

## Quick Overview

- The Feb jobs report is out Friday, CPI next week.
- A 25bp rate hike is most likely, although if the CPI is flat or increases, a 50bp rate hike is very possible.

## Fed Funds

There are basically two schools of thought:

- 1) 50bps Rate Hike – get to the terminal rate quickly, see how the data comes in and then go from there.
- 2) 25bps Rate Hike – take smaller steps, get to the terminal rate over time, keep an eye on the data while having the option to move quicker, if needed.

No matter what camp a Fed Official is in, Friday's unemployment report and February's CPI report (out 3/14/23) will have a bearing on their decision.

- Waller: "If job creation drops back down to a level consistent with the downward trajectory seen late last year and CPI inflation pulls back significantly from the January numbers and resumes its downward path, then I would endorse raising the target range for the federal funds rate a couple more times, to a projected terminal rate between 5.1 and 5.4 percent. On the other hand, if those data reports continue to come in too hot, the policy target range will have to be raised this year even more to ensure that we do not lose the momentum that was in place before the data for January were released."

This week, Fed Officials will likely be out in force clarifying the Fed's position prior to the blackout, including whether a 25bp hike is favored or whether they are open to a 50bp hike.

The jobs report posts Friday morning, leaving only eight hours for comments before the blackout begins. The CPI report will be released during the blackout.

And if, during the blackout, the Fed determined a 50bp hike was needed, the Fed would likely employ an alternative form of communication, which occurred once before in the June 2022 blackout when a WSJ reporter wrote an op-ed prepping the market for a 75bp rate hike.

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
3/22/2022	FOMC - Summary of Economic Projects (SEP) - March 2023

Christopher Waller, Speech: February's Hot Data Releases 3/2/23

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

So far, not one Fed Official is on record favoring a 50bp rate hike.

- Bullard has come the closest with: "I've argued that, hey, let's get to where we want to go, and then from there we can see how the data come in."
- Mester mentioned how she supported a 50bp hike at the Feb 1 FOMC and how: "This is a different

situation now. We've already reduced it to 25 [basis points]. That's going to be part of the consideration."

Most Fed Officials talk about more rate increases if the data (inflation remains high and strong job growth continues) warrants.

James Bullard, Interview: CNBC 2/22/23

Loretta Mester, Interview: WSJ Print 2/24/23

## Terminal Rate

FOMC's forecasts (SEP) will be updated Mar 22, including a new terminal rate (currently 5.10%). Three Fed Officials are on record supporting a higher terminal rate:

- Bullard supports a 5.375% terminal rate.
- Kashkari supports a 5.40% terminal rate.
- Waller supports a terminal rate up to 5.40%.

Williams has mentioned that a terminal rate of between 5.25% and 5.50% seems "very reasonable."

December SEP	Current	Fed Forecast YE 2023	Fed Forecast YE 2024	Fed Forecast Longer Run	Next Release Date
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
GDP	2.7	0.5	1.6	1.8	3/30/23
Core PCE	4.7	3.5	2.5	2.0	3/31/23

James Bullard, Interview: CNBC 2/22/23

Neel Kashkari, Interview: Sioux Falls Business CEO Event 3/1/23

Christopher Waller, Speech: February's Hot Data Releases 3/2/23

John Williams, Interview: WSJ 2/8/23

## Rate Cuts

Rate cuts are currently forecasted in 2024, at the earliest.

- Barkin: "We have forecasted additional rate increases and the SEP has made clear that we don't anticipate rate cuts this year."

Tom Barkin, Speech: What's Keeping Inflation Elevated? 3/3/23

## Research Reports

The Dallas Fed analyzes housing and how a 19.5% correction will be needed to return to fundamentals.

Dallas Fed, Report: Threat of Global Housing Slide Looms Amid Rising Rates 2/28/23

The KC Fed talks about how a tight labor market likely means rent inflation will remain elevated for longer.

KC Fed, Report: A Tight Labor Market Could Keep Rent Inflation Elevated 3/1/23

The St. Louis Fed reports on how the downside risks of the economy remain elevated.

St. Louis Fed, Report: Pace of GDP Growth, Disinflation Key in U.S. Economic Outlook 3/2/23

The SF Fed analyzes the link between loose monetary policy and financial instability.

SF Fed, Report: Loose Monetary Policy and Financial Instability 3/2/23

St. Louis Fed published a report about what a typical recession looks like, including 12 key characteristics.

St. Louis Fed, Report: All About the Business Cycle, Where Do Recessions Come From? 3/1/23

"There is more to life than increasing its speed."  
— Mahatma Gandhi

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