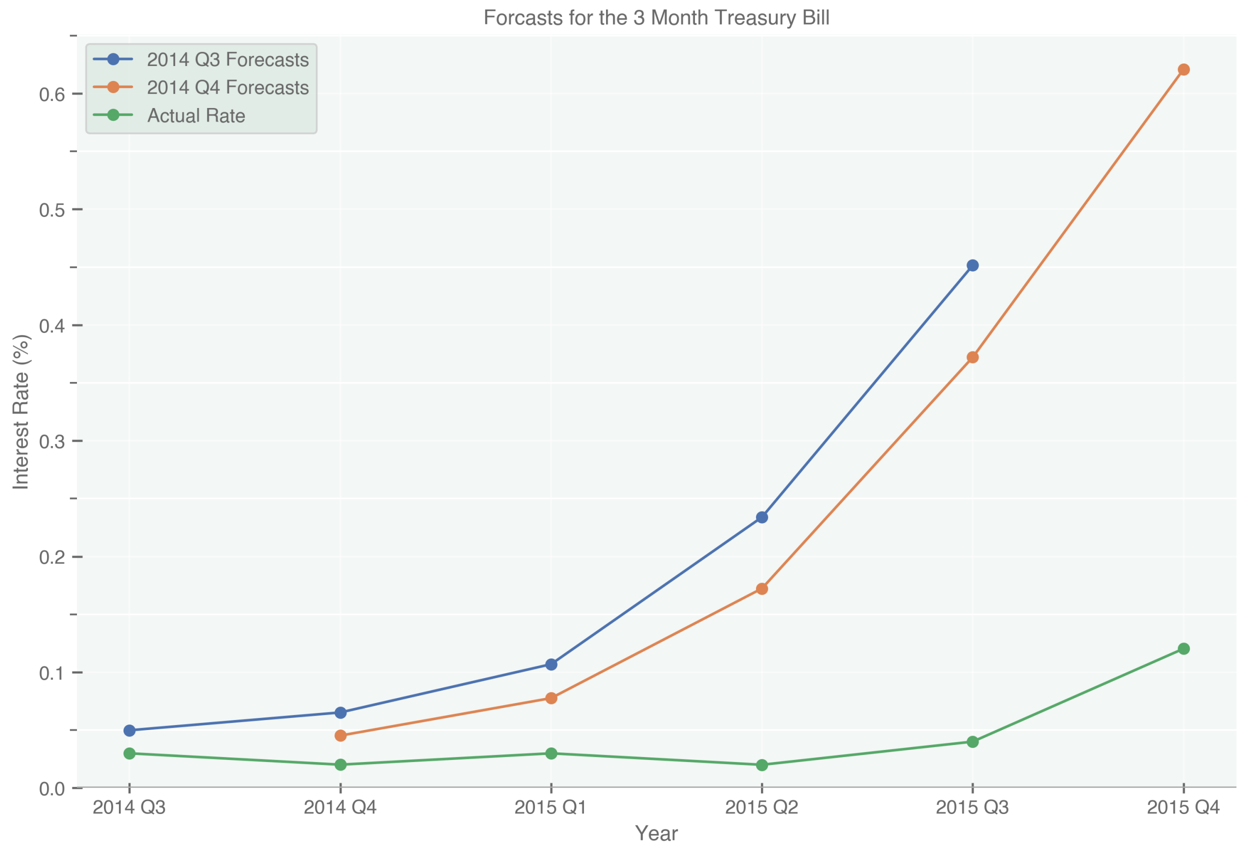
Elizabeth Goodwin

Intermediate Macroeconomics



The Mean Forecast estimated that the T-Bill would rise above .25% in Q3 2015 in both datasets, although the 2014 Q3 datasets gets quite close in 2015 Q2, estimating .2339%, and the 2014 Q3 forecasts have it reaching a higher % in Q3 2015. Both estimates continue to predict higher interest rates, at an accelerating pace. The later forecast predicts a lower rate, although it seems like the curve is more shifted in time than accelerating faster, meaning they expect the rise to happen slightly later.

The Mean forecast in 2015 Q2 changed from .2339 to .1723, and in 2015 Q3 it changed from .4515 to .3721. This means they expected the fed to be more accommodative compared to the first forecast, although overall the trend suggests the fed will be less accommodative than the nowcast. In reality, rates did not increase at anywhere close to the forecasted levels. It stayed relatively constantly, and only had a significant increase in Q4 2015.

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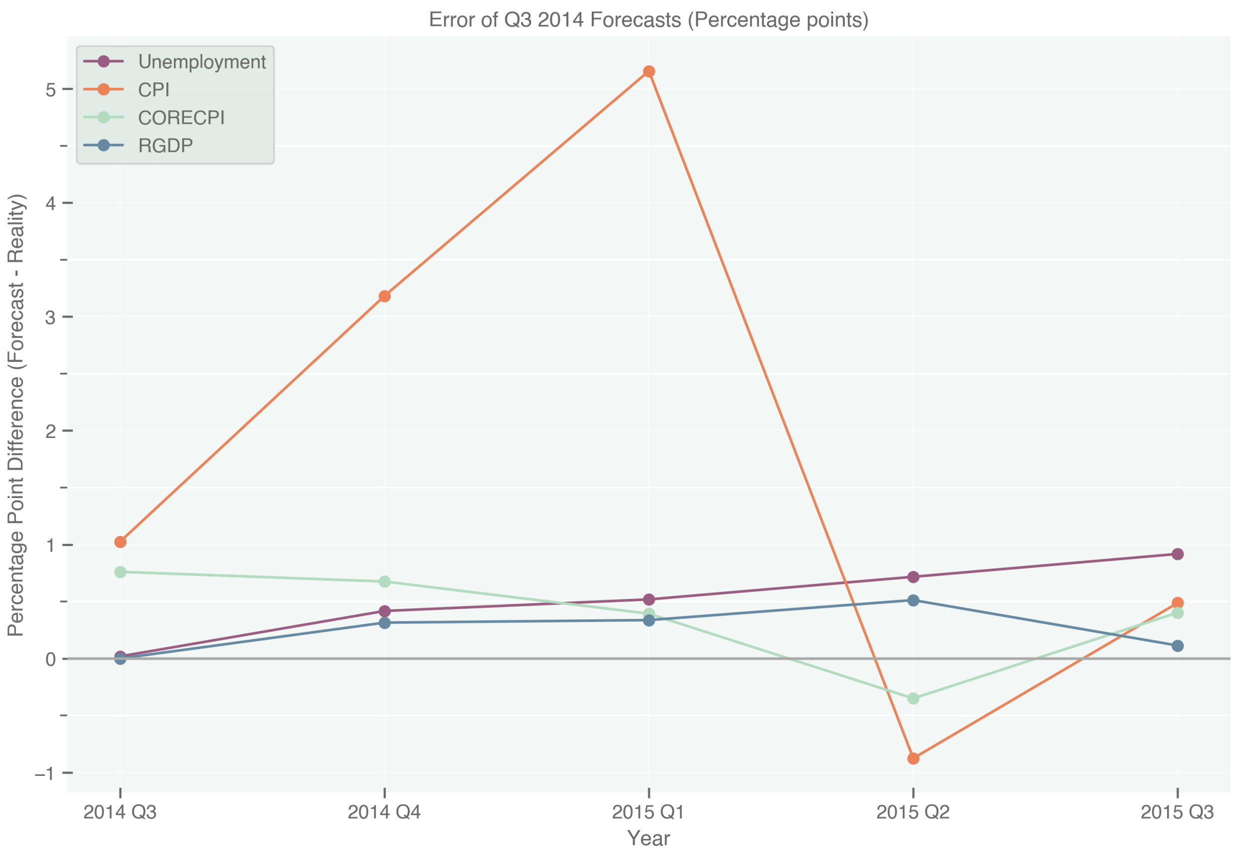

Year	Unemployment	CPI	CORECPI	RGDP
2014 Q3	0.0185	1.0255	0.7607	0
2014 Q4	0.417	3.1824	0.6758	0.3147
2015 Q1	0.5186	5.1564	0.3933	0.3369
2015 Q2	0.717	-0.8763	-0.3507	0.5125
2015 Q3	0.9178	0.4876	0.4023	0.1139

Note: Every Column but RGDP used the real values, RGDP compared against the nowcast values, as the data did not include original values for some reason.

- Unemployment was pessimistic. It significantly overestimated how high unemployment would be, making it nearly a percentage point above the actual rate by the end of the projection

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- CPI was overestimated on average, although I'm not entirely sure if thats pessimistic or optimistic. In some sense it is pessimistic, as inflation is higher. On the other sense, inflation is below the fed target, which is ideally where it should be. Inflation became negative during part of it, making the difference between expected and actual very large, and this part of the graph is by far the part with the highest error.
- Core CPI is at first overestimated, but later it is slightly underestimated, and then overestimated again. This is distinctly different to CPI in general, meaning the items most important towards overall changes in CPI during this period are most likely items not in the core CPI.
- RGDP is overestimated for most of the projection, but returns to close to the actual result at the end of the projection.

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- Core CPI and headline CPI differ in one key aspect, food and energy prices are not included in core CPI. This means it is most likely that that is the cause for the large error in this sample. There is a good reason to think this, too, as energy/oil prices changed a lot in 2014, which could have contributed to the change.

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The Fed statement overall seems optimistic about the US economy. They show that current labor market conditions are improving, with unemployment lowering, as well as economic activity (GDP) moderately increasing. They seem to not be especially worried about inflation, as it is running below target, but see it as a possible future issue as much is tied to the energy market. In terms of the interest rate, while they seem unlikely to change it in the near future, they do seem to signal that a possible rate hike is more likely now than previously, and even mention more likely than future forecasts/expectations, which is a sign that it could be more likely in the future. They do not seem likely to raise it in the short term, though, which is interesting considering the projections for a large increase in the near future.

I think the primary reason they decided to raise future expectations between those two expectations is mostly to do with a combination of all three of those factors. I think inflation is the most important, however. With the federal reserve signaling it is more possible to do that in the future than previously expected, citing inflation, it is likely they anticipated the fed raising rates somewhat, predicting inflation to rise somewhat in the near future. I think unemployment dropping and the economy expanding in general also ties into this, however, because all of those factors do influence each other. Fundamentally I think the predictions for interests rates most likely have much to do with what the forecasters think the fed will do than anything else, as they have a very large influence over the rates.