SOLUTIONS
Economic & Market Watch

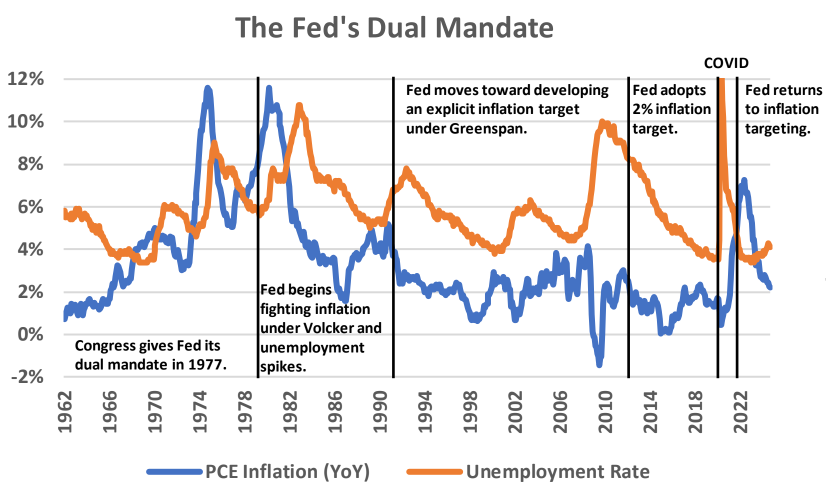
October 28, 2024

Economic & Market Watch Intelligence Brief

Briefing

- Prior to 2020, the Federal Reserve adjusted interest rates by buying and selling Treasurys (called “open market operations”). Buying injected money into the economy, driving rates down. Selling removed money from the economy, pushing rates up. Since 2020, the Fed has adjusted rates by paying banks interest on their deposits at the Fed (called a “floor system”). A higher rate encourages banks to deposit their money at the Fed, thereby removing money from the economy.
- Using open market operations, the Fed could directly influence short- and long-term rates by buying short-term and long-term Treasurys. Long-term rates would change (on average) 71 basis points (bps) for each 100 bp change in the federal funds rate (Figure 1).
- Using the floor system, the Fed can only directly influence short-term rates. Long-term rates now change (on average) only 55 bps for each 100 bp change in the federal funds rate (Figure 2).
- The switch has shifted the impact of Fed policy away from long-term rates toward short-term rates. On average, short-term rates changed 85 bps under open market operations, but 100 bps under the floor system, for each 100 bp change in the federal funds rate (Figure 3).

Chart of the Week



Commentary

In 1977, Congress gave the Federal Reserve a dual mandate: promote maximum employment and maintain stable prices. The benefit of maximum employment is increased production of goods and services. The benefit of stable prices is more savings and long-term investment since people are better able to plan for the future. To maximize employment, the Fed needs to keep interest rates low. To stabilize prices, the Fed needs to match money supply growth to economic growth. And herein lies a dilemma. To keep interest rates low, the Fed must grow the money supply. But growing the money supply faster than the economy creates price instability. And this means the Fed must sometimes select one of its mandates to follow and one to ignore. COVID provides the most recent example. In response to the lockdown and subsequent record unemployment, the Fed pumped money into the economy to help finance stimulus spending. It increased the money supply at three times the usual rate. The spending that the money growth financed drove unemployment down, but also contributed to the subsequent spike in inflation. That, in turn, required the Fed to raise interest rates dramatically starting in 2022.

Snapshots

Figure 1. Long-Term Rate Response to Federal Funds Changes (1962–2019, monthly)

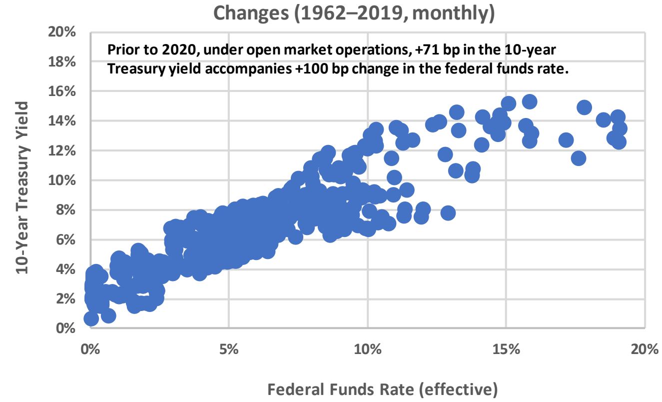


Figure 2. Long-Term Rate Response to Federal Funds Changes (2020–2024, monthly)

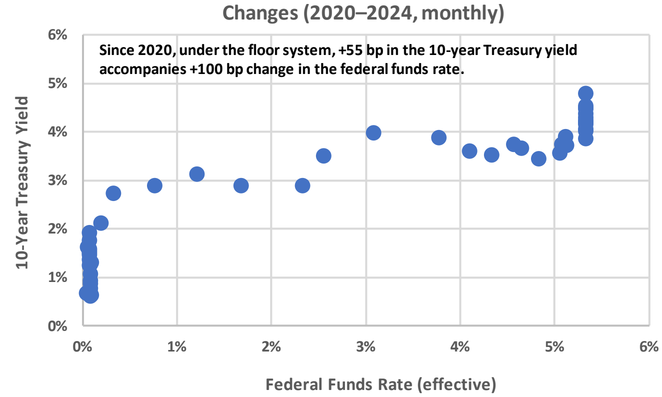
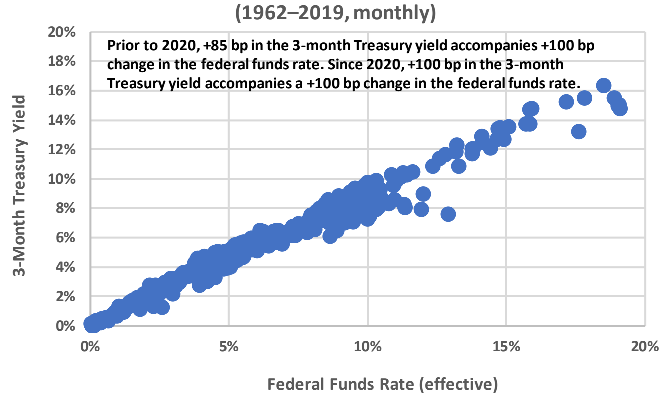


Figure 3. Short-Term Rate Response to Fed Funds Changes (1962–2019, monthly)



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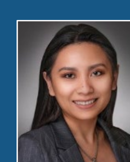

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Economic & Market Watch Dashboard

Key Indicators

INTEREST RATES[1]	2024		2025			
	Current	Q4	Q1	Q2	Q3	Q4
Fed Funds Target[2] (%)	5.00	4.50	4.00	3.75	3.75	3.50
SOFR (%)	4.83	4.40	4.00	3.65	3.40	3.30
2Y UST (%)	4.11	3.50	3.35	3.30	3.25	3.20
5Y UST (%)	4.07	3.50	3.45	3.45	3.50	3.45
10Y UST (%)	4.24	3.75	3.70	3.70	3.70	3.70
30Y UST (%)	4.50	4.05	4.00	4.00	4.05	4.05

ECONOMY	2024		2025			
	Current	Q4	Q1	Q2	Q3	Q4
PCE Inflation (%)	2.2	2.0	2.2	2.1	2.0	2.1
CPI Inflation (%)	2.4	2.1	2.2	2.2	2.1	2.1
Real GDP (%)	3.0	1.8	1.7	1.9	2.0	2.1
Unemployment (%)	4.1	4.3	4.3	4.4	4.3	4.3
Consumer Spending (%)	2.8	1.9	2.2	2.1	2.3	2.3
Industrial Production (%)	(0.6)	1.4	1.2	1.4	1.6	1.8

Equities & Currency

	Current	Year ago
DJIA	42,386	32,418
Nasdaq	18,647	12,643
S&P 500	5,808	4,117
US Dollar Index	$1,260.65	$1,275.21

Commodities

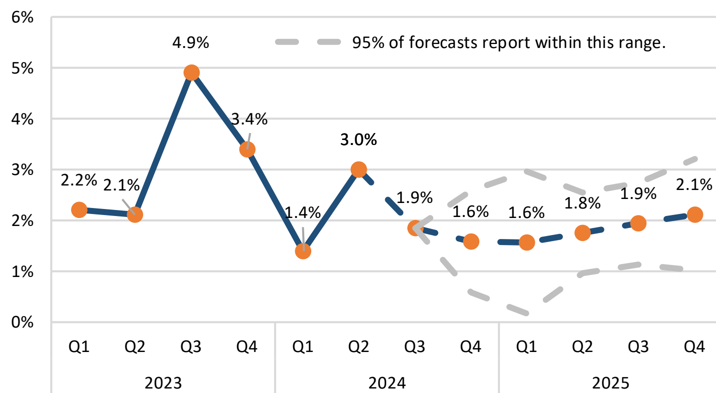
	Current	Year ago
Crude Oil (Per Barrel)	$67.23	$85.54
Natural Gas (Per MMBtu)	$2.35	$3.16
Coal (Per Short Ton)	$14.15	$14.00
Gold (Per Ounce)	$2,733.60	$1,988.60
Corn (Per Bushel)	$412.50	$480.75
Soybean (Per Bushel)	$980.50	$1,297.25

Industry

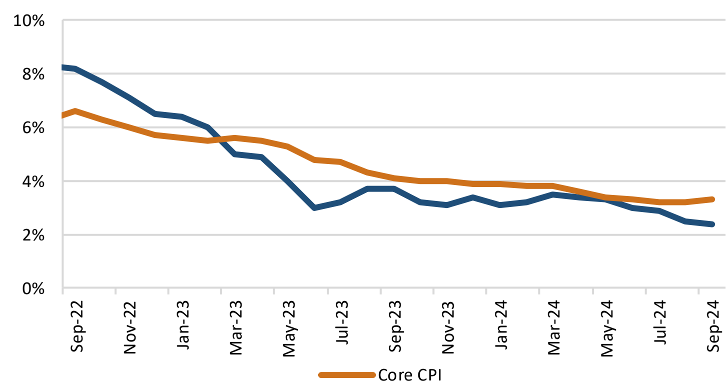
	Current	Year ago
Natural Gas Storage (Billion Cubic Feet)	3,785	3,779
U.S. Daily Power Consumption (MWh)	10,253,380	9,846,765
World Container Index (Per 40ft)	$3,095	$1,342

Forecasts

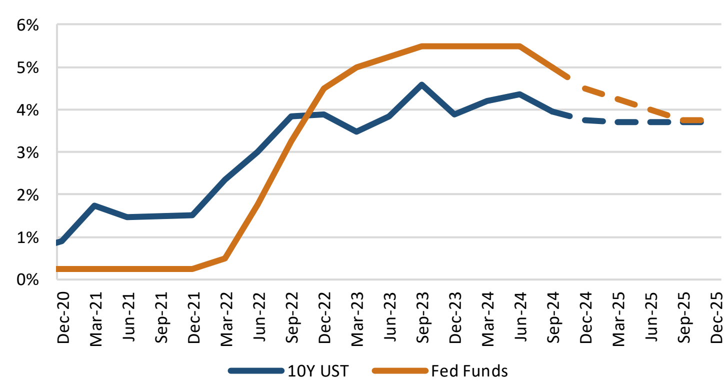
Real GDP Growth Trend



Headline vs. Core Inflation



10-Year U.S. Treasury vs. Fed Funds Trend



[1] Unless otherwise indicated, forecasts are from the Blue Chip Professional Forecasters
[2] Target rate forecast is based on futures market contracts

Source: Blue Chip Financial Forecasts, Trading Economics, Moody's Analytics, Statista, Trading Economics, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Energy Information Administration, U.S. Treasury Department, Federal Reserve Bank of Atlanta, Federal Reserve Bank of New York, Federal Reserve Bank of St. Louis, International Monetary Fund, World Bank, University of Michigan, The Conference Board.