Fed Unfiltered

2/8/22

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George – Aggressive QT Could Mean Fewer Rate Hikes

- "What we do on the balance sheet will likely affect the path of policy rates and vice versa," she said. "For example, more aggressive action on the balance sheet could allow for a shallower path for the policy rate."

Source: Bloomberg, Interview w/ KC Fed Pres.Esther George, 1/31/22

Bostic – Inflation, Number of Rate Hikes, it All Depends

- "Instead of simply waiting out supply and production problems, many executives are starting to seek new or redundant suppliers. These businesses are changing inventory systems from "just in time" to "just in case," and taking other steps to insulate themselves from future severe supply disruptions."
- "Many of you probably wonder why we pay so much attention to what people think inflation will be. Put simply, the more likely it is that businesses and workers begin to believe that inflation will remain elevated, the more likely they are to alter their habits in ways that can lead to inflation. For example, should workers ask for markedly higher wages because they think the prices of groceries and other staples will rise significantly, then that can lead to increased costs that businesses pass through in the form of, yes, higher prices for those and other goods."
- "As for being adaptable, I will adjust my view of appropriate policy based on my observations. If monthly price changes decline, the risk of longer-run inflation expectations becoming unanchored will fall, which will be good news indeed and should not warrant a change in what I think our policy approach should be, which is currently three interest rate hikes this year. By contrast, if monthly changes remain high or even increase, then inflation expectation risks will rise as well, which would lead me to adjust my view in the direction of more aggressive action."

Source: Atlanta Fed, Raphael Bostic letter, Observe and Adapt: Appropriate Monetary Policy in the Face of Inflation, 2/1/22

Employment – LFP likely back to Historical Trend in 2024

- "Population aging has been the key factor pulling the LFP rate … down since 2010 … the wave of retirements that began when the large baby-boom generation started reaching age 65 has exerted a persistent downward pull on overall LFP and EPOP."
  - Baby boom generation is from 1946 to 1964.
  - A person born in 1946 turned 65yrs in 2011.
- "The actual value of LFP in recent months is about 1 percentage point below trend, representing over 1.5 million potential workers."

- "Between the second quarter of 2018, when the unemployment rate reached its December 2021 level of 3.9%, and late 2019, when it settled at 3.5%, the overall LFP rate rose 0.4 percentage point. Projecting the same increase from now until the second half of 2023, when the San Francisco Fed's forecast projects the unemployment rate will settle at 3.5%, implies that the actual LFP rate will not reach its trend value until after the projection period, likely in 2024."

Source: SF Fed, Searching for Maximum Employment, 2/7/22

Housing – Big City Returns vs. Small City Returns

- "In particular, this blog post presented a novel data set covering housing return series for twenty-seven superstar cities. The key finding across international and U.S. data is that the big cities tend to underperform the rest of the country in terms of total returns … Investors buying real estate outside of the large cities earned higher returns. The reason is that superstar real estate is comparatively safe. The returns are less strongly correlated with income growth, and market liquidity is higher, leading to lower sales price uncertainty. Higher returns outside the big agglomerations are a compensation for higher risks."

Source: NY Fed, Housing Returns in Big and Small Cities, 2/2/22

Quote of the Week:
"I am a part of everything that I have read."
--- Theodore Roosevelt

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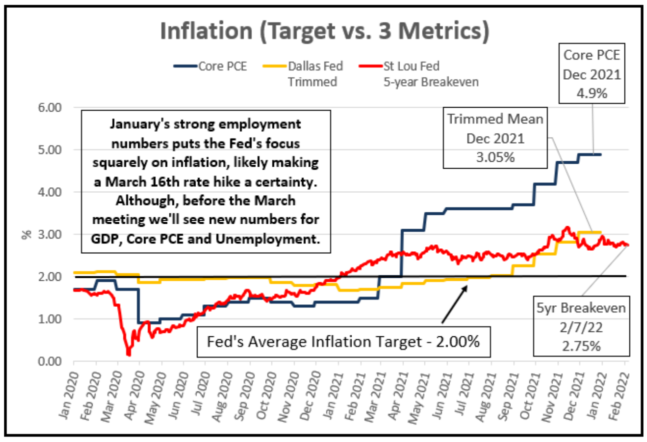
Economic Indicators:

- *Unemployment: 4.0% Jan* *(CBO's Natural Rate: 4.2%)*
  - *Jan surprised to the upside (467,000 job growth), which caused the 2yr Treasury to increase 11bps.*
  - *Feb's unemployment #'s will be released 3/4/22.*
- *Core PCE: 4.9% Dec* *(Avg. Inflation Target: 2.0%)*
  - *Dallas Fed's Trimmed Mean for Dec: 3.05%,*
    - *Trims off the lower & upper data spikes.*
  - *St Lou Fed 5yr Breakeven Inflation Rate: 2.75%.*
    - *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 (2nd Estimate) will be released 2/24/22.*



Rates --- 10-Day Trends

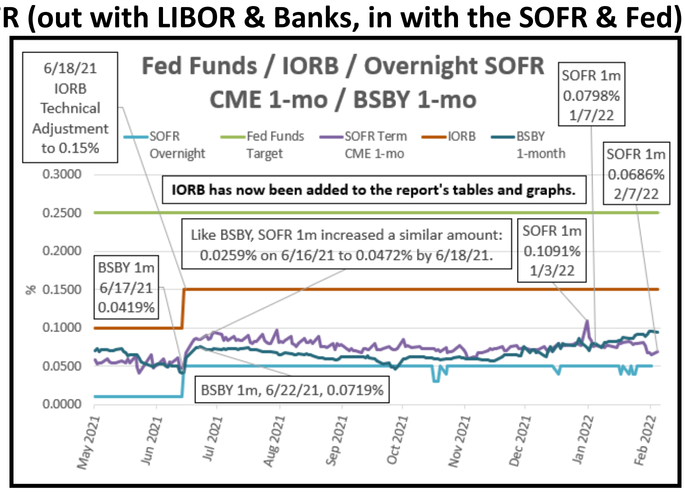
Borrowing Rates - Tax Exempt	1/25/22	1/26/22	1/27/22	1/28/22	1/31/22	2/1/22	2/2/22	2/3/22	2/4/22	2/7/22	10-Day Average	10-Day Avg vs 2/7/22	10-Day Change
2-Year Line of Credit (Fixed Rate Line of Credit)	2.50	2.52	2.63	2.61	2.58	2.53	2.55	2.57	2.59	2.67	2.58	0.09	0.17
10-year Term Loan 10-year Draw to Term Loan (Fixed Rate Draw Period)	3.14	3.14	3.22	3.18	3.16	3.11	3.14	3.15	3.16	3.24	3.16	0.08	0.10
15-year Term Loan 15-year Draw to Term Loan (Fixed Rate Draw Period)	3.47	3.48	3.52	3.51	3.48	3.44	3.47	3.49	3.48	3.56	3.49	0.07	0.09

Key Interest Rates	1/25/22	1/26/22	1/27/22	1/28/22	1/31/22	2/1/22	2/2/22	2/3/22	2/4/22	2/7/22	10-Day Average	10-Day Avg vs 2/7/22	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	0.081	0.078	0.080	0.080	0.081	0.077	0.068	0.068	0.065	0.069	0.074	(0.006)	(0.012)
BSBY - 1-month	0.087	0.086	0.091	0.092	0.092	0.089	0.091	0.096	0.096	0.094	0.091	0.003	0.007
SOFR - Overnight	0.050	0.040	0.040	0.050	0.050	0.050	0.050	0.050	0.050	0.000	0.047	0.003	0.000
SOFR - 30-Day Average	0.049	0.049	0.049	0.049	0.049	0.049	0.049	0.049	0.049	0.049	0.049	0.000	(0.001)
SOFR - Term Rate - 1-Month (CME Term SOFR)	0.059	0.058	0.056	0.051	0.048	0.050	0.050	0.050	0.049	0.054	0.052	0.002	(0.005)
US Treasury - 2-Year	1.02	1.13	1.18	1.15	1.18	1.18	1.16	1.19	1.31	1.30	1.18	0.12	0.28
US Treasury - 10-Year	1.78	1.85	1.81	1.78	1.79	1.81	1.78	1.82	1.93	1.92	1.83	0.09	0.14
US Treasury - 20-Year	2.18	2.22	2.17	2.14	2.17	2.19	2.17	2.20	2.29	2.28	2.20	0.08	0.10
10-year Treasury Spread (aka 2/10 Yield Curve) (10-year Treasury minus 2-year Treasury)	0.76	0.72	0.63	0.63	0.61	0.63	0.62	0.63	0.62	0.62	0.65	(0.03)	(0.14)

Rates – An interesting Correlation between IORB & SOFR (out with LIBOR & Banks, in with the SOFR & Fed)

- "Following each of the six technical adjustments, passthrough to measures of overnight uncollateralized funding rates such as the overnight bank funding rate (OBFR), and of collateralized rates such as the secured overnight financing rate (SOFR) and the tri-party general collateral rate (TGCR), has been roughly one-for-one … For example, in June 2021 when the IORB and ON RRP rates were increased by 5 basis points, the OBFR, SOFR, and TGCR all increased by 4 basis points, same as for the EFFR."

  Source: NY Fed, How the Fed Adjusts the Fed Funds Rate within Its Target Range, 1/12/22



Correction: In the 1/11/22 report, an annotation mistakenly referenced a BSBY spike on 1/3/22, it was actually a SOFR spike.

Interesting reads that didn't make the Report:

- Richmond Fed, Does Infrastructure Spending Boost the Economy? 2/2/22.