Fed Unfiltered

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Our Opinion

Most Fed Officials have talked about the banking crisis and an unknown amount of credit tightening that could occur because of it, possibly equaling a rate hike or two, which would allow a pause when more rate hikes are needed.

On 4/3/23 **James Bullard** was the first to talk about the likely impact of the banking crisis:

- "I do think that the reaction to the banking problems was swift and was appropriate … I put 80% probability that the financial stress will decline."

On 5/12/23, **Phillip Jefferson** clarified the impact:

- "Even though it is too early to tell, my view is that these incremental credit restraints will have a mild retardant effect on economic growth because the recent bank failures were isolated and addressed swiftly by aggressive macro- and micro-prudential policy actions."

And last week, two research reports chimed in:

Atlanta Fed, Report: Credit Conditions Are Tightening. Are Firms Feeling the Pinch? (5/25/23)

- "Many firms report having ample cash on hand to move forward on business plans, perhaps splashing a bit of cold water on near-term fears of a looming credit crunch."

KC Fed, Report: Financial Stress May Do Relatively Little to Reduce Inflation (5/24/23)

- "Our analysis shows that financial stress generates more modest disinflationary effects than monetary policy tightening for the same increase in the unemployment rate. Therefore, to the extent financial stresses reduce inflation, they do so at a higher cost of unemployment, making them a less-than-ideal substitute for tighter monetary policy."