

**Page 1 – Speeches & Reports**

- Consumer’s inflation expectations.
- Moving from used car to rent inflation.
- Durable goods inflation explained.

**Page 2 – Economic Indicators & Rate Trends**

**Fed – Rate Hike Debate and Open Positions**

- **Rate Hike Debate**
  - Market is forecasting between 4 & 7 for 2022 with a 50/50 chance of a 50bps hike in March.
  - Jim Bullard (as of 2/14/22) supports 100bps of hikes by July 1<sup>st</sup> – with three meetings until then (March 15/16, May 3/4, June 14/15), one of the rate hikes would need to be 50bps.
  - Mary Daly (as of 2/13/22) says a 50bp hike in March would be too “abrupt and aggressive”.
- **Open Positions**
  - Open – 3 seats on the Fed Board.
  - Open – Dallas Fed Prez (not a voter in 2022).
  - Filled – Boston Fed President (voter in 2022).
    - Susan Collins, a well-known economist, and a provost of academic affairs at the University of Michigan, starts on July 1<sup>st</sup>.

**Inflation – Consumer’s Long-Term Expectations: Stable**

- “Finally, while one-year-ahead and three-year-ahead expectations rose significantly during the pandemic, five-year-ahead inflation expectations have remained remarkably stable. Taken together, these findings indicate that consumers are taking less signal than before the pandemic from inflation news in updating their longer-term expectations, and that they do not view the current elevated inflation as very long-lasting.”

	July 2019	August 2021	November 2021	January 2022
1-year ahead	2.53%	5.18%	6.00%	5.79%
3-year ahead	2.45%	4.00%	4.01%	3.48%
5-year ahead		3.10%	3.20%	3.00%

Source: NY Fed, What Are Consumers’ Inflation Expectations Telling Us Today?, 2/14/22

**Inflation – Move over Used Cars, Time for Rent Inflation**

- “As the U.S. economy recovers from the effects of the COVID-19 pandemic, some increase in rent inflation should be expected, given that landlords can ask for higher rents when prospective tenants are employed and earning higher incomes. However, the extraordinarily large increases in two leading indicators of future rent inflation—asking rent inflation and house price inflation—point to

significant upside risks to the overall inflation outlook. The potential increases are particularly significant for CPI inflation, which places a larger weight on shelter costs. Still, the potential additions to PCE inflation of about 0.5pp for both 2022 and 2023 are important to consider in light of the Federal Reserve’s 2% inflation target.”

- “While the CPI and the PCEPI use the same underlying data on rental units, the combination of rent and OER comprises 32% of the basket of goods in the CPI but only 15% of the PCEPI consumption basket.”
- “Consumer price index (CPI) and the personal consumption expenditures price index (PCEPI).”

Source: SF Fed, Will Rising Rents Push Up Future Inflation? 2/14/22

**Inflation – In a Nutshell, Durable Goods Inflation**

- “The COVID-19 recession and recovery were characterized by a shift in the composition of consumption away from services and toward durable goods. Lockdowns and social distancing measures, as well as work from home, decreased demand for services. At the same time, fiscal stimulus packages and money saved that could have been spent on services led to higher consumption of durable goods.”
- “Demand and supply chain disruptions during the COVID-19 recession behaved very differently from those during the Great Recession. While it is difficult to disentangle how much was driven by demand versus supply forces, changes in consumption patterns combined with supply disruptions driven by the global nature of the pandemic led to unprecedented bottlenecks. Supply chain disruptions have been contributing to inflation. Whether this inflation will be temporary or permanent depends on how quickly supply disruptions ease to meet demand. New variants of the virus and new policies enacted to confront those variants make the outlook uncertain.”

Source: St. Louis Fed, Supply Chain Disruptions During the COVID-19 Recession, 2/9/22

**Quote of the Week:**

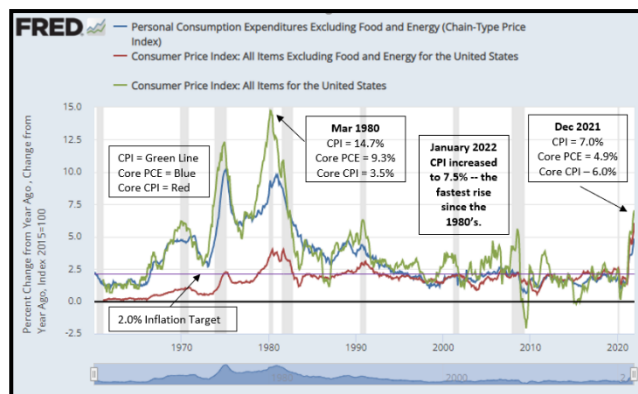
“Whether you think that you can or you can’t, you’re usually right.”  
--- Henry Ford

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### Economic Indicators:

- **Unemployment: 4.0% Jan** (CBO's Natural Rate: 4.2%)
  - Feb's unemployment #'s will be released 3/4/22.
- **Core PCE: 4.9% Dec** (Avg. Inflation Target: 2.0%)
  - CPI surprised to the upside with a 7.5% annual gain in January (posted 2/10/22) & sent rates higher – Fed's preferred measure posts 2/25/22.
  - Dallas Fed's Trimmed Mean for Dec: 3.05%,
    - Trims off the lower & upper data spikes.
  - St Lou Fed 5yr Breakeven Inflation Rate: 2.91%.
    - Yield on Treasury minus yield on TIPS.
  - Jan's Core PCE will be released 2/25/22.
- **GDP: 6.9% Q4 (Adv. Est.)** (SF Fed Long Trend: 1.70%)
  - 4Q GDP (2<sup>nd</sup> Estimate) will be released 2/24/22.



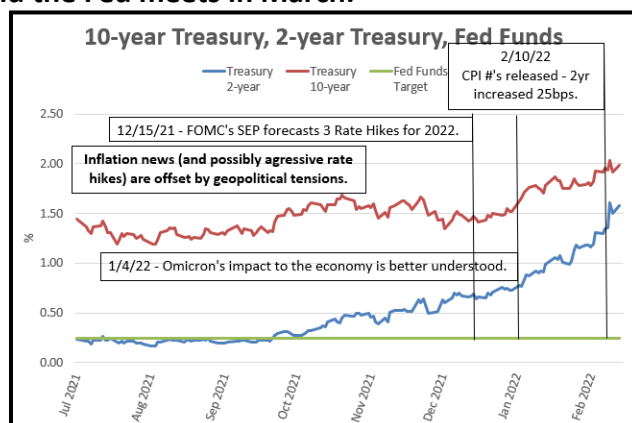
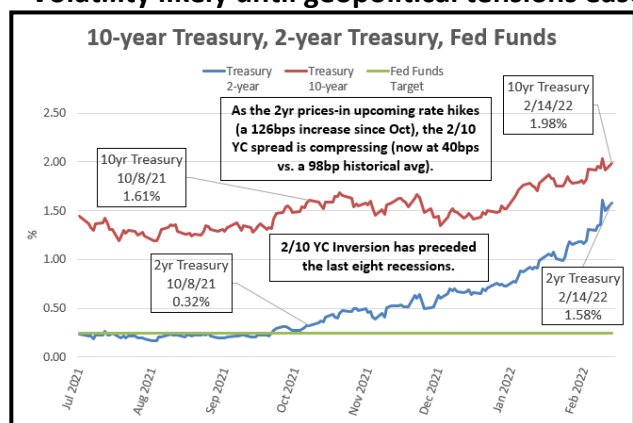
BLS: "CPI measures the change in the out-of-pocket expenditures of all urban households and the PCE index measures the change in goods and services consumed by all households."

### Rates --- 10-Day Trends

Borrowing Rates - Tax Exempt	2/1/22	2/2/22	2/3/22	2/4/22	2/7/22	2/8/22	2/9/22	2/10/22	2/11/22	2/14/22	10-Day Average	10-Day Avg vs 2/14/22	10-Day Change
2-Year Line of Credit (Fixed Rate Line of Credit)	2.53	2.55	2.57	2.59	2.67	2.69	2.69	2.71	2.86	2.86	2.67	↑ 0.19	0.33
10-year Term Loan 10-year Draw to Term Loan (Fixed Rate Draw Period)	3.11	3.14	3.15	3.16	3.24	3.26	3.25	3.26	3.35	3.35	3.23	↑ 0.12	0.24
15-year Term Loan 15-year Draw to Term Loan (Fixed Rate Draw Period)	3.44	3.47	3.49	3.48	3.56	3.59	3.57	3.58	3.65	3.65	3.55	↑ 0.10	0.21

Key Interest Rates	2/1/22	2/2/22	2/3/22	2/4/22	2/7/22	2/8/22	2/9/22	2/10/22	2/11/22	2/14/22	10-Day Average	10-Day Avg vs 2/14/22	10-Day Change
Federal Funds (Target Range - Upper Limit)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.00	0.00
Interest on Reserve Balances (IORB) (Formerly IOER - name changed July 2021)	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.00	0.00
BSBY - Overnight	0.077	0.068	0.068	0.065	0.069	0.072	0.077	0.077	0.076	0.085	0.073	↑ 0.012	↑ 0.009
BSBY - 1-month	0.089	0.091	0.096	0.096	0.094	0.095	0.092	0.091	0.102	0.105	0.095	↑ 0.010	↑ 0.016
SOFR - Overnight	0.050	0.050	0.050	0.050	0.050	0.050	0.040	0.050	0.050	0.000	0.049	↑ 0.001	0.000
SOFR - 30-Day Average	0.049	0.049	0.049	0.049	0.049	0.049	0.049	0.048	0.048	0.048	0.049	0.000	0.000
SOFR - Term Rate - 1-Month (CME Term SOFR)	0.050	0.050	0.050	0.049	0.054	0.059	0.057	0.057	0.099	0.095	0.062	↑ 0.033	↑ 0.045
US Treasury - 2-Year	1.18	1.16	1.19	1.31	1.30	1.35	1.36	1.61	1.50	1.58	1.35	↑ 0.23	↑ 0.40
US Treasury - 10-Year	1.81	1.78	1.82	1.93	1.92	1.96	1.94	2.03	1.92	1.98	1.91	↑ 0.07	↑ 0.17
US Treasury - 20-Year	2.19	2.17	2.20	2.29	2.28	2.31	2.31	2.37	2.30	2.35	2.28	↑ 0.07	↑ 0.16
10-year Treasury Spread (aka 2/10 Yield Curve) (10-year Treasury minus 2-year Treasury)	0.63	0.62	0.63	0.62	0.62	0.61	0.58	0.42	0.42	0.40	0.56	↓ (0.16)	↓ (0.23)

### Rates – Volatility likely until geopolitical tensions ease and the Fed meets in March.



### Interesting reads that didn't make the Report:

- SF Fed, Average Inflation Targeting in the Financial Crisis Recovery, 1/10/22
- St. Louis Fed, Further Evidence on Greenspan's Conundrum, 1/14/22

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