

## Overview

Too soon to tell whether the Feb 1 rate hike will be 25bps or 50bps – Powell referenced 25bps at his press conference on 12/14/22 – last week, Bostic mentioned being comfortable with either 25bps or 50bps – this week’s CPI report will likely have a great deal of bearing.

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

Although the Fed doesn’t produce a forecast for CPI, the metric has been added to the table below – on similar trajectories, CPI has been a consistent preview of PCE.

	Current	Fed Forecast for YE23	Fed Target or Long Run	Next Release Date
Core CPI	6.0	n/a	n/a	1/12/23
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
Unemployment Rate	3.5	4.6	4.0	2/3/23

### Calendar

December’s CPI numbers post on Thursday – the Fed and most economic analysts expect inflation to continue on its downward path (Core CPI was 6.6% in Sept, 6.3% in Oct, 6.0% in Nov) – an increase in the CPI would mean aggressive rate hikes will continue – a similar decrease as previous months (0.3%) would mean rate hikes, but at a reduced level/pace – a more substantial decrease might mean fewer rate hikes – which might be accompanied by a market reaction even more enthusiastic than what occurred after Friday’s jobs report was released.

January	
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

Six Fed officials spoke or published an essay last week.

- Neel Kashkari, Essay – about inflation & Fed Funds.
- Tom Barkin, Essay – learning from the community.
- James Bullard, Speech – inflation, GDP, jobs, FF.
- Esther George, Interview & Speech – FF & recession.
- Raphael Bostic, Interview/Speech – FF & recession.
- Lisa Cook, Speech – inflation/inflation expectations.

### Rate Hikes – Another 75bps in Hikes is the Consensus

- “Now, is the policy rate at the right level? The committee stated in our statement that we wanted to get to a level of the policy rate that was sufficiently restrictive ... And it's not in the zone yet, but it's quite a bit closer than we have been over the last year or so.”

James Bullard, Speech: The Prospects for Disinflation in 2023, 1/5/23

### Quick Facts:

- Bullard identified sufficiently restrictive as somewhere between 4.75% -- 6.75%, based on input variations for the Taylor Rule calculation.
- In the Dec SEP, 17 of 19 Fed officials forecast Fed Funds to be 5.00% or higher by YE23.
- Rate hikes are expected both Feb 1 & Mar 22.

### Pause – Through 2023 and Possibly well into 2024

- “Once we get to a number, I want, if the economy continues to proceed as we expect, just to stay there and hold it. And for me, my projection I have is holding it well into 2024 because I think that we should just wait and see. And I don't think there's a lot of urgency. There will not be a lot of urgency once we get to that level to step back.”

Raphael Bostic, Interview: CNBC. 1/6/23

### Rate Cuts – Forecasted in 2024, but it's Data Dependent

- “The third step, as I see it, is to consider cutting rates only once we are convinced inflation is well on its way back down to 2 percent. Given the experience of the 1970s, the mistake the FOMC must avoid is to cut rates prematurely and then have inflation flare back up again. That would be a costly error, so the move to cut rates should only be taken once we are convinced that we have truly defeated inflation.”

Neel Kashkari, Essay: Why We Missed On Inflation, and Implications for Monetary Policy Going Forward, 1/4/23

## Reports

### Forecasts – Useful Information, but Rarely Correct

- “Currently, there is much debate as to how the U.S. economy will perform in 2023. But the general consensus of professional forecasters and FOMC participants is that economic growth will be slow and inflation will come down from its elevated 2022 rates. Forecasters also expect that the hot labor market from the past few years will begin to cool.”

Blue Chip Survey of Professional Forecasters				
	Real GDP growth	CPI inflation rate	Unemployment rate	10-Year Treasury yield
2023				
Consensus (average)	0.3	4.0	4.4	3.8
Average of top 10	1.3	4.6	4.9	4.3
Average of bottom 10	-0.5	3.4	3.9	3.1
Historical performance (1993-2022)				
Accuracy (% of years in range)	46.7	50.0	40.0	36.7
Accuracy (MAFE, consensus)	1.0	0.7	0.5	0.6
Bias (MFE, consensus)	-0.1	0.0	-0.2	-0.5

St. Louis Fed, Report: Professional Forecasters’ Outlook for 2023 and Caveats Based on Past Performance, 1/6/23

## Trends

Comments from Esther George (hold FF above 5.00% well into 2024) and James Bullard (the policy rate “is not yet in a zone that might be considered sufficiently restricted”) moved short-term rates higher on Thursday – although the employment report on Friday, along with the lower than expected wage gains (which means inflation might be lower and fewer rate hikes needed) had more of an impact – driving the 2yr down 17bps for the week – the 10yr was down 33bps for the week.

Key Interest Rates	12/30/22	1/3/23	1/4/23	1/5/23	1/6/23	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	4.357	4.390	4.344	4.341	4.346	4.356	↓ (0.011)
SOFR - Term Rate - 1-Month	4.358	4.360	4.364	4.397	4.413	4.378	↑ 0.055
US Treasury - 3-Month	4.42	4.53	4.55	4.66	4.67	4.57	↑ 0.25
US Treasury - 2-Year	4.41	4.40	4.36	4.45	4.24	4.37	↓ (0.17)
US Treasury - 10-Year	3.88	3.79	3.69	3.71	3.55	3.72	↓ (0.33)
YC Spread - 3-Month / 10-year Treasury	(0.54)	(0.74)	(0.86)	(0.95)	(1.12)	(0.84)	↓ (0.58)
YC Spread - 2-Year / 10-year Treasury	(0.53)	(0.61)	(0.67)	(0.74)	(0.69)	(0.65)	↓ (0.16)

## Quote of the Week

"It is by doing good that we become good." --- J.J. Rousseau

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