



MAIDEN LANE DIVISION: 2021 Case Study

I. Your Role

You are senior economists at the Federal Reserve Bank of New York and will prepare a monetary policy recommendation for the November 2 – 3, 2021 Federal Open Market Committee (FOMC) meeting. You have been asked to use data released from January 2020 to September 30, 2021. Use the Primer on Monetary Policy and the focus questions below to inform your analysis and make your recommendation.

II. Economic Indicators

GDP

Nominal GDP and Real GDP: Gross Domestic Product measures the value of the final goods and services produced in the United States. It is a comprehensive measure of U.S. economic activity. The Bureau of Economic Analysis (BEA) releases its GDP report every quarter. Use the links below to examine the nominal and real GDP measures released from Q1 2020 to Q3 2021.

- BEA Section 1: Domestic Product and Income, Table 1.1.5 Nominal GDP:
<https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=2&isuri=1&1921=survey>
- Chart of Nominal GDP: <https://fred.stlouisfed.org/graph/?g=Eieu>
- BEA Section 1: Domestic Product and Income, Table 1.1.6 Real GDP:
<https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=2&isuri=1&1921=survey>
- Chart of Real GDP: <https://fred.stlouisfed.org/graph/?g=EuFu>

Potential GDP: Potential GDP, also known as potential output or full-employment output, is the level of GDP that is consistent with the full use of economic resources such as labor, capital, and technology in the economy. The Congressional Budget Office (CBO) publishes its 10-Year Economic Projections which calculate potential GDP and its underlying inputs. Click on the CBO link below to access the 10-Year Economic Projections and conduct your analysis using the most recent CBO Potential GDP release.

- CBO 10-Year Economic Projections: [Budget and Economic Data | Congressional Budget Office \(cbo.gov\) https://www.cbo.gov/data/budget-economic-data#4](https://www.cbo.gov/data/budget-economic-data#4)
- Chart of Potential Real GDP: <https://fred.stlouisfed.org/graph/?g=FXmL>
- Chart of Potential Real GDP Percent Change: <https://fred.stlouisfed.org/graph/?g=FYQN>
 - Please note that this chart reflects quarterly percent change.

Focus Questions

- What do nominal GDP, real GDP, and potential GDP each measure? Why might real GDP and potential GDP be different?
- What is the overall state of the economy? Are there any specific aspects of the economy contributing to the level and pace of growth?
- Why should the Federal Reserve System monitor the different components of GDP?

Labor Market

The Bureau of Labor Statistics (BLS) releases monthly data on the labor market, such as the unemployment rate, labor force participation rate, and employment to population ratio. The links below provide access to the following data released from January 2020 to September 2021.

- Table and Chart of Seasonally Adjusted Unemployment Rate: <https://data.bls.gov/timeseries/LNS14000000>
 - Please note that the output options should be from 2020 to 2021.
- Table and Chart of Seasonally Adjusted Labor Force Participation Rate: <https://data.bls.gov/timeseries/LNS11300000>
 - Please note that the output options should be from 2020 to 2021.
- Table and Chart of Seasonally Adjusted Employment to Population Ratio: <https://www.bls.gov/charts/employment-situation/employment-population-ratio.htm>

The Department of Labor (DOL) releases the Unemployment Insurance Weekly Claims Report. Data is collected from local unemployment offices, given to state unemployment offices, and then forwarded to the DOL. The link below includes the initial claims for unemployment insurance¹. Begin your search from January 2020 to September 2021.

- Table of Initial Unemployment Insurance Weekly Claims: <https://oui.doleta.gov/unemploy/claims.asp>

¹ An initial claim is a claim filed by an unemployed individual after a separation from an employer. The claim requests a determination of basic eligibility for the Unemployment Insurance program. (<https://fred.stlouis.org/series/ICSA>)

- Observe the Initial Claims data released from January 2020 to the end of September 2021. The following acronyms are defined below.
 - N.S.A. is Not Seasonally Adjusted
 - S.F. is Seasonal Factors
 - S.A. is Seasonally Adjusted
- Chart of Seasonally Adjusted Initial Unemployment Insurance Claims:
 - <https://fred.stlouisfed.org/graph/?g=EuJa>
 - Observe the data released from January 2020 to September 2021.

Focus Questions

- Based on this information, what is the condition of the labor market? Why do workers enter and exit the labor market?
- Why is it important to use and compare these different measures? What does each one tell you?
- Is unemployment a leading or lagging indicator? How can you use this to understand economic trends?
- Why are labor market conditions important to the Fed when making monetary policy decisions?

Inflation

Two price indices measuring inflation are personal consumption expenditure (PCE) and consumer price index (CPI). Analyze the charts below. Begin with data released from January 2020 to September 2021.

Personal Consumption Expenditures (PCE)

- Personal Consumption Expenditures: Chain-Type Price Index, Percent Change from Year Ago, Monthly, Seasonally Adjusted:
 - <https://fred.stlouisfed.org/graph/?g=F4zN>
- Personal Consumption Expenditures Excluding Food and Energy: Chain-type Price Index, Percent Change from Year Ago, Monthly, Seasonally Adjusted:
 - <https://fred.stlouisfed.org/graph/?g=F4zX>

Consumer Price Index (CPI)

- Chained Consumer Price Index for all Urban Consumers, Percent Change from Year Ago, Monthly, Not Seasonally Adjusted:
 - <https://fred.stlouisfed.org/graph/?g=F4zG>

- Chained Consumer Price Index for all Urban Consumers: All Items Less Food and Energy, Percent Change from Year Ago, Monthly, Not Seasonally Adjusted:
<https://fred.stlouisfed.org/graph/?g=F4AI>

Focus Questions

- Is it important to compare headline and core price indices? What does each one tell you?
- Based on core PCE deflator data, what is the current inflation rate? Do you expect it to change? Why or why not?
- What factors might affect the price level?
- Why are the CPI and PCE price indices different? Which one does the Fed focus on when making monetary policy decisions? What is the Fed's target inflation rate?

Consumer Sentiment

One measure of consumer sentiment and expectations of the economy is the University of Michigan's Consumer Sentiment Index. The data trend in consumer sentiment can be found in the chart below. Analyze the data released from January 2020 to September 2021.

- Chart of University of Michigan - Consumer Sentiment, Monthly:
<https://fred.stlouisfed.org/graph/?g=EpTG>

In addition, the New York Fed's monthly Survey of Consumer Expectations (SCE) captures respondents' expectations about economic outcomes related to inflation, the labor market, and household finance. Analyze the following graphs on inflation, the labor market, and household finance released from January 2020 to September 2021.

- Chart of SCE Inflation Expectations:
<https://www.newyorkfed.org/microeconomics/sce#/inflexp-1>
- Chart of SCE Labor Market Job Finding Expectations:
<https://www.newyorkfed.org/microeconomics/sce#/jobfind-1>
- Chart of SCE Household Income Growth Expectations:
<https://www.newyorkfed.org/microeconomics/sce#/hhincexp-1>

Focus Questions

- What is the overall household outlook about the economy according to the data?
- What is the effect of consumer sentiment or expectations on prices? What is its impact on other parts of the economy?
- Is consumer sentiment or expectations a leading or lagging indicator? How can you use this to understand economic trends?

Housing Starts and Manufacturing Data

Different components of the economy include housing and manufacturing. The Census Bureau releases data on the number of new housing units and the Federal Reserve System releases data on industrial production and capacity utilization. Monthly data for the number of new privately owned housing units and manufacturing capacity utilization in the economy can be found below. Analyze the charts and table released from January 2020 to September 2021.

- Chart of New Privately Owned Housing Units Started:
<https://fred.stlouisfed.org/graph/?g=Euxx>
- Chart of Industrial Production – Manufacturing:
<https://fred.stlouisfed.org/graph/?g=EuyB>
- FRED Table of Industrial Production – Manufacturing:
<https://fred.stlouisfed.org/release/tables?rid=13&eid=49745#snid=49782>
 - Focus on durable and non-durable goods.

Focus Questions

- What type of good is housing?
- How can the housing market influence the direction of the economy?
- What does the manufacturing capacity utilization data tell you about the economy?
- Is housing a leading or lagging indicator? What about manufacturing capacity? How can you use these to understand economic trends?
- What is the difference between durable goods and non-durable goods? How did the production of each change based on data released from January 2020 to September 2021? What does this tell you about the economy?

Monetary Policy

The effective federal funds rate (EFFR) is the interest rate depository institutions charge each other for overnight loans. Access the data of the EFFR from the New York Fed's Effective Federal Funds Rate data page below. Begin your search from January 2020 to September 30, 2021.

- <https://www.newyorkfed.org/markets/reference-rates/effr>

Focus Questions

- What changes has the Fed made to the federal funds rate since January 2020?
- What is your recommendation for monetary policy? Should the federal funds rate range increase, decrease, or remain the same? Why?
- How does your recommendation achieve the Fed's monetary policy goals?

III. **Monetary Policy Recommendation**

When you prepare to present your analysis, consider the following:

- Have we clearly stated our monetary policy recommendation?
- Have we summarized the key issues affecting the economy?
- How do the data support our story?

We look forward to hearing your thoughts, senior economists of the Federal Reserve Bank of New York. Best of luck in your analyses!