

THE FEDERAL RESERVE AND THE ECONOMY

FARIBAULT ROTARY CLUB

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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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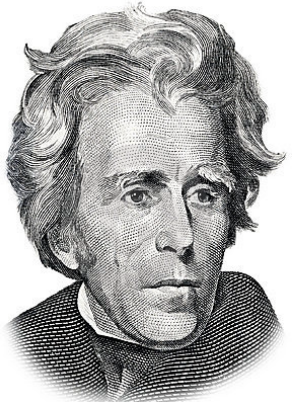
TODAY'S TALK

- The Federal Reserve and the dual mandate
- Maximum employment: are we there?
- Price stability: when and how will we get there?
- Q&A



OVERVIEW OF THE FEDERAL RESERVE SYSTEM

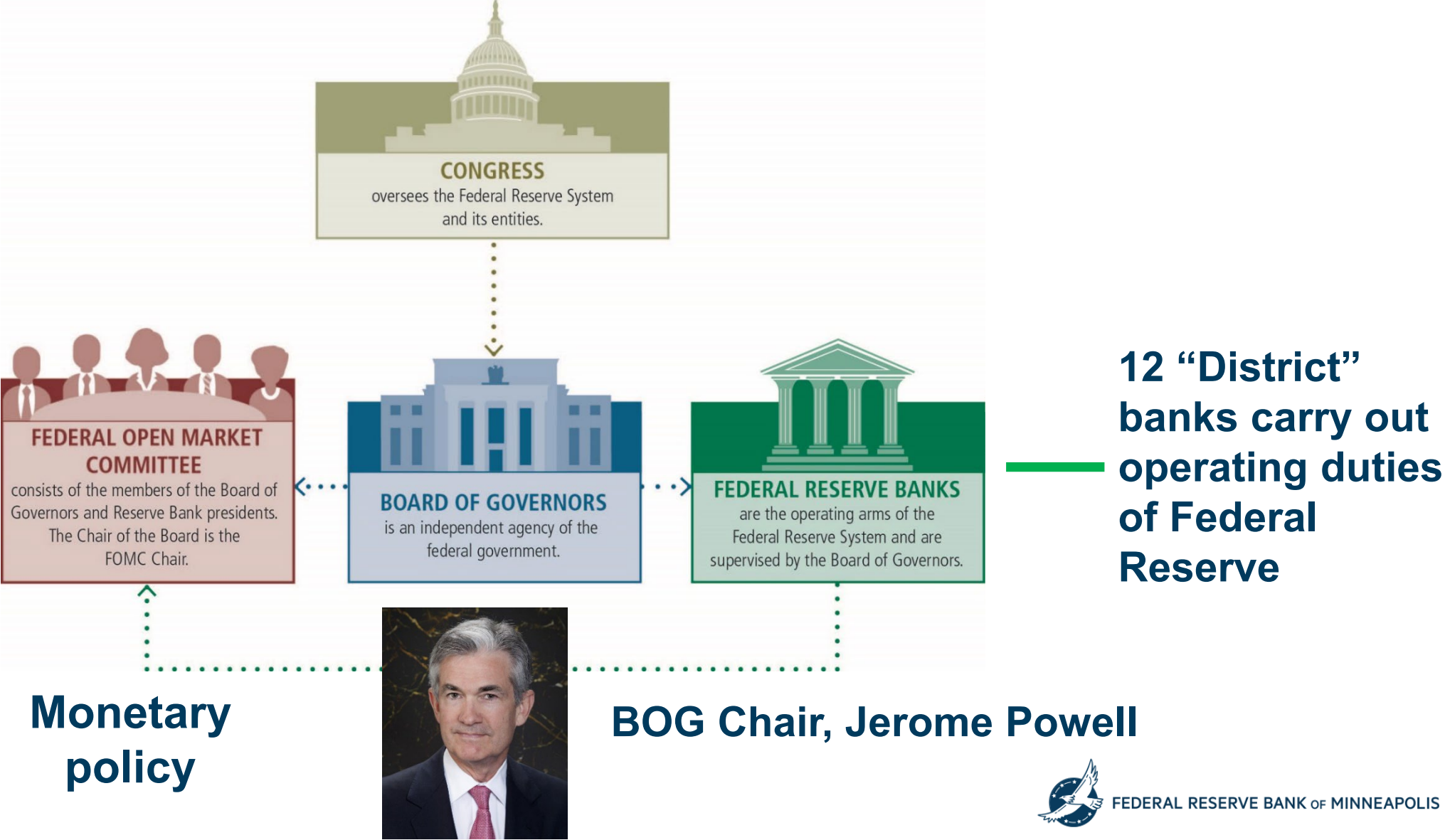
- Central bank of the U.S.
 - Established by Act of Congress in 1913
- Two previous U.S. central banks:
 - **First Bank of the United States (1791-1811)**
Promoted by Alexander Hamilton,
the first Secretary of the Treasury
 - **Second Bank of the United States (1816-1836)**
Ended when President Andrew Jackson
vetoed reauthorization of the bank



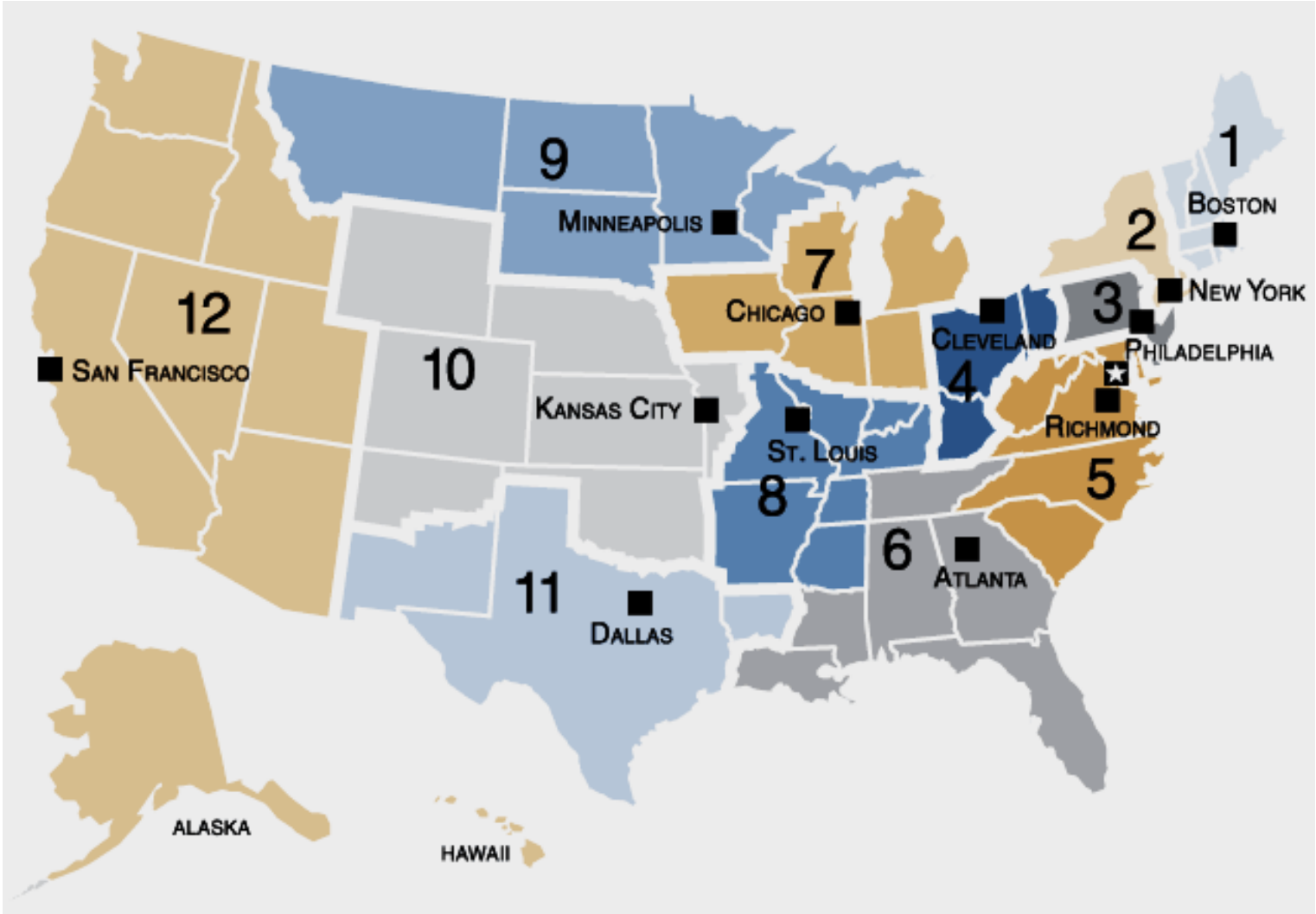
RESPONSIBILITIES OF THE FEDERAL RESERVE SYSTEM

- 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



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”



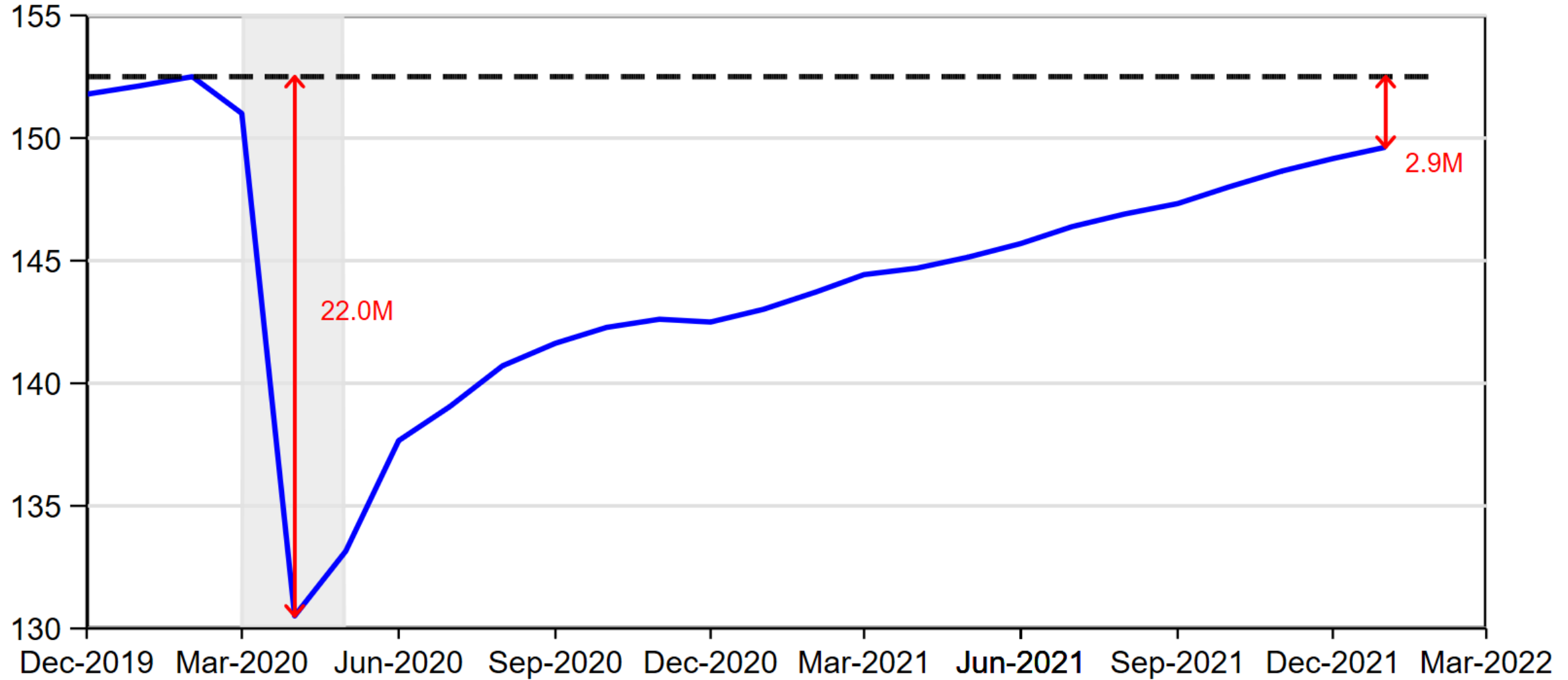
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NONFARM EMPLOYMENT

MILLIONS, LEVEL



Note: Dash line represents Feb-2020 nonfarm employment numbers.
Source: U.S. Bureau of Labor Statistics.



PLEASE BE
PATIENT
WE ARE VERY
UNDERSTAFFED

THANK YOU!

Now Hiring

Cooks

Wait Staff

Bartenders

Apply NOW!

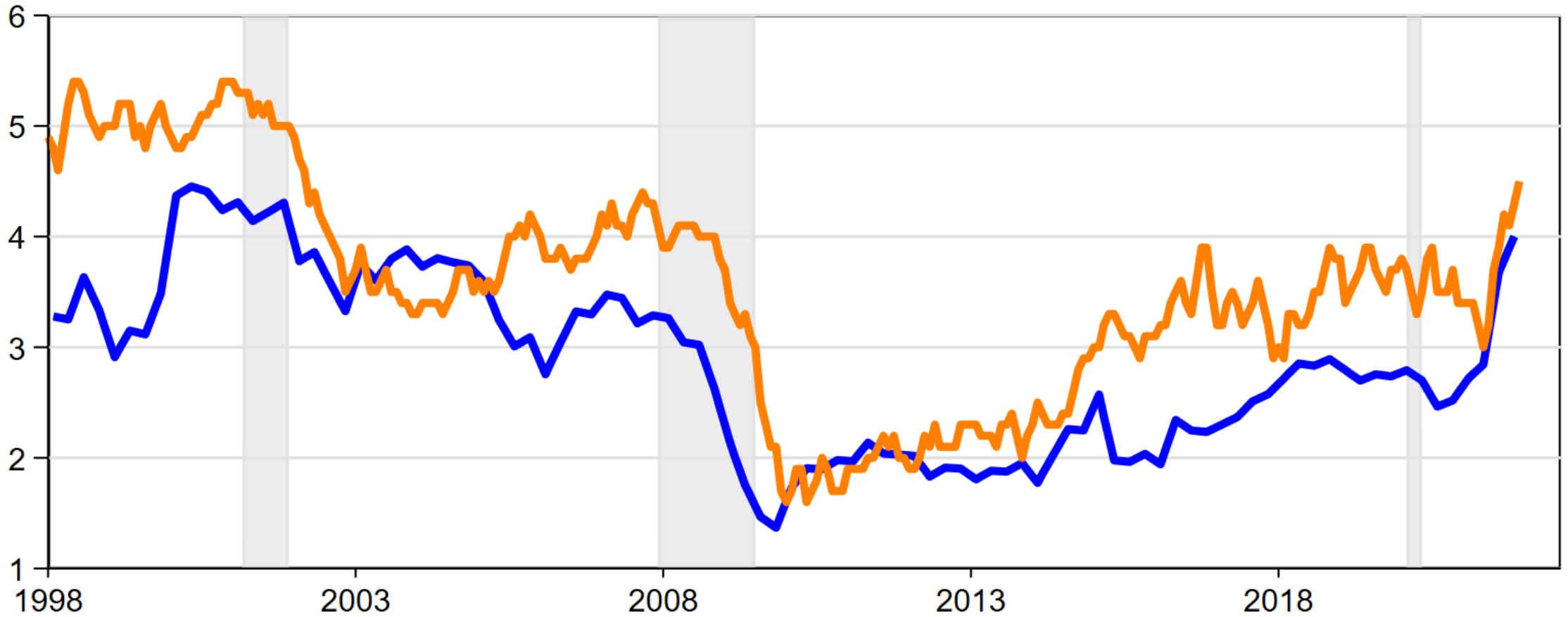
Ask Bartender for Application or call

LABOR COSTS

12-MONTH OR FOUR-QUARTER PERCENT CHANGE

— Employment Cost Index

— Atlanta Fed Wage Growth Tracker



Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of Atlanta.



INCREASING LABOR DEMAND HAS OUTPACED RETURN OF LABOR SUPPLY

Unprecedented reopening has rapidly increased labor demand

Labor supply is still constrained by fears, caregiving, restructuring, retirements. . . .

Labor supply is expected to increase further during 2022





HAVE WE REACHED MAXIMUM EMPLOYMENT?

Short-term vs long-term considerations

1. Short-term: evidence points to yes
2. Long-term: looking for more workers to return over time as COVID recedes



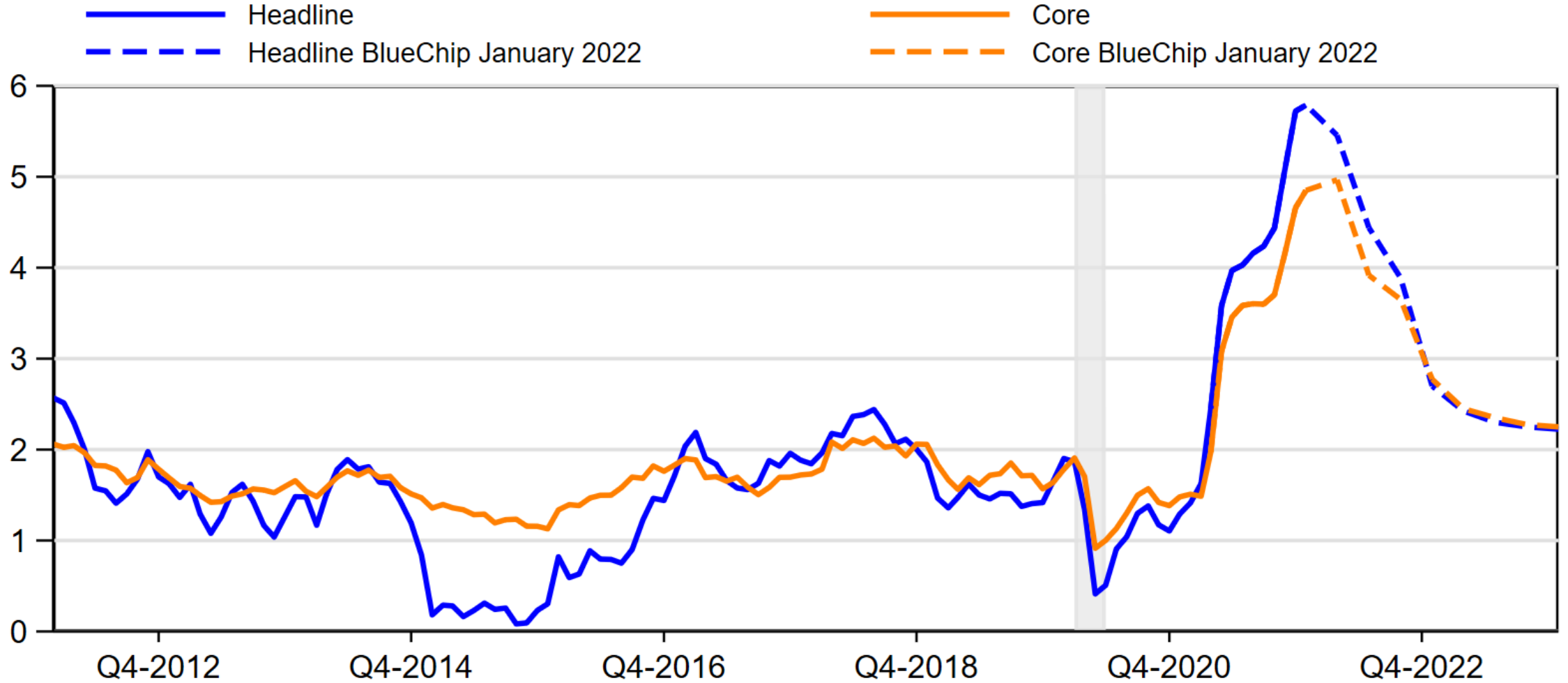
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PCE INFLATION

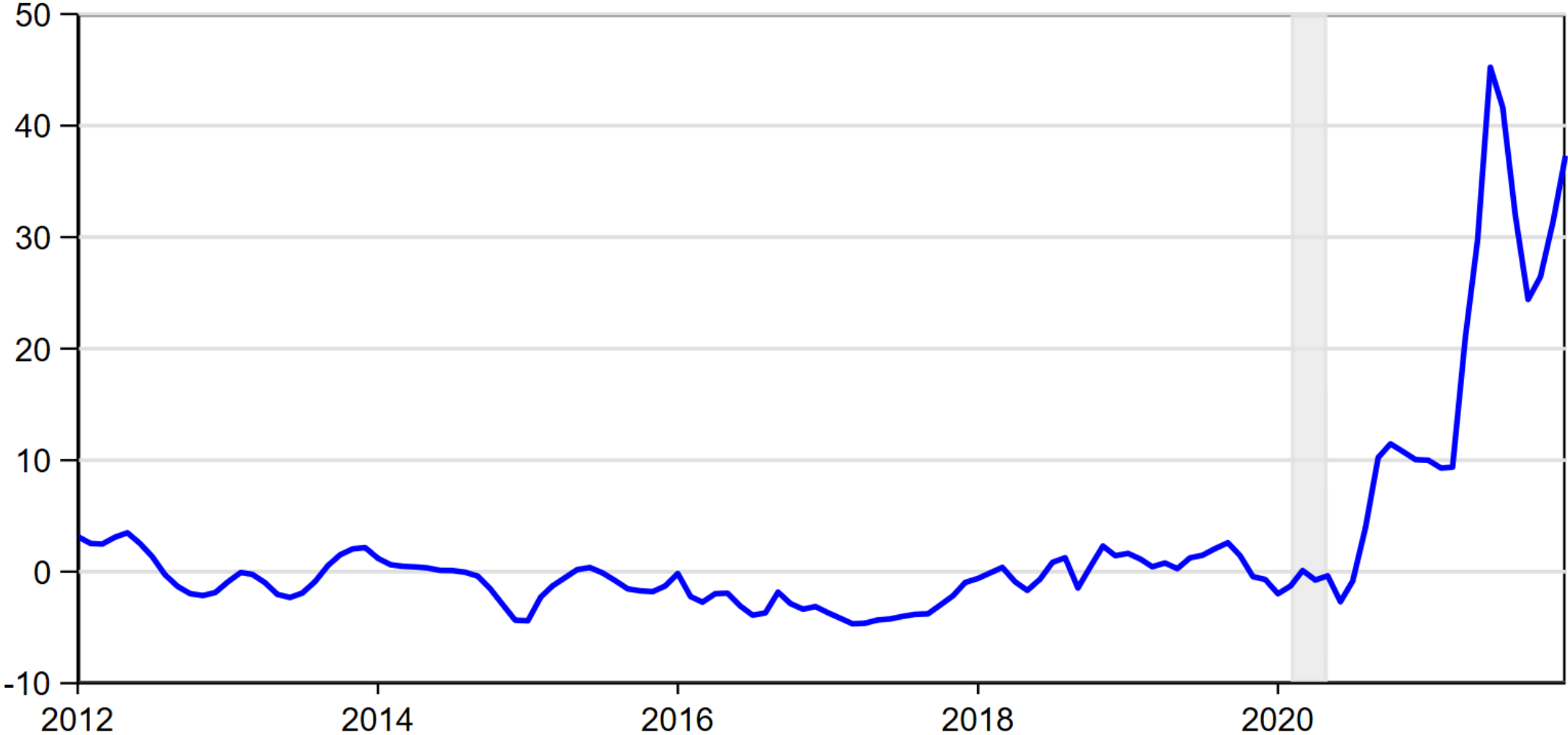
12-MONTH PERCENT CHANGE OR Q4/Q4 PERCENT CHANGE



Source: U.S. Bureau of Economic Analysis, BlueChip.

CPI-U: USED CARS AND TRUCKS

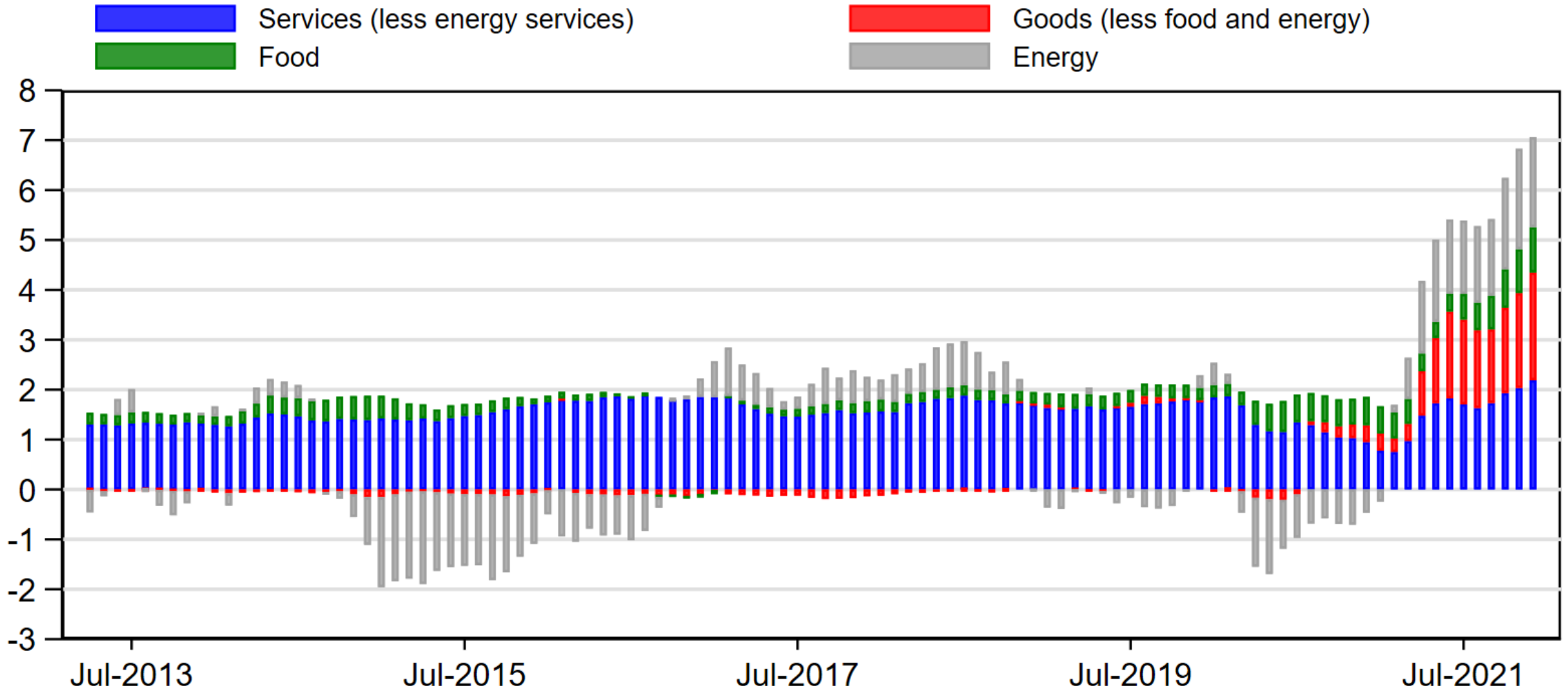
1982-84=100, 12-MONTH PERCENT CHANGE



Source: U.S. Bureau of Labor Statistics.

COMPONENTS OF CPI

PERCENTAGE POINT CONTRIBUTION



Source: U.S. Bureau of Labor Statistics.

RETURNING TO 2 PERCENT INFLATION

FOMC is balancing risks

1. High inflation is persistent - policy gets “behind the curve”
2. Inflation is transitory – vigorous policy tightening needlessly slows economy



TODAY'S TALK

- Overview of the Federal Reserve
- The Fed's Dual Mandate
 - Maximum employment
 - Price stability
- Q&A



**THANK YOU!
QUESTIONS?**



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