MNI Fed Preview: March 2023

Meeting Dates: Tue-Wed, Mar 21-22
Decision/Statement/Summ Of Econ Projections: Wed 22 Mar at 1400ET / 1800GMT
Press Conference/Q&A: Wed 22 Mar at 1430ET / 1830GMT

Minutes: Wed 12 Apr

Links (likely URLs based on previous meetings):
Statement: https://www.federalreserve.gov/newsevents/pressreleases/monetary20230322a.htm
Summ of Econ Proj: https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20230322.htm
Implement. note: https://www.federalreserve.gov/newsevents/pressreleases/monetary20230322a1.htm
Press Conference: https://www.federalreserve.gov/monetarypolicy/fomcpresconf20230322.htm

MNI Review of Previous FOMC (Feb): https://roar-assets-auto.rbl.ms/files/51084/FedReviewFeb2023.pdf

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MNI POV (Point Of View): Balancing Evolving Risks

By Tim Cooper

- *MNI expects the FOMC to hike the Funds rate by 25bp to 4.75-5.00% at the March meeting, with markets currently implying a 60% chance of a quarter-point raise and 40% of a pause.*
- *This compares to an analyst consensus for a 25bp hike, with a minority looking for a pause, and one eyeing a cut.*
- *The Statement will likely soften "ongoing increases will be appropriate" to reflect "some further" increases "could/may" be appropriate. To acknowledge FOMC is monitoring financial sector stress but with confidence that banks are healthy.*
- *MNI expects the new Dot Plot to include a 25bp increase in the 2023 Fed funds median (5.4% - implying an intention to hike a further 50bp - vs 5.1% in December's), with similar increases to both 2024 and 2025.*
- *No change to QT policy is expected despite some expectations the Fed will end/alter balance sheet normalization. But there is a slim chance of a dovish surprise with the FOMC saying they would be "be prepared to adjust" the QT program in future should conditions warrant.*

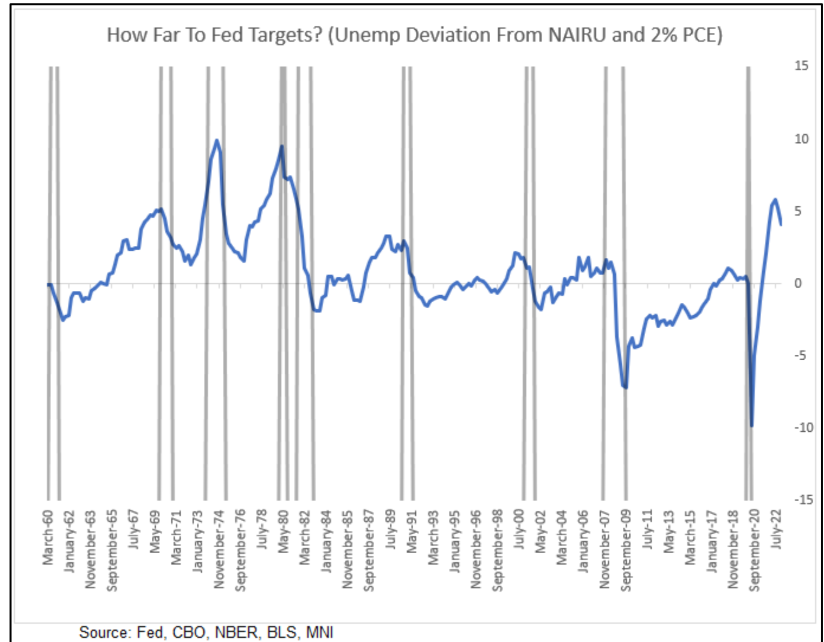
Until 10 days ago, the FOMC looked set to deliver either a 25bp or 50bp hike while signalling a decisively higher terminal rate than envisaged as recently as the end of 2022. But ongoing US and European banking sector turmoil has scrambled expectations for the meeting, with markets pricing in a sizeable chance of a pause vs a 25bp hike, and analysts split on whether the Fed will cut, hold, or raise.

We expect the Fed to deliver a compromise: a 25bp hike to a target range of 4.75-5.00%, while raising the median Dot Plot hike profile roughly 25bp across each of 2023, 2024, and 2025. That would be more conservative than the 50bp hike and potential 50bp increase to the terminal rate Dot that had been in the mix after Chair Powell on March 7 scrambled expectations in a hawkish direction by hinting that a 50bp hike was back on the table. In this regard the pre-FOMC blackout which started on March 11 couldn't come at a worse time. That meant a limited window in which to comment pre-Mar 22nd decision on both the Fed's view of potential systemic risk from the SVB and Signature Bank failures and related broader stability implications of rising rates and how that feeds into the economic outlook, or the latest key macro data (including the February jobs and inflation reports).

Looking at the data in isolation there is a clear case for a hawkish 25bp hike, if not the 50bp mooted a couple of weeks ago: between recent job/activity/inflation data and historical revisions, the Fed is still about as far away from its

inflation goals as it has been throughout this cycle, as shown in the accompanying chart. As we discuss in the macro developments section below, the data have clearly been conducive to a more aggressive tightening outlook. Pausing the rate hike cycle now may be an unpalatable option with little evidence in the incoming macro data to suggest the Fed is getting closer to achieving its targets. And while the Fed could justifiably say it needs another 6 weeks before deciding on what to do with rates, it would be a concession that the Fed may not have confidence it can deal with an ongoing banking crisis while simultaneously targeting its inflation mandate.

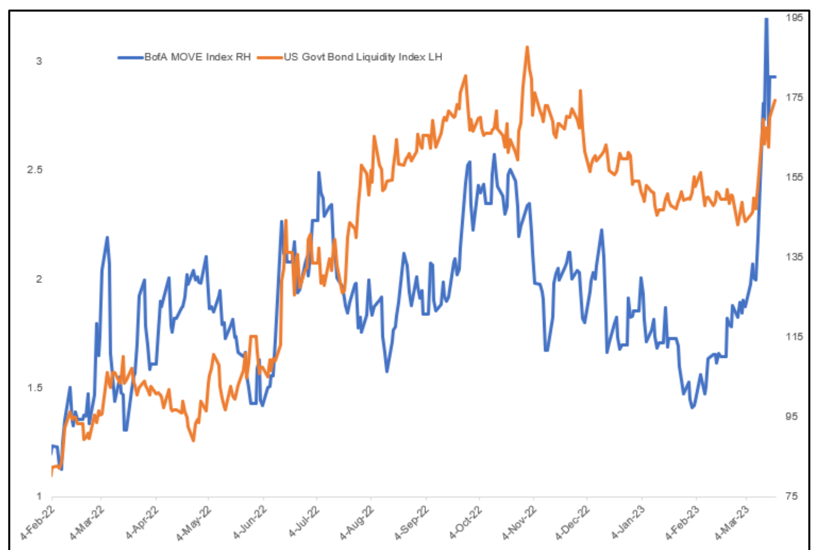
On the other hand there's every reason to think that the fallout from March's bank failures will tighten US financial conditions to some degree, and likewise with European bank uncertainty. But how much will be a subject of debate, particularly in terms of the tightening equivalent in fed funds rate hikes. It has become evident that the rapid Fed rate hike cycle of the past year is beginning to create cracks in the banking system.



Source: Fed, CBO, NBER, BLS, MNI

The Fed has a long history of hiking rates until something "breaks". To be sure, it would be taking it too far to interpret the SVB episode as the beginning of a systemic crisis, let alone evidence that the Fed has done enough to quell inflation. While Powell will have to address financial stability concerns at the press conference, he will probably maintain the view that the banking sector remains healthy overall, particularly since the Fed and Federal authorities have moved to quell the crisis with a new facility (the "Bank Term Funding Program") and other actions (central bank dollar swaps). In short, it's too early to panic. Even so, the more dovish and centrist FOMC participants will be mindful going into the meeting that the hiking cycle has gone on for exactly a year, about enough time for the lagged effects of tightening to start to be seen. The point of slowing to 25bp hikes in Feb was to provide more scope to reassess the landscape and see how policy is working with a lag - and the SVB episode is a consequential and cautionary example of how higher rates feed through to the banking system, by way of reaching the real economy.

The FOMC already had to contend with uncertainty over the level that was "sufficiently restrictive", and whatever the estimate, it's probably now lower than it was two weeks ago. It was clear from post-February meeting FedSpeak that participants were eyeing a higher terminal rate than the 5.1% median envisaged in the December FOMC Dot Plot. It's quite possible that figure could have risen to 5.6% in the March projections, given the lack of evident progress on the inflation front since then. Sell-side estimates seem to center around a 25-50bp Fed funds equivalent hike stemming from financial system ructions, though it's too early to reach any decisive conclusions. However, the message will be that the Fed plans to keep rates in sufficiently restrictive territory – which while approaching a little bit more slowly than the FOMC had anticipated in December, it's quicker than was anticipated two weeks ago.



The question to be faced at the March meeting is how much recent banking sector and financial market instability will tighten conditions and ultimarly impact the growth outlook and bring down inflation. Powell's task in the press conference will be to emphasize that the Fed's primary focus is the fight against well-above-target inflation, though the risks have become much more balanced in recent weeks. So far, the "evidence" has been circumstantial, with bond market liquidity drying up, volatility rising, credit spreads widening, and bank equities dropping sharply in value. But these variables haven't reached 2008 or 2020 crisis levels yet. It will certainly be interesting to hear what Powell has to say on the prospects of a "soft landing" in the current context.

Markets have probably overreacted with pricing in deep rate cuts from peak by year-end (100+bp at one stage). The new Dot Plot and Statement are unlikely to signal anything like that, with a 2023 median Fed Funds "dot" either remaining at 5.1% or as MNI expects in a close call, upped to 5.4%. Powell will emphasize that cuts are not the FOMC's central case. He

could hint again that even with a higher rate peak being signalled, the Fed has the tools to respond to negative developments – i.e. rate cuts. But the SVB episode and subsequent market reaction will spur more FOMC discussion about criteria to pause at an upcoming meeting. (Powell had promised more on the pause criteria discussion in the Feb meeting minutes, but those details appear to have been scrapped from the record after the strong Jan payrolls among other data). Certainly, the timing of the SVB episode means FOMC participants' minds will be refocusing on the risks of over vs under-tightening. There will also be renewed questions about quantitative tightening, with some observers beginning to see balance sheet policy as a possible offset aimed at shoring up banking sector stability, while Fed funds hikes continuing in order to quell inflation.

Statement: Amending "Ongoing" Guidance

(Link to February FOMC statement)

Going paragraph by paragraph through the Feb statement in italics, with some potential changes highlighted:

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 has eased somewhat but remains elevated.

Russia's war against Ukraine is causing tremendous human and economic hardship and is contributing to elevated global uncertainty. The Committee is highly attentive to inflation risks.

- **No substantial changes to the description of economic dynamics are likely, but could sound a little less optimistic on the inflation front given recent data.**
- However, this could be the part of the Statement that acknowledges the recent turmoil in the banking sector. Such language would probably be conservative in its scope, implying that while the Committee is attentive to the situation, it sees the banking system as being in good health.
- For example, borrowing from past Statement language and this past week's Fed statements: "Strains in financial markets have increased in recent weeks. However, the capital and liquidity positions of the US banking system are strong and the US financial system is resilient."

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 4-1/2 to 4-3/4 percent. The Committee anticipates that ongoing increases in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time. In determining the extent of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is strongly committed to returning inflation to its 2 percent objective.

- **Most of the forward guidance / balance sheet policy paragraph could potentially change to varying degrees.** However the FOMC is again likely to be cautious in making too many changes this time out.
- As has been the case for a few meetings now, the first focal point is the forward rate guidance signalling "anticipates that ongoing increases…will be appropriate". This could be the meeting at which this is toned down to "some further increases" or simply "further increases", assuming that the Dot Plot shifts the 2023 median rate slightly higher as is widely expected. In this regard, retaining "ongoing increases" unchanged would be hawkish on the margin.
- An alternative would be to maintain "ongoing" but make "will be appropriate" more conditional, for instance "may be appropriate" or "will likely be appropriate".
- **The other choice to be made is whether to include any forward guidance at all** – this sentence could simply be removed as a reflection of uncertainty about the path ahead, leaving it to the Dot Plot and Powell's press conference to explain the Committee's current thinking.
- If they hold rates at this meeting, the language will likely reflect an intention to resume hikes once banking sector volatility has subsided.
- **Finally, on the balance sheet: it's quite doubtful that the FOMC would choose this meeting to make any substantial changes.** The Fed leadership has been clear they want balance sheet runoff to be predictable to the point of being boring, and have resisted suggestions that they could change course anytime soon.
- However in light of the recent bank liquidity issues, we've begun to see some analyst expectations that the Fed could slow or stop its balance sheet runoff as soon as this meeting.
- **We'd expect that at most – and only if they wanted to convey a dovish message** – they could signal that they would "be prepared to adjust" its QT program in future should conditions warrant.

> *"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 labor market conditions, inflation pressures and inflation expectations, and financial and international developments."*

- **No changes to this paragraph are likely.**
- **In the Implementation Note,** we expect a parallel 25bp shift in all of the main administered rates, with IORB rising to 4.90% and ON RRP rising to 4.80%.
- **No dissents are expected**, but note that there is one fewer voter this time with VC Brainard having left the Fed.

Summary of Economic Projections: Slightly Higher Dots, Conservative On Macro

(Link to December SEP)

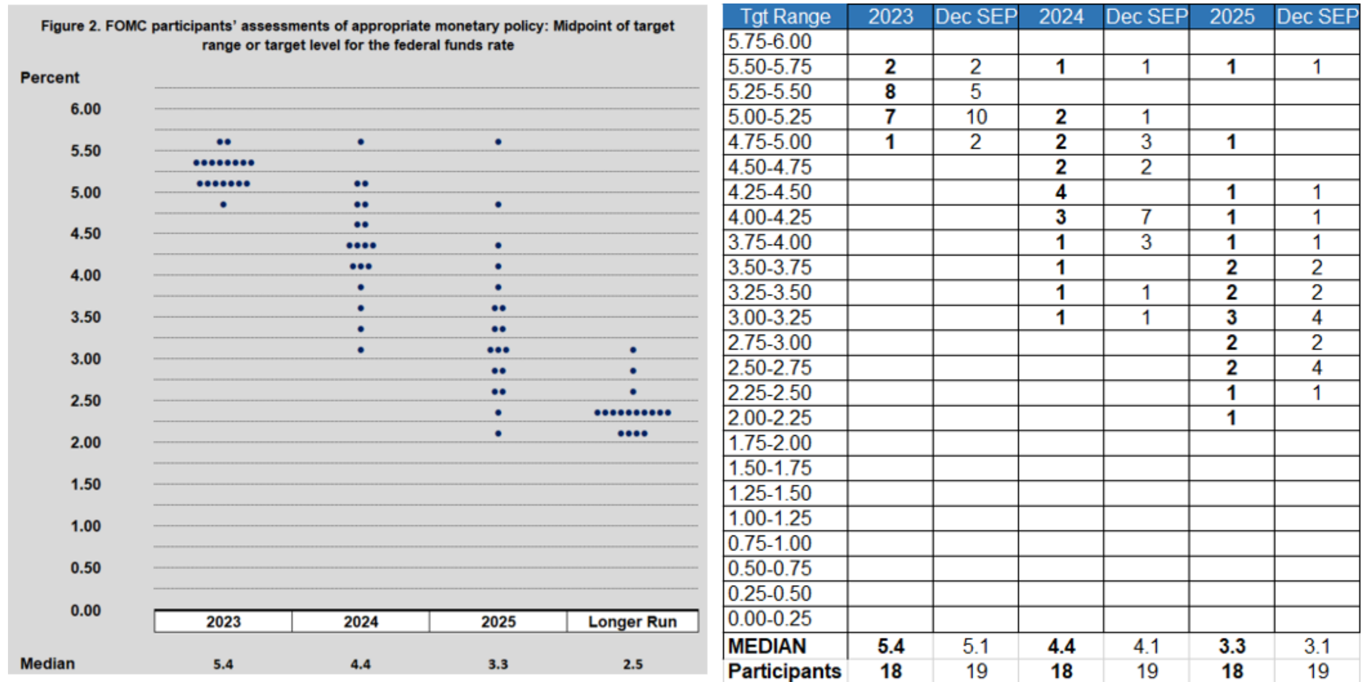
We should note that March's SEP will probably carry less signalling weight than prior rounds. It will have been put together during an unusually volatile period, with no data reflecting the potential impact of the sudden banking sector turmoil. There is even a case for the Fed to skip publishing the SEP altogether this time out, as is expected by some analysts (and forms a question in our Instant Answers). Even so, there are a few areas that will be most closely focused upon.

We expect the projections to largely reflect a baseline expectations for the banking sector turmoil to be largely contained, albeit with some associated tightening of financial conditions weighing on activity and restricting the need for the Fed to go much higher on rates. Additionally we'd expect the Fed to maintain the message that the baseline outlook is for rates to remain on hold for an extended period of time as previously signalled. The macroeconomic forecasts are unlikely to be changed much from December. Though there will likely be wider expected ranges for macroeconomic variables, though not necessarily for the lower/upper limits of expected future end-year Fed funds rates.

Dot Plot Rate Medians Up Slightly: As Powell said in December of the SEP Dot Plot 2023 terminal rate median, "if the inflation data come in worse, that could move up [from 5.1%]. And it could move down if inflation data are softer.") The inflation data have not come in softer since then, with the labor market continuing to impress to the upside. And Powell in early March accordingly said "The latest economic data have come in stronger than expected, which suggests that the ultimate level of interest rates is likely to be higher than previously anticipated." That means the FOMC medians are likely to be revised accordingly in this round of projections. However, any increase in the signalled terminal rate is likely to be tempered by rising uncertainty over financial stability.

- **In a close call, we see the 2023 median dot revised up to 5.4% from 5.1%, with the 2024 dot lifted from 4.1% to 4.4%.** This would imply a couple more 25bp hikes beyond March (May and June) as the baseline case this year, with the same 100bp magnitude of cuts in 2024 as forecast in the December projections.
- **The high-low range for 2025 could be wider**, with the end-year rate probably nudged up slightly (we have pencilled in a split between 3.125% and 3.375% for a 3.25% ie 3.3% median. Though the end-2025 outlook entails a low-conviction view for us – and, we suspect, the FOMC itself.
- As reflected in our Instant Answers, there will be additional attention paid this time to the number of dots (if any) pointing to a hold for the rest of the year (ie 4.9% assuming a 25bp hike this week), and/or any cuts. Either is expected to be limited.

Expectations for the March Dot Plot are below:



Tgt Range	2023	Dec SEP	2024	Dec SEP	2025	Dec SEP
5.75-6.00						
5.50-5.75	**2**	2	**1**	1	**1**	1
5.25-5.50	**8**	5				
5.00-5.25	**7**	10	**2**	1		
4.75-5.00	**1**	2	**2**	3	**1**	
4.50-4.75			**2**	2		
4.25-4.50			**4**		**1**	1
4.00-4.25			**3**	7	**1**	1
3.75-4.00			**1**	3	**1**	1
3.50-3.75			**1**		**2**	2
3.25-3.50			**1**	1	**2**	2
3.00-3.25			**1**	1	**3**	4
2.75-3.00					**2**	2
2.50-2.75					**2**	4
2.25-2.50					**1**	1
2.00-2.25					**1**	
1.75-2.00						
1.50-1.75						
1.25-1.50						
1.00-1.25						
0.75-1.00						
0.50-0.75						
0.25-0.50						
0.00-0.25						
MEDIAN	**5.4**	5.1	**4.4**	4.1	**3.3**	3.1
Participants	**18**	19	**18**	19	**18**	19

Minimal Changes To Macro Projections: We anticipate very limited changes to the macroeconomic projections in this round vs December. The current banking uncertainty makes it harder than usual for FOMC participants to have conviction in macro forecasts, so we'd expect any changes to err on the conservative side. The unemployment rate forecast for 2023 now looks too high (4.6% vs 3.6% printed in February) and could be revised down. GDP could be revised up slightly as well. Outside of that, there's an outside chance that lower commodity prices the past few weeks would help shave a little off the headline PCE inflation projections, but the core PCE projections probably won't be changed much if at all. This is unlikely to be a market-mover anyway.

Expectations below:

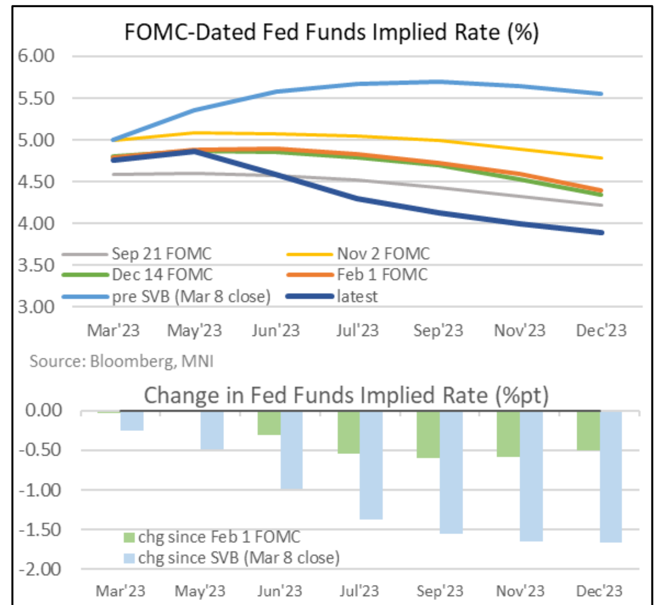
Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents under their individual assessments of projected appropriate monetary policy, March 2023

Percent

Variable	2023	2024	2025	Longer Run
Change in real GDP	0.5	1.6	1.8	1.8
Dec projection	0.5	1.6	1.8	1.8
Unemployment rate	4.4	4.7	4.6	4.0
Dec projection	4.6	4.6	4.5	4.0
PCE inflation	3.1	2.4	2.1	2.0
Dec projection	3.1	2.5	2.1	2.0
Core PCE inflation	3.5	2.5	2.1	-
Dec projection	3.5	2.5	2.1	-
Federal funds rate	5.4	4.4	3.3	2.5
Dec projection	5.1	4.1	3.1	2.5

Current Rate Expectations

Prior to a regional banking crisis sparked by the acute issues and subsequent failure of SVB, Fed Funds rate expectations had broadly seen a one-way upward trajectory since shortly after the Jan 31-Feb 1 FOMC meeting. The move was sparked by the aforementioned beats for payrolls and ISM services just two days after the decision, before further resilient releases in an environment of growing data dependency and a final hawkish push from Powell opening the door to a 50bp hike at this week's decision on Mar 7. It saw the implied terminal rate increase from 4.89% for June after the Feb 1 decision to a high of circa 5.7% for September with only half a cut priced to year-end, just days before SVB issues came more broadly to light.



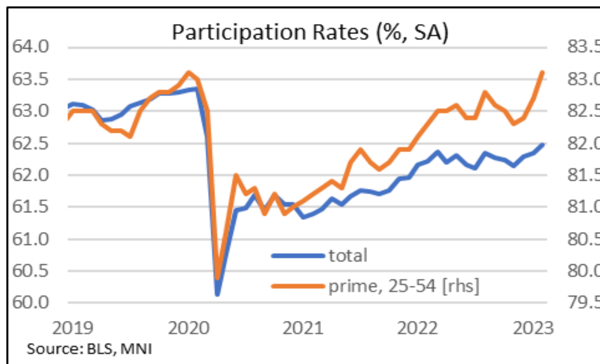
The continued spillover from the regional banking crisis has seen rate expectations tumble. Huge volatility remains, with recent large moves on external headlines concerning Credit Suisse or domestic headlines on First Republic's rescue along with other regional banks. Nevertheless, at typing, the Fed is priced to hike 17.5bp on Wednesday with one hike fully priced with the May meeting (cumulative 28bp) at what would be a terminal effective rate of 4.86%. After reversing 50bps of hikes priced at the May meeting it's almost unchanged since the Feb 1 decision but the main moves are seen for meetings later into the year, with now just shy of 100bp of cuts priced to 3.9% at year-end.

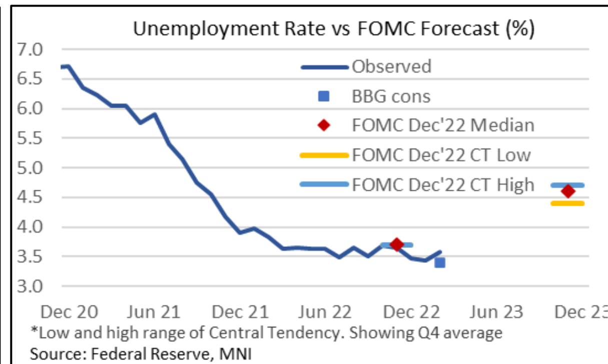
Macro Developments Since The Jan 31-Feb 1 FOMC

By Chris Harrison

The two payrolls reports since the last FOMC meeting saw unequivocal payrolls strength, the first of which landed two days after the Fed delivered a downshift to a 25bp hike with a half-hearted hawkish message. The latest February report took some of the gloss off with downward revisions and tweaks to show over-sized contributions from government jobs, but nevertheless the trend remained extremely hot. Total nonfarm payrolls added an average 351k jobs over the latest three months whilst private sector payrolls increased an average 294k over the same period, together running at least three times the pace Fed Chair Powell has previously indicated he sees as sustainable in the long-run. January's print had benefited from unusually mild weather along with the fact that the month's typical seasonal pattern of job shedding boosted the seasonally adjusted numbers in an environment of labor hoarding. The latter was partially reversed in February but nevertheless still saw very strong payrolls growth.

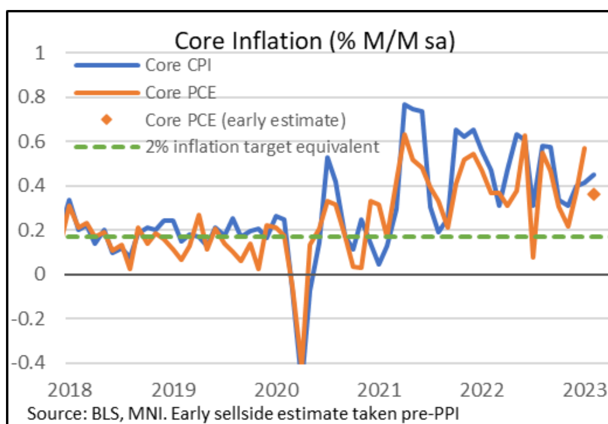
Other details from the report were more mixed, however, with broad strength in January reversed in February. What was unexpectedly thee lowest unemployment rate since 1969 at 3.43% in the January print was followed by a surprisingly large increase to 3.57% in February, perhaps the first start of a trend move higher that FOMC participants have been expecting for some time. Latest data for average hourly earnings partly revised away January strength and left a decelerating trend with 0.24% M/M in February, the softest rate in twelve months albeit clouded by the fact the large sub-category of production and non-supervisory employees saw much stronger wage growth of 0.46% M/M. Further, average hours worked saw a downward revision to what had been a surprising spike in January before a further decline, leaving them back on a broadly downward trend closer to more typical pre-pandemic levels. And finally, perhaps the most encouraging aspect of the payrolls report for the Fed, labor participation has shown a significant increase in recent months. The overall rate touched a post-pandemic high whilst the prime-age participation rate has returned to a high seen shortly before the pandemic and prior to that 2008 despite fears its post-pandemic recovery was being impeded by a lack of childcare.

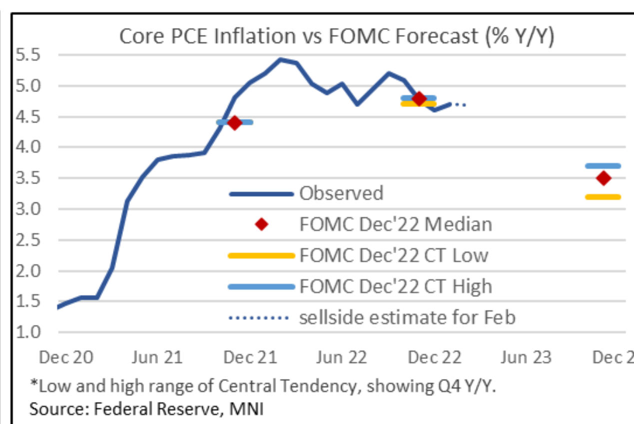




Still historically strong but increasingly mixed is a theme for the broader labor data away from payrolls. Within JOLTS, the ratio of job openings to unemployed continues to defy expectations and was still at a historically high 1.90 as of January, although the quits rate has moderated more sharply in recent months and moves closer to pre-pandemic highs. Equally, initial jobless claims show very little signs of labor market momentum fading and instead have held at very low levels, although layoffs in metrics such as the Challenger series have surged.

At first glance, the two CPI reports since the last FOMC meeting were in line and only slightly stronger than expected for core CPI although details on balance suggested an underlying stronger picture. The January report came with sizeable upward revisions to the recent pace of core CPI whilst underlying details showed a surprising breadth of inflationary pressures across a variety of measures. The main upside surprise from inflation data came from core PCE however, accelerating to 0.57% M/M in January (cons 0.4) in what was close to the strongest monthly rate of the cycle. Further, upward revisions meant that the Y/Y rate was pushed up to 4.7% Y/Y vs the 4.3% expected, whilst the median FOMC participant in the Dec SEP pencilled in 3.5% for Q423.





More recently and coming within the FOMC's media blackout, but also after the start of the regional banking crisis which had already sent Fed rate expectations tumbling, February core CPI was mildly stronger than expected at 0.45% M/M (cons 0.4%). It left a particularly steady three months at 0.40, 0.41 and 0.45% M/M. There were plenty of nuances within the report though. The beat came despite a surprisingly large drop in used car prices and the closely watched core non-housing services series accelerated notably to the fastest pace since September, but the latter was driven by a bounce in airfares which wasn't replicated in subsequent PPI data, the PCE input. The net result is that core PCE inflation is expected to ease from 0.6% to 0.4% M/M or possibly a little softer in February (released after the FOMC on Mar 31), but this is still at least double the pace consistent with 2% annual inflation and a clear acceleration from the 0.30% M/M averaged in Q4.

Prior to any spillover from the regional banking crisis, growth measures were broadly holding up very well considering the stage of the hiking cycle. It started on a relatively weaker note as the 2nd estimate for Q4 was revised down to a still strong 2.7% annualized on notably weaker than first thought personal consumption. This did however recover well in January, with trackers putting Q1 consumption at its strongest since 1H21 and the Atlanta Fed GDPNow was revised up to 3.2% for Q1 last week. As for soft data, manufacturing sectors have remained under pressure (translating into a weaker trend for manufacturing production) but service indicators have been more in line with the broader economic strength. The ISM services index has been most notable, as its January report shortly after the last FOMC meeting sharply reversed December's equally abrupt decline, before the February report maintained the level at a clearly non-recessionary 55 handle.

MNI Instant Answers:

The questions that we have selected for this meeting are:

- Federal Funds Rate Range Maximum
- Median Projection of Fed Funds Rate at End of 2023
- Median Projection of Fed Funds Rate at End of 2024
- Median Projection of Fed Funds Rate at End of 2025
- Median Longer Run Projection of Fed Funds Rate
- Number of 2023 dots < 4.875%
- Number of 2023 dots < 5.125%
- Number of 2023 dots > 5.125%
- Number of 2023 dots > 5.375%
- Does the FOMC say it expects to hold rates or will consider holding rates at their current level?
- Does the FOMC change the phrase "anticipates that ongoing increases in the target range will be appropriate"?
    - If yes, is the phrase deleted entirely and no other guidance on rates added?
- Does the FOMC end QT immediately?
- Does the FOMC announce a plan to reduce the pace of QT?
- Does the FOMC say it's prepared to change the details of QT if necessary?
- Does the FOMC NOT publish the dot plot?

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.***

mni Central Bank Watch - FED

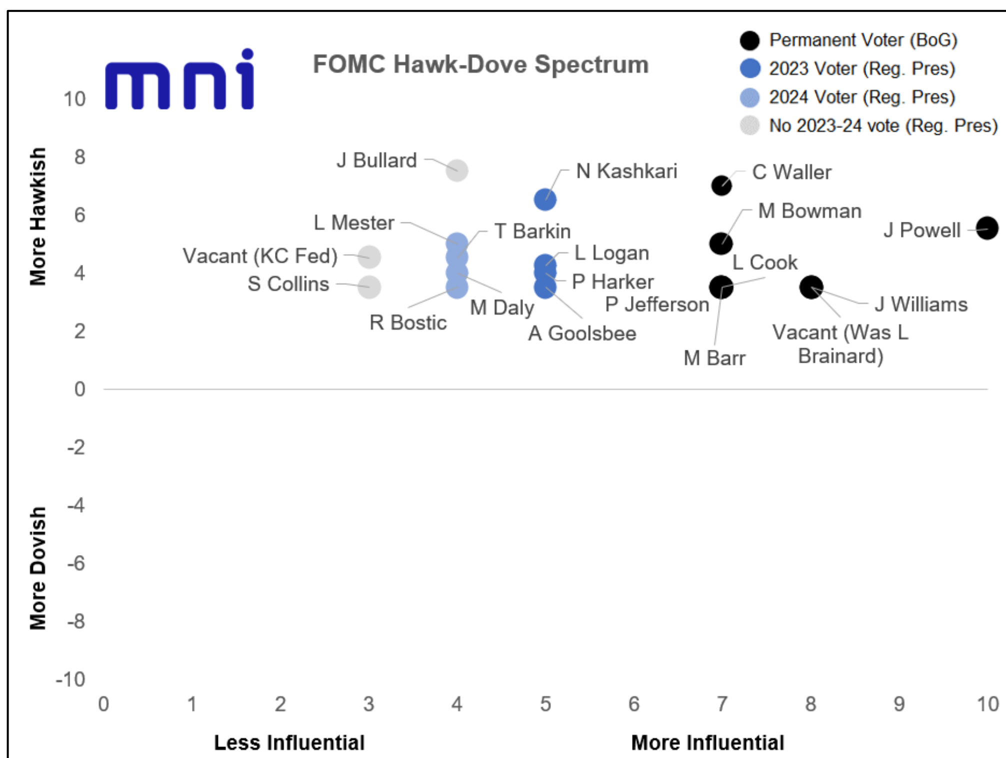
MNI FED Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	6.0	7.1	↓	8.3	↓					-0.46
PCE Deflator	% y/y	5.4	6.1	↓	6.4	↓					-1.12
UoM 1-Yr Inflation Exp	% y/y	3.8	4.4	↓	4.7	↓					-1.39
Inflation Swap 5y/5y	%	2.50	2.64	↓	2.54	↓					0.29
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
ISM	Index	47.7	49.0	↓	52.9	↓					-1.64
Industrial Production	% m/m	0.00	-0.59	↑	-0.11	↑					0.26
Factory Orders	% m/m	-1.6	0.4	↓	-1.0	↓					-1.14
Housing Starts	K	1450	1419	↑	1508	↓					0.57
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Corporate Spreads BBB/Baa	bps	1.80	1.93	↓	2.07	↓					0.60
Chicago Fed Financial Con	Index	-0.37	-0.21	↓	-0.24	↓					-1.44
Consumer Credit Net Chg	$bn	14.8	35.0	↓	22.5	↓					-1.15
New Home Sales	K	670	589	↑	543	↑					1.60
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	-0.4	-1.1	↑	0.7	↓					-0.54
Consumer Confidence	Index	102.9	101.4	↑	103.6	↓					-0.15
Nonfarm Payrolls Net Chg	K	311	290	↑	352	↓					-0.50
Average Hourly Earnings	% y/y	4.6	5.0	↓	5.4	↓					-0.99
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market	Index	3917	4080	↓	3955	↓					-0.78
US 10-Year Yield	%	3.40	3.61	↓	3.19	↑					0.74
US Yield Curve (2s-10s)	bps	-53.3	-70.5	↑	-30.0	↓					-1.63
USD TWI	Index	121.29	124.81	↓	122.24	↓					-1.07

(*Updated Mar 17, 2023*)

Key Inter-Meeting FedSpeak – Mar 2023

- FOMC communications following the Feb 1 decision pointed mostly to a 25bp raise at the March meeting and a higher envisaged terminal rate than the 5.1% signalled by December's SEP Dot Plot median.
- Some notable differences of opinion came from Bullard and Mester who noted support for a 50bp hike at February meeting. However such communications, even with upside surprises to the economic data over the course of February, failed to shift expectations in a much more hawkish direction.
- That was until Chair Powell implied on March 7 that the Fed could potentially hike by more than 25bp at an upcoming meeting, when pricing for the March meeting neared 50bp.
- Due to the pre-FOMC blackout period, there has been no "fresh" commentary on the state of play since March 10, including on the monetary policy impact of the banking sector crisis. We'd therefore caution that most of the commentary below is "stale".
- Vice Chair Brainard has left the Federal Reserve for the White House to join the Biden administration; she leaves a vacancy that has not been filled so there are 18 participants this month vs 19 at the last meeting.



*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 February FOMC
		'23	'24	

Member	Role	Voter		Monetary Policy Commentary Since February FOMC
		'23	'24	
J Powell	BOG, Chair	**X**	**X**	**On terminal rates and the pace of hikes:** "The latest economic data have come in stronger than expected, which suggests that the ultimate level of interest rates is likely to be higher than previously anticipated…If the totality of the data were to indicate that faster tightening is warranted, we would be prepared to increase the pace of rate hikes." **- Mar 7 /** "If — and I stress that no decision has been made on this — but if the totality of the data were to indicate that faster tightening is warranted, we'd be prepared to increase the pace of rate hikes...we have not made any decision about the March meeting." - **Mar 8** "Slowing down the pace of rate hikes this year is a way for us to see more of those effects as they come in." **– Mar 7** **On inflation:** "Inflation is coming down but it's very high... some part of the high inflation that we are experiencing is very likely related to a very tight labor market."
J Williams	NY Fed, V Chair	**X**	**X**	**On terminal rates:** ""The large majority of people had rates ending this year at either 5% to 5.25%, or 5.25% to 5.5%, so somewhere in that 5% to 5.5% range. And I think that to me right now seems to be the kind of right kind of framing of that so far." **– Feb 14** **On the rate path:** "From my point of view, we will need to bring interest rates down eventually in 2024, 2025. Reflecting my forecasts, inflation will come down back to 2% and other economic conditions will evolve in a way that suggests lower interest rates." **-Feb 14**
L Brainard	BOG, V Chair	**X**	**X**	**Brainard has left the Fed since the February meeting.**
M Barr	BOG, V Chair	**X**	**X**	**No commentary on current monetary policy since the February meeting**
M Bowman	BOG	**X**	**X**	**On financial stability:** "The US banking system remains resilient and on a solid foundation, with strong capital and liquidity throughout the system." **– Mar 14**
L Cook	BOG	**X**	**X**	**On terminal rates:** "I think we are not done yet with raising interest rates, and we will need to keep interest rates sufficiently restrictive…we are now moving in smaller steps…this will give us time to evaluate the effects of our fast actions on the economy." **– Feb 8**
P Jefferson	BOG	**X**	**X**	**On inflation:** "The inflationary forces impinging on the US economy at present represent a complex mixture of temporary and more long-lasting elements that defy simple, parsimonious explanation…The ongoing imbalance between the supply and demand for labor, combined with the large share of labor costs in the services sector, suggests that high inflation may come down only slowly." **– Feb 24**
C Waller	BOG	**X**	**X**	**On terminal rates:** "[Contingent on data cooling vs January's] I would endorse raising the target range for the federal funds rate a couple more times, to a projected terminal rate between 5.1% and 5.4%...On the other hand, if those data reports continue to come in too hot, the policy target range will have to be raised this year even more to ensure that we do not lose the momentum that was in place before the data for January were released" **- Mar 2** **On the January payrolls report:** "instead of loosening, the labor market was tightening." **- Mar 2**
P Harker	Phil Fed	**X**		**On rate hikes:** ""In my view, we are not done yet… but we are likely close…At some point this year, I expect that the policy rate will be restrictive enough that we will hold rates in place and let monetary policy do its work….It's going to be above 5% in the Fed funds rate. How much above 5? It's going to depend a lot on what we're seeing." "Rates are now at a level that allow us to slow down and proceed cautiously and, to my mind, the days of us raising 75 basis points at a time have surely passed… at the last meeting, I voted for a hike of 25 basis points — what some would call slow but actually is closer to cruising speed when it comes to tightening."**– Feb 14**
N Kashkari	Minn. Fed	**X**		**On rate hikes:** "I'm open-minded, at this point, about whether it's 25 or 50 basis points [in March]…to me, much more important than whether it's 25 or 50 is what we signal in what's called the dot plot." **– Mar 1**
L Logan	Dall. Fed	**X**		**On rate hikes:** "We must remain prepared to continue rate increases for a longer period than previously anticipated, if such a path is necessary to respond to changes in the economic outlook or to offset any undesired easing in conditions…I anticipate we will need to continue gradually raising the fed funds rate until we see convincing evidence that inflation is on track to return to our 2% target in a sustainable and timely way." – Feb 14
A Goolsbee	Chic. Fed	**X**		**On policy:** "It is a danger and a mistake for policymakers to rely too heavily on market reactions…our job is ultimately judged by what happens in the real economy." **– Feb 28**
T Barkin	Rich. Fed		**X**	**On rate hikes:** "Inflation is likely past peak…but I think it will take time to return to target, and, as a consequence, believe we still have work to do." "The beauty of a shallower rate increase path is if you're wrong you're not that far wrong … it's entirely possible that inflation will come down quicker than I'm suggesting that I expect it to, and if it does that would imply a shallower rate path. But I think it's entirely possible it persists, which would require us to do more...when you're on a more deliberate rate-increase path it does give you a lot more flexibility in terms of the ability to move for longer or to higher if you need to." **- Mar 3**
R Bostic	Atl. Fed		**X**	**On rate hikes:** "I want to be completely clear: There is a case to be made that we need to go higher…jobs have come in stronger than we expected. Inflation is remaining stubborn at elevated levels. Consumer spending is strong. Labor markets remain quite tight." [Bostic noted he still favored a 25bp hike in March but was open to larger hikes if the economy remained strong.] **– Mar 3** **On terminal rate:** [Rates need to rise between 5-5.25% and then on hold "until well into 2024." **-Mar 1**
M Daly	S.F. Fed		**X**	**On rate hikes:** "it's clear there is more work to do. In order to put this episode of high inflation behind us, further policy tightening, maintained for a longer time, will likely be necessary" **– Mar 6**
L Mester	Clev. Fed		**X**	**On terminal rates:** ""I do think we need to be somewhat above 5% and hold there for a time in order to get inflation on that sustainable downward path to 2%." - **Feb 24**

Member	Role	Voter		Monetary Policy Commentary Since February FOMC
		'23	'24	
				On rate hikes: "At our meeting two weeks ago, setting aside what financial market participants expected us to do, I saw a compelling economic case for a 50 basis-point increase, which would have brought the top of the target range to 5%." **– Feb 16**
J Bullard	St. Louis Fed			**On rate hikes:** "My overall judgment is it will be a long battle against inflation, and we'll probably have to continue to show inflation-fighting resolve as we go through 2023" [with the policy rate brought to 5.375% as soon as possible]. **-Feb 16** **On supporting a 50bp hike in March, as he did in February:** "I wouldn't rule anything out for that meeting, or any meeting in the future." **– Feb 16**
S Collins	Bos. Fed			**On rate hikes:** "I do believe that we will need to do some additional rate increases and exactly what the right amount is really needs to be dependent on a holistic review of the information that we receive…and then I do believe that it will be important to hold there for some time because it takes a while for the effects of tighter financial conditions to work through the economy." – Mar 2
Vacant	K.C. Fed			

MNI Policy Team Insights

MNI INTERVIEW: Fed Dot Plot To Look Past Bank Crisis -Lockhart (Pub Mar 17, 2023)

By Jean Yung

(MNI) WASHINGTON – The FOMC's interest rate projections next week are likely headed higher despite market expectations for 75 bps of rate cuts this year after the failure of two midsize banks, former Atlanta Fed President Dennis Lockhart told MNI.

It is unlikely the Summary of Economic Projections will signal significant concern that the collapse of Silicon Valley Bank and Signature Bank will lead to a severe downturn, though some officials could incorporate higher chances of a recession into their individual forecasts, Lockhart said in an interview.

"The projections overall are going to look past the circumstances of this week and reflect an assumption that stability is restored," Lockhart said. "The question remains: what are they going to do about inflation? Although year-end is nine months away, a lower median rate for end-2023 would be surprising considering the persistence of inflation." (See: MNI INTERVIEW: Inflation Proves More Persistent - Fed's Garriga)

But with the recent market turmoil, Lockhart doesn't rule out a greater dispersion of outlooks.
(See: MNI INTERVIEW: Fed Should Pause, Assess Two-Way Risk-Rosengren and MNI INTERVIEW: Fed Set For Hawkish Pause On Turmoil-English)

"It's possible the committee will move from a fairly tight consensus to more varied views as to how things will pan out and what's needed in the way of policy," he said. But, "I don't think a continuation and widening of financial system stress will be the base case."

DOING THE EXPECTED

Lockhart expects the FOMC to nudge rates higher by a quarter-point next week to a target range of 4.75% to 5%. A pause in rate hikes could backfire by feeding alarm, signaling the regulators see the banking system as more fragile than it appears. Fed funds futures are pricing in a 86% chance of a 25 bp move next week.

"The committee will be trying to separate financial stability concerns from inflation concerns to the extent possible. They have distinct tools for addressing each," he said.

Some tightening of credit availability as a result of the bank failures and precautions against runs could actually aid the Fed's effort to engineer a slowdown in the economy to fight inflation -- so long as the tightening isn't too abrupt or severe, Lockhart said. (See MNI INTERVIEW: Lockhart Sees Fed Lifting Rate Estimates in SEP)

FED TO BLAME?

While Silicon Valley Bank on its own wasn't systemically important, "we've learned that collectively small banks could present a systemic problem," he said. "Market and depositor psychology can completely run away from the initial facts of the triggering event, and that could create distress in banks that would otherwise be safe."

The Fed's regional supervisors and bank examiners were likely in frequent contact with SVB management and may have taken steps to warn the bank about growing risks, Lockhart said.

"There's no way a regulator can or should be a shadow management team of a bank. Regulators appreciate the difficulty of predicting disaster and can only go so far in forcing worst case scenarios on a bank's management when things look stable and problems seem manageable," he said.

"That said, there are flaws in the regulatory approach that will need to be fixed."

MNI INTERVIEW: US Business Creation Seen Shielded From SVB
(Pub Mar 16, 2023)

By Evan Ryser

(MNI) WASHINGTON – U.S. business creation and job growth will likely continue the boom that began following the pandemic even with a potential credit squeeze after the fall of Silicon Valley Bank, former Census Bureau chief economist John Haltiwanger told MNI.

"Startups will not be impacted much by the issues stemming from Silicon Valley Bank, but a broader U.S. economic slowdown due to the Fed's monetary tightening or otherwise would very much harm startups," he said. He also acknowledged it's reasonable to expect headwinds to credit creation at smaller banks.

Haltiwanger has presented his work at Jackson Hole and according to a recent paper with Fed Board economist Ryan Decker, more than 95% percent of counties saw a higher pace of applications during 2020-2021 than during 2010-2019.

That's a rebound from a long-term decline before the pandemic, helping create a million jobs each quarter starting in the second half of 2021, he said.

The hot labor market and wage inflation has been a key factor in the Federal Reserve's rate hikes, potentially hiking again next week even amid heightened financial risk. (See: MNI INTERVIEW: Fed Pause Would Undermine Credibility - Plosser)

Growth in business applications since 2020 has been widespread across the U.S. in virtually every urban area, with a focus on professional scientific and technical services in the high tech intensive sector, he said.

Even according to the most recent data for February, applications remain at higher levels suggesting continued higher quits rates that would point to job growth, he said, also still cautiously optimistic about future productivity trends. "We aren't seeing even through February 2023 a decline yet in business applications."

Other economists have pointed to the work by Haltiwanger and Decker to suggest that the conversion rate of applications into establishments was more than 90% and the time between applications to hiring has declined from about two years before the pandemic to a few months. Other analysis by KPMG suggests that high-propensity business applications explain more than half of the excess rise in U.S. job openings.

MNI INTERVIEW: Fed Set For Hawkish Pause On Turmoil-English
(Pub Mar 16, 2023)

By Evan Ryser

(MNI) WASHINGTON - The Federal Reserve is most likely to take a break in its interest rate increases at its March meeting because of the turmoil in global financial markets that has resulted from troubles at U.S. regional banks

and worries about Credit Suisse, William English, a former director of the Fed's division of monetary affairs, told MNI.

"Things are moving very quickly and we could all feel better by the middle of next week," he said. "But particularly with the spill over to Europe yesterday and the problems with Credit Suisse, it seems like we're going to be in an uncertain period for a while and given that I would have thought the Committee would likely choose to take no action and emphasize it's going to wait and see."

The ECB's 50 basis point rate hike does give the Fed some room to raise rates by 25 basis points next week if it wants but even if policymakers opt to do so, they will reveal a cautious, wait-and-see posture to future rate increases.

It gives them "a little bit of scope to tighten without feeling like they're doing something that would have bigger effects than they like," he said, still leaning in the direction of a pause next Wednesday to assess the situation and gather more information.

LOWER TERMINAL?

The current fed funds rate target at 4.50%-4.75% is likely to have to continue to move up, he said, but maybe not as high as previously thought before the collapse of Silicon Valley Bank and Signature Bank, when rates were largely seen rising to between 5.5% to 5.75% with risks they'd move above 6%. The bond market is pricing in an over 80% chance of a 25 basis point hike next week.

"Some banks are going to be much less interested in intermediating and making loans and so that's going to be a tightening of financial conditions for bank dependent borrowers including a lot of small and medium sized businesses and households. If that effect is big, and if you're the Fed, you just have less tightening to do."

"But the Fed doesn't have a good way to judge how big these effects are going to be by next Wednesday," he said. "They are going to have to make their best call."

"They're going to wait and see how things shake out for a bit longer, but they're still expecting it'll probably be necessary to raise rates further to get inflation down towards their 2% target," said English, a former secretary to the FOMC.

(See: MNI INTERVIEW: Fed Should Pause, Assess Two-Way Risk-Rosengren)

Threading the needle will be tough, he said. "They're going to have to be clear that whatever they do, they're going to be watching the data very carefully and watching the banking system very carefully. And they may have to adjust one way or the other" and that could include earlier rate cuts.

FED'S BTFP

English suggested the government response over the weekend has helped stem the crisis and gives time to banks to make adjustments to manage their situations.

He said a forceful Fed program like the Bank Term Funding Program that lends at par could turn out to be something like the corporate and municipal bond buying programs during the pandemic that had powerful announcement and confidence effects but were later little used.

"I suspect this would be the same," English said, laying out an exception for the two bridge banks that failed and are likely to tap the Fed program. But if there is hundreds of billions in take-up at the facility, then that suggests there should still be some real concern about some of these banks, he said.

MNI INTERVIEW: Fed Pause Would Undermine Credibility - Plosser (Pub Mar 16, 2023)

By Pedro Nicolaci da Costa

(MNI) WASHINGTON - The Federal Reserve would risk undermining its inflation-fighting credibility and raising doubts about the effectiveness of its latest banking sector intervention if it paused interest rate hikes this month while inflation is still far too high, former Philadelphia Fed President Charles Plosser told MNI.

The Fed has repeatedly stated it could separate financial stability measures from interest rate policy and a rate pause would suggest the Fed lacks confidence in its own new lending facility aimed at helping alleviate pressures on the banking sector.

“Given the distinction they make between financial stability policy and monetary policy, I think it would be a mistake to send a signal to actually not do anything in March,” Plosser said in an interview. “That would immediately transmit to the markets that the Fed can be swayed from fighting inflation at the drop of a hat and that would be a very dangerous thing to do because it would undermine their own commitment.”

“They may only want to do 25 basis points and not 50 out of an abundance of caution,” he added.

ABOVE-6% RATES

The current fed funds rate target at 4.50%-4.75% are still below the rate of inflation and therefore still not actually restrictive, which means the Fed needs to keep tightening, he said.

“Policy needs to be above 6%, probably closer to 7%,” he said. “There’s no particular reason why this event should materially affect the inflation outlook at least at this point.” (See MNI INTERVIEW- Fed Will Hike Rates To 6% Or More–Gorodnichenko)

Doing nothing at next week’s meeting “would be a major mistake, because it tells them that the Fed is scared.”

Financial markets have been plunged into turmoil in the last week after the rapid failure of two major regional U.S. banks and the resurfacing of troubles at Swiss giant Credit Suisse.

That has led to wild swings in market expectations for the fed funds rate – from a 50 basis point hike with a peak at or above 5.5% as recently as the middle of last week, followed by speculation that the Fed will either hike just 25 basis points or making no move altogether.

SYSTEMIC EXCEPTION

Plosser said the authorities’ decision to grant a “systemic exception” to Silicon Valley Bank in order to allow them to cover the bank’s uninsured deposits was not warranted given SVB’s fairly narrow portfolio and unique business model.

“I don’t think there’s any reason to believe that banks like the big five or even smaller banks like regional banks are susceptible to this kind of risk that SVB was taking. They’ve dealt with interest rate cycles before,” he said. “The danger is that declaring it as systemic puts fear in everybody’s head.”

“It’s going to be hard to tell the next bank no and implicitly means they’re insuring all deposits now. This takes moral hazard and expands it.”

Ex-Richmond Fed President Jeffrey Lacker this week offered a similar perspective, telling MNI that 'systemic' simply means whatever causes central banks to intervene.

MNI INTERVIEW: Fed To Add SVB To Statement-Ex Treasury Aide (Pub Mar 15, 2023)

By Greg Quinn

(MNI) OTTAWA - The Federal Reserve will likely add language about market turmoil to its decision next week though it appears premature to alter the path of monetary policy itself, former top Treasury official Mark Sobel told MNI.

The collapse of Silicon Valley Bank and signs of trouble at Credit Suisse mean any changes to Fed policy next week are still evolving on a day-to-day basis, Sobel said by phone Wednesday from Washington.

"Given the market turmoil set off by SVP and continuing today with Credit Suisse, you'd have to say it's the elephant in the room and I don't think the Fed statement can ignore the elephant in the room," said Sobel, U.S. Chairman at the OMFIF (Official Monetary and Financial Institutions Forum) think-tank. He previously was Treasury Deputy Assistant Secretary for international monetary and financial policy.

U.S. moves around Silicon Valley Bank "implicitly guaranteed the entirely of deposits in the banking system, and that should quell the discomfort," Sobel said. "Given what's going on in the markets today, it would be vastly premature" to say the moves so far are enough to be effective, he said.

"If things continue, you saw how the Fed responded to the 2008 crisis, and in the pandemic, by opening up the alphabet soup of facilities, so if other markets start freezing up, they always have those kinds of options, swap lines and things like that," Sobel said.

Officials could look at changing the path of monetary policy if financial instability threatened serious economic fallout more properly within the Fed's dual mandate, Sobel suggested. U.S. inflation still appears sticky and the job market robust, he said. (See: MNI INTERVIEW: Fed Likely To Hike 25BPs Next Week- Ex Official)

"For many years Fed speakers have said there should be separation or as much separation as possible between financial stability and monetary policy," he said. "I find it interesting how completely that view" is now being "seemingly being swept away."

One thing to watch is whether clients of smaller banks move deposits to systemically important banks, further concentrating the industry, Sobel said. There also needs to be an investigation of what appears to be "a major supervisory failure on the ground," he said.

"We need probably to have a far more extensive list of what qualifies as and should be regulated as systemic banks," he said.

MNI INTERVIEW: Fed Should Pause, Assess Two-Way Risk-Rosengren (Pub Mar 15, 2023)

By Evan Ryser

(MNI) WASHINGTON - The Federal Reserve should pause interest-rate hikes next week to see how much demand has been shaken by market turmoil, former Boston Fed President Eric Rosengren told MNI, adding time will tell if rate hikes or cuts are appropriate.

"Until we can see how much demand destruction has actually occurred as a result of what's happened in financial markets over the last week, it doesn't make sense to be considering raising rates," he said in an interview. Financial problems present two-way risks to the economy that could eventually force the Fed to cut rates or leave officials on track to hike again, Rosengren said.

"We're going to need several weeks to see if the financial markets stabilize without having significant demand destruction," he said. "If it turns out that they are able to quickly stabilize the situation and that the real economy as a result isn't slowing down significantly, then it's quite possible in the future they'll need to raise rates once again."

"The concern that I would have is that they're underestimating the impact on the real economy."

RATE CUTS?

"If this continues to be amplified over the next week, I think it is quite possible that they're going to have to respond with cuts," said Rosengren, a former top bank supervisor at the Boston Fed. "It's a serious situation."

"We should be concerned when people are losing faith in some very large regional banks around the country and the fact that we're seeing it spillover to Credit Suisse and seeing prices decline, even at the largest banks. It should give us some pause."

Either way the ex-Boston Fed president suggested the collapse of Silicon Valley Bank and Signature Bank may have lowered the Fed's terminal rate. Financial crises tend to create a fair amount of demand destruction, he said, pointing to credit availability and not necessarily the cost of credit.

"Consumers start holding off on large purchases and businesses start to defer spending. What that means is that even though the last inflation number was quite high - and did not look like we were quickly moving towards the 2% inflation target - the financial fragility we're seeing is likely to be the equivalent of a number of federal funds rate hikes," he said.

But the Fed's SEP to be released next week "is not going to be conveying as much information as other times."

"They're going to be some people who are going to assume that the financial fragility we're seeing this week will be resolved quickly" and see rates rising, he said. "Then there's probably a group that are very concerned that financial fragility will substantially weaken the economy and they might actually have interest rates stay flat or even go down."

Still, Fed Governor Michelle Bowman Tuesday said the US banking system remains resilient and on a solid foundation and some former Fed staffers have told MNI that pausing would send a "very bad signal" about compromising on the central bank's inflation objective. (See: MNI INTERVIEW: Fed Likely To Hike 25BPs Next Week- Ex Official)

RECESSION RISK

"It's a myth that you can keep [financial stability issues and monetary policy] separate," Rosengren said. "You're talking about financial problems spilling over into the real economy."

"If the real economy is going to weaken it doesn't matter whether it's weakening because you raised rates, something else exogenous happened, or you have financial fragility. The bottom line is you don't raise rates when the economy looks like it might be significantly weaker in the future."

"I would be very worried that tightening not only would exacerbate the financial problems but potentially if things aren't brought under control relatively quickly this could generate the type of forces that cause recessions," Rosengren said.

MNI INTERVIEW: Ex-FDIC's Bair Sees Limited SVB Contagion Risk (Pub Mar 12, 2023)

By Pedro Nicolaci da Costa

(MNI) WASHINGTON - The collapse of Silicon Valley Bank is unlikely to create major waves of contagion or significantly disrupt the financial system as long as regulators manage the situation adequately, former FDIC Chair Sheila Bair told MNI on Sunday.

“It’s a USD200 billion bank in a USD23 trillion banking industry, so if handled with care, I don’t see it creating contagion,” she said in an interview.

“It would be good and I’m sure the FDIC is focused on this, declaring what the uninsured dividend will be tomorrow. It looks like the bank had some very high quality assets, so the recoveries for the uninsured could be substantial.”

She said SVB’s downfall was the product of a classic run on the bank as the firm faced USD42 billion in withdrawals in 24 hours.

“As far as I can tell, Silicon Valley Bank wasn’t insolvent. This was a bank run,” said Bair, who headed the FDIC during the financial crisis of 2008.

She does not expect the FDIC to raise its cap on insured deposits above the $250,000 threshold to prevent similar runs on other institutions.

“I don’t see there’s a need to do that right now. If tomorrow the FDIC can announce a significant dividend to the uninsured to give the cash they need to make payroll. It should be at least 50%,” she said.

WHITE KNIGHT

Bair said the best outcome, and one which the FDIC is likely still seeking, would be for regulators to find a buyer of last resort for the beleaguered bank.

“I really hope they’re looking for a buyer and I really hope they find one. That would be optimal if they could announce tomorrow they have a buyer and the buyer is protecting the uninsured, I think that would calm things down really fast,” she said.

“In situations like these there are no good options, only the least bad option. The advantage of getting a buyer to come in is you don’t need to protect the uninsured deposits and you also could guarantee seamless provision of services.”

Bair said she hopes these developments will prompt the Fed to think twice about pressing on with its aggressive interest rate hiking campaign, which has seen rates rise nearly 500 basis points in just a year.

“In December I said they should hit pause. They just need to wait, let this blow through. Accommodative policies create financial instability and then when you have to start tightening you can have a problem if not carefully managed,” Bair said.

MNI INTERVIEW: Inflation Proves More Persistent -Fed's Garriga (Pub Mar 10, 2023)

By Jean Yung

(MNI) WASHINGTON – Inflation is proving more stubborn than anticipated due to shifts in U.S. consumer spending patterns, a rosier European outlook and China's emergence from it zero-Covid policy, but there are scant signs that rising interest rates will cause a downturn this year, Federal Reserve Bank of St. Louis research director Carlos Garriga said in an interview Friday.

The U.S. central bank is set to respond to stronger data with a higher peak interest rate potentially held for longer, Fed Chair Jerome Powell said this week. Yet employers created nearly a million jobs in the first two months of the year reflecting robust labor demand, and that bodes well for economic activity overall, Garriga said.

"I'm cautiously optimistic first quarter growth will be revised to positive territory, that could eventually turn into a positive second half if inflation continues to drop," he said. But, "economic activity is not a strong predictor of inflation," and inflation has fallen less quickly than hoped.

"Most current estimates indicate we won't get to the 2% target until mid-year 2024 or early 2025."

LABOR MARKET STRENGTH

Hiring in the leisure and hospitality sector continues to lead employment gains as U.S. consumers pivot back to spending on restaurants and travel, while firms in the St. Louis Fed region report a still-strong appetite to staff up due in part to high turnover, Garriga said. Employees are leaving not just for higher wages but more flexible work arrangements.

"Business contacts have a desire to scale but the challenge is the amount of turnover," he said, adding the trend may support employment growth for the near term.

China's reopening and a more optimistic European outlook "also factor into the inflation persistence we've been seeing," Garriga said.

"People want to socialize and travel, so you're seeing demand that's less sensitive to credit conditions," Garriga said. "You would expect a slowdown, but we're going into the seasonal period of spring and summer. Global demand for services won't dissipate anytime soon."

SOFT LANDING

Shifting spending patterns also mean inflation's road back to 2% is harder to predict and monetary policy transmission mechanisms are in flux, Garriga said.

"We have faster transmission in the financial sectors more sensitive to credit, but how that translates into other sectors that are less sensitive has changed," he said.

Investors have been more willing to get back into real estate, for example, as financial conditions eased earlier this year and mortgage rates retreated temporarily. The majority of homeowners were able to refinance during Covid and that's a wealth effect that boosts disposable income for those with a higher propensity to spend, Garriga said. That could fuel other parts of the U.S. economy.

Still, the Fed's restrictive policies and commitment to price stability mean inflation will come back down to earth, Garriga said.

"We can still have more than a soft landing, a positive outlook in which prices will moderate and eventually converge to target."

MNI INTERVIEW: Fed Economist-Low For Long Rate Can Tame CPI (Pub Mar 10, 2023)

By Greg Quinn

(MNI) OTTAWA - The Federal Reserve can meet its inflation target by keeping interest rates at a lower peak for longer, rather than by making more aggressive hikes, Chicago Fed researcher Leonardo Melosi told MNI.

Markets already anticipate that the Fed will opt for a lower-for-longer approach, senior economist and economic adviser Melosi said in an interview, pointing to investors' expectations at the end of last year for the policy rate to peak in 2023 at a level 75 basis points lower than that suggested by an economic model weighted to past Fed tightening cycles.

The historical model and financial markets both see "inertia" as interest rates rise to fight inflation, but also when borrowing costs are on the way down again, he said. Less than half the modeled Fed rate hikes are predicted to unwind by early 2025.

Central banks have been criticized for leaving interest rates low for too long while inflation surged and for hiking into potential recessions. Fed officials say the bigger danger is for rapid price gains to become embedded in the economy, requiring an even more painful tightening later.

TEMPTING OR ENTERTAINING

"It's perhaps tempting or entertaining to say the Fed is behind the curve in 2021, or in 2022 it's too high, it's too aggressive," Melosi said. "You need to take a longer perspective, and look at how the central bank responded to the big increase in inflation over the entire tightening cycle."

The more dovish market path for rates still shows inflation coming to about 2% in 2025, according to a paper Melosi co-authored with Filippo Ferroni and Jonas Fisher.

"What basically the model is telling you is the central bank has enough reputation so that the market knows that even though the central bank doesn't respond aggressively to inflation, still it will deliver later on," Melosi said.

In the end, the gap between the two ways of looking at Fed hikes may end up narrowing. Fed Chair Jerome Powell earlier this week jolted markets by saying he's willing to look at ramping up the path of rate hikes again. (See: MNI INTERVIEW: Fed Should Hike 50BPS If Data Stay Strong-Kohn)

THE CUMULATIVE RESPONSE

There are benefits to a smoother response to an inflation shock, such as avoiding financial-market disruptions, Melosi wrote in the paper, "How Tight Is U.S. Monetary Policy?"

Asked in the interview for the answer to that question, Melosi said: "We need to wait and see the entire tightening cycle, and to look at the cumulative response of the interest rate to the increasing inflation."

The finding of a somewhat smooth interest-rate path amid the fastest inflation in decades was a surprise to the researchers. "We expected that the model would give us a completely outlandish" path, he said.

MNI INTERVIEW-Inflation Slowdown Should Allow Fed Pause-Tilley (Pub Mar 10, 2023)

By Pedro Nicolaci da Costa

(MNI) WASHINGTON - U.S. inflation is likely to resume its downward drift in coming months despite bumps along the way, allowing the Federal Reserve to pause its rate increases after a few more hikes, former Philadelphia Fed economic advisor Luke Tilley told MNI.

Fed Chair Powell's decision to open the door to a 50-basis-point interest rate hike was understandable given a hot streak of recent data and big revisions to CPI that provided an entirely different picture of how the year ended, said Tilley, now chief economist at Wilmington Trust.

"Three-month annualized basis core inflation was 8% in the middle of last year and had slowed to 3% by the end of last year. With those revisions it shifted a lot of inflation from the first to the second half of the year. Now instead of a 5% deceleration now it's something like a 1.5% to 2% deceleration," he said in an interview with MNI's FedSpeak podcast.

"Inflation looked a lot more sturdy at the end of the year and now they to respond in kind with the rate hikes."

Tilley said that whether the Fed goes 50 or 25 basis points at its March meeting will depend heavily on the outcome of the upcoming CPI report for February on Tuesday.

"If it continues to show that stubbornness in the categories that concern them the most then, absolutely, they'll return to 50 basis point hikes. And if it doesn't you would expect a 25 basis point move," he said. (See: MNI INTERVIEW: Fed Should Hike 50BPS If Data Stay Strong-Kohn)

"Most likely is two 25-basis-point hikes or one 50-basis-point hikes getting you to 5.25% or 5.5% at the top of the range. And then if we continue to get the slowdown in inflation that I think is still there, despite it looking a little different after the seasonal adjustment changes, then it's going to be a very different picture six months from now. We'll have hit that peak in rates and the next question will be if they're cutting any time soon."

RECESSION BASE CASE, SOFT LANDING POSSIBLE

Tilley said he ascribes a 55% probability to the economy entering a recession this year but also sees a 40% chance of a so-called soft landing where the economy slows and inflation comes down without slipping into outright contraction.

"If you happen to continue to get a slowdown in those inflation categories and they happen fast enough the Fed doesn't have to hike as much," he said. "If you get people returning to the labor force and you get lower wages there's no reasons we shouldn't get a soft landing."

Tilley said strong job growth in itself was not a reason for worry as long as wage growth eases gradually.

"I don't think job growth is a problem by itself but we need to continue to see a slowdown in wages," he said.

The latest jobs numbers for February showed just that, with a robust gain of 311,000 new jobs accompanied by a slowing in average hourly earnings of 0.2%.

MNI: Inflation Expectations 'Source Of Concern'-Fed's Knotek (Pub Mar 8, 2023)

By Pedro Nicolaci da Costa

(MNI) WASHINGTON – High inflation expectations for consumers and businesses are a source of concern for an economy where price pressures are set to abate all too gradually, Cleveland Fed research director Edward Knotek told MNI.

He said the Cleveland Fed's own surveys of individuals and businesses point to inflation expectations of around 6% over a one-year horizon.

"They really suggest that people expect inflation to be pretty high over the next year. Not out of control but still pretty high," Knotek, who as part of his role advises President Loretta Mester on monetary policy and attends FOMC meetings, told MNI's FedSpeak podcast.

These are "consumers and firms, who are the price setters and wage setters – the demand side. The fact that those inflation expectations are high is a cause for some concern."

He said a key lesson for policymakers from the Great Inflation of the 1960s and 1970s is that "the longer that inflation remains high, the more likely it is that high inflation is going to get entrenched in the economy, it's going to become harder to bring down."

NO SPIRAL

At the same time, his research indicates a wage-price spiral is not yet under way, said Knotek, who also leads the regional Fed's Center for Inflation Research.

"There's not that much evidence of one of these expectational wage-price spirals at play," he said.

Still, he added: "I don't think we want to rest on our laurels and suggest that can't happen. The quicker you get inflation down, the sooner you can help re-anchor those expectations at a level that would be appropriate."

WAR OF THE MODELS

Knotek said there was unusual uncertainty about the likely path of inflation, with some models suggesting it might come down quickly while others point to longer-lasting economic shifts, including a super tight labor market, as making price pressures more entrenched.

"My modal forecast is that we will see some inflation relief. Personally I'm in the 3.5-4% camp" for year-end 2023 inflation, he said, citing modest upside risks. The Fed's December central tendency forecast range for the PCE at the end of this year was 2.9% to 3.5%.

He pointed to recent research from his colleagues at the Cleveland Fed hinting at a "more fundamental persistence" in the inflation process.

"They estimate inflation is quite persistent, and given where you're starting that suggests it could take some time for inflation to come back down," said Knotek.

Fed Chair Jerome Powell delivered a hawkish message in testimony this week, corroborating a recent market repricing of interest rate peak expectations up toward around 5.5%.

(See MNI INTERVIEW: Fed Will Hike Rates To 6% Or More-Gorodnichenko)

LABOR MARKET EASING?

Knotek said there are signs the labor market is cooling despite the outsized jump in payroll gains for January.

"The labor market doesn't feel quite as tight as it did a year ago, there seems to be less froth. Wage growth is high but it's come down a little bit," he said.

Still, there is more work to be done in bringing employment conditions into the sort of better balance that will help tame inflation.

“There’s still evidence that we need to see more moderation in the labor market, more moderation in labor demand or some improvements in labor supply to get the labor market to a better place in order to have less inflationary pressure in the economy,” he said.

“This certainly ties into the services side of the economy where there are concerns about inflationary pressures there being quite persistent because of their connection to the tightness of the labor market.”

MNI INTERVIEW: Fed Likely Needs To Move Rates Above 6%-Mishkin (Pub Mar 8, 2023)

By Evan Ryser

(MNI) WASHINGTON – The Federal Reserve will likely need to raise interest rates above 6% to defeat inflation, and while the economy has so far remained strong it should not buckle if it tips into recession, former Fed governor Frederic Mishkin told MNI.

"I'm a little worried the economy's stronger than expected and that is likely to mean they have to go a little bit higher above 6%," he said in an interview, adding his name to a list of outside advisers who've told MNI recently there's a risk rates will move above 6%.

The drag on GDP growth from last year’s fiscal and monetary policy tightening is fading and that means that a key risk for the economy is a premature reacceleration, he said. "The Fed has to tighten substantially further, and secondly it has to stick to its guns. It can't make the mistake of pivoting just because a recession occurs."

Fed officials have emphasized inflation expectations as a key factor in helping to bring prices and wages down, but Mishkin stressed it will also require cooling the labor market.

MORE RESTRICTIVE

"Monetary policy has mostly only removed accommodation and didn't really get back to neutral until about six months ago and it takes a long time to have an effect," said Mishkin, also a former NY Fed director of research. "Policy is restrictive now but it needs to be a lot more restrictive."

While Mishkin has previously argued, in a 2010 paper coauthored with Jean Boivin and Michael Kiley, that changes in the structure of the banking industry could reduce the sensitivity of the economy to rate hikes, he told MNI that the central bank's conventional tools including the fed funds rate are as strong as ever, but the Fed will have to raise rates higher since it got caught behind the curve.

The long-dormant Phillips Curve between inflation and unemployment has returned with a vengeance and the Fed's failure to pre-empt inflation in 2021 has restored the pre-1985 pattern of greater persistence of movements in both inflation and inflation expectations, he said, pointing to a recent paper produced for the Chicago Booth Monetary Policy Forum.

"It was clear that the Philips Curve was still around and would come back, particularly if the Fed stopped being preemptive," said Mishkin, now at Columbia University. "They thought it was flat and sure enough it's not flat. It's real."

PHILIPS CURVE ALIVE

Fed Chair Jerome Powell Tuesday opened the door for the central bank to accelerate the pace of rate hikes and raise the target range of the fed funds rate more than anticipated just months ago when Fed officials saw a peak rate in the range of 5.1% to 5.4%. (See: MNI: Powell-Fed Rate Peak Likely Higher; Could Quicken Hikes)

Mishkin said he's expecting the Fed's next SEP to be released March 22 to show a fed funds rate peak around 5.6%. "There's more recognition that the Phillips Curve was alive and that they made mistakes, and that's one of the reasons they've been continually raising the SEP forecasts," he said.

"There's a really strong possibility they'll go even higher," he added. "It makes it very likely that a recession will occur. In fact, it would be unprecedented to not have a recession in this context."

MNI INTERVIEW- Fed Will Hike Rates To 6% Or More–Gorodnichenko (Pub Mar 7, 2023)

By Pedro Nicolaci da Costa

(MNI) WASHINGTON - The Federal Reserve will need to keep raising interest rates more than markets expect because the inflation views that matter most – those of consumers and businesses – are not particularly well-anchored, San Francisco Fed visiting scholar Yuriy Gorodnichenko told MNI.

A streak of hot economic data from jobs to inflation have forced investors to readjust their expectations for the federal funds rate to peak around 5.5%, but Gorodnichenko thinks that's still too low.

“They will have to keep increasing it – maybe 6%, maybe higher,” said the Berkeley economist, also a research consultant at the European Central Bank, in an interview.

Gorodnichenko worries the Fed is playing with fire by allowing the one-year horizon price expectations of consumers and businesses to far exceed their 2% inflation goal.

Professional forecasters see inflation around 4% to 4.5% over the next year, while households and businesses see it closer to 8%, he said, making monetary policy negative in real terms.

SHIFTING INFLATION WEIGHTS

“We have a window of opportunity. The longer inflation stays high the harder it is to bring it down,” he said.

Price expectations of regular Americans also started to move up a lot faster than those of forecasters, whose predictions Fed officials often point to as a source of comfort, he noted.

“One implication is we have to give more weight to household expectations and firms’ expectations when we think about future policy," he said.

The Fed may also be too optimistic about how soon it can cut rates – even as it pushes back on market expectations for such reductions later this year, he said. The Fed’s December Summary of Economic Projections shows the central bank reducing rates by a full percentage point between the end of 2023 and the end of 2024, which Gorodnichenko said is too sanguine.

WAGES TAME FOR NOW

“They predict that the fed funds rate is going to revert quickly – I wouldn’t be so sure about that,” he said in an interview before Fed Chair Jerome Powell's Congressional testimony on Tuesday. Powell corroborated the notion that rates will need to go higher because inflation and growth momentum are proving more stubborn.

(See MNI INTERVIEW: Fed Could Hike Rates More Than Expected-Hoenig)

The economy has proven more resilient than many forecasters expected and inflation pressures have also turned out to be more stubborn. Payrolls rose more than half a million in January while the Fed's preferred inflation measure jumped 0.6%.

Job market strength also suggests the Fed can clamp down on inflation without creating a spike in unemployment as a traditional Phillips curve suggests, he suggested.

Wage data shows again that the Fed still has a window to get inflation under control if it takes stronger action, Gorodnichenko said.

“Wage growth is there but it could have been a lot higher given the inflation expectations people have. Recent research suggests the passthrough from inflation expectations to wage growth expectations is very weak,” he said. “That's good news. But that can change if they don't do anything.”

MNI INTERVIEW:Biden Investments Shield Jobs From Fed-Sojourner (Pub Mar 1, 2023)

By Evan Ryser

(MNI) WASHINGTON – U.S. workers in some interest-rate rate sensitive sectors are insulated from the Federal Reserve's rate hikes because of President Joe Biden's trillions in investments, although workers' leverage is moderating, Aaron Sojourner, a former member of the White House Council of Economic Advisers, told MNI.

"The federal investments that have been made in infrastructure, manual manufacturing and innovation have made a lot of businesses optimistic about the future," said Sojourner, also a former visiting scholar at the Minneapolis Fed. "They see specific public investments and public-private partnership investments on the horizon as an opportunity that are very unusual because they haven't been made in a long time."

Biden's trillions of spending on infrastructure, energy, climate change projects and funding of chip research and expanded manufacturing facilities is historic and helps to explain overall construction growth that has continued apace despite recent monetary tightening, he said.

"The unusually big public commitment to investments over the coming years and of course strong consumer demand have both contributed to reluctance to lose employees and to lay off workers," he said.

WORKER LEVERAGE

Still, "there is evidence that workers have lost some leverage" in the US, he said, "but it is not falling dramatically."

One way to capture who has the power in the job market is to look at the ratio of people who quit their job to those who were discharged involuntarily, Sojourner said, calling this the "labor leverage ratio."

This ratio is down from the peak but has been mostly moving sideways recently, he said. Even in previous strong job markets, this measure didn't exceed 2, except for two months in early 2019. But after peaking in December 2021 at 3.5, the most recent December data has it sitting at 2.8.

Outside of some high-profile companies mostly in the tech sector, layoffs in the economy as a whole remain historically low, he noted. That gives workers an edge which, in addition to strong consumption and Biden's

long-term investments, suggests the economy may not be as responsive to Fed rate hikes, said Sojourner, now at the W. E. Upjohn Institute.

Still, Sojourner is expecting a slowdown in monthly job creation and more moderation in wage growth as employees lose leverage and the full impact from more expensive capital feeds through the economy. The United States added over half a million jobs in January and the jobless rate fell to a new 50-year low of 3.4%.

LABOR SUPPLY

"Since the Fed started hiking rates back almost a year ago it has put a little bit of a damper on employer demand for labor. We've seen a little bit of a slowdown in hiring rates and we've seen some moderation of wage increases."

Goldman Sachs economists expect wage growth to slow to just under 4% by the end of the year and to 3.5% by the end of 2024, as the effects from Covid fade and the jobs-workers gap declines. The Fed has eyed a deceleration in wages, with officials floating preferences in a range from 3% to 4%.

(See: MNI INTERVIEW: Fed Could Hike Rates More Than Expected-Hoenig)

"There is scope to bring more people off the sidelines and see improvement of labor supply for sure," he said. "We should push to get as much as we can," said Sojourner, who worked under Presidents Obama and Trump.

MNI INTERVIEW: Fed Must Do More To Get On 2% Price Path-ISM (Pub Mar 1, 2023)

By Evan Ryser

(MNI) WASHINGTON – The Fed must keep raising interest rates to put inflation on the path to its 2% target, according to Timothy Fiore of the Institute for Supply Management, whose factory price index has risen 12 percentage points over the last two months.

Fiore's concern comes even with the US central bank already lifting the fed funds rate 450 basis points in the last year to a range of 4.5% to 4.75%. "Is that enough to get the 2% inflation target? I don't think so," Fiore told MNI on Wednesday. Fed officials are signaling more rate rises and a longer pause, while ex-Fed policymakers expect even higher interest rates. (See: MNI INTERVIEW: Fed Could Hike Rates More Than Expected-Hoenig)

"Given that we're not having large scale layoffs and demand is coming back, it raises the question of whether you want to get inflation over with right away and shorten that cycle and make it really painful or do we want to bring it down over a longer period of time," he said. "It looks like we're going to be living with it, with interest rates that are maybe still marginally accommodative and are not restrictive."

The ISM manufacturing index contracted a fourth straight month in February, decreasing 0.3pp to 47.7, below Bloomberg expectations of 48.0. The prices sub-index jumped 6.9ppts to 51.3, while almost 25% reported higher prices compared with 13% in November. Readings above 50 indicate expansion.

ROAD TO RECOVERY

"Companies still feel that they can pass whatever price increases they took in the last couple of years and what sellers are looking for today," Fiore said.

The Fed's efforts to bring supply and demand into balance and regain price stability also look challenged as the ISM report shows manufacturing indicators on a better footing. "If you ignore the inflation piece this is a good report," Fiore said.

The ISM measure of new orders pulled back from the lowest in more than two years, increasing 4.5ppts to 47.0. China's reopening contributed to more new export orders, Fiore said.

The employment index fell 1.5ppts to 49.1 but continued to hover around the 50-threshold between expansion and contraction. Survey respondents noted they aren't actively looking to lower headcount, a sign the labor market remains tight at a time when unemployment is hovering around record lows.

LUMPINESS

The quits rate at 13% is also the lowest since January 2022 when ISM began tracking the number at 33%, Fiore said.

"If you are a demand advocate, this is a strong report," he said. "If you are an advocate for tamping down inflation, getting to that 2%, this is really not supportive of that," Fiore said, suggesting some in the industry see the path of inflation around 4%.

"Indications in some of the foundational commodities are that prices are going up again," he added. New York Fed President John Williams last week pointed to work at his bank to say goods prices may not decline as quickly as some hope.

Fiore noted stronger inflation pressures may add to more volatile growth this year. "There are indications from the panelists that maybe this lumpiness will now carry into the second half of the year," he said.

MNI INTERVIEW: Fed Could Hike Rates More Than Expected-Hoenig (Pub Feb 27, 2023)

By Pedro Nicolaci da Costa

(MNI) WASHINGTON – Former Kansas City Fed President Thomas Hoenig told MNI the U.S. central bank might need to raise interest rates more than investors expect because demand remains strong and monetary policy is still loose compared with the rate of inflation.

The FOMC will hike rates at least twice more in quarter-point increments, but might need to go even further if the data do not cooperate -- particularly on employment, Hoenig said.

“If they get strong jobs numbers continually then they probably will have to push rates higher than people had anticipated and increase the risk of a downturn,” he said. “Now that the market is more convinced that inflation is more embedded than even it thought, the Fed is going to have to be determined if they’re going to hold on to their credibility.”

Employment and inflation data over the past month prompted investors to price in a higher peak fed funds rate around 5.3%. The economy generated more than half a million jobs in January while the latest readings on both CPI and PCE pointed to underlying strength in inflation.

“The job numbers left them wondering whether inflation is going to come down as quickly as they had hoped.”

NOT RESTRICTIVE

The Fed's rate hikes have yet to catch up with the rate of inflation, which helps explain why the economy is still humming along despite the aggressive tightening so far.

"Policy is not restrictive in a real interest rate sense. Everything feels fine because rates are negative and the market is convinced the Fed will reverse course and therefore financial conditions have eased," Hoenig said.

"All that has to work its way out and then you get to the real world positive interest rates, slowing economy, then you'll see the greater risk of recession." (See MNI INTERVIEW: Fed Hikes Just Starting To Weigh On Jobs-KC Fed)

Even when the fed funds rate, now in a range of 4.5% to 4.75%, does surpass the rate of inflation, it will take time for that stance to begin dragging down economic activity.

"The last time rates were moved up systematically and then moved positive it took several months after that for the real effects to take place. So if you're talking about mid-year, late spring or summer for real rates to become positive, then you're more likely to have a recession that follows that, maybe late in 2023 or early 2024," Hoenig said.

Investors doubt the Fed will follow through with restrictive action because policymakers have loosened in the past when the economy shows some weakness, he said. Even with a recent jump in yields as officials hammered home the message they must keep hiking, rates on two-year Treasuries remain higher than for debt due in ten years.

DEMAND PULL

Hoenig thinks inflation will be sticky because what started primarily as a supply shock now has a significant demand component to it, fueled in part by the large monetary and fiscal support that followed the pandemic.

"There's a lot of demand-pull capability in the economy and that's why inflation will stay higher than they anticipate now that supply issues have become less of a factor," he said.

"People are now getting used to the idea of higher prices, they're kind of anticipating that, so as you get that embedded, it feeds on itself," he said. "That's why the Fed may end up going further than people think. Inflation expectations are not as well contained as they would like it to be."

MNI INTERVIEW: Era of Shortages To Force Rates Up - Bill White (Pub Feb 27, 2023)

By Greg Quinn

(MNI) LONDON – A new era of global shortages including of commodities and productive workers will require permanently higher central bank interest rates, former top BIS and OECD official Bill White told MNI.

Governments could add to instability if they advance spending plans that fuel underlying inflation pressures or financial instability, he said on MNI's FedSpeak podcast.

In the short term, the U.S. Federal Reserve needs to push interest rates well above their projected endpoint of about 5.1%, White said. More permanent frictions in the global economy will challenge all central banks under their current inflation-targeting frameworks, he said.

"Short term rates will have to rise higher than people currently anticipate, 5.5 for the Fed and 3.5 for the ECB, won't be enough," White said. "This may be a longer-run haul than you think, so it may not only be higher than you think, but it may be longer than you think."

“We’re going from an era of plenty to an era of shortages,” said White, who is also a former Bank of Canada deputy governor. “It’s by no means obvious to me that you would rule out an inflationary future, and of course an inflationary future that would likely have to be met with higher interest rates.”

FURTHER BEHIND CURVE

Labor supply is showing some of the “scarring” effects economists predicted when Covid broke out, and other workers are choosing to work less, White said. (See: MNI INTERVIEW: Weak Labor Supply May Drive Fed Hikes-Adviser)

Longer-term demographic shifts include the retirement of Baby Boomers and slow or falling population growth in South Korea and China, whose addition to world production has exerted a disinflationary affect around the world for three decades, White said.

Commodity prices will also climb as fossil fuels are shunned in favor of harder-to-access materials and energy sources, he said. That means that business investment devoted to shifting energy production might be less effective in boosting economic growth. “Climate change is going to be another huge problem” that’s been lacking in many economic forecasts, he said.

“The pressure in the world that I see is going to be pressure for higher real interest rates, and of course higher nominal interest rates, and that’s something that central banks must recognize,” he said. “My real worry is they won’t recognize what needs to be done, and will get ever farther behind the curve.”

SALVATION IN TECHNOLOGY?

Long-term bond yields suggest investors aren't pricing in enough of these risks, White said. “The market has responded too slowly to the stuff that central banks have actually been saying for quite a while, and so I think it’s good that they are coming on side,” he said. “Longer run rates should move to reflect it and they are beginning to do so.”

Ten-year U.S. Treasury bonds are yielding less than the Fed's overnight target rate, and the same thing is true in Canada.

Record high government and private sector debt burdens may be an "impediment" to central banks doing what's needed with rates, fearing they will trigger financial instability, White said. Governments may also return to policies seeking to inflate away their debts.

“Central banks will become increasingly aware that if they do raise interest rates, they will be creating problems” White said.

Hope for a solution may rest with better use of technology that improves economic growth and curtails inflation. “It may well be there will be new developments that will increase productivity quite substantially," White said. "We know from history that when these changes come, you might be expecting small changes but it turns out to be a kind of sea change.”

MNI INTERVIEW: US Inflation Could Take Many Years To Reach 2% (Pub Feb 24, 2023)

By Jean Yung

(MNI) WASHINGTON – It will likely take U.S. inflation many more years than central bankers and financial markets expect to close in on 2% without a deep recession, though this slower path may be optimal for Federal Reserve officials pursuing a dual mandate, Cleveland Fed economists Randal Verbrugge and Saeed Zaman told MNI.

The FOMC projected in December that rates would rise to 5.1% this year, slowing the economy and reducing inflation to 2.1% by 2025, while the unemployment rate rises only modestly by about a percentage point. But new research by Verbrugge and Zaman show that combination to be implausible, based on historical relationships between unemployment and inflation. Their model forecasts an inflation rate of 2.7% in 2025, given a 4.6% unemployment rate, and it isn't until 2029 that inflation falls to 2.1%.

"We see inflation being higher for longer, essentially," Verbrugge told MNI's Fedspeak podcast.

"If you have neither a recessionary force pushing down inflation or an overheating force pushing up inflation, inflation just takes a long, long, long time to get back to its steady state of 2%. It's just very, very persistent -- much more persistent than most models recognize."

MILD RECESSIONARY FORCE

Cleveland Fed President Loretta Mester cited the pair's research in a speech last week, saying the findings "inform my view that the risks to inflation remain on the upside."

Verbrugge and Zaman's model is uniquely adapted to the current moment. To capture the relaxation of supply chain bottlenecks, it assumes a strong and rapid deceleration of goods prices through the end of 2023. On the housing side, the model incorporates CoreLogic's Single-Family Rent Index, shown to be a 12-month leading indicator of the rent component of CPI, in forecasting housing inflation for the first quarter of this year.

They then separately model the dynamics of each category with the unemployment gap. "With core goods, the relationship with unemployment is very weak," Zaman said. But housing costs and the remainder group of core price categories -- termed non-housing core services by Fed Chair Jerome Powell -- has "strong links with labor market movements."

The FOMC's projected rise in unemployment to 4.6% exerts a mild recessionary force in the pair's model, particularly on the housing component with some effect on non-housing services, pulling down inflation to 2.1% by 2029.

7.4% UNEMPLOYMENT RATE

If the FOMC becomes more optimistic about the prospect for job losses at the upcoming March meeting, as some analysts expect, then inflation "will be even higher for longer," Verbrugge said.

You wouldn't want to read too much into one inflation reading, he added, but the stronger-than-expected January CPI "happens to be consistent" with data showing a tighter labor market.

To achieve a 2.1% inflation rate by 2025, the model would require a much deeper recession with one year of 7.4% unemployment, the economists found. But a simple welfare analysis where deviations from 4% unemployment and 2% inflation are penalized would instead favor the December SEP outcome.

"We'd never find that the more severe recession is the more optimal path," Verbrugge said.

MNI INTERVIEW: Fed Hikes Just Starting To Weigh On Jobs-KC Fed (Pub Feb 23, 2023)

By Evan Ryser

(MNI) WASHINGTON – The Federal Reserve's historic tightening of monetary policy is only beginning to negatively affect the labor market, although conditions are not quite as tight as they appear, Kansas City Fed economists Jose Mustre-del-Rio and Emily Pollard, whose work studies this lagged impact, told MNI.

During the last 20 years, the KC Fed's Labor Market Conditions Indicators' measure of labor market momentum has generally turned negative within a year of the start of monetary policy tightening cycles, suggesting Fed policy is beginning transmitting to labor markets. Yet so far in the current cycle, the LMCI has not shown much of a decline.

The LMCI momentum measure dropped below its longer-run average in November for the first time since June 2020 and turned slightly negative at -0.17, before turning upward again to 0.07 in January on the back of strong jobs growth, initial claims and the labor force participation rate.

"All of those numbers are very, very close to zero," said Pollard, pointing out the measure fell to -10 during the depths of the pandemic. After other Fed tightening cycles LMCI momentum fell to between -2 and -2.6.

The Fed has raised interest rates by 450 basis points in the last year to a range of 4.5% to 4.75% and is expected to deliver additional increases for at least another two policy meetings.

"By most measures it still appears that the labor market has remained quite resilient to the changes in monetary policy at least with respect to a historical context," said Mustre-del-Rio. "To confidently say that the labor market is softening as a result of policy changes we would have to see more systematic movement in momentum below zero much like we saw in the previous tightening cycles."

The economy generated over half a million jobs last month while the jobless rate fell to a new 50-year low of 3.4%. (See: MNI INTERVIEW: Employment Could Be Less Sensitive To Fed Hikes)

NOT QUITE SO TIGHT

But adjusting the unemployment rate to incorporate information from the LMCI measure suggests the labor market is a bit looser than the jobless rate alone implies and is consistent with a 3.8% rate, the KC Fed economists said. Last March, the LMCI-implied unemployment rate stood at 3.1%.

"While the LMCI-implied unemployment rate had been systematically below the official rate for the past couple of years, it appears it moved above the official rate sometime late last year," said Mustre-del-Rio. "This is perhaps to be expected since that is right around when momentum turned negative, and similarly, the activity indicator started softening."

Analysis by Mustre-del-Rio and Pollard also suggests wage growth tends to slow and unemployment tends to rise a year or two after LMCI momentum turns consistently negative. If the recent negative readings in LMCI momentum are sustained, other labor market variables, such as wage growth, are likely to begin to soften, reducing price pressures in the services sector and likely helping to reduce overall inflation, they said.

Fed officials in past have cited the LMCI as a leading indicator of the labor market. The FOMC's December projections saw unemployment rising to 5.1% by the end of the year, but some have since lowered their forecast.

MNI INTERVIEW: Fed May Need To Raise Rates Above 6% - Reis (Pub Feb 22, 2023)

By Evan Ryser

(MNI) WASHINGTON - The Federal Reserve will need to tighten more than investors or policymakers believe, raising interest rates to at least 5.6% and possibly above 6% to subdue inflation, Fed academic consultant Ricardo Reis told MNI.

The chance the Fed hikes beyond 6% ranges between 25% and 50%, Reis said. That's a stronger view than officials who in December signaled two more 25bp hikes in March and May before peaking just above 5%. Some officials have since said there's a risk rates could edge somewhat higher.

Reis' baseline is for the U.S. central bank to raise the current 4.5%-4.75% fed funds target range to between 5.5% and 5.7% in 25bp steps, adding he sees a 50bp move as an option.

"I don't think that would be a dreadful mistake to do a 50 basis point," he said in an interview. "I can see the argument for why to do it and I would certainly not put it off the table."

RECALIBRATION

A stronger-than-expected 6.4% jump in CPI in the year to January -- along with seasonal revisions leaving the pace of core CPI inflation hotter than first thought --have cemented expectations for further hikes. That's a shift from earlier this year when the inverted Treasury yield curve signaled many investors saw the Fed cutting rates late in 2023 as a weakening economy pulled down prices.

"Inflation is likely to keep on coming down over the next few months, absent new shocks. The real question is how fast it will come down, especially where will we be 10 months from now at the end of the year," he said. "Bar another energy shock it will be somewhere in the neighborhood of 3% to 5%, still far from the 2% objective."

A stronger-than-expected labor market also gives the Fed room to continue its aggressive focus on inflation, Reis said. He's expecting a mild recession in the next 12 to 18 months, where the jobless rate climbs only a bit more than a percentage point from today's historic low of 3.4%.

"Raising rates has less of an effect on employment than we might have thought," he said, "which will therefore liberate you to focus interest rates even more on inflation." (See: MNI INTERVIEW: Employment Could Be Less Sensitive To Fed Hikes)

KEEP ON DELIVERING

Reis, a professor at the London School of Economics who also advises the Bank of England and the Riksbank, said another alternative is keeping high rates for longer than laid out in the Fed's projections. In December, policymakers' median forecast was for rates to peak at 5.1%.

Tighter policy is also needed to solidify the Fed's inflation-fighting credentials that were threatened by the recent run-up in prices, Reis suggested.

"Eighteen months ago the Fed had lost its anchor temporarily," said Reis. "Now the anchor seems to have been reestablished."

"Now you need to keep on delivering," he said. "All you have to do now is to stay steady in bringing inflation down."

MNI INTERVIEW: Employment Could Be Less Sensitive To Fed Hikes (Pub Feb 22, 2023)

By Jean Yung

(MNI) WASHINGTON – U.S. labor demand could be less sensitive to higher interest rates than in previous decades, possibly requiring the Fed to tighten policy even more to slow the economy and tame inflation, Federal Reserve Bank of Atlanta economist Jonathan Willis told MNI.

Despite lifting the fed funds rate 450bps in less than a year, the Fed's hiking campaign isn't getting much traction in the labor market. Employers added an average of 356,000 jobs a month over the past three months, triple what's needed to keep up with workforce growth, and job openings remain much high than pre-pandemic levels.

Economists say it could take up to 24 months for monetary policy to take full effect, and Willis argues declining interest-rate sensitivity could be to blame. Structural changes in industries and financial markets since the 1970s and early '80s have led to a diminished response by employment to monetary policy shocks outside of the most interest-rate-sensitive sectors.

"When the Fed did make changes in policy that we can designate as monetary policy shocks, you really didn't see industries respond in a significant way, which draws the question: what will it take to slow down employment growth and the economy?," Willis said in an interview. "If it is the case that interest rates are less potent for slowing the broader economy, one conclusion might be the Fed might have to do more work to lift rates higher." (See MNI: Fed's Peak Rate Looking Perkier As Jobs Boom-Ex-Officials)

RATE SENSITIVITY

A research paper by Willis and Guangye Cao, published by the Kansas City Fed in 2015, attributes the apparent decline in interest-rate sensitivity after the mid-1980s to both industry changes like the shift away from auto and other durable goods manufacturing and toward services, and to weaker transmission mechanisms from shorter-term to longer-term rates and from longer-term rates to employment.

The most interest-sensitive sectors experienced the largest decreases in responsiveness, but the trend was widespread. As a simple example, whereas before the mid-'80s, auto factories would shed workers and close temporarily in an economic slowdown, modern just-in-time-inventory practices mean worker ranks are also kept lean, Willis said.

On the financial market side, the 10-year yield appears to respond to a rate cut with a longer lag in more recent decades, while models suggest aggregate employment also responded more slowly to unexpected movements in longer-term interest rates unrelated to monetary policy after 1984, according to their research.

"Even now, residential investment has slowed but overall construction is still growing. We haven't seen falling construction worker growth," Willis said. "Why aren't we seeing more signs of a slowdown in labor demand? Given those big shifts in interest rates, you might have expected everything should start to slow down."

SOME MORE SOFTENING

Inflation is retreating from its peak last summer, but key for the Fed is whether it will settle close to 2% over the next two to three years or whether even tighter monetary policy is needed to slow consumer demand, Willis said.

"Is inflation going to moderate to 3.5%? Is it going to moderate to 3%? Or is it going to moderate to 2.5% without needing to see more significant slowing in the labor market? I think that will be what provides information for Federal Reserve officials to determine what to do next," Willis said.

"We certainly want the labor market to not be weak. But it's possible that it might take some softening to get things in balance before we can get back on our growth path."

On the other hand, if interest rates need to go a lot higher than everyone expects, it is not clear that financial institutions, market participants, and borrowers with adjustable-rate loans would be sufficiently prepared, Willis noted.

"This type of disruption in financial markets could lead to a more negative outcome for the economy. It doesn't point to an easy answer."

MNI INTERVIEW: Weak Labor Supply May Drive Fed Hikes-Adviser (Pub Feb 14, 2023)

By Greg Quinn

(MNI) OTTAWA – Americans may have developed more European preferences for leisure over work during the Covid pandemic, squeezing labor supply amid elevated wage inflation that will keep the Fed hiking interest rates, Cleveland Fed and ECB academic consultant Michael Weber told MNI.

Weaker labor force participation is due to more than just the common diagnosis of an acceleration of early retirements, Weber said Monday. Americans now appear less eager to work long hours or full-time positions, the associate professor at University of Chicago's Booth business school said.

"Recently there are some people who are referring to a 'Europe-ification' of the U.S. labor market, and that people partially changed their preferences trading off leisure and labor," said Weber, who is also a visiting researcher at the Bureau of Labor Statistics. Americans on average worked 1,777 hours a year in 2019 compared with 1,382 in Germany and 1,518 hours in France according to the latest OECD figures.

The search for different work arrangements "I think permanently changed the structure of the U.S. labor market," Weber said. "Part of the reduced participation is due to most likely permanently changed preferences of a chunk of the U.S. labor force."

The labor force participation rate of 62.4% in January is almost a full percentage point less than where it was before Covid dragged the economy into a recession, and the number of multiple job holders has fallen 20%. Participation has remained lower despite bigger wage gains and about the lowest unemployment rate in half a century.

WAGES CREATE FED HEADACHE

Pay gains remain elevated even with the Atlanta Fed's wage tracker showing a recent moderation, Weber said. Gains of more than 6% in overall wages and 7% for job switchers "aren't consistent with reaching 2% inflation in the near term," he said, adding he expects wages to continue to grow quickly perhaps into early next year.

"Strong nominal wage growth, this will certainly create quite a bit of headache for the Federal Reserve, and going forward most likely will result in a couple of more policy rate increases," Weber said. Chair Jerome Powell said after hiking the fed funds rate to 4.5%-4.75% that the December dot plot showing a 5.1% rate by year-end was reasonable and the FOMC could go further if needed.

The Fed may ultimately hike beyond 6% given the economy's recent strength, former policymakers and staff have told MNI. (See: MNI: Fed's Peak Rate Looking Perkier As Jobs Boom-Ex-Officials)

In contrast, some investors are betting on a rate cut late this year. While it's hard to say who's right, Weber said "too optimistic markets regarding rate cuts might in fact exactly make sure that the rate cut won't happen."

Recent months have brought reason for optimism about achieving a soft landing, with headline inflation slowing and monthly CPI readings more helpful, Weber said.

MORE CLARITY AT ECB

While the delayed drag of last year's rate hikes is still to inflict some pain, "there are definitely many good signs and hope inflation is coming down," this year, he said.

"In general, soft landing has been rare, it's really difficult. I've become more optimistic over the end of last year, early this year that a soft landing might be feasible."

Still, risks persist, from the Ukraine war to China's re-opening, Weber cautioned. One external factor that has become clearer is the European Central Bank's determination to curb inflation.

"The ECB has actually a longer way to go in terms in a tightening cycle, and over the last couple of meetings that have been consistent in stating that they actually will need to tighten more," Weber said. "Over the last few months the ECB has been pretty clear."

MNI: Fed's Peak Rate Looking Perkier As Jobs Boom-Ex-Officials (Pub Feb 10, 2023)

By Pedro Nicolaci da Costa and Jean Yung

(MNI) WASHINGTON – Federal Reserve officials could raise interest rates more than the FOMC's December forecasts, pushing the peak above what investors expect toward 6% as the decline in inflation proves bumpy and the labor market remains ultra-tight, former Fed policymakers and staffers told MNI.

That could evolve through ongoing quarter-point increases, they said, or, less optimally for the central bank, with a pause followed later by a resumption of rate hikes.

"If they pause they're prepared to resume again if conditions call for it -- they have to put that disclaimer in some form of communications. That is understood, really, all the time, but they need to make it explicit," said Dennis Lockhart, former president of the Atlanta Fed, in an interview with MNI's FedSpeak podcast. "Having said that, I think the ideal policy does not involve a restart after a pause."

The Fed this month reduced the pace of hikes to a more traditional quarter-point clip, down from more drastic increases last year as it sought to catch up with inflation at 40-year highs.

The decision to slow tightening could prolong the rate hike cycle well above policymakers' median December forecast for rates to top out at 5.1%.

SLOWER FOR LONGER

"The slower they are, the more persistent inflation will be, and they will end up going up to 6% by the time it is all over," said Dean Cruoshore, a former Philadelphia Fed economist.

Inflation has eased markedly in recent months, with the Fed's preferred PCE measure falling from a summer peak above 7% to 5% in December.

Still, Andrew Levin, a former Fed board economist who was special adviser to ex-Chair Janet Yellen, said consumer surveys from the Cleveland and New York Fed banks pointing to one-year inflation expectations north of 5% suggest the Fed will have to be more aggressive than is currently priced in order for real interest rates to be significantly positive.

That, he said, is what it takes for monetary conditions to be sufficiently restrictive, the parameter set by officials as the threshold for a pause.

"Consumers could be mistaken, but if their projections turn out to be correct and inflation stays stubbornly high this year, then the Fed will need to raise the federal funds rate substantially further -- not just an extra quarter notch in May, but more likely a whole percentage point or more," he said.

Peter Ireland, a former Richmond Fed economist, sees the risk of a plateauing of inflation that would create headaches for officials. (See INTERVIEW: Fed Could Need To Hike Again After Pause-Ireland)

“What happens if we get into the fall and into next winter and, stubbornly, core measures of inflation remain elevated, say, around 4%,” Ireland said. “That’s the scenario where the Fed is going to have to continue to raise interest rates. The probability of sending the economy into recession goes up even more.”

OFFICIAL HINTS

Lorie Logan, the Dallas Fed’s new president, made perhaps the clearest argument yet from a sitting FOMC member as to why the December SEP view of rates might be too sanguine.

"Even after we have enough evidence to pause rate increases, we’ll need to remain flexible and raise rates further if changes in the economic outlook or financial conditions call for it," she said last month.

"A slower pace could reduce near-term interest rate uncertainty, which would mechanically ease financial conditions. But if that happens, we can offset the effect by gradually raising rates to a higher level than previously expected."

Fed Chair Powell himself this week for the first time acknowledged the possible need for going beyond the just-over 5% rate peak that markets expect and the FOMC projects.

"If the data were to continue to come in stronger than we expect, and we were to conclude that we needed to raise rates more than is priced into the markets, or than we wrote down at our last group of forecasts in December, then we would certainly do that. We would certainly raise rates more."

MNI INTERVIEW: Lockhart Sees Fed Lifting Rate Estimates in SEP (Pub Feb 10, 2023)

By Jean Yung

(MNI) WASHINGTON – Federal Reserve officials are likely to again revise higher their projected path for interest rates next month as they reassess the degree of restraint needed to cool a booming labor market, former Atlanta Fed President Dennis Lockhart said in an interview.

Just as the market outlook finally converged with the Fed's above-5% December rate projection this week after a remarkably strong January jobs report, the FOMC could spring another hawkish surprise, Lockhart told MNI's FedSpeak podcast. Employers added over half a million workers last month and revisions to 2022 data showed job growth was even better than previously thought.

"It is stronger than they expected and stronger than they desire. I think that adds up by March to a set of projections that perhaps show a higher terminal rate and show a conceivably longer or at least sustaining the long picture of the hold period," Lockhart said. The majority of FOMC members late last year expected rates to pause at just above 5% this year.

"If I were to handicap it, I would say it would be a touch more hawkish in March than it was in December."

PROMISE TO DO MORE

Once rates hit their peak, the hold period could go on for "quite some time," with the FOMC maintaining a bias to raise rates more if needed, Lockhart said. Inflation is heading solidly downhill, but going the last mile to 2% could be a winding road.

"Market expectations of the beginning of a cutting cycle in the second half is really quite divergent from the signals coming out of the committee," he said.

The Fed stepped down the pace of rate increases to a quarter point earlier this month as its preferred PCE inflation measure slipped to 5% in December, down from summer peaks above 7%. Official rates are currently in a range of 4.5% to 4.75% and the FOMC said it foresees "ongoing increases."

Officials would rather avoid having to restart hikes after a pause, because financial conditions could ease too much between moves, Lockhart said. Yet the same logic calls for an explicit promise from the FOMC to do more if needed.

"If they pause they're prepared to resume again if conditions call for it -- they have to put that disclaimer in some form of communications. That is understood, really, all the time, but they need to make it explicit."

MNI INTERVIEW: Will Take A Lot More To Hurt Jobs -Fed's Lubik (Pub Feb 9, 2023)

By Jean Yung

(MNI) WASHINGTON – U.S unemployment could rise by less than the full percentage point the FOMC expects in the next year, boosting the chances of a soft landing even as rates head to possible levels over 5%, Federal Reserve Bank of Richmond senior adviser Thomas Lubik said in an interview.

The "exceptionally good" January jobs report, with a stunning 517,000 employees added and the jobless rate sliding to a fresh 50-year low, is just one data point, he told MNI's FedSpeak podcast, "but the upward revisions of employment growth last year contributed to the impression that the labor market is exceptionally strong, and it would take a lot more, I think, to hurt it."

"It's almost operating in its own universe. It seems almost unaffected by whatever else is going on in the economy, which is actually a very good thing."

Moreover, wages growth is cooling, which should help moderate core services inflation over coming months.

"When the Fed started on its hiking path, I would have been leaning much more toward not seeing a soft landing because the employment situation almost seemed too good," Lubik said. "Given how the data have come in, I would have to revise this opinion."

"A soft landing, meaning inflation trending down persistently and steadily toward the 2% target without much effect on the unemployment rate, seems to be in the realm of possibility."

IMMIGRATION BOOSTS SUPPLY

Markets marked up expectations for rate hikes after last week's jobs data, with some analysts pushing back the timing of cuts until next year, while Fed officials promised to lift rates higher than the 5%-5.25% December projection if data continue to strengthen.

"It remains to be seen how much inflation will come down over the next couple of months. I'm a little skeptical that inflation is not persistent," Lubik said. "Above-5% rates are certainly well within the realm of possibility and most likely warranted."

Yet another piece of good news from the January jobs report offers more reason to be optimistic that the labor market could avoid a painful landing.

A recounting of the immigrant labor force in January saw the size of the total pool of available workers growing by about a million, Lubik noted. Most other economists, including those at the Fed, reckon demographic trends will continue to shrink the supply of workers, already clipped by retirements and a lack of immigration during the pandemic. But Lubik is more optimistic.

"Going forward, higher immigration most certainly will contribute to alleviating labor shortages and increase the labor force," he said, adding demographics would have predicted a decline in participation all through the 2010s as well.

"Somehow, the labor force participation rate never fails to surprise."

MNI INTERVIEW: Inflation Drop Looks Sustainable-Fed’s Wright (Pub Feb 7, 2023)

By Pedro Nicolaci da Costa

(MNI) WASHINGTON – U.S. inflation looks set to moderate steadily in coming months, allowing the Federal Reserve to soon pause monetary tightening before holding rates at cycle peaks at least through 2023, St. Louis Fed economist Mark Wright told MNI.

“I’m fairly confident that inflation is sustainably on a downward path,” said Wright, senior vice president at the St. Louis Fed, told MNI in a FedSpeak podcast interview. “The conditions are ripe for inflation to continue steadily declining for the next 12 months.”

He noted the Fed’s preferred PCE measure of inflation has fallen to 5% in the year to December from peaks above 7% in the summer, while core PCE had also moderated to 4.4%.

“Both of those are heading in the right direction,” said Wright, a former research director at the Minneapolis Fed.

The Fed raised interest rates by a quarter percentage point to a range of 4.5-4.75% last week, reducing the pace of tightening from previous moves but indicating that “ongoing increases” would be appropriate.

A FEW MORE

“As the statement revealed and Chair Powell reiterated, ongoing increases are likely. So there’s probably a few more increases in the pipeline coming,” Wright said. “At that point, the Fed would be able to pause and we’d end the year at that interest rate.”

Markets are expecting rates to peak slightly below 5% while the Fed’s Summary of Economic Projections from December pointed to a cycle top of 5.25%.

“We need to remain vigilant, inflation is still high, prices of some services components are still growing strongly,” Wright said.

His forecasts for inflation this year are in line with the SEP, which sees PCE ending 2023 at 3.1%. He said housing sector prices should shift from being a boost to a drag on inflation later this year.

“Data that we see on current rents being negotiated suggests they’re coming down, so that’ll begin to exert more of a moderating effect on inflation in the second half of the year,” he said. (See MNI INTERVIEW: CPI Rent-Passthrough May Be Longer-Detmeister)

JOBS STRENGTH

Wright pushed back against the notion that robust job growth, with over half a million gains in January, would force the Fed to become more aggressive in its tightening.

“The recent jobs report was very, very positive, that’s consistent with a bunch of other indicators that suggest the labor market is still quite strong,” he said.

“We’ve already seen some moderation of inflation without the labor market weakening, I think that’s good. We have a dual mandate and so far it’s looking like we might be able to achieve close to both of them, which is very positive news.”

He downplayed the disconnect between market pricing of rate cuts and the Fed’s pushback against that idea.

“Maybe they’re not exactly in line with what we’re suggesting but they’re not too far away,” he said.

What exactly higher for longer will mean “depends entirely on the data,” he added.

“If unemployment remains low and inflation continues to fall, at some point it will be appropriate to begin to think about lowering rates again, but I think we’re going to need to see inflation get much closer to the 2% target for that to happen.”

As for wage growth, Wright said it was more a consequence of inflation – workers catching up to past losses in their purchasing power – rather than a primary driver of it. (See MNI INTERVIEW-Fed Model Suggests Wage Growth Normalizing Soon)

MNI INTERVIEW: Fed Model Suggests Wage Growth Normalizing Soon (Pub Feb 3, 2023)

By Jean Yung

(MNI) WASHINGTON – High frequency U.S. pay data collected by Homebase shows "promising" signs of slowing through the first month of the year and suggests wage growth could cool to pre-Covid levels by early next year, Federal Reserve Bank of St. Louis economist Max Dvorkin told MNI Friday.

Tracking the same worker over time using the Homebase payroll software, Dvorkin found the median wage increase in January declined to 3.8% from around 4.4% in 2022. There's no comparable figure for earlier periods due to data limitations. However, a trimmed mean of wage changes over a four-week period also show the typical seasonal spike in wage growth is 1 to 2 percentage points lower this January compared to last year, Dvorkin said.

"If you worry about inflation and where it’s going, these are very promising figures," he said. "Since the second quarter of 2022, wages increases have been slowing, and if this continue we’ll be able to see something that resembles the kinds of increases seen before the pandemic early next year or late this year."

The Homebase data add to other evidence that wage inflation is moderating even as the labor market remains extraordinarily tight. (See: MNI INTERVIEW: Atlanta Fed Wage Tracker Shows Wage Growth Peaked)

Hiring blew past analyst expectations in January with U.S. employers adding 517,000 jobs and the unemployment rate hitting a fresh 50-year low of 3.4%, the Labor Department reported Friday. Even so, average hourly earnings decelerated by a tenth, lowering the year-on-year increase to 4.4% from a peak of 5.9% last March.

BROADER PATTERN

ADP, another private payroll service company, said pay growth for job stayers held at 7.3% in January, down from 7.7% in mid-2022.

The trimmed mean measure of wage changes for the 800,000 or so workers in the Homebase system dipped to 5.8% in 2022 from 6.2% in 2021, but was still much higher than the 3.6% rate seen in 2019. Average measures of wage increases are typically subject to distortions from shifts in the composition of workers, Dvorkin noted. Still, the Homebase data are showing the same patterns visible in other wage growth measures.

"The Fed is increasing rates and trying to cool down the economy and it seems to be working in terms of inflation. Yet the labor market is not suffering all that much," Dvorkin said, noting the breakdown in the tradeoff between inflation and unemployment presents a puzzle for economists.

"Employers are still trying to attract people and retain them, and that’s still translating to wage increases. The battle against inflation is not over. But the new data continue to arrive pointing in the right direction." (See MNI INTERVIEW: US Labor Market Could Have Soft Landing-Paychex)

MNI INTERVIEW:Fed Could Need To Hike Again After Pause-Ireland (Pub Feb 2, 2023)

By Pedro Nicolaci da Costa

(MNI) WASHINGTON – The Federal Reserve is no longer behind the curve on inflation but persistent price pressures could force the central bank into further interest-rate hikes later this year after an expected pause, ex-Richmond Fed economist Peter Ireland told MNI.

“Now FOMC members as a group feel like they’re on top of the problem and that gives them the luxury of going back to a gradual approach,” said Ireland, a professor at Boston College, in an interview with MNI’s FedSpeak podcast Thursday.

“I definitely believe at least a couple more rate increases are needed. I’m concerned that additional rate increases may be necessary in the summer and in the fall but we’ll just have to see,” he said.

Chair Jerome Powell told reporters Wednesday the Fed has in the past alternated between pauses and hikes and noted Canada's central bank recently signaled a pause with the potential for a future increase if inflation remains hot. The Fed's 25bp move matched the smallest in its cycle delivered back in March of 2022, and Powell mentioned the prospect of “a couple” more rate hikes, a shift Ireland welcomes as a return to normalcy in the conduct of policy.

Gradual tightening reduces the chance of overdoing it or under-tightening, Ireland said, adding that the current policy stance should be considered “somewhat restrictive.”

SOFT LANDING RARE BUT PLAUSIBLE

The Fed's policy rate is now 4.5%-4.75% compared with policymakers' preferred PCE measure that's eased from a summer peak to 5% and 4.4% excluding food and energy in the year to December. “On balance the news is quite good," said Ireland.

Nominal GDP figures are an important way to gauge the Fed’s progress on inflation and that is also showing good progress, he said.

"Nominal GDP growth was in double digits a year and a half ago, it's decelerated significantly," he said. However, "it's still running about 7 to 7.5% year-on year which is not consistent yet with a full return of inflation to the 2% target."

(See MNI: Fed Able To Tolerate Above-2% Inflation, To Keep Target)

The Fed is hoping for a soft landing but has failed to adequately explain to markets and the public how it would react if such a positive outcome fails to materialize, Ireland said. Some investors are also betting the Fed will cut rates late this year as the economy stumbles, and Powell said he doesn't see things coming to that.

History suggests soft landings where inflation comes down without a spike in unemployment or a hit to output are extremely rare, Ireland said. Still, he said unique conditions in the post-Covid labor market including ongoing shortages in key sectors indicate today's environment is unique.

RECESSION RISKS LINGER

"Achieving a soft landing is a very difficult task. What are the odds this time based on what we've seen in the past? Very very low," he said. "On the other hand, there is a real sense that this time is different. We're not seeing any indication of a break in the labor market at the aggregate level."

"Could it be that we muddle through this without a serious recession? Despite the fact that I look at history and it makes me pessimistic, it doesn't seem crazy to me."

Either way the path is narrow at best, because continued strong growth and inflation might force the Fed to tighten more than it intends.

"What happens if we get into the fall and into next winter and stubbornly core measures of inflation remain elevated, say, around 4%?" said Ireland. "That's the scenario where the Fed is going to have to continue to raise interest rates. The probability of sending the economy into recession goes up even more."

MNI Fed Preview March 2023: Analyst Views

Analyst Views – Fed Outlook

Of the 28 analyst previews of the March FOMC decision whose previews MNI have seen, 23 expect a 25bp hike at the February FOMC.

- Four (Goldman Sachs, Credit Suisse, Wells Fargo, and NatWest) see a pause.
- One (Nomura) sees a rate cut (25bp).
- The end of the hiking cycle is seen as nearing, with most expecting one or two more 25bp hikes remaining beyond the March meeting.
- Opinion is somewhat split on forward guidance in the statement. A plurality who expressed an opinion on this saw no change, but several seeing modest changes to "ongoing" to reflect a more dovish rate path.
- A handful expect the Fed to either signal willingness to adjust balance sheet policy in future (ie Morgan Stanley), while Nomura expects the Fed to immediately end QT at this meeting.
- Most see a slight upward adjustment in the median Fed funds rate "dots" for 2023 and 2024.
- No analysts expect a change to the administered rates (ON RRP / IORB etc) at this meeting.

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

Analyst	March rate hike call	Further Rate Hikes
TD	25	3 more 25bp hikes
Goldman Sachs	Pause	3 more 25bp hikes (after pausing)
Commerzbank	25	2 more 25bp hikes
Deutsche	25	2 more 25bp hikes
Rabobank	25	2 more 25bp hikes
Credit Suisse	Pause	2 more 25bp hikes (after pausing)
Wells Fargo	Pause	2 more 25bp hikes (after pausing)
Barclays	25	1 more 25bp hike
BMO	25	1 more 25bp hike
CIBC	25	1 more 25bp hike
Danske	25	1 more 25bp hike
ING	25	1 more 25bp hike
Morgan Stanley	25	1 more 25bp hike
SEB	25	1 more 25bp hike
Swedbank	25	1 more 25bp hike
Unicredit	25	1 more 25bp hike
Westpac	25	No further hikes
NatWest	Pause	NA
ANZ	25	NA
BofA	25	NA
Citi	25	NA
JPMorgan	25	NA
Lloyds	25	NA
Nordea	25	NA
RBC	25	NA
Scotiabank	25	NA
Societe Generale	25	NA
Nomura	-25	NA

Analysts' Key Comments

Summaries in alphabetical order of institution.

ANZ: Bank Failures Atypical Of Broader System Health

ANZ favors a 25bp hike at the March FOMC, with the failure of some US banks this month "atypical of the broader banking system's health."

- Powell to stress the Fed will do whatever is required to preserve financial stability.

Barclays: If Markets Keep Calm, The FOMC Will Carry On

A 25bp March hike will balance "tensions between financial stability risks and its intention to reduce inflation", writes Barclays, which sees a pause as "plausible" pending market developments.

- **Statement:** To note rationale for additional hikes, but will be careful to add language to acknowledge recent financial market strains, with reassurances that banking system liquidity remains strong and language assuring that the FOMC is closely monitoring developments and implications for the outlook.
- **SEP/Dot Plot:** To show Fed funds dots unchanged, with another set of hawkish economic projecitons.
- **Future action:** 5.1% terminal rate; no cuts this year (starting 2024).

BMO: Balancing Financial Stability Against Inflation

BMO sees the Fed hiking by 25bp at the March meeting, balancing financial stability against still-hot inflation.

- **Future action**: 25bp hike in May, hold through 2023.

BofA: Banking Stress Calls For Caution, But Policymaker Action Likely To Limit Fallout

BofA sees the Fed hiking 25bp in March, as while "the recent market turbulence stemming from distress in several regional banks certainly calls for more caution…the robust action by policymakers to trigger systemic risk exceptions… is likely to limit fallout."

- Even if the statement says ongoing hikes are needed with the Dot Plot calling for more hikes, Powell can emphasize that the Fed will remain data (and financial market stress) dependent.

CIBC: 25bp Hike, 25bp More In May

CIBC's base case for the March FOMC is a 25bp hike.

- **SEP/Dot Plot:** 5.1% 2023 Dot Plot median.
- **Future action:** 25bp hike in May.

Citi: 25bp Hike Still Likely

Citi sees a 25bp hike at the March FOMC meeting.

- **Statement:** Likely to continue to anticipate "ongoing increases" as appropriate.
- **SEP/Dot Plot:** 25bp in upward revisions to 2023 and 2024 Fed funds medians.
- Hawkish surprise could come from a 50bp up revision to 2023 dot or 2024 dot moving up by more.
- 2023 growth forecasts close to unchanged. Core PCE likely revised up.
- **Press conference:** Powell to reflect a desire to use liquidity tools for financial stability while remaining resolved to bring down inflation; the hawkish or dovish read to may come down to whether he focuses more on one or the other.
- Powell likely asked about the reversal this month of much of the balance sheet reduction.

Commerzbank: Pause Would Send Wrong Signal To Markets

Commerzbank sees the Fed hiking 25bp at the March meeting, "otherwise the markets would probably already safely assume that the interest rate cycle is at an end and that it is only a matter of time before the Fed cuts again."

- **Future action:** Terminal rates of 5.25-5.50% (was 6.00% previously), with cuts in early 2024.

Credit Suisse: Hawkish Hold

Credit Suisse sees a "hawkish hold" at the March FOMC, with the press conference and dot plot indicating future rate hikes – though a 25bp hike is still on the table this month, depending on financial stability.

- "A decision to pause now would likely encourage markets to continue pricing near-term cuts. This would be an unwelcome outcome for the Fed but, in our view, would be easier to recover from than broadening credit contagion. With policy rates approaching terminal rate expectations, it should be straightforward to deliver some extra tightening once financial conditions calm down."
- **SEP/Dot Plot:** Terminal rate in 2023 up 25bp to 5.4%, 2024 up 25bp to 4.4%.
- **Press conference:** Powell to indicate that the FOMC expects tightening to resume once financial stresses ease. Powell likely to emphasize that the Fed expects current policy backstops to be effective, in which case more tightening will be appropriate at upcoming meetings.
- **Future action:** 2 more 25bp hikes.

Danske: Hikes Continue Despite Volatility

Danske expects the Fed to deliver a similar message this week to the ECB last week, with a 25bp hike.

- There are mostly upside risks to short-term rates from current levels.
- **Future action:** 25bp hike in May. No cuts in 2023.

Deutsche: Powell To Emphasize Heightened Uncertainty

Deutsche expects a 25bp hike this week, though this is dependent on financial stability headlines into the meeting.

- **SEP/Dot Plot:** Little changed from December but to show FOMC's expectation that rates will be raised at least once more time after March.
- **Press conference:** Powell to emphasize the heightened uncertainty about the outlook, but to reinforce that the banking system remains sound and the Fed stands ready to provide liquidity as needed.
- **Future action:** 5.1% terminal rate.

Goldman Sachs: Bank Stress Calls For A Pause

Goldman Sachs expects the FOMC to hold rates at the March meeting, as "it does not make sense to tighten monetary policy amidst ongoing stress in the banking system that could present substantial downside risk to the economy…we would be surprised if, just a week after going to great lengths to support financial stability, policymakers risked undermining their efforts with a rate hike."

- A plausible tightening in lending standards is equivalent to 25-50bp of Fed rate hikes.
- **Statement:** Likely to say that the FOMC anticipates further hikes will still likely be necessary.
- **SEP/Dot Plot:** 2023 GDP revised up, unemployment revised down. Modest upward revs to PCE.
- 2023 rate dot to 4.4%, 2024 to 4.6%, 2025 to 3.5%.
- **Future action:** 25bp hikes in May, June, July to 5.4%.

ING: Hike Would Express Confidence

ING sees a 25bp hike in a close call, as "the Fed will want to express confidence in the financial system and one way to do this would be to hike 25bp and signal in their forecasts that they think the Fed funds rate will end the year higher than it currently is."

- **SEP/Dot Plot:** 2023 median rate dot 5.4%, 2024 4.4%, 2025 3.1%. Minimal changes to other projections.
- **Press conference:** Keen to hear about any commentary on the new Term Funding Program.
- **Future action:** 25bp hike in May, rate cuts to be the theme in H2 2023.

JPMorgan: Statement To Retain Tightening Bias

JPMorgan sees a 25bp hike at the March FOMC.

- **Statement:** To drop "ongoing increases…will be appropriate" but substitute language which will indicate that the bias is toward further tightening. No changes to QT policy.
- Might sound more upbeat on econ activity, and less upbeat on inflation.
- **SEP/Dot Plot:** A close call on 2023 dot; to look for 1 further hike to 5.1% terminal, but risk it shows 5.4%.

- "Keep in mind that the regional reserve bank presidents have a disproportionate influence in the dot plot. Some will recall that during the GFC and ensuing years that the bank presidents tended to be more reluctant to change their monetary policy outlook in response to financial stress. Now that we have a regional banking crisis the regional bank presidents may not talk so loudly."
- **Press conference:** Powell to spend considerable time discussing banking system stress and the Fed's response, but to prioritize economic developments and the fight against inflation.

Lloyds: Rate Expectations To Remain Above 5%

Lloyds sees a 25bp hike as the most likely outcome of the March FOMC (though "it is still possible that the Fed may provide a late signal through media contacts").

- **SEP/Dot Plot:** Rate expectations to remain above 5% and way above current market expectations.

Morgan Stanley: Willingness To Adjust QT

The Fed will deliver a 25bp hike while noting heightened uncertainty including willingness to alter its balance sheet program, writes Morgan Stanley.

- **Statement:** Forward guidance to say "further increases" "could" be appropriate.
- Could affirm that the FOMC will take into account the totality of the incoming data and its implications for the economic outlook. To include "closely" watching economic and financial developments.
- To add that FOMC is s "prepared to adjust any of the details of its approach to reducing the size of the balance sheet in light of economic and financial developments".
- **SEP/Dot Plot:** Minimal changes to Macro projections, no changes to median fed funds rates.
- **Press conference**: To be focused on the Fed's recent actions to shore up the banking system; to concentrate on how financial developments might influence the path ahead for monetary policy, and whether the FOMC would consider an early end to balance sheet runoff.
- **Future action:** 25bp hike in May, pause through rest of 2023.

NatWest: Fed On Hold

NatWest sees the FOMC holding rates at the March meeting, with a possibility that they don't publish an updated summary of economic projections.

- **Statement:** A less hawkish statement. "The FOMC is closely monitoring conditions…prepared to use its full range of tools…will take additional steps as appropriate".
- Though to note that hikes could eventually resume.
- **SEP/Dot Plot:** To be less reliable than usual given the heightened uncertainty to the outlook. I
- **Press conference:** Powell to try to thread needle of "wait and see approach" and increased uncertainty, while making it clear that the Fed's base case is a resumption of rate hikes once things calm down—a "hawkish pause"

Nomura: Fed To Cut Rates, End QT

In light of banking sector turmoil, Nomura expects the Fed to cut rates by 25bp at the March meeting, while also ending quantitative tightening (note was published Mar 13 but view appears to be unchanged as of Mar 20).

- The Fed may also launch a new lending facility.
- "financial markets seem to view [the Fed's] policy actions [so far to address banking sector concerns] as insufficient…the fact that other banks are facing a serious bank run risk suggests an increasing risk of over-tightening by the Fed, which also supports a rate cut in the near term."
- **SEP/Dot Plot:** "Although a 25bp rate cut seems unlikely to be a panacea for financial institutions, if the Fed shows expected continued rate cuts in the Summary of Economic Projections ("dots"), markets could quickly price in further rate cuts. This could somewhat reduce the risk of further bank runs, as well as reduce unrealized capital losses."

Nordea: Hike, With Signal That Rates Need To Head Higher Still

Nordea expects the FOMC will hike by 25bp in March, while signalling that rates need to head higher still as specific problems with some banks will be taken care of by other measures.

Rabobank: Breaking Things Or Losing Control

Rabobank sees a 25bp hike at the March FOMC as most likely, despite banking sector turmoil.

- "if the Fed has to abort the hiking cycle here, it means that the central bank no longer has the ability to raise the real policy rate above the neutral level, which essentially means that monetary policy in the US has become ineffective."
- The Fed may want to reconsider its current QT schedule; instead of terminating the hiking cycle it could slow down/suspend balance sheet normalization.
- **Future action:** 25bp hikes in May and June, pause for rest of 2023.

RBC: 25bp Hike Could Be Seen As Vote Of Confidence In Banking Sector

While there are good arguments for the FOMC to take a wait-and-see approach, RBC expects a 25bp increase at the March meeting.

- That "could be seen as a vote of confidence in the banking sector, and an indication that actions taken over the past week free up monetary policy to continue to address inflation."

Scotiabank: Extremely Difficult Balancing Act

Scotiabank's base case is a 25bp hike at the March FOMC, but "no matter what Powell and Co. deliver they will be sharply criticized in what amounts to an extremely difficult balancing act between countering inflation risk, managing financial stability and recognizing that some damage needs to be done to the economy in order to curtail inflation but without tipping things to far."

- "This meeting could reveal further discussion about the level of optimal reserves in the system – if the Fed is getting closer to the lower end "then perhaps the Fed needs to be open to curtailing the pace of quantitative tightening and hence slowing the pace at which bond sales back into the market are draining reserves and tightening liquidity."

SEB: Powell To Deliver A Soft Message

SEB expects a 25bp hike accompanied by a soft verbal message from Chair Powell at the March meeting. However, the bar to cutting rates is high as long as inflation concerns remain.

- **Statement:** No change to QT policy.
- **SEP/Dot Plot:** 2023 rate forecast nudged up closer to 5.5%.
- **Press conference**: Powell to repeat message that Fed is closely monitoring financial system conditions and is prepared to address liquidity pressures; will stress data-dependent, meeting-by-meeting policy.
- **Future action:** A further 25bp hike in May, rate cuts later this year.

SocGen: Powell To Strike More Cautious Tone

Societe Generale sees a 25bp FOMC hike in March despite financial stability concerns.

- **SEP/Dot Plot:** Should reflect modestly higher inflation and lower growth for 2023.
- **Press conference:** Powell to perform the same balancing act on inflation vs fin stability as Lagarde last week. To strike a more cautious tone and emphasize data-dependence.
- **Future action:** 25bp hikes in Mar and May to 5.1% terminal, hold until early 2024.

Swedbank: No Pause Yet

With inflation being "simply too hot", Swedbank sees a 25bp hike at the March FOMC.

- **SEP/Dot Plot:** 2023 median could shift up by another 25bp to 5.4%.
- **Future action:** 25bp hike in May.

TD: Through Hell And High Water

TD expects a 25bp Fed hike in March, with post-meeting communication stressing that the Fed is not done in terms of further tightening, while acknowledging the uncertain economic environment and underscoring a willingness to guarantee liquid financial conditions.

- New balance sheet action has essentially meant the start of new Fed QE.

- **Statement:** Could sound less optimistic on inflation; to incorporate new language reflecting bank collapses and market gyrations.
- To reiterate "ongoing increases". No changes to QT program.
- **SEP/Dot Plot:** 5.25% 2023 median; 4.4% 2024; 3.4% 2025. Higher 2023 GDP/ PCE, lower Unemp.
- **Future action:** 25bp hikes in May, Jun and July; downside risks. Cuts to start in Dec, 300bp by Sep 2024.

Unicredit: Hike Clouded By Uncertainty

The FOMC will hike by 25bp at the March meeting in a decision clouded by uncertainty, writes Unicredit.
- **SEP/Dot Plot:** Little change to 2023 dots, with peak split between 5.125 and 5.375%; 2024-2025 higher.
- **Future action:** 25bp hike in May, 150bp of cuts in 2024.

Wells Fargo: Pause Amid Uncertainty

Wells Fargo sees the FOMC holding the funds rate at the March meeting, using the dot plot to "clearly signal" that tightening is not over just yet.
- "A brief pause gives policymakers time to ensure they have the situation under control and signal that they are attuned to the wide range of possible outcomes that could occur."
- **Statement:** To include new language that references recent banking events but expresses confidence in the financial system and calls for additional mon pol tightening to ensure the inflation fight is seen through.
- **SEP/Dot Plot:** Median 2023 dot up to 5.4%; 2024 up to 4.4%.
- 2023 GDP revised slightly up, 2024 lower; 2023 unemp revised down slightly. Little move in PCE.
- **Press conference:** Powell to reinforce the Statement message.
- **Future action:** 25bp hikes in May and June.

Westpac: Last Hike Of The Cycle

Westpac expect a 25bp hike at the March meeting, with data supportive of further hikes but uncertainties around the banking sector (though short of a reason to panic).
- **Future action:** Pause to 2024.