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Weekly Commentary

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Pause or skip?

If the Federal Reserve forgoes a change in the federal funds target range at the next policy-setting meeting on Nov. 1, the markets will have two ways to describe it: a pause or a skip. The former reflects the opinion the central bank is finished with rate hikes; the latter that another is possible. It's a subtle but critical distinction.

Speaking at a New York Economic Club event last week, Chair Jerome Powell reiterated that the Fed likely will hold the range at 5.25-50% at its last Federal Open Market Committee (FOMC) meeting Nov. 1, but could very well hike once more in the future.

Policymakers have been tempted to toss out their economic textbooks as the tried-and-true method of reducing inflation by raising interest rates hasn't worked. Inflation has come down from its multidecade highs, but remains far above the target rate of 2%. Despite making it more expensive to borrow, businesses have been buoyed by unexpectedly strong consumer spending. Reports released last week indicate retail sales in September were unexpectedly strong. With so many people employed in this hot labor market, consumers have dry powder, opposing an economic slowdown. This should not be the case, theoretically. Policymakers hope the issue is a timing one—that the lagging effect of monetary policy is hiding the fact that it is suppressing the economy. Withholding a hike seems prudent.

All of this is to say that the result of the FOMC meeting Nov. 1 might be one of the least significant of the 19-month tightening cycle.
The Fed almost certainly will not hike rates, but what that means—the direction of the vector—will only become clear later.

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