Scotiabank.
GLOBAL ECONOMICS
SCOTIA FLASH
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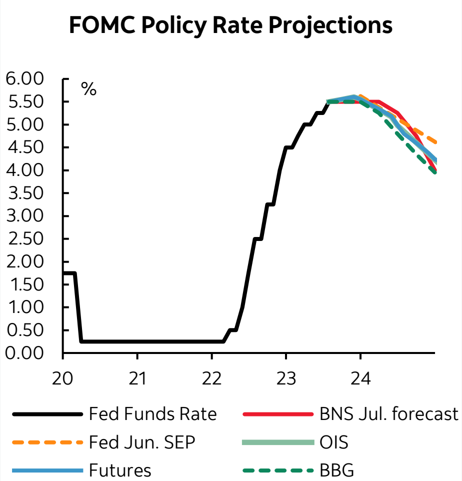
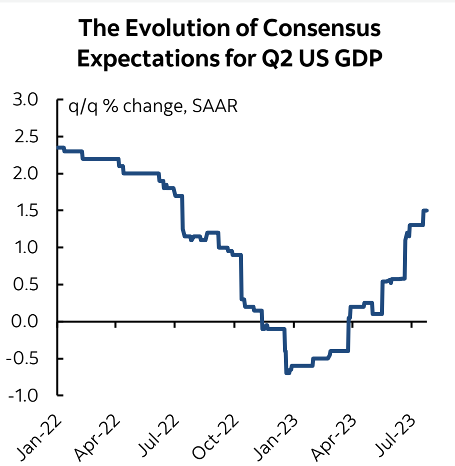
Chart 1



Sources: Scotiabank Economics, Bloomberg.

Chart 2



*Bloomberg consensus for US GDP 2023 Q2.
Sources: Scotiabank Economics, Bloomberg.

FOMC Hikes, Says See Ya in September

- **The Fed hiked 25bps as expected**
- **No changes to QT plans**
- **Growth references were slightly upgraded**
- **Guidance is highly data dependent…**
- **…with every meeting 'live'**

The FOMC's latest statement largely met expectations for a 25bps increase in the Fed funds rate to 5.5%. Chair Powell's press conference contained no material surprises. Overall, the whole set of communications is consistent with the see ya in September expectation.

US monetary policy continues to tighten and the FOMC is guiding ongoing openness to additional firming from here. Markets reacted to the overall suite of communications by driving a rally in the two-year Treasury yield of about 8bps perhaps as positioning swung from a cheapening bias just before the statement to the opposite. The S&P500 initially rallied at the start of the press conference before reversing course to end the sessions little changed. The USD slightly softened. Updated expectations for the policy rate are shown in chart 1.

MINIMAL STATEMENT CHANGES

There were inconsequential wording changes in the statement. Please see the appendix for a statement comparison.

Forward guidance was left intact by repeating reference to "additional policy tightening that may be appropriate."

There was a slight wording shift in the opening paragraph that now says "economic activity has been expanding at a moderate pace" as opposed to "economic activity has continued to expand at a modest pace." Fed language has tended to indicate that 'moderate' is a slightly stronger reference to growth than 'modest' and so they may be signalling greater confidence in the economy. Chair Powell was not asked about the significance of this slight wording shift in the press conference.

That may be dicey on the eve of Q2 GDP growth that is expected to land between 1½% and 2½% tomorrow (Scotia 2%). The FOMC could be referencing how growth over 2023H1 has sharply exceeded expectations. It wasn't long ago that Q2 GDP was forecast to contract (chart 2) and consensus also underestimated Q1 GDP growth. This offers a parallel to why the BoC pivoted more hawkishly after consensus vastly underestimated Canadian GDP growth over 2023H1.

The decision was unanimous.

A COMMITMENT-PHOBIC PRESS CONFERENCE

Powell's opening statement was relatively brief and contained no material surprises. He repeated that there is a "long way to go" in reference to controlling inflation. He noted a still strong trend pace of job growth, how GDP growth has surpassed expectations while consumer spending growth has slowed compared to earlier in the year and that housing has picked up but remains below earlier levels of activity. He also emphasized lagging effects of policy actions to date and that supply and demand conditions in labour markets are gradually coming into better balance.

Powell was asked whether he thought additional rate hikes are likely on the way and whether all future meetings are 'live' or if they are in every-other-meeting mode. His answer indicated that every meeting from this point forward is ‘live’ but they are data dependent and will take each meeting one at a time. Specifically he said:

“We haven't made any decisions about any future meetings including the pace. We'll be approaching each decision as we have done today. It's certainly possible that we will raise at the September meeting if the data warrant it, but it's also possible we will hold."

When probed further about whether the June dot plot showing two more hikes including today's is valid, Powell said “We will be making assessments as we get the data.”

Reporters tried to home in on more specific triggers for a shift in policy stance but Powell wasn’t biting. He repeatedly stated that “It's the totality of the data that matters with a particular focus upon inflation.” and “It depends so much on the totality of the data and we just don't have it yet.”

Powell did note, however, that a more gradual pace of tightening that downshifted from 75bps moves to 50bps hikes to 25bps to the June skip and returning with a hike today doesn't necessarily mean hiking at every other meeting going forward. It can mean hiking in two out of three meetings. He noted that they are open to hiking at back-to-back meetings if the data and developments merit doing so. They just want to move at the right pace and to slow down with finely judged decisions. He's saying they may or may not move at consecutive meetings.

Powell’s most hawkish reference was to how growth has exceeded their expectations and that if this continues then it could retain upside pressure upon inflation that would merit a response. For now, Powell noted that Federal Reserve staff no longer forecast a recession and that his own base case involves achieving 2% inflation without large job losses.

RELEASE DATE: July 26, 2023

Recent indicators suggest that economic activity has been expanding at a moderate pace. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated.

The U.S. banking system is sound and resilient. Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 5-1/4 to 5-1/2 percent. The Committee will continue to assess additional information and its implications for monetary policy. In determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is strongly committed to returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; Lisa D. Cook; Austan D. Goolsbee; Patrick Harker; Philip N. Jefferson; Neel Kashkari; Lorie K. Logan; and Christopher J. Waller.

RELEASE DATE: June 14, 2023

Recent indicators suggest that economic activity has continued to expand at a modest pace. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated.

The U.S. banking system is sound and resilient. Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to maintain the target range for the federal funds rate at 5 to 5-1/4 percent. **Holding the target range steady at this meeting allows the Committee to assess additional information and its implications for monetary policy.** In determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is strongly committed to returning inflation to its 2 percent objective.

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