MNI Fed Preview: September 2021

Meeting Dates: Tue-Wed, 21-22 September
Decision/Statement/Summary Of Econ Projections: Wed 22 September at 1400ET / 1900BST
Press Conference/Q&A: Wed 22 September at 1430ET / 1930BST

Minutes: Wed 13 Oct

Links (likely URLs based on previous meetings):

> **Statement:** https://www.federalreserve.gov/newsevents/pressreleases/monetary20210922a.htm
> **Summary of Econ Proj:** https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20210922.htm
> **Implementation note (if applicable):**
> https://www.federalreserve.gov/newsevents/pressreleases/monetary20210922a1.htm
> **Press Conference:** https://www.federalreserve.gov/monetarypolicy/fomcpresconf20210922.htm

MNI Review of Previous FOMC (Jul): https://roar-assets-auto.rbl.ms/documents/11353/FedRevJul2021.pdf

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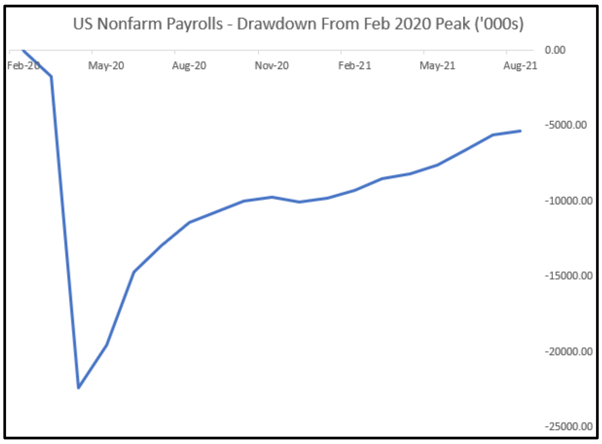
MNI POV (Point Of View): Consider This "Advance Notice"

By Tim Cooper

- *The September FOMC meeting will set up a taper start in late 2021, increasingly likely in November.*
- *While details of the FOMC's taper plan may not emerge from this meeting, a taper is likely to include $15B/meeting pace and optionality to adjust at each meeting, opening up the possibility of an end-2022 rate hike.*
- *Consensus expects the median Fed funds rate 'dot plot' path to remain fairly static at this meeting vs the June projections, setting up hawkish risks.*

The September FOMC won't bring a final decision on tapering, and consensus has coalesced around a November announcement. That means the focus at this week's meeting will be the requisite formal "advance notice" that Chair Powell has previously pledged before the FOMC began reducing net asset purchases from the current $120B/month.

The September meeting had arguably been a "live" meeting for a potential taper announcement until Powell's Jackson Hole speech on Aug 27 when he said a taper start "could be appropriate…this year", conditional upon incoming jobs data (he said he and most on the FOMC saw the "substantial further progress" test for inflation having been met, with Powell noting "clear progress" toward maximum employment). Which while confirming a 2021 timeline, was a subtle push-back on an announcement at the next meeting ("this year", not "soon" or "next month").



And with a half-million job miss vs expectations in the August payrolls report out Sept 3, it became fairly clear that "most" of the FOMC would remain unpersuaded that the labor market had made sufficient progress in time to taper at the Sept 21-22 meeting. (See our FOMC Communications summary for more.) Though a solid jobs September report would probably be enough "progress" for the November meeting.

Going into the September meeting, there are no sell-side analysts (of the 30 notes we read – see our Analysts Summary) **who expect a formal September taper announcement**, with consensus now eyeing November (again, a sufficiently September jobs report permitting). That means the focus this Wednesday will be on changes in the Statement pointing to an imminent taper, as well as the FOMC's current view of the rate hike outlook from the new set of quarterly economic projections.

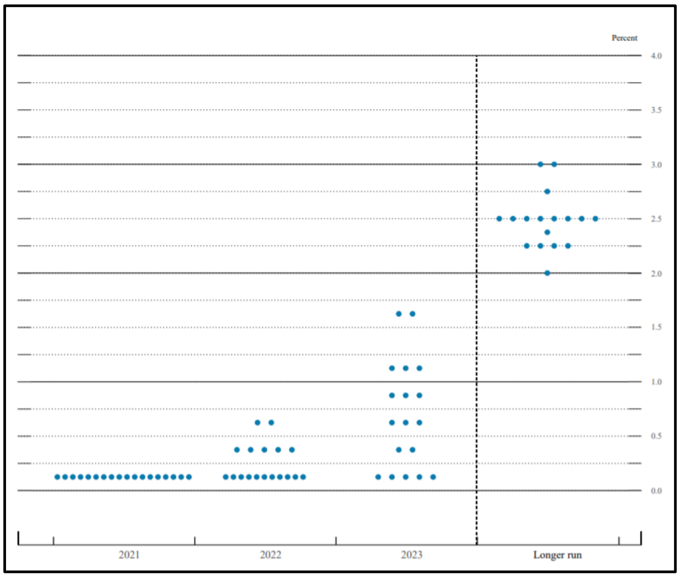
Statement: Eyeing Advance Notice

The main thing to watch in the statement is the language on meeting "substantial further progress" required for tapering, and any associated "advance notice" nod to a taper later this year.

- Powell's Jackson Hole speech probably contained the basic new phrasing that we will see in the September statement, that "if the economy evolved broadly as anticipated, it could be appropriate to start reducing the pace of asset purchases this year". NY Fed's Williams echoed this language almost exactly in early September.
- Note the conditionality (if things go as planned) and the "this year" meaning there's optionality to go in November or December.
- **A hawkish risk is if they go for a more ambiguous "soon"** (could be interpreted as leaning more to Nov) or the less-likely "next meeting". Leaning more dovish would be a reference to "upcoming meetings", which wouldn't necessarily preclude a 2022 start.
- **If there's no change in language at all on this front, it would be very dovish**, signalling that the FOMC either hasn't reached consensus or wants to downplay a commitment on the taper timeline.
- **More neutral than this would be changes on assessing "progress" toward the goals** – from the July Minutes and multiple Fed speakers including Powell, participants have generally accepted that sufficient progress has been made on inflation, and while there's still some room to go on employment, as Powell put it, they've made "clear progress". So while it would be another clear step toward the taper, it shouldn't be a revelation.

Dot Plot: Hawkish Risks

The new Summary of Economic Projections introduces 2024 forecasts for the first time. The risks lean hawkish from the refreshed Dot Plot – the June edition of which is at right. While of course the usual disclaimer applies that the dot plot is not an FOMC forecast per se (and Powell is likely to downplay its importance again in the press conference), recall that the rise in the 2023 dots at the June FOMC met with a hawkish reaction.



- **For 2022, the median in the June SEP was for unchanged rates (0.125%), with 7 of 18 participants seeing liftoff.** If 2 join them this time, the median would rise (12.5bp hike median to 0.25%); 3 for a full hike.
- This seems a fairly low bar, and a move higher in the 2022 median would be met very hawkishly in our view. First, very few sell-side analysts have a move higher in the 2022 median as a base case scenario, and some even see potential for some dots to shift lower, so it's well out of consensus. Second, it would suggest that at least half of the FOMC are increasingly eyeing liftoff despite recent mixed data – which not only points to tighter short-end rates, but also potentially means that there's broader acceptance of an earlier, faster taper process. While it's true that incoming data haven't been as surprising to the upside since the June FOMC, the increasing inevitability of the taper could focus (at least two) minds on the next step.
- **We'd pencil in 8 2022 hiking dots for this SEP:** Kaplan, Bullard, Bostic, Rosengren, Waller, George, Quarles, and Mester. The main 'swing' dot on top of that is probably Harker, who said in late August that he saw a hike potentially in late 2022 or early 2023.

- For 2023, the median in June was for 2 hikes (0.375%), with only 5 participants on hold. Among many permutations: if one of them or the two 1-hikers joins the 3-hike camp, the median would shift up a half-hike; if 2 or more, we'd see another full hike priced. 2024 is a new set of projections, but watch for the pace of tightening: consensus is that we see 2-3 hikes vs 2023 in the dots. Our Policy Team has insight from ex-Fed officials on why the signalled pace may turn out to be faster than expected (**MNI: Fed Dots To Signal Faster Tightening Cycle - Ex-Officials**).

- **For the macroeconomic projections, there's relatively less to watch.** It's a given that the 2021 GDP forecast will be revised down from 7.0% in June, with core PCE revised up from 3.0%. But these are mark-to-market changes, and we would venture that few on the FOMC would be willing to make major forecast changes vs June at this juncture. Perhaps most notable will be the 2022-23 core PCE price forecasts, which could reveal how "transitory" many participants see recent inflation dynamics.

JUNE 2021 FOMC: Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy. Source: Federal Reserve

Percent

Variable	Median[1]				Central Tendency[2]				Range[3]			
	2021	2022	2023	Longer run	2021	2022	2023	Longer run	2021	2022	2023	Longer run
Change in real GDP	7.0	3.3	2.4	1.8	6.8–7.3	2.8–3.8	2.0–2.5	1.8–2.0	6.3–7.8	2.6–4.2	1.7–2.7	1.6–2.2
March projection	6.5	3.3	2.2	1.8	5.8–6.6	3.0–3.8	2.0–2.5	1.8–2.0	5.0–7.3	2.5–4.4	1.7–2.6	1.6–2.2
Unemployment rate	4.5	3.8	3.5	4.0	4.4–4.8	3.5–4.0	3.2–3.8	3.8–4.3	4.2–5.0	3.2–4.2	3.0–3.9	3.5–4.5
March projection	4.5	3.9	3.5	4.0	4.2–4.7	3.6–4.0	3.2–3.8	3.8–4.3	4.0–5.5	3.2–4.2	3.0–4.0	3.5–4.5
PCE inflation	3.4	2.1	2.2	2.0	3.1–3.5	1.9–2.3	2.0–2.2	2.0	3.0–3.9	1.6–2.5	1.9–2.3	2.0
March projection	2.4	2.0	2.1	2.0	2.2–2.4	1.8–2.1	2.0–2.2	2.0	2.1–2.6	1.8–2.3	1.9–2.3	2.0
Core PCE inflation[4]	3.0	2.1	2.1		2.9–3.1	1.9–2.3	2.0–2.2		2.7–3.3	1.7–2.5	2.0–2.3	
March projection	2.2	2.0	2.1		2.0–2.3	1.9–2.1	2.0–2.2		1.9–2.5	1.8–2.3	1.9–2.3	
Memo: Projected appropriate policy path												
Federal funds rate	0.1	0.1	0.6	2.5	0.1	0.1–0.4	0.1–1.1	2.3–2.5	0.1	0.1–0.6	0.1–1.6	2.0–3.0
March projection	0.1	0.1	0.1	2.5	0.1	0.1–0.4	0.1–0.9	2.3–2.5	0.1	0.1–0.6	0.1–1.1	2.0–3.0

Taper Considerations

The Fed is mulling multiple possible configurations for tapering. It's unclear whether any details of the FOMC's preferred tapering plan will be revealed at the September meeting (but there are some sell-side analysts who expect some information if not a full-blown plan to be unveiled either in an accompanying statement, Powell's press conference, or perhaps later in the minutes). A detailed plan unveiled this week would be hawkish as it would confirm (rather than merely suggest) that the taper is imminent, though the details are essential. Here is a rundown of the key considerations:

- **Start timing:** Assuming the taper will begin this year should the economy evolve as the Fed expects, with asset purchase operations being announced by the NY Fed mid-month, that probably means the first actual reduction in purchase pace size will take place starting mid-Nov or mid-Dec (the next FOMC decisions are on Nov 3 and Dec 15).

- **Pace:** The debate here is over both size and frequency of the taper reduction. The overwhelming consensus is that the FOMC will eventually opt for a $15B pace of reduction, which if done 8 times, will whittle the $120B in purchases down to zero. There is some debate over the size of reduction (Bullard for example has suggested a $30B pace), but it's unclear whether there is any more widespread support for such a large move.

- A 'straight' taper ($10B Tsy / $5B MBS per meeting / month) reduction would imply an 8-meeting/or month timetable to bring net purchases to zero. The distinction between per-meeting and per-month is important: with 8 meetings a year held on average every 6 weeks, it would take 12 months to get to zero purchases, vs 8 months on a per-month basis.

- **Composition:** Whatever the pace, it looks clear that the FOMC won't favor running down MBS purchases proportionally faster than Treasuries, as has been floated by Boston Fed's Rosengren. So if it's $15B per reduction, it's likely to be $10B Tsy / $5B MBS. From the July FOMC minutes: "Most participants remarked that they saw benefits in reducing the pace of net purchases of Treasury securities and agency MBS proportionally in order to end both sets of purchases at the same time."

The approach that emerges is likely to be a taper announced in November, starting in mid-November, with simpler 'straight' $15B/meeting ($10B Tsy/$5B MBS), but with optionality to adjust purchase pace at each meeting.

- It has the appeal of simplicity – cited as desirable by some regional presidents like Philadelphia's Harker and Richmond's Barkin - in communicating the rationale behind the starting composition, while preserving the ability to change course midstream if need be. That may be important for some FOMC members who see the outlook as unusually uncertain.

- **That puts the end-taper timeline sometime around Sept 2022** – which leaves time for the FOMC to have the option of a Fed funds rate liftoff by the end of that year. Note from the July FOMC minutes: "Many participants saw potential benefits in a pace of tapering that would end net asset purchases before the conditions currently specified in the Committee's forward guidance on the federal funds rate were likely to be met."

- **A faster-than-expected pace** (either a per-month or higher than $15B reduction pace) would be hawkish vs expectations, not just for what it implies about Treasury purchases themselves, but also the suggestion that the FOMC is keen to stop buying assets and begin the pivot toward raising rates sooner rather than later.

MNI Instant Answers:

The questions that we have selected for this meeting are:

- Changes to Fed Funds / Interest Rate Paid on Excess Reserves (IOER) / ON RRP?
- Does the Fed announce changes to asset purchases with regard to size, duration, and/or Tsy vs MBS?
- Median projection of Fed funds at the end of 2022/2023/2024/Long Run?
- How many 2022 and 2023 dots are above 0.125%?
- Does the FOMC change the sentence "Since then, the economy has made progress toward these goals, and the Committee will continue to assess progress in coming meetings"?
- Does the FOMC say it expects to meet "substantial further progress" "this year" or "soon/relatively soon" if the economy evolves as expected?
- Does the FOMC give any details of its tapering plan?
- Any dissents to the decision?

(Formerly Human Readable Algo) The markets team have selected a subsection of questions we think could be most market moving and will publish the answer to all of these questions within a few seconds of the Fed statement being released. These questions are subject to change; clients will be informed of any changes via our Edge and Bullets services. **A comprehensive list of questions is available on the MNI Monitor (available via the website here:**
https://www.marketnews.com/realdisplay?product=AFM

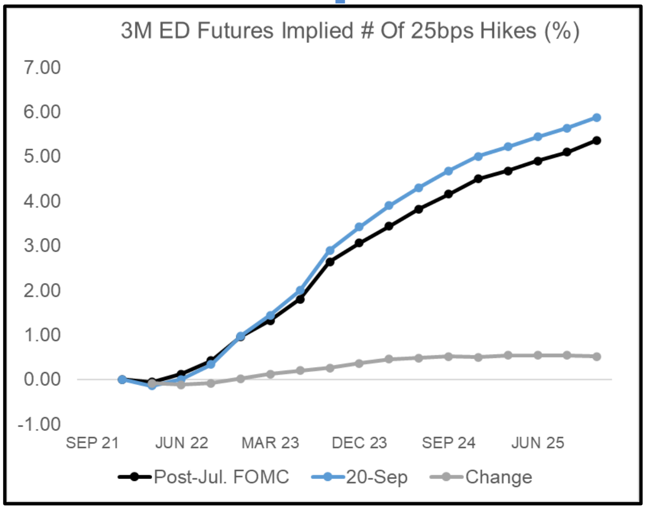
Analyst Views – Fed Outlook

- **None of the 30 sell-side analysts whose previews MNI read expect the Fed to make a formal taper announcement at the September meeting.**
- Instead, **focus is on the Fed's signalling of a taper later this year**, and the new projections.
- There's widespread expectation that the Statement will include a change to the language implying that a taper will be announced later this year, but falling short of specifying November's meeting.
- The vast majority of analysts expect a **November taper announcement,** with a tapering pace of $15B per meeting (proportional between $10B Tsy / $5B MBS), with rate liftoff in 2023.
- On the projections, most anticipate 2021 GDP growth to be revised down with inflation revised up, but there are only minor changes foreseen to the rest of the economic forecasts.
- **But expectations for the Fed funds rate 'dot plot' vary**: only a few (JPMorgan, Citi, Danske) see a rate hike in the 2022 median dot, while cumulative 25bp hikes by end-2024 in the dot plot range from 4 (to 1.125%), to 7 (NatWest, to 1.875%). The 'median of median' expectations are 0.75% in 2023 (between 2 and 3 hikes by end-2023), and 1.625% in 2024 (representing 3 to 4 2024 hikes).
- ***For a summary of analysts` individual notes, please see pages xxx.***

	2022	2023	2024	Taper Timing	Taper Pace	Rate Liftoff
Jun 2021 Fed Projection	**0.125**	**0.625**	**NA**			**2023**
MNI MEDIAN OF MEDIANS	**0.125**	**0.750**	**1.625**	**Nov Annc**	**$15B/Meeting**	**2023**
Barclays	0.125	0.875	**1.875**	Nov Annc	$30B/Meeting	
NatWest	0.125	0.75	**1.75**	Nov Annc	$15B/Meeting	
JPM	0.375	0.875	**1.625**	Nov Annc	$15B/Meeting	**2023**
Deutsche	0.125	0.875	**1.625**	Nov Annc	$15B/Meeting	**2023**
Morgan Stanley	0.125	0.875	**1.625**	Dec Annc	$15B/Meeting	
BNP	0.125	0.875	**1.625**	Dec Annc		
Goldman	0.125	0.875	**1.625**	Nov Annc	$15B/Meeting	**2023**
Citi	0.375	0.875	**1.625**			
UBS	0.125	0.75	**1.375**	Dec Annc		
BofA	0.125	0.625	**1.375**	Nov Annc	$15B/Meeting	**2023**
TD	0.125	0.625	**1.125**	Dec Annc	$15B/Meeting	**2023**
Unicredit	0.125	0.625	**1.125**		$15B/Meeting	
SEB	0.125	0.625	**1.125**	Nov Annc	$15B/Meeting	
Nomura	0.125	0.625	**1.125**	Nov Annc	$15B/Month	
BMO	0.125	0.625	**1.125**			
ING	0.125	0.875	**NA**	Nov Annc	$20B/Month	**2022**
Danske	0.375	NA	**NA**	Nov/Dec Annc	$20B/Meeting	**2022**

Includes analysts who provided explicit 2022-24 Dot Plot expectations; ING and Danske did not provide full expectations and are excluded from the MNI Median of Medians. Timing / taper pace / liftoff only included if not explicitly stated in September FOMC preview. Correct to the best of MNI`s knowledge as of Sep 20

Market-Implied Rate Outlook



Source: Bloomberg, MNI Market News. Updated July 26

- The Fed funds rate hike path has steepened slightly since the July FOMC, with about one-half of a 25bp hike more priced in by the end of 2025. The current path sees just under one hike fully priced by end-2022, 3.5 full hikes cumulatively priced by end-2023, and 5 full hikes by end-2024 (implying a 1.375% Fed funds median).

mni Central Bank Watch - FED

MNI FED Data Watch List

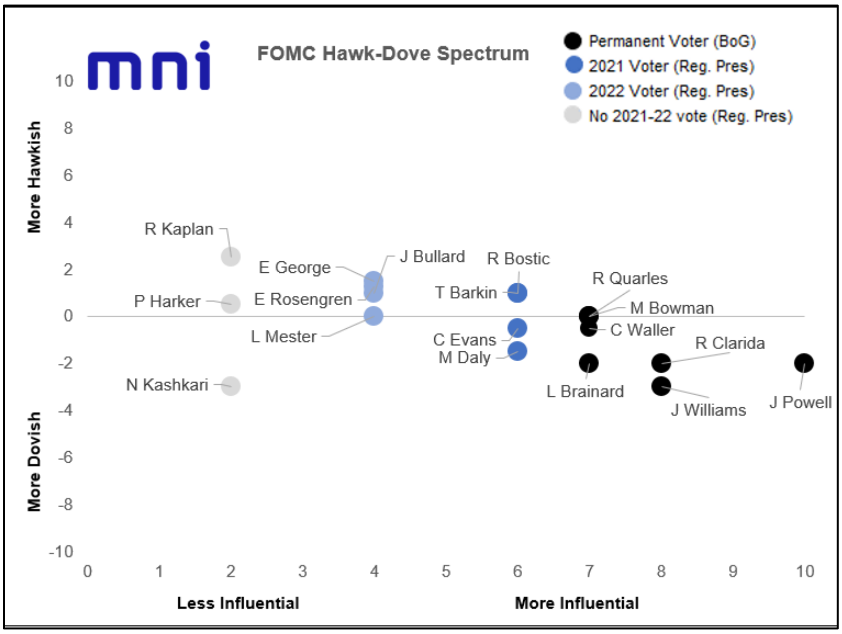
Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	5.3	5.0	↑	1.7	↑					1.89
PCE Deflator	% y/y	4.2	3.6	↑	1.4	↑					1.09
UoM 1-Yr Inflation Exp	% y/y	4.7	4.2	↑	3.1	↑					0.90
Inflation Swap 5y/5y	%	2.39	2.45	↓	2.23	↑					-0.18
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
ISM	Index	59.9	61.2	↓	60.8	↓					0.85
Industrial Production	% m/m	0.40	0.63	↓	-3.03	↑					-0.02
Factory Orders	% m/m	0.4	-0.1	↑	2.3	↓					-0.92
Housing Starts	K	1534	1514	↑	1625	↓					-0.66
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Corporate Spreads BBB/Baa	bps	1.09	1.08	↑	1.10	↓					-0.77
Chicago Fed Financial Con	Index	-0.68	-0.71	↑	-0.64	↓					0.03
Consumer Credit Net Chg	$bn	17.0	18.3	↓	-1.7	↑					-0.21
New Home Sales	K	708	796	↓	993	↓					-1.01
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales	% m/m	0.7	-1.4	↑	-2.9	↑					-0.03
Consumer Confidence	Index	113.8	120.0	↓	95.2	↑					0.07
Nonfarm Payrolls Net Chg	K	235	614	↓	536	↓					-1.07
Average Hourly Earnings	% y/y	4.3	1.9	↑	5.2	↓					0.40
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market	Index	4439	4204	↑	3811	↑					1.90
US 10-Year Yield	%	1.38	1.59	↓	1.40	↓					-0.53
US Yield Curve (2s-10s)	bps	115.1	145.4	↓	127.8	↓					-0.72
USD TWI	Index	90.82	92.70	↓	91.63	↓					-0.80

- The most recent data readings have been a little more mixed than earlier in the year, with inflation, sentiment, and employment readings disappointing in August. But overall the picture is one of high but slowing inflation pressures, strong activity moderating from peak levels, and easy financial conditions. (*Updated Sep 17, 2021*)

Key Inter-Meeting FedSpeak – Sep 2021

The inter-meeting communications from the FOMC were dominated by the July minutes and Chair Powell's Jackson Hole speech. Those releases, supplemented by comments by regional Fed presidents and – especially – taper nods by Vice Chair Clarida and NY Fed Pres Williams, pointed firmly to the FOMC beginning to reduce asset purchases by the end of the year.

- **Indeed the key intra-meeting comment was Powell's** "if the economy evolve[s] broadly as anticipated, it could be appropriate to start reducing the pace of asset purchases this year" on Aug. 27, which set the taper clock ticking if it wasn't already, while also hinting that September was a bit too soon.
- **It updated us vs the July FOMC minutes which said that** "most participants judged that the Committee's standard of "substantial further progress" toward the maximum-employment goal had not yet been met" – but most saw the inflation goal having been met.
- **Powell's Jackson Hole speech not ground-breaking but characteristically dovish in part** because he emphasized the more stringent tests that needed to be met for rate liftoff, which he emphasized would require "much ground" to be covered to reach maximum employment. He also reiterated the "transitory" inflation view.
- **On recent data**: A disappointing August nonfarm payrolls release (on Sep 3) caused some on the FOMC to reconsider their taper timeline (Bostic for one pushed back a little on an early taper announcement which he had previously eyed), though it's unlikely to have changed minds substantially (see Bullard's / Mester's comments for example). A weaker-than-expected August inflation release occurred during the pre-FOMC blackout period, so we have no related commentary from participants.
- **The Delta Covid variant was seen as a risk** to the economic outlook by many on the FOMC, but it's very much seen as a risk rather than a downside factor that has substantially taken the recovery off course.



*Our matrix uses the following methodology based on the MNI Markets Team`s subjective analysis. **Hawkish/Dovish scores** indicate MNI`s subjective assessment of each member`s stance on monetary policy. -10 implies member believes aggressive easing warranted; +10 is most hawkish, implies member believes aggressive tightening warranted. Scores around -2 to +2 considered relatively neutral. On **Influence**, the x-axis runs from 0 ('least influential') to 10 ('most influential'). Voters in the current year receive a minimum score of 6; the Chair receives a 10 and Board of Governors members receive at least 7. Those who are not voters in the current year are limited to a score of 4; among them, those due to vote next year receive higher influence scores (rising towards end of current year), and vice-versa.*

Member	Role	Voter '21	Voter '22	Monetary Policy Commentary Since July FOMC
J Powell	BOG, Chair	**X**	**X**	**At Jackson Hole symposium (Aug 27):** **On tapering:** 'My view is that the "substantial further progress" test has been met for inflation. There has also been clear progress toward maximum employment. At the FOMC's recent July meeting, I was of the view, as were most participants, that if the economy evolved broadly as anticipated, it could be appropriate to start reducing the pace of asset purchases this year. The intervening month has brought more progress in the form of a strong employment report for July, but also the further spread of the Delta variant. We will be carefully assessing incoming data and the evolving risks. Even after our asset purchases end, our elevated holdings of longer-term securities will continue to support accommodative financial conditions.' **On rate hikes:** "The timing and pace of the coming reduction in asset purchases will not be intended to carry a direct signal regarding the timing of interest rate liftoff, for which we have articulated a different and substantially more stringent test. We have said that we will continue to hold the target range for the federal funds rate at its current level until the economy reaches conditions consistent with maximum employment, and inflation has reached 2 percent and is on track to moderately exceed 2 percent for some time. We have much ground to cover to reach maximum employment, and time will tell whether we have reached 2 percent inflation on a sustainable basis."
J Williams	NY Fed, V Chair	**X**	**X**	**On tapering:** "Assuming the economy continues to improve as I anticipate, it could be appropriate to start reducing the pace of asset purchases this year…I think it's clear that we have made substantial further progress on achieving our inflation goal…there has also been very good progress toward maximum employment, but I will want to see more improvement before I am ready to declare the test of substantial further progress being met."**-Sep 8** **On raising rates:** "I don't see any decision we make in terms of tapering as indicative of [the timing of rate liftoff]……They really do have very different kinds of thresholds around them." -**Sep 8** **On the economic outlook:** "A full recovery from the pandemic will take quite some time to complete..there are indications in the most recent data that the spread of the Delta variant is weighing on consumer spending and jobs, and the pace of growth appears to be slowing somewhat relative to the first half." **-Sep 8** **On inflation:** "It's clear that this spike in inflation largely reflects the transitory effects of the rapid reopening of the economy, which is pushing supply and demand in extreme ways. As the economy gets through these unusual dynamics, I expect inflation to come back down to around 2% next year." **– Sep 8**
R Clarida	BOG	**X**	**X**	**On tapering:** "[Since the December 2020 FOMC meeting] the economy has made progress toward these goals… In coming meetings, the Committee will again assess the economy's progress toward our goals. As we have said, we will provide advance notice before making any changes to our purchases." **– Aug 4** **On rate hikes:** "The necessary conditions for raising the target range for the federal funds rate will have been met by year-end 2022 [with liftoff in 2023]" **– Aug 4**
L Brainard	BOG	**X**	**X**	**On tapering:** "Employment has some distance to go [until 'substantial further progress' is achieved]... I expect to be more confident in assessing the rate of progress once we have data in hand for September, when consumption, school, and work patterns should be settling into a post pandemic normal." **– Jul 31**
R Quarles	BOG	**X**	**X**	**No commentary on current monetary policy since last meeting**
M Bowman	BOG	**X**	**X**	**On tapering:** ""If the data comes in like I expect that it will, then it will likely be appropriate for us to begin the process of scaling back our asset purchases this year… I certainly would agree that we have made great progress toward that -- substantial progress toward the price stability goal -- and in fact we've exceeded that to some degree. And I believe we're very close toward our goal on maximum employment." **– Sep 9** **On the economic outlook**: ""U.S. businesses and households have demonstrated great resilience and the economy continues to open and I remain optimistic about the ongoing expansion. So even if some of the recent data has been less strong than we expected, we're still looking at very robust economic growth"**- Sep 9**
C Waller	BOG	**X**	**X**	**On tapering:** "I think you could be ready to do an announcement by September…That depends on what the next two jobs reports do. If they come in as strong as the last one, then I think you have made the progress you need. If they don't, then I think you are probably going to have to push things back a couple of months." **– Aug 2** **On rate hikes:** "If the jobs reports come in as I think they're going to in the next two reports, then in my view with tapering we should go early and go fast, in order to make sure we're in position to raise rates in 2022 if we have to. I'm not saying we would." **– Aug 2** **Other:** "The delta variant is not going to sidetrack the U.S. economy in any way." **– Aug 2**
C Evans	Chic. Fed	**X**		**On tapering:** "I do expect that we are going to be at the point where we've seen substantial further progress later this year -- probably later this year. I don't think it's going to be into next year… It might actually start [in 2022 if the FOMC makes the decision at the December 2021 meeting].. I'd like to see a few more employment reports" **- Aug 10** **On taper composition:** "I think that when we ultimately decide to taper, if we were to do it in proportion to the way that we've been purchasing things -- reducing them in line with those proportions -- that would be fine." **– Aug 10** **On the economic outlook:** ""After the deep and sharp downturn in economic activity last year, we have seen strong economic growth. However, challenges abound, as evidenced by widespread bottlenecks in supply chains and labor markets… A common element in all this continues to be high uncertainty -- as new variants of the Covid-19 virus are impacting health and safety across the country." **-Sep 9**
T Barkin	Rich. Fed	**X**		**On tapering:** "We are closing in ... I don't know exactly when that will be. When we do close in on it I am very supportive of tapering and moving back toward a normal environment as quickly as the economy allows us…[It is credible to think] we will get there in the next few months." **Reuters Interview, Aug 11**
R Bostic	Atl. Fed	**X**		**On tapering:** "As strong as the data was coming in in the early part of the summer, I was really very much leaning into advocating for an earlier start than what many may have expected…The weaker data that we've

Member	Role	Voter '21	Voter '22	Monetary Policy Commentary Since July FOMC
				seen more recently suggest to me that maybe there's a chance for some play on this, but I still think that sometime this year is going to be appropriate" **-Sep 9** **On rate hikes:** "Very late" 2022 **– Aug 9** **On taper composition:** Favors "a balanced approach…. I am in favor of going relatively fast…I am pretty confident these markets are going to continue to function even with a more rapid withdrawal, and I would be willing to lean into that to try to get us to complete the taper in a shorter period than what we have done in previous rounds." **– Aug 9** "[When tapering does start] faster is better than slower." **– Sep 9** **On inflation:** ""Obviously, we have seen inflation rise above 2% as the economy recovers from the pandemic downturn. But most of that rise is fueled by forces that should recede over time. So, I expect price inflation to average close to our target over the longer term" **– Aug 11**
M Daly	S.F. Fed	**X**		**On tapering**: "I remain very optimistic and positive about the [fall] and ongoing improvements in the key variables we care about…That for me means it's appropriate to start discussing dialling back the level of accommodation that we're giving the economy on a regular basis, and the starting point for that is of course asset purchases…Talking about potentially tapering those later this year or early next year is where I'm at." **– Aug 12 FT Interview**
P Harker	Phil Fed			**On tapering:** "I am supportive of moving toward a tapering process sooner rather than later. When exactly that happens, the committee needs to decide. I would hope sometime this year we would be able to start the tapering process…Once we start it, I think we keep it simple, we signal well in advance what we're doing to minimize any risk of a taper tantrum, and we just start the process and let it run for somewhere between eight to 12 months."**-Sep 13** **On raising rates:** My forecast is late '22 or early 2023. If you start this tapering process, let that sink in to the economy, and let's see how the markets react. I do have some concern that the risks to higher inflation than we expect are elevated, and so I would like to leave open the option of a rate increase. But again, that depends on the state of the economy.**– Sep 13** [also noted that his rate forecast hasn't changed from Mar or Jun dots]
R Kaplan	Dall. Fed			**On tapering:** "I don't see a fundamental change to the outlook; if I get to the meeting and continue to feel that way, I'd be advocating that we should announce a plan for adjusting these purchases in the September meeting and begin shortly thereafter, maybe in October… We've got a range of views that the committee will have a debate about that, and we'll hash that out in September." **– Sep 8** **On rate hikes:** ""My comments on purchases are not intended to suggest I want to take more aggressive action on the Fed funds rate." **– Aug 4** (previously he'd said his SEP dot was for hikes to begin in 2022) **On inflation:** "This labor supply-demand imbalance is going to be with us for some extended period of time, so that makes me think that you're going to see some broadening in price pressures going into next year…we may see moderate used-car prices, others, but our sense at the Dallas Fed -- based on our work -- is that price pressures are likely broadening." **– Sep 8**
N Kashkari	Minn. Fed			**On tapering**: "There's a lot of public discussion about, will it be at the end of this year, will it be the beginning of next year: Those seem like reasonable ranges of deliberation, but ultimately it will be driven by the data."**– Aug 17** **On raising rates:** "Let's see what ends up happening for the rest of this year, in terms of asset tapering, and then we have to see what happens next year in terms of the actual federal funds rate. [Likely still a] few years [away]." **– Aug 17**
L Mester	Clev. Fed		**X**	**On tapering:** "I would like us to begin tapering sometime this year…We've met both sides of the substantial further progress bar, and my view is not changing on the August employment report… I'd be very comfortable with that starting this year, and winding down the purchases over the first half of next year."**– Sep 10** **On the economic outlook:** ""Certainly (Delta) is a downside risk to the outlook in terms of the activity. It's not influencing my overall view of the economy. We'll see a downturn in growth in the fourth quarter but I don't think it's going to stall growth, and I expect employment to continue to rise over the rest of the year." **-Sep 10**
E George	K.C. Fed		**X**	**On tapering:** "I don't think [the Delta variant] changes my own calculus that it is time to begin to make those adjustments given the job gains we have seen so far… I think it's important to get started and the conditions of pace, timing of when we end, I'm open minded to listening to the debates around that…But I am less interested in deferring that decision."**– Aug 26** **On rate hikes:** "As this adjustment gets underway, public attention will naturally turn to timing for adjusting the policy rate, though it is important to note the timing of the tapering of asset purchases is not mechanically connected to the timing of any policy rate adjustment. With both upside and downside risks in play, and multiple policy tools in use, judging the achievement of criteria for raising rates is more complicated. One might argue that today's inflation dynamics are likely to keep inflation moderately above 2 percent for some time and align with the Committee's threshold criteria. On the other hand, the criteria for judging maximum employment are murkier." **– Aug 11**
E Rosengren	Bos. Fed		**X**	**On tapering: "**If we get another strong labor market report, I think I would be supportive of announcing in September that we are ready to start the taper program….I think we are likely to meet by the September meeting the criteria that we laid out. The obvious question mark remains whether problems with the delta variant start to slow down the labor market. So far we haven't seen that… I certainly wouldn't want to wait any later than December [for announcement].". "we're done with the tapering program...towards the middle of next year." **– Aug 16** **On rate hikes:** "Further gains on both of these fronts, with inflation moderately exceeding 2 per cent for some time and the unemployment rate falling further to about 4 per cent or less, could set the stage for the Fed to raise interest rates as early as 2022, Rosengren said." – **From FT Interview, Aug 16**

Member	Role	Voter '21	Voter '22	Monetary Policy Commentary Since July FOMC
J Bullard	St. Louis Fed		**X**	**On tapering:** ""The big picture is that the taper will get going this year and will end some time by the first half of next year." **– Sep 7** **On rate hikes:** "A lot depends on whether inflation is going to moderate in 2022 or not, I am a little skeptical."– Aug 26 **On taper composition:** $20B Tsys/ $10B MBS per month

Analysts' Key Comments

Note summaries in alphabetical order of institution. All analysts expect no change in the Funds rate at the September FOMC.

ANZ: Taper Getting Closer

ANZ expects the FOMC to acknowledge moderating but still-firm growth, keeping inflation view as "transitory" (though making it clear than suppy-demand imbalances should dissipate), and no shift in the assessment of risks.

- **Statement:** May tweak language to indicate that it is closer to its "substantial further progress" criterion by adding that the economy has made good progress.
- **SEP/Dot Plot**: Sizeable upgrades to PCE for 2021 and tweaked higher for 2022, but 2023 unch. 2021 GDP forecast lower, but higher in 2022, and no meaningful unemployment changes.
- No hikes in 2022, 2 hikes in 2023, 2 more in 2024.
- **Press conference**: Powell to reiterate that taper remains on track for this year; may provide some clarity on the composition of timing. To restate that decisions on taper and rate hikes are distinct, with the latter still some way off in his view. And that recent inflation spikes were transitory.
- **Future action**: On track for taper by end-2021. Fed could opt for month-by-month taper (vs meeting-by-meeting taper), which would make process over 6-9 months. Rate liftoff 2023.

Barclays: The Taper Chase

At the September FOMC, Barclays expects the Fed to signal it is prepared to slow the pace of asset purchases this year (conditionally).

- **Statement:** Says "clear progress" has been made. Gives "advance notice" of the taper in the form of conditional language that says tapering could begin "later this year" should the economy continue to improve in line with projections.
- To tone down sentiment in the first paragraph based on softer incoming economic data.
- **SEP/Dot Plot:** No hikes in 2022, 3 in 2023, 4 in 2024.
- GDP growth lower in 2021 but above-trend through 2024. Inflation likely to remain modestly above and unemp modestly below desired targets through 2024.
- **Future action:** November taper announcement, December start. $30B pace ($20B Tsy/$10B MBS) per meeting ending Q2 2022.

BMO: Nearer To Taper As 2024 Forecasts Unfurled

BMO suspects the majority of FOMC voters will conclude that the employment side of "substantial further progress" has been met, but can't rule out a formal nod to the start of tapering in November.

- Chance of at least one dissenting vote if FOMC doesn't make a formal taper announcement
- **SEP/Dot Plot:** A coin flip as to whether 2022 median or 2023 median dots rise; dot hikes to continue in 2024 with 50bp worth of tightening that year (and nobody looking for no-change).
- Any upward movement in 2022/2023 PCE "would be a clearer indication of policymakers judging current inflation pressures could persist for longer".
- **Press conference:** Powell could hint of a Nov taper if Sep's employment report doesn't dissuade. To downplay SEP importance for policy implications.

BNP Paribas: Spot The Dots

BNP expects the FOMC to "keep its options open" at the September meeting. It will restate that tapering this year could be appropriate, while acknowledging recent weakness in job growth.

- While there's risk of more decisive language in favor of a Nov announcement (vs BNP's Dec base case), in either case the Fed will de-emphasize the link between tapering and rate liftoff.
- **SEP/Dot Plot:** No hikes in 2022, 3 in 2023, another 3 in 2024. Risk tilted toward 2022 liftoff median.
- 2021 GDP growth revised down; inflation up. 2024 projections: PCE moderately above 2%.

- **Press conference:** Powell to emphasize the threshold for liftoff is considerably higher than for tapering, and that it's still a long way off.
- **Future action:** A muted Sept payrolls figure will push the taper announcement to December.

BofA: Data-Dependent Calendar Guidance On Taper

BofA expects the Fed to introduce data-dependent calendar guidance on tapering at the September FOMC, with the taper signal and a potential SEP dot increase risking a hawkish market interpretation.

- **Statement:** To note that "the Committee believes it could be appropriate to start reducing the pace of asset purchases this year" conditional on ongoing movement toward employment "substantial further progress". Note not just announcing it by end-year, but starting it.
- **SEP/Dot Plot:** No 2022 hikes, 2 2023 hikes, 3 2024 hikes. No change to long-run dot.
- 2021 GDP revised down with PCE revised up. No other changes.
- **Press conference:** Powell to clarify criteria for maximum employment and also touch on the taper timeline.
- Likely to separate taper start from rate hikes.
- May face questions about ON RRP counterparty limit (currently $80B).
- **Future action:** Taper announced in Nov, first reduction in Nov to Dec purchase calendar. $15B pace ($10B Tsy / $5B MBS) per meeting, ending Aug-Sep 2022. If on a monthly pace, could end by June 2022.
- Rate liftoff in 2023.

CIBC: Taper Announce Could Be Pushed To November

CIBC expects the FOMC to "maintain an optimistic take on what lies beyond a somewhat dented near term picture" at the September meeting – but enough uncertainty/doubts over job growth to push off the tapering announcement until November.

- The FOMC could press ahead with a formal warning of a 2021 taper, but "conditional" on further job and activity growth in coming reports.

Citi: Hawkish Risks

Citi sees hawkish risks from the September FOMC, with no formal taper announcement but "a clear communication of a high likelihood of an imminent tapering decision contingent on no further substantial downside surprises to activity".

- They also expect "greater clarity on the details of tapering to be provided (timing, composition), either through the release of normalization principals next week or a discussion at the press conference and communication in the minutes released on October 13. "
- **Statement:** Few changes.
- **SEP/Dot Plot:** 1 hike in 2022 (3 more participants to join), 2 in 2023 (risk of 3), 3 in 2024 (to 1.625%).
- 2021 GDP lower, PCE higher.

Commerzbank: Fed Is About To Change Course

Commerzbank expects the Fed "could" issue "another advance warning" on tapering this week.

- They write that while "the labor market is not lacking in demand for labor, but that the supply of labor is still below pre-crisis level", and "inflation threatens to make more "progress" than desired, which argues for taking the foot off the monetary policy accelerator."
- **Future action:** Taper decision at either Nov or Dec meeting, actually starting by beginning of 2022 latest.

Danske: No Tapering Details Yet After Weak Jobs Growth

Danske expects the Fed to refrain from providing further taper details at the September meeting.

- Danske sees the tapering pace as more important than the timing, given that most FOMC members have made it clear that tapering is likely to begin by year-end (i.e. no taper tantrum this time).
- **SEP/Dot Plot:** 1 hike in 2022 (N/A for 2023-24).

- **Future action:** Taper pace of $20B / meeting, concluding at July 2022 FOMC, but flexible so pace can be increased/slowed if needed. Rate liftoff in H2 2022 (Sep or Dec).

Deutsche: Tick Tock On The Taper Clock

Deutsche expects the September FOMC to provide “important clues about the Fed's policy normalization plans over the coming years”. The bar to pushing the taper announcement beyond November is “relatively high”.

- **Statement:** To adopt Powell’s/Williams’ language of a taper being appropriate “this year” as long as the economy remains on track. Other than that, few changes. Nothing on progress on details about tapering (pace / composition), which is more likely to be left to the press conference.
- **SEP/Dot Plot:** No hikes in 2022, 3 in 2023, and a further 3 in 2024.
- 2021 GDP growth lower, up in 2022, unch 2023, deceleration toward trend in 2024.
- 2021 core PCE inflation higher; risk that 2022 rises slightly. Returning to 2% by 2024.
- **Press conference:** Powell to try to disentangle tapering from rate liftoff (“no mechanical link”), and downplay the policy signal from the dot plot. To maintain optionality about the exact timing of the taper announcement.
- Powell could highlight that despite recent downside jobs surprises, an upgrade to 2022 growth outlook counterbalances that, and could highlight that 3-month avg job gains remains very sturdy/slack improving.
- **Future action:** Nov taper announcement. Pace of $10B Tsy / $5B MBS per meeting, reducing asset purchases to zero in Oct-22.

Goldman Sachs: Advance Notice

Goldman expects the Fed to provide “advance notice” at the Sept meeting that tapering is coming, with an announcement in Nov. Though Fed won’t reveal the pace this week.

- Goldman sees hawkish risks to its expectations, incl a 2022 hiking median dot.
- **Statement:** To say something like: “The Committee expects to begin reducing the pace of its asset purchases relatively soon, provided that the economy evolves broadly as anticipated.”
- **SEP/Dot Plot:** No hikes in 2022, 2 hikes in 2023, 3 hikes in 2024. Means will rise and many participants will show 4 hikes in 2024. Would be surprising if Powell (and most Govs) now think a 2022 hike is appropriate just weeks after dovish Jackson Hole speech.
- 2021 GDP f’cast cut substantially, 2021 and 2022 core PCE forecasts to remain stable, peaking at 2.2% further on, perhaps in 2024.
- **Future action:** Taper pace of $15B ($10B Tsy / $5B MBS) per meeting, ending in September 2022. Though tough call whether the FOMC decides that pace is per month instead of per meeting.
- Rate liftoff in 2023.

ING: A Nod To November

ING expects the FOMC to provide a “more explicit acknowledgment” that tapering will start this year.

- With August jobs data disappointing, “the majority view at the Fed has swung back to favour delaying a taper decision until there is better news”.
- Statement: To include “cautious optimism” on the outlook.
- SEP/Dot Plot: Slight downward revision to growth, upward inflation revision.
- Median liftoff dot stays in 2023, but a close call (vs bringing forward to 2022).
- **Press conference:** Powell to provide more explicit support for tapering this year, and emphasize that the taper decision is completely separate from any decision to hike rates.
- **Future action:** Taper announcement in November. $20B/month (proportional btwn MBS/Tsy) pace, concluding in around 6 months. Rate liftoff in late 2022, with terminal rate of 1.50%.

JPMorgan: Setting The Stage For November Taper Announcement

In contrast to previous meetings, JPM expects September’s FOMC to be “rather eventful” as a November taper announcement is teed up.

- **Statement:** Could be changed to sound like the statements preceding the 2013 taper announcement, which would be seen as a strong indication of a November announcement.

- **SEP/Dot Plot:** Median 2022 dot to show one hike, with 2023 showing 2 further hikes, and 2024 another 3 hikes (so total 6 hikes in the path). The 2024 dot to reflect argument that last cycle's 25bp/quarter hiking pace should be slower this time as the est neutral Funds rate is now 50-100bp lower, so a more leisurely pace is warranted.
- **Future action:** November taper announcement. Symmetric $10B Tsy / $5B MBS reduction per meeting (somewhat less than JPM previously expected, due to earlier than expected taper announcement), affecting mid-Nov to mid-Dec purchases and getting to zero net purchases by around Sept 2022.
- 2023 rate liftoff.

Lloyds: Uncertainties Argue For Wait-And-See Approach

Lloyds sees uncertainties on the outlook arguing for a "largely wait-and-see" approach by the Fed, though expects some clues on future moves at the September FOMC. Possible taper announcement this week.

- **SEP/Dot Plot:** Possible a majority now project a 2022 hike.
- **Future action:** November announcement, possible intention to start December.

Morgan Stanley: From Timing To Pace

Morgan Stanley sees the primary focus at the September meeting on the FOMC's debate "around the implications for the timing and potential pace of its taper plans".

- This meeting will be used to take further steps toward a tapering decision by the end of the year, keeping a Nov or Dec decision in play. Nov less likely, esp given only one more jobs print between now and then.
- **Statement:** Language to indicate another step toward tapering: "if the economy evolves broadly as anticipated, it could be appropriate to start reducing the pace of asset purchases this year."
- **SEP/Dot Plot:** Dots to show 0 hikes in 2022, 3 in 2023, and 3 more in 2024 (to 1.625%).
- Even if median doesn't shift, might see more participants joining those who see 2 hikes in 2022.
- Fairly significant revisions to near-term forecasts (lower GDP, higher inflation), not much change to medium-term. M-T growth estimate around 2.0%, modestly above longer-run GDP growth estimate.
- 2024 core PCE forecast to hold at 2.1%.
- **Press conference:** Powell to remind that tapering could be similar to last time with flexibility to adjust pace should conditions warrant.
- Significant dispersion in SEP dots will give Powell ample opportunity to de-emphasize their importance.
- **Future action:** December taper announcement, $10B Tsy / $5B MBS per meeting pace (with flexibility to go faster / slower) starting January.

NatWest: Teeing Up Tapering For Later "This Year"

NatWest says the "case for a cutback hasn't fully gelled just yet to announce tapering in the coming week", which will leave "the situation in which the market is likely to be kept on edge by constant suggestions from FOMC members that cutbacks are either probable or imminent, depending on the perspective of each individual Fed official."

- **Statement:** Updating fwd guidance by replacing "in coming meetings" with "this year".
- **SEP/Dot Plot:** Median dot to signal 0 hikes in 2022, dot up a bit in 2023 (if one more official pencils in a hike, the median moves up from 0.625% to 0.75%). Four additional hikes in 2024 (1.75%). L-T still 2.50%.
- 2021 GDP lower; more inflation in 2021 but slower in 2022.
- **Press conference:** Powell to reiterate "we are carefully monitoring incoming data"
- **Future action:** Taper announced in November, with language it's not on a "preset course".
- Reductions starting at December meeting, though risks are that actual reductions begin in November if the Sep payrolls report is strong enough (though it could be negatively impacted by Hurricane Ida). $10B / $5B of Tsy/MBS w reductions announced meeting-by-meeting rather than automatically each month.

Nomura: Hawkish Risks

While Nomura does not expect a formal tapering announcement at the September FOMC, the Committee is likely to finalize their taper plan ahead of a November announcement. Risks to the meeting lean hawkish.

- **Statement:** To suggest "should economic conditions evolve as expected, it may be appropriate to begin the process of gradually reducing the pace of asset purchases later this year".

- Could replace inflation language “largely reflecting transitory factors” with something like “largely reflecting protracted supply constraints,” highlighting supply issues.
- **SEP/Dot Plot:** 2021 GDP revised down; 2022-23 revised up. 2021 PCE revised up, 2022 a bit, 2023 unch.
- No hikes in 2022; 2 in 2023; 2 in 2024.
- **Press conference:** Powell’s comments to remain consistent with Jackson Hole; acknowledgement that the pandemic remains an ongoing downside risk but that the recovery has/will continue. On inflation, may acknowledge supply chain disruptions likely to persist beyond what they saw this summer, but can refer to SEP to show expectation of inflationary pressures to fade.
- May suggest FOMC favors a “per month” and not “per meeting” taper (consistent w Williams’ remarks), and/or consensus that conditional on recovery, could end purchases around mid-2022. Though a per-month adjustment would be different from the taper last decade and could be harder to communicate.
- To emphasize that tapering decisions do not indicate liftoff timing, and that dot plot may change if SFOMC starts intensive discussions on rates after tapering begins.
- **Future action:** Taper announced at Nov FOMC,runs Dec-June, $15B/month ($10B Tsy / $5B MBS). Risks include less often ($15B/meeting, ending in Sep 2022), or larger size ($24B/meeting) ending May 2022.

Nordea: How To Make Tapering Data Dependent?

Nordea sees the Fed implementing a taper by the end of the year, but they ask how the FOMC plans to link the process to incoming economic data. At the September meeting, Nordea sees the FOMC launching “a light data dependent guidance on the actual tapering implementation plan”.

- “We are not certain that the Fed will dare to present a firm tapering plan on Wednesday, but we remain firm that they will have to take further steps toward becoming concrete on how and when already next week.
- Nordea sees as possible a nonfarm payrolls 3-month mov avg at “acceptable levels” (600-800k) as enough to trigger taper implementation in Nov or Dec.
- At this meeting, Fed may have to allow wider counterparty limits on ON RRP to absorb reserves as the Treasury debt ceiling limit looms.
- **Future action:** Taper steps of ~$40B, with bigger relative reduction of MBS vs Tsys initially.

Rabobank: The Taper Whisperer

Rabobank sees the Fed providing “advance notice” of tapering at the Sept meeting.

- **Statement:** Likely to include “advance notice” language, with acknowledgement that the labor market is on its way to reaching substantial further progress, but adding a line that the FOMC will wait for more evidence before formally announcing a taper.
- **SEP/Dot Plot:** May move closer to signalling a 2022 hike.
- The 2021 unemployment projection is of particular interest – if they expect tapering to begin this year, then this will be the unemp rate they expect to prevail when they make the formal announcement. And 2022-23 projections can tell us something about conditions for a rate hike (June SEP implied between 3.5-3.8%).
- **Press conference:** Powell may provide a rough sketch of the taper timeline, similar to Bernanke in June 2013. To remain very conditional, as in his Jackson Hole speech.
- He’s likely to repeat his arguments about why inflation is transitory; and that the end of tapering does not imply the start of hiking.
- **Future action:** Formal taper announcement in Nov, start in Dec, completed by end-2022.

RBC: Another Step In Taper Direction

RBC sees the FOMC as likely to “take another step in the direction of taper” at the September FOMC, but no “full airing of any details”.

- **SEP/Dot Plot:** The movement of the dots will be for more hikes. 2024 to show 2 additional hikes.
- **Press conference:** Powell likely to highlight a more open dialogue between FOMC members on tapering.
- **Future action:** Taper kicks off at either the Nov or Dec meeting.

Scotiabank: No To September, Conditional Taper Later

Scotiabank sees four things to watch for: taper guidance; changes to rate hike timing; changes to forecasts; and the soft guidance around whether the Fed has more/less confidence in the economic outlook.

- "0% chance of a taper" this week and FOMC probably won't explicitly set up a taper at the Nov meeting.
- Fed's quietness on the debt limit stands somewhat in contrast to 2013 when the Fed held off on tapering.

SEB: Fed Will Stick To Its Tapering Plans, But September Door Is Closed

While the weak August jobs numbers has closed the door for a Sept taper decision, SEB sees the "bar for reversing course is high" and expects the Fed to announce a taper at the Nov meeting.

- **Statement:** May have to twist language to acknowledge new risks from Delta, but no large changes.
- **SEP/Dot Plot:** No hikes in 2022, 2 hikes in 2023, 2 hikes in 2024.
- 2021 GDP forecast scaled back, upside risks to inflation in 2021. Trend-like growth outlook for 2024 w inflation stabilizing at / slightly above 2%.
- **Press conference:** Powell's message similar to Jackson Hole, signalling likely start to tapering this year but without clear commitment to a Nov decision.
- **Future action:** Asset purchases begin to be scaled down in December (after Nov announcement).
- Pace of $10B Tsy / $5B MBS reductions, with pace decided on a meeting-by-meeting basis, concluding by Sept 2022. Possible if Sept jobs numbers are weak, decision could be delayed one month, with tapering starting at the beginning of 2022.

Societe Generale: A Watch On The Dots And Other Economic Projections

While "moving closer to tapering…is a somewhat tired message by now", he FOMC will continue taper discussions in September despite a "disappointing" August CPI report, with SocGen seeing the Fed teeing up markets for a Nov or Dec announcement.

- **SEP/Dot Plot:** 2021 forecasts to see lower GDP and higher inflation. Not much needs to be changed in 2022-23. For 2024, further GDP moderation toward 2.0% or slightly below is expected and would be consistent with a moderating inflation outlook (near 2.0% in 2022 and beyond) and further declines in the unemp rate (from 3.5% in late 2023 in last SEP).
- Unlikely that a majority sees 2022 rate liftoff "on the evidence accumulated so far".
- **Press conference:** Powell should reinforce that while tapering is coming soon, the COVID situation and mixed data do not provide a green light quite yet.
- **Future action:** Nov or Dec taper announcement. $15B per meeting, ending summer 2022. Rate liftoff in early 2023 w hiking pace of 3 or 4 hikes per year to 2.00-2.25%.

Swedbank: Sets The Stage For November

Swedbank thinks the September FOMC sets the stage for a November taper announcement with the taper itself starting in December.

- **Statement:** Likely to acknowledge progress toward targets, but will also keep reference to pandemic risks on the economic outlook.
- **SEP/Dot Plot:** To leave unemp rate rather unchanged while 2021 GDP revised down / PCE revised higher for 2021 and 2022.
- This is enough to move dots upward: risk of median 2022 hike, alternatively 3 hikes in 2023.
- **Future action**: Taper starts in Dec, rate liftoff in 2023 (2 hikes that year).

TD: Taper, Taper, Dot, Dot

TD sees the most notable communications at the September FOMC being the signalling on QE tapering, but also important are any significant changes to 2022-23 projections (and the new 2024 projection).

- TD sees NY Fed's Williams as likely to have consulted w Powell over his post-Aug payrolls comments on starting to reduce asset purchases this year "to help ensure consistency with what would come out of" the September FOMC.
- **Statement:** Will likely note some slowing in recovery's pace since last meeting, but still positive tone.
- Don't expect definitive signal on when they expect substantial further progress to be met other than quite soon. Reference to "coming meetings" could be dropped, as could be seen as precluding a Nov announce.
- **SEP/Dot Plot:** No new urgency for rate hikes: no hikes in 2022, 2 hikes in 2023, 2 hikes in 2024.
- 2021 inflation up sharply, growth down sharply. 2022 core PCE close to 2% goal.

- **Press conference:** Powell to emphasize that the criteria for rate liftoff are very different from tapering. Overall message fairly similar to Jackson Hole (positive but still concerns about COVID effects).
- **Future action:** Taper announcement in December, $15B/meeting pace. Nov announcement plausible if Sep employment report is strong; on pace, $15B/month a possible alternative to $15B/meeting.
- Rate liftoff late 2023.

UBS: Advance Notice On Taper, No 2022 Hikes

UBS sees the September FOMC delivering “advance notice” of tapering, with November as a possibility for an announcement, but more likely in December.

- Powell, Clarida, and Williams have all said that it will likely be appropriate to start reducing the pace of asset purchases this year.
- **Statement:** Changed to say the FOMC expects that, if the economy evolves in line with expectations, it will be appropriate to start reducing the pace of asset purchases in the coming meetings. This change of view = “advance notice”.
- **SEP/Dot Plot:** No hikes in 2022 (8/18 seeing a hike), 0.75% (2+ median hikes) in 2023, 1.375% in 2024 (so total of 5 hikes by end-2024).
- Major upward in 2021 inflation, slight one in 2022; 2024 still above target.
- **Press conference:** Powell might be explicit that the FOMC is providing advance notice of tapering. He will prob be noncommittal and mention there is still some discussion to be had on pace / composition.

Unicredit: Dots Could Shift Downward

Unicredit sees the September FOMC as ‘too soon for a commitment’ on tapering (the disappointing Aug payrolls figure means a surprise taper is very unlikely), but the Fed will signal that it will ‘possibly’ start later this year.

- Arguably more important for markets than the start date of tapering is the composition and pace given potential implications for rate liftoff timing.
- **SEP/Dot Plot:** Sizeable downward revision to GDP growth for 2021. PCE back to 2% by 2024.
- Dot plot could see a shift down, but likely small. No hikes in 2022, 2 in 2023, 2 more in 2024.
- **Future action:** Pace of $10B Tsy / $5B MBS reductions, taking 8-12 months.

Wells Fargo: November And December Meetings Likely To Be “Live”

Wells Fargo sees a taper announcement at the September FOMC as “quite unlikely”, but Nov or Dec are still very much “in play”.

- The FOMC may view August as “a useful model for how the economy will perform in additional post-vaccine COVID waves” and “it is encouraging to us that the economy continued to expand despite COVID cases that are at levels not seen since February, and this continued expansion may ease some concern among Fed officials as they look ahead to the winter”.
- But the Sept jobs report is the last one the FOMC sees before the November meeting – though just how strong of a report will be needed to bring about a November tapering announcement is hard to say: ~700k or so, Wells Fargo thinks. Conversely if it’s just a few 100k, the FOMC may wait until December.
- **Statement:** Probably no substantive changes. Could alter/remove opening sentence to show FOMC believes some of its tools may not be needed much longer and tapering could commence at the next meeting. Could soften the risk assessment of the virus (perhaps calling risks “more balanced”).
- **SEP/Dot Plot:** Probably downward revisions to GDP forecasts, which may lead to downward shift in dot plot. But median inflation forecast could be bumped up which could keep the dot plot from shifting lower.
- **Future action:** Pace of $10B Tsy / $5B MBS reductions if Nov start. Possibly $15B/$7.5B per meeting if the FOMC waits until Dec and there is good economic progress between the meetings. Purchases to finish either way between next summer and fall.

Westpac: Taper To Run Through 1H 2022

- **Future action:** Taper announcement in December, with reductions running from January – June 2022. Focus thereafter will turn to rate hikes.

Wrightson ICAP: September Hints…November Launch?

While Wrightson ICAP doesn't see the Fed locking itself into a specific timetable at the September FOMC, it is "likely to serve notice that cutbacks are possible as soon as November if trends remain positive".

- A "conditional announcement" would be enough to satisfy the "advance warning" pledge.
- Re debt limit concerns, Wrightson doesn't expect things in Washington to get "so far out of hand this week that the Fed will have to take a November taper off the table", and guesses the episode will come to a head by end-October, clearing the way for a November taper.
- Also consider that it's "highly probable" that the Treasury will announce across-the-board supply reductions on the morning of the Nov 3 FOMC decision, which should "soften the blow" if the Fed tapers.
- SEP/Dot Plot: Upward shift in dot plot in Jun SEP to level out this quarter, with minimal upward drift.
- 2024 forecasts to show well above market-implied rates; quarterly rate hikes in 2024 likely to be the minimum expectation for most FOMC members, and a number likely to look for even faster hikes. Wouldn't be surprised to see 2024 dot in 1.75-2.00% range.
- **Future action:** FOMC to opt for month-by-month, not month-by-month reductions. 8 equal installments starting in Nov would be done by mid-2022 if done monthly. Voting at each meeting might create impression that individual reductions were sensitive to short-term economic data volatility.
- $15B pace ($10B Tsy / $5B MBS). But Fed should take post-taper reinvestment into account, as the Desk will still need to buy ($50B?) monthly as MBS amortizes. Expect Fed to reinvest at least some into Tsys.

MNI Policy Team Insights

MNI: Fed Dots To Signal Faster Tightening Cycle - Ex-Officials (Pub Sep 17, 2021)

By Evan Ryser and Jean Yung

WASHINGTON (MNI) - The Federal Reserve on Wednesday is likely to signal a more aggressive approach to tightening monetary policy coming out of the pandemic, with a fresh dot plot that may show growing support for lifting interest rates next year and hikes once a quarter in 2024, former officials told MNI.

The FOMC meets Tuesday and Wednesday and is expected to affirm its commitment to start winding down pandemic-era stimulus policies this year by paring its USD120 billion monthly asset purchase program. Rate hikes will follow when more stringent employment and inflation objectives are met, with heightened risks a hike could come as soon as next year. Delta variant uncertainty could see some FOMC members hold off from advancing rate hike dots, former officials said.

"I expect the distribution among participants to spread out more and for the median to move a bit up in time into 2022," former Fed Vice Chair Alan Blinder said in an interview.

It would take two or more FOMC members pulling forward liftoff into next year to shift the median to 2022. While some ex-Fed officials see 2022 and 2023 individual dots floating upward, many also predicted liftoff staying in 2023 at this meeting. Once rates lift off, the former officials expect rates to march higher each quarter as the economy nears the Fed's dual mandate goals.

STEADILY HIGHER

"Liftoff later in 2022 is not off the table," said Jonathan Wright, a former member of the Fed Board's division of monetary affairs and current New York Fed adviser. "But I wouldn't expect, with the recent inflation numbers or the most recent employment report, that you're going to get people at this stage moving their projection forward into 2022." The last job report fell well short of market expectations and inflation showed some signs of peaking.

The Fed's goal of getting inflation clearly averaging around 2% means it's more likely they will take a slower approach to liftoff and raising rates in 2023, Wright said. "Then by the time you get to 2024 it will be a more normal reaction function to what is hopefully by then a recovery that's well underway." He expects the FOMC to show rates at 1.6% in 2024.

Others see a more forceful tightening cycle after liftoff. "I'd expect something like four increases or maybe even more (in 2024)," said former Minneapolis Fed President Gary Stern. "You're starting from a low base and you're going into 2024 at pretty low levels in my judgment. I wouldn't even be shocked if we got up to 2% to 2.25%."

Former Atlanta Fed President Dennis Lockhart told MNI that once the Fed sees its economic goals being met rates could rise steadily toward estimates of r-star, with an increase every meeting as was the case in the 2004-2006 hiking cycle. "If the objectives are not met, it could conceivably go slower, instead of every meeting eight times a year, go to a quarterly pace, although a slower pace presents communications challenges," he said.

INFLATION VIEWS UPGRADE

Fed inflation forecasts are seen being lifted this year to reflect supply shortages, while views on next year will remain anchored near 2% as those short-term pressures fade while coronavirus variant risks remain, ex-officials said. Risks to the inflation outlook are likely to be more balanced now compared to June, when every official saw risks to the upside.

"The jobs report and the very mixed picture on the public health situation would seem to me to give pause to the committee as a group. I suppose some individuals could shift their dots because they're looking past this period, but my expectation is it's a good meeting not to adjust projections," Lockhart said.

In the end, the dot plot may replay this year's ongoing divide between Chair Jerome Powell's demands for solid data showing a recovery and downplaying the views of his more hawkish deputies about pulling back stimulus.

"Powell will downplay the dots," said Tara Sinclair, a former visiting economist at the St. Louis Fed. "I can see them pretty clearly showing four hikes in 2024, but with a wink and a nod that we will have to really see how conditions are when we get there and even then maybe they'll only do two of those four, or three of the four."

MNI INTERVIEW: Fed to Push Off Taper, Look Through Inflation (Pub Jul 30, 2021)

By Pedro Nicolaci da Costa

WASHINGTON (MNI) - Federal Reserve officials are so keenly focused on seeing actual job market gains before tightening monetary policy that they could wait until well into 2022 before tapering bond buys, Yuriy Gorodnichenko, a visiting scholar at the San Francisco Fed, told MNI.

"The Fed will continue to push on the gas pedal if strong employment gains don't materialize," he said in an interview. "My guess is that they will keep stimulating the economy with all means for another year and then gradually taper the support."

That would be a lot longer than Wall Street's timeline, which now centers around some kind of fall announcement for a year-end start to the taper.

Gorodnichenko, who studies inflation and inflation expectations and was a presenter at last year's Kansas City Fed Jackson Hole conference, says he saw the risks of inflation as still tilted to the downside despite recent unexpectedly sharp spikes that he, like Fed Chair Jerome Powell, sees as largely transitory.

"The risks are so one-sided. Having inflation at 3 or 4% for a year or two that's not super costly, if you have inflation at zero for two or three years, that's a problem," he said, pointing to repeated run-ins with the zero lower bound by the Fed and other central banks.

WAITING FOR EPOP

"I don't think we're going to have a chronic problem with inflation," Gorodnichenko said. "We have enormous slack in the economy. The employment-to-population ratio we see today is at the level we saw at the trough of the Great Recession, the worst months."

Indeed, a June EPOP of 58% is below the Great Recession's lowest reading of 58.3%, and has substantial ground to recover before getting back to pre-Covid levels around 61%.

Fed officials expect workforce participation and employment to pick up steam around when schools are expected to reopen in September, but supply chain disruptions and widespread job market mismatches could prove this presumption optimistic.

"The experience after the Great Recession is that we have a lot of capacity to create jobs and absorb people back into the workforce," said Gorodnichenko, who has been a visiting scholar at the SF Fed since 2009, and a research consultant at the ECB since 2018.

The Fed said at its meeting this week the economy has "made progress" toward goals of full employment and price stability but more was needed, particularly on jobs, before it could begin to pare back support for the economy by cutting back on a monthly USD120 billion QE program.

Powell said the labor market is "some way away" from having made enough strides to cut back on QE.

INFLATION HEADFAKE

The inflation side of the Fed's mandate also calls for patience despite recent scares like a 5.4% jump in the year-on-year CPI for June, which jolted financial markets and prompted some political pushback, Gorodnichenko said.

His research indicates that the inflation expectations of consumers are so well anchored at low levels over the long run that short-lived price spikes in specific sectors like used cars or in services linked to reopening, such as hotels and airlines, will not have an impact. (See MNI: Patience Warranted As Inflation to Ease-Ex-Fed Economists)

"The Fed has been so credible at keeping inflation low and stable for so many years that people just don't pay attention," he said. "For most people fundamentally it's not going to register, especially if it's not persistent."

Chair Powell told reporters following this week's policy meeting the United States "won't have an extended period of high inflation," emphasizing that one-time, localized price increases do not constitute inflation per se.

Gorodnichenko said the Fed was arguably too successful at tamping down inflation expectations, forcing it to lower rates to ever lower levels until it ran out of traditional monetary ammunition and was forced to resort to QE.

"If you ask an average American what the Fed's policy is, this average American is going to ask you 'what is the Fed?' And when you tell this person well, we have QE, we have forward guidance, we have all these tools, something that could potentially ignite a lot of inflation, most people will have no idea what you're talking about. In a way it's a sign of success."

Gorodnichenko's 2020 Jackson Hole paper argued the Fed's framework shift should focus on the positive gains from stronger economic momentum rather than touting the benefits of higher inflation, which could be misinterpreted by the public. He said officials have clearly taken his and his co-authors' advice to heart.

"The Fed has moved more towards emphasizing employment -- and more broadly the health of the economy-- and not talking about wanting to have more inflation," he said.

MNI:Fed Wants Taper Announcement Wiggle Room In Case Jobs Sour (Pub Sep 13, 2021)

By Jean Yung, Evan Ryser and Pedro Nicolaci da Costa

Federal Reserve officials meeting next week are likely to agree internally on a November announcement for a QE tapering plan while leaving wiggle room to delay that move if the job market sours, former officials told MNI.

"An informal consensus is likely to emerge at this meeting that taper should be initiated soon," former Richmond Fed President Jeff Lacker told MNI. Officials in the closed FOMC meeting are likely opt for November to say, "if things go roughly as expected, we should taper at the next meeting."

Another stumble in the jobs report for September could spur the FOMC to delay a tapering announcement until December or early next year, over concerns that the path to achieving the employment mandate has slowed, the ex-officials said. The 235,000 jobs created in August fell well short of market expectations as the Delta variant surged.

"They are looking for further labor market progress and we only have one more jobs report before the November meeting. If that one report turned out to be a disaster it will be hard to move forward," Nathan Sheets, former international finance division director at the Fed Board and under secretary of the Treasury for international affairs, told MNI.

MORE UPBEAT PICTURE NEEDED

Chair Jay Powell said at Jackson Hole last month that inflation had met the Fed's bar for "substantial further progress" toward its 2% average inflation goal, but that improvement towards full employment was needed. Officials have signaled that one bad month won't deter their plans, but dialing back its massive asset purchase program after two in a row could send the wrong signal, the former officials said.

"The Fed likes a more upbeat data picture to ratchet down stimulus," Lacker said.

Employers on average have created 586,000 jobs a month this year, but the labor market remains over 5 million jobs short relative to its pre-pandemic state. At the same time, job openings keep hitting record highs and jobless claims have touched new pandemic lows, bolstering the Fed's view that progress, while gradual, is ongoing.

ENOUGH POWELL SIGNALS

"Given this jobs report and the surge, they might delay things again," said Sebnem Kalemli-Ozcan, a member of the New York Fed's Economic Advisory Panel. "They could say: We said we could start tapering at the end of the year but now this surge is worse than we thought, so maybe we are going to do it at the beginning of next year. They've left themselves the flexibility to do that."

Former officials were split on whether Powell will make another incremental signal next week that a taper announcement is imminent, or stick to his Jackson Hole language that "it could be appropriate to start reducing the pace of asset purchases this year," something New York Fed President John Williams also repeated last week.

"I don't think they have to do much more signaling," Lacker said. "The chair was pretty explicit in his Jackson Hole speech."

MNI: US Labor Shortage To Persist Despite Back-To-School Boost
(**Pub. Sep 16, 2021**)

By Jean Yung and Brooke Migdon

WASHINGTON (MNI) - Hopes for a post-Labor Day reversal of worker shortages plaguing the U.S. recovery are fading as new research suggests workforce participation rates are less influenced by unemployment benefits and school reopenings than by concerns over catching Covid-19, and may only improve well after unemployment bottoms, current and former Fed economists told MNI.

That would mean a more drawn-out timeline for reaching maximum employment even as the Fed faces pressure to raise interest rates to keep a lid on inflation running near a 13-year high.

"The recovery in participation will be slow. I think the Fed understands this, but they're not really factoring in how long it could take," former Fed economist Stephanie Aaronson, now at the Brookings Institution, said in an interview. "It's hard to move a million people from out of the labor force to employment. It's not that they're not going to come back in, but it'll be slow."

September could see some pick-up in hiring over August's disappointing numbers as children physically return to school and employers no longer have to compete with USD300 a week in federal pandemic unemployment benefits, which expired Saturday. But states that ended the benefits early have not reported obviously stronger job growth, she said.

SCHOOLS EFFECT

"For a lot of people, what kept them out of employment is fear for their health, and with Delta raging, many could choose to stay home without the benefits," Aaronson said.

A forthcoming state-level analysis of school closures' impact on the workforce from Aaronson and co-author Francisca Alba finds only a "small depressing effect" on participation levels by mothers whose young children lived in districts with full- or part-time virtual learning.

"School closures are highly correlated with other conditions in the state, and with the state of the pandemic," Aaronson said. "Schooling by itself matters, but it's not the only factor. We shouldn't expect that women will pour into the labor force suddenly in September and October because their kids are back in school."

WORSENING GAP

Ending special unemployment benefits could even worsen participation, as local businesses supported by the extra spending cut back on hiring, leading more workers to drop out of the labor market, said Nicolas Petrosky-Nadeau, vice president of macroeconomic research at the San Francisco Fed.

"More people may no longer be reporting to the BLS that they're actively looking for work, and then they'll be counted as non-participants who are no longer in the labor force." he said in an interview ahead of the Fed blackout period. Some of those individuals will still show up in the household survey as discouraged workers, depending on how they choose to answer the question in the household survey, he added.

Recoveries in participation over business cycles also typically lag the unemployment rate, Petrosky-Nadeau noted.

NINE-MONTH LAG

A paper presented at Jackson Hole last month examining movements in and out of the workforce over the business cycle concluded that the vast majority of the current drop in participation is cyclical. As the labor market strengthens, co-author Aysegul Sahin expects participation to bounce back significantly, though with roughly a nine-month delay. By the end of 2023, when the FOMC projects unemployment of 3.5%, her model estimates cyclical factors will still exert 0.6pp of downward pressure on participation.

"An unemployed person is eight times more likely to leave the labor force on average. When a lot of people lose their jobs and it becomes harder to find a job, people leave the labor force at a higher rate," said Sahin, a former New York Fed economist who now consults with regional Fed banks. Conversely, "when the economy is doing well and job loss risk is low, people tend to have more stable employment. Even if they lose their job, they find a job quickly."

In the unusual circumstances of Covid, where black and Hispanic, less educated and female workers were disproportionately affected, the good news is that "attachment to the labor force they built up during the 2014 to 2019 period is not erased," and will support their return when job-finding conditions improve, Sahin said.

The FOMC has committed to keeping rates near zero until a broad and inclusive recovery in employment and inflation is at 2% and on track to moderately exceed that goal. But prices have risen at double target for several months, while the employment objective drifts farther out of reach, with Covid's Delta variant driving disappointing August jobs numbers. At the same time, PMI surveys have shown firms reporting hiring difficulties as a major barrier to boosting output.

Labor participation held steady in August at 61.7%, unchanged from a year ago and still 1.6pp short of pre-pandemic levels. Unemployment recovered to 5.2% from a high of 14.8% in April 2020.

MNI: Fed Economists Downplay Hopes For Rapid Workforce Rebound
(Pub Aug 18, 2021)

By Jean Yung and Pedro Nicolaci da Costa

WASHINGTON (MNI) - A long hoped-for rebound in workforce participation after schools reopen and jobless benefits expire next month may not materialize quickly, Federal Reserve economists told MNI, in comments echoing the case made by Fed officials who believe the economy will need support from near-zero interest rates into 2023.

The Fed will soon turn its attention to how quickly the U.S. labor force can recover to pre-pandemic levels, as policymakers come close to nailing down a timeline for tapering QE and policy debate shifts toward the timing of eventual interest rate hikes.

Andreas Hornstein, senior adviser at the Richmond Fed's research department, expects a slow recovery in participation, in line with the experience of past recessions.

"We'll see a gradual improvement, but it's not obvious to me that there are going to be any discrete bumps in the data in the short-term," he said in an interview. "Even if all schools reopen you're not likely to see a big impact just coming from the participation decisions of parents."

New research from three Fed board of governors economists finds that participation is "highly cyclical" but recovers much less quickly than unemployment after a downturn. In the four recessions before Covid, the lag has been about two years.

That suggests this year's boom in labor demand and output growth will eventually flow through to boost the participation rate, but potentiallynot until until months down the line.

Workers over age 55, who retired at outsize rates during the pandemic, are decently likely to return to a booming market, though with an even longer lag, the paper suggests.

The share of adults either working or looking for work recovered by just a tenth to 61.7% in July and has remained within a narrow range of 61.4% to 61.7% since June 2020. Its pre-pandemic peak was 63.4% and rising. The employment-to-population ratio remains near levels not seen since the depths of the Great Recession.

DEGREES OF SLACK

The focus of Fed debate centers not just on how quickly participation can recover but also on what the new, post-Covid norm might look like. Some officials have pointed to the wave of early retirements as potentially forcing a fairly long-standing decline in participation.

Policymakers are looking to September, when schools reopen and extra federal unemployment benefits roll off, to get more clarity on labor market trends. But, while acknowledging that participation could rebound if there is a quick resolution of factors unique to the pandemic such as fear of contracting the virus and the closure of daycares, researchers and advisers said it is more likely that participation recovers at a much slower pace.

"We're in a situation where there are a lot of people who want to be employed in one sense but are clearly not ready to take jobs, because the vacancies are out there but they're not taking them," said Cleveland Fed economist Bruce Fallick. "In that sense there's a lot of slack -- those people are underutilized labor resources -- but it's not slack in the usual sense of they're not working because there is not enough labor demand."

Some policymakers see recent data on vacancies and anecdotes of labor shortages as a sign the economy is already approaching maximum employment -- despite being some 6 million jobs short of pre-pandemic levels. Others favor reserving judgment for another year to see if labor supply and demand realign themselves.

FEMALE PARTICIPATION

The large number of women forced to leave the workforce during Covid because of caretaking duties is largely seen as reversible, if also over a longer-run timeframe.

"The large role of women's employment losses in this recession are likely to result in continued low participation this fall and beyond," because women are more likely to leave work to care for children compared to men, said Chicago Fed adviser Matthias Doepke.

At the same time, government payments have boosted the savings rate and asset prices have soared, making it a good time to retire. "From both the women's employment angle and the early retirement angle, low participation is likely to persist a while longer," Doepke said.

Stronger-than-expected inflation readings over the past few months have complicated the Fed's new outcome-based roadmap for setting interest rates, but the latest report on consumer prices offered some support to the thesis, held firmly by Fed Chair Jerome Powell, that the bulk of recent price rises will prove transitory.

MNI INTERVIEW: Housing to Drive Up U.S. Inflation For Years
(**Pub. Sep 3, 2021**)

By Pedro Nicolaci da Costa

MNI (Washington) - Surging home prices will put upward pressure on U.S. inflation for years to come as they trickle into rental and owners'-equivalent rent measures used in key consumer price indices, two economists from the Federal Reserve Bank of Dallas told MNI.

"Over the long haul, rents and housing prices do tend to move together, but there is a significant lag in movements in house prices finally translating into rents and feeding into our measures of inflation," said Jim Dolmas, Dallas Fed economic policy advisor and senior economist, in an interview.

Dolmas and Xiaoqing Zhou, also a senior economist, have modeled the lag between home price spikes and effects on rent and OER, determining it to be about a year and a half.

"There are various indices of listed rents for new units, you see those have already started to jump lately. But it takes a while for these things to make their way into the broader measures that go into the CPI, that go into the PCE," Dolmas said.

Their model sees rent inflation spiking to 3.0% by the end of next year from 1.9% in June -- and to as high as 6.9% by the end of 2023. They forecast that, together, rent and OER will add 0.6 percentage points to annual core PCE inflation for 2022 and about 1.2 percentage points for 2023.

The authors argue this "could push the overall and core PCE inflation rates above 2% in 2023, when current supply bottlenecks and labor shortages may have subsided."

Home prices grew at a record pace for a third month in June, as demand is propped up by shifting consumer needs and rising investor interest.

Dallas Fed President Robert Kaplan has been a vocal proponent of curbing the Fed's purchases of mortgage-backed securities because of the red-hot housing conditions.

DOUBLE-WHAMMY

Zhou said two forces were working at once: the normal rebound from a pandemic period that saw widespread rent forgiveness programs, and the statistical trickle-down effect from rising home prices themselves.

"This is going to put additional pressure on rental inflation and OER inflation going forward. House price growth is expected to increase going forward but it will decline at some point in 2022," she said.

"The surge in house prices is currently due to supply side constraints. We have an extremely low inventory of homes on the market and on the new home side, builders are facing supply bottlenecks and rising costs," added Zhou. (See MNI: Supply Kinks Strain 'Transitory' Price Surge--Fed Economist)

Higher-than-expected inflation readings in recent months have taken Fed officials by surprise and forced them to revise up their price forecasts. Still, Fed Chair Jerome Powell and other have stuck to the argument that price pressures are largely transitory, in line with the Fed's 2% long-run target.

Fortunately for Fed policymakers, who place great weight on inflation expectations, rents and OER do not seem to affect inflation expectations that heavily.

"There's not a lot of evidence that there's a particular channel that feeds through from house prices or even rents to people's expectations about inflation," Dolmas said. "It's things like energy, food, core goods -- those things seem to have material impact on expectations of households for future inflation. But rent and house prices don't seem to play that big a role."

LONG LIST

A long list of supply chain disruptions, which look like being slow to unwind, could make price pressures linger longer than expected, Dolmas said.

"While much of what we're seeing right now with headline CPI and headline PCE is going to dissipate, there's still going to be a component that's going to persist," he said. "We try to take into account a whole range of indicators of supply disruptions but we've found that in terms of forecasting they're only useful for one or two months ahead."

CPI jumped 5.4% in the year to July while the Fed's preferred PCE measure rose 4.2%.

MNI:Supply Kinks Strain 'Transitory' Price Surge-Fed Economist (Pub Aug 31, 2021)

By Evan Ryser and Pedro Nicolaci da Costa

WASHINGTON (MNI) - A string of higher-than-expected inflation readings, linked to supply chain disruptions with no clear end in sight, is testing the Federal Reserve's view that a surge in prices is transitory, current and former Fed staffers and advisers told MNI, even as top officials reaffirm their confidence that such pressures will subside.

Fed officials have acknowledged they underestimated post-Covid inflation pressures, and in June, policymakers bumped up their forecast for headline inflation to 3.4% this year and 2.1% next from 2.4% and 2.0%, respectively, in March. But even those estimates are now looking potentially conservative, MNI was told.

"The Fed's conundrum is that the supply chain issues themselves may last a while," said Glenn Hubbard, former head of the White House Council of Economic Advisers and an ex-adviser to the Federal Reserve Bank of New York.

The rapid spread of the Delta variant will further strain global trade, he added. "That's going to exacerbate inflation pressures, not weaken them on the supply side, so it doesn't make the situation any better."

Nicolas Sly, a Kansas City Fed economist who has studied shipping costs and inflation, told MNI he sees reason to believe there may be more pass-through of shipping costs to consumers than in the past.

HISTORIC SHOCK

"The shock that we're seeing in terms of congestion for shipping costs is certainly bigger than what we've seen historically and that's a reason to think the pass through to final consumers to inflation could be a little bit different and perhaps a bit larger this time around," Sly said in a recent interview.

In past research, he has found a 15% increase in shipping costs leads to a 0.10 pp rise in core PCE inflation after about one year. Covid is "a much bigger shock, it's lasted a little bit longer, and it's coming at a time when firms might have a little bit less margin to absorb it," he said.

Shipping rates are now seeing a "fairly sustained increase where the price throughout is actually accelerated but persisted for a little while," he said, pointing to the Harper Peterson Charter Rate Index which is up over 800% since July last year. "That's another reason that we might actually anticipate the potential for there to be a little bit more pass-through in the final goods for consumers."

Fed Chair Powell described recent inflation trends as a "cause for concern" at Friday's Jackson Hole meeting but pointed to "a number of factors that suggest that these elevated readings are likely to prove temporary." A major issue for policymakers is how quickly prices actually moderate into next year, and some ex-Fed economists have highlighted disinflationary risks in 2022. (See: MNI: Patience Warranted as Inflation to Ease - Ex-Fed Economists)

TEST OF PATIENCE

"Some of the inflation we've seen is certainly transitory. The question is have we seen some permanent inflation as well -- that remains to be seen," James McAndrews, a former New York Fed economist, told MNI.

"Ideally we'd like to see the long-run supply response in many of these sectors before we judge but policymakers don't necessarily have that luxury. So it requires a lot of careful thought to try to measure how much of the inflation is really more than transitory," he said.

Indeed, Sly says shipping costs and other supply pressures suck as domestic trucking are reflected only gradually in changes to consumer prices, lengthening their effects. "The pass-through to inflation comes incrementally," he said. "I'd anticipate that would peak somewhere around a year to 18 months out."

Still, Sly sees this as one-time hit to prices that's unlikely to be repeated.

"You're seeing businesses being able to adapt to this and make plans and adjustments," he said. "Businesses are, naturally through market forces, starting to readjust their contracts and that's going to ease some of the pressure off."