Economist Roundtable Flash Poll: 1Q23

Updating SIFMA Economist Roundtable's Forecasts & Monetary Policy Questions

April 2023

Key Takeaways

The SIFMA Economist Roundtable brings together chief U.S. economists from nearly 30 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:

- **Real GDP growth rate**: +0.2% Y/Y; +0.5 pps vs. last survey
- **U.S. unemployment rate**: 4.4% estimate; -0.1 pps vs. last survey
- **Inflation** (Y/Y estimate; vs. last survey)
  - CPI/Core CPI: +3.1%/ +3.8%; no change/+0.5 pps
  - PCE/Core PCE: +3.0%/+3.3%; +0.1 pps/+0.4 pps
- **Federal Funds (Fed Funds) rate**
  - Peak Level: 66.7% responded 500-525 bps; ~no change to last survey
  - Peak Timing: 66.7% responded 2Q23, 16.7% believe we are already there; ~no change to last survey
  - Pause: 83.3% responded 2Q23; last survey only 50% responded 2Q23, b/c 40% had expected 1Q23
  - Cut: 83.3% responded 1Q24 (not asked in December survey)

Contents

Economist Roundtable Flash Poll

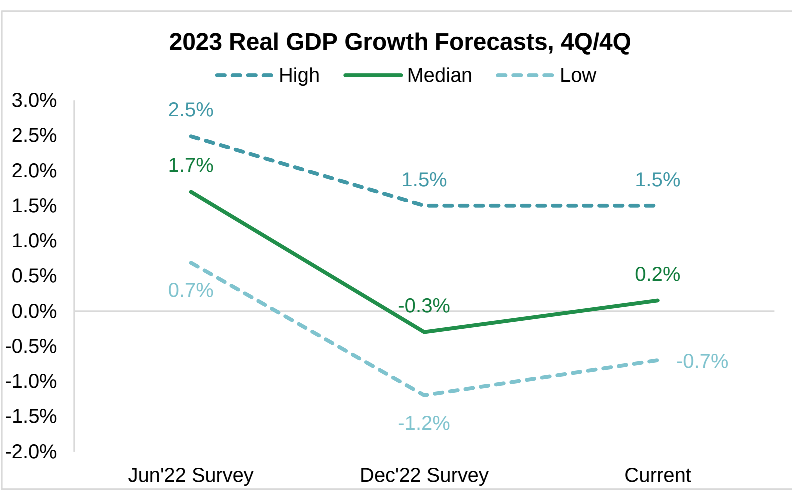
This Flash Poll provides an updated pulse on select questions from the last semiannual survey of SIFMA's Economist Roundtable, published in December 2022, and in advance of the next survey to be published in June 2023.

The Economy

We began by asking about the overall health of the U.S. economy, in terms of GDP growth. Real GDP increased at an annual rate of 2.6% in 4Q22 (third estimate, released March 30). This was a decrease to the second estimate, +2.7%, given downward revisions to exports and consumer spending. The 4Q22 estimate also compared to a 3.2% increase in 3Q22. The U.S. economy showed signs of cooling on a Q/Q basis – which is what the Fed is looking for – although, real GDP growth was negative for the first two quarters of 2022 (-1.6% in 1Q22, -0.6% in 2Q22).

In general, our Roundtables' expectations for real GDP growth have increased since the December survey. We note that the increase in the median figure is driven solely by increases in the low estimates. The high end for estimates has remained the same, with economists expecting a maximum real GDP growth rate of +1.5% Y/Y. Survey responses showed the following annual real GDP growth (median forecast, 4Q/4Q) forecasts for 2023:

- Flash Poll = 0.2%, vs.
- December Survey = -0.3%
- +0.5 pps versus the last survey

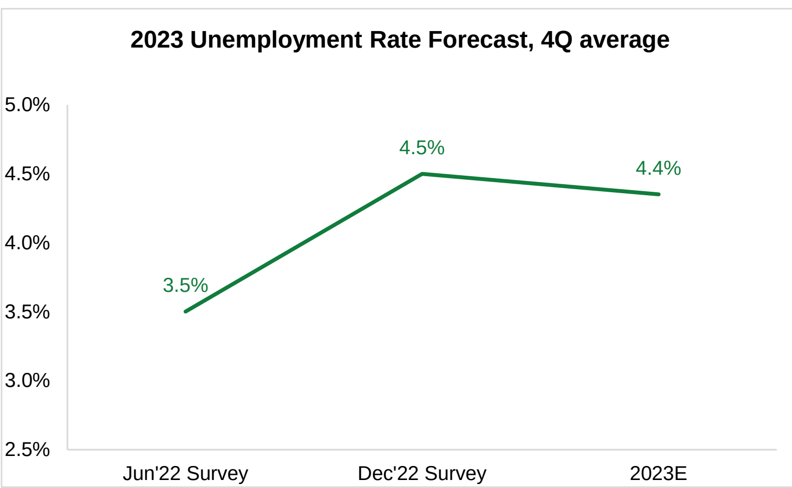


Source: SIFMA Economists Roundtable Quarterly Flash Poll

As to the labor market, the Fed continues to watch this piece of the inflation puzzle closely. Coming out of COVID, a shortage of workers pushed up wages. This looks to have eased somewhat in recent months. March nonfarm payrolls increased by 236,000, the smallest gain since December 2020, continuing a downward trend for the year (January +472,000, February +326,000). Average hourly earnings rose 4.2% Y/Y in March, the lowest level since June 2021, down from January and February (+4.4% and +4.6% respectively). The U.S. unemployment rate stood at +3.5% Y/Y in March, down from February but an increase to January (+3.6% and +3.4% respectively).

In general, our Roundtables' expectations for unemployment have decreased slightly since the December 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:

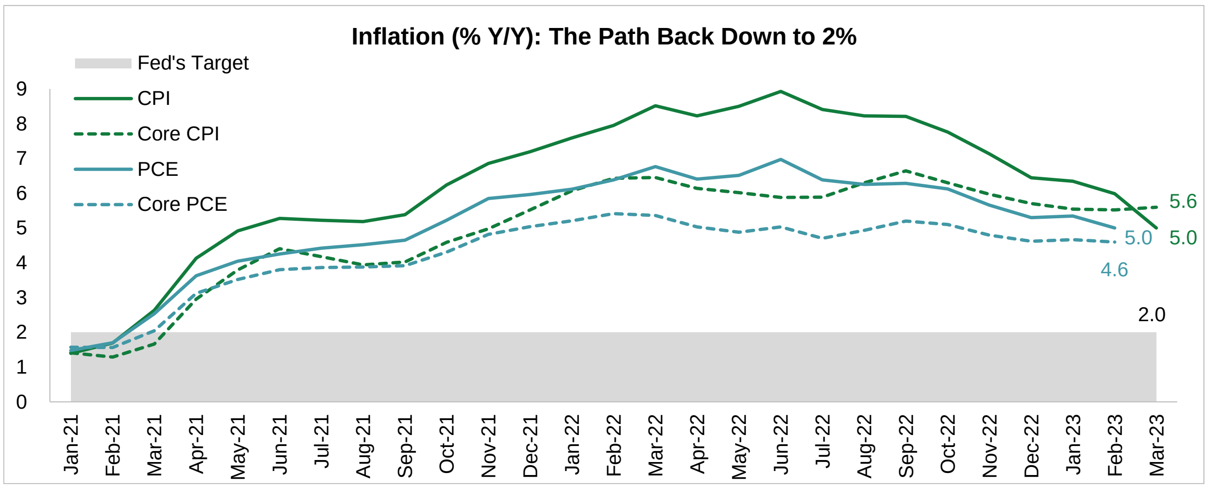
- Flash Poll = 4.4%, vs.
- December Survey = 4.5%
- -0.1 pps versus the last survey



Source: SIFMA Economists Roundtable Quarterly Flash Poll

This section ends with an assessment of the inflation environment. We recently received the March inflation data, which cooled as the Fed's rate actions took hold of the economy. CPI rose 0.1% M/M in March and 5.0% Y/Y, coming in below estimates. Core CPI increased 0.4% M/M and 5.6% Y/Y, in line with expectations.

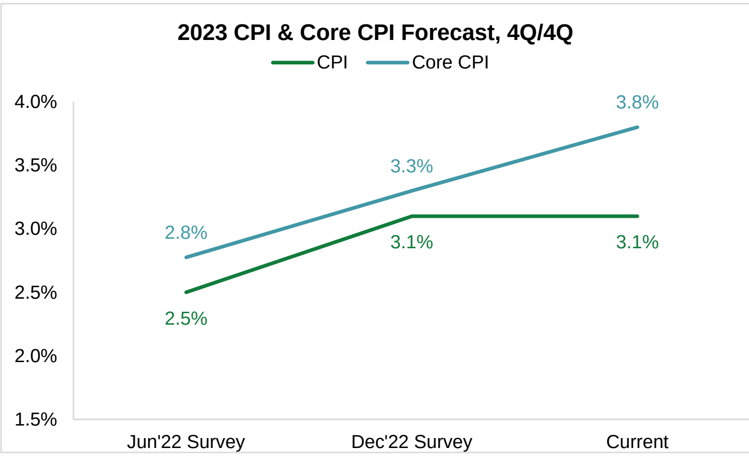
Key to reaching the peak Federal Funds (Fed Funds) rate is the Fed's inflation battle. While all measures of inflation are down from their peaks, we are still above the Fed's 2% target (albeit, March data showed signs of decelerating, as discussed above). PCE – the Fed's preferred measure of inflation for setting monetary policy – stood at +5.0% in February, 300 pps away from target.

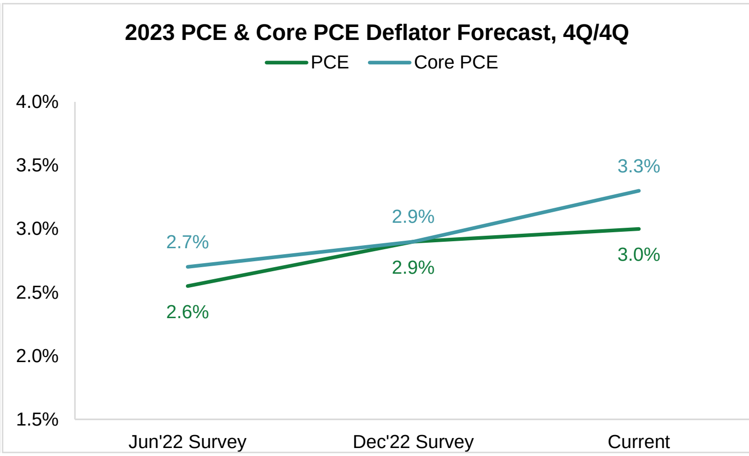


Source: FRED, SIFMA estimates

In general, our Roundtables' expectations for inflation have increased since the December survey. Survey responses showed the following inflation forecasts for 2023:

- CPI (+5.0% Y/Y as of March)
  - Flash Poll = +3.1%
  - December Survey = +3.1%
  - No change versus the last survey
- Core CPI (+5.6% Y/Y as of March)
  - Flash Poll = +3.8%
  - December Survey = +3.3%,
  - +0.5 pps versus the last survey
- PCE (+5.0% as of February)
  - Flash Poll = +3.0%
  - December Survey = +2.9%
  - +0.1 pps versus the last survey
- Core PCE (+4.6% as of February)
  - Flash Poll = +3.3%
  - December Survey = +2.9%
  - +0.4 pps versus the last survey

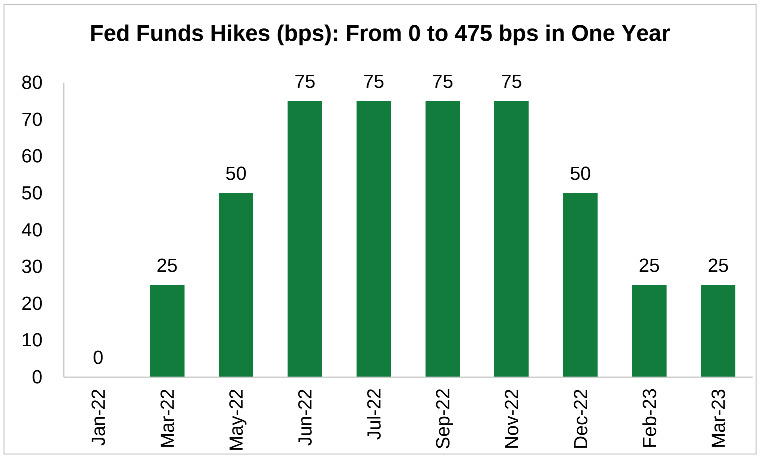




Source: SIFMA Economists Roundtable Quarterly Flash Poll

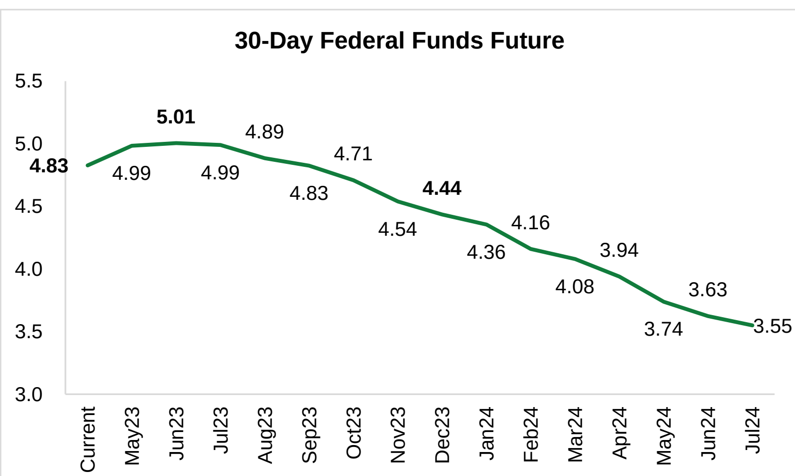
Monetary Policy

Putting those economic indicators together, we move on to monetary policy expectations. To combat inflation, the Fed has raised rates at an unprecedented pace, increasing 475 bps in one year. After the March Federal Open Market Committee (FOMC) meeting[1], the range for the Fed Funds rate stands at 4.75%-5.00%. This is after remaining at/near zero for over a decade.



Source: Federal Reserve

How much further does the Fed have to go? The effective Fed Funds rate stood at 4.83% at the writing of this report, pricing towards the lower end of the Fed's range. Looking to the futures implied rate for Fed Funds, we can see the path markets expect this rate to take: peak with the June contract at 5.01%, September 4.83%, and December 4.44%. Markets see essentially a slight increase, followed by cuts.

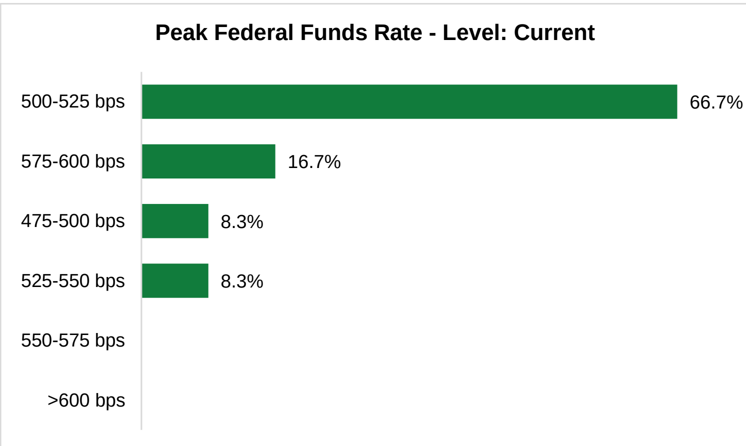


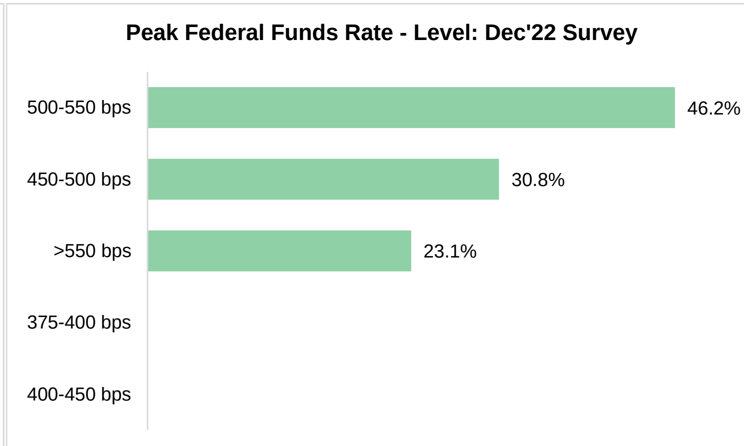
Source: Bloomberg, SIFMA estimates

---

[1] 2023 remaining FOMC meetings: May 2-3, June 13-14, July 25-26, September 19-20, October 31/November 1, December 12-13

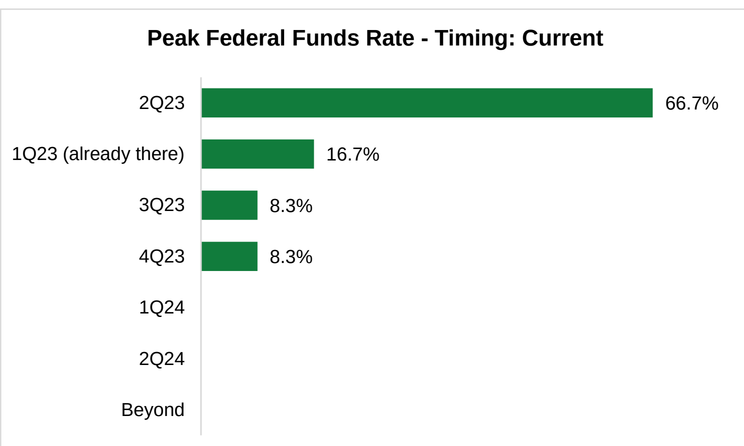
The majority of our Roundtable expected the level of the peak Fed Funds rate to be 500-525 bps (66.7% of responses), implying the Fed will implement one more 25 bps rate hike. Accounting for changes in ranges from which to select, this is essentially unchanged from the December survey, 46.2% responded 500-550 bps.

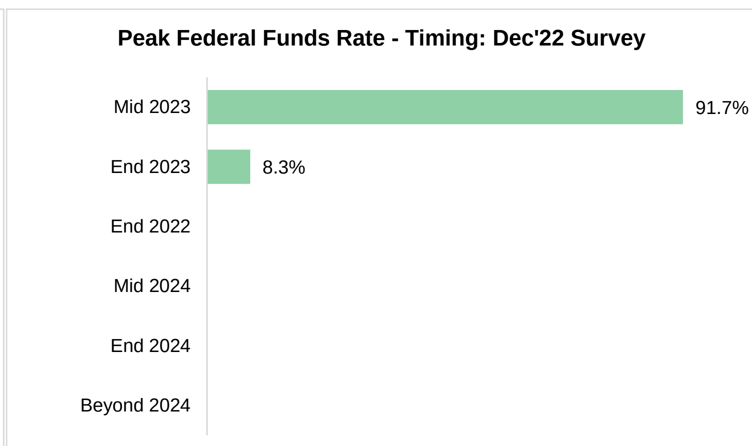




Source: SIFMA Economists Roundtable Quarterly Flash Poll

That said, economists generally believe we are 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 2Q23 (66.7% of responses). Another 16.7% believe we are already there, responding 1Q23. Accounting for changes in ranges from which to select, this is essentially unchanged from the December survey, where 91.7% responded mid 2023.

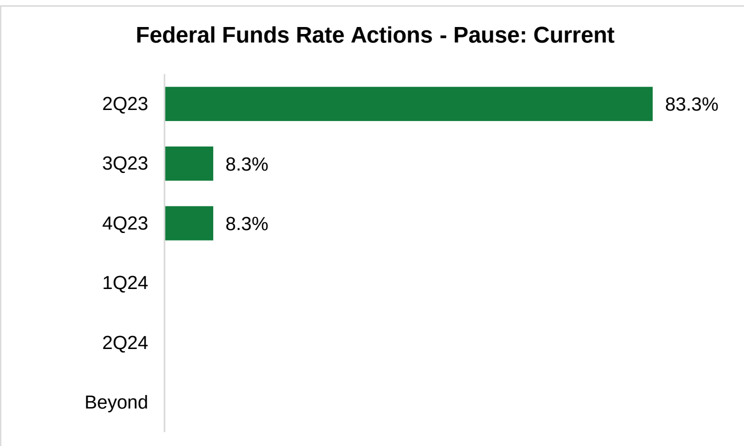


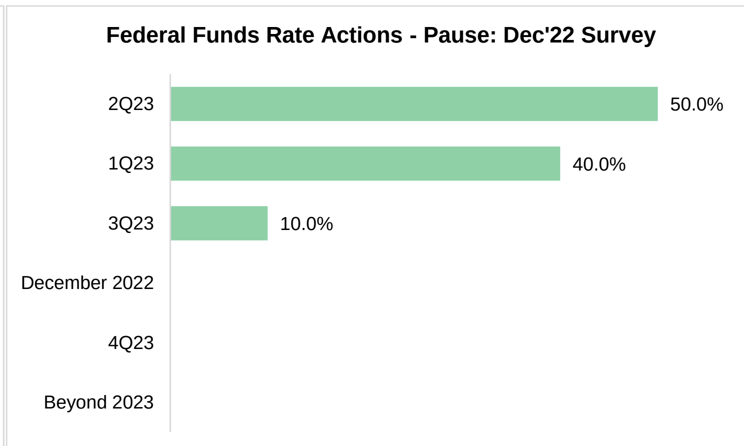


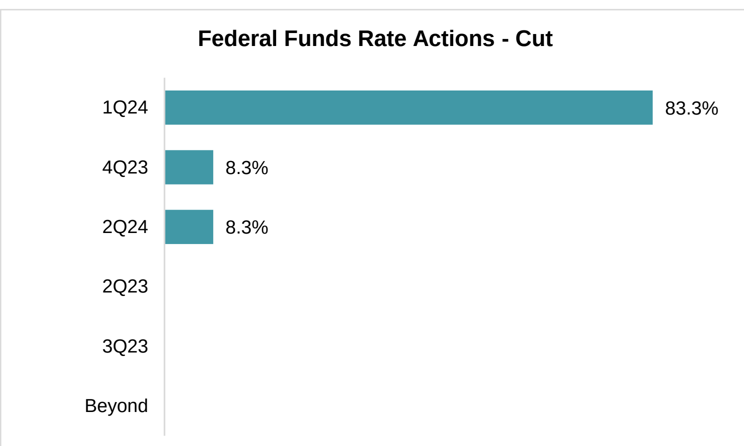
Source: SIFMA Economists Roundtable Quarterly Flash Poll

Hike, pause, or pivot? This is the question on market participants' minds, along with the timing of any shift. We asked our Roundtable if they expect the Fed to pause rate hikes to account for the lag time of monetary policy working its way into the system. The far majority expected this pause to occur in 2Q23 (83.3% of respondents). This is a slight shift from the last survey – only 50% responded 2Q23 because another 40% had expected a pause in 1Q23.

If the pause is not far off, how much longer do economists expect to wait for a rate cut? We note that economists and other market participants (traders, money managers) differ in expectations for a rate cut. After the regional bank turmoil and the corresponding tightening in credit – which some believe could be the equivalent of the Fed raising rates an extra 100 bps – markets are pricing in a rate cut by the summer, with some market participants indicating we could see potentially 50-100 bps of cuts by year end. Conversely, our Roundtable does not expect a rate cut until 1Q24 (83.3% of responses; this question was not asked in the December survey).







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 nearly 30 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 June 2023.

Chair

Lindsey Piegza, Ph.D.
Stifel Financial

Members

Michael Gapen
Bank of America

Marc Giannoni
Barclays Capital

Nathaniel Karp
BBVA Compass

Mickey Levy
Berenberg

Douglas Porter
BMO Financial

Andrew Hollenhorst
Citigroup

Nicholas Van Ness
Credit Agricole

Nannette Hechler-Fayd'herbe
Credit Suisse

Peter Hooper
Deutsche Bank Securities

Christopher Low
FTN Financial

Jan Hatzius
Goldman Sachs

Michael Feroli
J.P. Morgan

Thomas Mills
Jefferies

Mark Zandi
Moody's Analytics

Ellen Zentner
Morgan Stanley

Kevin Cummins
NatWest

Lewis Alexander
Nomura

Carl Tannenbaum
Northern Trust

Augustine Faucher
PNC Financial

Eugenio Alemán
Raymond James

Stephen Gallagher
Société Générale

Jonathan Pingle
UBS Securities

Jay Bryson
Wells Fargo Securities

Authors

SIFMA Research

Katie Kolchin, CFA, Managing Director, Head of Research
Justyna Podziemska
Dan Song
research@sifma.org

This survey was conducted between March 27 and April 7.

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

SIFMA Research can be found at: www.sifma/research

SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's nearly 1 million employees, we advocate on legislation, regulation, and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.