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**Rate Hikes – 75bps Today, with 50pbs Possible for Sept**

- Powell (post mtg press conference): “We need to get policy at least to a moderately restrictive level,” mentioning a target of btwn 3.25% -3.50% by YE.
- Powell: “We are highly attentive to inflation risks and determined to take the measures necessary to return inflation to our two percent longer run goal. This process is likely to involve a period of below trend economic growth and some softening in labor market conditions, but such outcomes are likely necessary to restore price stability.”
- Fed Personnel: On 7/19/22, Michael Barr took office as the Vice Chair for Supervision – the board now has a full complement of seven governors, first time in almost 10-years (since 2013).

**Rate Hikes – Tightening plus YC Inversion = Recession**

- “This blog post will examine trends in three key economic series before and after the six previous Fed tightening episodes since the early 1980s. Such an exercise may provide a possible roadmap for how key elements of the economy will evolve during the present episode.”
- “The three series are: (1) real consumer expenditures on durable goods; (2) real residential fixed investment; (3) civilian unemployment rate.”
- Key Takeaway: “In a typical tightening episode, the Fed raises its FFTR in response to a strengthening economy with rising price pressures. During tightening episodes, housing appears to be more sensitive to rising interest rates than real expenditures on consumer durable goods. Labor market conditions, using the unemployment rate as a proxy, remained strong in the two years following liftoff.” *(YC referenced is the 3m/10yr Treasury.)*

First Tightening Action	Initial FFTR Target (%)	Final Tightening Action	Final FFTR Target (%)	Total Tightening (percentage points)	Yield Curve Inversion?	Business Expansion Peak
March 31, 1983	8.50	Aug. 9, 1984	11.50	3.00	No	N/A
March 29, 1988	6.50	May 16, 1989	9.81	3.31	Yes	July 1990
Feb. 4, 1994	3.00	Feb. 1, 1995	6.00	3.00	No	N/A
June 30, 1999	4.75	May 16, 2000	6.50	1.75	Yes	March 2001
June 30, 2004	1.00	June 29, 2006	5.25	4.25	Yes	December 2007
Dec. 16, 2015	0.00-0.25	Dec. 19, 2018	2.25-2.50	2.25	Yes	February 2020
Average tightening across all six episodes:				2.93		

SOURCES: Federal Reserve Board of Governors, Federal Reserve Bank of St. Louis and NBER.  
NOTE: “N/A” indicates that a recession didn’t follow the tightening episode.  
FOMC Tightening Episodes: 1983 to 2018

St. Louis Fed, Report: Economic Effects of Fed Tightening Episodes since the 1980s: Part II, 4/18/22

**GDP – More than Just Negative GDP will be Needed**

- “Most of the recessions identified by our procedures do consist of two or more consecutive quarters of declining real GDP, but not all of them. In 2001, for example, the recession did not include two consecutive quarters of decline in real GDP. In the recession from the peak in December 2007 to the trough in June 2009, real GDP declined in the first, third, and fourth quarters of 2008 and in the first and second quarters of 2009.”
- Why doesn't the committee accept the two-quarter definition? “There are several reasons. First, we do not identify economic activity solely with real GDP but consider a range of indicators. Second, we consider the depth of the decline in economic activity. The NBER definition includes the phrase, “a significant decline in economic activity.” Thus real GDP could decline by relatively small amounts in two consecutive quarters without warranting the determination that a peak had occurred. Third, our main focus is on the monthly chronology, which requires consideration of monthly indicators. Fourth, in examining the behavior of production on a quarterly basis, where real GDP data are available, we give equal weight to real GDI. The difference between GDP and GDI—called the “statistical discrepancy”—was particularly important in the recessions of 2001 and 2007–2009.”

NBER, Report: Business Cycle Dating Procedure: Frequently Asked Questions, 7/23/22

**House Prices – A Bubble or a Fundamental Change?**

- “U.S. house prices have grown by 23.8% from December 2019 to November 2021, the fastest rate on record. At the same time, the COVID-19 pandemic has reshaped the way households work, with 42.8% of employees still working from home part or full time by November 2021 and some evidence that a significant fraction of current remote work may be permanent. In this paper, we show that the shift to remote work accounts for at least one half of aggregate house price growth over this period. Our results suggests that house price growth over the pandemic reflected a change in fundamentals rather than a speculative bubble, and that fiscal and monetary stimulus were less important factors.”

SF Fed, Report: Housing Demand and Remote Work, 7/14/22

**Quote of the Week**

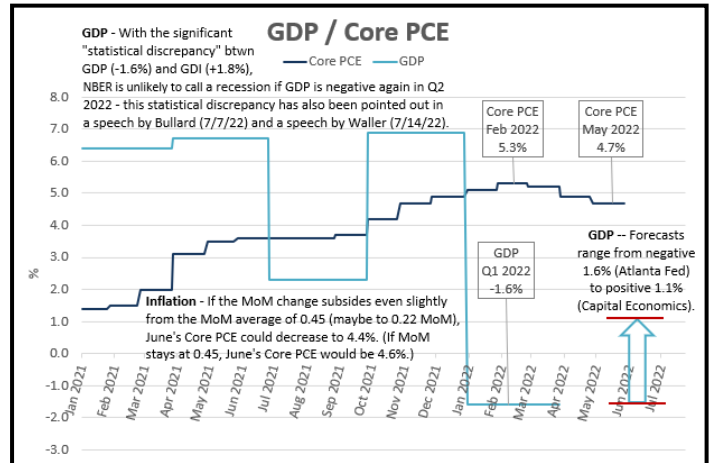
“The man who moves a mountain begins by carrying away small stones.” --- Confucius

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### Economic Indicators:

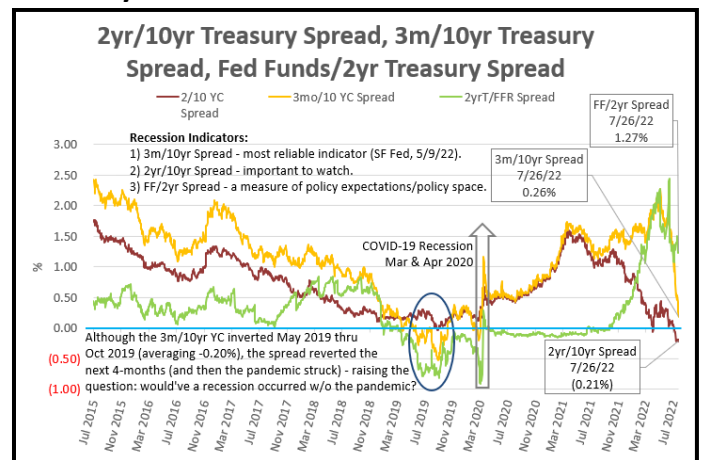
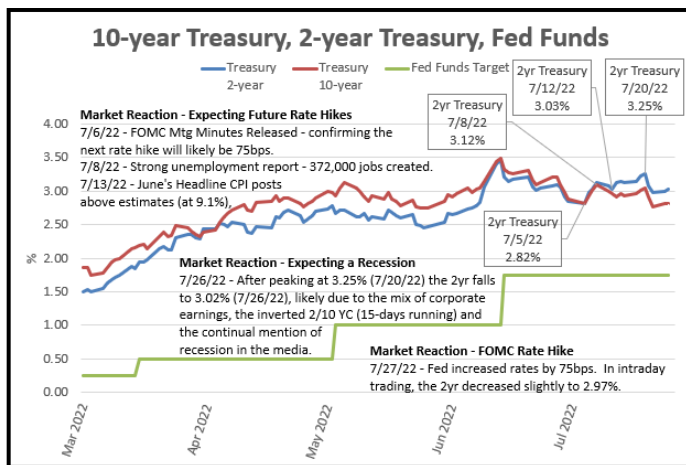
- GDP: -1.6% Q1 (3<sup>rd</sup> Est.) (Fed's Longer Run Rate 1.8%)
  - Q2 GDP (Adv. Estimate) to be released Thursday.
  - Atlanta Fed: "Our GDPNow forecasting model provides a "nowcast" of the official estimate prior to its release by estimating GDP growth using a methodology similar to the one used by the U.S. Bureau of Economic Analysis."
- 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: 2.56%
    - Yield on Treasury minus yield on TIPS.
  - June's Core PCE will be released Friday.
- 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	7/12/22	7/13/22	7/14/22	7/15/22	7/18/22	7/19/22	7/20/22	7/21/22	7/22/22	7/25/22	7/26/22	10-Day Average	10-Day Avg vs 7/26/22	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)	8,891,851	8,895,867	8,895,867	8,895,867	8,895,867	8,895,867	8,899,213	8,899,213	8,899,213	8,899,213	8,899,213	8,897,023	(2,190)	7,362
BSBY - Overnight	1.572	1.573	1.575	1.578	1.584	1.576	1.580	1.581	1.583	1.590	1.580	1.580	0.000	0.008
BSBY - 1-month	1.750	1.767	1.817	1.892	1.944	1.996	2.022	2.058	2.122	2.131	2.173	1.992	0.181	0.406
SOFR - Overnight	1.540	1.530	1.530	1.540	1.540	1.540	1.530	1.530	1.520	1.530	0.000	1.533	(0.003)	(0.010)
SOFR - 30-Day Average	1.390	1.417	1.443	1.472	1.506	1.509	1.512	1.514	1.517	1.524	1.526	1.494	0.032	0.110
SOFR - Term Rate - 1-Month (CME Term SOFR)	1.944	1.959	2.101	2.163	2.145	2.153	2.180	1.257	2.285	2.286	2.322	2.085	0.237	0.363
US Treasury - 3-Month	2.22	2.39	2.40	2.37	2.50	2.52	2.51	2.48	2.49	2.62	2.55	2.48	0.07	0.16
US Treasury - 2-Year	3.03	3.13	3.15	3.13	3.15	3.23	3.25	3.07	2.98	3.00	3.02	3.11	(0.09)	(0.11)
US Treasury - 10-Year	2.96	2.91	2.96	2.93	2.96	3.01	3.04	2.91	2.77	2.81	2.81	2.91	(0.10)	(0.10)
US Treasury - 20-Year	3.37	3.35	3.36	3.34	3.39	3.42	3.43	3.33	3.23	3.28	3.27	3.34	(0.07)	(0.08)
3-Month / 10-year Treasury Yield Curve Spread (10yr minus 3mo Treasury) (30yr historical avg: 1.68)	0.74	0.52	0.56	0.56	0.46	0.49	0.53	0.43	0.28	0.19	0.26	0.43	(0.17)	(0.26)
2-Year / 10-year Treasury Yield Curve Spread (10yr minus 2yr Treasury) (30yr historical avg: 1.14)	(0.07)	(0.22)	(0.19)	(0.20)	(0.19)	(0.22)	(0.21)	(0.16)	(0.21)	(0.19)	(0.21)	(0.20)	(0.01)	0.01

### Rates – Still a Rates Roller Coaster Ride – and – Inversion Usually Means Recession within 12-18 months.



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

- NY Fed, Report: The Global Dash for Cash in March 2020, 7/12/22
- Richmond Fed, Report: CBDC and Regulatory Alternative, The Case for Stablecoins, 7/15/22
- Minneapolis Fed, Report: How Much are High Gas Prices Affecting the Upper Midwest? 7/15/22

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