What to Look for at Jackson Hole

A Reference Guide for Top of Mind with SIFMA Insights

August 2023

Key Takeaways

This is a Reference Guide to accompany the Top of Mind with SIFMA Insights podcast, “What to Look for at Jackson Hole” Inside, we define terms and provide charts for topics we discussed including:

- **Fed Funds Rate**: Currently 5.25%-5.50%. Interest rate at which banks lend money to each other, typically on an overnight basis. Raising the target rate reduces the money supply and causes other market rates to rise, dampening consumer and business spending, slowing economic activity, and reducing inflation.
- **Inflation**: Currently, CPI 3.3%/Core CPI 4.7%/PCE 3.0%/Core PCE 4.1%. Reflected quantitatively by an increase of an 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.
- **Labor Market**: Current unemployment rate 3.5% (# unemployed people as a percentage of the total labor force); change in payrolls 187K (# jobs added or lost in an economy), and wage growth +4.4% Y/Y (measure of earnings for all private employees).

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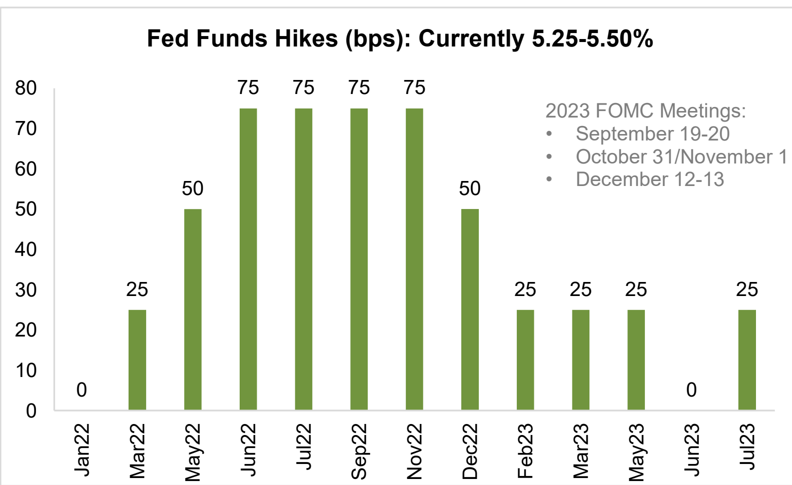
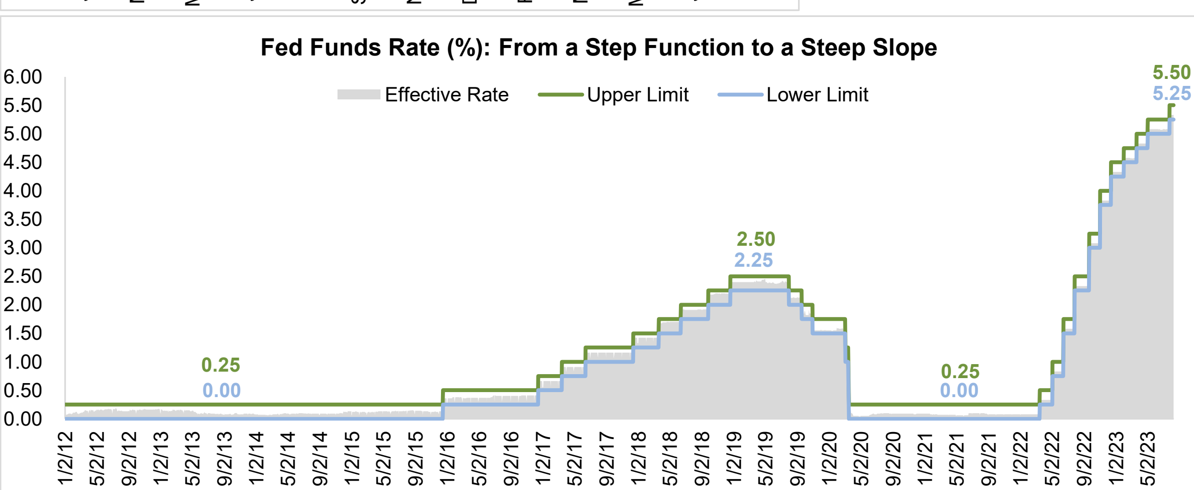
Federal Funds Rate (Fed Funds): *The interest rate at which banks and other depository institutions lend money to each other, typically on an overnight basis.*

The Fed uses open market operations, a monetary policy tool, to buy and sell U.S. Treasury securities on the open market to align the actual Fed Funds rate with the Federal Open Market Committee's (FOMC) target rate. To lower its target rate, the trading desk at the Federal Reserve Bank of New York (FRBNY) buys securities to increase the supply of reserves held by banks, paid for by crediting these banks' reserve accounts. The banks can use those reserves to convert into loans, adding to the money supply and putting downward pressure on the Fed Funds rate. Short and long-term market interest rates directly or indirectly linked to the Fed Funds rate also tend to fall, encouraging consumer and business spending, stimulating economic activity, and increasing inflationary pressures. Conversely, to raise the FOMC's target rate, the FRBNY trading desk sells Treasuries, collecting payments from banks by withdrawing funds from their reserve accounts. This reduces the money supply and puts upward pressure on the Fed Funds rate. Other market rates then rise, dampening consumer and business spending and, therefore, slowing economic activity and reducing inflationary pressures.





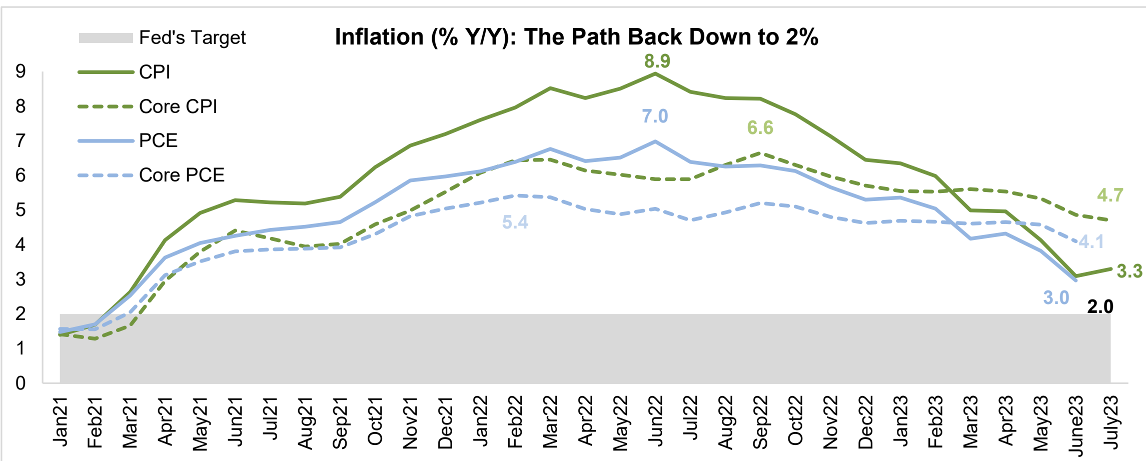
Source: Bloomberg, SIFMA estimates (as of 8-10-23)

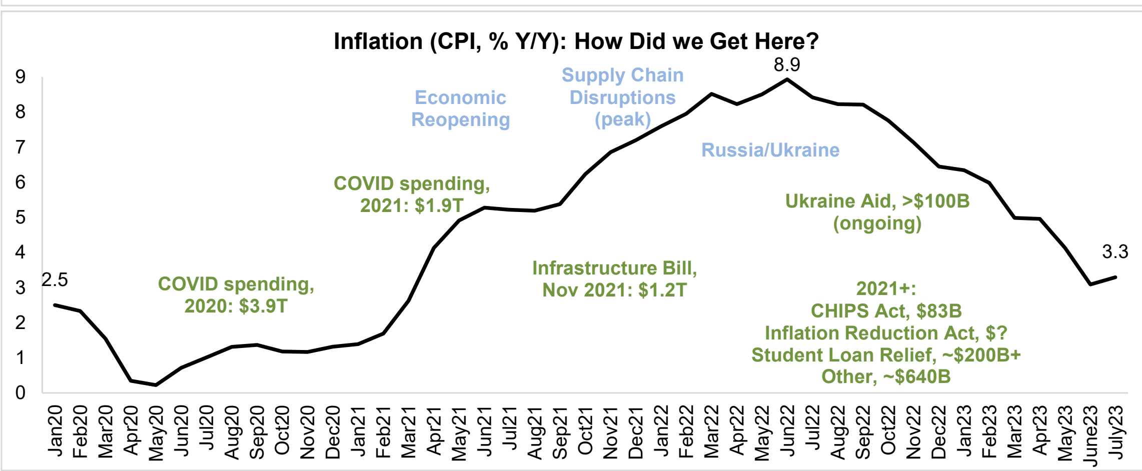
Inflation: *An increase of an average price level of a basket of selected goods and services in an economy, representing the rate of decline of purchasing power for a given currency over some period of time.*

There are multiple components of the inflation equation, with pressure points bucketed as: supply side, demand side, and the labor component. Common measures of inflation are:

- 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)
- 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

There are several differences between each measure. For example, basket composition for CPI is based on household purchases (includes imports) whereas PCE is based on what businesses are selling (includes capital goods). Other differences include calculation methodologies, accounting for basket changes, etc.



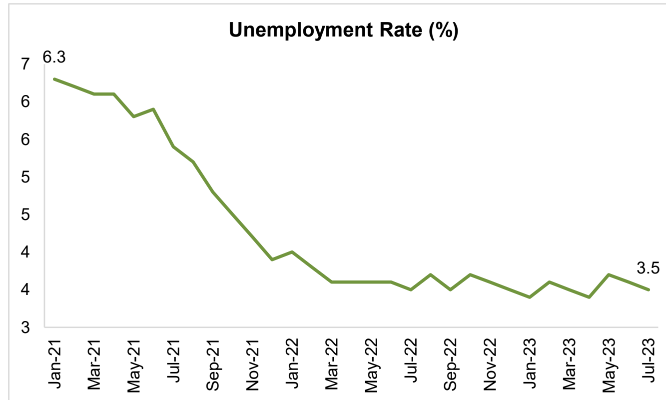


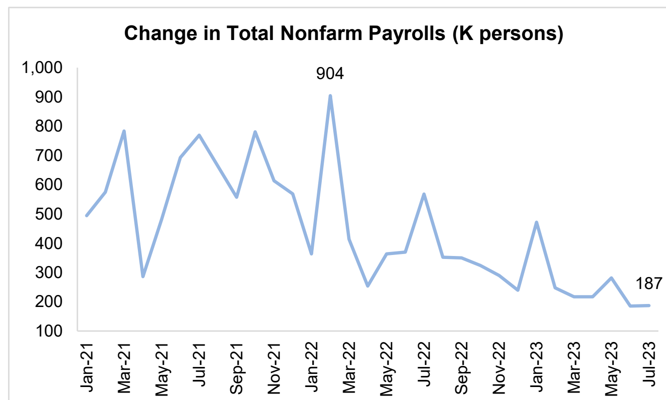
Source: FRED, IMF, NY Fed, SIFMA estimates (CPI/Core CPI as of July, PCE/Core PCE as of June)

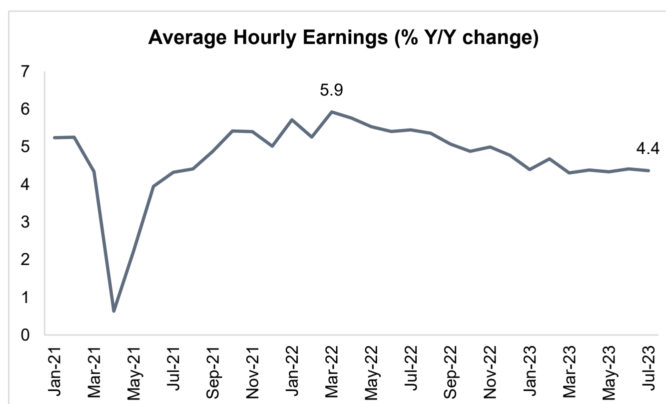
Unemployment Rate: The number of unemployed people as a percentage of the labor force, which is the sum of the employed and unemployed = (Unemployed ÷ Labor Force) x 100. Data are restricted to people 16 years of age and older, who currently reside in the 50 states or D.C., who do not reside in institutions, and who are not on active duty in the Armed Forces. This rate is also defined as the U-3 measure of labor underutilization.

Total Nonfarm Payroll: A measure of the number of U.S. workers in the economy that excludes proprietors, private household employees, unpaid volunteers, farm employees, and the unincorporated self-employed, accounting for ~80% of workers contributing to Gross Domestic Product (GDP). It can represent the number of jobs added or lost in an economy. Increases in employment might indicate that businesses are hiring, which might also suggest that businesses are growing. Those who are newly employed have increased their personal incomes, which means their disposable incomes have also increased, thus fostering further economic expansion.

Average Hourly Earnings: A measure of earnings for all private employees on a gross basis, including premium pay for overtime and late-shift work. These differ from wage rates in that these measure the actual return to a worker for a set period of time, rather than the amount contracted for a unit of work, the wage rate. This measure excludes benefits, irregular bonuses, retroactive pay, and payroll taxes paid by the employer. As this series measures the earnings of the pool of workers in each period, changes can be due to either changes in the set of workers in a period or changes in earnings. For example, in recessions with a disproportionate increase of unemployment in lower-wage jobs, average hourly earnings can increase due to changes in the pool of workers rather than the increase of hourly earnings at the worker-level.







Source: FRED, SIFMA estimates

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