

# The Economic Outlook and Monetary Policy

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# 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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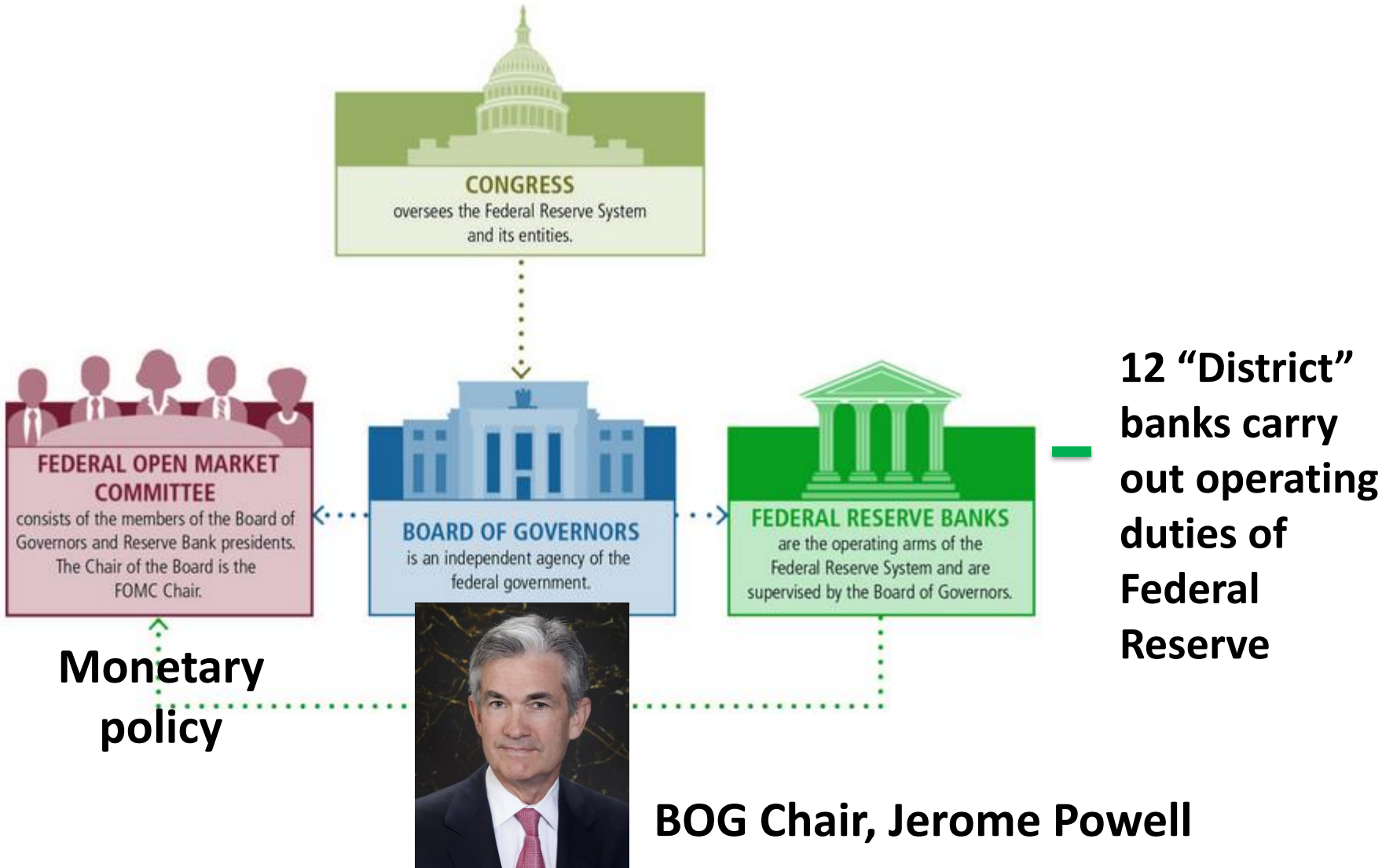


# Today's Talk

- 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

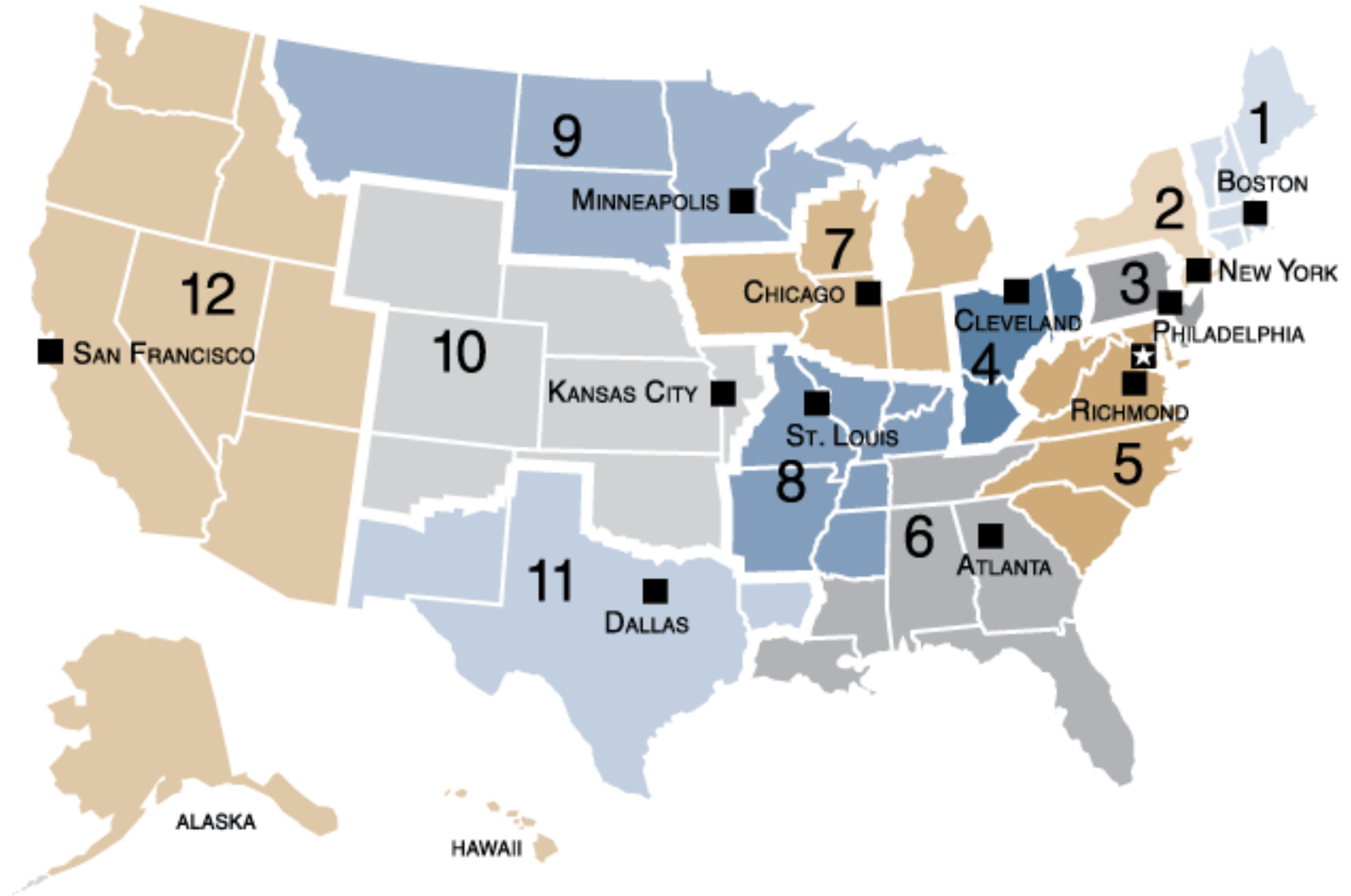


# Structure of the Federal Reserve System





# Federal Reserve Districts





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# 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”



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# Gauging success on the dual mandate

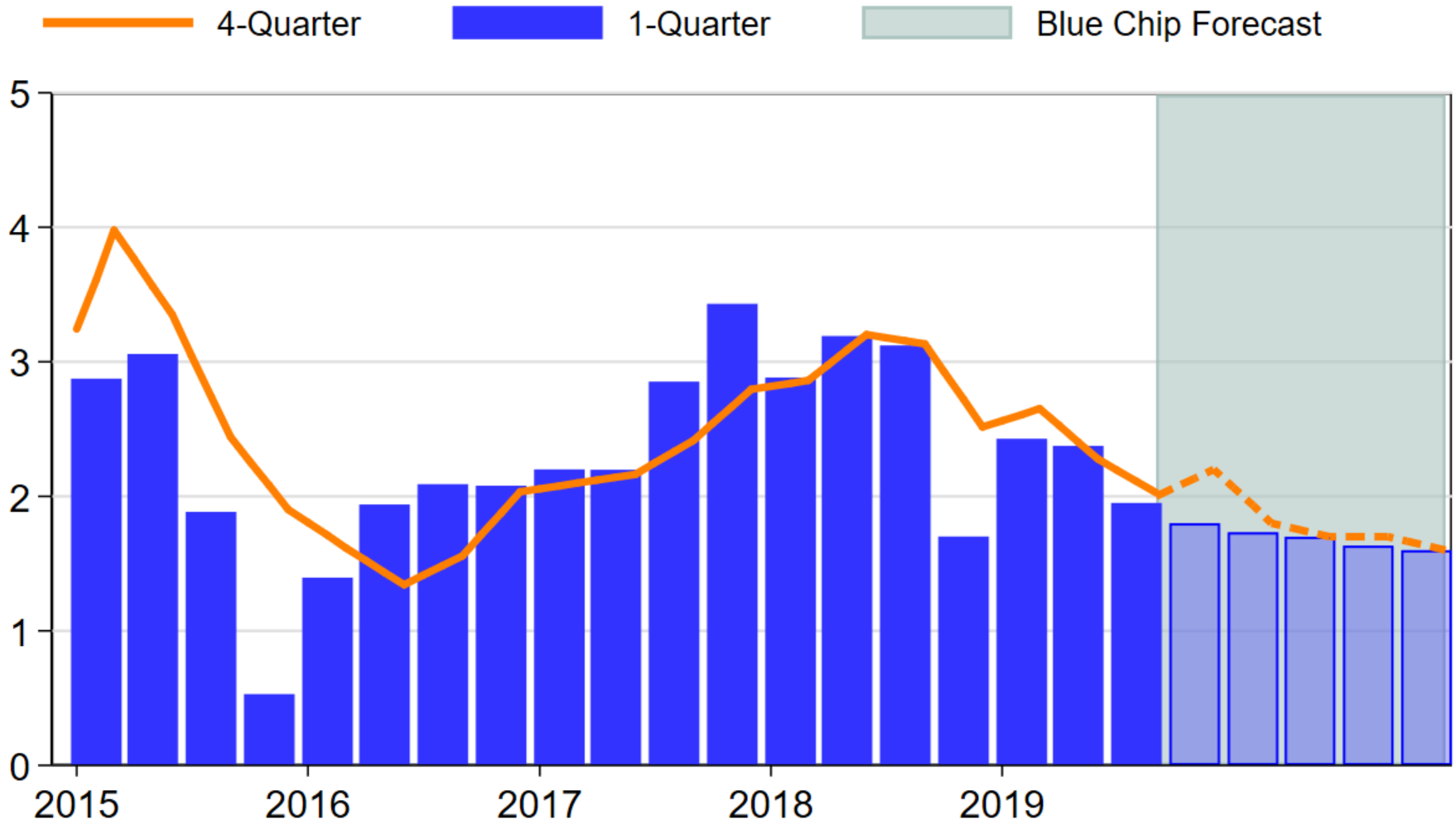
*Maximum employment:* are labor markets at or beyond (“overheating”)?

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



# Real GDP

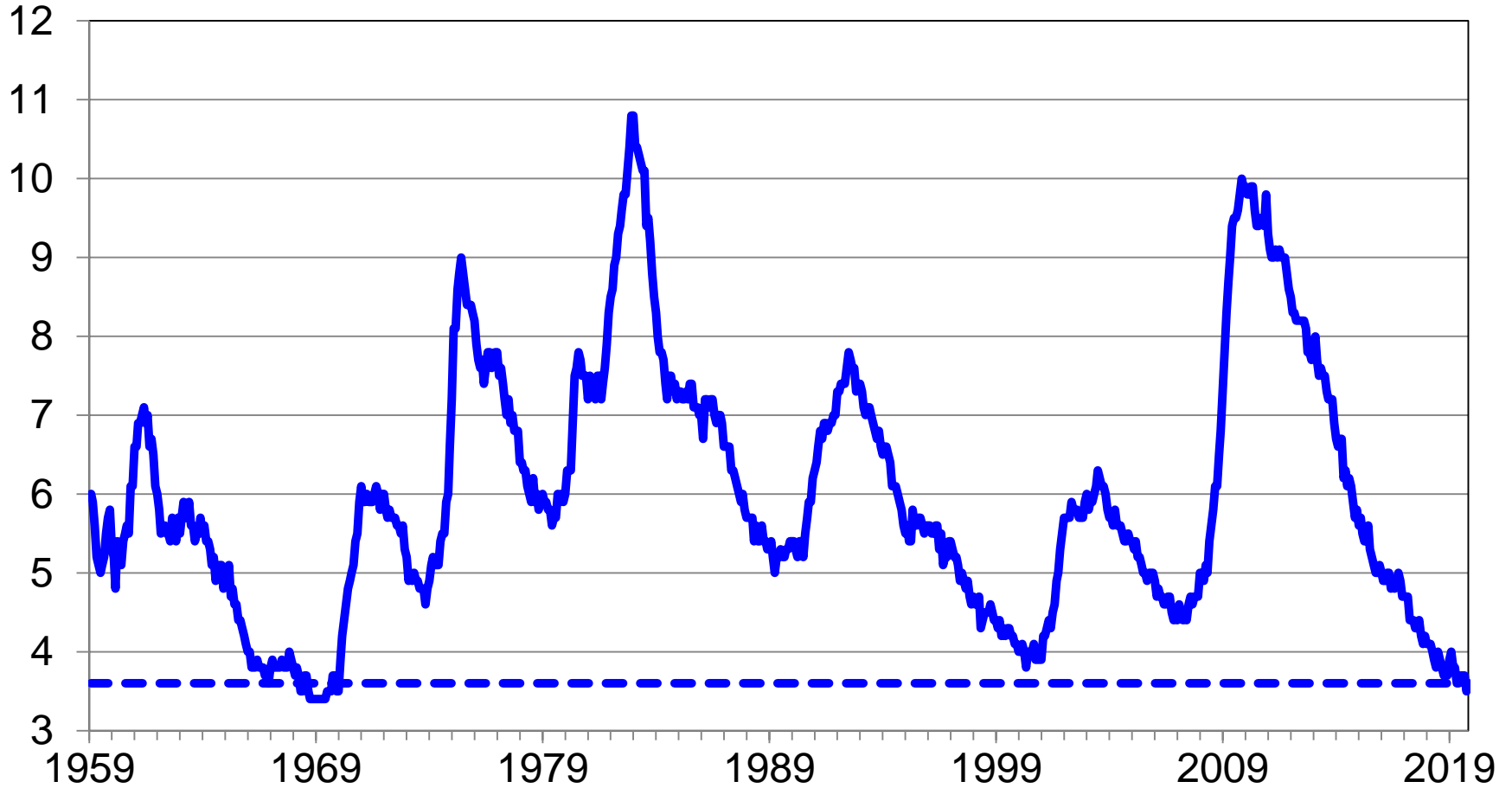
percent change





# Unemployment Rate

percent



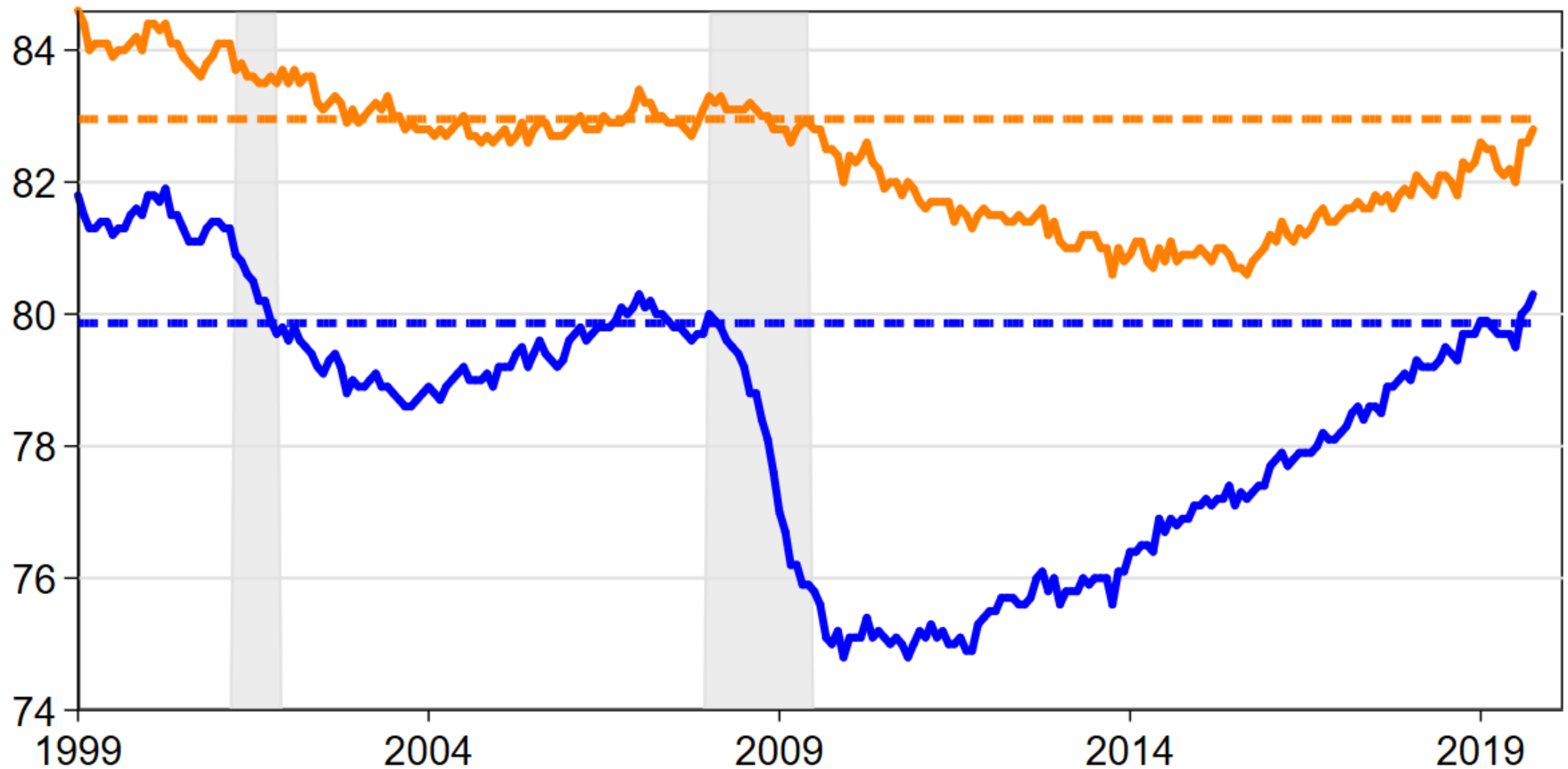
\*Dashed line indicates latest data point.  
Source: Bureau of Labor Statistics.



# Employment-Population and Labor Force Participation Ratios

25-54, percent

E/P LFP



Source: Bureau of Labor Statistics.

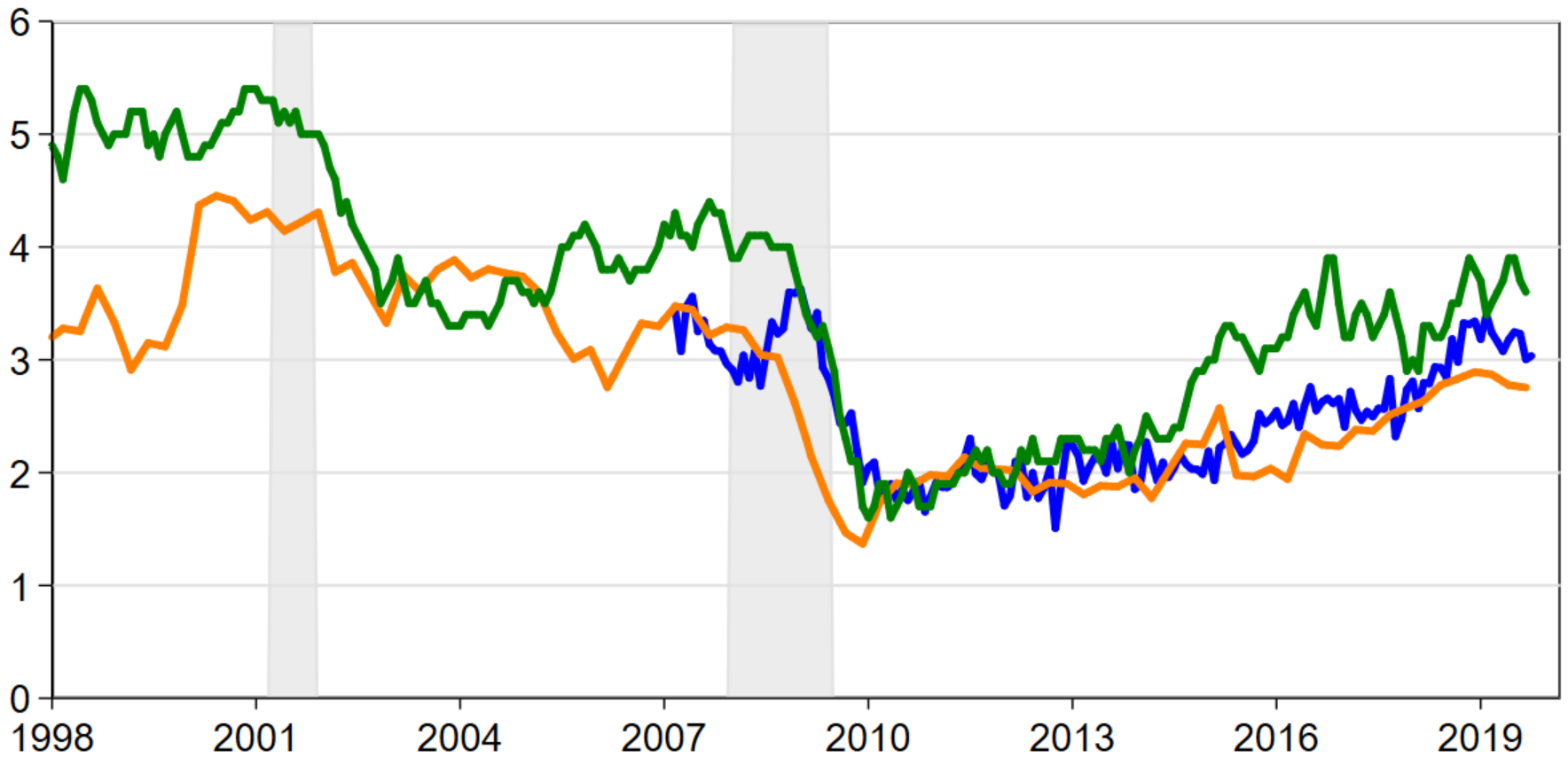
Note: Dashed lines indicate 2006-2007 average.



# Labor Costs

12-month percent change

— Average Hourly Earnings      — Employment Cost Index  
— Atlanta Fed Wage Growth Tracker

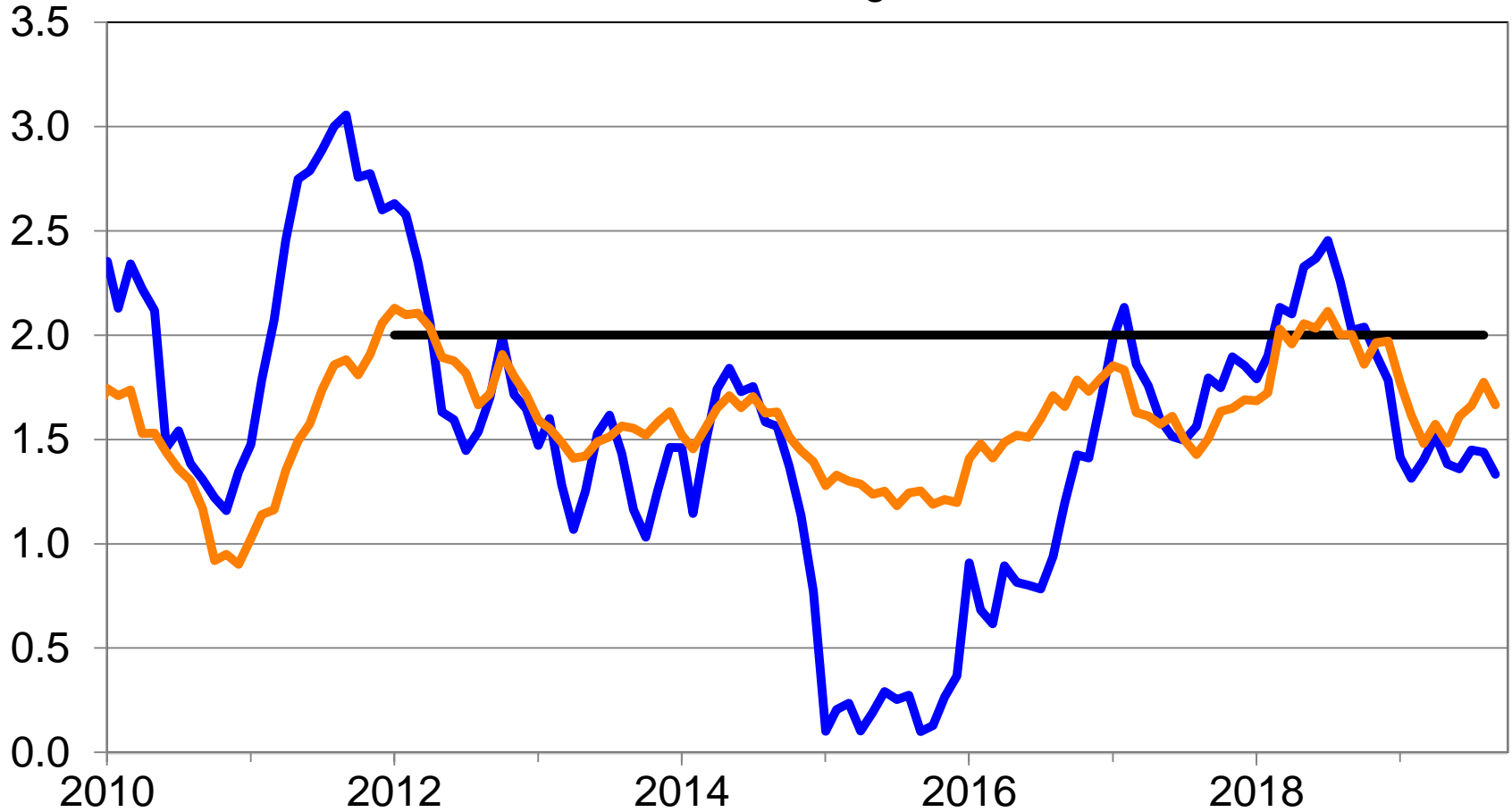




# PCE Inflation

12-month percent change

— Headline — Target — Core





# 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**



# Risks to economic outlook have risen

1. Uncertainty over trade policy continues
2. Global growth weakening
3. Economy still growing, but manufacturing, business investment, agriculture, exports all soft

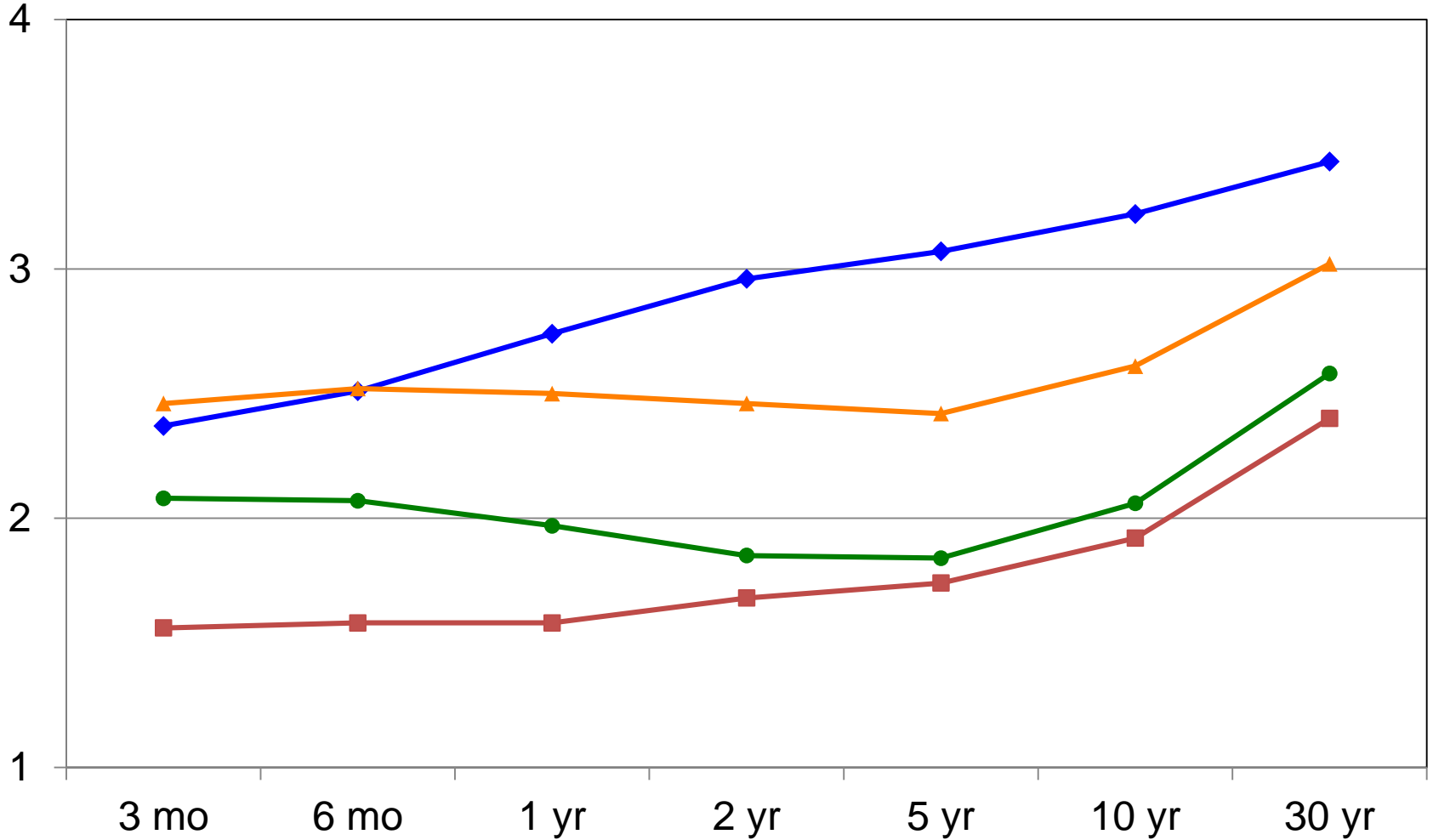




# Yield Curve Inversion

percent

◆ 11/7/2018    ▲ 3/19/2019    ● 7/30/2019    ■ 11/7/2019



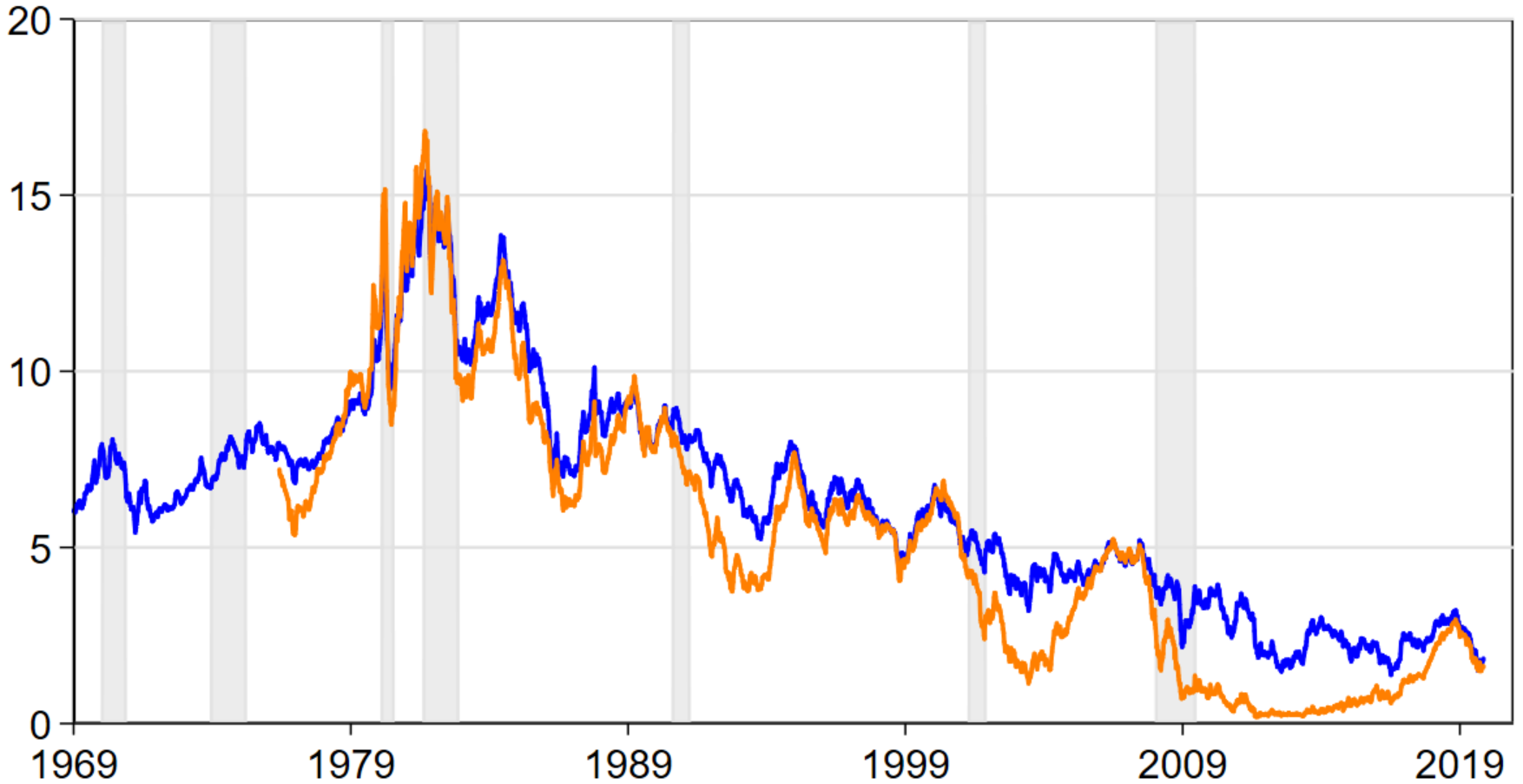
Source: Federal Reserve Board.



# U.S. Treasury Yields

percent

10-Year      2-Year

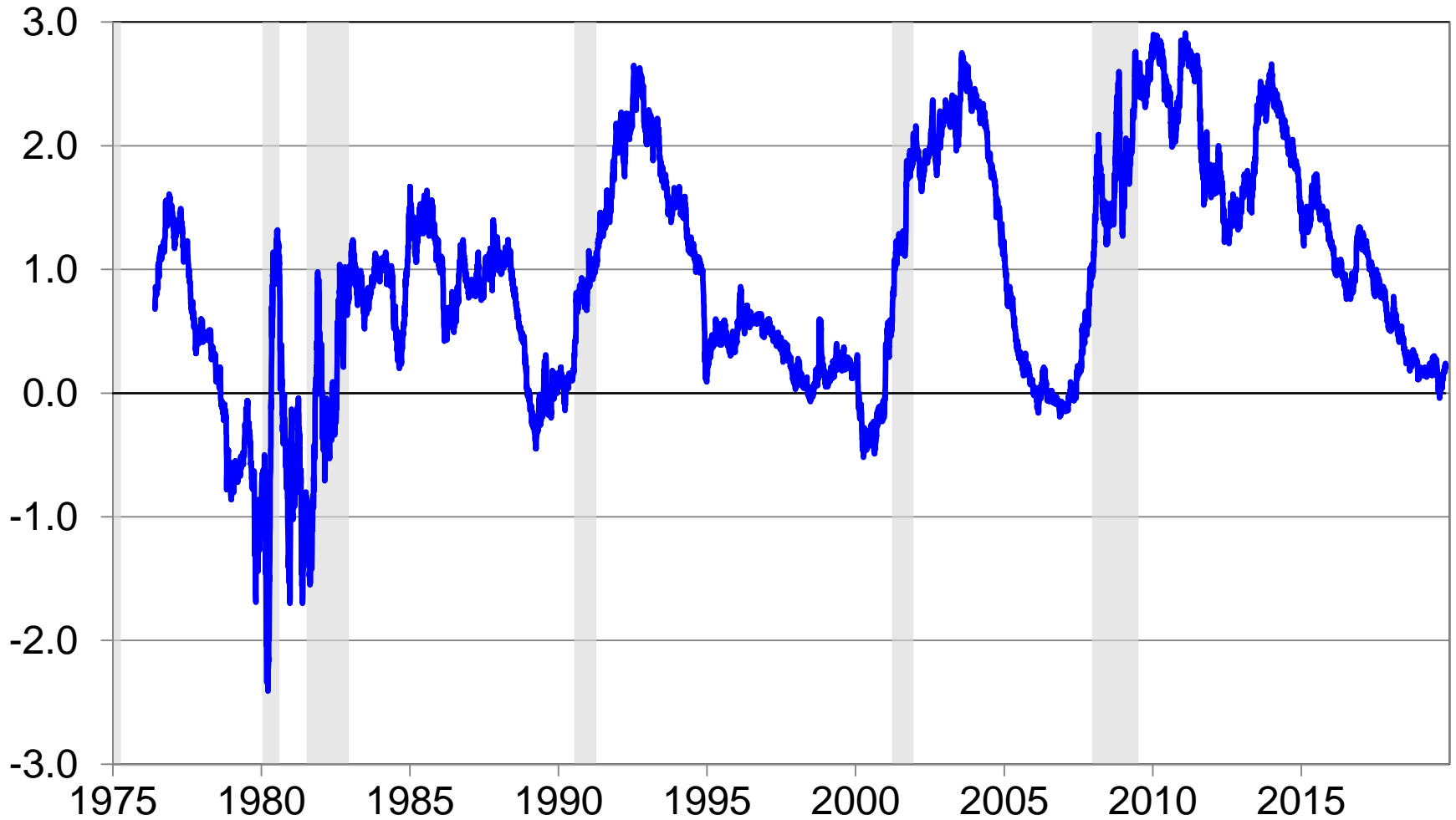




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# Slope of U.S. Treasury Yield Curve

10-year minus 2-year (percent)



Source: Board of Governors.



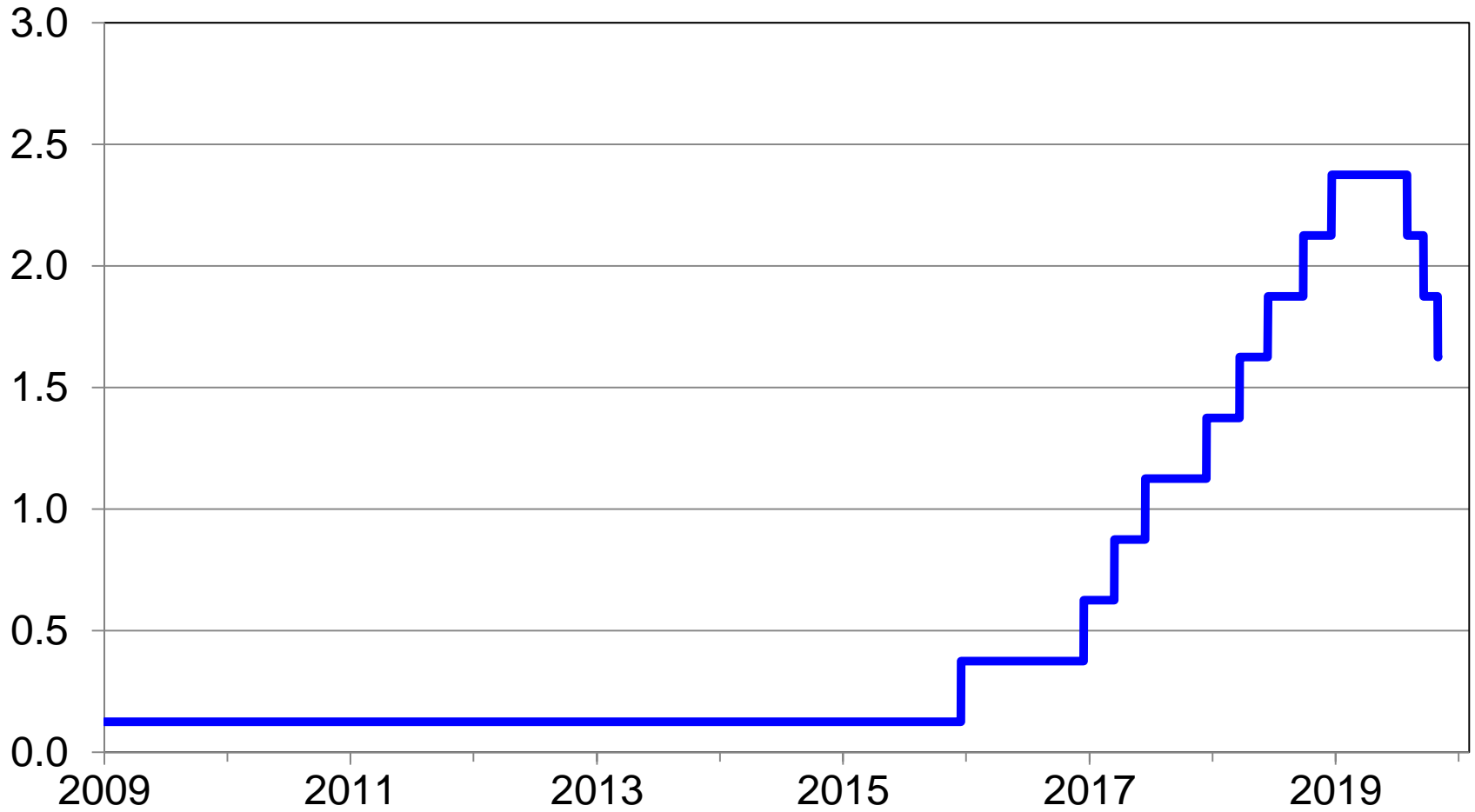
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# Federal Funds Target Rate

percent



\*Midpoint target range  
Source: Federal Reserve Board.



# Key policy issues

1. What is economic outlook?
2. Insurance vs “saving powder”?
3. Where is “neutral”?
4. Is labor market overheating?
5. Inflation: rising, falling, or close enough?
6. Financial stability concerns



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Broader role of Fed:  
promote sound policy





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## COMMUNITY DEVELOPMENT

# 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.



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# Opportunity & Inclusive Growth Institute

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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.

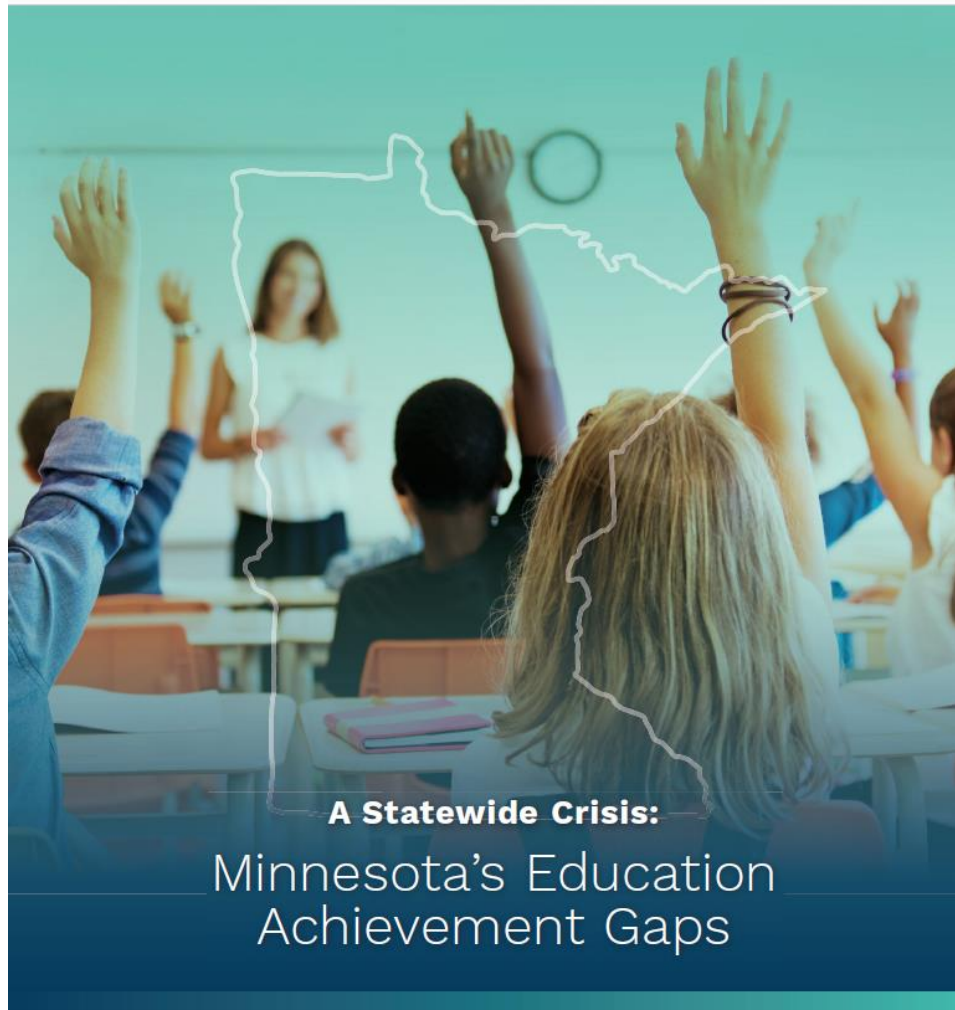


# Center for Indian Country Development

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## **Mission**

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



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



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# #EndingTBTF

Ending Too Big to Fail



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Thank you!

***Questions?***