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Weekly Commentary

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A slight difference of opinion

It doesn't qualify as dissent, but last week, two prominent Federal Reserve officials differed in their opinions about the central bank's policy path.

St. Louis Fed President James Bullard said the Federal Open Market Committee (FOMC) might need to raise interest rates to a 5-7% range to tackle inflation. That contrasted with Vice Chair Lael Brainard's comments earlier in the week in an interview with Bloomberg. She said policymakers probably will pull back from the large hikes proliferating this year. "I think it will probably be appropriate soon to choose a slower pace of increases."

While Brainard followed that remark by saying, "We've done a lot, but we have additional work to do," her message has greater weight than Bullard's because she is the Number 2 policymaker after Chair Jerome Powell. She also is a Fed governor and is seen by many as Powell's successor. Brainard made clear, however, that the FOMC will remain data-dependent. Specifically, she pointed out that several important economic reports will come before the Dec. 14 policy-setting meeting.

The implication for the markets is to hold tight and curb recent euphoria following the recent October consumer price index report showing that annualized inflation slowed a little compared the September level.
The FOMC releases new projections at its December meeting that will provide much clarity.

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