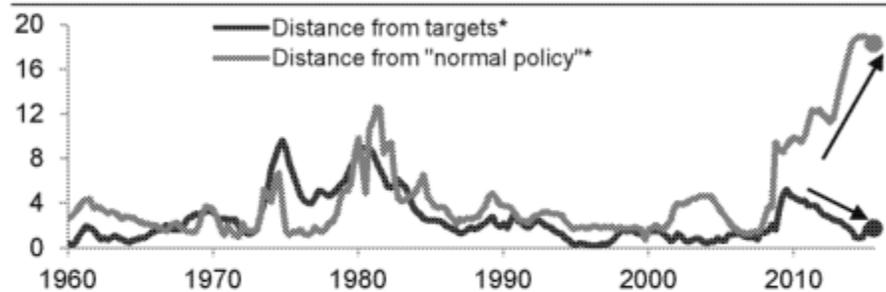


Despite substantial progress towards its targets since the crisis, Fed policy remains extremely accommodative



Policy is its furthest from normal on record even as the Fed nears its targets on unemployment and inflation



Note: (*) Our distance measures follow a speech by St. Louis Fed President Jim Bullard on 17 July 2014
Source: Haver Analytics, Deutsche Bank Research

The key considerations for the first hike have been met

Hike considerations	Employment	Unemployment ✓	▪ At NAIRU, broader slack measures also diminished
		Job creation ✓	▪ Remains robust
	Inflation	Core inflation (PCE) ~	▪ Stable at just 1.3% yoy but expected to rise
		Wage inflation ~	▪ Trending higher, but still low
		Inflation expectations ~	▪ Survey: mixed recently ▪ Market: low but have risen
	Other	Financial conditions ✓	▪ Market hike odds have risen ▪ Financial conditions have eased a bit

- Fed has made considerable progress on its dual mandate
 - Headline inflation is low due to transitory factors and core inflation is firmer
 - Labour market is at full employment
- Yet, Fed policy has remained stuck at “crisis” levels
 - Fed funds rate still near zero
 - Fed’s balance sheet expanded to ~\$4.5tn, more than five times its pre-crisis level
- As a result, current monetary policy is the furthest from normalised policy on record
- The Fed has explained this divergence from normal policy in a number of ways
 - Other measures of labour market slack are elevated (e.g., high part-time employment)
 - Headwinds have significantly reduced the neutral fed funds rate since the financial crisis
 - Greater risk is hiking too early at 0% rates
- While these considerations continue to support gradual rate hikes, they no longer justify near-zero rates