U.S. NEWS

Professor Beat the Field in 2023 Forecasts

By Anthony DeBarros And Harry Carr

In a year where the economy was unusually hard to forecast, it seems fitting that The Wall Street Journal's most accurate forecaster hailed not from a big financial house but rather a small, Catholic liberal-arts university in Texas.

Belinda Román, associate professor of economics at St. Mary's University in San Antonio, topped a panel of 71 business, academic and financial economists who participated in the Journal's quarterly economic forecasting survey in January 2023. A set of her forecasts ranked closest to the actual values reported at year's end by the federal government.

Whereas many forecasters, and the Federal Reserve, foresaw a 2023 with anemic growth and unemployment above 4%, Román expected something different.

"I didn't see that we were going to have zero growth. I thought that was way too pessimistic," Román said. Given the Covid-19-related federal stimulus pumped into the economy, she said, "I didn't feel that we had lost some of that momentum yet, and to forecast very low or zero growth just didn't seem right."

Román is bullish, once again, on 2024, expecting much stronger economic growth and job gains than the consensus. She also sees higher inflation, but lower interest rates, than her peers. The early data seem to bear that optimism out: Job growth in January was much stronger than economists expected.

Román was similarly bullish at the start of 2022, which in hindsight was too early a call. But her January 2023 forecasts, far enough from the consensus to appear excessively optimistic, now seem prescient.

Her forecast of 2.8% GDP growth in 2023—based on the inflation-adjusted change in the fourth quarter from a year earlier—was closest among economists to the 3.1% reported by the Commerce Department last month. That figure may be revised. The average forecast in the Journal's January 2023 survey: 0.2%.

Román's forecast for the unemployment rate in December 2022, at 3.4%, was among the closest to the 3.7% actual rate and well below the panel's consensus of 4.7%. The midpoint of the Federal Reserve's target for the federal-funds rate ended the year at 5.375%. Román forecast 5.25%, closer than the consensus of 4.71%.

Román joined the Journal's survey in 2021. Before St. Mary's—where she has taught for 13 years—she was a professor at Palo Alto College in San Antonio and worked for several nonprofits and private firms. In college, Román studied pre-med until a professor in a summer class at the University of Texas at El Paso inspired her to switch careers by sharing how economics can help shape public policy. She earned her doctorate from the University of Western Ontario, in Canada, following interdisciplinary work combining Hispanic studies, multi-agent simulations and game theory.

Her forecast methodology? Román said she relies on moving averages and trend lines rather than models, and asks herself what story the data is telling—a tactic she often relays to her students at St. Mary's, the oldest Catholic university in the Southwest.

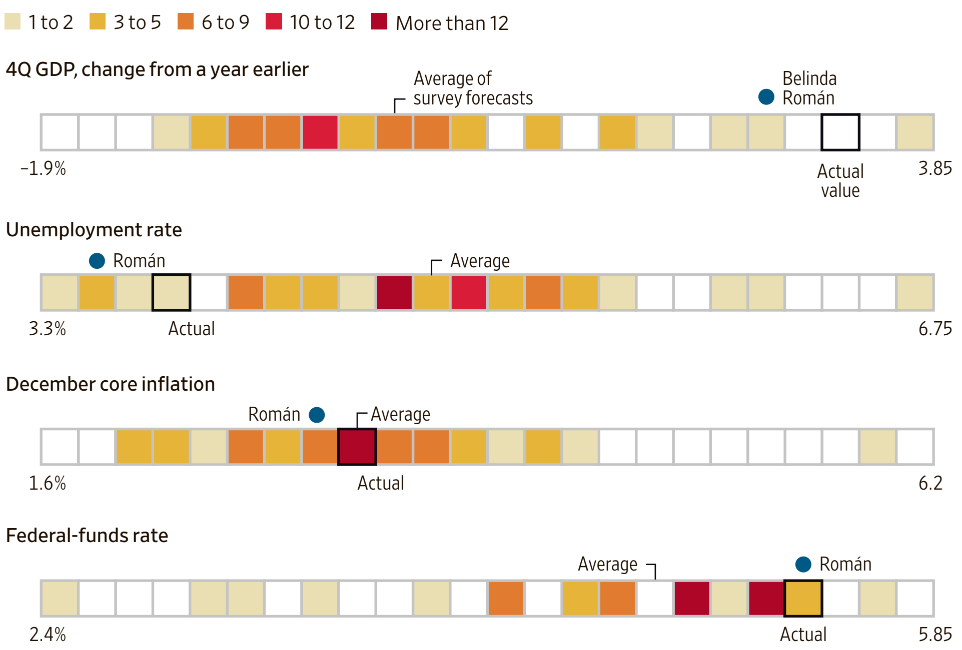
"A lot of students, they get lost in the technical, the mathematical, and they forget that there's a story with humans involved," she said. "The math is great, but it's people that we're talking about. People in the form of businesses, in the form of communities, in the form of countries. So we've always got to keep that in our mind as we're doing the work."

The Journal's rankings were based on forecasts in January 2023 for four key indicators: the midpoint of the federal-funds rate at the end of 2023; the unemployment rate in December 2023; real GDP growth in the fourth quarter of 2023 versus the same quarter a year earlier; and inflation in the fourth quarter of 2023 compared with the same quarter a year earlier as measured by the personal-consumption expenditures price index excluding food and energy. Seventy-one economists participated in the January 2023 survey (two who didn't submit forecasts for all four indicators were excluded).

To rank the economists, the Journal calculated the absolute difference between each economist's forecast and the actual value for each indicator. Then, for each indicator, those differences were standardized to produce z-scores, which measure how far a value is above or below the average of the values relative to how widely dispersed the values are.

This allows us to accurately reflect how each economist's forecasts performed for each indicator against the competition, factoring in how widely dispersed those forecasts are. Finally, each economist's four z-scores were averaged to produce a composite score for the overall rankings. The Journal last ranked economists for their 2018 forecasts, under a different methodology.

Distribution of forecasts made January 2023



Note: GDP is the change in seasonally adjusted fourth quarter level from a year earlier. Unemployment rate is seasonally adjusted December value. Inflation is change in the seasonally adjusted fourth quarter PCE price index, excluding food and energy, from a year earlier. Federal-funds rate is the midpoint of the target range.
Sources: WSJ Survey of Economists (forecasts); St. Louis Federal Reserve (actual values)

CANDICE L DAQUIN

Belinda Román

Powell: Fed Focus Now Is When to Cut Rates

By Nick Timiraos

Federal Reserve Chair Jerome Powell said the central bank has shifted its focus toward deciding when to begin cutting interest rates, but that solid economic growth means officials didn't have to rush that decision.

Given recent economic strength, "we feel like we can approach the question of when to begin to reduce interest rates carefully," Powell said during a rare television interview broadcast on CBS on Sunday night.

Powell, speaking on "60 Minutes," said officials were trying to balance the risks of leaving rates too high for too long, which could cause an economic slowdown, and of cutting rates too soon and allowing inflation to settle above the Fed's 2% goal. The interview was taped Thursday from the Fed's Washington headquarters.

"There is no easy, simple, obvious path," Powell said. "We think the economy's in a good place. We think inflation is coming down. We just want to gain a little more confidence that it's coming down in a sustainable way."

The central bank held its benchmark federal-funds rate steady last week in a range between 5.25% and 5.5%, the highest level in more than two decades.

A year ago, many economists and some inside the Fed anticipated that the central bank would have to raise rates to levels that would likely lead to higher unemployment, risking a recession.

But economic growth has shown surprising resilience even as wage and price increases have slowed, suggesting officials might be able to achieve a so-called "soft landing" that avoids a sharp downturn.

During his television appearance that aired Sunday, Powell repeated his view that the Fed wouldn't need to wait until inflation fell all the way to its 2% goal to begin cutting rates.

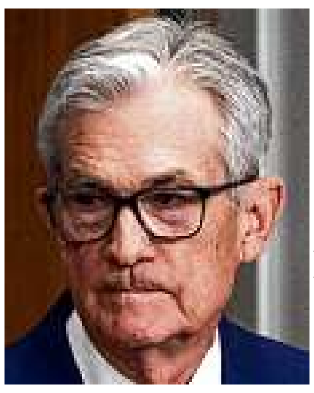
He also said he expected 12-month inflation rates to continue declining in coming months since they'll be lapping much more elevated levels from a year ago. As those higher readings are replaced with lower ones, "you will see the 12-month inflation readings coming down over the course of this year," he said.

Still, Powell said it was too soon to say the economy had achieved a soft landing. "We have work left to do on this," he said in his first appearance on the show since 2021.

Sunday's interview comes ahead of what is likely to be a fraught political season for the Fed. Last week, former President Donald Trump said that if re-elected in November, he wouldn't reappoint Powell when his four-year term as chair expires in 2026. Trump named Powell as Fed chair in 2018, then later mused about firing him for keeping interest rates too high. President Biden named Powell to a second term as chair in 2022.

Powell has met frequently with lawmakers of both parties during his tenure as part of his efforts to protect the Fed's reputation as an apolitical institution. He underscored that point during his interview for Sunday's broadcast, saying that the Fed doesn't consider politics in its decisions.

"We never do, and we never will," he said. "Integrity is priceless, and at the end, that's all you have. And we plan on keeping ours."



JULIA NIKHINSON/AFP/GETTY IMAGES

Fed Chair Jerome Powell

DENNIS SCHNEIDLER-USA TODAY SPORTS/REUTERS

New Jersey Gets World Cup Final

The 2026 World Cup final is heading to MetLife Stadium in northern New Jersey, home of the National Football League's New York Jets and Giants.

FIFA, soccer's world governing body, made the announcement Sunday as it unveiled the schedule for the largest tournament in World Cup history: 16 venues across Canada, Mexico and the U.S. with an unprecedented 48 teams and 104 matches.

Dallas had been seen as a viable option for the final, according to people familiar with the process, but lost out to MetLife. Instead, AT&T Stadium in Arlington, Texas, will host more matches than any other venue, nine.

—Joshua Robinson

Citigroup Targets the Ultrarich

Continued from Page One

used Smith Barney to build a wealth behemoth with $5 trillion in client assets.

Citi was left with a hodgepodge of wealth businesses a fraction of that size. They include the high-end private bank, a lower-end business called Citigold for retail customers and another operation catering to lawyers and other professionals.

Fraser combined these operations in 2021, hoping to improve results. Instead, the business fell behind revenue targets, the Journal reported last year. "We've been disappointed," Chief Financial Officer Mark Mason said of the business at an investor conference in December.

Citi in January broke out the unit's earnings for the first time in years: It earned $5 million in the fourth quarter and $346 million for the full year, a 64% drop from 2022. The division's return on tangible common equity was 2.6% for the year, far below similar profit measures at rivals.

"When you have results that look like the fourth-quarter results, there's a premium on taking decisive action," Sieg said.

A central Pennsylvania native and the middle of three brothers with top jobs in finance, Sieg, 56 years old, previously worked at Citi from 2005 to 2009. He left for Bank of America, which bought Merrill in 2009, and was promoted to run that business in 2017.

At Merrill, his job involved hobnobbing with top Wall Street figures whose firms sold products through the wealth manager and overseeing Merrill's advisers around the U.S.

The Citi role, which he started in September, is far more international: Nearly half of the unit's revenue comes from abroad. Sieg has spent weeks in offices in Asia and Europe. At an office in Singapore, local private bankers had him roll a pineapple for good luck.

Sieg is taking aim at the culture that led to poor results. He told staffers at a town hall meeting to manage-up less, which led to a flood of supportive emails from those who tuned in.

Fixing the business won't be easy. Other banks large and small are trying to expand in the same area. And the focus on cutting will likely make it hard to put together the pay packages required to hire top producers away from competitors.

Citi has been struggling to right itself since the financial crisis. Its shares are 89% below where they were in early 2007.

In recent months, CEO Fraser announced a reorganization across the bank that eliminates layers of management and cuts 20,000 jobs. The heads of the bank's five businesses, including Sieg, now report directly to her.

Fraser's overarching plan is to increase the profitability of each client by pitching them more of the bank's services. Selling wealth management to corporate CEOs and founders who are already Citi customers for other services is a key part.

Sieg plans to trim "several hundred million" in annual costs from his unit, which had $6.6 billion in expenses last year. The unit is laying off over 1,000 staffers as part of the broader cuts, people familiar with the matter said.

The bank also is re-evaluating some far-flung projects. A program to provide bank accounts to customers of brokerage firm Edward Jones and independent investment advisers was quietly scrapped. Sieg also killed an initiative to provide services like debit cards for private-banking clients in the U.K.

"There's a lot to do. It still feels like a lot of their clients use them for a little bit of their wealth, but not all of their wealth," said Jason Goldberg, an analyst at Barclays who covers Citi. Global wealth is projected to grow at a rate that could make the turnaround plan work, however, he said.

Sieg thinks the business is too focused on making loans and taking deposits. In a higher-rate world, rich people have been curtailing their borrowing and demanding more interest on deposits. Sieg wants clients to bring over more of their investments, on which the bank can earn management fees.

Citi has $1 trillion in client balances, a metric that includes investments, deposits and loans, but those clients have $5 trillion of investments elsewhere, he said. The bank is starting to track the amount of new assets clients bring to the bank, and private bankers' bonuses are now more heavily weighted toward investments they bring in.

Sieg also wants to sell wealth products to more customers in Asia. Citi is the only large U.S. bank with branches in Singapore and Hong Kong, a vestige of its empire-building days that he thinks helps its reputation with local customers.

"They see Citi as the No. 1 wealth business, which is interesting because today, it's not," he said.

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