

# HOW TO READ THE STORY OF FED POLICY, ECONOMIC CLIMATE, AND POLITICS

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Macro Economy and its impacts on your Bank

# WEBINAR SESSION SEGMENTS

First segment: Technical & Bank Specific

- Understanding the Statements

Reading Bank Financials

Second segment: Macro Economy

Economic Environment

- Federal Reserve FOMC & Interest Rates
- Economic & Political Environment

Third segment: Polished in a network setting

Navigating Questions About Your Bank

- In Professional & Social Setting
- Not Your Night Stand Reading

# SEGMENT 2

Second segment: Macro Economy

## Economic Environment

- Federal Reserve FOMC & Interest Rates
- Economic & Political Environment



## TODAY'S THEMES

U.S. Federal Reserve System

U.S. Economic Update

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Great Recession

Pandemic



## TODAY'S THEMES

Current U.S. Fed Policy

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How U.S. banks function  
within the context of  
monetary policy

# THE FEDERAL RESERVE SYSTEM

- “Decentralized” Central Bank - 1913
- Created in response to the nation’s recurring banking panics
- Its mission expanded into fostering a healthy economy

# THE FEDERAL RESERVE SYSTEM

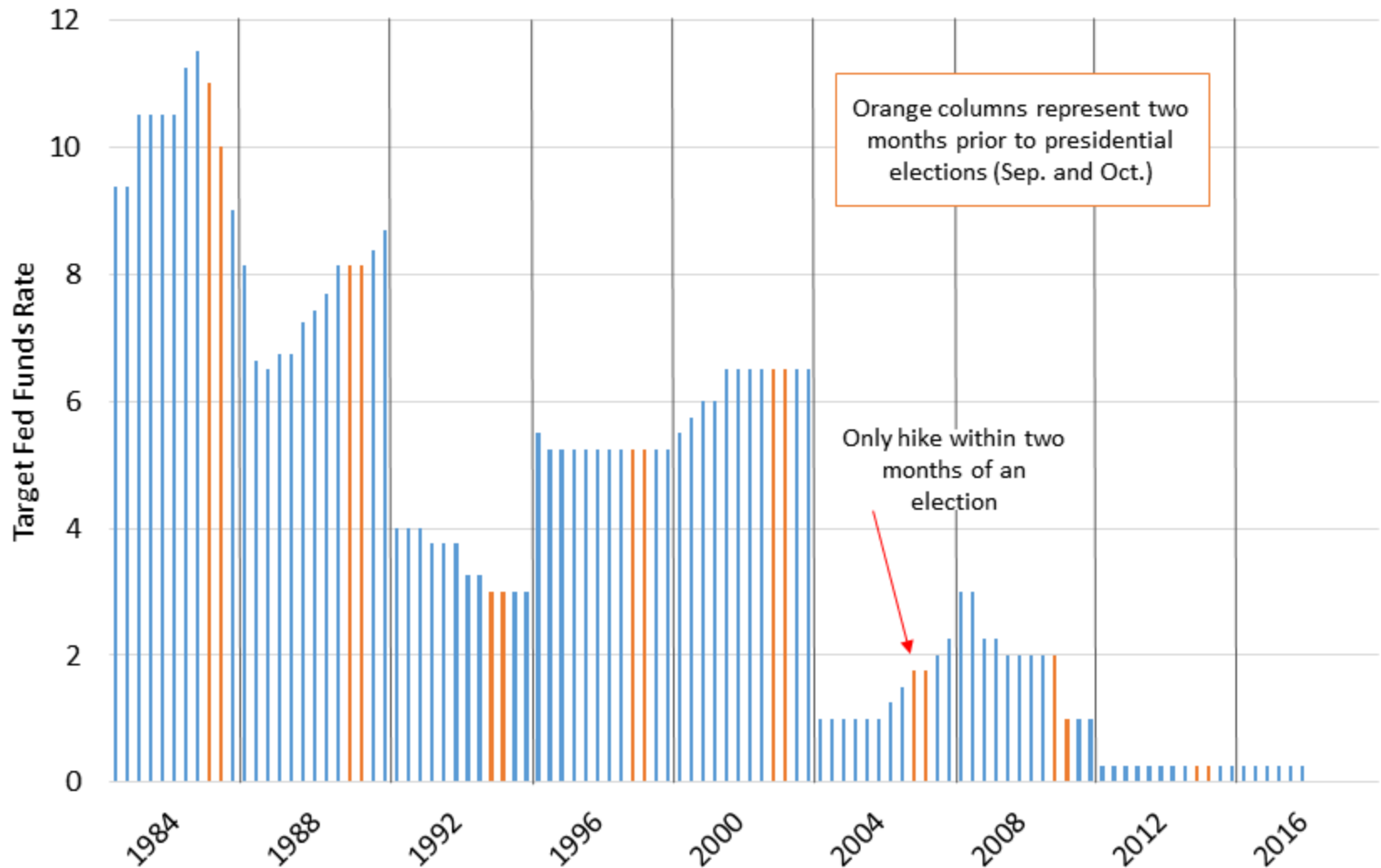
- Operates independently of the government to carry out its responsibility; insulated from political pressure

## Fed Policy Moves During Presidential Election Years

Election Year	Rate Hike	Rate Hike Within Two Months of Election	Rate Cut	Rate Cut Within Two Months of Election	Recession	Incumbent	Winner
1984	Yes	-	Yes	Yes	-	Republican	Republican
1988	Yes	-	-	-	-	Republican	Republican
1992	-	-	Yes	Yes	-	Republican	Democrat
1996	-	-	Yes	-	-	Democrat	Democrat
2000	Yes	-	-	-	-	Democrat	Republican
2004	Yes	Yes	-	-	-	Republican	Republican
2008	-	-	Yes	Yes	Yes	Republican	Democrat
2012	-	-	QE3	QE3	-	Democrat	Democrat
2016	Yes	1 Month After	-	-	-	Democrat	Republican



# Fed Funds Target Rate Changes in Presidential Election Years



Sources: U.S. Federal Reserve, The GailFosler Group

PRICE STABILITY  
(LOW INFLATION)

MAXIMUM  
EMPLOYMENT (LOW  
UNEMPLOYMENT)

**Fed's Responsibility:  
Dual Mandate**



# THE FEDERAL RESERVE

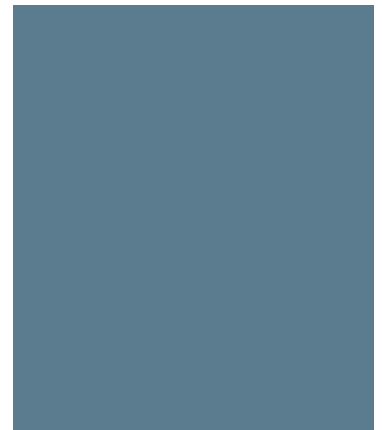
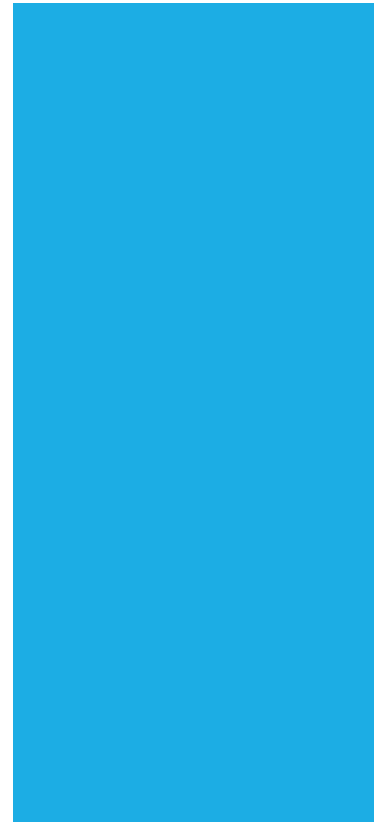
3 Parts:

Board of Governors – Washington, D.C.

- 7 governors with 14 year terms

12 Regional Banks

Federal Open Market Committee



# FOMC

1 Vacancy

## Board Members

Jerome H. Powell, Chair

Richard H. Clarida, Vice Chair

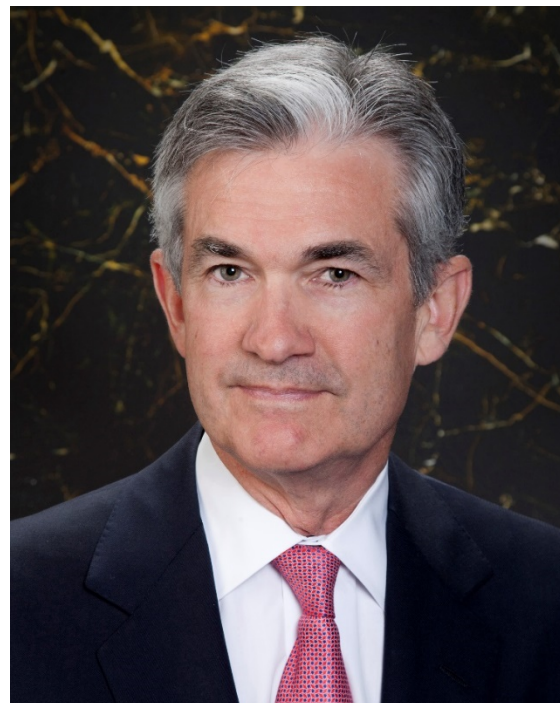
Michelle W. Bowman

Lael Brainard

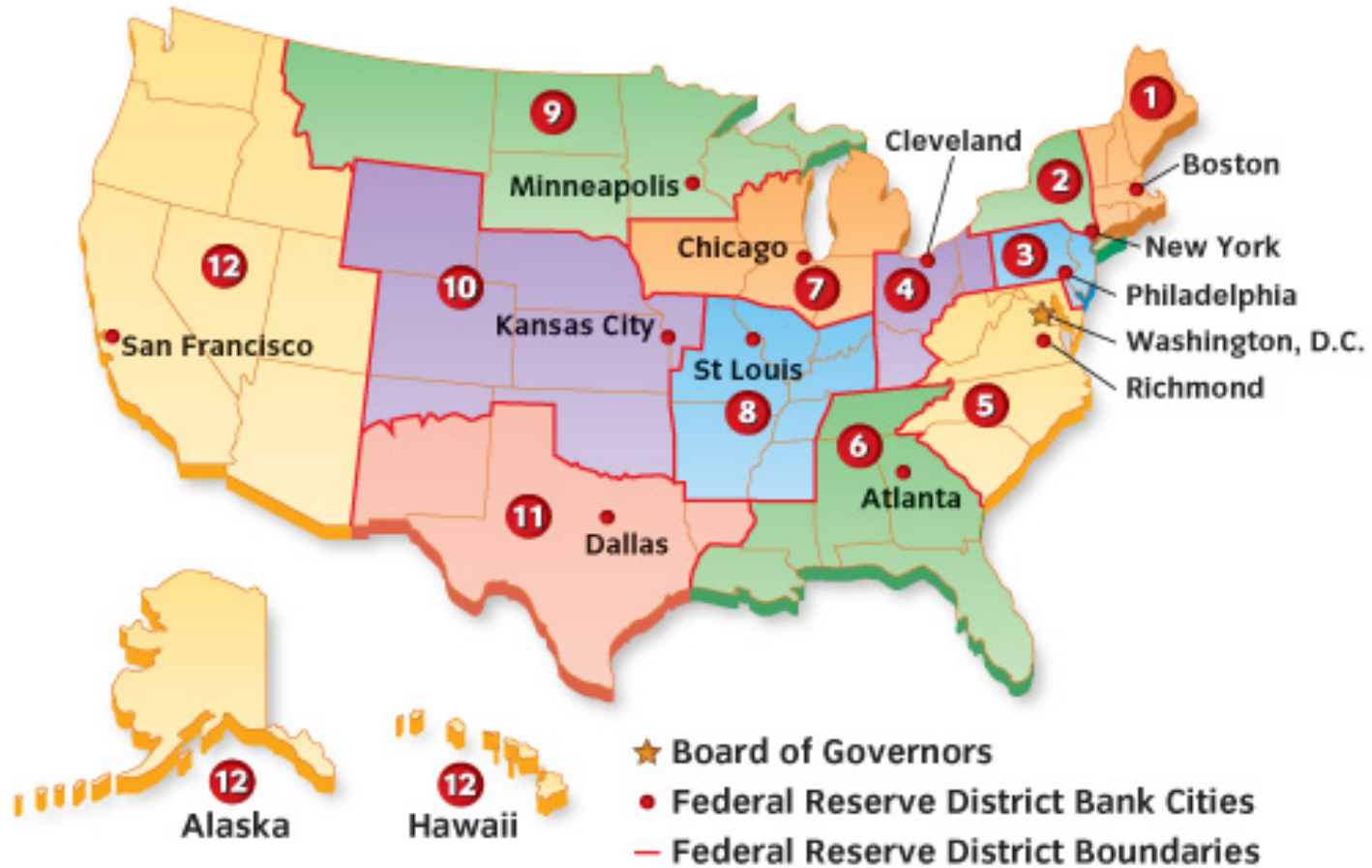
Randal K. Quarles

Christopher J. Waller

Chairman Powell



# FEDERAL RESERVE DISTRICTS



Source: *Federal Reserve Bulletin*, Board of Governors of the Federal Reserve System.

# FOMC VOTING ROTATION

## Federal Reserve Bank Rotation on the FOMC

Committee membership changes at the first regularly scheduled meeting of the year.

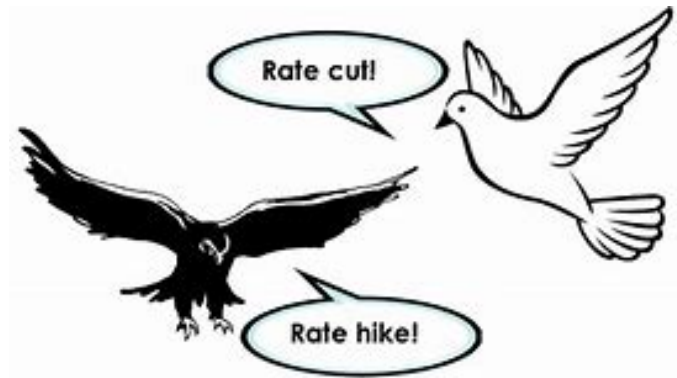
	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Members</b>	New York Cleveland Boston St. Louis Kansas City	New York Chicago Philadelphia Dallas Minneapolis	New York Cleveland Richmond Atlanta San Francisco
<b>Alternate Members</b>	New York† Chicago Philadelphia Dallas Minneapolis	New York† Cleveland Richmond Atlanta San Francisco	New York† Chicago Boston St. Louis Kansas City

FEDERAL RESERVE  
BANK OF RICH

Thomas Barkin



# DOVE VS HAWK





Dual Mandate

Conducts  
Monetary Policy

Supervision and  
Regulation of  
Banks

Payments System

# THE FEDERAL RESERVE

Officially  
December 2008 –  
June 2009

Low inflation, low  
interest rates, high  
unemployment

Fed employed  
“easy” monetary  
policy; Highly  
accommodative  
“dovish”

# GREAT RECESSION



## TRADITIONAL RECESSION

### Traditional Tools

Lower the Fed Funds Rate

Lower the Discount Rate

Lower the Reserve Requirement

OMO: Sell Securities

## GREAT RECESSION

### New Toolbox: Unconventional Tools

Quantitative Easing

QE1, QE2, QE3

Large Scale Asset Purchases

Interest on Excess Reserves

# Pandemic Ends Longest Growth Cycle in U.S. History

The longest economic expansions in the United States since World War II (in months)\*



\* The NBER broadly defines an expansion as a period, usually lasting several years, during which economic activity rises substantially, spreading across the entire economy.

Sources: National Bureau of Economic Research, BEA





## PRESENT ECONOMY

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Fed Funds Rate:

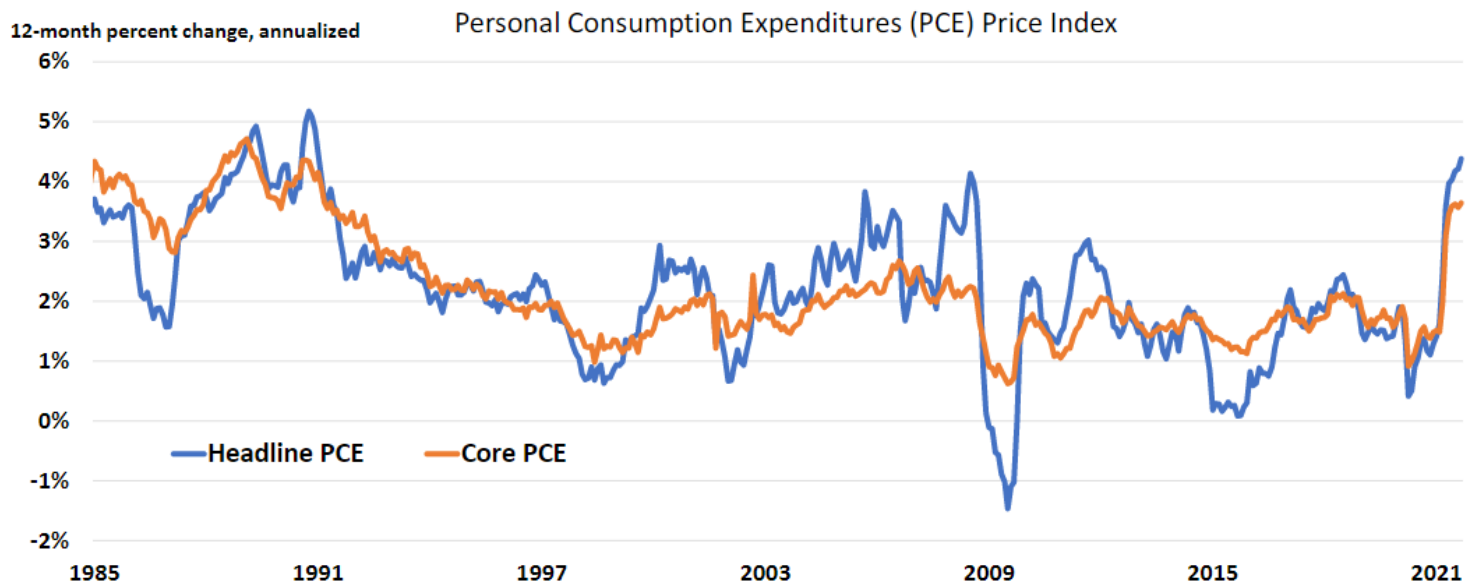
0.00-0.25%

New York Prime Rate:

3.25%

# PRESENT ECONOMY

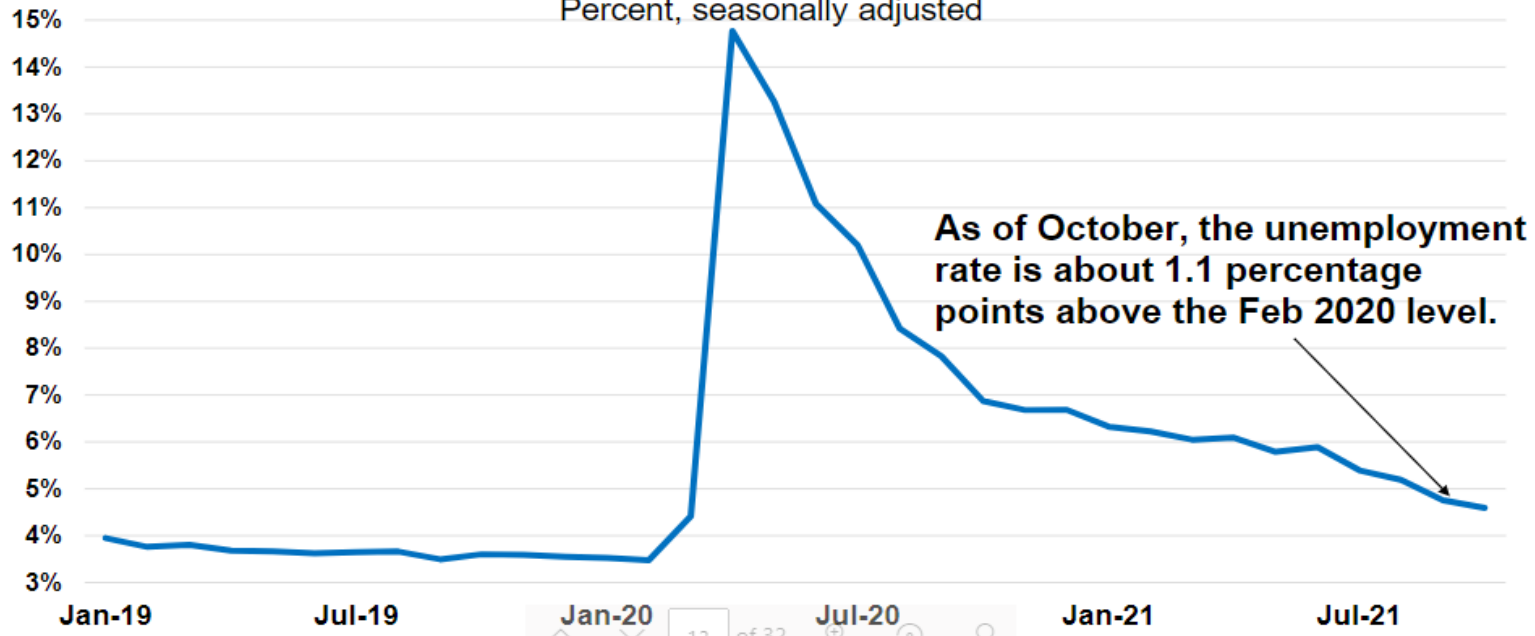
We have to go back to the 1980s to find (year-over-year) core inflation at current levels.



# PRESENT ECONOMY

Labor markets are substantially improved...

**Unemployment Rate**  
Percent, seasonally adjusted



Source: Bureau of Labor Statistics, Haver Analytics.

## The signs of labor *supply* issues are evident in the data.

Percent





# IMPLICATIONS FOR YOUR BANK

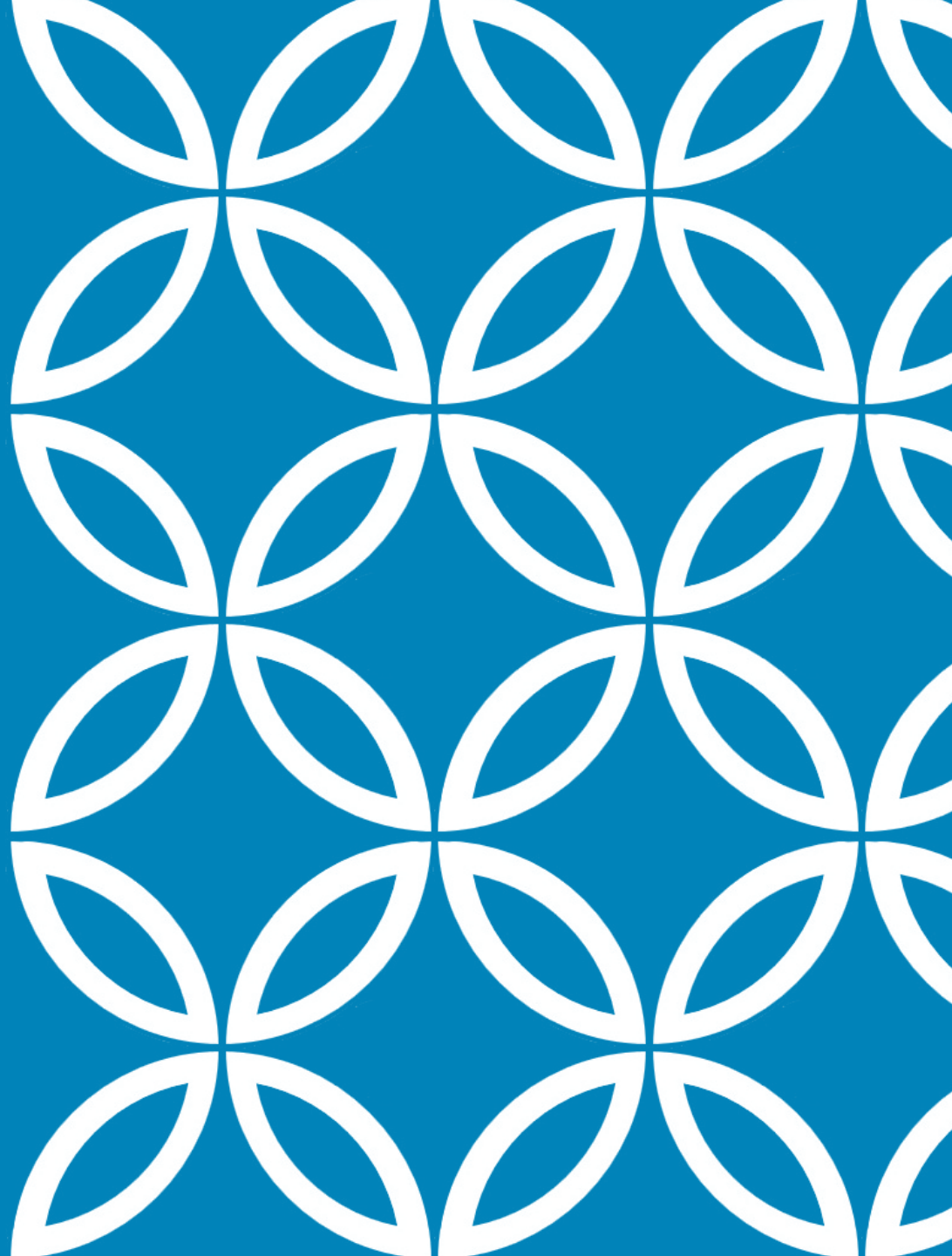
Political Example: Will the corporate  
tax rate change?

Strength of loan demand = budget  
implications

Banks have excess liquidity

Wage pressures and open positions

Inflation's impact on our customers



FOMC Meeting Dates  
for the upcoming year

Predict the FOMC  
decision for its next  
meeting

Ask your CFO what  
your bank's budget  
assumption is for  
interest rates for the  
year.

Ask if you can attend  
a portion of an ALCO  
meeting to hear  
about the interest  
rate impacts

# ACTION ITEMS