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Weekly Commentary

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How fast is fast?

The minutes of the Federal Open Market Committee's January meeting got extra scrutiny from the markets and cash managers last week as they combed the text for any intelligence about rate hikes. Alas, the notes didn't reveal much. Perhaps the most telling lines was: "Most participants noted that, if inflation does not move down as they expect, it would be appropriate for the Committee to remove policy accommodation at a faster pace than they currently anticipate."

That "faster pace" probably is not close to the speed the markets are projecting with forecasts of around five to six quarter-point hikes this year. There's still several weeks before the March 15-16 meeting, but a move before then is highly unlikely. It's also improbable that inflation will "move down" in the data for the next Consumer Price Index and Personal Consumption Expenditure Index. So the possibility for Federal Reserve officials to vote for a 50 basis-point jump off zero at the March policy-setting meeting is still in play.

Interestingly, consumers seemed undaunted by the rise in prices. Nominal retail sales in January rose 3.8%, much higher than most expectations for around a 2% increase. That trend is destined to end if inflation keeps surging. The Fed has its hands full the rest of this year.

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