

Visual Cues From The Federal Reserve

by [Steve Brown](#)

We used to drive a red car and we can't tell you how many times people would ask if we got speeding tickets. The truth is that in 6Ys of driving this car, we never got a single ticket. Personal experience aside, we wondered whether there was any truth to the urban legend that red cars get more tickets or whether the color of a car acts as a visual trigger for law enforcement. After some digging, we found a media study looked at 1,000 citations and took a count of the color of cited vehicles vs. the number of cars of that color in the local population. It found that red cars made up 16% of the citations vs. 14% of the population, so higher but close to averages. Meanwhile, white cars were 25% of the population but got only 19% of the tickets, so perhaps speeders should own white cars to stack the deck in their favor. Finally, grey cars seemed to be the most risky as they made up only 6% of the cars but got 10% of the tickets. In short, the evidence does not seem to support that there is a much greater danger of getting tickets just because you own a red car.

Humans receive a myriad of communications every day and process them in various ways, some rational and some instinctive. It has been very interesting watching the Fed change how it communicates over the course of the current rate cycle. The FOMC used to not worry about clarity, and indeed, Alan Greenspan seemed to take pleasure in making undecipherable utterances. The Fed under Ben Bernanke has brought about changes designed to bring clarity to the FOMC's process and thinking. He even went so far as to add press conferences following certain meetings and release charts showing where the Committee sees the future for the economy (and in terms of its actions). For her part, Chair Janet Yellen seems to be following more of the Bernanke format at this point and is more open.

Charts released by the Fed include their projections for GDP, unemployment and inflation. Of special interest to many Fed watchers is the "dot" chart, which shows where each FOMC participant sees the Fed Funds rate at year-end going forward for 2014, 2015 and 2016. In fact, consider that this is so closely watched that the visual cue created by movement of the dots created a bond market swan-dive in March when it showed median expectations for Fed Funds at 1% by the end of 2015. Half an hour later at the press conference, Fed Chair Yellen instructed everyone to listen to what she said rather than looking at the dots. It was her first press conference and it appears this will be her preferred communication vehicle, at least at this point. People must be listening to Ms. Yellen because the dots at the latest meeting showed the median expectation for Fed Funds at the end of 2015 moved even higher to 1.25%. They also showed wide differences in opinion among FOMC participants, but the result in the market was barely felt. This just goes to show that maybe people do listen at times when money is at stake.

As for their part, the Fed press conferences open with a prepared statement and then the Chair takes questions from financial reporters. Questioners often seek verification of preconceived opinions, try to get airtime to show their bosses they are working and some probably try to get the Chair to say something that will move markets and create news. For instance, at the conference this past week, the European reporters saw deflation but some in the U.S. press saw immediate danger of inflation due to the recent rise in oil prices. It is certainly a challenge for the producers of 24/7 financial news to create drama when rates have held at rock bottom for 5Ys. Once again, Chair Yellen steered the

conversation back to longer run goals and objectives of the Fed with an admonition to ignore noise in the short term data. The Fed has to manage expectations through the correct level of communication and by whatever means are most effective (whether that be dots, which hand holds the Chair's briefcase or press biases) in order to maintain stability in the financial system--it's a big job.

We will continue to work to connect the dots as we listen carefully and share our findings with our community bank readers. In the meantime, and in order to not give the wrong visual cue to any friendly police out there, we also won't be buying a grey car anytime soon.

BANK NEWS

M&A

The Bank of Marion (\$344k, IL) will acquire Herrin Security Bank (\$104mm, IL) for an undisclosed sum.

Competition

In an effort to capture more small business customers, PNC Bank (\$313B, PA) said it will offer a payment reader that works with a mobile app. The mobile reader allows business owners to accept payments on mobile devices similar to Square and is called "Pogo."

Competition

In an effort to sell more services to existing customers, Bank of America said it will offer discounts on loans, higher rates on savings accounts, free stock trades and other rewards for customers that have at least \$20k on deposit (or in investments) with the bank.

Fined

Bankrate reports GE Capital Retail Bank will pay \$225mm to settle a CFPB investigation into credit card discrimination related to deceptive practices. This is the largest credit card discrimination settlement in history.

Money Laundering

A judge has ordered M&T Bank (\$90B, NY) to forfeit \$560k related to drug proceeds laundered through one of its MD branches. The bank reportedly did not file currency transaction reports on monies above \$10,000 as required by law.

High Cost

The ABA reports community banks now spend about 15% of revenue on compliance to meet regulatory requirements.

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