Federal Reserve Sees a Colder Economic Wind Coming

It decreased its short-term economic growth projections and significantly increased unemployment expectations.

By Erik Sherman

The economic projections from the Federal Reserve and the Federal Reserve Bank presidents have taken a turn downward and it's looking like a tacit admission of recession without using the R-word.

In December, the Fed and its bank presidents, "under their individual assumptions of projected appropriate monetary policy," expected a median 0.5% change in real GDP (beyond inflation) in 2022, 2023, up to 1.6% in 2024, and 1.8% in 2025. The September projections were 0.2% in 2022, 1.2% in 2023, 1.7% in 2024, and 1.8% in 2025. In each, "in the longer run," the number was 1.8%.

Unemployment? September's projection was 3.8% in 2022, 4.4% in 2023 and 2024, and then 4.3% in in 2025 with the longer run number of 4.0%. The December projection kept the long run but went with 3.7% in 2022, 4.6% in 2023 and 2024, then edging down to 4.5% in 2025.

The projection released on March 22, 2023, went as follows for real GDP: 0.4% in 2023, 1.2% in 2024, and 1.9% in 2025, with long-term 1.8%. Unemployment projections were 4.5% in 2023, 4.6% in 2024 and 2025, and keeping the long-term 4.0%. The same signs of slowdown came into personal consumption expenditures (PCE) inflation. December saw things going from 5.6% in 2022 to 3.1% in 2023, 2.5% in 2024, and 2.1% in 2025, with 2% long-term, which is the Fed's magic target number.

Now the numbers are 3.3% this year, 2.5% in 2024, and 2.1% in 2025.

As Bloomberg pointed out, the changes seem small, but the economy has been strong so far in the first quarter of 2023. Simple arithmetic tells you that the Fed expects the brakes to really hit hard in order to get the median numbers they're looking for. Unemployment is 3.6% right now. To get 4.4%, you have to jump well over 5% for things to average out. Historically, that isn't an outrageous number and used to be close to what people considered "normal," but in comparison to recent times, it is a big shift.

As for real GDP growth, Q4 of 2022 came in at 2.7%. The figures for the current quarter aren't available—we're not even past March—but, again, to get to the new figure, assuming Q1 hasn't already crashed, and that seems unlikely, you probably need recessional levels in Q3 through Q4 to bring the average down sufficiently.

One other seeming oddity in the projections is how the long-term results don't shift. Typically, when making future estimations, significant changes in where things are and where you thought they might be become reasons to reconsider the future. The Fed's ongoing estimates seem more like targets that will happen by force of will. It smacks a bit of an organization that is trying to adjust the short term to argue for the eventual desired results. This will become a bigger question over the next few quarters with further reports from the Fed and a look at whether their extended estimates ever change.