



# Interest Rates and Inflation

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Thursday, November 15, 2018





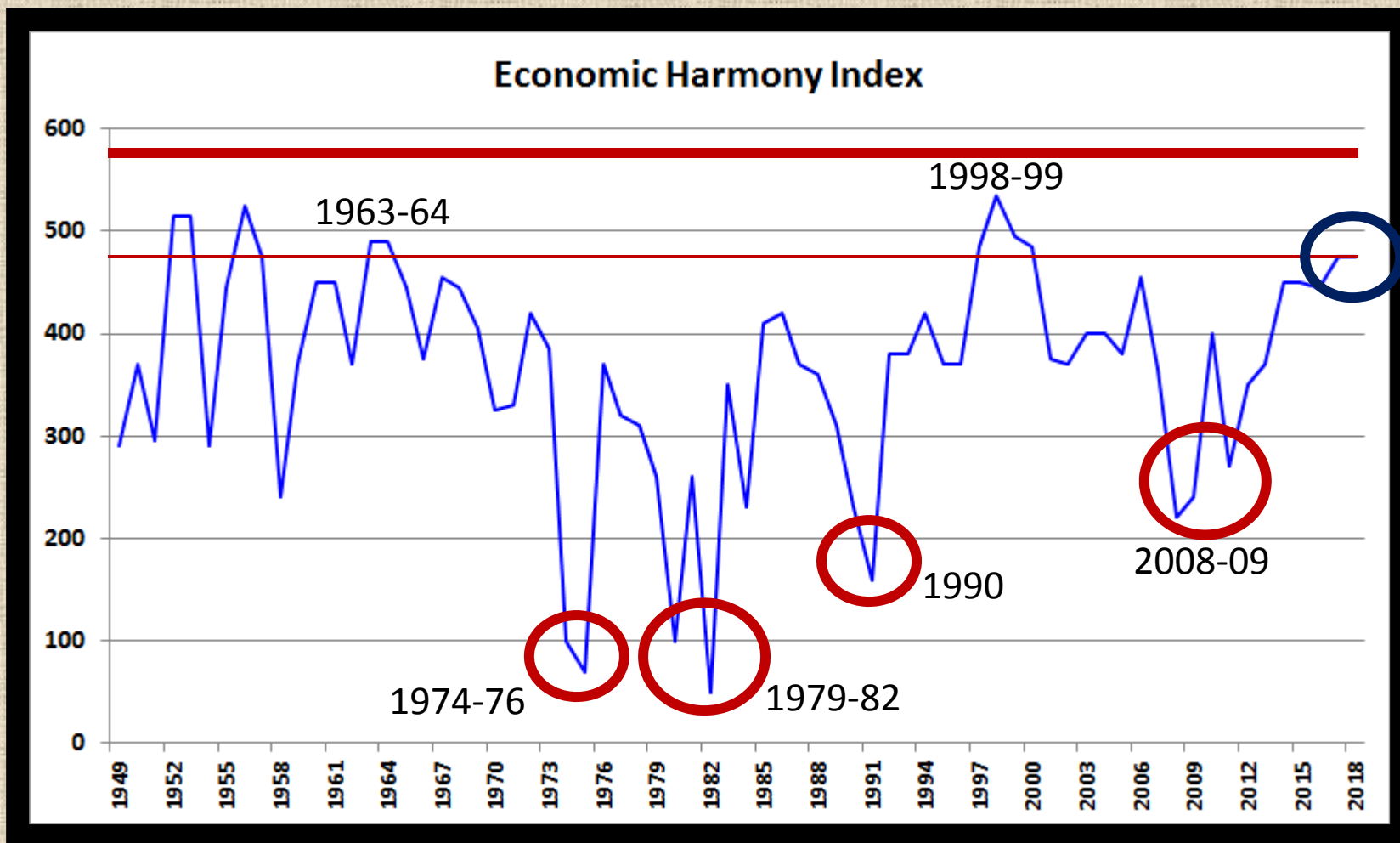
# Overview



- **The Best of Times – the Worst of Times**
- **Interest Rates**
- **Price Inflation**
- **Money Issues**
- **Fed Policy**
- **5 Monetary Policy Questions**
- **The Big Picture**
- **Outlook for 2019**



# The Best of Times - The Worst of Times

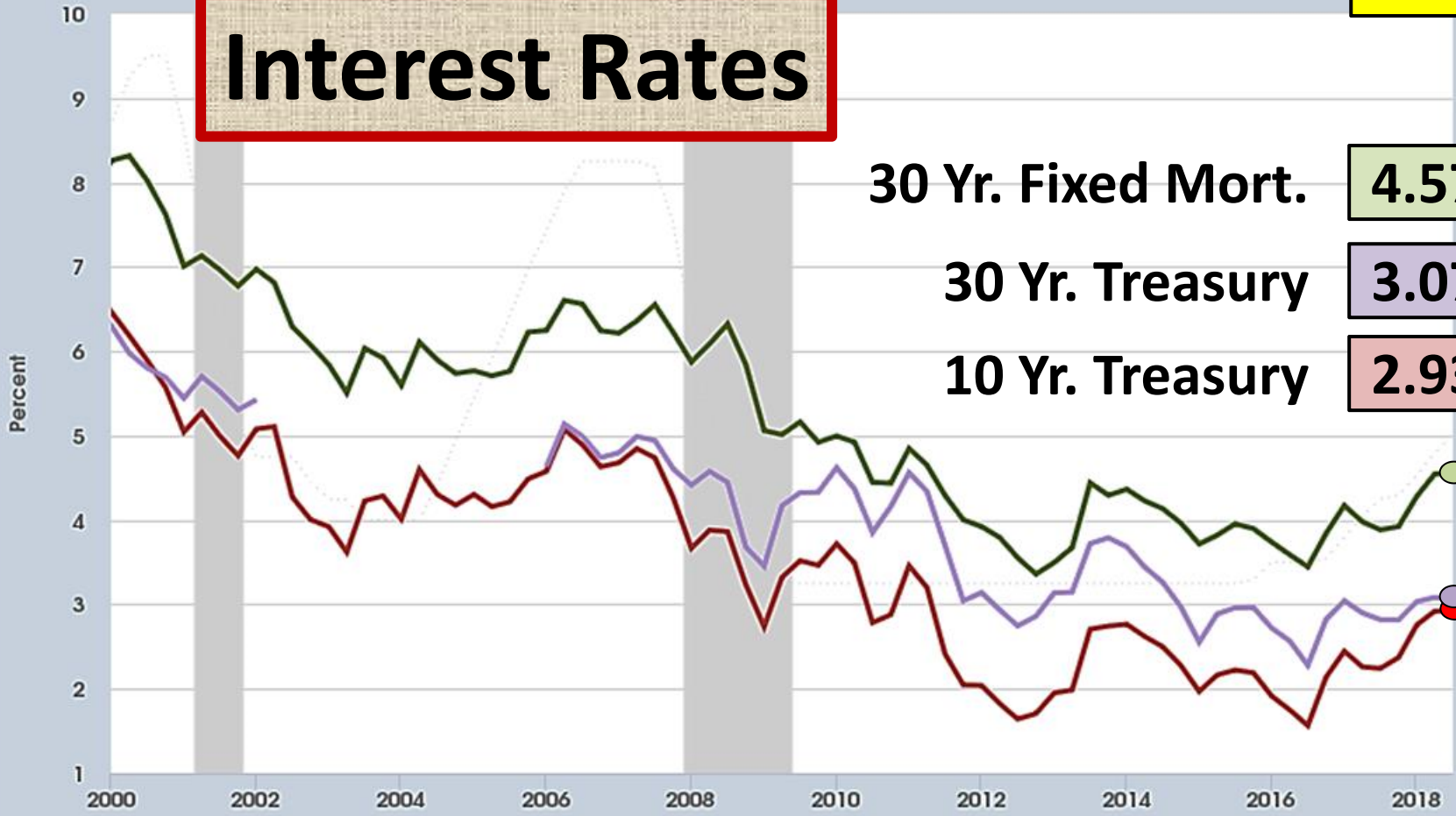


FRED

- Bank Prime Loan Rate
- 10-Year Treasury Constant Maturity Rate
- 30-Year Fixed Rate Mortgage Average in the United States
- 30-Year Treasury Constant Maturity Rate

Q3  
2018

# Interest Rates



**30 Yr. Fixed Mort.** 4.57%

**30 Yr. Treasury** 3.07%

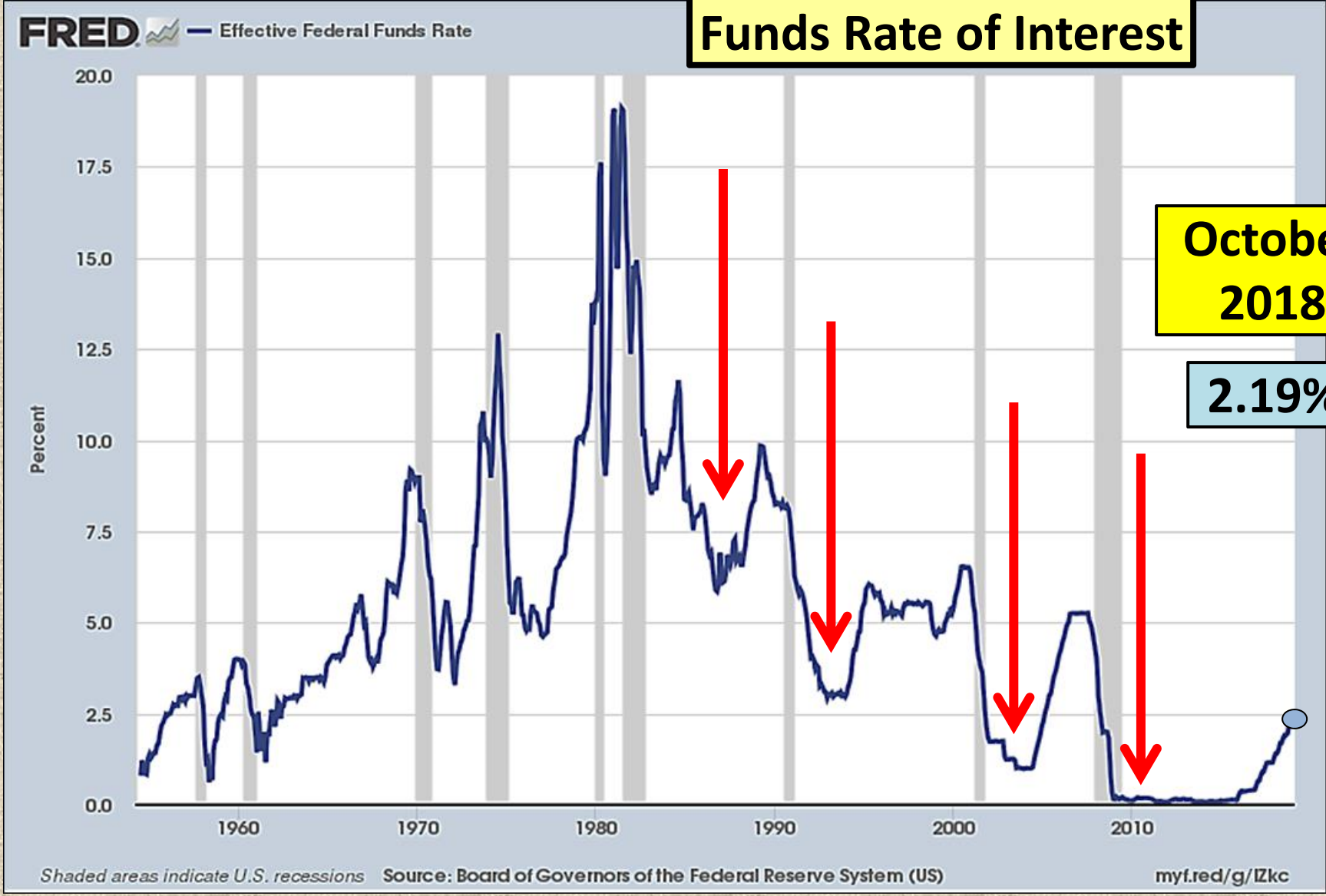
**10 Yr. Treasury** 2.93%

Shaded areas indicate U.S. recessions

Sources: Board of Governors, FHLMC

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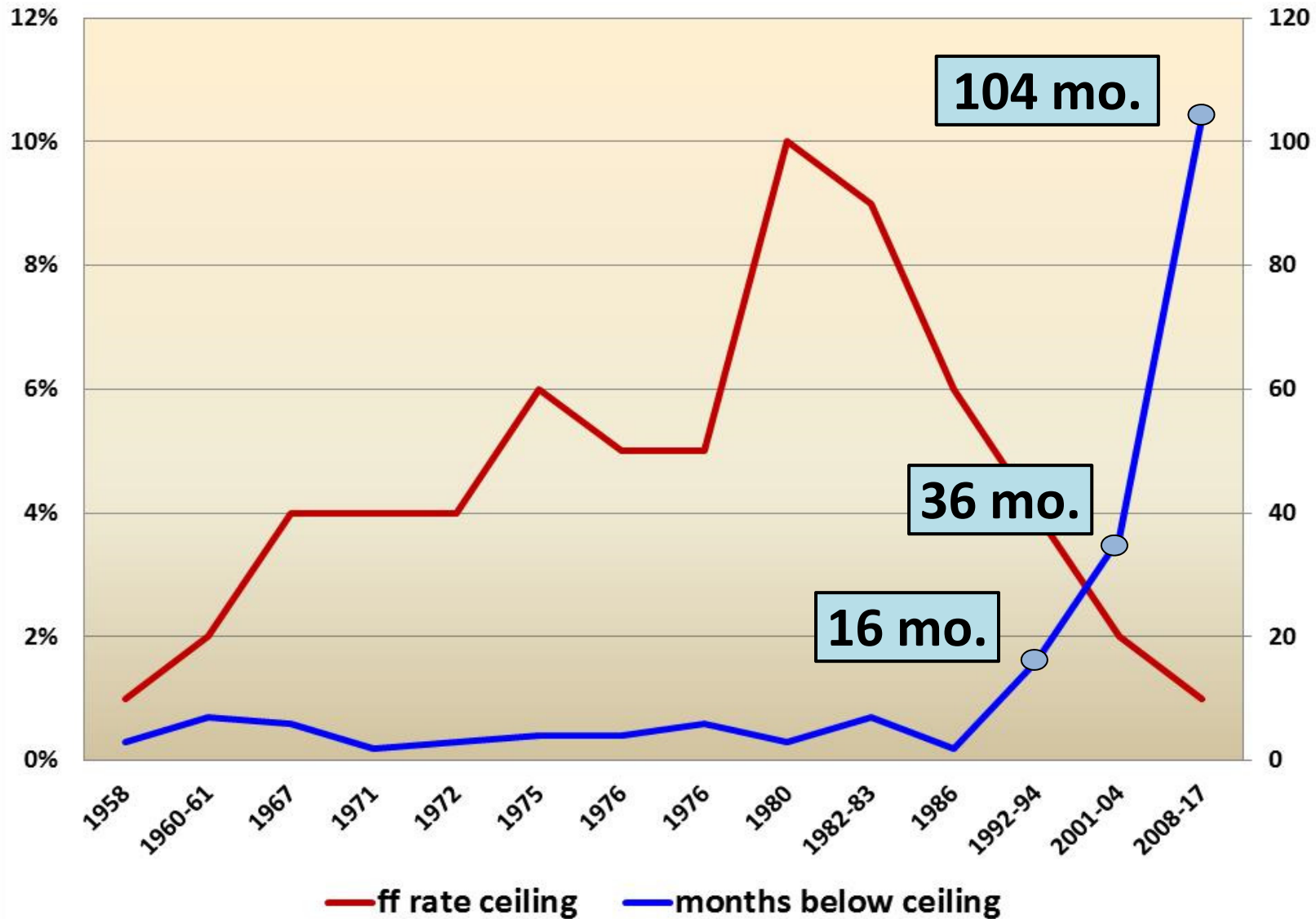
# Effective Federal Funds Rate of Interest



**October  
2018**

**2.19%**

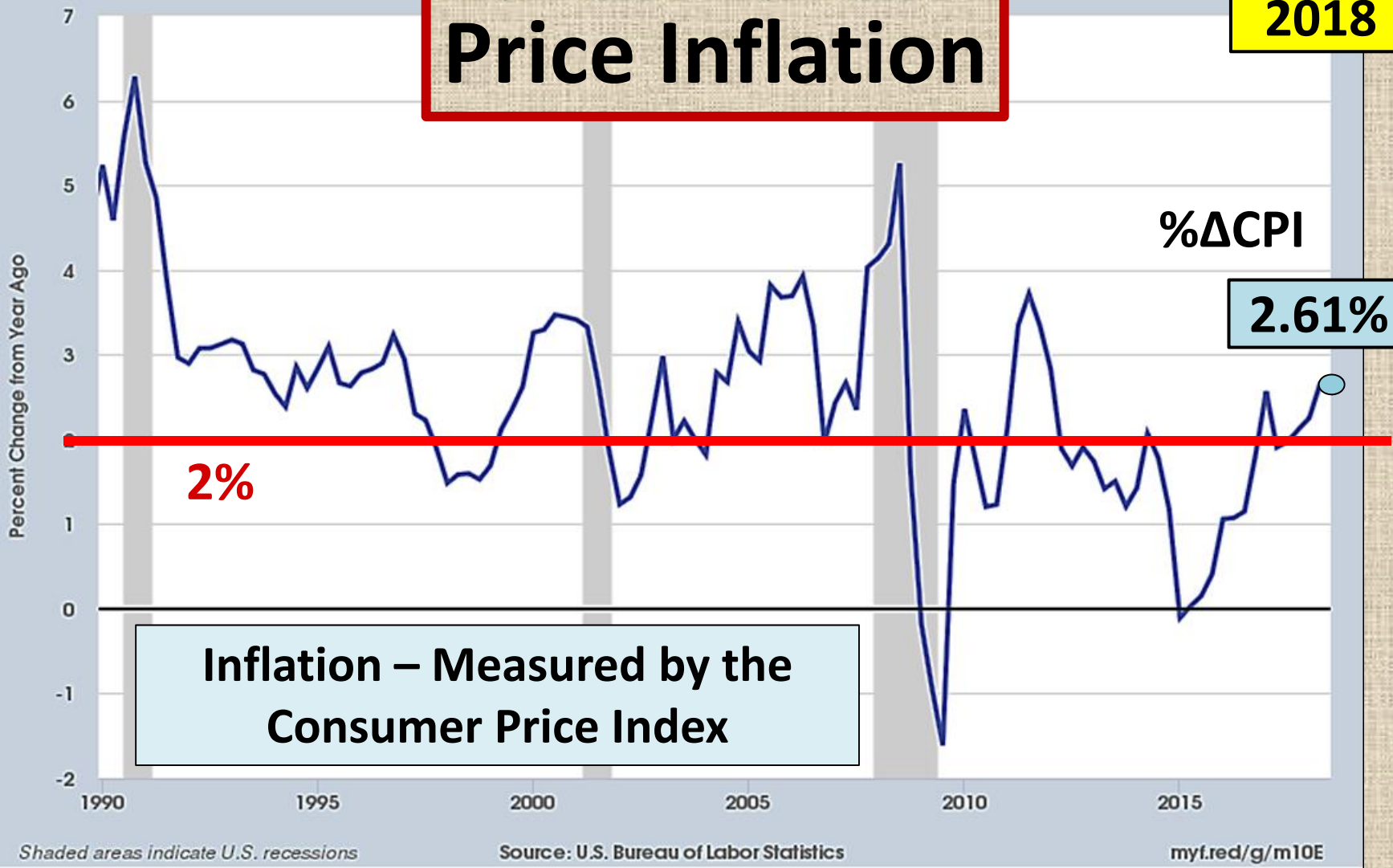
## Federal Reserve Accommodative Policy 1958-2018



FRED — Consumer Price Index for All Urban Consumers: All Items

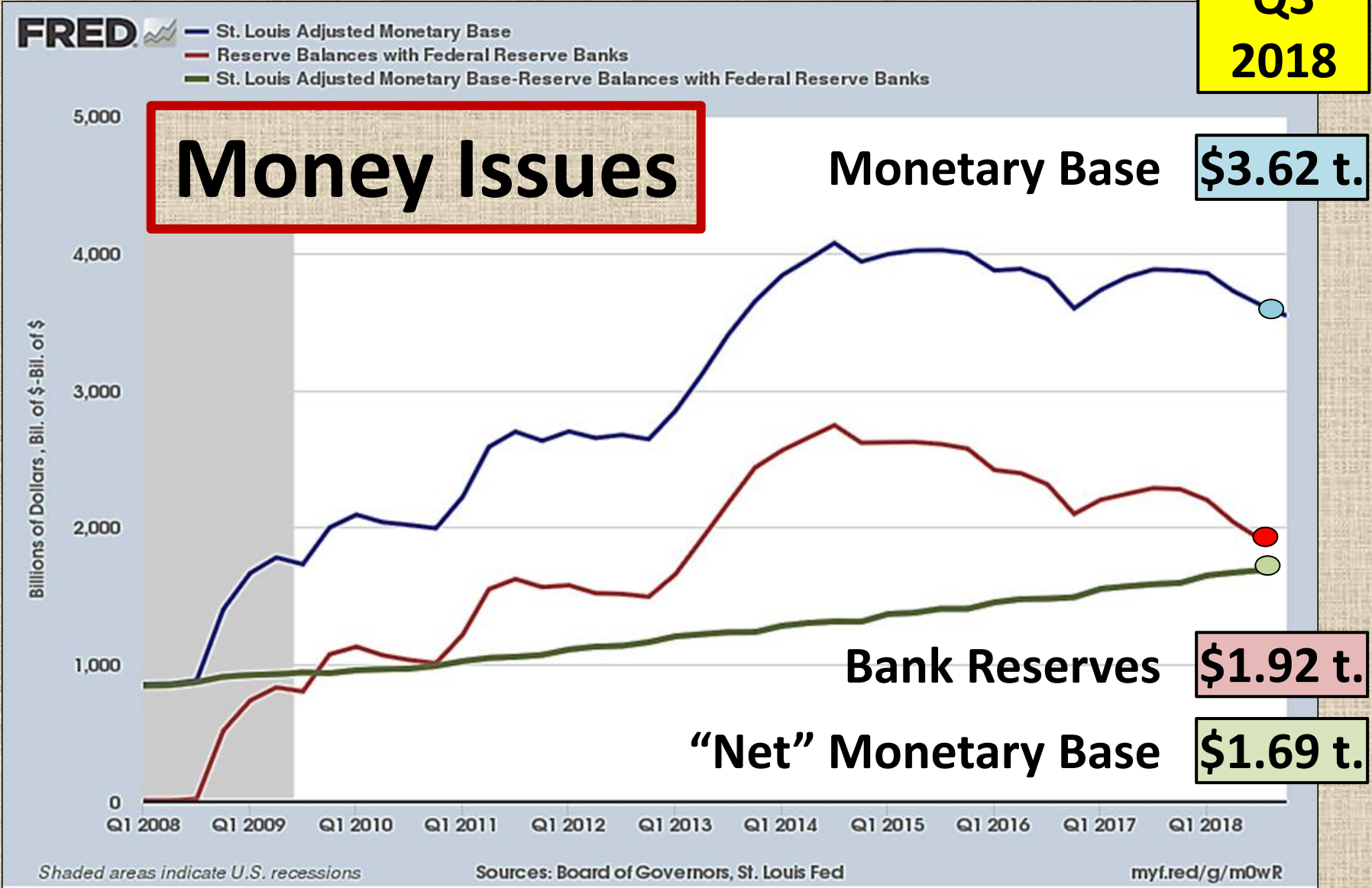
Q3  
2018

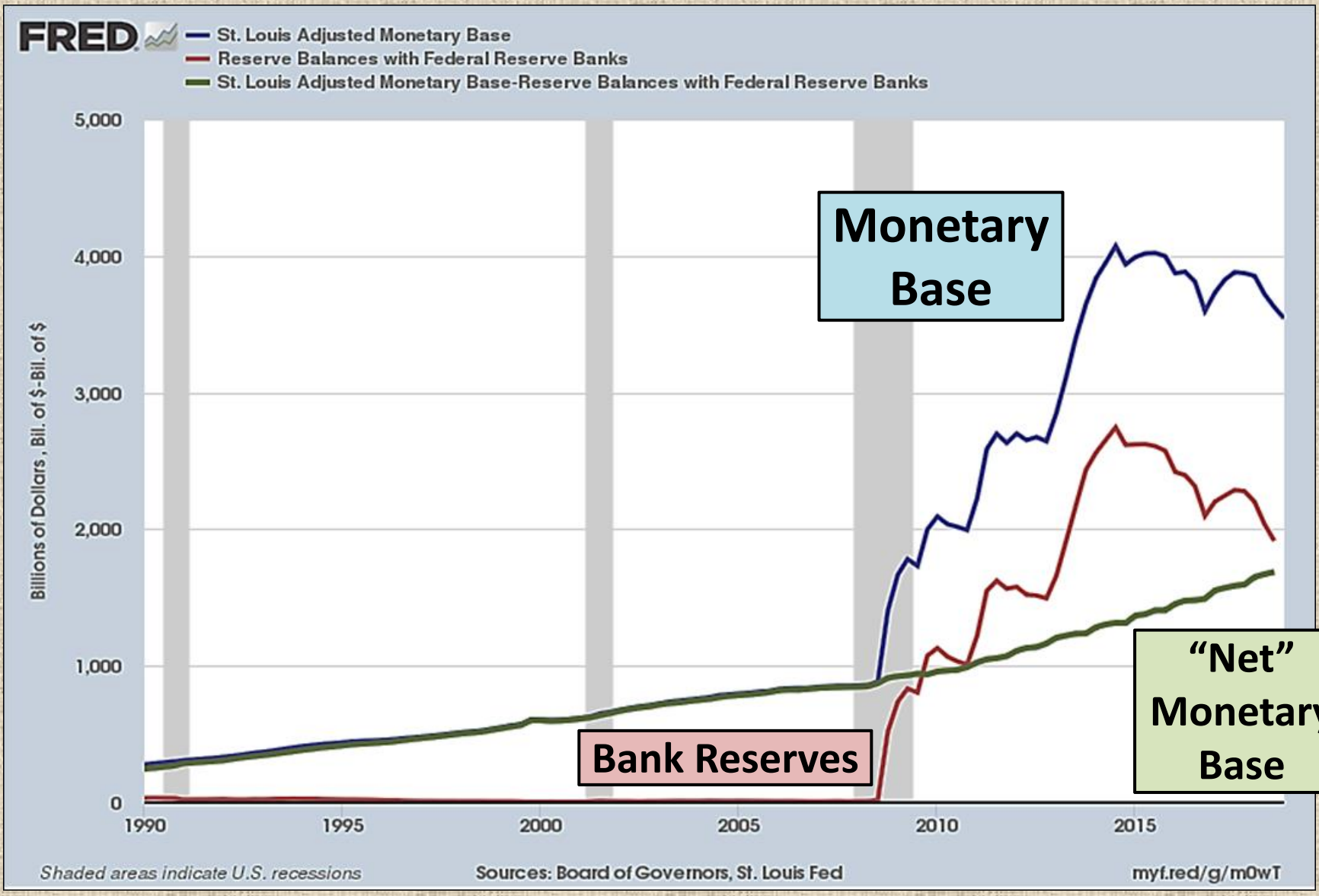
# Price Inflation



**Q3  
2018**

# Money Issues



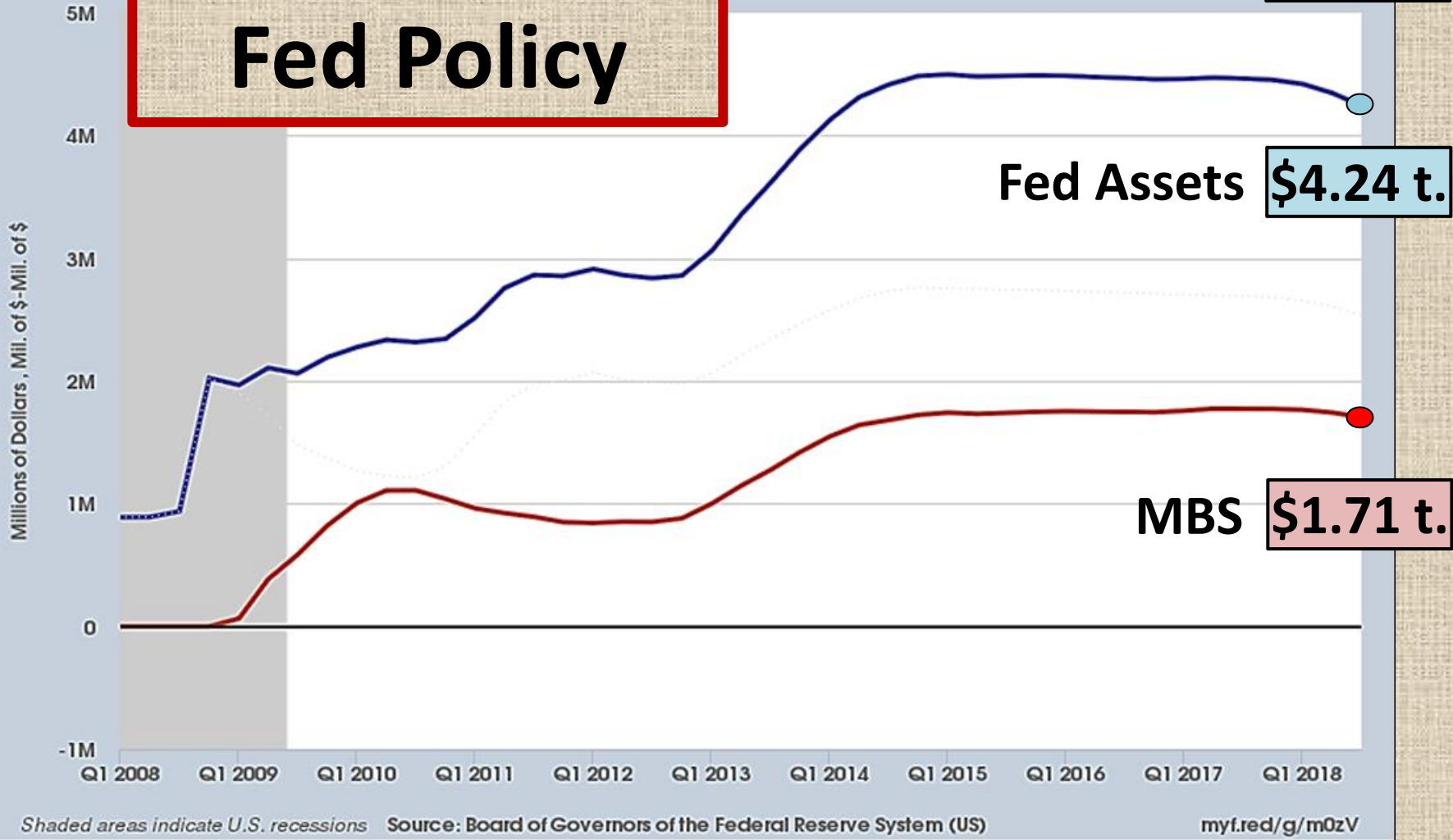


FRED

— All Federal Reserve Banks: Total Assets  
— Assets: Securities Held Outright: Mortgage-Backed Securities  
All Federal Reserve Banks: Total Assets-Assets: Securities Held Outright: Mortgage-Backed Securities

Q3  
2018

Fed Policy



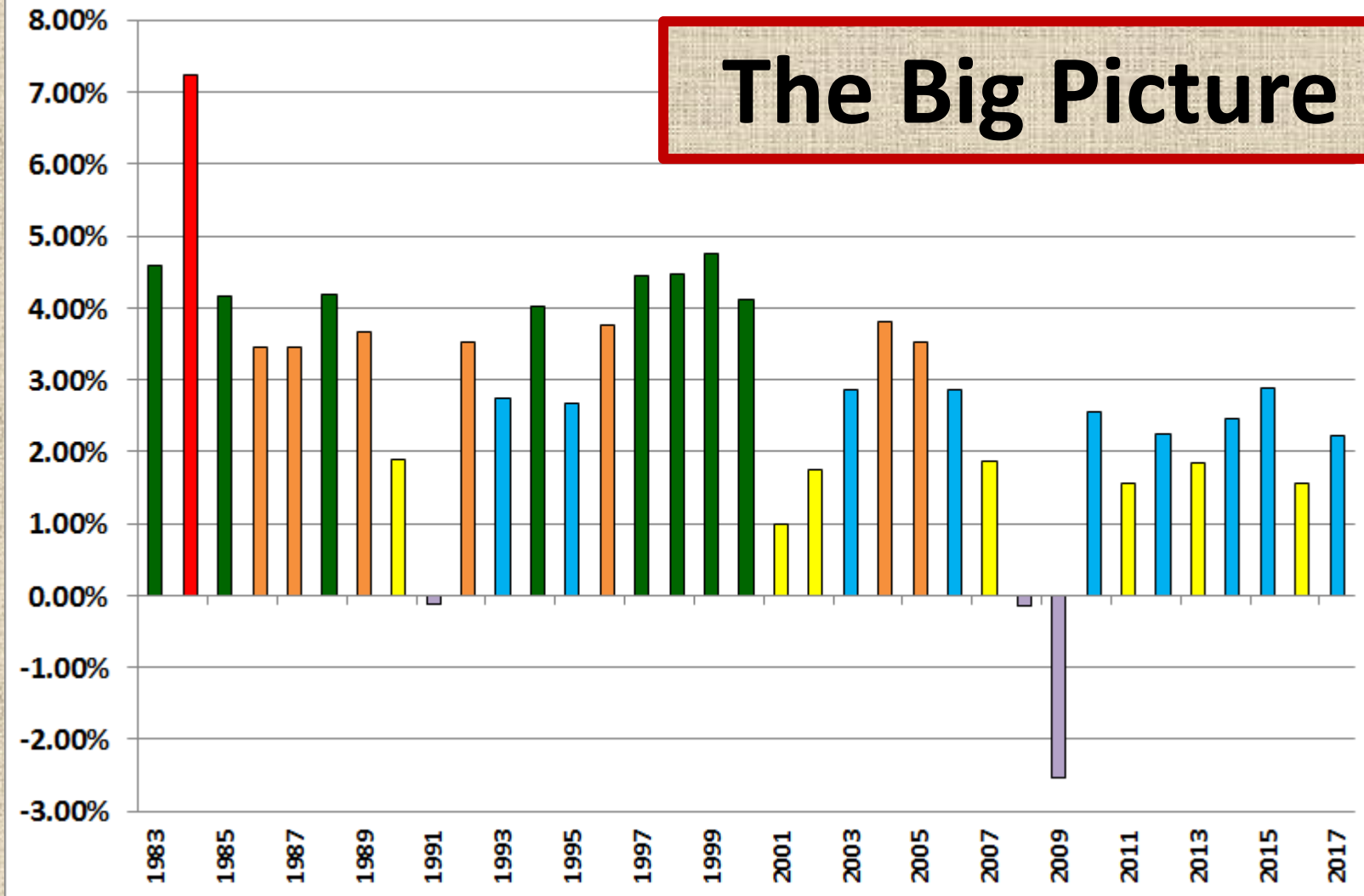
# Top 5 Monetary Policy Questions

1. Are low interest rates sustainable?
2. Is the Fed's balance sheet sustainable?
3. Is the Fed's holding of MBS sustainable?
4. Is the Fed paying interest on bank excess reserves sustainable?
5. Is a target of 2% inflation justifiable?

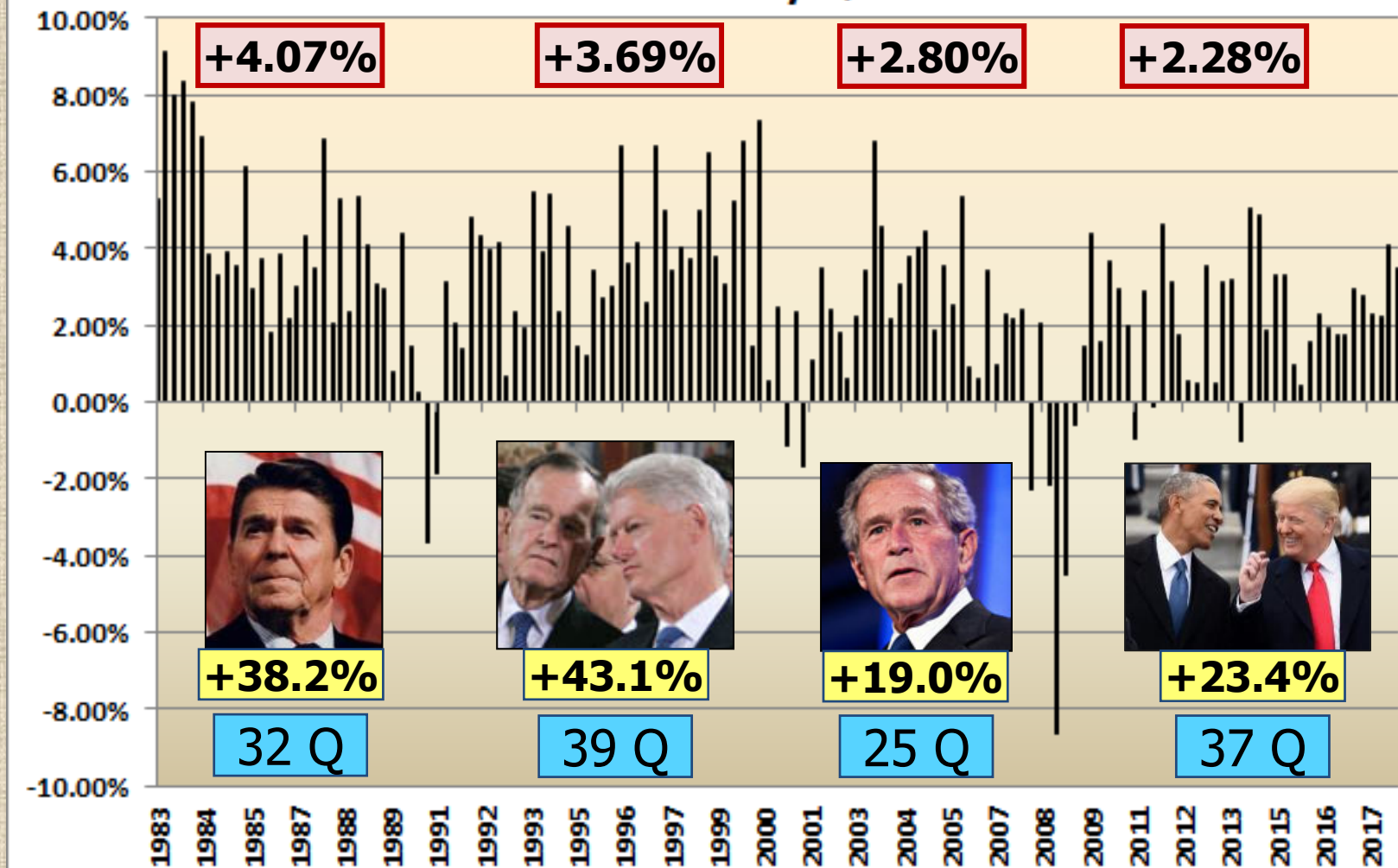


## Annual Growth in RGDP

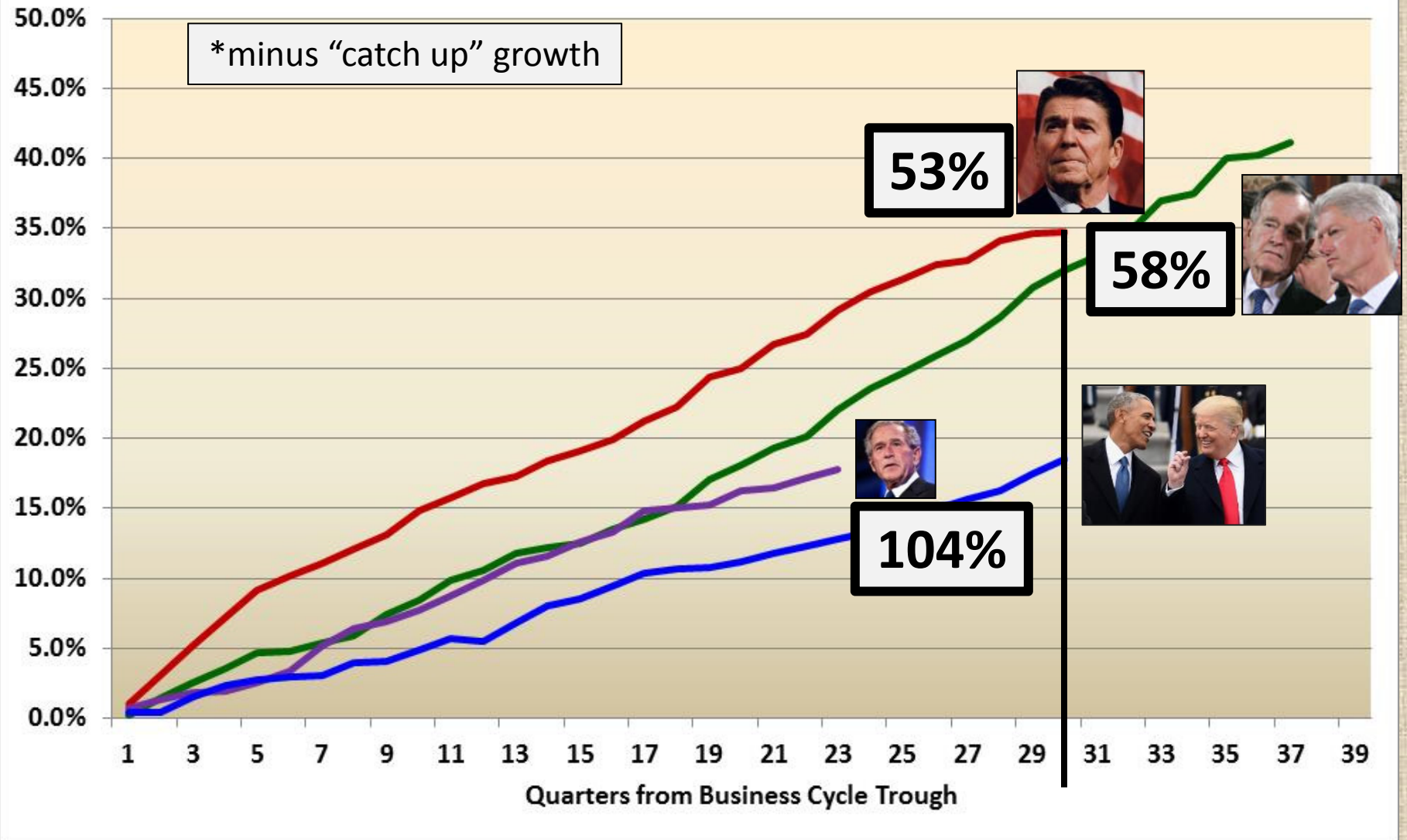
**The Big Picture**



## Annual RGDP by Quarter



## Cumulative Growth Over 4 Recovery Phases\* - 39 Quarters





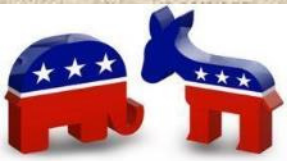
# What is the Outlook?

Fed's balance sheet is a threat



Market volatility is a threat

Gov't debt is still a threat



Divided government ... Is it a threat?



# What is the Outlook?



**Slight ↑ in GDP growth  
2019 at over 3%**

**Slight ↑ in interest rates  
2018 fed'l funds 2.5%+**



**Inflation will creep up  
2018 the CPI at 2.5%-3.5%**



# New Fed Chairman Jerome Powell February 2018 - ...





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