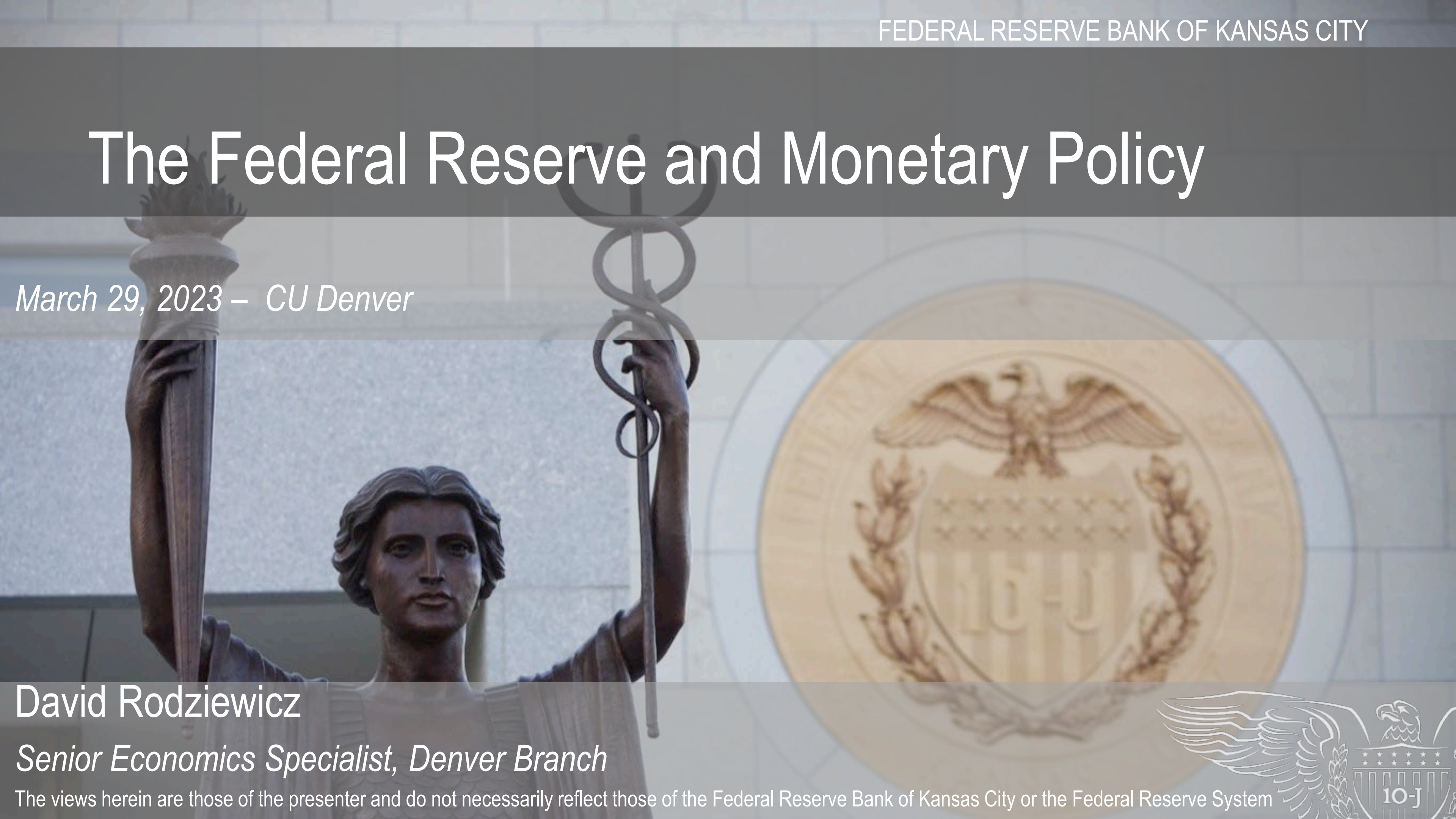

The Federal Reserve and Monetary Policy

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Overview

- The “Fed” Consists of three main entities (i.e., board of governors, reserve banks, and FOMC) with responsibilities in three primary areas (i.e., monetary policy, bank regulation, and financial services).
- Monetary policy is conducted under the dual mandate (i.e., stable prices and maximum sustainable employment).
- Implementation of U.S. monetary policy has changed over the last couple decades.
- Monetary policy decisions take into consideration a series of factors including: labor markets, inflation, and financial market conditions.

The Federal Reserve and Functions

- The Federal Reserve is the **central bank** of the United States.

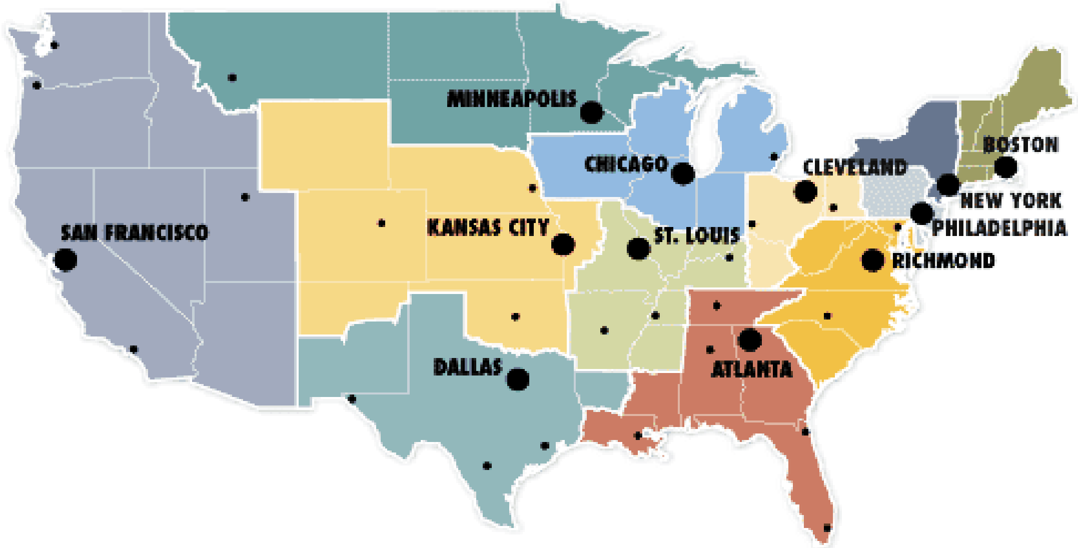
- **The "Fed" consists of three main entities:**
  - Board of Governors: 7 members appointed by U.S. President (senate confirms)
  - Federal Reserve Banks: 12 total; semi-independent by design
  - Federal Open Markets Committee (FOMC): 19 members; 12 voting

- **Fed's primary responsibilities fall within three general areas:**
  - Monetary policy: promote maximum employment and price stability
  - Bank regulation: ensure bank safety and soundness along with fair lending practices
  - Financial services: serve as bank for banks, bank for federal govt.

Source: Board of Governors

Structure of the Federal Reserve

- The system is made up of **12 regional banks** and the **Board of Governors** in Washington, D.C.
  - One part **private**, one part **public**
  - Regional banks focus on their regional economies and provide input on monetary policy.



Source: Board of Governors

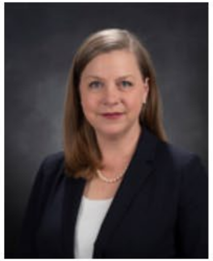
Structure of the Federal Reserve: Board of Governors

Jerome H. Powell
Chair

Vacant

Vice Chair

Michael S. Barr
Vice Chair for Supervision



Michelle W. Bowman

Lisa D. Cook

Philip N. Jefferson

Christopher J. Waller

Source: [Board of Governors]

Structure of the Federal Reserve: Reserve Bank Presidents

Susan M. Collins
Boston

John C. Williams
New York

Patrick T. Harker
Philadelphia

Loretta J. Mester
Cleveland

Thomas I. Barkin
Richmond

Raphael W. Bostic
Atlanta

Austan D. Goolsbee
Chicago

James Bullard
St. Louis

Neel Kashkari
Minneapolis

Vacant

Kansas City

Lorie K. Logan
Dallas

Mary C. Daly
San Francisco

Red indicates voting FOMC members; Source: Board of Governors

Monetary Policy Overview

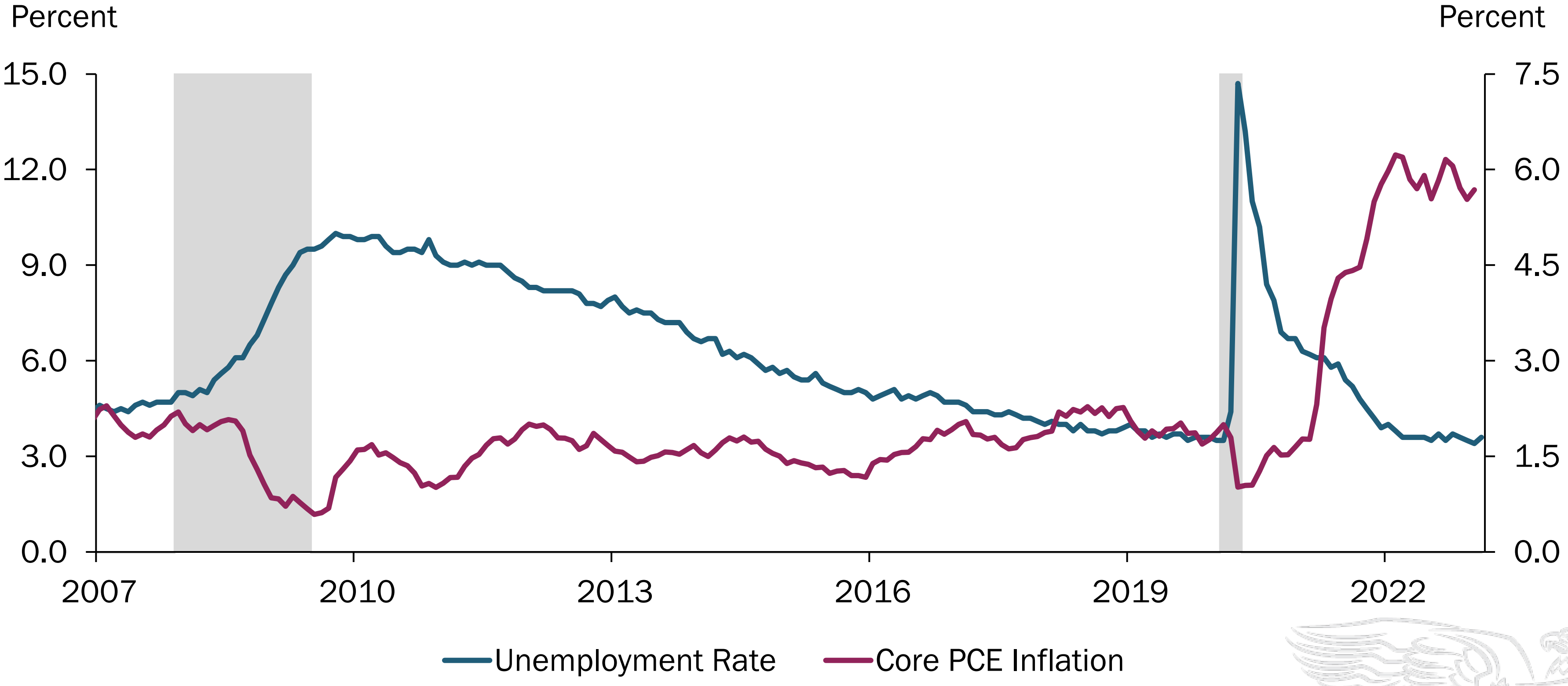
- The Federal Reserve's **dual mandate** (strategy or goals):
  - Price stability
  - Maximum sustainable employment

- **Monetary Policy Tools >** spur or constrain demand for goods/services.
  - Short-term interest rates (fed funds rate)
  - Forward guidance (economic projections & communications)
  - Balance sheet (e.g., asset purchases and liquidity facilities)

- **Monetary Policy Transmission Mechanisms:**
  - Financial Conditions
    - Interest rates (cost of borrowing)
    - Asset prices
    - Exchange rates (exports)
    - Credit channels (e.g., bank lending)
  - Expectations of households and businesses

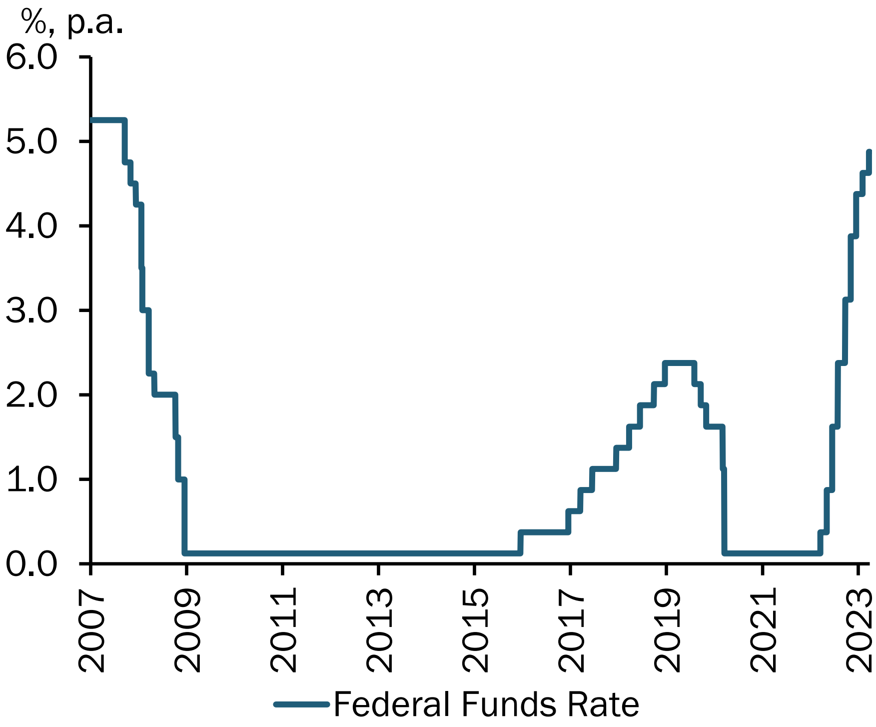
Sources: Board of Governors, FRB St. Louis, FRB New York, Mishkin (1996)

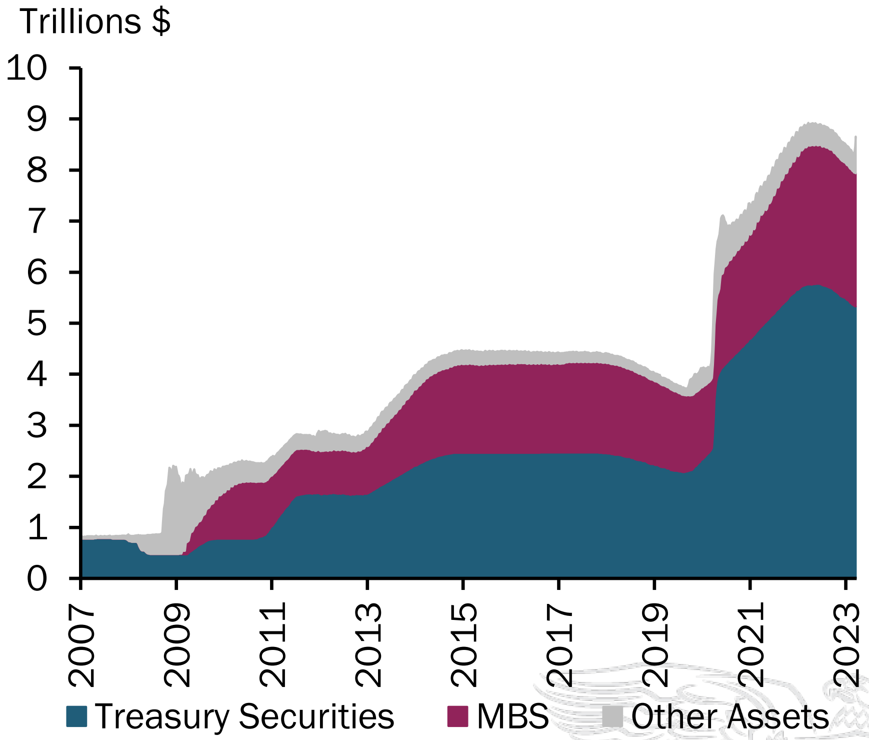
Economic conditions over the last two recoveries have changed.



Source: BLS, BEA, NBER, Haver Analytics
Note: Grey bars indicate recession shading

…correspondingly, the committee has adjusted the path of monetary policy in response to those changing economic conditions.

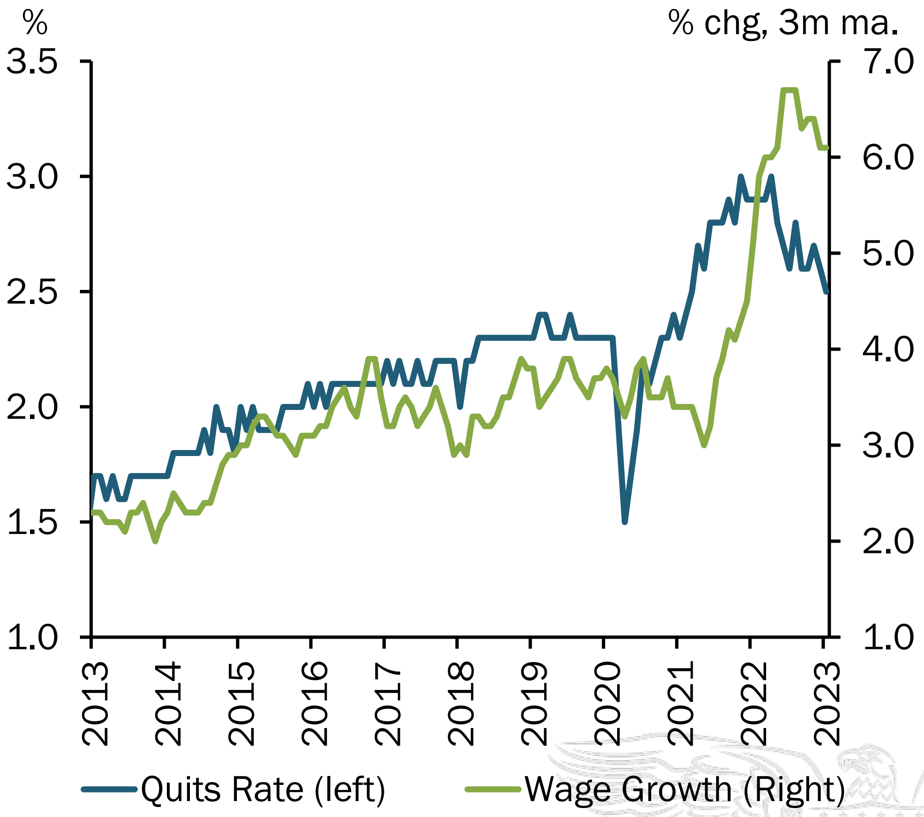




Source: Federal Reserve Board, Haver Analytics

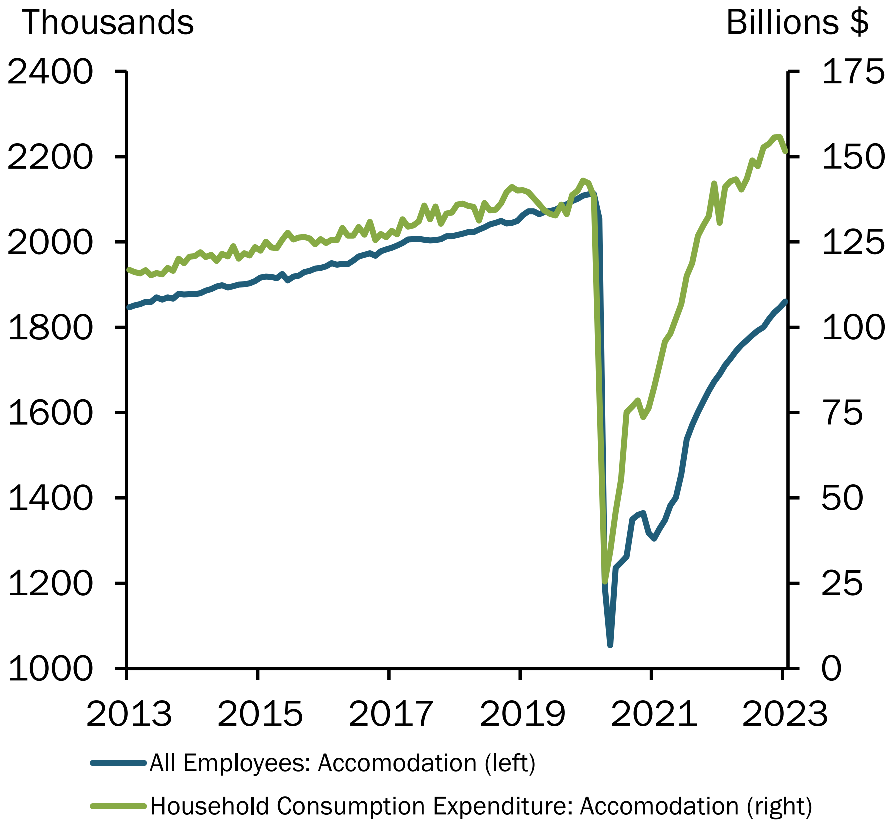
Current Economic Conditions and Monetary Policy

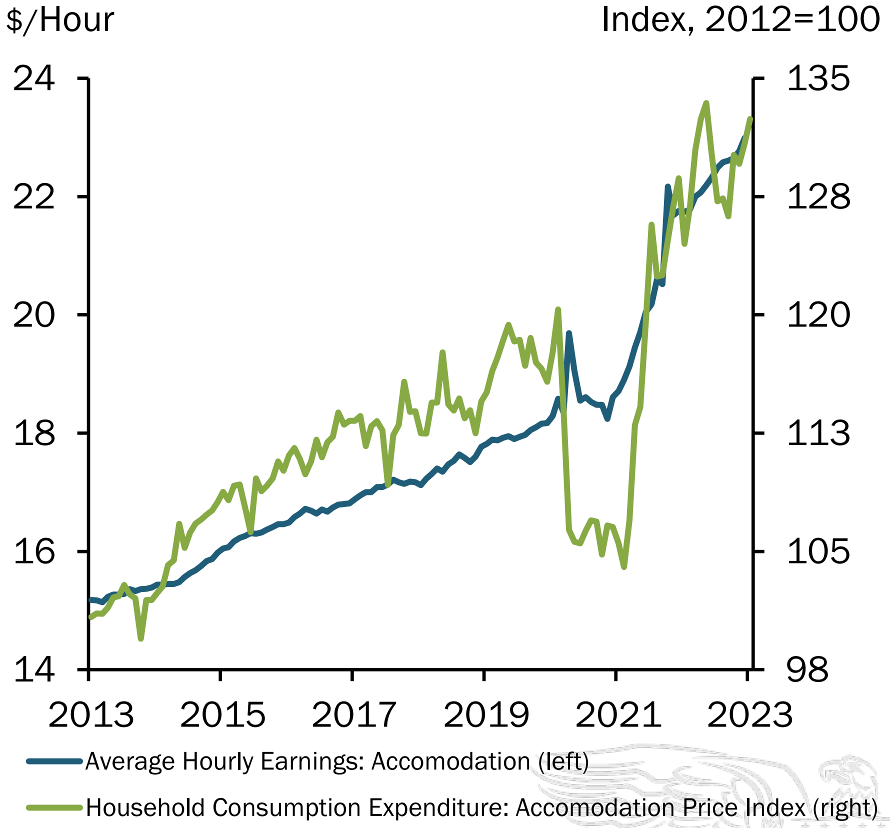
Labor markets are tight, contributing to rising wages.



Source: BLS, FRB Atlanta, Haver Analytics

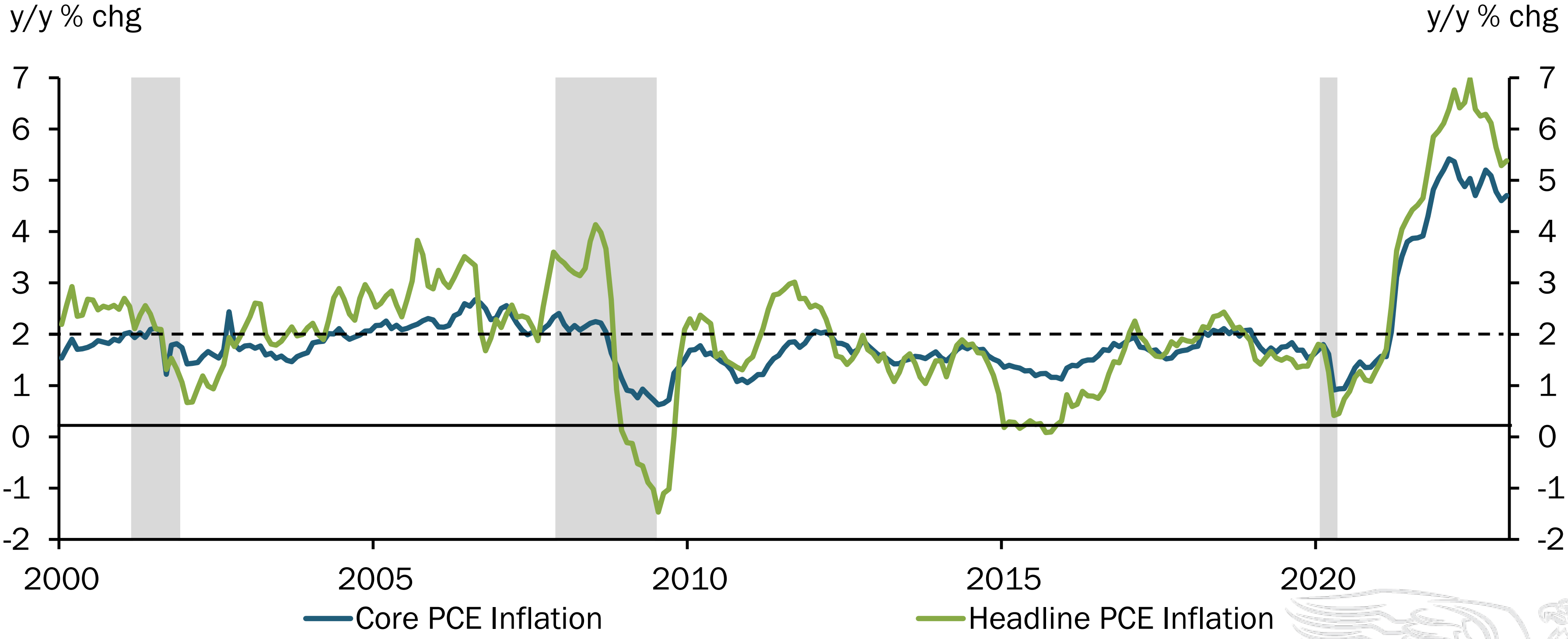
Case Study: Accommodation – Tight labor and higher prices





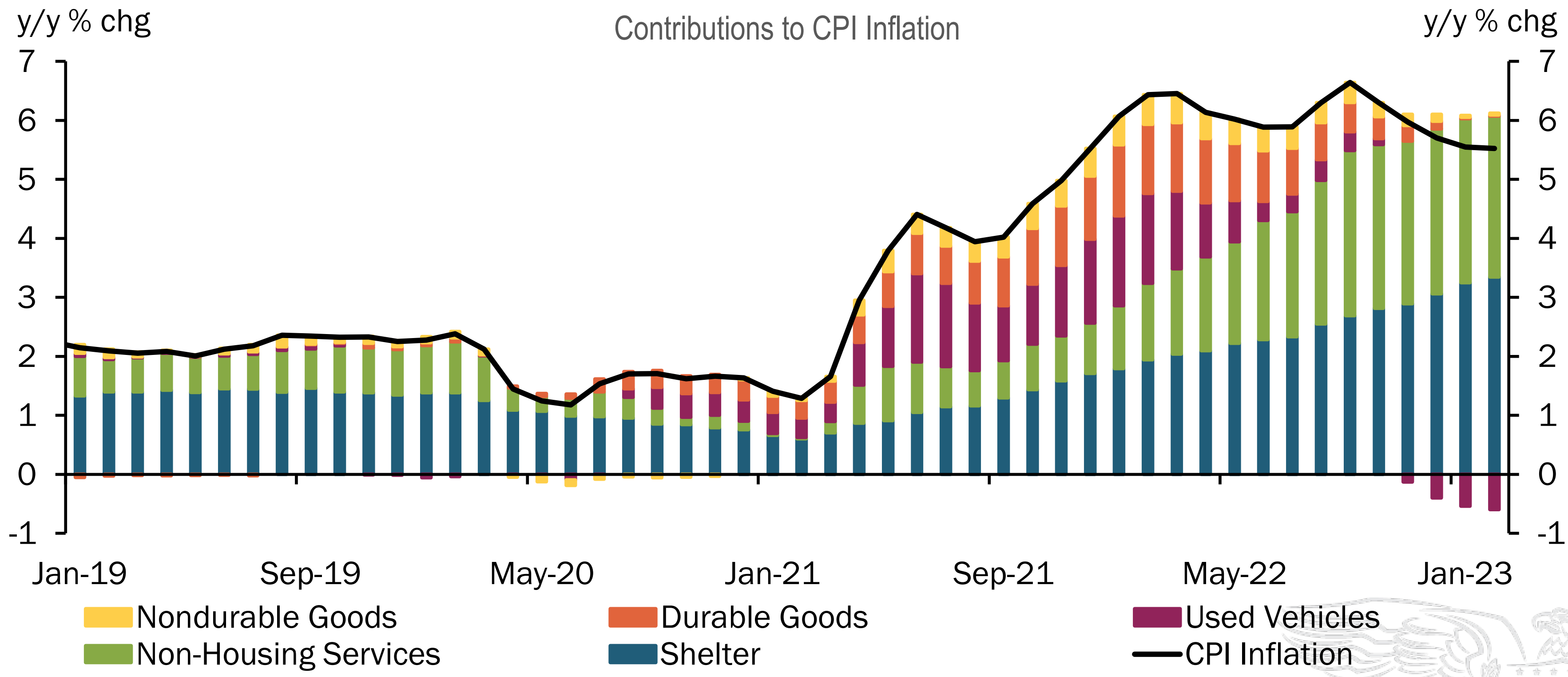
Sources: BEA, BLS, Haver Analytics

Inflation remains elevated with labor-intensive service prices exerting an outsized pressure.



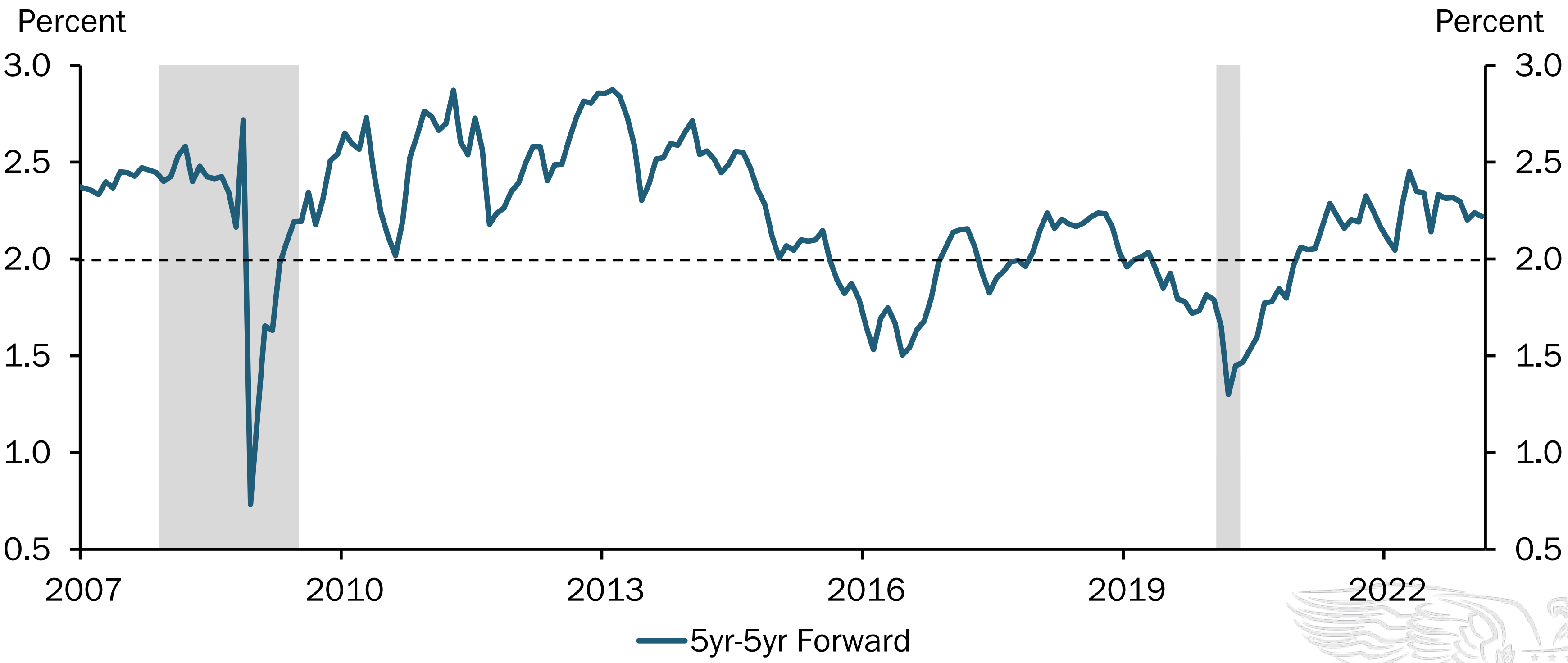
Source: BEA, NBER, Haver Analytics
Note: Grey bars indicate recession shading

The factors driving core inflation have shifted from goods to services, with close links to labor market tightness.



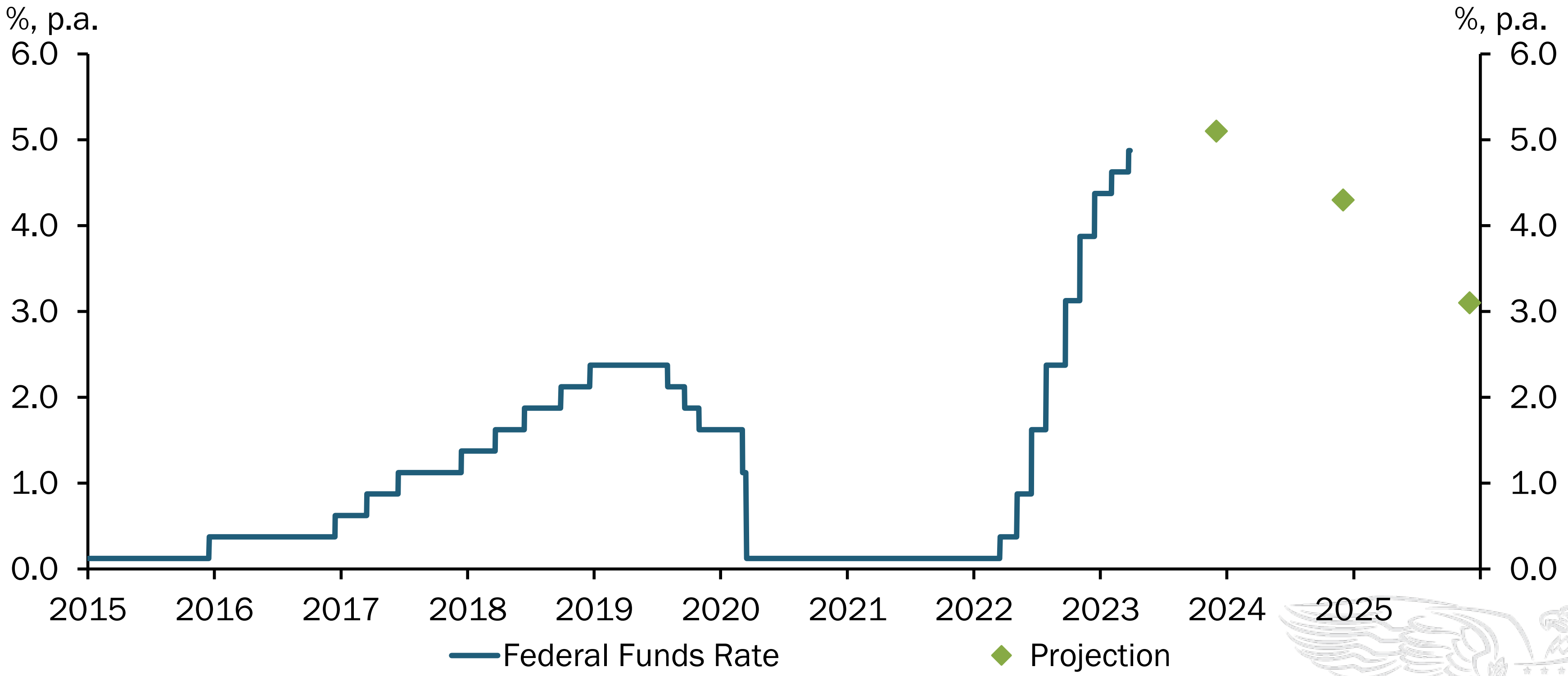
Source: BLS, Haver Analytics

Despite currently high inflation levels, long-term inflation expectations remain well anchored.



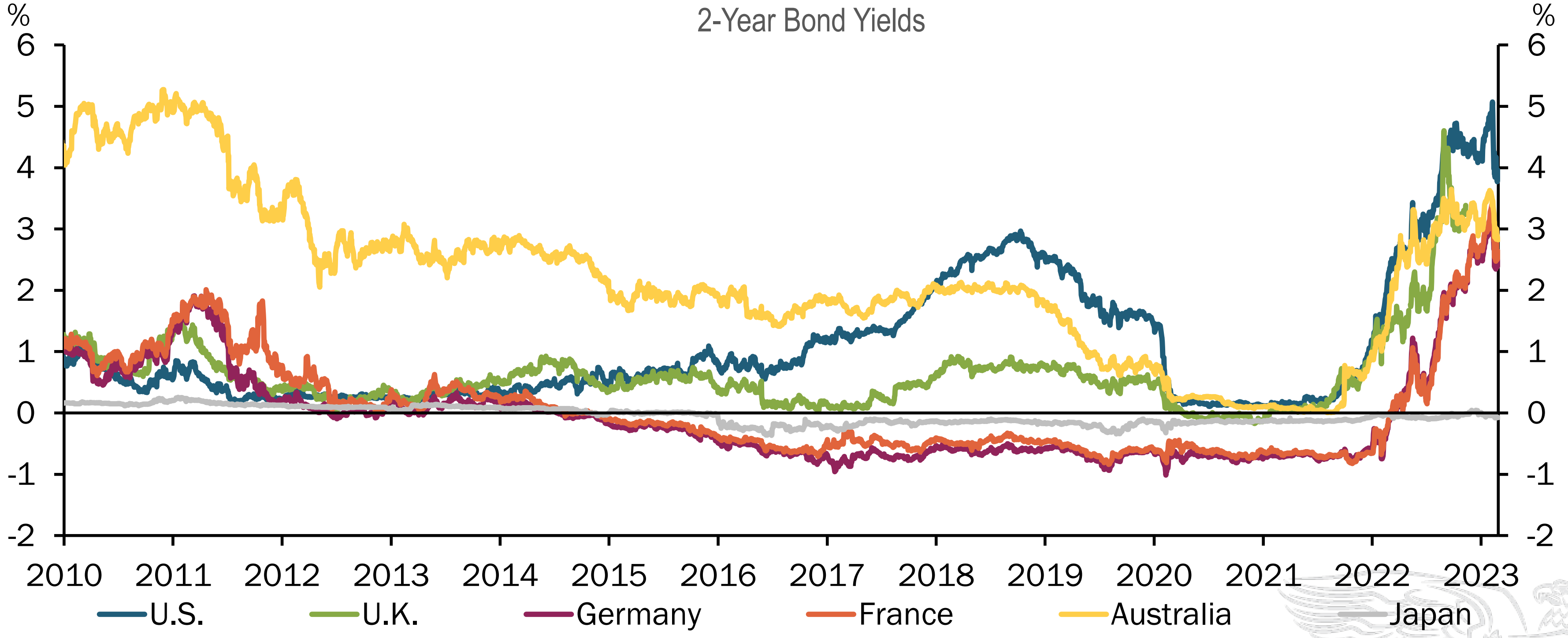
Source: Federal Reserve Board, Haver Analytics

Projections are that monetary policy will remain restrictive until inflation returns to target.



Sources: Federal Reserve Board, Haver Analytics

Financial conditions have tightened globally along with restrictive monetary policy.



Source: Bloomberg

Conclusion

- The “Fed” Consists of three main entities (i.e., board of governors, reserve banks, and FOMC).
- The FOMC conducts monetary policy under the dual mandate (i.e., stable prices and maximum sustainable employment). Both the board of governors and reserve bank presidents are responsible for monetary policy decisions.
- Implementation of U.S. monetary policy has changed over the last couple decades along with changing economic conditions.
- Monetary policy decisions take into consideration a series of factors including: labor markets, inflation, and financial market conditions.