Economic Outlook and Monetary Policy

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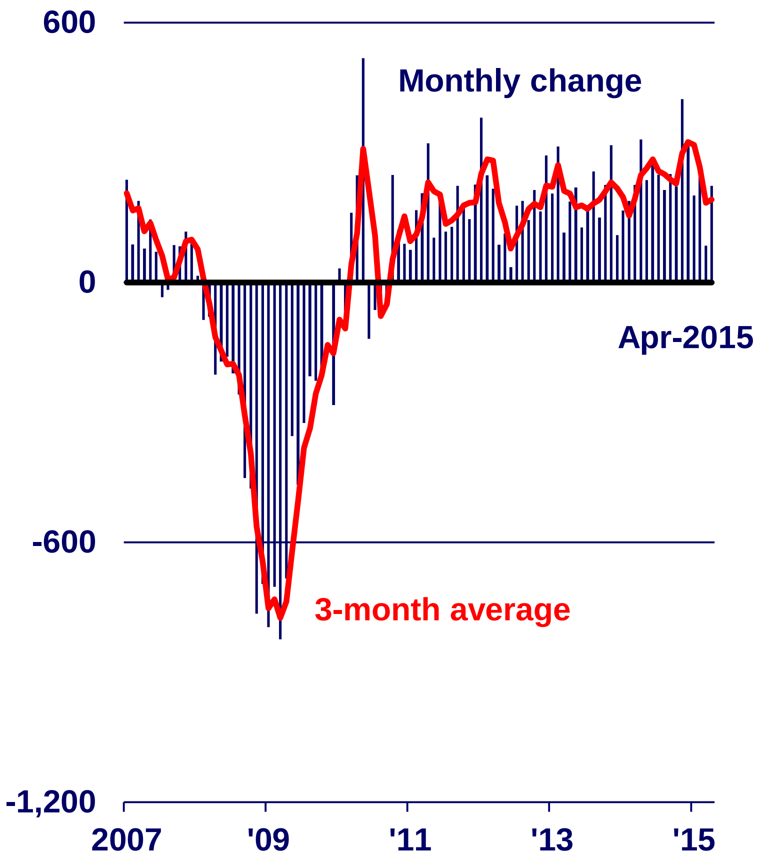
Federal Reserve's Dual Mandate

- **Maximum employment**
  - No fixed number; wide range of indicators
  - Long-run normal rate of unemployment: 5.0 to 5.2 percent

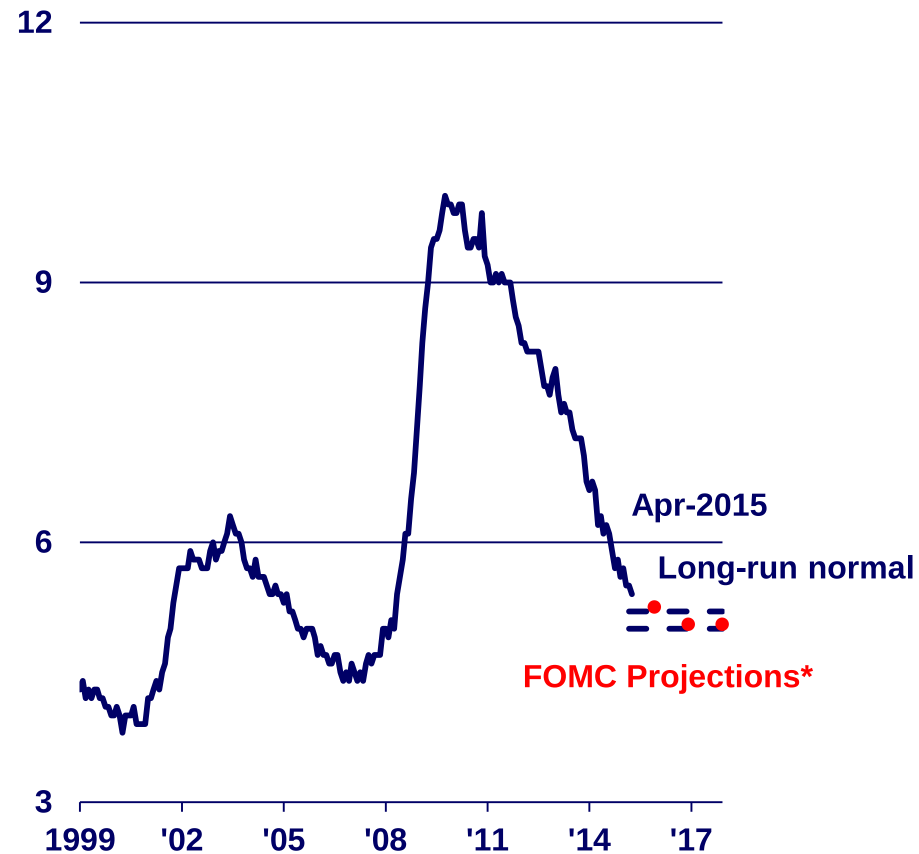
- **Price stability**
  - 2 percent inflation in price index for personal consumption expenditures (PCE)
    - Inflation as measured by the Consumer Price Index (CPI) runs 0.3 to 0.5 percentage point above PCE inflation

Close to Employment Mandate

Total Nonfarm Payroll Employment
(change, thousands)



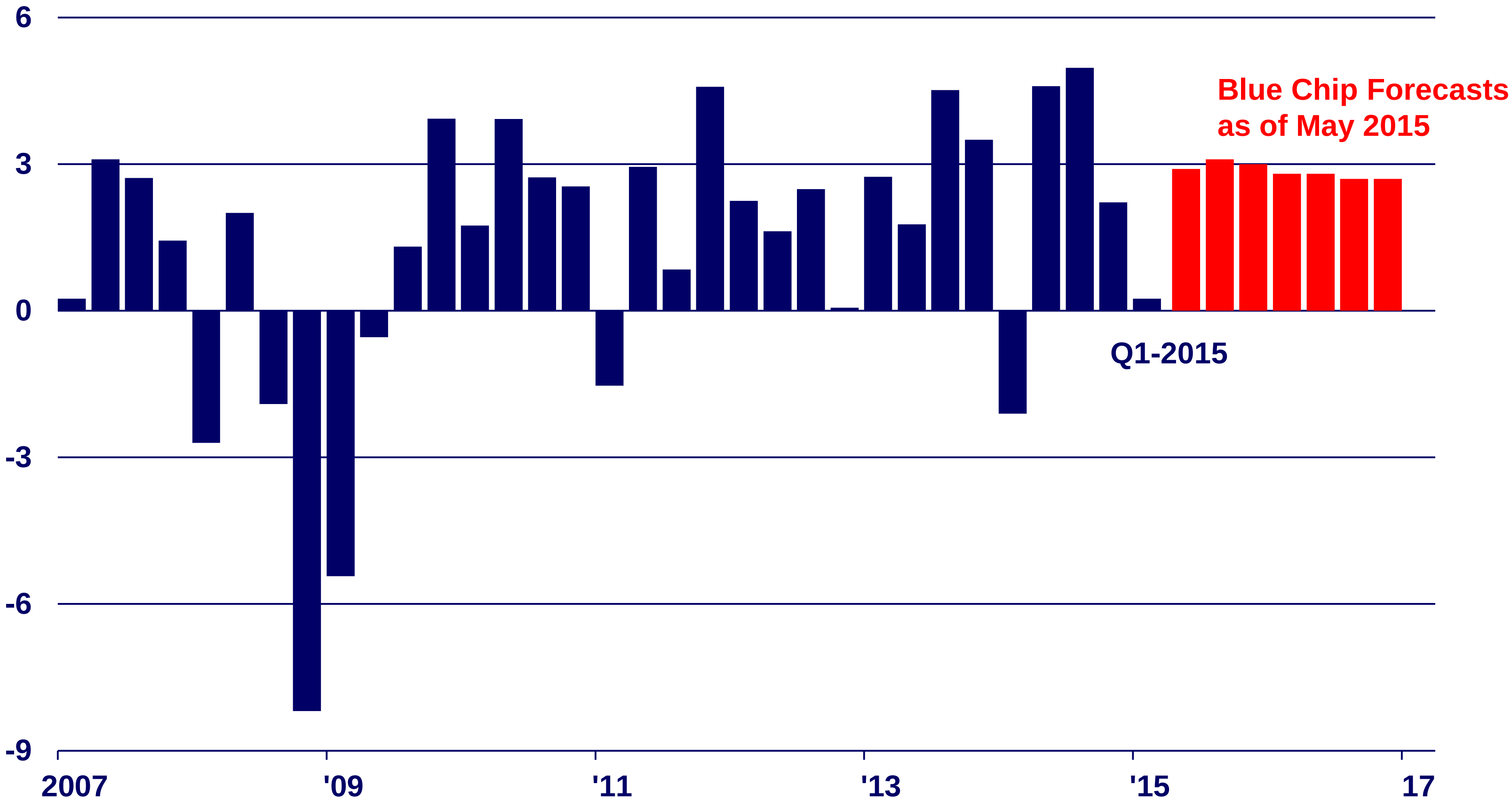
Unemployment
(percent)



**Median of the forecasts made by FOMC participants as of March 18, 2015*

2015:Q1 Weakness; Expected to be Transitory

Real GDP Growth
(percent change, annual rate)



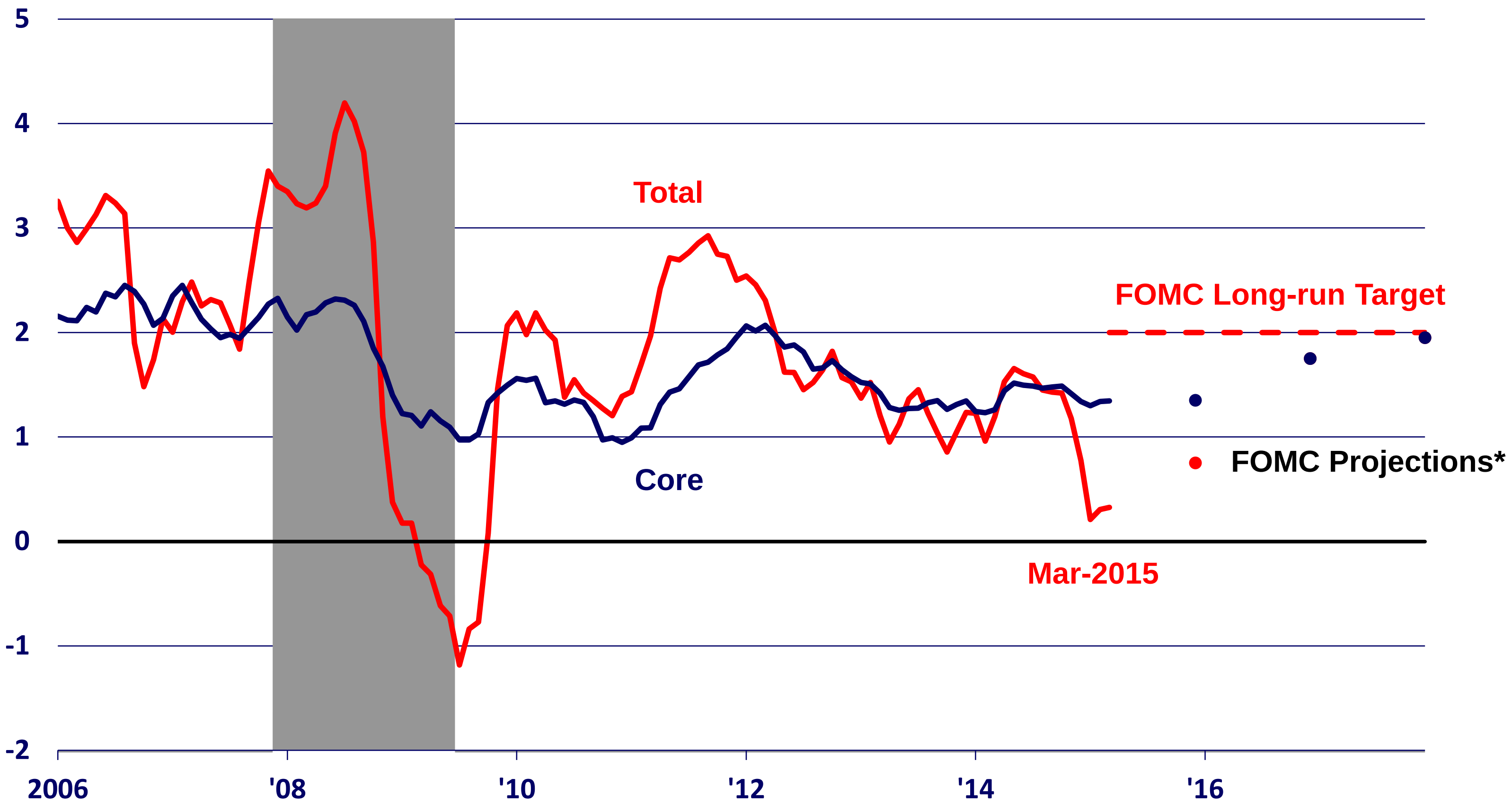
GDP Forecast Rationale

- **Reasons for recent weak growth**
  - Unusual weather and usual variation in data
  - Dollar strength lowers net exports
  - Lower oil prices reduce investment

- **Reasons to expect a rebound**
  - Transitory factors dissipate
  - Consumer fundamentals good
    - Strong labor market, balance sheet repair, increased purchasing power due to lower energy prices
  - Housing should strengthen eventually
  - Consumption and housing should lead to more business investment
    - Business financing costs low

Inflation Below Target

PCE Price Index
(12-month percent change)



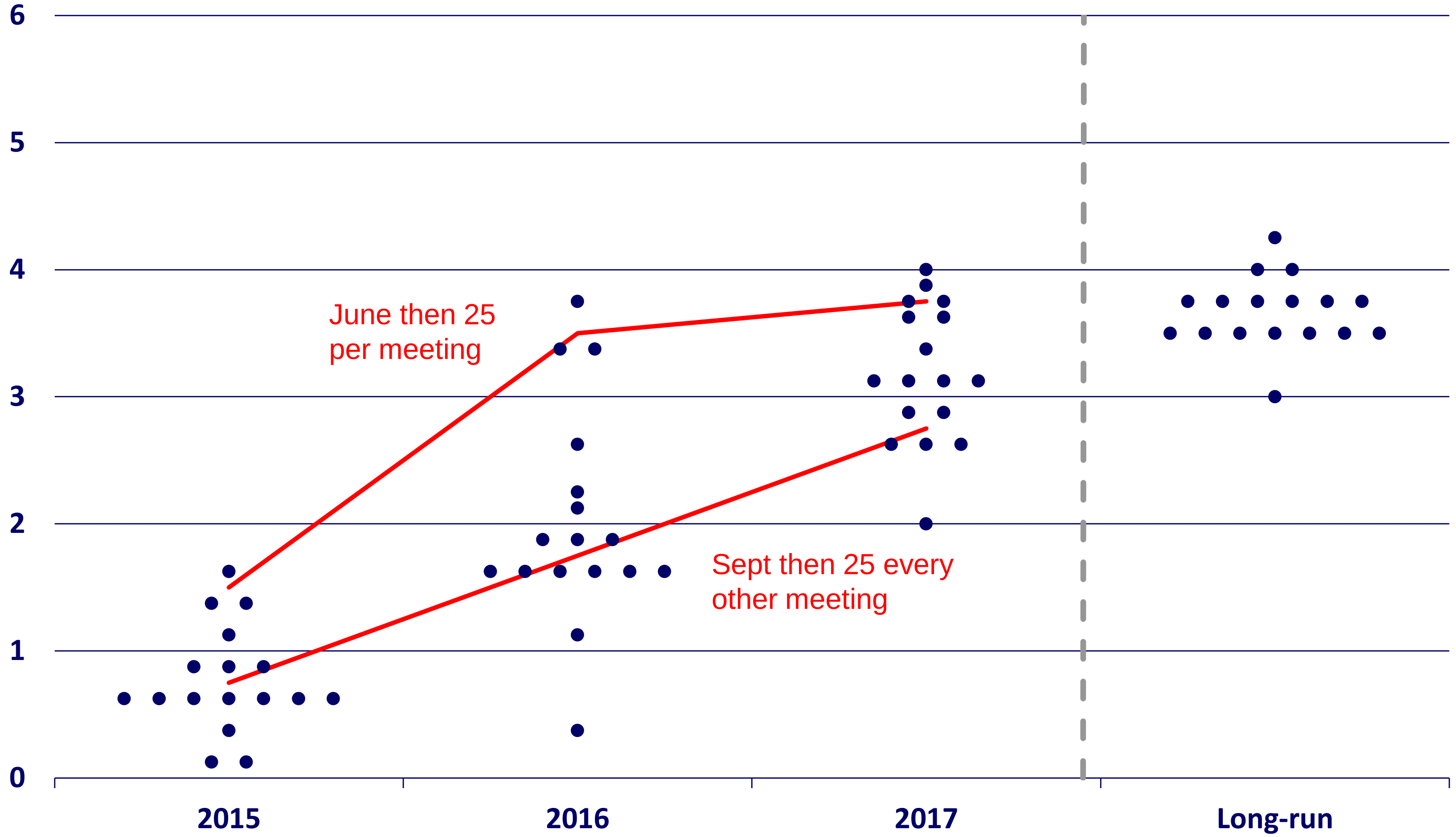
**Median of the forecasts made by FOMC participants as of March 18, 2015*

Inflation Forecast Rationale

- **Oil price and import price effects run their course**
- **Diminishing resource slack**
- **Upward pull of inflation expectations**
- **Accommodative monetary policy**

Appropriate Pace of Policy Firming

Federal Funds Rate at Year-End
(percent)



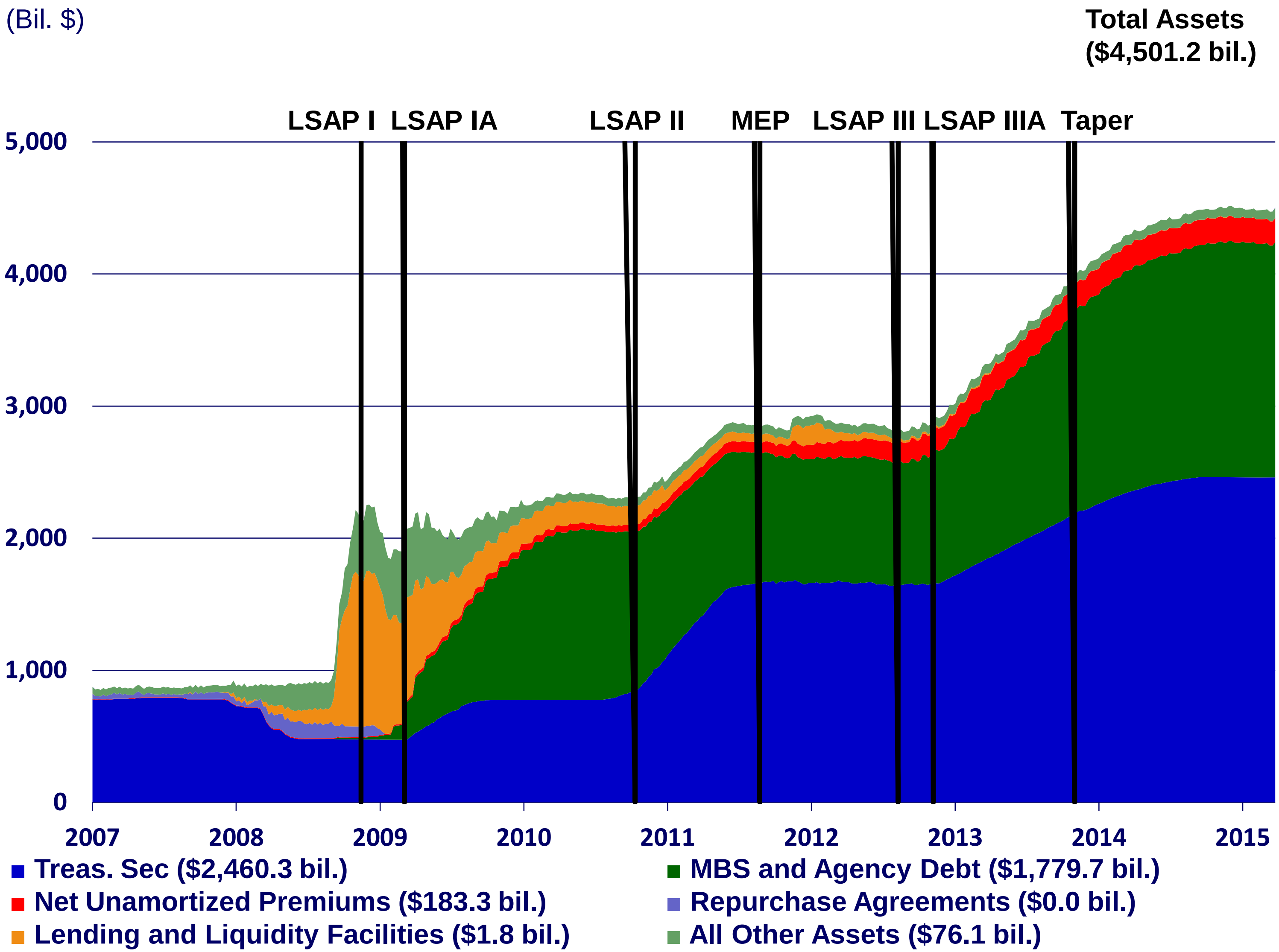
Source: Interest rate projections are from the March 18, 2015 FOMC Summary of Economic Projections.

Forward Guidance April 2015 FOMC Statement

- …it will be appropriate to raise the target range for the federal funds rate when it has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term.

- …currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

Federal Reserve Assets



Monetary Policy Normalization Plan

- **Timing and pace set to achieve policy goals**
- **Federal funds rate will continue to be the key policy rate**
  - Target a 25 bps range initially instead of a single number
- **Interest paid on excess reserves (IOER) primary tool to raise rates**
  - Overnight repurchase and term facilities to play temporary supporting role to degree necessary
- **Reduce size of balance sheet gradually and predictably**
  - End (or phase out) reinvestments sometime after first rate hike
  - In long-run, reduce balance sheet to smallest level consistent with efficient implementation of monetary policy
    - Carpenter et al.* estimates show this occurring around 2020

*"The Federal Reserve's Balance Sheet and Earnings: A Primer and Projections." Seth B. Carpenter, Jane E. Ihrig, Elizabeth C. Klee, Daniel W. Quinn, and Alexander H. Boote. FEDS working paper 2013-01