How is the Fed Structured?

Federal Reserve System

- Board of Governors (Washington, D.C.)
  - A government agency
- 12 Regional Reserve Banks
  - Private nonprofit

Federal Open Market Committee (FOMC)
- 7 governors + 5 RB presidents
Each Reserve Bank has a Board of Directors that:

- Oversees Reserve Bank operations
- Provides “grassroots” information on economic conditions

Board members that represent the public appoint Reserve Bank presidents.
Fed’s Mission, Functions and You

**Mission:** To foster a stable banking system and a healthy, growing economy.

**Core Functions**

- Monetary Policy
- Bank Supervision and Regulation
- Payment Services

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**The Fed and You**

- The money you save and borrow
- The payments you make
- The community you live in
- The prices you pay
- The bank you use

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Monetary Policy

**Definition**

Actions taken by the central bank to influence interest rates in the economy

**Objectives (mandate from Congress)**

1. Maximum employment
2. Stable prices
3. Moderate long-term interest rates
Goals of Monetary Policy

**Explicit price stability goal**
- Inflation is determined primarily by monetary policy
- Inflation goal (specified by FOMC): 2 percent on average

**No explicit employment goal**
- In long run, employment is determined by factors outside monetary policy
- So, not appropriate to set fixed employment goal
The Federal Open Market Committee (FOMC)

- 7 governors + 5 Reserve Bank presidents (4 rotating)
- Meets 8 times per year
- Analyzes economic conditions
- Determines policy
U.S. Real Gross Domestic Product

% Change, SAAR

Q4: 2017
US: 2.6%

Source: Bureau of Economic Analysis, Federal Reserve Board /Haver Analytics
U.S. Real Gross Domestic Product

% Change, SAAR

Q3-17 | Q4-17
---|---
Real GDP | 3.2 | 2.6
PCE | 2.2 | 3.8
Residential Investment | -4.7 | 11.6
Nonresidential Investment: Structures | -7.0 | 1.4
Nonresidential Investment: Equipment | 10.8 | 11.4

Source: Bureau of Economic Analysis via Haver Analytics
Total Employment Growth

Average Monthly Change, Thous.

Monthly Change
January: 200
December: 160
November: 216

Source: Bureau of Labor Statistics/Haver Analytics
Unemployment Rate

January 2018
US: 4.1%

Source: Bureau of Labor Statistics, Federal Reserve Board of Governors/Haver Analytics
Average Hourly Earnings

January: 2.9%
Residential Fixed Investment

% Change, SAAR

Source: Bureau of Labor Statistics/Haver Analytics
National House Prices

December 2017
Total: 6.6%
Non-Distressed: 5.9%

Source: CoreLogic Information Solutions, Inc.
Home Sales: United States

- New Home Sales (Left axis)
- Existing Home Sales (Right axis)

Source: National Association of Realtors/Haver Analytics
Private Single-family Housing Starts & Permits

Millions, SAAR

90's Average Permits: 1.010
90's Average Starts: 1.105

December 2017
Permits: 0.881
Starts: 0.836

Source: U.S. Census Bureau/Haver Analytics
Private Multi-family Housing Starts & Permits

Source: U.S. Census Bureau/Haver Analytics

December 2017
Permits: 0.419
Starts: 0.360

90's Average Permits: 0.313
90's Average Starts: 0.268

Source: U.S. Census Bureau/Haver Analytics
Non-residential Fixed Investment

% Change, SAAR

Source: Bureau of Economic Analysis via Haver Analytics

4Q:2017
6.8%
Investment in Non-Residential Structures

% Change, SAAR


4Q: 2017
1.4%

Source: Bureau of Economic Analysis via Haver Analytics
Investment in Intellectual Property

% Change, SAAR


Source: Bureau of Economic Analysis via Haver Analytics

4Q: 2017 4.5%
PCE Inflation

December 2017
PCE Inflation: 1.7
PCE Less Food & Energy: 1.5

Source: Bureau of Economic Analysis, Federal Reserve Board of Governors/Haver Analytics
PCE Core Inflation

December 2017
PCE Inflation: 1.7
PCE Less Food & Energy: 1.5

Source: Bureau of Economics Analysis, Federal Reserve Board of Governors/Haver Analytics
Federal Funds Rate

Source: Federal Reserve board and FRBNY via Haver Analytics
Federal Reserve System Assets

Billions $

- Treasury Securities
- Agency MBS
- Agency Debt
- Miscellaneous

Source: Board of Governors via Haver Analytics
The dot plot for the Fed Funds Rate has changed very little.

Note: Each dot in the chart represents the value of an FOMC participant's judgment of the midpoint of the appropriate target range (or the appropriate target level) for the federal funds rate at the end of the calendar year. Projections made for the September and December 2017 meetings.

Source: Board of Governors
Information received since the FOMC met in December indicates that the labor market has continued to strengthen and that economic activity has been rising at a solid rate...On a 12-month basis, both overall inflation and inflation for items other than food and energy have continued to run below 2 percent…In view of realized and expected labor market conditions and inflation, the Committee decided to maintain the target range for the federal funds rate at 1-1/4 to 1-1/2 percent…In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The Committee expects that economic conditions will evolve in a manner that will warrant further gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.
Summary

• Economic growth in the U.S. continues to be solid, with expansion in business and residential investment and increased consumer spending.

• Labor markets continue to tighten as more employers report challenges finding skilled workers.

• Housing markets continue to expand, but construction activity is not back to where it was in the 1990s and inventories of new homes remain low.

• The Fed took unprecedented action throughout the last recession and is now starting to unwind the balance sheet in a gradual and predictable fashion, in addition to slowly increasing the fed funds rate.
The views expressed here are those of the author, and do not necessarily represent those of the Federal Reserve Bank of Richmond or the Federal Reserve System.