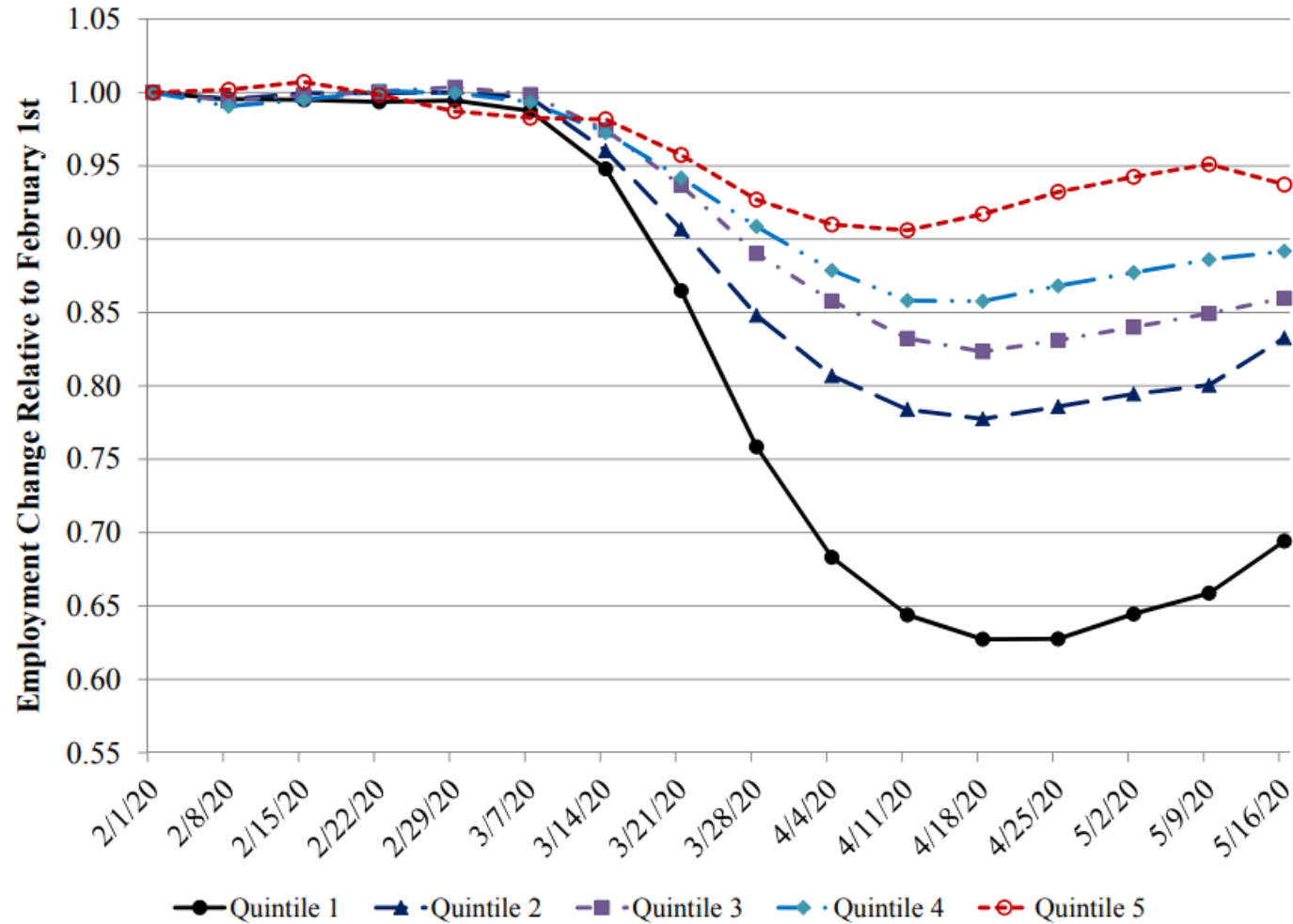


Source: Bureau of Labor Statistics.



CURRENT: EMPLOYMENT

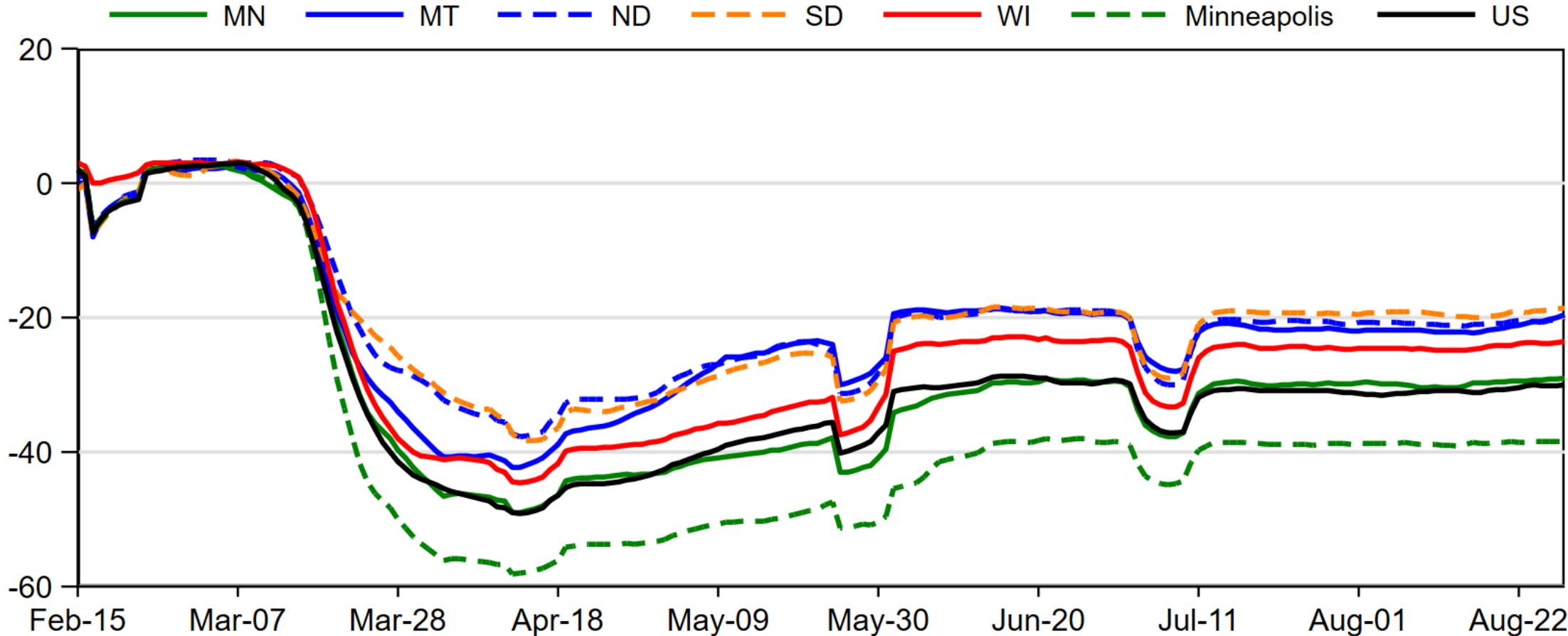
EMPLOYMENT CHANGE BY INITIAL WAGE QUANTILE PERCENT



Note: Compared to February 1st.
Source: Cajner et. al.

CURRENT: EMPLOYMENT

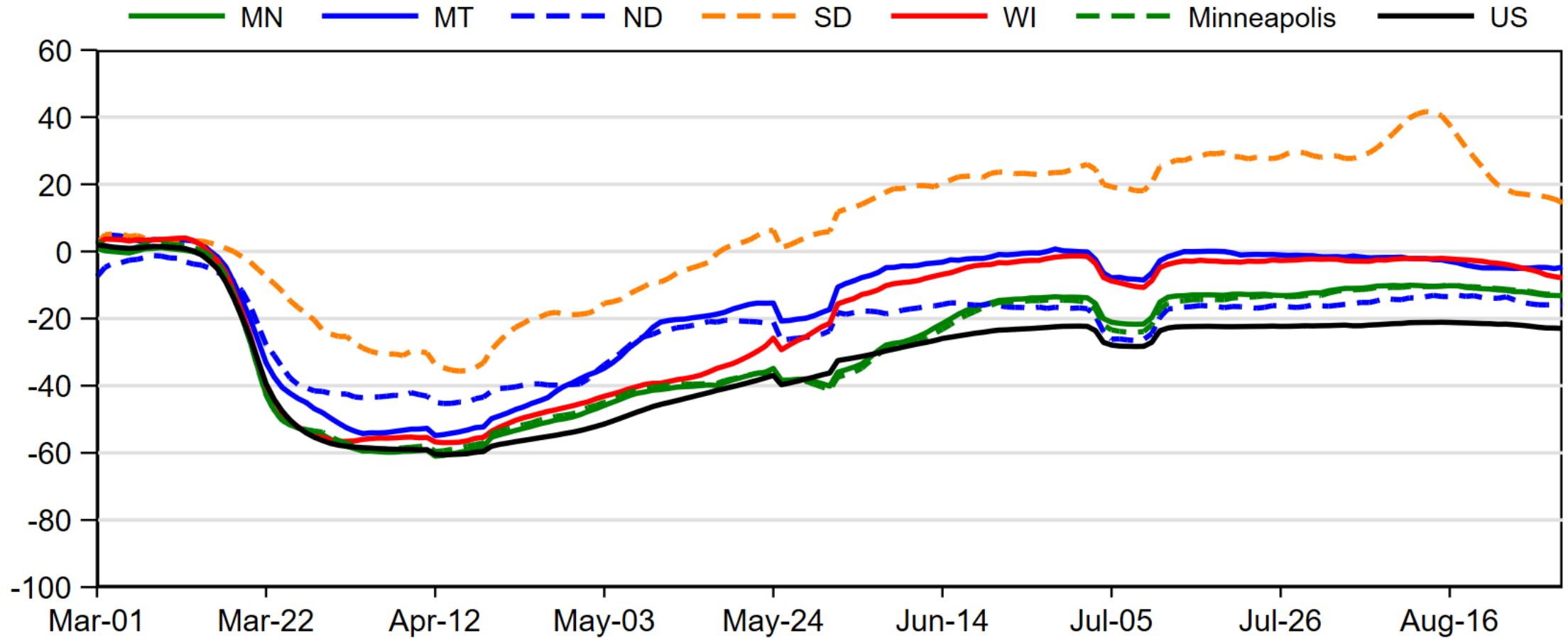
GOOGLE MOBILITY: WORKPLACES PERCENT, SEVEN-DAY ROLLING AVERAGE



Note: Compared to median day-value from the 5-week period in January 3rd - February 6th, 2020.
Source: Google Community Reports.

CURRENT: EMPLOYMENT

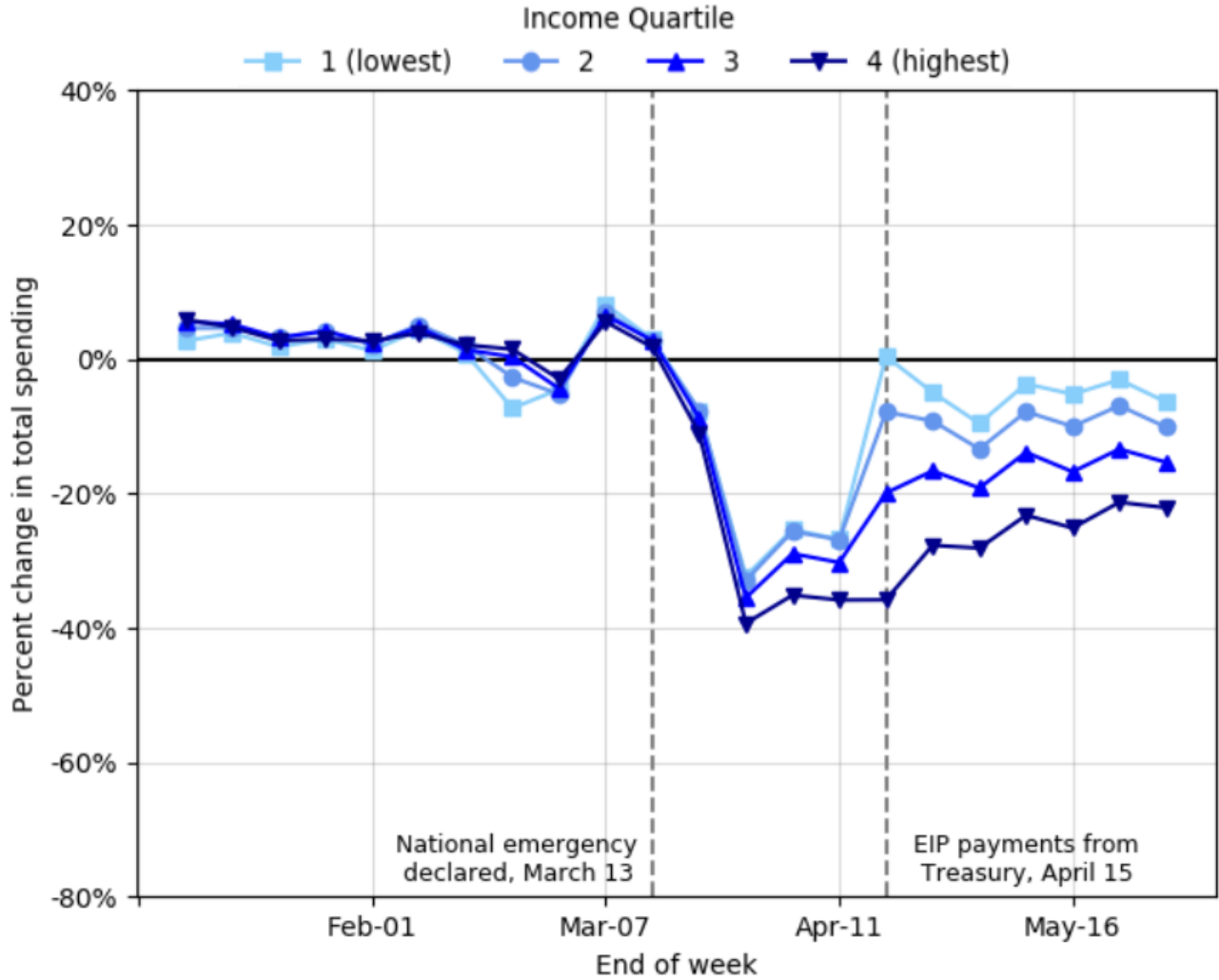
CHANGE IN SMALL BUSINESS EMPLOYMENT PERCENT, 7-DAY MOVING AVERAGE



Note: Compared to Median Number of Hourly Employees Working in January 4-31, 2020.
Source: Homebase.

CURRENT: CONSUMPTION

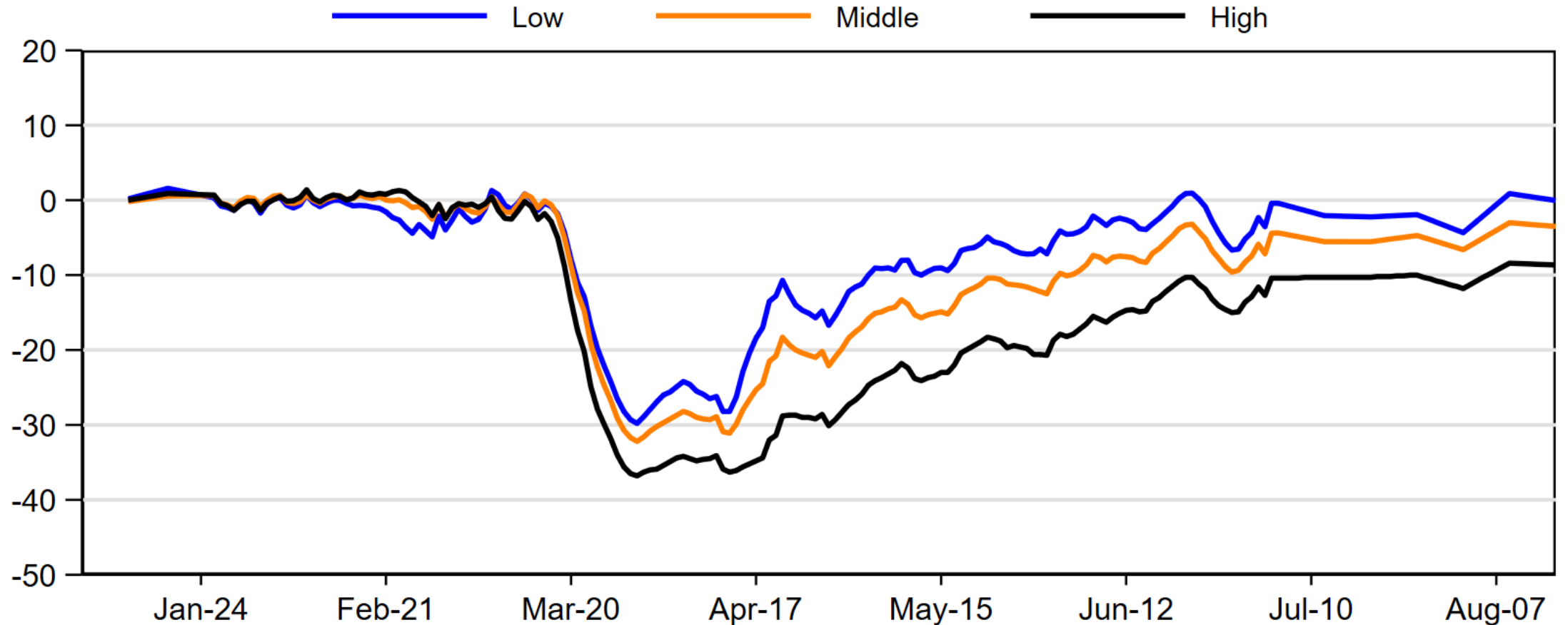
CHANGE IN TOTAL SPENDING BY INCOME QUARTILE YOY PERCENT



Source: Cox et. al. (2020).

CURRENT: CONSUMPTION

CHANGE IN CONSUMER SPENDING: US PERCENT, SA 7-DAY MOVING AVERAGE



Note: Compared to Consumer Spending in January 4-31, 2020.

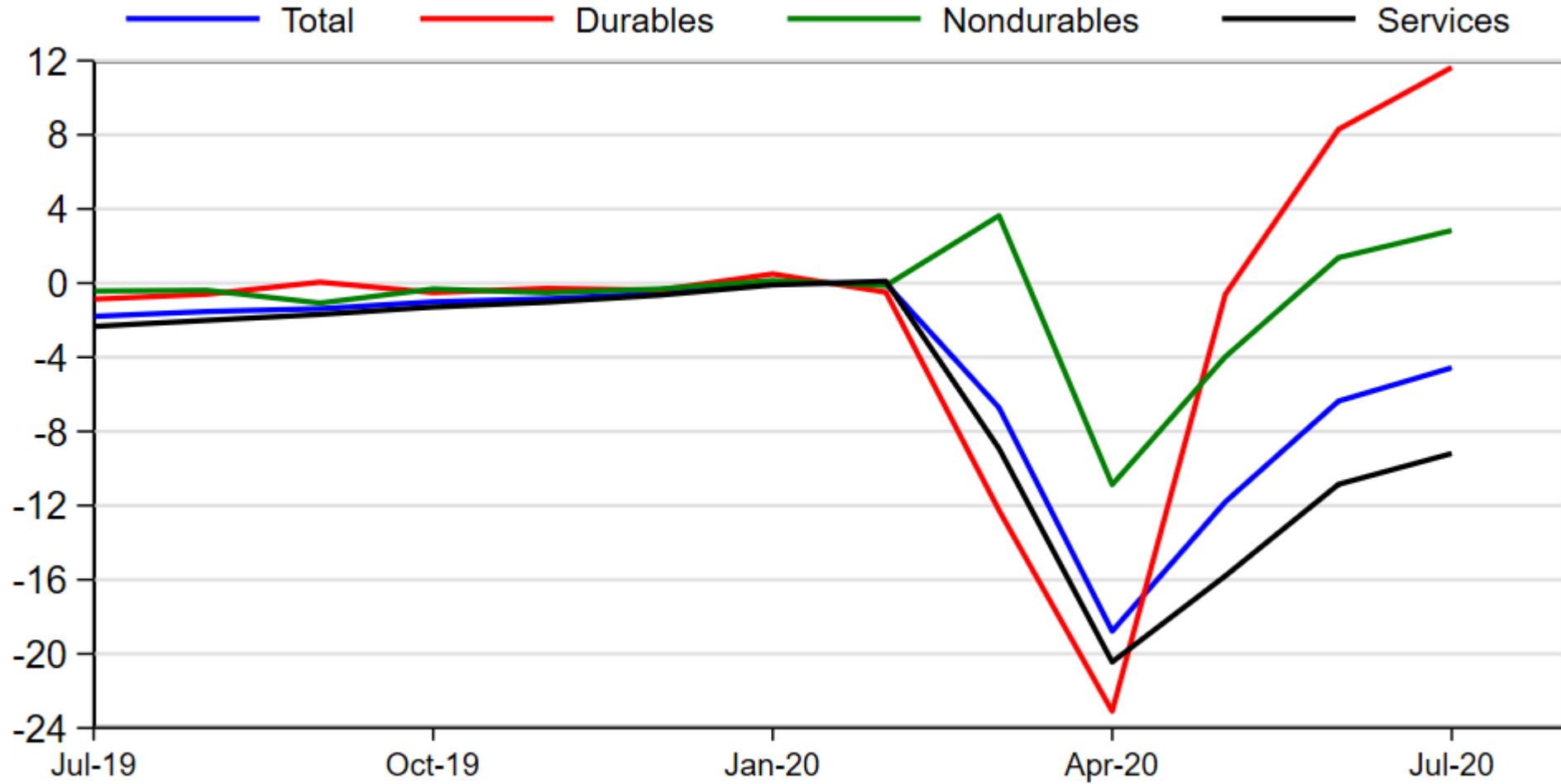
Income distribution refers to consumers living in ZIP codes with low, middle, or high median income.

Source: Opportunity Insights Economic Tracker.



HOUSEHOLD SPENDING

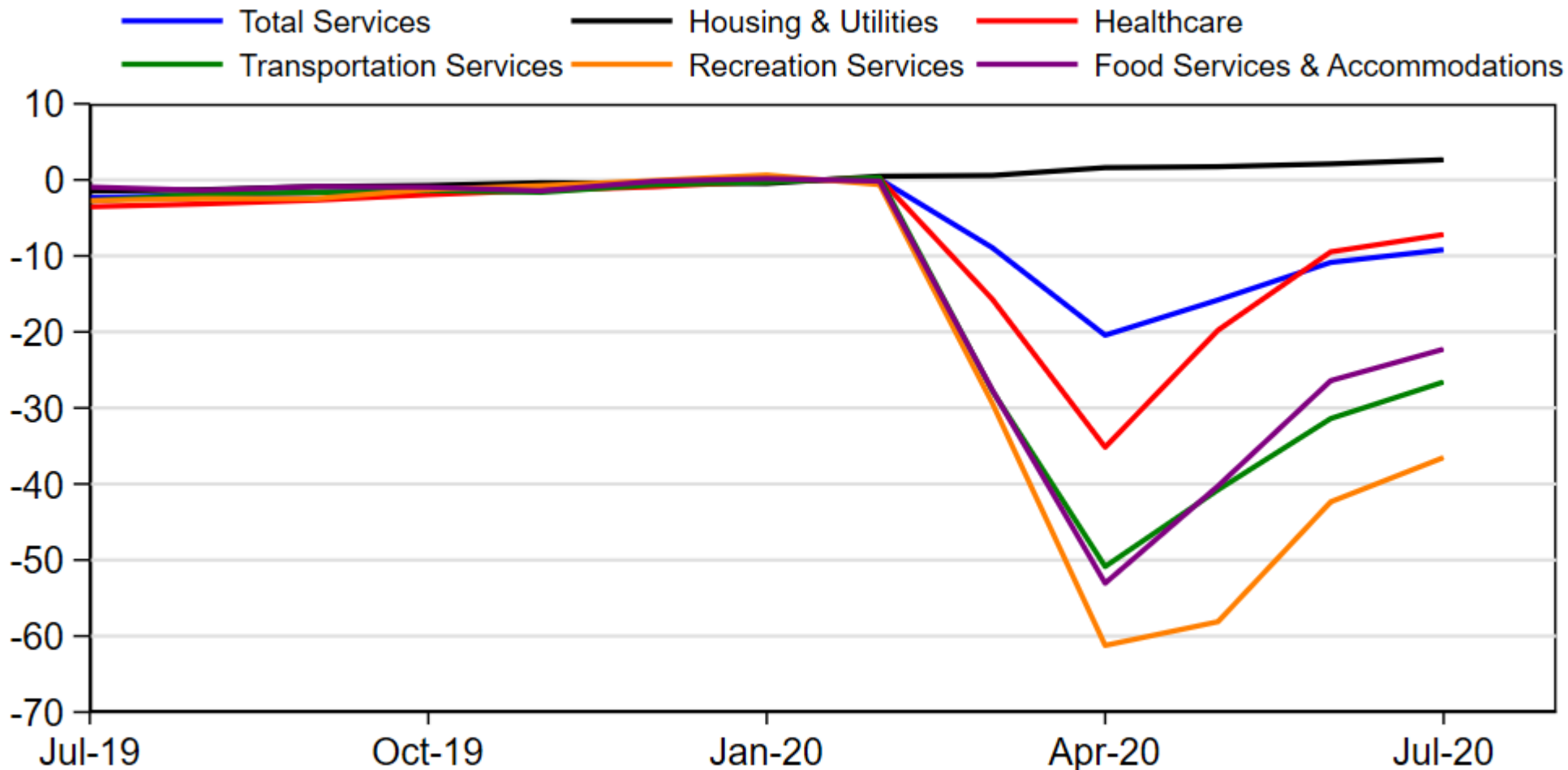
PERCENT, SAAR



Note: Percent deviation from Jan–Feb 2020 average.
Source: Bureau of Labor Statistics.

SPENDING ON SERVICES

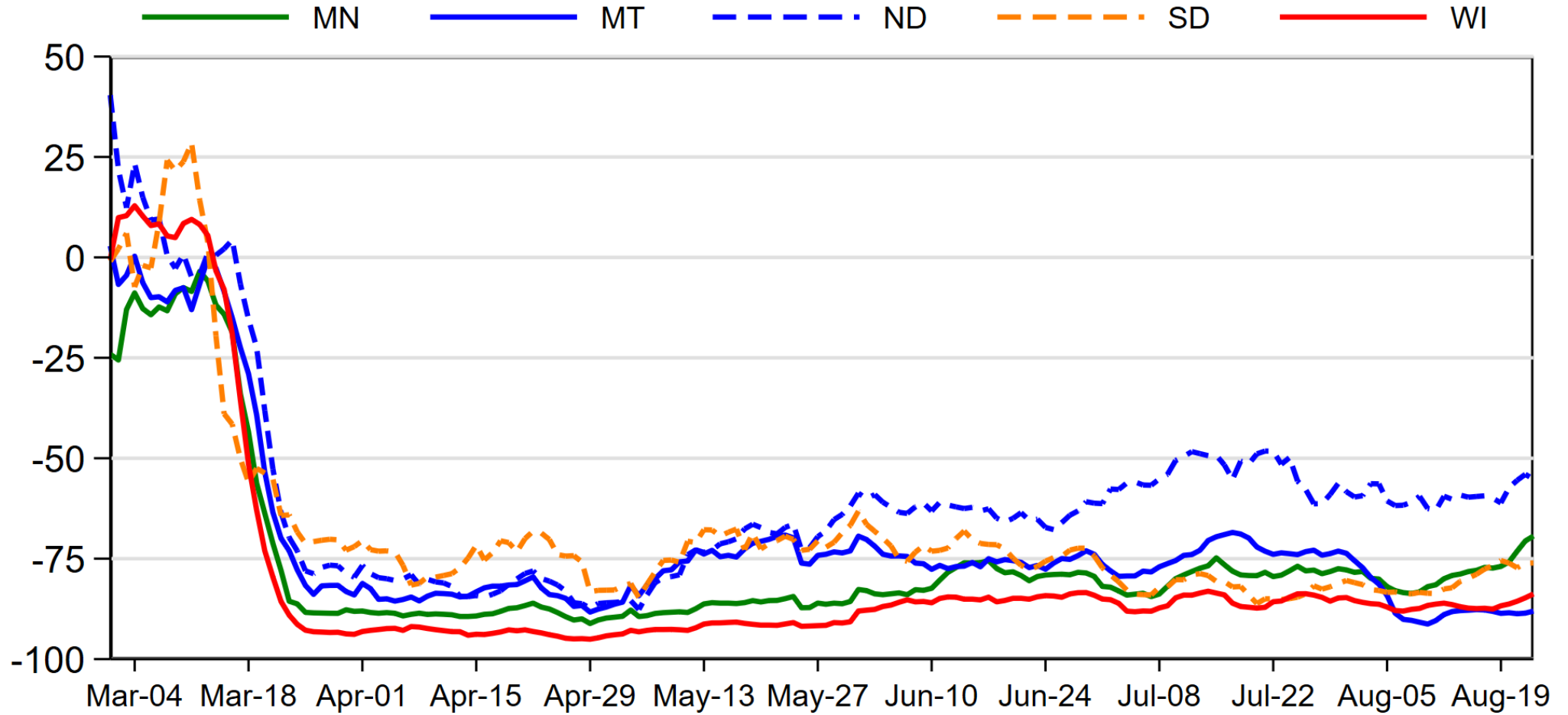
PERCENT, SAAR



Note: Percent deviation from Jan–Feb 2020 average.
Source: Bureau of Labor Statistics.

CURRENT: CONSUMPTION

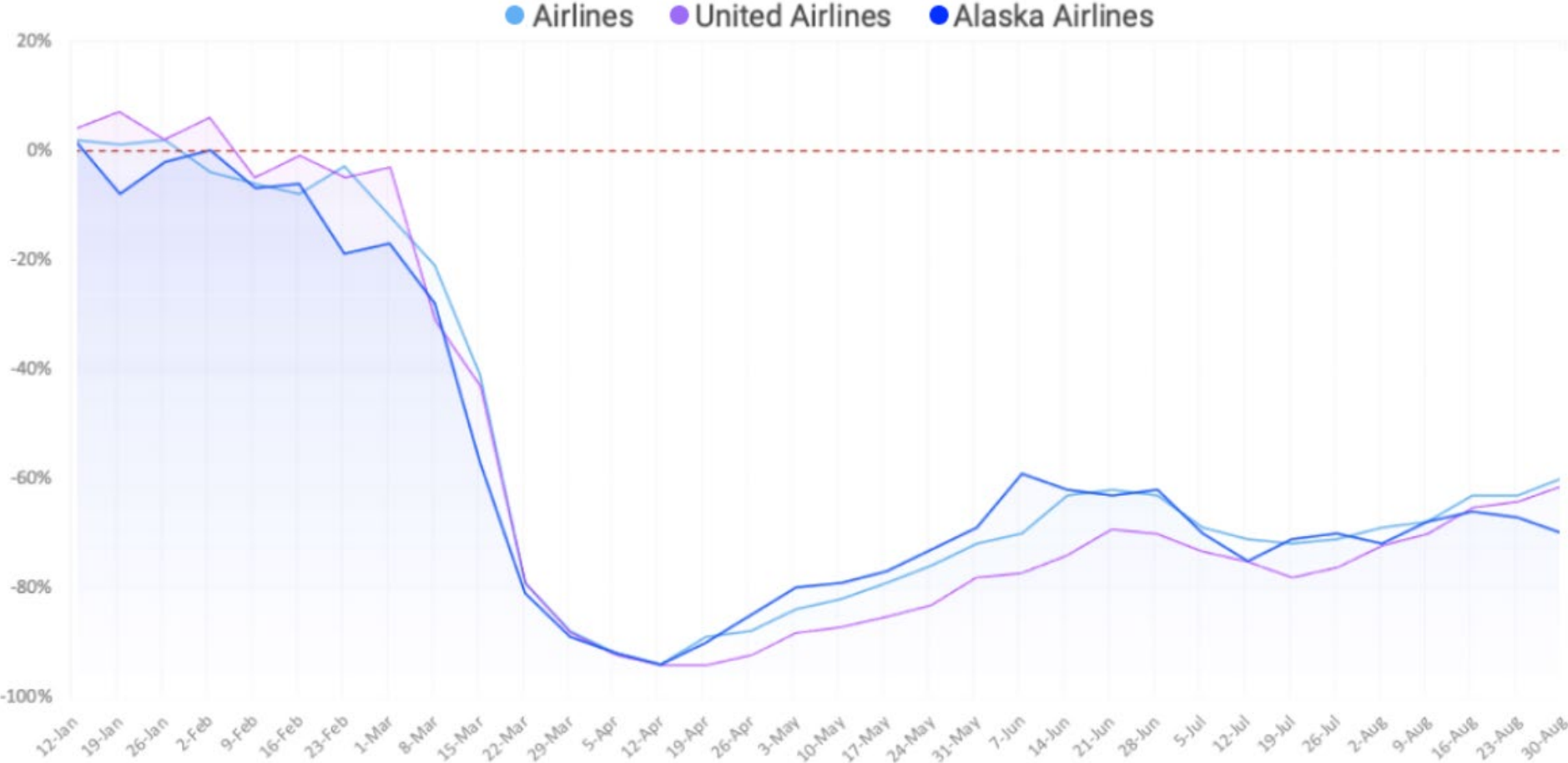
FOOT TRAFFIC: MOVIE THEATERS YOY PERCENT, 7-DAY ROLLING AVERAGE



Note: Compared to same day and week in 2019.
Source: SafeGraph.

CURRENT: CONSUMPTION

CONSUMER AIR TRAVEL SPENDING YOY PERCENT



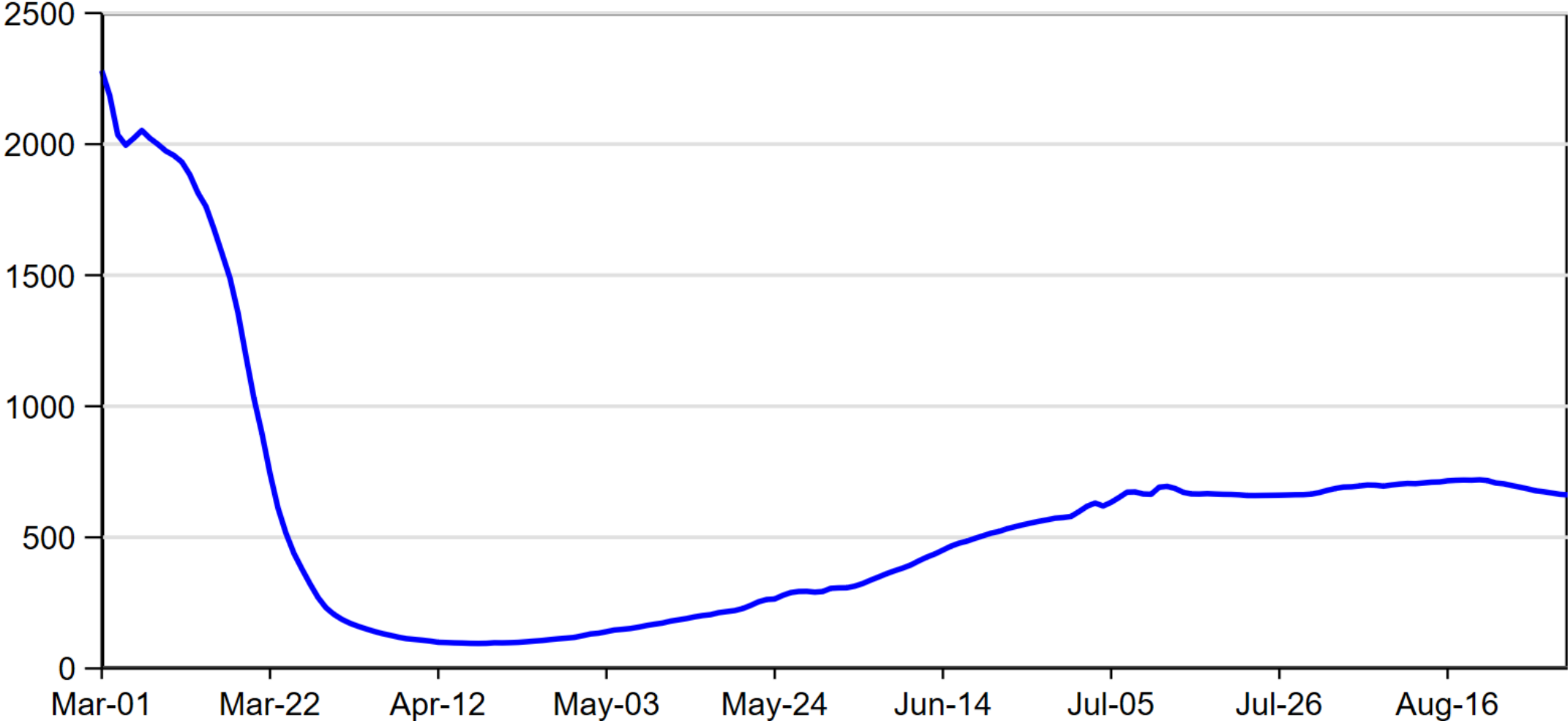
Source: Facteus.

CURRENT: CONSUMPTION



TOTAL NUMBER OF TSA TRAVELER THROUGHPUT

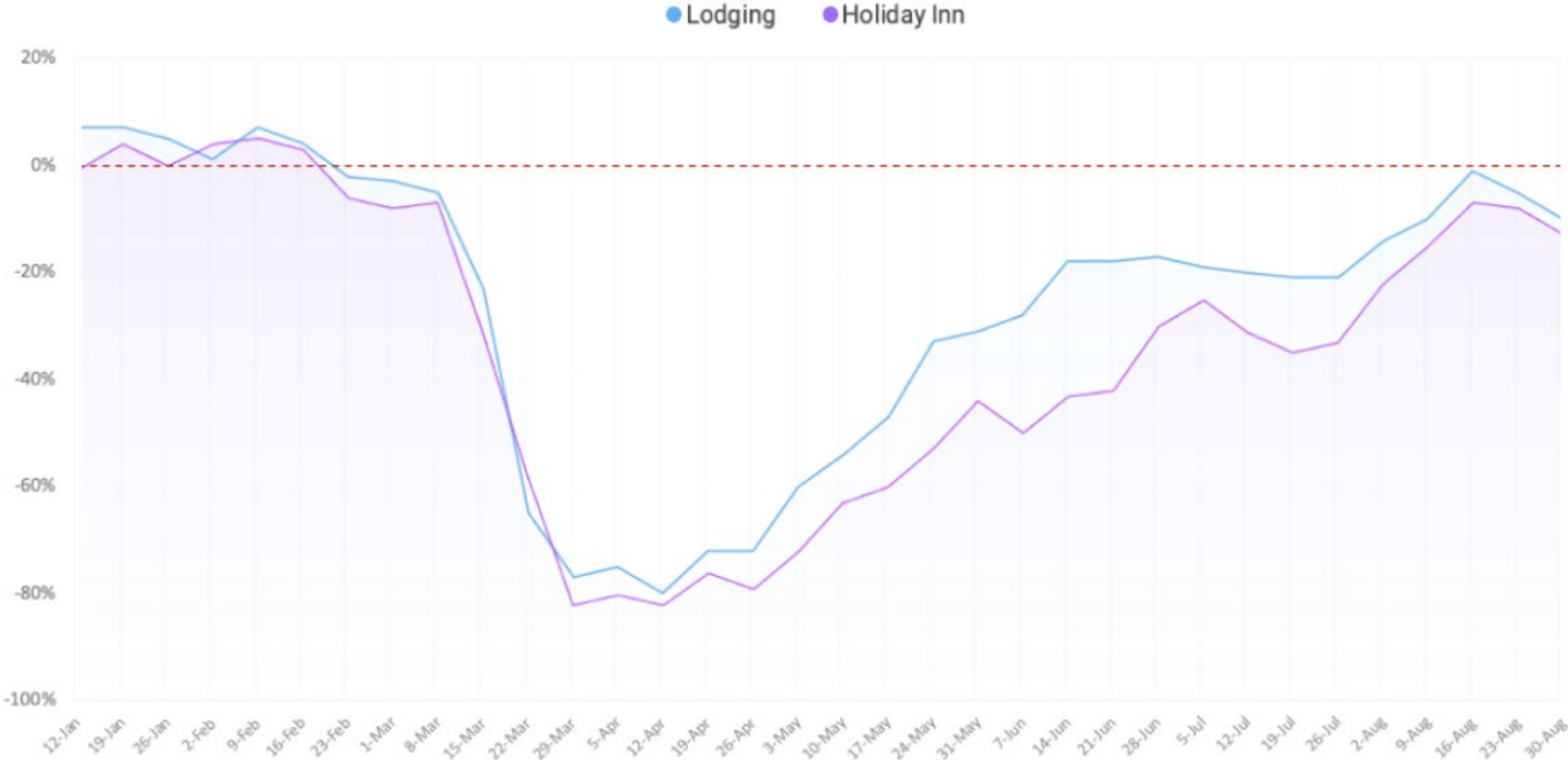
THOUSANDS, 7-DAY MOVING AVERAGE



Source: TSA.

CURRENT: CONSUMPTION

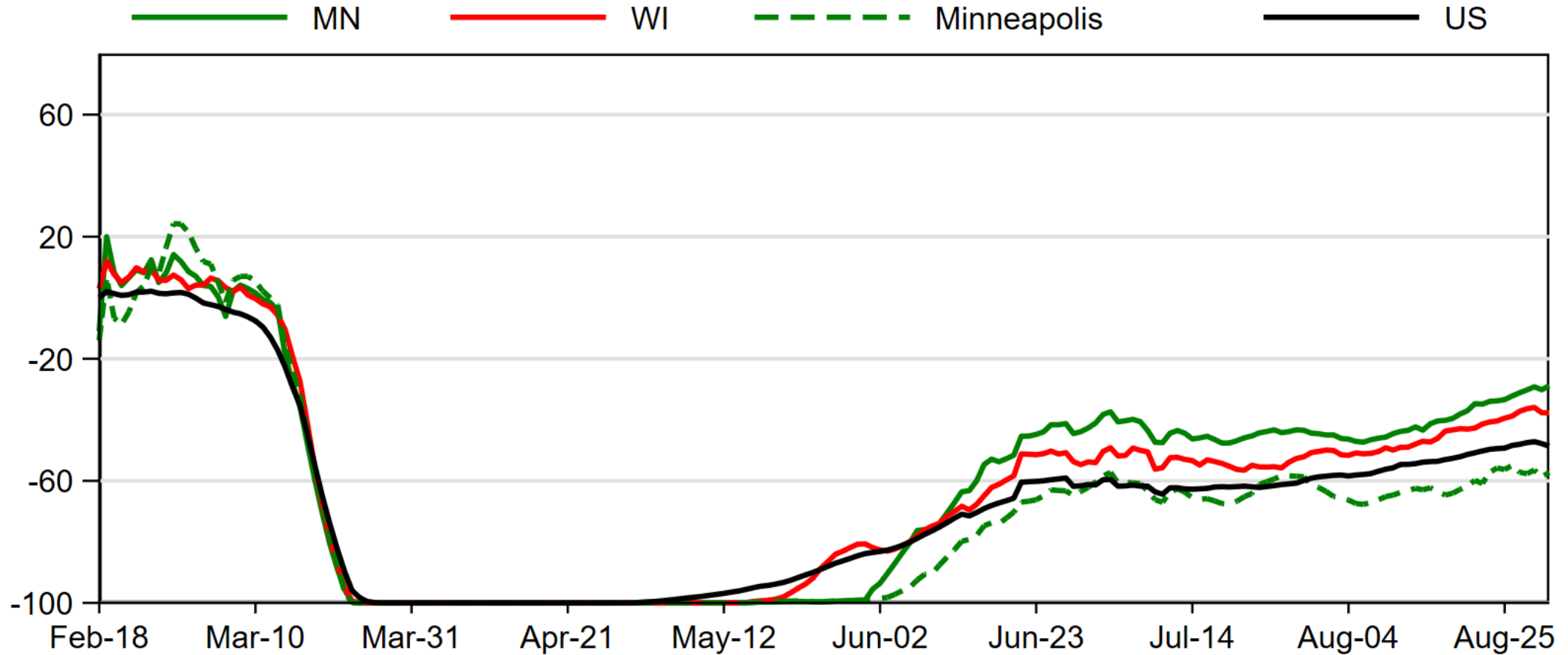
CONSUMER LODGING SPENDING YOY PERCENT



Source: Facteus.

CURRENT: CONSUMPTION

CHANGE IN SEATED DINERS IN RESTAURANTS PERCENT, 7-DAY MOVING AVERAGE



Note: Compared to 2019.
Source: OpenTable.

CURRENT: CONSUMPTION

CONSUMER HOME SUPPLY WAREHOUSE SPENDING YOY PERCENT



Source: Facteus.

CURRENT: CONSUMPTION

CONSUMER VIDEO GAME SPENDING YOY PERCENT



Source: Facteus.

CURRENT: CONSUMPTION

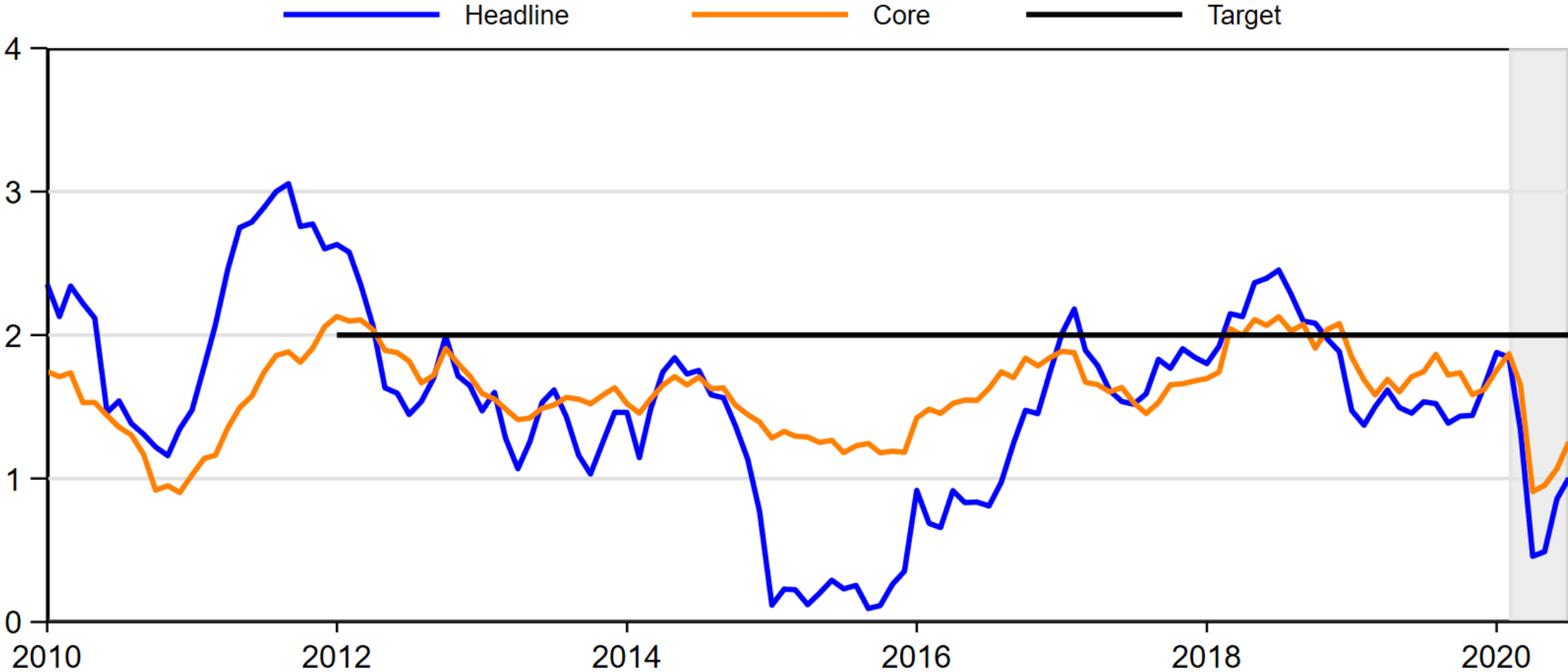
CONSUMER SPENDING ON AMAZON AND WALMART YOY PERCENT



Source: Facteus.

CURRENT: INFLATION

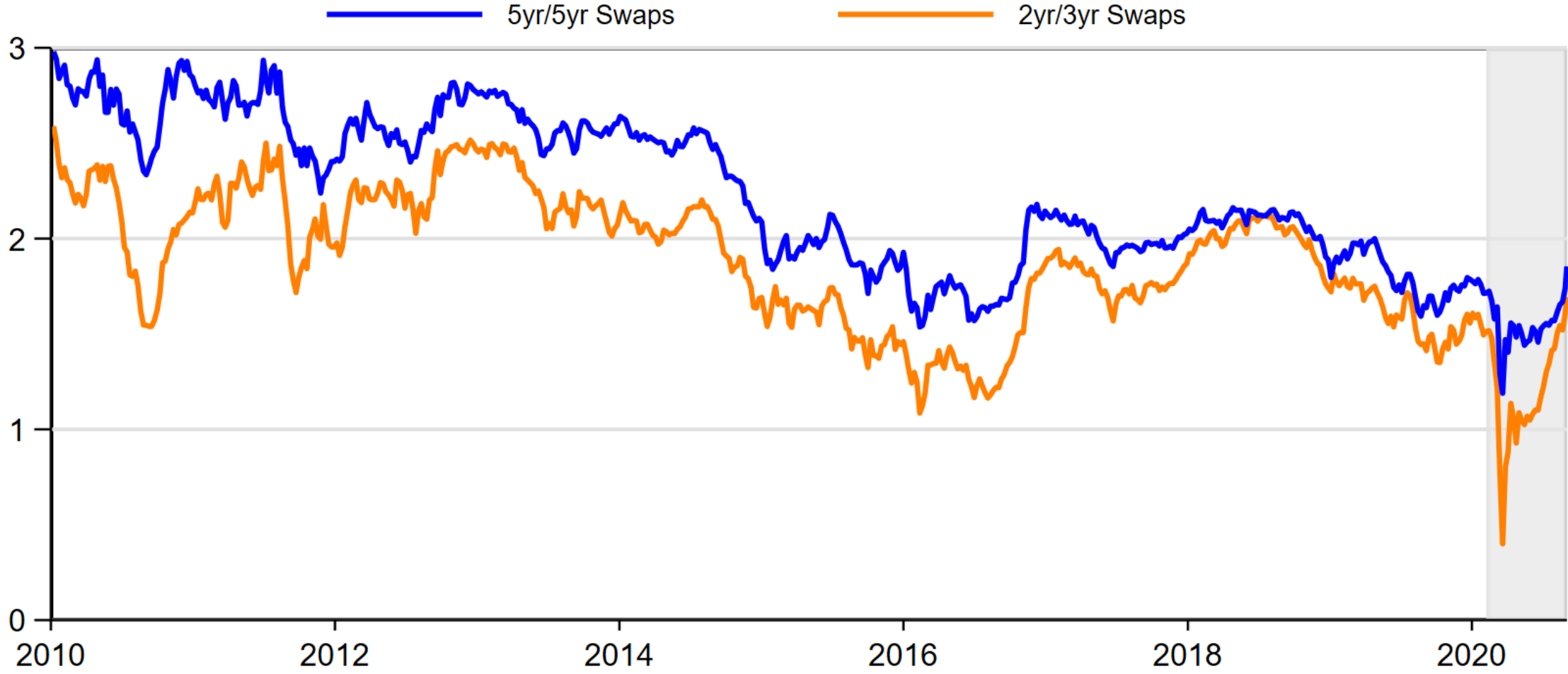
PCE INFLATION 12-MONTH PERCENT CHANGE



Source: U.S. Bureau of Economic Analysis.

CURRENT: INFLATION

MARKET-BASED INFLATION EXPECTATIONS WEEKLY AVERAGES, PERCENT



Source: Bloomberg.

CURRENT: INFLATION

10-YEAR TREASURY RATE WEEKLY AVERAGES, PERCENT



Source: U.S. Treasury.

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THE FEDERAL RESERVE'S RESPONSE

- Public health required a lock down on certain activities
 - The slowdown in economic activity was “necessary”
- Goal of Fed was to “support” the slow down in economic activity, not “fight” it:
 - Ensure lock down didn’t spill over to rest of the economy
 - Ensure financial markets kept functioning

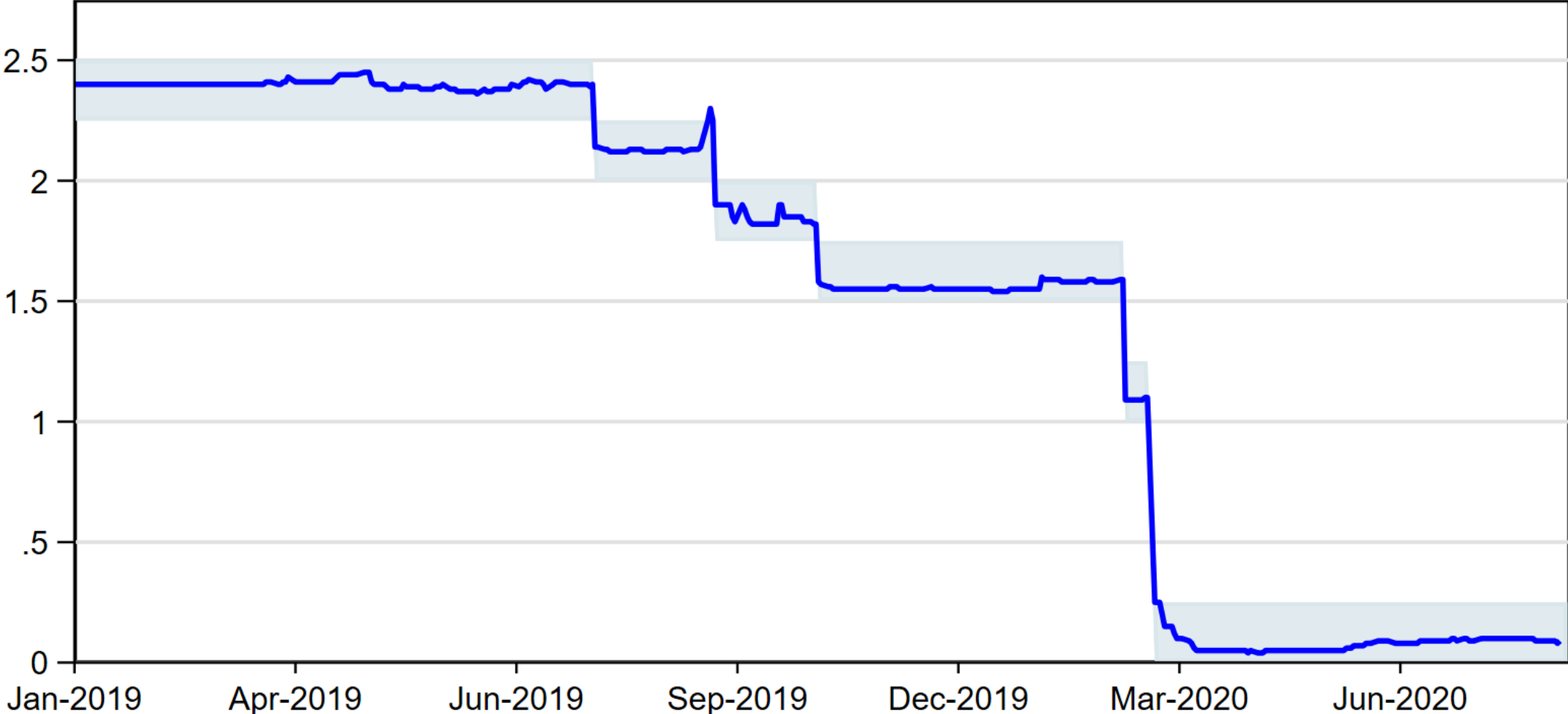


KEY ACTIONS BY FEDERAL RESERVE

- March 2nd:
 - Federal funds rate range cut by 50bp to between 1 and 1.25 percent
- March 15th:
 - Federal funds rate range cut by 100bp to between 0 and 0.25 percent
 - Committed to buy up to \$500b Treasury and \$200b MBS
 - Other announcements to encourage bank credit
- March 17th:
 - launched first of our emergency Lender of Last Resort (or 13(3)) facilities

MONETARY POLICY

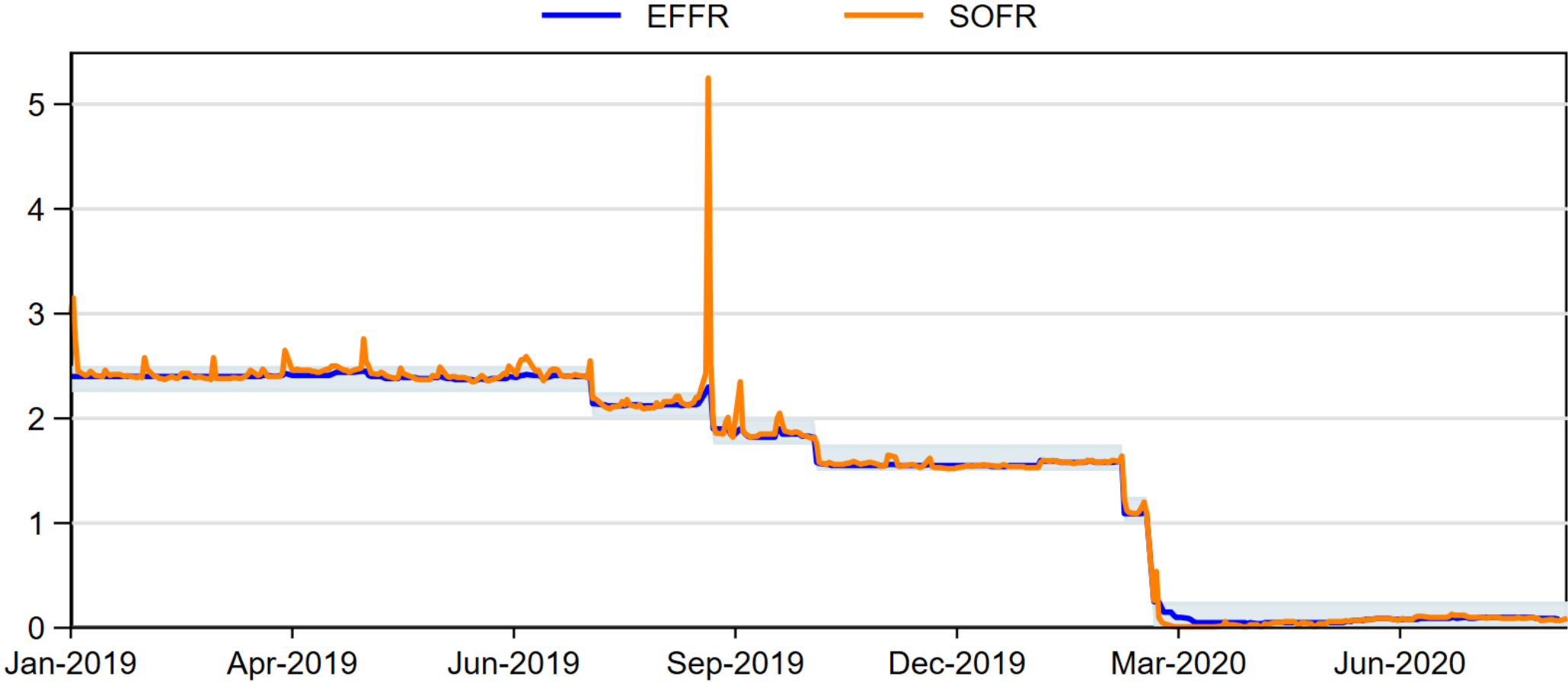
THE EFFECTIVE FED FUNDS RATE PERCENT



Source: Federal Reserve Board of Governors.

FED RESPONSE

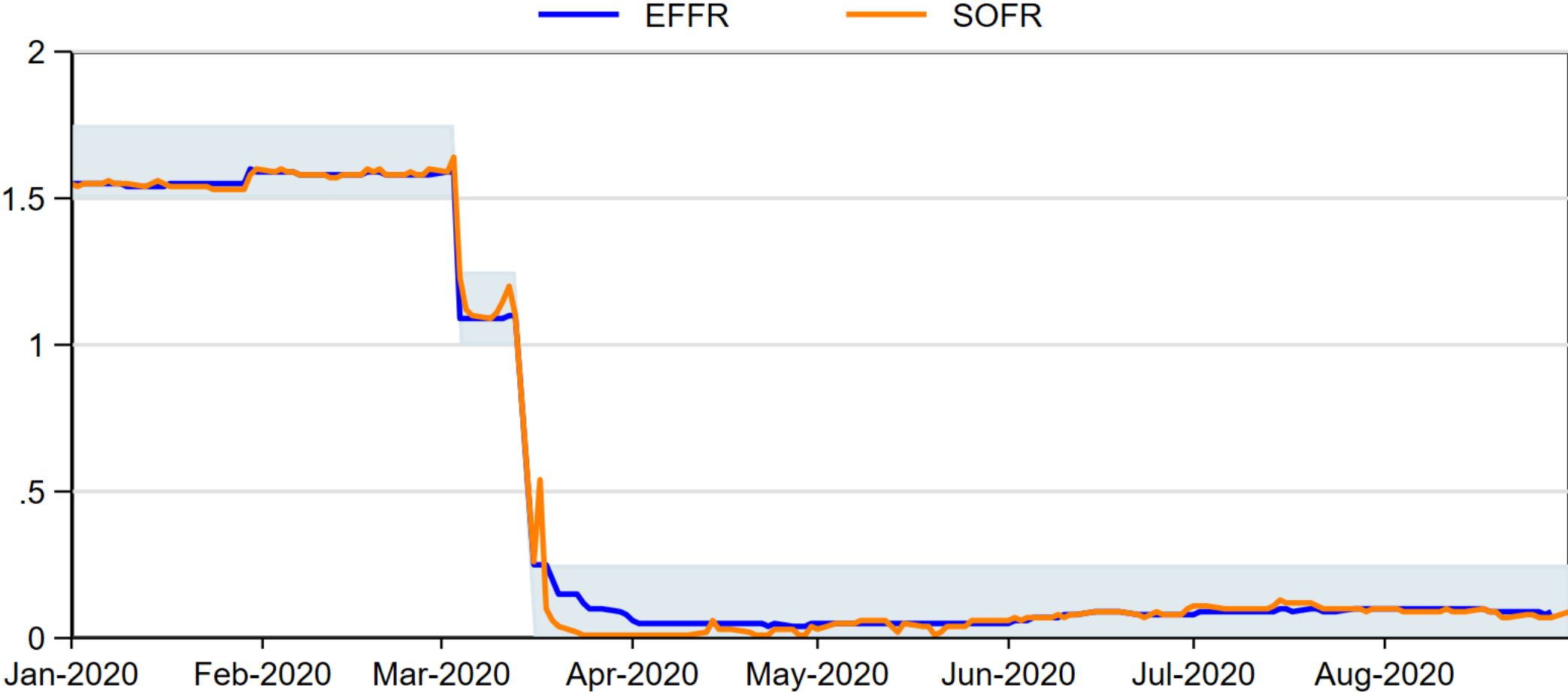
MONETARY POLICY: THE EFFECTIVE FED FUNDS RATE & REPO RATES PERCENT



Source: Federal Reserve Board of Governors, Federal Reserve Board of Governors.

FED RESPONSE

MONETARY POLICY: THE EFFECTIVE FED FUNDS RATE & REPO RATES PERCENT



Source: Federal Reserve Board of Governors, Federal Reserve Board of Governors.

LENDER OF LAST RESORT

- Federal Reserve Act, S. 13(3), allows lending “in unusual and exigent circumstances”:
 - To “individuals, partnerships, and corporations.”
 - Through programs that must have broad based eligibility.
 - Cannot “aid a failing company,” “borrowers that are insolvent,” or “in bankruptcy” and must require “security for emergency loans is sufficient to protect taxpayers from losses.”
 - With “prior approval of the secretary of the Treasury.”



EMERGENCY LENDING FACILITIES(13(3))

FACILITIES HAVE SEEN LITTLE USE

	Announced	Began Lending	Treasury Backstop (\$ billions)	Maximum Size (\$ billions)	Size as of 7/31 (\$ billions)
CPFF	3/17	3/17	10		0.34
PDCF	3/17	3/20	n.a.		1.2
MMLF	3/18	3/23	10		13.7
TALF	3/23	6/25	10	100	1.6
PMCCF/SMCCF	3/23	6/29 and 5/12	75	750	12.0
MLF	4/9	5/26	35	500	1.2
MSLF	3/23	6/15	75	600	0
PPPLF	4/6	4/16	n.a.	659+	70.7



STATEMENT ON LONGER-RUN GOALS AND MONETARY POLICY STRATEGY

First adopted in January 2012 – foundational document for strategy to pursue dual mandate

Modified annually; substantial modification on August 27, 2020

- Updates reflect new economic environment

Key Changes

- Maximum employment broad based and inclusive; focused on shortfalls, not deviations
- Flexible average inflation targeting; will overshoot 2 percent following undershoots
- Acknowledges challenges of low-interest rate environment

THANK YOU!

QUESTIONS?

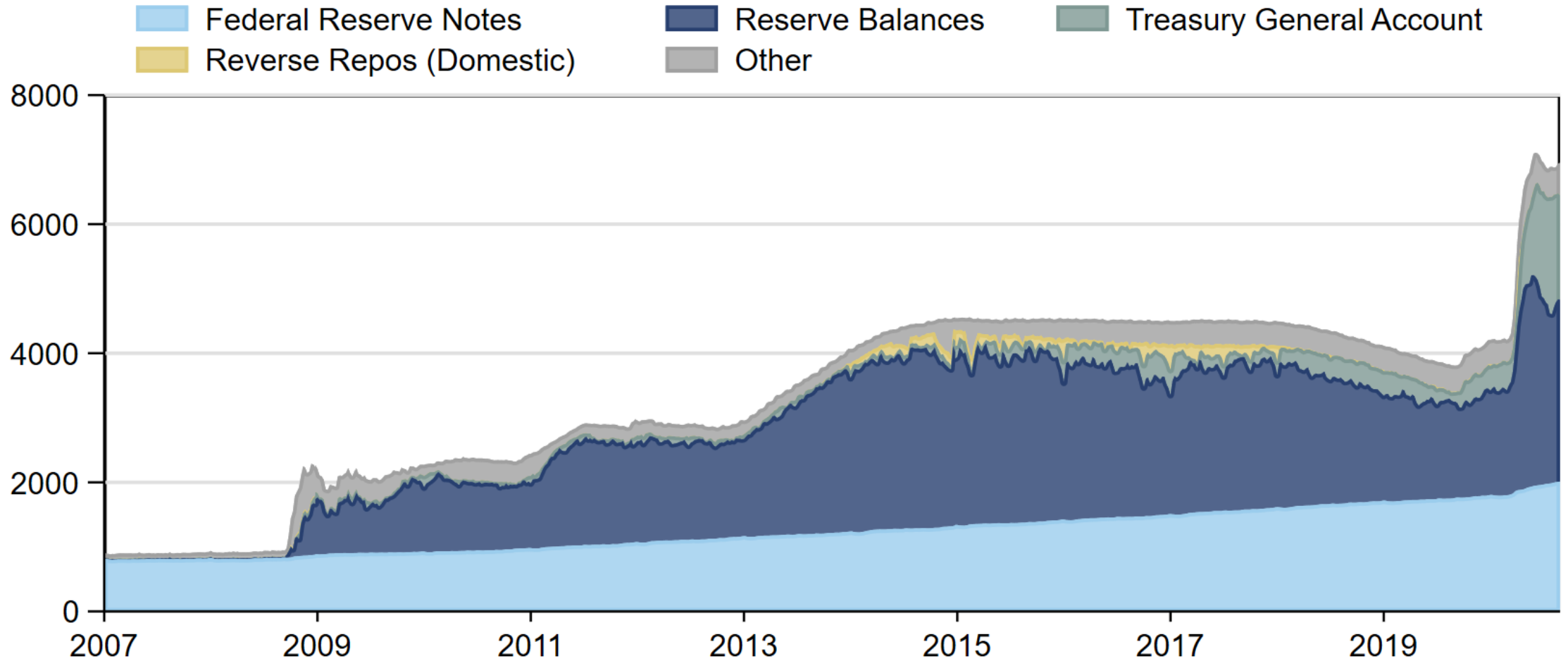


**FEDERAL RESERVE BANK
OF MINNEAPOLIS**

FED RESPONSE

LIABILITIES OF THE FEDERAL RESERVE

BIL. \$



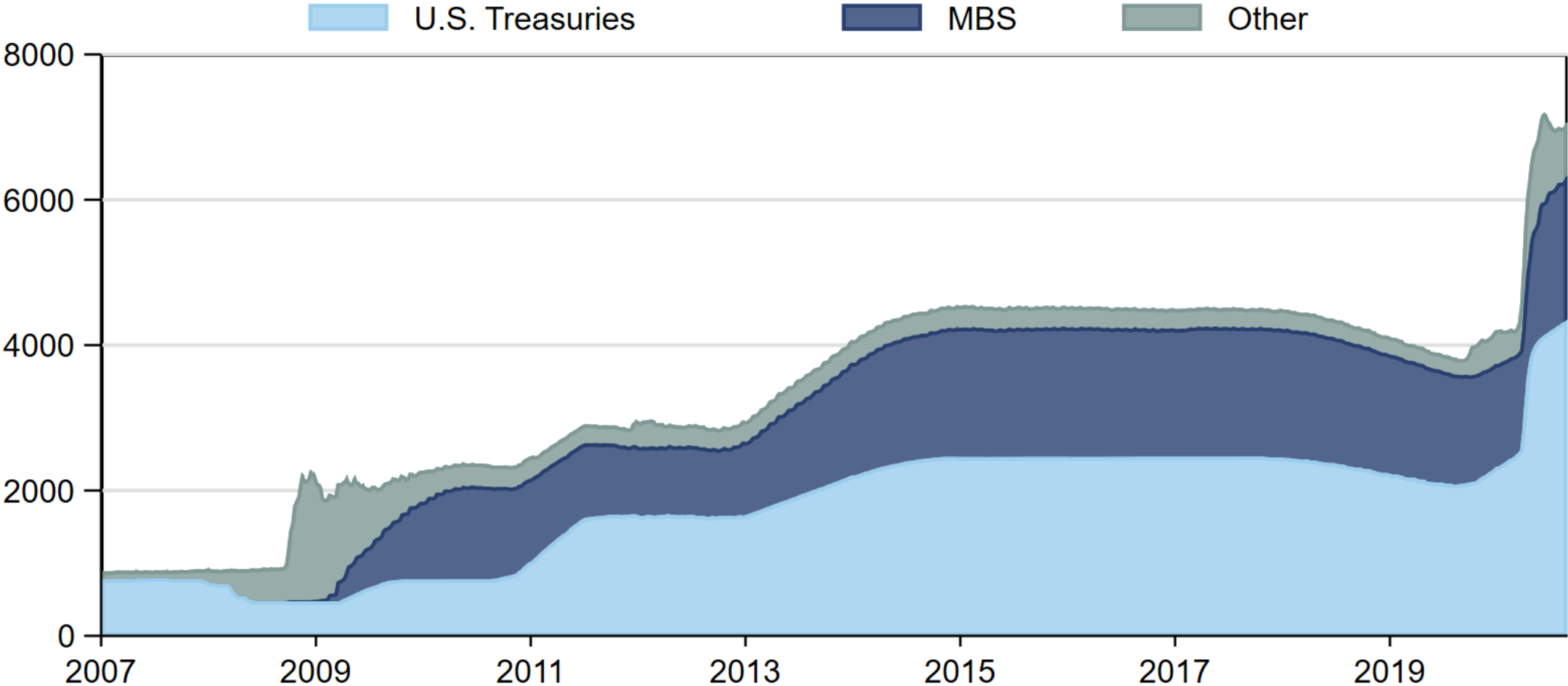
Source: Federal Reserve Board of Governors, H.4.1 Statistical Release.



FED RESPONSE

ASSETS OF THE FEDERAL RESERVE

BIL. \$



Source: Federal Reserve Board of Governors, H.4.1 Statistical Release.