Economist Roundtable Flash Poll: 3Q23

Updating SIFMA Economist Roundtable's Forecasts & Monetary Policy Questions

October 2023

Key Takeaways

The SIFMA Economist Roundtable brings together chief U.S. economists from over 20 global and regional financial institutions. Its semiannual survey, published prior to the upcoming Federal Open Market Committee (FOMC) meeting, compiles the median economic forecast of Roundtable members.

This Flash Poll provides an updated pulse on select questions following our last semiannual survey, including (for 2023):

- **Real GDP growth rate**: +1.9% Y/Y; +1.4 pps vs. last survey
- **U.S. unemployment rate**: 3.7% estimate; -0.4 pps vs. last survey
- **Inflation** (Y/Y estimate; vs. last survey)
  - CPI/Core CPI: +3.2%/ +3.8%; +0.2 pps/no change
  - PCE/Core PCE: +3.1%/+3.4%; no change/-0.1 pps
- **Federal Funds (Fed Funds) rate**
  - Peak Level: 72.7% responded 525-550 bps (+25 bps to last survey)
  - Peak Timing: 72.7% responded 3Q23, already there (2Q23 in the last survey)
  - Pause: 72.7% and 100.0% expect a pause at the October/November and December FOMC meetings
  - Cut: 63.6% responded 2Q24 (1Q24 in the last survey)

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Economist Roundtable Flash Poll

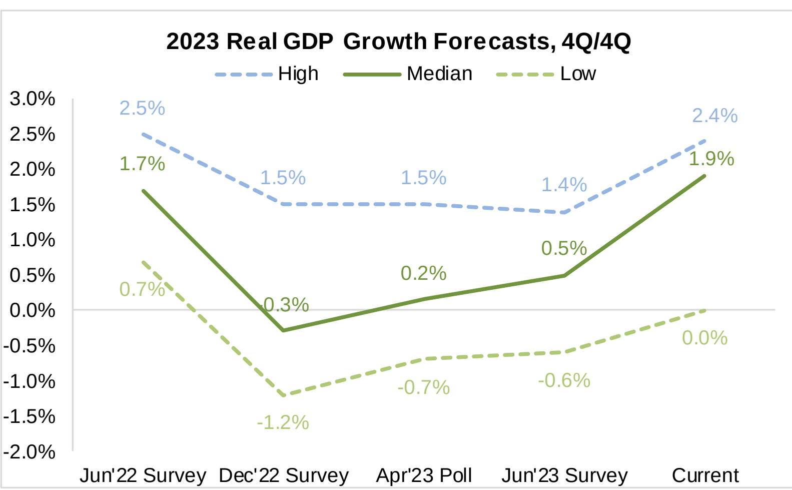
This Flash Poll provides an updated pulse on select questions from the last semiannual survey of SIFMA's Economist Roundtable, published in June 2023, and in advance of the next survey to be published in December 2023.

The Economy

We began by asking about the overall health of the U.S. economy, in terms of GDP growth. 2Q23 real GDP increased at an annual rate of 2.1% (third estimate, released September 28). This represented no change to the second estimate for 2Q23 and was down slightly to the 2.2% increase for 1Q23 (revised). By this measure, the economy is not cooling at a pace for which the Fed is looking.

Our Roundtables' expectations for 2023 real GDP growth have increased since the last survey, driven by increases in both the high and low estimates. Survey responses showed the following annual real GDP growth (median forecast, 4Q/4Q) forecasts for 2023:

- Flash Poll = 1.9%, vs.
- June Survey = 0.5%
- +1.4 pps versus the last survey

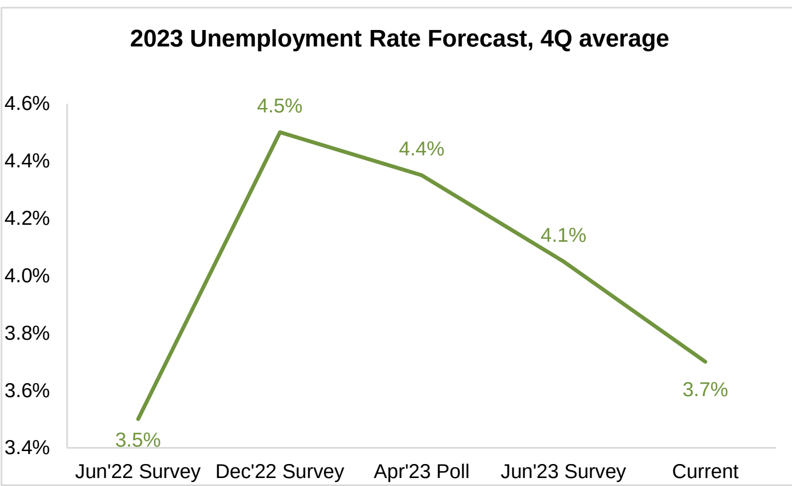


Source: SIFMA Economists Roundtable Quarterly Flash Poll

The Fed continues to monitor the labor piece of the inflation equation closely. The U.S. unemployment rate stood at +3.8% Y/Y in August, an increase from June and July (+3.6 % and +3.5% respectively). This is a tick higher – which is the right direction for the Fed – than the +3.4% to +3.7% range the rate has been stuck in over the last year. Looking at other labor market metrics, August nonfarm payrolls increased by 187,000. On average in 2023, the M/M change in payrolls averaged 236,000 versus 399,000 on average in 2022. Over the last three months in 2023, the average was 150,000. Average hourly earnings rose 4.3% Y/Y in August, down from June and July (+4.4% and +4.4% respectively).

Our Roundtables' expectations for the 2023 unemployment rate have decreased since the June survey. This is not what the Fed is looking for, as they are trying to increase the unemployment rate to tackle inflation. Survey responses showed the following unemployment rate (4Q average) forecasts for 2023:

- Flash Poll = 3.7%, vs.
- June Survey = 4.1%
- -0.4 pps versus the last survey

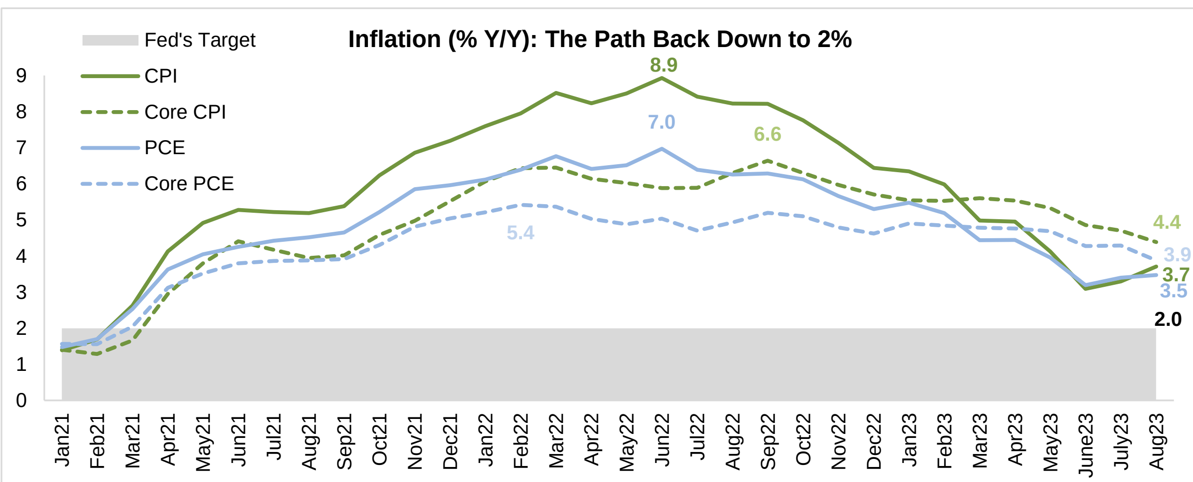


Source: SIFMA Economists Roundtable Quarterly Flash Poll

This section ends with an assessment of the inflation environment, key to the terminal Fed Funds rate. The August inflation data was a mixed bag in terms of directional changes. CPI increased 0.4 pps, while core CPI decreased 0.3 pps. PCE increased 0.1 pps as core PCE fell 0.4 pps. While all measures of inflation are down from their peaks, we are still above the Fed's 2% target.

PCE – the Fed's preferred measure of inflation for setting monetary policy – stood at +3.5% in August, 1.5 pps away from target. August data stood at the following for the various inflation measures (Y/Y change):

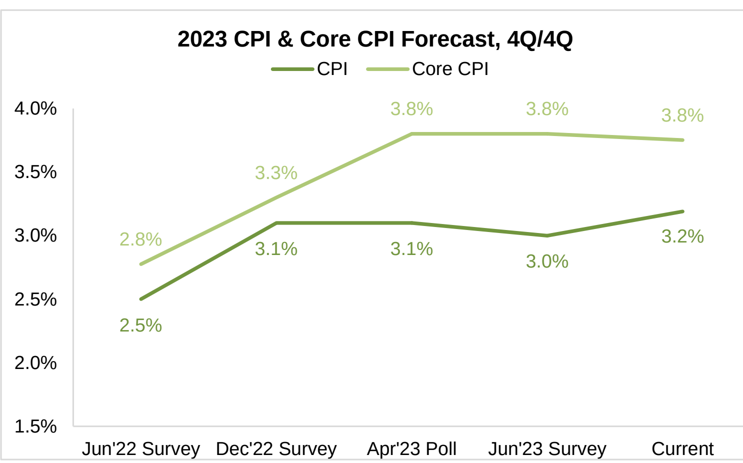
- CPI +3.7%
- Core CPI +4.4%
- PCE +3.5%
- Core PCE +3.9%

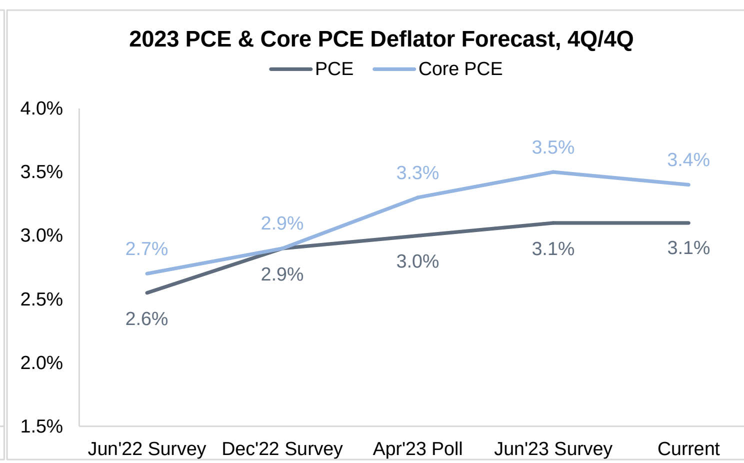


Source: FRED, SIFMA estimates

Our Roundtables' expectations for inflation have not changed much since the last survey. Survey responses showed the following inflation forecasts for 2023:

- CPI
    - Flash Poll = +3.2%
    - June Survey = +3.0%
    - +0.2 pps versus the last survey
- Core CPI
    - Flash Poll = +3.8%
    - June Survey = +3.8%,
    - No change versus the last survey
- PCE
    - Flash Poll = +3.1%
    - June Survey = +3.1%
    - No change versus the last survey
- Core PCE
    - Flash Poll = +3.4%
    - June Survey = +3.5%
    - -0.1 pps versus the last survey

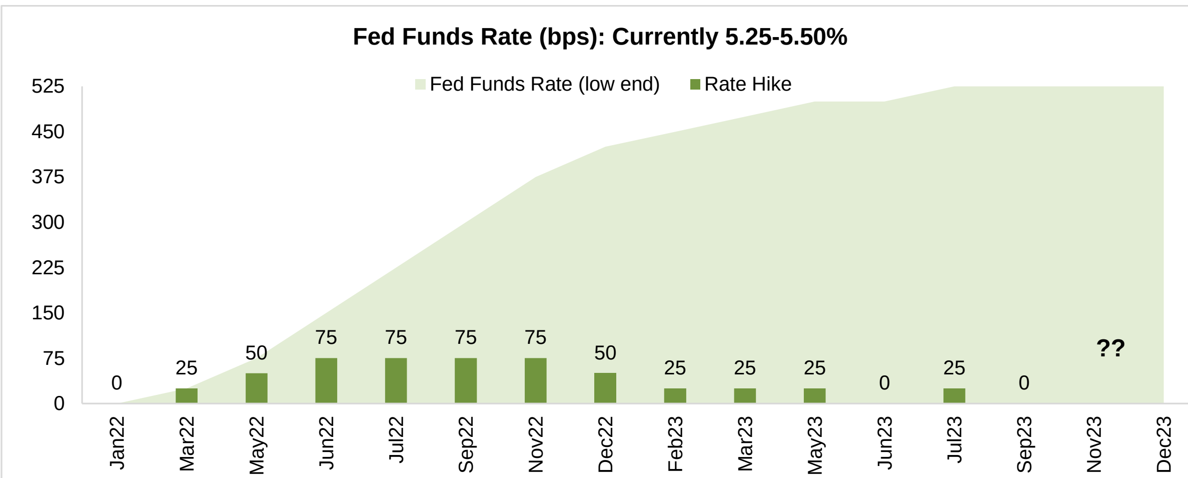




Source: SIFMA Economists Roundtable Quarterly Flash Poll

Monetary Policy

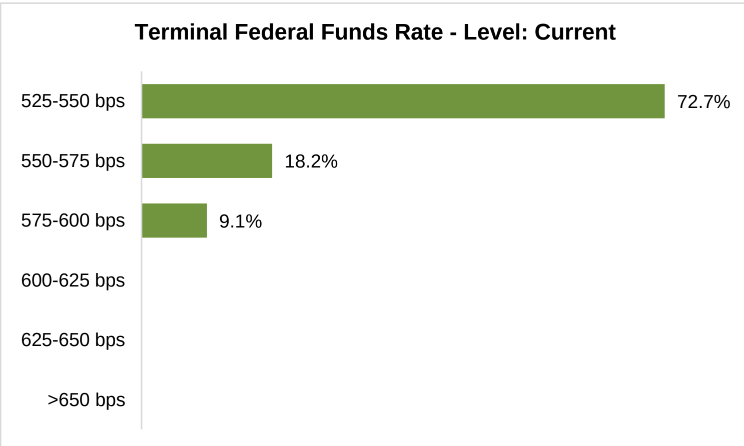
Putting all of these economic indicators together, we move on to monetary policy expectations. To combat inflation, the Fed has raised rates at an unprecedented pace, increasing the Fed Funds rate 525 bps since March of 2022. This is after remaining at/near zero for over a decade. After the September Federal Open Market Committee (FOMC) meeting[1], the range for the Fed Funds rate stands at 5.25%-5.50%. We have seen two pauses this year, at the June and September meetings.

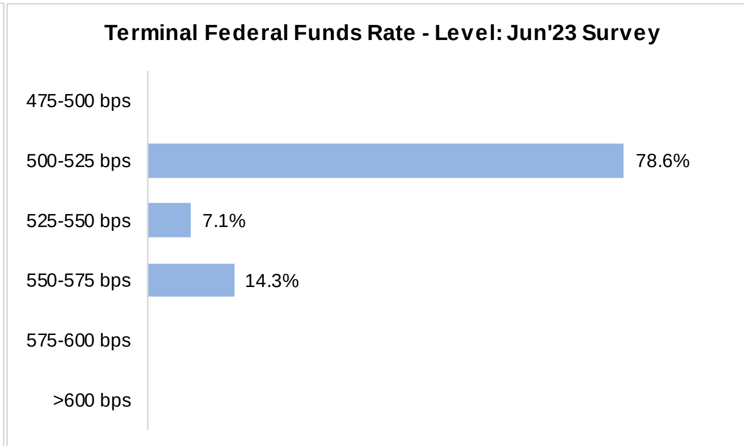


Source: Federal Reserve

[1] 2023 remaining FOMC meetings: October 31/November 1, December 12-13

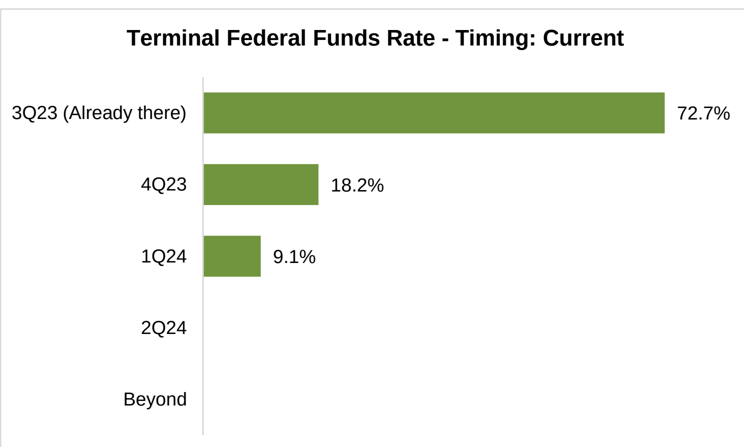
The majority of our Roundtable economists expected the level of the peak Fed Funds rate to be the current rate of 525-550 bps (72.7% of responses). This is higher than the June survey, where 78.6% responded 500-525 bps.

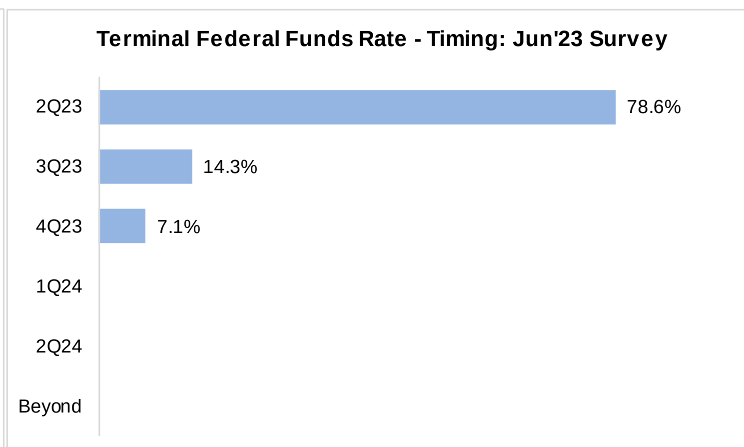




Source: SIFMA Economists Roundtable Quarterly Flash Poll

Our economists believe we are at or getting closer to the end of rate hikes. We asked our Roundtable their expectations for the timing of the peak Fed Funds rate, with the majority responding 3Q23, or we are already there (72.7% of responses). This is a full quarter later from the June survey, where 78.6% responded 2Q23.



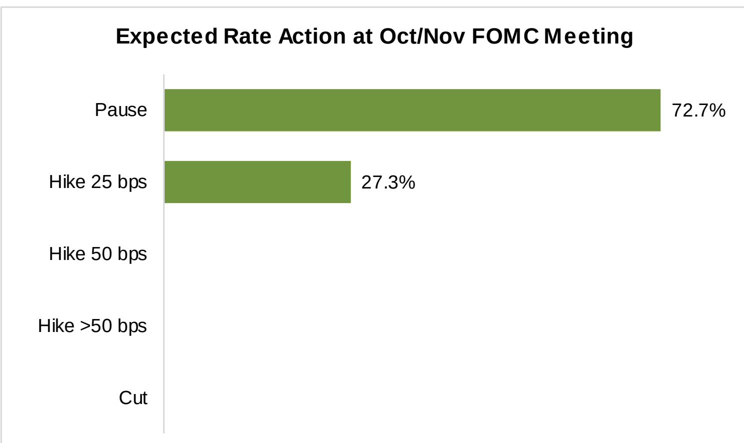


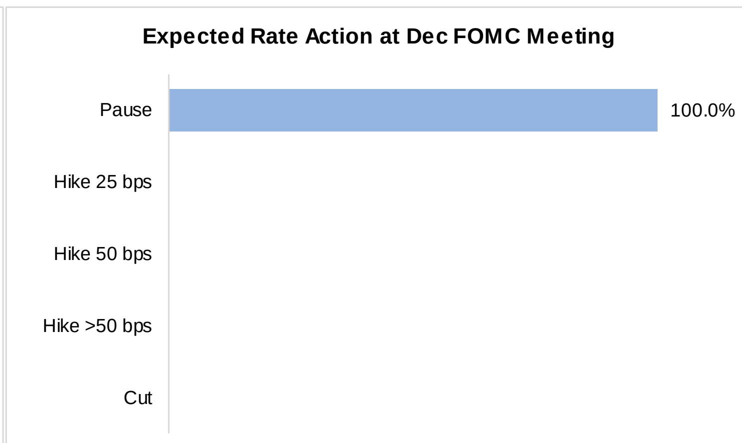
Source: SIFMA Economists Roundtable Quarterly Flash Poll

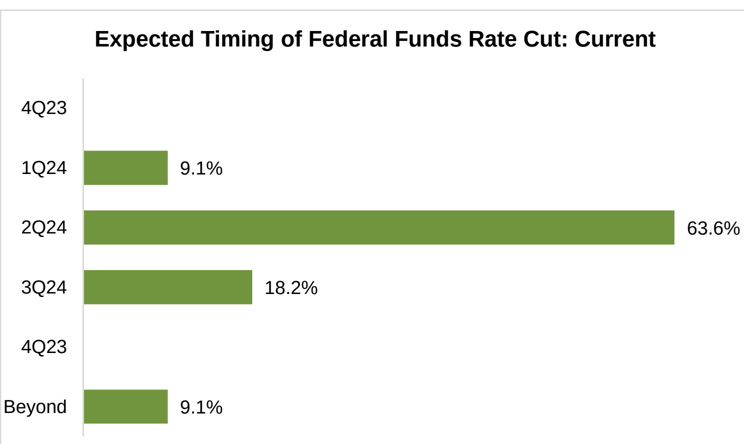
With two more meetings to go, the conversation among market participants has shifted from quantifying the peak rate to higher for longer, i.e. how long rates will need to remain at this level. Looking at the dot plot in the Fed's September Summary of Economic Projections, 63.2% of respondents put their projection for the 2023 Fed Funds target range at 5.50%-5.75% – one more rate hike this year – with 36.8% indicating we stay at the current rate. For 2024, 21.1% each responded the rate should end the year at the current range, 5.00%-2.25%, or 4.75%-5.00%.

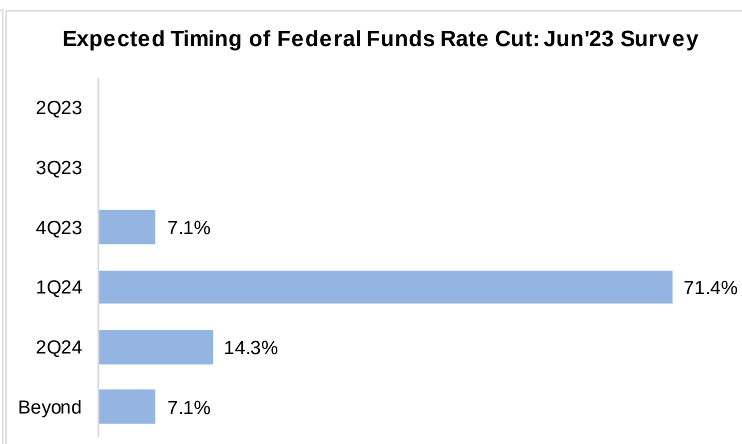
To gauge market expectations, we looked at the CME FedWatch Tool. This shows probabilities that the Fed will change the Fed Funds target rate at upcoming FOMC meetings, as implied by 30-Day Fed Funds futures pricing data. For the November 2023 meeting, it shows a 65.1% probability that the rate will remain unchanged and a 34.9% probability there will be a 25 bps hike. For December 2023, it shows a 51.7% probability the rate will remain unchanged, a 41.1% probability of a 25 bps hike, and a 7.2% probability of a 50 bps hike. As to rate cuts in 2024, June appears to be the month: 30.8% probability of a 25 bps cut, 9.6% for a 50 bps cut, and 0.9% for a 75 bps cut.

Our economists expect pauses for the final two FOMC meetings in 2023: 72.7% for the November announcement and 100.0% for the December meeting. The majority of our Roundtable economists do not expect a rate cut until 2Q24 (63.6% of responses) whereas our June Survey indicated rate cuts by 1Q24 (71.4% of responses).









Source: SIFMA Economists Roundtable Quarterly Flash Poll

Appendix: Terms to Know

- **Statistical analysis**
    - M/M – month-over-month change
    - Q/Q – quarter-over-quarter change
    - Y/Y – year-over-year change
    - Bps – basis points
    - Pps – percentage points

- **Gross Domestic Product (GDP)**: A comprehensive measure of U.S. economic activity, indicating the value of the final goods and services produced without double counting the intermediate goods and services used up to produce them. GDP data are seasonally adjusted to remove the effects of yearly patterns – winter weather, holidays, or factory production schedules – to reflect true patterns in economic activity. The Bureau of Economic Analysis (BEA) releases new statistics every month, as it estimates GDP three times:
    - Advance estimate – This comes out around one month after the quarter's end, an early look based on the best information available at that time
    - Second estimate – Incorporates additional source data that were not available the month before, improving accuracy
    - Third estimate – Incorporates even more source data that were not available the month before, considered the most accurate estimate

- **Federal Funds Rate (Fed Funds)**: The interest rate at which banks and other depository institutions lend money to each other, typically on an overnight basis. An important monetary policy tool is the Fed's open market operations, consisting of buying and selling U.S. Treasury securities on the open market, with the aim of aligning the actual Fed Funds rate with the Federal Open Market Committee's (FOMC) target rate.

- **Unemployment**: The unemployment rate represents the number of unemployed people as a percentage of the labor force, which is the sum of the employed and unemployed: (Unemployed ÷ Labor Force) x 100. According to the Bureau of Labor Statistics Current Population Survey, people are classified as not in the labor force if: (a) they were not employed during the survey reference week; and (b) they had not actively looked for work (or been on temporary layoff) in the last 4 weeks. People not in the labor force are those who do not meet the criteria to be classified as either employed or unemployed as defined above and can be classified into several subgroups: (a) people who want a job now; (b) people marginally attached to the labor force (not in the labor force but currently want a job); and (c) discouraged workers (not actively searched for work in the last four weeks).

- **Inflation**: It is reflected quantitatively by an increase in the average price level of a basket of selected goods and services in an economy and represents the rate of decline of purchasing power of a given currency over some period of time. There are multiple components that go into the inflation equation. Pressure points can be bucketed as: supply side, demand side, and the labor component.
  - Consumer Price Index (CPI) – headline inflation; measures the change in direct expenditures for all urban households for a defined basket of goods and services (three largest components are housing, transportation, and food/beverages)
  - Personal Consumption Expenditures (PCE) – the metric the Fed monitors for monetary policy – measures the change in the prices of goods and services consumed by all households and nonprofit institutions serving households
  - Core CPI or PCE – makes adjustments to remove the source of the noise in the price data, i.e. food and energy, to get a measure of the underlying component of inflation
  - Differences between CPI and PCE include (among others): Basket composition – CPI based on household purchases (includes imports) versus PCE based on what businesses are selling (includes capital goods); calculation methodologies – expenditure weights assigned to categories of basket items (housing a main difference); accounting for basket changes (PCE allows substitution, CPI is always the same basket); CPI covers only out-of-pocket expenditures, PCE includes expenses paid by employers and federal programs; seasonal adjustment differences; PCE includes rural and urban consumers, CPI only urban; PCE includes expenditures from non-profit institutions serving households, CPI households only

Appendix: SIFMA Economist Roundtable Members

The SIFMA Economist Roundtable brings together chief U.S. economists from over 20 global and regional financial institutions. SIFMA Research undergoes a semiannual U.S. Economic Survey with this group, analyzing the median economic forecasts of Roundtable members, published prior to the upcoming Federal Open Market Committee (FOMC) meetings in June and December. In those reports, we analyze the Roundtable's expectations for: GDP, unemployment, inflation, interest rates, etc. We also review expectations for policy moves at the upcoming FOMC meeting and discuss key macroeconomic topics and how these factors impact monetary policy. The most recent survey can be found here: https://www.sifma.org/resources/research/us-economic-survey-end-year-2022/

The Flash Polls update key Roundtable Economists' forecasts and select monetary policy questions on the off quarters from the survey. The next full survey will publish in December 2023.

Chair

Lindsey Piegza, Ph.D.
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Disclaimer: This document is intended for general informational purposes only and is not intended to serve as investment advice to any individual or entity. The information in the survey was provided for information purposes only to gauge an estimate of respondents' opinions on future events. It should not be relied upon and can change at any time without notice. The views in this report and interpretation of the data are that of SIFMA, not necessarily its member firms.

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