Fed Unfiltered

WEEKLY REPORT 11/14/22

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Overview

FOMC – A 50bps Hike in Dec with a 5.0% Terminal Rate

- After Thursday's CPI report, a 50bp rate hike is likely on the table for the December 13-14 FOMC.
  - Headline CPI decreased to 7.7% (from 8.2%).
  - Core CPI decreased to 6.3% (from 6.6%).
- The 2yr & 10yr Treasury tumbled on the news – and with the possibility that inflation has peaked and fewer hikes are on the way.
- The Fed wasn't quite as enthusiastic:
  - Lorie Logan, Dallas Fed: "This morning's CPI data were a welcome relief, but there's still a long way to go."
  - Mary Daly, SF Fed: "That's a welcome piece of news, but one month of data does not a victory make."
- Five Fed officials spoke on Thursday with messaging centered around the terminal rate (possibly 5.00%), the pace of rate hikes (expect a slower approach) and the restrictive stance (depends on inflation).
- We have yet to hear from Bullard, Bostic, Williams.

Key Metrics

	Current	SEP Forecast for YE22	SEP Target or Long Run	Next Release Date
GDP	2.6	0.2	1.8	11/30/22
Core PCE	5.1	4.5	2.0	12/1/22
Unemployment Rate	3.7	3.8	4.0	12/2/22
Fed Funds (FOMC)	4.00	4.40	2.50	12/14/22

Calendar

November	
11/23/2022	FOMC - Minutes of the FOMC, November 1-2, 2022
11/30/2022	Gross Domestic Product, 3rd Quarter 2022 (Second Estimate)
11/30/2022	Biege Book, October 2022
December	
12/1/2022	Personal Income and Outlays, October 2022 (aka Core PCE)
12/2/2022	Employment Situation - November 2022
12/3/2022	FOMC, Blackout Period, December 3-15
12/13/2022	Consumer Price Index, November 2022
12/14/2022	FOMC Meeting, December 13-14
12/14/2022	FOMC, Summary of Economic Projects (SEP), December 2022

Speeches and Interviews

Of the five Fed officials who spoke on Thursday, most comments about Fed Funds were pretty generic:

- Mester: FF needs to "become more restrictive."
- Harker: to a "sufficiently restrictive stance."
- Logan: "there's still a long way to go."
- George: future of FF "cannot be predetermined."
- Daly, however, offered a pretty specific 'what if'.

Daly – What if Rates Moved to 5.0% & were Held There?

- "But now if you take the SEP and you even say we move up to, say that the SEP goes up a little bit in December. Say that it goes up to an interest rate of 5.00% as the rate we'll hold at, that's only 100 basis points higher than we have now. Right now, we're 3.75% to 4.00%. So, we have 100 points to get to 5.00%. Well, that means we're a stone's throw of that. And the pace of adjustments doesn't need to be as rapid. And it gives you the opportunity to really pay attention to the critical aspects of the cumulative tightening of policy, including how tight our financial conditions relative to the Fed funds rate, that research we've talked about already, and also the lag and monetary policy, which, of course, they take time to work their way through."

  Mary Daly, Interview: In Conversation with the European Economics & Financial Centre, 11/10/22

In addition to talking about Fed Funds, Loretta Mester and Patrick Harker also offered their individual forecasts for GDP, Core PCE and Jobs:

- Mester – GDP "could turn negative"; Core PCE at 3.5% in 2023 and unemployment at 4.5% in 2023.
- Harker – GDP 1.5% in 2023; Core PCE 3.5% in 2023 and unemployment at 4.5% in 2023.

Reports

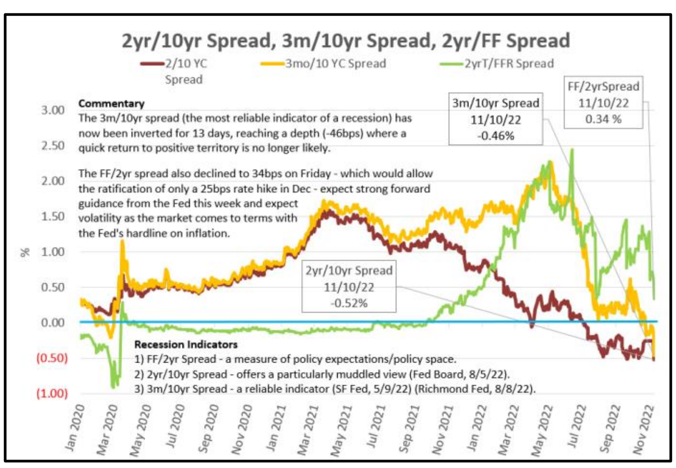
Inflation – The Impact of Excess Savings and Spending

- "Consumer spending remains resilient, with an average year-over-year growth rate of about 2 percent in 2022:Q3, only a touch below its pre-pandemic pace in 2019. This strength in consumer spending has contributed to prices rising at the fastest pace in 40 years. Understanding the factors driving this growth is critical, as inflation is unlikely to abate without consumption weakening."
- "Despite a contraction in real GDP in the first half of 2022, consumer spending has remained resilient. We examine a set of factors that have historically affected consumption growth and find that excess savings have boosted consumer spending during the COVID-19 pandemic. However, as excess savings decline and economic relationships normalize, negative sentiment toward spending and declining real incomes may meaningfully lower consumption."

  KC Fed, Report: Negative Sentiment toward Spending and Declining Real Incomes May Meaningfully Lower Consumption, 11/8/22

Trends

A shortened week with election news taking center stage until Thursday's CPI report, which led to the 2yr falling 27bps and the 10yr down 30bps – the 3m/10yr YC spread inversion continued and deepened (see chart below).



Quote of the Week

"Do I not destroy my enemies when I make them my friends?"
--- Abraham Lincoln