The Fed

The Federal System was established by Congress nearly a century ago in 1913, signed by President Woodrow Wilson. Prior to the creation of The Fed, the US economy was plagued by frequent episodes of panic, bank failures, and credit scarcity. The Federal Reserve System has a two-part structure: a central authority known as the Board of Governors in Washington, D.C., and a decentralized network of 12 Federal Reserve Banks located throughout the country.

Monetary policy is set by the Federal Open Market Committee (FOMC), which includes members of the Board of Governors and presidents of the Reserve Banks. Jerome “Jay” Powell is the current Chair of the Federal Reserve. Under his leadership the Federal Reserve strives to meet the U.S. Congressional statutory “Dual Mandate” to promote maximum employment, stable prices, and moderate long-term interest rates.

At the end of the Great Recession, the Fed, led by Chairman Dr. Ben Bernanke, lowered rates to zero and employed unproven, experimental tools of Quantitative Easing (QE) to avoid the collapse of our banking system and jolt our economy back to life. Zero rates were maintained for a full seven years, as well as, additional bouts of Quantitative Easing. The economy was deemed too weak to stand on its own and required the Fed’s easy money support.

In December 2015 Janet Yellen, the then Fed Chair, raised rates from zero to 0.5%. At the end of her tenure in February 2018 the Fed Fund rate stood at 1.5%. Current Fed Chairman, Jerome Powell, took the reins from Yellen and continued the ¼ point rate increases through September 2017 topping out at 2.5%. Pressured by a perceived global slowdown and the negative interest rates abroad, Powell’s Fed lowered rates twice by ¼%, the first rate cuts in over 10 years, even though the US economy is strong.

Monetary policy used to be pretty easy just raising and lowering the Fed Funds rate based on the health of the US economy. Now, with an intertwined global payment system denominated in dollars along with major global central banks reducing rates below zero to generate growth, the monetary landscape has become overly complex. Negative foreign rates have intensified demand and inflated the Dollar hindering our exports.

If the race to zero (or below) persists, global interest rates may likely remain very low for the foreseeable future. Our Fed has achieved their “Dual Mandate” in the wake of the Great Recession - a historic economic expansion with full employment, stable prices due to subdued inflation, and low long-term interest rates. It’s a good time to be an American.

Unemployment

The Fed promotes maximum employment. By flooding the economy with capital after the Great Recession, the Fed pushed US businesses to borrow and expand their workforce. Today the unemployment rate stands at 3.7%, the lowest since 1969.

Stable Prices

The Fed strives to maintain stable prices, pegging a target inflation rate of 2%. High inflation reduces purchasing power lowering the standard of living, while low inflation can result in deflationary spirals ending in recession. The well known inflation gage is The Consumer Price Index (CPI), but the Fed prefers the Producer Price Index (PPI).

Moderate Interest Rates

The Fed encourages moderate long-term interest rates to foster consistent economic growth. Long-term interest rates have been stubbornly low fueling the longest US economic expansion in history-125 months.

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