Bloomberg Interest Rate and Economic Survey
December 2019

Note: This survey was taken before the trade deal with China was announced.

Over a one-week period ending December 12th, Bloomberg News surveyed 71 of the nation’s top economists for their most recent opinions on the U.S. economy and interest rates. The following are the results of their responses:

The Interest Rate Forecast

Overnight Fed Funds
The current fed funds target rate is a range between 1.50% and 1.75%.

The median fed funds forecast (upper band) for Q4 2019 is 1.75%. The median forecast the next nine quarters are 1.75%, 1.75%, 1.75%, 1.75%, 1.75%, 1.75%, 1.75%, 1.75% and 1.75%.

The latest survey indicates the Fed will likely remain on hold for all of 2020 and the first half of 2021, but there is a wide range of opinion on this. Presently, there are no further rate cuts priced into the bond market over the next 12 months.

2-yr Treasury Note (TN)
The median 2-year yield forecast for Q4 2019 is 1.62%.

The median forecasted yield for the next nine quarters are 1.60%, 1.63%, 1.63%, 1.65%, 1.65%, 1.65%, 1.70%, 1.75% and 1.77%. The 2-year forecast is down 0-7 bps from the previous month’s survey with the exception of the current quarter.

The high 2-year TN forecast for Q4 2020 is 2.25%, while the low is 1.00%. Note: There's extreme variance in the forecasts 12 months out.

The current 2-yr Treasury yield is 1.63%. This is down from the recovery high of 2.96% in November 2018, but up 24 basis points from the low point in early October.

<table>
<thead>
<tr>
<th></th>
<th>Q4 2019</th>
<th>Q1 2020</th>
<th>Q2 2020</th>
<th>Q3 2020</th>
<th>Q4 2020</th>
<th>Q1 2021</th>
<th>Q2 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Survey (December 2019)</td>
<td>1.62%</td>
<td>1.60%</td>
<td>1.63%</td>
<td>1.63%</td>
<td>1.65%</td>
<td>1.65%</td>
<td>1.65%</td>
</tr>
<tr>
<td>Prior Survey (November 2019)</td>
<td>1.58%</td>
<td>1.60%</td>
<td>1.64%</td>
<td>1.65%</td>
<td>1.69%</td>
<td>1.72%</td>
<td>1.72%</td>
</tr>
<tr>
<td>Year ago forecast (December 2018)</td>
<td>3.14%</td>
<td>3.16%</td>
<td>3.18%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>
10-yr Treasury Note
The median 10-year yield forecast for Q4 2019 is 1.79%. The median forecast for the next nine quarters are 1.80%, 1.88%, 1.90%, 1.93%, 1.98%, 1.97%, 2.04%, 2.10% and 2.22%. The 10-year forecast is down 0 to 8 bps from the previous survey with the exception of the current quarter.

The high 10-year TN forecast for Q4 2020 is 2.75%, while the low is 1.00%. Note: There’s extreme variance in the forecasts 12 months out.

The current 10-year yield is 1.87%. This is well below the 2018 high of 3.24% on November 8, 2018, and significantly below the recovery high of 3.99% on April 5, 2010, but up 16 basis points in the last two weeks.

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<th>Q4 2020</th>
<th>Q1 2021</th>
<th>Q2 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Survey (December 2019)</td>
<td>1.79%</td>
<td>1.80%</td>
<td>1.88%</td>
<td>1.90%</td>
<td>1.93%</td>
<td>1.98%</td>
<td>1.97%</td>
</tr>
<tr>
<td>Prior Survey (November 2019)</td>
<td>1.72%</td>
<td>1.80%</td>
<td>1.90%</td>
<td>1.93%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.05%</td>
</tr>
<tr>
<td>Year ago forecast (December 2018)</td>
<td>3.32%</td>
<td>3.35%</td>
<td>3.36%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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The Economic Forecast
The possibility of recession within the next year is 30%. This is unchanged from last month.

Note: The forecasts below indicate little change in GDP growth in the coming quarters.

Real GDP (annualized quarterly economic growth)
The median GDP growth forecast for Q4 2019 is +1.6% (previous: +1.7%). The median forecast for the next six quarters are +1.7% (+1.7%), +1.9% (+1.8%), +1.8% (+1.8%), +1.8% (+1.8%), +1.9% (+2.0%) and +1.9% (+2.0%).

The Atlanta Fed’s GDPNow measure was tracking Q4 2019 GDP at +2.3% as of December 17th.

Unemployment Rate
The median forecast for Q4 2019 unemployment is 3.6%. The median forecast for the next six quarters are 3.6%, 3.6%, 3.6%, 3.7%, 3.7% and 3.7%.

Headline unemployment dropped to 3.5% in November …matching the lowest since June 1969.

The December unemployment forecast is slightly lower than the previous month as economists factor-in the return to a five-decade low. Headline unemployment continues to be well below what most consider “full employment” and would normally suggest that wages should increase …but the pace of year-over-year earnings growth has actually retreated from +3.3% in November 2018 to +3.1% last month.
Inflation
The median annualized personal consumption expenditures (PCE) core forecast for Q4 2019 is +1.6%. The median forecast for the next six quarters are +1.9%, +1.9%, +1.9%, +2.0%, +1.9% and +1.9%.

The current Bloomberg survey indicates slightly lower expected core inflation with the year-over-year pace mostly hovering below the Fed’s +2.0% target.

A significant drop in core inflation next year might be reason enough for the Fed to cut rates further.

Most other inflation measures are already at, or slightly above the Fed’s +2.0% target. The core consumer price index (CPI) has grown at or above 2.0% for 21 consecutive months on a year-over-year basis and now stands at +2.3%.

Note: Global prices are down along with global growth rates. This contributes downward pressure on domestic prices.

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<th>Q1 2021</th>
<th>Q2 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP</td>
<td>1.6%</td>
<td>1.7%</td>
<td>1.9%</td>
<td>1.8%</td>
<td>1.8%</td>
<td>1.9%</td>
<td>1.9%</td>
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<tr>
<td>Unemployment</td>
<td>3.6%</td>
<td>3.6%</td>
<td>3.6%</td>
<td>3.6%</td>
<td>3.7%</td>
<td>3.7%</td>
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</tr>
<tr>
<td>Core PCE</td>
<td>1.6%</td>
<td>1.9%</td>
<td>1.9%</td>
<td>1.9%</td>
<td>2.0%</td>
<td>1.9%</td>
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Market Indications as of 11:01 A.M. Central Time
DOW          Up 105 to 28,344 (NEW HIGH)
NASDAQ       NASDAQ Up 45 to 8,873 (NEW HIGH)
S&P 500       S&P 500 Up 9 to 3,200 (NEW HIGH)
1-Yr T-bill   current yield 1.51%; opening yield 1.51%
2-Yr T-note   current yield 1.62%; opening yield 1.63%
5-Yr T-note   current yield 1.72%; opening yield 1.73%
10-Yr T-note  current yield 1.91%; opening yield 1.92%
30-Yr T-bond  current yield 2.34%; opening yield 2.35%

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