THE BOND BUYER

Fed 'nowhere near' finished with inflation fight, Daly says

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Federal Reserve officials said they want strong evidence that the hottest inflation in four decades is on a sustainable downward path before declaring victory in their fight against it.

With consumer prices rising 9.1% in June from a year earlier, the Fed has "a long way to go" on reaching price stability around a 2% inflation target, San Francisco Fed President Mary Daly said Tuesday in an interview on LinkedIn. "We are still resolute and completely united" on achieving the objective, she said.

Federal Reserve Bank of San Francisco President Mary Daly. **Bloomberg News**

Her Cleveland counterpart, Loretta Mester, told the Washington Post during a live-streamed event she wants to see "very compelling evidence" that month-to-month price increases are moderating before saying that the U.S. central bank's tightening cycle is accomplishing its goal of curbing inflation.

Chicago Fed President Charles Evans, speaking with reporters at his bank, said policy makers are "probably at least a couple of reports away" from seeing the kind of improvement in the inflation data that would reinforce the notion that they are on the right track with monetary tightening.

Treasury yields jumped as policy makers' comments prompted traders to reduce bets on interest-rate cuts in 2023.

The central bank's policy-setting Federal Open Market Committee raised its benchmark rate by three quarters of a percentage point last week for the second straight month, marking the most aggressive back-to-back increases in more than a generation to tame inflation.

Data since then have showed US gross domestic product contracted for the second consecutive quarter in the April to June period, meeting the threshold that some economists use as a rule of thumb to judge that the economy has fallen into a recession.

Fed Chair Jerome Powell told reporters after the July 27 decision that officials could increase rates by the same amount at next meeting in September — depending on readings from the economy between now and then — though they would slow at some point in the future. The Fed next meets Sept. 20-21.

"I really am looking to see what those data tell us to see if we can downshift a little bit the pace of rate hikes, or if we need to continue" outsize increases, Daly said.

Economists surveyed by Bloomberg before last week's decision said they expected the FOMC to lift rates by a half point in September, then shift to quarter-point hikes at the remaining two meetings of the year. That would lift the upper range of the central bank's policy target to 3.5% by the end of 2022, the highest level since early 2008.

Evans said he is hopeful that a path to a 3.5% federal funds rate by the end of the year via a half-point increase at the September meeting and quarter-point increases at policy meetings in November and December is "still reasonable."

If inflation doesn't show signs of improvement, the FOMC "might have to rethink the path a little bit higher, but I would be a little nervous about responding too much, too early," he said.

Last week, before the release of GDP data, Powell pushed back on suggestions that the US is already in a recession.

The National Bureau of Economic Research's business-cycle dating committee — the official arbiter of US recessions — does not adhere to the two-quarter-contraction view. Instead, the group of eight elite academic economists looks at half a dozen monthly economic reports to see a "significant decline in economic activity that is spread across the economy and that lasts more than a few months."

Mester said the slowing seen in some data points isn't enough to label the US economy as being in a recession. A pullback in activity is what the Fed wants to engineer in order to get demand in line with the constrained supply side of the economy.

"When a recession is in place, you will see the labor market deteriorate pretty rapidly, and certainly right now, the labor market is very healthy," she said. "My forecast for this year is that we will be growing below trend, but that's necessary in order to get price increases under control."