

## Overview

The next FOMC meeting will be Jan 31/Feb 1 – a 25bps hike is expected – between now and then, four major economic reports will post – Dec’s Jobs, CPI, PCE and Q4’s GDP – unless there’s a dramatic change in inflation, the Fed will likely continue on the current rate hike path leading to a terminal rate of 5.00% or 5.25%.

### Summary of Economic Projections (aka Fed Forecasts)

Quick Overview:

- Fed expects unemployment to increase about 1%.
- GDP is expected slow to near zero by YE.
- Core PCE is expected to abate, although slowly.
- Fed Funds is forecasted to increase by 50 to 75bps.

	Current	Fed Forecast for YE23	Fed Target or Long Run	Next Release Date
Unemployment Rate	3.7	4.6	4.0	1/6/23
GDP	3.2	0.5	1.8	1/26/23
Core PCE	4.7	3.5	2.0	1/27/23
Fed Funds (FOMC)	4.50	5.10	2.50	2/1/23

### Calendar

Over the Holidays:

- Q3 GDP (3<sup>rd</sup> Est) posted an increase (to 3.2%, from 2.9%), meaning the Fed will have more work to do to address continued demand and growth, which feed inflation – Q4 advanced est. will be out Jan 26.
- November’s PCE numbers also posted and like CPI, showed a steady decrease – Core PCE was 4.7% in November (down from 5.0% in Oct and 5.2% in Sept) – December’s CPI will be out on Jan 12.

This Week:

- FOMC minutes will be published Wednesday – keep an eye out for differing views between doves and hawks about the terminal rate.
- On Friday, we’ll see the latest jobs report – median consensus is for job growth of 200,000.

December	
12/22/2022	Gross Domestic Product, 3rd Quarter 2022 (Third Estimate)
12/23/2022	Personal Income and Outlays, November 2022
January	
1/4/2023	FOMC - Minutes of the FOMC, December 13-14, 2022
1/6/2023	Employment Situation - December 2022
1/12/2023	Consumer Price Index - December 2022
1/18/2023	Biege Book - January 2023
1/21/2023	FOMC - Blackout Period, January 21 - February 2
1/26/2023	Gross Domestic Product, 4th Quarter 2022 (Advance Estimate)
1/27/2023	Personal Income and Outlays - December 2022
1/31/2023	FOMC Meeting, January 31 - February 1

## Speeches and Interviews

Fed officials took a break over the Holidays – after Powell’s press conference on 12/14/22, Williams and Daly wrapped up the year with interviews on 12/16/22.

- Currently, the range of forecasts for Fed Funds by YE is between 5.00% and 5.75% (December’s SEP).
- Over the next three weeks, we’ll likely see clarification from Fed officials about the terminal rate and how long Fed Funds will be maintained at a high level (rate cuts aren’t forecasted until 2024).
- If this week’s job growth slows (to less than 200,000) and next week’s CPI continues to decline – Core CPI

was 6.6% in Sept, 6.3% in Oct and 6.0% in Nov – the Fed’s tone & size/level of rate hikes may follow suit.

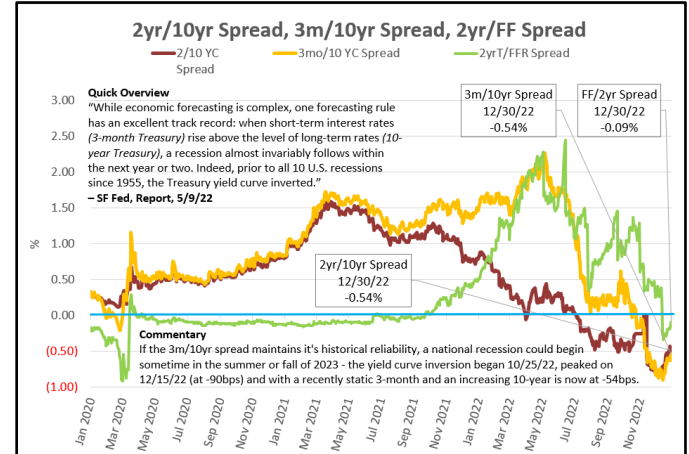
February’s rate hike will most likely be a decrease to 25bps – when asked about moving to 25bp increments at the Jan 31/Feb 1 FOMC, Powell said:

- “We think that the appropriate thing to do now is to move to a slower pace (25bps). And, you know, that will -- that will allow us to feel our way and -- you know, and get to that level (terminal rate), we think, and better balance the risks that we face. So that’s the idea. It makes a lot of sense, it seems to me, particularly if you consider how far we’ve come. But, again, I can’t tell you today what the actual size of that will be. It will depend on a variety of factors, including the incoming data, in particular, the state of the economy, the state of financial conditions.”  
Jerome Powell, Speech/Interview: FOMC Opening Statement and Press Conference, 12/14/22

## Reports

### Recession – The 1<sup>st</sup> Half looks less likely than 2<sup>nd</sup> Half

- **SF Fed:** Although underlying trends have started to turn, a recession is not expected in 1<sup>st</sup> half of 2023. SF Fed, Report: Recession Prediction on the Clock, 12/27/22
- **St. Louis Fed:** Even though recession like conditions (negative growth) are developing across the 50 states, we’re not in a national recession just yet. St. Louis Fed, Report: Are State Economic Conditions a Harbinger of a National Recession? 12/28/22



## Trends

Although generally quiet over the Holidays (Dec 19 to Dec 30) – the 2yr ended up 16bps higher, the 10yr 31bps higher – primarily due to two events – Japan modified the YCC on their 10yr (12/20/22) and Nov’s PCE numbers came in higher than the market expected (12/23/22).

Key Interest Rates	12/23/22	12/21/22	12/28/22	12/29/22	12/30/22	5-Day Average	5-Day Change
Fed Funds Target Rate (FFTR)	4.50	4.50	4.50	4.50	4.50	4.50	0.00
BSBY - 1-month	4.324	4.340	4.373	4.373	4.357	4.353	↑ 0.032
SOFR - Term Rate - 1-Month	4.323	4.322	4.323	4.334	4.358	4.332	↑ 0.035
US Treasury - 3-Month	4.34	4.46	4.46	4.45	4.42	4.43	↑ 0.08
US Treasury - 2-Year	4.31	4.32	4.31	4.34	4.41	4.34	↑ 0.10
US Treasury - 10-Year	3.75	3.84	3.88	3.83	3.88	3.84	↑ 0.13
YC Spread - 3-Month / 10-year Treasury	(0.59)	(0.62)	(0.58)	(0.62)	(0.54)	(0.59)	↑ 0.05
YC Spread - 2-Year / 10-year Treasury	(0.56)	(0.48)	(0.43)	(0.51)	(0.53)	(0.50)	↑ 0.03

## Quote of the Week

“Nothing is worth more than this day.”  
--- Goethe

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