

The Federal Reserve and the Economic Outlook

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County Treasurers Association of Ohio
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The views expressed herein are those of the author and not necessarily those of the Federal Reserve Bank of Cleveland or the Board of Governors of the Federal Reserve System

- Overview of the Federal Reserve
- Macroeconomic conditions
- Labor market
- Inflation
- Interest rates

What is “The Fed”?



The Federal Reserve System – America's Central Bank



THE FEDERAL RESERVE ACT

creates the **Federal Reserve System** and specifies how Board members and Reserve Bank presidents are chosen.



PRESIDENT

nominates members of the **Board of Governors**, the chief governing body of the Federal Reserve System, and nominates one Board member to be Chair and one to be Vice Chair.



SENATE

confirms Board members appointed by the President to staggered 14-year terms, and confirms the nominations of Board members to be either Chair or Vice Chair.



BOARD OF GOVERNORS

Seven Board members guide all aspects of the operation of the Federal Reserve System and its five key functions.



FEDERAL RESERVE BANKS

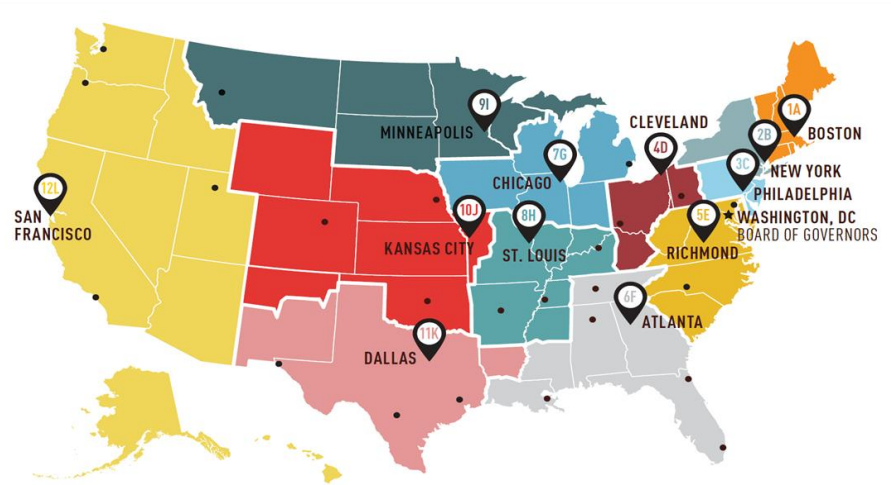
12 Reserve Banks examine and supervise financial institutions, act as lenders of last resort, and provide U.S. payment system services, among other things.



FEDERAL OPEN MARKET COMMITTEE

Seven Board members and five Reserve Bank presidents direct open market operations that sets U.S. monetary policy to promote maximum employment, stable prices, and moderate long-term interest rates in the U.S. economy.

1977 Amendment to the Federal Reserve Act: "...to promote effectively the goals of **maximum employment**, **stable prices**, and moderate long-term interest rates."



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What does the Fed do?



MONETARY POLICY



FINANCIAL STABILITY



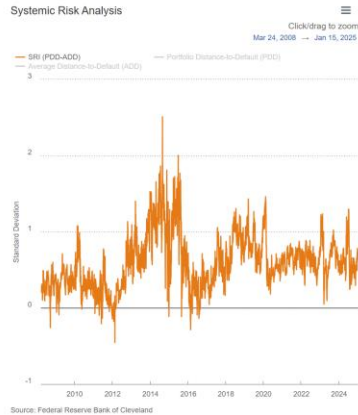
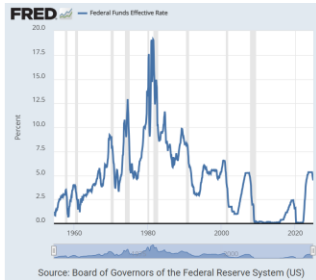
SUPERVISION & REGULATION



PAYMENT SYSTEMS



CONSUMERS & COMMUNITIES



FED SMALL BUSINESS

The Federal Reserve Bank of Cleveland (FRBC)

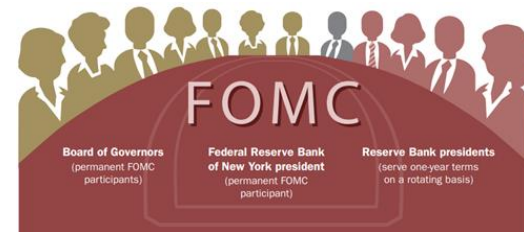
- FRBC serves the Fourth Federal Reserve District which includes all of Ohio, western Pennsylvania, eastern Kentucky, and the panhandle of West Virginia.
- Main office in Cleveland, branches in Cincinnati and Pittsburgh.
- FRBC employs a total of ~1,100 people.



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But what about interest rates?

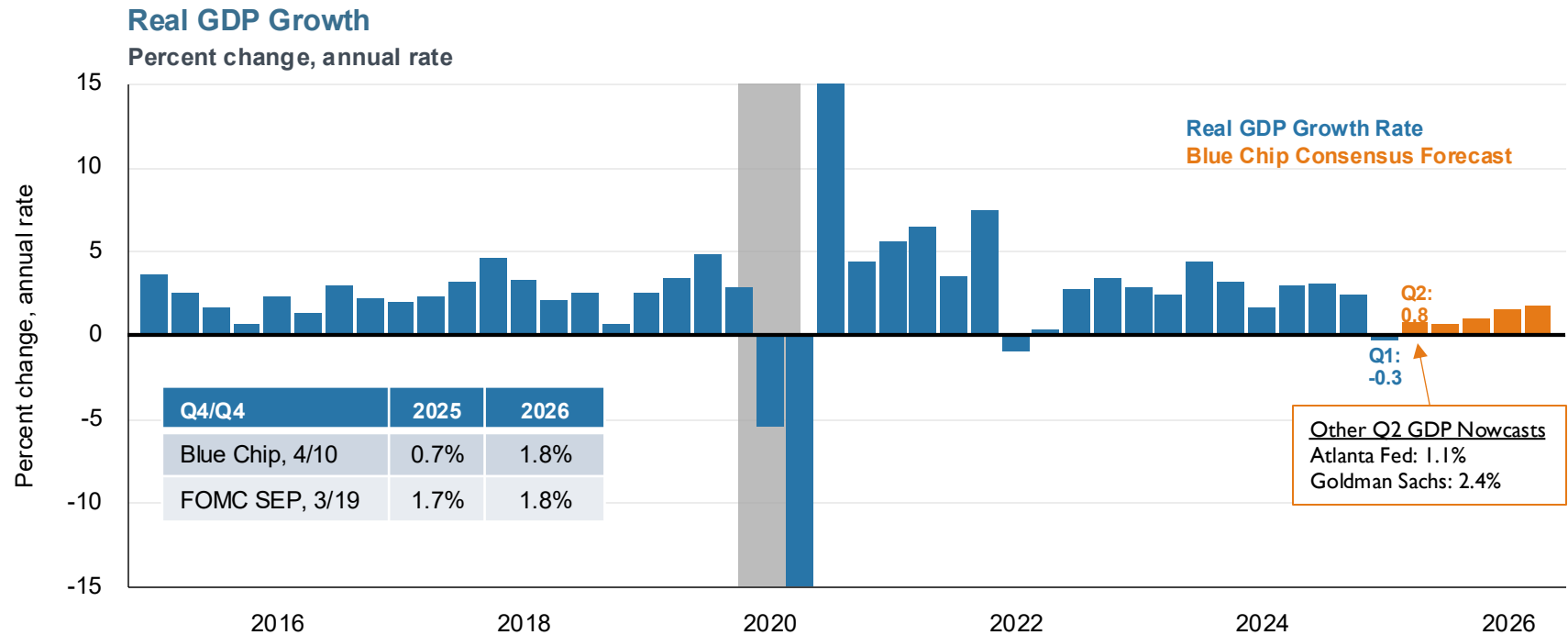
- Decided by the Federal Open Market Committee (FOMC)
 - A committee within the Fed that is responsible for open market operations
 - 8 scheduled meetings per year; 7 Governors + 12 Reserve Bank Presidents
 - 12 voting members at each meeting: 7 Governors + President of FRBNY + 4 rotating Reserve Bank Presidents
- Conducts monetary policy to promote maximum employment and price stability (inflation that averages 2 percent over time)
- Uses two main strategies to achieve mandate:
 - Adjusts the level of short-term interest rates
 - Since 2008, purchases Treasury securities and securities issued by federal agencies to influence long term interest rates



Macroeconomic Conditions



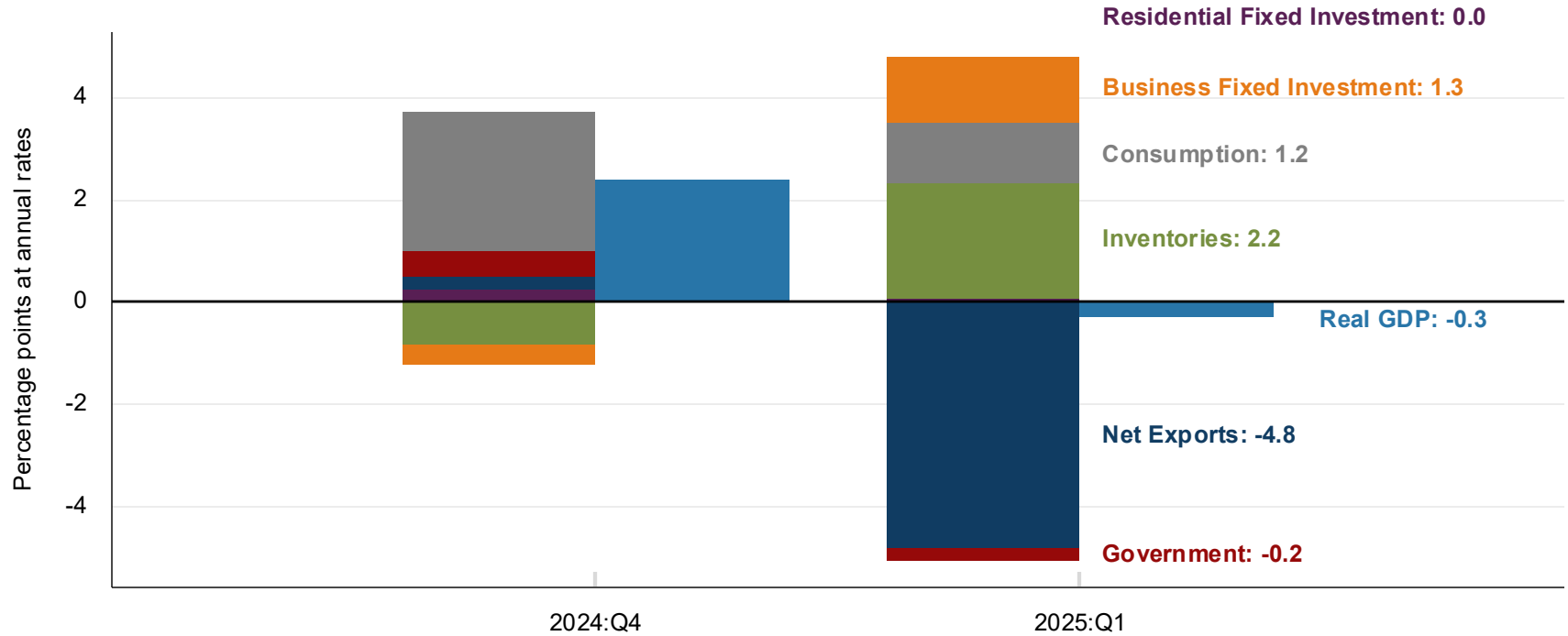
GDP declined in the first quarter on strong imports, and uncertainty clouds the outlook



Source: Bureau of Economic Analysis and Blue Chip Economic Indicators via Haver Analytics.
Last Data Points: Real GDP, 2025:Q1; Forecasts through 2026:Q2 as of April 10, 2025.

Q1 GDP decline reflects “pull-ahead” activity

Contributions to GDP growth by component

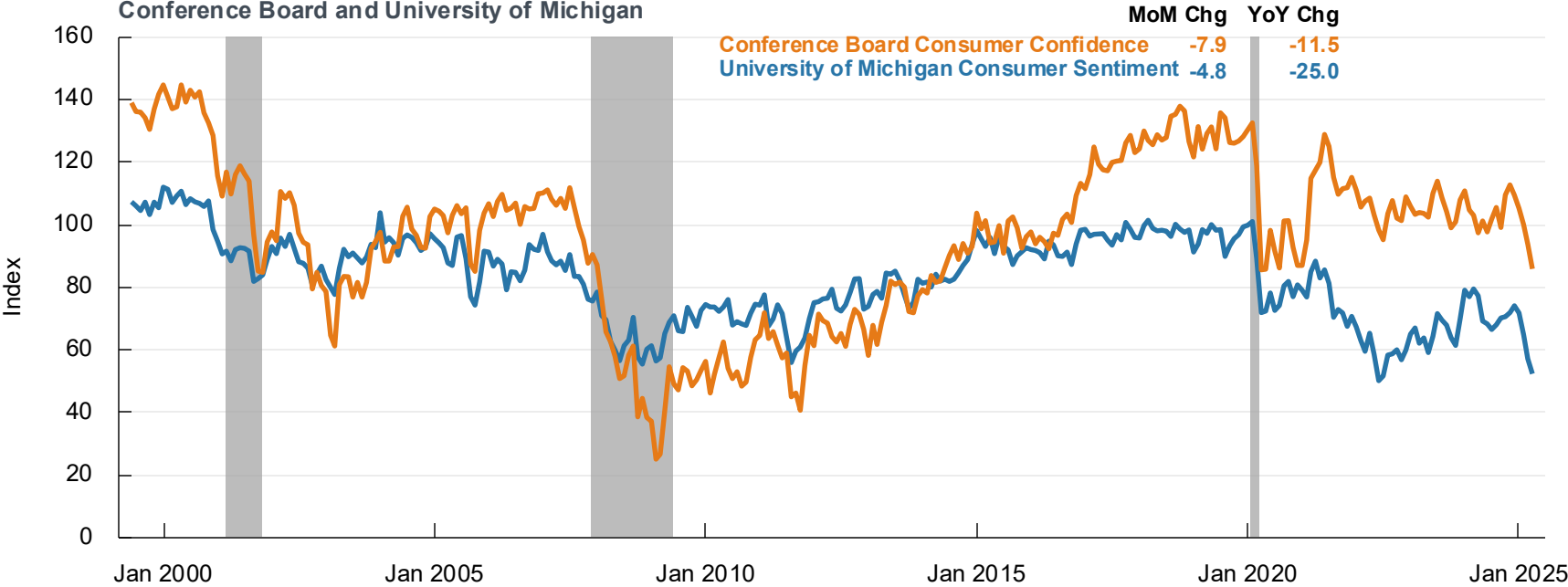


Source: Bureau of Economic Analysis via Haver Analytics.
Last Data Point: 2025:Q1.

Consumer confidence fell for five straight months

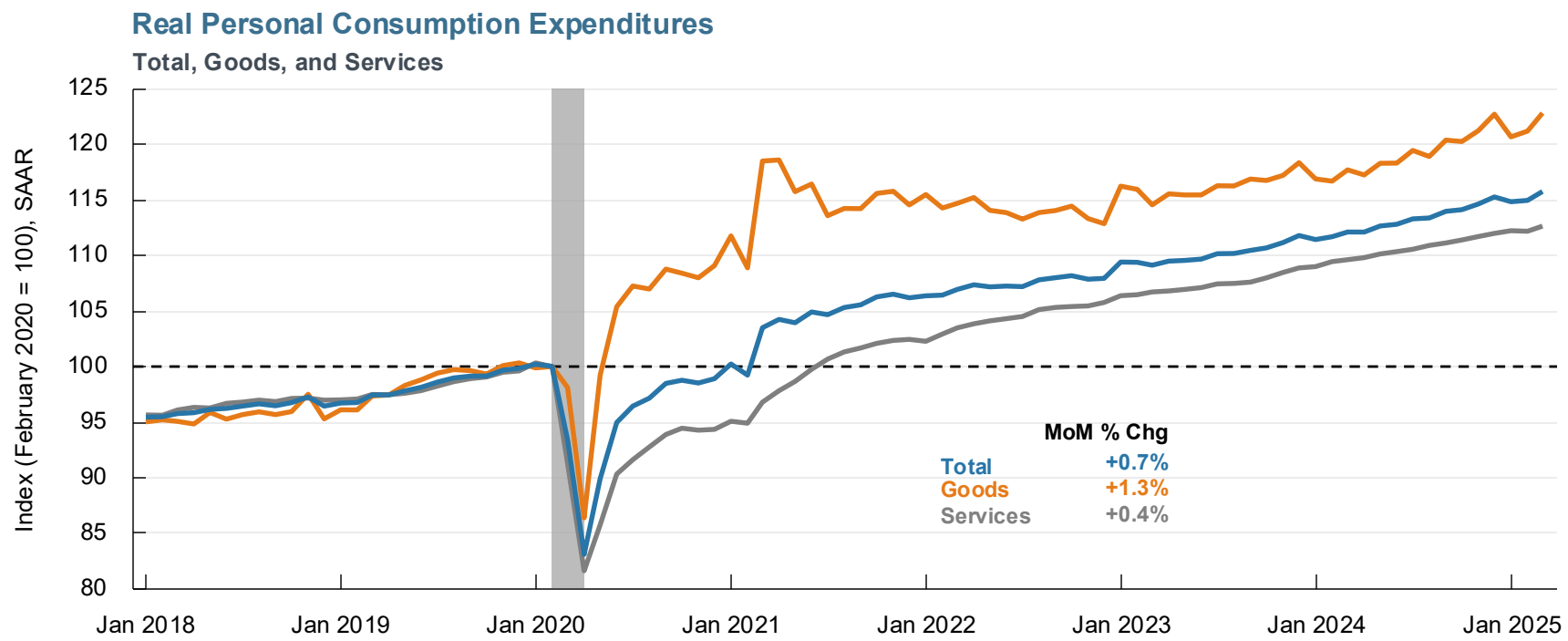
Consumer Attitudes

Conference Board and University of Michigan



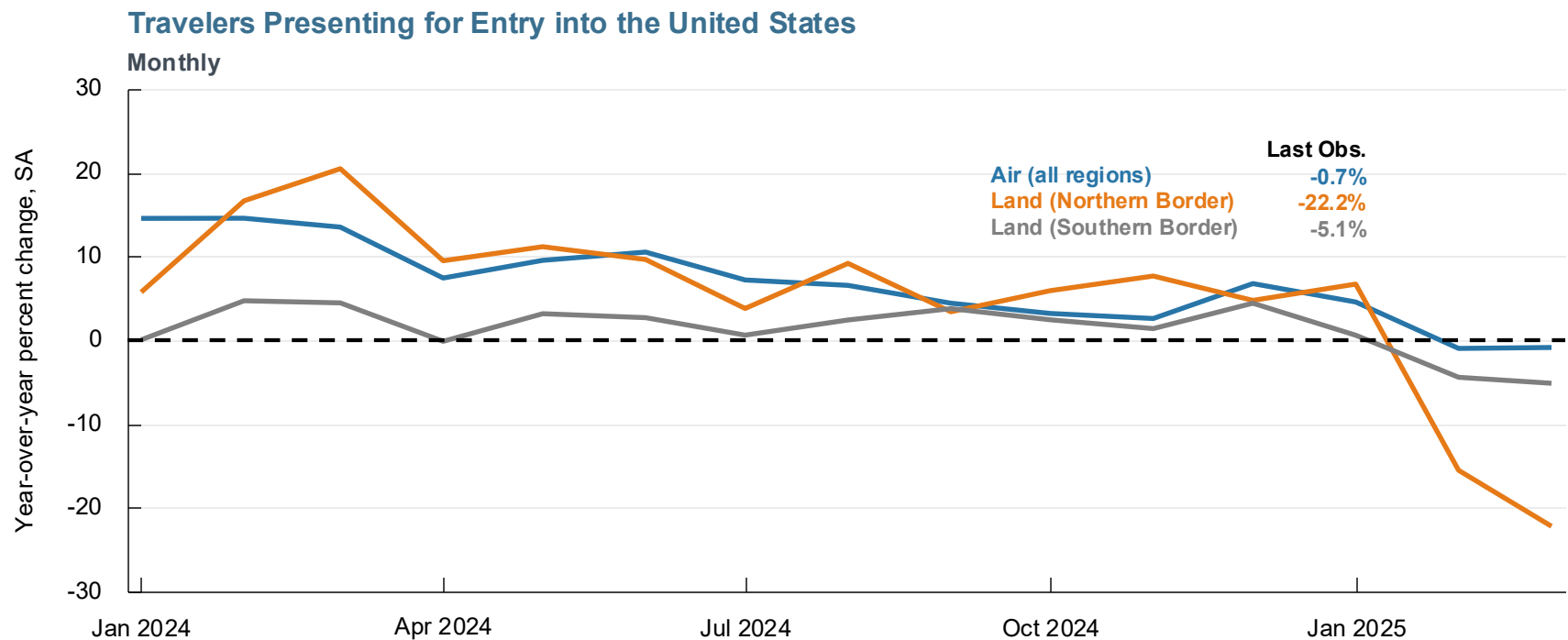
Source: Conference Board and University of Michigan via Haver Analytics.
Conference Board Consumer Confidence Index (1985 = 100, SA).
University of Michigan Consumer Sentiment Index (1966:Q1 = 100, NSA).
Last Data Points: UMichian, April 2025; Conference Board, April 2025.

Consumer spending was weak in January and February; March was stronger in part because of auto sales



Source: Bureau of Economic Analysis via Haver Analytics.
Last Data Point: March 2025.

Land crossings from Canada declined significantly; the outlook for travel and tourism is weak

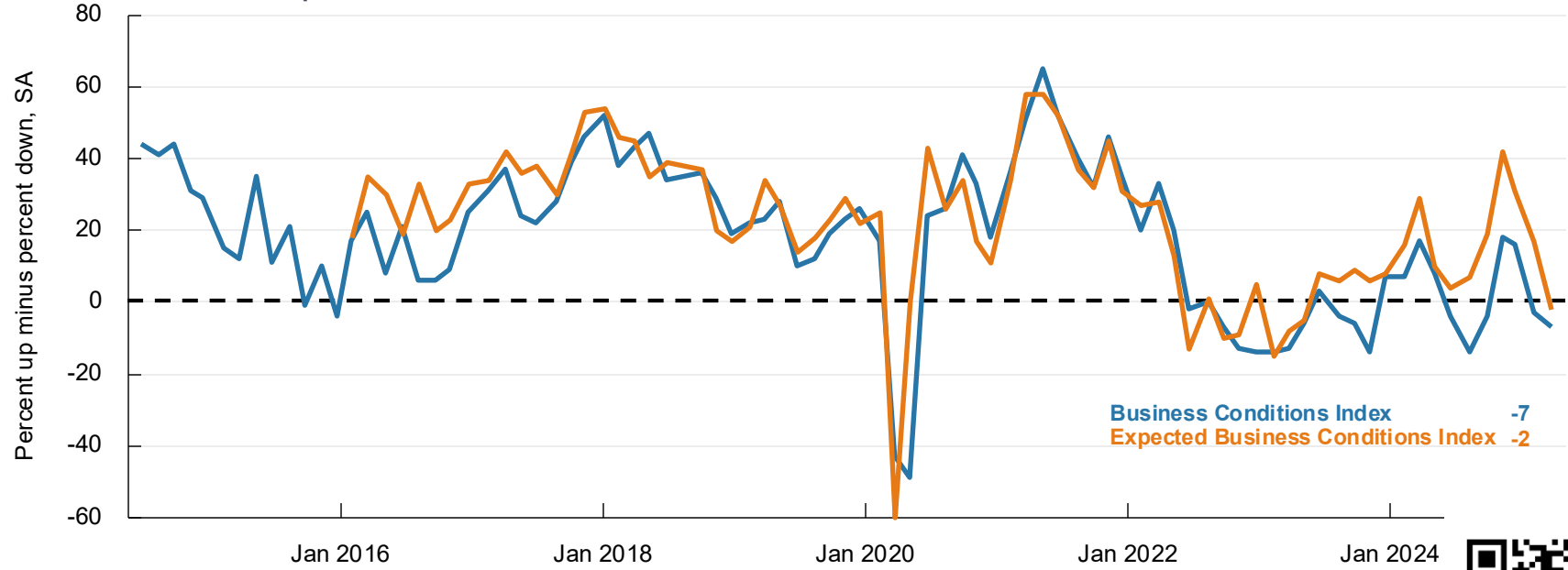


Sources: United States Customs and Border Protection Office of Field Operations and FRBC calculations.
Note: May not include all inbound travelers. Not all travelers are deemed admissible for entry to the U.S.
Last data point: March 2025

Business contacts' expectations for customer demand weakened since the start of the year

Survey of Regional Conditions and Expectations (SORCE)

Current and Expected Business Conditions Diffusion Indexes



Source: Federal Reserve Bank of Cleveland
Average collection date of last survey: March 30, 2025

See more data here



The S&P 500 has nearly recovered from its losses since April 2, but is down from its recent record

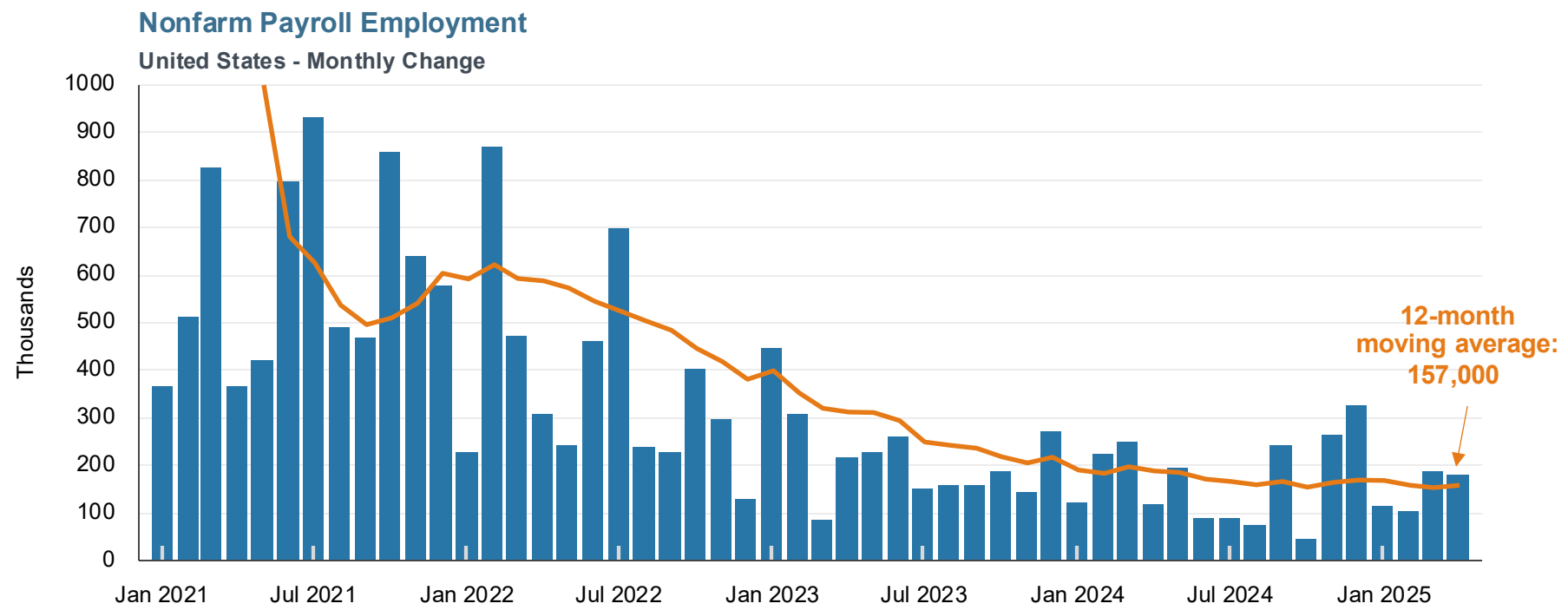


Source: Standard & Poor's via Haver Analytics
Last data point: May 9, 2025

Labor Market

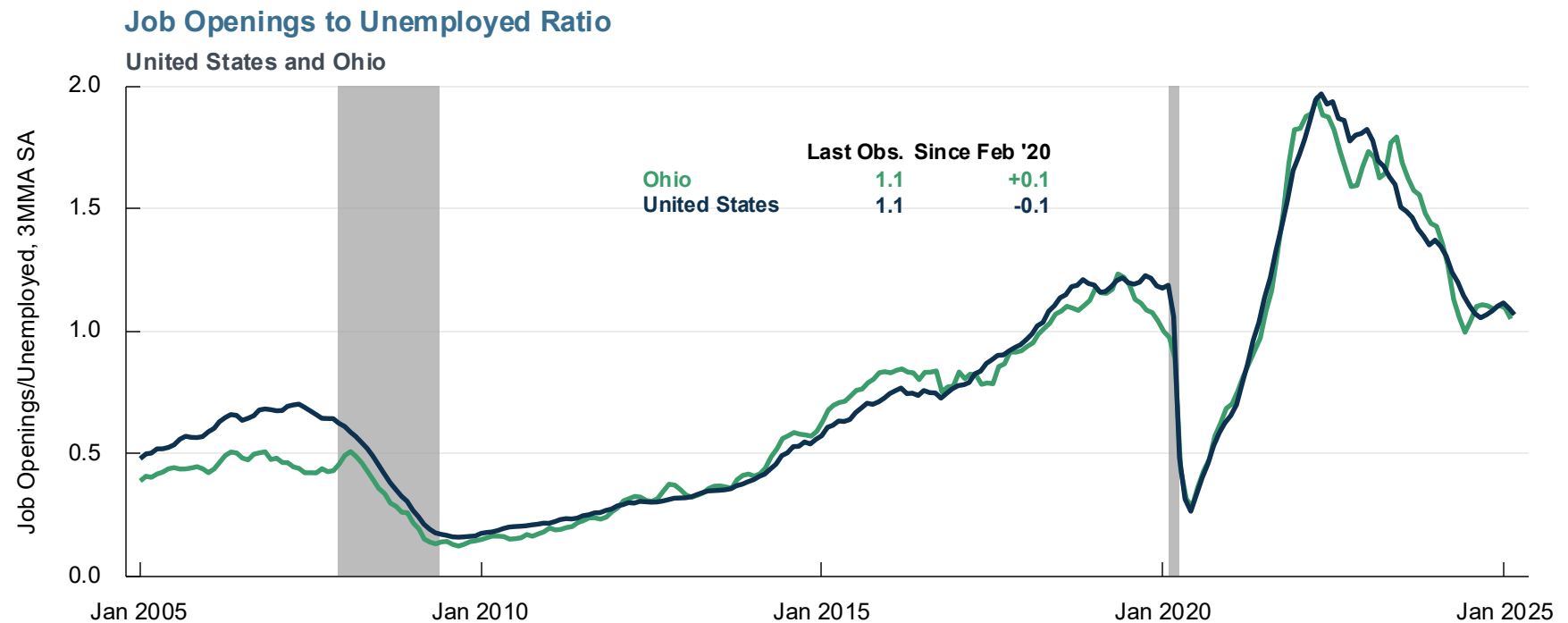


Payroll gains have been solid



Source: Bureau of Labor Statistics via Haver Analytics
Last data point: April 2025

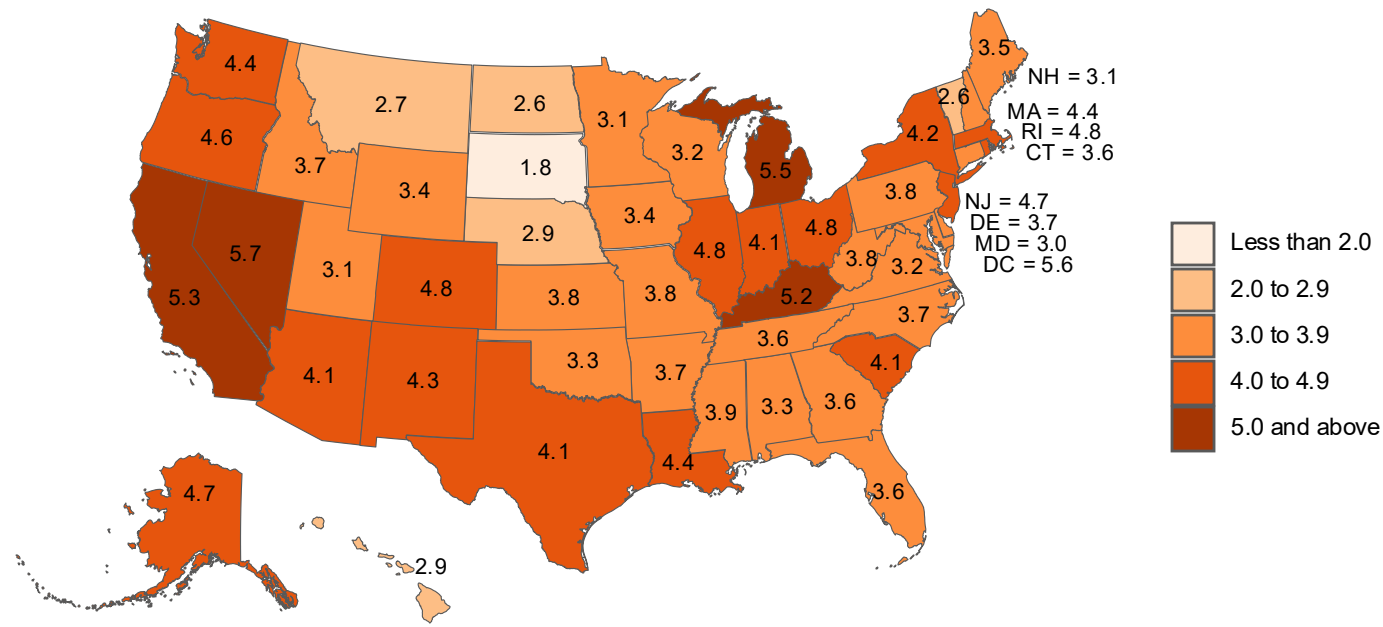
Job openings have fallen



Source: Bureau of Labor Statistics via Haver Analytics.
Last Data Point: March 2025 for the United States, February 2025 for Ohio.

Ohio's unemployment rate is somewhat higher than the national average

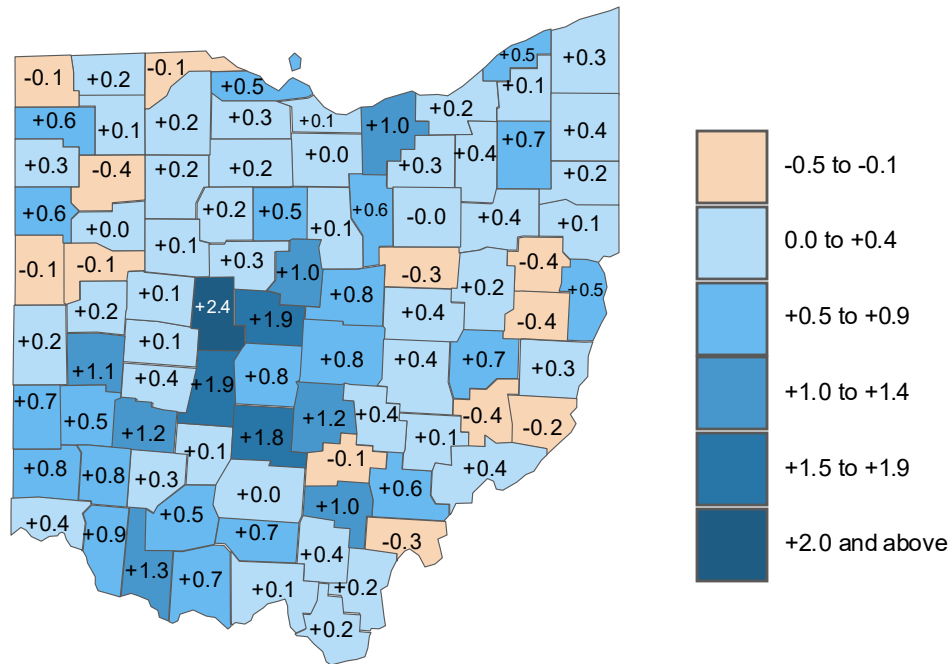
Unemployment Rate by State
Percent, seasonally adjusted



United States: 4.2%
Source: Bureau of Labor Statistics via Haver Analytics.
Data for: March 2025.

Central Ohio continues to see higher net migration than other parts of the state

Net Migration Rate
Percent of population

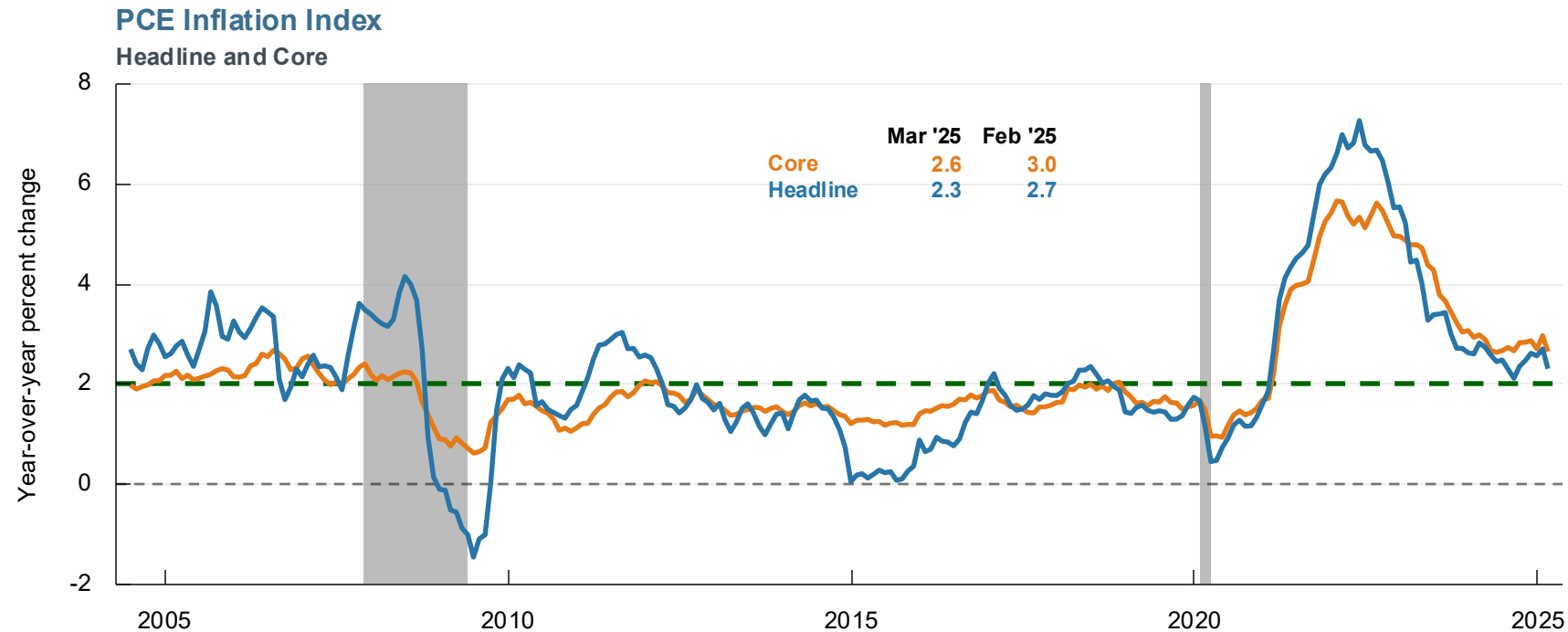


Source: Census Bureau via Haver Analytics
Data For: 2024

Inflation



Inflation fell in March

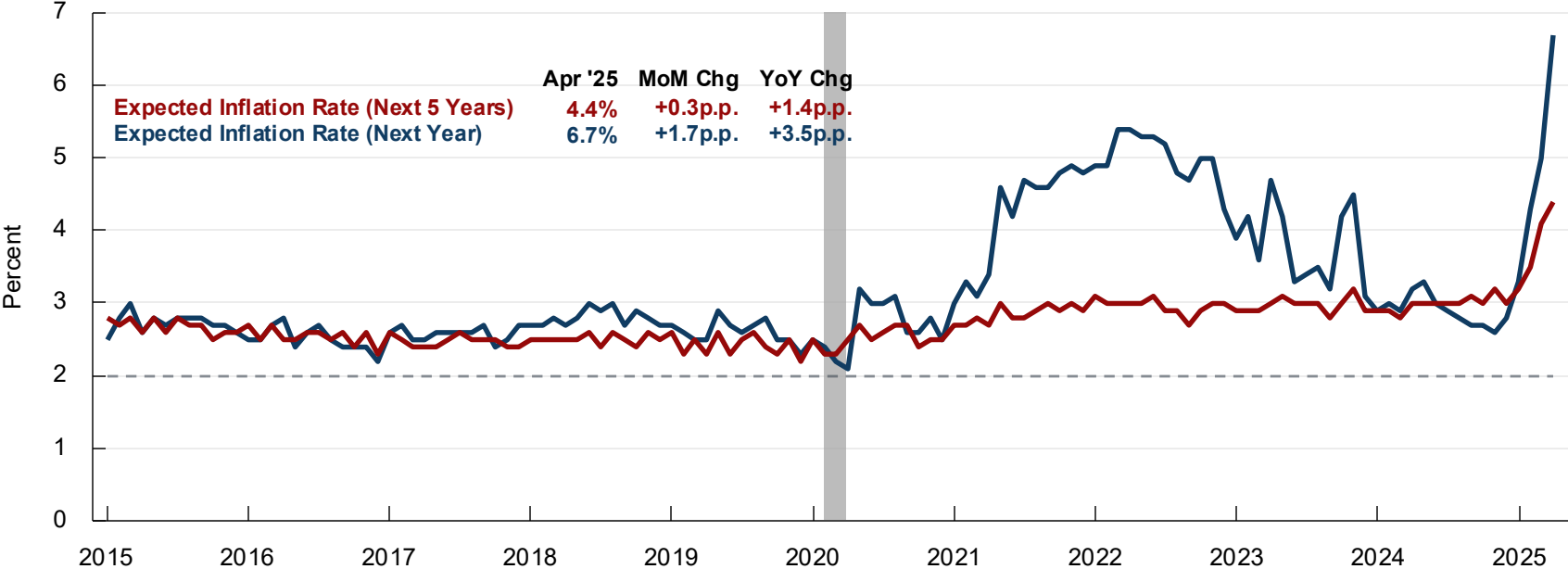


Source: Bureau of Economic Analysis via Haver Analytics
Notes: Core PCE is PCE less food & energy.
Last Data Points: March 2025.

Inflation expectations have risen sharply in recent months

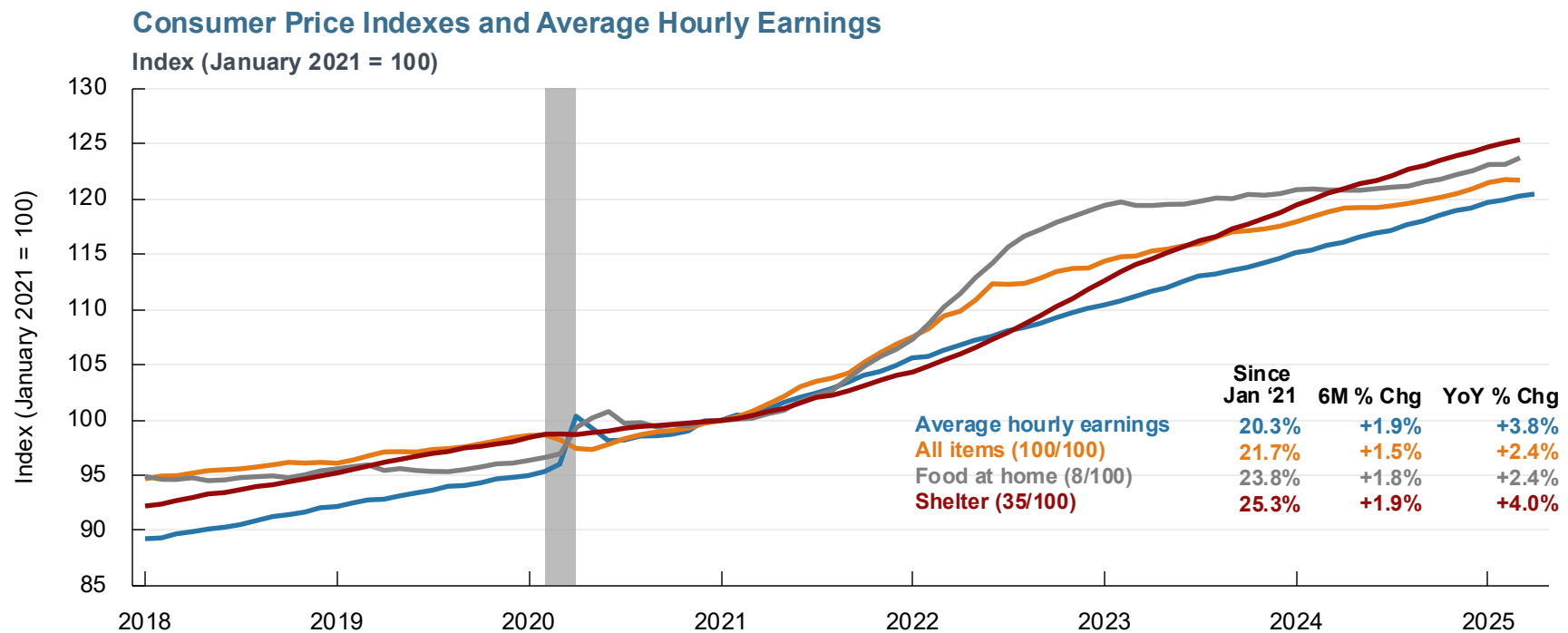
Inflation Expectations, University of Michigan

One-year and five-year expectations



Source: University of Michigan via Haver Analytics.
Note: Dashed line represents FOMC target rate.
Last Data Point: April 2025.

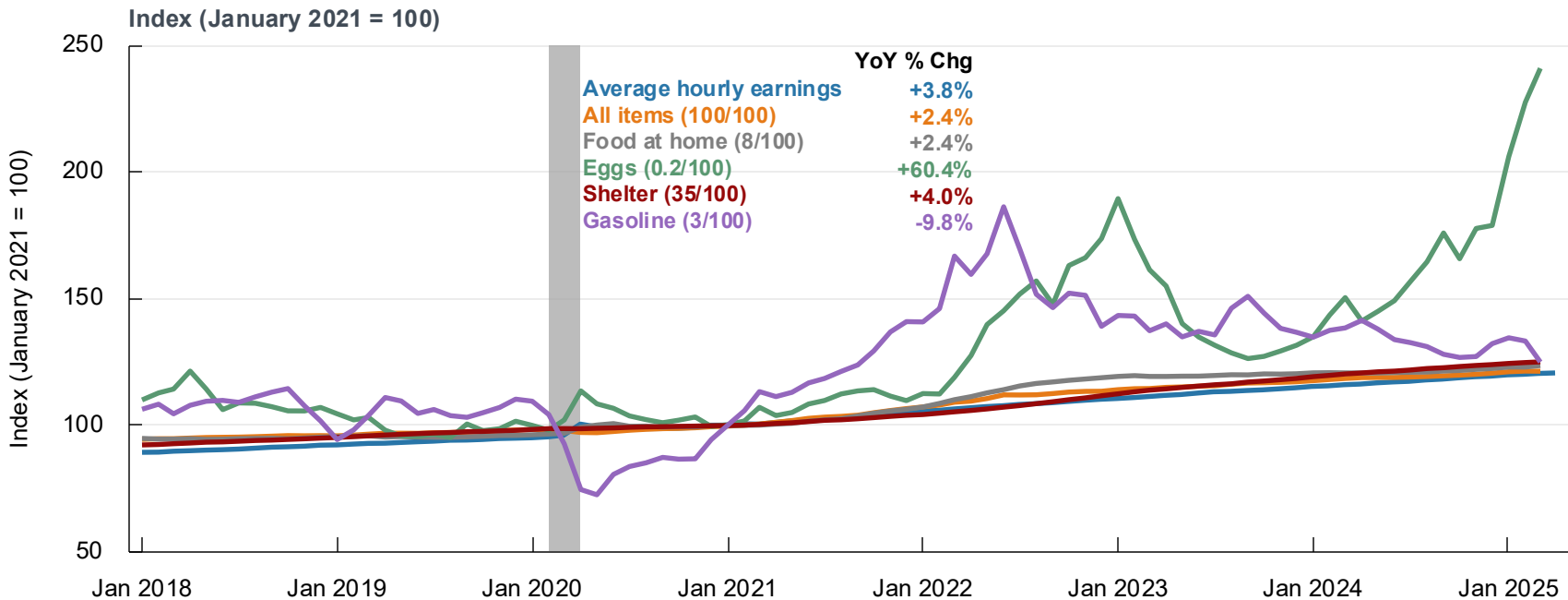
Average hourly earnings have not kept pace with shelter and grocery prices



Source: Bureau of Labor Statistics via Haver Analytics
Last data point: April 2025 for Average Hourly Earnings, March 2025 for CPI. Values shown in legend reference March.
Note: Numbers in parentheses represent relative importance in calculation of CPI.

Gas and egg prices have drawn particular attention

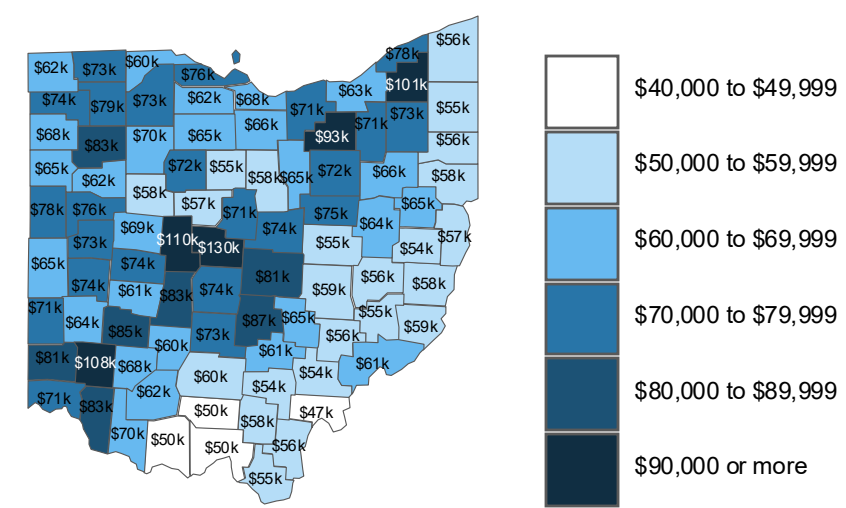
Consumer Price Indexes and Average Hourly Earnings



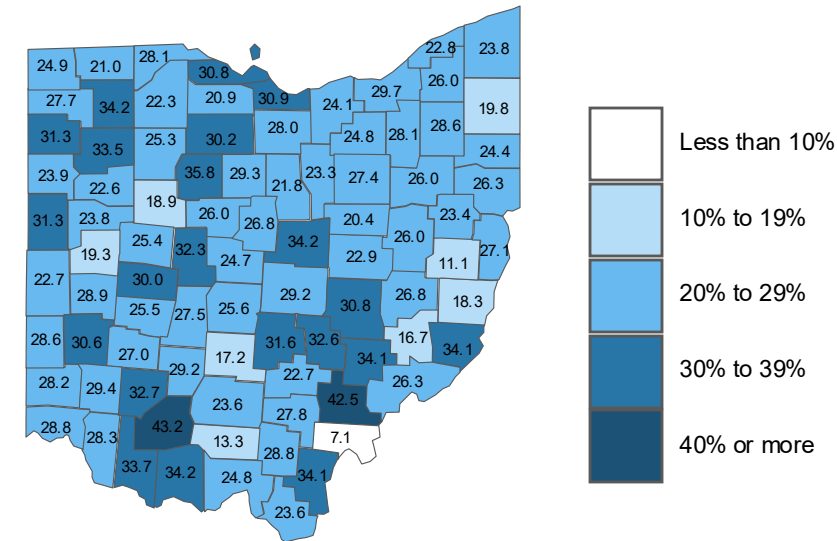
Source: Bureau of Labor Statistics via Haver Analytics
Last data point: April 2025 for Average Hourly Earnings, March 2025 for CPI. Values shown in legend reference March.
Note: Numbers in parentheses represent relative importance in calculation of CPI.

In general, lower-income counties have experienced higher income growth in recent years

Median Household Income
Dollars (nominal)



5-Year Change in Income
Percent

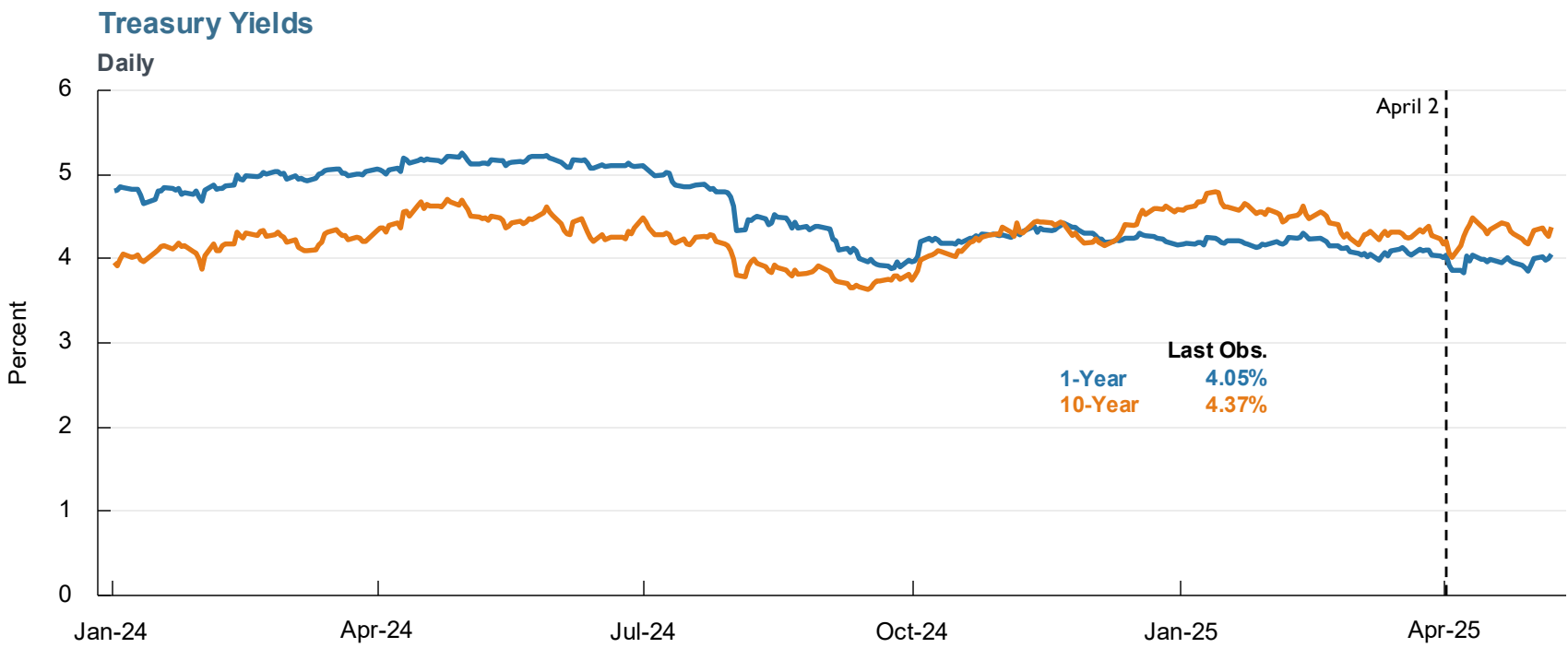


Source: Census Bureau
Data for 2023.

Interest rates

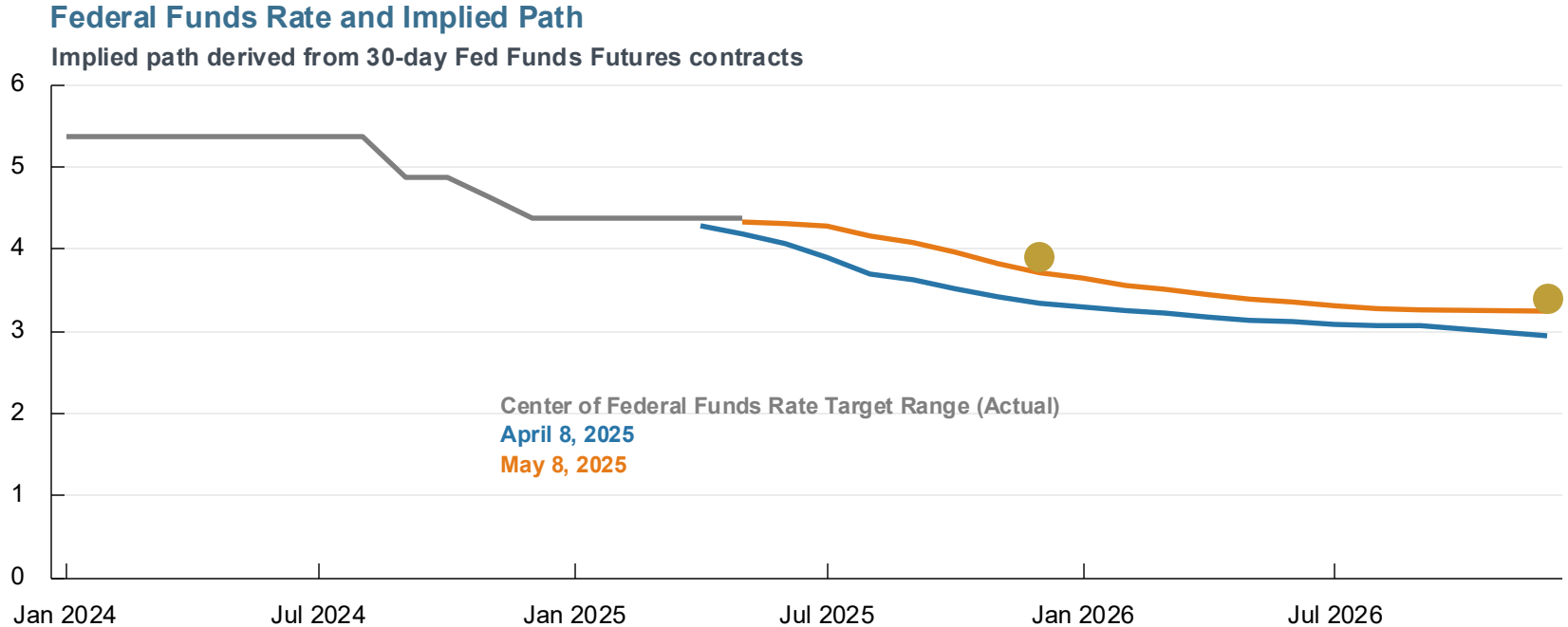


Treasury yields have been volatile in recent weeks



Source: Federal Reserve Board via Haver Analytics.
Last Data Point: May 08, 2025.

The market expects interest rates to decline gradually



Gold dots represent median from March 2025 Summary of Economic Projections.
Source: CME Group and Federal Reserve Board of Governors via Haver Analytics.
Last data point for center of target range: May 2025. Last data point for implied path: December 2026.

Key takeaways

- The economy entered 2025 on solid footing, but incoming data suggests that uncertainty is weighing on activity.
- The labor market appears to be in good shape so far, but there are differences across regions.
- Inflationary progress slowed at the end of last year, and inflation expectations have increased in recent months.
- “The risks of higher unemployment and higher inflation appear to have risen, and we believe that the current stance of monetary policy leaves us well positioned to respond in a timely way to potential economic developments.” – Fed Chair Jerome Powell, FOMC Press Conference, May 7, 2025.

Engage with Us!

- Do you know a business leader who would want to have their voice heard in the crafting of monetary policy?
- Interested in having a Cleveland Fed speaker at your organization's next public event? Receive information on our Speaker's Bureau.
- Questions about the Fed or the economy? Email me: julianne.dunn@clev.frb.org

