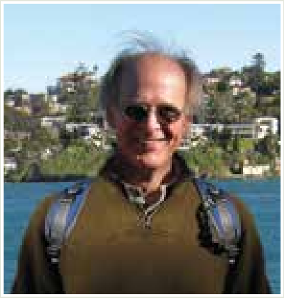
ASK AN ECONOMIST



Stephen D. Williamson has been an economist and vice president at the Federal Reserve Bank of St. Louis since June 2014. Previously, he held academic positions at Washington University in St. Louis, the University of Iowa, the University of Western Ontario and Queen's University. He also worked at the Minneapolis Federal Reserve Bank and the Bank of Canada, and he was an adviser at several Federal Reserve banks, including the St. Louis Fed. Williamson's research focuses on monetary economics, macroeconomics and financial economics. His roots are in Canada, where he attended all levels of school. Williamson and his family enjoy outdoor activities, particularly hiking, and music. For more on his research, see https://research.stlouisfed.org/econ/williamson/sel.

Q: How is normalization of monetary policy going to work?

A: Monetary policy normalization refers to the steps the Federal Open Market Committee (FOMC)—the Federal Reserve's monetary policymaking body—will take to remove the substantial monetary accommodation that it has provided to the economy since the financial crisis began in 2007. The committee has made it very clear that normalization is going to be data-driven. In other words, policy decisions will be based on the future performance of inflation, labor markets and gross domestic product (GDP), among other things.

In its "Policy Normalization Principles and Plans," announced in September 2014, the FOMC laid out a program that would ultimately allow the Fed to conduct monetary policy in essentially the same way it did before the beginning of the financial crisis. The principles and plans outline a sequence of actions by which normalization will be achieved:

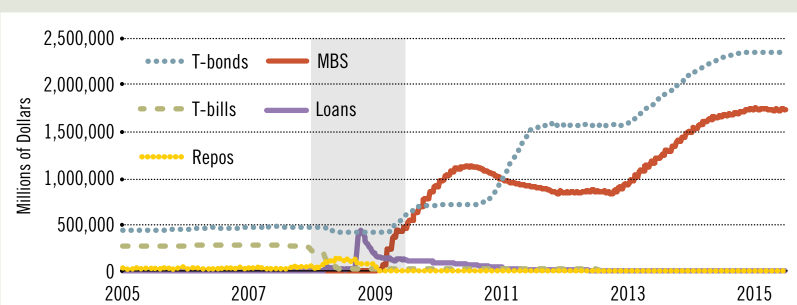
1. "Liftoff"—The FOMC will raise its interest rate target when it deems there is no longer as great a need for monetary accommodation. Liftoff is expected to happen sometime later in 2015, but, again, the timing of liftoff will be data-driven, not calendar-dependent.

2. End "reinvestment"—The FOMC wishes to ultimately reduce the Fed's balance sheet to a size such that the quantity of interest-earning liabilities (including bank reserves) is small, as was the case before the financial crisis. Reinvestment is the process of replacing assets on the Fed's balance sheet as they mature; so, when reinvestment ends, the balance sheet will begin to shrink.

3. Shrink balance sheet—Balance-sheet reduction will occur slowly, with no plans to sell assets, though this option has not been ruled out. The Fed's assets will decline as Treasury securities and mortgage-backed securities (MBS) mature. While Treasuries mature at a predictable rate, MBS do not, as this depends on the rate at which the mortgages backing the MBS are refinanced and on mortgage defaults.

Federal Reserve Board economists estimate that the normalization process will take about seven years once it starts.

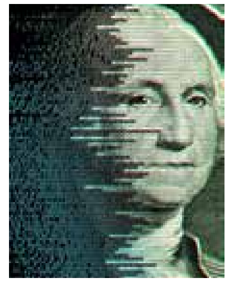
Assets on the Fed's Balance Sheet



SOURCE: Board of Governors of the Federal Reserve System.
NOTE: Shaded area indicates U.S. recession.

For more information, read "Monetary Policy Normalization in the United States," an article by Williamson in the latest issue of the St. Louis Fed's *Review* at https://research.stlouisfed.org/publications/review/article/10381 or watch a video of Williamson's recent *Dialogue with the Fed* on "Monetary Policy Normalization: What's New? What's Old? How Does It Matter?" at https://www.stlouisfed.org/dialogue-with-the-fed/monetary-policy-normalization-whats-new-whats-old-how-does-it-matter.

FED WORKS TO IMPROVE PAYMENT SYSTEM



A safe, efficient, secure and broadly accessible U.S. payment system is crucial to the U.S. economy and contributes to the nation's financial stability. As the nation's central bank, the Federal Reserve has a stake in ensuring that the payment system is functioning at its highest level. This year's annual report of the St. Louis Fed examines a project that the Fed is spearheading to improve the payment system. The essay is written by St. Louis Fed First Vice President David Sapenaro, who recently completed his responsibilities as the project's interim payments strategy director.

In addition, St. Louis Fed President James Bullard discusses the importance of the payment system to the U.S. economy in his column. The report also features an essay on the rising interest in mobile payments, a message from the chairman of the St. Louis Fed's board of directors and the Bank's 2014 financial statements.

To read any or all of the report online, see **https://www.stlouisfed.org/annual-report/2014.**

FRED APP FOR iOS HAS BEEN UPGRADED

Federal Reserve Economic Data (better known as FRED) has once again upgraded its app for the iPhone and iPad. With version 3.0, you can do even more with the numbers behind the economy—and you can do so anywhere and anytime.

The new version of the app includes FRED user accounts, which allow you to share your "favorites," saved graphs and data lists across your devices. Other new features include The FRED Blog, the ability to download data, better graph customization and enhanced search functionality. With location services, you can also receive economic data for your area.

To improve your access to the more than 260,000 data series in FRED, download the FRED Economic Data app from the iTunes Store. There, you will also find a 30-second video preview of the upgraded app. Questions about using v. 3.0? Contact the FRED team at 314-444-FRED (3733) or at **webmaster@research.stlouisfed.org.**

Android users can download the Android app from Google Play. The Android version has not yet received the same updates as the iOS app, but there are plans for improvements.

We welcome letters to the editor, as well as questions for "Ask an Economist." You can submit them online at www.stlouisfed.org/re/letter or mail them to Subhayu Bandyopadhyay, editor, *The Regional Economist,* Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442.