

Will the Fed Cause the Next Recession?

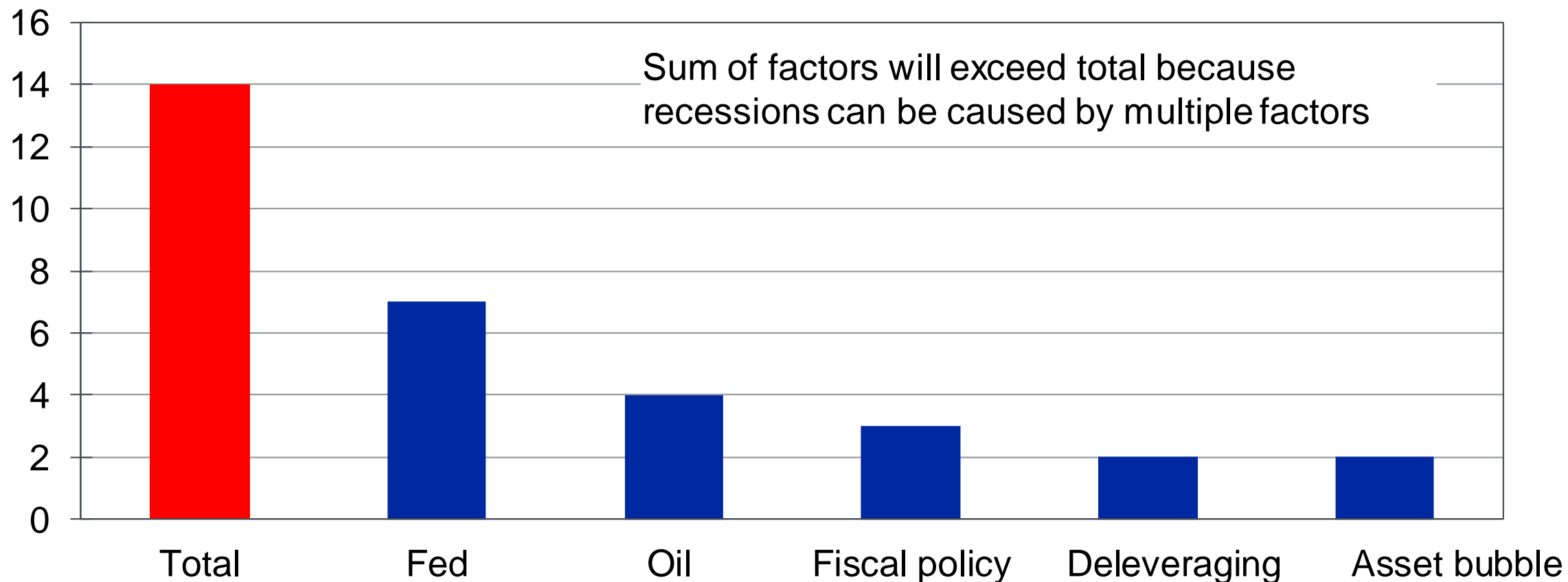
Ryan Sweet, Director – Real Time Economics



"The nice thing about America is, no matter how the economy is doing, you can always blame the chairman of the Federal Reserve."

Fed Has Contributed to Recessions

Main contributors to U.S. recessions since 1929, # of recessions



Sources: NBER, Moody's Analytics

Is the Fed Signaling a Recession?

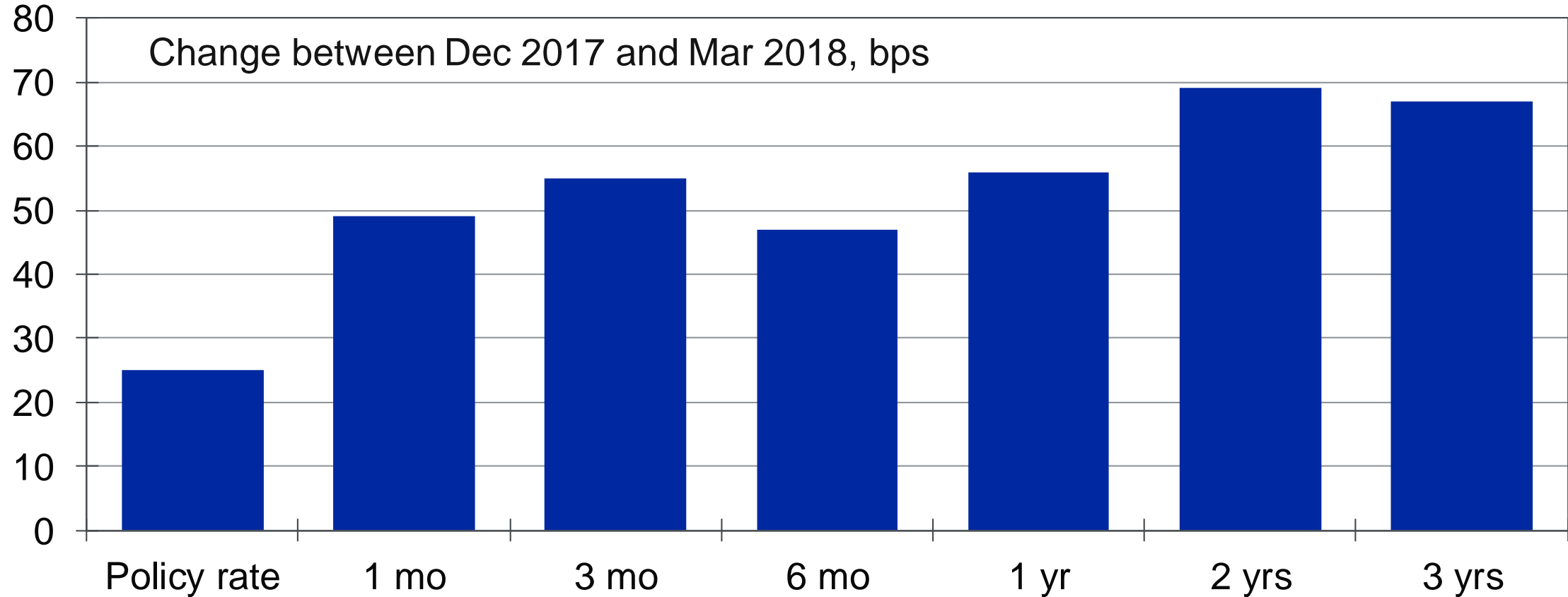
Fed's Summary of Economic Projections, %

Variable	2019	2020	Longer run
Real GDP, change	2.4	2.0	1.8
Unemployment rate	3.6	3.6	4.5
PCE deflator, change	2.0	2.1	2.0
Core PCE deflator, change	2.0	2.0	N/A
Fed funds rate, yr's end	2.9	3.4	2.9

Source: Moody's Analytics

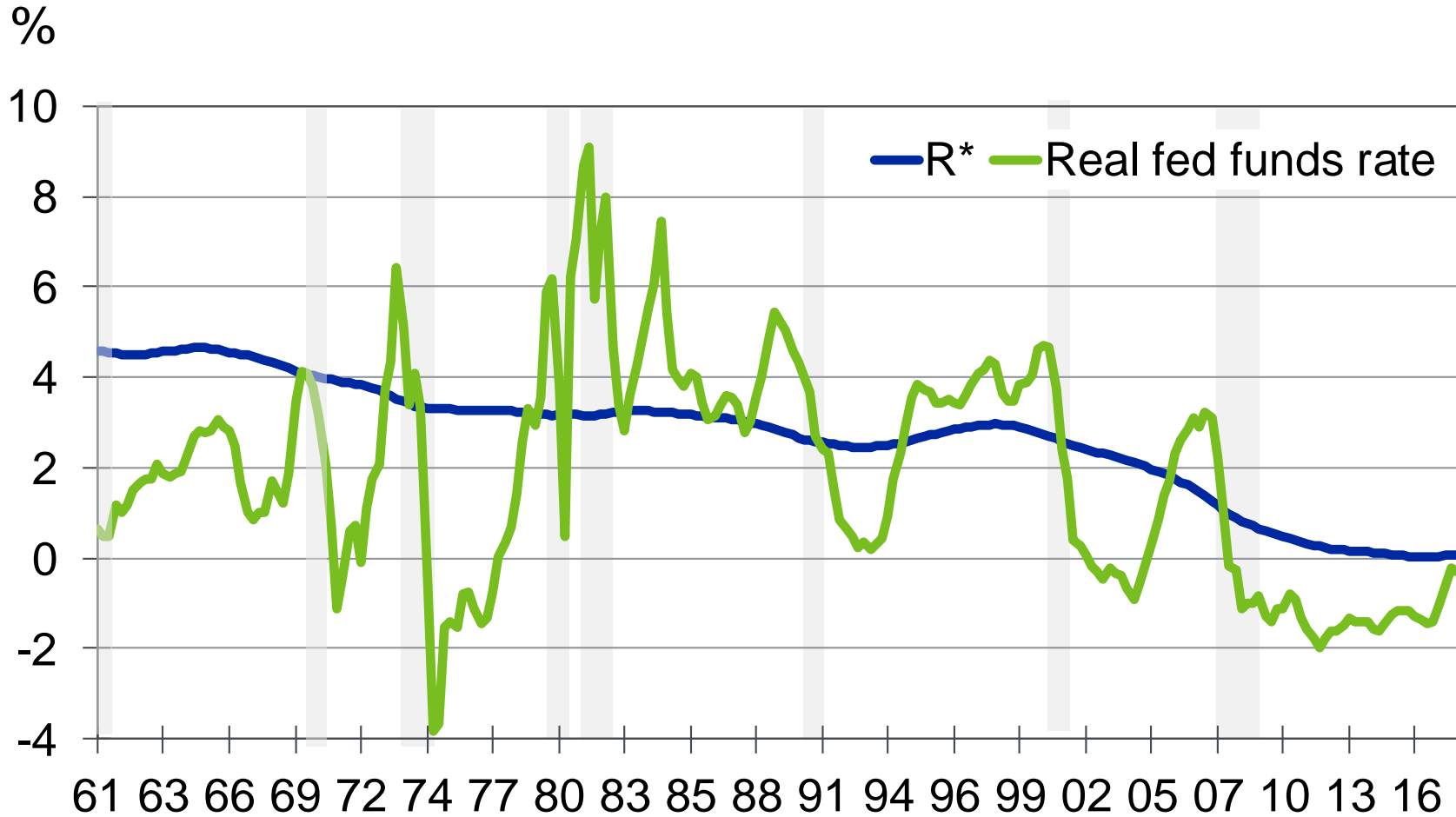
Orderly Adjustment So Far

Market expectations for fed funds rate over next...



Sources: Bloomberg, Moody's Analytics

Fed Set to Make Leap of Faith



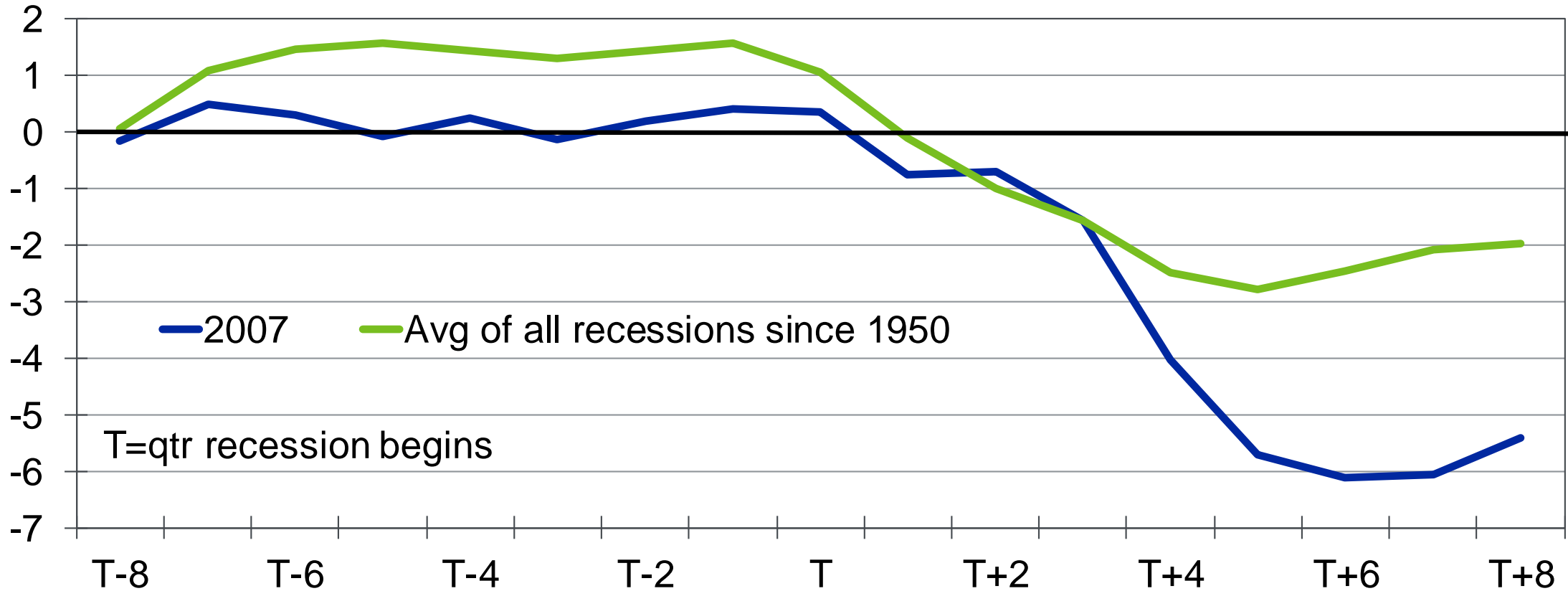
Sources: Federal Reserve, Moody's Analytics

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What Could Go Wrong?

Red Hot Does Not Lead to Ice Cold

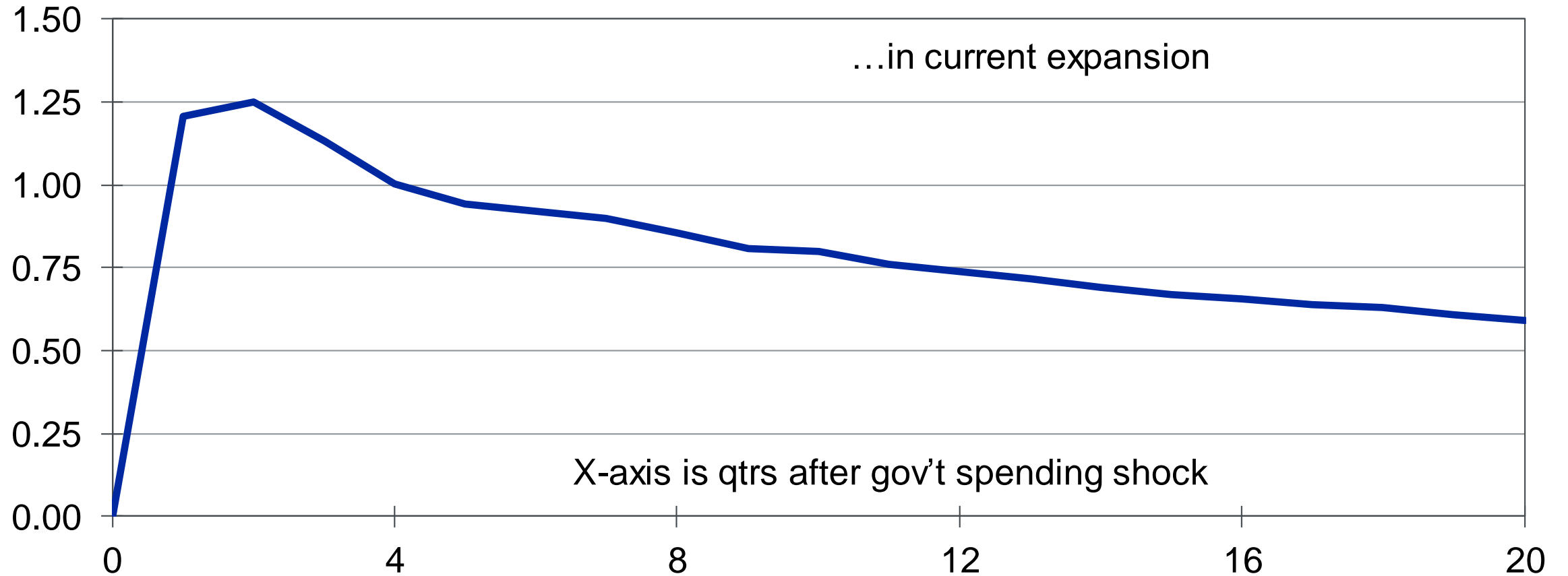
Output gap, % of GDP



Sources: BEA, CBO, Moody's Analytics

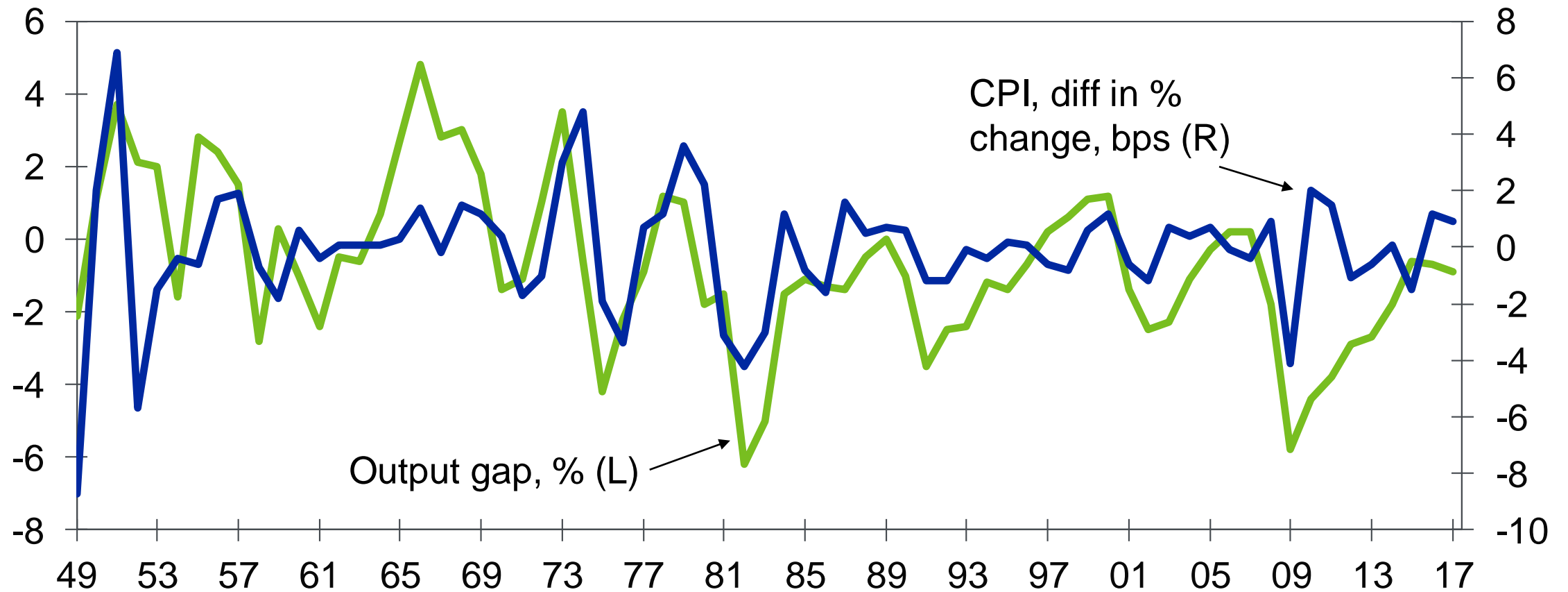
Less Bang for the Buck

Cumulative dynamic multiplier of government spending...



Sources: BEA, Moody's Analytics

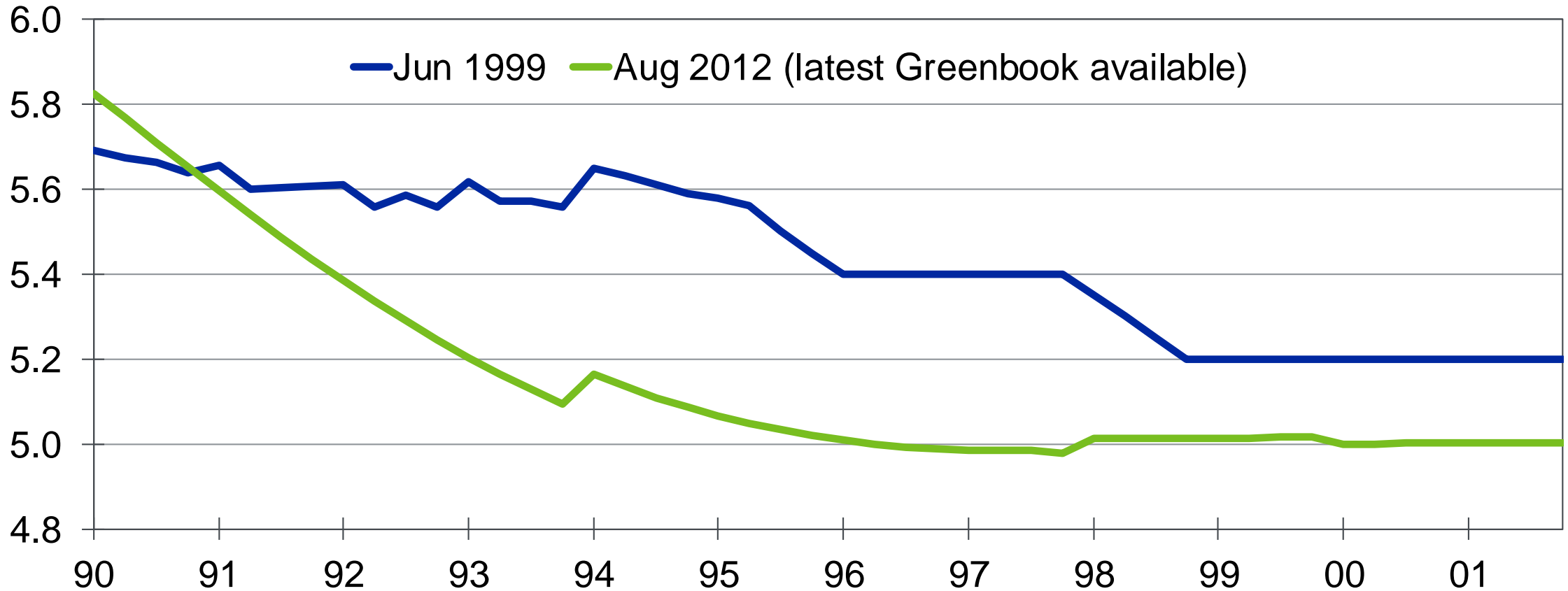
Potential Modest Boost to Inflation



Sources: BEA, BLS, Moody's Analytics

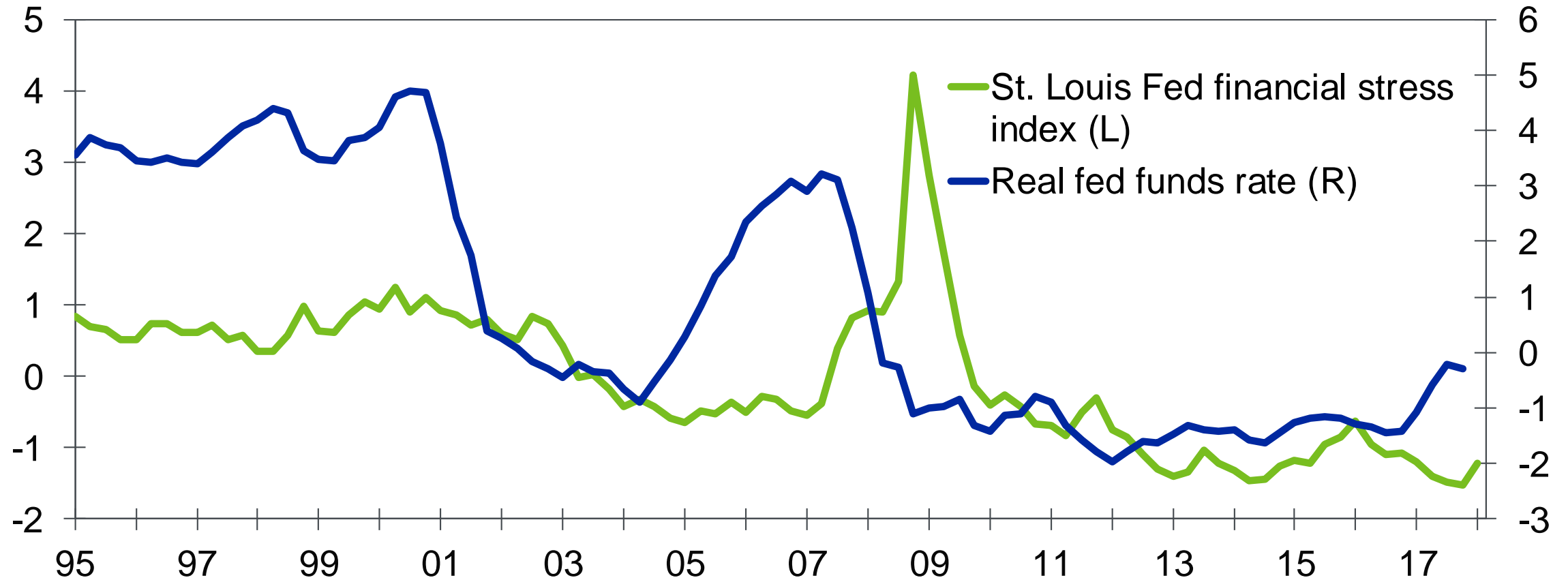
Fed's Estimate of NAIRU Is Not Set in Stone

Fed's estimate of NAIRU, %, Greenbook for...



Sources: Philadelphia Fed, Moody's Analytics

Fed Not Getting Desired Response



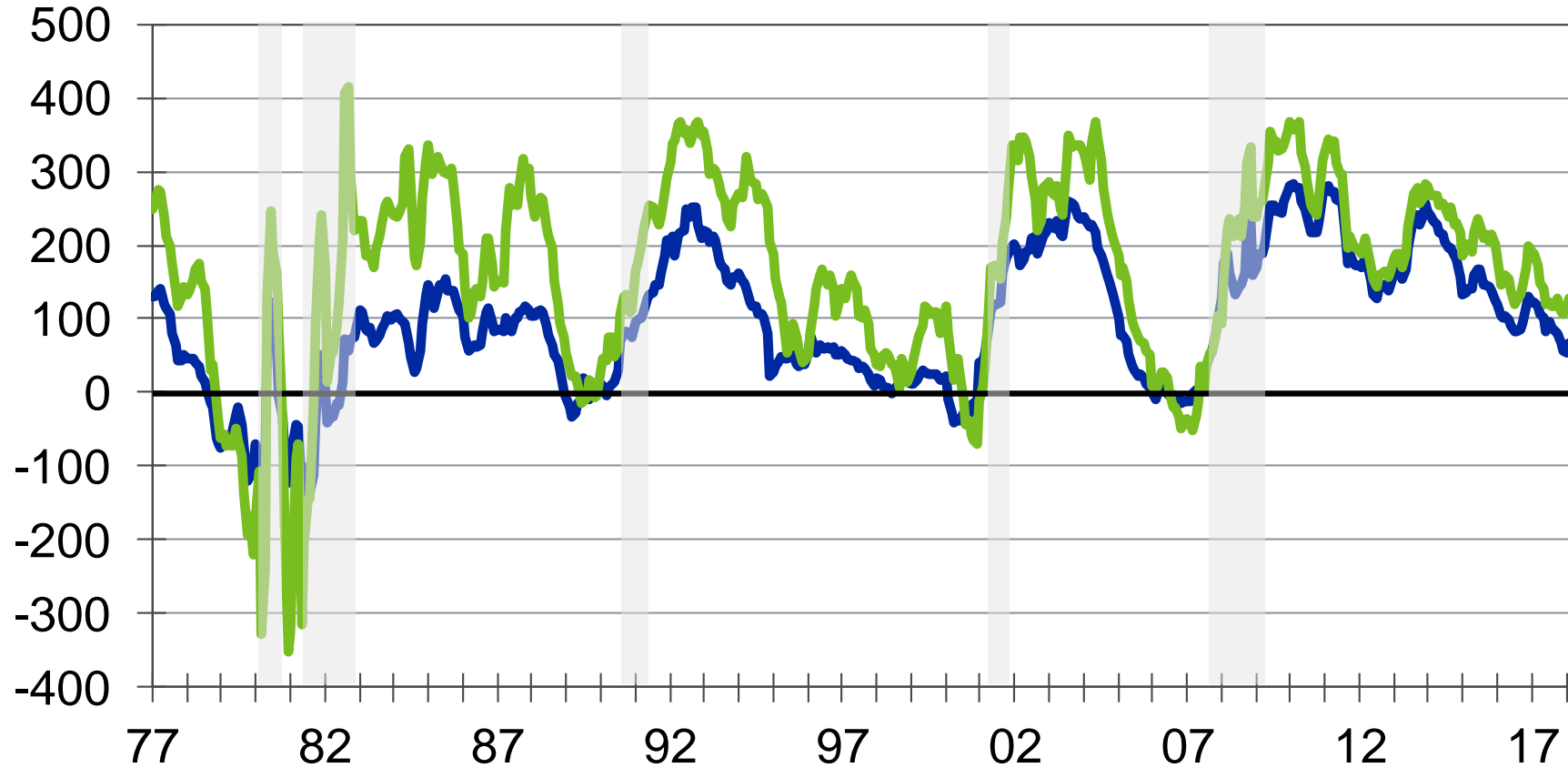
Sources: Federal Reserve, Moody's Analytics

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Markets Betting Fed Gets It
Wrong

Inversion or Nothing for the Yield Curve

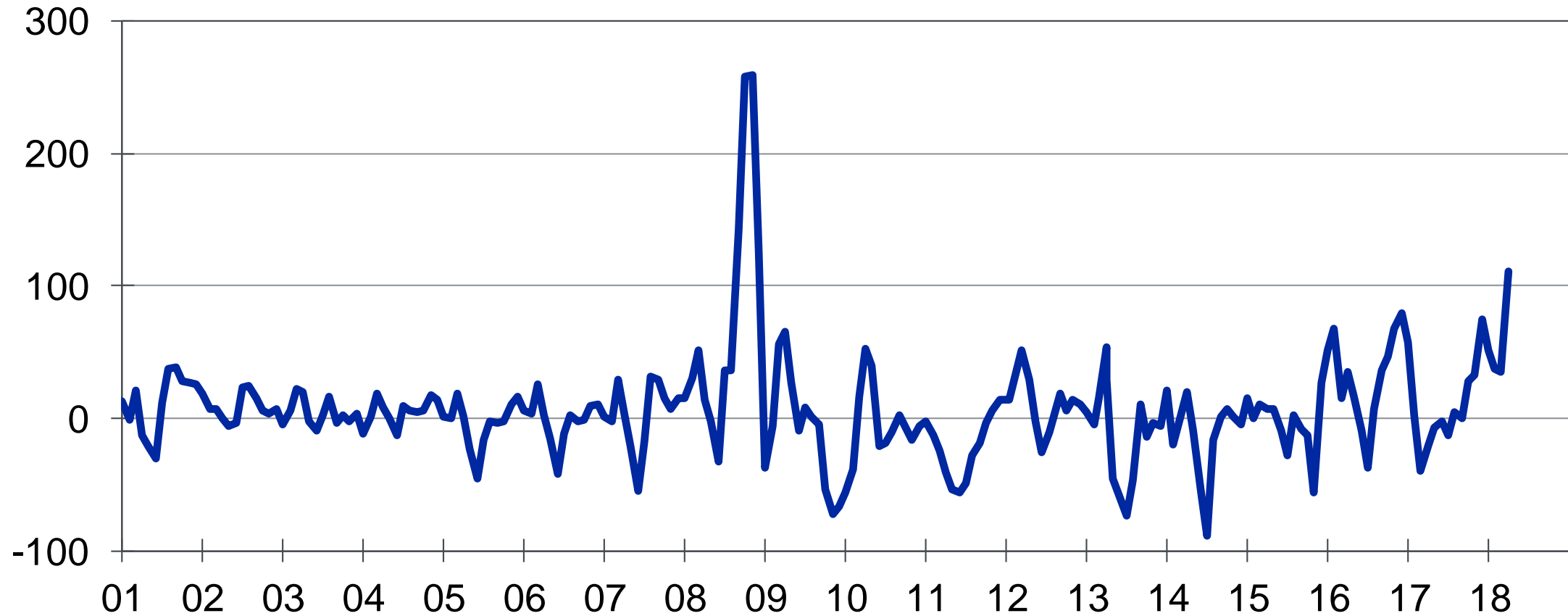
Difference between 10- and 2-yr Treasury yields, bps



Sources: Treasury Department, Moody's Analytics

Issuance Binge

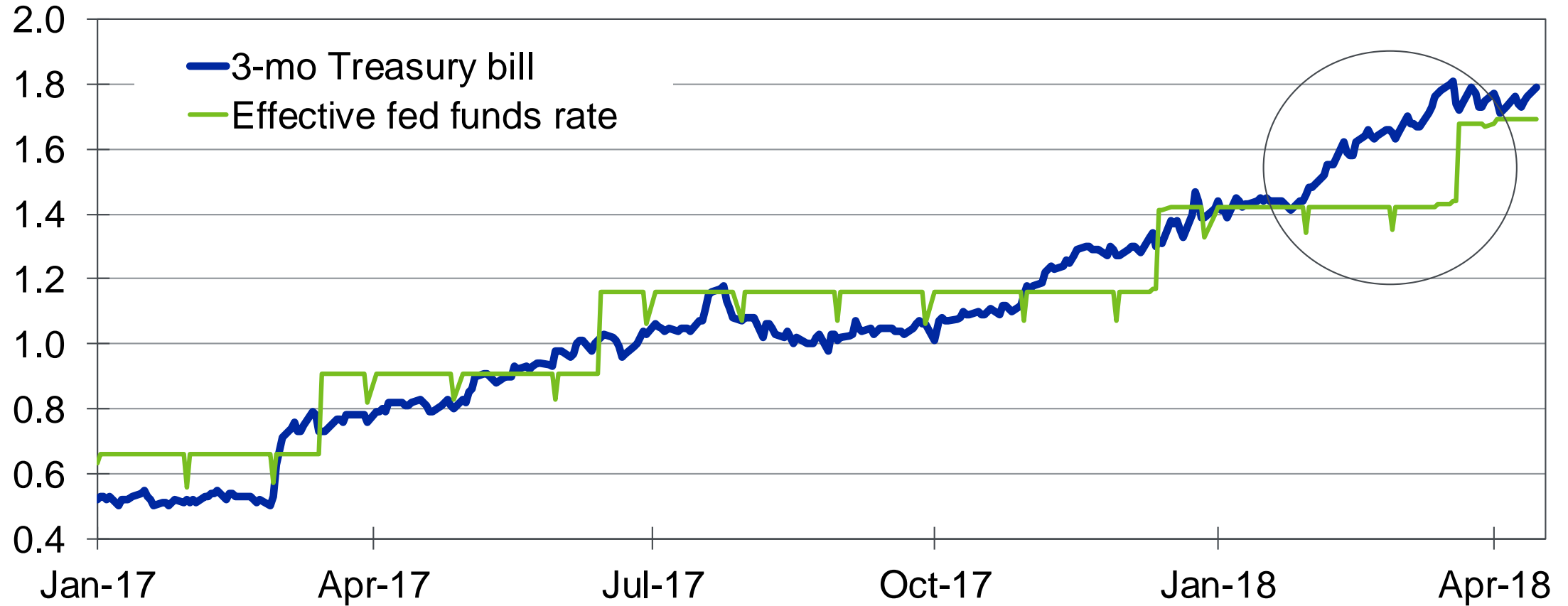
Treasury net issuance, bills, \$ bil, 3-mo MA



Sources: Treasury Department, Moody's Analytics

Fed Not Doing It Alone

Interest rate, %



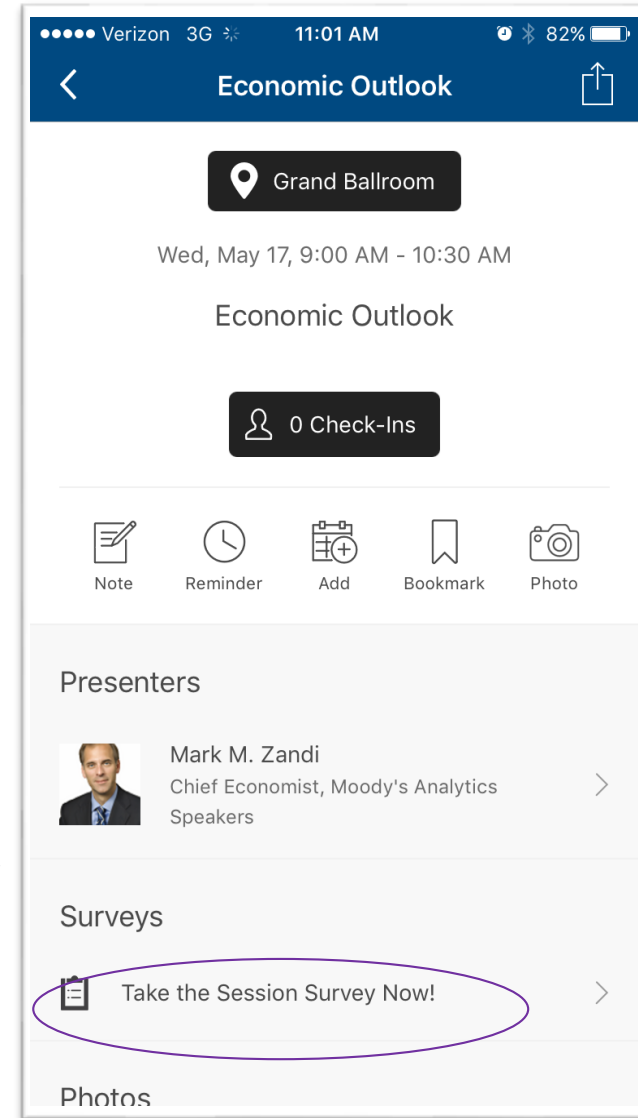
Sources: Treasury Department, Moody's Analytics



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