Fed Unfiltered

FED REPORTS - Best of the Week

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December 5 - December 9

Due to the Fed's Blackout - The Best of the Last 2-Weeks

SF Fed – 2023 Forecasts for Inflation, GDP and Jobs

- "We project that **inflation** will continue to recede gradually but not reach the Fed's 2% average goal for another three years or more. Moreover, we judge the risks to this forecast as weighted to the upside. Prior forecasts have consistently underestimated the extent and persistence of existing inflation pressures. The repeated upside surprises may reflect pandemic-related supply disruptions that lasted longer than expected but now appear to be relenting. However, strong consumer demand has also contributed to elevated inflation readings, suggesting that a sustained slowing of economic activity is needed to bring inflation down."
- "Tighter monetary policy restrains growth and inflation, but the process is slow and typically spread out across multiple years. The slowdown had already begun in the first half of this year, when real **Gross Domestic Product** (GDP) fell 1.1% at an annual rate. Despite a bounce back in the third quarter to 2.9% growth, we expect growth to remain well below trend this year and next year before converging back to trend in 2025."
- "As the expected slowdown continues, a key question is how much the labor market will cool. Monthly employment growth and other indicators of labor demand such as job openings have fallen from their peaks earlier this year. Nevertheless, the labor market remains unusually strong by historical standards, with **unemployment** still near the 50-year low of 3.5% recorded most recently in September 2022. We expect a moderate increase in unemployment of about one percentage point through 2024."
  https://fedunfiltered.com/sf-fed-report-fed-views-december-2022/

St. Louis Fed – Supply Chain Changes & Increased Costs

- "These past disruptions and current concerns (i.e., sanctions imposed on Russia and COVID-related lockdowns in China) have led firms to rethink their global sourcing strategies, including re-shoring or near-shoring parts of the production process, perfectly diversifying across suppliers, and increasing the inventory of critical goods. However, restructuring supply chains is costly: Breaking previously established relationships with existing suppliers and establishing them with new ones has a large cost, and some inputs are specific to one or a few countries. As a result, restructuring supply chains may lead to industries being more resilient whenever supply chains are disrupted, but that could occur at the expense of an increase in production costs."
  https://fedunfiltered.com/st-louis-fed-report-supply-chain-disruptions-during-the-covid-19-recession/

Fed Board – The LFPR Might Not Recover Anytime Soon

- "The evolution of retirement behavior over the next few years will likely remain of keen interest among policymakers. The surge in retirements since the start of the pandemic accounts for essentially all of the shortfall in the LFPR; should the retired share reverse some of this increase, it would help alleviate the significant labor shortages that have developed in the U.S. labor market and boost the productive capacity of the economy."
- "Looking farther ahead, unless the pandemic has induced a permanent change in retirement behavior, the retired share of the population should eventually settle back to what would have been expected given the continued movement of the Baby Boomer generation through their retirement years. Thus, even if pandemic-related disruptions to retirement behavior eventually fade, the retired share will likely remain substantially higher than it was prior to the pandemic."
  https://fedunfiltered.com/fed-board-report-the-great-retirement-boom-the-pandemic-era-surge-in-retirements-and-implications-for-future-labor-force-participation/

Fed Board – No Benefit to Being First Thru the Door

- "The first mover literature does not suggest that there is a compelling first-mover advantage for issuing a CBDC in the domestic payments market, reserve currency and international payments market, or payments technology market. There is also unlikely to be a first-mover advantage for CBDC as an asset or as the potential foundation of a future financial state. Technology and markets are evolving quickly, which makes sustainable competitive advantage unlikely. Rather than focusing on timing of entry, central banks may benefit more from identifying clear policy objectives, exploring technological designs, and understanding benefits and risks to inform any decision on CBDC issuance."
  https://fedunfiltered.com/fed-board-report-an-examination-of-first-mover-advantage-for-a-cbdc/

UP TO SPEED --- 3-Month/10-Year YC Spread

In these three reports (published this year), the Fed explains why the 3-month/10-year yield curve spread is the most reliable predictor of a recession, sidelining the oft referenced 2-year/10-year yield curve spread.

Fed Board – 2/10 "Offers a Particularly Muddled View
https://fedunfiltered.com/fed-board-report-dont-fear-the-yield-curve-reprise-originally-posted-3-25-22-updated-8-5-22/

SF Fed –3m/10yr "More Reliable Recession Predictions"
https://fedunfiltered.com/sf-fed-report-current-recession-risk-according-to-the-yield-curve-2/

Richmond Fed – 3m/10yr "Is a Pretty Good Predictor"
https://fedunfiltered.com/richmond-fed-report-recession-predictors-an-evaluation/

Quote of the Week

"I learned that courage was not the absence of fear,
but the triumph over it."
--- Nelson Mandela