

December 12, 2022 – Economic Commentary

All eyes are on the Federal Reserve this week, with a more than side-long glance at economic activity in the United States and China. The Federal Open Market Committee (FOMC) meetings on Tuesday and Wednesday are expected to host a lively discussion of inflation, labor market and economic sector trends, most of which will be made public once the meeting minutes are published early in 2023. However, Wednesday's announcement of interest rate changes – a 50 bps increase in the Fed Funds rate is widely expected—and Chairman Powell's follow-on press conference should provide important hints, not in the least because this particular FOMC meeting will also contain an updated "Summary of Economic Projections." Powell is likely to be pushed very hard by reporters on both the issue of the "terminal rate," i.e., the rate at which interest rate increase will top out in 2023, and his evaluation of the economic impact from the accumulated interest rate increases in 2022. Since both global and US inflation appear to have peaked but remain far-too high to make any central banker happy, it is unlikely that the FOMC will offer soothing words of comfort on the issue of monetary tightening. It is quite probable that there will be an unexpectedly hawkish tone to both the statement and the press conference, with the Fed wishing to confirm that a 50bps increase in the Fed Funds rate instead of another 75bps increase does not represent a weakening of inflation-fighting resolve. Should the consumer price index (CPI) numbers released on Tuesday be significantly higher than the anticipated 6-6.5%, the Fed could even shift back to a 75 bps increase on Wednesday.

Data to Watch:

1. US Consumer Price Index for November, released Tuesday, December 13
2. US Import Prices for November, released Wednesday, December 14
3. FOMC statement on Interest Rates and Summary of Economic Projections, released Wednesday, December 14
4. S&P Global Purchasing Managers Index Flash reports for December (multiple countries), released Friday, December 16

Suggested Reading:

[Housing Costs, Inflation's Biggest Component, Are Poised to Ease](#)

[The Treasury Market Throws a Curveball](#)

[Inflation Forecasts were Wrong Last Year. Should We Believe Them Now?](#)

[IMF says Global Debt Well Above Pre-Pandemic Levels despite Steep 2021 Drop](#)

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