Perspectives on the National and Regional Economies

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The views expressed herein are those of the author and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.
The Federal Reserve System

- The USA’s central bank
- Responsibilities:
  - Supervision and regulation
  - Payments system
  - Monetary policy
- Structure
  - Board of Governors in Washington, DC
  - 12 Reserve Banks around the country
What is monetary policy?

- Simple answer: setting interest rates
- Not-so-simple answer: buying and selling government bonds to influence the general level of interest rates
The Federal Reserve’s monetary policy goals

- **Dual mandate** specified by Congress
- **Stable prices**
  - 2% inflation according to PCE index
  - Inflation includes *all* goods and services
- **Maximum employment**
  - Harder to quantify
Overview of economic conditions

U.S.

• Continued moderate output growth
• Rapidly improving labor markets in 2014; somewhat slower so far in 2015
• Inflation persistently below FOMC target

Regionally

• Low, but a recent rise in SD unemployment; labor market still improving on other margins
• Slowing output growth in SD and Rapid City
Real GDP Growth
12-month percent change

Source: Bureau of Economic Analysis
Real GDP Per Capita
2009 US dollars

Source: Bureau of Economic Analysis, Bureau of Labor Statistics
Unemployment rate

Percent

Source: Bureau of Labor Statistics
U.S. unemployment rate by race and ethnicity

Percent

<table>
<thead>
<tr>
<th>Year</th>
<th>Black</th>
<th>Hispanic</th>
<th>White</th>
<th>Asian</th>
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<tbody>
<tr>
<td>2003</td>
<td>9.5%</td>
<td>6.6%</td>
<td>4.4%</td>
<td>3.5%</td>
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<tr>
<td>2005</td>
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<td>2011</td>
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<td>2015</td>
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Source: Bureau of Labor Statistics
What about labor force participation?

unemployment = \frac{job seekers}{job seekers + employed}

labor force participation = \frac{job seekers + employed}{all adult civilians}
Labor force participation rate

Percent

Source: Bureau of Labor Statistics
Employment-population ratio

Percent

Source: Bureau of Labor Statistics
Employment-population ratio, age 25-54
Percent, 12-month moving average

Source: Bureau of Labor Statistics; Minneapolis Fed calculation
Labor force working part-time for economic reasons
Percent, 12-month moving average

Source: Bureau of Labor Statistics; Minneapolis Fed calculation
Average hourly earnings
1-year percent change; private industry

Source: Bureau of Labor Statistics
PCE inflation
12-month percent change

Source: Bureau of Economic Analysis
The outlook for CPI inflation
Annual rates implied by inflation swaps

Source: Federal Reserve Bank of Minneapolis
Stance of monetary policy

Federal funds rate

• Maintaining 0.00%-0.25% target range
• FOMC will assess realized and expected progress on inflation and employment

Balance sheet

• Maintaining asset holdings
• Reinvesting principal payments
Interest rates
Percent

Source: Board of Governors, Federal Reserve System
Federal Reserve assets
Trillions

Source: Board of Governors, Federal Reserve System
Monthly FOMC asset purchases

Billions

Source: Board of Governors, Federal Reserve System
Questions?