Daiwa Capital Markets

U.S. FOMC Review

- FOMC: no surprise with 75; further increases likely, but no specific guidance

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U.S. Monetary Policy

As widely expected, the Federal Open Market Committee, in a unanimous vote, adopted a 75 basis point increase in the target range for the federal funds rate (now 2.25 to 2.50 percent). The policy statement noted that the Committee anticipates additional increases in coming months, although it did not provide any clues on the magnitude of the changes.

The issue of magnitude naturally arose in the press conference, and Chair Powell indicated that the Committee will be making data-dependent decisions on a meeting-to-meeting basis and could not provide specific guidance, especially with an eight-week interval until the next meeting that will include two reports on employment and consumer prices. Mr. Powell noted that it would be appropriate to slow the pace of tightening at some point, but upcoming decisions will depend on the tone of the economic data.

Mr. Powell offered one bit of specificity by noting that the best guide to Committee views was the June Summary of Economic Projections. That set of forecasts showed the federal funds rate moving to 3.4 percent at the end of this year and 3.8 percent at the end of 2023 before easing back to 3.4 percent by the end of 2024. This comment suggested that the market view of easier policy next year is too optimistic.

Reporters at the press conference repeatedly asked about the U.S. economy slipping into recession. Mr. Powell consistently responded that he did not believe the economy was currently in recession even though GDP might register two consecutive quarters of negative GDP growth. He was perplexed by the decline of 1.6 percent in Q1 GDP, noting that it was difficult to explain such a performance when job growth was robust (average monthly growth of 539k in Q1). He also noted that the labor market remained strong in Q2 even though it has lost some of its sharp edge.

Reporters explored Chair Powell’s willingness to tolerate a recession. He again indicated that he saw a path to a soft landing, but he emphasized that reducing inflation was essential. In his view (and presumably the collective view of the FOMC) sustained labor market strength is only possible if inflation is stable at rate close to two percent. He stopped well short of predicting a recession, but he seemed to understand that a downturn might be needed to reduce inflation.

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FOMC Statement Comparison*

July 27, 2022 FOMC Statement (In Part)	June 15, 2022 FOMC Statement (In Part)
Recent indicators of spending and production have softened. Nonetheless, job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher **food** and energy prices, and broader price pressures.	**Overall economic activity appears to have picked up after edging down in the first quarter.** Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures.
Russia's **war** against Ukraine is causing tremendous human and economic hardship. The **war** and related events are creating additional upward pressure on inflation and are weighing on global economic activity. The Committee is highly attentive to inflation risks.	The **invasion** of Ukraine by Russia is causing tremendous human and economic hardship. The **invasion** and related events are creating additional upward pressure on inflation and are weighing on global economic activity. **In addition, COVID-related lockdowns in China are likely to exacerbate supply chain disruptions.** The Committee is highly attentive to inflation risks.

** Changes from statement to statement shown in bold.*
Source: Federal Open Market Committee; Daiwa Capital Markets America