**Main Trends**

**My Order Preference? Unemployment => Inflation => Financial Stability => GDP**

UNEMPLOYMENT

1. Labor Market is Tight
   1. General Metrics
      1. Short Run NAIRU (U3/Natural Rate Spread)
      2. Kansas City Fed Labor Market Conditions Index
         1. LMCI Level of Activity
         2. LMCI Momentum
      3. HKL
      4. NFPs
      5. Initial Jobless Claims
   2. Job Rates
      1. Private job openings rate
      2. Quit rate
      3. Hiring rate
2. Tight Labor Market => Labor Cost Pressures
   1. Wage Pressure
      1. Median Wage Growth Averages
      2. Average hourly earnings
      3. Employment Cost Index
      4. Wage Growth Tracker
      5. Nonfarm business hourly compensation
   2. Productivity
      1. Average Weekly Hours for All Employees
3. Demographic Trends (New Normal)
   1. Metrics
      1. LFPR
      2. EPOP
   2. Relevant Literature
      1. Gagnon, Johannsen
   3. Impacts...downward pressure on
      1. Labor Force growth rate and LFPR
      2. GDP growth
      3. Real interest rate

INFLATION

1. ‘Inflation sends a weaker signal’ ~ Powell at Jackson Hole
   1. Anchored inflation expectations
      1. FOMC PCE Inflation Expectations
      2. 5 yr 5 yr forward inflation expectations
      3. U Michigan Inflation Expectations
      4. CPI and Consumer Inflation Expectations
   2. Flattening of Phillips Curve (**COVER IN UNEMPLOYMENT SECTION**)
      1. Wage pressure <=> labor cost pressure => increased productivity
      2. Longer-run employment rate based on June SEP at 4.5%
      3. August unemployment at 3.9%
2. Inflation Breakdown
   1. Metrics Used In the Past
      1. Core CPI
      2. Sticky prices
      3. Rent and medical cost inflation
      4. Food Away from Home CPI
      5. E-Commerce
      6. Digital Price Index
      7. New and Used Car CPI
   2. Energy
      1. Producer price index for commodities
      2. Oil and gas price trends

FINANCIAL STABILITY

1. Household Spending/Debt
   1. Household Debt to GDP
   2. **Home Prices**
      1. **S&P Case-Schiller 20-city Composite Home Price NSA Index**
2. **Flattening Yield Curve**
   1. 2yr 10yr spread
   2. Reasons
      1. One reason the term premium may be lower than in the past is the changed correlation between stock and bond returns, likely associated with changes in expected inflation outcomes.18 The other driver of the low level of the term premium globally is the asset purchases of central banks in several major economies.19 In this case, if the term premium rises as the effect of asset purchase programs diminishes, the effect may be to forestall an inversion of the long-dated yield curve. [Brainard](https://www.federalreserve.gov/newsevents/speech/brainard20180912a.htm) -- September 12, 2018
      2. "...inferring economic causality from statistical correlations was not appropriate. A number of global factors were seen as contributing to downward pressure on term premiums, including central bank asset purchase programs and the strong worldwide demand for safe assets." [August minutes](https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20180801.pdf)
   3. Related metric(s)
      1. US 10yr T-note yields vs US 10yr T-note volatility futures
3. **Access to capital in public debt markets**
   1. Credit Spreads and Vol
      1. HY/10yr UST spread
      2. BAML HY spread
   2. Leveraged Loans
      1. Rising risks are notable in the corporate sector, where low spreads and loosening credit terms are mirrored by rising indebtedness among corporations that could be vulnerable to downgrades in the event of unexpected adverse developments. Leveraged lending is again on the rise; spreads on leveraged loans and the securitized products backed by those loans are low, and the Board's Senior Loan Officer Opinion Survey on Bank Lending Practices suggests that underwriting standards for leveraged loans may be declining to levels not seen since 2005. [Brainard](<https://www.federalreserve.gov/newsevents/speech/brainard20180912a.htm>) -- September 12, 2018
   3. Debt
      1. Nonfinancial Corporate Debt to GDP
      2. Federal Debt
      3. Business Lending
      4. Consumer Lending
         1. Net % of domestic banks tightening standards on consumer loans, credit cards
      5. Total debt service payments as % of disposable personal income
      6. **Changes in Commercial Real Estate Loan Standards**
4. **Markets**
   1. Equity Valuations
   2. Investor credit balance and margin data
   3. S&P Composite and S&P Earnings
   4. S&P Financials Index
   5. Market Cap to GDP
   6. St. Louis Financial Stress Index

GDP

1. **Breakdown**
   1. General
      1. Change in Real GDP and Leading Indicators
      2. Atlanta Fed GDPnow
   2. Consumption growth due to retail growth
      1. Real retail and food services sales
      2. Light weight vehicle sales: autos and light trucks
   3. Consumer spending and sentiment
      1. UMichigan Consumer Sentiment
      2. Real Disposable Personal Income (per capita)
         1. Household net worth
   4. **Business Investment**
      1. Real Gross Private Domestic Investment
      2. Duke’s Fuqua School of Business /CFO Magazine Global Business Outlook
      3. Industrial Production Index
      4. U[S Corporations’ Repatriation of Offshore Profits](https://www.federalreserve.gov/econres/notes/feds-notes/us-corporations-repatriation-of-offshore-profits-20180904.htm)
   5. Government Spending
      1. **Fiscal Stimulus**
         1. Moreover, the sizable fiscal stimulus that is in train is likely to provide a tailwind to growth in the second half of the year and beyond.2 From a position of full employment, the economy will likely receive a substantial boost from $1.5 trillion in personal and corporate tax cuts and a $300 billion increase in federal spending, with estimates suggesting a boost to the growth rate of real GDP of about 3/4 percent this year and next.3 [Brainard] -- May 31, 2018
   6. **Trade**
      1. Trade deficit vs trade weighted US dollar
      2. Trade War with China (tariff details and impact on net exports)

POLICY AND IMPLEMENTATION

1. Summary of All Other Trends => Justify Recommendation
2. Implementation (use of interest on reserves)
   1. Forward guidance
   2. **Balance Sheet Normalization:** The payment of interest on reserves--balances held by banks in their accounts at the Federal Reserve--is an essential tool for implementing monetary policy because it helps anchor the federal funds rate within the FOMC's target range. This tool has permitted the FOMC to achieve a gradual increase in the federal funds rate in combination with a gradual reduction in the Fed's securities holdings and in the supply of reserve balances. The FOMC judged that **removing monetary policy accommodation through first raising the federal funds rate and then beginning to shrink the balance sheet** would best contribute to achieving and maintaining maximum employment and price stability without causing dislocations in financial markets or institutions that could put the economic expansion at risk. [recent-mpr]([https://www.federalreserve.gov/monetarypolicy/2018-07-mpr-summary.ht](https://www.federalreserve.gov/monetarypolicy/2018-07-mpr-summary.htm)m) [SOMA's Unrealized Loss](<https://www.federalreserve.gov/econres/notes/feds-notes/somas-unrealized-loss-what-does-it-mean-20180813.htm>)
3. At [September's Meeting](https://www.federalreserve.gov/monetarypolicy/files/monetary20180926a1.pdf), the Board of Governors votes unanimously...
   1. 1. To raise the interest paid on required and excess reserve balances to 2.20 percent.
   2. 2. To undertake the open market operations as necessary to maintain the federal funds rate in a target range of 2-2.25 percent, including overnight reverse repurchase operations at an offering rate of 2.00 percent, in amounts limited only by...
   3. 3. To continue rolling over at auction the amount of principal payments from the Federal Reserve's holdings of Treasury securities maturing during September that exceeds $16 billion.
   4. 4. Effective in October, the Committee directs the Desk to roll over at auction the amount of principal payments from the Federal Reserve's holdings of Treasury securities maturing during each calendar year...reinvest in agency MBS (roll over Treasuries and reinvest agency MBS ($30 and $20 billion respectively))
   5. 5. To approve a 0.25 percent increase in the primary credit rate to 2.75 percent, effective September 27, 2018.

**Policy**

**→** [**https://www.federalregister.gov/documents/2018/09/17/2018-20124/uniform-mortgage-backed-security**](https://www.federalregister.gov/documents/2018/09/17/2018-20124/uniform-mortgage-backed-security)

[**https://www.yardeni.com/pub/citigroup.pdf**](https://www.yardeni.com/pub/citigroup.pdf) **(Economic Surprise Indicators; extra)**

## References

[Link to Amar’s notes](https://github.com/AmarRSingh/MonetaryPolicyLibrary)