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Fed Projections vs Professional Forecasts in Times of Crisis

Christian Jensen¹¹University of South Carolina, USA

ABSTRACT

Because short-run economic outcomes such as inflation and output, depend on private-sector expectations, central banks commonly try to guide these by publishing projections of key macroeconomic variables. Despite theoretical results showing that policymakers can always achieve their policy objectives to a greater extent when exploiting their guidance to mislead the public, empirical evidence of such deceptive practices has been elusive. Under the assumption that the public is likely to rely more on central bank projections in times of extremely rare shocks whose consequences and policy reactions are more difficult to predict, and that it can be easier for policymakers to get away with manipulation in such exceptional circumstances, we study FOMC projections in times of crisis. In particular, we focus on the 2020-2023 period, which encompasses the COVID-19 pandemic and the Russian invasion of Ukraine, including the ensuing energy crisis. By comparing with forecasts by professional forecasters not involved in monetary policymaking, we test for misleading projections by the FOMC.

KEYWORDS Central bank projections; forward guidance; survey forecasts; managing expectations; monetary policy

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