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Daily Economic Update

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Another big hike from the Fed, but is a downshift coming?

- Fourth consecutive 75 bp hike lifts fed funds to 3.75-4.00%
- Policy statement points to slower pace of tightening ahead
- …but Fed keeping its options open for December meeting

The Fed delivered a widely-expected 75 bp hike today and signaled an eventual downshift in the pace of tightening. But this was not a dovish pivot à la ECB, BoC and RBA, with the Fed keeping its options wide open for December. An initial dovish market reaction following the release of the policy statement was more than retraced during Powell's press conference, leaving Treasury yields modestly above pre-meeting levels and equities lower. We continue to see upside risk to our forecast for a 50 bp hike in December and 25 bp increase in February leading to a terminal fed funds rate of 4.50-4.75%.

The policy statement struck a clearly dovish tone with the committee saying it 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." That seemed to flag a slower pace of tightening in December (as suggested in the September dot plot) though Chair Powell would only say that shift "may come as soon as the next meeting or the one after that." He also emphasized that there is "still a ways to go" on rates, and that it is "very premature" to be thinking about pausing rate hikes. Adding to the hawkish tone of the press conference, Powell said the the terminal policy rate could be higher than the committee expected in September when the dot plot showed fed funds rising to 4.50-4.75% next year.

Rate sensitive sectors (particularly housing but also durable goods sales) are clearly feeling the effects of higher interest rates though the US labour market remains resilient and price pressures are still elevated (core CPI +0.6% or more in five of the past six months). While Chair Powell said the committee needs to see inflation coming down decisively, he suggested that's not necessarily a precondition for slowing the pace of rate hikes. Nonetheless, if recent trends in jobs and inflation data persist, we think it will be difficult for the Fed to slow the pace of rate hikes in December. It goes without saying that Friday's payroll report and next week's CPI will be key to the near-term monetary policy outlook.

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