FLORIDA PRIME™

Weekly Commentary

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On the road

Conveying the complexity of monetary policy to non-economists often leads Federal Reserve Officials to analogies and metaphors. One of the most famous is referring to expansionary tactics as a punch bowl. When inflation gets too high, the Fed often takes “the position of the chaperone who has ordered the punch bowl removed just when the party was really warming up,” Fed Chair William Martin said in 1955.

This past week, several Fed officials and members of the Federal Open Market Committee (FOMC) went with automobiles.
Richmond Fed President Tom Barkin said that, early in 2022
the Fed “[Took] our foot off the gas,” with normalization of the federal funds rate from essentially zero. He then characterized the more aggressive hikes, including several 75 basis-point hikes in fall, as putting “[our] foot unequivocally on the brake.” Now, “it makes sense to steer more deliberately as we work to bring inflation down.”
Atlanta Fed President Raphael Bostic and Kansas City Fed President Esther George characterized that navigation as needing to be on a road they have laid out. Both used the word “course” to describe that.

With the labor market seeming to show signs it might finally be relenting, we think a terminal rate—the highest level the FOMC is likely to take the fed funds rate before pausing or lowering rates—won’t be reached for several months, and likely will exceed 5%. Until then, we will stay the course, as well.

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