# US Daily: December FOMC Recap: A Slower Pace but a Higher Peak (Mericle)

- The December FOMC meeting went largely as we expected. The FOMC delivered a smaller 50bp rate hike but raised its projection of the peak fed funds rate in 2023 by 50bp to 5-5.25%, showed slightly larger cuts in 2024 from that new higher peak, kept the reference in its statement to "ongoing" increases in the funds rate being appropriate, and left its options open in February. More surprisingly, the median inflation projections rose despite better recent inflation news.
- We continue to expect three additional 25bp rate hikes in February, March, and May, for a peak funds rate of 5-5.25%. We do not think that Powell meant to send a strong signal about the size of the next hike in February today, but we see his intention to "feel our way" to the appropriate policy rate as most consistent with our forecast of another stepdown in the pace to 25bp.
- Asked about the possibility of rate cuts next year, Chair Powell said that the FOMC will only cut when it is confident that inflation is moving down in a sustained way. We are doubtful that the inflation path that we forecast for next year would be enough to provide that confidence.

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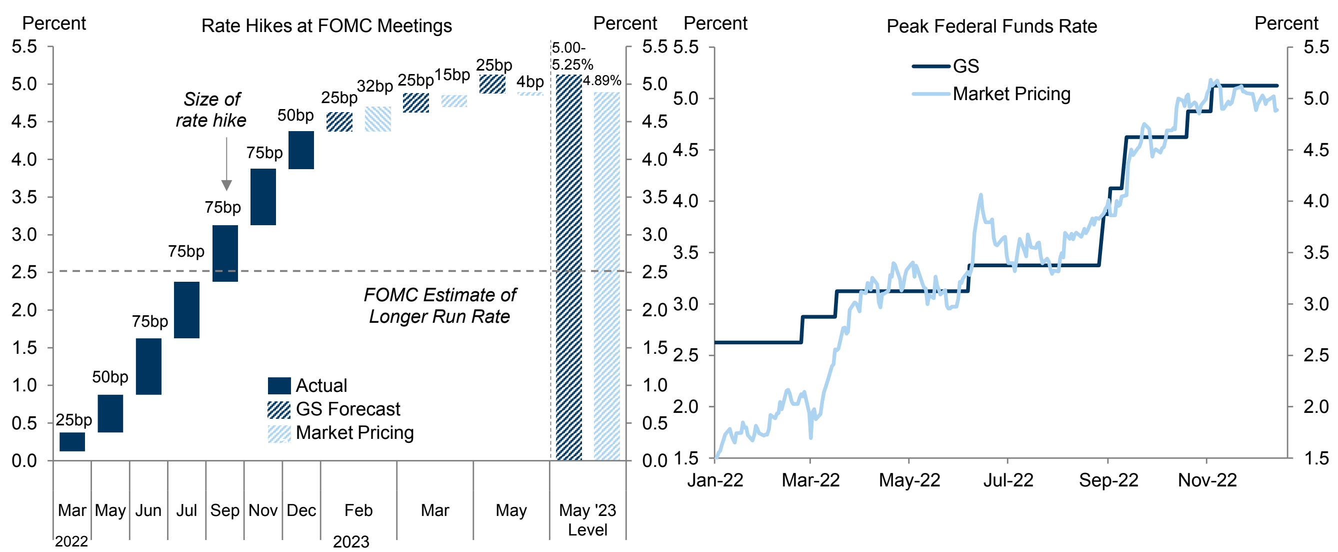
# December FOMC Recap: A Slower Pace but a Higher Peak

The December FOMC meeting went largely as we expected. The FOMC delivered a smaller 50bp rate hike but raised its projection of the peak funds rate in 2023 by 50bp to 5-5.25%, showed slightly larger cuts in 2024 from that new higher peak (100bp vs. 75bp previously), kept the reference in its statement to "ongoing" increases in the funds rate being appropriate, and left its options open for the February meeting. Three participants raised their longer run or neutral rate dots, but the median was unchanged.

We were surprised, however, that the median inflation projections rose meaningfully to 3.5% (+0.4pp) in 2023 and 2.5% (+0.2pp) in 2024, despite the encouraging recent inflation news. Chair Powell clarified that the projections did reflect the softer-than-expected November CPI report released yesterday.

We continue to expect three additional 25bp rate hikes in February, March, and May, for a peak funds rate of 5-5.25%, as shown in Exhibit 1. Market pricing for the peak funds rate rose 4bp today to 4.89%.

**Exhibit 1: We Continue to Expect Three More 25bp Hikes in February, March, and May, for a Peak Funds Rate of 5-5.25%**




Source: Goldman Sachs Global Investment Research

We do not think that Powell meant to send a strong signal about the size of the next hike in February today, but we see a few of his comments as consistent with our forecast of another stepdown in the pace to 25bp. First, he said Fed officials intend to "feel our way" to the appropriate policy rate, which we assume most likely means moving in small increments. Second, he said that it will take time for the full effects of monetary policy restraint on the economy to be realized, which could imply concern about overtightening. Third, he again emphasized that while the pace was important earlier this year, now the pace is much less important than the ultimate level and how long interest rates remain restrictive.

The main source of uncertainty about the speed and number of future rate hikes is how the pace of growth will evolve. We see the FOMC's overriding goal as continuing what it has successfully begun in 2022: maintaining a below-potential growth pace that steadily narrows the jobs-workers gap. While we think another 75bp is a good estimate of further tightening in 2023, we would expect monetary policy to adapt if other factors such as changes in financial conditions and business confidence cause growth to depart meaningfully from our baseline. Powell did not seem overly concerned about the recent easing in financial conditions but did say that it is important that financial conditions reflect the Fed's policy restraint and that the FOMC would pay more attention to moves that last longer.

Asked about the possibility of rate cuts next year, Powell again stressed that the FOMC will only cut when it is confident that inflation is moving down in a sustained way. We are doubtful that the inflation path that we forecast for next year would be enough to provide that confidence.

**David Mericle**

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