October 5, 2023

Q&A with Amy Yang

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In a new 'Q&A with' Amy Yang, a US Economist, she delves into her role, highlighting how economists analyze data and closely track the Fed's communication to forecast economic conditions. Regarding the economy, she outlines the team's anticipation of a mild recession in early 2024, even amidst an enhanced likelihood of a soft landing.

Q: What does your work as a US economist entail?
A: I analyze a broad range of macroeconomic and financial data to gauge economic conditions and calibrate the outlook. This involves making forecasts for well-known economic variables or concepts, such as GDP growth, unemployment, and inflation, as well as taking a view on broader contours of the economy, such as: will we have a soft landing or recession? Having a clear understanding of the economy is paramount to understanding how the Federal Reserve will set monetary policy and how asset markets are likely to evolve. Indeed, as a US economist a key job is to be a 'Fed watcher'. For this, I track communications by Fed officials to decipher hawkish or dovish bias, as well as risk considerations that will inform the trajectory of monetary policy.

Q: Has a soft-landing scenario become more likely?
A: The prospect of a soft landing, where inflation returns to target without a sharp economic downturn, has improved compared with a few months ago. This is thanks to the labor market coming into better balance and inflation moderating without impacting the economy. Indeed, the latest forecasts from the Fed moved significantly towards a soft-landing view. That said, our baseline remains for a recession due to various crosscurrents, including declining excess savings, the return of student debt payments, tightening credit conditions and rising energy prices. We expect the recession to start in Q1 next year and last for two quarters, with unemployment rising to around 4.5%. This would be mild from a historical perspective.

Q: Is the Fed done raising rates and when will it cut?
A: At the September FOMC meeting, the Fed signaled that one more rate hike this year is likely. Nonetheless, with inflation moderating quicker than anticipated, as well as some softening in growth, we believe the Fed is done raising rates. With the economy looking resilient in the near term, the Fed is likely to follow through on its "higher for longer" intentions, and not cut rates until mid-2024, when inflation has moved closer to the Fed's target and the labor market has loosened noticeably. Cumulatively, we expect 175bps of

cuts through 2024 and for the fed funds rate to approach its neutral level around 3% in early 2025.