Forward Guidance and its Effects on Consumer Spending

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Abstract

I have no good quantitative evidence at the moment, but a positive relationship or even a negative relationship on consumer spending is likely to be found after running linear regressions on Fed policy decisions. Main challenge at the moment is getting data stationary to find estimated causal effects.

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1 Introduction

The Fed loves to be very vague on policy actions, so I am just looking for estimated cause and effects of their policy actions or their believed policy actions.

2 Literature Review

Something that stoked my interest on this topic was the power change from Alan Greenspan to Ben Bernanke. In a book from Ben Bernanke called "The Courage to Act", he talks about how he wanted to prioritize a forward guidance and be more informative to the general public on expected inflation numbers. So now, I am doing further research on the effects of setting these expectations that the Fed likes to deem "Forward Guidance".

3 Data

My data all currently comes from FRED, but I still want to add and test variables with a LASSO regression. I also need to add a categorical variable to my dataset of whether there was no rate change, increased rates, or decreased rates for that month of data. My data is time series.

4 Empirical Methods

While my approach explores a number of different approaches, the primary empirical model can be depicted in the following equation:

$$Consumer\hat{S}pending = \hat{\beta}_0 + \hat{\beta}_1 \text{1-yr. Exp Inflation} + \hat{\beta}_2 \text{LFPR} +$$

$$\hat{\beta}_3 \text{Population} + \hat{\beta}_4 \text{Monetary Base} +$$

$$\hat{\beta}_5 \text{Personal Savings Rate} + \varepsilon$$

5 Research Findings

Still need to go through these steps to get accurate research findings:

- Add categorical variable for policy actions and federal funds target rate

- Get stationary data, multicollinearity is not currently an issue

- Tool around with some other variables and LASSO

6 Conclusion

No conclusion at the moment, but it can be assumed from theory that Forward Guidance will have

statistical significance on consumer spending.
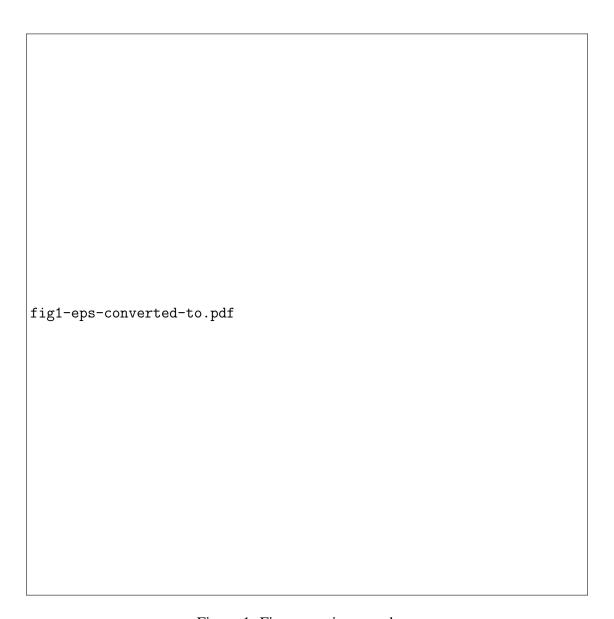
References

Figures and Tables

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Figure 1: Figure caption goes here

Summary Statistics of Variables of Interest

	Estimate	Std. Error	t value	Pr($>$|t|)
(Intercept)	-134.5969	153.9046	-0.87	0.3837
MonetaryBase	0.0054	0.0015	3.59	0.0005
OneYearExpInfl	3.1303	1.4459	2.17	0.0325
LFPR	8.0501	2.7742	2.90	0.0045
Population	-0.0009	0.0002	-4.54	0.0000
SavingsRate	0.8082	0.3108	2.60	0.0106