

THE ECONOMIC OUTLOOK AND MONETARY POLICY

FINANCIAL PLANNING ASSOCIATION OF MINNESOTA

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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

minneapolisfed.org



TODAY'S TALK

1. Brief primer on Federal Reserve

- Hamilton to the present

2. The economic outlook

- Slower growth; downside risks

3. Key monetary policy issues

- What is appropriate policy?

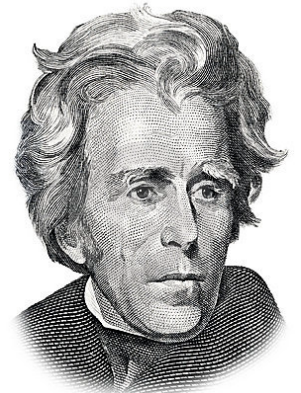
4. The Fed's broader economic role

- Promoting a stronger economy for all



FEDERAL RESERVE SYSTEM

- Central bank of the United States
 - 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

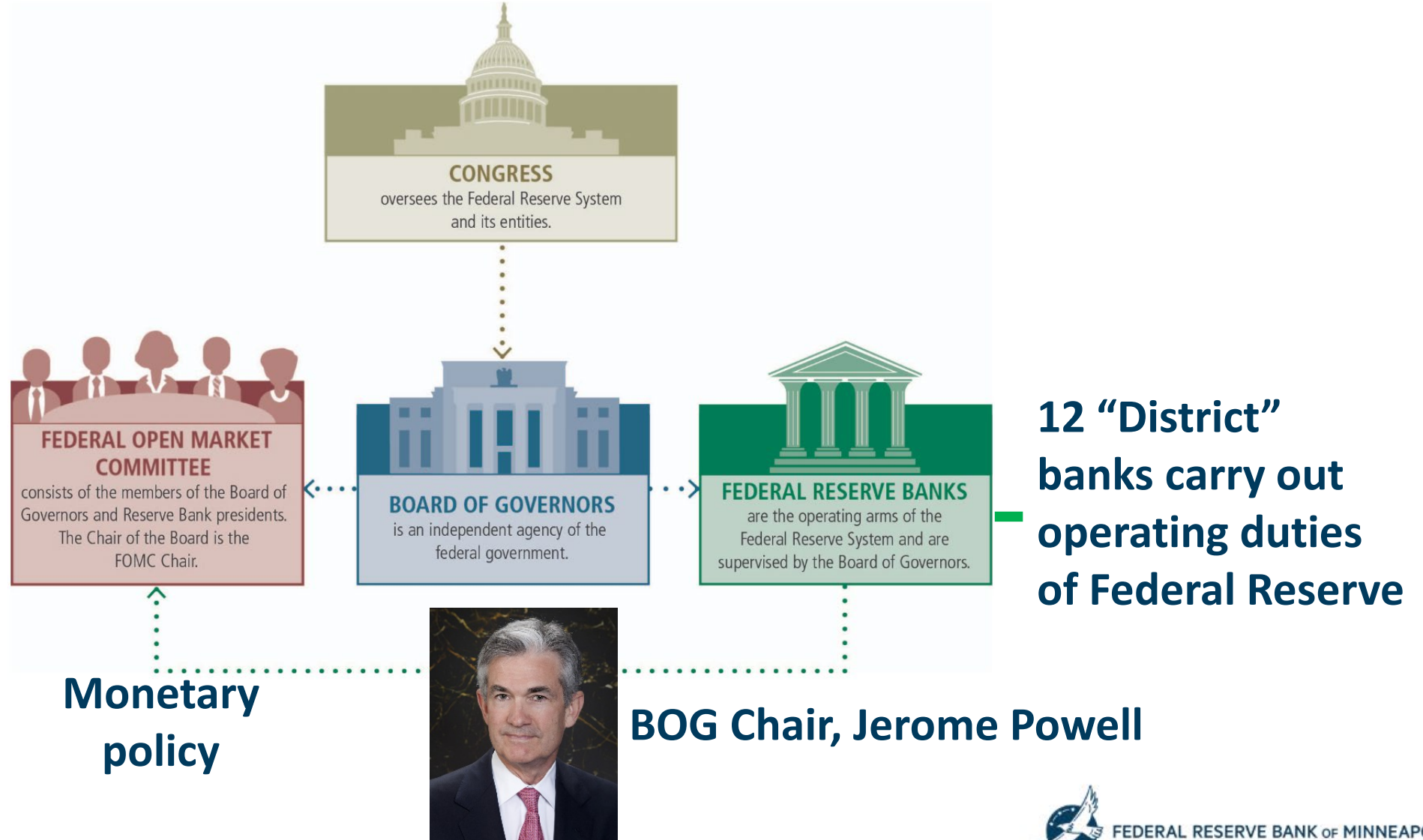


RESPONSIBILITIES OF THE FEDERAL RESERVE SYSTEM

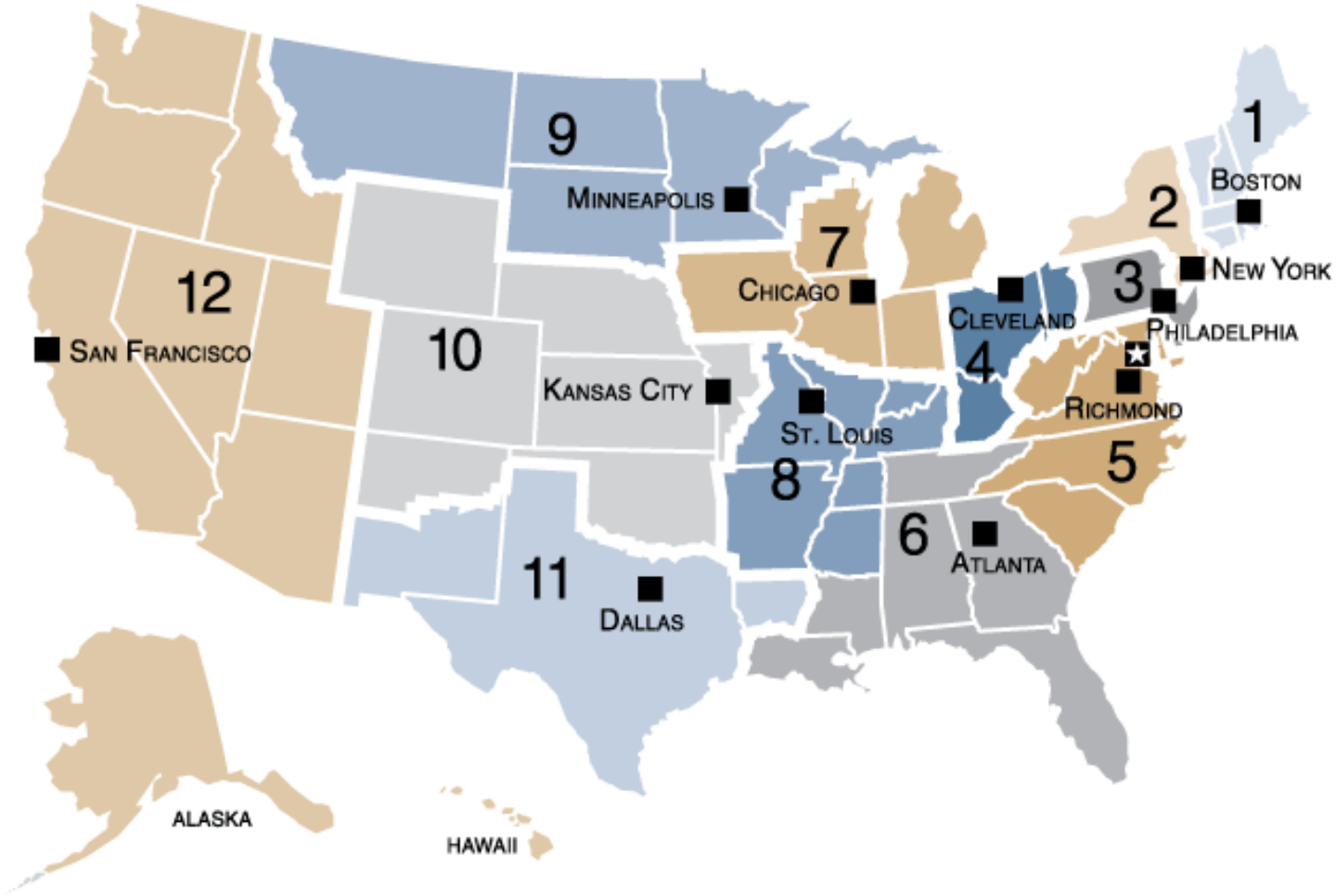
- Supervise and regulate banks
 - Mainly large bank holding companies:
 - JPMorgan Chase, Wells Fargo, Goldman Sachs, Citigroup
- Provide financial services
 - Manage (“clear”) financial payments
 - Help banks meet short-term demands for cash
 - “Lender of last resort”
- Set monetary policy



STRUCTURE OF THE FEDERAL RESERVE SYSTEM



FEDERAL RESERVE DISTRICTS



MINNEAPOLIS FED'S NINTH DISTRICT



The Minneapolis Fed's job is to:

- Supervise banks and offer financial services in this District
- Monitor developments in this regional economy
- Represent the interests of the Ninth District when monetary policy is set in Washington D.C. eight times per year



FEDERAL OPEN MARKET COMMITTEE (12 VOTING MEMBERS)



Board of Governors

7 Governors = 7 votes

2 seats currently unfilled

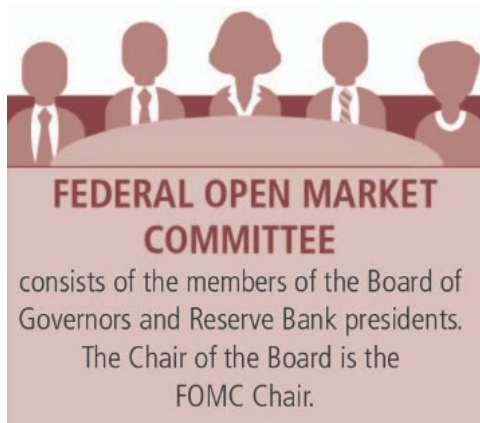


District Bank presidents

= 5 votes

- NY Fed permanent vote
- 4 rotating votes among remaining 11 District Banks

*Minneapolis Fed President
Neel Kashkari **is** voting
2020*



FOMC = 7 + 1 + 4

Currently: 5 + 1 + 4



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” – difficult to define/measure
 - “stable prices” – 2 percent PCE inflation
- Known as the “dual mandate”



GAUGING SUCCESS ON THE DUAL MANDATE

Maximum employment: are labor markets at or beyond (“overheating”)?

Price stability: is inflation consistent with 2 percent symmetric inflation target?



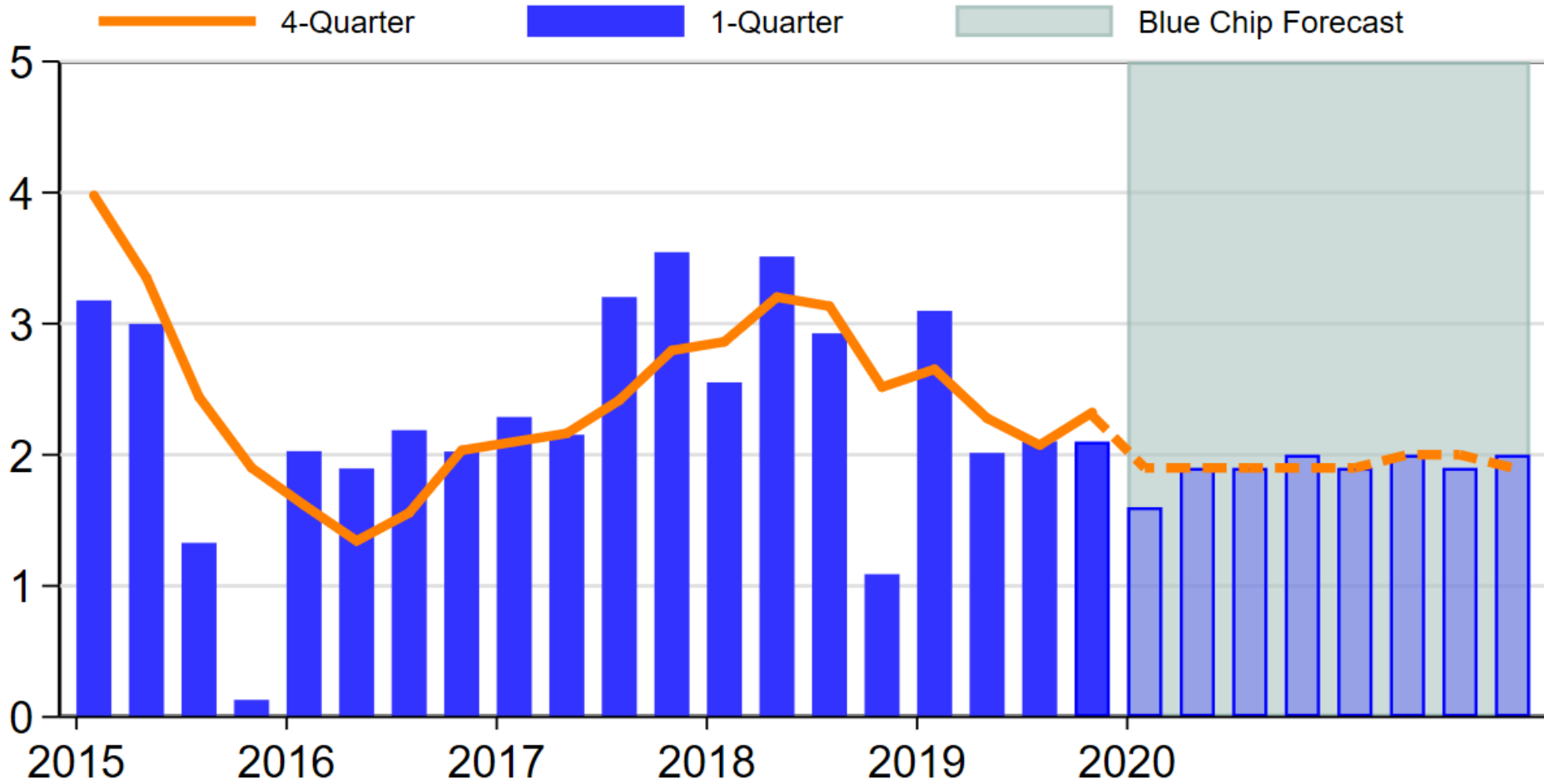
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REAL GDP

PERCENT CHANGE



Source: Bureau of Economic Analysis & Blue Chip.





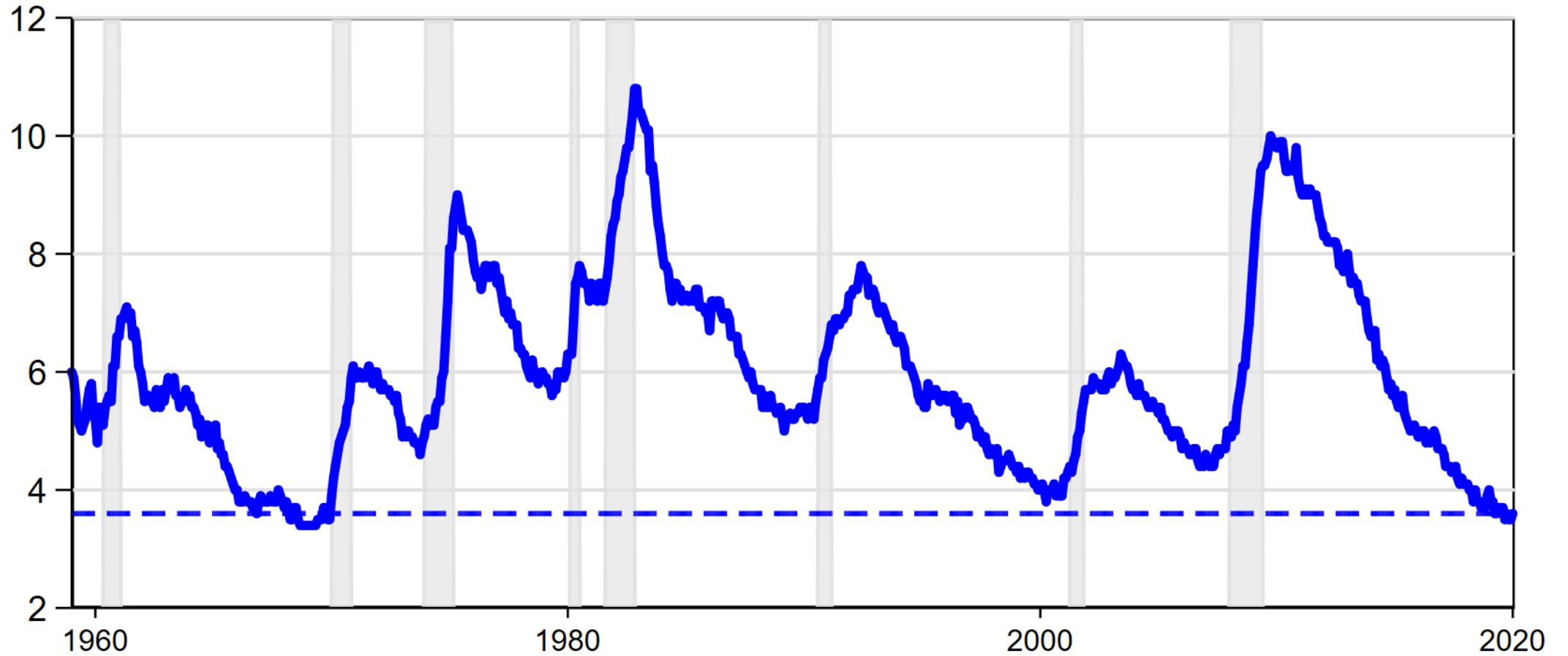
OUTLOOK: STRENGTHS, WEAKNESSES AND RISKS

1. Strengths: labor markets, consumer spending, housing
2. Weaknesses: business investment, manufacturing, agriculture
3. Economy-wide risks:
 - Global slowdown
 - Trade
 - Geopolitical
 - Coronavirus
 - Financial



UNEMPLOYMENT RATE

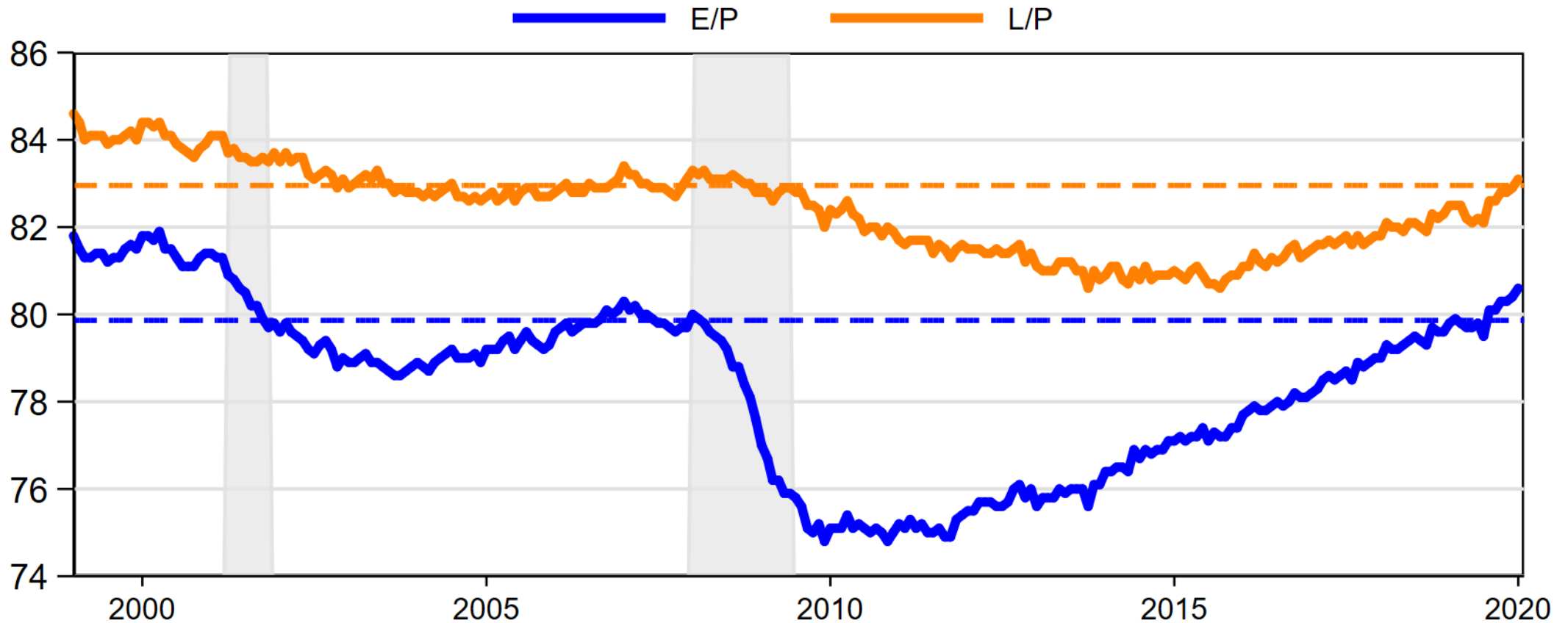
PERCENT



Source: Bureau of Labor Statistics
Note: Dashed line indicates latest data point

EMPLOYMENT-POPULATION AND LABOR FORCE PARTICIPATION RATIOS

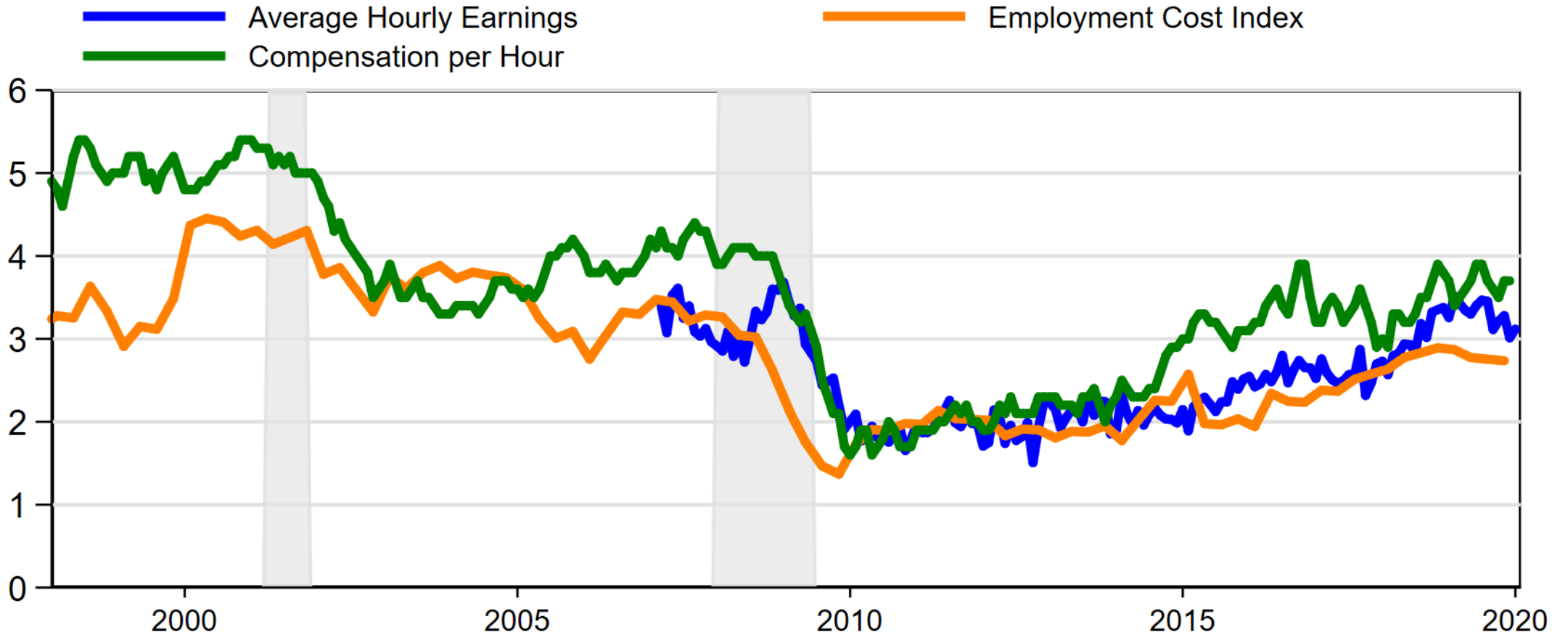
25-54, PERCENT



Source: Bureau of Labor Statistics
Note: Dashed lines indicate 2006-2007 average

LABOR COST

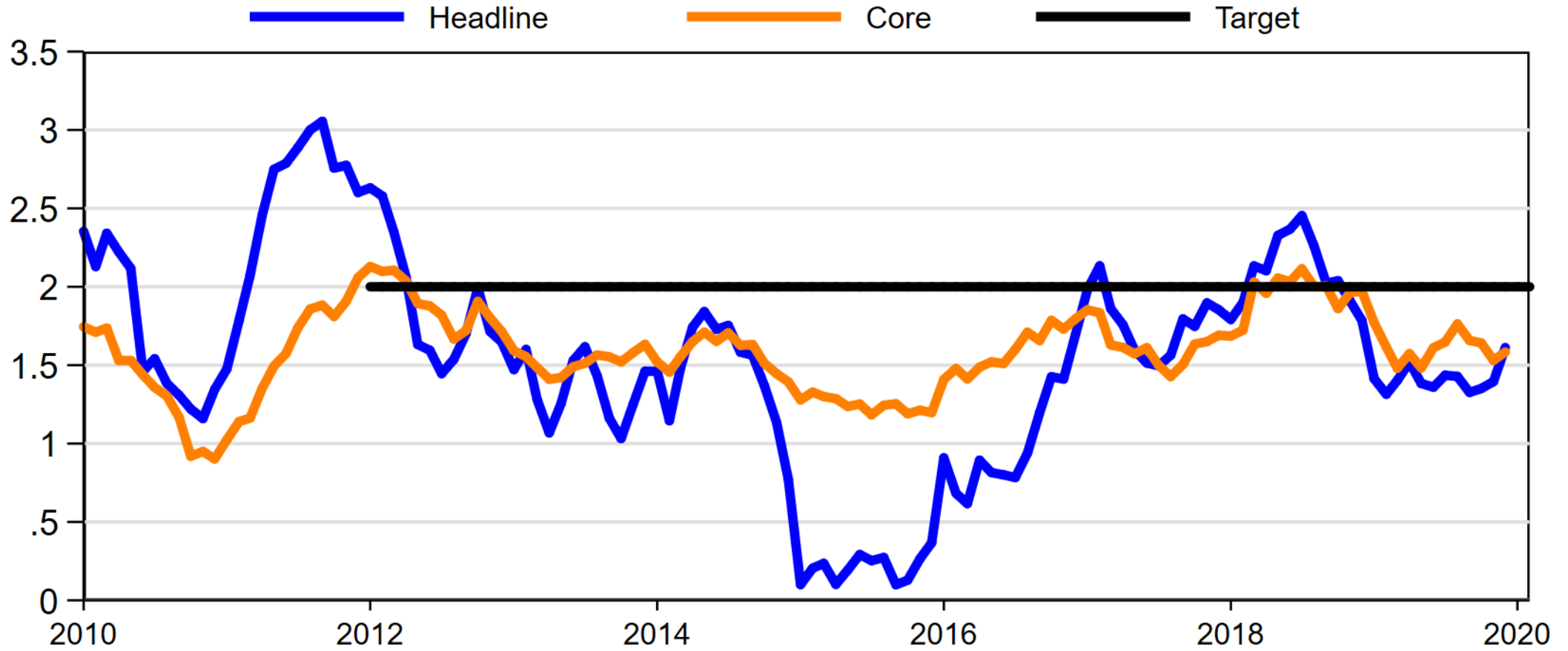
12-MONTH PERCENT CHANGE



Source: Bureau of Labor Statistics & Federal Reserve Bank of Atlanta

PCE INFLATION

12-MONTH PERCENT CHANGE



Source: Bureau of Economic Analysis

GAUGING SUCCESS ON THE DUAL MANDATE

Maximum employment: are labor markets at or beyond (“overheating”)? –**maybe not**

Price stability: is inflation consistent with 2 percent symmetric inflation target? –**no; inflation running persistently low**



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MONETARY POLICY IS ON PAUSE

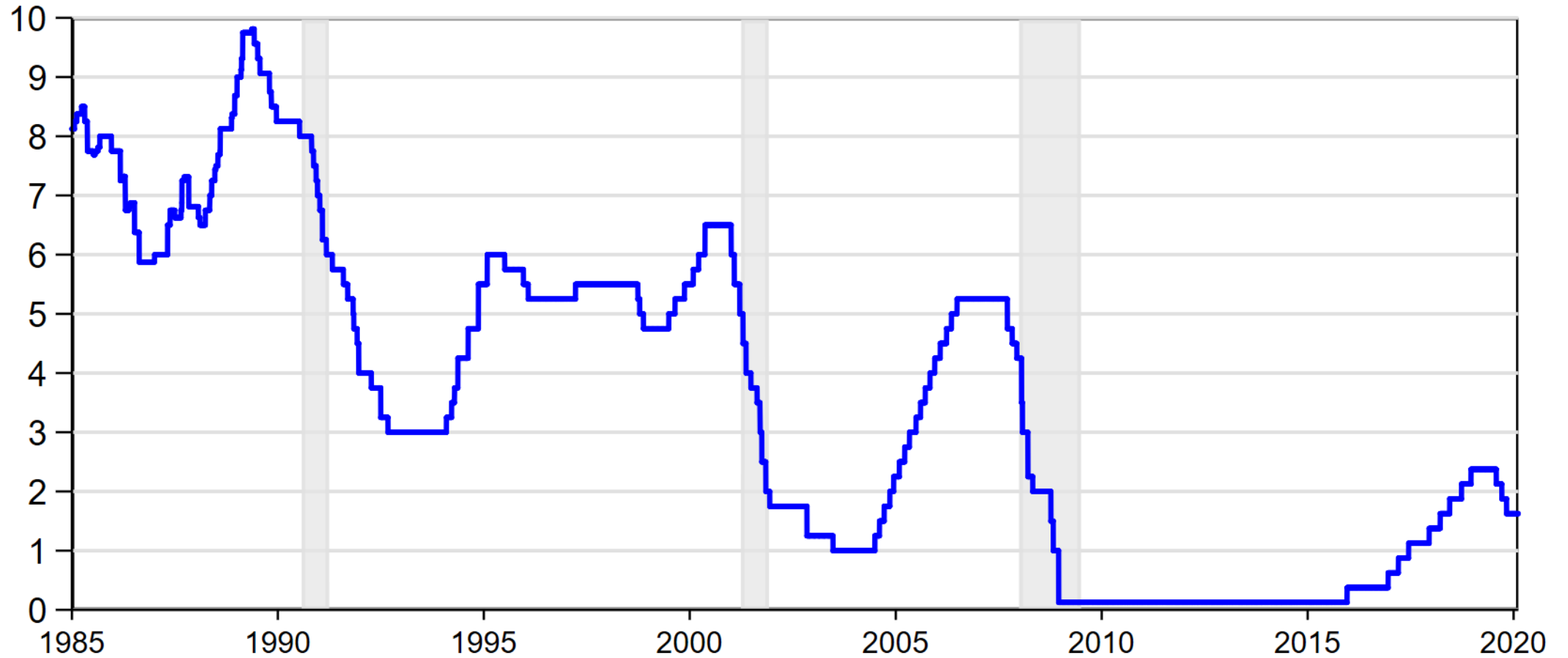
Policy rates lowered three times in 2019

Current policy stance viewed as appropriate



FEDERAL FUNDS TARGET RATE

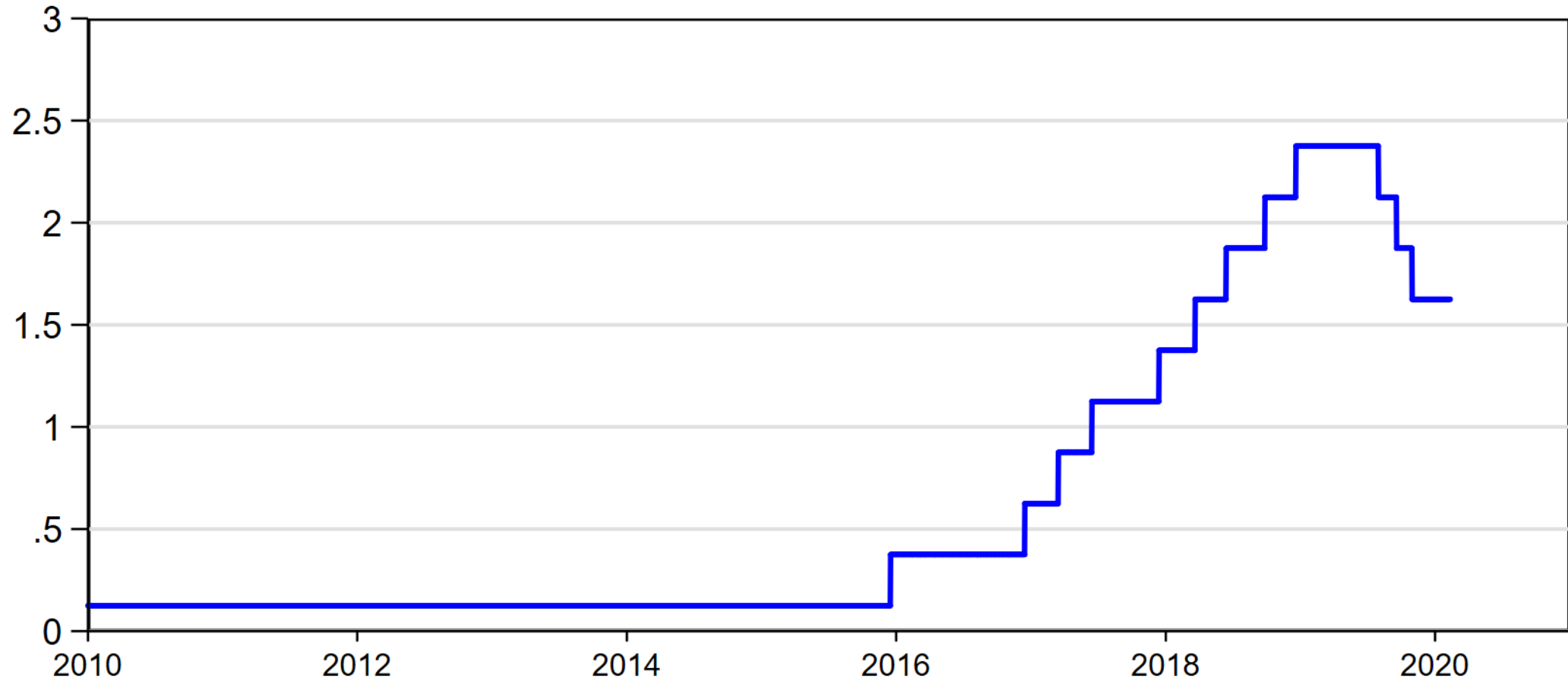
PERCENT



Source: Federal Reserve Board of Governors
Note: Midpoint target range

FEDERAL FUNDS TARGET RATE

PERCENT



Source: Federal Reserve Board of Governors
Note: Midpoint target range



KEYS ISSUES FOR 2020

1. How will economy evolve?

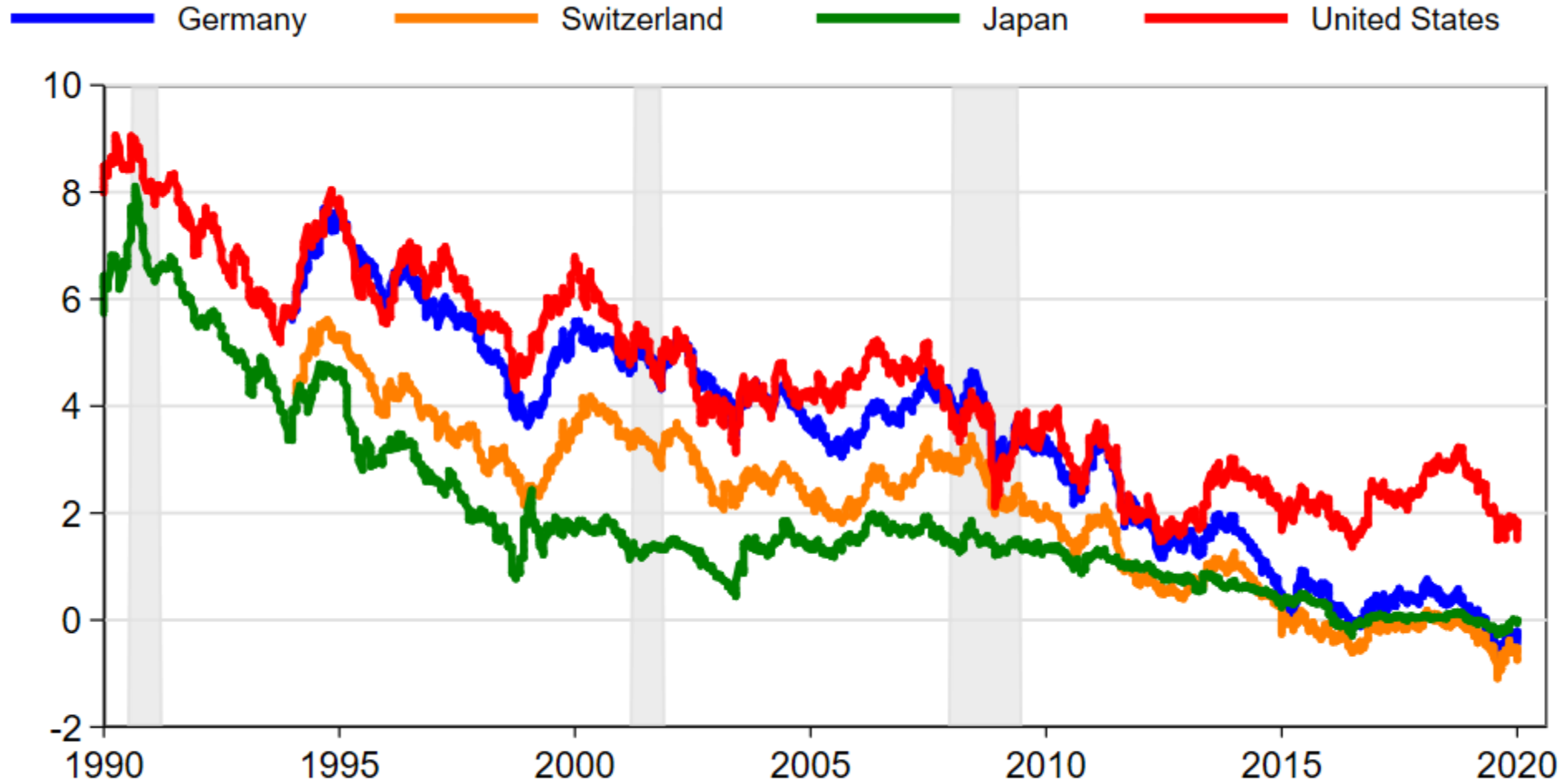
2. How/when should policy respond?

- Chair Powell, 12/11/2019: “I would want to see . . . a significant move up in inflation that's also persistent before raising rates to address inflation concerns.”



10-YR GOVERNMENT BOND YIELD

EOP, PERCENT



Source: REFINITIV, MoFJ, FRB/Haver.

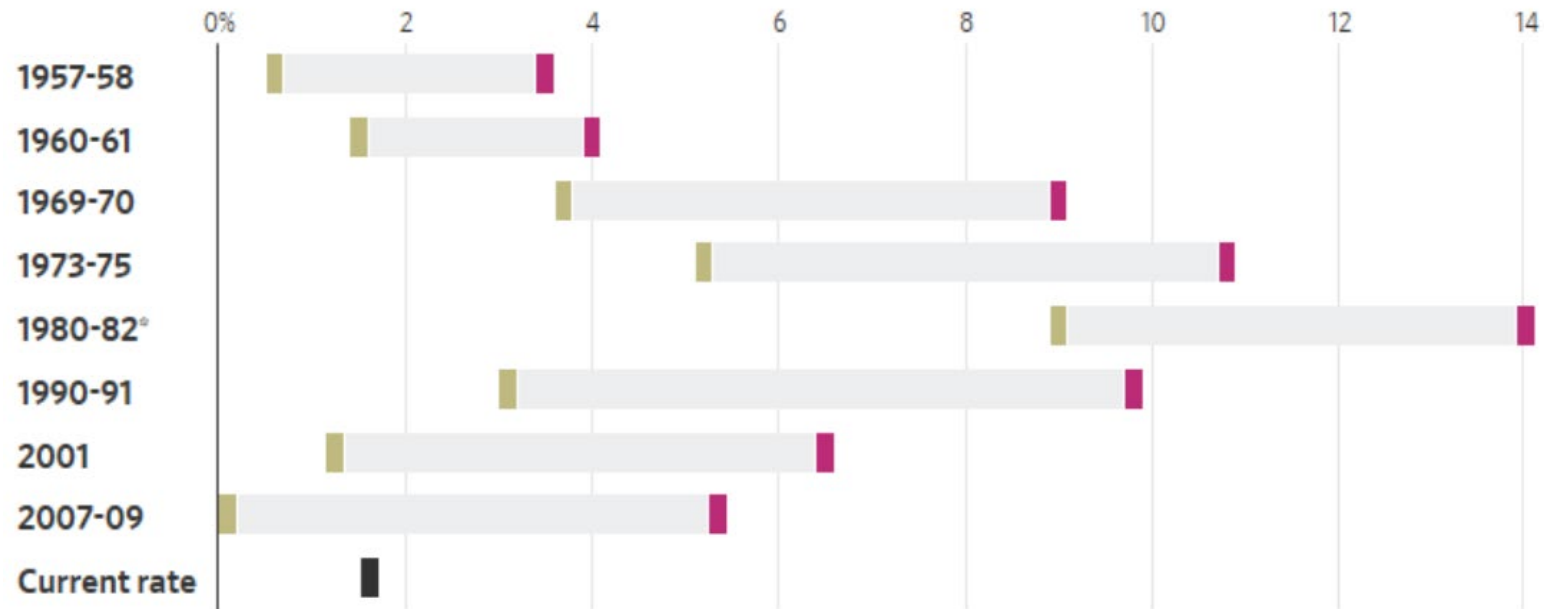


EFFR BY RECESSION

WSJ: IN THE NEXT DOWNTURN, FISCAL POLICY MAY HAVE TO
STEP UP
DEC 8, 2019 / NICK TIMIRAOS

Effective federal-funds rate by recession

■ After recession ■ Before recession ■ current



*combined recessions
Source: Federal Reserve

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BROADER ROLE OF FED: PROMOTE SOUND POLICY





Early Childhood Development

The Minneapolis Fed started a focus on early childhood development, or ECD, in 2003 with the essay [“Early Childhood Development: Economic Development with a High Public Return,”](#) by then-Director of Research Art Rolnick and Economist Rob Grunewald. The piece launched a conversation among researchers, policymakers, and educators about the importance of investing in high-quality ECD programs. Staff from the Minneapolis Fed and other offices in the Federal Reserve System contribute to this ongoing exchange through writings, speaking engagements, convenings, and partnership efforts.



Publications

View articles, reports, blog posts, and other Fed writings on ECD



Speeches and Presentations

Read ECD-related remarks from Fed speakers



Conferences

Explore highlights from our major ECD events





#EndingTBTF

Ending Too Big to Fail





Opportunity & Inclusive Growth Institute

FEDERAL RESERVE BANK
of MINNEAPOLIS



FEDERAL RESERVE BANK OF MINNEAPOLIS

OPPORTUNITY & INCLUSIVE GROWTH INSTITUTE

Minimum Wage

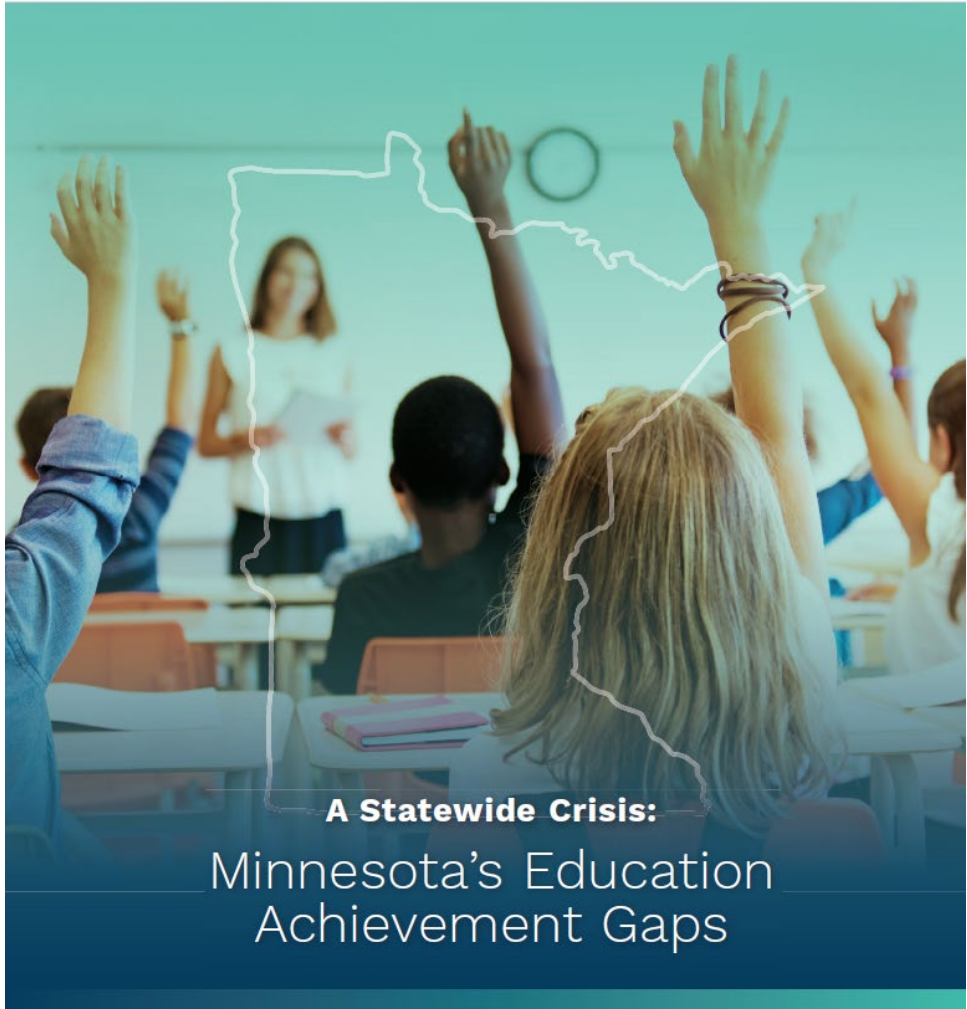
In effect since January 2018, the [city of Minneapolis' new minimum wage law](#) outlines scheduled, incremental increases over several years, eventually raising the minimum wage for all city businesses to \$15 an hour by July 2024.

Researchers at the Federal Reserve Bank of Minneapolis are completing a multi-year impact study on the city of Minneapolis' recent and ongoing minimum wage increase. Loukas Karabarbounis, Jeremy Lise, and Anusha Nath have partnered with the Bank's Opportunity and Inclusive Growth Institute to examine short run and long run effects of minimum wage increase on workers and firms.



Mission

We support the prosperity of Native Nations through actionable research and community collaboration.



Rob Grunewald, Economist
Anusha Nath, Research Economist
OCTOBER 11, 2019



FEDERAL RESERVE BANK
OF MINNEAPOLIS



FEDERAL RESERVE BANK OF MINNEAPOLIS

A constitutional amendment to transform education in Minnesota

Justice Alan Page: “This proposal will hold the state accountable to ensuring all children are getting the education they deserve.”

The proposed language would replace Art. XIII, Sec. 1 of Minnesota’s constitution in its entirety, and reads:

EQUAL RIGHT TO QUALITY PUBLIC EDUCATION. All children have a fundamental right to a quality public education that fully prepares them with the skills necessary for participation in the economy, our democracy, and society, as measured against uniform achievement standards set forth by the state. It is a paramount duty of the state to ensure quality public schools that fulfill this fundamental right.



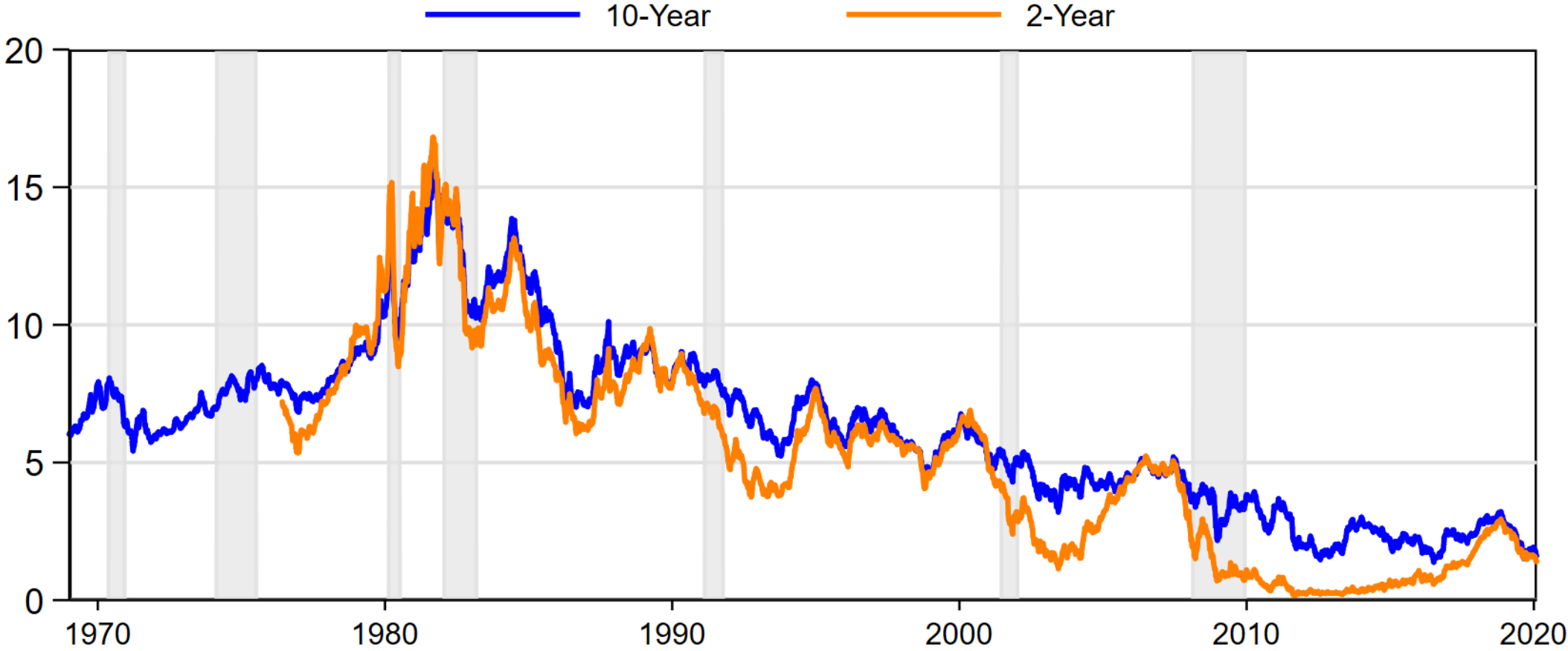
THANK YOU!
QUESTIONS?



**FEDERAL RESERVE BANK
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U.S. TREASURY YIELDS

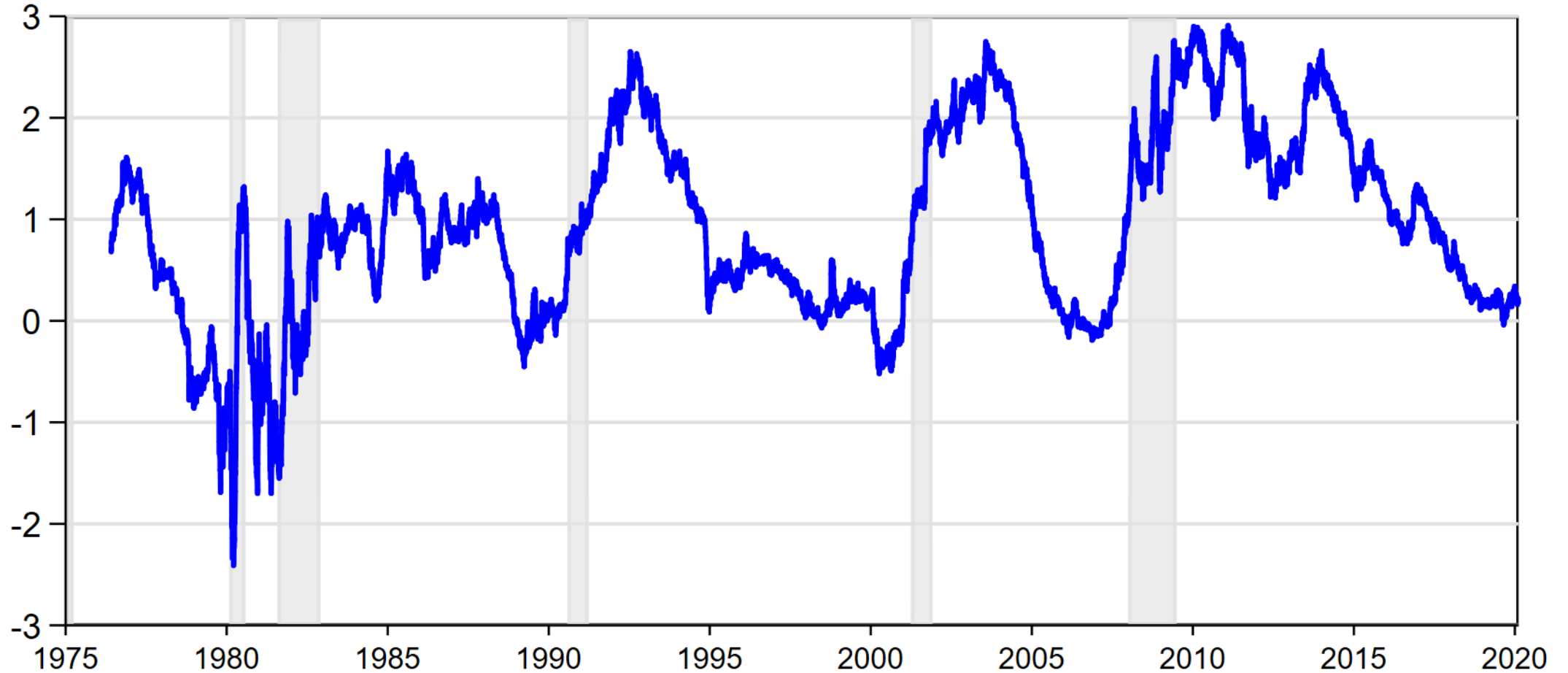
PERCENT



Source: Federal Reserve Board of Governors

SLOPE OF U.S. TREASURY YIELD CURVE

10-YEAR MINUS 2-YEAR (PERCENT)



Source: Federal Reserve Board of Governors