

## Quick Overview

- 25bps Rate hike expected at the March FOMC.
- Terminal rate (5.25%) is two 25bps hikes away.
- Rate cuts are forecasted for 2024 (not for 2023).

## Fed Funds

Loretta Mester added a wrinkle last week by referencing a 50bps rate hike. Tom Barkin countered supporting a 25bps hike, which is the favored path of six Fed Officials.

With 30-days to go before the next FOMC, the Fed will have plenty of time to clarify the size of the rate hike, which will be influenced by two inflation reports and one jobs report:

February	
2/22/2023	FOMC - Minutes of the FOMC, Jan 31 - Feb 1, 2023
2/23/2023	Gross Domestic Product, 4th Quarter 2022 (Second Estimate)
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
3/14/2023	Consumer Price Index - February 2023
3/21/2023	FOMC Meeting, March 21-22

Loretta Mester, Speech: [Returning to Price Stability, In It to Win It](#) 2/16/23  
Tom Barkin, Interview: [Rosslyn Business Improvement District](#) 2/17/23

## Next FOMC - March 21-22 - 25bps or 50bps?

Seven Fed Officials have made some sort of reference the size of the next rate hike. Mester and Bostic mentioned 50bps, but neither spoke in favor of 50bp hike in March.

### 25bps

- Barkin – “I like the 25 basis point path.”
- Harker – “at this point we can go at a pace of 25.”
- Williams – “25-basis-point increase that we just put into place seems like the right size to adjust policy.”
- Cook – “it is appropriate to move in smaller steps.”
- Powell – “That’s why we’re slowing down to 25bps. We’re going to be carefully watching the economy.”

### 50bps

- Mester – referencing the discussion at the Jan 31 – Feb 1 FOMC, “I saw a compelling case for a 50 basis point increase.”
- Bostic – “the committee could also consider moving back to a 50 basis-point hike if it needed to, though that’s not his expectation,” (transcript unavailable).

Fed Unfiltered, Up to Speed: [Fed Officials – Forecast by Topic](#) 2/17/23

## Terminal Rate & Pause

Most Fed Officials have mentioned a Fed Funds terminal rate of 5.00% or higher, with 5.25% the most likely stopping point (at least currently). Two Fed Officials have penciled in an even higher terminal rate – Kashkari (5.40%), Bullard (5.75%). Williams mentioned that a 5.50% would be “very reasonable”.

Since November 2022, Fed Officials have consistently talked about reaching a “sufficiently restrictive” level and holding Fed Funds at that level for “some time,” “a period of time,” or all through “2023 and into 2024”.

The Fed is worried about a repeat of the 1970’s where rate hikes had appeared to address inflation so the 1970’s Fed started cutting rates only to have inflation return along with the need for more rate hikes.

- Barkin: “I do think the lesson in the '70s was very clear, which is don't give up too early.”
- Daly: “We really will have to be in a restrictive stance of policy until we truly understand and believe that inflation will come squarely back down to our two percent target.”
- Waller: “From the risk management side, I'm going to lean towards I need six months of data and not just three.”

Tom Barkin, Interview: [Bloomberg TV](#) 2/14/23

Mary Daly, Interview: [Fox Business](#) 2/3/23

Christopher Waller, Speech: [A Case for Cautious Optimism](#) 1/20/23

## Rate Cuts

Within the last month, Powell, Mester and Harker have talked about how 2023 will not be the year for rate cuts, unless inflation decreases more quickly than expected.

- Powell: “And given our outlook, I don't see us cutting rates this year. If our outlook turns true, as I mentioned just now, if we do see inflation coming down much more quickly, that'll play into our policy.”

The December SEP forecasts 100bps of rate cuts in 2024.

December SEP	Current	Fed Forecast YE 2023	Fed Forecast YE 2024	Fed Forecast Longer Run	Next Release Date
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
Core CPI	5.6	n/a	n/a	n/a	3/14/23
Fed Funds (FOMC)	4.75	5.10	4.10	2.50	3/22/23

Jerome Powell, Speech/Interview: [FOMC Press Conf, Feb 1, 2023](#) 2/1/23

Loretta Mester, Interview: [Associated Press](#) 1/18/23

Patrick Harker, Interview: [Reuters \(print only\)](#) 2/10/23

## Economy

Williams updated his YE23 forecasts last week:

- “I expect PCE inflation to fall to 3 percent in 2023.”
- “I anticipate the unemployment rate to edge up over the next year to between 4 and 4-1/2 percent.”
- “I expect real GDP growth to come in around 1 percent for 2023.”

John Williams, Speech: [Our Work Is Not Yet Done](#) 2/14/23

## Recession

Although Fed Officials talk about the possibility of soft landing, three research reports from the Cleveland Fed talk about the benefits of a recession, maybe even the necessity of one.

Cleveland Fed, Report: [The Intermittent Phillips Curve, Finding a Stable \(But Persistence-Dependent\) Phillips Curve Model Specification](#) 2/14/23

Cleveland Fed, Report: [Post-COVID Inflation Dynamics: Higher for...](#) 1/17/23

Cleveland Fed, Report: [The Hard Road to a Soft Landing, Evidence from a \(Modestly\) Nonlinear Structural Model](#) 1/9/23

“Life brings sorrows and joys alike. It is what a man does with them - not what they do to him - that is the true test of his mettle.”  
— Theodore Roosevelt

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