

Page 1 – Speeches & Reports

- Waller – *The nature of forecasting in real time.*
- Bullard – *Forward guidance is working.*
- Labor – *A return to normal, unless aged 65+.*

Page 2 – Economic Indicators & Rate Trends

Waller – If We Knew Then What We Know Now

- “First, I want to emphasize that forecasting is hard for everyone, especially in a pandemic. In terms of missing on inflation, policymakers’ projections looked very much like most of the public’s. For example, as shown in table 1, the median SEP forecast for 2021 Q4/Q4 PCE inflation was very similar to the consensus from the Blue Chip, which is a compilation of private sector forecasts. In short, nearly everyone was behind the curve when it came to forecasting the magnitude and persistence of inflation.”

Month	SEP median	Blue Chip consensus
March	2.4	2.3
June	3.4	3.2
September	4.2	4.3
December	5.3	5.2

Source: Federal Reserve Board, Summary of Economic Projections and Blue Chip Economic Indicators.

- “Third, one must account for setting policy in real time. The Committee was getting mixed signals from the labor market data in August and September. Two consecutive weak job reports didn’t square with a rapidly falling unemployment rate ... As the revisions came in, a consensus grew that the labor market was much stronger than we originally thought. If we knew then what we know now, I believe the Committee would have accelerated tapering and raised rates sooner. But no one knew, and that’s the nature of making monetary policy in real time.”

Fed Board, Waller speech, Reflections on Monetary Policy in 2021, 5/6/22

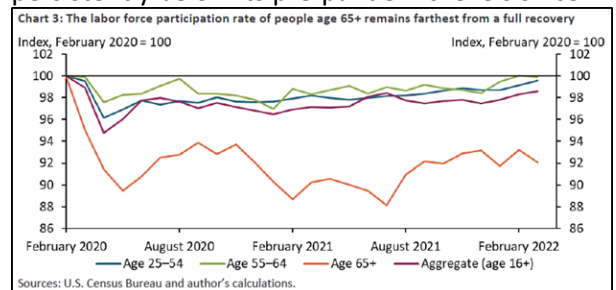
Bullard – Time to Ratify Forward Guidance

- “Credible forward guidance means market interest rates have increased substantially in advance of tangible Fed action. This provides another definition of “behind the curve,” and the Fed is not as far behind based on this definition.”
- “In light of the forward guidance that has been given by the Fed since the fourth quarter of 2021, the 2-year Treasury yield may provide a better representation of where Fed policy is likely to be in the near future.”
- “The value of the 2-year Treasury yield as of May 5 was 2.71%, about 90 basis points shy of the rate recommended in the simple Taylor-type rule calculation.”

- Bullard’s Taylor Rule calc (as of 5/6/22) was 3.63%.
 - “This suggests the Fed is not as far “behind the curve,” although it would still have to raise the policy rate to ratify the forward guidance.”
 - Bullard’s comments about inflation are represented in the inflation graph on page 2.
- St. Louis Fed, Bullard speech, Is the Fed “Behind the Curve”? Two Interpretations, 5/6/22

Labor Force – A Return to Normal, Except for Age 65+

- “Overall, my calculations suggest that, compared with early 2020, around 2 million workers are missing from the labor force after accounting for both slower population growth and the aging of the U.S. population over the past two years. Currently, individuals age 65 and older make up the majority of the missing labor force as their labor force participation rate has remained persistently below pre-pandemic levels throughout the recovery.”
- “Chart 3 plots the aggregate labor force participation rate of all individuals age 16 and older (maroon line), as well as the participation rates for the three age groups, indexed to their February 2020 levels ... As of March 2022, the participation rates of all age groups except the 65+ age group had almost fully recovered to their pre-pandemic levels. In contrast, the participation rate of the 65+ age group (orange line), which experienced the largest decline at the onset of the pandemic, has remained persistently below its pre-pandemic levels since.”



KC Fed, How Many Workers Are Truly “Missing” from the Labor Force? 5/6/22

Quote of the Week

“Upon the subject of education, not presuming to dictate any plan or system respecting it, I can only say that I view it as the most important subject which we as people can be engaged in.”

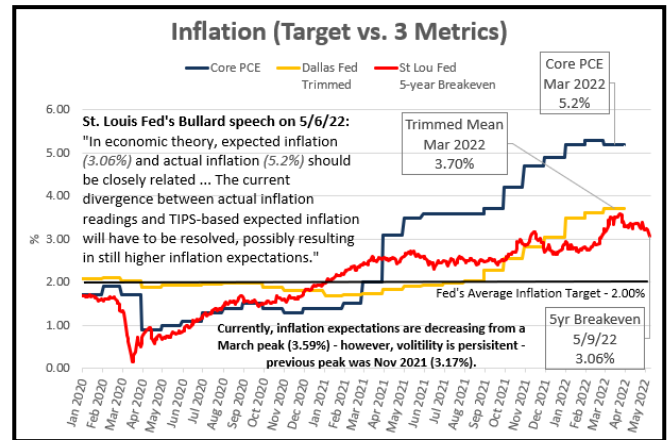
--- Abraham Lincoln

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Economic Indicators:

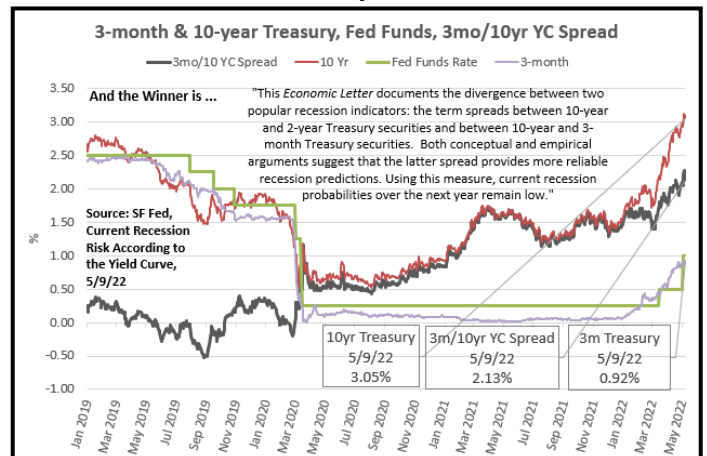
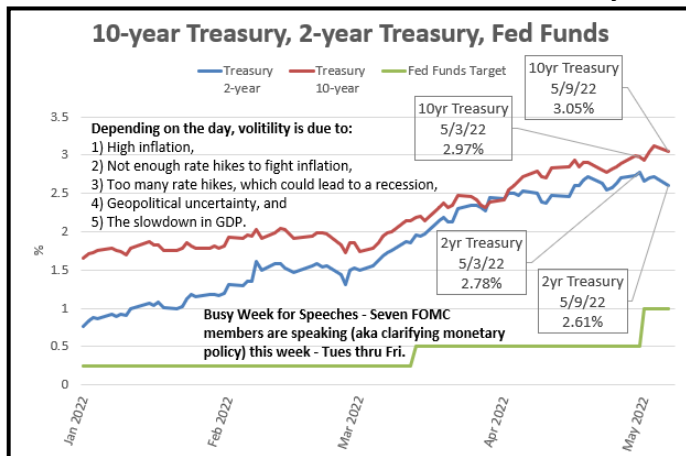
- Unemployment: 3.6% Apr (Fed's Long Run Rate: 4.0%)
 - Apr job growth: 428,000 (vs consensus 400,000).
 - Strong job growth is one the reasons the Fed can raise rates amid global uncertainty and negative Q1 GDP -- jobs growth is expected to slow.
 - May's unemployment #'s to be released 6/3/22.
- Core PCE: 5.2% Mar (Fed's Avg. Inflation Target: 2.0%)
 - Dallas Fed's Trimmed Mean for Mar: 3.70%.
 - Trims off the lower & upper data spikes.
 - St Lou Fed 5yr Breakeven Inflation Rate: 3.06%.
 - Yield on Treasury minus yield on TIPS.
 - April's Core PCE will be released 5/27/22.
- GDP: -1.4% Q4 (Adv Est.) (Fed's Longer Run Rate 1.8%)
 - Q1 GDP (2nd Estimate) to be released 5/26/22.



Rates --- 10-Day Trends

Key Interest Rates	4/25/22	4/26/22	4/27/22	4/28/22	4/29/22	5/2/22	5/3/22	5/4/22	5/5/22	5/6/22	5/9/22	10-Day Average	10-Day Avg vs 5/9/22	10-Day Change
Fed Funds Target Rate (FFTR)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	1.00	1.00	1.00	1.00	0.70	↑ 0.30	↑ 0.50
Standing Repo Facility (SRF)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	1.00	1.00	1.00	1.00	0.70	↑ 0.30	↑ 0.50
Interest on Reserve Balances (IORB)	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.90	0.90	0.90	0.90	0.60	↑ 0.30	↑ 0.50
Effective Fed Funds Rate (EFFR)	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.83	0.83	0.00	0.43	↑ 0.40	↑ 0.50
Overnight Reverse Repo Facility (ON RRP)	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.80	0.80	0.80	0.80	0.50	↑ 0.30	↑ 0.50
Fed's Balance Sheet (Total Assets in Millions)	8,939,199	8,939,199	8,939,199	8,939,199	8,939,199	8,939,972	8,939,972	8,939,972	8,939,972	8,939,972	8,939,972	8,838,621	↓ (351)	↑ 773
BSBY - Overnight	0.331	0.331	0.329	0.330	0.330	0.325	0.321	0.316	0.317	0.415	0.793	0.380	↑ 0.412	↑ 0.462
BSBY - 1-month	0.560	0.589	0.609	0.642	0.673	0.682	0.704	0.756	0.798	0.817	0.838	0.711	↑ 0.127	↑ 0.250
SOFR - Overnight	0.270	0.270	0.280	0.280	0.280	0.300	0.300	0.300	0.790	0.780	0.000	0.385	↑ 0.395	↑ 0.510
SOFR - 30-Day Average	0.288	0.287	0.287	0.287	0.287	0.286	0.286	0.286	0.286	0.303	0.351	0.295	↑ 0.056	↑ 0.063
SOFR - Term Rate - 1-Month (CME Term SOFR)	0.669	0.688	0.700	0.742	0.766	0.795	0.811	0.808	0.798	0.790	0.788	0.768	↑ 0.019	↑ 0.099
US Treasury - 3-Month	0.91	0.83	0.82	0.82	0.85	0.90	0.91	0.89	0.85	0.85	0.92	0.86	↑ 0.06	↑ 0.09
US Treasury - 2-Year	2.63	2.54	2.58	2.63	2.70	2.73	2.78	2.66	2.71	2.72	2.61	2.67	↓ (0.06)	↑ 0.07
US Treasury - 10-Year	2.81	2.77	2.82	2.85	2.89	2.99	2.97	2.93	3.05	3.12	3.05	2.94	↑ 0.11	↑ 0.28
US Treasury - 20-Year	3.06	3.03	3.08	3.10	3.14	3.26	3.21	3.21	3.35	3.43	3.38	3.22	↑ 0.16	↑ 0.35
3-Month / 10-year Treasury Yield Curve Spread (10yr minus 3mo Treasury) (30yr historical avg: 1.68)	1.90	1.94	2.00	2.03	2.04	2.09	2.06	2.04	2.20	2.27	2.13	2.08	↑ 0.05	↑ 0.19
2-Year / 10-year Treasury Yield Curve Spread (10yr minus 2yr Treasury) (30yr historical avg: 1.14)	0.18	0.23	0.24	0.22	0.19	0.26	0.19	0.27	0.34	0.40	0.44	0.28	↑ 0.16	↑ 0.21

Rates – A Few of the Causes of Recent Volatility – and – Which YC more Accurately Predicts Recessions?



Interesting Reads that didn't make the Report:

- St. Louis Fed, How Does the Fed Use Its Monetary Policy Tools to Influence the Economy? 5/6/22
- SF Fed, Daly speech, What Will Your Letter Say? 5/6/22 (more inspirational, than economic)

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