

MNI Fed Preview: November 2022

Note to readers: MNI's Fed Preview was originally published Oct 28 – this Oct 31 update includes summaries of sell-side analyst previews for the meeting ([see page 28 of this document](#)).

Meeting Dates: Tue-Wed, 1-2 November

Decision/Statement: Wed 2 November at 1400ET / 1800GMT

Press Conference/Q&A: Wed 2 November at 1430ET / 1830GMT

Minutes: Wed 23 Nov

Links (likely URLs based on previous meetings):

Statement: <https://www.federalreserve.gov/newsevents/pressreleases/monetary20221102a.htm>

Implementation note:

<https://www.federalreserve.gov/newsevents/pressreleases/monetary20221102a1.htm>

Press Conference: <https://www.federalreserve.gov/monetarypolicy/fomcpresconf20221102.htm>

MNI Review of Previous FOMC (Sept): <https://roar-assets-auto.rbl.ms/documents/18538/FedReviewSep2022.pdf>

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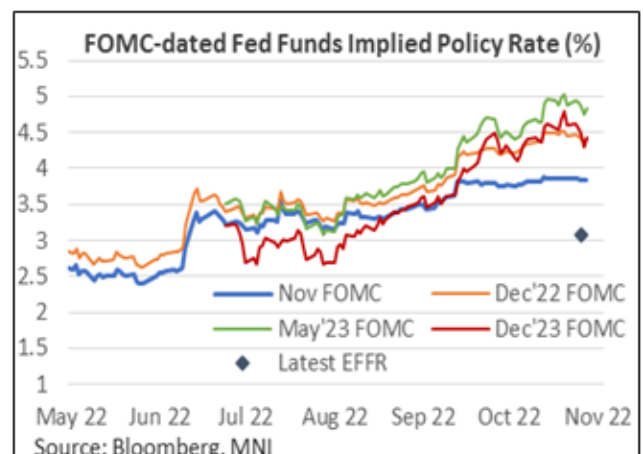
MNI POV (Point Of View): Keeping Year-End Options Open

By Tim Cooper

- The November FOMC meeting is mainly about the message the Fed wants to send about its plans for December.
- A 4th consecutive 75bp hike is assured this time. A step-down to a 50bp hike at the following meeting looks like the path of least resistance for now – the question is, how strongly does the FOMC seek to express that view.
- In a close call, we expect only limited changes to the Statement – but anticipate that Chair Powell will signal that the Committee is currently eyeing either 50bp or 75bp in December, with the decision to be data-dependent.
- If there are substantive changes to the Statement, the risks are that they almost certainly lean dovish, with either an overt nod to slowing the pace of increases, or a reference to the impact of cumulative hikes on the economy.

Going into the penultimate meeting of 2022, the Fed is seen as being on the verge of slowing the pace of “ongoing” (as the FOMC Statement has put it) rate hikes. After making a fourth consecutive 75bp raise at the November FOMC (100% priced in by markets) to 3.75-4.00%, futures markets see a better-than-even chance (70% to 30%) that there will be a downshift to a 50bp hike at the December meeting. In total, only a further 100bp of hikes is priced in this cycle beyond the November meeting, bringing the target range to 4.75-5.00%.

The primary question for the November meeting is, will the Fed clearly express a view that it currently expects to slow the hiking pace starting in December? It's likely we will get at least some hint in November that the FOMC is debating this idea, and that such a decision will be data-dependent – but that a step-down in the hike path from 75 to 50 is hardly assured.



The FOMC was eyeing at most a 50bp hike in December less than 6 weeks ago. The September Dot Plot – which Chair Powell in the subsequent press conference, and most speakers thereafter, pointed to as a reasonable guide to expectations – showed a 4.4% median for end-2022, implying 125bp hikes in Nov and Dec. Taken at face value, 18 of 19 FOMC members saw the pace of hikes slowing by year-end. It would appear that 8 saw a return to 50bp hikes as soon as November (total 100bp implied), while 9 saw that happening only in December (125bp implied), and 1 saw no slowdown this year (150bp implied). Powell didn't push back against that interpretation at the press conference.

But Powell also reiterated that the FOMC's hikes would be data-dependent. That came into play with the upside surprise in September's inflation reading (see [Economic Developments](#) section below, or our [Inflation Insight publication here](#)). The CPI reading pretty much eliminated any lingering chance the Fed could drop the pace of hikes to 50bp in November, and the baseline market expectation – rightly, in our view – solidified towards 75bp at the December FOMC meeting too.

Then, markets reacted to an apparent late communications surprise from the FOMC, this one a one-two punch on Friday Oct 21 just ahead of the pre-meeting blackout period:

- **WSJ “Fed watcher” Nick Timiraos published an article outlining the case for the FOMC slowing to a 50bp clip in December**, though potentially upping their terminal rate outlook. From the piece: *“Fed policy makers face a series of decisions. First, do they raise rates by a smaller half-point increment in December? And if so, how do they explain to the public that they aren't backing down in their fight to prevent inflation from becoming entrenched?... If officials are entertaining a half-point rate rise in December, they would want to prepare investors for that decision in the weeks after their Nov. 1-2 meeting without prompting another sustained rally. One possible solution would be for Fed officials to approve a half-point increase in December, while using their new economic projections to show they might lift rates somewhat higher in 2023 than they projected last month.”*
- **SF Fed Pres Daly saying** “thinking hard about a step down but we're not there yet”; that the September Dot Plot is a “good indication of where things are looking”, and noting that the Fed didn't want to be “too reactive” or provoke an “unforced downturn” by overtightening. Perhaps the most dovish part was her mentioning rental price inflation was “starting to slow”, which referenced a key CPI component pushing core price readings higher.

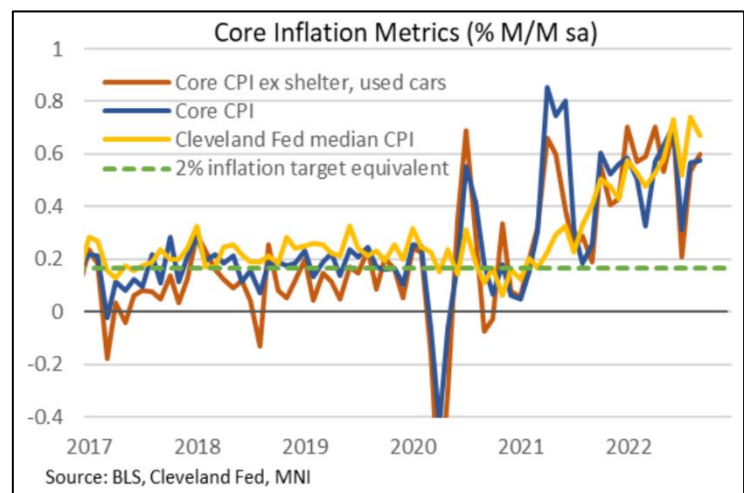
After these developments, a 75bp hike in December became more of a coin toss vs 50bp. One can question the strength of the signal of these communications, and after all, they were basically just consistent with previous signals including the Dot Plot and meeting minutes. But their timing raised legitimate speculation that the FOMC wanted to guide market pricing a little more dovish going into the November meeting, so as not to shock if a step-down in future rate hikes were signalled.

Insufficient Evidence To Commit To December Downshift

Why not just come out now and make explicit in the Statement that they are “considering” reducing the pace of hikes “at some point”? After all, it's obvious they won't hike by 75bp per meeting forever, and that language has been used by Powell in the last few press conferences and in the minutes. But the main reason not to add such language is precisely because they haven't used it in the statement before. They have had the opportunity to add it prior to meetings in which they anticipated a debate between another 50bp or 75bp hike – and haven't taken it. **So to do so now would be construed by markets as a dovish shift by raising the bar to a 75bp hike in December**, and that could both complicate the Fed's message and raise inflation expectations. After the Oct 21 dovish communications, market based inflation expectations immediately reacted by moving higher – on both TIPS breakevens and a forward basis. And overall they remain elevated vs September FOMC levels.

Even if the FOMC decided at this meeting that December was more likely to be a 50bp raise than 75bp, changing the statement to reflect this would be a bigger commitment to that path than just letting Powell reiterate that language again in the press conference. There don't seem to be any advantages to that approach. Certainly, it doesn't appear that the FOMC is so uncomfortable with current rate pricing that they would seek to push it lower.

And MNI would argue that the FOMC has not yet seen enough evidence in the data to make such a signal clear at this meeting. Chair Powell clearly stated at the last meeting what the FOMC's criteria for slowing and eventually stopping rate hikes were: *“First, we'll want to see growth continuing to run below trend, we'll want to see movements in the labor market showing a return to a better balance between supply and demand, and, ultimately, we'll want to see clear evidence that inflation is moving back down to 2 percent.”*



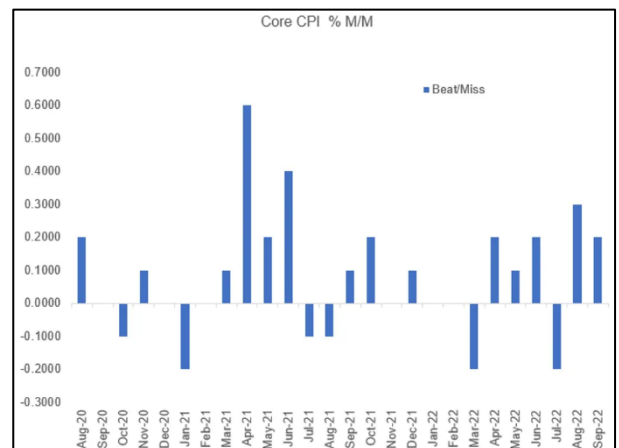
- There is evidence growth is softening (**see our Economic Developments section below**), particularly in the housing sector, and the labor market is showing signs of returning to a better supply-demand balance, with job openings beginning to pull back from record levels, and wage growth showing signs of peaking. But wages remain hot, payroll growth remains robust, and the unemployment rate remains near record lows.
- And the best one can say about the “clear evidence” that inflation is moving back down to 2% is that commodity prices have fallen from the peak and core goods price inflation finally looks to be coming under control. But behind a 40-year high in core services price growth, overall core M/M inflation unexpectedly picked up in September, and on a Y/Y basis hit fresh cycle highs of 6.6% Y/Y, surpassing March’s 6.5%. So the inflation criterion hasn’t been met, and it may not be met in time for the supposed December downshift.
- There are other factors that could argue for a slower rate pace signal, including global financial market instability and residential real estate weakness, but the former is probably not seen as impactful enough on the US (yet), and the latter is seen as almost more of a feature of tightening than a bug.

The lack of “clear and compelling” evidence in either direction on these fronts means the December decision is largely, if not entirely, dependent on the incoming data between November 2 and December 14. That means likely a choice between 50bp and 75bp.

- We get two more CPI readings between now and the Dec. 14 decision - one of those releases (for Nov CPI) is Dec 13th, and it would take a big surprise to sway the Committee from whatever it signals pre-blackout.
- **The next 4 CPI dates:** Nov 10, Dec 13, Jan 12, Feb 14. **Next 4 Nonfarm payrolls:** Nov 4, Dec 2, Jan 6, Feb 3.
- Looking farther out, a slowdown in hike pace to 25bp by the Feb 1 decision (4.75% rate is currently priced, or 166bp from here) is a bet on CPI pulling back sharply by the end of the year (the Dec CPI report is out Jan 12th). Overall that’s a tough bet: core CPI has beat expectations 5 of the past 6 months (**see chart**), and while core goods prices are soft, services are high and sticky.
- **We’d thought previously that the December FOMC was the earliest we could see a “pivot” toward slowing the hike pace**, but the September data makes it more likely to take into at least the mid-January CPI unless the October and November data come much closer in line. Or, of course, we get a major crisis that collapses inflation expectations.

So in a close call, we expect only limited changes to the Statement at this meeting. But we also see a reasonably good chance Chair Powell will signal that the Committee is currently eyeing either 50bp or 75bp in December, with the decision to be data-dependent.

If there are substantive changes to the Statement, the risks are almost certainly that they lean dovish, with either an overt nod to slowing the pace of increases, or a reference to the impact of cumulative hikes on the economic outlook. Of course there are hawkish risks as always, but we think they are limited. Suggesting at this meeting that they are considering upshifting hikes or raising terminal rate estimates would seem too reactionary. As Powell reiterated in September, “you never want to overreact too much to any one data point.” They will have plenty more data by December to make a better-informed decision.



MNI Policy: Ex-Fed Officials Weigh Up December 75

Ex-Fed officials interviewed by MNI's Policy Team unanimously agreed a fourth 75 basis point move was likely in November, and a fifth supersized move could happen in December. A minority argued against the prospect. (**See Policy articles, p 11**)

- **Former Boston Fed President Eric Rosengren told MNI a resilient economy**, sticky inflation, and a strong labor market are reasons why the Fed will raise rates above 5%. And “the risks are that they will have two 75 basis point increases rather than a 75 and 50,” he said. “The base case of 75 and 50 is actually requiring some pretty good CPI and PCE reports before the December meeting, and I’m not sure they’re going to get that.”
- **Less hawkish is ex Fed Governor Quarles, who told MNI it “would be reasonable” to slow the pace of interest rate hikes in December.** “I think that a terminal interest rate of 4% or moderately more will be enough to actually constrain this inflation,” said Quarles, who was among the first Fed officials to adopt a more hawkish stance in October last year when he warned of significant upside risk to inflation. “I do expect that we’ll see inflation start to moderate materially between now and into January,” he added.

Statement: Eyeing Dovish Risks

([Link to September FOMC statement](#))

The most closely-watched part of the Statement will be the forward guidance on rates, namely that having hiked at this meeting (presumably by 75bp), the Committee “anticipates that ongoing increases in the target range will be appropriate.” That

language will probably remain unchanged for yet another meeting. **But our Instant Answers selections also reflect the likelihood that any changes would probably be in a dovish direction:**

- Does the FOMC add a reference to slowing the pace of rate hikes?
- Does the FOMC say it will be "patient" or "cautious" in determining future rates adjustments?
- Does FOMC say it anticipates slowing the pace of future rate adjustments at the next meeting?

Going paragraph by paragraph:

"Recent indicators point to modest growth in spending and production. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures.

Russia's war against Ukraine is causing tremendous human and economic hardship. The war and related events are creating additional upward pressure on inflation and are weighing on global economic activity. The Committee is highly attentive to inflation risks."

- **The description of economic conditions is likely to remain largely unchanged again**, though could see modest tweaks – probably in a dovish direction, if the FOMC wanted to highlight signs of weakness in interest rate-sensitive sectors (particularly housing). If they do, it could be offset by how strong they saw the economy otherwise. The statement could tweak the description of inflation drivers to reflect the rise of services vs the softening of core goods, but that's probably premature.
- **The Russia/Ukraine language will probably remain largely unchanged, but there might be scope to acknowledge financial market volatility and weakening global conditions.** The UK Gilt market scare in late September / early October set off a chain reaction in global FI markets. But it appeared to be the opinion of most FOMC participants that while they had to consider global developments, US markets were functioning properly. Furthermore, there was no sense that the Fed was concerned enough that recent volatility would affect the course of policy tightening. Vice Chair Brainard (who MNI regards as one of the most dovish Fed members) noted in mid-October that the Fed is "attentive to the risk of further adverse shocks" and noted awareness of global factors weighing on US economic activity, but still called for restrictive policy. **It's almost certainly too soon for such factors to make a prominent appearance in the statement – though they could vaguely mention "global factors" as meriting close observation - but this is covered later in the Statement anyway by "will take into account [among other factors]... financial and international developments."**

"The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 3 to 3-¼ percent and anticipates that ongoing increases in the target range will be appropriate. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in May. The Committee is strongly committed to returning inflation to its 2 percent objective."

- **The key question is whether they change the "ongoing increases...will be appropriate"**. Maintaining the language intact (as we expect) points to further hikes at the next two meetings at least, without specifying the size – hence retaining full optionality.
- We acknowledge this is a very close call – there is clearly a growing movement on the FOMC to move toward a "wait and see the effect of cumulative rate hikes" position. And some sell-side analysts see risks there could be some changes.
- **The following would be the most likely "pivot" in the forward guidance:** *"At some point, as the stance of monetary policy tightens further, it likely will become appropriate to slow the pace of increases. However, restoring price stability will likely require maintaining a restrictive policy stance for some time."*
- And/or "ongoing" could be changed to "some further" increases – though this would again restrain FOMC optionality to no real purpose.
- Again, even if these sentiments are agreed at the meeting, the Committee may prefer to communicate them in the Powell press conference and the minutes, as per their approach the last few meetings.
- The FOMC won't change balance sheet policy at this meeting, so the latter half of the paragraph will remain intact.

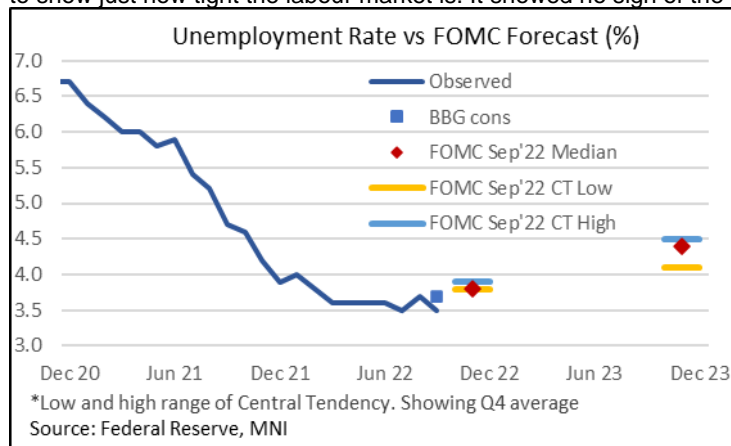
"In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments."

- No changes to this paragraph are expected.
- **Dissents to the rate decision look unlikely.** If there are any to a 75bp hike, it's more likely to be KC Fed Pres George again in favor of 50bp.
- **Additionally, in the Implementation Note**, we expect a parallel 75bp shift in all of the main administered rates, with IORB rising to 3.90% and ON RRP rising to 3.80%.

Macro and Financial Developments Since The Sep 20-21 FOMC

By Chris Harrison

The sole payrolls report between FOMC meetings helped heavily guide towards another 75bp rate hike. Payrolls growth was about as close to expected as can be in September, at 263k with minimal revisions as jobs growth continued to cool but remain firmly above pre-pandemic trends. However, a surprise dip in the u/e rate back to joint fifty-year lows of 3.5% continues to show just how tight the labour market is. It showed no sign of the upward drift that the median FOMC member expects to see

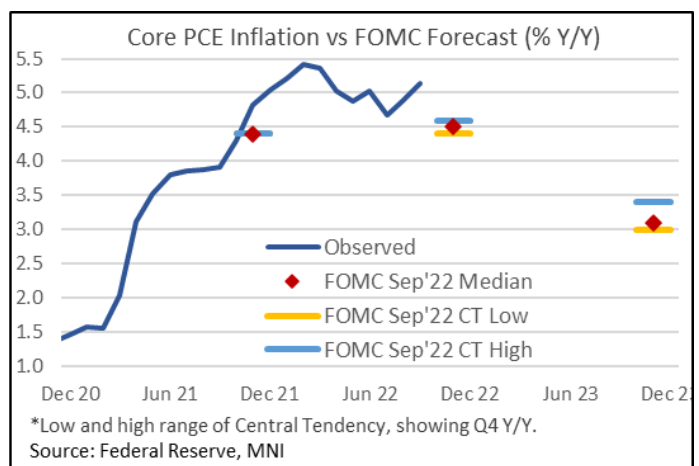
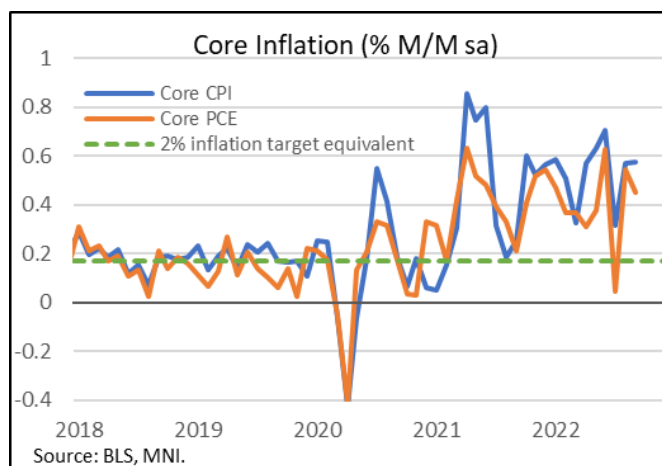


this year to 3.8% and 4.4% for end-2023 as part of their projection for 4.4% Fed Funds come Dec'22, whilst also bucking signs of relatively softer job demand from August JOLTS data. AHE growth held its recent moderation and is now running between 4-4.5% annualized on a three-month basis. The Fed's preferred ECI subsequently also showed some moderation in Q3 but still sees total compensation costs rising 5% annualized, with private sector wages a relative weak spot but still 4.5% annualized.

If the solid payrolls report wasn't seen to lock in a fourth 75bp hike then the sole CPI report that followed certainly did. Core CPI inflation again came in much stronger than expected in September (0.6% M/M

vs consensus 0.4) as core goods showed signs of deceleration from easing supply chains and USD strength but underlying, and typically stickier, services surged even further. In particular, sequential rent inflation continued to accelerate to yet new multi-decade cycle highs along with highs also for medical care services.

There was moderately less breadth to inflation than in August, but that's only comparing to the strongest median sequential inflation of the cycle, whilst year-ago rates hit new cycle highs. It translated to a 0.45% M/M increase in core PCE inflation, down from 0.54% M/M in Aug but still clearly still far above the mid-to-lower 0.2s that Governor Waller, for instance, wants to see for "months... a real permanent longer-term decline" to have confidence that inflation is trending lower having got burned last year with what proved to be an incorrect signal of softening inflation at the time. We'd thought previously that the Dec FOMC was the earliest we could see a "pivot" toward slowing the hike pace, but latest data makes it more likely to take into at least the mid-January CPI.



There are however signs of softer growth, something the Bank of Canada was sensitive to with its surprise downshift to a 50bp hike on Wednesday. GDP growth is known to have been weak in 1H22 for months now but the surprise since the last meeting was the fact that some of its weakness wasn't revised away. Instead, Gross National Income (GNI) was revised notably lower and towards GDP having been growing much stronger in original data vintages. That strength had been regularly quoted by more hawkish FOMC members as reasons to downplay the technical recession, looking for GDP and GNI to converge over time, but that hasn't been the case, yet. The Q3 advance for GDP did show a solid bounce with 2.6% annualized but it follows the -1.1% averaged through 1H22 (or -0.3% for GDP and GNI combined).

Housing has weighed heavily on growth (residential investment dragged -0.5pps from Y/Y GDP growth in Q3) as mortgage rates have continued to surge, most recently topping 7% for post-2001 highs and with a bleak outlook ahead. Further, durable

goods orders disappointed most recently for September, with the largest monthly decline since May'21, lending confirmation to the slowdown in manufacturing surveys, particularly so in regional Fed surveys and the MNI Chicago PMI as ISM just about holds north of 50 with the October figure set to be released the day before the FOMC decision.

The result has been near-term rate expectations for the November meeting sit resolutely at 75bps or just above but with sizeable fluctuations to 2023 rates. The terminal rate has been seen anywhere between Feb and May meetings whilst the Dec'23 has seen a range of almost 70bps. Currently, markets are torn between a 50 and 75bp hike at the Dec'22 meeting (cumulative 133bp priced) whilst the terminal rate is seen at 4.85% in May'23 before 4.39% in Dec'23.

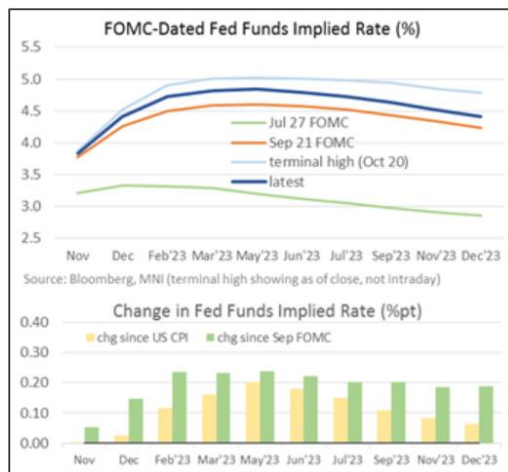
MNI Instant Answers:

The questions that we have selected for this meeting are:

- Federal Funds Rate Range Maximum
- Interest Rate Paid on Reserve Balances (IORB)
- Offering rate on reverse repurchase agreement operations (ON RRP)
- Does the FOMC add a reference to slowing the pace of rate hikes?
- Does the FOMC say it will be "patient" or "cautious" in determining future rates adjustments?
- Does FOMC say it anticipates slowing the pace of future rate adjustments at the next meeting?

*The markets team has 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 Chat and Bullets services.***

Market-Implied Rate Outlook



Source: Bloomberg, MNI Market News

- Markets are pricing in a probability of roughly 100% for a 75bp hike at the November FOMC. There are 133bp in total hikes fully priced by the end of 2022 (implying 58bp hike at the December meeting, or a roughly 30% chance of a 75bp raise and 70% of 50bp). The terminal rate is now seen at 4.85% for the May 2022 meeting, with at least one full 25bp rate cut priced in by the end of 2023. **Updated Oct 28, 2022**

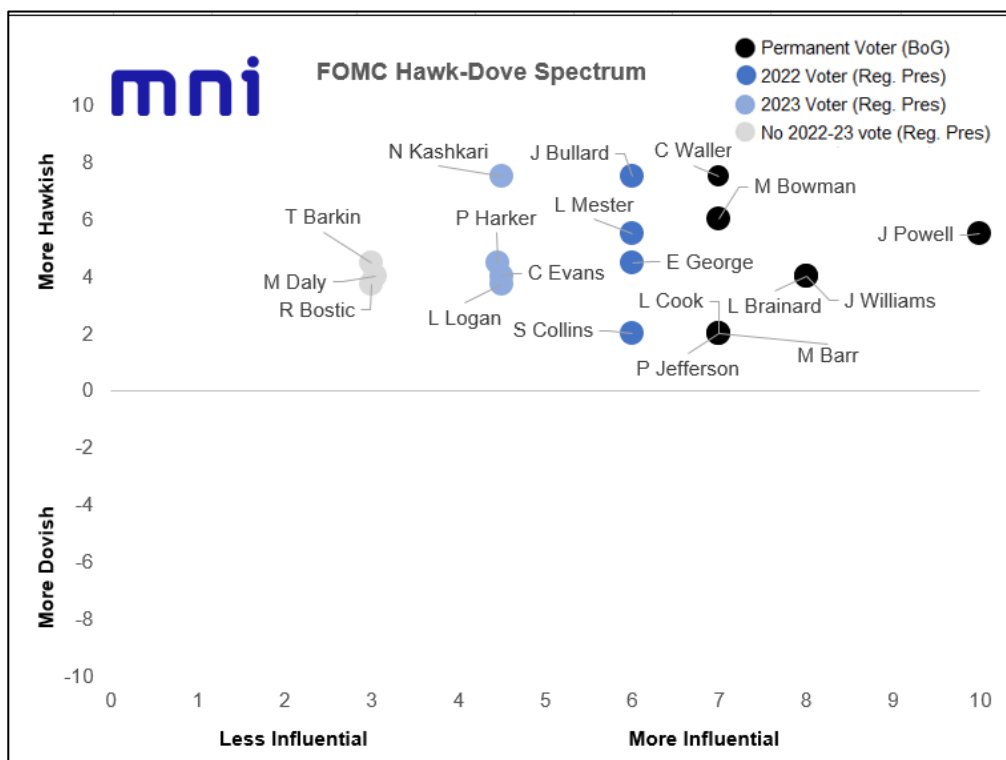
mni Central Bank Watch - FED

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	8.2	9.1	↓	8.5	↓					0.94
PCE Deflator	% y/y	6.2	7.0	↓	6.8	↓					-1.03
UoM 1-Yr Inflation Exp	% y/y	5.0	5.2	↓	5.4	↓					-0.51
Inflation Swap 5y/5y	%	2.64	2.42	↑	2.64	↑					-2.10
Economic Activity		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
ISM	Index	50.9	53.0	↓	57.1	↓					-2.25
Industrial Production	% m/m	0.38	-0.08	↓	0.65	↓					0.03
Factory Orders	% m/m	0.0	1.8	↓	0.3	↓					-0.84
Housing Starts	K	1439	1575	↓	1716	↓					-1.06
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	2.24	2.13	↑	1.57	↑					2.11
Chicago Fed Financial Con	Index	-0.08	-0.14	↑	-0.37	↑					1.36
Consumer Credit Net Chg	\$bn	32.2	26.9	↑	33.6	↓					0.11
New Home Sales	K	603	571	↑	707	↓					-0.51
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	0.0	1.0	↓	1.2	↓					-0.35
Consumer Confidence	Index	102.5	95.3	↑	108.6	↓					-0.19
Nonfarm Payrolls Net Chg	K	263	293	↓	398	↓					-0.98
Average Hourly Earnings	% y/y	5.0	5.2	↓	5.6	↓					-1.44
Markets		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Equity Market	Index	3832	3785	↑	4530	↓					-1.42
US 10-Year Yield	%	3.96	3.01	↑	2.34	↑					1.69
US Yield Curve (2s-10s)	bps	-41.0	6.0	↓	0.4	↓					-1.48
USD TWI	Index	90.82	92.70	↓	91.63	↓					-0.80

- Financial conditions have mostly tightened over the past 3 months. While headline inflation metrics have moderated slightly, this is not reflected by core measures which remain elevated. Additionally, economic activity is showing some signs of slowing, with labor market and consumer strength softening. **(Updated Oct 28, 2022)**

Key Inter-Meeting FedSpeak – Nov 2022

- Most inter-meeting communications involved FOMC participants making the case for the ongoing front-loading of rate hikes, though views of the terminal rate varied.
- All saw further rate hikes as necessary, with some saying that once rates had been raised sufficiently into restrictive territory, needed to remain there while the FOMC assessed the impact of cumulative hikes.
- Several cited September's Dot Plot as a good indication of the current thinking on likely future rate hike policy.
- Several pushed back against the potential for Fed rate cuts by the end of next year.
- Others said that it was too soon to think about pausing rates.
- Several echoed the sentiment that inflation was "too high".
- Some mentioned global financial market instability as a potential risk factor to the outlook.



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. Recent appointees' monetary policy bias assumed for now to be slightly hawkish.

Member	Role	Voter		Monetary Policy Commentary Since September FOMC
		'22	'23	
J Powell	BOG, Chair	X	X	On the economic outlook: "“We continue to deal with an exceptionally unusual set of disruptions...As policy makers we're committed to using our tools to help see the economy through what has been a uniquely challenging period.” -Sep 23
J Williams	NY Fed, V Chair	X	X	On rate hikes: "[Sees rates rising to 4.5% over time, but] the timing of that and how high do we have to raise interest rates is going to depend on the data...right now the focus is getting inflation back down to 2% and doing that in a way that keeps the economy growing". - Oct 7 On inflation: "Most importantly, I see inflation coming down significantly next year...I do see us on the right

Member	Role	Voter		Monetary Policy Commentary Since September FOMC
		'22	'23	
				trajectory of the economy slowing somewhat, and at the same time bringing inflation down over the next couple of years." – Oct 7
L Brainard	BOG, V Chair	X	X	On rate hikes: "The committee's said the policy rate will increase further [when asked specifically about a 4.5% terminal rate]...That assessment will reflect incoming data and the balance of risks domestically and globally...moving forward deliberately and in a data-dependent manner will enable us to learn how economic activity, employment, and inflation are adjusting to cumulative tightening in order to inform our assessments of the path of the policy rate...monetary policy will be restrictive for some time to ensure that inflation moves back to target over time." – Oct 10
M Barr	BOG, V Chair	X	X	No comments on current monetary policy since September FOMC
M Bowman	BOG	X	X	On rate hikes: "If we do not see signs that inflation is moving down, my view continues to be that sizable increases in the target range for the federal funds rate should remain on the table.. It is not yet clear how high we will need to raise the federal funds rate and how much time will pass before we begin to see inflation moving back down in a consistent and lasting way," – Oct 12
L Cook	BOG	X	X	On rate hikes: "I fully supported the step-up in the front-loading of policy over the past three FOMC meetings. .. With inflation running well above our 2 percent longer-run goal, restoring price stability likely will require ongoing rate hikes and then keeping policy restrictive for some time until we are confident that inflation is firmly on the path toward our 2 percent goal. At some point, as we continue to tighten monetary policy, it will become appropriate to slow the pace of increases while we assess the effects of our cumulative tightening on the economy and inflation. In any case, the path of policy should depend on how quickly we make progress toward our inflation goal." – Oct 6
P Jefferson	BOG	X	X	On inflation: "We have acted boldly to address rising inflation, and we are committed to taking the further steps necessary...my colleagues and I are resolute that we will bring inflation back down to 2%." – Oct 4
C Waller	BOG	X	X	On rate hikes: "I anticipate additional rate hikes into early next year, and I will be watching the data carefully to decide the appropriate pace of tightening." – Oct 6 On inflation: "Shelter inflation is a particularly persistent component of inflation...unfortunately, the message is that shelter inflation will likely remain high for several months...The stance of monetary policy is slightly restrictive, and we are starting to see some adjustment to excess demand in interest-sensitive sectors like housing...but more needs to be done to bring inflation down meaningfully and persistently." – Oct 6
L Mester	Clev. Fed	X		On rate hikes: "If we adjust the current nominal fed funds rate by the SEP median projection for inflation next year, which is 2.8 percent, policy is still a tad accommodative. Further funds rate increases are needed to get policy into a restrictive stance, and the median fed funds rate path in the SEP has rates moving up to 4.4 percent by the end of this year and to 4.6 percent next year. Because I see more persistence in inflation than the median SEP projection, the funds rate path I submitted for the September SEP was a bit higher over the next year than the median path, and I do not anticipate any cuts in the fed funds target range next year." – Oct 11 On inflation: "Despite some moderation on the demand side of the economy and nascent signs of improvement in supply side conditions, there has been no progress on inflation...the month-to-month changes in the inflation measures have shown no real decline, so we cannot even say inflation has peaked yet, let alone that it is on a sustainable downward path to 2 percent." – Oct 11
E George	K.C. Fed	X		On rate hikes: "We may have to keep at this for a while. You may see the terminal fed funds rate higher and have to stay there longer... but I'm more cautious maybe than most about how quickly we do that and how aggressively we do that." – Oct 14
J Bullard	St. Louis Fed	X		On rate hikes: "In 2023 I think we'll be closer to the point where we can run what I would call ordinary monetary policy. Now you're at the right level of the policy rate, you're putting downward pressure on inflation, but you can adjust as the data come in in 2023." – Oct 19
S Collins	Bos. Fed	X		On rate hikes: "Returning inflation to target will require further tightening of monetary policy, as signaled in the recent FOMC projections... It will be important to see clear and convincing signs that inflation is falling." – Sep 26
P Harker	Phil Fed		X	On rate hikes: " we are going to keep raising rates for a while. Given our frankly disappointing lack of progress on curtailing inflation, I expect we will be well above 4 percent by the end of the year. Sometime next year, we are going to stop hiking rates. At that point, I think we should hold at a restrictive rate for a while to let monetary policy do its work. It will take a while for the higher cost of capital to work its way through the economy. After that, if we have to, we can tighten further, based on the data. But we should let the system work itself out. And we also need to recognize that this will take time: Inflation is known to shoot up like a rocket and then come down like a feather." – Oct 20 On the criteria for slowing tightening: "Above all, I want to stress that we must remain data dependent and flexible on policy. What we really need to see is a sustained decline in a number of inflation indicators before we let up on tightening monetary policy. And again, we need to make sure inflation expectations don't become unanchored." – Oct 20
N Kashkari	Minn. Fed		X	On rate hikes: "Core services inflation -- which is the stickiest of all -- keeps climbing, and we keep getting surprised on the upside...if we don't see progress in underlying inflation, or core inflation, I don't see why I would advocate stopping at 4.5%, or 4.75%, or something like that." – Oct 18
L Logan	Dall. Fed		X	On inflation: "Inflation is way too high..well above our target and it's critical that the work we're doing is focused on restoring price stability and returning inflation to our 2% target." – Sep 28

Member	Role	Voter		Monetary Policy Commentary Since September FOMC
		'22	'23	
C Evans	Chic. Fed		X	<p>On rate hikes: ""Unfortunately, at the moment, inflation is just much too high, and so we need to continue on the path that we've been indicating -- at least that. And I'm hopeful that that will be enough... Continued increases in the funds rate along the lines of our September SEP could lead to a economic outlook where we're going to see below-trend growth -- we'll be challenged in that regard -- we'll see the unemployment rate go up, but I think that it won't take off... I think if we have to increase the path of the funds rate much more, though, it really does begin to weigh on the economy. I worry that it's sort of a nonlinear kind of event." – Oct 19</p>
T Barkin	Rich. Fed			<p>On rate hikes: "The Fed is moving expeditiously...we have raised rates 300 basis points, started shrinking our balance sheet aggressively and signaled there are more rate increases to come... Our rate and balance-sheet moves take time to bring inflation down." – Sep 30</p> <p>On inflation: "What if we are in a new era -- one in which we face inflationary headwinds? ... These pressures could make 'looking through' short-term shocks more difficult. They could make gradual rate-increase paths less effective... As a result, our efforts to stabilize inflation expectations could require periods where we tighten monetary policy more than has been our recent pattern." – Oct 3</p>
R Bostic	Atl. Fed			<p>On rate hikes: "I would like to reach a point where policy is moderately restrictive --between 4 and 4 1/2 percent by the end of this year -- and then hold at that level and see how the economy and prices react... I am not advocating a quick turn toward accommodation. On the contrary. You no doubt are aware of considerable speculation already that the Fed could begin lowering rates in 2023 if economic activity slows and the rate of inflation starts to fall. I would say: not so fast." – Oct 5</p> <p>On inflation: "The top line message that is front forward for me is that inflation is high, and in fact, it's too high. And we need to get that under control." – Oct 18</p>
M Daly	S.F. Fed			<p>On the terminal rate: "We are not on some sort of course that can't correct if the economy needs more bridling or needs less bridling .. [rates ending between 4.5% and 5%] is the most likely outcome... [followed by a] hold at that point for some period of time." -Oct 14</p> <p>On reducing the size of hikes from 75bp: "It should at least be something we're considering at this point, but the data haven't been cooperating.. we might find ourselves, and the markets have certainly priced this in, with another 75 basis-point increase, but I would really recommend people don't take that away as, it's 75 forever." – Oct 21</p> <p>On inflation: "Rental price inflation is very slow but takes a while to fully move through. New leases are lower in price but it takes a long time for new leases to be generated so that you get an average lease that's lower in value. Those things are in train in the inflation data, we don't want to be too reactive to those pieces of inflation because you can easily find yourself overtightening into an unforced downturn." – Oct 21</p>

MNI Policy Team Insights

MNI: Data Hurdles Seen Between Fed And Rate Hike 'Stepdown' (Pub Oct 28, 2022)

By Jean Yung, Pedro Nicolaci da Costa and Evan Ryser

(MNI) WASHINGTON - Federal Reserve officials are considering when to start slowing the pace of rate hikes from 75 basis points per meeting, but Chair Jerome Powell will be reluctant to lock in such an outcome for December at his press conference next week, former Fed officials and a current outside adviser told MNI.

The Fed will be conscious that upside surprises to inflation and employment between now and the Dec 13-14 meeting could still necessitate another 75bp hike before the year is out, they noted.

"Jay Powell has some scope for telegraphing a December slowing. But he can only go so far. He's speaking for the committee and he can't get too far ahead of the committee before the December meeting," former Atlanta Fed President Dennis Lockhart said in an interview.

"But even if we see little progress in the inflation data to come, I think he has some room to say that the committee has come very far very fast, and, given the lags of policy on the economy and on inflation, it might make sense to monitor the effects of the actions taken so far. I don't think that would necessarily be viewed as inconsistent with even somewhat discouraging inflation data."

For now Powell is more likely to keep alive the option of a fifth straight 75bp increase despite pressure from some FOMC members and lawmakers to signal a slowdown to 50bps as rates approach their projected peak. Indeed the Fed could have to hike by another 75 bps in December if inflation worsens -- as some former officials believe it will.

OVERDOING IT?

Even so, concern is rising among some Fed officials that the FOMC will overtighten, with rates already in restrictive territory and household spending showing hints of attenuating.

Rate increases have a greater impact today as companies and governments have loaded up on debt this century, former Fed Governor Randal Quarles told MNI, arguing that a stop at 4% would still constrain inflation. Others noted monetary policy acts with unpredictable lags, and simultaneous global tightening will have a greater combined effect on prices. (See [MNI INTERVIEW: Reasonable For Fed To Slow Pace Soon - Quarles](#))

"By the end of the year we'll see a slowdown in the speed of rate increases" before they stop between 4.5% and 5%, said Michael Weber, academic consultant to the Cleveland Fed and Chicago Booth School professor. Headline inflation is coming down even if core is proving more stubborn. "Policymakers will want to see what the effect of rate increases is on aggregate demand."

DATA COULD DISAPPOINT

But some former Fed officials expressed pessimism that inflation and the labor market will cooperate with FOMC hopes that the end of the tightening cycle could be in sight. Labor market momentum has yet to slow noticeably and inflation is proving [tough to quell](#), former Boston Fed President Eric Rosengren told MNI.

"At some point, the pace of rate increases needs to slow from 75 to 50 to 25 and a pause. I don't think we have the basis in the macro evidence right now to support that," said David Wilcox, former Fed Board of Governors research director, and now economist with the Peterson Institute for International Economics and Bloomberg Economics.

"The risk is a reduction in the pace of increases would be misinterpreted as them flinching from their campaign to bring inflation under control. That misinterpretation would result in a loosening in financial conditions and set back the effort to slow the momentum in aggregate demand."

The FOMC would need consecutive weaker-than-expected October and November employment reports and signs of easing momentum in core CPI categories to be persuaded a stepdown is warranted, he said. "I don't think it's likely to happen between now and December."

MNI INTERVIEW: Reasonable For Fed To Slow Pace Soon - Quarles **(Pub Oct 27, 2022)**

By Evan Ryser

(MNI) WASHINGTON - The Federal Reserve could step down to a slower pace of rate increases in December and it may not need to do much more to constrain inflation, former Fed Governor Randal Quarles told MNI.

It "would be reasonable" to slow the pace of interest rate hikes in December, Quarles said in an interview, pointing to debt levels that have built up over the last 15 years that may mean interest rate increases now have a greater impact.

"Any given nominal increase in interest rates is going to be a huge percentage increase in the cost of debt service," he said. "So the constraining effect of any given increase in nominal rates is greater than it has been in previous tightening cycles."

Federal borrowing from the public as a percentage of GDP has increased from 35% in 2007 to 97% of GDP at the end of fiscal year 2022, while corporate debt has roughly doubled.

"I think that a terminal interest rate of 4% or moderately more will be enough to actually constrain this inflation," said Quarles, who was among the first Fed officials to adopt a more hawkish stance in October last year when he [warned](#) of significant upside risk to inflation.

"I do expect that we'll see inflation start to moderate materially between now and into January," he added.

The Fed laid out a path in its September SEP to a peak funds rate of 4.6% next year. Fed officials are expected to raise the fed funds rate 75 basis points next week and potentially debate a smaller increase in December.

SHORTER LAGS

Some officials have noted the potential for a [higher peak](#) and some have noted a preference for [dismounting](#) to a slower pace later this year. [Ex-officials](#) have told MNI inflation persistence may make it harder for the U.S. central bank to slow down later this year. (See: [MNI: Ex-Officials Now See Fed Rate Peak At 5% Or Higher](#))

"It's going to be hard for it to judge when it has done enough, because the traditional macroeconomic relationships are going to be different this cycle," said Quarles, a former Fed vice chair for supervision and chair of the Financial Stability Board.

Quarles added that the Fed will not pause its rate hiking cycle until there is more improvement on inflation. "I think the majority of the committee is not going to want to do that until they're sure inflation is under control. You would need to see some really significant moves in the labor market in particular," he said.

Adding to the difficulty is the lag from monetary policy to real activity, which Quarles said could be shorter than normal due to Fed communications.

Earlier this month, Fed Governor Lisa Cook said less of a lag may exist now between rate hikes and the tightening of financial conditions, and Vice Chair Lael Brainard said in some sectors lags in transmission mean that policy actions to date will have their full effect on activity in coming quarters.

"You're still going to see a several month time lag between any action and it's affecting the economy," Quarles said. "So we're really only now beginning to see the effects on the economy."

MNI INTERVIEW: Fed Risks Overcooking Rate Hikes, Fuhrer Says (Pub Oct 20, 2022)

By Pedro Nicolaci da Costa

(MNI) WASHINGTON - Federal Reserve officials are at increasing risk of tightening monetary policy too far and causing an unduly deep recession because they fail to see how much inflation is still supply driven and underestimate the lagged effects of rate hikes, former Boston Fed executive Jeff Fuhrer told MNI.

"I think this is one of the biggest risks at the moment," said Fuhrer, a former senior policy advisor at the Boston Fed, now a fellow at the Eastern Bank Foundation, on [MNI's FedSpeak podcast](#).

The Fed has raised interest rates by 300 basis points this year, including three consecutive 75-basis-point increases, with another expected in November. Stronger-than-expected CPI data has ratcheted up expectations for a higher terminal rate. (See [MNI: Ex-Officials Now See Fed Rate Peak At 5% Or Higher](#))

"It's not that we know they're going too fast. So far they're only up to the 3% to 3.25% range. But the risk of overdoing it is an important one," Fuhrer said. "Lags of monetary policy are not to be taken lightly. They could be driving the car by looking in the rearview mirror."

SUPPLY RIPPLES

Fuhrer thinks more of the current stubbornness in inflation, reflected in a new 40-year high core CPI reading of 6.5% in September, is driven by supply disruptions than many Fed policymakers believe.

"If it's not really incredibly strong demand which is pushing inflation up to an underlying rate of 4% or higher, then more than likely at some point the supply effects are going to fade out and inflation will come back down," he said.

"They could be raising rates vigorously when in fact the seeds of declining inflation had already been sown. That is a risk. The risk is they could cause a much larger recession than they envision or than I think we need to handle inflation."

Fuhrer stressed that the Fed's own tightening measures, which also include shrinking the balance sheet, are being compounded by simultaneous aggressive rate hikes from major central banks around the world.

"With a global tightening of rates and a possible overtightening by the Fed that risks not only a U.S. but a global recession," he said.

But persistently high inflation readings could paint the FOMC into an uncomfortable corner.

"Could the Fed get to 5% or above? Absolutely. They made a change of about a percentage point at the September meeting. With one bad additional bad CPI report, the market is notching things up further."

As for what it will take to slow the pace of rate hikes or even pause them, he said every economic indicator has now taken on enormous importance.

"It's going to be very data dependent. If you see two or three months in which you see key categories in the CPI flatten out and decline and the headline numbers are distinctly lower, they might pull back on that," he said.

FINANCIALLY STABLE

Fuhrer said he's not worried about credit risks from households and businesses, which he argued have a much bigger cushion this time around than going into the Great Recession.

As for risks to Treasury market liquidity, he said the Fed has the tools it needs to control any hiccups.

"The Fed is quite on top of that and has pretty good tools for injecting liquidity when they need to. To some extent they can do that without disrupting their policy trajectory because they're using administered rates," he said.

MNI INTERVIEW: Fed Awaits Inflation Peak For Next Moves-Garriga **(Pub Oct 20, 2022)**

By Jean Yung

(MNI) WASHINGTON - The beginning of peak pandemic-era inflation is likely to arrive in the first half of 2023, while five or six months of data on falling inflation are needed before the Fed can say with any certainty how quickly price growth will moderate, St. Louis Fed research director Carlos Garriga told MNI.

"We want to have not just a turning point but solid declines in inflation to start thinking about making adjustments to the policy, and Chair Powell has said that consistently," he said in an interview. "Right now we have not even changed the trend from increasing to flat or decreasing to assess which way things will decline in 2023."

With wage pressures pushing up the price of services and rising housing costs hitting CPI with a lag, inflation is likely to remain elevated through the end of the year, Garriga said. Former Fed officials [told MNI this week](#) rates are likely to top 5% next year after CPI rose 8.2% in the year to September and core CPI accelerated to a new 40-year high of 6.6%.

"There are multiple components that may feed into inflation outcomes in the next few months before potential for further progress I suspect in 2023," Garriga said. "It'll be obvious to everyone when we are in a flat period in which inflation has plateaued."

RISK MANAGEMENT

The speed of disinflation matters for Fed policymakers who have espoused a risk management approach to curbing inflation. Interest rates need to stay restrictive for longer if inflation proves more stubborn than expected, because the risk of allowing inflation to get out of control outweighs the risk of overtightening.

"As has been said by the chair and others, it's better to err on the cautious side and be aggressive with inflation," Garriga said.

The challenge is predicting the speed of disinflation. Traditional economic models have not grappled with rapid increases in inflation in decades, let alone rapid disinflation, though history suggests some potential paths. Hyperinflation came to a sudden end after the two world wars following credible adjustments by both fiscal and monetary authorities, as economist Tom [Sargent has documented](#).

"Covid is akin to a health war fought by many countries," Garriga said. "If the analogy works, we could expect a disinflationary period in 2023 and 2024, and it could be fairly quick as we saw in these earlier episodes."

SOFT LANDING

Most economic forecasts are based on the premise that there are no additional shocks in the next 15 months. If that's the case, a path to a soft landing remains possible based on strength seen in the labor market thus far, Garriga said.

"We don't see a wage-price spiral in the data right now. We do have a tight labor market but we expect the adjustment will be a reduction in vacancies and in job-to-job transitions versus a movement from employment to unemployment (as rates rise)."

Businesses in the St. Louis Fed region also report supply-side constraints are improving rapidly. "Some costs are going down. The labor situation hasn't improved, but we've been hearing firms are finally making the appropriate adjustment, understanding that they may not fully staffed."

But Garriga cautioned against holding onto certainty. The world was dominated by disinflationary forces for decades before the pandemic. Now shocks related to the pandemic, the reopening, the energy crisis, China shutdowns and a potential global recession are driving the economy.

"A risk management approach would be to expect the unexpected," he said.

**MNI: Ex-Officials Now See Fed Rate Peak At 5% Or Higher
(Pub Oct 19, 2022)**

By Evan Ryser and Pedro Nicolaci da Costa

(MNI) WASHINGTON - Federal Reserve policymakers will likely be forced to raise interest rates more than their own forecasts suggest because of persistent inflation pressures, but the time still may be nearing for the central bank to slow the pace of those rate increases, former Fed officials and economists told MNI.

The FOMC in September said rates were likely to rise to 4.6% by the end of next year, but [sticky inflation](#) and rising core services prices raise the chances the fed funds rate might need to peak above 5%, they said.

The September CPI reading "reinforces that conviction of tightening and might lead you to think about maybe an extra 25 basis points at one meeting or another," said Steven Kamin, former director of the division of international finance at the Fed Board.

The Fed has lifted rates by 0.75 percentage point at each of its past three meetings, bringing its benchmark federal-funds rate to a target range of 3% to 3.25% last month — the fastest pace of increases since the 1980s.

"Could they get to 5% or above? Absolutely," said former Boston Fed senior economist Jeff Fuhrer. "They made a change of about a percentage point (to rates projections) at the September meeting. With one additional bad CPI report, the market is notching things up further."

Eric Swanson, a former senior economist at the Fed board, says the Fed's 4.6% median estimate for peak rates is "beginning to get more realistic" but still likely underestimates the terminal fed funds rates in this cycle. "There really is no sign that core inflation is coming down yet."

HAWKISH CREDENTIALS

Kamin said the Fed's communication should continue to focus on inflation despite market and economic risks. In 2018, he co-chaired a [BIS report](#) warning about lower-for-longer interest rates encouraging excessive risk-taking in pension funds and others and that there could be liquidity problems if there were a quick snapback in interest rates.

The Fed raising rates so much that it pushes the economy into a deep recession or into a financial crisis is a possibility and a risk, he said, but it is in the Fed's interest to ignore those risks in public for now and instead focus on fighting inflation. (See: [MNI INSIGHT: Fed Sees Fin. Stability As Separate From Rates](#))

The Fed is "okay with disappointing the market on the upside because that enforces their hawkish credentials, but they would be very cautious about disappointing on the downside," said Kamin.

Former Boston Fed President Eric Rosengren agreed a resilient economy, sticky inflation, and a strong labor market are reasons why the Fed will raise rates above 5%. (See: [MNI INTERVIEW: Another Fed 75BP Hike Likely In Dec.-Rosengren](#))

The Fed will "want to see more progress on trimmed mean measures of CPI and PCE so that it really looks like inflation is starting to come down -- not that it's just expected to come down," he said, adding it is likely there will be no stepdown to a slower pace of hikes in December.

TIMING THE DISMOUNT

The former Fed officials unanimously agreed a fourth 75 basis point move was likely in November, and a fifth supersized move could happen in December. A minority argued against the prospect.

Nathan Sheets, also a former international finance division director at the Fed Board, said the Fed will need to soon reduce its pace of rate hikes.

"At some point they've got to say: It's about the level of rates, and now we've moved substantially. This is a smaller move than 75 basis points but it's adding to an increasingly tight monetary policy position," said Sheets, now global chief economist at Citi. "How to balance a smaller rate hike or even a pause with a narrative that we are vigorously fighting inflation is a big challenge. They need to dismount and I think they'd prefer for that dismount to not be too abrupt."

Joseph Gagnon, a former Fed Board economist, said leading indicators like supply chain measures, new rent prices and used auto prices have started to turn.

"If we can avoid a rail strike and wage growth stays moderate, core inflation may start to cool soon. I think the Fed will slow down quickly when that happens," he said.

MNI INTERVIEW: Another Fed 75BP Hike Likely In Dec.- Rosengren (Pub Oct 19, 2022)

By Evan Ryser

(MNI) WASHINGTON - The Federal Reserve likely needs to push rates higher than officials had expected as recently as last month's meeting because inflation remains stubborn even in the face of substantial moves to wrestle it under control, and policymakers will likely resort to a fifth straight 75 basis point hike in December, former Boston Fed president Eric Rosengren told MNI.

While the central bank in September had penciled in a peak rate of 4.6% next year, that is likely to be nudged up above 5% in the central bank's next forecast to be released in December unless data shows inflation surprising to the downside before then, he said.

"To date, they have not seen substantial progress towards bringing the inflation rate down and they're not seeing substantial improvement in bringing the wage rate down either. Until they start actually seeing a clear turn in measures of inflation, I think it's going to be hard not to continue to raise interest rates higher," he said, noting that trimmed mean measures of core CPI and PCE inflation are still going up.

SURPRISINGLY RESILIENT

"What's interesting is that the economy's proven to be much more resilient to the interest rate increases we've seen to date than I might have expected," he said. "The challenge for the Fed is that it's an environment where the interest rate increases that have occurred to date don't seem to be having the desired effect of shrinking demand enough to bring inflation down particularly quickly."

Rosengren said there is a "very high probability of a recession next year" that's going to be a mild "monetary-induced recession." He furthermore pressed against the notion the Fed could raise rates at a slower pace starting in December, acknowledging the most recent SEP median points to 125 basis points of further tightening this year with the base case of a 75 basis point hike in November and a 50 basis point increase in December.

The Fed has said "they want it to be sufficiently tight that they see meaningful progress towards bringing inflation down," Rosengren said. "So if that's truly the criteria they're using, I don't think they've met that standard."

"The risks are that they will have two 75 basis point increases rather than a 75 and 50," he said. "The base case of 75 and 50 is actually requiring some pretty good CPI and PCE reports before the December meeting, and I'm not sure they're going to get that."

Rosengren, now a visiting professor at MIT, expects little guidance at the November FOMC meeting going forward and more emphasis on data dependence. The unemployment rate is still at an historically low 3.5% with wage growth at around 5% substantially more than what's needed, he said, pointing to labor markets as another source of persistent inflation. Rosengren sees unemployment rising above 5% next year.

"The fact that we're not seeing more slack in the labor market at this stage makes it hard to see how nominal wages are going to drop fast enough to meet the kind of inflation path that the SEP currently has," he said, adding that wage growth needs to fall to at most 3.5% especially since productivity has not held up well recently.

SHELTER

Rosengren said there has been more persistence in inflationary components than expected, in particular pointing to shelter and rents. While some on Wall Street have sounded optimistic in pointing out rents falling for new contracts, Rosengren said there's a lot of persistence.

"To the extent that shelter is growing much more rapidly than 2% it means it's going to be much harder for the Fed to quickly get down to a 2% inflation target." (See: [MNI INTERVIEW: Entrenched U.S. Inflation To Linger-Fed's Meyer](#))

The Fed has to be worried about people's expectations becoming embedded that inflation is going to be well above 2% for much longer than they're predicting in the SEP, he said, again pointing to wage-setting behavior. "There's general skepticism that inflation is going to come down as easily as the Fed seems to think."

MNI INTERVIEW: Entrenched U.S. Inflation To Linger-Fed's Meyer (Pub Oct 13, 2022)

By Jean Yung

(MNI) WASHINGTON - The surprisingly strong September U.S. CPI report reflects an environment in which high inflation has become entrenched, and it will take months if not another year for tighter monetary policy and supply-side relief to change those dynamics, Atlanta Fed economist Brent Meyer told MNI Thursday.

The Labor Department reported earlier Thursday that headline CPI rose 0.4% after slowing to 0.1% in August, while core CPI jumped another 0.6%, same as in August. Both measures were a couple tenths higher than Wall

Street forecasts and sent stocks tumbling and Treasury yields rising on expectations that the Fed will need to move interest rates higher faster.

"Inflation is very high and broad-based price pressures -- we're seeing it everywhere. This is likely to be a persistent issue," Meyer told MNI's [FedSpeak podcast](#). "It's not clear to me at all that that's all of a sudden going to decline back down to price stability, somewhere around 2%-2.5%, in a reasonably quick way. I actually don't think that there's much evidence that that's going to be the case."

Core CPI hit a new peak of 6.6% last month, its highest since 1982, as core services jumped 8.2% in September from a year earlier. Rent and owners' equivalent rent soared by over 10% on an annualized basis and are likely to worsen before starting to improve early to mid-next year due to BLS methodology, Meyer said.

ANOTHER YEAR

"If you look on the services side of what happened this morning, and what's been happening over the last year or so, this has become entrenched," he said. "I never thought we'd see a 10% increase on an annualized basis for OER again" after the Great Inflation of the '70s. But even excluding shelter prices, "what's going on in services is really still a lot of broad-based pressure."

Those prices are heavily tied to the dynamics of supply and demand as well as wage pressures and tend to be more persistent, Meyer said. Discouragingly, [CFOs recently surveyed](#) by the Atlanta and Richmond Fed banks still anticipate cost pressures to continue for quite some time, he said.

"Folks for the most part anticipate seeing these unusually high cost pressures continuing at least for the next year or so. So that's sort of concerning," he said. "I don't think we've seen the sort of improvement in in disruption that would lead to lower prices feeding through the basket."

There does not appear to be much progress in closing the gap between demand and supply in the economy so far, despite the Fed's lifting the fed funds rate at the fastest pace in decades, Meyer said.

"It'll be at least a few months, if not six months, before we can say with any certainty whether or not we're starting to see good news."

MNI INTERVIEW: Fed May Hike More Than FOMC Says - Blanchard (Pub Oct 11, 2022)

By Pedro Nicolaci da Costa

(MNI) WASHINGTON - The Federal Reserve might need to raise interest rates even more than it indicated at its September meeting because inflation pressures coming from an overheating economy are likely to prove stubborn, former IMF chief economist Olivier Blanchard told MNI.

The FOMC projected rates rising to a median 4.6% next year in its latest Summary of Economic Projections as inflation remains stuck near 40-year highs.

"There's a very good chance that they have to do more than they have said, that we see rates go up [maybe to 5% or more](#)," Blanchard, a senior fellow at the Peterson Institute for International Economics, said in the latest episode of [MNI's FedSpeak podcast](#).

That's because the unemployment rate, which fell back to a 50-year low of 3.5% in September, is likely well below its so-called "natural" rate, which probably rose following the pandemic shocks that led to labor shortages.

"I think the economy is still overheating. This is a question of what is the natural rate in the US, which is an impossible question to answer but 3.5% is very low," he said. "There are good reasons to think the natural rate has increased. So I think we are below the natural rate which is putting pressure on wages and prices."

ROUND TWO

In addition, there are "second round" effects of workers asking for pay raises in order to make up for the ground they have already lost to inflation.

"The combination of an overheating economy and fairly strong catch-up or second round effects is such that behind the scenes, although the headline numbers are likely to look better, there's still a fairly serious issue," he said. "Underlying inflation is still fairly strong. So I think the Fed will have to do quite a bit. The economy is not going to slow down on its own, so the Fed will have to slow it down."

Still, Blanchard praised the U.S. central bank for playing catch up after having fallen behind the curve in its inflation fight last year and earlier this year. The central bank has boosted rates by 300 basis points since March, including three 75 basis point rises in three meetings. Another supersized hike is expected in November.

"At this stage the Fed has more or less caught up and is more or less at the curve," he said.

At the same time, there are some forces in the global economy putting downward pressure on inflation which should assist the Fed's inflation fight in coming months, including falling commodity prices and easing supply chain constraints, he said.

RACE AGAINST TIME

Achieving a soft landing is essentially a race against time for maintaining the Fed's inflation-fighting credibility as the inflation problem drags on for much longer than anyone expected.

"If the news on headline is good, if expectations at the long-end are anchored, then they can go relatively slowly and potentially we can avoid a recession, but that's a very narrow path," said Blanchard.

Blanchard said that while the UK's pension debacle does not have direct repercussions for the U.S. financial system, it serves as a reminder the myriad of risks lurking out there as central banks tighten monetary policy globally. (See [MNI INSIGHT: Fed Sees Fin. Stability Policy As Separate From Rates](#))

"When interest rates move a lot then presumably all kinds of players lose and win and this may have implications that we haven't thought about," he said. "We have to be ready for accidents like this."

MNI INTERVIEW: Fed To Keep Hiking Despite Turmoil-NY Advisor (Pub Oct 7, 2022)

By Pedro Nicolaci da Costa

(MNI) WASHINGTON - The Federal Reserve is unlikely to "pivot" on interest-rate increases because of recent financial turbulence like the crisis in the UK gilt market, and doing so would threaten its credibility amid high inflation, New York Fed advisor Sebnem Kalemli-Ozcan told MNI.

"I wouldn't expect any intervention from the Federal Reserve on these things, unless there's a total financial market collapse like there was in 2008," said Kalemli-Ozcan, a professor at the University of Maryland and a member of the New York Fed's Economic Advisory Panel. "Without that, I think they are not going to do anything – they're going to stay in their inflation fighting mood, and hiking rates, because that's their job."

Stubborn inflation could force the Fed to hike beyond the 4.6% projection from the September Summary of Economic Projections, she said, with the federal funds rate potentially peaking at 5% or higher.

"If (core) inflation comes down quickly to 5, and then the interest rate being 5 or 5.2, that's realistic," Kalemli-Ozcan said. "Could it go more than 5, 5.5%, it's possible but I don't think it's going to go much higher than that because inflation is going to come down."

CREDIBILITY AT STAKE

The Fed has hiked 300 basis points since March to a 3% to 3.25% range and it's expected to make a fourth straight outsized 75bp move in November. That's one of the most aggressive cycles in the central bank's history, and she said where the Fed goes from here also depends on how fast supply chain problems are fixed.

"There's a supply chain and a Covid element to this, which won't respond to policy. If supply chain pressures ease we might get a soft landing. If not it will take longer," she said. Atlanta Fed research director David Altig and St. Louis Fed economist Mark Wright recently [told MNI](#) it's too soon to say whether price pressures [have peaked](#).

Indeed, Kalemli-Ozcan says the Fed would "completely mess up their policy credibility" by weakening the inflation fight to tackle market disruptions.

"Markets keep trying to say they can't take this anymore and they are going to pivot," she said. Policy makers "are watching what's going on internationally but their mandate is price stability and maximum employment."

EXPECTATIONS IN RIGHT PLACE

It remains unclear whether inflation has peaked, making it even harder for the Fed to ease up and boost the odds of a soft landing, said Kalemli-Ozcan. "I hope inflation has peaked and next time the data is out it's turning around and the Fed is able to pause. But it's very difficult to tell," she said.

"In the absence of any other supply shock – I think it is not going to be that hard a landing," she said. "That's because expectations are in the right place. When you talk about a hard landing you're talking about a recession with still high inflation."

Others have [told MNI](#) the Fed's delayed response to rapid inflation puts it back in a historical pattern of hiking and generating a recession afterwards.

MNI INTERVIEW: Fed Cheers Cooling Labor Demand As Openings Dip (Pub Oct 7, 2022)

By Jean Yung

(MNI) WASHINGTON - Rising U.S. interest rates have reduced demand for workers without pushing up layoffs, boding well for the soft landing sought by Federal Reserve officials, San Francisco Fed economist Nicolas Petrosky-Nadeau told MNI Friday.

The labor market remains tight with employers hiring at a substantially higher pace than before the pandemic and the unemployment rate at a 50-year low. But job openings and quits rates in key sectors have already fallen substantially from their peaks, meaning Fed tightening is doing its job to cool the economy, he told MNI's [FedSpeak podcast](#). The Labor Department reported this week there were 10.1 million job openings in the U.S. at the end of August, a drop of 1.1 million from a month earlier.

The [quits rate](#), a good predictor of real wage growth because it represents people moving to better opportunities with more pay, has also been slowing in the past six months. Quits rates in the professional and business services and leisure and hospitality sectors are back to where they were pre-pandemic, he noted.

"I'm looking at those as indicators that the transmission of monetary policy is working as intended and the committee is on a good path toward witnessing an orderly slowdown in the labor market."

VACANCIES DOWN

With 6 million unemployed people in August, the vacancy to unemployment rate is between 1.6 and 1.7, above historical averages. But encouragingly, the sectors that represent the bulk of employment have already peaked, Petrosky-Nadeau said.

In the past four months, job openings in professional and business services have dropped 40%, while retail jobs over the same period have fallen over 30%. Since leisure and hospitality vacancies peaked in December, their openings have also fallen 30%.

"These are really significant drops," Petrosky-Nadeau said. "We often look at job openings as a signal of what businesses are seeing in terms of their future revenues, because it's a really forward-looking decision. If we're seeing a drop in their job openings, it means that in the medium term they're expecting a slowdown in the demand they're facing. And that's what the committee is looking for in the tightening cycle."

What's more, firms are lowering their job openings without dramatically increasing their separations. "It's a silver lining," he said.

4.4% PEAK U-RATE

As for how high the unemployment rate could go as the fed funds rate [heads toward 5%](#), Petrosky-Nadeau said it's important to keep in mind the Beveridge curve, or the relationship between unemployment and vacancies, is likely very steep when vacancies are very high and flattens out as openings fall.

Should job openings fell to pre-pandemic levels, a calculation by him and colleague Rob Valetta shows the unemployment rate would [rise to 4.4%](#), exactly where the median FOMC participant judged it to peak in 2022 and 2023.

"From the perspective of households that's not a non-negligible increase, but It is still an unemployment that historically remains relatively low."

PARTICIPATION RECOVERED

Aside from elevated openings, Petrosky-Nadeau argues the the labor market looks now a lot like it did in 2019, including labor force participation.

The employment-to-population ratio for prime-age workers recovered to pre-pandemic levels this spring, while the mechanics of an aging U.S. population explain almost all of the decline in participation since the pandemic, he said. Stripping out that effect leaves a participation rate that's very similar to that of 2007-2008.

**MNI INTERVIEW: Fed Would Pause QT, Not Hikes, On Market Turmoil
(Pub Oct 6, 2022)**

By Pedro Nicolaci da Costa

(MNI) Washington - Market instability will not dissuade the Fed from pressing on with its aggressive interest rate hike campaign, but the central bank is likely to to pause its balance sheet runoff sooner than it has signalled as financial volatility heightens systemic risks, former White House economist Joseph LaVorgna told MNI.

"I don't see the Fed going anywhere near as far as what they expect on the balance sheet and look for them to certainly stop that if not this year, next year," LaVorgna, former head of the White House National Economic Council under President Trump, [told MNI's FedSpeak podcast](#).

"A mini-pivot might mean the Fed opening up swap lines with other central banks as they've done before, and then possibly temporarily stopping QT until market conditions stabilize."

The process of unwinding the USD8.8 trillion is problematic in an environment where financial instability is mounting and Treasury market liquidity has been weak, LaVorgna said. (See [MNI INTERVIEW: Fed's QT Could Trigger Liquidity Crunch-Rajan](#))

"We haven't had an issue yet in the sense that there hasn't been a lot of Treasury supply maturing since they doubled the pace of the maturation," he said. "But come November, with that being a refunding month, the supply will be larger and conceivably that could pose issues for markets going into year-end on what's already been a difficult year when liquidity tends to be poor anyway."

NOT A MILD RECESSION

While financial stability concerns will be a determining factor in its balance sheet operations, it will be a rapidly slowing economy that is likely to convince the Fed by early next year that it's time to pause rate hikes in order to assess the lagged effects of policy on output, which is already showing signs of weakness, said LaVorgna, chief economist at SMBC Nikko Securities.

"That scenario would happen if the economy is substantially weakening, where the unemployment was clearly on its way to 5%, into the fives and maybe higher so that the Fed knew a recession was guaranteed," LaVorgna said.

"At that point the Fed would have the confidence that inflation, even if it was high relative to target, would come down quite dramatically," and would even entertain interest rate cuts despite official reassurances to the contrary, he said.

LaVorgna sees that juncture arriving sooner rather than later and [doesn't believe the fed funds rate](#) will get "meaningfully" above 4%. Even so, he thinks we could be headed for a fairly painful recession.

"I would push back against it being mild, simply because the Fed seems hellbent on destroying demand and monetary policy is a blunt instrument and they don't know how far they have to go to kill inflation and when inflation does start to move down it's likely because they went too far," he said.

UK WARNING SIGNS

LaVorgna said the troubles in the UK's pension system are not localized because they reflect leverage and reach-for-yield behavior that is the product of years of super low interest rates.

"It's a remnant of excessively loose policy for a long time and our decision globally to try to remove that accommodation is going to cause all sorts of cracks in the system," he said. "We're going to see how robust it is. I do worry there will be some other shoe to drop somewhere."

LaVorgna said it's much harder to tighten policy this aggressively now than in the past because of high debt-to-GDP ratios in the U.S. and around the world.

"That attempt to remove and normalize policy can cause a whole host of problems," he said. "We've seen a lot of stress so far in the front end. Stress in Libor OIS is a sign that if not a dollar shortage, certainly dollar-based collateral is short in the system, people are clamoring for dollars."

MNI INTERVIEW: Too Soon To Say Inflation Peaked- Fed's Wright (Pub Sep 27, 2022)

By Pedro Nicolaci da Costa

(MNI) Washington - It's too early to say whether U.S. inflation has peaked at near 40-year highs and the Federal Reserve must keep raising interest rates in order to make monetary policy modestly restrictive, St. Louis Fed economist Mark Wright told MNI.

"It's still far too soon for us to be confident that inflation has peaked and we need to remain vigilant," said Wright, a senior vice president at the regional central bank, in an interview. "The inflation situation is still very troubling – the numbers are much too high."

While the recent moderation in some price categories had been "slightly" encouraging, he noted that it was driven by volatile [energy components](#).

"I don't think we can take terribly much confidence from the movements in commodity prices," said Wright, recently research director at the Minneapolis Fed. "We need to be focused on getting those core numbers back down."

Wright thinks inflation will likely move sideways for the rest of the year. "I think that's a reasonable projection now based on what we know," he said.

Core CPI jumped 0.6% in August alone, raising eyebrows at the central bank and reaffirming the Fed's resolve to remain aggressive in its rate hiking campaign. Wright would like to see monthly gains in core prices come in at about 0.15% for the rest of the year, trending down to about 0.1%.

A COUPLE OF YEARS

The central bank raised rates by 75 basis points for a third meeting in a row last week, and sharply revised up its median outlook for the peak in interest rates to 4.6%.

"The Fed median projection is to get short run interest rates to about 4.5% and keep them there for the next couple of years," said Wright. "And that's over a horizon in which we think inflation is going to be getting down towards 3 and then eventually down towards 2. That means real short-run interest rates over that period are going to average about 1.5%. That's modestly restrictive." (See [MNI INTERVIEW: Fed's Bullard-Rates Could Be 'Higher For Longer'](#))

Echoing Fed Chair Powell's comments at the latest press conference, Wright said the Fed would need to slow the pace of hikes at some point.

"We're clearly not going to continue to raise rates 75 basis points a meeting, meeting after meeting after meeting," he said. "There's just not that many more increases in us as long as it continues to evolve as we expect that it will."

Wright thinks the economy can still avoid a recession and unemployment will rise only modestly, as suggested by the Fed's September SEP. "That means the unemployment rate would rise slightly above its long-run natural rate," he said. "A modest slowdown – that's what we're looking for."

NO WAGE SPIRAL

Wright said he takes comfort in well-anchored inflation expectations and argues the risk of a wage-price spiral seems fairly remote.

"I'm not overly worried about the [wage situation](#). What we're seeing typically speaking is that wages are struggling to catch up with inflation," he said.

"I'm not seeing indications that wage negotiations are looking out much further," Wright added. "I would be very concerned if we were seeing workers and unions were negotiating ongoing wage increases that were at and above what we're seeing currently with inflation."

MNI INTERVIEW: Fed May Need Unemployment To Rise To 7% - Ball
(Pub Sep 26, 2022)

By Evan Ryser

(MNI) Washington - The Federal Reserve's view the jobless rate will rise to 4.4% over the next two years is a step in the right directions but is unlikely to be enough to stem underlying inflationary pressures in the U.S. economy that could require unemployment rising to 7%, former Fed visiting scholar and consultant for the IMF Laurence Ball told MNI.

The Fed last week not only increased borrowing costs by 75 basis points for a third meeting in a row but also projected the unemployment rate will slope upward 0.7ppts from now to 4.4% before staying put for about two years.

"That's a step towards realism, but I would say that is still too low to be a likely path that would bring inflation down to target," said Ball who recently produced a [Brookings paper](#) on inflation during the pandemic with IMF cowriters Daniel Leigh and Prachi Mishra. "We have started redoing some of our analysis with a 4.4% unemployment peak, and it makes some difference but it doesn't change the basic conclusion."

"My sense is that they're being very optimistic about a moderate tightening being needed and a mild increase in unemployment and they'll probably need a bigger tightening with a [higher funds rate](#) than they predict and more unemployment," Ball said in an interview. "The most likely case is between six and seven, maybe closer to seven" percent unemployment.

BEVERIDGE CURVE

U.S. inflation jumped 8.3% in the year to August according to CPI, and 6.3% to July for the Fed's preferred PCE measure, nearly three times the central bank's official 2% goal. (See: [MNI INTERVIEW: Scant Signs Inflation Pressures Abating - Altig](#))

"The key thing which is creating sustained inflationary momentum now and that has to be addressed is the tight labor market," he said. "Even if all supply chain problems were to get resolved pretty quickly and prices went back to historically normal levels and stay there, as long as we have 1.9 job openings per unemployed worker we're going to continue to have high inflation."

"So, the real question is whether the labor market is going to become less overheated," said Ball, a research associate at the National Bureau of Economic Research.

Fed Chair Jerome Powell last week said the labor market is "out of balance." Fed Governor Christopher Waller has pointed to the Beveridge Curve, which plots the relationship between job openings and the unemployment rate, and argued the labor market could break historical norms with vacancies declining by a large amount without the economy falling into recession.

"We've never historically had a slowing of the economy that reduced job openings without also raising unemployment and so logically it's hard to believe something would affect one and not the other and maybe that's the key issue," Ball said, suggesting he sees the Beveridge Curve may shift back a "third of the way" to its pre-pandemic position.

"Unfortunately, in our economy what it takes to keep inflation under control is a persistent situation in which there are somewhat fewer jobs than there are workers and somewhat fewer vacancies than unemployed workers," he said. "The number which is kind of average historically and seems consistent with stable inflation is something like 0.7 plus or minus something, but certainly less than one."

BELOW ZERO GROWTH

That means returning to stable inflation could depend on even more hardship than the Fed's most recent projections, Ball said. "That's bad. That's a lot of people losing their jobs...It also would certainly trigger a recession being identified by any reasonable method."

And the FOMC median's view of 1.2% real GDP growth next year is overly optimistic, he said. "We expect well below zero growth if we made adjustments consistent with unemployment substantially higher."

MNI INTERVIEW: Scant Signs Inflation Pressures Abating - Altig (Pub Sep 23, 2022)

By Evan Ryser and Pedro Nicolaci da Costa

(MNI) Washington - The Federal Reserve's aggressive monetary tightening campaign has made scant difference in easing or narrowing U.S. inflation pressures so far, Atlanta Fed research director David Altig told MNI Friday.

Inflation is "very high and it seems to be stuck with few signs of mitigating yet," he [told MNI's FedSpeak podcast](#). "The key development over the course of the next year is whether we're going to see moderation proceed at a pace that gets us pretty quickly to something near the the FOMC's goal, and that seems highly uncertain."

Ahead of the September FOMC meeting, Altig said Atlanta Fed staff were surprised to learn that supply pressures are not relaxing for firms in the Fed region, adding that business contacts described the rolling nature of problems and disruptions as a game of Whack-A-Mole.

"We were hearing very little in the way of closing supply and demand gaps," he said. "The biggest concern at the moment is whether or not the fundamental supply and demand imbalances that we need to see resolve to really get the inflation rate moving in the right direction on a sustainable basis, they just don't seem to have emerged yet." (See [MNI: Mester: Wages May Be Stabilizing; Need More Hikes](#))

U.S. CPI jumped a stronger-than-expected 0.1% in the month of August and core CPI rose 0.6%, dashing hopes that inflation might have decisively peaked in June.

COMPELLING EVIDENCE

The FOMC's current push to slay inflation at 40-year highs is the most aggressive of his career, said Altig, who started at the Cleveland Fed in 1991. "It makes some sense that an outsized inflation issue would elicit an outsized policy reaction," he said. The Fed this week raised rates 75 basis points for the third time in three straight meetings to a range of 3% to 3.25%, while fresh projections showed rates peaking next year at 4.6%.

Altig said Atlanta Fed staff forecasts see U.S. growth under 1% next year, with some modest increase in the unemployment rate and some progress on inflation. But "obviously the risks are weighted to the downside," he added, also noting that the narrow path relies on eliminating job vacancies rather than jobs.

Asked what could constitute compelling evidence that inflation is moving down, Altig said Atlanta Fed staff will probably be arguing that it has to do with the breadth of price changes. "One statistic that we look at religiously almost now is the percentage of the components in either the CPI or the PCE ... on a weighted basis that are rising at rates that are inconsistent with stability, so from 3% or greater, 5% or greater," he said. "Right now, it's around 70%," he said.

Those price pressure signals did not really begin to emerge until the end of the summer in 2021, and in normal times the portion of components in the broad center of the consumer market basket that rise at an outsized rate is closer to 25%, he said.

"We definitely want to see that kind of statistic move in that direction," he added, noting indicators of core prices such as the [Cleveland Fed trimmed mean](#) and the [Dallas Fed trimmed mean](#). "Those numbers just aren't improving very quickly."

BROAD-BASED MIDDLE

Even if shelter inflation continued to flare up, the Atlanta Fed research director said he would take comfort in seeing continued downward pressure elsewhere.

"It's that broad based middle that kind of is the key I think at figuring out whether progress is being made," he said, even if the headline or core number as traditionally measured doesn't necessary reflect that progress.

"We would want to see for some period of time, maybe more than a month or two even, a real broad softening of price pressures and that's just a long ways away from where we are now," he said.

MNI INTERVIEW: FOMC Opens Door To 5% Rates and Beyond In 2023 (Pub Sep 23, 2022)

By Pedro Nicolaci da Costa

(MNI) Washington - This week's FOMC decision represents a reset of Fed policy to decisively communicate to markets that economic weakness -- even a recession -- will not dissuade the Fed from hiking interest rates to control inflation, former Dallas Fed adviser Danielle DiMartino Booth told MNI.

The Fed not only jacked up borrowing costs by 75 basis points for a third meeting in a row but also signaled a much higher peak for rates -- up to a 4.6% median from 3.8% in June -- with a third of officials estimating an even higher peak rate of 4.9%.

"By pushing out the terminal rate and by repeatedly saying we're not just going to get to 5%, we're going to get to 5% and stay there, they completely shifted the dialogue," she told [MNI's FedSpeak podcast](#). "This was something bigger than Jackson Hole because it was portrayed as being an institutionally wide, accepted new regime."

Chair Jerome [Powell's press conference](#) also reinforced his Jackson Hole message that economic pain would be needed to bring inflation, which rose 8.3% in August as measured by the CPI, back toward the Fed's 2% target.

"The 0.2% GDP forecast for the entire year of 2022, that's as close as the Fed is going to get to saying we're in recession, and we're going to hike more than you think we're going to hike in recession."

BREAKING THE FED PUT

Powell is chasing lagging indicators like inflation and the jobless rate because his real intent is to properly, unequivocally, tighten financial conditions, said DiMartino Booth, CEO and chief strategist at Quill Investment.

"Powell wants to break the back of the Fed put, and if you want to do that you hide behind unemployment, the most lagging indicators, before you can get pushed off of the ledge to acknowledge that we might actually be at a point where monetary policy should not be as restrictive," she said.

"He's an extremely astute, savvy, shrewd former private equity investor. He knows he's following and citing lagging data and yet here we are."

Powell also cheered the return to Earth of a once soaring housing market. "He welcomes the deflation of this housing bubble. He knows that investors swarming the market has been very detrimental to the plight of middle income earners," said DiMartino Booth. "He embraces with open arms the prospect of any speculative aspect exiting the housing market."

SCROOGE

Powell emphasized the need for a tight labor market, with a 3.7% jobless rate still near historic lows, to soften before the Fed could be convinced to let up on its tightening campaign.

"There's the feel that when the unemployment rate does increase, it's going to snap up and there'll be an unemployment rate shock," DiMartino Booth said. "If we were to get past the 4.4% that they presume year-end 2023, I think you'd have to see something of that magnitude for them to back off."

That's why Powell wanted to convey to markets that not only will the Fed keep tightening the monetary screws this year, it may keep doing so well into 2023.

"The market thought this party was over at least in November if not December. Who wants to be Scrooge? And yet the door was open yesterday to continued tightening if this inflation continues on into 2023."

MNI Fed Preview November 2022: Analyst Views

Analyst Views – Fed Outlook

Sell-side bank analysts are unanimous in their expectation for a 75bp hike to 3.75-4.00% at the November FOMC, based on the 32 previews we read ahead of the meeting.

- **Looking ahead to December's decision**, opinion is split: a plurality see a 50bp hike, but several (Barclays, BNP, UBS, Credit Suisse, Deutsche) see a fifth and final 75bp raise.
- **The expected peak/ terminal rate varies** from 4.25-4.50% (a further 50bp in total hikes after the November FOMC), to 5.00-5.25% (a further 125bp beyond November: Barclays, BNP, UBS).
- Most expectations are for a 4.75-5.00% terminal rate, however.
- **The hiking cycle is seen concluding as early as Dec 2022**, with most expecting February/March 2023 to mark the last hike.
- **Few expect hikes to continue beyond that point** (NatWest sees a final hike in June 2023).
- **Several analysts are already pencilling in** rate cuts by end-2023.
- **For the November meeting, expectations for changes to the Statement are limited.** Where changes are seen, they lean to the dovish / cautious side.
- **Only one analyst (UBS) expects a dissent** (KC Fed Pres George, for a smaller than 75bp hike).
- **Chair seen Powell is expected to reiterate previous guidance** that "at some point" it will be appropriate to slow the pace of increases, though will avoid any concrete signalling about future policy decisions.
- **Instead, Powell is expected to emphasize the Fed's commitment to inflation-fighting** while reiterating that future decisions will be data-dependent.
- **No analysts expect anything but straightforward changes to administered (eg IORB) rates.**

Table sorted high-to-low by Fed funds "terminal" rate in cycle, where this could be ascertained by analyst's November FOMC meeting preview. Where MNI hasn't seen an updated rate view since mid-October, we have left them out of the table. For further details see analyst note summaries in following section.

	Future Rate Hikes	Terminal Rate (Upper End)
Barclays	75bp hike in Dec, 50bp in Feb (all data-dependent). 25bp cuts at final three 2023 FOMCs	5.25%
BNPParibas	75bp hike in Dec, 50bp in Q1 2023. Cuts start Q1 2024	5.25%
UBS	75bp hike in Dec, 50bp in Feb	5.25%
ANZ	50bp hike in Dec, 25bp in Feb, 25bp in Mar	5.00%
BofA	50bp hike in Dec, 25bp in Feb, 25bp in Mar. Cuts by end-2023.	5.00%
Commerzbank	Rates peak at 4.75-5.00% in Q1 2023, cuts start in Q4 2023.	5.00%
Credit Suisse	75bp hike in Dec, further 25bp in Q1 2023.	5.00%
Deutsche	75bp hike in Dec, 25bp in Feb. Rate cuts end-2023	5.00%
Goldman Sachs	50bp hike in Dec, 25bp in Feb, 25bp in Mar	5.00%
NatWest	50bp hike in Dec, 25bp in Mar, 25bp in Jun	5.00%
Rabobank	50bp hike in Dec, 25bp in Feb, 25bp in Mar. Hold through 2023	5.00%
TD	50bp hike in Dec, 25bp in Feb, 25bp in Mar	5.00%
Wells Fargo	50bp hike in Dec, 25bp in Feb, 25bp in Mar. Rate cuts late 2023	5.00%
Citi	50bp hike in Dec; 4.50-4.75% terminal rate.	4.75%
Morgan Stanley	50bp hike in Dec, 25bp Feb. Cuts start in Dec 2023 with 25bp	4.75%
SEB	50bp hike in Dec, 25bp in Feb. Cuts in H2 2023	4.75%
Standard Chartered	50bp hike in Dec, 25bp in Feb	4.75%
Unicredit	50bp hike in Dec, 25bp in Feb. Rate cuts late 2023	4.75%
CIBC		4.50%
ING	50bp hike in Dec	4.50%

Analysts' Key Comments

All analysts expect a 75bp hike at the November FOMC. Summaries in alphabetical order of institution.

ANZ: Data Dependent Pivot

ANZ analysts see the November meeting as “too early” for a Fed pivot.

- **Statement:** No meaningful change.
- **Press conference:** Powell may leave open the possibility of another 75bp hike in Dec if warranted by data.
- Could allude to some early encouraging developments, but pivot will have to be data-dependent.
- **Future action:** 50bp hike in Dec, 25bp in Feb, 25bp in Mar to 4.75-5.00%.

Barclays: Highway To The Danger Zone

Barclays analysts expect the FOMC's discussions “will likely shift to overtightening risks” in November, “with the data flow through September providing little hint of an off-ramp from aggressive hikes.”

- Barclays writes that the FOMC will likely maintain flexibility for the December meeting; but notes “potential disagreements about the future course of policy have emerged, with some regional presidents noting the need to downshift the pace of rate increases soon”.
- **Statement:** Almost no changes. Guidance won't be changed until at least 2 meetings before the FOMC intends to pause the rate increases.
- If the statement removes “ongoing increases”, would reduce conviction of a 75bp hike in December.
- **Press conference:** Don't expect any concrete signals about the likely path of policy, though should be fairly apparent that the focus of the Dec FOMC will be a data dependent decision between 50 or 75.
- **Future action:** 75bp hike in Dec, 50bp in Feb (all data-dependent). 25bp cuts at final three 2023 FOMCs.

BMO: Quad Jump And Pivot Reveal

BMO sees the post-presser market speculation about the December meeting to dominate the discussion over November's meeting. But we'll have to wait until the Dec Dot Plot to get a sense of where the terminal rate is.

- **Statement:** To repeat “anticipates that ongoing increases” for the 6th time.
- **Press conference:** Powell to probably mention that we're now at previously advertised point where “it will become appropriate to slow the pace of increases...”

BNP Paribas: Too Soon For A Downshift?

BNP thinks Powell's press conference “will likely be more insightful than the official meeting communiqué.”

- Inflation developments since the Dot Plot “are in conflict with the timeline laid out in September.”
- Since the 2023 voting roster will be more dovish than this year's, “Sensing a closing window of opportunity, the more hawkish voting roster of this year may seek to do more [hiking] while they still can.”
- **Press conference:** Powell to acknowledge a debate on the merits of a downshift in the pace of hikes at some future date but will remain hawkish re progress on the inflation front.
- **Future action:** 75bp hike in Dec, 50bp in Q1 2023, 5.00-5.25% terminal rate. Cuts starting Q1 2024.

BofA: Discussion About A Slower Hike Pace

BofA sees the FOMC likely engaging “on a debate on the appropriateness of slowing the pace of policy rate hikes beginning in December” at the November FOMC. And communicating that such a discussion took place should open the door to a 50bp December hike.

- **Press conference:** Powell to say that no decision on a rate step-down was taken; FOMC remains data-dependent and reluctant to pre-commit.
- The market may be disappointed by Powell's data dependency and lack of guidance for a slowdown in the pace of hikes.
- **Future action:** 50bp hike in Dec, 25bp in Feb, 25bp in Mar. Cuts by end-2023.

CIBC: Getting Close To Terminal, But No Dovish Hints This Meeting

CIBC sees the 75bp hike in November only leaving a further 50bp “to reach our projected ceiling” but “we wouldn’t expect the central bankers to drop any dovish hints on a day they are moving that aggressively. For that sort of talk, employment growth has to decelerate enough to have the jobless rate gradually heading higher.”

Citi: Slowdown Does Not Mean Imminent Pause

Citi analysts do not expect a dovish “pivot” at the November FOMC. However, “while we do expect a slowdown in the pace of rate hikes, we would not view this as a “pivot” toward more dovish policy. The fact that Fed policy rates may be moving up less quickly does not cap the terminal level that they reach.”

- The most likely scenario: Fed officials suggest that 50bp in December is possible but data-dependent.
- **Press conference:** Powell likely to emphasize that a slowdown does not mean an imminent pause and that rates will continue to tighten until sufficiently restrictive to bring down inflation.
- **Future action:** 50bp hike in Dec; 4.50-4.75% terminal rate. “Given continued upside risks to inflation a terminal policy rate of up to 5.5% would not be too surprising.”

Commerzbank: Maybe The Last Big Rate Hike For Now

Commerzbank writes that with the rate peak “gradually coming into view”, “the Fed will probably increasingly prepare market participants for smaller rate steps”.

- **Future action:** Rates peak at 4.75-5.00% in Q1 2023, cuts start in Q4 2023.

Credit Suisse: Powell Won’t Rule Out December Slowdown

Credit Suisse expects a Powell nod to a potential slowdown in rate hikes as soon as December.

- **Press conference:** Powell to suggest it will become appropriate at some point to slow the pace of hikes, and won’t rule out such a move in December.
- Likely to note rates need to rise further but once they reach a sufficiently restrictive level it will likely be appropriate to maintain rates there until inflation is returning to 2%.
- **Future action:** 75bp hike in Dec (but risks of 50bp have risen meaningfully), 4.75-5% terminal in Q1 2023.

Danske: Too Early For A Pivot

Danske writes that “the recent soft macro data and the WSJ article suggesting that moderation in hiking pace could be near have sparked a ‘pivot’ rally in the markets – we think it is still too early.”

- **Future action:** 75bp hike in December. “If Fed clearly signals slower hiking pace (e.g. 50bp) for December, we look to revise our forecast with an additional hike for early 2023.”

Deutsche: Debating A Downshift Without Portraying A Pivot

Deutsche analysts write that focus at the November FOMC “will be on signals about the timing of and consideration around a potential downshift in the hiking pace”,

- **Press conference:** Powell will likely not pre-judge the Dec meeting outcome, emphasizing data-dependence. To leave open prospects for another 75bp hike but present a strong base case for downshifting by early 2023 at the latest.
- **Future action:** 75bp hike in Dec, 25bp in Feb. Terminal rate of 4.75-5.00%, cuts end-2023.

Goldman Sachs: Powell To Hint FOMC Will Likely Slow The Pace In Dec

Goldman Sachs analysts see the focus on the November meeting as “on what comes next”, with “Powell to hint that the FOMC will likely slow the pace to 50bp in December”.

- **Press conference:** Powell to be comfortable in recognizing good news (labor market rebalancing getting started, wage growth moderating) alongside bad (inflation remaining very high).
- Powell won’t tie a step-down to 50bp hikes to “meaningfully better inflation data”, which is “not a realistic expectation at such a short horizon”. But will note that FOMC aims to move deliberately but more cautiously now that rates are restrictive and the cumulative impact of hikes is not yet clear.
- **Future action:** 50bp hike in Dec, 25bp in Feb, 25bp in Mar to 4.75-5.00% terminal.

HSBC: Eyeing 1% Real Rates

HSBC notes Powell's comment in September that real rates of at least 1% may be needed to suppress inflation, making a Funds rate of 4.6% and core PCE of 3.1% consistent with that criterion in 2023.

- **Statement/Press Conference:** Adding verbiage to the "ongoing" forward guidance would represent a signal that the FOMC will consider a smaller hike in December.
- Even without it, Powell to say that a discussion about slowing the hike pace has commenced.
- Will be interesting if Powell expresses any concern over house price declines.
- **Future action:** 50bp hike in Dec, 25bp in Feb, hold at 4.50-4.75% through 2024.

ING: Uncertain Whether Powell Will Discuss Slowing The Hike Cycle

ING analysts write that the "key story is whether the Fed opens the door to a slower pace thereafter or if the hawks' focus on core inflation momentum signals a fifth 75bp move in December".

- **Press conference:** "The big question for the market is whether Powell wants to use the press conference to discuss slowing the tightening cycle. Frankly, that is very uncertain."
- **Future action:** 50bp hike in Dec to terminal 4.25-4.50% rate. Risks to upside (another 50bp in Feb).

JPMorgan: Don't Expect Powell To Elaborate On Slowing Hike Pace

JPMorgan sees a 75bp hike as "what the financial news outlets indicate has, in effect, already been decided. With that perfunctory matter out of the way, the Committee will have time to debate the path ahead, and the outcome of that debate may be reflected in the messaging of the statement and the press conference."

- **Statement:** No changes to forward rate guidance, but any elaboration on the "at some point" theme "would likely reinforce the idea that a downshift could be coming in December." No dissents.
- **Press conference:** "Most of the tough talk from September will be reiterated: having the resolve, moving purposefully, and keeping at it with forceful and rapid steps."
- If Powell were to expand upon the topic of the lagged impact of past hikes, markets would become convinced of a December downshift - "This is why we don't expect it... the Committee is probably happy with the flexibility they have gained for either 50bp or 75bp at the December meeting and don't want to upset the applecart."

Lloyds: Markets Likely Disappointed At How Little Guidance Will Change

Lloyds sees any surprises at the November FOMC confined to future policy guidance, "but even here markets are likely to be disappointed at how little things have changed."

- The incoming data "does not provide evidence for a major policy pivot."
- **Press conference:** Powell may provide further hints that the future rate of increases will now slow, but the key message will be that the focus is on controlling inflation.

Morgan Stanley: Prepping The Step Down

The real focus of the November FOMC will be signaling around the next step for policy, says Morgan Stanley.

- While the FOMC will not want to signal that a step down in the pace of hikes signals an earlier end to tightening/lower peak rate, "Decreasing the pace of tightening could appeal to both hawks and doves – slower rate hikes would better enable reaching a higher peak rate(hawks),and would also allow more time to respond to the incoming data (doves)."
- **Statement:** Multiple ways to signal a possible "step down": could change paragraph on current conditions to include observation that financial conditions have tightened.
- Could soften "ongoing increases" in hikes.
- May reference concerns about global financial conditions; "watching closely" would be strong message.
- **Press conference:** Powell will most likely again point to significant lags in tighter monetary policy impact.
- Current level of rates not enough to produce the below-potential growth Powell is looking for.
- **Future action:** 50bp hike in Dec, 25bp Feb to 4.50-4.75% terminal; cuts start in Dec 2023 with 25bp.

NatWest: Stay The Course For Now

NatWest expects the Fed to hold off in November from speculating on the way forward with new guidance, until they see how things evolve between now and December.

- **Statement:** Changes limited to the bare minimum. If there are any changes, likely to repeat Powell's previous language: "At some point, as the stance of monetary policy tightens further, it likely will become appropriate to slow the pace of increases. However, restoring price stability will likely require maintaining a restrictive policy stance for some time."
- **Press conference:** Powell to re-emphasize the above on "at some point".
- He will try very hard to avoid saying anything that might be misconstrued as a signal that the inevitable step down in tightening size is a pivot toward the end of the hiking cycle.
- **Future action:** 50bp hike in Dec, 25bp in Mar, 25bp in June to terminal 4.75-5.00%.

Nordea: Very Hawkish Message

Nordea writes ahead of the November meeting that the Fed "will not want to repeat the mistake of the July meeting, when rates fell and equities rose markedly in the aftermath".

- Their analysts expect a "very hawkish message" at this FOMC "absent a promise" to hike by 75bp in Dec.
- **Future action:** Terminal rate 4.75-5.00%, cuts in 2024.

Rabobank: Giant Steps

As Powell has said the Fed would maintain its restrictive policy for some time because history has shown the danger of loosening prematurely, Rabobank sees the FOMC on hold through 2023 after hitting the terminal rate.

- **Future action:** 50bp hike in Dec, 25bp in Feb, 25bp in Mar to terminal 4.75-5.00%. Hold through 2023.

RBC: No BoC-Style Dovish Pivot Yet

RBC compares the current FOMC situation to the Bank of Canada's surprisingly small rate hike in October: "though comments from BoC Governor Macklem suggest Canada may be approaching the end of its current hiking cycle, the Fed isn't likely to match that 'dovish pivot'—at least not yet."

Scotiabank: High Bar To Pivot At This Meeting

Scotiabank sees the bar to a true "pivot" (ie not just Powell signalling they are closer to the end on rate hikes) as high at the November meeting. Altering guidance beyond this year may have to wait until the December Dots.

- **Statement:** Unlikely to communicate a change in rate bias; to repeat forward guidance. Description of current conditions may reinforce reference to "modest growth" or strengthen it after Q3 GDP.

SEB: Complicated Signalling

With the Fed getting closer to the terminal rate, SEB thinks "members are split over the path ahead, which makes for complicated signalling."

- **Statement:** Unchanged guidance.
- **Press conference:** Powell to repeat that policy is data dependent and that the Fed at some point may slow the pace, thus keeping the door open for a series of smaller 50bp or 25bp rises but not closing it for another 75bp increase either.
- **Future action:** 50bp hike in Dec, 25bp in Feb, peak rates of 4.50-4.75%. Cuts in H2 2023.

SocGen: No Commitment, Flexibility To Be Maintained

SocGen thinks the Fed is "not going to commit" on future rate increase guidance in November and will "seek to maintain flexibility".

- Hiking to 3.75-4.00% will result in a restrictive monetary policy stance. "Beyond neutral and further into restrictive territory, the Fed should consider both inflation and the recession risks."
- **Statement:** "Ongoing increases" forward guidance should not change.
- **Press conference:** Powell can discuss factors that could contribute to smaller hikes.

Standard Chartered: Likely To Point To Slower Future Hike Pace

Standard Chartered expects the Fed to signal at the November meeting that the pace of future hikes is likely to slow ahead, barring upside inflation/growth surprises.

- But “the Fed is more likely to suggest that it wants to give the economy time to catch up to the move in policy rates, rather than indicate that it sees a need to reverse policy.”
- Press conference: Powell will probably argue that 4.50-5% Fed funds represents a significant degree of tightening that plausibly could restrain inflation. But he will probably make it clear that the Fed will go further if it turns out that inflation doesn't turn down fast enough.
- If asked, Powell likely to indicate that FRB is monitoring liquidity conditions, but doubt he'll provide concrete proposals / regulatory change timetable.
- **Future action:** 50bp hike in Dec, 25bp in Jan.

TD: Pivot Or Grind?

TD expects the Fed to stop front-loading in either Nov or Dec depending on CPI data, “and shift towards grinding down inflation after that with a diet of 50bp and 25bp rate hikes.”

- But the setup and signaling toward a steadier hike pace “was always going to be challenging” given adherence to data dependence.
- TD notes that given a real neutral rate estimate of 0.5% used among a number of FOMC members, rate hikes beyond this meeting will push the 2023 inflation adjusted rate to increasingly more restrictive levels.
- **Statement/Press Conference:** Possible to get subtle references to the lagged impact of the totality of rate hikes and the need to assess their effectiveness while determining the size of future hikes.
- Powell “will have to walk a fine line by providing a message that balances the Fed's aforementioned steady focus on inflation with opening the door to the possibility of lowering the pace of rate hikes if inflation allows in November/December. We expect the chairman to drive the point home that while the Committee might ease the pace of rate increases in coming meetings — given the current, blunt pace of tightening could not possibly be sustained once policy was clearly restrictive — the Fed is not yet done with the process of tightening rates.”
- **Future action:** 50bp hike in Dec, 25bp in Feb, 25bp in March to terminal 4.75-5.00%. Risks to the upside.

UBS: Fed To Keep Its Options Open

UBS expects the Fed “to keep its options open rather than provide guidance that the pace of rate hikes is slowing down in December” at the November meeting. “All the action” will be in the Powell press conference.

- FOMC participants probably were briefed by their staffs to see higher inflation forecasts for 2022-23, meaning “achieving that positive real funds rate many FOMC participants have been talking became more elusive. The needed improvement has been pushed further away by the incoming data. That probably will lead most participants to believe that this is not yet the time to commit to slowing down.”
- **Statement:** Minimal changes. KC's George to dissent in favor of a smaller hike.
- **Press conference:** Powell to keep FOMC's options open; may refer to September SEP.
- **Future action:** 75bp hike in Dec, 50bp in Feb to 5.00-5.25% terminal rate.

Unicredit: Powell To Hint At Slower Hike Pace

Unicredit writes that Chair Powell is sure to be asked about the September Dot Plot implying a 50bp hike in December, and the Fed's outlook on reducing the size of hikes.

- **Press conference:** Powell could reiterate data dependency, “but we expect he will provide a hint that it will likely soon become appropriate to slow rate hikes.
- Could simply say the Dot Plot still provides a good indication of FOMC participants' expectations.
- Or could emphasize the substantial amount of cumulative tightening that has occurred so far and the lags of monetary policy.
- **Future action:** 50bp hike in Dec, 25bp in Feb, 4.50-4.75% terminal rate. Rate cuts late 2023.

Wells Fargo: Stressing The Cumulative Effect Of Tightening

Wells Fargo sees a chance of a more cautious tone at the November meeting: "the FOMC could begin to stress the cumulative effect of tightening, which could signal that it is preparing to shift to a slower pace of rate hikes in the meetings ahead. Indeed, we are starting to hear more caution slip into the remarks of some Fed speakers."

- **Statement:** Could see the addition that when "assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information and cumulative policy adjustments for the economic outlook"
- **Press conference:** Powell to reiterate that quelling inflation remains the FOMC's utmost priority, and that the FOMC will "keep at it until the job is done."
- But he could "further indicate that the cumulative tightening by the Committee this year is taking on greater weight in the Committee's policy deliberations by including in his opening press conference remarks more than just a passing reference to the need to "at some point" slow rate hikes. Mentioning the need to also account for monetary policy tightening globally would further hint that the FOMC may be nearing the point when it is ready to ease its foot off the brake at least slightly."
- **Future action:** 50bp hike in Dec, 25bp in Feb, 25bp in Mar. Rate cuts late 2023

Wrightson ICAP: Unlikely Powell Unexpectedly Hawkish Before Elections

With little chance the FOMC will fail to deliver a 75bp hike, focus is on the press conference, says Wrightson ICAP.

- **Press conference:** Unclear how much new guidance Powell will provide.
- Unlikely to advertise an unexpectedly hawkish bias the week before elections.
- But econ data hasn't been reassuring enough to signal a downshift to 50bp in Dec.