Global Economic Research

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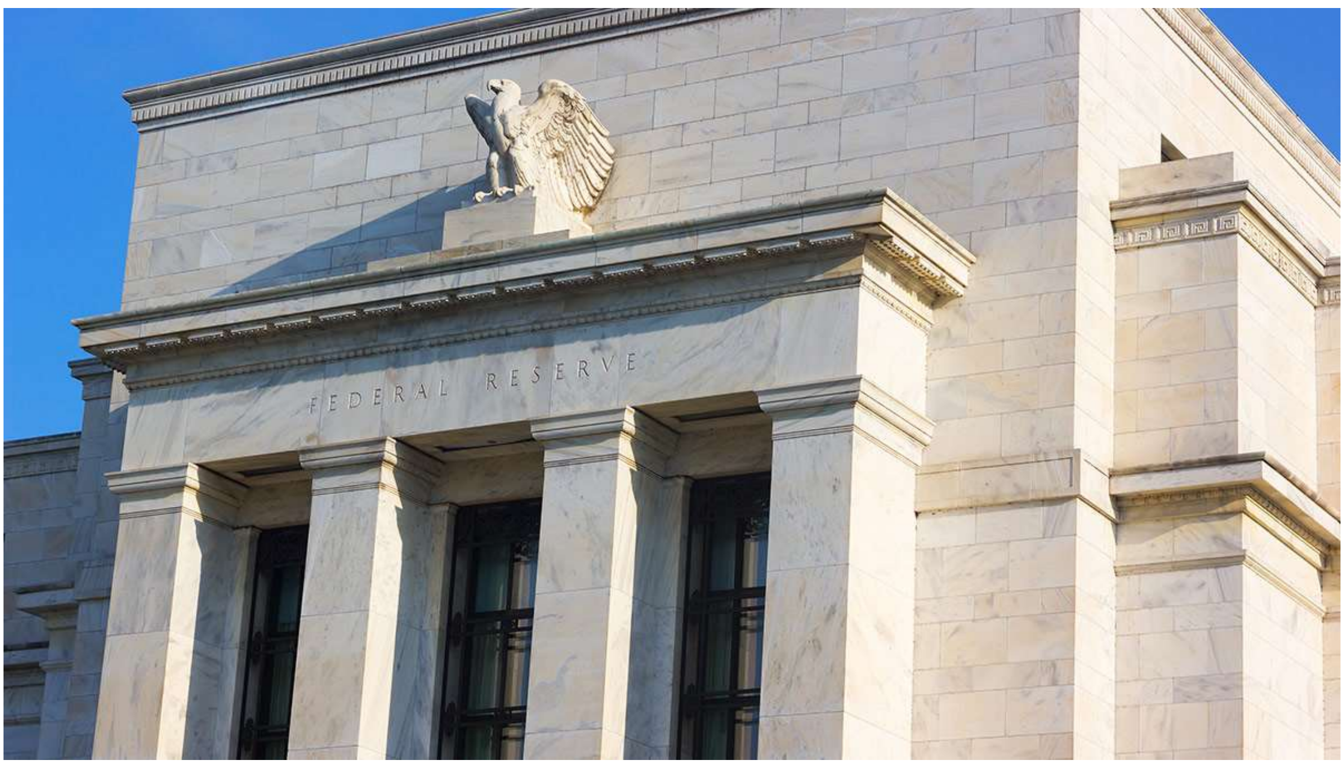
The Fed Keeps At It

The Fed took another large step to fight inflation, and they're not done.

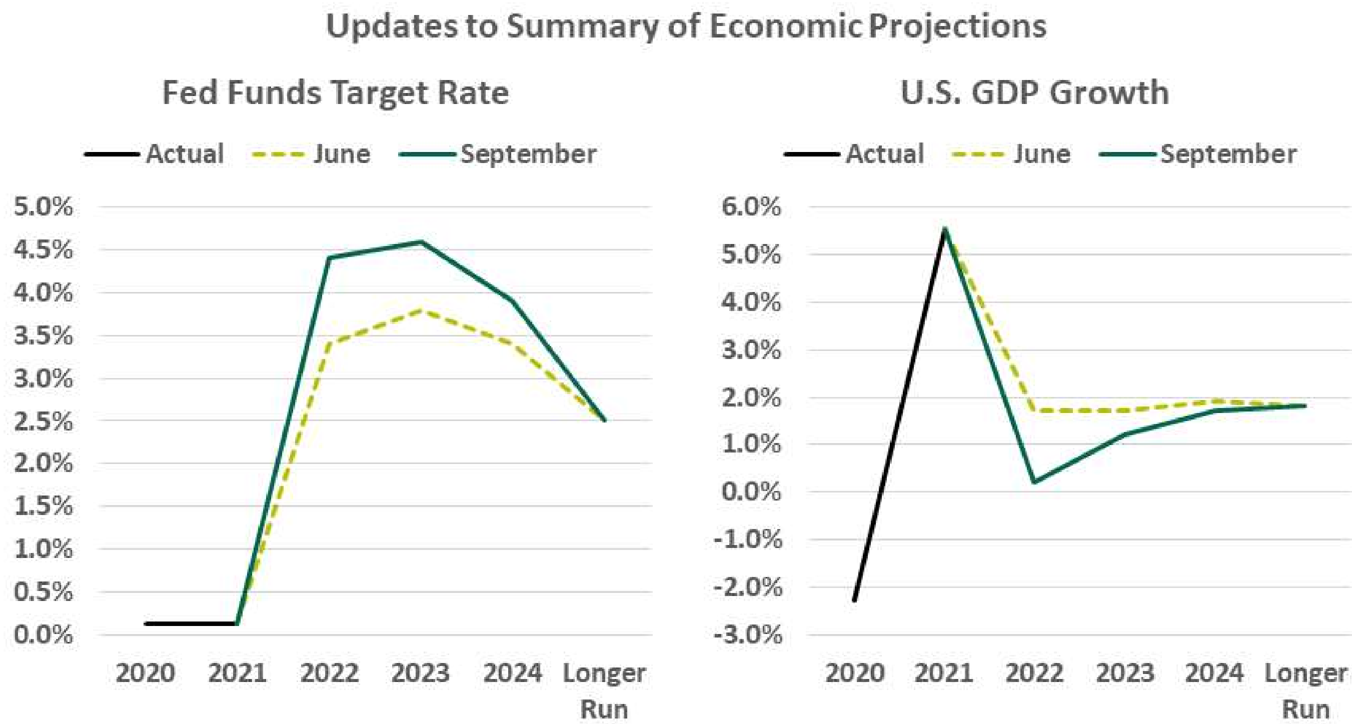
By Ryan James Boyle



This week, the Federal Open Market Committee (FOMC) delivered its third consecutive rate hike of 75 basis points. From a starting point of the zero lower bound in March, the ascent to the current range of 3.00-3.25% has been steeper than nearly any forecaster expected to start the year. The projections and commentary that accompanied this week's meeting made it clear that more hikes will follow, and that the outlook will be difficult.

The September meeting included the quarterly **Summary of Economic Projections** (SEP), in which FOMC members anonymously share their outlooks for key economic variables. The "dot plot" of interest rate projections makes it clear the work is not done. The median forecast (with little dispersion) was for the Fed Funds rate to end this year at 4.25-4.50%, 125 basis points from the current level, with only two meetings remaining.

The Fed will risk a recession to bring inflation under control.



Source: Federal Reserve

Given the Fed's rapid actions in the past six months, this forecast is credible. We are revising our forecast up to a 75 basis point increase at the November 2 meeting, and 50 basis points to follow on December 14. From there, committee members expect just one more quarter-point hike next year, and cuts in 2024.

These fast hikes will bring consequences. Monetary policy works with long and variable lags, and the market is still digesting a great deal of policy tightening. The SEP included economic growth forecasts revised down substantially, with one bearish committee member expecting a full-year contraction in 2023. The median forecast for next year's unemployment rate rose to 4.4%, up from 3.7% today; an increase of that magnitude has always accompanied a recession. In his press conference, Chair Jerome Powell stated clearly that "there isn't a painless way to get inflation behind us," conceding it will be "very challenging" to tame inflation without job losses.

Ultimately, the Fed's actions and Powell's statement held firm to the simple message of his Jackson Hole speech: the Fed will "keep at it" until price stability is restored. Job losses and market sell-offs may be the price to be paid. Hopes for a soft landing are quickly fading.

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Ryan James Boyle is a Vice President and Senior Economist within the Global Risk Management division of Northern Trust. In this role, Ryan is responsible for briefing clients and partners on the economy and business conditions, supporting internal stress testing and capital allocation processes, and publishing economic commentaries.