

High Level

Fed Funds & Terminal Rate

- Fed Funds: 5.25%.
- Terminal Rate: 5.25% (March SEP).

Pause & Rate Cuts

- Rate cuts aren't forecasted until 2024 (March SEP).

Balance Sheet

- QT continues with a \$58BN reduction this week.

GDP

- Currently 1.1% (Q123, Adv. Estimate), Fed Officials are expecting growth to slow to 0.4% by YE23.

Inflation

- Currently 4.6% (Feb, Core PCE), Fed Officials are expecting inflation to decrease to 3.6% by YE23.

Jobs

- The unemployment rate is 3.4% (April). Fed Officials are expecting an increase to 4.5% by YE23.

Monetary Policy

The next FOMC is June 13-14. At this point whether the Fed pauses or has another rate hike is a toss-up. Jerome Powell spoke about both approaches during the Q&A segment of the May 3rd post FOMC meeting press conference. What happens with Inflation (and to a lesser extent, jobs) will be the determining factors.

The first of four key metrics posted today. The jobs report showed continued growth (253,000 jobs were created in April and the unemployment rate fell to 3.4%). The other three metrics are:

- April CPI report – May 10th.
- May Jobs report – June 2nd.
- May CPI report – June 13th.

Rate Hike – Driven by Incoming Data

- **Powell:** “You will have noticed that in the statement from March we had a sentence that said, the committee anticipates that some additional policy firming may be appropriate. That sentence is not in the statement anymore. We took that out and instead we're saying that, in determining the extent to which additional policy firming may be appropriate to return inflation at 2% over time the committee will take into account certain factors. So that's a meaningful change that we're no longer saying that we anticipate. And so we'll be driven by incoming data, meeting by meeting, and we'll approach that question at the June meeting.”

Rate Hike – Is 5.25% the Terminal Rate?

- **Powell:** “it's not possible to say that with confidence now ... it's an ongoing assessment.”

Fed Official – Speaking Schedule

John Williams is scheduled to speak on May 9th.

[Jerome Powell, Speech/Q&A: FOMC May 2-3 Meeting Press Conference 5/3/23](#)

Economy

Powell had some general comments about the economy, including: inflation expectations remain “well anchored”; reducing inflation will likely require “below trend growth and some softening of labor market conditions.”

Prior May's FOMC meeting, three Fed Officials clarified their economic forecasts, which are likely a preview of the June SEP. Little change appears to be on tap.

Inflation

- **John Williams Forecast:** “3.25% this year”.
- **Loretta Mester Forecast:** “3.75% this year”.
- **Patrick Harker Forecast:** “3.50% this year”.

Jobs

- **John Williams Forecast:** “4.00 to 4.50%”.
- **Loretta Mester Forecast:** “4.50% to 4.75%”.
- **Patrick Harker Forecast:** “4.40%”.

GDP

- **John Williams Forecast:** “to grow modestly”.
- **Loretta Mester Forecast:** “well below trend”.
- **Patrick Harker Forecast:** “bit below 1.0%”.

Recession

Powell hasn't often talked about a recession in such a forthright way, as he did on May 3rd when conveying the perspectives of the staff/individual participants of FOMC:

- **Powell:** “So broadly, the forecast was for a mild recession, and by that I would characterize it as one in which the rise in unemployment is smaller than has been typical in modern era recessions. I wouldn't want to characterize the staff's forecast for this meeting. We'll leave that to the minutes, but broadly similar to that.”

FOMC Forecasts (March 2023)

SEP - March	Current	Fed Forecast YE 2023	Fed Forecast YE 2024	Fed Forecast Longer Run	Next Release Date
Core CPI	5.6	n/a	n/a	n/a	5/10/23
GDP	1.1	0.4	1.2	1.8	5/25/23
Core PCE	4.6	3.6	2.6	2.0	5/26/23
Unemployment Rate	3.4	4.5	4.6	4.0	6/2/23
Fed Funds (FOMC)	5.25	5.10	4.30	2.50	6/14/23

[John Williams, Speech: Attaining and Maintaining Price Stability 4/19/23](#)

[Loretta Mester, Speech: Progress and Prudence, An Update on the Economy and Monetary Policy 4/20/23](#)

[Patrick Harker, Speech: Understanding Monetary Policy Through the Housing Channel 4/20/23](#)

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