

Page 1 – Speeches & Reports

- *Beige Book – Expansion expected to slow.*
- *Bullard & Waller – Growth still on the table.*
- *IMF – Unemployment to go up, inflation down.*

Page 2 – Economic Indicators & Rate Trends

Rate Hikes – Next FOMC meeting is July 26-27

- Although 100bp hike in July has been mentioned as a possibility, a 75bp hike is still most likely.
- In interviews last week, Bostic, Mester and Daly all appeared to favor a 75bps hike, while Waller (in a speech) specifically supported a 75bp hike.
- Bullard, the most hawkish member of the FOMC, referenced a 100bp hike in an interview, but also said “it probably doesn't make too much difference to,” hike by 100bps in July or hike by 75bps.

Beige Book – Expanding now, Weakening is Expected

- “Economic activity expanded at a modest pace, on balance, since mid-May; however, several Districts reported growing signs of a slowdown in demand, and contacts in five Districts noted concerns over an increased risk of a recession ... Housing demand weakened noticeably as growing concerns about affordability contributed to non-seasonal declines in sales, resulting in a slight increase in inventory and more moderate price appreciation ... Similar to the previous report, the outlook for future economic growth was mostly negative among reporting Districts, with contacts noting expectations for further weakening of demand over the next six to twelve months.”

Source: Fed Board, Report: The Beige Book, July 2022, 7/13/22

Bullard – Growth Slowing from Rapid to Normal Trend

- Recession: “I'm a little skeptical that we'll get to recession. I think the US economy is slowing, but it's slowing to the trend pace of growth from a very rapid pace of growth that occurred in 2021. And I think that's the more likely baseline is that after 5% plus real GDP growth in 2021, now you'll get something lower for 2022 and it'll be closer to the 2% trend pace for the US economy.”
- Rate Hikes: “I think that I would now revise up the amount of policy rate moves I'd like to see in 2022. I previously had said that I'd like to see us at 3.5% by the end of the year. I'm now saying that I'd like to see us at 3.75% to 4% at the end of the year. And we do have four meetings, so there'd be a question of how to allocate those policy rate moves over the second half of 2022, but I'm leaving that difficult job up to the chair.”

- Inflation: “And so I think inflation can't come down relatively quickly to 2%. That doesn't mean next month, but over the next 18 months, I think inflation could go back to 2% if we play our cards right. And the market-based inflation compensation does seem to indicate that at least for now that markets are confident that this program will end up in a disinflation.”

Source: James Bullard, Interview: Discusses Policy Rate Increases and His Views of U.S. Recession Predictions, Remarks During a European Economics and Financial Centre virtual discussion, 7/15/22

Waller – The Economic Expansion Will Continue

- GDP: “While first quarter real GDP is now estimated to have shrunk by 1.6 percent, according to another estimate, real gross domestic income (GDI) increased by 1.8 percent. GDP and GDI are basically measuring the same activity in different ways, and in the past when such wide gaps in the two numbers have appeared initially, they tend to move toward each other when the data are finalized.”
- Jobs: “Past experience has shown that job creation and the unemployment rate are timely indicators of a recession, more timely than quarterly GDP. I will watch all the data carefully, but the factors I just cited, along with the evident strength across different measures of the labor market, leave me feeling fairly confident that the U.S. economy did not enter a recession in the first half of 2022 and that the economic expansion will continue.”

Source: Christopher Waller, Speech: Monetary Policy in a World of Conflicting Data, 7/14/22

IMF – Expect Slowing Growth & Higher Unemployment

- “We expect these policy actions will slow the growth in consumer spending to around zero by early next year, easing the strain on supply chains. At the same time, higher mortgage rates will reduce housing prices, which have grown strongly during the pandemic. Finally, slowing demand will increase unemployment to around 5 percent by the end of 2023, which should decrease wages.”
- “All in all, we expect core PCE inflation to fall back toward 2 percent by late 2023, and economic activity to slow from 3.5 percent in the first quarter of this year to 0.6 percent by end-2023.”

Source: IMF, Report: The US Economy's Inflation Challenge, 7/12/22

Quote of the Week

“The price of anything is the amount of life you exchange for it.” ---Henry David Thoreau

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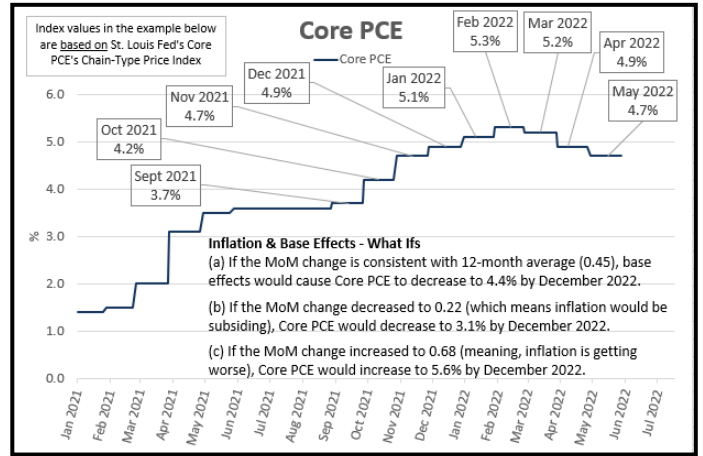
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Economic Indicators:

- GDP: -1.6% Q1 (3rd Est.) (Fed's Longer Run Rate 1.8%)
 - Q2 GDP (Adv. Estimate) to be released 7/28/22.
- Core PCE: 4.7% May (Fed's Avg. Inflation Target: 2.0%)
 - Dallas Fed's Trimmed Mean for May: 3.96%
 - Trims off the lower & upper data spikes.
 - St Lou Fed 5yr Breakeven Inflation Rate: 2.67%
 - Yield on Treasury minus yield on TIPS.
 - June's Core PCE will be released 7/29/22.
 - While Headline CPI increases, Core CPI decreases.

	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	June 2022
Core CPI	6.0%	6.4%	6.5%	6.2%	6.0%	5.9%

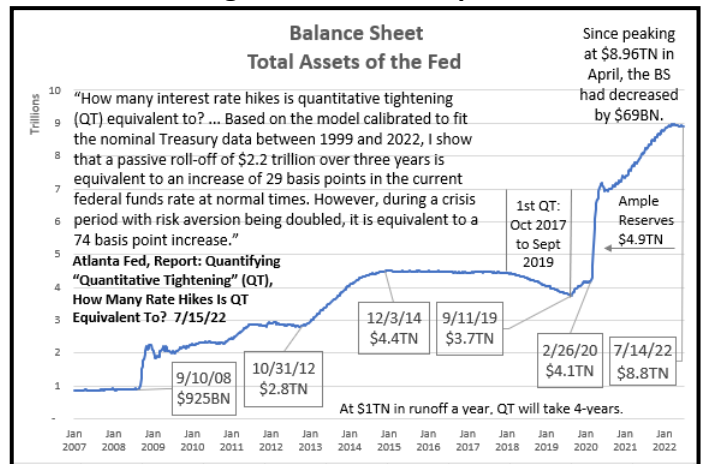
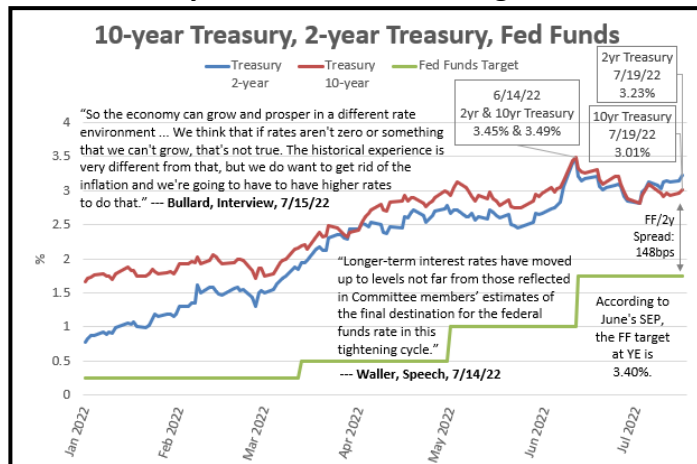
- Unemployment: 3.6% Jun (Fed's Long Run Rate: 4.0%)
 - July's unemployment #'s to be released 8/5/22.



Rates --- 10-Day Trends

Key Interest Rates	7/5/22	7/6/22	7/7/22	7/8/22	7/11/22	7/12/22	7/13/22	7/14/22	7/15/22	7/18/22	7/19/22	10-Day Average	10-Day Avg vs 7/19/22	10-Day Change
Fed Funds Target Rate (FFTR)	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	0.00	0.00
Standing Repo Facility (SRF)	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	0.00	0.00
Interest on Reserve Balances (IORB)	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.65	0.00	0.00
Effective Fed Funds Rate (EFFR)	1.58	1.58	1.58	1.58	1.58	1.58	1.58	1.58	1.58	1.58	0.00	1.58	0.00	0.00
Overnight Reverse Repo Facility (ON RRP)	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	0.00	0.00
Fed's Balance Sheet (Total Assets in Millions)	8,913,553	8,891,851	8,891,851	8,891,851	8,891,851	8,891,851	8,895,867	8,895,867	8,895,867	8,895,867	8,895,867	8,895,649	(218)	17,686
BSBY - Overnight	1.587	1.592	1.579	1.580	1.575	1.572	1.573	1.575	1.578	1.584	1.576	1.578	(0.002)	(0.015)
BSBY - 1-month	1.638	1.639	1.658	1.707	1.718	1.750	1.767	1.817	1.892	1.944	1.996	1.789	0.207	0.357
SOFR - Overnight	1.540	1.540	1.540	1.530	1.530	1.540	1.530	1.530	1.540	1.540	0.000	1.536	0.004	0.000
SOFR - 30-Day Average	1.210	1.236	1.261	1.287	1.364	1.390	1.417	1.443	1.472	1.506	1.509	1.388	0.120	0.273
SOFR - Term Rate - 1-Month (CME Term SOFR)	1.730	1.749	1.824	1.868	1.926	1.944	1.959	2.101	2.163	2.145	2.153	1.983	0.170	0.405
US Treasury - 3-Month	1.90	1.90	1.95	1.98	2.18	2.22	2.39	2.40	2.37	2.50	2.52	2.24	0.28	0.62
US Treasury - 2-Year	2.82	2.97	3.03	3.12	3.07	3.03	3.13	3.15	3.13	3.15	3.23	3.10	0.13	0.26
US Treasury - 10-Year	2.82	2.93	3.01	3.09	2.99	2.96	2.91	2.96	2.93	2.96	3.01	2.98	0.03	0.08
US Treasury - 20-Year	3.31	3.42	3.45	3.53	3.43	3.37	3.35	3.36	3.34	3.39	3.42	3.41	0.01	0.00
3-Month / 10-year Treasury Yield Curve Spread (10yr minus 3mo Treasury) (30yr historical avg: 1.68)	0.92	1.03	1.06	1.11	0.81	0.74	0.52	0.56	0.56	0.46	0.49	0.73	(0.24)	(0.54)
2-Year / 10-year Treasury Yield Curve Spread (10yr minus 2yr Treasury) (30yr historical avg: 1.14)	0.00	(0.04)	(0.02)	(0.03)	(0.08)	(0.07)	(0.22)	(0.19)	(0.20)	(0.19)	(0.22)	(0.13)	(0.09)	(0.18)

Rates – Goodbye Inflation, Hello to Higher Rates/Growth – and – QT Might be Worth 75bps in Rate Hikes



Interesting Reads that didn't make the Report:

- Esther George, Speech: Tightening Monetary Policy in a Tight Economy, 7/11/22
- St. Louis Fed, Report: What Does the Beveridge Curve Tell Us About the Labor Market Recovery? 7/14/22
- SF Fed, Report: Fed Views, July 2022, 7/14/22

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