

Fed Officials

2 of 19 Fed Officials (Powell & Daly) Spoke Last Week.

Quick Overview

The Fed increased the target rate by 25bps last week (to 4.75%). In the post meeting press conference, Jerome Powell talked about “a couple of more rate hikes to get to that level we think is appropriately restrictive”. Mary Daly doubled down in an interview on Friday saying that the Dec SEP terminal rate (5.10%) is “a good indicator of where policy is at least heading. But I’m prepared to do more than that if more is needed.”

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:

- At the March 21-22 FOMC, a new SEP will be published, including a new terminal rate.
- And, the Fed can and will pivot on a dime – the market is currently forecasting a pivot (aka rate cut) before YE – on Wednesday, Powell appeared to catch himself from saying – we can certainly cut rates – when he didn’t complete this sentence: “but if we feel like we’ve gone too far, we can certainly” – this comment is at 13:58 minutes into the press conference.

[Powell, Press Conference, YouTube Video](#)

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

Powell – Slowing to 25bps and No Rate Cuts this Year

- 25bps Rate Hike: “We’re trying to make a fine judgment about how much is restrictive enough. That’s all. That’s why we’re slowing down to 25 basis points. We’re going to be carefully watching the economy and watching inflation and watching the progress of the disinflationary process.”
- Recession: “My base case is that the economy can return to 2% inflation without a really significant downturn or a really big increase in unemployment. I think that’s a possible outcome. I think many, many forecasters would say it’s not the most likely outcome, but I would say there’s a chance of it.”
- Rate Cuts: “I mean there are many different forecasts, but generally it’s a forecast of slower growth, some softening in labor market conditions and inflation moving down steadily, but not quickly. And in that case, if the economy performs broadly in line with those expectations, it will not be appropriate to cut rates this year to loosen policy this year. Of course, other people have forecasts with inflation coming down much faster. That’s a different thing if that happens, inflation comes

down much faster. And it’ll be incorporated into our thinking about policy.”

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

Daly – Depends on Inflation, too Early to Declare Victory

- Pause: “Well, really it depends on inflation. And, right now my outlook for inflation is for it to continue to come down, but if you think about getting to two percent that’s likely to take longer than just this next year. And so 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. That’s what Americans are depending on and that’s what the Fed is united and resolute in providing.”
- Inflation: “I think it’s far too early to declare victory and even think about peaking. We’re in the early stages. You see the data in many sectors is volatile.”

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

Fed Research Reports

Eight Research Reports were Posted Last Week.

Jobs – Wage Growth Likely Beginning to Soften

- “In sum, LMCI (Labor Market Conditions Indicators) momentum appears to be a leading indicator of how changes in monetary policy are affecting labor markets. Although many standard labor market variables do not begin to soften until months or even years after the end of a tightening cycle, LMCI momentum responds more quickly to monetary policy tightening. If the recent negative readings in LMCI momentum continue, other labor market variables, such as wage growth, are likely to begin to soften—reducing price pressures in the services sector and likely helping to reduce overall inflation.”

[KC Fed, Report: The KC Fed LMCI Momentum Indicator Suggests Monetary Policy Is Beginning to Weigh on Labor Markets 2/3/23](#)

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

- [Fed Board, Report: Balance Sheet Policies in an Evolving Economy, Some Modelling Advances and Illustrative Simulations 2/3/23](#)
- [IMF, Report: How Costly Will Reining in Inflation be? 2/3/23](#)

Economic Calendar

Light this week - Next week, we'll see January's CPI report.

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
3/14/2023	Consumer Price Index - February 2023
3/21/2023	FOMC Meeting, March 21-22

"The difference between school and life? In school, you're taught a lesson and then given a test. In life, you're given a test that teaches you a lesson." — Tom Bodett

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