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FOMC – Will it be 50bs or 75bps?

- In determining the level of the rate hike, several Fed officials (Williams & George, and most recently Barkin & Bostic) have mentioned the importance of jobs report (out last Friday) and the upcoming CPI Report (out next week, Sept 13th).
- **Bostic:** “Even though it will take time to see the full effect of the policy adjustments we have made to date, I don’t think we are done tightening. Inflation remains too high, and our policy stance will need to move into restrictive territory if inflation is to come down expeditiously. That said, incoming data—if they clearly show that inflation has begun slowing—might give us reason to dial back from the hikes of 75 basis points that the Committee implemented in recent meetings. We will have to see how those data come in.”

Source: Raphael Bostic, Essay: Risk Management Is Key to Monetary Policy in Uncertain Times, 8/30/22

- **Barkin:** When asked about the chance of a 75bps rate hike, “Well, I’m not going to prejudge it. We’ve got a pretty important jobs report, as you know, coming on Friday. We’ve got a CPI report coming in a couple weeks. Both of those are pretty relevant to my view on the economy, and of course, through that, on what the right rate path going forward should be.”

Source: Tom Barkin, Interview: Yahoo Finance, 8/30/22

FOMC – Next Meeting is September 20-21.

- **Q:** How far does CPI need to fall for a 50bps hike?
 - **Headline CPI Feb 2021: 1.7%; July 2022: 8.5%.**

	Feb 2021	Mar 2021	Apr 2021	B R E A K	Feb 2022	Mar 2022	Apr 2022	May 2022	June 2022	July 2022
Headline CPI	1.7%	2.6%	4.2%		7.9%	8.5%	8.3%	8.6%	9.1%	8.5%
Core CPI	1.3%	1.6%	3.0%	K	6.4%	6.5%	6.2%	6.0%	5.9%	5.9%

- We may receive some clarity this week.
 - Lael Brainard and Michael Barr speak on Wed, Powell speaks on Thurs and Waller on Friday.
 - The Fed blackout begins Saturday, Sept 10th.

FOMC –What about YE and Beyond?

- In Sept’s SEP we’ll see YE forecasts for GDP, Core PCE, Unemployment Rate and for Fed Funds.
- **Mester:** “I currently expect that the U.S. economy will return to positive growth in the second half of the year, but for this year as a whole and for next year, I expect growth to run well below 2 percent ... I expect the current very strong labor market

conditions to cool, with the unemployment rate rising somewhat above 4 percent by the end of next year ... I expect inflation to move down into a range of 5 to 6 percent for this year and then to make more progress toward our goal over the next two years, but it will require further action on the part of the Fed to make that so.”

Source: Loretta Mester, Speech: Returning to Price Stability, 8/31/22

- **Williams:** “So if you think about next year, if inflation is somewhere between two and a half and 3%, a lot lower than now, but that’s kind of a forecast that I think is reasonable. You’re thinking about having interest rates that are well above that, because it’s the interest rate minus the inflation rate tells you what the real interest rate is. So we’re so quite a ways from that. And I think that to me, that’s one of the benchmarks.”

Source: John Williams, Interview: WSJ Live Q&A, 8/30/22

Inflation – The Lag of Monetary Policy

- “People in monetary policy circles sometimes use the phrase “long and variable lags” to describe the delayed impact of the Fed’s main policy tool on demand and inflation. The popularization of that phrase can be traced to a speech by Milton Friedman during the 1971 American Economic Association meetings ... Yet, during that speech, when summing up his work on the subject, he noted that “...monetary changes take much longer to affect prices than to affect output,” adding that the maximum impact on prices is not apparent for about one and a half to two years.”
- “Since Milton Friedman, many economists have studied these “long and variable lags” (including former Fed chair Ben Bernanke). And, while the length of the lag has proven “variable” as first suggested, the main result still rings true. Changes in the stance of monetary policy have the largest impact on output first and then, much later, on inflation. A large literature bears out this assertion. Bernanke et al. (1999) and Christiano, Eichenbaum, and Evans (2005) point to a two-year lag between monetary policy actions and their main effect on inflation.”

Source: Atlanta Fed, Report: Lessons from the Past: Can the 1970s Help Inform the Future Path of Monetary Policy? 8/31/22

Quote of the Week

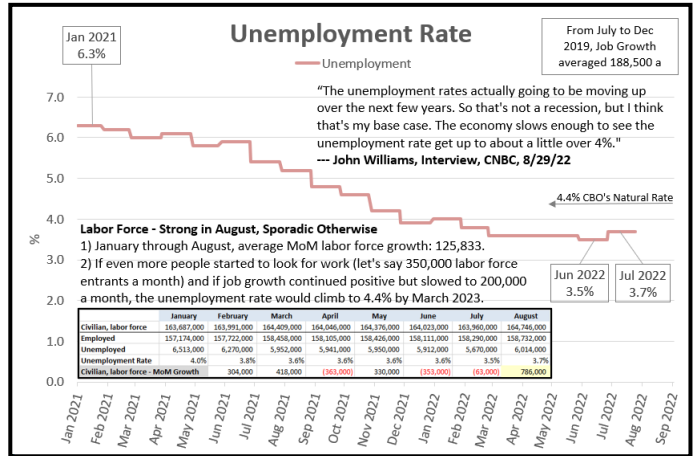
“There are no traffic jams along the extra mile.”
--- Roger Staubach

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Economic Indicators:

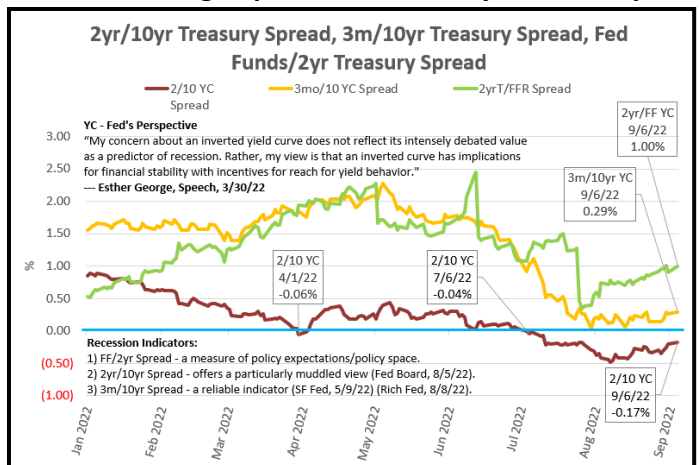
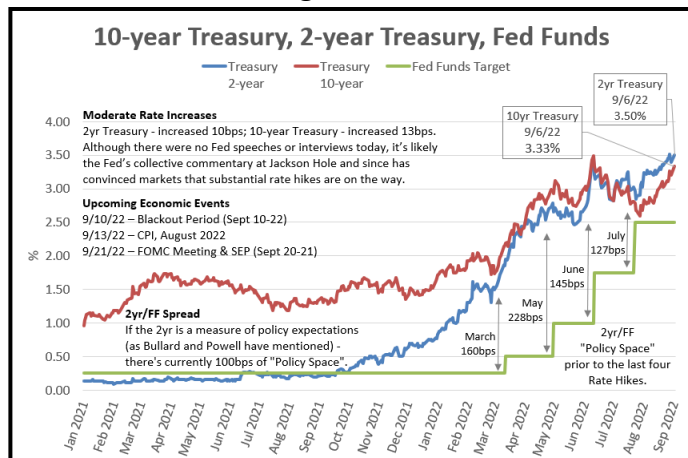
- GDP: -0.6% Q2 (2nd Est.) (Fed's Longer Run Rate 1.8%)
 - Q2 GDP (3rd Estimate) to be released 9/29/22.
 - Q3 GDPNow estimate is +2.6% (posted 9/1/22).
- Core PCE: 4.6% July (Fed's Avg. Inflation Target: 2.0%)
 - Dallas Fed's Trimmed Mean for July: 4.40%.
 - Trims off the lower & upper data spikes.
 - St Lou Fed 5yr Breakeven Inflation Rate: 2.56%.
 - Yield on Treasury minus yield on TIPS.
 - August's Core PCE will be released 9/30/22.
- Unemployment: 3.7% Aug (Fed's Long Run Rate: 4.0%)
 - Leisure and hospitality job growth may have normalized, with a 3-month avg of 56,000 in job growth vs Aug 2021's job growth of 202,000.
 - Sept's unemployment #'s will be out 10/7/22.



Rates --- 2-Week Trends

Key Interest Rates	8/22/22	8/23/22	8/24/22	8/25/22	8/26/22	8/29/22	8/30/22	8/31/22	9/1/22	9/2/22	9/6/22	10-Day Average	10-Day Avg vs 9/6/22	10-Day Change
Fed Funds Target Rate (FFTR)	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	0.00	0.00
Standing Repo Facility (SRF)	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	0.00	0.00
Interest on Reserve Balances (IORB)	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	0.00	0.00
Effective Fed Funds Rate (EFFR)	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.33	0.00	2.33	0.00	0.00
Overnight Reverse Repo Facility (ON RRP)	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	0.00	0.00
Fed's Balance Sheet (Total Assets in Millions)	8,849,762	8,849,762	8,851,436	8,851,436	8,851,436	8,851,436	8,851,436	8,826,093	8,826,093	8,826,093	8,826,093	8,841,936	15,823	23,669
BSBY - Overnight	2.353	2.342	2.343	2.341	2.339	2.341	2.336	2.337	2.340	2.341	2.341	2.340	0.001	(0.001)
BSBY - 1-month	2.335	2.344	2.361	2.367	2.396	2.406	2.403	2.433	2.451	2.504	2.518	2.418	0.099	0.174
SOFR - Overnight	2.280	2.270	2.270	2.280	2.280	2.280	2.290	2.290	2.290	2.290	0.000	2.282	0.008	0.010
SOFR - 30-Day Average	2.158	2.183	2.208	2.233	2.258	2.283	2.284	2.284	2.285	2.284	2.285	2.259	0.026	0.102
SOFR - Term Rate - 1-Month (CME Term SOFR)	2.372	2.379	2.376	2.440	2.459	2.455	2.512	2.522	2.595	2.624	2.654	2.502	0.152	0.275
US Treasury - 3-Month	2.82	2.80	2.82	2.88	2.89	2.97	2.97	2.96	2.97	2.94	3.04	2.92	0.12	0.24
US Treasury - 2-Year	3.32	3.29	3.36	3.35	3.37	3.42	3.46	3.45	3.51	3.40	3.50	3.41	0.09	0.21
US Treasury - 10-Year	3.03	3.05	3.11	3.03	3.04	3.12	3.11	3.15	3.26	3.20	3.33	3.14	0.19	0.28
US Treasury - 20-Year	3.48	3.49	3.55	3.47	3.44	3.50	3.49	3.53	3.64	3.61	3.74	3.55	0.19	0.25
3-Month / 10-year Treasury Yield Curve Spread (10yr minus 3mo Treasury) (30yr historical avg: 1.68)	0.21	0.25	0.29	0.15	0.15	0.15	0.14	0.19	0.29	0.26	0.29	0.22	0.07	0.04
2-Year / 10-year Treasury Yield Curve Spread (10yr minus 2yr Treasury) (30yr historical avg: 1.14)	(0.29)	(0.24)	(0.25)	(0.32)	(0.33)	(0.30)	(0.35)	(0.30)	(0.25)	(0.20)	(0.17)	(0.27)	0.10	0.07

Rates – On the Move Again – Over the Last Four Rate Hikes, the Average Spread Between 2yr/FF: 165bps



Interesting Reads that didn't make the Report:

- Lorie Logan, Interview: by the Dallas Fed, 8/31/22
- St. Louis Fed, Inflation, Part 3: What Is the Fed's Current Goal? Has the Fed Met Its Inflation Mandate? 9/2/22
- James Bullard, Interview: Peoria Magazine, 9/1/22

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