

# MONETARY POLICY AND THE ECONOMIC OUTLOOK

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**Ben Malin**

Vice President & Assistant Director, Research



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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# OVERVIEW

- **Background:** Monetary Policy Objectives
- **Economic Developments:** Why is inflation high?
- **Policy:** What has the Fed been doing about it?
- **Outlook:** What to look for next



# THE FEDERAL RESERVE'S CONGRESSIONAL MANDATE

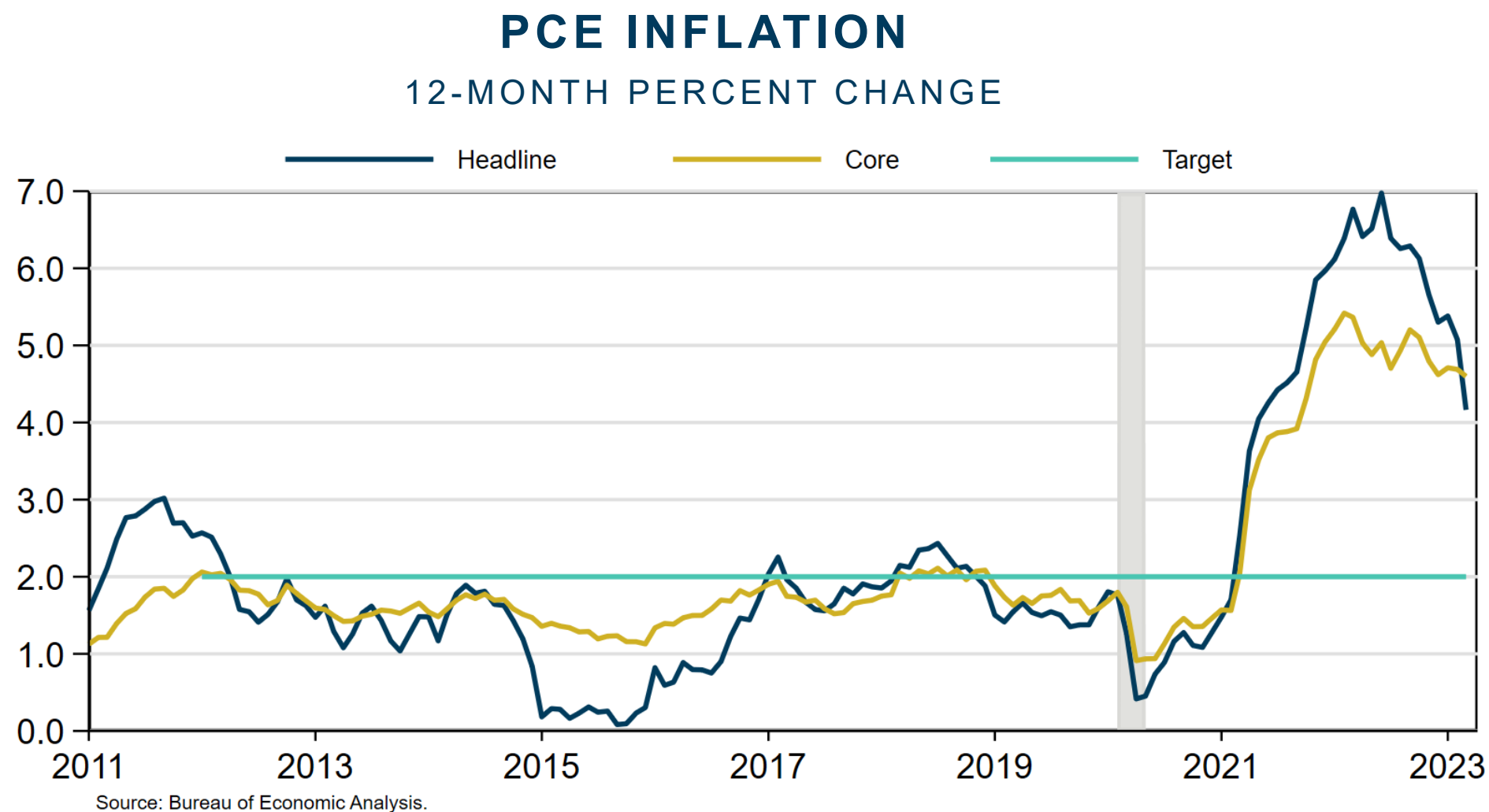
The Federal Reserve Act mandates that the Federal Reserve conduct monetary policy “*so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.*”

**Dual Mandate:** maximum employment and price stability





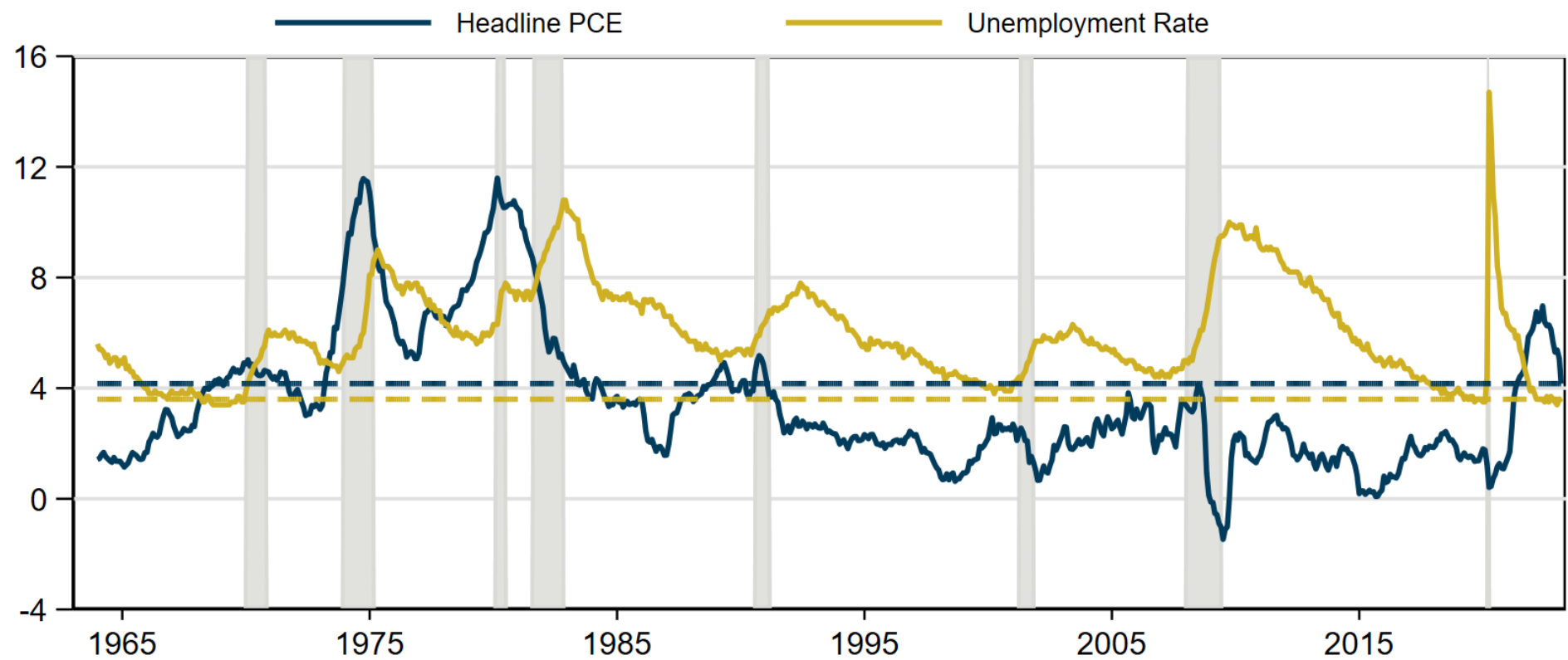
# INFLATION IS TOO HIGH



# UNEMPLOYMENT AT 50+ YR LOW, INFLATION COMING OFF 40 YR HIGH

## PCE INFLATION AND UNEMPLOYMENT

PCE: 12-MONTH PERCENT CHANGE, UR: 16+, PERCENT



Note: Dashed lines reflect latest data.  
Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics.

# OVERVIEW

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# WHY IS INFLATION HIGH?

(Some) Underlying Factors:

- Pandemic assistance programs
- Accommodative monetary policy
- Disruptions to supply chains
- War in Ukraine
- Tight labor market

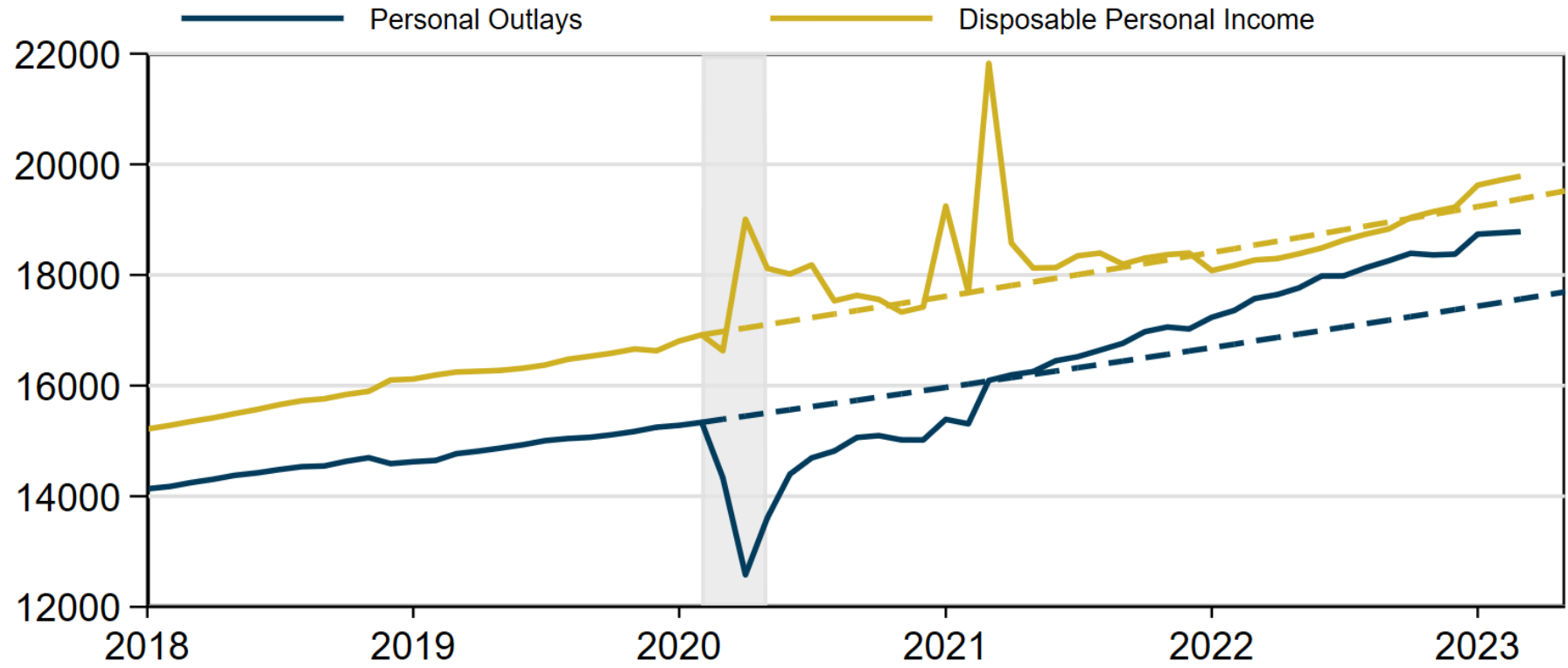




# GOVERNMENT AID SUPPORTED INCOMES AND SPENDING

## INCOME AND SPENDING

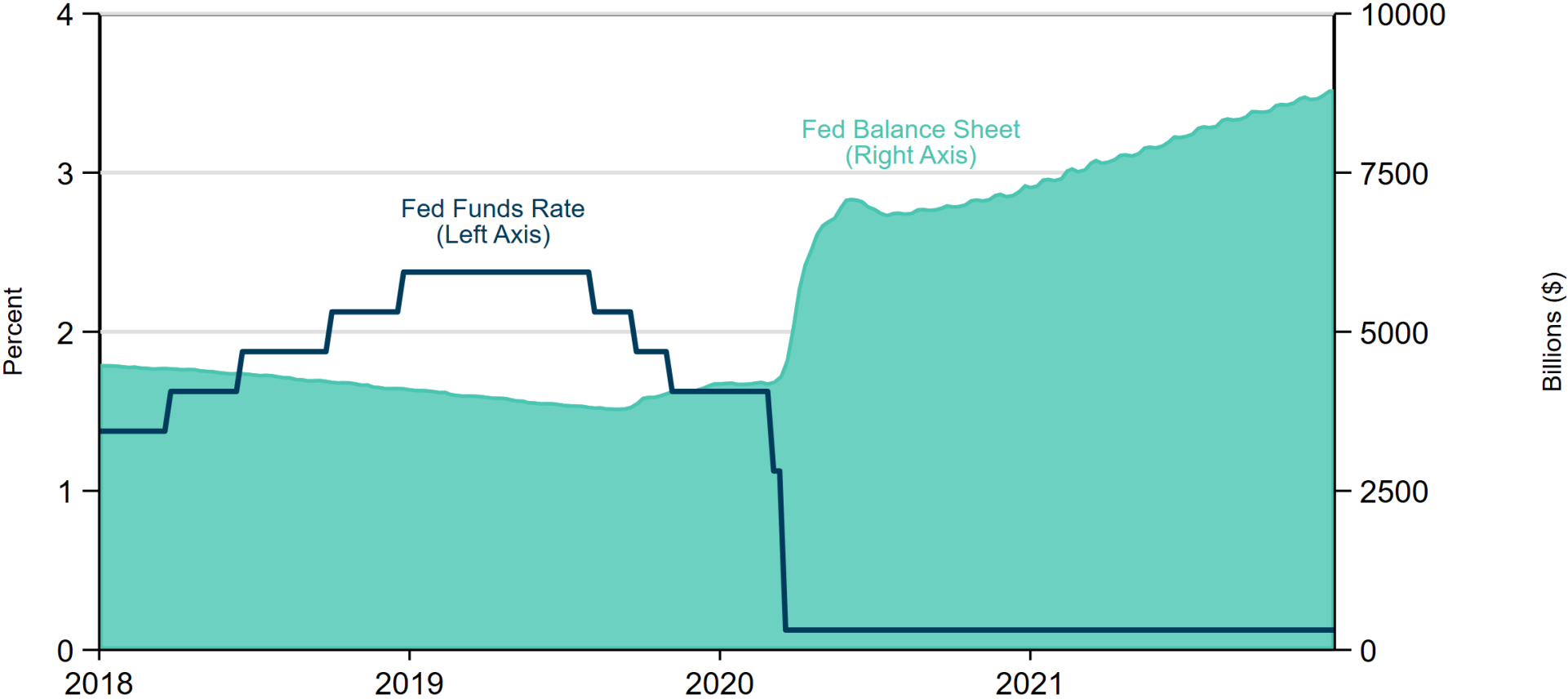
BILLIONS \$



Note: Dashed lines reflect pre-COVID trends.  
Source: Bureau of Economic Analysis.

# THE FED ACTED FORCEFULLY WHEN COVID HIT

## FEDERAL FUNDS RATE & FED BALANCE SHEET



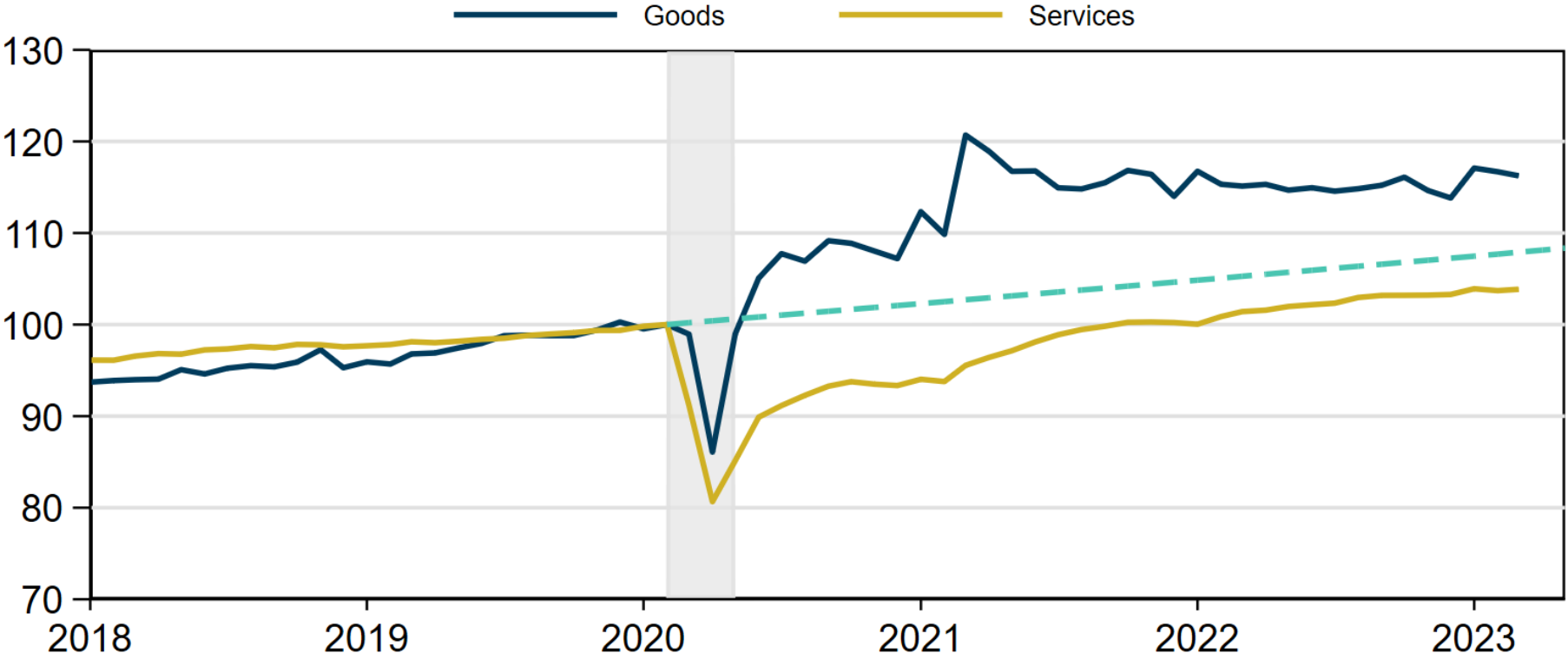
Source: Federal Reserve Board of Governors, H.4.1 Statistical Release.

# CONSUMERS SHIFTED TO BUYING GOODS DURING COVID



## GOODS AND SERVICES CONSUMPTION

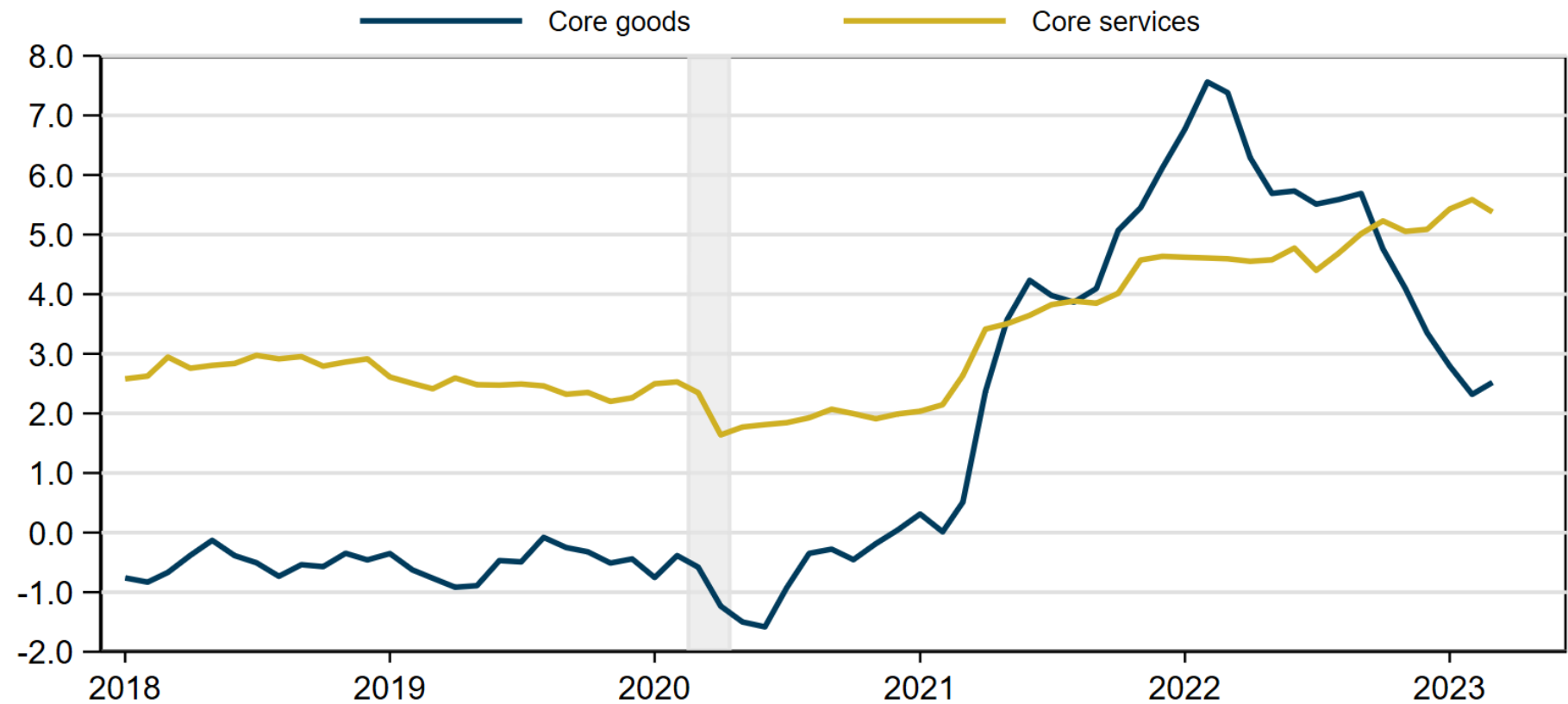
2012\$, FEB-2020=100



Note: Dashed line reflects pre-COVID trends.  
Source: Bureau of Economic Analysis.

# GOODS INFLATION SURGED FIRST, NOW SERVICES PRICES INCREASING

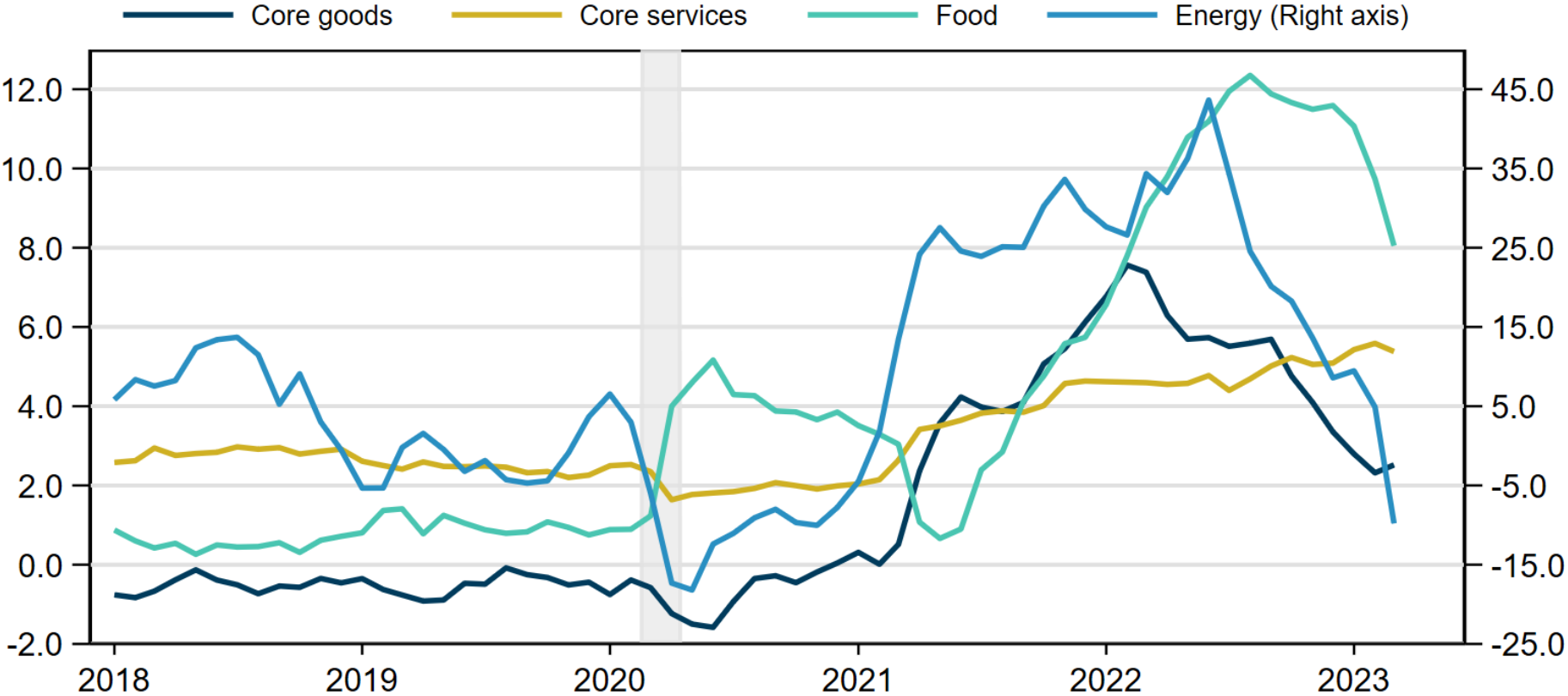
## CORE GOODS & CORE SERVICES 12-MO PERCENT CHANGE



Source: Bureau of Economic Analysis.

# ENERGY & FOOD INFLATION ACCELERATED EARLY LAST YEAR

## ENERGY, FOOD, CORE GOODS & CORE SERVICES 12-MO PERCENT CHANGE

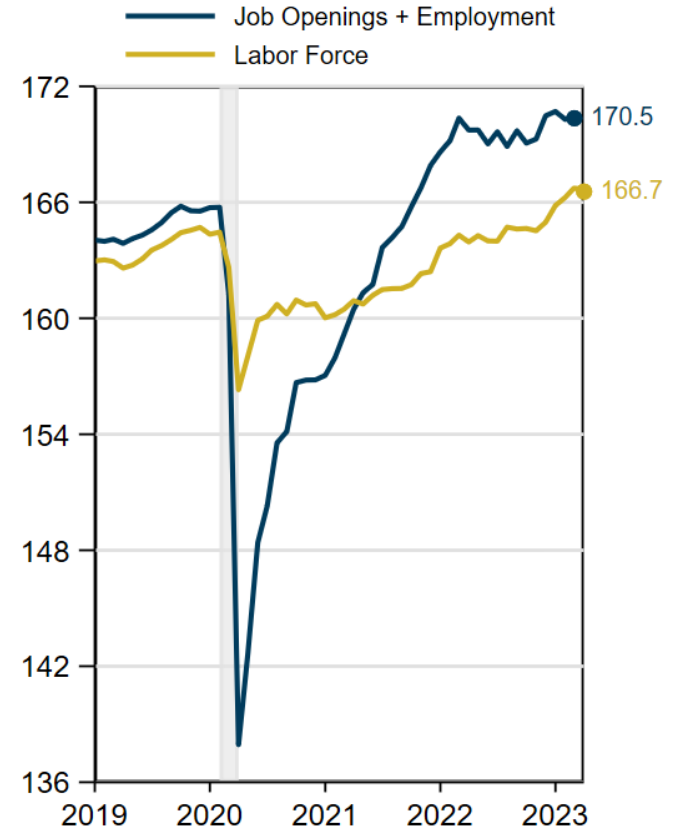
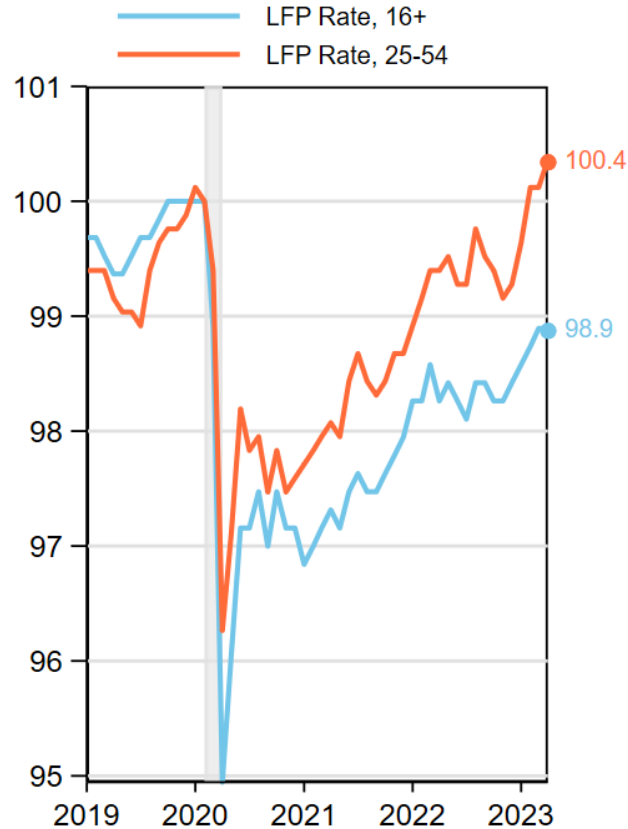
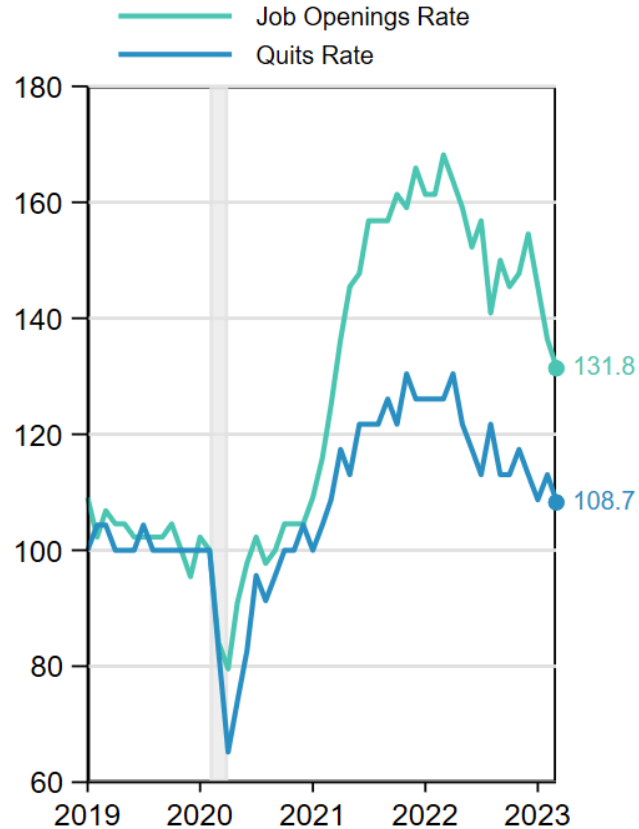


Source: Bureau of Economic Analysis.

# LABOR MARKET IS TIGHT (BUT STARTING TO EASE A BIT)

## DEMAND EBBING, SUPPLY RISING, JOB-WORKERS GAP SHRINKING

FEB-2020=100 (L & C); SA, MILLIONS (R)



Source: Bureau of Labor Statistics.

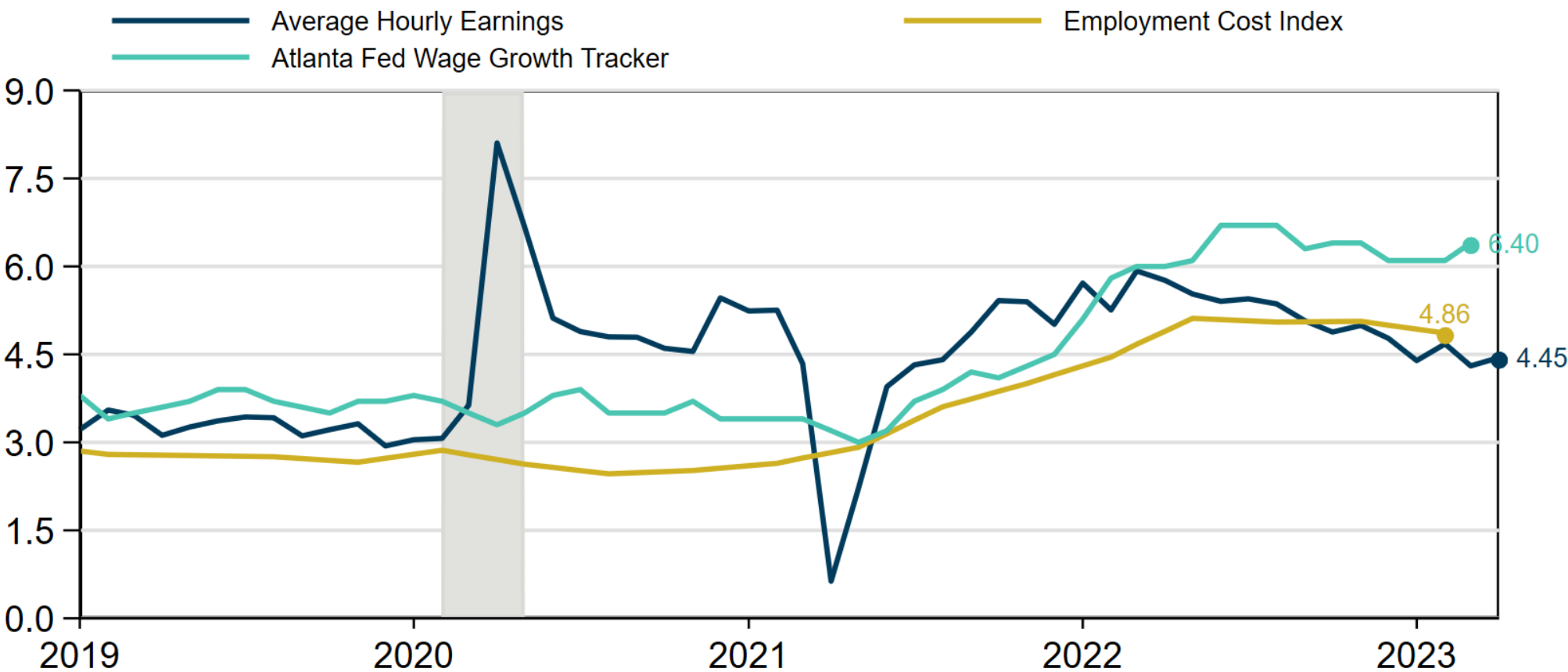




# WAGE GROWTH IS STABILIZING (MODERATING?)

## LABOR COSTS

12-MONTH PERCENT CHANGE



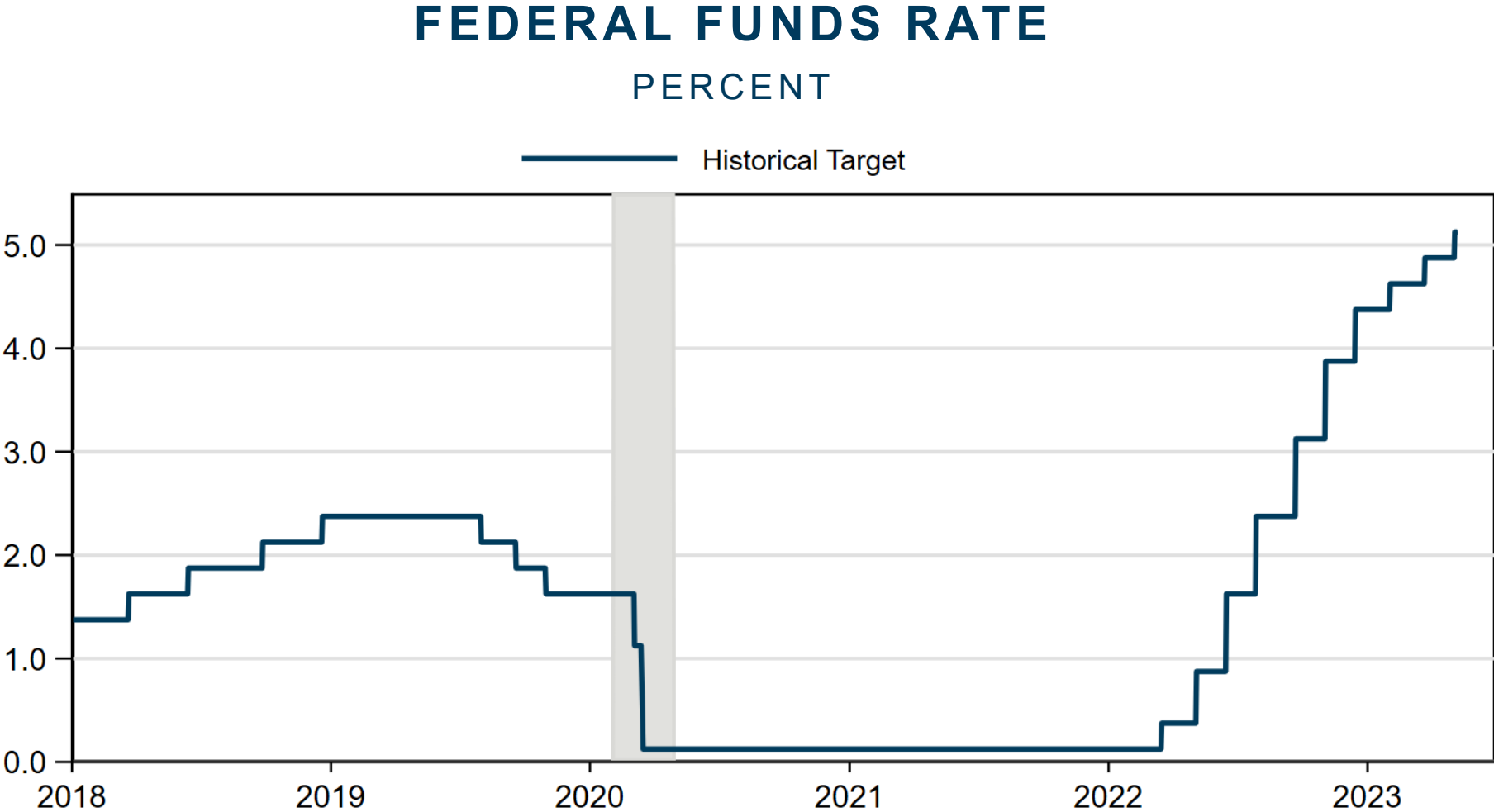
Source: Bureau of Labor Statistics, Federal Reserve Bank of Atlanta

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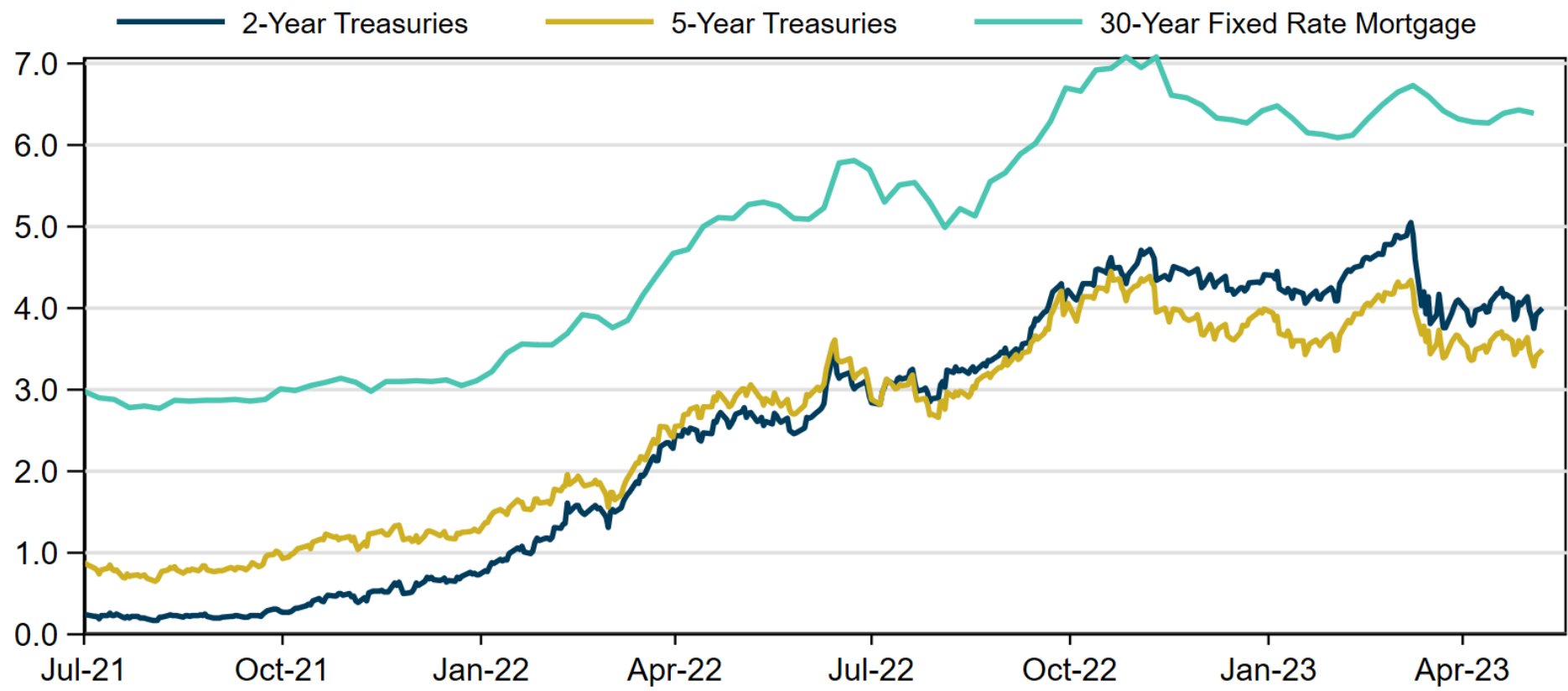
# THE FED HAS BEEN RAISING ITS POLICY RATE



Source: Bloomberg, Federal Reserve Board of Governors.

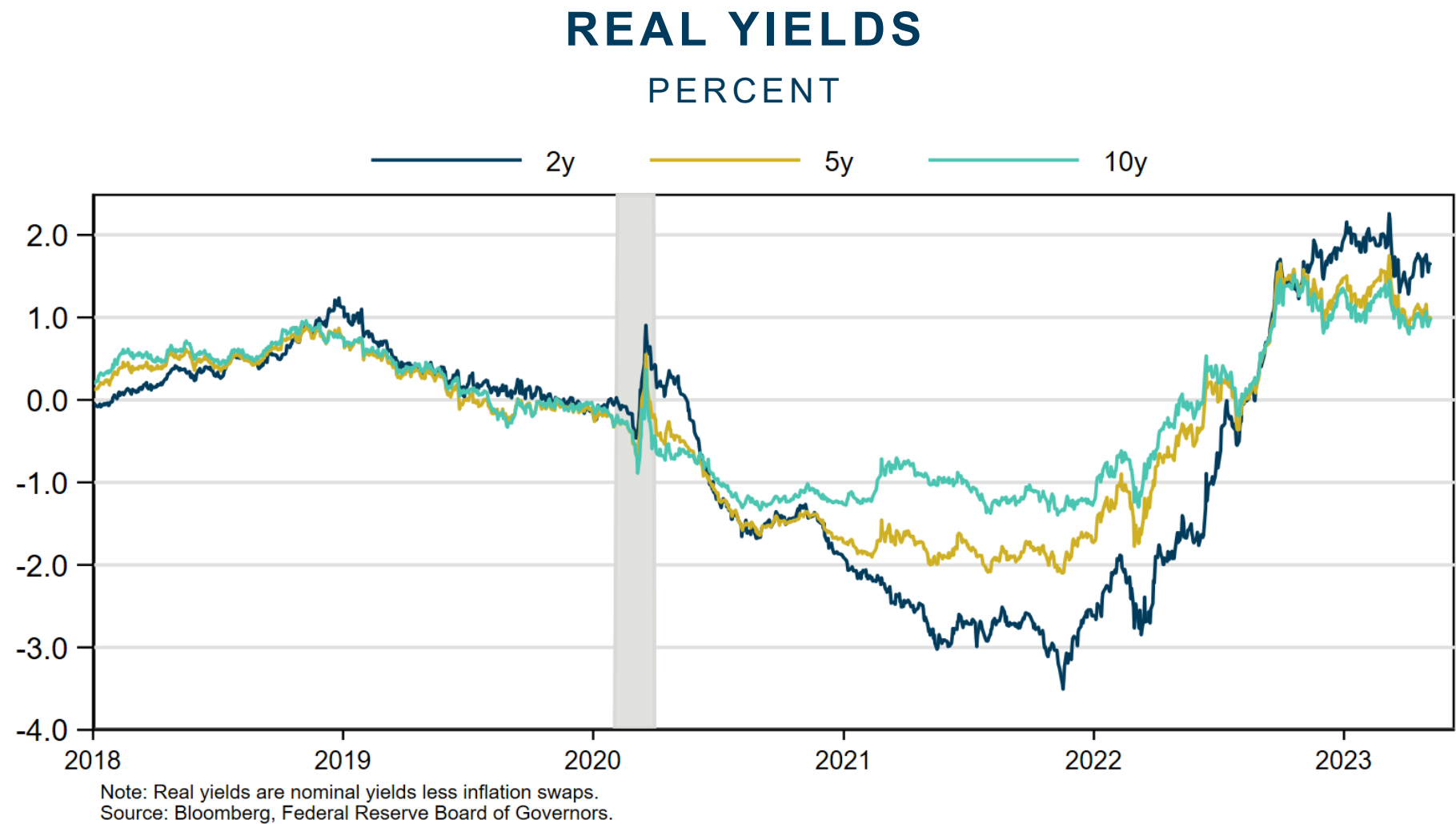
# LONGER-TERM RATES REFLECT THE FED'S TIGHTENING

## U.S. TREASURY AND MORTGAGE RATES PERCENT



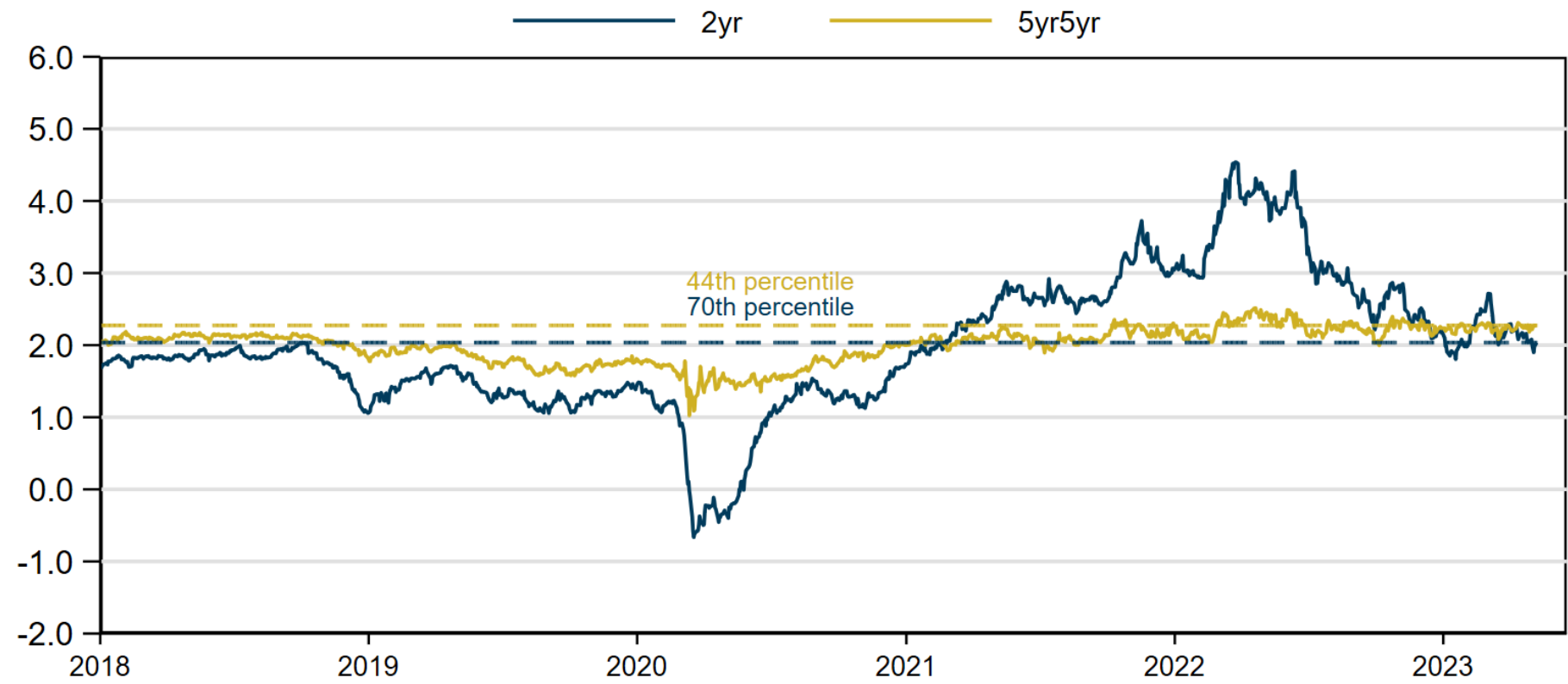
Source: Federal Home Loan Mortgage Corporation, Federal Reserve Board of Governors.

# REAL YIELDS HAVE INCREASED



# LONG-RUN INFLATION EXPECTATIONS REMAIN ANCHORED

## MARKET-BASED INFLATION COMPENSATION PERCENT



Note: All series have -30bps adjustments.  
Source: Bloomberg.



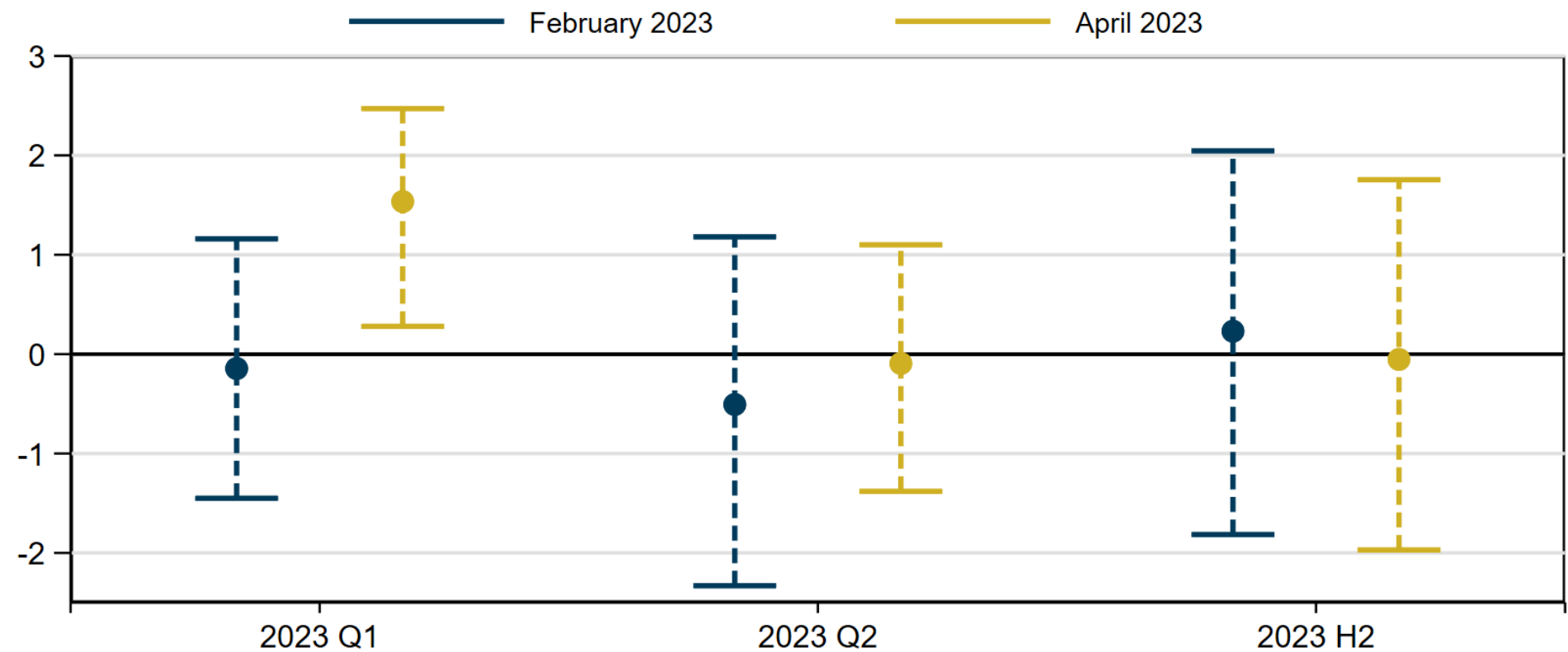
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# ECONOMIC ACTIVITY SOLID IN Q1, BUT EXPECTED TO SLOW

## BLUE CHIP EXPECTED REAL GDP GROWTH PERCENT



Note: Growth is change from previous period (annual rate).  
Source: Blue Chip Economic Indicators.

# BANKING SECTOR DEVELOPMENTS

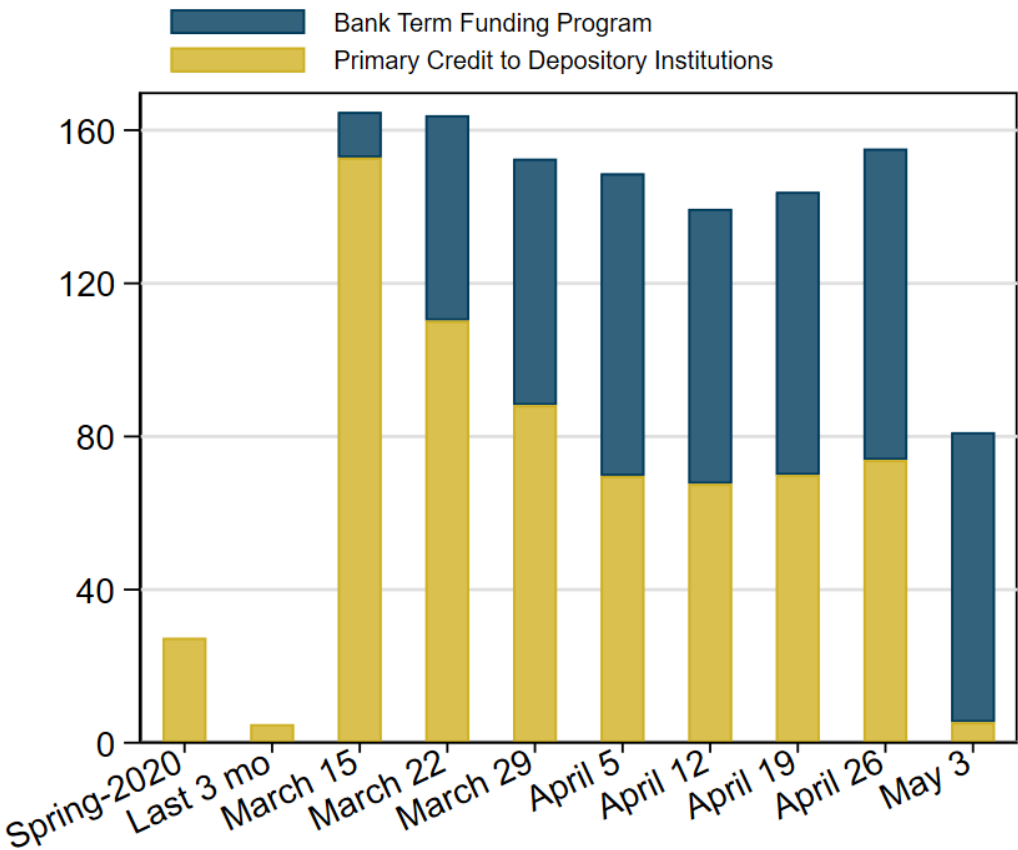
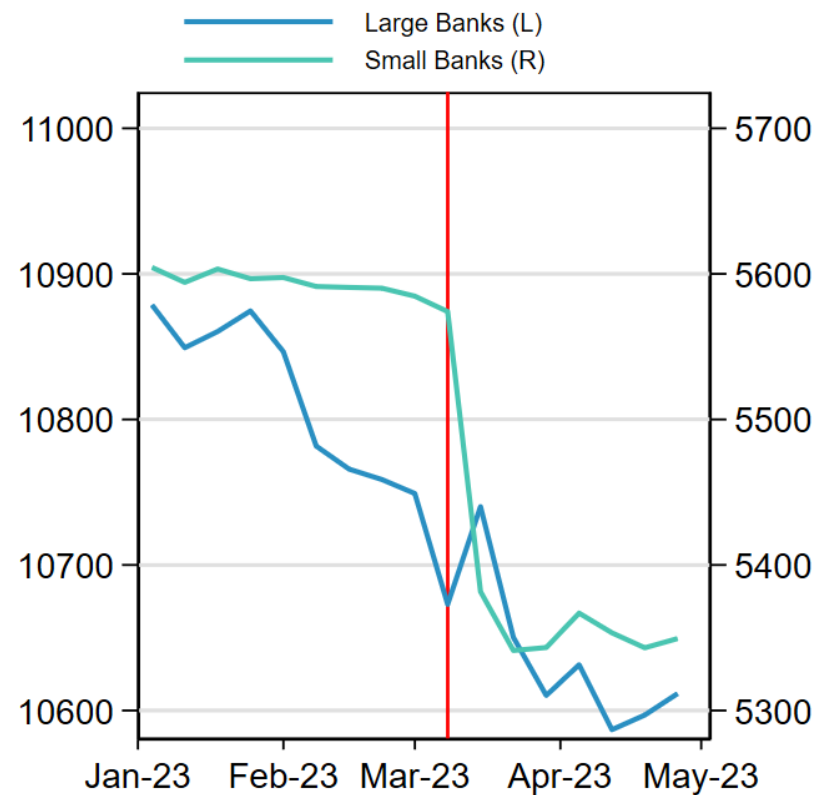
- Signs that near-term stresses have stabilized:
  - Deposit outflows have decelerated.
  - The utilization of Fed lending facilities has moderated somewhat.
  - Bank equity prices are no longer falling (but remain depressed).



# DEPOSIT FLOWS HAVE STABILIZED; FED LENDING HAS MODERATED

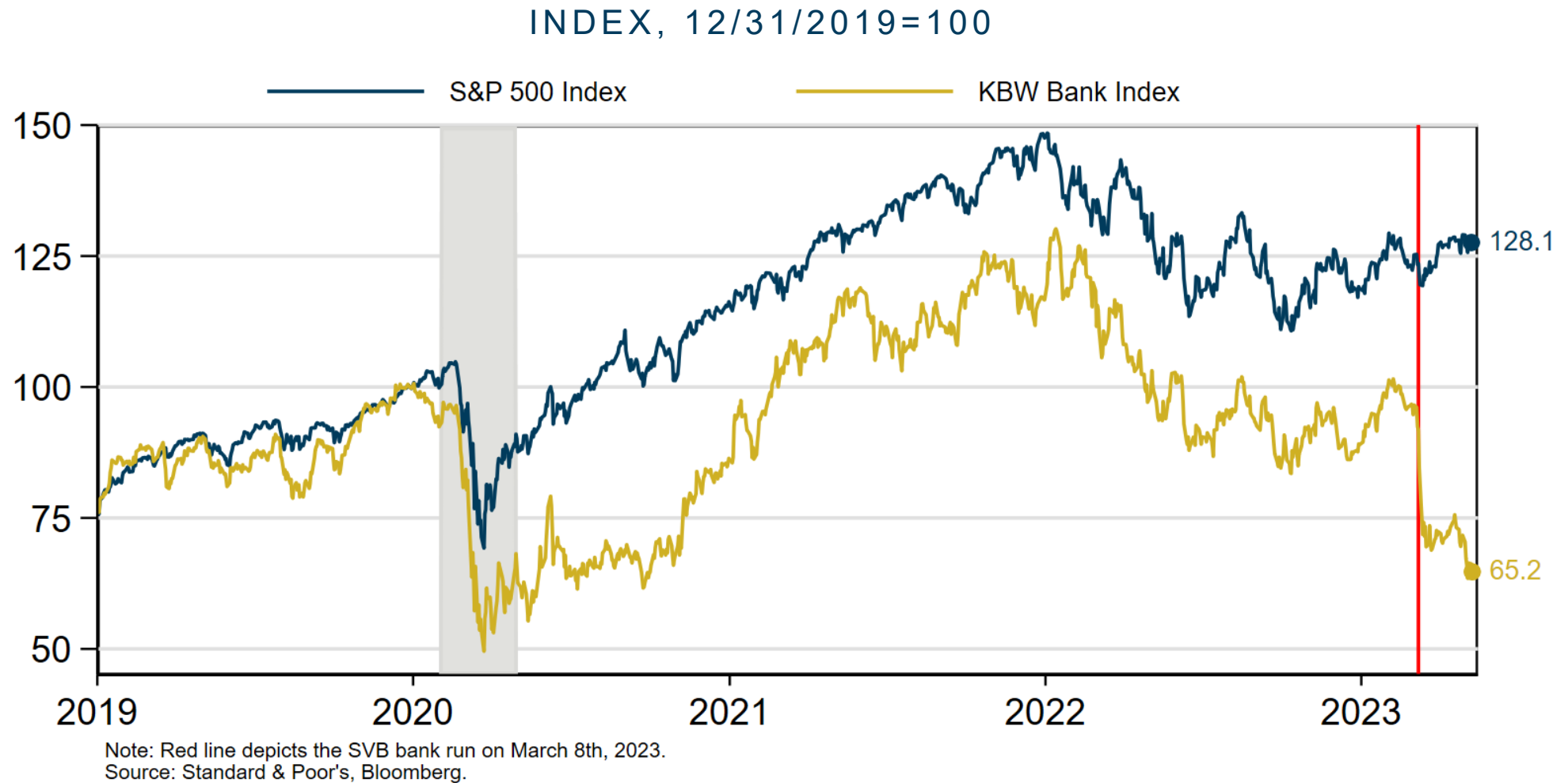
## BANK DEPOSITS & FED LENDING FACILITIES

BIL. \$



Source: Source: Federal Reserve Board, Haver.

# BANK EQUITY PRICES REMAIN DEPRESSED



# EFFECTS OF BANKING SECTOR DEVELOPMENTS

- Likely to see tighter credit conditions; extent still uncertain
  - There is some evidence that lending standards have tightened further.
  - Bank lending volumes are little changed, on net.
  - Households and small businesses expect credit to become less available.
  - Mortgage and corporate bond rates have not risen, and spreads (to Treasuries) are only a touch wider.

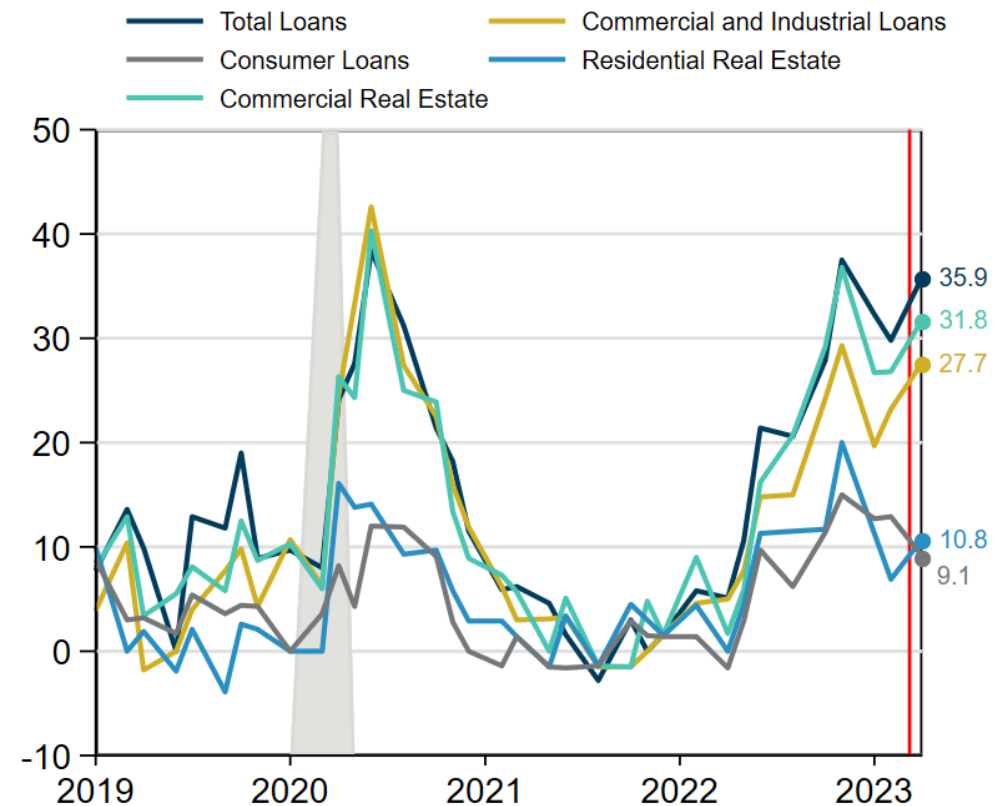
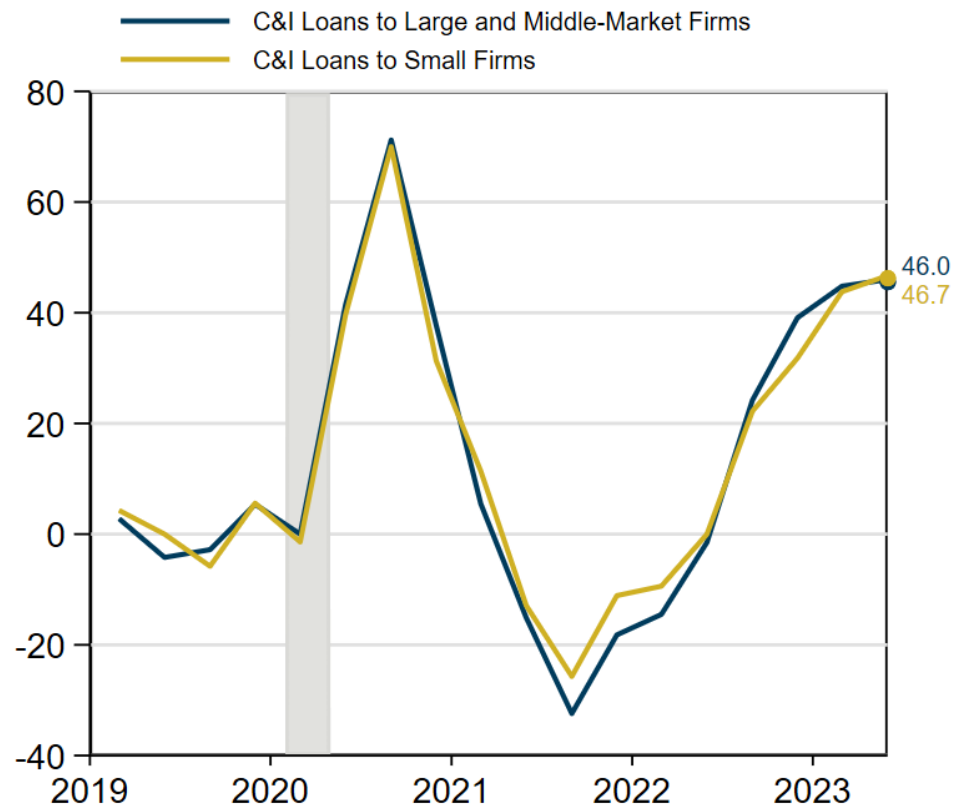




# LENDING STANDARDS HAVE TIGHTENED FURTHER

## SLOOS & DALLAS FED BANKING CONDITIONS

### PERCENT BALANCE (NET TIGHTENING)

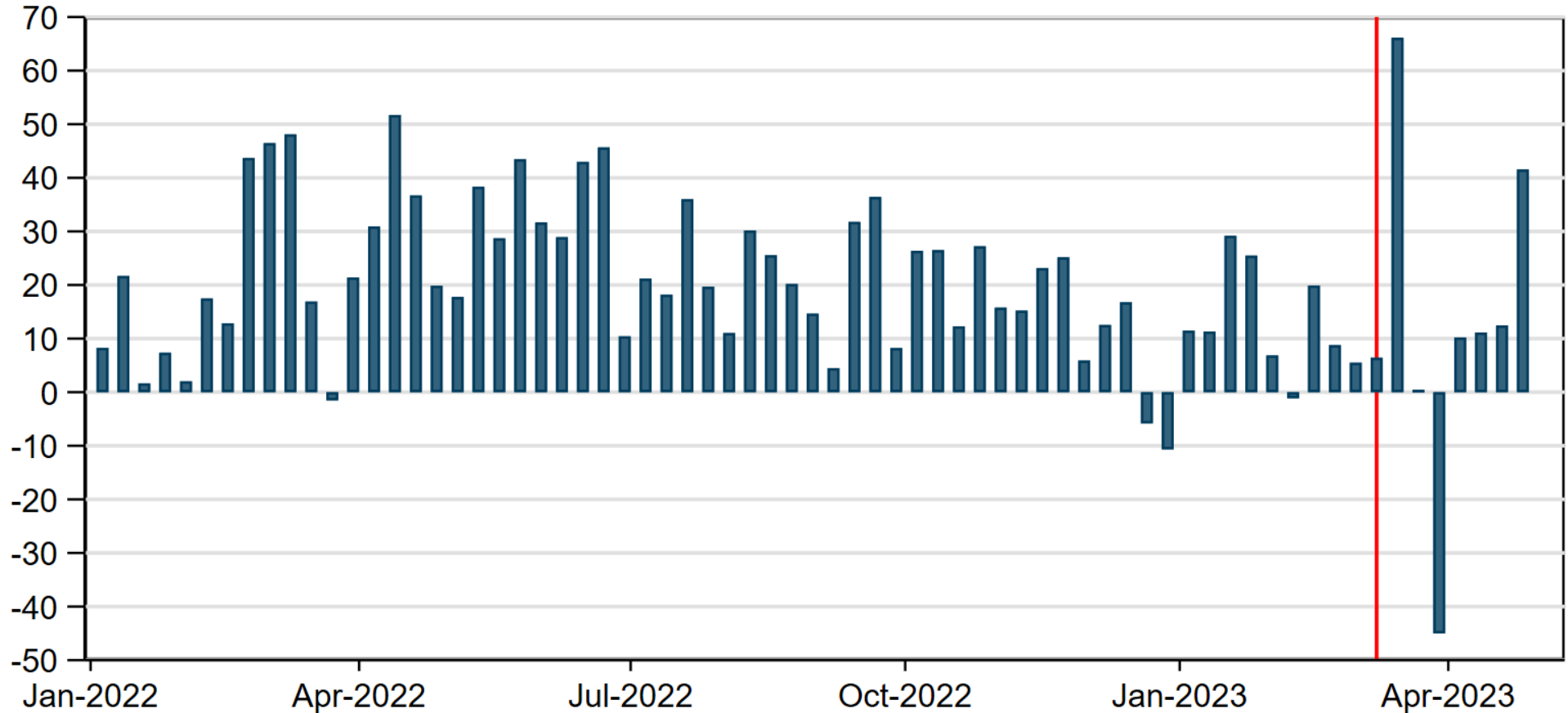


Note: Red line depicts the SVB bank run on March 8th, 2023.  
Source: Federal Reserve Bank of Dallas, Federal Reserve Board.

# BANK LENDING IS LITTLE CHANGED, ON NET

## WEEKLY CHANGE IN BANK LENDING

BILLIONS (\$)



Note: Red line depicts the SVB bank run on March 8th, 2023.  
Source: Federal Reserve Board, H.8 release, adjusted for breaks and seasonality.





# QUESTIONS?



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