



# The Fed Blew It. So Did The Consensus - Again!

## What Was The Fed Thinking?

Real growth when both the fed funds rate and the discount rate fall at least 50 basis points (1958 to 1998)

Quarter	Funds Rate	Qrtly Chg.	Disc. Rate	Qrtly Chg.	Real GDP
Q4 1970	4.90%	-1.4%	5.50%	-0.5%	-3.90%
Q1 1971	3.71%	-1.2%	4.75%	-0.7%	<b>11.30%</b>
Q4 1971	4.14%	-1.4%	4.50%	-0.5%	1.10%
Q1 1975	5.50%	-3.0%	6.25%	-1.5%	-5.40%
Q2 1980	11.00%	-6.0%	11.00%	-2.0%	-9.30%
Q4 1981	13.50%	-2.0%	12.00%	-2.0%	-4.90%
Q3 1982	10.00%	-4.0%	10.00%	-2.0%	-2.00%
Q4 1982	8.50%	-1.5%	8.50%	-1.5%	0.50%
Q4 1984	8.00%	-2.5%	8.00%	-1.0%	2.60%
Q2 1985	7.80%	-0.8%	7.50%	-0.5%	2.00%
Q3 1986	6.00%	-0.8%	5.50%	-1.0%	2.20%
Q4 1990	7.00%	-1.0%	6.50%	-0.5%	-4.00%
Q1 1991	6.00%	-1.0%	6.00%	-0.5%	-2.10%
Q4 1991	4.00%	-1.2%	3.50%	-1.5%	1.00%
Q3 1992	3.00%	-0.8%	3.00%	-0.5%	3.00%
<b>Q4 1998</b>	<b>4.75%</b>	<b>-0.5%</b>	<b>4.50%</b>	<b>-0.5%</b>	<b>5.60%</b>
			Avg.		-0.53%
			Pct Neg.		47%
			Pct. Below 2.5%		80%

Source: Logical Information Machines, Chicago IL

Note: There were no instances between 1958 and 1970

## Too Low Again!

GDP has beaten median estimate for 11 consecutive quarters (Estimate taken the week before the release)

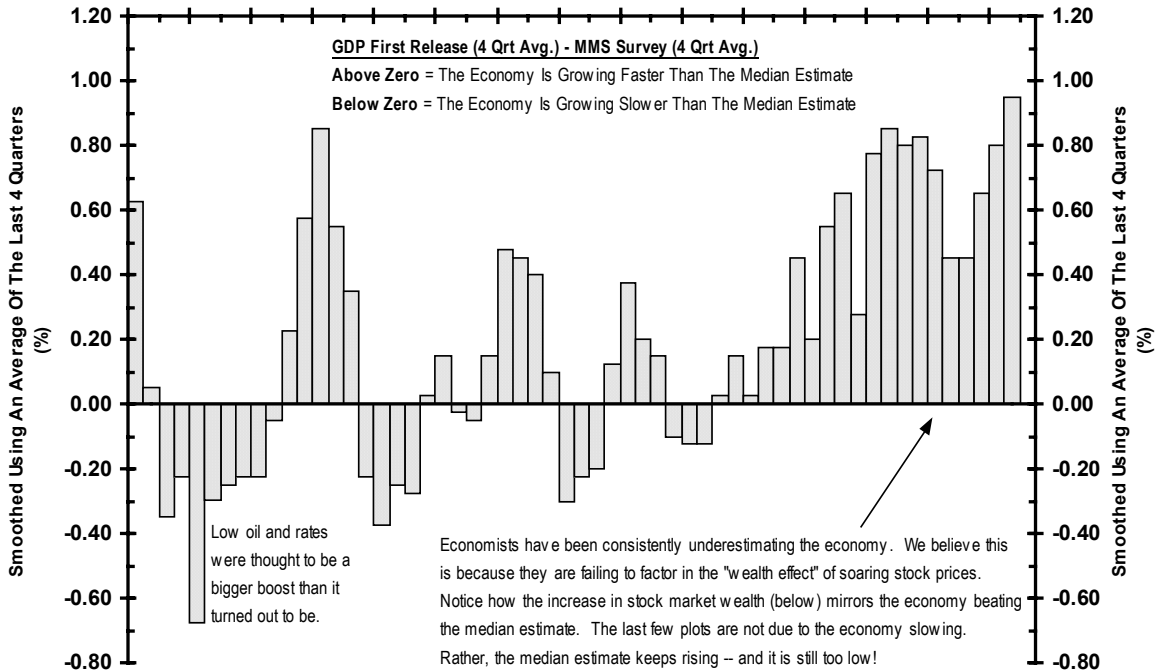
Quarter	GDP -- First Release		Difference (Act - Est)
	Actual	Estimate	
<b>Q1 1999</b>	<b>4.50</b>	<b>3.40</b>	<b>1.10</b>
Q4 1998	5.60	4.20	1.40
Q3 1998	3.30	2.20	1.10
Q2 1998	1.40	1.00	0.40
Q1 1998	4.20	3.50	0.70
Q4 1997	4.30	3.60	0.70
Q3 1997	3.50	3.20	0.30
Q2 1997	2.20	2.00	0.20
Q1 1997	5.60	4.00	1.60
Q4 1996	4.70	3.50	1.20
Q3 1996	2.20	2.00	0.20
<b>Q2 1996</b>	<b>2.20</b>	<b>2.30</b>	<b>-0.10</b>
<b>Q1 1996</b>	<b>0.50</b>	<b>0.90</b>	<b>-0.40</b>

MMS Survey taken the week before the release

# Are Economists Missing The "Wealth Effect"

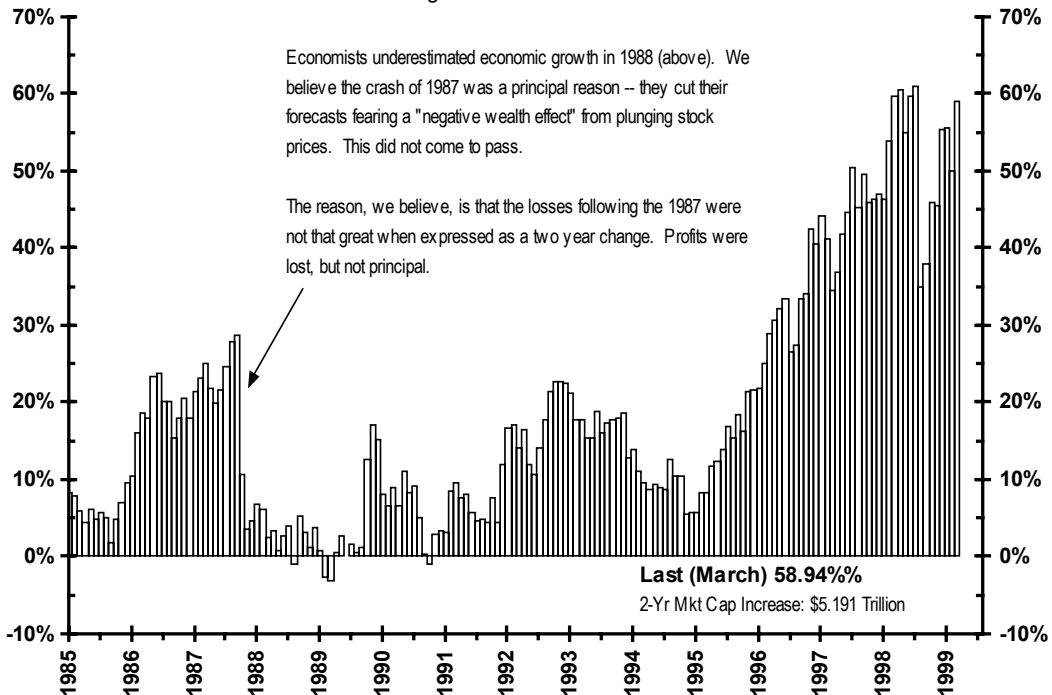
## GDP Reality vs Perception: Actual GDP Minus MMS Median Estimate Survey

Economists Continue to Underestimate the Economy

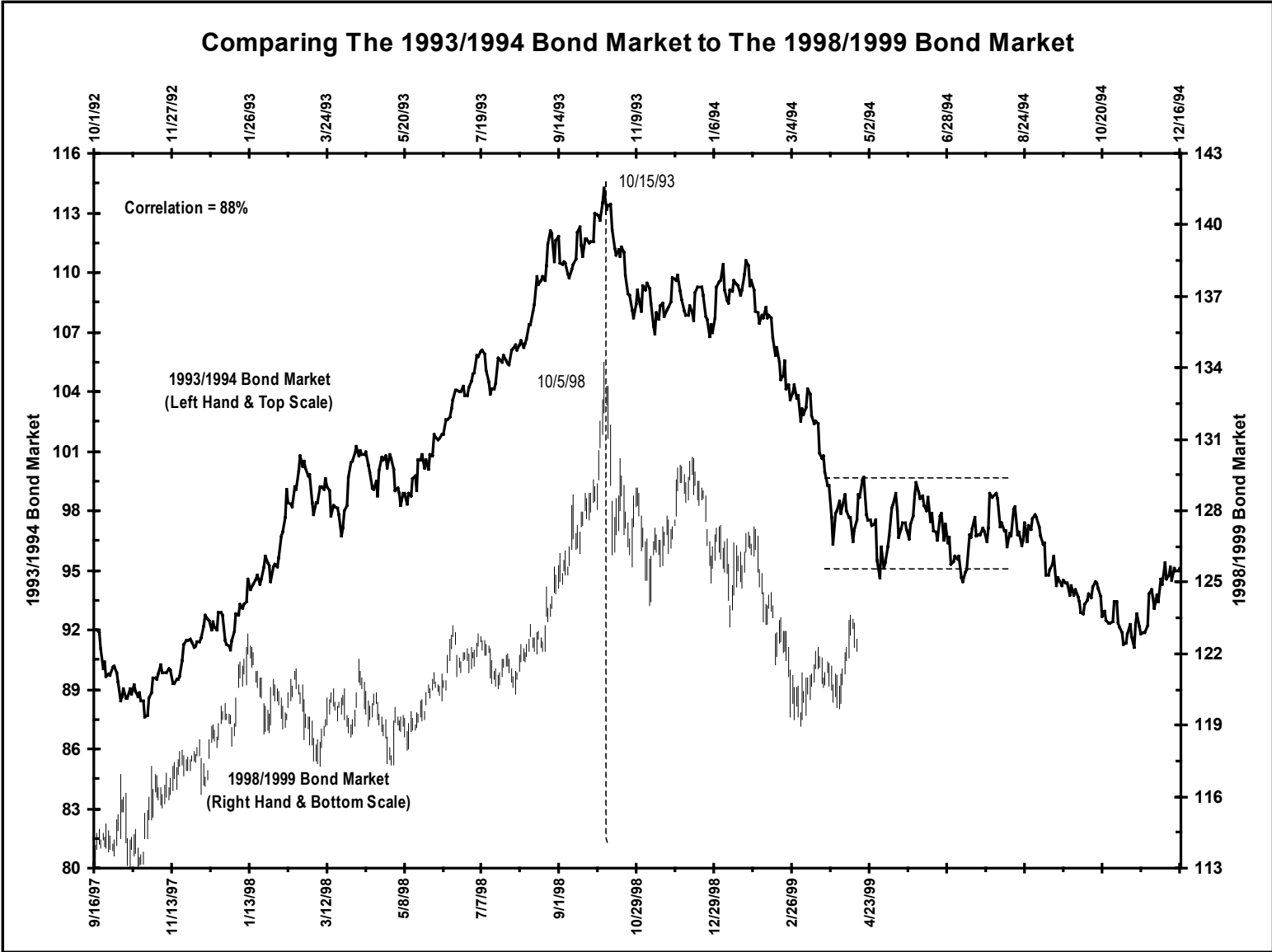


## 2 Year Increase in the Stock Market's Capitalization as a % of Nominal GDP

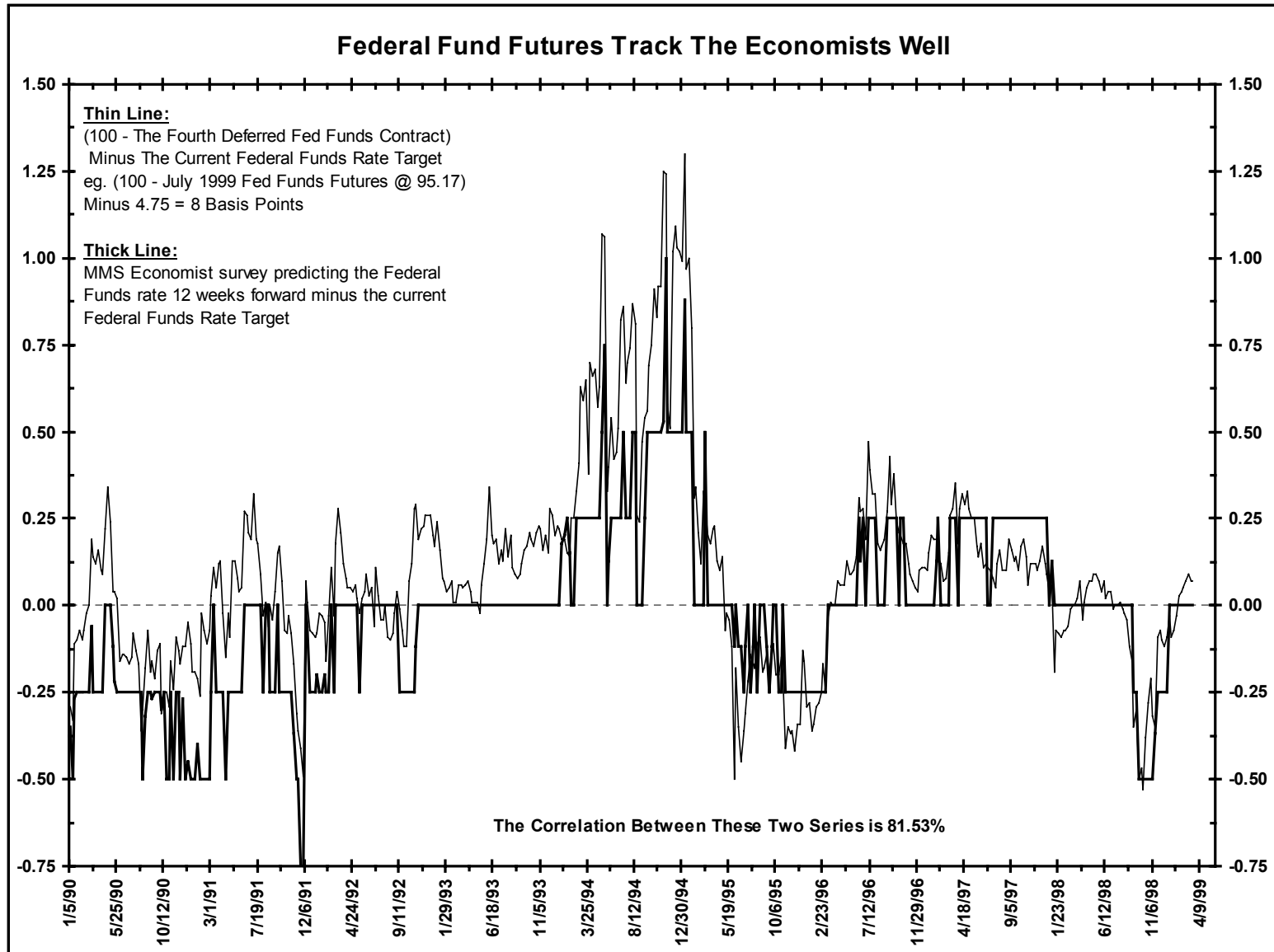
The Largest Creation of Wealth Ever



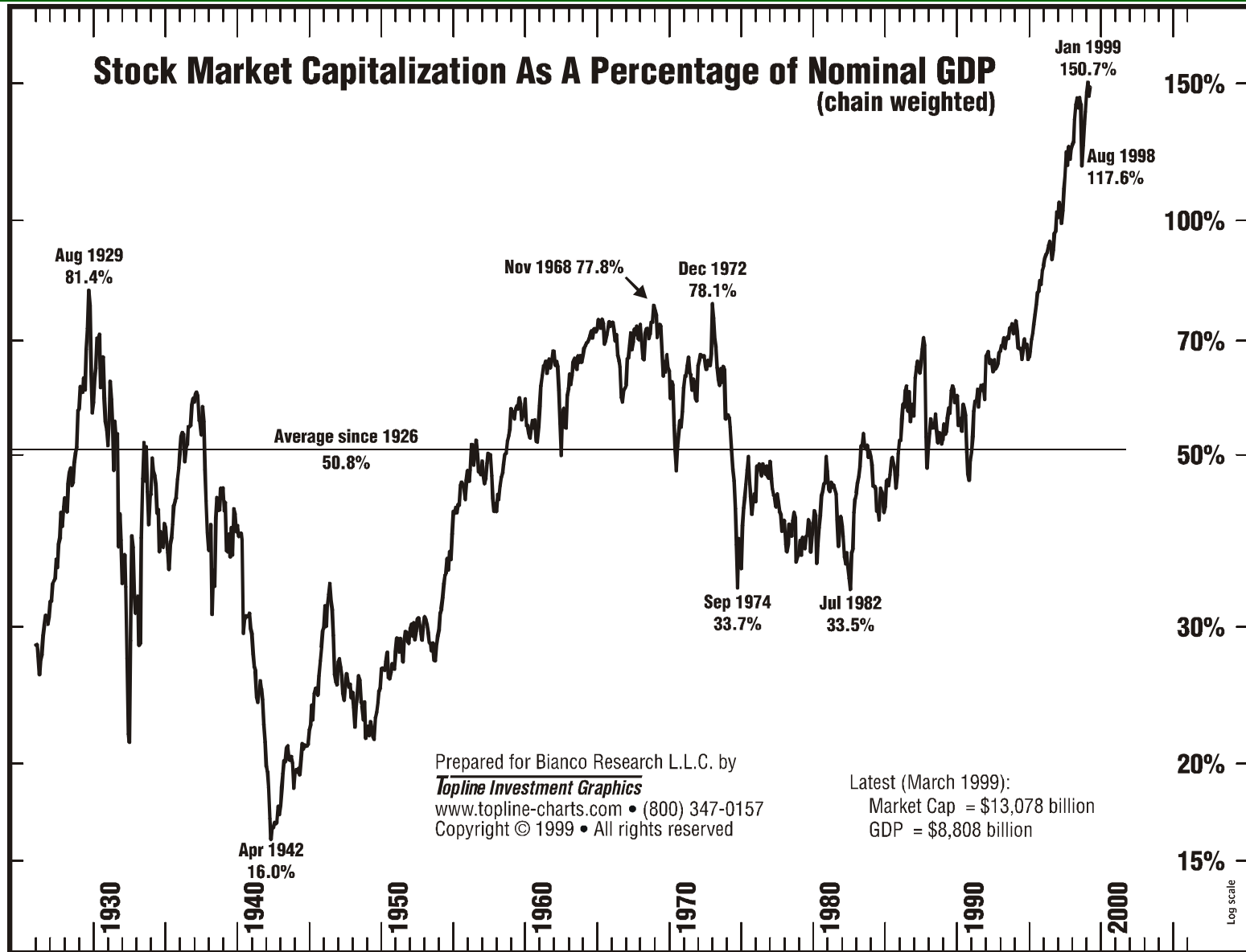
# 1993/1994 vs. 1998/1999



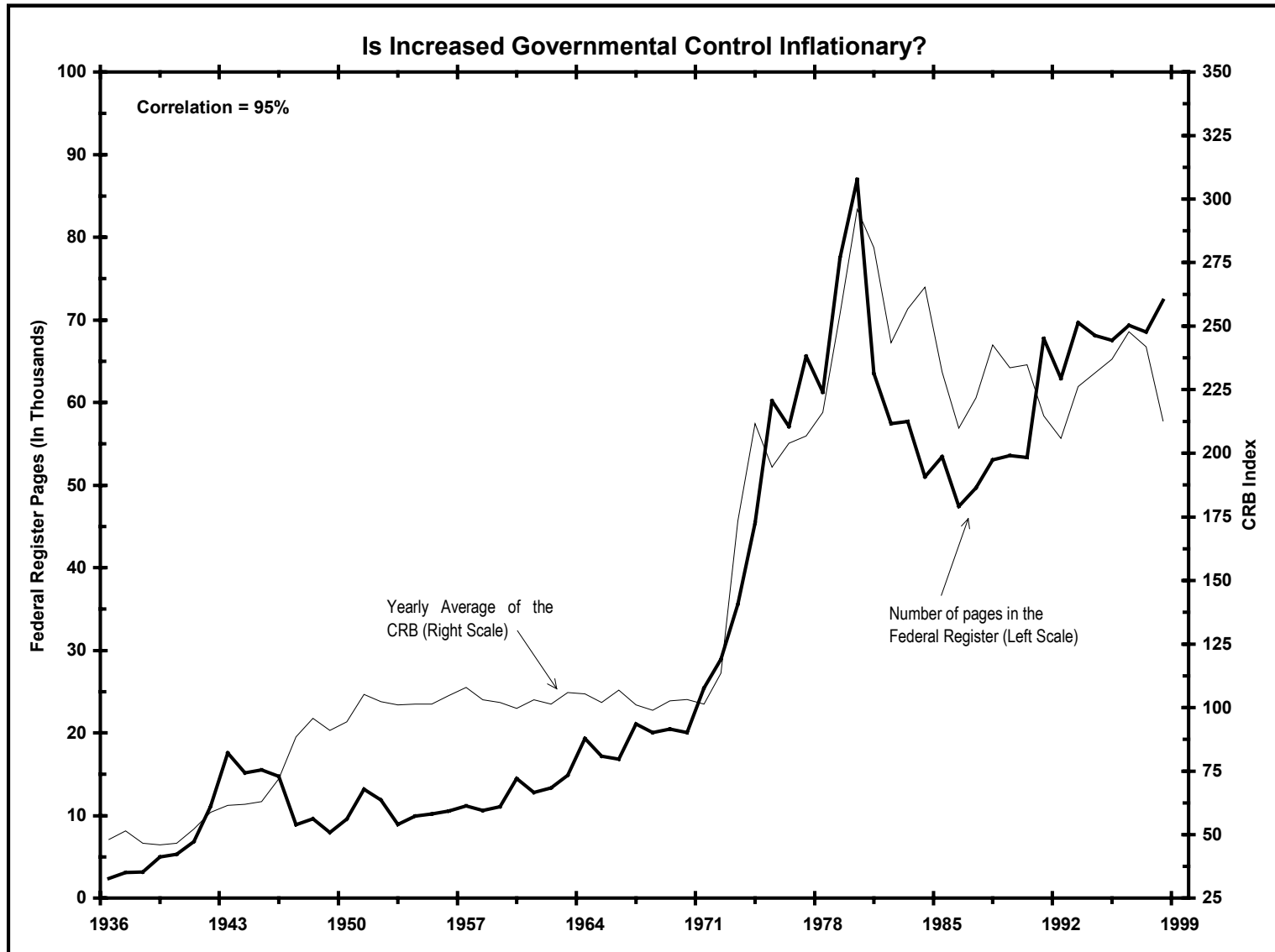
# Federal Funds Futures as an Indicator



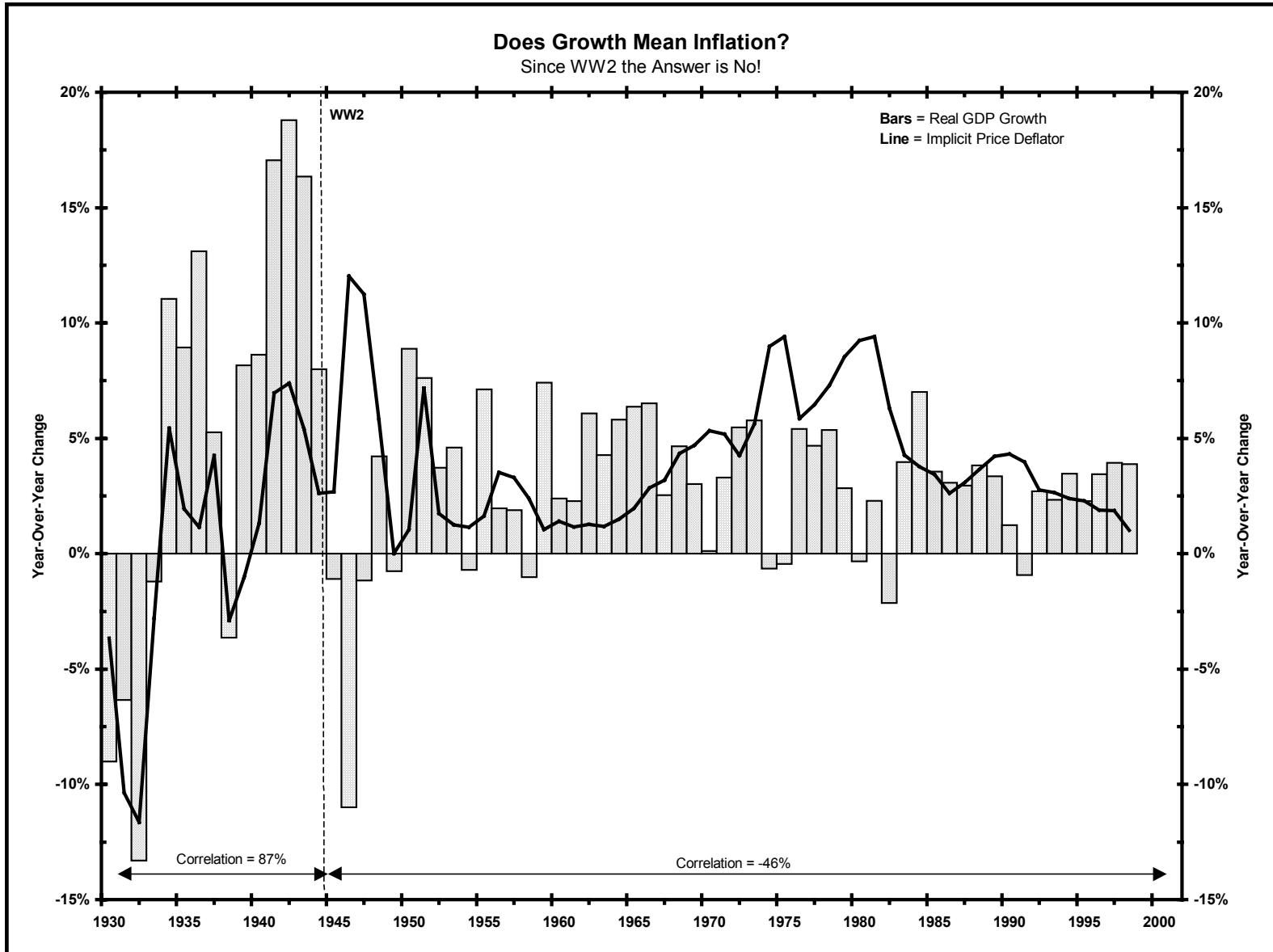
# Measuring The Wealth Effect



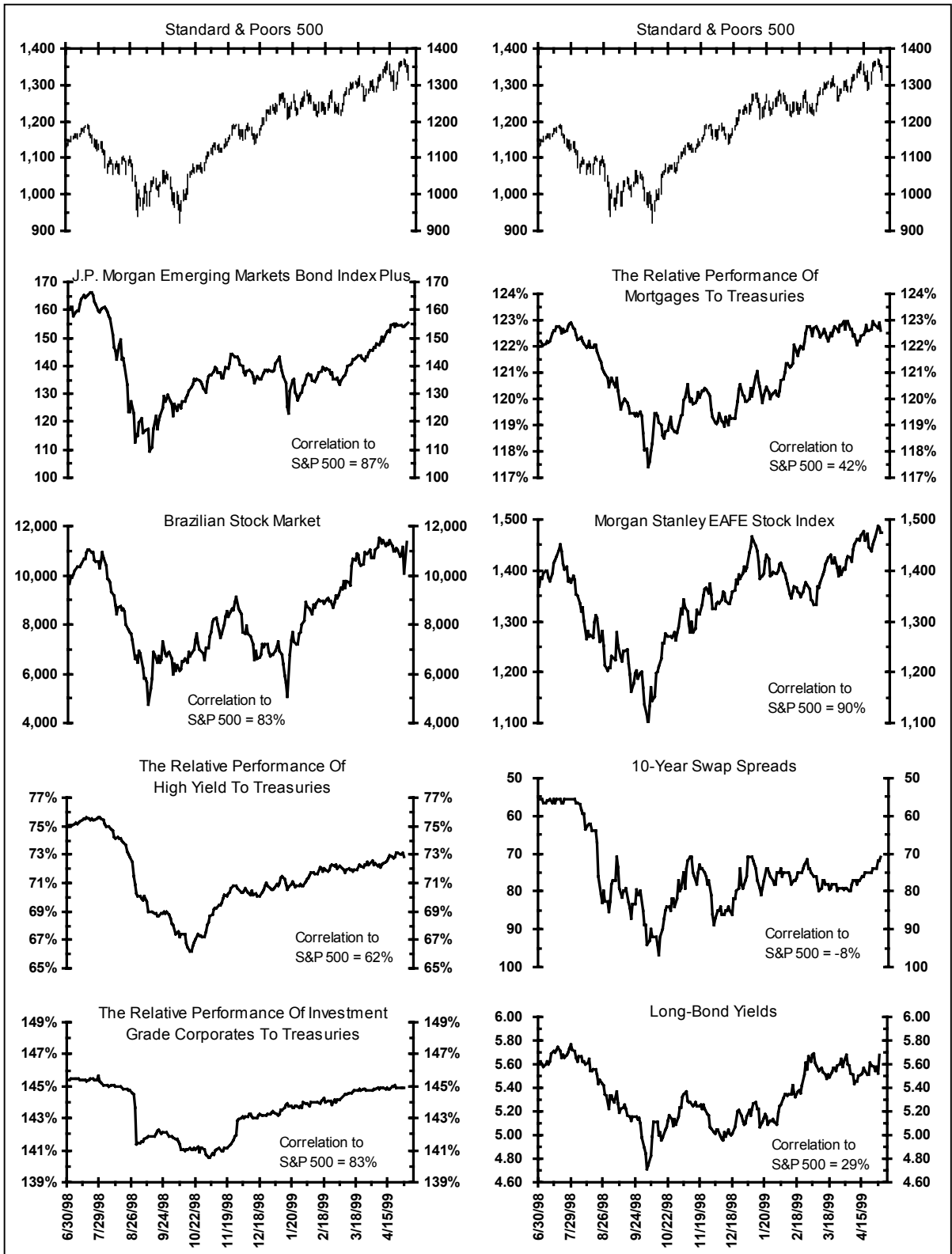
# The Federal Register and the Bridge/CRB



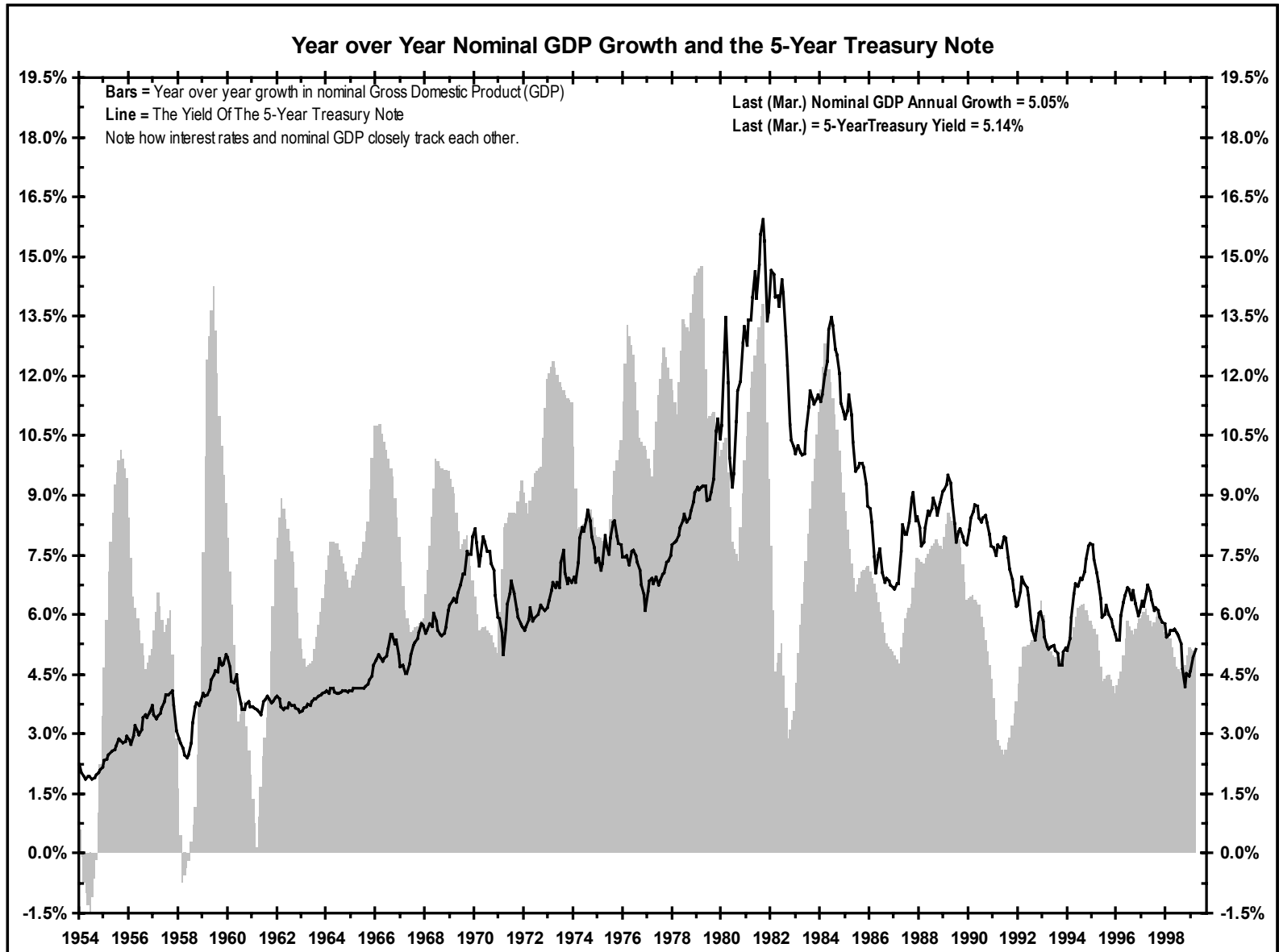
# Does Growth Mean Inflation?



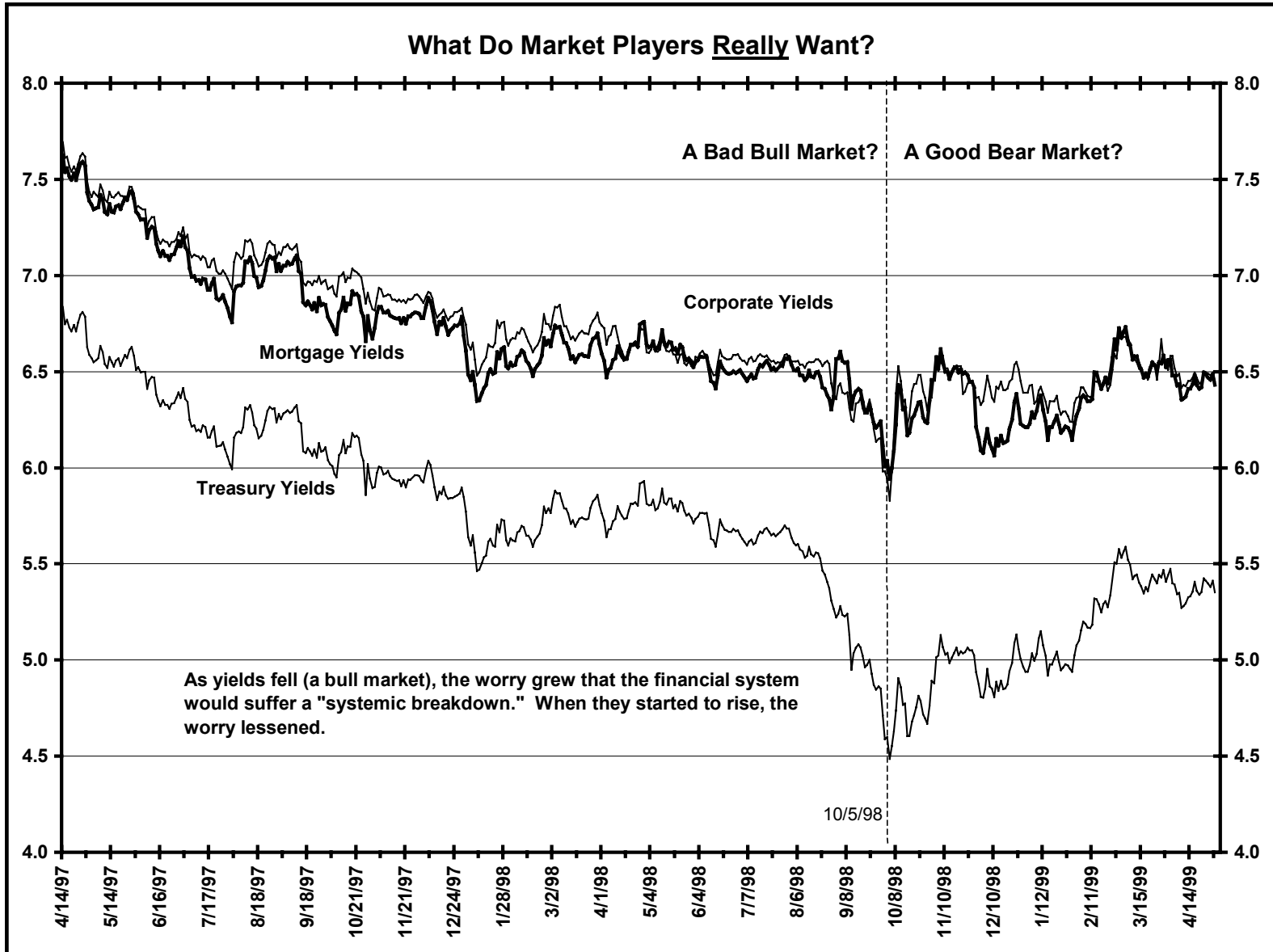
# Are All Markets The Same?



# The Best Measure Of Interest Rate Valuation



# A Bad Bull Market?



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