

UNDERSTANDING THE FOMC'S SUMMARY OF ECONOMIC PROJECTIONS


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IN AN HOUR, YOU SHOULD BE ABLE TO ANSWER THE FOLLOWING QUESTIONS:

- What is the Summary of Economic Projections (SEP)?
- What is “Forward Guidance”?
- In what sense does the SEP provide forward guidance?
- What is the “Dot Plot”?



THE POWER OF COMMUNICATION

“I think monetary policy is 98% talk and 2%
action.”

– Ben Bernanke (May 2022)



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HOW DOES THE FOMC “TALK”?

- Qualitative Guidance:
 - Post-meeting policy statements
 - Chair Powell’s press conferences
 - Speeches/testimonies by FOMC participants
- Quantitative Guidance:
 - Summary of Economic Projections (SEP)



WHAT IS THE SEP?

- Four times a year, *each* of the 19 FOMC participants submits projections for:
 - GDP growth
 - Unemployment rate
 - Headline and core inflation
 - Federal Funds Rate (indicating an “appropriate” stance of policy).
- The projections are then summarized and distributed to the public.



MEDIAN PROJECTIONS FROM THE MARCH 2023 SEP

Variable	Median			
	2023	2024	2025	Longer Run
Real GDP growth (Q4/Q4)	0.4	1.2	1.9	1.8
Unemployment rate (Q4)	4.5	4.6	4.6	4.0
PCE inflation (Q4/Q4)	3.3	2.5	2.1	2.0
Core PCE Inflation (Q4/Q4)	3.6	2.6	2.1	
Fed Funds Rate (year-end)	5.1	4.3	3.1	2.5

WHAT INFORMATION DOES THE SEP PROVIDE?

- Indirect information about how the FOMC reacts to new developments and information (“**reaction function**”)
 - For example, from Sept 2021 to March 2023,
 - Lingering effects of COVID worldwide
 - War in Europe
 - Persistent supply disruptions
 - Higher energy and food prices
 - Banking sector turmoil (starting in March '23)



MEDIAN PROJECTION FOR 2023 GDP GROWTH FELL

MEDIAN PROJECTIONS FOR 2023 PERCENT

Variables	Date of projection			
	Sept '21	March '22	Sept '22	March '23
Real GDP growth (Q4/Q4)	2.5	2.2	1.2	0.4
Unemployment rate (Q4)	3.5	3.5	4.4	4.5
PCE inflation (Q4/Q4)	2.2	2.7	2.8	3.3
Core PCE Inflation (Q4/Q4)	2.2	2.6	3.1	3.6
Fed Funds Rate (year-end)	1.0	2.8	4.6	5.1

MEDIAN PROJECTION FOR 2023 INFLATION INCREASED

MEDIAN PROJECTIONS FOR 2023 PERCENT

Variables	Date of projection			
	Sept '21	March '22	Sept '22	March '23
Real GDP growth (Q4/Q4)	2.5	2.2	1.2	0.4
Unemployment rate (Q4)	3.5	3.5	4.4	4.5
PCE inflation (Q4/Q4)	2.2	2.7	2.8	3.3
Core PCE Inflation (Q4/Q4)	2.2	2.6	3.1	3.6
Fed Funds Rate (year-end)	1.0	2.8	4.6	5.1



MEDIAN POLICY PATH INCREASED IN RESPONSE

MEDIAN PROJECTIONS FOR 2023

PERCENT

Variables	Date of projection			
	Sept '21	March '22	Sept '22	March '23
Real GDP growth (Q4/Q4)	2.5	2.2	1.2	0.4
Unemployment rate (Q4)	3.5	3.5	4.4	4.5
PCE inflation (Q4/Q4)	2.2	2.7	2.8	3.3
Core PCE Inflation (Q4/Q4)	2.2	2.6	3.1	3.6
Fed Funds Rate (year-end)	1.0	2.8	4.6	5.1

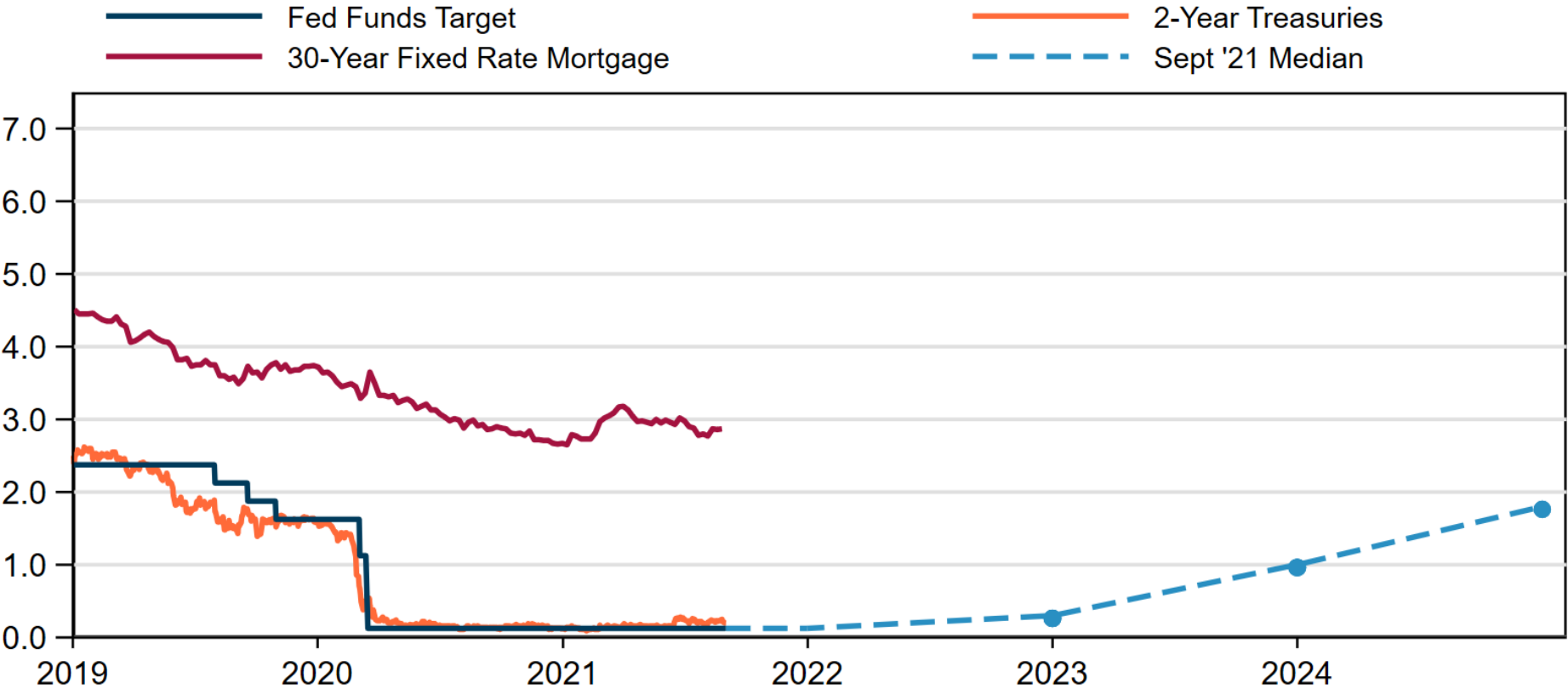
WHAT INFORMATION DOES THE SEP PROVIDE?

- Indirect information about how the FOMC reacts to new developments and information (“reaction function”)
- Information about the future path of policy rates (“**forward guidance**”)



INTEREST RATES & SEP PROJECTIONS

PERCENT

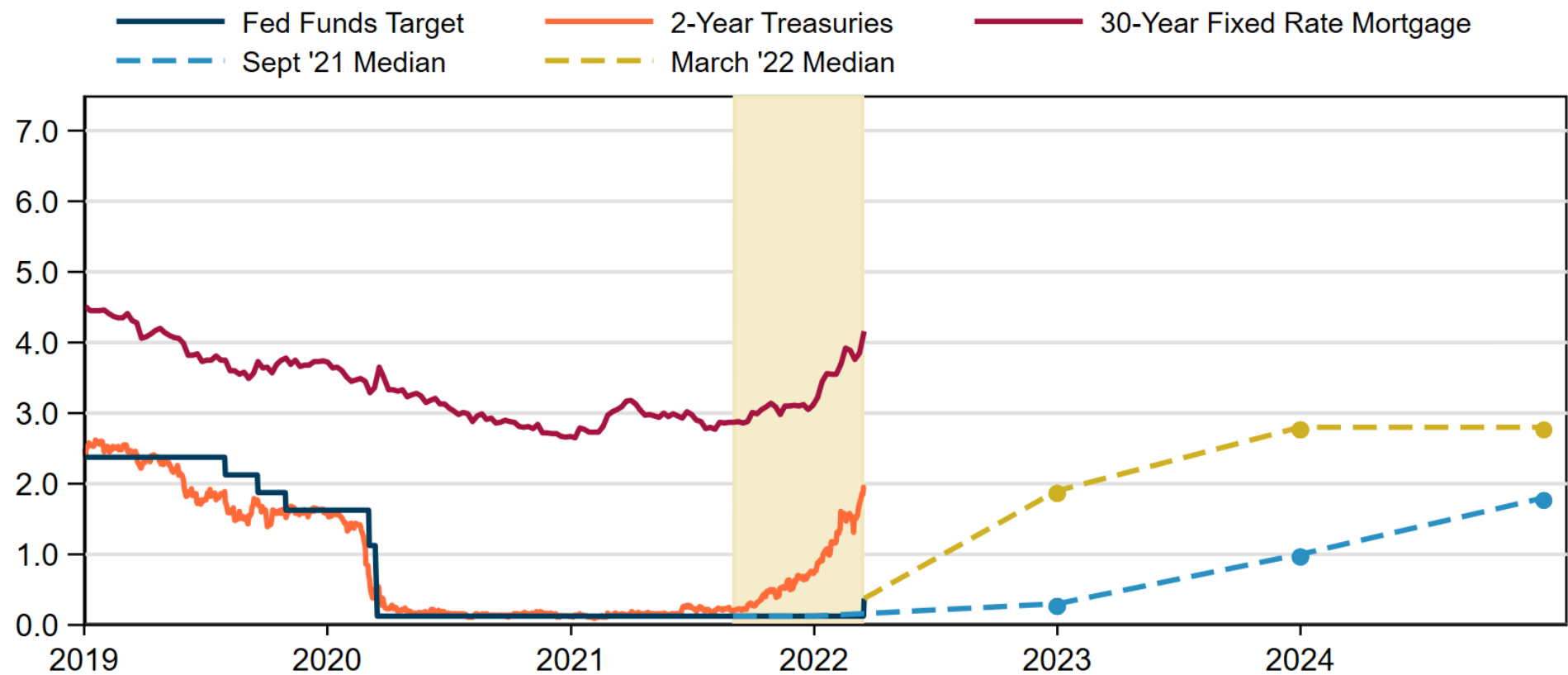


Source: Federal Home Loan Mortgage Corporation, Federal Reserve Board of Governors.

SEP HELPED TIGHTEN POLICY BEFORE SHORT RATE MOVED

INTEREST RATES & SEP PROJECTIONS

PERCENT

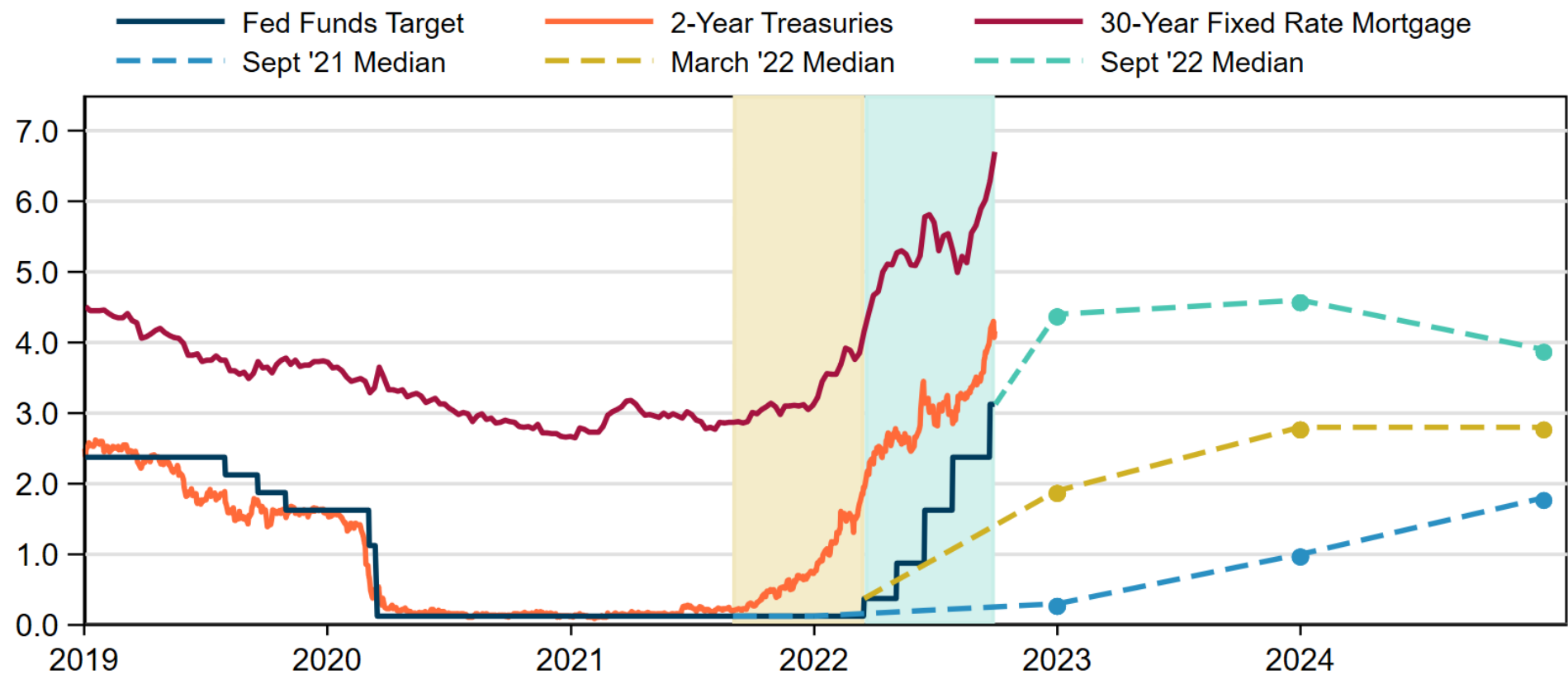


Source: Federal Home Loan Mortgage Corporation, Federal Reserve Board of Governors.

FURTHER TIGHTENING THRU SEPT '22

INTEREST RATES & SEP PROJECTIONS

PERCENT

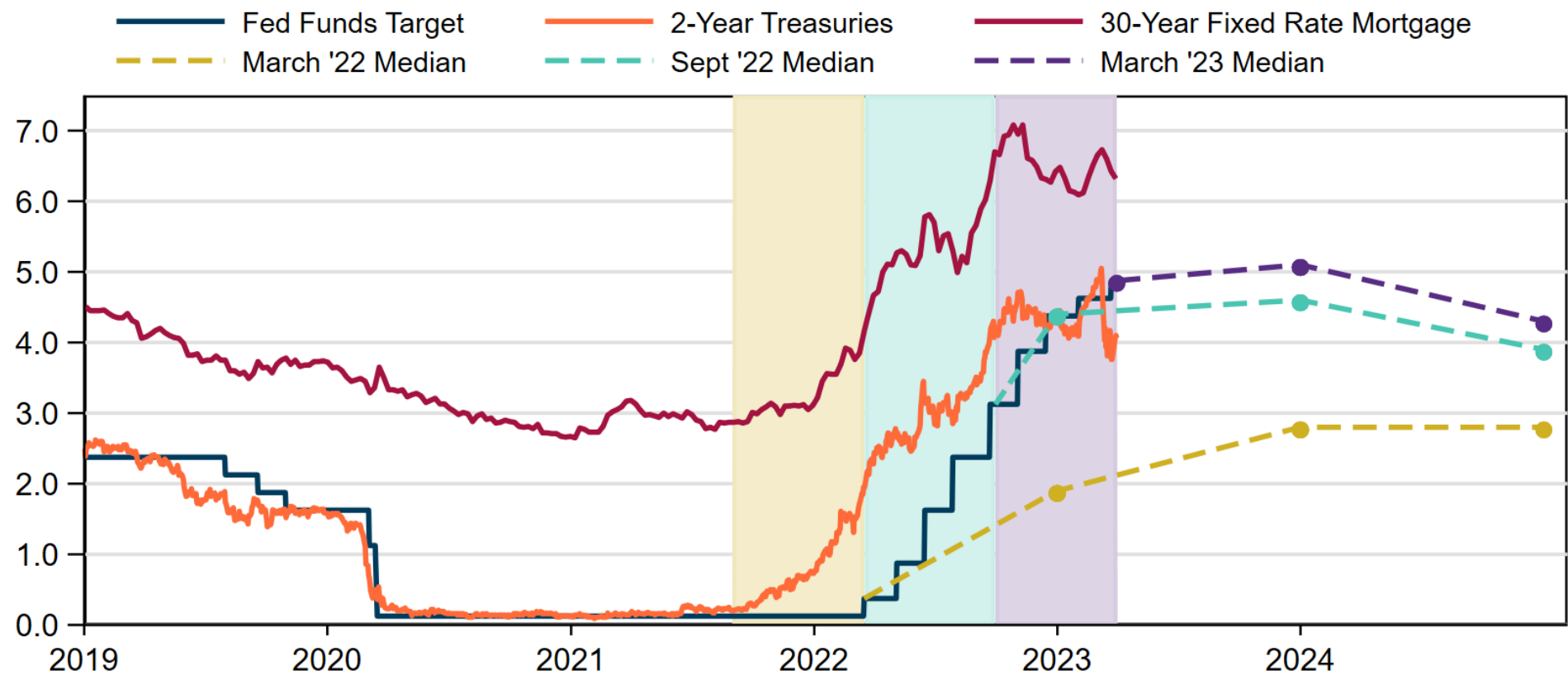


Source: Federal Home Loan Mortgage Corporation, Federal Reserve Board of Governors.

TIGHTENING ALMOST COMPLETED (?)

INTEREST RATES & SEP PROJECTIONS

PERCENT

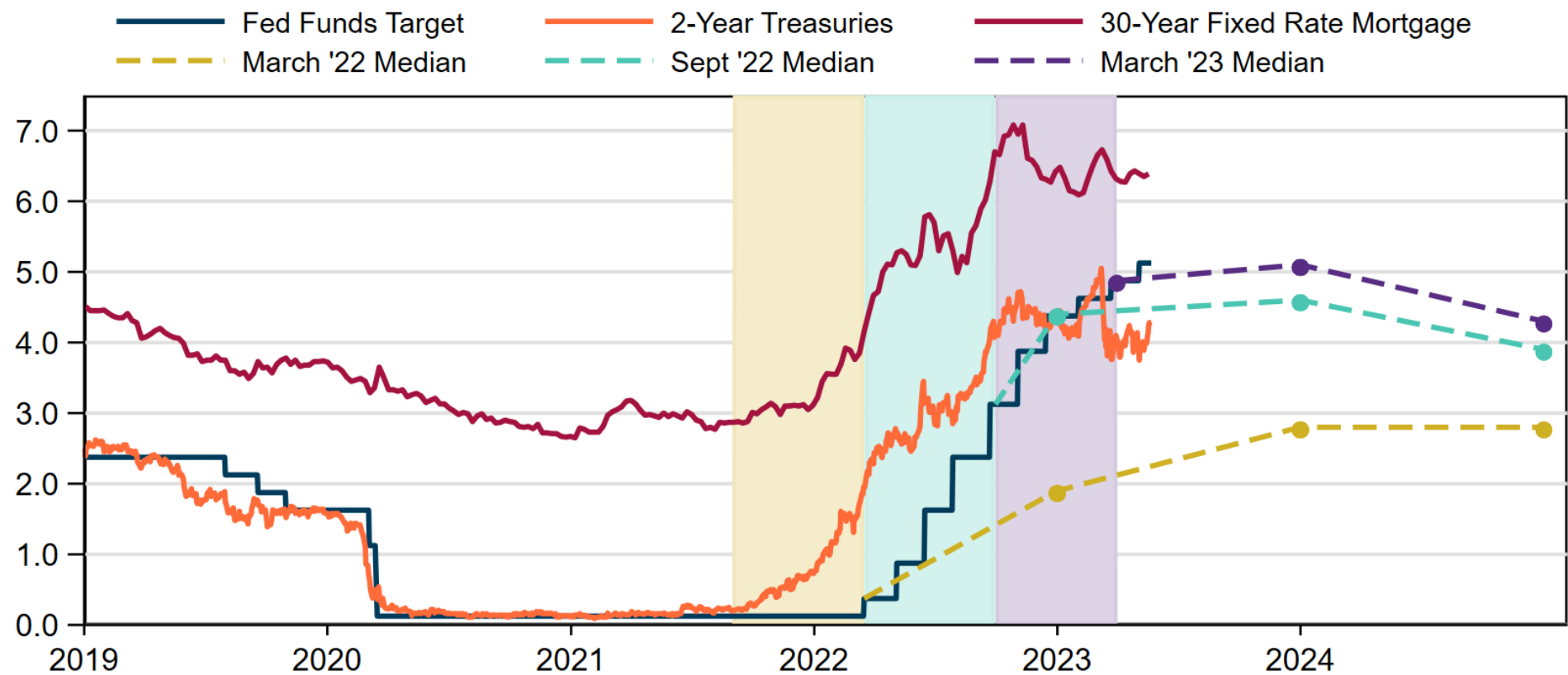


Source: Federal Home Loan Mortgage Corporation, Federal Reserve Board of Governors.

TIGHTENING ALMOST COMPLETED (?)

INTEREST RATES & SEP PROJECTIONS

PERCENT



Source: Federal Home Loan Mortgage Corporation, Federal Reserve Board of Governors.

WHAT INFORMATION DOES THE SEP PROVIDE?

- Indirect information about how the FOMC reacts to new developments and information (“reaction function”)
- Information about the future path of policy rates (“forward guidance”)
- FOMC’s assessment of the **long-run effects of developments**



MEDIAN LONGER-RUN VALUES UNCHANGED FROM '21 TO '23

MEDIAN PROJECTIONS FOR LONGER RUN PERCENT

Variables	Date of projection			
	Sept '21	March '22	Sept '22	March '23
Real GDP growth (Q4/Q4)	1.8	1.8	1.8	1.8
Unemployment rate (Q4)	4.0	4.0	4.0	4.0
PCE inflation (Q4/Q4)	2.0	2.0	2.0	2.0
Fed Funds Rate (year-end)	2.5	2.4	2.5	2.5

MEDIAN LONGER-RUN VALUES DECREASED FROM '14 TO '17

MEDIAN PROJECTIONS FOR LONGER RUN PERCENT

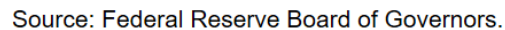
Variables	Date of projection			
	Dec '14	Dec '15	Dec '16	Dec '17
Real GDP growth (Q4/Q4)	2.2	2.0	1.8	1.8
Unemployment rate (Q4)	5.3	4.9	4.8	4.6
PCE inflation (Q4/Q4)	2.0	2.0	2.0	2.0
Fed Funds Rate (year-end)	3.8	3.5	3.0	2.8

WHAT INFORMATION DOES THE SEP PROVIDE?

- Indirect information about how the FOMC reacts to new developments and information (“reaction function”)
- Information about the future path of policy rates (“forward guidance”)
- FOMC’s assessment of the long-run effects of developments
- The **range of views** among FOMC participants



PERCENT



KEY TAKEAWAYS

- The SEP is a key communication tool to provide information about
 - The evolution of the economy
 - The “appropriate” stance of policy.
- It is a powerful tool to influence financial market conditions and to manage expectations.
- It is not a commitment to a policy rate path.



QUESTIONS OR COMMENTS?

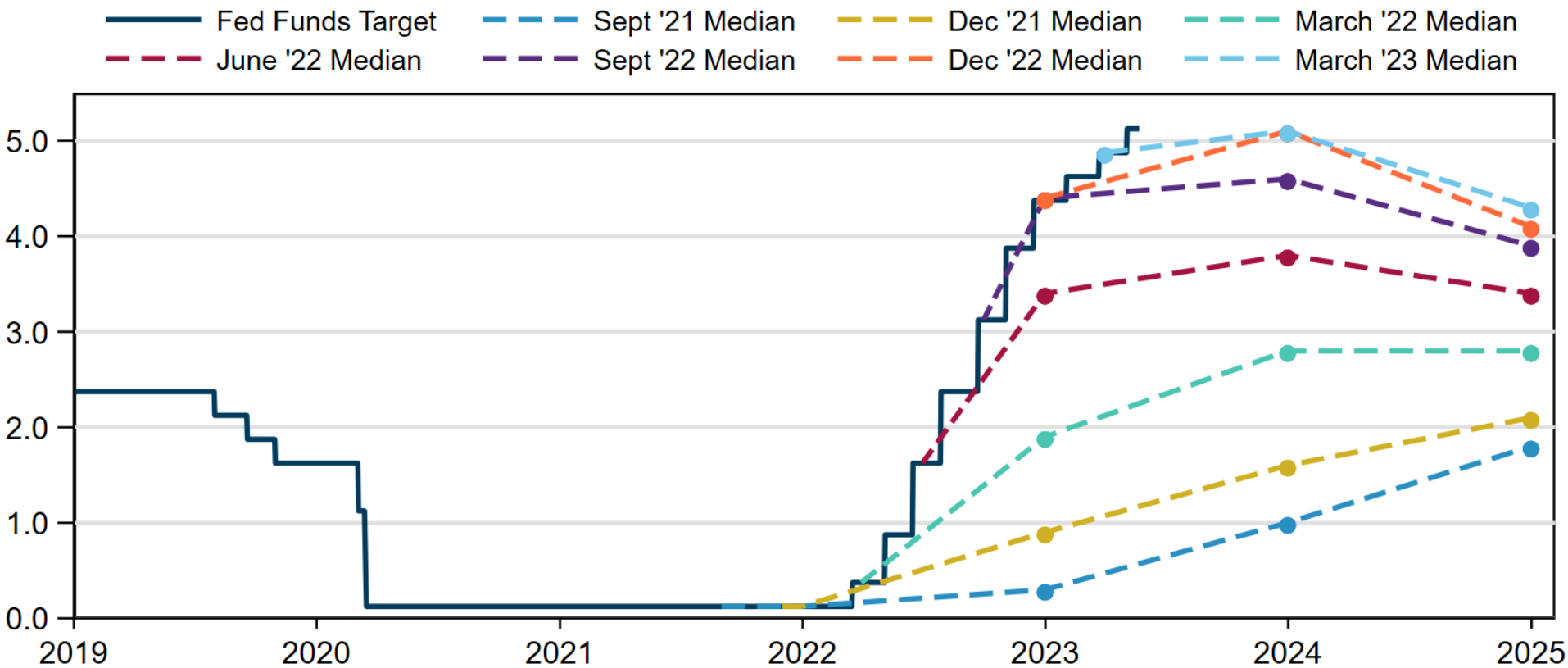


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ACTUAL PATH MAY DIFFER FROM SEP MEDIAN PROJECTION

FEDERAL FUNDS RATE & SEP PROJECTIONS

PERCENT



Source: Federal Reserve Board of Governors.

RECENT MEDIAN PROJECTIONS FOR 2023 AND LONGER RUN

Variables (%)	Date of projection				
	March '22	June '22	Sept '22	Dec '22	March '23
Projections for 2023					
Real GDP growth (Q4/Q4)	2.2	1.7	1.2	0.5	0.4
Unemployment rate (Q4)	3.5	3.9	4.4	4.6	4.5
PCE inflation (Q4/Q4)	2.7	2.6	2.8	3.1	3.3
Core PCE Inflation (Q4/Q4)	2.6	2.7	3.1	3.5	3.6
Fed Funds Rate (year-end)	2.8	3.8	4.6	5.1	5.1
Longer-run					
Real GDP growth (Q4/Q4)	1.8	1.8	1.8	1.8	1.8
Unemployment rate (Q4)	4.0	4.0	4.0	4.0	4.0
PCE inflation (Q4/Q4)	2.0	2.0	2.0	2.0	2.0
Fed Funds Rate (year-end)	2.4	2.5	2.5	2.5	2.5

