

# THE FEDERAL RESERVE AND THE ECONOMIC OUTLOOK

## CENTRAL STATES ASSOCIATION

June 18<sup>th</sup> , 2021

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Vice President & Assistant Director, Economic Analysis



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](http://MINNEAPOLISFED.ORG)



# TODAY'S TALK

- Overview of the Federal Reserve
- Output: collapse and robust recovery
- Jobs: collapse and incomplete recovery
- Inflation: recent price rises
- Q&A



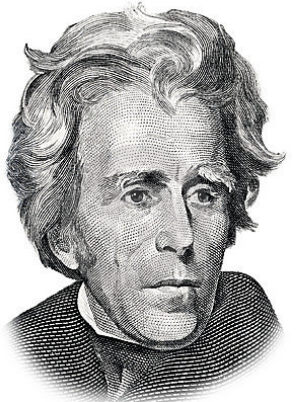


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# THE FEDERAL RESERVE SYSTEM

# 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



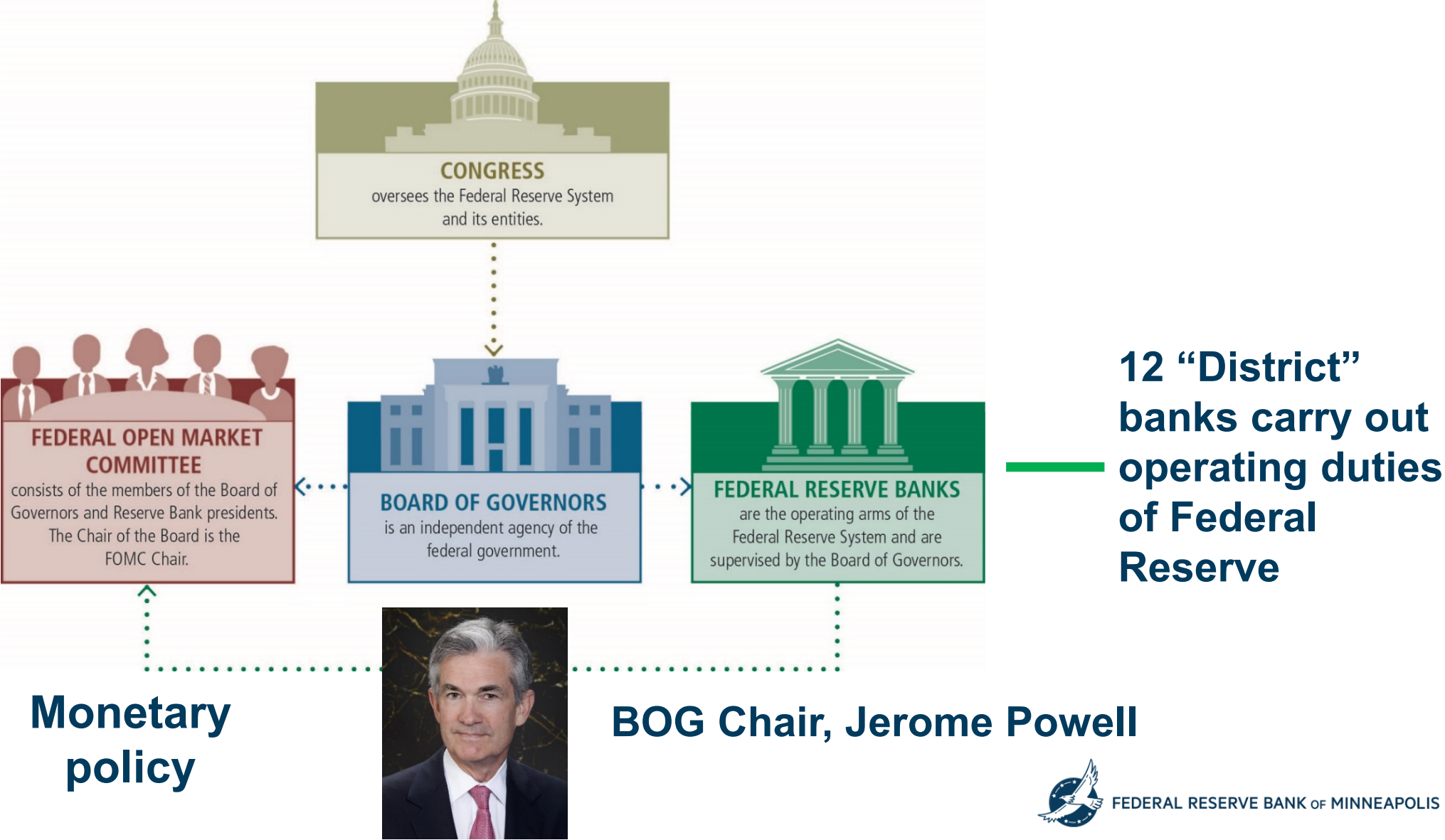
# RESPONSIBILITIES OF THE FEDERAL RESERVE SYSTEM

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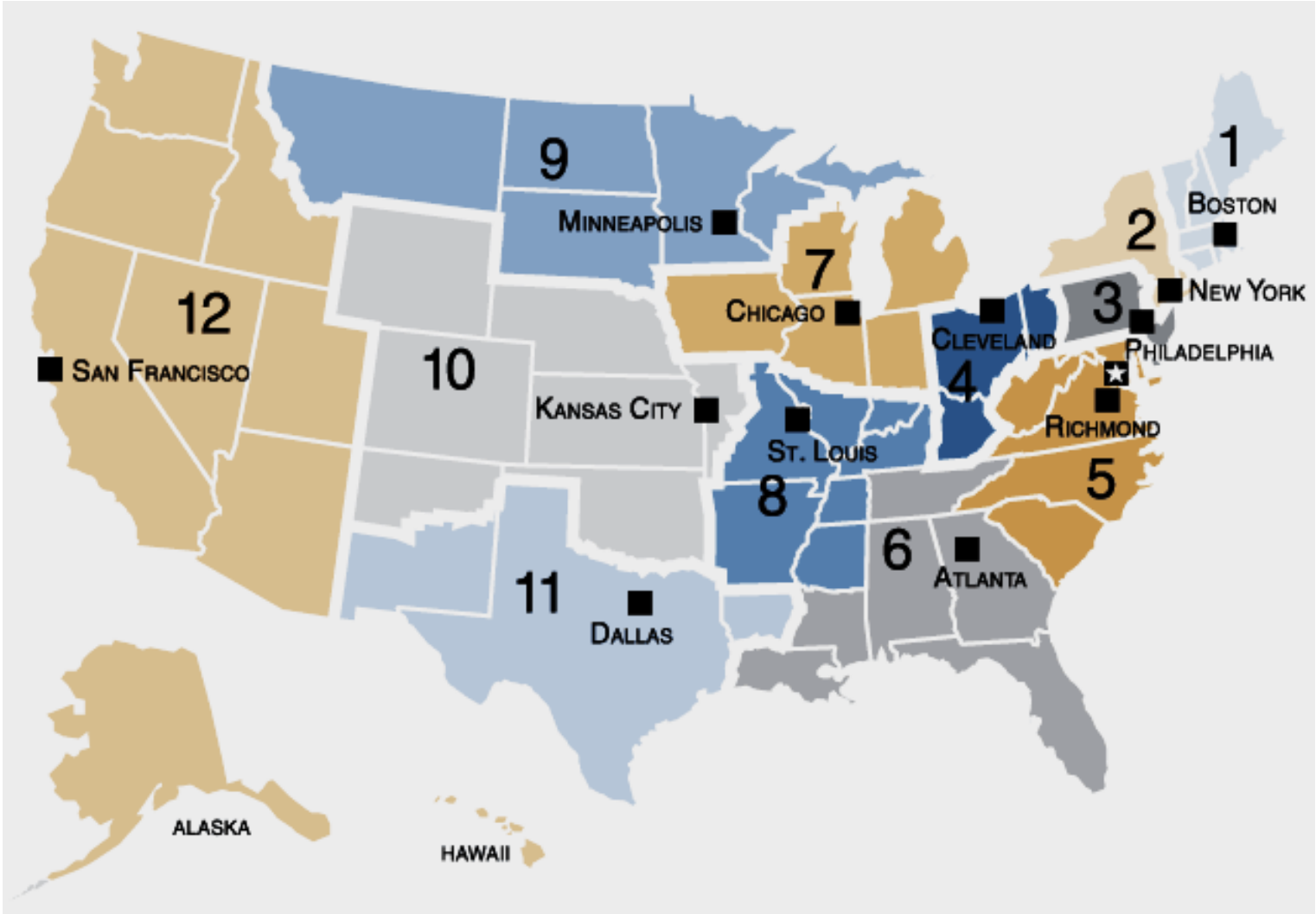
- Supervise and regulate banks
  - Mainly large bank holding companies
    - JPMorgan Chase, Wells Fargo, Goldman Sachs, Citigroup
- Provide financial services
  - Manage ('clear') financial payments
  - Help banks meet short-term demands for cash
  - "Lender of Last Resort"
- Set monetary policy



# 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 9<sup>th</sup> 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  
*1 seat 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 in 2020***



**FOMC = 7 + 1 + 4**  
**Currently: 6 + 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”





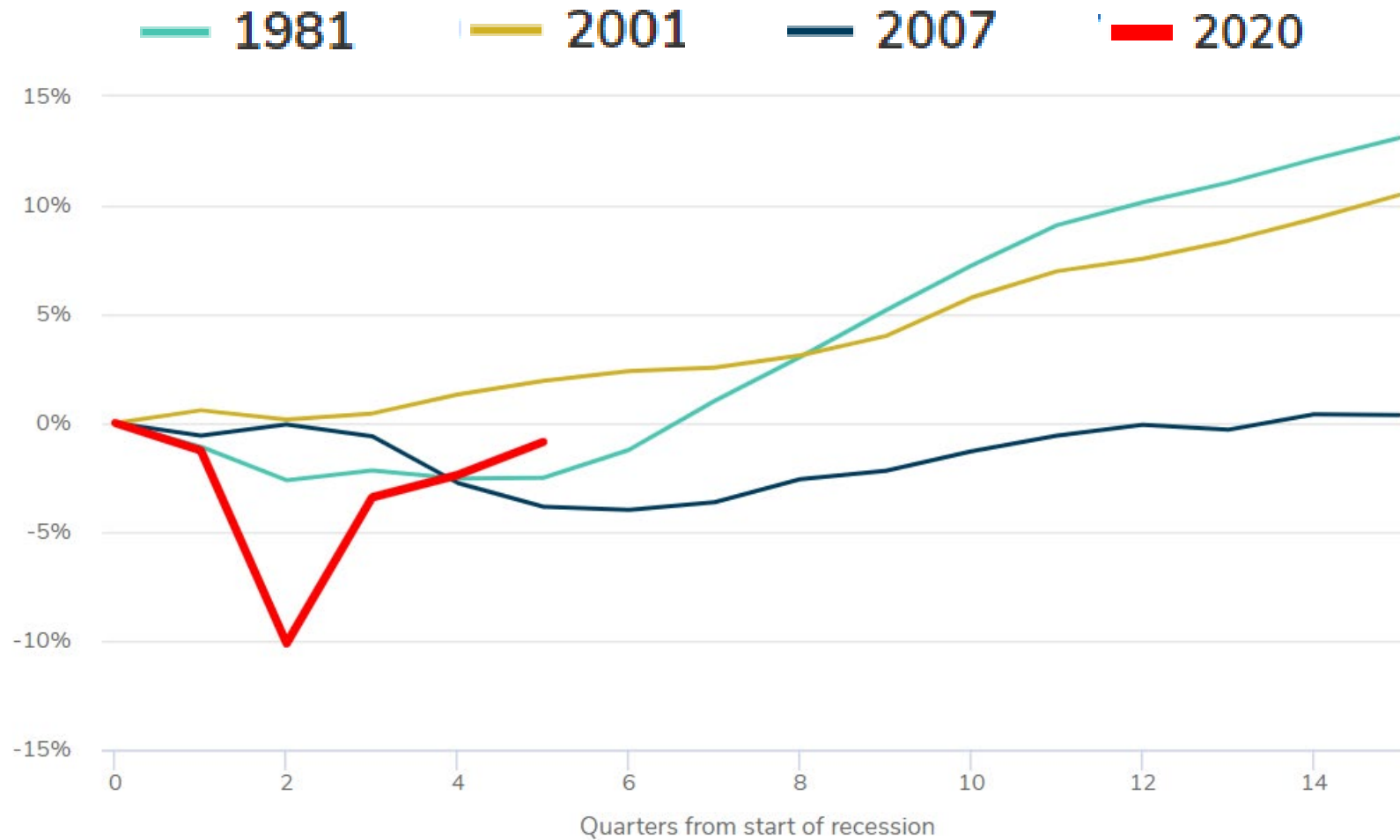
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# CHANGE IN U.S. OUTPUT

SA, PERCENT



Source: Bureau of Economic Analysis

# OUTPUT: COLLAPSE AND ROBUST RECOVERY

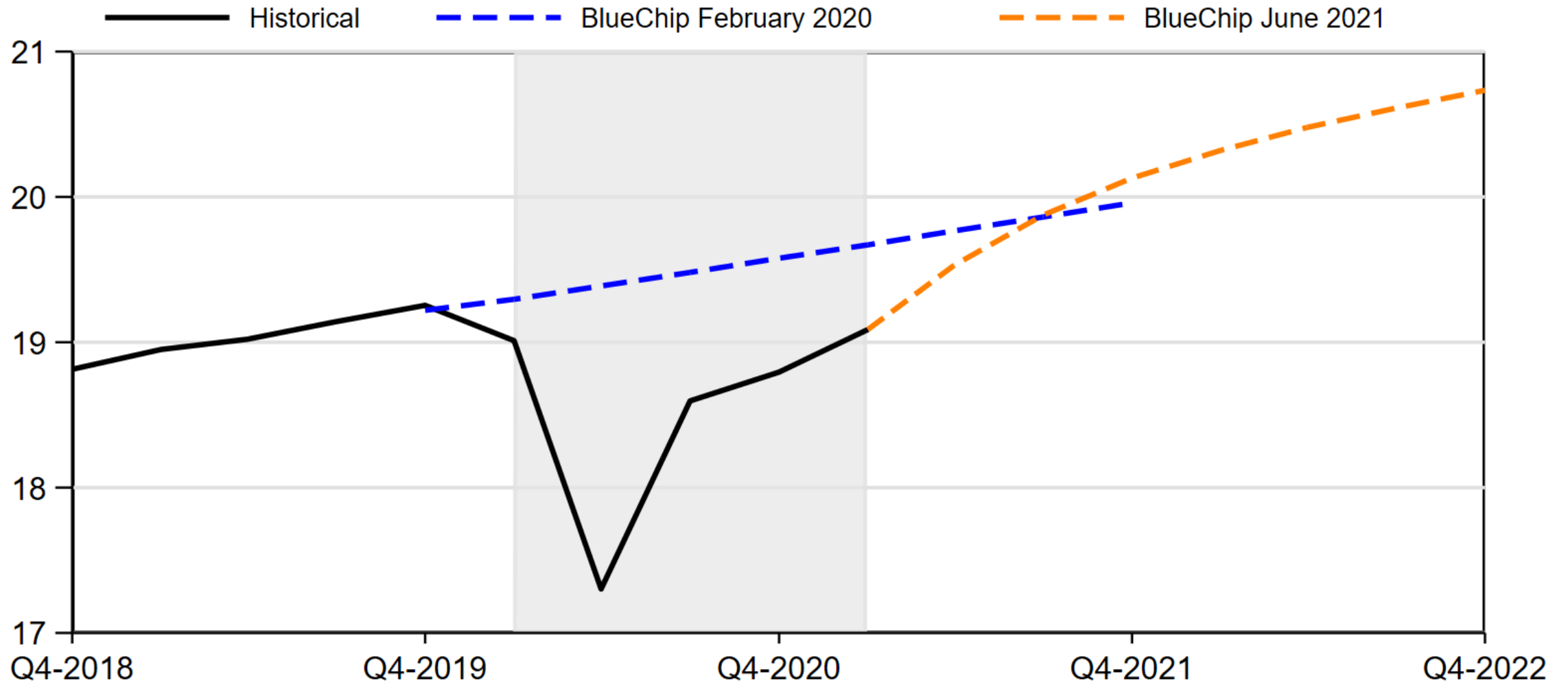
Very strong growth expected throughout 2021 and into 2022

- Vaccinations driving reopening
- Pent-up demand
- Fiscal stimulus boosting incomes and spending
- Supply bottlenecks restraining some growth



# REAL GDP

TRILLIONS OF CHAINED 2012\$

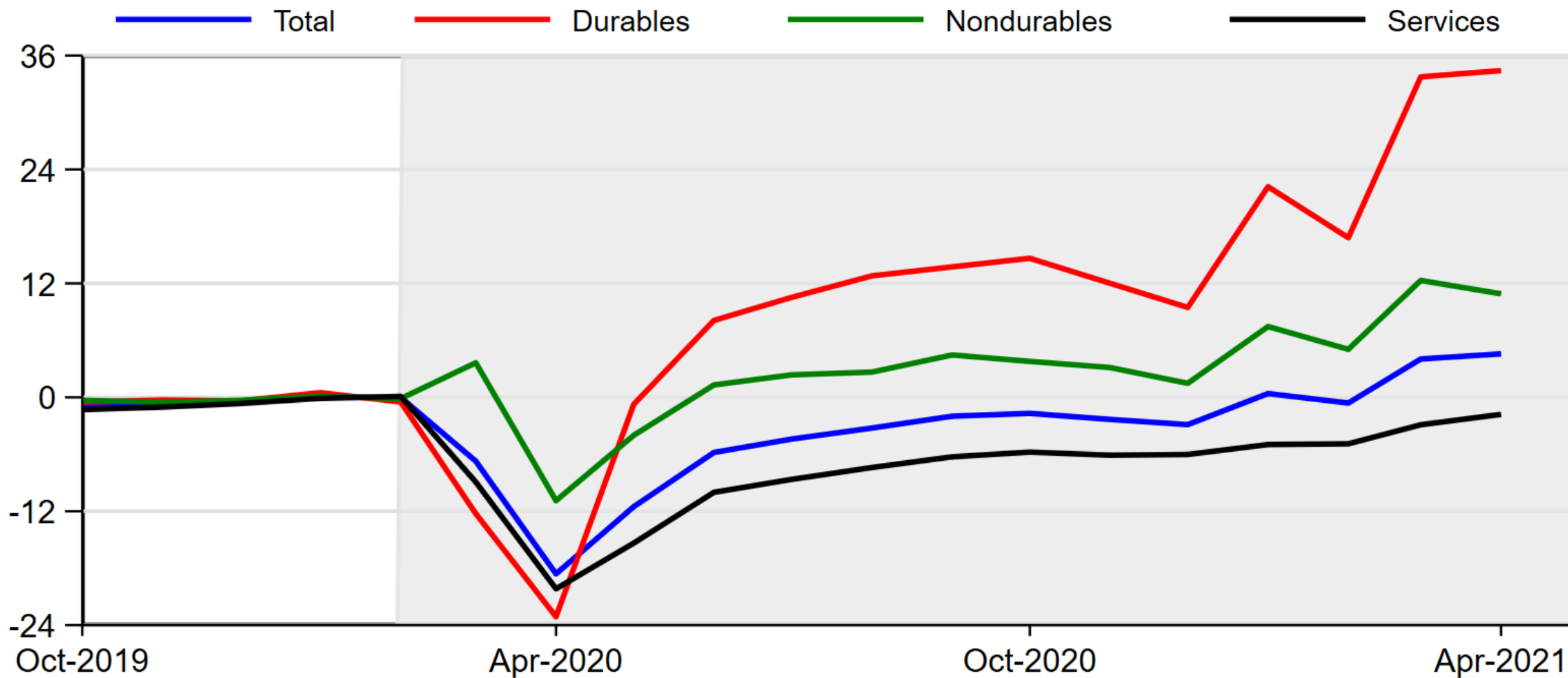


Source: U.S. Bureau of Economic Analysis, BlueChip.



# HOUSEHOLD SPENDING

PERCENT, SAAR



Note: Percent deviation from Jan–Feb 2020 average.  
Source: U.S. Bureau of Economic Analysis.

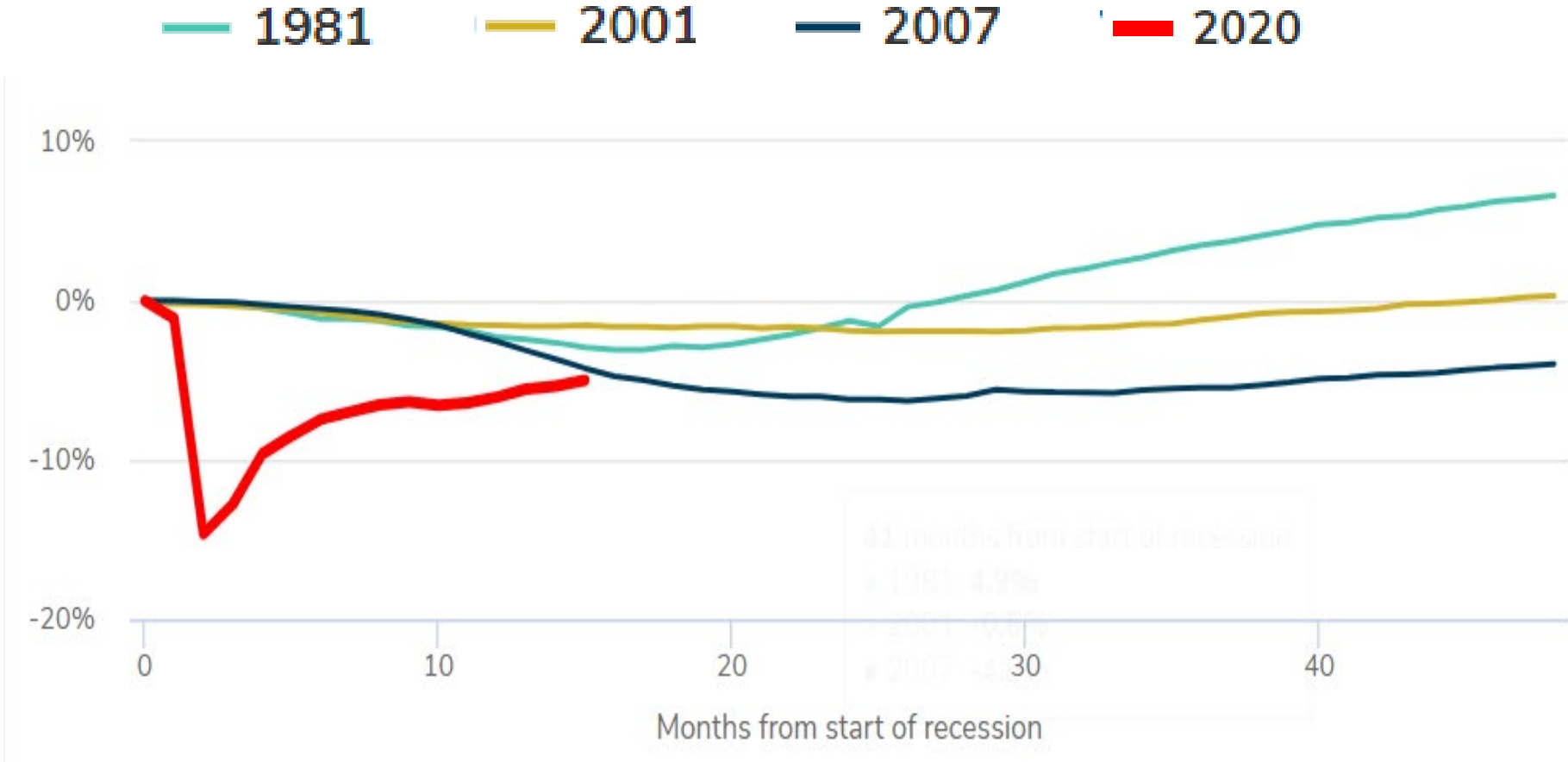
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# CHANGE IN U.S. EMPLOYMENT

SA, PERCENT



Source: Bureau of Labor Statistics

# JOBS: COLLAPSE AND INCOMPLETE RECOVERY

Very strong job growth in summer 2020, but slowed in the fall and winter

- Still have huge loss in jobs

Unemployment rate provides very incomplete picture

- Many people remain on sidelines

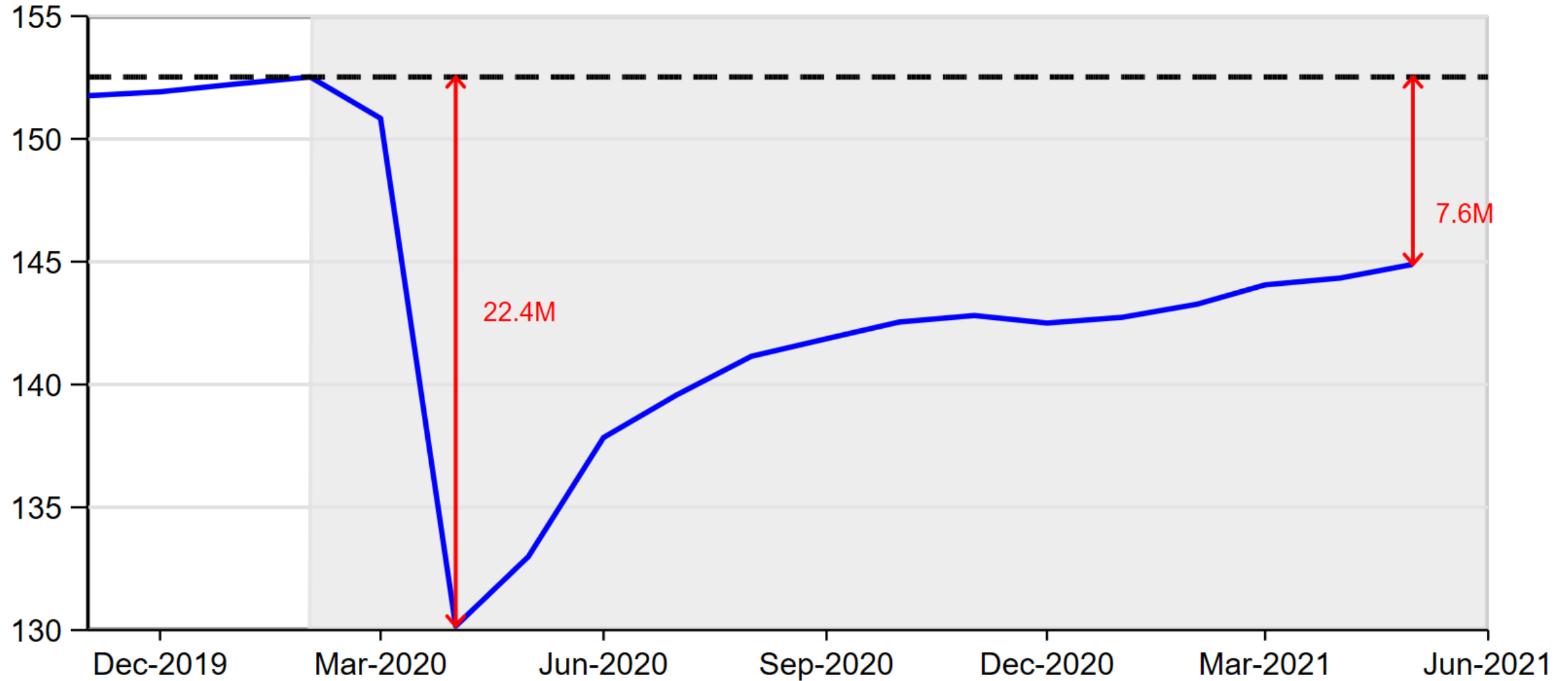
Low-wage workers bearing brunt of recession





# NONFARM EMPLOYMENT

MILLIONS, LEVEL

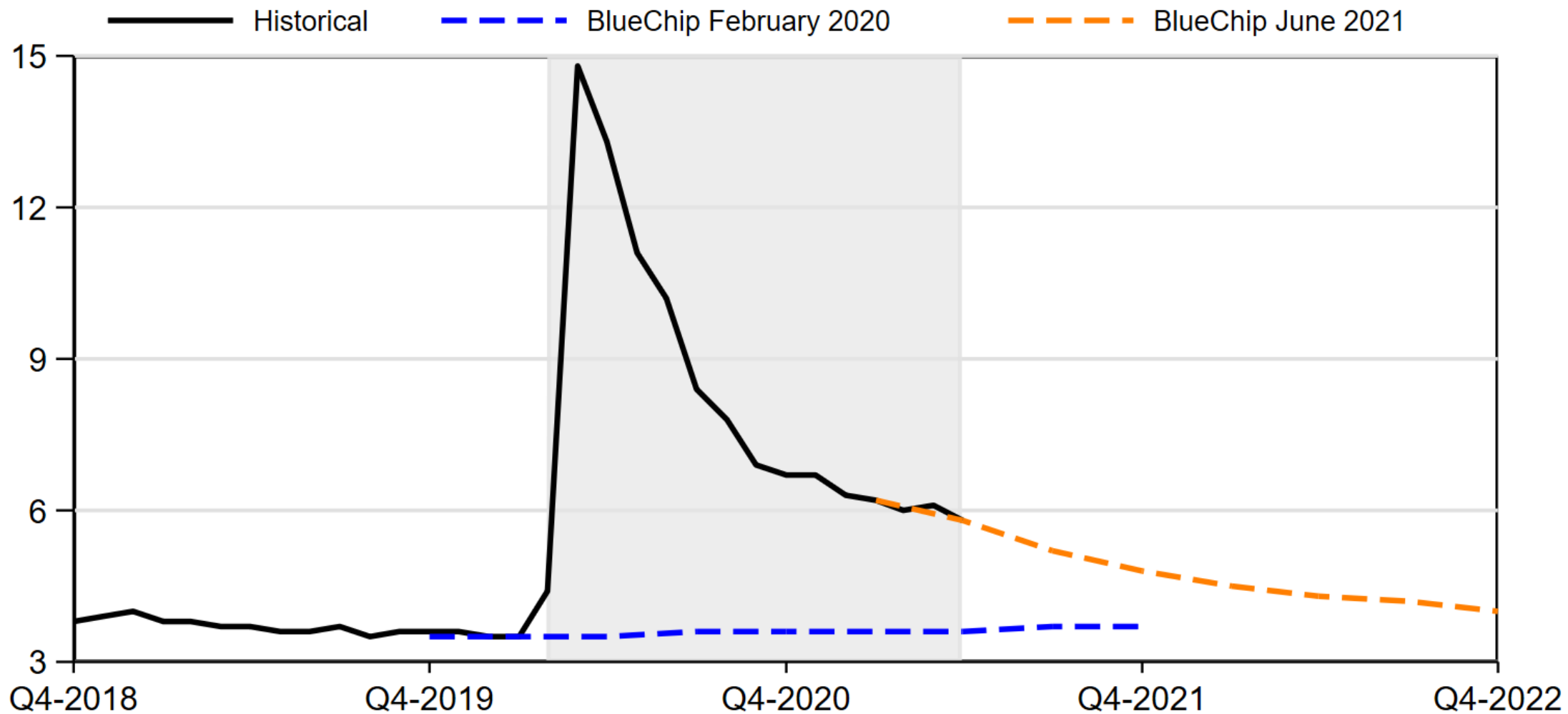


Note: Dash line represents Feb-2020 nonfarm employment numbers.  
Source: U.S. Bureau of Labor Statistics.



# UNEMPLOYMENT RATE

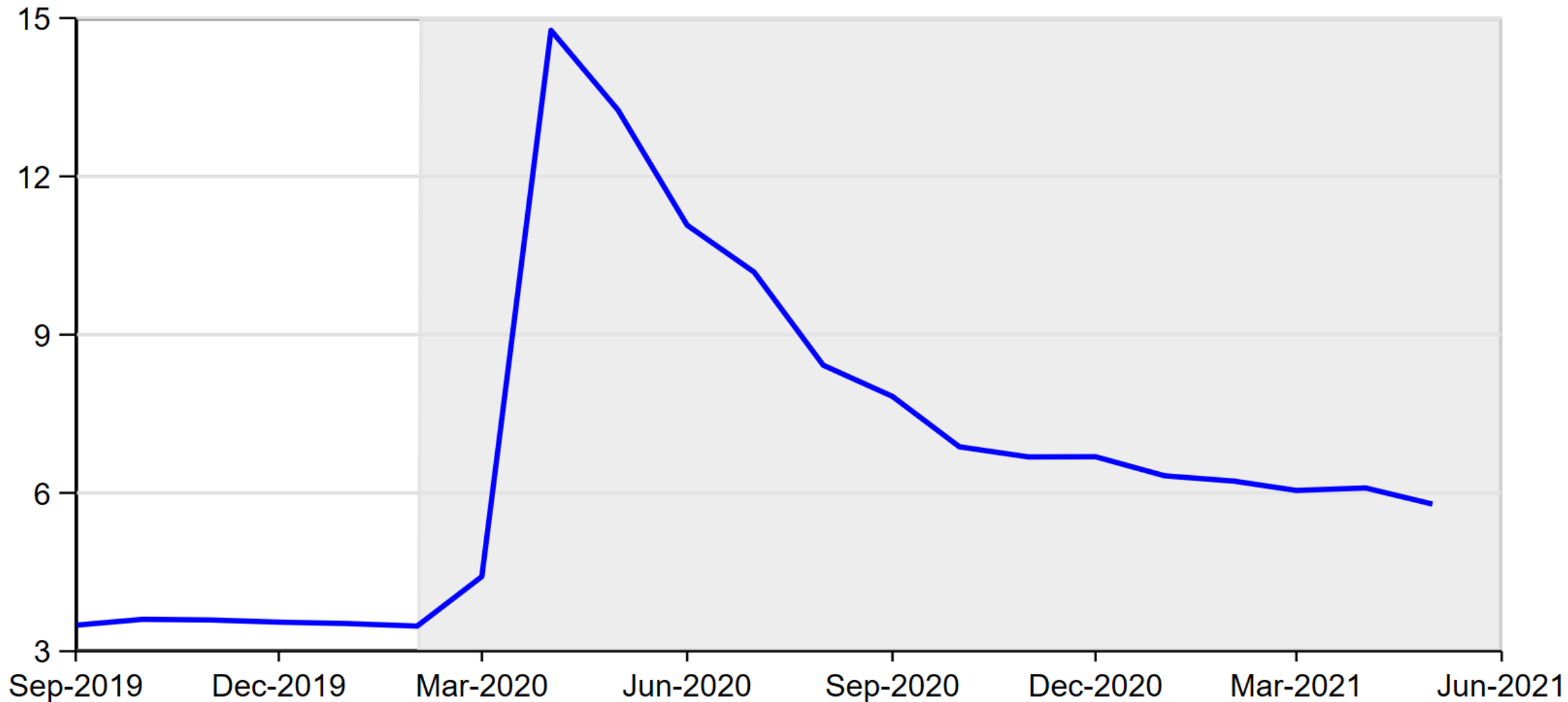
PERCENT



Source: U.S. Bureau of Labor Statistics, BlueChip.

# UNEMPLOYMENT RATE

PERCENT

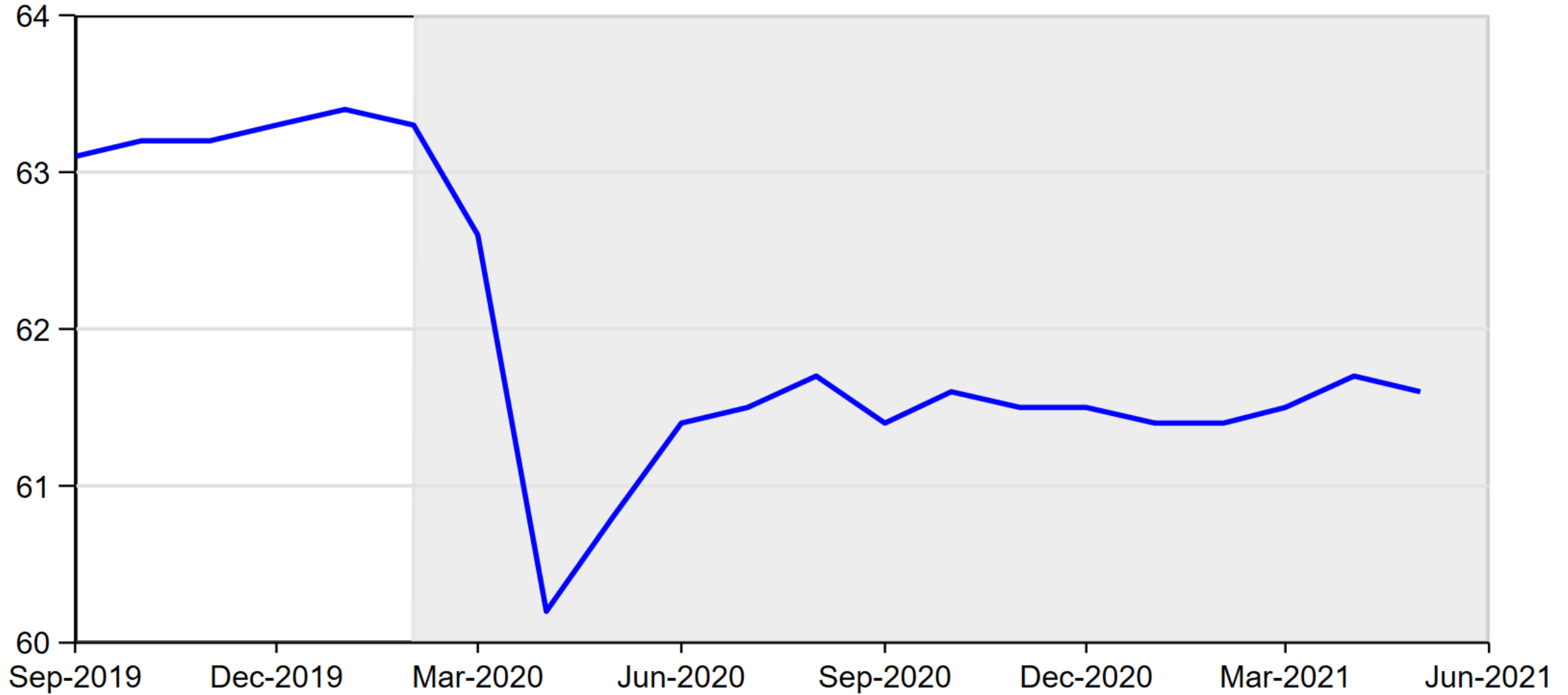


Source: U.S. Bureau of Labor Statistics.



# PARTICIPATION RATE (16+)

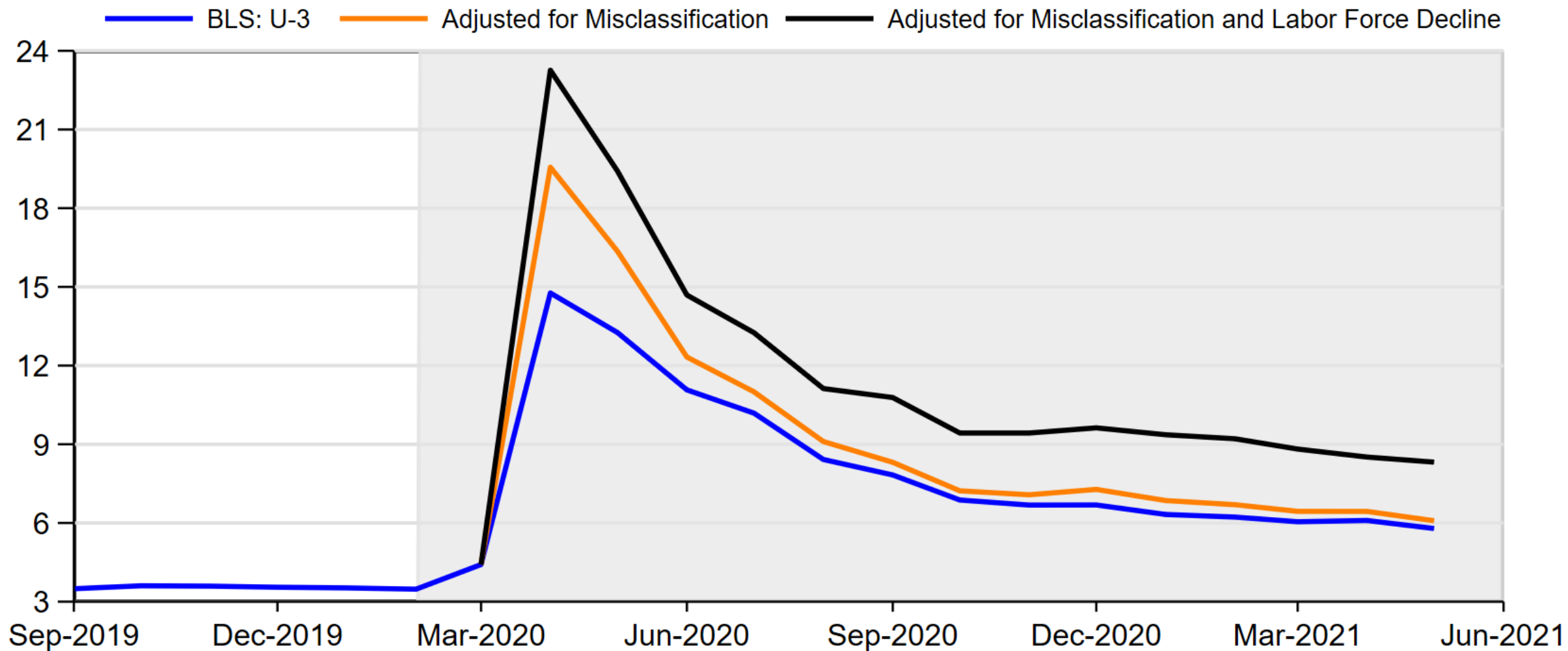
PERCENT



Source: U.S. Bureau of Labor Statistics.

# UNEMPLOYMENT RATE

PERCENT

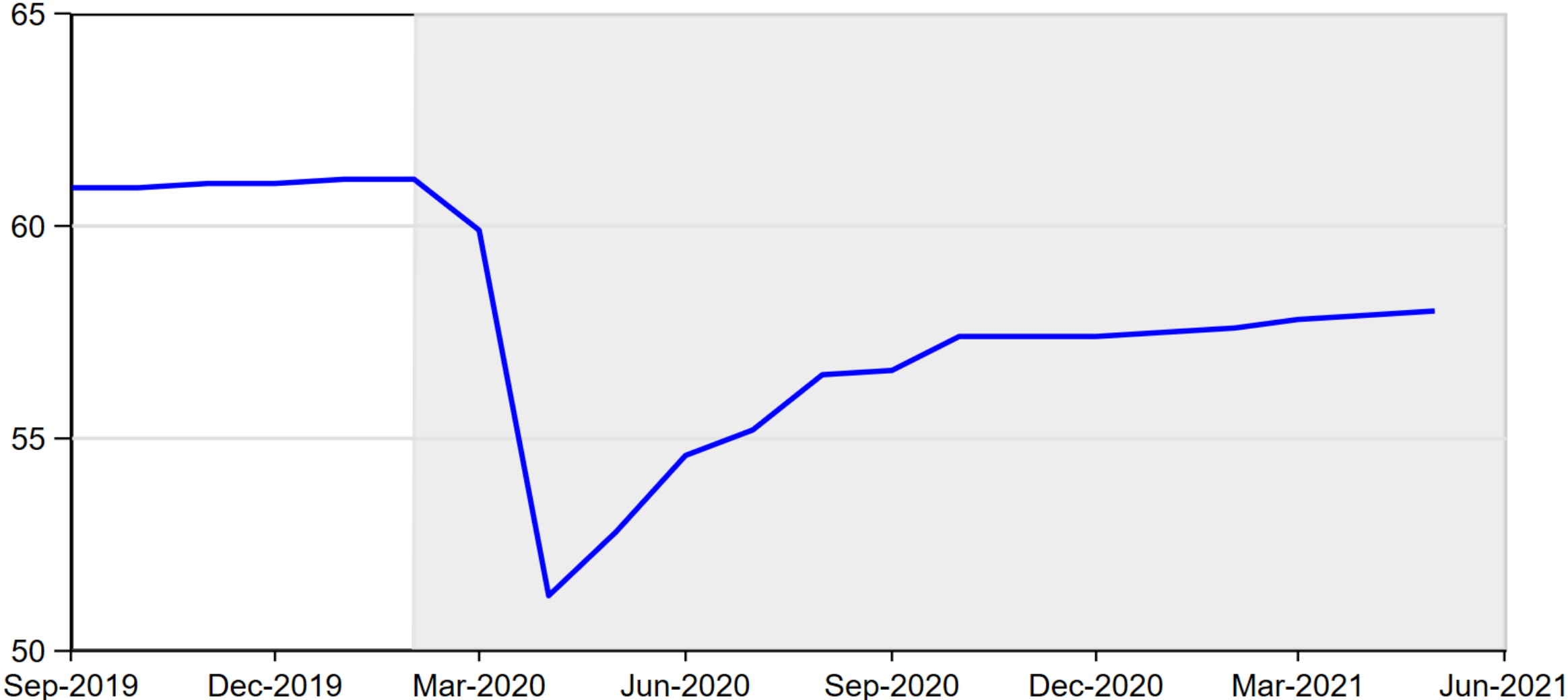


Source: U.S. Bureau of Labor Statistics.



# EMPLOYMENT-POPULATION RATIO (16+)

PERCENT

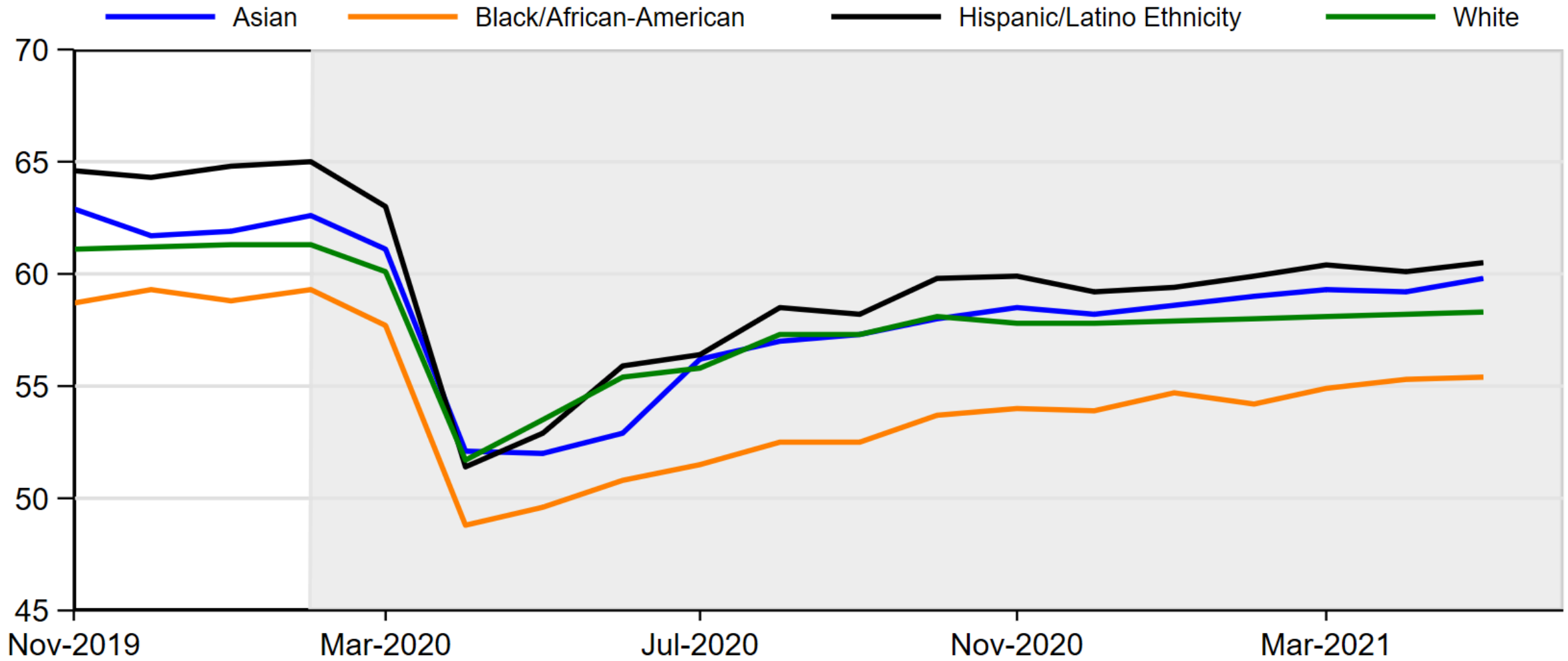


Source: U.S. Bureau of Labor Statistics.



# EMPLOYMENT-POPULATION RATIO (16+)

SA, PERCENT

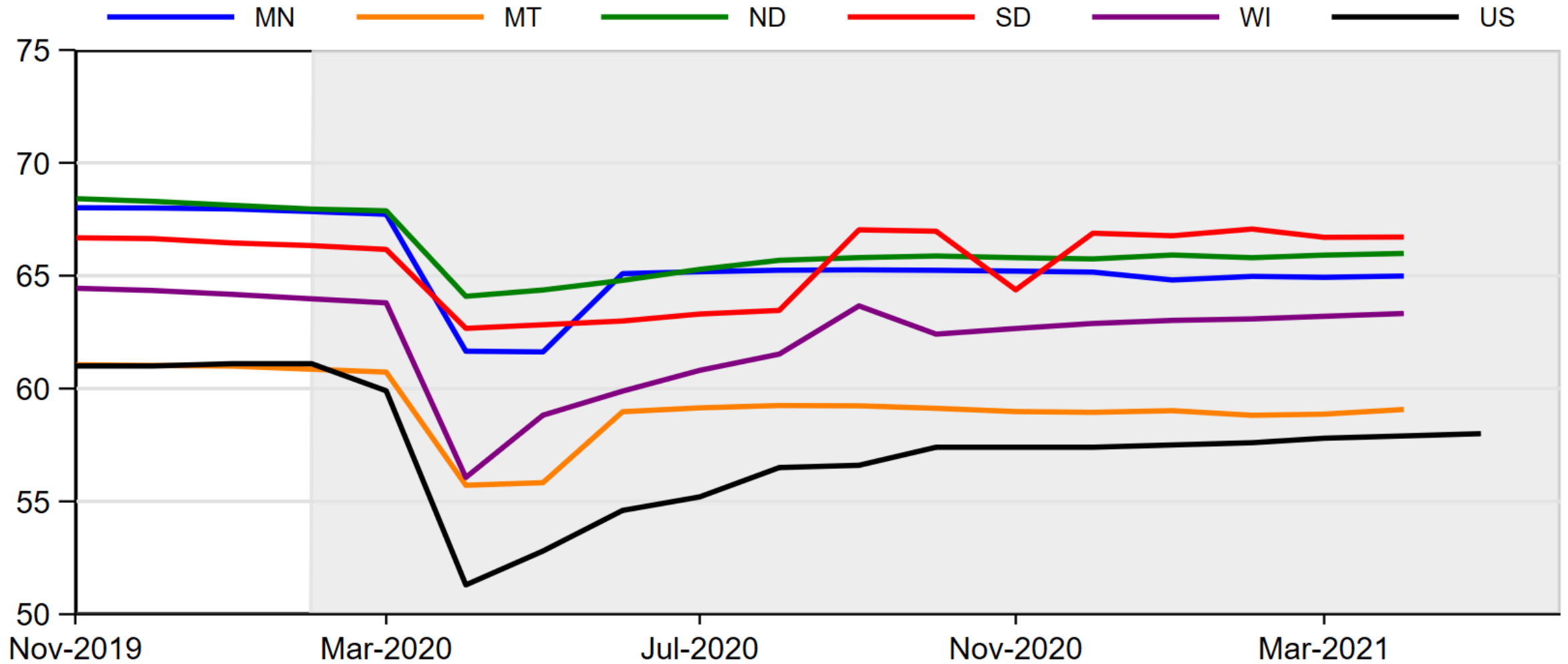


Source: U.S. Bureau of Labor Statistics.



# EMPLOYMENT-POPULATION RATIO BY STATE (16+)

SA, PERCENT

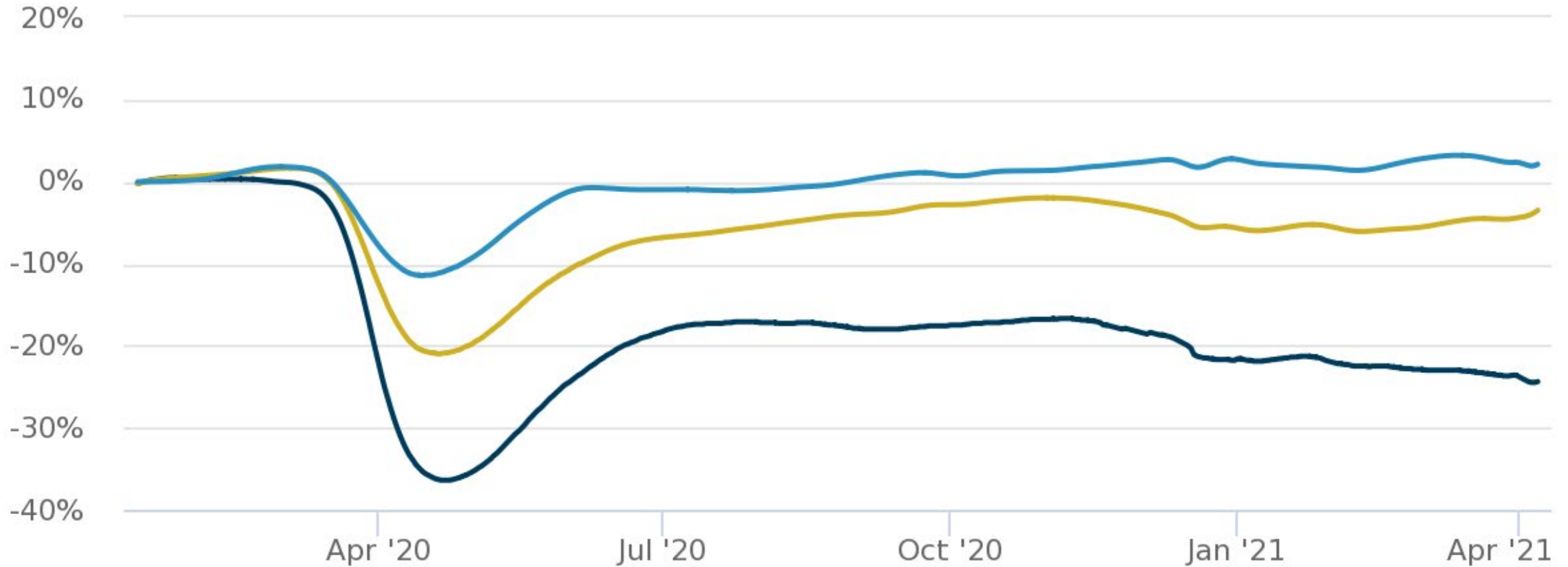


Source: U.S. Bureau of Labor Statistics.

# CHANGE IN EMPLOYMENT BY WAGE

PERCENT, 7-DAY MOVING AVERAGE

— Low — Middle — High



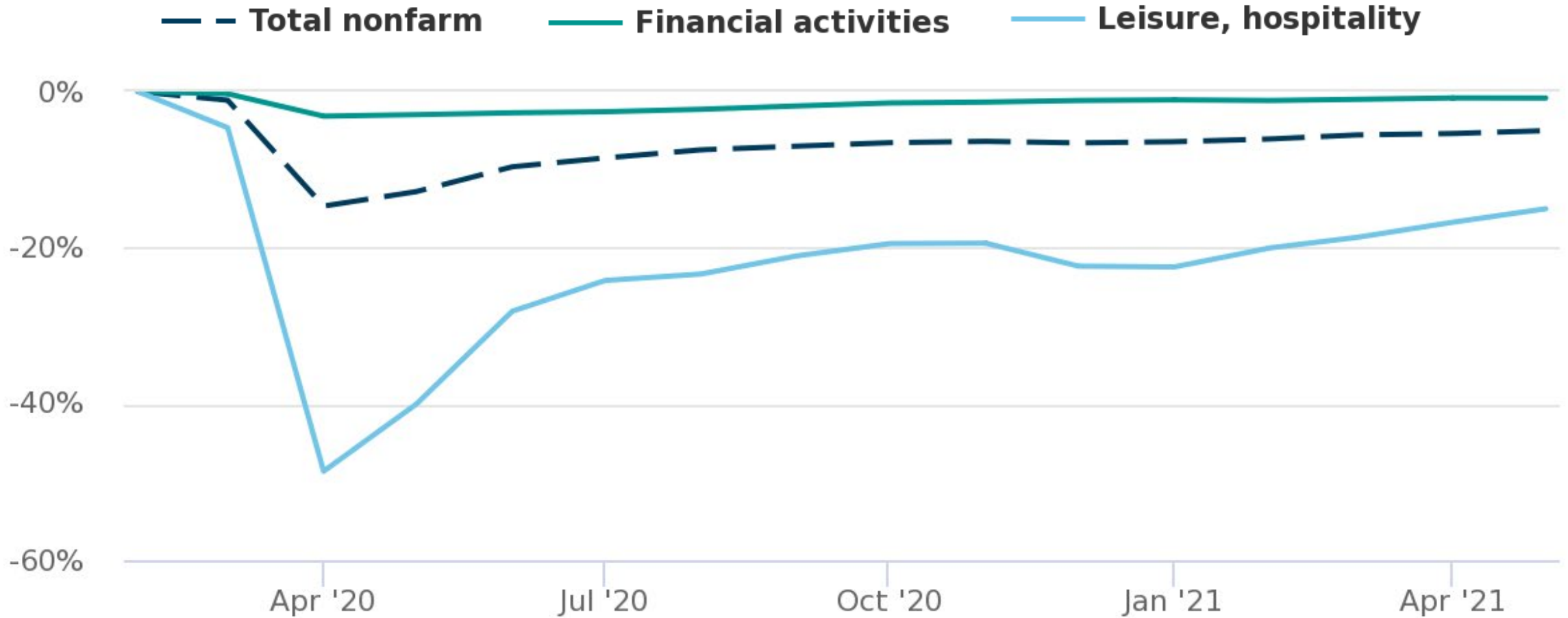
Note: Compared to January 4-31, 2020. National-level includes forecasted data. Opportunity Insights defines low-wage as <\$27K, medium-wage as \$27K - \$60K, and high-wage as >\$60K.

Source: Opportunity Insights Economic Tracker.



# CHANGE IN US EMPLOYMENT BY INDUSTRY: 2020 RECESSION

SA, PERCENT

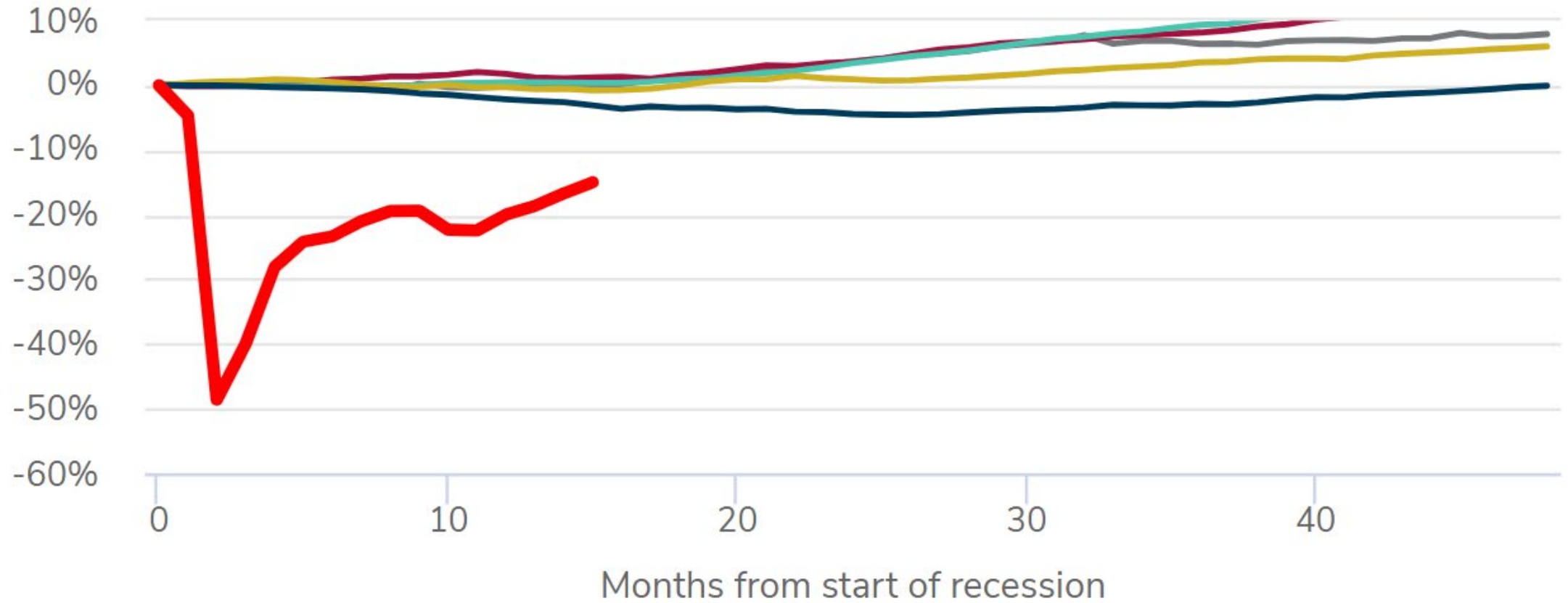


Source: U.S. Bureau of Labor Statistics.

# CHANGE IN EMPLOYMENT: LEISURE & HOSPITALITY

SA, PERCENT

— 1953 — 1973 — 1981 — 2001 — 2007 — 2020



Source: U.S. Bureau of Labor Statistics.

# JOBS: COLLAPSE AND INCOMPLETE RECOVERY

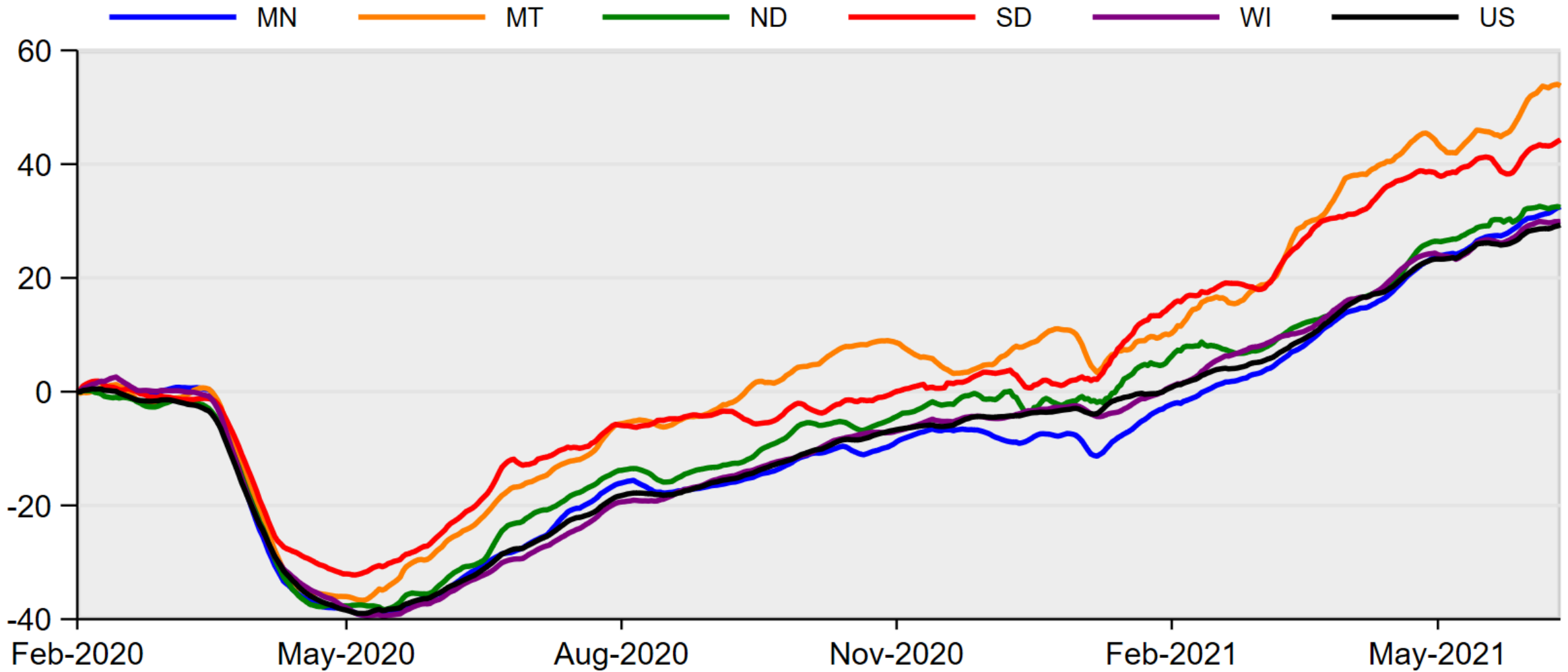
Data and anecdotes indicate large unsatisfied demand for labor





# CHANGE IN ONLINE JOB POSTINGS

RELATIVE TO FEB-1-2020, 7-DAY MOVING AVERAGE SA

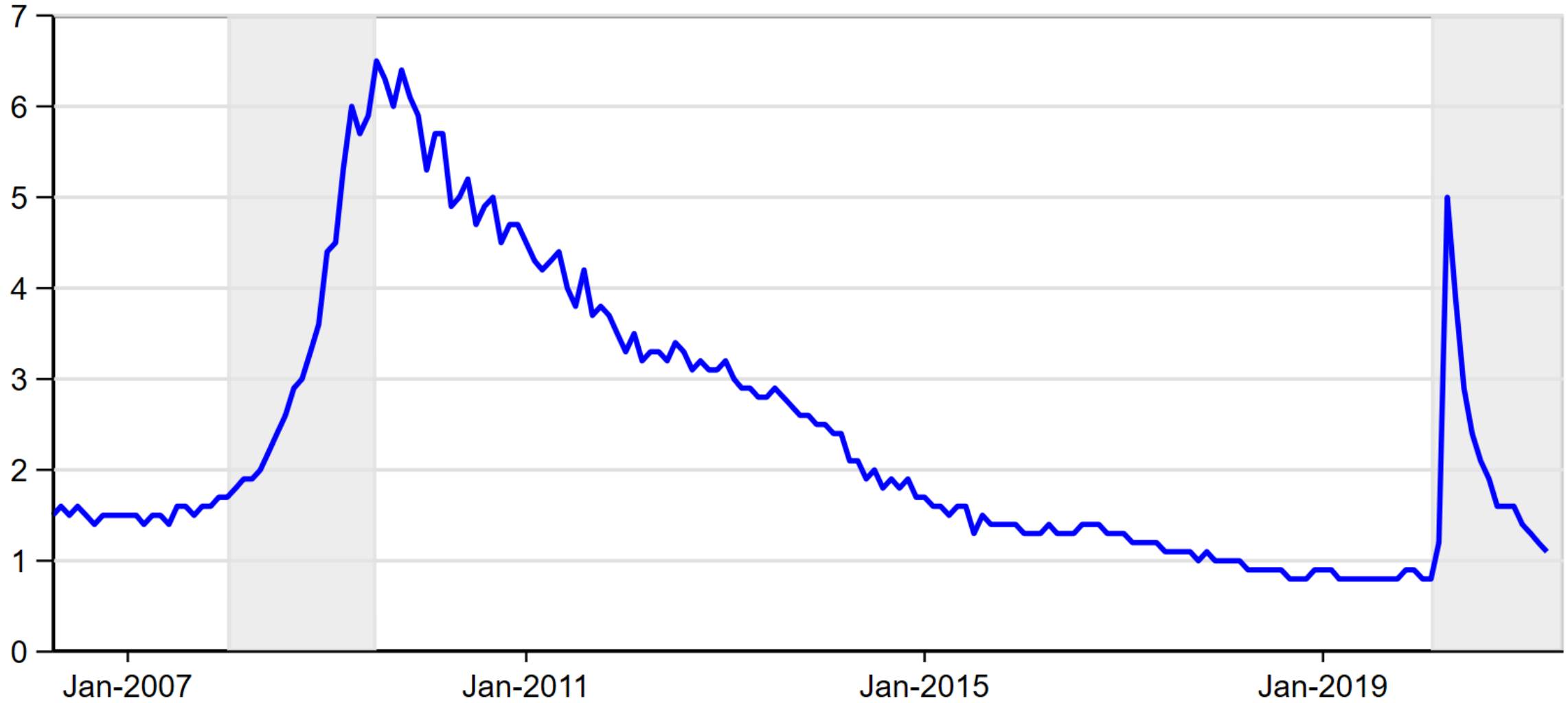


Source: Indeed



# UNEMPLOYED PERSONS PER JOB OPENING

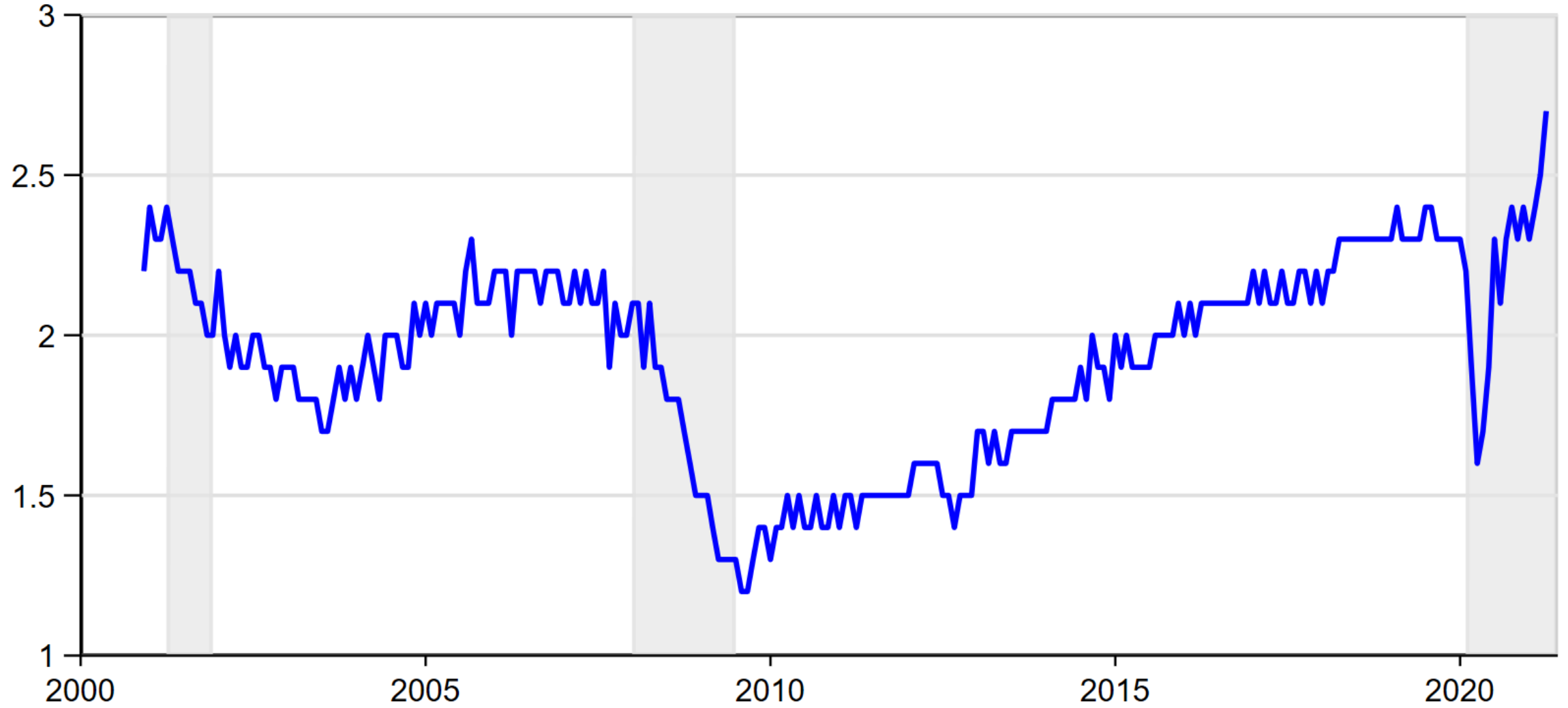
SA, LEVELS



Source: U.S. Bureau of Labor Statistics.

# TOTAL QUILTS RATE

SA, PERCENT



Source: U.S. Bureau of Labor Statistics.



# JOBS: COLLAPSE AND INCOMPLETE RECOVERY

Data and anecdotes indicate large unsatisfied demand for labor

Why aren't workers taking jobs?

- Some still fear COVID
- Schools/summer camps not fully open
- Lack of available/affordable childcare
- Job matches more difficult to make
- UI Benefits

Expect labor supply to pick up through summer



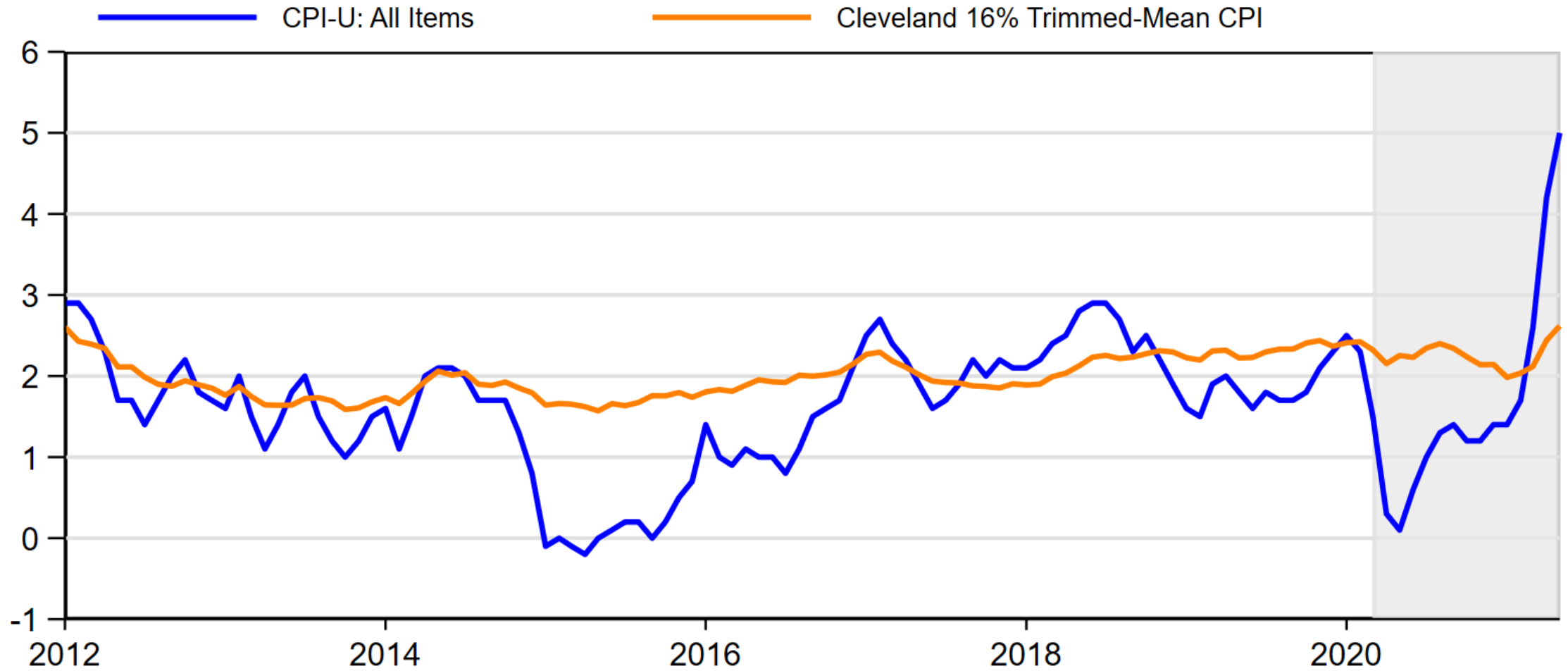
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# CPI

## 12-MONTH PERCENT CHANGE

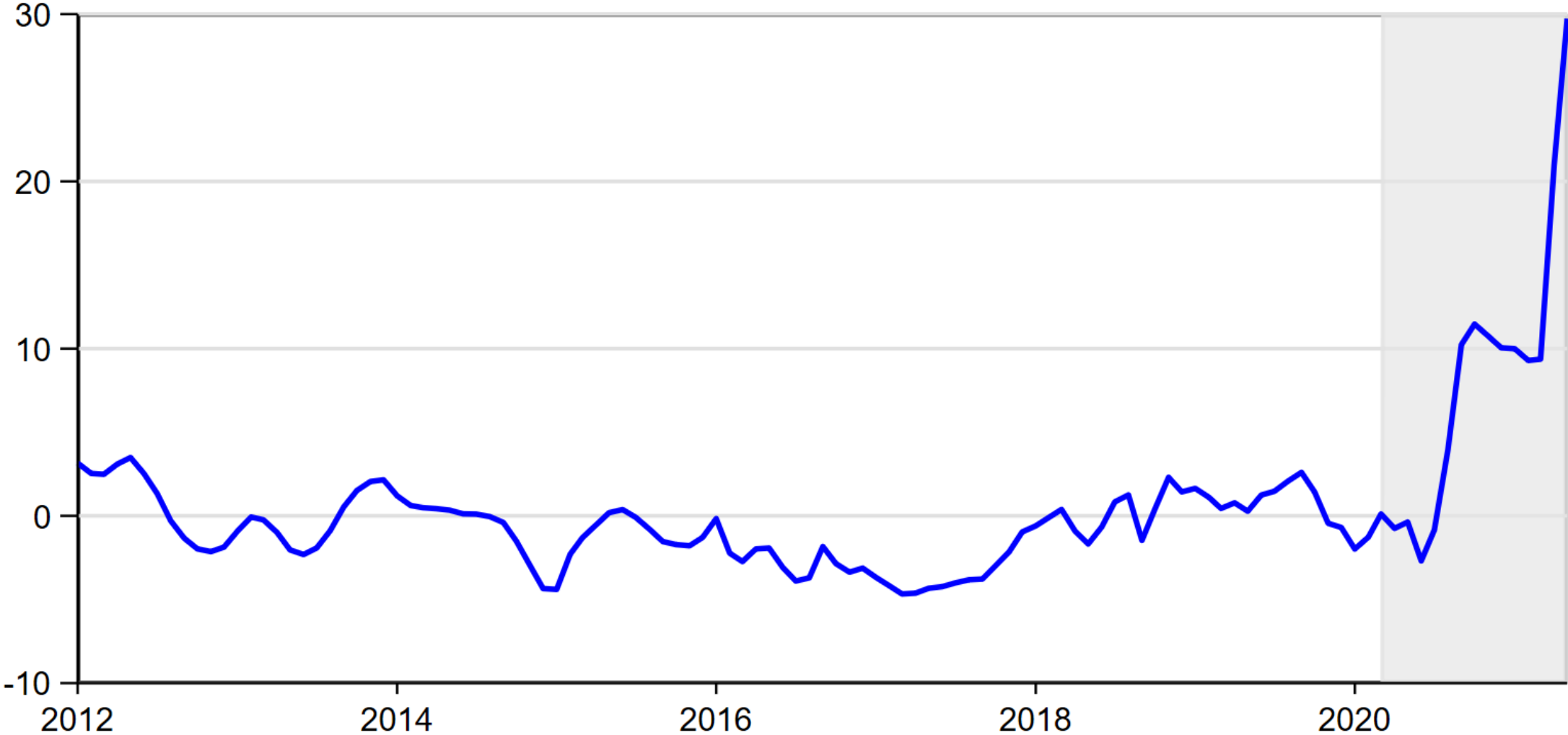


Note: CPI-U is 1982-84 = 100 and Cleveland 16% Trimmed-Mean CPI is seasonally adjusted.  
Source: U.S. Bureau of Economic Analysis, Federal Reserve Bank of Cleveland.



# CPI-U: USED CARS AND TRUCKS

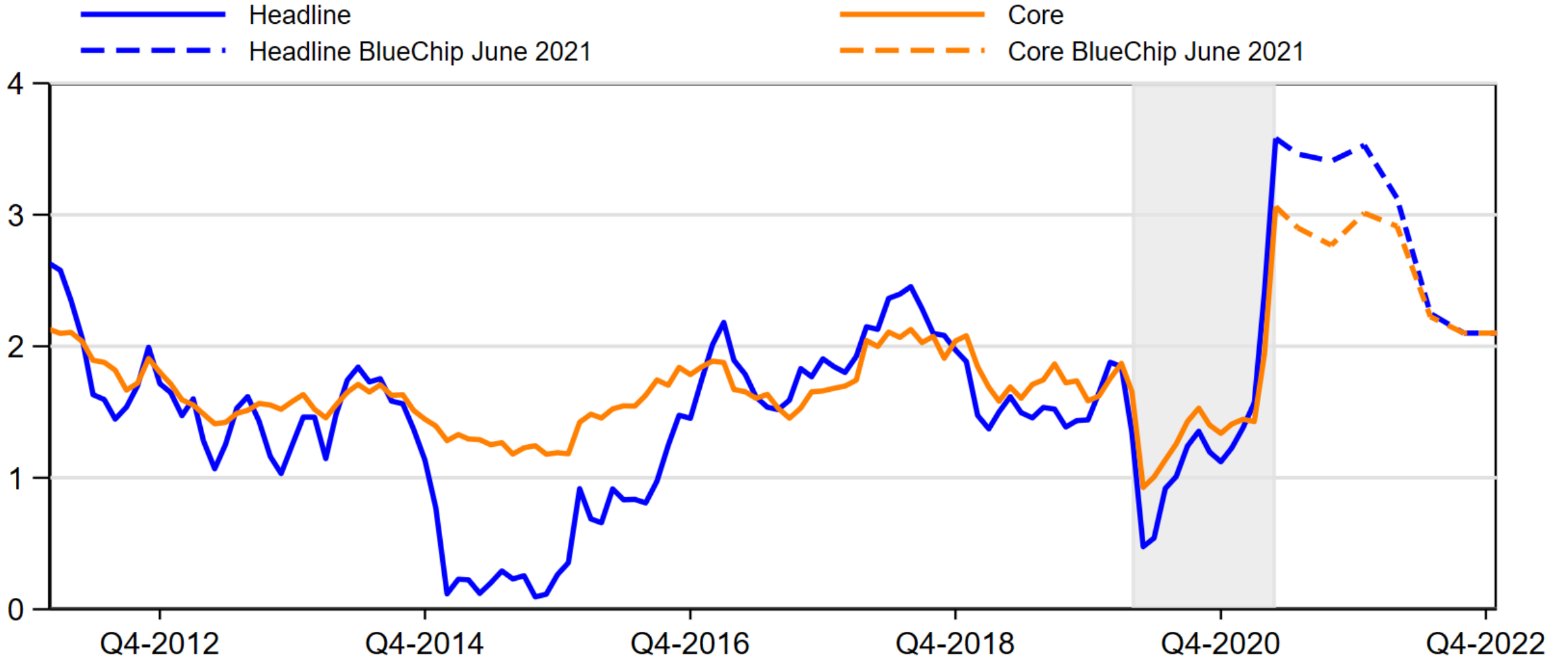
1982-84=100, 12-MONTH PERCENT CHANGE



Source: U.S. Bureau of Labor Statistics.

# PCE INFLATION

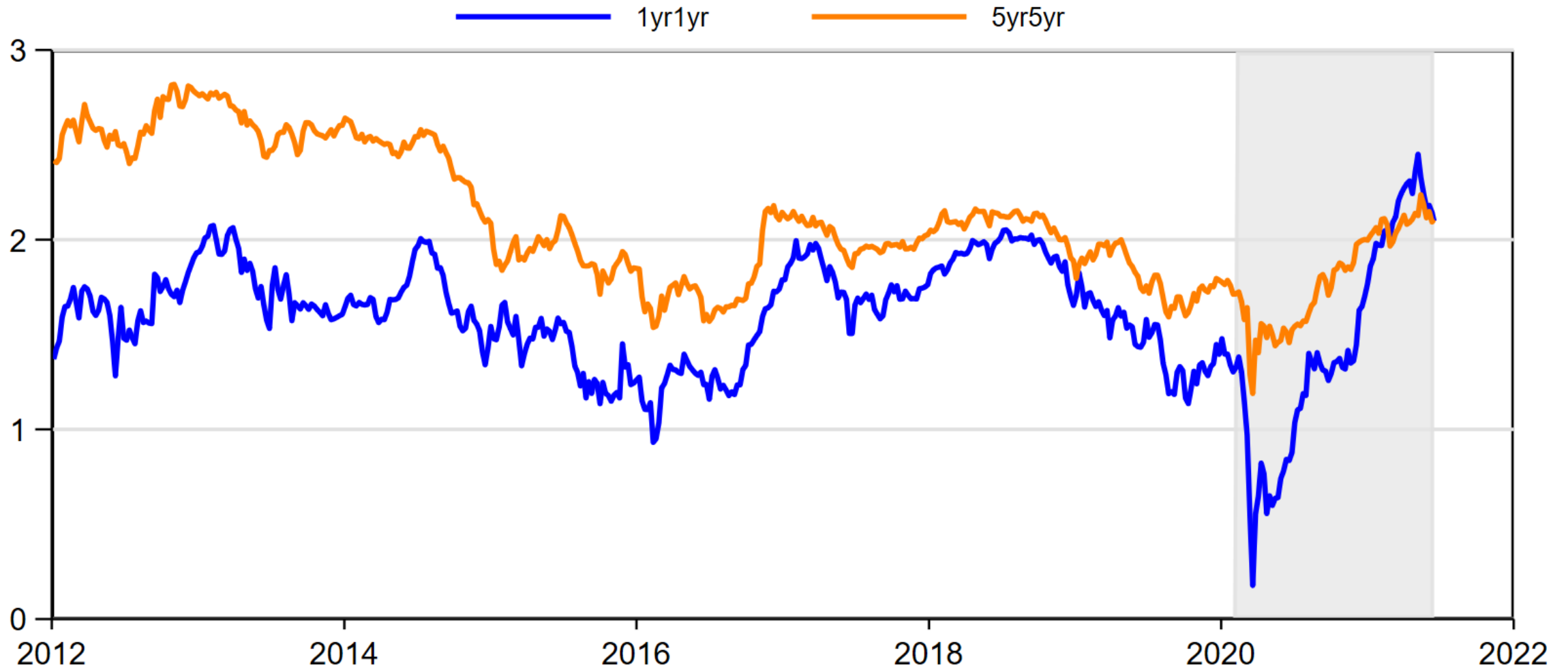
12-MONTH PERCENT CHANGE OR Q4/Q4 PERCENT CHANGE



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

# MARKET-BASED INFLATION EXPECTATIONS

PERCENT



Source: Federal Reserve Board of Governors.

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**THANK YOU!**

***QUESTIONS?***



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