

# US Macroeconomics

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## Look Out for a Hawkish Set of Fed Forecasts

The FOMC meets Wednesday, where we are expecting them to deliver a hawkish pause. At this meeting the Federal Reserve will also deliver a quarterly update of their forecasts which will be key for economists and investors alike for ascertaining the possible direction of future Fed policy. This will also be one source for the Fed to express its commitment to a hawkish, higher-for-longer policy. This will take the form of higher expectations for GDP growth, Core PCE inflation, and the fed funds rate over the next few years. **Consistent with the marking down of recession probabilities, which Fed members have publicly expressed in recent weeks, specifically look for: first, a reduction in the spread of fed funds forecasts (meaning less uncertainty), and second, a reduction in the number of cuts in 2024.** We have included our expectations below, alongside how these compare to the last set of fed forecasts released back in June.

There are two recent macro dynamics likely to draw the ire of the Fed and force a hawkish statement and press conference. **The first is that oil prices have increased over 36% in just the last three months** while crude inventories are near 20-year lows. As a result, gasoline prices have jumped more than 11% in the last six weeks which will support headline *and* core inflation. **The second is the United Auto Workers strike.** This stagflationary hit comes at a particularly inopportune time as auto inventories (relative to sales) are still down nearly 28% relative to 2019. Too little supply means upward pricing pressures. **Together, energy, car prices (new and used), and auto insurance (which is auto price sensitive) hold a near 17% weight in the consumer price index. As a result, the Fed will stay in hawkish mode even though rate hiking is on hold.**

### SMBC Economics Expectation for Fed Forecasts

Indicator	2023	2024	2025	2026	Longer Run
GDP	2.0% (up 100 bps)	1.5% (up 40 bps)	2.0% (up 20 bps)	1.8%	1.8%
Unemployment	4.0% (down 10 bps)	4.5% (unchanged)	4.5% (unchanged)	4.3%	4.0% (unchanged)
Core PCE	3.9% (unchanged)	2.8% (up 20 bs)	2.3% (up 10 bps)	2.0%	N/A
FFR	5.6% (Unchanged)	5.1% (up 50 bps)	3.7% (up 30 bps)	3.5%	2.8% (up 30 bps)

Sources: SMBC Nikko

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