Search FRED Blog

Search

Recent Posts

- Recent developments in bank deposits
- Assets and liabilities of younger vs. older households
- Has US-China decoupling energized American manufacturing?
- Pie charts about pie on π day
- The largest sources of imported goods

The FRED® Blog

20/19 Hindsight

Checking policymakers' economic predictions against the data

Posted on July 1, 2019

FRED ECONOMIC DATA | ST. LOUIS FED

CPI **+3.2** % Chg. from Yr. Ago on Feb 2024

Civ. Unemploy. Rate **3.9** % on Feb 2024

10-Yr. Treas. Rate **4.22** % on 2024-03-22

Real GDP **+3.2** %, Comp. Annual Rate of Chg. on Q4 2023

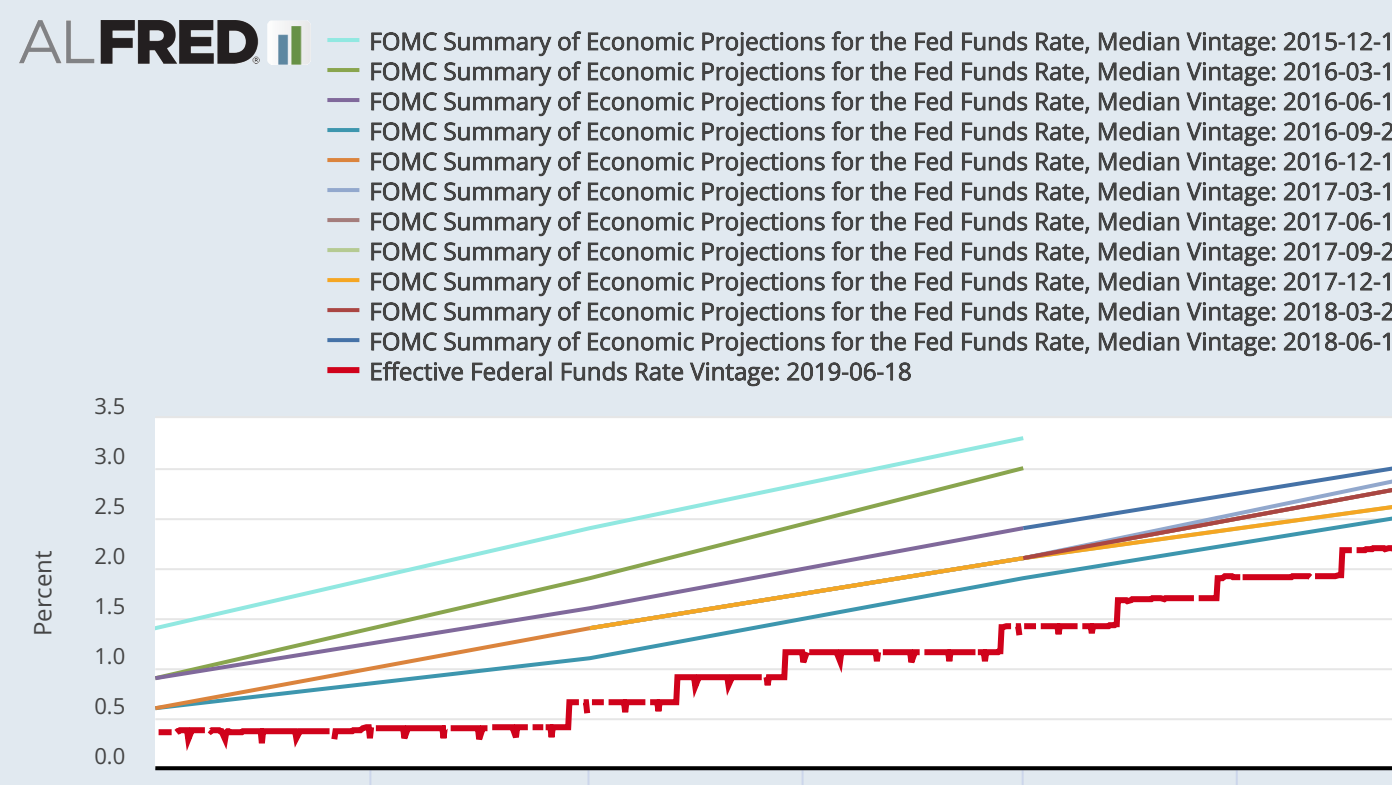
IP **+0.1** % Chg. on Feb 2024

Payroll Employment **+275** Chg., Thous. of Persons on Feb 2024

... and 823,000+ more series in FRED

Recent St. Louis Fed research

- What To Know About the Rise of Services
- The Adoption of Non-Rival Inputs and Firm Scope
- Why Have a Strategic Petroleum Reserve?



Since 2007, the Federal Open Market Committee (FOMC) has published individual members' assessments of the economy in the Summary of Economic Projections (SEP). The SEP was one of Chairman Bernanke's communication innovations in an effort to increase transparency after the 2007-09 Great Recession.

This expanded forward guidance includes predictions of the changes in the federal funds rate, GDP, the unemployment rate, personal consumption expenditures (PCE) inflation, and core PCE inflation. It's released along with the minutes of selected FOMC meetings. Each policymaker submits an estimate for each indicator for the next three years as well as a longer-run estimate.

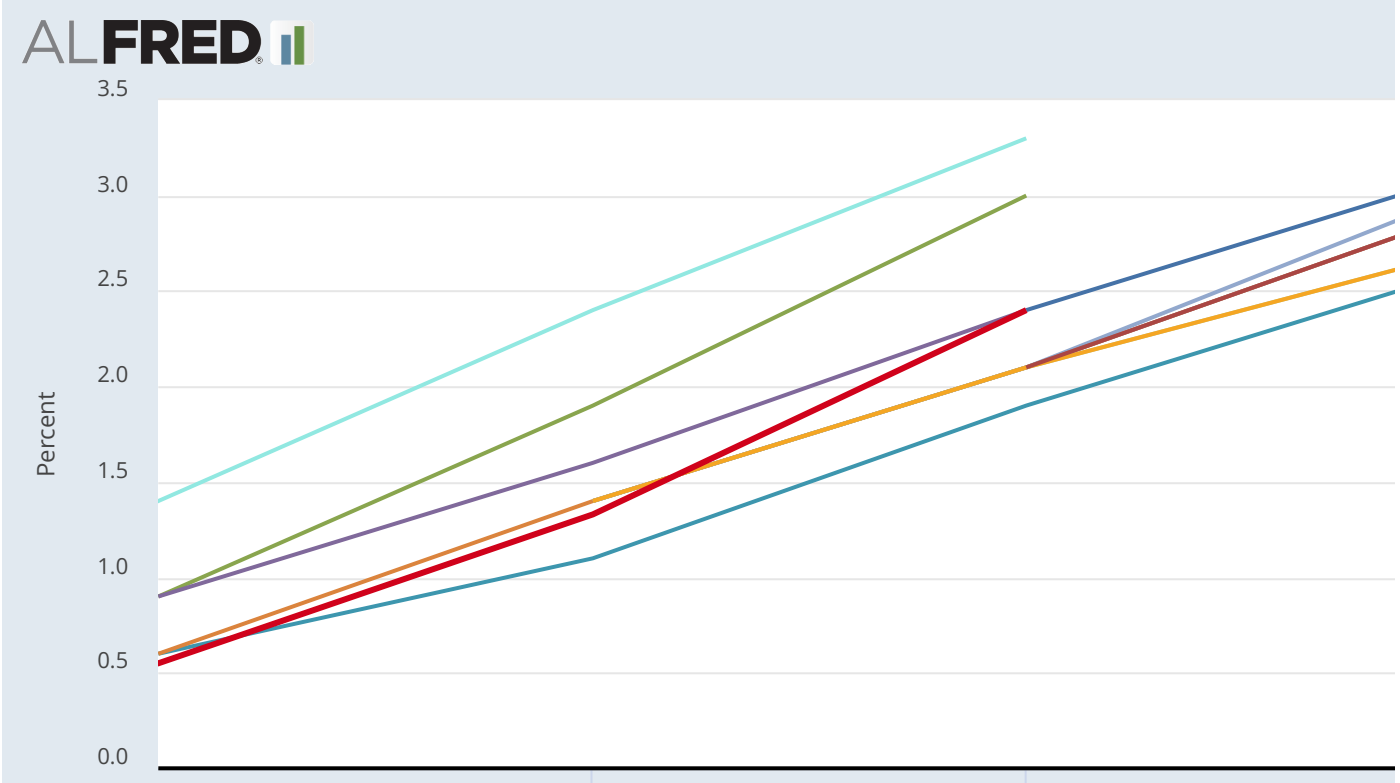
A recent St. Louis Fed *Review* article cites a survey of economists and other Fed watchers: 33% found the SEP "useful," 29% found it "somewhat useful," and 38% found it "useless." Investors and economic journalists use the projections as a forecast for the economy and monetary policy changes—in particular, the federal funds rate predictions. Investigating the success of the SEP at predicting indicators could give insight into the effectiveness of this FOMC communication channel.

- By the Generations: Location Patterns of Different Cohorts
- Accounting for the Effects of Fiscal Policy Shocks on Exchange Rates through Markup Dynamics

Archives

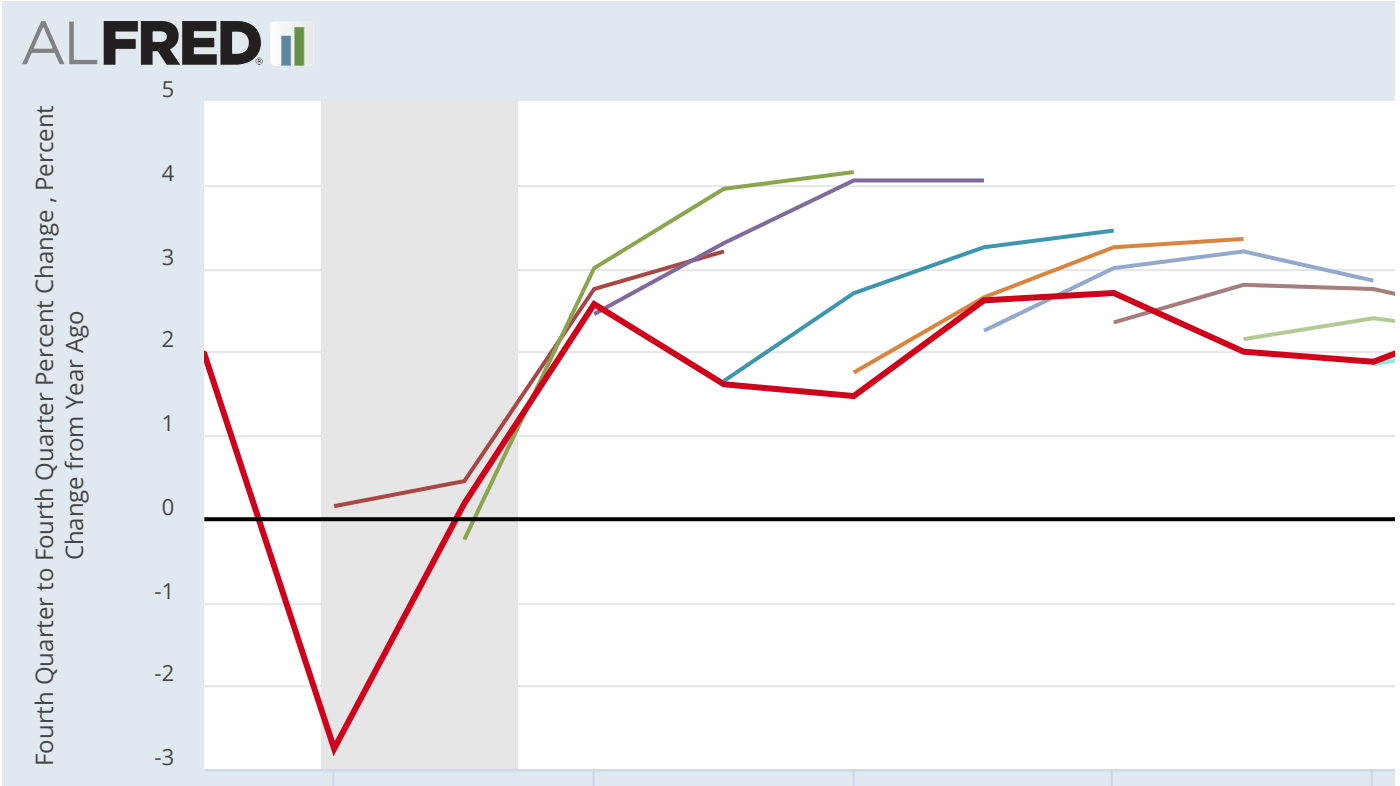
- March 2024
- February 2024
- January 2024
- December 2023
- November 2023
- October 2023
- September 2023
- August 2023
- July 2023
- June 2023
- May 2023
- April 2023
- March 2023
- February 2023
- January 2023
- December 2022
- November 2022
- October 2022
- September 2022
- August 2022
- July 2022
- June 2022
- May 2022
- April 2022
- March 2022
- February 2022
- January 2022
- December 2021
- November 2021
- October 2021

Thankfully, ALFRED tracks changes in policymakers' SEP forecasts across time. By placing different vintages of predictions on the same graph (as we did above), we can see how policymakers may have shifted their views over time. Policymakers consistently overshoot the effective federal funds rate by a good margin. What's going on there? Well, as the note on the FRED page for this series explains, the SEP tracks participant projections for the end of a calendar year. So we should use the annual and year-end settings (instead of daily data for the federal funds rate), as in the graph below.



This looks much better. FOMC predictions match the data well, especially over the short-run. (As in the first graph, the thick red line shown above is the effective federal funds rate for 2019-06-18.) This close alignment isn't surprising, given that these are the median data points for projections and the Committee sets interest rate targets by voting. However, the median for the dot plot was tracked only beginning in 2015 and the yearly nature of the projections means a small sample size.

Predictions in 2015 and 2016 favored a steadily increasing federal funds rate, but more recent predictions favor a slower increase in rates. If interest rates begin falling, the SEP may look very different.



Now let's look at a different prediction reported on the SEP: the growth rate of real GDP. (The thick red line shown above is real GDP for 2019-06-18.) There are more data points for this graph because this measure was reported starting in 2007. A representative prediction was selected from Q4 of each calendar year for (slightly) less graph clutter. Again, policymakers' predictions are generally closely aligned with the actual data, especially for shorter-term predictions. Between 2009 and 2014, the two- and three-year predictions tended to overshoot the actual data—that is, they were more "optimistic." Since 2015, however, policymakers' projections have appeared more "pessimistic" in the medium- and longer-term, trending closer to or even below the reported GDP growth rate.

- June 2018
- May 2018
- April 2018
- March 2018
- February 2018
- January 2018
- December 2017
- November 2017
- October 2017
- September 2017
- August 2017
- July 2017
- June 2017
- May 2017
- April 2017
- March 2017
- February 2017
- January 2017
- December 2016
- November 2016
- October 2016
- September 2016
- August 2016
- July 2016
- June 2016
- May 2016
- April 2016
- March 2016
- February 2016
- January 2016
- December 2015
- November 2015
- October 2015
- September 2015
- August 2015
- July 2015
- June 2015
- May 2015
- April 2015

How these graphs were created: For the federal funds rate graphs: From ALFRED, search for "FOMC Summary of Economic Projections for the Fed Funds Rate, Median." Check the appropriate series in the search results and click "Add to Graph." By default, ALFRED creates a bar chart; to change to a line graph, use the "Graph type" menu under the "Format" tab. To include the earliest vintage, click on the "Edit Graph" button, go to the "Edit Line 1" tab, and select vintage 2015-12-16. To add the next vintage, go to the "Add Line" tab, search for and select the correct series, click "Add data series," go to the "Edit Line 2" tab, and select vintage 2016-03-16. Repeat this process until all desired vintages have been added. Then, to add the federal funds rate line, go to the "Add Line" tab, search for and select "Effective Federal Funds Rate," click "Add data series." Adjust the range of the plot so the start date is 2016-01-01 and the end date is 2020-01-01. For the second graph, go to the tab for the federal funds rate line (Line 12, in this case), select "Annual" in the "Modify frequency" dropdown menu, and select "End of Period" in the "Aggregation method" dropdown menu.

The process was similar for the growth rate of GDP graph, but search for "FOMC Summary of Economic Projections for the Growth Rate of Real Gross Domestic Product, Central Tendency, Midpoint" instead. Note that FRED supports a total of 12 lines, so a representative vintage from Q4 of each year was selected. To add the growth of real GDP line, go to the "Add Line" tab, search for and select "Real Gross Domestic Product," click "Add data series," go to the tab for the real gross domestic product (Line 11, in this case), select "Percent Change from Year Ago" in the "Units" dropdown menu, and select "Annual" in the "Modify frequency" dropdown menu. In the "Format" tab, remove the titles to dispense with the clutter from two-line legends. Finally, adjust the range of the plot so the start date is 2007-01-01 and the end date is 2020-01-01.

Suggested by Darren Chang and Christian Zimmermann.
View on FRED, series used in this post: EFFR, FEDTARMD, GDPC1, GDPC1CTM
