

## Fed Officials

9 of 19 Fed Officials Spoke Last Week

### Quick Overview

Five Fed Officials, including Powell and Williams, are now on record supporting a 25bps rate hike. Williams talked about a terminal rate between 5.00% and 5.50% as “very reasonable”. And, once the terminal rate has been reached, Fed Officials have talked about holding the rate at a high level for “a period of time” (Powell); “we’ll probably have to stay there all during 2023 and into 2024” (Bullard); “well into 2024” (Bostic); and Barkin mentioned how “you can’t declare victory too soon.”

Based on Fed Official commentary, expect:

- 25bp rate hike March 22.
- 25bp rate hike May 3.
- A terminal rate of 5.25%.

Keep in mind:

- The Fed is watching inflation expectations very closely. If anything were to put a 50bp rate hike back on the table, it would be a sustained increase in inflation expectations. Over the last month, the 5-year breakeven rate (a market-based measure of inflation expectations) increased from 2.09% (1/18/23) to 2.47% (2/10/23) – this metric peaked March 2022 at 3.59% – and has averaged 2.64% since January 2021.
- Bullard: “A big factor in macroeconomics and inflation is inflation expectations.” – 1/5/23
- Cook: “Any de-anchoring of expectations would be a major concern.” – 1/6/23

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

December SEP	Current	Fed Forecast YE 2023	Fed Forecast YE 2024	Fed Forecast Longer Run	Next Release Date
Core CPI	5.7	n/a	n/a	n/a	2/14/23
GDP	2.9	0.5	1.6	1.8	2/23/23
Core PCE	4.4	3.5	2.5	2.0	2/24/23
Unemployment Rate	3.4	4.6	4.6	4.0	3/10/23
Fed Funds (FOMC)	4.75	5.10	4.10	2.50	3/22/23

### Waller – Where We are Right Now

- “It looks as though economic activity may be moderating further in the first quarter of 2023, but I expect the U.S. economy to continue growing at a modest pace this year, supported by a strong labor market and by encouraging progress in lowering inflation.”

[Christopher Waller, Speech: The Inflation Rate for Necessities, A Look at Food, Energy and Shelter Inflation](#) 2/8/23

### Powell – If Things Don’t Go as Expected

- “If the data were to continue to come in stronger than we expect and we were to conclude that we needed to raise rates more than is priced into the markets or than we wrote down at our last group of forecasts in December, then we would certainly do that. We would certainly raise rates more.”

[Jerome Powell, Interview: The Economic Club of Washington D.C.](#) 2/7/23

### Kashkari – Even if Things Go as Expected

- “I wouldn't say it's impossible. I think we want to achieve what we call a soft landing, which is a gradual return to 2% inflation, where the labor market cools a little bit, but we avoid a recession. But to be honest with you, there's not a great track record of pulling that off, and that's what we're nervous about.”

[Neel Kashkari, Interview: CNN](#) 2/7/23

### Barkin – Although, Things Do Keep Getting Pushed Out

- “I read somewhere that this has been the most predicted potential recession in memory ... But if you look at the data we've seen over the last six months — whether it be spending or investment or employment — it just keeps pushing the timeline out.”

[Tom Barkin, Interview: Richmond Fed Podcast, Inflation and the Fed's Response](#) 2/8/23

## Fed Research

16 Research Reports - Posted Last Week

### Fed Funds – Even More Tightening Might be Needed

- “Current increases in the federal funds rate are expected to reverse a historically large negative real funds rate gap at the beginning of the cycle. Successfully closing the real funds rate gap will hinge on substantially reducing the inflation rate. Relative to history, both the size and the speed of tightening in Treasury bonds and common stocks have been large in the current cycle, in part because of the large gap and the Federal Reserve’s forward guidance. While the rapid tightening of financial conditions is expected to slow the economy relatively quickly, historical experiences raise the possibility of even more tightening in financial conditions given the large real rate gap that needs to be closed.”

[SF Fed, Report: Financial Market Conditions during Monetary Tightening](#) 2/6/23

### Interesting Reads that Didn’t Make This Week’s Report

- [Dallas Fed, Report: Job vacancy, unemployment relationship clouds ‘soft landing’ prospects](#) 2/7/23
- [Fed Board, Report: 2023 Stress Test Scenarios – February 2023](#) 2/9/23

## Economic Calendar

Jan's CPI posts Tuesday - Will there be a decline for a 4th month?

February	
2/14/2023	Consumer Price Index - January 2023
2/23/2023	Gross Domestic Product, 4th Quarter 2022 (Second Estimate)
2/22/2023	FOMC - Minutes of the FOMC, Jan 31 - Feb 1, 2023
2/24/2023	Personal Income and Outlays - January 2023
March	
3/8/2023	The Beige Book - March 2023
3/10/2023	Employment Situation - February 2023
3/11/2023	FOMC - Blackout Period, March 11 - March 23

"Don't be pushed by your problems. Be led by your dreams."  
— Ralph Waldo Emerson

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