U.S. FOMC Review

- FOMC: no surprise with 25-basis-point hike; statement essentially unchanged from June
- Powell: firm commitment to 2-percent inflation; upcoming meetings "live"

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U.S. Monetary Policy

- As expected, the Federal Open Market Committee, in a unanimous vote, increased the target range for the federal funds rate by 25 basis points to a range of 5.25 to 5.50 percent. Aside from noting the change in the target range for the funds rate and adjusting the characterization of economic growth ("moderate" rather than "modest"), the FOMC statement was substantially unchanged from that in June. Job gains were "robust" and inflation "elevated" – conditions that set the stage for a restrictive stance of monetary policy for some time. Importantly, a key piece of guidance was retained: "In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook." That is, the Committee will continue to take a data-dependent approach.

- In our view, Chair Powell's press conference yielded very little in the way of new information. He emphasized that the return to two-percent inflation "had a long way to go" and that a period of "below-trend growth" would be required to achieve that outcome.

- Reporters at the press conference questioned the Fed chair on a variety of topics, including the trajectory of inflation and current inflation pressure points, the Committee's tolerance for deterioration in the labor market and the broader economy to achieve desired inflation outcomes, and the Chair's views on how policy decisions could unfold at upcoming meetings. Mr. Powell mostly refrained from offering specific guidance on these points while using questions to hammer home his key message: further adjustments to policy are contingent on the data and that upcoming meetings are "live."

- Chair Powell was candid when asked about his views and Fed staff views on potential recession. Powell indicated that his baseline forecast was for a period of below-trend growth; with regard to the Staff, their forecast now calls for a notable slowdown in growth in late 2023 rather than a recession, a favorable outcome given the current policy setting.

- In the absence of a dramatic shift in the FOMC statement and subsequent remarks by Chair Powell in his press conference, we are inclined to maintain our view of an additional hike in the federal funds rate to a peak range of 5.50 to 5.75 percent, with the most likely outcome of that hike still occurring at the September FOMC meeting. We suspect that easing in core inflation will be a slow and non-linear process, and we anticipate tight labor market conditions continuing to generate considerable wage pressure. Although we take at face value the statement that decisions of Fed officials will be informed by the incoming data, we see the introduction of discussion regarding additional "skips" as potentially muddling the policy-setting process. The target range for the federal funds rate is likely close to its peak, and policy is likely to remain restrictive for some time (i.e. well into 2024); whether the final hike occurs in September or at one of the final two FOMC meetings of 2023, in our view, is decidedly less important.