Fed Unfiltered

Reports - This Week (Jan 2-6)

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Fed: *"Research and analysis about consumers, their financial experiences, and the communities in which they live inform Federal Reserve policymaking." – Fed Board*

Fed Unfiltered: *Each week we'll read through and outline the most relevant information for your decision-making.*

This Week: *The St. Louis Fed updates its report about the chances of a recession. The Fed minutes were published. Also, professional forecasts for 2023 and how falling asset values might be one reason for the slight return of the LFP rate, both reports from the St. Louis Fed.*

St. Louis Fed – Now 7 States from a National Recession

- "Economists view recessions as national events. However, past recessions have shown that some states' economies continued to expand during a recession—particularly when the national recession was relatively mild. The Federal Reserve Bank of Philadelphia's state coincident indexes (SCIs) can be used to assess whether recession-like conditions have developed in each of the states. And if so, whether there is a threshold in the number of states that might signal a national recession."
  St. Louis Fed, Report: Are State Economic Conditions a Harbinger of a National Recession? 12/28/22

- "After our blog post was published, the Philadelphia Fed released the November 2022 SCIs; the results reveal the significance of data revisions to this analysis. This release also included revisions (if any) to the previous month's estimates. In our Dec. 28, 2022, blog post, the data showed that 27 states had negative SCI growth in October. The revised data now show that only 22 states had negative SCI growth in October."
  St. Louis Fed, Report: Are State Economic Conditions a Harbinger of a National Recession? (1/6/23 – UPDATE)
  https://fedunfiltered.com/st-louis-fed-report-are-state-economic-conditions-a-harbinger-of-a-national-recession/

Fed Board – Resolute & Meeting by Meeting Flexibility

- "In light of the heightened uncertainty regarding the out-looks for both inflation and real economic activity, most participants emphasized the need to retain flexibility and optionality when moving policy to a more restrictive stance. Participants generally noted that the Committee's future decisions regarding policy would continue to be informed by the incoming data and their implications for the outlook for economic activity and inflation, and that the Committee would continue to make decisions meeting by meeting."
  Fed Board, Report: Minutes of the Federal Open Market Committee December 13–14, 2022, 1/4/23
  https://fedunfiltered.com/fed-board-report-minutes-of-the-federal-open-market-committee-december-13-14-2022/

St. Louis Fed – Economic Forecasts, Rarely Fully Correct

- "Currently, there is much debate as to how the U.S. economy will perform in 2023. But the general consensus of professional forecasters and FOMC participants is that economic growth will be slow and inflation will come down from its elevated 2022 rates. Forecasters also expect that the hot labor market from the past few years will begin to cool. However, there are many risks to the outlook: elevated global inflation, slower growth in China, and a cooling domestic housing market, to name a few."

Blue Chip Survey of Professional Forecasters

	Real GDP growth	CPI inflation rate	Unemployment rate	10-Year Treasury yield
2023				
Consensus (average)	0.3	4.0	4.4	3.8
Average of top 10	1.3	4.6	4.9	4.3
Average of bottom 10	−0.5	3.4	3.9	3.1
Historical performance (1993-2022)				
Accuracy (% of years in range)	46.7	50.0	40.0	36.7
Accuracy (MAFE, consensus)	1.0	0.7	0.5	0.6
Bias (MFE, consensus)	−0.1	0.0	−0.2	−0.5

NOTE: Real GDP and CPI inflation are percent change from 2022 to 2023. Unemployment rate and 10-year Treasury yield are the averages for 2023. The 2022 observed values were calculated with data through 2022:Q3. Mean absolute forecast error (MAFE) and mean forecast error (MFE) were calculated using the consensus forecast.

St. Louis Fed, Report: Professional Forecasters' Outlook for 2023 and Caveats Based on Past Performance, 1/6/23
https://fedunfiltered.com/st-louis-fed-report-professional-forecasters-outlook-for-2023-and-caveats-based-on-past-performance/

St. Louis Fed – LFP Influenced by Falling Asset Values

- "As previously mentioned, the LFP rate recovered slightly during 2022: from 61.9% in December 2021 to 62.2% in October 2022. The large declines in net worth shown in the last figure could have influenced the decision to return to the labor force by many who left during 2020-21."
- "We apply the same methodology as in our previous work to try to determine how much of this 0.3 percentage point increase in the LFP rate can be attributed to falling asset values. Focusing on only people between the ages of 51 and 65, whose decision to participate in the labor force tends to be more sensitive to wealth effects, we find that the decline in asset values may have caused an extra 170,000 people to return to the labor force. This corresponds to an increase in the LFP rate of 0.06 percentage points, or about 16% of the total increase observed through October 2022. If, instead, we consider all people age 51 and older, we find that falling asset values may have contributed to about 380,000 people joining the labor force, which would account for 36% of the increase in the number of people in the labor force."
  St. Louis Fed, Report: Retirements, Net Worth, and the Fall and Rise of Labor Force Participation, 1/5/23
  https://fedunfiltered.com/st-louis-fed-report-retirements-net-worth-and-the-fall-and-rise-of-labor-force-participation/

Interesting Reads that Didn't Make the Weekly Report

- **Cleveland Fed, Report: House Prices and Rents in the 21st Century, 1/3/23**
  https://fedunfiltered.com/cleveland-fed-report-house-prices-and-rents-in-the-21st-century/
- **Fed Board, Report: Bad News, Good News: Coverage and Response Asymmetries, 1/4/23**
  https://fedunfiltered.com/fed-board-report-bad-news-good-news-coverage-and-response-asymmetries/
- **NY Fed, Report: The Layers of Inflation Persistence, 1/5/23**
  https://fedunfiltered.com/ny-fed-report-the-layers-of-inflation-persistence/

Quote of the Week

"Some people want it to happen, some wish it would happen, and others make it happen."
--- Michael Jordan