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United States: The Powell put

■ Fed chairman Powell has recently emphasized that the FOMC will be patient given the muted inflation reading and that it is ready to shift the policy stance swiftly if required ■ He also considers that financial markets are pricing in downside risks well ahead of the data. This means that they are too pessimistic on growth ■ Professional forecasters' estimates of the probability of entering into recession in the coming quarters do not display the typical pre-recession dynamics either

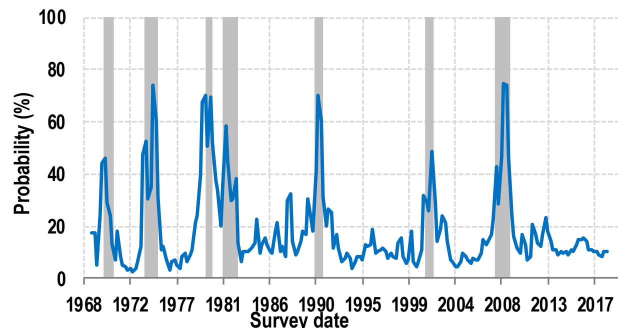
At the recent annual meeting of the American Economic Association, New York Times journalist Neil Irwin, the moderator of a panel discussion between Ben Bernanke, Janet Yellen and Jerome Powell, quippingly started by wondering what you get when a lawyer (Jerome Powell) walks into a conference with 13000 economists. Having watched the event on YouTube[1], the answer is "a clear message".

When a central banker wants to influence the near term development of the economy and indeed of financial markets, he can signal a readiness to act should conditions require but he can also manifest a high level of conviction in describing the economic environment. Speaking at the panel, Powell did both things. On policy signalling, he insisted that the FOMC will be patient given muted inflation readings and that it is "always prepared to shift the policy stance and to shift significantly if necessary in order to promote our statutory goals of maximum employment and stable prices". This stance goes back to the Greenspan era, and the liquidity injections following the October 1987 stock market crash. The view that, faced with a bleaker outlook, the Fed would swiftly ease its policy, thereby supporting investor risk appetite, is referred to by commentators as the Greenspan put, Bernanke put, Yellen put and Powell put. Importantly, the current Fed chairman was also very explicit on how his reading of the outlook differs from market signals: *"I think the markets are pricing in downside risks and they're obviously well ahead of the data."* We concur with this assessment not only based on the recent dataflow and its derived measures[2], but also when looking at the "anxious index"[3]. Based on a survey of professional forecasters, this index shows the probability of a decline in real GDP in the quarter after the survey is taken. Its recent trend does not display at all the traditional pre-recession dynamics. In addition, whereas in the run-up to recessions the difference in recession probability 4 quarters ahead versus next quarter declines, it is currently still rising.

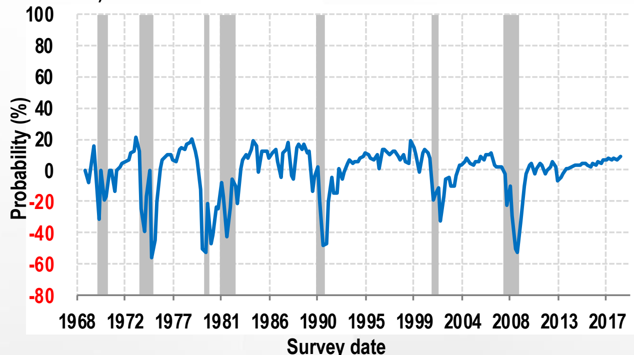
William De Vijlder

US: THE ANXIOUS INDEX

PROBABILITY OF DECLINE IN REAL GDP NEXT QUARTER (QUARTERLY, 1968 Q4 TO 2018 Q4)



DIFFERENCE IN PROBABILITY OF DECLINE IN REAL GDP (4 QUARTERS AHEAD MINUS NEXT QUARTER)



Source: Federal Reserve Bank of Philadelphia, BNP Paribas

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[1] https://www.youtube.com/watch?v=DH030t70Ho0

[2] The derived measures refer to the nowcasts of the Federal Reserve of Atlanta, New York and St Louis. Their respective estimates for real GDP growth (seasonally adjusted annual rate) are 2.8%, 2.5% and 2.6%.

[3] www.philadelphiafed.org/research-and-data/real-time-center/survey-of-professional-forecasters/anxious-index

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