

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

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

Great Recession

Pandemic



TODAY'S THEMES

Current U.S. Fed Policy

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

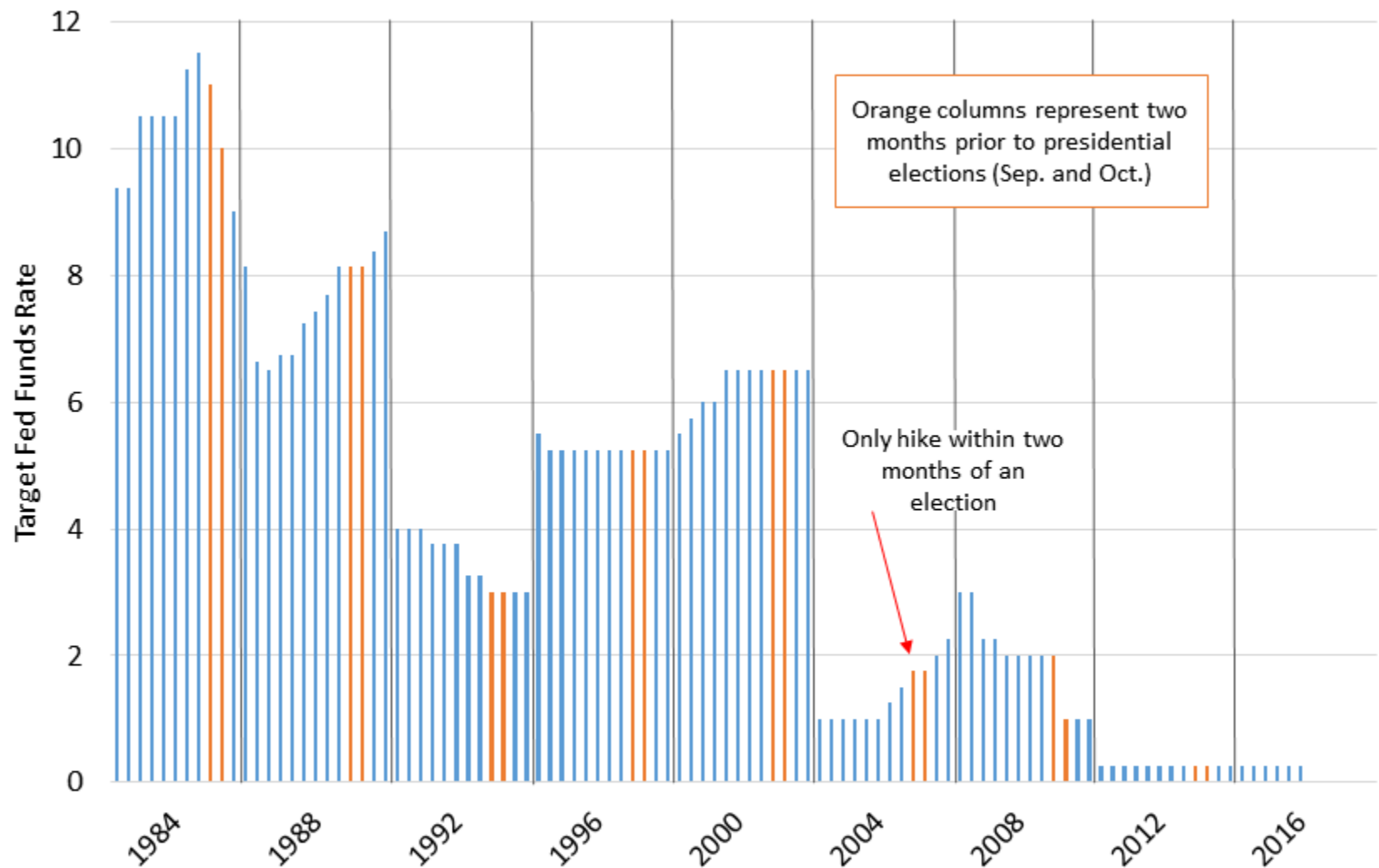
THE FEDERAL RESERVE SYSTEM

- 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
2020	-	-	Yes*	-	-	Republican	Democrat

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

	Jay Powell (Chair)	Republican
	Lael Brainard (Vice Chair)	Democratic
	Michael Barr (Vice Chair for Supervision)	Democratic
	Miki Bowman	Republican

	Chris Waller	Republican
	Lisa Cook	Democratic
	Philip Jefferson	Democratic



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.

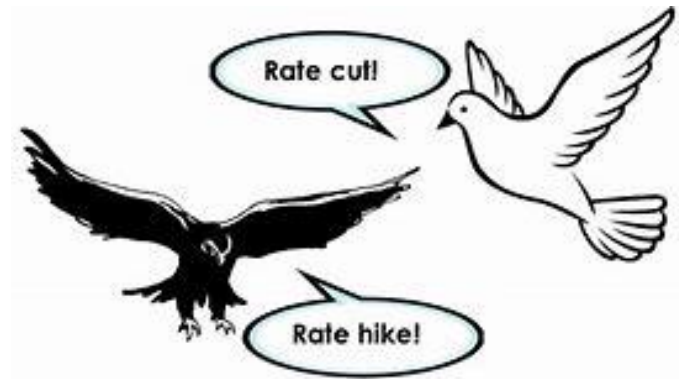
	2022	2023	2024
Members	New York Cleveland Boston St. Louis Kansas City	New York Chicago Philadelphia Dallas Minneapolis	New York Cleveland Richmond Atlanta San Francisco
Alternate Members	New York† Chicago Philadelphia Dallas Minneapolis	New York† Cleveland Richmond Atlanta San Francisco	New York† Chicago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

FEDERAL RESERVE BANK OF RICHMOND

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

GREAT RECESSION

Traditional Tools

Lower the Fed Funds Rate

Lower the Discount Rate

Lower the Reserve Requirement

OMO: Sell Securities

New Toolbox: Unconventional Tools

Quantitative Easing

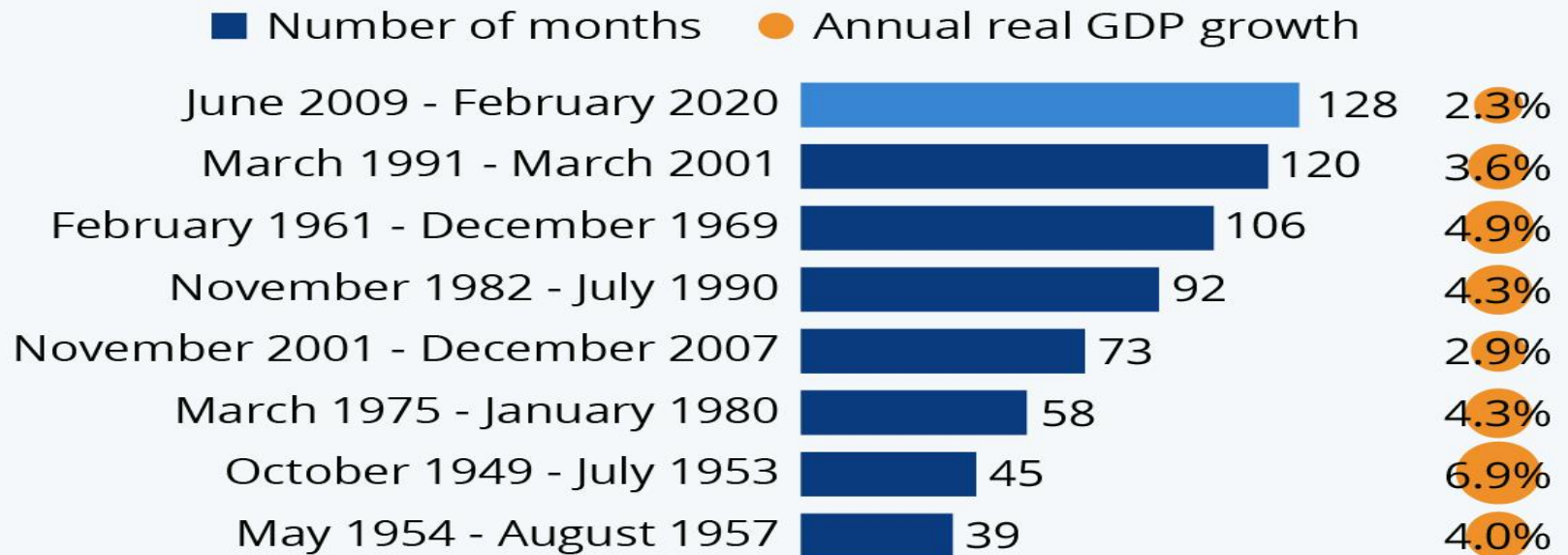
QE1, QE2, QE3

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

Fed Funds Rate:

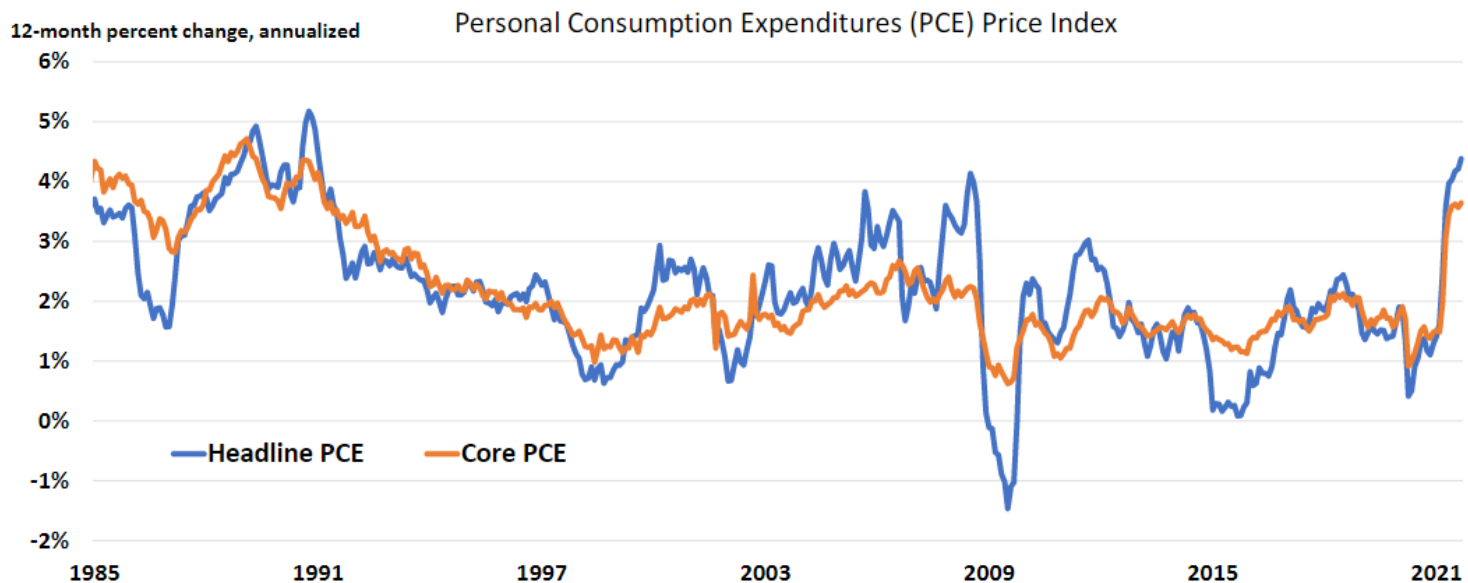
3.75-4.00%

New York Prime Rate:

7.00%

PRESENT ECONOMY

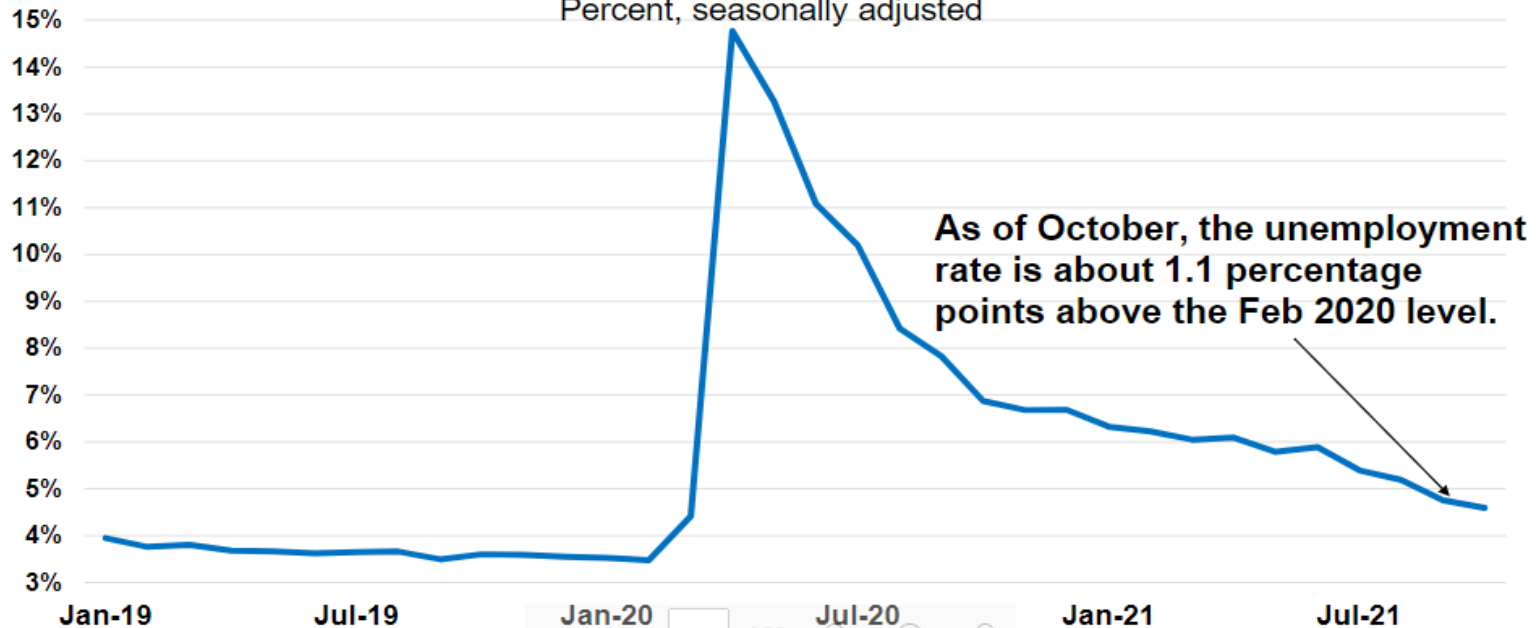
We have to go back to the 1980s to find (year-over-year) core inflation at current levels.



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

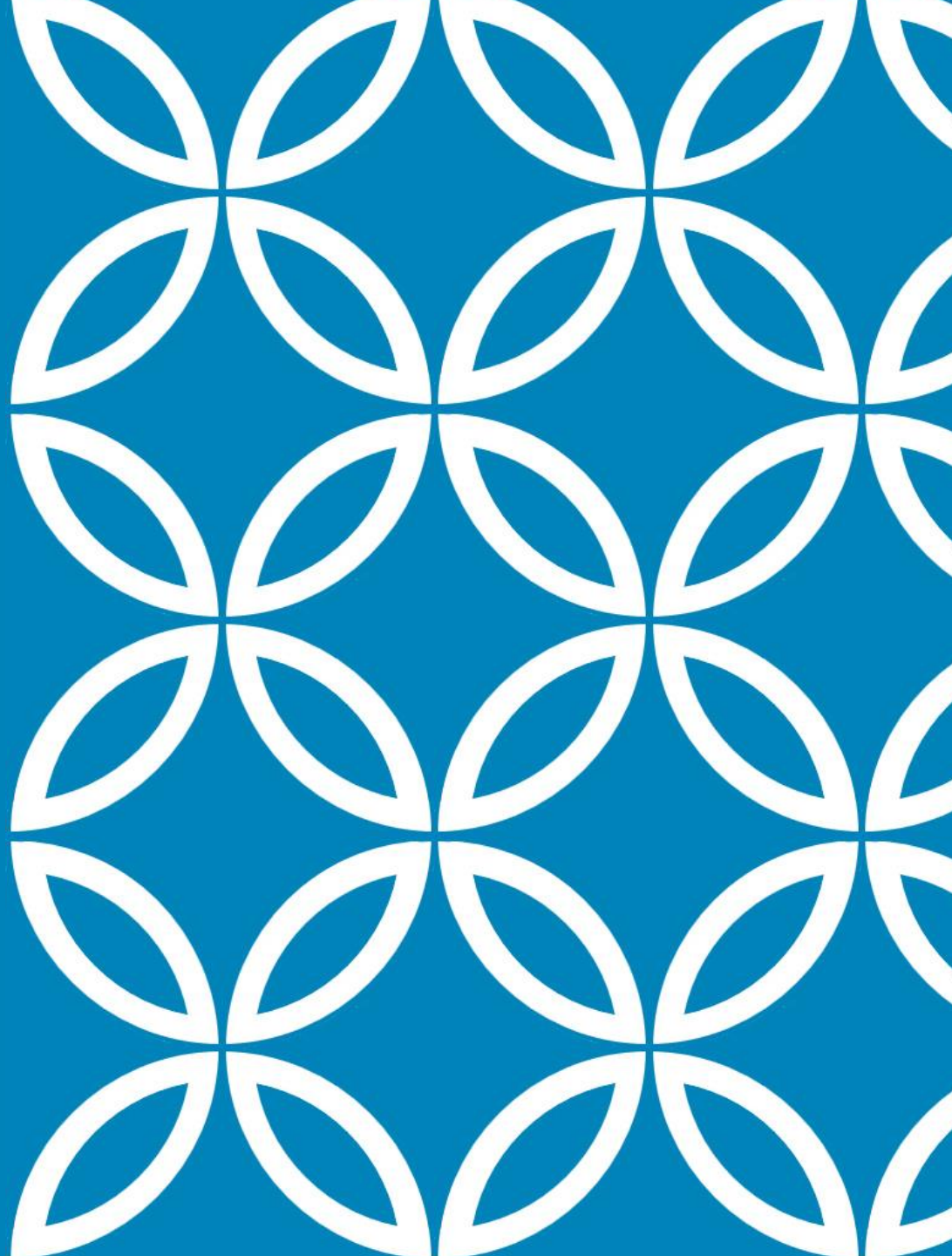
Political Example: Will the corporate
tax rate change?

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