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Fed Seen Raising to 4% in 2022 And Signaling Higher for Longer ■ Economists' consensus is for 75 basis-point hike next week

Pursuits

- Rates seen staying at peak in 2023 as Fed battles inflation



By Steve Matthews and Kyungjin Yoo September 16, 2022, 7:00 AM EDT

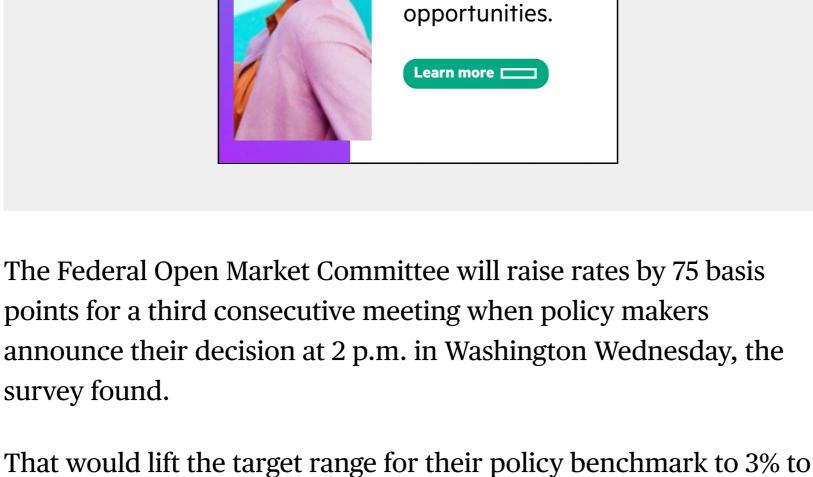
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through 2023, economists surveyed 🖫 by Bloomberg said.

week, with interest rates reaching 4% by December and staying high

Federal Reserve officials will signal a more hawkish stance next

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3.25%. Fed forecasts released at the meeting are expected to show the upper bound of the range at 4% by year-end and edging higher next year, before cuts in 2024 take it back to 3.6%. Such a shift represents a big step up from Fed forecasts in June,

reflecting a tougher fight against inflation after August core

45 economists was conducted Sept. 9-14.

Front-Loading Rate Hikes Economists see 75 basis-point hike, half-point move in November

consumer-price growth came in hotter than expected. The survey of

unanchoring rise."

inflation rising more than expected.

Source: Bloomberg survey of economists September 9-14

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"We expect the Fed to continue hiking until realized inflation prints

come down, with the August CPI release adding substantial urgency

to the Fed's task," said Robert Dent, senior US economist at Nomura

Securities International Inc. "The longer inflation stays elevated, the

"The 'dot plot' will show a higher terminal rate in 2023. We think

it will go up to around 4.2%, compared with 3.8% in the June SEP.

Also, the decline in 2024 in rates wouldn't be as steep as in the

June SEP. It might show a decrease to around 3.8-4% in 2024,

Powell has been vague about how high interest rates might go and in

July said the Fed would make policy "meeting by meeting." That

makes the FOMC's "dot plot" forecasts of the target rate a primary

more concerns of a wage price spiral and/or inflation expectations

Chair Jerome Powell has said the Fed is strongly committed to

for more aggressive action has been solidified by Tuesday's

getting inflation back to the central bank's 2% target, and won't stop

its fight prematurely in the face of weaker economic data. The case

consumer price index report, which showed measures of underlying

compared with 3.4% in June SEP." -- Anna Wong, chief US economist

What Bloomberg Economics Says...

focus for investors when the committee meets Sept. 20-21. Powell will hold a press conference Wednesday, 30 minutes after the policy decision is released. The rate path which economists expect the FOMC to lay out next week is less aggressive than the one foreseen by markets. Investors fully expect a 75 basis-point increase on Wednesday and see rates advancing a further percentage point by year end to around 4.23%.

the Fed's Summary of Economic Projections, with rates peaking at 4% in December, then declining in 2024. Powell is trying to steer the economy toward a "softish" landing of slower economic growth, a still-robust labor market and weaker

inflation. That will be reflected in FOMC forecasts for growth of just

0.5% in 2022 and 1.4% in 2023 -- both big downgrades from June --

with unemployment rising to 4.2% in 2024 from 3.7% reported in

FOMC May Project Slow Growth, Higher Unemployment

Below-trend growth is Fed's goal to reduce price pressures

August, according to the survey.

Source: Bloomberg survey of economists September 9-14

Economics LLC.

participant would estimate in the Summary of Economic Projections.

The economists' own forecasts largely match what they expect from

Read more: Fed swaps price in 4.5% policy-rate peak 🖵

Note: Economists were asked to forecast what the median Federal Open Market Committee

of inflation," said Hugh Johnson, chairman of Hugh Johnson

"Policy remains focused on inflation with little evidence of being

responsive to slowing economic/employment data or declining rates

Inflation remains the central issue driving Fed policy. The FOMC is

likely to maintain its forecasts for price pressures and may project

inflation of 5.2% for 2022, 2.6% for 2023 and 2.2% for 2024. That

would mean missing the Fed's long-run inflation target of 2% until 2025. Bloomberg Radio (15) **(15)** 0:00 **(1)**

LISTEN: Ben Emons, Global Macro Strategist at Medley Global Advisors, discusses

Powell has emphasized that the central bank will be nimble in its

rate-hiking plans and the FOMC in its prior statement offered only

quarters of the economists expect the committee to repeat the

loose guidance that ongoing increases would be appropriate. Three

guidance, while most of the rest say the FOMC could say it expects

the pace of hikes to slow, echoing Powell's recent public statements.

inflation with Paul Sweeney and Matt Miller on Bloomberg Radio

Two thirds of economists also expect a unanimous decision this month, with the FOMC keeping a united front behind Powell's fight against inflation. So far this year, St. Louis Fed President James Bullard has dissented as a hawk and Kansas City Fed President Esther George in a dovish direction.

There's less certainty around plans to shrink the Fed's balance sheet. The level at which maturing securities are allowed to expire

ramped up this month to an annual pace of about \$1.1 trillion.

Economists project that will reduce the balance sheet to \$8.4 trillion

by year end, dropping to \$6.6 trillion in December 2024, according

About half of those surveyed expect sales of mortgage-backed securities

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Source: Bloomberg News survey of economists September 9-14

Recession Coming?

Economists Unsure If Fed Will Sell MBS

to the median estimate.

expecting sales, there's a wide range of views on when selling would begin, with a slight majority seeing it start by 2023's second quarter. Wall Street economists have continued to raise concerns about the potential for recession as the Fed tightens monetary policy amid headwinds including higher food and energy prices amid Russia's invasion of Ukraine.

Almost half of those surveyed say officials will resort to outright

preference to only hold Treasuries in the longer run. Among those

sales of mortgage-backed securities, in line with their stated

negative growth

Economists see a hard landing, with a formal recession or period with zero or

zero or negative growth for a time but not an officially declared recession. "Higher-for-longer inflation, more-aggressive Fed monetary policy tightening, and negative spillover effects from a weakening global backdrop will combine to push the US economy into a mild recession in the first half of 2023, in our view," said Oxford

Economists were asked if US would have a recession in the next 24 months. Hard landing is defined as

Bloomberg News survey of economists September 9-14

Economics chief US economist Kathy Bostjancic.

Bloomberg Terminal Learn more

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Economists were mixed about the outlook, with 49% seeing a recession as likely in the next two years, 33% seeing some time with zero or negative growth likely and the rest looking for the Fed to achieve a soft landing of continuing growth and low inflation.

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