FOMC Update

Nov. 2, 2022

. . . as summarized by Smith Shellnut Wilson

Federal Reserve officials delivered a well-telegraphed fourth straight 75 basis-point interest rate increase while also signaling their aggressive campaign to curb inflation could be approaching its final phase. The overnight rate increased from 3.00 – 3.25 to 3.75 – 4.00, its highest level since Jan. 2008. The move continued the most aggressive pace of monetary policy tightening since the early 1980s, the last time inflation ran this high.

The Fed said that "ongoing increases" will likely be needed to bring rates to a level that is "sufficiently restrictive to return inflation to 2% over time," according to the official FOMC statement. In a new sentence in the statement, the Fed also said: "In determining the pace of future increases in the target range, the Committee 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." The fresh language comes amid still-strong readings on inflation and jobs, even as sectors like housing and manufacturing have slowed substantially. The statement firmly committed policymakers to their campaign to curb inflation but acknowledged that interest-rate increases act with a lag.

Immediately following the meeting, Fed fund Futures forecast a 50-basis point hike in December to 4.40%, with a peak rate of 4.96% being reached in May of 2023 before pulling back to 4.58% by year-end 2023. Treasury yields rallied 2 to 7 basis points between 2 and 10 years.

In the post meeting news conference Powell said that a slower pace of rate hikes could begin at the December meeting but that determining a long-term terminal rate is highly unlikely.

Please click the link for a side-by-side comparison of the U.S. Federal Open Market Committee statements from November 2, 2022 and September 21, 2022.

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