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US Fed 'data dependent' after July rate hike

- The U.S. Fed followed through with a widely-expected 25 basis point hike in the fed funds target range to 5.25% to 5.5% (a 22 year high) after 'skipping' a hike in June.
- The policy statement itself was little changed but with a (arguably) slight upgrade to the assessment of the rate of economic expansion to 'moderate' from 'modest.
- Inflation growth has slowed substantially in recent months. Chair Powell noted that there is evidence that job markets have been moving back towards better balance, noting some signs that wage growth is slowing and lower job vacancies.
- The Fed clearly is not convinced that recent slower inflation readings will be sustained without further softening in the macroeconomic backdrop. But further movements in interest rates will be highly data dependent and the Fed is well aware that interest rate increases impact the economy with a substantial lag.
- The statement repeated that policymakers will be assessing how much additional policy firming "may be" appropriate - reiterating that additional rate increases are not a foregone conclusion despite projections from the June meeting that showed 12 of 18 meeting participants expected at least one additional hike this year.
- Powell noted in the press conference that continuing to hike interest rates until inflation is fully back to the 2% target would be a "prescription of going way past target" and left open the prospect that cuts in interest rates could come as early as next year if inflation is sustainably trending back towards target rates.
- Chair Powell also reiterated that every meeting from this point on will be a 'live' meeting. Still, little change in the policy statement from the May and June iterations, and the fact that interest rates are now firmly at 'contractionary' territory would also support a slower pace of tightening if necessary (ie. that the Fed could also 'skip' another hike in September and still follow with another in November)
- **Bottom line:** The Fed continues to expect the lagged impact of interest rate increases to-date will slow economic growth and cool overheating labour markets. Our own near-term economic outlook is more pessimistic than the Fed's and inflation has shown substantial signs of slowing. Our own base case assumes that the interest rate increase today was the last of this hiking cycle. But the Fed is clearly willing to push interest rates higher again if inflation were to show signs of reaccelerating.

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