

The Incredibly Shrinking Fed Growth Forecasts



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Seemingly overlooked in all of the hubbub about a possible rate hike occurring at the December Federal Open Market Committee (FOMC) meeting is the longer-term trend of falling growth forecasts. FOMC members have collectively reduced their real (“inflation-adjusted”) long-run GDP growth forecasts for at least five consecutive years. The current long-run forecast calls for 1.80% economic growth; in 2011, the midpoint of the forecast range was 2.55%.



At the same time, expectations for long-run inflation essentially have not budged. Since the September 2012 meeting, FOMC members have forecast an increase in personal consumption expenditures (PCE) of 2.0%. (It was slightly lower in 2011, with a midpoint of 1.85% for the typical range of forecasts.) Reported PCE has been staying below the committee’s target, hence allowing interest rates to stay at low levels.

Some of the reasons influencing the downward trend in forecasts are obvious. Job creation has not been strong even though nonfarm payrolls have been increasing and the unemployment rate is at low levels. Wage growth has been disappointing for many workers. Quarterly productivity has worsened eight times since 2011. Budget bickering in Washington has capped fiscal stimulus and many state governments are strapped. The economy in other developed countries has been in a funk. Yesterday, the International Monetary Fund’s managing director, Christine Lagarde, said the overall growth outlook for developed economies “remains subdued.”

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The Week Ahead

October starts on Saturday. Infamous for the 1929 and the 1987 crashes, October actually tends to be a fairly ordinary month when it comes to returns. Stocks have experienced worse average monthly returns in May, February, August, June and September since 1950, according to the Stock Trader's Almanac.

The Jewish High Holy Days start on Sunday evening with Rosh Hashanah. L'shanah Tovah to those of you who will be observing the holiday.

Seven S&P 500 companies will report earnings: Darden Restaurants (**DRI**) and Micron Technology

(MU) on Tuesday; and Acuity Brands **(AYI)**, Constellation Brands **(STZ)**, Global Payments **(GPN)**, Monsanto **(MON)** and Yum! Brands **(YUM)** on Wednesday.

The week's first economic reports of note will be the September purchasing managers' manufacturing index (PMI), the September ISM manufacturing survey and August construction spending, all of which will be released on Monday. Wednesday will feature the September ADP Employment Report, August international trade data, August factory orders and the September ISM non-manufacturing survey. September jobs data—including the change in nonfarm payrolls and the unemployment rate—will be released on Friday.

Six Federal Reserve officials will make public appearances: Chicago president Charles Evans on Tuesday; Richmond president Jeffrey Lacker on Tuesday and Wednesday; and Fed vice chairman Stanley Fischer, Cleveland president Loretta Mester, Kansas City president Esther George and Fed governor Lael Brainard on Friday.

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