Are Financial Markets Too Pessimistic About the Economy?

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Figure 1: Interest Rate Path: Federal Funds Effective Rate


Note: The interest rate paths have been smoothed so that the lines more clearly reflect the slope of the tightening in the rate-tightening cycles – 1994-1995 and 2004-2006 – following the last two recessions and the slope implied by the federal funds futures market over the 2015-2017 period.

Source: Federal Reserve Board, Bloomberg, Haver Analytics
Figure 2: Ten-Year Treasury Yield
January 1990 - March 2016

Source: Federal Reserve Board, NBER, Haver Analytics
Figure 3: Blue Chip Forecast for Real GDP Growth
Forecast as of April 2016

Source: Blue Chip Economic Indicators, April 10, 2016
Figure 4: Blue Chip Forecast for the Unemployment Rate

Forecast as of April 2016

Source: Blue Chip Economic Indicators, April 10, 2016
Figure 5: Most Likely Outcome for the Unemployment Rate

Forecast as of March 2016

Source: Federal Reserve Bank of New York, Survey of Primary Dealers
Figure 6: Mean Probability of an Unemployment Rate of 6% or Higher in 2016 or 2017
Forecast as of 2014:Q1 - 2016:Q1

Note: The unemployment rate is the annual average unemployment rate.
Source: Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters
Figure 7: Mean Probabilities for the Unemployment Rate in 2016

Forecast as of 2015:Q4 and 2016:Q1

Note: The unemployment rate is the annual average unemployment rate.

Source: Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters
Figure 8: Mean Probabilities for the Unemployment Rate in 2017
Forecast as of 2015:Q4 and 2016:Q1

Note: The unemployment rate is the annual average unemployment rate.
Source: Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters
Figure 9: Civilian Unemployment Rate and the Natural Rate of Long-Term Unemployment
1990:Q1 - 2016:Q1

Source: BLS, CBO, NBER, Haver Analytics
Figure 10: Civilian Unemployment Rate and Labor Force Participation Rate
January 2011 - March 2016

Source: BLS, Haver Analytics
Figure 11: Percent Chance of No Change in Federal Funds Target Rate or Range in 2016
Forecast as of December 2015, January 2016 and March 2016

Source: Federal Reserve Bank of New York, Survey of Primary Dealers