mni

All Signal, No Noise

MARKET ANALYSIS

MNI Fed Preview: March 2026

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MNI's separate preview of sell-side analyst summaries to follow on Monday March 16

Meeting Dates: Tue-Wed, Mar 17-18
Decision/Statement/SEP and Dot Plot: Wed Mar 18 at 1400ET / 1800UK
Press Conference/Q&A: Wed Mar 18 at 1430ET / 1830UK
Minutes: Wed Apr 8

Links (likely URLs based on previous meetings):

Statement: https://www.federalreserve.gov/newsevents/pressreleases/monetary20260318a.htm
SEP/Dot Plot: https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20260318.htm
Implement. note:
https://www.federalreserve.gov/newsevents/pressreleases/monetary20260318a1.htm
Press Conference: https://www.federalreserve.gov/monetarypolicy/fomcpresconf20260318.htm
MNI Review of Previous FOMC (January - link)

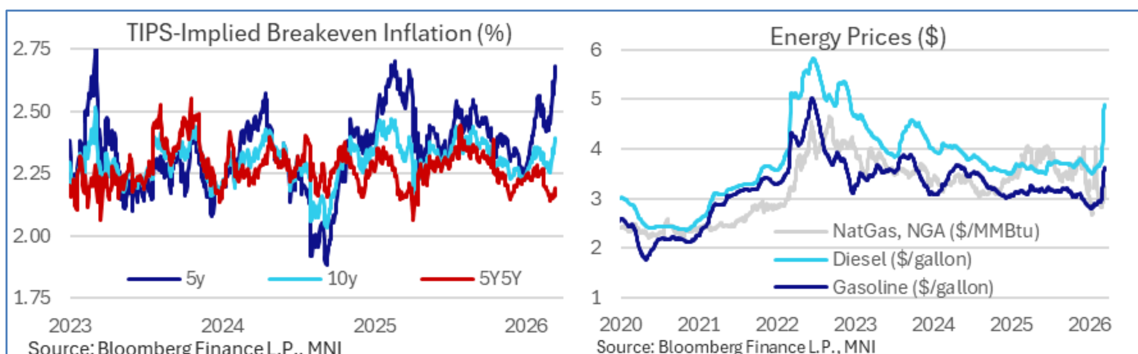
MNI POV (Point Of View): Navigating A Narrow Strait

By Tim Cooper

- *The FOMC will hold the Federal Funds rate at 3.50-3.75% for a second consecutive meeting in March, in what increasingly looks like a prolonged pause before the next move.*
- *The outlook for policy changes has been complicated by events in the Middle East. With energy prices soaring, markets have swung from anticipating two 25bp rate cuts this year to now not even pricing one fully.*
- *The updated Dot Plot is likely to show the same median expectation for the rate path as December's, including one 25bp cut by end-2026, which combined with a largely unchanged statement will effectively maintain the easing bias.*
- *Incoming data for the year so far won't allay hawks' skepticism that inflation is headed sustainably to 2%, and while job gains remain soft at best, the labor market hasn't deteriorated to the point once feared.*
- *The threat posed to both dual mandate variables from the conflict in the Middle East gives policymakers even more reason to wait and see how things develop.*
- *We suspect that most on the FOMC, including the core leadership, will eventually be more concerned with the potential demand destruction from the ongoing energy supply-side shock, than with the inflationary implications.*
- *But this is no time for pre-emptive action given inflation remaining above-target and expectations beginning to pick up, and it will take some months before a case can be made to resume easing.*

Developments since the start of 2026 have pointed increasingly to a Fed holding pattern through the remainder of Jerome Powell's term as Chair. Data have on balance emboldened the hawks and cowed the doves, with the last 2 months of FOMC communications almost universally pointing toward an increasingly patient stance.

- As Powell acknowledged at the January meeting, having cut rates by 75bp in the prior 3 meetings, policy was now "well positioned" and "within the range of plausible estimates", which combined with the latest Dot Plot showing a 1 rate cut median for 2026 meant further moves were likely to be limited and entirely data-dependent.
- In our Inter-Meeting communications section, we outline that coming into March it had become clear that overall opinion on the FOMC had coalesced around an increasing lack of urgency to cut rates again. All members that we had heard from since late January sounded at least as patient on future rate cuts as they did coming into the year, with the overall theme of communications leaning more hawkish. This was reflected in a shift in a more hawkish direction for our Hawk-Dove Spectrum toward a more neutral stance and away from cut-leaning.
- The overall FOMC commentary we heard in March suggests even greater patience yet. February's poor nonfarm payrolls data had the potential to rekindle concerns over the labor market but in the end they did not appear to have greatly impacted FOMC participants' overall views on the rate outlook.
- This was already reason to expect the FOMC not to provide any overt signals as to near-term policy, and the desirability of a patient approach has only been increased by events in the Middle East. The disruption in the Strait of Hormuz and the related energy crisis means financial markets have swung from anticipating two 25bp rate cuts this year to now not even quite pricing one, while analysts have pushed back their expectations for the next easing from June until later in the year.



- Certainly, it looks increasingly implausible barring unforeseen developments that the FOMC will reach consensus on another rate cut before Powell's last meeting (in theory) as Chair in April. But even thereafter, new Chair Warsh will face challenges in building consensus.
- We go over recent macro developments in a dedicated section, but to sum up: even before the Mideast conflict erupted, both dual mandate objectives continued to look shaky.
- Our expectation for the new SEP macro projections suggests a slight tick up in the end-2026 unemployment rate alongside a higher PCE inflation rate, meaning progress toward achieving the dual mandate goals will effectively have stalled, due in part to the war. With such uncertainty over the macro outlook we don't expect any changes to the medians for the 2026-2027-2028 end-year Fed funds rate dots in March's Dot Plot December's edition. However a more hawkish distribution of dots looks likely overall and risks are to the upside in terms of projected rates.

Mideast Conflict Pushes Back Rate Cut Expectations To 2027: The current Fed funds-implied rate path implies 22bp of cuts through end-2026, vs around 47bp at end-January. A full cut has been removed from 2026's cut path since the January FOMC meeting, with a cut no longer seen as soon as July, and instead only in 2027. Indeed end-2026 implied rates are up about 40bp prior to the breakout of hostilities between the US/Israel and Iran.

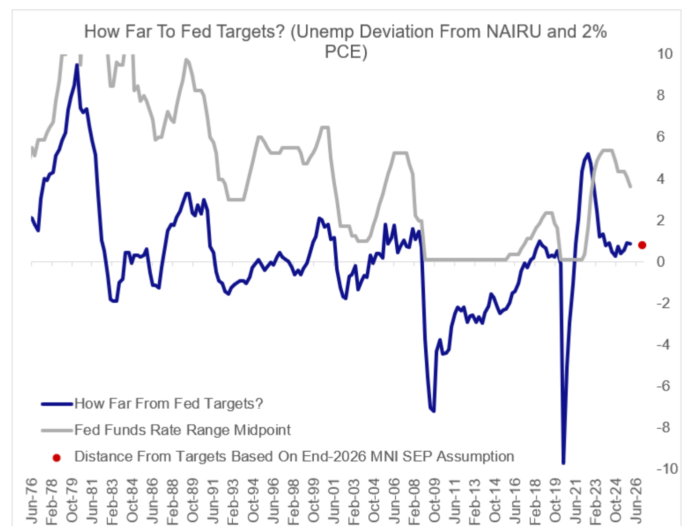
Fed Funds Implied Rate Path – As Of Mar 13, 2026 4pm ET

Meeting	Current FF Implieds (%), LH	Cumulative Change From Current Rate (bp)	Incremental Chg (bp)	Post-Dec FOMC (Jan 28)	Chg Since Then (bp)	Pre-MidEast War (Feb 27)	Chg Since Then (bp)
Mar 18 2026	**3.64**	-0.2	0.0	3.60	3.5	3.62	1.4
Apr 29 2026	**3.63**	-1.2	-1.0	3.57	6.0	3.58	5.0
Jun 17 2026	**3.58**	-6.2	-5.0	3.44	13.4	3.48	9.8
Jul 29 2026	**3.54**	-10.3	-4.1	3.37	16.7	3.38	16.2
Sep 16 2026	**3.50**	-13.7	-3.4	3.27	23.5	3.24	26.3
Oct 28 2026	**3.48**	-16.3	-2.6	3.22	26.2	3.15	33.2
Dec 09 2026	**3.42**	-21.8	-5.5	3.17	25.5	3.03	39.3
Jan 27 2027	**3.42**	-21.8	0.0	3.17	25.4	2.99	43.2

Source: MNI, Bloomberg Finance L.P.

Unemployment Steadier, Job Gains Weak: The latest two payrolls reports seen since the January FOMC decision painted firmly contrasting pictures of the labor market, with January seeing much stronger than expected jobs growth and a surprising push lower in the unemployment rate before the opposite in February. Average the two monthly prints though and the 4.38% sits between 4.47% averaged in Q4 and 4.34% in Q3, and versus 7 FOMC members envisaging a 4.6-4.7% average in 4Q25.

- Recent stability in the unemployment rate isn't conclusive evidence that the labor market is out of the woods, with the very low pace of job gains (30k average in Jan/Feb, sitting between the 26k in Q4 and 38k in Q3) at near estimated "breakeven" levels suggesting it wouldn't take much of a downshift before the unemployment rate began reascending.
- FOMC doves will be wary that a supply-side energy shock sapping already-waning private consumption momentum could be such a catalyst.



Source: Fed, CBO, NBER, BLS, MNI

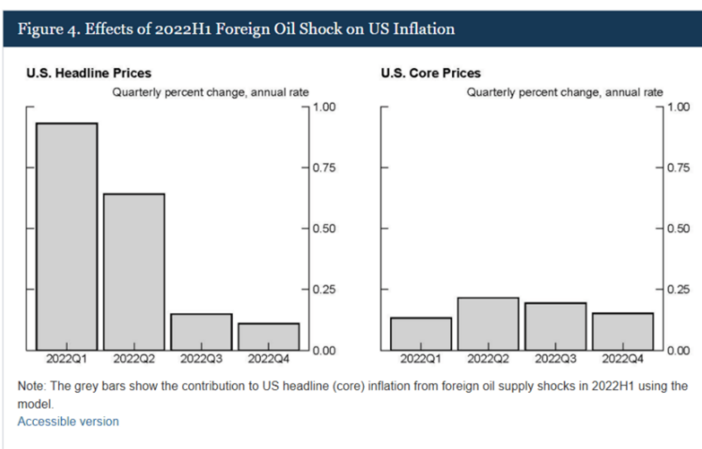
Little Tangible Inflation Progress: One area the majority of the Committee looks likely to agree on is that there has been little tangible progress far in the "final mile" of getting inflation sustainably back to 2%. Having undershot the core PCE inflation forecast from the December SEP for 4Q25 (2.86% Y/Y averaged vs the median 3.0%, which had in turn been revised down from 3.1% in the September SEP), inflation momentum has since shifted higher with core PCE looking to print around the 3.0% handle again in February, after January's six-month rate ran at a similar 3.1% annualized (and even that was biased lower by CPI shutdown distortions).

- Doves on the Committee will have their own perceptions of the trajectory of inflation, with many pointing to anticipated further softening in housing inflation, and tariff pass-through having run its course by the second half of the year warranting easier policy given labor market risks.

- But the Iran war will have added a renewed challenge. It will already have had an impact on near-term energy prices, but from a core perspective if prolonged will also has implications for prices downstream from energy, including for manufactured goods. Meanwhile, food prices look likely to be affected by a related jump in fertilizer costs.
- The impact of the oil shock on inflation is dependent on both the size and duration of the shock, among other factors but the principle is the same: headline CPI is seen jumping and quickly, with peak core CPI rising in lagged fashion.
- Indeed with the data now somewhat stale, current emphasis will be on scenario analysis (see below). But it will also be firmly on inflation expectations, which heretofore had been well-anchored. The FOMC will be much more amenable to considering easing to alleviate the downside growth pressures from high energy prices, but this is entirely contingent on longer-run inflation expectations remaining tame. Indeed the recent uptick in such expectations is probably the biggest single justification for the market pushing out Fed cut pricing. Tighter financial conditions have ensued, but they will also help do the job of dampening activity and thus underlying inflation pressures.

Supply-Side Oil Shock Expected To Raise Headline CPI In Near-Term, Core Less Impacted: We've seen multiple estimates of the impact on US inflation from a supply-driven energy price shock, but the broad assumption that we have seen from sell-side analyst scenarios is that a 10% persistent increase is good for an increase in headline CPI of 0.2pp very quickly (1-2 months), though core impacts are later and smaller.

- The Dallas Fed noted in a 2023 paper that "Given that the cost share of crude oil in the retail price of gasoline is about one half, a rough rule of thumb is that a 20% unexpected increase in the price of crude oil translates to a 10% increase in the consumer price of gasoline, which is expected to raise the CPI by 0.3%, all else equal. Since the full passthrough from an increase in the price of oil to the price of gasoline takes only about four weeks, oil price shocks tend to have an immediate effect on the monthly consumer price index (CPI) and the price index for personal consumption expenditures (PCE)".
- Front WTI contracts are up 35% vs the end of February at the time of writing (though were up 75% at one point early on March 9). A 2024 Fed paper that attempted to quantify the effect on inflation and GDP via a DSGE model of the global economy used the contemporary example of a 30% rise.
- The impact is dependent on both the size and duration of the shock, among other factors (including the share of oil in consumption and wage stickiness) but the principle is the same: headline CPI inflation jumps quickly, with peak core CPI lagging by about a year.
- In the case of the Ukraine-Russia induced shock which began in February 2022, "Oil prices climbed from about $80 per barrel to almost $125 within the first two quarters of 2022". The Fed staff assume a 2-quarter shock, from which they calculate "higher oil prices accounted for almost one percentage point of the increase in headline in 2022Q1 (in annualized rates), and about half a percentage point of the increase in headline for 2022 overall. Turning to core... the contribution of the oil supply shocks was less front-loaded than for headline inflation, with only 0.17 percentage points of the increase in core in 2022 attributed to the oil supply shocks."
- Roughly speaking, the same model but assuming just a 1-quarter shock - i.e., if the current conflict is resolved relatively quickly - implies about an 0.45pp jump in peak headline price growth (again on an annualized basis, and vs 1.0pp in the 2-quarter scenario), falling to about 0.17pp three quarters in; by that point in time, core CPI's largest contribution is being made, at +0.13pp, before fading thereafter.
- Both of the above assume similar conditions in the labor market as in 2022, so it stands to reason that a softer labor market now than then will mean less stickiness and therefore a weaker core (especially) CPI impact than we saw back then - not to mention other supply-side issues at the time including Covid-induced supply chain issues. Though as our Policy Team has noted, there may be some echoes of those supply chain problems in the current episode that may exacerbate inflation.



Presno, Ignacio, and Andrea Prestipino (2024). "Oil Price Shocks and Inflation in a DSGE Model of the Global Economy," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, August 02, 2024

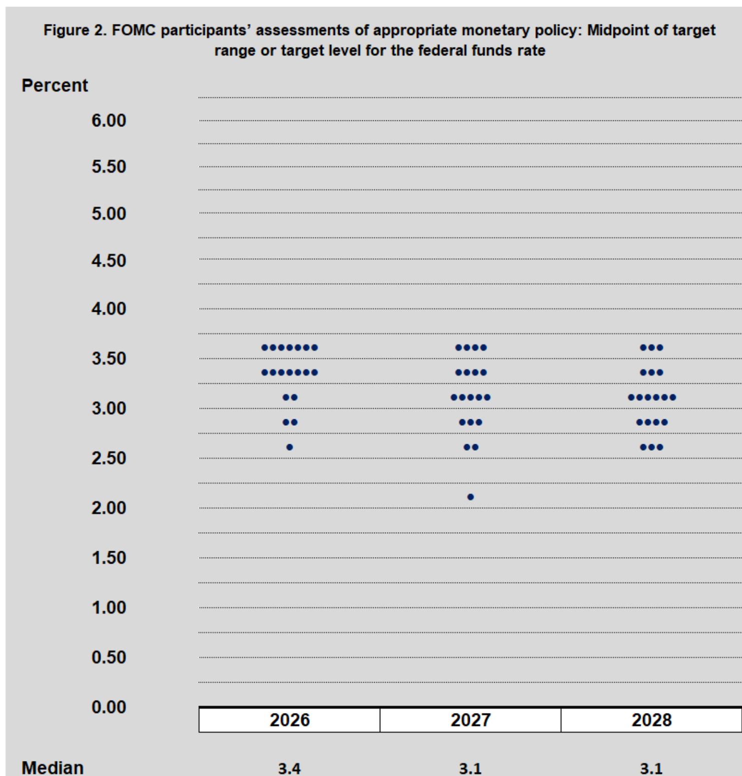
Pressure To Point To Patience At Powell's Penultimate FOMC: We would expect Chair Powell to portray the economic risks stemming from the Mideast conflict as too early to assess with conviction. We would expect him to note that the Committee sees the situation as threatening to both sides of the dual mandate, but we will be interested to see if that assessment is ensconced in the Statement as well (as they did in 2022). Supply-side energy shocks have the potential to weaken aggregate demand and bring core inflation down with it, and it will be interesting to see what the Committee heard on the modelled scenario outcome front from the Fed staff.

- Overall the wide range of scenarios and pre-existing uncertainty should leave Powell emphasizing the optionality of policy. The current conflict in theory could end very quickly, so it will probably be spoken of as a hypothetical/developing set of risks instead of one that is already affecting the policy outlook.
- Either way there is no reason for Powell to signal near-term policy moves, and we would expect him to repeat the language that policy is "well positioned". That said, we wonder whether he will entertain questions about whether rate hikes are now any FOMC members' base scenario, which hasn't been the case to date.

SEP/Dot Plot: Standing Pat For Now

(**Link to December FOMC Dot Plot/Projections**)

- We don't expect any changes to the medians for the 2026-2027-2028 end-year Fed funds rate dots in March's Dot Plot December's edition. However a more hawkish distribution of dots looks likely overall and risks are to the upside in terms of projected rates. As usual our Instant Answers look for end-year medians and the current year's distribution.



Tgt Range	2026	Dec SEP	2027	Dec SEP	2028	Dec SEP
5.75-6.00						
5.50-5.75						
5.25-5.50						
5.00-5.25						
4.75-5.00						
4.50-4.75						
4.25-4.50						
4.00-4.25						
3.75-4.00		3		2		2
3.50-3.75	7	4	4	2	3	2
3.25-3.50	**7**	**4**	4	3	3	2
3.00-3.25	2	4	**5**	**6**	6	**6**
2.75-3.00	2	2	3	3	4	4
2.50-2.75	1	1	2	2	3	3
2.25-2.50				1		
2.00-2.25		1	1			
1.75-2.00						
1.50-1.75						
1.25-1.50						
1.00-1.25						
0.75-1.00						
0.50-0.75						
0.25-0.50						
0.00-0.25						
MEDIAN	**3.4**	3.4	**3.1**	3.1	**3.1**	3.1
Participants	**19**	19	**19**	19	**19**	19

Source: MNI Markets Team Expectations

- **2026:** While the median is likely to stay at 3.4%, implying one 25bp cut by year-end, it wouldn't take much for the median to move up a notch and show "no change" expected. In the December Dot Plot there were 7 entries at 3.6% and 3.9%, and we would expect that number to stay the same or possibly increase (even if the 3 dots at 3.9% are likely to come down to 3.6% to recognize the actual rate cut in December).
- To shift to a 3.6% median, it would take 3 of the 12 members looking for one or more cuts in 2026 to now say they don't expect any easing. That's plausible given there were 8 who saw 1 or 2 cuts, and most FOMC members have suggested they are less concerned about labor market risks now than they were at end-2026.

- That said, we think there will still be a majority that see easing as more likely than not by year-end, but the bottom end of the distribution should move up, with Gov Miran (the 2.1% dot last time) saying he'd reduced his outlook for cuts this year by 50bp (to 2.6%).
- **2027-2028:** We see only limited changes here and no changes to the medians, which imply a follow up 25bp cut in 2027 before holding into the long run. 2027's lowest dot may decline to reflect Miran's delayed easing ambitions, but the
- **Longer-Run:** With 10 members at 3.00% or below and 9 above in the December Dot Plot, the Longer-Run median is on the cusp of changing. It would take only one of the 5 members at 3.00% to move up a notch, for example, to shift the median higher. In a close call we see the median holding at 3.00% but it would be no surprise at all if it finally shifted higher at this meeting to 3.10%.

Macroeconomic Projections: The macro forecasts are likely to be tweaked and not overhauled, given major uncertainty over the Mideast situation. 2026 unemployment could be nudged up or remain at 4.4%, with GDP seeing a possible slight downtick but no substantive change. The bigger adjustments are likely to be in the inflation column, with both recent inflation stickiness and the latest energy price jump reflected in a higher headline PCE expectation (less so, for core). Outer year forecasts, however, are unlikely to see any significant changes.

Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents under their individual assessments of projected appropriate monetary policy, March 2026

Percent

Variable	2026	2027	2028	Longer Run
Change in real GDP	**2.2**	**2.0**	**1.9**	**1.8**
Dec projection	2.3	2.0	1.9	1.8
Unemployment rate	**4.5**	**4.2**	**4.2**	**4.2**
Dec projection	4.4	4.2	4.2	4.2
PCE inflation	**2.7**	**2.2**	**2.0**	**2.0**
Dec projection	2.4	2.1	2.0	2.0
Core PCE inflation	**2.6**	**2.1**	**2.0**	-
Dec projection	2.5	2.1	2.0	-
Federal funds rate	**3.4**	**3.1**	**3.1**	**3.0**
Dec projection	3.4	3.1	3.1	3.0

Source: MNI Markets Team Expectations

Statement: War Re-Raises Uncertainty

(Link to January FOMC statement)

Going paragraph by paragraph through the previous (January) statement in italics:

Available indicators suggest that economic activity has been expanding at a solid pace. Job gains have remained low, and the unemployment rate has shown some signs of stabilization. Inflation remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook remains elevated. The Committee is attentive to the risks to both sides of its dual mandate.

- The Statement's opening paragraph on recent economic developments could be tweaked to reflect a slightly more moderate underlying pace of economic growth, with the language on employment and inflation also in line for edits.
- In particular, we will be interested to see how they handle the strong January payrolls vs the weak February edition (with downward revisions), as well as the expected downward benchmark revisions to 2025. They may simply acknowledge that average job growth has been flat in recent months, but nonetheless the unemployment rate has remained relatively "stable". This would leave unsettled the FOMC's debate over the supply vs demand dynamics in the labor market.
- On inflation, the data have been volatile but sticky with some distortions lingering from the BLS shutdown in late 2025, so the FOMC will probably agree that price pressures remain "somewhat elevated".
- In the 2nd paragraph: "uncertainty" certainly "remains elevated", and even moreso now given the Middle East conflict.
- In March 2022, the first meeting after the beginning of the Russia-Ukraine war, the Statement added: "The invasion of Ukraine by Russia is causing tremendous human and economic hardship. The implications for the U.S. economy are highly uncertain, but in the near term the invasion and related events are likely to create additional upward pressure on inflation and weigh on economic activity."
- Similar language could be introduced this month, at least in terms of the implications being "highly uncertain", though we are doubtful the FOMC will agree on making clear conclusions on the macro impact (ie "upward pressure on inflation" and "weigh on economic activity"), and won't make a reference to "hardship".
- That being said, the Statement will probably retain its reference to risks to "both sides" of the dual mandate.

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 3-1/2 to 3-3/4 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

- A change to the forward rate guidance would of course be impactful, but given prevailing uncertainty and Committee discord over the path forward, we doubt there is sufficient decisiveness to make an amendment here.
- The Statement added "extent and timing" in December to signal that after 3 consecutive cuts, the easing bias remains but the pace has slowed and the next move will be data-dependent. That's still enough to convey the Committee's optionality and non-commitment on future rates.
- There's no doubt that the undercurrent for guidance is in a hawkish direction, with the January meeting minutes noting "Several participants indicated that they would have supported a two-sided description of the Committee's future interest rate decisions, reflecting the possibility that upward adjustments to the target range for the federal funds rate could be appropriate if inflation remains at above-target levels."

- **MNI's Instant Answers questions for the meeting include a tally of dissenters.** Gov Miran looks likely to dissent (again) in favor of a 25bp reduction, and he may again be joined by Gov Waller who said in February that his decision on the meeting would be a "coin flip" that would be decided by the incoming February payrolls and CPI data. A third dissent – by Gov Bowman – is unlikely (she didn't dissent in January) but not unthinkable.
- **The Implementation Note** could at some point include a tweak of administered rates, including a nudge lower in the interest rate paid on reserve balances from the current 3.65%, or the standing repo facility rate of 3.75%. We continue to include these in our Instant Answers, just in case – once again we don't expect any move at this meeting.
- Additionally the Fed is due to update soon on its reserve management purchase tempo. It has said it will dial back purchases from the existing $40B/month once the mid-April tax season (which drains reserves / liquidity) is at an end. The current NY Fed bill buying schedule runs through April 7, with the new one due to be published April 13, so we wonder if there will be a signal provided ahead of time as to the exact size of future monthly RMPs.

Macro Developments Since The January 27-28 FOMC Decision

By Chris Harrison

There has been a huge amount of data since the January FOMC meeting, including two payrolls and CPI reports for January and February. The payrolls reports have been a reminder of the risk of putting too much weight on any given report and the latest CPI report on the importance of small details when it comes to core PCE tracking.

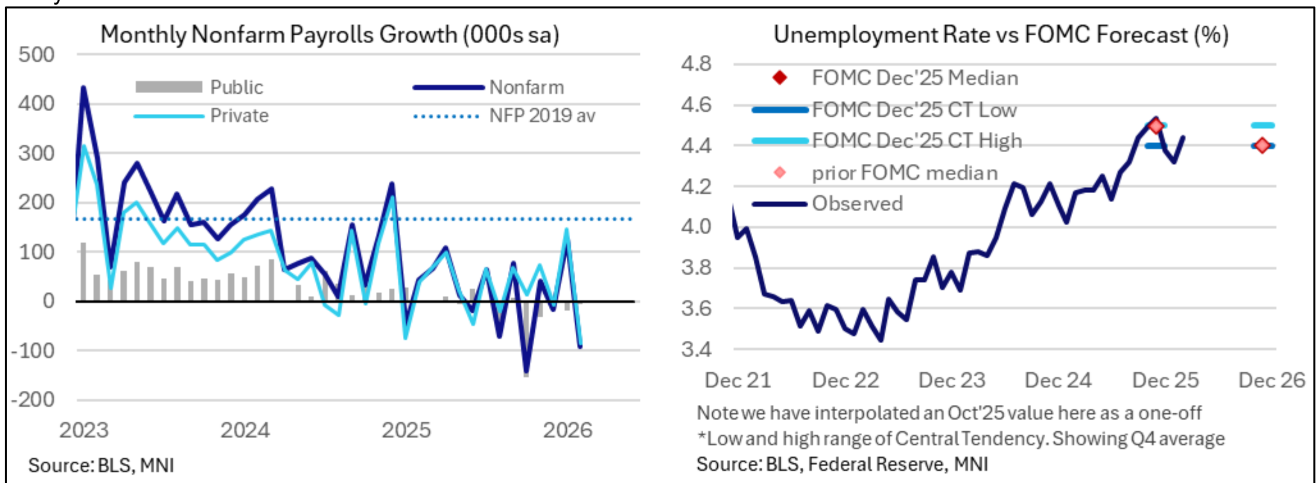
Labor Market: Broad Stabilization When Looking Through Some Significant Noise

The two payrolls reports painted firmly contrasting pictures of the labor market, with January seeing much stronger than expected jobs growth and a surprising push lower in the unemployment rate before the opposite in February. Some potentially sizeable drivers include the weather, with a relatively mild January before a hangover from severe winter storms in late January potentially affecting the February reading, and January’s particularly bad flu season (effectively pulling forward some healthcare jobs). Low response rates are also creating scope for greater monthly volatility and revisions.

Looking at private payrolls growth for a better sense of underlying trends, especially considering deferred resignations showing late last year, the 86k monthly decline in February after a 146k increase in January averages out at 30k per month, sitting between the 26k in Q4 and 38k in Q3. In reality it’s a little stronger as it includes a temporary 32k of striking workers that returned to their workplaces in time for the March report (i.e. that two-month average would be closer to 45k per month). This private sector job creation continues to be dominated by the cyclically insensitive health & social assistance category (Jan-Feb av of 50k despite accounting for nearly all of those striking workers vs 50k in Q4 and 60k in Q3) with continued sizeable losses for other private sectors (Jan-Feb av of -19k after -24k in Q4 and -16k in Q3).

The household survey’s unemployment rate meanwhile is back to exactly where it was ahead of the government shutdown, at 4.44% in February having in the interim hit 4.54% in November (with estimates that it was biased 0.1pp higher by shutdown distortions) and 4.32% in January. Average the two monthly prints and the 4.38% sits between the heavily caveated 4.47% averaged in Q4 and 4.34% in Q3. That broad stability continues to defy a scenario that the most dovish FOMC members had envisaged back in the December SEP (seven members pencilled in an u/e rate at 4.6-4.7% in 4Q25), with some of these prominent members since dialling back cut calls/rhetoric over the past month prior to the energy price shock from the ongoing Middle East conflict.

As for other pertinent labor releases, JOLTS job openings have swung in the latest two months up to January - lower in Dec before bouncing in Jan - with latest data better reflecting the steadier and relatively healthy job postings from Indeed. The hire rate meanwhile held onto December's improvement although remains depressed historically and combined with the position on the Beveridge curve remains a source of Fed concern should the labor market soften further. Initial jobless claims data suggest no further imminent softening, proving remarkably steady at a low level, although a typically dovish Fed Governor Waller has downplayed the signal that he takes from this series. Consumers continue to feel greater labor market stress than the claims data would imply with the Conference Board’s labor differential showing a clear deterioration trend even if that has slowed recently.



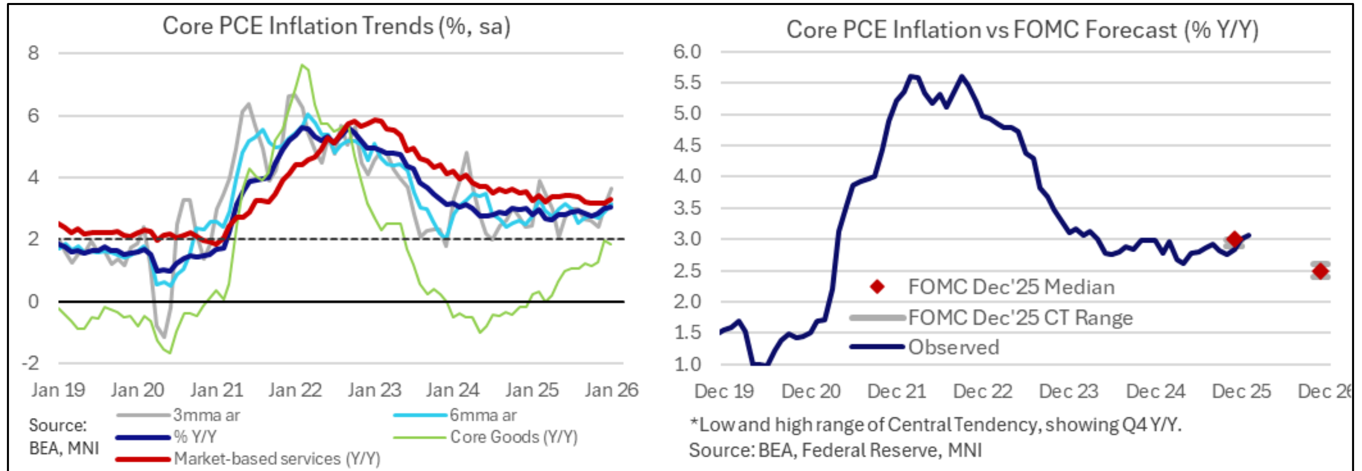
For more detail, see our latest Employment Insight - “Payrolls Take A Misstep” (link).

Inflation: Most Hawkish Outcomes Averted But Still Stubbornly High

Recent inflation reports have avoided some of the more hawkish scenarios that could have stemmed from tariffs under the Trump administration but continue see an environment where the return to the 2% inflation target is proving challenging. These are of course viewed as stale considering the energy price-led inflation that is in the pipeline but they nevertheless offer a useful starting point. Having undershot the core PCE inflation forecast from the December SEP for 4Q25 (2.86% Y/Y averaged vs the median 3.0%, which had in turn been revised down from 3.1% in the September SEP), inflation momentum has since shifted higher. Specifically, core PCE inflation slightly underwhelmed unrounded expectations in the delayed January report without notable upward revisions to offset but it was still at 0.36% M/M. It follows another 0.36% M/M in Dec and with tentative analyst

expectations looking for ~0.4% M/M in February judging by already released CPI details with a sizeable caveat that February PPI data are still outstanding.

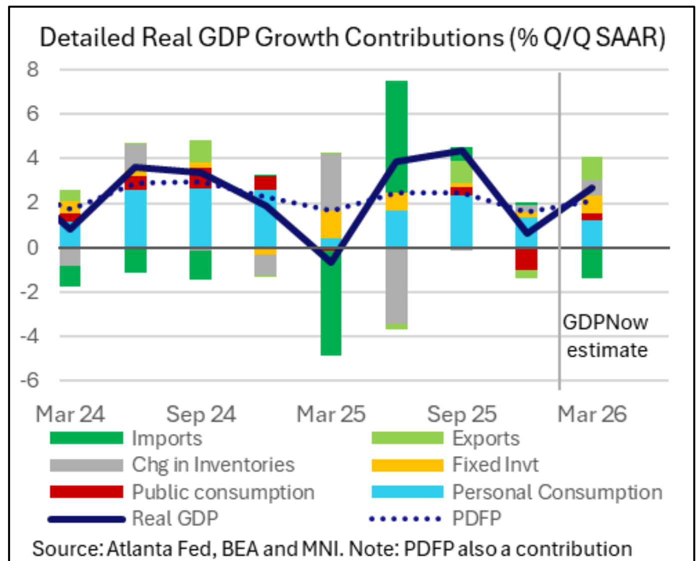
Putting strong February projections to one side, January Y/Y inflation accelerated slightly to 3.06% Y/Y after 3.01% in Dec for a second month at least 3.0% Y/Y having recently bottomed at 2.61% in Apr 2025. The six-month rate runs at a similar 3.1% annualized (biased lower by CPI shutdown distortions) whilst the three-month is stronger at 3.7%. Supercore is a particularly strong component here, running at 3.5% Y/Y, 3.9% annualized over six months and 4.3% over three months. The Fed will have a better idea of core PCE tracking with the February PPI release on Mar 18. That's on the second day of the two-day FOMC meeting which could warrant some last-minute tweaks to core PCE forecasts, although they're likely secondary to energy price considerations.



For more detail, see our latest Inflation Insight - "Mind The PCE Gap" (link).

Growth: Underlying Momentum Faded At End-2025 Before Signs Of Acceleration (Pre-Energy Shock)

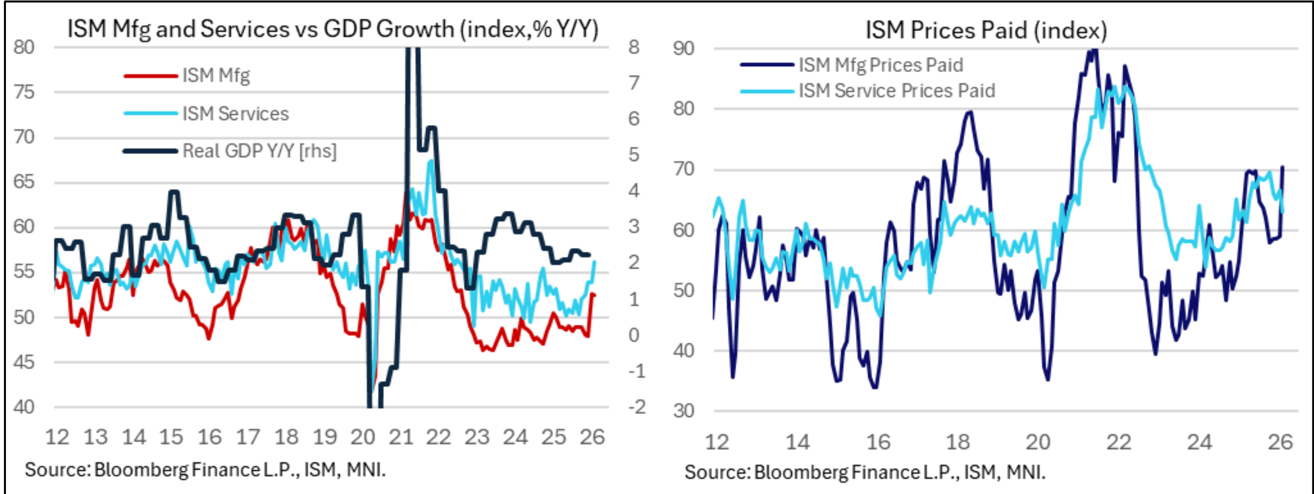
Real GDP growth ended 2025 on a far softer note than expected. A sizeable part of that was directly down to the government shutdown, with a very strong deflator, but a second revision also downgraded private domestic demand growth as well. We're left with real GDP growth of 0.65% annualized in Q4 after a very strong 4.4% in Q3, whilst PDFP presents a less volatile picture with 1.9% in Q4 after 2.9% in Q3. With PDFP contributing 1.6pp to real GDP growth in Q4 after 2.5pp in Q3, net exports (-0.4pp after +1.0pp) and government spending (-1.0pp after +0.4pp) have been the major sources of the quarterly slowdown and volatility. Latest GDP tracking from the Atlanta Fed's GDPNow points to a reasonable recovery in Q1 to 2.7% annualized on the back of the government drag reversing, a bounce in private investment after a disappointing Q4 compared to prior strength and a boost from inventories.



Looking at consumption more closely, January's PCE spending data were roughly in line with expectations, but as such continued to show waning consumption momentum. One of the expected underpinnings of consumption in 2026 is better disposable income on the reduced tax burden, and there was evidence of this in January's figures, but this will have to contend against a weakening labor market and still-stubborn inflation. Real spending rose a tepid 0.1% M/M for the 4th month in 5, bringing the 3M/3M annualized rate down to 1.6% for the slowest quarterly momentum since April 2025. Goods spending was again the major drag and chalked up its first quarterly contraction since March 2024 with -0.3% annualized. Services consumption remained relatively stronger yet its quarterly rate dipped to 2.4% for the weakest since May 2025. And again, it wasn't cyclical categories that showed strength, with upside fueled by housing/utilities, healthcare, and financial services/insurance rather than discretionary categories.

As for soft indicators, the ISM manufacturing survey saw a far stronger than expected almost 5pt increase in January and then held onto that gain in February at 52.4. Within this, new orders eased back to 55.8 after a particularly solid 57.1 in January although the two-month average is the highest since early 2022 having spent most of that time in the contractionary sub-50 region. The most notable aspect of the February report was the 11.5pt jump in prices paid to 70.5 for its highest since Jun 2022 in a resurgence of input cost pressure signs after four particularly stable months. ISM services meanwhile was broadly as expected in January before seeing a surprise increase to a healthy 56.1 in February. While the details underlying it were

anticipated to be solid despite an overall anticipated downtick, the subindices still managed to easily impress, with new orders at a 17-month high, employment at a 12-month high and business activity at a 21-month high. The data also impressed in terms of breadth, with the report noting it was the third consecutive month in which all of those 4 PMI subindices rose, and even more impressively, all 10 subindices were in positive territory for the first time since March 2021. Also heartening was that the prices paid gauge fell 3.6 points to 63.0 for an 11-month low, the exact opposite signal to that from its manufacturing counterpart.



MNI Instant Answers:

The questions that we have selected for this meeting are:

- Federal Funds Rate Range Maximum
- Number of dissenters to size of rate move
- Interest rate paid on reserve balances
- Standing Repo (SRP) Operations Rate
- Median Projection of Fed Funds Rate at End of 2026
- Median Projection of Fed Funds Rate at End of 2027
- Median Projection of Fed Funds Rate at End of 2028
- Median Longer Run Projection of Fed Funds Rate
- Number of 2026 Dots > 3.625%
- Number of 2026 Dots < 3.625%
- Number of 2026 Dots > 3.375%

The markets team has selected a subsection of questions we think could be most market moving and will publish the answer to all of these questions within a few seconds of the Fed statement being released.

mni Central Bank Watch - FED

13 March, 2026

MNI FED Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	2.4	2.7	↓	2.7	↓					-1.13
PCE Deflator	% y/y	2.8	2.7	↑	2.6	↑					0.59
UoM 1-Yr Inflation Exp	% y/y	3.4	4.2	↓	4.7	↓					-1.43
Inflation Swap 5y/5y	%	2.38	2.40	↓	2.48	↓					-1.79
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
ISM	Index	52.4	48.0	↑	48.9	↑					2.53
Industrial Production	% m/m	0.70	-0.44	↑	0.41	↑					1.38
Factory Orders	% m/m	-0.7	0.2	↓	-4.8	↑					-0.33
Housing Starts	K	1487	1272	↑	1420	↑					1.76
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Corporate Spreads BBB/Baa	bps	1.09	1.06	↑	1.06	↑					-0.44
Chicago Fed Financial Con	Index	-0.52	-0.51	↓	-0.53	↑					0.23
Consumer Credit Net Chg	$bn	8.1	7.3	↑	12.7	↓					-0.26
New Home Sales	K	745	719	↑	662	↑					1.13
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales	% m/m	-0.2	-0.2	→	0.6	↓					-0.88
Consumer Confidence	Index	91.2	92.9	↓	97.8	↓					-0.97
Nonfarm Payrolls Net Chg	K	-92	41	↓	-70	↓					-0.97
Average Hourly Earnings	% y/y	3.8	3.9	↓	4.0	↓					-0.42
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market	Index	6651	6849	↓	6460	↑					1.46
US 10-Year Yield	%	4.28	4.01	↑	4.23	↑					-1.53
US Yield Curve (2s-10s)	bps	55.5	52.4	↑	61.2	↓					-0.09
USD TWI	Index	90.82	92.70	↓	91.63	↓					-0.80

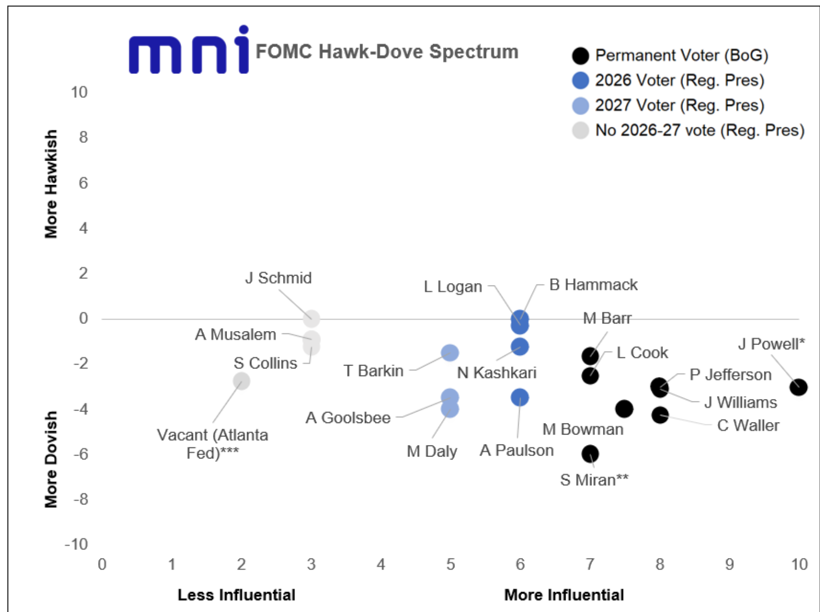
Source: MNI, Bloomberg Finance L.P.

Key Inter-Meeting Fed Speak – Mar 2026

By Tim Cooper
March 12, 2026

Coming into March, it had become clear that overall opinion on the FOMC had coalesced around an increasing lack of urgency to cut rates again. All members that we had heard from in late sounded at least as patient on future rate cuts as they did coming into the year, with the overall theme of communications leaning more hawkish. This was reflected in a shift in a more hawkish direction for our Hawk-Dove Spectrum toward a more neutral stance and away from cut-leaning.

- A strong January nonfarm payrolls report helped consolidate opinion that downside risks to the labor market had moderated, and that further evidence that inflation is converging to 2% would be required to support a resumption of easing.
- We assess **Waller, Gov Bowman, and Miran** to be the biggest proponents of easing, and each became less dovish in the inter-meeting period.
- **Gov Waller** - who dissented to January's hold in favor of a 25bp cut - last month described his possible support of a hold or a 25bp cut at the March meeting as a "coin flip" whose outcome would ultimately depend on the February jobs and inflation reports.
- Also appearing to shift his outlook in a more neutral direction after the January nonfarm payrolls report was his fellow dove/January dissenter **Gov Miran**, who said last month that he had removed 50bp from his 2026 rate cut projection (to a still hefty 100bp in easing) because "The labour market came in a little bit better than I came to expect over the last few months. There's been some signs of even more firming in goods inflation".
- **Gov Bowman** said "I decided that I was supportive of pausing in January at our meeting to just make sure we understood how that that accommodation was making its way through the economy and hopefully into the labor market... Since the January meeting, we started to see some more information that is pointing a little bit more to signs of stabilizing on the labor market. So I'm looking forward to seeing echoes of that."



Hawkish/Dovish: Scores indicate MNI`s subjective assessment of each member`s stance on monetary policy. **-10** implies member believes aggressive easing warranted; **+10** is most hawkish, implies member believes aggressive tightening warranted. Scores around -2 to +2 considered relatively neutral.
Influence: The x-axis runs from **0** ('least influential') to **10** ('most influential'). Voters in the current year receive a minimum score of 6; the Chair receives a 10 and Board of Governors members receive at least 7. Those who are not voters in the current year are limited to a score of 5; among them, those due to vote next year receive higher influence scores (rising towards end of current year), and vice-versa. **Updated Mar 12, 2026**

** Powell's term as Chair expires on May 15 2026 but his term on the Board expires in Jan 2028*
*** Miran's term on the Board expired on Jan 31 2026 but he is remaining until a successor is confirmed*
**** Atlanta's Bostic retired at the end of his term on Feb 28 2026 - his successor will vote in 2027*

The overall FOMC commentary we heard in March suggests even greater patience yet. February's poor nonfarm payrolls data had the potential to rekindle concerns over the labor market but in the end they did not appear to have greatly impacted FOMC participants' overall views on the rate outlook. And participants mulled the potential macro implications of the nascent conflict in the Middle East, which was mostly seen as presenting risks to both sides of the dual mandate.

We heard from multiple speakers on March 6 after payrolls but before the pre-March FOMC blackout period began - some highlights, in alphabetical order of speaker:

- **Boston's Collins (leans hawkish, non-2026/2027 FOMC voter):** Said she does not put too much emphasis on any particular data point, said February's 4.4% unemployment rate remains low by historical standards and has been relatively stable over the last few months. "Still, it appears that the rate of hiring last year was below breakeven as we saw a modest increase in the unemployment rate." She sees the conflict in the Middle East as exacerbating uncertainty but still does "not see an urgency for additional policy adjustments, and I will be looking for clear evidence that inflation is moving durably toward the 2% target – something that might occur only over the second half of the year."
- **San Francisco's Daly (dovish, 2027 FOMC voter): Said** "I had hoped the 75 basis points we did last year would put a floor underneath the labor market. But this jobs market report has got my attention, and I've long been worried about it...the labor market is maybe a little weaker than we have seen so far." That said, "I think it's really important to step back. No one month of data is a decisional month of data. I think it just tells us that, you know, the hopes that the labor

market was studying maybe we maybe that was too much, and we really have to keep our eye on the labor market, but we also have inflation printing above target and oil prices rising. How long they last, we don't know, but both of our goals are risks now, and we have to keep our eye on both."

- **Chicago's Goolsbee (2027 FOMC voter, near-term hawk but longer-term dove):** Said he remains more concerned about elevated inflation despite a "tough miss" on the February jobs report. The added uncertainty of rising oil prices bolsters the case for the Fed to hold rates. "As we get more uncertainties, I think the time at which it makes sense to act keeps getting pushed back...I remain hopeful that conditions will improve, that we'll start to see some progress on inflation, headed back to 2%, and by the end of the year that we would be in a situation that we could commence our march back down to the settling point." Of the rise in the unemployment rate in February, "if you've got several months like that, that would be a concerning spot for the labor market."
- **Cleveland's Hammack (2026 voter, one of most hawkish on FOMC):** Said that with inflation high alongside a softening labor market, "Given this combination and recent rate reductions, I believe policy is in a good position. The fed funds rate is around neutral, which allows us to see how things are going to play out." "Under my base case, I think policy should be on hold for quite some time as we see evidence that inflation is coming down and the labor market stabilizes further. But it's easy to envision other scenarios, as well, so I see two-sided risks to rates."
- **Gov Miran (permanent voter, biggest dove on FOMC):** Said "Policy is pretty miscalibrated...The labor market could use more support from monetary policy." The oil price spike from the Iran war "slightly weighs on core inflation because it pulls demand out of the economy as people have to spend more on energy products. I'm hesitant to react to what's going on oil until we know more but if anything it biases more toward more dovish policy."

Member	**Role**	**Voter**		**Monetary Policy Commentary Since January FOMC**
		'26	**'27**	
J Powell	BOG, Chair	**X**	**X**	- **No commentary on current monetary policy since last FOMC meeting**
J Williams	NY Fed, VChair	**X**	**X**	Williams's speech on March 3 **(here)** reinforces that he is a dovish-leaning FOMC member, key because he is probably in harmony with the core leadership (including Chair Powell) on rates. He seems to remain of the view that inflation is headed back to target - allowing for further rate cuts so that policy doesn't "inadvertently" become more restrictive. - Just reading this speech you would think going into the March meeting it's likely there would still be a fair few submissions in the Dot Plot pointing to rate cuts by year end (was 12 of 19 members in December). However there is no mention in the speech of geopolitical developments / oil price impact on the economy so the comments look a little dated - there's a moderated Q&A at this event in which Williams could address those issues. Key quotes on his outlook: - "Overall, the U.S. economy appears to be on a good footing. Growth is solid, the labor market is showing signs of stabilizing, and while inflation remains above our 2 percent target, recent data have been reassuring." - "With real GDP poised for continued solid growth, I expect the unemployment rate to edge down over the course of this year and next year. And with the effects of tariffs on inflation waning later in the year, I expect overall inflation to come in at around 2-1/2 percent in 2026, then fall to 2 percent in 2027." - "Monetary policy is currently well positioned to support the stabilization of the labor market and return inflation to our 2 percent goal. Looking further ahead, if inflation follows the path I expect, further reductions in the federal funds rate will eventually be warranted to prevent monetary policy from inadvertently becoming more restrictive." On the impact of the Middle East conflict on monetary policy (from the MNI Policy team, **on Mar 3):** "We'll have to see how persistent this is and how long it is. It is early days to make the broader assessment. " "The transmission channels right now would primarily be through the oil prices and some of the market uncertainty." "Increases of energy prices do affect kind of a near-term inflation outlook." - "It's one of those kinds of developments that can hit both of our mandate goals in kind of opposing ways. In the short-term, raise inflation and maybe slow global growth. But really the important question is quantitatively how big of an effect does that have on the U.S. and how persistent those effects are in terms of price stability and maximum employment."
P Jefferson	BOG, VChair	**X**	**X**	Jefferson, whose views we assume are closely aligned with those of Chair Powell and other core FOMC members, suggested **in a speech on Feb 6** that he's satisfied with the current stance of policy and isn't in much of a rush to cut again given an improving economic outlook. We'd still guess he's in the camp of leaning toward one or two 25bp cuts by year-end, though prior to this speech we'd thought he had been more solidly in the 2 cut camp. - He says (no surprise) that he supported the 175bp in cuts so far, including the last three 25bp easings late last year: "These rate cuts were responses to downside risks to employment amid somewhat reduced upside risks to inflation. Collectively, these adjustments put our policy rate broadly in the range of estimates of the neutral rate while maintaining a balanced approach to promoting our dual-mandate objectives. Our

Member	Role	Voter		Monetary Policy Commentary Since January FOMC
		'26	'27	
				policy stance should help stabilize the labor market while allowing inflation to resume its decline toward our 2 percent target. We always follow a prudent, meeting-by-meeting approach. The current policy stance is well positioned to address the risks to both sides of our dual mandate. I believe that the extent and timing of additional adjustments to our policy rate should be based on the incoming data, the evolving outlook, and the balance of risks." - On the labor market front, he doesn't anticipate further deterioration "while I look forward to reviewing January's jobs report, I see the overall labor market as roughly in balance, with a low-hiring, low-firing environment prevailing...In this less dynamic labor market, the downside risks to employment remain, but my baseline is for the unemployment rate to hold approximately steady throughout this year." - He says his outlook for growth has improved: "I have revised up my growth forecast modestly in recent weeks, informed by signs of the economy's continued resilience. Now, I expect the economy to grow at a rate similar to last year's estimated rate of 2.2 percent". - And he echoes Powell's latest press conference in seeing a convergence to target after tariff impacts on goods have passed through: "we have seen a decline in services price inflation, mostly due to easing price pressures in housing services. But this decline has been offset by an increase in core goods price inflation. Certainly, some upside risks remain, but I expect the disinflationary process to resume this year once increased tariffs pass through more fully to prices." - His speech addresses the hot topic, particularly among Committee doves, of productivity gains potentially bringing inflation down and allowing for further Fed easing. He sounds cautious. While "projected strong productivity growth may be a source of further help in bringing inflation down to our 2 percent target", "Should we expect the pickup in productivity to affect inflation? As in the pandemic experience, the answer likely depends on how the balance between supply and demand is affected over time". He notes that "All other things being equal, persistent increases in productivity growth are likely to result in an increase in the neutral rate, at least temporarily. With faster productivity gains, consumers may anticipate higher future income growth and choose to spend more now, reducing their saving rate. At the same time, increased productivity gains also imply a rise in the marginal productivity of capital and thus higher investment demand."
M Bowman	BOG, VChair	**X**	**X**	Like some fellow doves on the FOMC, Gov Bowman appears to be reconsidering her appetite for near-term rate cuts due largely to the latest labor market data, potentially adding to the stakes for Friday's nonfarms release. **On March 5** Bowman said "I decided that I was supportive of pausing in January at our meeting to just make sure we understood how that that accommodation was making its way through the economy and hopefully into the labor market... Since the January meeting, we started to see some more information that is pointing a little bit more to signs of stabilizing on the labor market. So I'm looking forward to seeing echoes of that. We have an employment report that comes out tomorrow, and then next week we'll have an inflation report that comes out that will help us understand a little bit more directionally where inflation is headed as well." • At the end of January, Bowman said that downside risks to the labor market haven't diminished, and that she had penciled in 3 rate cuts this year. • For Bowman - The pickup in oil prices and uncertainty as a result of the Iran-US conflict appears to be less of a factor for Bowman though it probably isn't adding to the case for cuts. "I expect, as we see the conditions changing and as we have started to engage in some conflicts internationally, I'll be watching closely how that may impact some markets, especially energy markets... But at this point, I think it's too early to tell what the impacts will be and how long those those may go on." Prior to this, Bowman **said on Jan 30** (**speech text here**) that while she didn't elect to cut rates in January, she could be ready to cut in March. She made clear that she saw 3 cuts this year in the December Dot Plot (as MNI had assumed), making her one of the biggest doves on the Committee. - "I continue to see policy as moderately restrictive, and, looking ahead to 2026, my Summary of Economic Projections includes three cuts for this year." - The key is that "downside risks to the labor market have not diminished, and we should not overemphasize the latest reading on the unemployment rate...My view is that we should continue to focus on downside risks to our employment mandate, and the description of the labor market is helpful to communicate that we are not overly confident. History tells us that the labor market can appear to be stable right up until it isn't." - "Absent a clear and sustained improvement in labor market conditions, we should be ready to adjust policy to bring it closer to neutral...we should also not imply that we expect to maintain the current stance of policy for an extended period of time because it would signal that we are not attentive to the risk that labor market conditions could deteriorate." - "In my mind, the question at this meeting was about the timeline for implementing these cuts, essentially choosing between continuing to remove policy restraint and arriving at my estimate of neutral by the April meeting, or moving policy to neutral at a more measured pace throughout this year." - "I am also reluctant to take meaningful signal from the latest data releases given the statistical noise introduced by the government shutdown" but "Given that by the time of our March meeting we will have received two additional inflation and employment reports, I saw merit in waiting to take action." Bowman **said on Jan 16** that the latest inflation data was "a little softer" than most expected but in line with her

Member	Role	Voter		Monetary Policy Commentary Since January FOMC
		‘26	‘27	
				expectations: - “Since I see the current policy stance as moderately restrictive, I do think there’s room for at least 75bp of more cuts in 2026 […] that’s what I wrote into my forecasts last December”. She's still focused on threats to employment stability despite a better-than-expected jobs report for January, pointing to growth concentrated in a couple of sectors as "not a sign of a healthy labor market." - At the same time, Bowman said she was heartened by the latest inflation data and believes prices pressures will continue to subside. "We got some more data in it's a little softer than I think most expected. That's in line with my expectations that we will start to see inflation decline much closer to 2% especially as the tariff effects begin to wane even further."
L Cook	BOG	**X**	**X**	Cook's **speech on Feb 6** [(link)] sounded more hawkish on the rate outlook than her previously dovish leanings, while broadly hewing to the centrist view on the FOMC that further easing may be appropriate. Overall she sounds wary of declaring victory over inflation and won't lean toward further cuts unless she sees further evidence that it's returning to target. - "At this time, I see risks as tilted toward higher inflation. As a result, I supported the FOMC's decision to hold the policy rate steady at our meeting last week. As I described, there is an argument for being optimistic about the path of inflation, but, until I see stronger evidence that inflation is moving sustainably back down to target, that is where my focus will be, in the absence of unexpected changes in the labor market.... I remain optimistic that inflation will soon return to a path toward our target, that the labor market is stabilizing, and that sustainable growth lies ahead. My optimism is tempered with caution. This is why I will remain vigilant in studying a wide range of incoming information so that I can pursue the best policy to achieve our dual-mandate goals. My future policy decisions will be guided by incoming data, my economic outlook, and the evolving balance of risks." - "Broadly, I see the U.S. economy as continuing to be resilient, with recent data indicating that growth in the second half of 2025 was even stronger than previously forecast. Inflation appears to have stalled stubbornly above our 2 percent goal, while at the same time the labor market appears to have stabilized in recent months. While the overall condition of the economy is solid, I am carefully watching sentiment, delinquencies, and other indicators that show a worsening outlook for low- and moderate-income households." - She sees inflation (and expectations) as under wraps, with core goods prices moderating after tariff passthroughs are complete, but "much uncertainty remains. The future direction of tariff policy is unclear. And, even when tariff levels are settled, uncertainty remains with respect to how long it will take for that price rise to be complete and whether it will take hold in inflation expectations." - While "Risks to the labor market persist", "the labor market is roughly in balance, but I am highly attentive to developments, knowing it can shift quickly." - And on productivity which some doves point to as a reason to expect inflation to come down, unlocking rate cuts, Cook sounds like her FOMC colleague Jefferson in sounding somewhat skeptical ("I am concerned that there is a dynamic inconsistency problem such that there could be a mismatch between the arrival of costs related to AI investment and the arrival of benefits, including higher productivity that is noninflationary.") - Also like Jefferson, "For all of 2025, I estimate the economy grew a bit better than 2 percent, and I see a similar rate of growth being maintained this year.". - She devotes a long passage to consumer sentiment readings: "I think about this two-speed or K-shaped economy when I attempt to take signal from various sentiment readings...the reasons for low sentiment are real and are deeply concerning. But they do not, in my view, reveal a signal about increased slack that we can tackle with our typical demand-side monetary policy. In fact, for the part of households' concerns related to the pain of inflation, the best thing we can do in our roles is to ensure that inflation returns to and stays at target." Some of the more dovish members, including SF Fed's Daly, appear to take consumer sentiment readings more seriously. But there appears to be a broader consensus to take such readings with a grain of salt, as it's been poorly correlated with aggregate "real" consumer activity data.

Member	Role	Voter		Monetary Policy Commentary Since January FOMC
		‘26	‘27	
C Waller	BOG	**X**	**X**	Gov Waller laid out his current thinking on the March FOMC decision in a **Feb 23** speech at the NABE (**link**), describing his possible support of a hold or a 25bp cut as a "coin flip" whose outcome will ultimately depend on the upcoming February jobs and inflation reports. Recall that Waller dissented to January's hold in favor of a 25bp cut, and appears to be shifting his outlook in a more neutral direction after the January nonfarm payrolls report - like his fellow dove/January dissenter Gov Miran. Overall this underlines that the FOMC's tone has become more cautious on further easing since the end of 2025 and may require evidence of downside labor market risks manifesting before restarting cuts. - Waller says of the March decision that "assuming underlying inflation continues to signal we are close to our 2 percent goal, the key to setting appropriate policy will be my view of the labor market. If the labor market data for February are consistent with the stronger job creation and low unemployment rate initially reported in January, indicating that downside risks to the labor market have diminished, it may be appropriate to hold the FOMC's policy rate at current levels and watch for continued progress on inflation and strength in the labor market. But if the good labor market news of January is revised away or evaporates in February, it would support my position at the FOMC's last meeting, that a 25-basis-point reduction in the policy rate was appropriate, and that such a cut should be made at the March meeting. As things stand today, I rate these two possible outcomes as close to a coin flip. - In January, "I felt that the risk of a substantial downturn in the labor market combined with a limited risk of higher inflation warranted another cut, bringing the policy rate closer to a neutral setting. Even in the absence of some data due to last year's government shutdown, a factor cited by some FOMC colleagues voting to pause, the balance of risks for me were weighted toward further policy easing." He says that "the January employment report came in substantially stronger than I and most forecasters and market participants expected". - However he's not quite convinced yet - the weak overall labor market performance of the preceding year meant January's report was "not conclusive that the labor market is on a more solid footing and, hence, also not conclusive about the proper setting of monetary policy". And January "job gains were concentrated in a few sectors of the economy, primarily health care and construction", while "initial payroll reports for January in each of the past few years have seen big revisions downward in subsequent reports a month or two later" with ADP, Revelio, and Challenger data pointing toward a weaker month than recorded in the official figures. - But with "asterisks" surrounding the January data that potentially suggest "the jobs report may contain more noise than signal", Waller said he would be looking February inflation and employment data due before the mid-March FOMC: "if these data support the idea of an improvement in the labor market in January that continued in February, along with additional progress toward 2 percent inflation, that could result in my outlook turning a bit more positive and my view of appropriate monetary policy may tilt toward a pause at our upcoming meeting." - On inflation, "I estimate that what I call underlying inflation—inflation without the effects of tariffs—is close to the FOMC's 2 percent goal." - Waller says that the Supreme Court ruling on IEEPA tariffs "may have a positive impact on spending and investment, but how large that impact may be and how long it could last is unclear" and overall "is unlikely to have a significant impact on my view of the appropriate stance of policy." In Q&A following his speech, Fed Gov Waller cited the latest data (at the time) to reiterate previous his view that labor market demand is weakening more than supply, with reference to the January jobs report and the benchmark revisions: - "If all of the decline [in payrolls] that we saw last year was purely immigration, so that labor supply fell more than demand, you should see the following things. Vacancies go up, wages get bid up. People should say it's [getting easier] to find a job. Firms should be saying it's harder to find workers. That's if labor supply is driving everything. Now, if it's labor demand that's driving everything, what should happen? Vacancies should go down, wages should be going down. You should have workers saying it's very hard to find a job. You should have firms saying it's very easy to find workers. Which of those two cases are you hearing right now? That's what I mean. You can't just look at quantities and tell me what's driving it... right now, all the data that I've seen for the last year is telling me it's the labor demand is falling more than labor supply. And I just told you that jobs [growth] last year was 181,000. And that's going to get revised down, trust me. 2.9 million people entered the labor force despite the immigration [net decline]. This is not looking like labor supply is really the problem. It's labor demand. So until we can fix that, I just don't think you're going to see a very healthy labor market." - That sounds a lot like passage of the January FOMC minutes which notes "Some participants...noted that even though the labor market was showing signs of stabilization, some indicators such as survey measures of job availability and the share of those working part time for economic reasons continued to suggest softening of conditions." - He acknowledges that the weak jobs growth alongside still-low household unemployment is something of a puzzle that will have to resolve: "If it looks like you just don't have any labor force growth and the economy's doing fine and the unemployment rate stays roughly where it is, I guess you say, good enough for me. Even with the immigration stuff, our labor force is growing like 7/10 of a percent. Zero Job growth just doesn't map into any kind of stability in terms of employment and whatnot. So this would be the first time in my career,

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				my life, that I saw an economy growing like this, and zero job growth. I don't even know really quite how to think about it, to be honest, because I've never seen it before. So I either think that you'll see some return to job growth coming in this next year as some of the stuff I mentioned in the beginning fades away, or we're in a period of economic activity I've never seen in my life and don't really know quite how to think about it. But it's just concerning not to see any job growth in an economy where you have labor force growing and somehow the unemployment rate doesn't change. Something's going to get corrected. I don't know what it is, but something has to." - Waller discounts the signal from seemingly-solid weekly initial jobless claims, saying of their remarkable consistency: "I mean they've been like 200 (thousand weekly), 220 for like five years. They just don't seem to move. I don't even know what signal to take. They go up, they go down, they go up, they go down. No matter what happens with the unemployment rate, it doesn't show any kind of secular trend. Plus the labor force grows over time. 200,000 was the standard years ago. But the labor force keeps growing. So if you look at claims to the size of the labor force, they've just done this continually in a downward trend. So I don't really know sometimes what to make out of the initial claims. Somebody once joked that state computers can only process so many claims a month, no matter how many come in. So the number is always the same."
S Miran	BOG	**X**	**X**	Miran - who dissented against the January rate hold in favor of a 25bp cut (smaller than the 50bp he called for at the prior 3 meetings) – said in an interview with The Peg (**link here**, firewalled) **published Feb 19** that he now sees a year-end 2026 Fed funds rate of 2.50-2.75% (100bp of cuts from the end-2025/current level), vs his December Dot Plot projection of 2.00-2.25%. - He explains: “The labour market came in a little bit better than I came to expect over the last few months. There’s been some signs of even more firming in goods inflation.” - Miran is easily the biggest dove on the Committee - and dissented in January against the hold, in favor of a 25bp cut - but this shift means that he has come back much closer to the pack in terms of 2026 rate expectations. See image below for MNI's guess of December 2025 Dot submissions for end-2026 rates; the next-closest dot to his was for 2.50-2.75%. - Miran might not even be a governor by the March meeting (his term as Governor technically expired in January and it's unclear whether Chair nominee Warsh will take his Board spot). But combined with the January minutes released Wednesday noting that several participants wanted the FOMC Statement to reflect the possibility that hikes could be appropriate, it's been a fairly hawkish week for FedSpeak. After the February employment report release **on March 6**, he said "Policy is pretty miscalibrated...The labor market could use more support from monetary policy." The oil price spike from the Iran war "slightly weighs on core inflation because it pulls demand out of the economy as people have to spend more on energy products. I'm hesitant to react to what's going on oil until we know more but if anything it biases more toward more dovish policy." He continued to argue for easier policy **in a CNBC appearance on Jan 30**. The post-blackout period Fedpseak has of course been overshadowed by the White House's nomination of Kevin Warsh as the next Fed Chair, and one of the big questions was whether Warsh would take Miran's seat on the Board. Miran tells CNBC that "I would assume" that Warsh will take his seat since it's "the only one available". "I guess we'll see when the President formally sends the nomination over to the Senate" but at present he expects to remain in the seat at least through the March FOMC meeting. - Miran praised the Warsh nomination and suggested that they were aligned on some monetary policy issues, saying "He's had a long history of convincing people about his arguments and so I think as a result, he's going to be treated with a lot of respect, and you know, I think people are going to find him very persuasive, because at the end of the day I think a lot of his views are really right." - For example Miran says that he agrees with Warsh's view that the Fed balance sheet should be smaller, but "we've got to right size the regulations first" in order to lower the level of system reserves. - Asked about whether he thinks Warsh will change the Fed's communications strategy, Miran says that the Fed should get rid of the projected policy rate dot in the Summary of Economic Projections. (Warsh has been critical of the Fed's current communications strategies.) - In explaining his dovish dissent this week, Gov Miran repeats many of the same arguments he's made for several months, including that the PCE metric overestimates inflation ("Once you make these adjustments, you look at market based core ex-housing, it's running at 2.2% that's within noise of our target. So there is no inflation problem"). - He says that the gradual cooling trend in the labor market should be taken more seriously than the December unemployment rate downtick ("I don't understand why we'd be so quick to change our mind on the back of one data release... I think the unemployment rate is half a point too high or so, right? That's almost a million people who don't have jobs"). - **Later on Jan 30**, Miran told Bloomberg “I still think we need to cut interest rates substantially further from here. However, given that we’ve made some progress reducing rates, we can now proceed at a slower pace

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				of a quarter-point per meeting."
M Barr	BOG	**X**	**X**	Barr's speech on "What Will Artificial Intelligence Mean for the Labor Market and the Economy?" **on Feb 17** (link) concludes that the Fed should hold rates steady for some time. That chimes with our existing view that he was likely one of the four dots looking for one cut across 2026 back at the Dec SEP (the median view). Going against a productivity argument that some expect potential incoming Fed Chair Warsh to make in enabling the Fed to lower rates, Barr sees the AI boom as unlikely to be a reason for lowering rates. - "The prudent course for monetary policy right now is to take the time necessary to assess conditions as they evolve. I would like to see evidence that goods price inflation is sustainably retreating before considering reducing the policy rate further, provided labor market conditions remain stable." - "Based on current conditions and the data in hand, it will likely be appropriate to hold rates steady for some time as we assess incoming data, the evolving outlook, and the balance of risks." - "I see the risk of persistent inflation above our 2 percent target as significant, which means we need to remain vigilant." - The January jobs report offered assurance that the labor market is stabilizing, but "it is a delicate balance, and that means that the labor market could be especially vulnerable to negative shocks". - AI could disrupt the labor market in the short term but is likely to create new jobs and augment productivity and boost real wages over the long run, he said. - AI investment and higher productivity growth would imply a higher neutral rate but also be inflationary in the short run.
B Hammack	Clev. Fed	**X**		**On March 6,** Hammack said that with inflation high alongside a softening labor market, "Given this combination and recent rate reductions, I believe policy is in a good position. The fed funds rate is around neutral, which allows us to see how things are going to play out." "Under my base case, I think policy should be on hold for quite some time as we see evidence that inflation is coming down and the labor market stabilizes further. But it's easy to envision other scenarios, as well, so I see two-sided risks to rates." **In a Feb 10 speech** largely devoted to banking regulation **(speech text here)**, Hammack made the case for "err[ing] on the side of patience" when it comes to rate-setting. We continue to believe that she is not supportive of any rate cuts this year, and is perhaps the biggest hawk on the FOMC at present. - She says "the outlook is brightening. Recent readings on economic growth have been encouraging, and the labor market appears to have stabilized. Many forecasts, including my own, call for some easing in inflation over the course of this year. At this point, I believe monetary policy is in a good place to stay on hold as we assess the incoming data and weigh if, and how, policy may need to adjust further." - Putting a finer point on it: "Based on my forecast, we could be on hold for quite some time." And with policy "now in the vicinity of neutral, meaning it's not meaningfully restraining the economy", she hints that rate hikes as well as cuts could come into play: " Right now, I see the risks of a higher or lower path for the funds rate as about balanced." (In December she said "we've got policy that's in that range of neutral...I would prefer to be on a slightly more restrictive stance".) - "If we see progress on both sides of our mandate, that tells me that our policy rate is already at the right setting and that we should hold it there. Rather than trying to fine tune the funds rate, I'd prefer to err on the side of patience." - Overall her base case appears to be optimistic on both dual-mandate fronts: "Brighter growth prospects should translate into stronger demand in the labor market, helping to reduce the unemployment rate over the course of this year. Inflationary pressures should start to ease as tariff rates stabilize." - However, "there are no guarantees when it comes to forecasts, and there are considerable uncertainties around mine. Ultimately, I want to see evidence that inflation is, indeed, coming down. There's a risk that inflation could persist near 3 percent through this year, as it has for the past two years. Or inflation expectations could show signs of becoming unanchored if the public sees the elevated readings of the last five years as a sign that policy is not committed to achieving our 2 percent goal. On the other side, stabilization in the labor market could give way to additional softening if economic growth disappoints." - She name-checks the "K-shaped economy" and the "low-hire, low-fire", "roughly balanced" labor market (with the December unemployment rate "close to what I and many economists think of as a long-run equilibrium"). - To her, "inflation is still too high", and "the longer that inflation remains at these levels, the greater the risk that it becomes entrenched in the economy". - On tariffs, "While some firms have already passed these costs along, others say that more price increases are coming." And "Tariffs are top of mind for many businesses, but they aren't the only source of inflationary pressures. Rising prices for health insurance and electricity are also pushing up costs. At this point, it's too soon to say if these broad cost pressures have peaked." - **On Feb 11** she said re the January jobs report that it "looks to me like we have a labor market that's now finding that healthy balance of where we want it to be. Inflation is still too high."

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N Kashkari	Minn. Fed	**X**		Kashkari (hawk) **on Feb 19** in his first comments on monetary policy in about a month said: "My guess is we're pretty close to neutral on where our monetary policy is." Overall he didn't reveal much about his current policy thinking. He repeats that the neutral rate is "probably higher than it was before", with recent dynamics driving longer-term rates including "a lot more investment going into data centers" recently that means "all else being equal, rates are going to be higher". - But he suggests that he's not entirely convinced by the apparent strength in the latest nonfarm payrolls data - or at least, he's noting anecdotal weakness: "Yesterday, for the first time in ten years, I heard businesses in North Dakota tell me we're fully staffed. That that is a notable difference to what I normally hear. And you know, I don't want to overreact to it, but that makes me think, okay, this 4.3% national unemployment rate, you know, you could look at 4.3% as a low unemployment rate historically, or one that's almost a point higher than it was a couple of years ago. It makes me cautious that maybe the labor market is not as sound as some of the statistics would imply." - He says that he looks forward to working with Fed Chair nominee Warsh, but in contrast to Warsh, in a separate portion of the Q&A Kashkari doesn't sound like a particular champion of a smaller Fed balance sheet: "I think that, you know, there are criticisms that maybe we're distorting financial markets, but we've shrunk our balance sheet quite a bit in the last few years. And I'm not sure that we could shrink it much further from here without making some other fundamental changes to the way the financial system operates." **On March 3 he said the conflict in the Middle East** and its impact on energy prices will possibly lead to a hawkish reassessment of rates. Kashkari told a Bloomberg event audience that he felt like policy was in a pretty good place ahead of the Middle East conflict but ..."now, with the geopolitical events that we talked about, I just need to see. We need to get a lot more data." - More to the point, "I had a lot of confidence up until a couple of days ago" on his rate outlook, which he said included one rate cut in 2026 with inflation running 2.5-3.0% (per Dow Jones' reporting of Kashkari's comments), implying that going into the March SEP projections he is reassessing his view. - We'd assumed he was a no-cutter in the December FOMC Dot Plot and hadn't gotten any more dovish since then, so his rate cut view is something of a surprise - but on net the latest comments mean he's no more hawkish than we had already assumed.
L Logan	Dall. Fed	**X**		Dallas Fed President Logan doesn't sound like she would support a rate cut in the coming months. While her base case is that inflation pressures will abate in 2026, she said **in a speech Feb 10** "I am not yet fully confident inflation is heading all the way back to 2 percent", and "the labor market now appears to be stabilizing, and the downside risks appear to have meaningfully dissipated" with December's unemployment rate consistent with full employment. We continue to presume that she doesn't support any rate cuts in 2026. - The key passage on the policy outlook: "We will learn in coming months whether inflation is coming down to our target and whether the labor market will remain stable. If so, this would tell me that our current policy stance is appropriate and no further rate cuts are needed to achieve our dual mandate goals. If instead we see inflation coming down but with further material cooling in the labor market, cutting rates again could become appropriate. But right now, I am more worried about inflation remaining stubbornly high. Fortunately, our policy is well-positioned to respond to risks to either of the FOMC's dual mandate objectives." - She argues that the end-2025 rate cuts raised inflation risks: "with inflation still elevated, those cuts took on additional risk on the inflation side of our mandate". Among various such risks, "insights from Fed regional surveys and other contacts suggest tariffs still need to fully work their way through prices this year. We have yet to see any evidence of further easing in core non-housing services inflation, which generally moved sideways in 2025. And, as in recent years, headline inflation may surprise to the upside in January and February as firms' annual price increases may be large due to rising costs and still solid demand." Additionally, "economic activity also faces several upside risks that could slow or stall progress toward restoring price stability." - She reiterates her previously-stated concerns that rates may not be sufficiently restrictive, citing model-based estimates of neutral that "currently range between 1.08 and 2.09 percent", putting the current nominal fed funds rate of 3.64% "squarely within the range of neutral rate estimates" (after deducting 2% inflation). In fact, she says that when looking at TIPS / swap market proxies for the real neutral rate, "expectations for neutral real interest rates" are "at the upper end of the model-based estimates and not far from the current policy rate". - As an ex-manager of the Fed's SOMA portfolio, her commentary is always watched for any clues on current Fed balance sheet thinking, but there is not much new in this speech. She says she supported the Fed's decision to start reserve management purchases and supports enhancements to improve the standing repo facility's effectiveness (particularly providing a centrally-cleared option). On future RMPs, she reminds that "reserve management purchases should not be viewed as mechanical", in line with the Fed's previous

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				guidance that bill purchases could slow from the $40B/monthly pace once the April tax date is concluded.
A Paulson	Phil Fed	**X**		- **No commentary on current monetary policy since last FOMC meeting**
T Barkin	Rich. Fed		**X**	Barkin was noncommittal on his rate outlook in a **Feb 24** panel appearance, saying that he sees policy as currently well-positioned given risks to both sides of the dual mandate. - **On his rate outlook:** "We have risks on both sides. Nobody wants inflation to stall, and nobody wants the labor market to weaken further. We're well-positioned should either of those risks look like they're crystallizing, and we'll make a call when we get there." - **On the labor market:** "It's my clear sense that the market is loosened. With the exception of a few skilled trades, people broadly describe availability as relatively easy and compensation pressure is relatively modest. I'd say the hard part to calibrate is what's happening with labor supply...so we're in this awkward situation of trying to calibrate what feels like softening labor demand with also softening labor supply. And so the numbers, when you get an unemployment rate that presumably balances the two, that's just a good number to watch. And ... it's hard to take too much from any one number, though the last couple of months have been reassuring there." - **On inflation:** "Well, the numbers have been coming in pretty consistently at around 3% and our target is 2%. So they're definitely higher than we want them to be.... I think most businesses feel like they just have very limited pricing power. ... I think across the broad economy, you are seeing disinflationary forces operate. All that said, I'd like to see it in the data here, because I really believe that when people set prices at companies, they do it in large part based on what inflation is. That's a reference number that is out there for every price-setting decision. And until you actually bring the inflation rate down, you're going to see individual companies out there feeling like they need to push further. And so I'm hopeful that we're headed back to the right place, but I'd like to see it." - **On the IEEPA tariffs being struck down by the Supreme Court:** "I just think it creates uncertainty, which feeds into the story of people being a little cautious on hiring or investment. In terms of inflation, I take the secretary at his word that the net impact of all this will kind of net out in terms of cost pressure when all is said and done. I suspect it's not going to change the trajectory that much. The refund process will be interesting; I don't know how easy or hard that will be. I kind of see it, to the extent there are refunds, like a corporate tax cut—some middlemen who paid this tariff will benefit, and then some retailers in the chain will try to take that benefit to their bottom line. There will be some back-and-forth negotiation there, but to get it to the consumer, I think that would have to be a decision taken at multiple levels and it won't happen quickly or probably much. So, I'm not sure this changes my outlook much at all, other than the increase in uncertainty." He concluded **a speech on Feb 3** with a paragraph which reinforces MNI's view that Barkin is a little more hawkish than the overall FOMC median participant, but unlike some outright hawks remains relatively open-minded to rate cuts should the data make a compelling case: - "We raised rates three years ago to bring inflation under control. As the inflation rate has fallen, we have been bringing rates back down toward neutral levels, reducing the fed funds rate 175 basis points over the last year and a half. I think of these cuts as having taken out some insurance to support the labor market as we work to complete the last mile to bring inflation back to target. So far, so good. But we know things change, and as they do, we remain ready to respond as appropriate." - Note that he sees rates as having been brought down "toward" neutral levels and not necessarily at/below neutral, so there's some wiggle room here for supporting further easing. - On the whole he continues to sound pretty cautious on making further cuts, noting the "remarkably resilient" economy "enabled by strong underlying dynamics", and "while we've made a lot of progress on inflation, it still remains above our target". - And his business contacts continue to suggest that labor market layoffs aren't a major problem. That said, "low hiring hasn't been translating into rising unemployment because the growth in labor supply has shrunk at about the same pace as labor demand. But slow job growth is not a comfortable place to be." - And on policy patience in navigating an uncertain backdrop amid worsened data visibility related to the federal government shutdown: "as we move into 2026, it feels like the fog is starting to lift...we can better see the road ahead, but to echo all of our family road trips: Are we there yet? Not quite. We have some distance to travel before we get home."
R Bostic	Atl. Fed		**X**	**Bostic – who retired from his position at the end of February and will not participate in any future FOMC meetings** - told CNBC **on Jan 30** "We should be waiting, and be more patient. We are still too high in inflation, so I think we need to be somewhat restrictive." - "I do feel like that downside risk, that a catastrophe is going to happen in employment, is much further away from us than it was even a month ago. That gives me some confidence that we can be patient." - **On Feb 2** he confirmed that he didn't pencil in any cuts in 2026: "I think we have so much momentum in the

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<tr><td></td><td></td><td></td><td></td><td>economy that we need to keep our policy rate in a mildly restrictive stance.”</td></tr>
<tr><td>M Daly</td><td>S.F. Fed</td><td></td><td>X</td><td>Daly (dove) told CNBC on March 6 of the weaker-than-expected February employment data: "I had hoped the 75 basis points we did last year would put a floor underneath the labor market. But this jobs market report has got my attention, and I've long been worried about it."

• She cautions that it's just one month of data, but reiterates that in balancing dual mandate risks, "the piece I'm worried about is, the labor market is maybe a little weaker than we have seen so far."
• She says re the February data, "I think it's really important to step back. No one month of data is a decisional month of data. I think it just tells us that, you know, the hopes that the labor market was studying maybe we maybe that was too much, and we really have to keep our eye on the labor market, but we also have inflation printing above target and oil prices rising. How long they last, we don't know, but both of our goals are risks now, and we have to keep our eye on both."
• Asked about taking both the strong January and weak February data and averaging them, she says that it's a reasonable approach to "Average the two [months of data]. And keep watching, because there was always going to be, well, first we had a strike, we had snow, we had [benchmark] population changes...The job numbers were not a clear read of what's happening, but they're also not a wrong read. You know, if you look at the sentiment surveys of workers, if you look at firms, they don't say they're hiring. And so the job market is in this low hiring, low firing state, which makes it vulnerable to any changes, including just the ones that come on regular basis....let's average [the two months of payrolls], and we're about zero. If you think the benchmark, the level we're supposed to achieve, is 30,000, we're below 30,000. But again it's only a couple of months of data."
• On how elevated oil prices impact the rate outlook, and asked whether there were prospects of a Fed hike: "It really depends on how long the elevated oil prices continue, if the conflict or the war settles quickly, and the oil disruption that people are worrying about doesn't transpire and doesn't live for a long time, well, then we just see those things come back, and we'd be back to a normal place. You don't want to act aggressively when you don't actually know that part. I think the important thing is that it's really hard to hike right now... So I think we just need more time, and it's why we're going to have to decide, as we have an upcoming meeting,"

Reuters on Feb 6 published Daly (2027 FOMC voter)'s first interview since the January meeting, in which she "said she thinks one or two more interest rate cuts may be needed to counteract weakness in the labor market, where workers are "walking a knife's edge" with higher prices eating into their wages and scarce opportunities for new jobs. "I think we have to keep an open mind, a very open mind" on rates, Daly told Reuters in an interview".

- Two cuts for 2026 is about where we expected Daly to have been in the December Dot Plot (see our pre-January FOMC meeting guesses below), though in general we think some of these names will have drifted to the higher side since that set of quarterly projections.
- In the interview she says she supported the January hold "but frankly, I thought you could make a case for going ahead and taking a little more off". She's "a little more worried about the labor market than I am about inflation", but her threshold to reduce rates is that "you have to be pretty confident, like really confident, that the effects of the tariffs will roll off ... that inflation is really on a downward trajectory."

In a brief LinkedIn post out earlier on Feb 6, Daly placed emphasis on consumer surveys including UMichigan's as suggesting that consumers' perceptions of a weak economy should be taken into account alongside the relatively positive aggregate macro data. She is one of the bigger doves on the Committee. She writes:

- "Is the economic outlook good or bad? If you talk to businesses, they’re cautiously optimistic. Growth is good, consumer spending remains solid, jobs are easy to fill, and productivity gains are helping control costs. Talking to workers, they’re not so sure. You can see this in the latest sentiment surveys, which show that Americans are expecting fewer jobs to be available and the unemployment rate to rise.
- In many ways, this disconnect makes sense. We’ve been in a relatively low-hiring, low-firing environment for some time. That may persist, but workers are aware that things could change quickly, leaving them in a no-hiring, more-firing labor market. With inflation printing above the FOMC’s 2 percent goal, this rightly feels precarious.
- What does this mean for policy? We must watch both sides of our mandate. Americans deserve both price stability and full employment, and we can’t take either for granted."</td></tr>
<tr><td>A Goolsbee</td><td>Chic. Fed</td><td></td><td>X</td><td>Goolsbee (a dove but recently has been cautious on cuts to the point of dissenting in December) on March 6 said he remains more concerned about elevated inflation despite a "tough miss" on the February jobs report.

- The added uncertainty of rising oil prices bolsters the case for the Fed to hold rates. "As we get more uncertainties, I think the time at which it makes sense to act keeps getting pushed back...I remain hopeful that conditions will improve, that we'll start to see some progress on inflation, headed back to 2%, and by</td></tr>
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				the end of the year that we would be in a situation that we could commence our march back down to the settling point." Of the rise in the unemployment rate in February, "if you've got several months like that, that would be a concerning spot for the labor market." He was explicitly "neutral" in the short term in comments **on Feb 24**, telling reporters including MNI's that "In the immediate term, I have a neutral bias until we get some evidence we're back on the path to 2%". - That said, he's still cautiously optimistic that there are rate cuts in the pipeline, which is why we still have him on the more dovish end of the MNI Hawk-Dove spectrum. **PDF link to Goolsbee's speech is available here** - some key quotes below that flesh out his view. - "I remain optimistic that there can be more rate cuts this year. But that hinges on seeing actual progress on inflation that shows we are on a path back to 2%...The fact that over the past several months, the date at which the forecasts say inflation will start falling keeps getting pushed back is not a great sign. I feel that front-loading too many rate cuts is not prudent in that circumstance... Before we cut rates more to stimulate the economy, let's be sure inflation is heading back to 2%. " - "With inflation at 3%, it is not obvious that our interest rate policy is even restrictive... Stalling out at 3% is not a safe place to be for a myriad of reasons we know all too well. We need to make more progress." - He's clearly less concerned about the labor market than some of his more dovish colleagues, pointing out that the unemployment rate has been steady despite weak payrolls growth: "The modest aggregate job numbers can't be far from the true break-even point or else the unemployment rate would have been rising. That's basically the definition of what the break-even point is!" - While he says supercore PCE "has been running stubbornly high" and it's "harder to make an optimistic case that high services inflation is just transitory", he has a more dovish take on the potential impact of the IEEPA tariff strikedown than Gov Waller did yesterday. Goolsbee: "The optimistic case is that if a lot of the increase in inflation came from tariffs and if the tariffs have already passed through to consumers, the inflation effect will be transitory. If so or if the Supreme Court's decision leads to lower overall tariff rates, we could be back on path to target inflation in the near term." - And he told reporters that compared with the overall December Dot Plot on rate cuts this year, "I'm below the median. I'm on the optimistic side. I still think there can be multiple cuts this year," noting neither growth nor the labor market is fragile. (The latest median was 3.4%, implying just 1 cut this year). - Back to his speech: "Economic growth and the labor market don't seem especially fragile, but there is a nagging bit of inflation that I hope, and expect, will subside soon and will allow us to get back on the golden path." In a Yahoo Finance appearance **on Feb 13**, Chicago Fed President Goolsbee remained cautious on near-term rate cut prospects in light of this week's employment and inflation reports. Recall he dissented somewhat surprisingly in December against the 25bp rate cut, and he continues to appear reticent to support easing until he sees clearer signs that inflation is headed to target. - On the latest CPI report: "There was an encouraging bit in the in the CPI number today, but there were also still some concerns. I would say it's encouraging that on the food and the energy side, you saw pretty significant improvement in goods inflation, which is where mostly we've seen the impact of tariffs. The new month that came in, the number was okay, and the the more concerning part is we're still seeing pretty high services inflation, which is a thing which tends to be persistent. So we're going to still get a producer price index inflation, and we're still going to get some more information. Let's hope that we've seen the peak impact of tariffs on inflation and that that that part proves to be transitory....if you see inflation well above the target in services, that's a danger sign. And I just want to get some more more information before we start front loading the cuts." - On the latest jobs report: "if you look at the unemployment rate, if you look at a lot of the rate based measures, like the layoff rate is low, while simultaneously the hiring rate is low, that's an unusual combination that doesn't really scream out beginning of recession to me. I thought this month's number... one month is not a trend." - On the prospect for rate cuts given the latest data: "if we could get some more improvement on the inflation side, as I say, I think rates can still keep going down a fair bit more. But we just need to see the progress on inflation, and we need to see that the job market remains steady like like it has been for a couple of months here." - On where rates will "settle": "I don't know how restrictive we are... If you look at core inflation, the new month that that just came in is an annualized rate of 3.6% for core inflation... Let's just be a little circumspect making pronouncements about where rates are going to settle until we're clear that the inflation rate is settling back at 2%. If we're at an inflation rate of 2% then, as I say, I think rates can go down more, even several cuts more from where they are today, but that's conditional on getting inflation back on a path to 2% which, right now we are not on a path back to 2% - we're kind of stuck at 3% and that's not acceptable." **On Feb 17,** Goolsbee said that monetary policy may not be that restrictive if inflation is steady around 3%, he said. "If inflation runs persistently high, we're loosening -- we're being looser than we otherwise would. That's why

Member	Role	Voter		Monetary Policy Commentary Since January FOMC
		‘26	‘27	
				I say I want some evidence we're headed back to 2% and then I think rates can keep coming down”. - The January CPI report showed further disinflation in shelter prices, but services inflation is "not tame" and core came in at a 3.6% annualized M/M rate, he said. "So far I think we've been basically stalled out around 3% with some positive signs but also some warning signs," he said. "I want to get more information."
S Collins	Bos. Fed			**On March 6** after the release of February nonfarm payrolls data, Collins said she does not put too much emphasis on any particular data point, that February's 4.4% unemployment rate remains low by historical standards and has been relatively stable over the last few months. "Still, it appears that the rate of hiring last year was below breakeven as we saw a modest increase in the unemployment rate." - She sees the conflict in the Middle East as exacerbating uncertainty but still does "not see an urgency for additional policy adjustments, and I will be looking for clear evidence that inflation is moving durably toward the 2% target – something that might occur only over the second half of the year." - Collins on Feb 24 reiterated her view in a panel discussion that holding rates for "some time" appears to be appropriate, with some stability in recent labor market data alongside persistently high inflation calling for a "patient, deliberate approach". Collins, who was making her first commentary on monetary policy since the January FOMC meeting (indeed, since mid-December, when she said after the Fed's most recent rate cut that "Given a policy stance that is at the lower end of a range I view as mildly restrictive, I would want greater clarity about the inflation picture before adjusting policy further". - **On her rate outlook:** "We are going to get some more data between now and [the March FOMC meeting], so it can't be overly precise, but it does seem to me that a patient, deliberate approach is appropriate at this stage because after 175 basis points of easing over the past year and a half, we are at mildly restrictive, perhaps quite close to neutral already. I think that was helpful and it was appropriate. But given a labor market that I see is showing at least some more signs of an unusual kind of stability, and the concerns about persistence on the inflation side, I think it's quite likely that it will be appropriate to hold in the current range for some time. But again, there are different scenarios that are possible, so it'll be important to continue to really take that patient, deliberate approach to making policy decisions." - **On the labor market:** "We did get some news recently which is promising... perhaps now more than ever, it's always important not to overemphasize any one data reading, but to really look at the range of information... I do see the recent information that we got as promising that there may be a bit more stability in the labor market. At the same time, there's certainly signs of fragility, and I don't put too much weight on any one number. If I look over 2025... I would summarize that although economic activity was solid overall, the labor market really softened. But I wouldn't characterize it as soft; there's a lot of nuance in there. One thing I would highlight, which gets talked about quite a lot, is that there was not a lot of hiring... It's harder to find a job, so that is real. At the same time, that might reflect uncertainty. It also might reflect productivity strength enabling firms to meet demand without needing to hire additional workers. Recently, I do think we've seen more evidence of some more stability, and that is promising more to talk about more broadly." - **On inflation:** "I am looking for more confidence that the disinflation resumes and my baseline, as I look out and make assessments, would be that later this year we might expect to see that. But ... overall, core PCE inflation is basically in the same place around 3% that it was a year ago. There has been progress on housing inflation, for example—something that I called recalcitrant some time ago—but the rise in goods price inflation largely related to tariffs has really offset that. And so I do look at the different components to try to understand what some of the trajectories might be. I'm looking to see some more confidence that it's really coming down. I actually hear a wider range of things from people I talk to; still a number of firms talking about "wait and see." There is more they would like to pass through, and so they are assessing the extent to which they will be able to do that depending on the strength of demand and how that unfolds. There are certainly parts of demand that have been quite robust, even though I also hear concerns especially related to lower and moderate-income households where there do seem to be more financial strains, and that is showing up to some degree in demand. So there are a lot of things to watch there, but I don't have as much confidence yet on the inflation side as I would be looking for." - **On the impact of the IEEPA tariffs being struck down by the Supreme Court:** "I would certainly agree in terms of an increase in uncertainty in a context in which uncertainty has been heightened for some time...It seems to me that on balance, it actually adds a bit to the potential for inflation persistence while all of that unfolds. But again, I think that overall, it's truly too early to say that there will be a significant impact, and my outlook is not that changed as a result of that news."
A Musalem	St. Louis Fed			St Louis Fed's Musalem **on Jan 30** echoed comments he made prior to the December meeting in suggesting that it would be "unadvisable" to cut rates at this time. That said, if the data were to align, then he is open to the possibility of cuts in future. Key quotes from **his speech**: - He says he supported the January decision to hold rates, and "given the current data and the balance of risks, I believe it would be unadvisable to lower the rate into accommodative territory at this time...I believe that policy is now well positioned to respond as needed to either of the Fed’s dual mandate objectives." - But he appears to retain an easing bias: "I could support additional reductions in the policy rate if new evidence of labor market weakness or risks emerge, absent further signs of persistent above-target inflation or rising inflation expectations. I could also support lowering the nominal policy rate if expected inflation declines to target or falls below it." - He notes that "Recent data indicate the labor market is regaining some of its footing" and his view is that

Member	Role	Voter		Monetary Policy Commentary Since January FOMC
		'26	'27	
				"Although hiring remains soft, continued above trend economic growth should support the demand for labor while low levels of immigration limit growth in labor supply." Conversely he says inflation "has been stubborn" and , "but I expect inflation will resume a path toward 2% as tariff effects ebb later this year." - He's upbeat on economic activity: "I expect the economy will continue to expand at or above its long-run trend rate in 2026...Reports indicate that consumer spending was especially strong in late December and into January...Supportive financial conditions are among [] tailwinds...changes in tax law and various forms of deregulation could also lift spending...Productivity growth is another potential tailwind" with his only real reservation being on the housing market which "has been weak for several quarters and poses some downside risk".
J Schmid	K.C. Fed			KC Fed President Schmid (not a 2026 FOMC voter) continued to convey a hawkish monetary policy view **in a speech on Feb 11**, and we continue to believe he's among a sizeable minority on the FOMC who don't have rate cuts as part of their 2026 baseline. In short, "With demand outpacing supply and inflation running closer to 3% than 2%, I see it as appropriate to maintain a somewhat restrictive policy stance." - He says that after cutting rates, Fed policy is "arguably no longer restraining activity all that much, if at all. As I've said before, I think it is best to judge whether interest rates are restrictive or accommodative based on how the economy performs. With growth showing momentum and inflation still hot, I'm not seeing many indications of economic restraint....further rate cuts risk allowing high inflation to persist even longer." Unsurprisingly, in a post-speech Q&A he said that the January Employment Report was "good news" (as quoted by Bloomberg). - Schmid weighs in on the recently-hot topic of productivity and its impact on the inflation outlook. He sounds skeptical that recent gains are AI-led, instead pointing to a "falloff in labor market churn" and household and business investment demand keeping growth strong. - In the end, he asks, "Is growth being led by supply or demand? With so many competing but intertwined developments, it can be hard to tell. But we do have one reliable indicator that can cut through all the confusion and provide a quick answer. That is inflation. Overall, with inflation still running hot, it appears that demand is outpacing supply across much of the economy. I remain open to the possibility, and I'm even optimistic, that AI and other innovations will eventually lead to a non-inflationary, supply-driven growth cycle. However, based on the current rate of inflation, we are not there yet." - He comments on recent balance sheet decisions too, supportive of decisions to roll off MBS holdings and shorten the duration of the SOMA portfolio. He's been one of the most ardent advocates on the FOMC of reducing the Fed's market footprint. It's perhaps of increasing importance now though, given that the nominated/incoming Fed Chair Warsh has signaled that he'd like to shrink the balance sheet. - Schmid: "it is my view that in normal times the Fed's balance sheet should not influence the shape of the yield curve. The balance sheet growth initiated in December is reducing this distortion by concentrating new purchases in Treasury bills. In shortening the average maturity of our holdings, the FOMC is continuing to reduce the influence of the Federal Reserve's balance sheet on longer-term interest rates" and "winding down our mortgage holdings is critical to ensuring that the Fed minimizes its footprint in financial markets". - He does signal support for regulatory changes and other factors that could structurally reduce reserve demand and thus lower the size of the asset side of the Fed's balance sheet: "I think there are opportunities to reduce reserve demand over time, especially as the regulatory environment and payments technologies continue to evolve. Guiding towards a lower level of reserves is not only feasible in my opinion, but something that should be pursued to allow for a smaller balance sheet."

Beige Book: Economic Activity Dynamics Mixed

A summary of the February Beige Book (in image below) underlines only limited changes to district-by-district conditions since the previous edition (January).

- The biggest movers were in the descriptions of economic activity but they were mixed: growth worsened vs January in 4 districts (Boston, St Louis, Minneapolis, SF) though accelerated in 5 (Philadelphia, Cleveland, Atlanta, Chicago, Dallas) with 3 reporting similar dynamics as prior (Richmond, Kansas City, New York).
- Overall, 3 Feds reported outright slower activity, vs just 1 in January, with 7 reporting expansion, vs 8 previously.
- The February Beige Book showed a very slight improvement in the employment column compared with January's edition. 3 regional Feds reported increases (Philadelphia once again, joined by Richmond and Dallas which had been flat previously) vs 2 in the prior report - the most in the positive column since July.
- Once again, 3 regions saw a slight decrease in employment (Atlanta, Minneapolis once again, joined now by Boston which noted unchanged employment in the previous report) , with 6 flat (vs 7 prior).
- Inflation dynamics remained largely unchanged (with prices up to varying degrees) in February's Beige Book vs January's, with 4 continuing to characterize price pressures as modest/slight for the 3rd consecutive edition.
- Once again, 8 regional Feds characterized price increases as moderate or stronger, with two of those indicating "robust" inflation (Dallas describing wages and prices as increasing "modestly to robustly", Cleveland describing nonlabor input costs as "robust", with "moderate" selling price pressure). Four (Boston, Atlanta, Minneapolis, Kansas City) saw relatively softer price pressures than their counterparts, same as the prior report. Arguably tariff pressures on input prices were less broad this time, with 9 Feds reporting tariffs contributing to increased costs, vs the prior report which noted tariffs "were a consistent theme across all districts".

District-By-District Descriptions of Current Conditions - Feb 2026 Beige Book (Mar 4, 2026)

	Econ Act	Previous Report	Employment	Previous Report	Inflation (Selling Prices)	Previous Report
Boston	Flat	Edged Up Further	Down slightly	Unchanged	Rose modestly	Rose modestly further
NY	Continued to decline modestly	Continued to decline modestly	Flat	Continued to decline slightly	Remained moderate	Picked up further but remained moderate
Phil	Grew modestly	Slight pace of growth	Increased modestly	Increased modestly	Moderate increases	Rose at a moderate pace
Cle	Increaed modestly	Increased slightly	Flat	Flat	Remained robust	Rose moderately
Richmond	Grew at a modest rate	Grew at a modest rate	Increased slightly	Unchanged	Grew moderately	Grew moderately
Atl	Grew at a modest to moderate pace	Grew slightly	Flat to slightly down	Flat to slightly down	Flat to slightly up	Rose slightly
Chicago	Rose slightly	Little changed	Flat	Flat	Rose moderately	Rose moderately
Stl	Unchanged	Modestly increased	Unchanged	Unchanged	Increased moderately	Increased moderately
Minn	Down slightly	Flat	Down slightly	Down slightly	Increased modestly	Increased slightly
KC	Increased slightly	Increased slightly	Unchanged	Improved slightly	Increased slightly	Gone up modestly
Dallas	Expanded moderately	Held steady	Grew slightly	Largely held steady	Modest-to-robust	Remained moderate
San Fran	Slowed slightly	Expanded modestly	Stable on net	Stable on net	Rose moderately	Rose moderately

Source: Federal Reserve, MNI. MNI's characterization is derived from the individual Fed reports, not the overall summary

January Minutes: Sizeable Minority Open-Minded To Ending Easing Bias

The key hawkish passage from the **January FOMC Minutes** notes that "several" members wanted to keep open the possibility that the next Fed rate move could be a hike, not necessarily a cut.

- "Several participants indicated that they would have supported a two-sided description of the Committee's future interest rate decisions, reflecting the possibility that upward adjustments to the target range for the federal funds rate could be appropriate if inflation remains at above-target levels."
- In Fed parlance, "Several" is more than a "few" which is more than "a couple", but less than "some" which is less than "many". Take that for what it's worth but it's a sizeable minority that - in wanting to remove the long-held easing bias in the Statement - are eyeing a more explicitly hawkish approach. If we had to guess 4 or so FOMC members who would have supported such a change, they would include Hammack, Logan, and Schmid.
- On that note, they are roughly offset by "several participants" who "commented that further downward adjustments to the target range for the federal funds rate would likely be appropriate if inflation were to decline in line with their expectations."
- In any case the bulk of the Committee appears to be eyeing a prolonged hold, which is something that has been indicated by inter-meeting commentary: "Some participants commented that it would likely be appropriate to hold the policy rate steady for some time as the Committee carefully assesses incoming data, and a number of these participants judged that additional policy easing may not be warranted until there was clear indication that the progress of disinflation was firmly back on track."

Overall, "almost all participants" supported the January rate hold, with "the current stance of monetary policy within the range of estimates of the neutral level... [leaving the FOMC] well positioned to determine the extent and timing of additional adjustments".

- "A couple of participants" (Miran and Waller) wanted to cut, on "concerns that the current stance of the policy rate was still meaningfully restrictive and viewed downside risks to the labor market as a more prominent policy concern than the risk of persistently elevated inflation."
- The latter was clearly a minority position. On the economic outlook, in short, "the vast majority of participants judged that downside risks to employment had moderated in recent months while the risk of more persistent inflation remained, and some commented that those risks had come into better balance."
- On the labor market, the doves were clearly outgunned at the FOMC table in January: "The vast majority of participants judged that labor market conditions had been showing some signs of stabilization and that downside risks to the labor market had diminished. Some participants, however, noted that even though the labor market was showing signs of stabilization, some indicators such as survey measures of job availability and the share of those working part time for economic reasons continued to suggest softening of conditions. In addition, most participants noted that downside risks to the labor market remained."
- On inflation, there wasn't optimism over a near-term return to target: "participants anticipated that inflation would move down toward the Committee's 2 percent objective, though the pace and timing of this decline remained uncertain. Participants generally expected that the effects of tariffs on core goods prices would likely start to diminish this year. Several participants remarked that the ongoing moderation in inflation for housing services was likely to continue to exert downward pressure on overall inflation. Several participants also expected higher productivity growth associated with technological or regulatory developments to put downward pressure on inflation....Most participants, however, cautioned that progress toward the Committee's 2 percent objective might be slower and more uneven than generally expected and judged that the risk of inflation running persistently above the Committee's objective was meaningful."
- And indeed, there was a warning to the dovish-leaning members here: "several participants pointed to the risk of higher inflation becoming entrenched and suggested that lowering the policy rate further in the context of elevated inflation readings could be misinterpreted as implying diminished policymaker commitment to the 2 percent inflation objective."

MNI Policy Team Insights

Selected Policy Insights From Pre-FOMC Blackout Period – For Latest Articles, See Marketnews.com

MNI INTERVIEW: 'Purifying' Fed's Balance Sheet Could Backfire

By Jean Yung (Mar 5)

WASHINGTON – Offloading the Federal Reserve's mortgage bonds or long-dated Treasuries via an asset swap with Treasury could trigger a spike in rates and, if done haphazardly, destabilize markets so severely as to require emergency intervention, former Fed Board of Governors research director David Wilcox told MNI.

Such a swap has been discussed by economists as an aggressive approach to shrinking the Fed's USD6.5 trillion balance sheet -- a priority of Fed chair nominee Kevin Warsh -- and would create a Fed portfolio made up of only Treasuries with a maturity structure that would be either neutral or exclusively short term.

"The advantage would be you'd get a 'pristine' balance sheet for the central bank and you'd get there immediately," Wilcox, senior fellow at the Peterson Institute for International Economics and director of U.S. economic research at Bloomberg Economics, said in an interview, adding few on the FOMC have been balance sheet "purists" and the committee has tolerated a non-pristine balance sheet for nearly two decades.

"The minus is: If you did it in a not-well-thought-through way, you might end up with higher borrowing rates that matter for businesses and households. And you'd want to be very careful to build in break-the-glass type provisions in case of emergency."

MBS SWAP

The Fed is keen to unwind its USD2.3 trillion holdings of mortgage-backed securities and is currently reinvesting maturing MBS in Treasury bills. The FOMC has discussed selling MBS outright but fears ratcheting mortgage rates higher.

Whether the central bank could acquire Treasury securities outside of the secondary market, as the law stipulates, and through an asset swap is legally unclear, Wilcox said.

Still, some FOMC members would cheer giving over control of their MBS portfolio, as it would better align with the principle that the central bank not engage in credit allocation.

"I've never really believed that there was anything morally superior about the Fed only holding short-term Treasury securities or abstaining from holding any mortgage-backed securities," Wilcox said. But a minority of central bankers strongly view Fed purchases of MBS as "favoring housing finance at the expense of potentially other legitimate valid uses of credit capacity."

MARKET IMPACT

The impact on longer rates and broader financial conditions must be thoroughly analyzed if the Fed were to offload its MBS and long-dated Treasuries, Wilcox said.

"Somebody would have to think through very carefully how that would be accomplished without bringing the market rates on those types of securities up," he said. "We can be reasonably confident President Trump cares little about the niceties of the composition of the Federal Reserve's balance sheet. What he does care very much about is the borrowing rates confronted by households and businesses."

The Fed turned to QE only after lowering interest rates to zero, hoping to drive yields on MBS and longer-term Treasuries down by altering the composition of debt held by the public. It also hoped the behavior of the Treasury

would not be affected by the Fed's actions, Wilcox said. By the same logic, a shift toward a shorter-duration portfolio will depend on how Treasury adjusts issuance in response.

A smaller Fed balance sheet would result in higher long-term rates if the funds rate is already as low as it can go, making it impossible to cut rates further to offset those pressures, Wilcox said.

"It would be a very unfortunate outcome if for the sake of some theoretical purity we gave up any recourse, any ability to purchase longer-term securities even in the event of a crisis," he said. (See: MNI INTERVIEW: Hawkish Accord Could Remove QE From Fed Toolkit)

MNI INTERVIEW: Uncertainty Dominates US Hiring Outlook -Indeed

By Jean Yung (Mar 3)

WASHINGTON – The uncertainty over trade, geopolitics and AI that has frozen the U.S. labor market even as growth exceeds expectations will have to break one way or the other as the macro picture shifts, Indeed Hiring Lab economist Laura Ullrich told MNI, predicting mediocre payrolls growth in February and potentially negative revisions for January.

Despite the Indeed job postings index gapping notably higher than the Bureau of Labor Statistics' official JOLTS report over the past few months, there are fewer openings than unemployed persons and time-to-hire has lengthened, in line with an overall softening of the labor market, Ullrich said.

"I don't think we can stay in this low-hire, low-fire environment forever with economic growth continuing like it has -- unless AI all of a sudden is able to do much more than it can today," Ullrich, director of North American economic research and a former Richmond Fed economist, said in an interview.

"I can envision a scenario where consumption remains relatively strong, uncertainty does clear up to some extent and so companies start hiring more," she said. "I also can envision a scenario where the opposite happens, where there is a stock market correction from an AI bubble or geopolitical developments and there's a pullback."

DIVERGENCE

Jobs figures are especially important for the Federal Reserve in the first half of 2026 as it weighs resuming rate cuts, and officials have cited deteriorating job openings in particular as a reason for worry. (See: MNI POLICY: Fed Embraces Pause As Downside Labor Risks Abate)

JOLTS openings dipped below pre-Covid levels late last year, while Indeed’s series remains slightly higher than before the pandemic. December openings, according to JOLTS, fell to their lowest since 2017, while Indeed's inched higher.

The private data series last diverged from JOLTS in the first half of 2024, for which no particular reason was found at the time. In retrospect however with revisions in hand, "that was when the labor market really started slowing down a bit," Ullrich said.

"So it could be we have these little one- or two-month divergences that just recover and it's just a statistical anomaly, or it's really a pattern. I think it's too early to say."

HEALTH CARE AND AI

More important has been the markedly different evolution in hiring trends from sector to sector, particularly in health care, which has dominated job growth over the past year, Ullrich said, noting jobs in occupational therapy and physical therapy are up 91.1% compared to pre-Covid, while data analytics is down 37%.

"In health care, we have both constrained supply and high demand," and that is likely to continue, she said. An Indeed analysis of signing bonuses found health care postings continuing to offer extra pay for physicians and nurses, an indication that employers feel pressure to attract workers.

"Not only do we have increased spending on health care because of aging baby boomers, but also because they're wealthy. So long as asset values continue to grow, I think we'll continue to see that generation spend a lot of money on health care, on optional procedures, and also in leisure and hospitality, retail and housing."

The path forward for jobs affected by AI is less certain and is a subject of ongoing research at Indeed, Ullrich said. The share of job postings with AI-related terms rose to 4.7% by end-January. Tech sector layoffs thus far likely reflect a pullback from the over-hiring during Covid, rather than sweeping technological changes, she said.

"Right now what we're seeing is more of a shift toward investment in capital, in AI, and lower investment in labor. I don't think we're in a world yet where AI is doing all the work -- or even a lot of the work."
(See: MNI INTERVIEW: US Labor Market 'On Pause' Amid AI Uncertainty)

MNI POLICY: AI Boom Complicates Fed's Path To Lower Rates

By Jean Yung, Pedro Nicolaci da Costa, and Evan Ryser (Feb 27)

WASHINGTON – Federal Reserve officials view a potential productivity surge driven by artificial intelligence as a reason for patience on interest-rate cuts rather than a green light for easier policy, drawing lessons from the 1990s IT boom that boosted the economy's long-run potential but also complicated real-time policy decisions.

This could create an intellectual rift at the central bank if the new nominee for chair, Kevin Warsh, keeps pushing the idea that higher productivity can drive a burst of non-inflationary U.S. growth.

Policymakers this week cautioned against simplistic analogies to the 1990s, an era that featured not just productivity gains but also significant globalization with China's economic opening, creating favorable conditions for strong labor markets, lower unemployment and subdued inflation.

The '90s debate centered on whether to delay rate hikes because of productivity growth -- not whether to cut rates. Among the key differences between then and now: interest rates were higher, inflation was below 2% rather than above it, and the labor market was much tighter.

"The argument was maybe we don't have to raise rates yet because the productivity growth rate is higher. It wasn't 'should we cut rates because productivity growth is high?'" Chicago Fed President Austan Goolsbee told reporters this week. "It's a cousin to the '90s but it really isn't the same situation."

Warsh wrote in an opinion piece in December that "the Fed should discard its forecast of stagflation in the next couple of years," adding that "AI will be a significant disinflationary force, increasing productivity and bolstering American competitiveness."

HIGHER R-STAR

The trouble for many current FOMC members is that a sustained AI productivity boost would also likely raise the neutral interest rate, or r-star, as demand for investment increases, which eventually increases supply, and a new equilibrium with a higher neutral rate is established. Fed Vice Chair Philip Jefferson said this month that that mismatch risks creating periods when demand outstrips the economy's immediate productive capacity, keeping price pressures elevated. (See MNI INTERVIEW: AI Boom Doesn't Justify Lower Rates - Haskel)

The Laubach-Williams model, co-developed by New York Fed President John Williams in 2003 as he sought to understand what the internet boom meant for interest rates, estimated that r-star rose a full percentage point to above 3.5% in 2000 as growth topped 4%.

The model estimate has been stuck in a much lower range over the past two decades due to aging, low birth rates and longer life expectancy, but policymakers agree AI will likely contribute to somewhat higher neutral rates.

Alan Greenspan ultimately did raise rates starting in June 1999, taking the Fed's benchmark rate from 5% to 6.5% over the course of a year.

OVERHEATING NOW

Goolsbee cited HVAC worker shortages in Cedar Rapids, Iowa due to data-center needs and rising farmland prices from resource competition as evidence that "in the here and now, we're facing a tighter situation," with AI demand straining scarce resources.

In the early 2000s, productivity was high, inflation was low, and the Fed kept rates low -- fueling a rapid rise in housing prices and a massive credit bubble, another cautionary tale.

Officials have already signaled they want clearer evidence of sustainably cooling inflation before resuming rate cuts in the face of stickier inflation. The AI boom may raise questions over whether cuts remain appropriate. (See: MNI POLICY: Fed Embraces Pause As Downside Labor Risks Abate)

MNI INTERVIEW: Hawkish Accord Could Remove QE From Fed Toolkit

By Jean Yung (Feb 27)

WASHINGTON – A hawkish revamp of the 1951 Treasury-Fed accord under incoming chair Kevin Warsh could see QE removed from the FOMC's toolkit, robbing policymakers of a key support for the economy during crises, Johns Hopkins University economist Jonathan Wright, a former staffer at the Federal Reserve, told MNI.

Warsh has not detailed what might be in a new agreement but has called for the relationship to be redefined, with the Fed chair and Treasury secretary stating clearly their objective for the size of the Fed’s balance sheet. Speculation has ranged from a dovish pivot toward yield caps at the long end and fiscal dominance to the opposite -- a return to a significantly small balance sheet.

"There is a hawkish version of it, which would be keeping the 1951 framework that the Fed does not have to buy long-term bonds or have to buy any Treasuries, but either capping the size of the Fed’s balance sheet, saying the Fed would only purchase Treasuries in very severe financial turbulence situations, or shifting the maturity composition of the Fed’s portfolio towards being something much more short-term," Wright said in an interview.

"What would be consequential is saying that, going forward, the Fed could either only buy bills or have to work with a much smaller balance sheet, which has its advantages, but also disadvantages in that they don’t have any ability to stabilize the economy at the zero lower bound." (See MNI: Warsh Wants Fed Out Of U.S. Treasury's Business)

WITHOUT CONVICTION

The market reaction to such a move could be limited in the short run, but the economy would likely be in worse shape should another recession or crisis pull rates back to zero with the Fed powerless to do more.

"We have spent about half the time this century at the zero lower bound. And at the zero lower bound, the only thing that the Fed has left in its toolkit is to buy Treasuries and mortgage-backed securities," Wright said. "I don’t think we'd be happy at all if the Fed had just sat on the sidelines and said, we’re stuck at the zero lower bound, there’s nothing more we can do."

Still, an exception would likely be made for Fed to undertake large purchases to alleviate severe market dysfunction, such as that of March 2020, and officials may waver in the face of a real crisis, Wright said.

"What the definition of financial crisis is is always a bit difficult. And in severe enough circumstances, you could always imagine emergency legislation getting passed," he said. "I tend to think that any restrictions on the Fed's ability to do QE under crisis situations are not likely to be very sticky."

ASSET SWAP

Reducing the balance sheet drastically would require restarting QT, changes to monetary policy implementation and the regulatory framework, and will take several years, Wright said. (See: MNI POLICY: Long Road To Scarcer Reserves For Warsh)

A swap of the Fed's longer-dated Treasuries or mortgage bonds for Treasury bills would speed things up dramatically, but such a maneuver would have few real implications, he said.

"Given that at the end of the day, the Fed's profits are all remitted to Treasury, that ends up being a wash. So, that doesn't seem to me to be that consequential," he said.

"If we're talking about implications for fiscal dominance, the key question is: what can the Fed buy going forward?"

MNI INTERVIEW: Warsh Fed Will See Room For Rate Cuts- Shelton

By Pedro Nicolaci da Costa (Feb 26)

WASHINGTON – The U.S. economy is poised for a supply-driven productivity boom that will allow inflation to ease further and give the Federal Reserve room to keep cutting interest rates, Judy Shelton, President Donald Trump's past pick for Fed governor, told MNI.

Shelton said Trump's nominee for Fed Chair, Kevin Warsh, will likely face a favorable environment for rate cuts by the time he takes the helm from Jerome Powell, expected in June. She cited the president's agenda of lower taxes and deregulation as underpinning an expansion that will not boost inflation.

“That will increase productive output, I think that will result in a greater supply of goods and services. That helps to bring down inflation,” she said in an interview. “It's a lot healthier if Warsh sees increased output bringing down inflation, which is what I would expect. That's a much better way to fight inflation than to try to cut demand through high interest rates.”

She said the current FOMC is focused only on downside risks to the labor market as a possible reason for additional rate cuts, whereas Warsh will likely make a more affirmative case for more easing.

“I like Warsh's approach, which I think would be closer to that idea,” said Shelton, a senior fellow at the Independent Institute. “I don't think you want someone on the Fed who says they want to lower interest rates out of weakness. I think you do it out of strength that as you see good growth and increased productive output and more emphasis on private sector production, then I think you want to do everything you can to enhance access to capital to keep that going.”

ECCLES PARALLEL

Shelton said she also appreciates Warsh's evolution over the past two decades on matters regarding the Fed's balance sheet, particularly how he initially supported its deployment as an emergency tool during the height of the 2008 crisis but then was concerned that the central bank failed to pull back on using QE as the emergency faded.

She likened Warsh's stance to that of former Fed Chair Mariner Eccles in the 1940s. “He had an accord in the sense that the Fed agreed to help finance World War II, because interest was so expensive for the government. But by the time the war was over in 1946, he said we shouldn't keep doing that, I don't want that to become a permanent habit of the Fed,” she said.

“I see Warsh as being in a similar situation – it was patriotic, say, in 2008 to save the country. And of course, lender last resort is to me the Fed's real legitimate function. But then it's like deploying the airbag, now you have to stuff it back in, get it out of the windshield, and get the car back on the road. And he saw that they weren't doing that and if anything the Fed was increasing its powers.” (See: MNI POLICY: Long Road To Scarcer Reserves For Warsh)

BALANCE SHEET

Shelton said any effort by Warsh to reduce the USD6.6 trillion balance sheet further, something he has expressed a strong desire to do, would have to be accompanied by moves to lower interest rates. (MNI: Warsh Wants Fed Out Of Treasury's Business)

Active asset sales would be needed to significantly reduce the Fed's portfolio and would force the Fed to recognize losses on securities, putting it deeper into the hole in terms of its missed remittances to Treasury, Shelton said. More importantly, “all that can do is raise interest rates because now you're increasing the supply of Treasuries, and it's going to reduce the price, and that's going to raise the rate," she said.

“This is why I'm waiting for him to say that he would have to reduce the fed funds rate to even neutralize the impact of reducing the portfolio. Those have to go in tandem.”

MNI POLICY: Long Road To Scarcer Reserves For Warsh

By Jean Yung (Feb 23)

WASHINGTON – The size of the Federal Reserve's balance sheet cannot be reduced much further under the current regulatory framework without risking its control over interest rates, making it difficult for Fed chair nominee Kevin Warsh to persuade the rest of the FOMC to restart QT or induce banks to demand fewer reserves ahead of regulatory reform.

Dealers and depository institutions tapped the Fed's standing repo operations for over USD30 billion last week as money market rates firmed from mid-month Treasury settlements, suggesting reserve demand continues to hover around the Fed's target "ample" level and that regular asset purchases are needed to keep it there.

Among current FOMC members there is little appetite to test a scarcer reserves regime at the cost of higher rate volatility, especially as the Fed's standing repo operations (SRP) have yet to be proven adequate to absorb swings in the Treasury General Account.

Money market volatility has now twice prompted officials to end QT earlier than anticipated, and the 2019 repo market episode that threatened to undermine the Fed's credibility on rate control hardened policymakers' bias to preempt volatility rather than react to it.

SRP counterparties have appeared reluctant so far to use the facility for various reasons, which boosted repo rates well above the SRP rate on certain days late last year. Whether last week's SRP usage, in spite of calm triparty rates, marks a shift in attitude remains to be seen. (See MNI POLICY: Fed To Start Gradual Asset Purchases Within Months)

"Warsh's views are aligned with Bessent's for a smaller, better focused and quieter Fed -- that the central bank had been far too active in too many areas. Similarly on the balance sheet, they would want a smaller footprint, and that stands in apparent contrast to the preferences of the current committee, which is comfortable with the size of the balance sheet," former St. Louis Fed President James Bullard told MNI.

DEMAND FOR RESERVES

About half of the Fed's USD6.5 trillion in liabilities are bank reserves, which have ballooned over time as banks hoarded cash to satisfy post-crisis rules. Regulatory changes would be necessary to meaningfully reduce banks' structural demand for reserves -- something Warsh and other Trump appointees including Treasury Secretary Scott Bessent and Fed governors Michelle Bowman and Stephen Miran support. However, that will take years to implement.

Banking regulators have reduced the supplemental leverage ratio for the biggest banks, effective April 1, removing one disincentive to provide Treasury market intermediation.

Liquidity reforms may come in the second half of the year, after regulators complete their Basel III proposal on capital changes. Easier liquidity requirements, including potentially recognizing discount window borrowing capacity in risk assessments, is expected to reduce banks' demand for reserves.

Bill Nelson of the industry group Bank Policy Institute and former top Fed regulator Randy Quarles have argued the attitude of bank supervisors plays another role in banks holding reserves over Treasuries, on top of binding regulations. Supervisors prefer reserves and don't recognize lenders' capacity to borrow at Fed facilities as a way to get immediate funding.

Such attitudes are deeply entrenched and a change would likely require a continuous effort spanning public statements and heavy guidance from the top.

MNI INTERVIEW: Fed Holding, Next Move Could Be Hike - Lacker

By Pedro Nicolaci da Costa (Feb 20)

WASHINGTON – The Federal Reserve is likely to keep rates on hold for the foreseeable future and its next move might even be an increase in borrowing costs as stubbornly high inflation looks unlikely to let up, former Richmond Fed President Jeffrey Lacker told MNI.

“It’s quite possible that the next move is up. The case for cutting last year at the end of the year was always a close call and was weaker and weaker as the fourth quarter went on,” Lacker said in an interview Friday.

He said growth is already firm and will likely get a further boost from recent rate cuts and fiscal policy this year, while the job market appears to have convincingly stabilized.

“The labor market is in balance and you've got inflation, the PCE number shows running close to 3% on a year-over-year basis. Those indicators point to policy being looser than it ought to be. And I think the prospects for the inflation rate coming down are sort of tenuous, at least anytime soon,” he said. (See MNI POLICY: Fed Embraces Pause As Downside Labor Risks Abate)

The Fed’s minutes showed several policymakers would have supported a statement highlighting a “two-sided” policy risk that includes the possibility of a rate increase if inflation remains above target.

“If inflation just sustains at 3% and doesn’t come down the Fed ought to be thinking about tightening policy," he said.

WARSH TRANSITION

Lacker said he disagrees with the premise, prevalent in the markets, that Fed chair nominee Kevin Warsh will be inclined to want to cut rates aggressively simply because President Trump has repeatedly chided the central bank for being too slow to ease policy.

"I don't think it is a given that he's going to be clamoring for a rate cut in June despite what the White House wants. I think it's an open question as to how he's going to approach this," said Lacker.

"The data is going to come in between now and June, and that will give a read to markets and to the new chair about what is warranted, what makes sense, and presumably he'll act accordingly."

BALANCE SHEET

Lacker, who is sympathetic to Warsh's expressed desire for a smaller balance sheet, said the nominee's proposal for shrinking assets while lowering rates might be difficult to accomplish.

"He's articulated this rationale for rate cut that involves sort of an offsetting quantitative tightening. That's a really interesting argument. It depends critically on the magnitude of the accommodative expansion of the balance sheet. I think that's highly uncertain, I've always viewed those estimates as tenuous," Lacker said.

"As a result I think that calibrating that trade off, like if we take a trillion out and cut the funds rate x, calibrating that is going to be difficult. And if you get it wrong and you overestimate that trade off, you're going to have to reverse field and raise rates again, which no Fed chair relishes doing, whipsawing markets like that."

Instead, Lacker favors a Treasury-Fed accord that would take the central bank out of the business of stabilizing the Treasury debt market at the first hint of rate spikes or illiquidity.

The Fed has a "propensity to catastrophize small moves in yields, broker dealer losses or some retreat from the market. These little temporary blips they tend to make into mountains, and the molehills end up driving a lot of intervention," he said.

Lacker would prefer the Fed to return to a bills-only posture if that could be accomplished.

"The cloudiness and ambiguity around debt management would be the first focus, I think, reestablishing the sort of a free market in Treasury securities, and granting the Treasury the sole authority to determine the composition of the debt held by the public," he said.

MNI POLICY: Fed Embraces Pause As Downside Labor Risks Abate

By Evan Ryser, Pedro Nicolaci da Costa and Jean Yung (Feb 20)

WASHINGTON – Federal Reserve officials appear to be settling in for what could be a longer pause in interest rate cuts after a stronger-than-expected January employment report reinforced the view that labor market risks which underpinned last year's rate reductions have receded.

As officials wait for the effects of those cuts to play out in an economy whose prospects for this year already look fairly strong, they have increasingly coalesced around the notion that policy is well-positioned, with some officials guiding that rates could remain on hold for some time.

That means the onus is now on the data to convince policymakers, almost all of whom believe rates are close to neutral levels, to cut further. Even the minority who believe policy is still restrictive now find themselves on the back foot, and recognize that additional data showing either further improvement in inflation or additional deterioration in the labor market would be required to make the case for cuts.

In an indication of the hawkish shift, minutes to the January meeting showed several FOMC members would have supported a move to a neutral stance and a policy statement highlighting that rate hikes are as likely an option as cuts if inflation stays above target.

It's not that the FOMC has become pollyannish about job market conditions. Even those who see things as stable acknowledge that the concentration of hiring in healthcare and downward revisions to last year's job growth present vulnerabilities. It's just that the reversal of the jobless rate from 4.6% down to 4.3% within three months seems to have removed the immediate threat of an employment downturn.

Fed officials will be eager to see if January's strong hiring performance is repeated in the BLS's March 5 labor report, and how the recent weak job openings numbers will reconcile with hiring. There is also concern about a lack of churn and month-to-month volatility around the jobs reports, including potential revisions.

CHANGE OF GUARD

The Fed's hawkish reversal following last year's 75 basis points in cuts suggests Jerome Powell might have already delivered his last reduction in rates as Fed chair. His term is set to end in May with President Donald Trump's nominee Kevin Warsh presumably to take over in June, though the timeline may be delayed by a pending Department of Justice investigation into Powell, which the chair has called a pretext for pushing for lower rates.

Trump and other administration officials continue to call for lower rates, citing interest costs on the debt. That could put the central bank on yet another collision course with the president and complicate Warsh's task in garnering consensus within the institution. (See MNI POLICY: Warsh Could Reshape Fed On Rates, Communication)

Since the January FOMC meeting, several Fed policymakers have maintained that an overall stable economy provides them room to be patient in considering additional rate adjustments. Some Fed officials have noted a higher bar for rates cuts, given the three rate cuts last year amid above-target inflation.

Warsh has signaled a preference for lower rates in the current environment but the stars might have to align for him on the data front, in order for him to be able to make a convincing case to his new colleagues.

Federal Reserve Vice Chair Philip Jefferson has said the current policy stance should help stabilize the labor market, while allowing inflation to resume its decline toward the 2% target. Governor Lisa Cook, whom Trump is attempting to fire, emphasizes the need to see "stronger evidence that inflation is moving sustainably back down to target" after nearly five years of above-target price growth.

Officials were pleasantly surprised by a CPI report last week showing overall inflation fell to 2.4% in January from 2.7% the month before, but the Fed's preferred headline and core PCE price index rose 0.4% in December, the Commerce Department's Bureau of Economic Analysis said Friday.

Consumer inflation expectations have come down in recent months and measures of firms' year-ahead prices are below both 2% and their pre-pandemic averages. The Atlanta Fed's business inflation expectations index fell to 1.9% from 2.0% in January.

The Dallas Fed's Trimmed-mean PCE inflation measure has been 2.5% for two months through November, while the Cleveland Fed's median PCE inflation reading hit 2.9% in November, the first time below 3% in over four years. Further sustained improvement in these measures could help Warsh make a credible case to resume cuts when he takes the helm.

MNI INTERVIEW: US Labor Market 'On Pause' Amid AI Uncertainty

By Jean Yung (Feb 13)

WASHINGTON – The U.S. labor market may face an extended period of weakness as employers delay hiring amid uncertainty over artificial intelligence's impact on productivity, Yongseok Shin, a Washington University in St. Louis economist and research fellow at the St. Louis Fed, told MNI.

Preliminary results of a survey conducted by Shin reveal more older workers using AI tools to upskill, a significant behavioral shift with as-yet unclear implications, he said. Combined with other research showing big drops in entry-

level hiring in AI-exposed industries, "we may have a pretty quiet labor market for some time," Shin said in an interview.

A hiring freeze driven less by cyclical factors than by companies waiting to see how AI reshapes work "could be this pause lasting several months or even a year."

That could largely keep Federal Reserve policy on hold until labor dynamics shift significantly, he said, adding the three interest rate cuts at the end of 2025 "helped at the margin" to prevent further labor market weakening.

"They're in a neutral zone now, and they'll probably stay there until they see something else coming," he said.

PERCEPTION MATTERS

The solid January jobs report exceeded what Shin called "very low expectations," though he judges the overall labor market picture to be "a little bit negative," citing downward revisions in hiring over 2025, slowing wage growth and substantial decline in job openings. (See: MNI INTERVIEW: Slide In US Unit Labor Costs Eases Inflation)

Strong demand for health care workers has dominated job creation for months, but Shin cautioned the physically-demanding sector may also be susceptible to AI-related changes. "Anecdotally, AI is helping doctors be more efficient in note-taking, more productive, and perhaps providing quality control in a way that hospitals can hire less experienced nurses."

While definitive proof that AI is displacing workers remains elusive, the perception is driving behavior, Shin said.

"People feel like it's coming, and that's actually slowing down their hiring." Fears of AI-driven job losses underpin the unusually low quits rate, Shin noted. And even if a business found AI less than transformative, "You probably don't want to be the first CEO to go out and say AI seems overblown, now I'm going to hire people."

KNOWLEDGE HOARDING

Shin's latest survey work uncovers a troubling dynamic: experienced workers are aggressively training themselves using AI tools to prepare for career advancement while the imperative for hiring young workers weakens.

"It's that combination of domain knowledge and AI that makes you really productive. Young people are probably very good at AI but don't have the domain knowledge," he said. The risk is that a prolonged hiring suspension creates a lost generation of junior talent.

"My fear is that we've really made the job market difficult for young people."

MNI INTERVIEW: Slide In US Unit Labor Costs Eases Inflation

By Jean Yung (Feb 12)

WASHINGTON – Slow U.S. wage growth and ongoing productivity acceleration are driving a slide in unit labor costs and raise the risk that the Federal Reserve undershoots its inflation target over the medium term, former New York Fed economist Dominique Dwor-Frecaut told MNI, adding she sees the Fed resuming rate cuts by mid-year.

The solid January jobs report Wednesday leaves the Fed comfortably on hold for a few more months, but labor market conditions have cooled and wage gains are at rates below those compatible with the Fed's 2% inflation target, Dwor-Frecaut said in an interview.

"Wage growth is continuing to slow despite a bit of a tightening of the labor market," she said. "What we are seeing is a collapse in unit labor cost, which historically has been very tightly correlated with core PCE inflation. When we have a collapse in the unit labor cost, it suggest medium-term risk of undershooting inflation."

So even as the January jobs report "lowers the risk of a Fed cut driven by labor market weakness, it doesn't change the risk of cuts drive by disinflation."

LESS INFLATION PRESSURE

Average hourly earnings in January rose 0.4% over the month and 3.7% over the year, down from 4.0% a year ago and 4.4% two years ago. The employment cost index, seen as the gold standard for measuring labor costs, showed compensation rising 0.7% in the final quarter of 2025, the slowest increase since 2021, and a 3.4% gain over the year, down from 3.6% in the previous quarter.

With productivity growth hovering at 2.25% over the past three years, above its 1.5% recent historical average, unit labor costs are down to just 1.25% in the third quarter of 2025.

"Both wages and inflation are determined together by the relative market power of workers and businesses, and workers don't have much bargaining power. It's surprising that the Trump administration's plan is they want Main Street to do better, yet the data are exactly the opposite," said Dwor-Frecaut, now chief U.S. economist at Macro Hive. (See: MNI INTERVIEW: Job Weakness To Keep Fed On Easing Path-Tilley)

By year-end, core PCE inflation could fall to 2%-2.25%, she predicted, below the FOMC's median of 2.5%, as tariff effects wash out and the productivity boom allows the economy to run hotter without pushing prices higher.

Fed Chair Jerome Powell said last month core PCE inflation would be just above 2% if not for tariffs and said he saw disinflation across services categories.

PRODUCTIVITY LEAD

Recent productivity yields may be a lingering effect from the pandemic labor shortage, which forced businesses to be more efficient and make large investments in software, rather than more recent AI advances, she said.

"The sectors taking the largest share of employment growth, such as health care and social services, are not typically associated with fast productivity growth, and suggests a slow process for AI integration," she said.

Dwor-Frecaut maintains her view of three Fed cuts this year, more than market pricing for two.

MNI INTERVIEW: Fed Assets Hard To Shrink Due To Deficit-Hoenig

By Pedro Nicolaci da Costa (Feb 10)

WASHINGTON – The Federal Reserve will have a difficult time shrinking its balance sheet despite the stated predilection for doing so of Chair nominee Kevin Warsh, as gaping U.S. budget deficits require ongoing central bank largesse, former Kansas City Fed President Thomas Hoenig told MNI.

“I don't know that you can shrink the balance sheet without a major kind of Volcker event, and I think that would not be acceptable to this administration or this Congress,” said Hoenig in an interview, adding that this would involve a spike in bond yields, sharp drops in asset values and ultimately a recession.

Hoenig said he welcomes Warsh's idea of a Treasury-Fed Accord that would reinforce the central bank's monetary independence but said President Donald Trump's pick needs to explain how he envisions such a plan. (See MNI: Warsh Wants Fed Out Of Treasury's Business)

TREASURY-FED ACCORD

“I don’t know what Kevin means and I think it’s important that he explains what he means as soon as he can by a new accord,” he said.

Hoenig noted that the Fed was quick to return to large-scale asset buys, this time of Treasury bills, almost immediately after ending its QT program. This is a sign that fiscal dominance has taken hold, said Hoenig, who overlapped on the FOMC with Warsh and was similarly critical of the QE2 program launched in late 2010.

“The debt is growing, and someone has to buy it otherwise interest rates go up,” he said.

For Hoenig, a new Treasury Fed Accord would actually need buy-in not just from the White House and Treasury but also Congress, with a specific commitment to lower the debt.

"We need an agreement where the Fed says we will slowly reduce our quantitative easing and our purchase of government securities. We won't shock you, but we will, we must decrease it. And Congress has to agree, yes, we're going to slow our spending."

POLICY ACCOMMODATIVE

Hoenig said monetary policy is not neutral or mildly restrictive as the FOMC is currently arguing but has actually already veered into stimulative territory.

“If you look at where real interest rates are today – think of inflation as close to 3%, the funds rate, or the policy range, is a little more than three and a half. So real interest rates are less than 1% – that's not a mildly restrictive policy. That's an accommodative policy right there in real terms,” he said.

“I also think that, given the tax credits that have been put in, the increasing demand, the spending going on, the equilibrium rate is higher than 1%.”

That creates the risk of a fresh bout of inflation despite official reassurances that the current above-target levels are simply due to transitory tariff effects, said Hoenig.

“There's a real risk of inflation not coming down. Therefore putting policy on hold is the sensible thing to do.”

He believes that’s just what Powell will do until the end of his term in May. “I think Powell will be able to hold it constant through his term, unless unemployment shoots up,” he said, adding that for now he sees the job market as “probably close to equilibrium. (See MNI INTERVIEW: Fed In Watch Mode Through 1H, Lockhart Says)

INDEPENDENCE TEST

Starting in June, it remains to be seen what course of action his successor will take, said Hoenig, now a distinguished senior fellow at the Mercatus Center.

Warsh is a strong pick to lead the central bank given his experience and knowledge base, but he will face tremendous challenges including ongoing pressure for lower rates from the administration, he said. “He has the experience and he has the wherewithal to do it. The test is yet to be administered.”

MNI INTERVIEW: Fed To Keep Cutting On Jobs Weakness - Tilley

By Pedro Nicolaci da Costa (Feb 2)

WASHINGTON – A weak labor market and improving inflation will prompt the Federal Reserve to keep cutting interest rates at its next few meetings, former Philadephia Fed officer and economic adviser Luke Tilley told MNI.

Tilley said the nomination of Kevin Warsh to take over as Fed chair from Jerome Powell when his term ends in May was a victory for central bank independence, but will not drastically alter the course of monetary policy.

“We don't have inflation pressure, I think the labor market is going to get worse, so we’ve got three cuts before the middle of the year – two of them I guess would be with Powell,” Tilley said in an interview Monday.
(See MNI INTERVIEW: Fed's Miran Sees Substantial Rate Cuts This Year)

Warsh would be inclined to continue easing but only if economic data call for it, not because he is somehow beholden to President Donald Trump, Tilley said.

“The president has chosen an independent thinker. Of the candidates that were being considered it's one of the better ones in terms of markets and to preserve Fed independence," said Tilley, now chief economist at Wilmington Trust. "I don't think that he's going to come in and push for lower rates because of the administration. He could do it because he believes that the way things should go.”

INSTITUTIONAL CONSTRAINS

Tilley said it remains unclear how much Warsh will be able to overhaul the policy framework on everything from economic modeling and rates policy to the balance sheet given institutional constraints within the Fed.

“It opens up the question of, are we going to get wholesale changes to the way the policy is being done? It's a lot easier to think and speak outside the box when you are outside of the box. When, when you get there, it's much harder to push and implement that change,” Tilley said. (See MNI POLICY: Regional Fed Banks Could Face Revamp Under Warsh)

“It is a committee and there's a very large, entrenched research staff, I think it’s lost on the public sometimes how much influence the staff has in terms of guiding policy and the discussion. So I think there could be some larger changes to how policy is carried out over the course of years, but I don't see it being a whiplash moment of, ‘oh my goodness, we have this new chair, and everything is going to change right away.’”

That will be true even for balance sheet policy, of which Warsh is a long-time skeptic and critic. “I think that is a tough, uphill climb to make immediate changes to the way that the balance sheet is run,” Tilley said.

Warsh has also expressed skepticism about things like forward guidance and the Summary of Economic Projections, which Tilley said could be candidates for medium-term reform.

“I wouldn't be surprised if there is a long-Term review into the Fed’s monetary policy and you end up getting less communication at some point then you have now,” he said, adding this would not come without its own dangers. “If you're going to pull back on communication, you know you could have more market volatility.”

MNI: Warsh Credible Pick, Needs To Earn FOMC Support: Ex-Offls

By Jean Yung and Pedro Nicolaci da Costa (Jan 30)

WASHINGTON – Former Fed officials Friday welcomed the nomination of Kevin Warsh as Federal Reserve Chair, telling MNI he is a seasoned central banker who knows the instituation but he will need to work to persuade the FOMC on his policy ideas and earn the institution's trust as a leader.

Warsh's argument that "we can lower interest rates a lot" to help bring down mortgage rates and revive the housing market would be a minority view among current policymakers, while his preference for a smaller Fed balance sheet would require a number of regulatory changes and could end up disrupting market functioning, former officials said.

"Kevin Warsh is an experienced central banker having served as a Fed governor during normal economic times as well as during the Global Financial Crisis," former Cleveland Fed President Loretta Mester told MNI, noting his knowledge of both financial markets and academic debate as a partner and advisor at Duquesne Family Office and Hoover Institution visiting fellow.

"As with any new chair, he will have to establish his credibility and show that he is making monetary policy decisions independently of any political influence and basing those decisions on sound economic reasoning in pursuit of price stability and maximum employment for the American public."

MARKET SAVVY

Former Atlanta Fed President Dennis Lockhart hailed Warsh as "a fine choice," lauding his significant experience as a policymaker during the treacherous financial crisis. Warsh became the youngest person ever to join the central bank, as a Fed governor from 2006 to 2011.

"He is very market savvy and will communicate well with Wall Street. He is an excellent communicator overall and will be adept at translating economic and policy information to diverse audiences," Lockhart told MNI.

His nomination comes against the backdrop of significant pressure from President Donald Trump, who has proclaimed his preference for the Fed to slash interest rates to around 1%, down from the range of 3.5% to 3.75% today.

REFORM AGENDA

In recent months, Warsh has argued the Fed's hesitancy to cut rates has hurt its credibility and led to stagflation. He has criticized the Fed's operating framework, its models and staff. Rather than benefiting Wall Street, the Fed should shrink its balance sheet to “redeploy that money to Main Street so that Main Street can have the strong economy that we’re seeing in financial markets” and create room for lower interest rates.

Former policymakers said Warsh was likely to push for these reforms over time. "He has clearly laid out his criticisms of the institution in recent years, and I would expect him to act on them over time," Lockhart said.

However, shrinking the balance sheet significantly may be more problematic.

“It’s unclear he is going to get to a smaller balance sheet without disrupting funding markets,” Donald Kohn, a former vice chair of the Fed who worked with Warsh during the financial crisis, told MNI. “There are ideas around -- lower liquidity requirements for banks, easier use of the discount window, but I don't think we 've heard from Kevin how he would implement this.”

Kohn is also not sure how a possible Treasury-Fed accord might look like in practice, which Warsh discussed with MNI back in October. “The Treasury should be in charge of debt management most of the time, with rare overrides by Fed at the zero lower bound. I don't think this requires an accord but he may have other things in mind," Kohn said. (See: MNI: Warsh Wants Fed Out Of U.S. Treasury's Business)

MNI INTERVIEW: Fed On Hold For At Least Next Few Months-George

By Pedro Nicolaci da Costa (Jan 29)

WASHINGTON – The Federal Reserve is likely to keep interest rates steady in coming months because growth prospects look strong and inflation remains significantly above target, former Kansas City Fed President Esther George told MNI.

"If you think about what's coming in the first and second quarter, my sense of this year, it looks to me like more tailwinds than headwinds," said George in an interview Thursday, a day after the FOMC kept rates on hold for the first time since July.

"You hear people talking about the fiscal situation. I agree with that. I think that's going to be easier. You've got easy financial conditions. We've got 75 basis points of further easing coming through that pipeline," she said. "All said it's a way for them to stop. If you think about their next few meetings, which coincide with Powell's final meeting as Fed chair, it would seem like that's not waiting too long to see the effects of those things."

George thinks the Fed has become too sanguine about inflation given that key measures have been above target for more than four years. (See MNI INTERVIEW: Fed In Watch Mode Through H1, Lockhart Says)

TWO-SIDED RISK

For that reason, she is skeptical of the Fed's ongoing easing bias, with the December Summary of Economic Projections showing a median of one more cut this year and another next year. She said the central bank needs to introduce more "two-sided risk" in policy, despite Powell's press conference reassurance that no FOMC member currently thinks the next move will be a rate hike.

"You have upside risk to inflation and a target you haven't pinned down yet. I don't want to take anything away from their assessment of the labor market, but the truth is you've got a lot of supply things going on at the same time that firms are going slow on hiring," said George, adding that she thinks policy is now somewhat accommodative.

"I don't know that today you'd say it looks like a hike is coming, but you certainly would say under these conditions, we might have to lean one way more than we would the other. The chair has been leaning more dovish and looking more closely at the labor market than inflation, because you will hear them say they just have a stronger sense that disinflation is coming. I'm not as convinced."

George said Powell's upcoming replacement as chair would likely face pushback from the rest of the committee if they tried to force the kind of aggressive rate cuts President Donald Trump has repeatedly demanded.

"Your credibility is everything. You have a large committee where you have to build consensus, and that consensus comes as much from the listening side to the voices around the table," said George.

"That's true in any organization, it will be particularly true in the Federal Reserve, the need to bring this group along to whatever views you have, and that's going to be really important. Just to come in and say, 'I'm now in charge, we'll do it this way' is going to be difficult, at least under the current construct of how the committee works."

BALANCE SHEET

She expressed concern about the Fed's rapid return to balance sheet expansion after the end of QT despite reassurance from officials that the move is unrelated to monetary policy.

"These reserve management purchases, the USD40 billion a month, I understand the intent is quite different from QE, but the mechanics are not. So when you're in the market buying USD40 billion a month – and again, we'll see how long that lasts – but that certainly is putting money in the economy through the banking system," said George.