Economist Roundtable Flash Poll: 1Q24

Updating SIFMA Economist Roundtable's Forecasts & Monetary Policy Questions

April 2024

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 2024):

- **Real GDP growth rate**: +1.6% Y/Y; +0.9 pps vs. last survey
- **U.S. unemployment rate**: 4.1% estimate; -0.3 pps vs. last survey
- **Inflation** (Y/Y estimate; vs. last survey)
    - CPI/Core CPI: +2.8%/ +3.1%; +0.6 pps/+0.5 pps
    - PCE/Core PCE: +2.3%/+2.5%; no change/+0.1 pps
- **Federal Funds (Fed Funds) rate**
    - Fed's next move: 76.9% responded cut in 2Q24
    - Number of cuts in 2024: 61.5% responded 3-4
    - Will Fed hike rates in 2024: 100% responded no
    - Expected Fed funds rate at end-2024: 58.3% responded 4.25%-4.50%

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Economist Roundtable Flash Poll

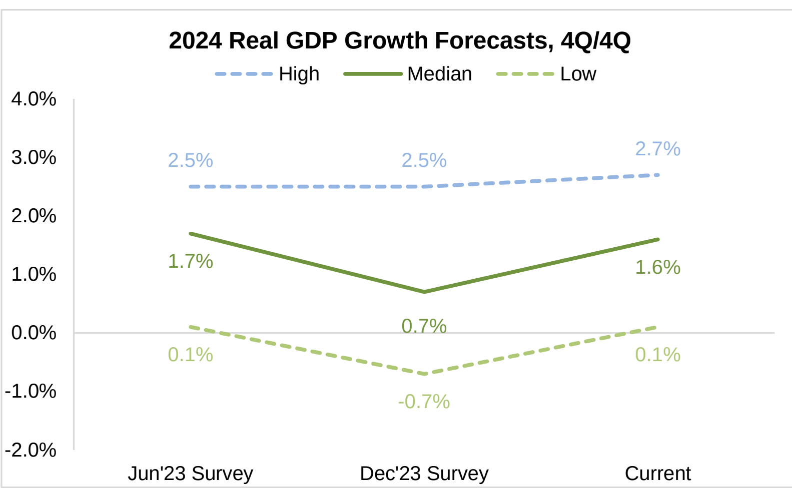
This Flash Poll provides an updated pulse on select questions from the last semiannual survey of SIFMA's Economist Roundtable, published in December 2023, and in advance of the next survey to be published in June 2024.

The Economy

We began by asking about the overall health of the U.S. economy, in terms of GDP growth. 4Q23 real GDP increased at an annual rate of 3.4% (third estimate, released March 28). This represented an upward revision of 0.2 pps to the second estimate for 4Q23 and was down 1.5 ppt to the 4.9% increase for 3Q23 (revised). By this measure, the economy cooled slightly to end last year.

Our Roundtables' expectations for 2024 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 2024:

- Flash Poll = +1.6%, vs.
- December Survey = +0.7%
- +0.9 pps versus the last survey

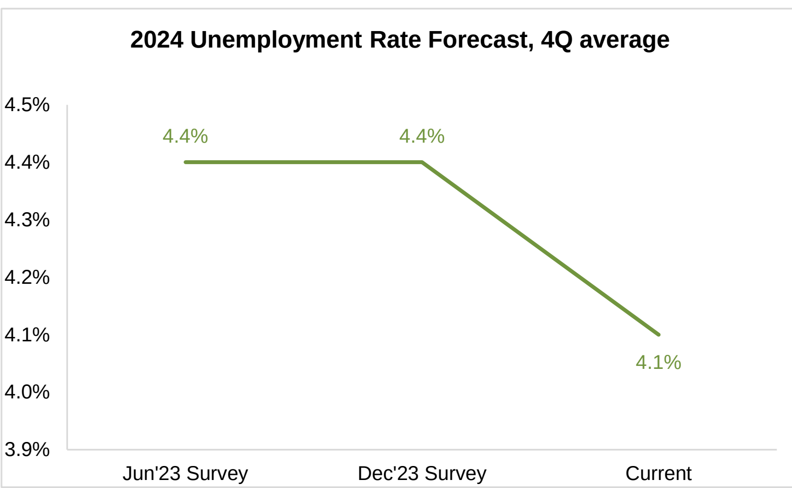


Source: SIFMA Economists Roundtable Quarterly Flash Poll

The Fed continues to monitor the labor piece of the inflation equation closely. The U.S. unemployment rate stood at +3.9% Y/Y in February, an increase from January and December (+3.7% in both months). This is higher – which is the right direction for the Fed – than the +3.6% average for 2023. Looking at other labor market metrics, February nonfarm payrolls increased by 275,000. On average in 2023, the M/M change in payrolls averaged 377,000 versus 251,000 on average in 2022. The YTD increase has averaged 252,000. Average hourly earnings rose 4.3% Y/Y in February, down from January but no change from December (+4.4% and +4.3% respectively).

Our Roundtables' expectations for the 2024 unemployment rate have decreased 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 2024:

- Flash Poll = +4.1%, vs.
- December Survey = +4.4%
- -0.3 pps versus the last survey

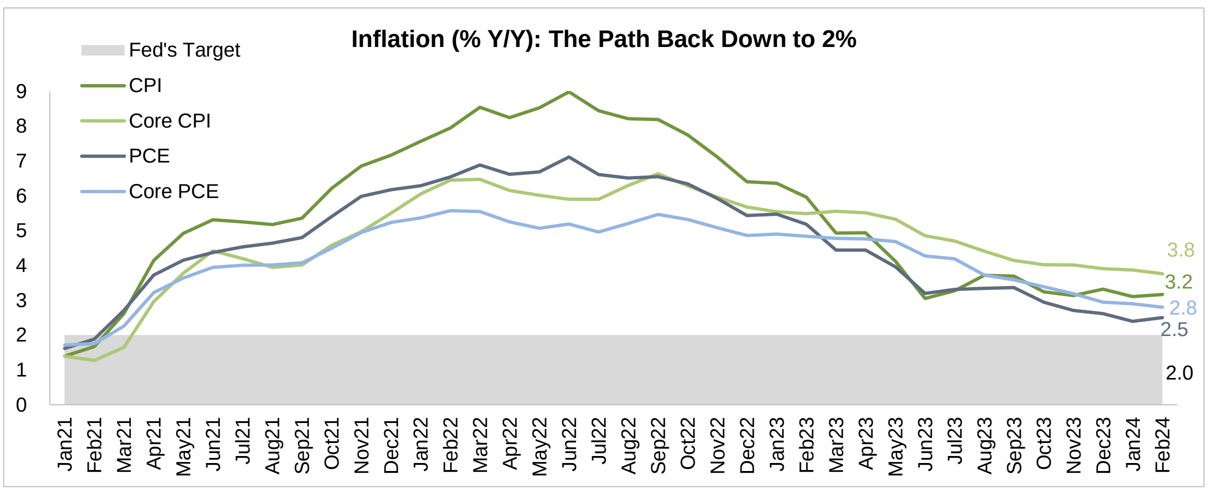


Source: SIFMA Economists Roundtable Quarterly Flash Poll

This section ends with an assessment of the inflation environment, key to the terminal Fed Funds rate. The February inflation data was a mixed bag in terms of directional changes. CPI increased 0.1 pps to 3.2%, while core CPI decreased 0.1 pps to 3.8%. PCE increased 0.1 pps to 2.5% as core PCE fell 0.1 pps to 2.8%. While all measures of inflation are down from their peaks, they remain above the Fed's 2% target.

PCE – the Fed's preferred measure of inflation for setting monetary policy – stood at +2.5% in February, 0.5 pps away from target. February data stood at the following for the various inflation measures (Y/Y change):

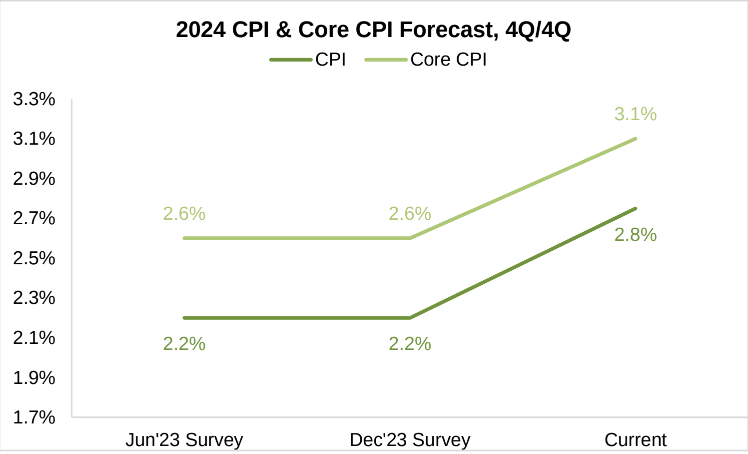
- CPI +3.2%
- Core CPI +3.8%
- PCE +2.5%
- Core PCE +2.8%

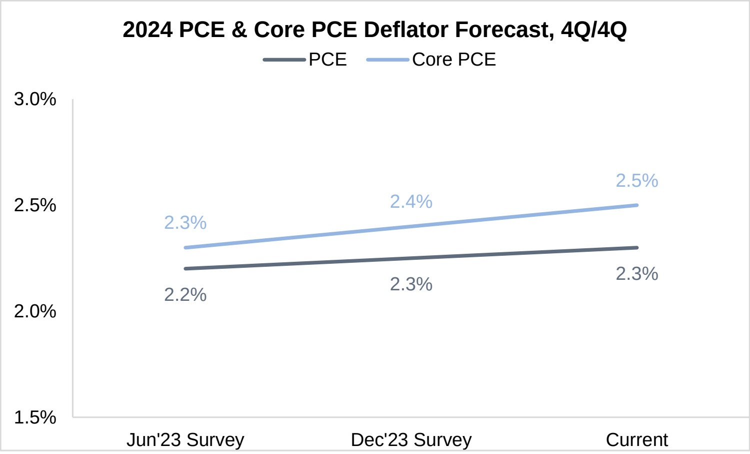


Source: FRED, SIFMA estimates

Our Roundtables' expectations for inflation have not changed much since the last survey. Survey responses showed the following inflation forecasts for 2024:

- CPI
  - Flash Poll = +2.8%
  - December Survey = +2.2%
  - +0.6 pps versus the last survey
- Core CPI
  - Flash Poll = +3.1%
  - December Survey = +2.6%
  - +0.5 pps versus the last survey
- PCE
  - Flash Poll = +2.3%
  - December Survey = +2.3%
  - No change versus the last survey
- Core PCE
  - Flash Poll = +2.5%
  - June Survey = +2.4%
  - +0.1 pps versus the last survey

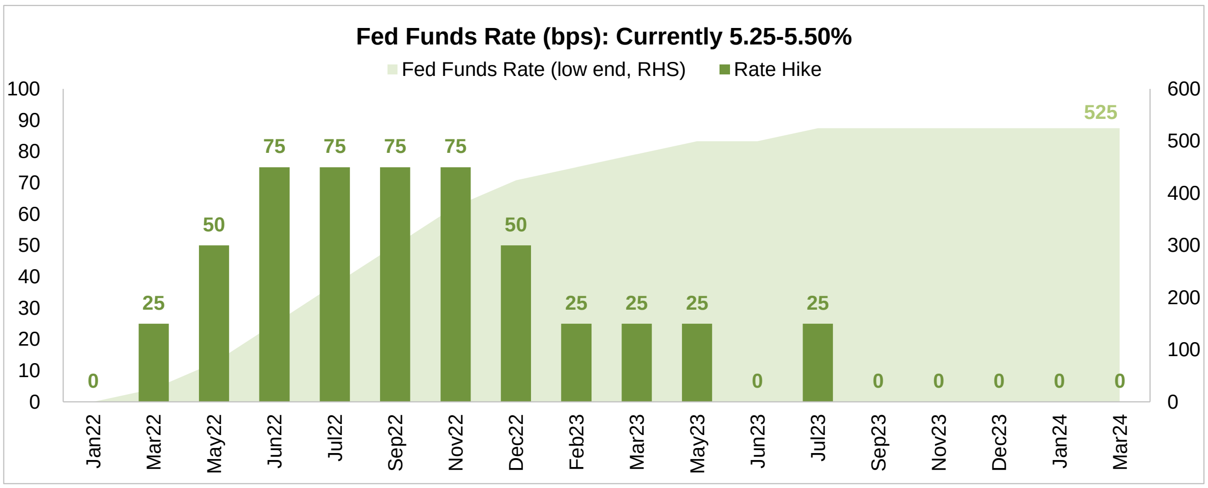




Source: SIFMA Economists Roundtable Quarterly Flash Poll

Monetary Policy

Putting all of these economic indicators together, we move on to monetary policy expectations. As the Fed's inflation fight back down to 2% continues, the Fed Funds rate remains high. Markets continue to watch for when the Fed will begin cutting rates and what will be the terminal Fed Funds rate. After the March Federal Open Market Committee (FOMC) meeting[1], the range for the Fed Funds rate stands at 5.25%-5.50%.

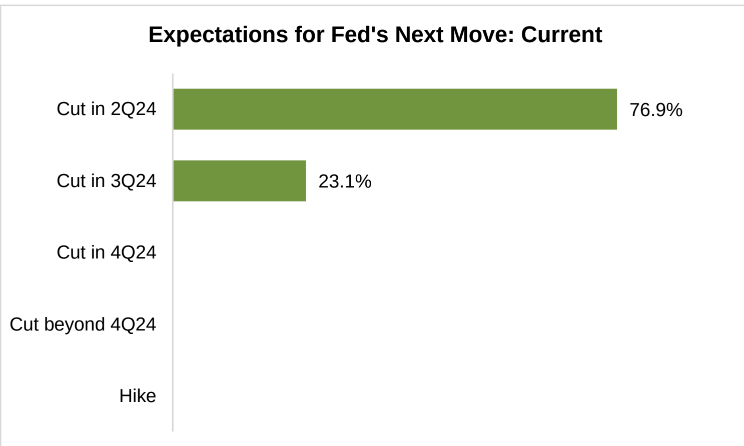


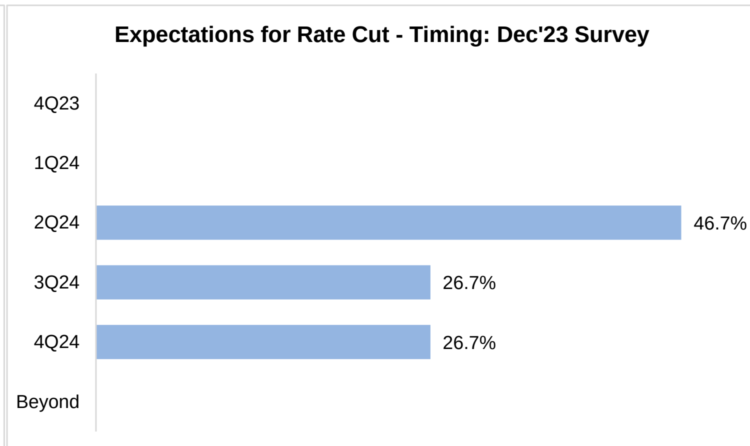
Source: Federal Reserve

[1] 2024 remaining FOMC meetings: April 30/May 1, June 11-12, July 30-31, September 17-18, November 6-7, December 17-18

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 April/May 2024 meeting, it shows a 93.2% probability that the rate will remain unchanged and a 6.8% probability there will be a 25 bps cut. For June 2024, it shows a 40.7% probability the rate will remain unchanged, a 55.5% probability of a 25 bps cut, and a 3.8% probability of a 50 bps cut.

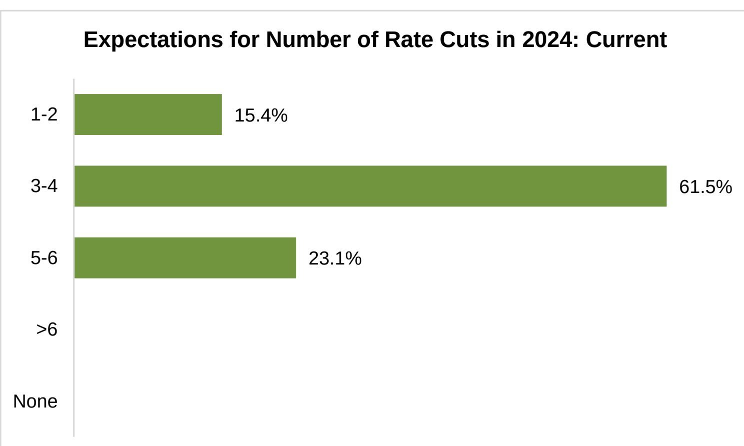
The majority of our Roundtable economists expected the Fed's next move to be a cut in 2Q24 (76.9% of respondents). This is an increase from the December survey, where 46.7% predicted a 2Q24 rate cut.

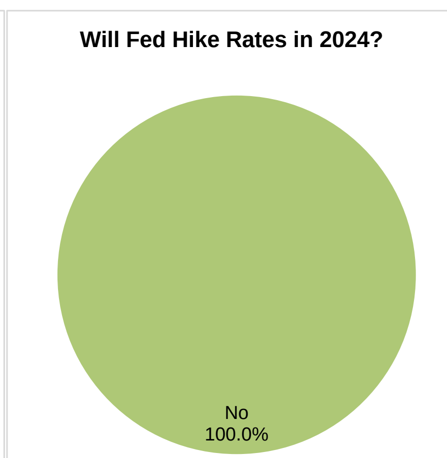




Source: SIFMA Economists Roundtable Quarterly Flash Poll

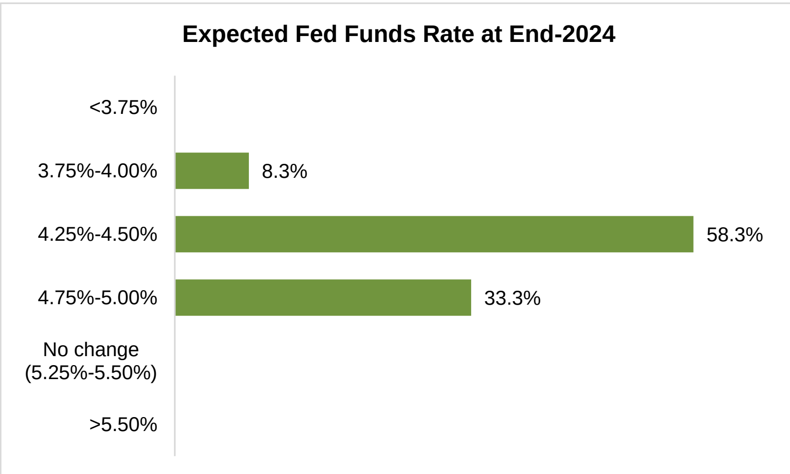
Our economists believe there will be 3-4 rate cuts in 2024 (61.5% of respondents) and no rate hikes (100% of respondents).





Source: SIFMA Economists Roundtable Quarterly Flash Poll

The majority of our Roundtable economists expected the Fed Funds rate to end 2024 at 4.25-4.50% (58.3% of respondents), down 100 bps from current rate of 5.25%-5.50%.



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-2023/

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 2024.

Chair

Lindsey Piegza, Ph.D.
Stifel Financial

Members

Torsten Slok
Apollo Global Management

Michael Gapen
Bank of America

Marc Giannoni
Barclays Capital

Nathaniel Karp
BBVA Compass

Douglas Porter
BMO Financial

Andrew Hollenhorst
Citigroup

Nicholas Van Ness
Credit Agricole

Lawrence Werther
Daiwa

Matt Luzzetti
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Christopher Low
FHN Financial

Jan Hatzius
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Michael Feroli
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Thomas Simons
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Mark Zandi
Moody's Analytics

Ellen Zentner
Morgan Stanley

Kevin Cummins
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Lewis Alexander
Nomura

Carl Tannenbaum
Northern Trust

Augustine Faucher
PNC Financial

Eugenio Alemán
Raymond James

Stephen Gallagher
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This survey was conducted between March 25 and April 3.

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

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