Fed Unfiltered

FED REPORTS - Best of the Week

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KC Fed – QE Depressed Long-Term Rates by 1.60%

- "In this article, we attempt to quantify the accommodation stemming from the expansion of the Federal Reserve's balance sheet from 2020 to 2022 and discuss the challenges policymakers may face in removing it. We present evidence that the Federal Reserve's expanded balance sheet, with a large portfolio of long-duration assets, has provided a significant amount of policy accommodation in recent years, depressing long-term interest rates by about 1.60 percentage points as of early 2022. We also argue that the FOMC's plan to remove this accommodation through the passive runoff of maturing securities, rather than outright asset sales, may prove limiting. Based on the 2017 episode of QT, as only soon-to-mature Treasury securities run off the balance sheet and prepayments of the Federal Reserve's mortgage holdings slow, we project that the downward pressure the balance sheet is currently placing on longer-term interest rates will only gradually reverse."
- "The median estimate from our meta-analysis suggests that every $100 billion in 10-year equivalents purchased by the Federal Reserve reduces the 10-year Treasury yield by 4.5 basis points. To arrive at a measure of the accommodation stemming from the Federal Reserve's balance sheet, we apply this median estimate to the size of the duration-adjusted SOMA portfolio scaled relative to the size of the economy. By this measure, the Federal Reserve's balance sheet is providing significant accommodation, depressing the 10-year Treasury by roughly 160 basis points as of the first quarter of 2022."
  https://fedunfiltered.com/kc-fed-report-the-evolving-role-of-the-feds-balance-sheet-effects-and-challenges/

SF Fed – News Does Drive Inflation Expectations

- "In this Economic Letter, we examine the role of the news media in driving the gap between households' and professional forecasters' inflation expectations. To do this, we construct novel measures of both the volume and the tone of inflation news coverage."
- "We find that an increase in negative inflation news tends to push household expectations away from professional forecasts, while favorable inflation news tends to shrink the gap. We find that the increased volume and negativity of inflation news explains one-fourth of the widening gap between household expectations and professional forecasts from June 2021 to June 2022."
  https://fedunfiltered.com/sf-fed-report-can-the-news-drive-inflation-expectations/

Fed Board – The Risks and Benefits of a CBDC

- "This paper provides an overview of the literature examining how the introduction of a CBDC would affect the banking sector, financial stability, and the implementation and transmission of monetary policy in a developed economy such as the United States. A CBDC has the potential to improve welfare by reducing financial frictions in deposit markets, by boosting financial inclusion, and by improving the transmission of monetary policy. However, a CBDC also entails considerable risks, including the possibility of bank disintermediation and associated contraction in bank credit, as well as potential adverse effects on financial stability. A CBDC also raise important questions regarding monetary policy implementation and the footprint of central banks in the financial system. Ultimately, the effects of a CBDC depend critically on its design features, particularly remuneration."
  https://fedunfiltered.com/fed-board-report-the-macroeconomic-implications-of-cbdc-a-review-of-the-literature/

Richmond Fed – Supply Chains, Relationships were Key

- "In sum, we investigate the features associated with more resilient supply chains. We look at the COVID-19 lockdowns in India as a large shock that disrupted supply chains to varying degrees. Firms with more complex supply chains proved to be more resilient to the shock by having lower input decreases and maintaining relationships with their suppliers. Firms that transacted with fewer and more important suppliers also fared better, as the buyer-supplier relationships were less likely to break following the lockdowns."
- "On the other hand, firms that bought products with many available suppliers in the market experienced more separations and larger input decreases, as they likely invested less in maintaining relationships with their suppliers prior to the shock. This evidence from Indian firms provides insights into important policy questions regarding firms' preparation for and mitigation of future supply chain shocks."
  https://fedunfiltered.com/richmond-fed-report-what-makes-supply-chains-more-resilient-to-economic-shocks/

NY Fed – Credit Card Balances are on the Rise

- "In conclusion, the aggregate data in our Quarterly Report on Household Debt and Credit point to large increases in credit card balances, accompanied by increases in other types of balances as well. New purchases adding to the credit card balance reflect robust demand amid higher prices of goods and services. The CCP sheds light on the more rapidly increasing debt burdens and delinquency of the younger and less wealthy card holders, and may suggest disparate impacts of inflation. However, though delinquency rates are rising they remain low by historical standards and suggest consumers are managing their finances through the period of increasing prices."
  https://fedunfiltered.com/ny-fed-report-balances-are-on-the-rise-so-who-is-taking-on-more-credit-card-debt/

Quote of the Week

"Life is ours to be spent, not to be saved."
--- D. H. Lawrence