

US Daily: May FOMC Recap: Powell Pushes Back Against Talk of Rate Hikes (Mericle)

- The May FOMC meeting was mostly uneventful but dovish overall. While the Committee added a hawkish acknowledgment of the “lack of further progress” on inflation so far this year to its statement, Chair Powell offered a dovish message in his press conference. We have left our forecast unchanged and continue to expect two rate cuts this year in July and November.
- The most notable aspect of the press conference was Powell’s strong pushback against the possibility of rate hikes. Powell said that he thinks it is “unlikely” that the next policy rate move will be a hike, that he is confident that policy is restrictive, and that the FOMC would need to see evidence that policy is not sufficiently restrictive in order to hike and is not seeing that. He also said that if progress on inflation stalled, the FOMC would respond by holding off on rate cuts, suggesting that the bar to hike is high.
- Powell offered no major clues on the timing of a rate cut but struck a consistently dovish tone on inflation. Consistent with our views, he said he took little signal from the inflation uptick in Q1; highlighted the consistent progress on wage growth over the firmer Q1 employment cost index; noted that he did not see signs of reheating and that inflation expectations remain anchored; emphasized the “lag structures built into the inflation process”; expressed confidence that a decline in housing and continued supply-side healing would deliver further disinflationary dividends; and forecast that (sequential) inflation will move back down this year.

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May FOMC Recap: Powell Pushes Back Against Talk of Rate Hikes

The May FOMC meeting was mostly uneventful but dovish overall. While the Committee added a hawkish acknowledgment of the “lack of further progress” on inflation so far this year to its statement, Chair Powell offered a dovish message in his press conference.

We have left our forecast unchanged and continue to expect two rate cuts this year in July and November, though even moderate upside surprises on upcoming inflation prints could delay cuts further.

The most notable aspect of the press conference was Powell’s strong pushback against the possibility of rate hikes. Powell said that he thinks “it’s unlikely that the next policy rate move will be a hike.” He added that the FOMC would need to see evidence that policy is not sufficiently restrictive in order to hike, and it is not seeing that. In fact, he said, he is confident that policy is restrictive and cited several pieces of evidence to that effect. In response to a question about whether the Fed needed to engineer tighter financial conditions because the economy is reaccelerating, Powell rejected the premise and said the economy is not accelerating. And in addressing what the FOMC would do if inflation goes sideways, Powell said the FOMC would hold off on rate cuts, suggesting that the bar to hike is high.

As we expected, Powell offered no major clues on the timing of a potential rate cut. Instead, he stuck closely to the wording that the Fed leadership has used in comments over the last few weeks, noting that “the data have not given us that greater confidence” that the FOMC needs in order to cut, and that as a result “it is likely that gaining such greater confidence will take longer than previously expected.”

But Powell did strike a dovish tone on inflation in several respects and highlighted a number of key themes that are also central to our inflation view.

First, Powell made it clear that he did not take much signal from the recent upticks in the inflation data and the employment cost index. Asked if he saw anything more worrying than bumpiness in the Q1 inflation data, he said “not really.” And when asked about wage growth, he emphasized the “pretty consistent progress” and highlighted the stable year-on-year employment cost index in Q1 instead of the acceleration in the sequential rate.

Second, Powell noted that he did not see signs of reheating and that inflation expectations remain anchored, implying that the problem that rate hikes would be suited to solve has not been growing.

Third, Powell explained that “there are a number of places in the economy where there are lag structures built into the inflation process,” a theme we have also noted.

Fourth, Powell expressed continued confidence in what we see as the two key pillars of the disinflation narrative, a further decline in the large housing category as the official measures of rent growth catch down to the much lower leading indicators, and further supply-side healing. In fact, Powell discussed the catch-up effect in housing in great

detail.

Powell said his forecast is that overall inflation will move back down this year, though he acknowledged that his confidence was lower than it was before because of the upside surprise in recent months.

Finally, in response to a question about how the November elections affect the Fed's ability to cut at upcoming meetings, Powell was adamant that the elections will not influence the FOMC's decisions.

David Mericle

Disclosure Appendix

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