Fed Unfiltered

WEEKLY REPORT 10/4/22

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Williams – Forecasts for GDP, Jobs and Inflation

- "So, what does tighter monetary policy mean for the economy? We are already seeing some of the effects. Broad measures of financial conditions, including borrowing and mortgage rates and equity prices, have become significantly less supportive of spending. This has led to a decline in activity in the housing market and signs of slowing in consumer and business investment spending. As this continues, I expect real GDP to be close to flat this year and to grow modestly in 2023."
- "As a result of slowing growth, I anticipate the unemployment rate will rise from its current level of 3.7 percent to around 4-1/2 percent by the end of 2023."
- "And with regard to inflation, I expect the combination of cooling global demand and steady improvements in supply to result in falling rates of inflation for goods that rely heavily on commodities, as well as for those that have been most affected by supply-chain bottlenecks. These factors should contribute to inflation declining to about 3 percent next year."
- "Bringing down underlying inflation—the inner layer of the inflation onion—will take longer, but with monetary policy helping to restore balance between demand and supply, I see inflation moving close to our 2 percent goal in the next few years."

Source: John Williams, Speech: A Bedrock Commitment to Price Stability, 10/3/22

Brainard – Policy Will be Restrictive for Some Time

- "Following a period where a combination of high demand and a lengthy sequence of adverse supply shocks to goods, labor, and commodities drove inflation to multidecade highs, monetary policymakers are taking a risk-management posture to guard against risks of longer-term inflation expectations moving above target, which would make it more difficult to bring inflation down."
- "It will take time for the full effect of tighter financial conditions to work through different sectors and to bring inflation down. Monetary policy will need to be restrictive for some time to have confidence that inflation is moving back to target. For these reasons, we are committed to avoiding pulling back **prematurely**. We also recognize that risks may become more two sided at some point. Uncertainty is currently high, and there are a range of estimates around the appropriate destination of the target range for the cycle."

Source: Lael Brainard, Speech: Global Financial Stability Considerations for Monetary Policy in a High-Inflation Environment, 9/30/22

Barkin – Inflation Decrease Won't be Predictable

- "And the Fed is moving expeditiously. You've likely seen that we have raised rates 300 basis points, started shrinking our balance sheet aggressively and signaled there are more rate increases to come. The transmission of these changes, especially in interest-sensitive sectors, has been rapid. Look at mortgage rates, which in mid-September had more than doubled from a year prior."
- "So, inflation should come down. But I don't expect its drop to be immediate nor predictable. We've been through multiple shocks, as I've discussed, and significant shocks simply take time to dampen."
- "Our rate and balance sheet moves take time to bring inflation down. But the Fed will persist until they do. One of the key lessons from the '70s was not to declare victory **prematurely**. Perhaps we will get help from supply chain and energy market normalization. But we have the tools to bring inflation down, even if those disruptions continue. As we do, we should learn even more about the drivers of this episode and how we can avoid any recurrence."

Source: Tom Barkin, Speech: What's Driving Inflation? 9/30/22

FOMC – On Track for Another 75bps Rate Hike

- 30-Day Window – Crystal Clear
  - Six Fed officials spoke in the last seven days (Daly, Evans, Mester, Brainard, Barkin & Williams) – the general message continues to be – inflation is too high, rates must increase (possibly to 4.50% by YE) and rates need to be maintained at that level (or higher) until there are several months of declining inflation.
  - Friday, Core PCE posted a MoM increase (from 4.7% in July to 4.9% in August), which means a 75bp hike is most likely at the next FOMC (November 1-2).
  - A majority of Fed officials continue to mention how they don't want to end rate hikes **prematurely**, as was done in the 70's.
- 60-Day Window – Less Clear
  - Sept SEP FF forecast for YE is 4.40%, which means another 50bp hike at the Dec 13-14 meeting – by then, a new round of inflation base effects will have kicked in (beginning with Oct's CPI, which posts Nov 10th).
- 90-Day Window – No Clarity at All
  - In the Sept SEP, the Fed forecasts one more rate hike for 2023 – although Dec's updated SEP will offer a much better forecast for 2023.

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Recession – Construction Trends Point to 2023

- "Economists have long known that trends in housing construction and sales are important indicators of future real gross domestic product (GDP) growth. The 2001-09 housing boom and bust was the latest example of this phenomenon. Indeed, some economists have gone so far as to claim that "housing really is the business cycle."1
- "Based on the analysis in this blog post, the peak in private residential construction in May 2022 (if that turns out to be the peak) one month before the peak in units under construction is unusual, though not unprecedented, as seen in the 2020 recession. Thus, it is possible that nominal private residential construction put in place could rebound following the declines in June and July. If not, history suggests that the next recession could begin sometime in 2023."

Source: St. Louis Fed, Report: Peaks in Housing Construction as a Recession Signal, 9/29/22

Crypto Assets – A Quick Overview

- "Crypto assets are digital assets. In recent years they have been more frequently held as risky financial investments with the expectation their value will rise. For an investment, the risk is the chance of loss. Bitcoin, a cryptocurrency (one type of crypto asset), is the first successful crypto asset created."
- "Financial markets bring buyers and sellers together to trade stocks, bonds, currencies, and other financial assets, including crypto assets. In 2021, the global stock market value was $124.4 trillion. In that same year the global bond market value totaled $126.9 trillion.7 In comparison, the highest total crypto market capitalization was $2.9 trillion (November 2021)."

Common Crypto Assets

Crypto asset type	Example	Description
Cryptocurrency	Bitcoin	Used as payment for products or services A store of value For trading on a crypto asset platform
Stablecoin	Tether	Value is tied to another currency, commodity, or financial instrument For example, Tether mirrors the price of the U.S. dollar
Meme Coin	Dogecoin	Inspired by internet memes and pop culture Most do not have clear use cases
Non-Fungible Tokens (NFTs)	CryptoPunks	Represent ownership of a digital object or item such as an image, a video, or a song Non-fungible means they cannot be exchanged for one another, as each one is unique
Utility Token	Decentraland	Allows user to perform an action on a specific system or network For example, MANA is used to pay for goods and services on Decentraland

Source: St. Louis Fed, Report: Beyond the Hype, An Introduction to Crypto Assets, 10/3/22

Jobs – The Top 15 Fields with the Highest Turnover

- "Most jobs going unfilled are location-based, frontline jobs in health care, hospitality and leisure, retail, manufacturing, and transportation and warehousing."
- "The authors analyzed CPS (Current Population Survey) data and found that these fields are usually among the top fields with high turnover, but they note some pandemic-era caveats. Virtually all the occupations in the following table are place-based. Retail occupations are near the top of the lists across all three periods, and other essential occupations that bore the brunt of pandemic work moved up in rank. Notably, for the first time, registered nurse became a top occupation that workers left during the 2020–21 period."

Top Occupations Workers Switched Away From

Rank	2018–19	2019–20	2020–21
1	Unemployed	Unemployed	Unemployed
2	Managers, All Other	Managers, All Other	Managers, All Other
3	Retail Salespersons	Retail Salespersons	Retail Salespersons
4	Cashiers	First-Line Supervisors of Retail Sales Workers	First-Line Supervisors of Retail Sales Workers
5	Executive Secretaries and Executive Administrative Assistants	Elementary and Middle School Teachers	Customer Service Representatives
6	First-Line Supervisors of Retail Sales Workers	Customer Service Representatives	Elementary and Middle School Teachers
7	Customer Service Representatives	Executive Secretaries and Executive Administrative Assistants	Laborers and Freight, Stock, and Material Movers, Hand
8	Elementary and Middle School Teachers	Driver/Sales Workers and Truck Drivers	Driver/Sales Workers and Truck Drivers
9	Laborers and Freight, Stock, and Material Movers, Hand	Cashiers	Secretaries and Administrative Assistants, Except Legal, Medical, and Executive
10	Driver/Sales Workers and Truck Drivers	Laborers and Freight, Stock, and Material Movers, Hand	Construction Laborers
11	Construction Laborers	Construction Laborers	Janitors and Building Cleaners
12	Janitors and Building Cleaners	Janitors and Building Cleaners	Cashiers
13	First-Line Supervisors of Office and Administrative Support Workers	Secretaries and Administrative Assistants, Except Legal, Medical, and Executive	First-Line Supervisors of Office and Administrative Support Workers
14	Cooks	Office Clerks, General	Registered Nurses
15	Office Clerks, General	First-Line Supervisors of Office and Administrative Support Workers	Cooks

Source: Author's analysis of Current Population Survey data extracted from IPUMS USA
Note: Rankings are based on author's calculation of switch rate.

Source: Atlanta Fed, Report: Discontent, Occupational Change, and the Roles Workers Are Leaving amid the Great Resignation, 9/28/22

Housing – The Value of the Real-Estate Agent

- "Individuals and firms faced with making large, infrequent financial transactions under imperfect information will often seek the advice of experts and pay high costs for their services. In this paper, we focus on real estate agents who are hired by the vast majority of households to aid in the process of buying and selling residential properties. We find little evidence that the average listing agent secures a price premium for their clients that justifies their typical 3 percent sales commission … Similarly, we find that the average buying agent does not secure a price discount relative to the average home buyer who does not hire an agent. However, we do find evidence that the average full-service listing agent is more likely to successfully sell a property and, conditional on selling achieves a sale more quickly than a homeowner selling via a flat-fee broker."
- "We find that more experienced agents sell more quickly but at lower prices … Buying agents at large firms appear to slightly over-pay for homes when negotiating on behalf of their clients, which is consistent with larger firms steering buying agents clients to their colleagues' listings, even if that leads to their clients paying slightly higher prices."

Atlanta Fed, The Good, the Bad, and the Ordinary: Estimating Agent Value-Added Using Real Estate Transactions, 9/29/22

Quote of the Week

"Do not pray for an easy life, pray for the strength to endure a difficult one." --- Bruce Lee

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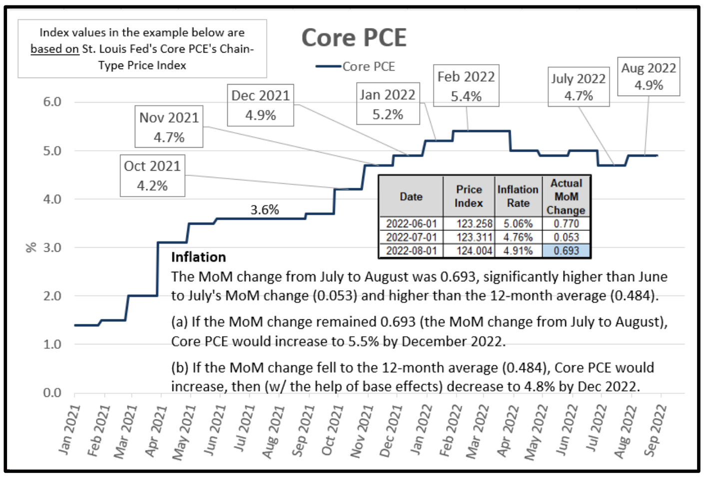
Economic Indicators:

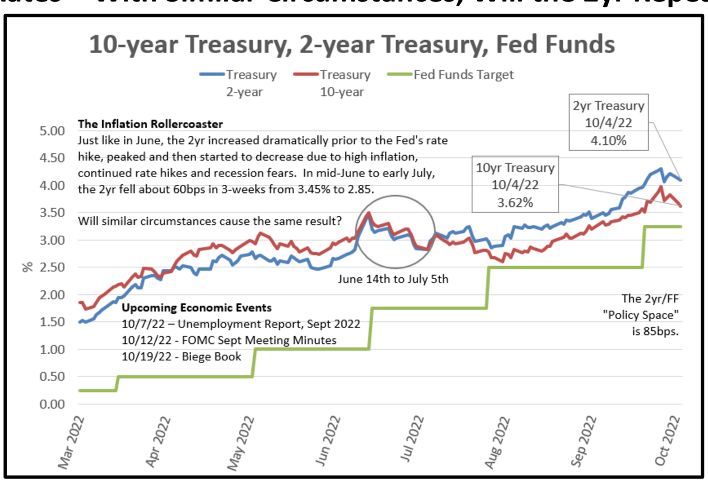
- GDP: -0.6% Q2 (3rd Est.) (Fed's Longer Run Rate 1.8%)
  - Q3 GDPNow estimate is +2.3% (posted 10/3/22).
  - Q3 GDP Adv Estimate will be released 10/27/22.
- Core PCE: 4.9% Aug (Fed's Avg. Inflation Target: 2.0%)
  - Dallas Fed's Trimmed Mean for Aug: 4.74%.
    - Trims off the lower & upper data spikes.
  - St Lou Fed 5yr Breakeven Inflation Rate: 2.28%.
    - Yield on Treasury minus yield on TIPS.
  - Sept's Core PCE will be released 10/28/22.
- Unemployment: 3.7% Aug (Fed's Long Run Rate: 4.0%)
  - Sept's unemployment #'s will be out Friday.
  - Consensus – job growth of 250,000 – although as rate hikes continue, a slowdown is expected.

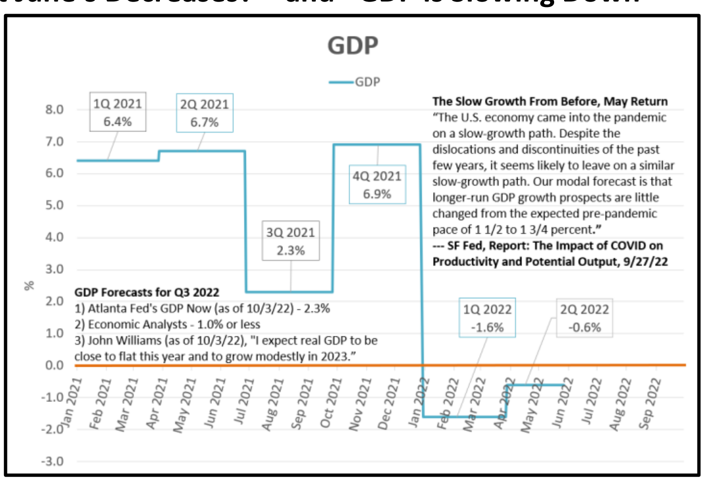


Rates --- 2-Week Trends

Key Interest Rates	9/20/22	9/21/22	9/22/22	9/23/22	9/26/22	9/27/22	9/28/22	9/29/22	9/30/22	10/3/22	10/4/22	10-Day Average	10-Day Avg vs 10/4/22	10-Day Change
Fed Funds Target Rate (FFTR)	2.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	0.00	0.00
Standing Repo Facility (SRF)	2.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	0.00	0.00
Interest on Reserve Balances (IORB)	2.40	2.40	3.15	3.15	3.15	3.15	3.15	3.15	3.15	3.15	3.15	3.08	0.08	0.75
Effective Fed Funds Rate (EFFR)	2.33	2.33	3.08	3.08	3.08	3.08	3.08	3.08	3.08	3.08	0.00	2.93	0.15	0.75
Overnight Reverse Repo Facility (ON RRP)	2.30	3.05	3.05	3.05	3.05	3.05	3.05	3.05	3.05	3.05	3.05	3.05	0.00	0.00
Fed's Balance Sheet (Total Assets in Millions)	8,832,759	8,816,802	8,816,802	8,816,802	8,816,802	8,816,802	8,795,567	8,795,567	8,795,567	8,795,567	8,795,567	8,808,600	13,033	37,192
BSBY - Overnight	2.340	2.344	2.342	2.497	3.035	3.104	3.116	3.102	3.101	3.127	3.107	2.887	0.219	0.763
BSBY - 1-month	2.918	2.983	3.025	3.053	3.086	3.108	3.104	3.129	3.091	3.103	3.110	3.079	0.031	0.127
SOFR - Overnight	2.260	2.250	2.990	2.990	2.990	2.980	2.980	2.960	2.980	3.000	0.000	2.838	0.162	0.740
SOFR - 30-Day Average	2.282	2.282	2.281	2.305	2.376	2.400	2.423	2.447	2.469	2.538	2.562	2.408	0.154	0.280
SOFR - Term Rate - 1-Month (CME Term SOFR)	3.076	3.075	3.064	3.032	3.035	3.047	3.034	3.020	3.042	3.102	3.108	3.056	0.052	0.033
US Treasury - 3-Month	3.35	3.31	3.29	3.24	3.39	3.35	3.40	3.36	3.33	3.46	3.45	3.36	0.09	0.14
US Treasury - 2-Year	3.96	4.02	4.11	4.20	4.27	4.30	4.07	4.16	4.22	4.12	4.10	4.16	(0.06)	0.08
US Treasury - 10-Year	3.57	3.51	3.70	3.69	3.88	3.97	3.72	3.76	3.83	3.67	3.62	3.74	(0.11)	0.11
US Treasury - 20-Year	3.83	3.73	3.90	3.87	4.01	4.15	3.98	4.00	4.08	4.00	3.95	3.97	(0.02)	0.22
3-Month / 10-year Treasury Yield Curve Spread (10yr minus 3mo Treasury) **(30yr historical avg: 1.68)**	0.22	0.20	0.41	0.45	0.49	0.62	0.32	0.40	0.50	0.21	0.17	0.38	(0.21)	(0.03)
2-Year / 10-year Treasury Yield Curve Spread (10yr minus 2yr Treasury) **(30yr historical avg: 1.14)**	(0.39)	(0.51)	(0.41)	(0.51)	(0.39)	(0.33)	(0.35)	(0.40)	(0.39)	(0.45)	(0.48)	(0.42)	(0.06)	0.03

Rates – With Similar Circumstances, Will the 2yr Repeat June's Decreases? – and –GDP is Slowing Down





Interesting Reads that didn't make the Report:

- SF Fed, Report: Inflation and Wage Growth Since the Pandemic, 9/27/22
- Mary Daly, Speech/Interview: The Singularity of the Dual Mandate, at Boise State University, 9/28/22
- KC Fed: Hybrid Working, Commuting Time, and the Coming Long-Term Boom in Home Construction, 9/30/22