Fed Unfiltered

WEEKLY REPORT 12/5/22

Pete Sullivan
Rate Analyst
206-502-3811
pete.sullivan@fedunfiltered.com

Overview

FOMC – 50bps Hike in Dec, with a Possibility of 25bps

- With Powell's comments on Wednesday ("makes sense to moderate our pace of rate increases"), followed on Thursday by Williams ("taking a step down in that pace"), 50bps is the most likely outcome for December's meeting.
    - Although, if the 2-year Treasury is a good measure of policy expectations, as both Powell and Bullard mentioned back in May, then a 25bps hike could be most likely in December.
    - 12/2/22 –2yr was 4.28%; F.Funds was 4.00%.
- Once the December rate hike question is settled, the next two questions will be:
    - Where is the sufficiently restrictive stance or the end point for this rate hike cycle?
    - How long will rates be held at the restrictive level? (See Fed commentary below.)

Key Metrics

	Current	SEP Forecast for YE22	SEP Target or Long Run	Next Release Date
Fed Funds (FOMC)	4.00	4.40	2.50	12/14/22
GDP	2.9	0.2	1.8	12/22/22
Core PCE	5.0	4.5	2.0	12/23/22
Unemployment Rate	3.7	3.8	4.0	1/6/23

Calendar

December	
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
12/22/2022	Gross Domestic Product, 3rd Quarter 2022 (Third Estimate)
12/23/2022	Personal Income and Outlays, November 2022

Speeches and Interviews

Sufficiently Restrictive – Another 100bps to go, at Least

- Currently, the sufficiently restrictive level is defined either as somewhere between 4.75% and 5.25% (Daly) or between 5.00% and 7.00% (Bullard) – at a minimum Fed Funds will increase another 100bps.
    - Daly: "What I'm thinking of is based on history, based on the amount of inflation out there, based on the lags and monetary policy that we understand, how high do I think the rate will need to go to get this job done? And right now my own outlook is around 5.00%."
      Mary Daly, Speech/Interview: Resolute & Mindful, The Path to Price Stability, Orange County Business Council, 11/21/22
    - Bullard: "The level of the policy rate that would be sufficiently restrictive … was 5.00 to 7.00%. So, I do think that the committee at least needs to get into the bottom end of that range in order to be sufficiently restrictive."
      Jamas Bullard, Interview: MarketWatch, 11/28/22

Sufficiently Restrictive – Rates High thru 2023, at Least

- Powell: "Restoring price stability will require holding policy at a restrictive level for some time. History cautions strongly against prematurely loosening policy."
  Jerome Powell, Speech: Inflation and the Labor Market, 11/30/22
- Bullard: "I think we probably have to stay there all during 2023 and into 2024."
  James Bullard, Interview: MarketWatch, 11/28/22
- Barkin: When asked if he can see rates going up and staying high through 2023 & 2024, "sure, it depends a lot on what we're seeing on the inflation side."
  Tom Barkin, Interview: Bloomberg TV, 11/28/22
- Several other Fed officials mentioned keeping rates high for "sometime" or "a long period of time," including: Michael Barr, Esther George, Raphael Bostic, Susan Collins and Patrick Harker.

Reports

Inflation – Product Decrease Instead of Pricing Increase

- "How can businesses cope with inflation and their desire to keep their customers? Businesses know that for some goods and services, consumers are more sensitive to changes in price than to changes in quantity, and this tendency often allows businesses to benefit from shrinkflation."

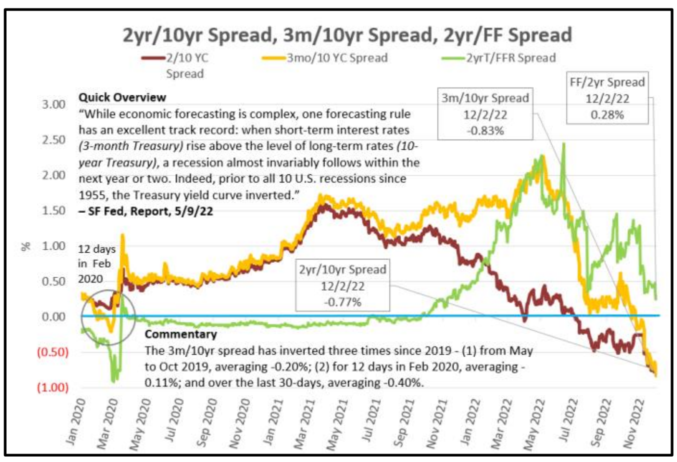
Examples of Shrinkflation

Item	Older package	Newer package
Roll of paper towels	165 sheets	147 sheets
Bag of chips	9.75 oz.	9.25 oz.
"Party size" bag of chips	18 oz.	15.5 oz.
Box of crackers	16 oz.	14 oz.
Box of facial tissues	65 tissues	60 tissues
Roll of toilet tissue	340 sheets	312 sheets

St. Louis Fed, Report: Beyond Inflation Numbers, Shrinkflation and Skimpflation, 12/1/22

Trends

With the Fed's blackout, we're likely to have a quiet week ahead – a welcomed break after last week's volatility – where the 2yr and the 10yr both fell 18bps – recession fears (and flight to quality) have taken center stage – as the Fed must continue to raise rates, regardless of any resultant financial turmoil – the Fed's only priority is to address the persistently strong growth/demand and return the currently high inflation to its 2.0% target.



Quote of the Week

"Yesterday is not ours to recover, but tomorrow is ours to win or lose." --- Lyndon B. Johnson