Economic Update

November 1, 2023

U.S. Fed pauses interest rate hike for the second time in a row

- The U.S. Fed - as widely expected - held the fed funds target range steady at 5.25% to 5.5% at today's meeting. This marks the second consecutive meeting in a row, and third this year, that the Fed opted not to hike interest rates further after foregoing an increase in each of June and September (they still hiked by 25bps in July).
- The policy statement itself was little changed. The assessment of current economic conditions was upgraded to "strong" from "solid" with GDP growth surprising on the upside in Q3 – year-to-date GDP growth has already surpassed the 2.1% increase in 2023 the Fed expected in the September economic projections.
- Still, the statement also added a reference to tighter 'financial' conditions – adding to tighter credit conditions flagged explicitly earlier – that refers to higher term bond yields that have effectively already tightened financial conditions since the last meeting in September.
- The Fed is clearly willing to hike interest rates further, but Chair Powell reiterated in his press conference that interest rates are already at 'restrictive' levels that should slow economy and inflation pressures over time. Mortgage borrowing rates have continued to surge through October, contributing to stagnant housing market activities that was highlighted by Powell alongside softer business fixed investment.
- The Fed is still wary that lower inflation readings over the summer won't be sustainable without the economy cooling, but for now price growth is not pushing for an immediate response from the Fed against a resilient economic growth backdrop quickly. CPI in the US ticked higher slightly in September but that was also after a string of very low prints over the summer.
- **Bottom Line:** The Fed is still concerned that inflation could reaccelerate with the economy running hot. But interest rates are already very high and restrictive. We continue to expect that outperformance of the U.S. relative to other advanced economies (growth is slowing more clearly in the U.K., Euro area, and Canada) won't last as households run out of 'excess' pandemic savings and headwinds from higher interest rates build with a lag. That should be enough to keep US inflation at lower levels, without any further rate hikes from the Fed.

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