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The 2024 U.S. Elections Part II: Monetary Policy Implications

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Summary

- The FOMC continues to face a difficult economic environment. Inflation has yet to recede all the way back to the Committee's 2% target, while resilient economic growth has stoked concerns it may prove more challenging to fully rein in price growth. Yet, with monetary policy restrictive and the lagged impact on the economy a major source of uncertainty, the risk of recession remains unusually high in our view.
- Amid these economic crosswinds looms the U.S. presidential election. Chair Powell has steadfastly declared that politics will not play a role in the FOMC's policy decisions.
- We agree with Chair Powell's message that the election will not be a major factor in monetary policy setting this year. When looking at the history of Fed policy changes in presidential election and non-election years over the past 30 years, economic conditions overwhelmingly dominate policy decisions across the following dimensions:
    - *Number of Policy Moves:* The Fed has adjusted its policy rate nearly the same number of times in presidential election years as non-election years (an average of 2.7 and 2.9 times, respectively).
    - *Direction of Policy Moves:* The FOMC has *cut* the fed funds rate by 46 bps on average in presidential election years while *raising* it by 25 bps on average in non-election years. However, these differences effectively disappear when excluding years in which the economy was in a recession (2001, 2008, 2020).
    - *Timing of Policy Moves:* Looking across presidential election years shows the Fed has tended to maintain its charted course through the election, whether that be tightening (2004), cutting (2008) or remaining on hold (1996, 2012, 2020).
- Even if monetary policymakers wanted to help one party over the other, which we do not believe is the case, it is not entirely clear which way they should lean. The delicate balancing act between reducing inflation—a prominent issue for voters this year—without causing untoward damage to the jobs market—a perennial issue for voters—remains. In the words of Chair Powell in his recent 60 Minutes interview: “it's not easy to get the economics of this right in the first place.”
- This is not to say presidential elections have no implications for the monetary policy outlook. Changes in the composition of Congress and the White House, such as the Republican sweep in 2016, can lead to inflection points for federal fiscal policy, and, by extension, the outlook for the U.S. economy and monetary policy.
- Furthermore, the president and Senate play a key role in determining the makeup of the Board of Governors. Jerome Powell's term as FOMC Chair ends in May 2026, while the four-year terms of Board of Governors Vice Chair Philip Jefferson and Vice Chair of Supervision Michael Barr will also expire during the next administration (in September 2027 and July 2026, respectively).
- Our forecast for the federal funds rate in 2024 will be dictated primarily by our expectations for U.S. economic growth, employment and inflation and our view of the Fed's reaction to these developments. We do not think the election will play a major role in driving monetary policy decisions at the five FOMC meetings between now and Election Day. The Federal Reserve takes its independence very seriously, and the past 30 years of history suggests that macroeconomic conditions are the dominant force guiding monetary policy.

All estimates/forecasts are as of 2/20/2024 unless otherwise stated. 2/20/2024 9:00:01 EST. **This report is available on Bloomberg WFRE**

Welcome to the 2024 Election Cycle

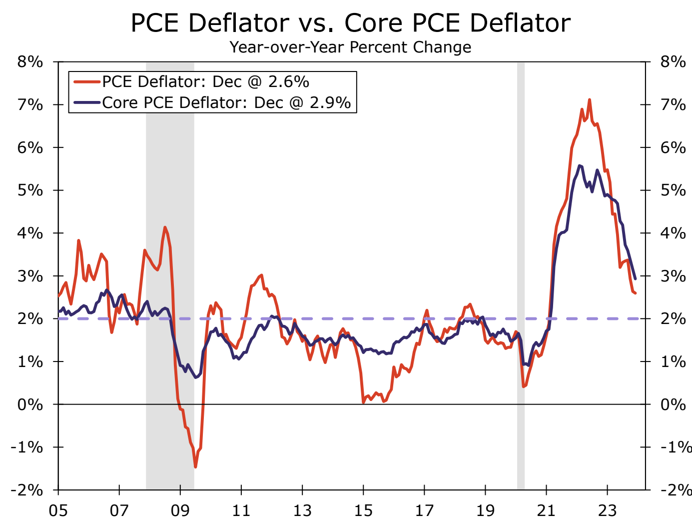
The 2024 election cycle has arrived, and with it questions about what the election means for the economic outlook. In Part I of our series on the U.S. presidential election and its implications for the U.S. economy, we provided some background on this year's election. In this report, which is Part II in the series, we review what history tells us about Federal Reserve monetary policy decisions in election years.

“A highly consequential year for, for the Fed and for monetary policy”[1]

The FOMC faces a complicated macro environment as it determines its next move.

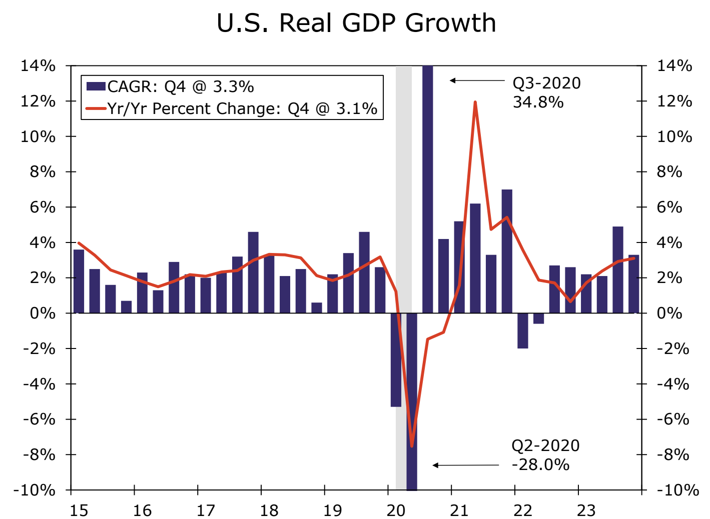
Amidst the election buzz news cycle, the Federal Reserve is in its third year of working to smite the strongest bout of inflation in more than 40 years. Inflation has retreated from its high reached in the summer of 2022, but it has yet to recede all the way back to the FOMC's target, let alone stay there on a sustained basis (Figure 1). Thus far, the improvement on inflation has come without a material hit to economic growth. Real GDP rose 3.1% over the past year, while nonfarm payrolls have increased by an average of 244K the past 12 months—both comfortably above the previous expansion's average and most estimates of their longer-run potential pace (Figure 2). The resilient growth backdrop has stoked concerns that inflation may prove somewhat sticky even as it recedes from the sky-high rates experienced the past couple years. Yet, with monetary policy restrictive by nearly all accounts and the lagged impact on the economy a major source of uncertainty, the risk of recession remains unusually high in our view. As such, the FOMC faces a complicated macro environment as it determines its next move.

Figure 1



Source: U.S. Department of Commerce and Wells Fargo Economics

Figure 2



Source: U.S. Department of Commerce and Wells Fargo Economics

We expect the Fed will respond to incoming data, not political influences, as it pursues its dual mandate in 2024.

In addition to these macroeconomic crosswinds, the Federal Reserve faces another wrinkle in the outlook: the U.S. presidential election. Chair Powell has faced media inquiries questioning if politics will play any role in the central bank's decisions this year. His answer steadfastly has remained no. In a recent interview with 60 Minutes, Powell stated “We do not consider politics in our decisions. We never do. And we never will.”[2]

We believe Powell's message that the looming election will not play a major role in determining the path of the federal funds rate this year. In this report, we walk through three potential impacts the U.S. 2024 election cycle could have on monetary policy in 2024: (1) the *number* of fed funds rate moves; (2) a *directional* bias to rate moves; and (3) the *timing* of policy actions. The historical record can shed light on each of these concerns and suggests to us that, given the myriad of economic forces with which the central bank must contend, the election is mostly noise. Accordingly, we expect the Fed will respond to incoming data, not political influences, as it pursues its dual mandate in 2024.

This is not to say, however, that elections have no impact on the outlook for monetary policy. Changes in the composition of Congress and the White House can lead to inflection points for federal fiscal policy, and, by extension, the outlook for the U.S. economy and monetary policy. Furthermore, the president and Senate play a key role in determining the makeup of the Board of Governors, and

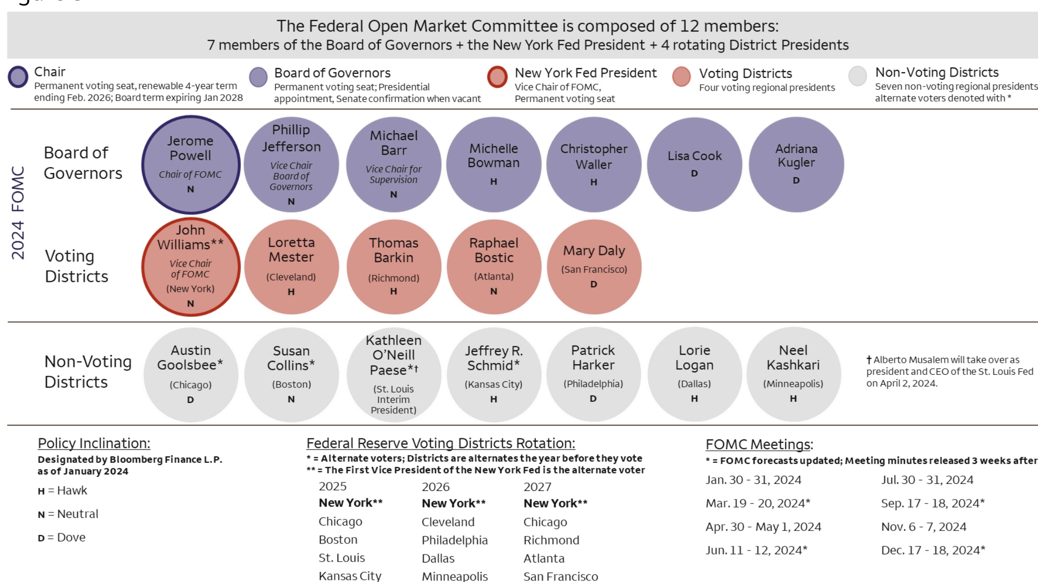
this process shapes the intellectual leaders of the central bank. The 2024 election likely will not be the driving force behind the Fed's moves at its upcoming meetings, but it will still have important implications for monetary policy in 2025 and beyond. We discuss these implications below.

"We haven't done it in the past, and we're not going to do it now."[3]

The Federal Reserve is an independent government agency, but it is ultimately accountable to the public and their elected officials.

Created in 1913, the Federal Reserve is an independent government agency, but it is ultimately accountable to the public and its elected officials. The central bank is designed in a way to maintain this public accountability while also protecting Fed officials' independence to ensure that central bankers are not unduly influenced by political pressures that yield undesirable economic outcomes. The FOMC consists of the seven members of the Board of Governors, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Reserve Bank presidents, who serve one-year terms on a rotating basis (Figure 3). Governors are appointed by the president of the United States and confirmed by the Senate to terms lasting 14 years. The presidents of the twelve regional Reserve Banks are not selected by the U.S. president but rather by the directors of each Reserve Bank. The Federal Reserve is self-funded and does not receive appropriations through the Congressional budget process.

Figure 3



Source: Bloomberg Finance L.P., Federal Reserve System and Wells Fargo Economics

When charting a course for the nation's monetary policy, central bank independence is a bedrock principle of the Federal Reserve.

This unique setup helps ensure that the Federal Reserve can focus on achieving the goals set forth by Congress, namely maximum employment and stable prices. That said, like many other government organizations advancing the public interest, there is clearly a political tie to the Federal Reserve. Congress can change the central bank's mandates at anytime, and the selection process for the Board of Governors involves the president and Senate. For example, Chair Powell was initially nominated to the Board by President Obama in 2012. President Trump elevated Powell from Governor to Chair in 2018, and President Biden nominated him for a second term as Chair in 2022.

When charting a course for the nation's monetary policy, central bank independence is a bedrock principle of the Federal Reserve.[4] When asked in a recent 60 Minutes interview whether politics will be a determinant in setting policy this year, Powell supported his unequivocal 'no' and 'never' answer with the statement, "Fortunately, the historical record really backs that up. People have gone back and looked."

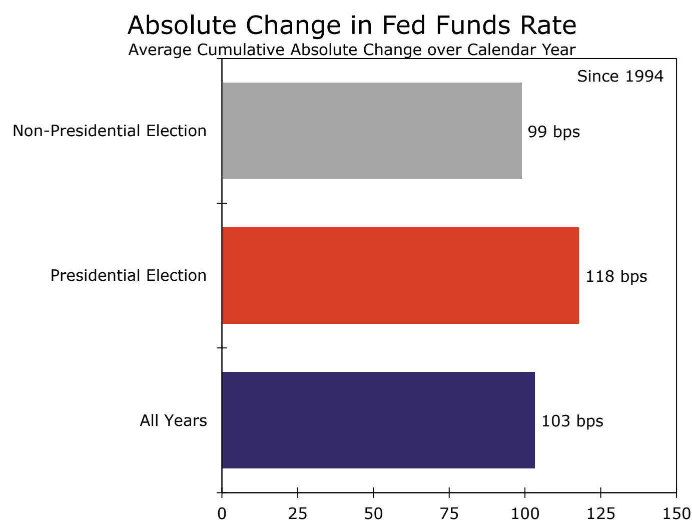
Reviewing what history tells us about Federal Reserve monetary policy decisions in election years is admittedly a bit tricky. The relevant window to examine the historical record is actually quite short. There are only 19 presidential election cycles post-WWII, and even fewer that are comparable years for the current monetary policy setting environment. The Great Inflation plagued policymakers from 1965 to 1982 and was characterized by "go-stop" policy, which led to volatility in rates and price growth.[5] Furthermore, the Fed was significantly less transparent before the 1990s. Prior to 1994, it did not announce its policy changes, and it was not until 2000 the Committee issued a statement after each

meeting indicating whether it had changed policy or not. Post-meeting press conferences first began in 2011 under Chairman Ben Bernanke and were expanded to every meeting under Chair Powell in 2019. With this in mind, we focus our analysis of presidential election years and the path of monetary policy on the past 30 years.

"This is my fourth presidential election in the Fed, and it just doesn't come into our thinking."[6]

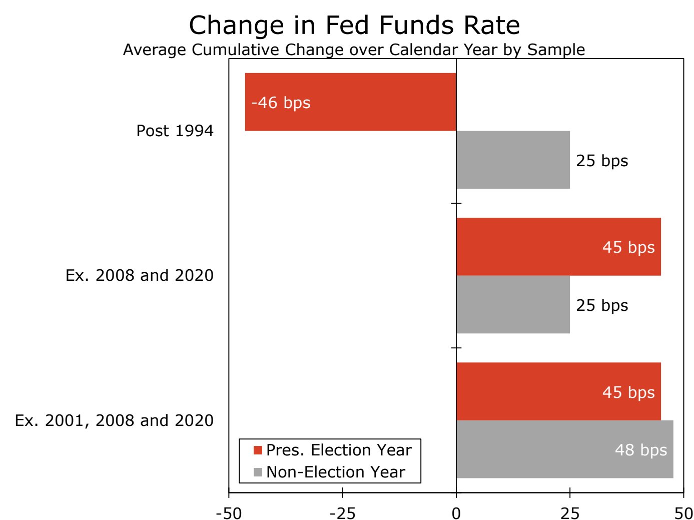
The first concern we explore is whether monetary policymakers tend to refrain from policy adjustments during election years. The argument goes something like this: in an effort to demonstrate the Fed's independence and guard against criticism that moves are politically motivated, policymakers may not change its policy rate as much as they otherwise would have. However, in the past 30 years, the Fed has actually moved rates slightly *more* in presidential election years compared to non-election years, by about 20 basis points more on an absolute basis (Figure 4). Since 1994, the average number of times the FOMC adjusted the fed funds rate each year is nearly identical across election (2.7 instances) and non-election (2.9 instances) years.

Figure 4



Source: Bloomberg Finance L.P. and Wells Fargo Economics

Figure 5



Source: Bloomberg Finance L.P. and Wells Fargo Economics

"We are a non-political organization that serves all Americans"[7]

A second question we are sometimes asked is whether the Fed's policy actions in election years are biased to support a particular candidate—usually the incumbent, who may have appointed/re-appointed the Fed chair and other top Board officials. This suggests a potential bias toward easier policy to lend near-term support to the economy. Indeed, in the seven presidential election years since 1994, the FOMC has *cut* the fed funds target rate by an average of 46 basis points compared to *raising* the fed funds rate by an average of 25 basis points during non-election years (Figure 5).

Excluding recession years in our analysis shows the FOMC adjusting the fed funds rate by similar amounts: +45 bps in election years and +48 bps in non-election years.

However, with so few periods to examine—seven presidential election years and 23 non-election years —it is not surprising that these simple averages are skewed by major economic events. For example, the FOMC slashed rates in the presidential election years of 2008 and 2020 as the economy was plunging into recession from a global financial crisis and a global health crisis, respectively. Excluding 2008 and 2020, the FOMC has, on average, *raised* the fed funds rate more in election years compared to non-election years (see Figure 5). Fully excluding recession years in our analysis (2001, 2008 and 2020) shows the FOMC adjusting the fed funds rate by similar amounts: +45 bps in election years and +48 bps in non-election years. Macroeconomic conditions, rather than the election cycle, seem to dominate the direction of policy moves.

The past 30 years of history suggest that macroeconomic conditions, rather than the election cycle, seem to dominate the direction of monetary policy moves.

"Integrity is priceless. And at the end, that's all you have. And we in, we plan on keeping ours."[8]

The third concern, and the one we think warrants the most thought, is whether the FOMC may adjust the timing of its policy actions this year because of the election. In an effort to avoid the political fray,

the Committee may be reluctant to make a significant policy adjustment—such as a pivot to cuts—when the campaign season is hitting a fever pitch. Looking across election years shows the FOMC rarely changes course immediately ahead of voting day. Instead, the Fed has tended to maintain its charted course through the election, whether that be tightening (2004), cutting (2008) or remaining on hold (1996, 2012, 2020) (Figure 6).

Figure 6

Moves in the Fed Funds Rate around Election Day
Cumulative Change From Meeting to Election Day

		1996	2000	2004	2008	2012	2016	2020	Average
One Meeting	Pre-Election	0.00	0.00	0.25	-0.50	0.00	0.00	0.00	-0.04
	Post-Election	0.00	0.00	0.25	-0.75	0.00	0.25	0.00	-0.04
Two Meetings (Approx. One Quarter)	Pre-Election	0.00	0.00	0.50	-1.00	0.00	0.00	0.00	-0.07
	Post-Election	0.00	0.00	0.50	-0.75	0.00	0.25	0.00	0.00
Four Meetings (Approx. Six Months)	Pre-Election	0.00	0.50	0.75	-1.00	0.00	0.00	0.00	0.04
	Post-Election	0.25	-2.00	1.00	-0.75	0.00	0.50	0.00	-0.14

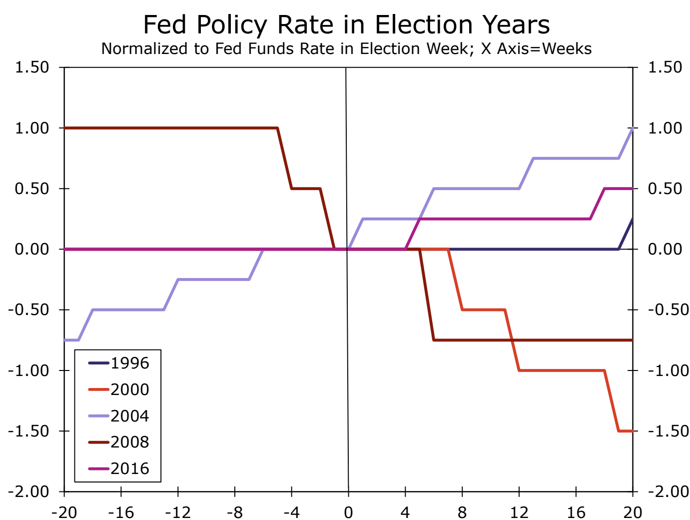
Source: Bloomberg Finance L.P. and Wells Fargo Economics

There are a few exceptions to this pattern. In 2000, the FOMC held rates unchanged at the three meetings that preceded the election and for the two meetings following, but then the Committee embarked on a series of rate cuts in early 2001 (Figure 7). However, this pivot occurred as the economy started to show early signs of a slowdown, and by March 2001 the U.S. economy was officially in recession.[9] In December 2000, the unemployment rate was a low 3.9%. One year later, it had climbed to 5.7%, illustrating once again that economic conditions seem to dominate Fed decision-making.

Shortly after the 2000 election the FOMC pivoted to cutting rates, but this occurred amid a recession that officially began in March 2001.

In 2016, after holding rates unchanged for nearly a year, the FOMC raised the fed funds target rate by 25 bps at the meeting immediately following the election. A review of the transcript from the pre-election meeting signals that policymakers were reluctant to change course right before the election at a meeting that did not have a press conference and with no pressing economic need to do so. During the November 2, 2016 FOMC meeting, then New York Fed President and Vice Chair William Dudley stated in regard to the fed funds rate: "So the lack of urgency implies that there is not a good case for moving at this meeting. To do so with the election a week away, the outcome uncertain, and no scheduled press conference would imply an urgency to move that I just don't think is consistent with the incoming information or the economic outlook."

Figure 7



Source: Bloomberg Finance L.P. and Wells Fargo Economics

Election Timing May Mean Little, but Election Outcomes Can Mean A Lot

Elections still matter for the fiscal backdrop in which monetary policy must operate.

The 2016 episode also highlights that, while the Fed may want to avoid making waves by shifting the path of policy immediately ahead of an election, elections still matter for the fiscal backdrop in which monetary policy must operate. Republicans won control of the House of Representatives, the Senate and the White House in the 2016 election, marking their first period of unified control of Congress and the presidency since 2005-2006. Financial markets reacted sharply in anticipation of potential fiscal policy stimulus delivered through lower taxes. Between the November and December FOMC meetings, the S&P 500 rose more than 7%, spreads on corporate bonds tightened and the 10-year Treasury yield rose from 1.8% to 2.5%.

At the FOMC meeting immediately following the 2016 election, the fiscal policy outlook and its implications for the economic outlook became a greater point of discussion. A word count of the transcript from the November 2016 FOMC pre-election meeting reveals that the word "fiscal" was mentioned 17 times over the two-day meeting. This word count exploded to 212 times at the subsequent meeting in December 2016. It was not just markets that began to recalibrate the outlook to include more expansionary fiscal policy. The Federal Reserve's staff economists incorporated fiscal policy accommodation into its baseline outlook, and about half of FOMC participants assumed more fiscal stimulus in their submitted forecasts for the Summary of Economic Projections.[10]

A similar dynamic was at play in 2012. At the time, the U.S. economy was still struggling to achieve escape velocity from the 2008-2009 financial crisis. The unemployment rate was near 8% on Election Day, and the federal funds rate remained at the zero lower bound, where it had been since December 2008. Policymakers fretted that a slew of federal spending cuts and tax increases scheduled to take effect absent Congressional action, commonly referred to as a looming “fiscal cliff,” could derail the recovery further. At the December 2012 FOMC meeting, Vice Chair Dudley expressed the view that the Federal Reserve would need to adjust monetary policy depending on the outcome of the negotiations: “If the fiscal situation was resolved in a good way, I can imagine we could dial back on some portion of our securities purchase program pretty soon. But with a bad outcome, if we go down the wrong path in terms of fiscal cliff, I think the programs would have to remain in place for some time.” Jerome Powell, then a Governor on the Board, expressed a view that “All in all, it could be as much as a full year—and I suppose even more—of very messy negotiations, and that will mean further blows to consumer and business confidence, a global risk-off environment, and a strong dollar.” Clearly, the *outcomes* of the 2012 and 2016 elections had an impact on the thinking of monetary policymakers.

What Does This Mean for 2024 and Beyond?

Even if monetary policymakers wanted to help one party over the other (which, to reiterate, we do not believe is the case), it is not entirely clear which way they should lean.

While the recent historical record suggests that presidential elections have little bearing on the magnitude, direction and timing of FOMC policy moves in the lead up to Election Day, is there reason to believe this cycle may be different? We are skeptical it is, even as politicians on both sides of the aisle seem more vocal lately about what they would like the FOMC to do.

The Fed's delicate balancing act between reducing inflation without causing untoward damage to the jobs market remains. Thus, even if monetary policymakers wanted to help one party over the other (which, to reiterate, we do not believe is the case), it is not entirely clear which way they should lean. If the FOMC were to expedite rate cuts, the jobs market would presumably be stronger ahead of voting day, but so too would inflation, a prominent issue for voters. Delaying rate cuts would likely help to reduce inflation further and mitigate voters' frustration about the inflation environment, but it could come at the expense of the jobs market, most voters' means of income. In the words of Chair Powell in his recent 60 Minutes interview: “it's not easy to get the economics of this right in the first place.”

We do not think the election will play a major role in driving monetary policy decisions at the five FOMC meetings between now and Election Day. That said, the outcome of the election will have implications for U.S. monetary policy in 2025 and beyond.

Our forecast for the federal funds rate in 2024 will be dictated primarily by our expectations for economic growth, employment and inflation and our view of the Fed's reaction to these developments. We do not think the election will play a major role in driving monetary policy decisions at the five FOMC meetings between now and Election Day. The Federal Reserve takes its independence very seriously, and the past 30 years of history suggests that macroeconomic conditions are the dominant force guiding monetary policy.

That said, the *outcome* of the election will have implications for U.S. monetary policy in 2025 and beyond. The next president will have the opportunity to shape the FOMC through appointments to the Board of Governors. Jerome Powell's term as FOMC Chair ends in May 2026, while the four-year terms of Board of Governors Vice Chair Philip Jefferson and Vice Chair of Supervision Michael Barr will

also expire during the next administration (in September 2027 and July 2026, respectively). While all three *could* stay on at the Board of Governors in non-leadership roles, typically Governors depart at the conclusion of their various leadership roles. Governor Adriana Kugler's term also will expire in 2026. Furthermore, the historical record shows that, once an election has been decided, the FOMC takes into account what economic policy initiatives the incoming Congress and president may undertake. In Part III of this series, we will examine some key fiscal policy areas that will be impacted by this year's election outcome.

Endnotes

1 – Quotation from Chair Powell at the post-meeting press conference on January 31, 2024. (Return)

2 – See the full transcript of Chair Powell's 60 Minutes interview with Scott Pelley. The interview took place on February 1, 2024 and was aired on February 4. (Return)

3 – See Endnote 2. (Return)

4 – For further reading on the history and evolution of the independence of the Federal Reserve, see "The Evolution of Fed Independence" by Stephen Slivinski at the Federal Reserve Bank of Richmond (2009). (Return)

5 – See Michael Bryan (2013). "The Great Inflation." Federal Reserve Bank of St. Louis: Federal Reserve History. (Return)

6 – See Endnote 2. (Return)

7 – See Endnote 2. (Return)

8 – See Endnote 2. (Return)

9 – The January 3, 2001 statement explaining the inter-meeting decision to cut noted that "These actions were taken in light of further weakening of sales and production, and in the context of lower consumer confidence, tight conditions in some segments of financial markets, and high energy prices sapping household and business purchasing power." (Return)

10 – See the transcripts from the November 1-2, 2016 meeting and the December 13-14, 2016 meeting. (Return).

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