U.S. FOMC Review

- Powell suggests that the pace of tightening will slow…
  … but so what?

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The Powell Speech

The signals that market participants were looking for came in the closing paragraph of Chair Powell's speech at the Brookings Institution: "it makes sense to moderate the pace of our rate increases as we approach the level of restraint that will be sufficient to bring inflation down. The time for moderating the pace of rate increase may come as soon as the December meeting."

Thus, the Fed will probably downshift to a change of 50 basis points, but we do not view this change as deeply significant. Mr. Powell downplayed the deceleration, as he indicated that tightening would be an ongoing process and that the terminal rate will probably be higher than that suggested by the September dot plot (a median dot of 4.625 percent). Moreover, he noted that the duration of the terminal rate was an important consideration and that the Fed would remain restrictive for some time. Market participants should not ignore the final two sentences of Mr. Powell's encouraging final paragraph: "History cautions strongly against prematurely loosening policy. We will stay the course until the job is done."

While the suggestion of a deceleration in the pace of tightening cheered market participants, the remainder of Mr. Powell's speech carried a hawkish tone. The indication of an extended period of tight policy was notable. Perhaps more important, Mr. Powell emphasized that inflation is not likely to ease unless the sizable gap between labor demand and labor supply is narrowed. He saw little chance of a meaningful pickup in labor supply, and thus achieving balance will require a period of slow demand, which will require tight monetary policy. The Fed is not done. We doubt that a pivot to lower rates is on the horizon.