

22 Nov 2022 07:29:42 ET | 13 pages

# US Economics

## The Daily Update – Monetary mindfulness

### CITI'S TAKE

San Francisco Fed President Mary Daly pledged to be “resolute and mindful” in raising policy rates to achieve price stability. While the comments sound dovish, Daly characterized herself as “on the hawkish side” and suggested policy rates should rise to 4.75-5.25%. This is another sign that the 4.5-4.75% median “dot” for 2023 will shift higher at the December FOMC meeting. We continue to project a 5.25-5.5% terminal policy rate range. The threat of an early December rail strike remains on our dashboard after a conductors union rejected a deal that would include a 25% wage increase over five years. A strike is likely to be averted but the difficult negotiation is a reminder of the considerable upward pressure on labor costs that may manifest in higher prices.

**TODAY at 7:30AM NYT please join [US Economics: The Weekly Call](#)**

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Yesterday we wrote about the importance of next week's jobs report in determining the extent to which the 4.5-4.75% median "dot" for policy rates at the end of 2023 will shift higher. **Powell** had indicated in the November FOMC press conference that data suggested a higher terminal rate. That was before softer October core CPI inflation, but subsequent Fed speak has emphasized not reading too much into the one month of data. **Daly's** base case is for a higher policy range (4.75-5% or 5-5.25%) and last week she suggested a "pause" in hikes is off the table.

We would characterize Daly as leaning slightly dovish despite her declaration of being "on the hawkish side." The idea of being "mindful" of past tightening of financial conditions is similar to statement language pledging to take cumulative tightening into account. It was interesting that Daly emphasized looking at not just policy rate expectations but broad measures of financial conditions. The unstated implication is that on the margin any rally in risk-assets that is not a reaction to news of slower inflation will be met with a desire to raise policy rates further.

Daly characterized "mindful but resolute" as being committed to bringing inflation down in the "gentlest" way possible. Unfortunately, by the Fed's own estimates that would involve a significant slowdown in growth and rise in the unemployment rate - something Chair Powell has referred to as a "painful" adjustment.

We continue to see a self-reinforcing process of rising labor costs and (particularly service sector) prices as the largest risk to persistently stronger inflation. Rail unions have so far been unwilling to accept a deal that would include a 25% wage increase over five years - mainly due to disagreements over sick leave rather than the size of the wage increase. If unions and rail operators fail to come to an agreement by December 5, Congress is likely to act to extend the "cooling off" period or force an agreement. Freight could be affected as early as next week if operators begin to prepare for a potential loss of labor.

#### Key data today

##### 10:00 AM

- Consensus expectations for the **Richmond Manufacturing Index** for November are at -8. In general, we expect manufacturing indices to be soft in the coming months as demand for goods continues to wane.

#### Key events today

- **Cleveland Fed President Mester** is making the opening speech at an event about wages and inflation at **11:00 AM**. She said yesterday that the Fed has "more work to do" to bring inflation on a sustainable downward path. **Kansas City Fed President George** will be part of a policy panel at **2:15 PM** and **ST Louis Fed President and hawk Bullard** is speaking about heterogeneity in macroeconomics at **2:45 PM**.

Figure 1. Market Update Monitor

Indicator	Current Level	Change over:		
		Prior Day	Prior Week	Prior Month
S&P 500 e-Mini	3966	0.4%	-0.7%	5.2%
UST 2-year Yield*	4.49	-3.9	14.9	2.8
UST 10-year Yield*	3.79	-3.6	-1.6	-37.9
UST 10-year Breakeven*	2.34	7.1	-3.7	-20.4
DXY Dollar Index	107.351	-0.4%	1.3%	-4.4%
EUR/USD Spot	1.028	0.5%	-1.4%	4.6%
Oil (WTI)	80.39	1.0%	-4.9%	-2.9%
*Change is in bps				

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Source: Citi Research, Bloomberg

Figure 2. Data Releases

Figure 2: Data Release

Release	Date and Time	Reference Period	Actual	Citi Forecast	Consensus Forecast	Surprise Z-Score	Outright Z-Score
Durable Goods Orders	11/23; 08:30	Oct P		1.6%	0.3%		
Durable Goods Ex Transport				0.6%	0.1%		
Cap Goods Orders Nondef Ex Air				0.5%	-0.2%		
We expect a strong 1.6%MoM increase in durable goods orders, with particular strength for aircraft. Durable strength ex transportation should show a solid 0.6% increase consistent with strength in durable goods production in October. Generally, over the coming months, we would expect to see some further weakening in orders as demand broadly softens.							
Initial Jobless Claims	11/23; 08:30	Nov 19		205k	225k		
Continuing Claims		Nov 12		1460k	1520k		
We are expecting both initial and continuing claims to decline next week but there is significant uncertainty due to the seasonal adjustment factors.							
S&P Global US Manufacturing PMI	11/23; 09:45	Nov P		50.4	50.0		
S&P Global US Services PMI				47.6	48.0		
We are expecting neither S&P PMI to change very significantly. Upside risk exists for the services number in particular; while the S&P PMI printed below 50 for a few months now, it remains very much divergent from the ISM Services index and also runs counter to the hard data.							
New Home Sales	11/23; 10:00	Oct		550k	576k		
New Home Sales MoM				-8.8%	-4.6%		
Given the strong decline in housing starts and existing home sales in October, there is little reason to think that new home sales won't decline significantly for the month. Housing starts have been declining for several months now and we'd expect new home sales to follow this trend, as less.							

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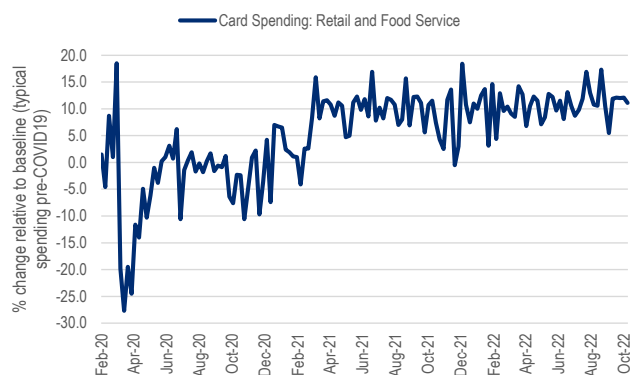
Figure 3. Fed Speak

Date & Time*	Speaker	Summary of Comments	Hawk/Dove Rank (1=Most Hawkish, 18 = Least Hawkish)	Written remarks/ Q&A	Prior Comment
11/21; 13:00	Daly (SF, Non-Voter)	SF Fed President Daly said that the Fed will need to be "mindful as they are raising their policy rate..	17	Yes/Yes	Daly said that she thinks it is reasonable for the terminal rate to be somewhere between 4.75 and 5.25%.
11/22; 11:00	Mester (Cleveland, Voter)	Cleveland Fed President Mester set to give the opening speech at a discussion about wages and inflation.	3	No/No	Given that inflation has consistently proven to be more persistent than expected and there are significant costs of continued high inflation, I currently view the larger risks as coming from tightening too little." (11/10)
11/22; 14:15	George (Kansas City, Voter)	Kansas City Fed president George will be part of a policy panel organized by the Central Bank of Chile.	10	-	"For me, the more important question for this committee, looking out over the next year, is being careful not to stop too soon," (11/16)
11/22; 14:45	Bullard (St. Louis, Voter)	ST. Louis Fed President Bullard is speaking about heterogeneity in macroeconomics at a Central Bank of Chile organized event.	1	-/No	St. Louis Fed President Bullard said that he thinks the Fed should raise interest rates to at least 5% to 5.25%. He added that he would want to "err on the side of staying higher for longer" (11/17)

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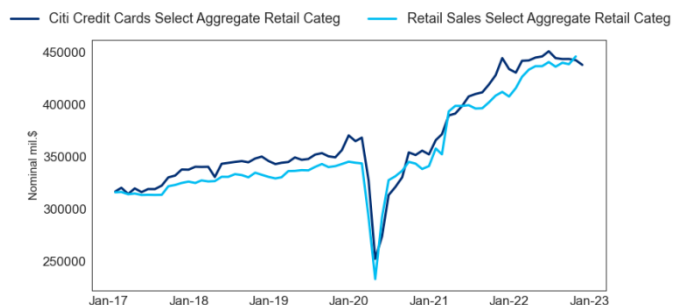
Figure 4. Retail and restaurant spending largely moving sideways



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Source: Citi Research, Bureau of Economic Analysis

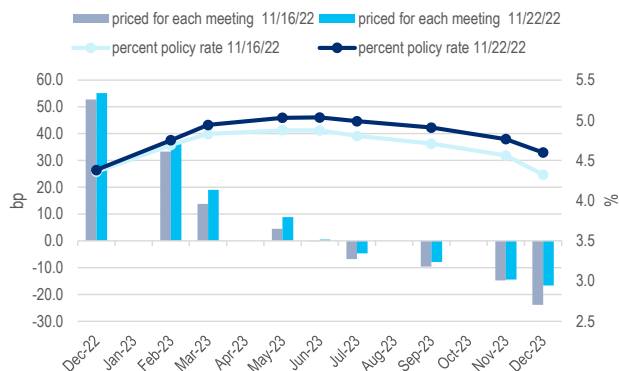
Figure 5. Citi Cards showing weak spending so far in November



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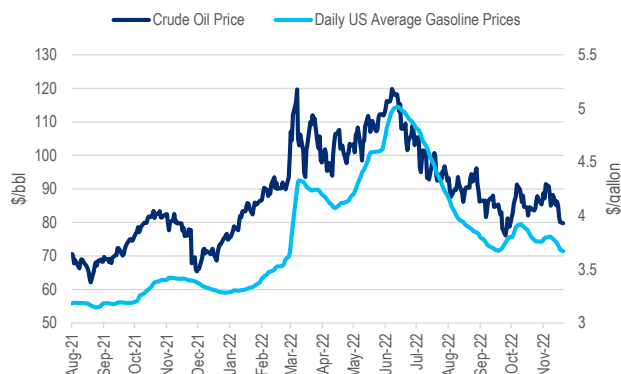
Figure 6. Market pricing about 55bp for the December FOMC meeting



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Source: Citi Research, Citi FX Stirt

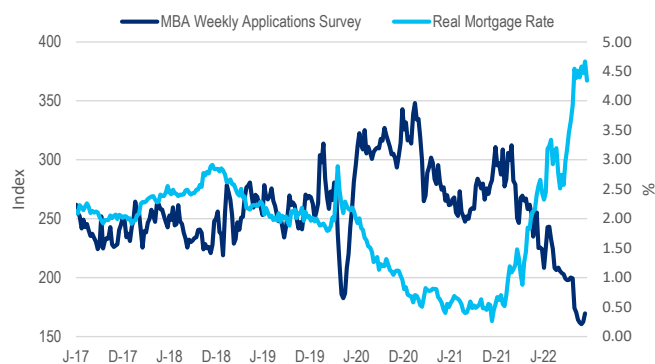
Figure 8. Gasoline prices have been declining in the past few days



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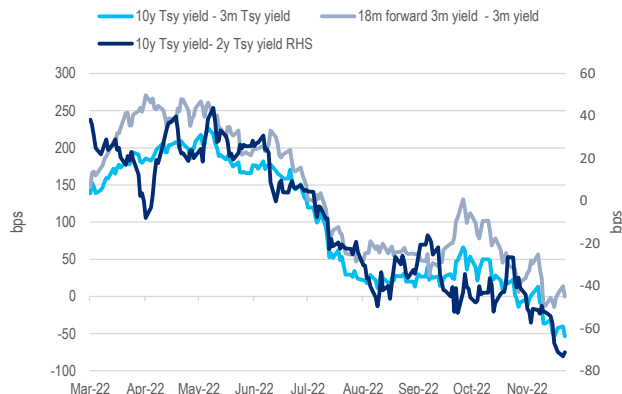
Figure 10. MBA Purchase Index has been on a general decline



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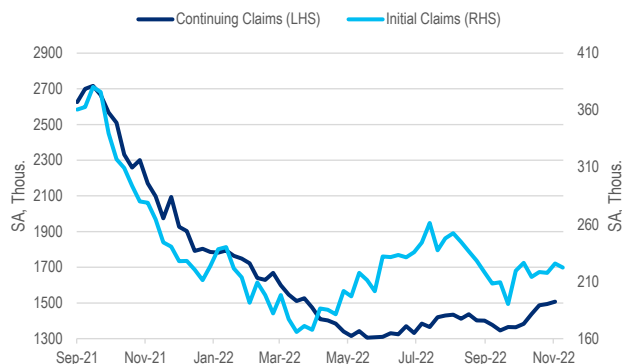
Figure 7. The curves have been flattening generally



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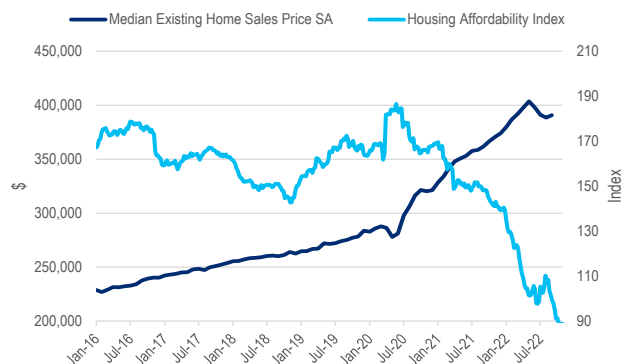
Figure 9. Initial jobless claims remain at low levels



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Source: Citi Research, DOL

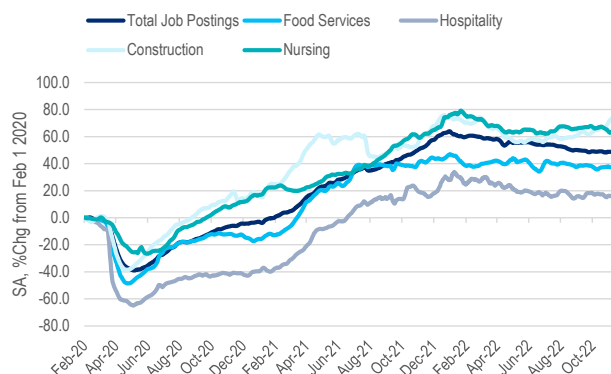
Figure 11. Housing Affordability remains low



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Source: Citi Research, NAR

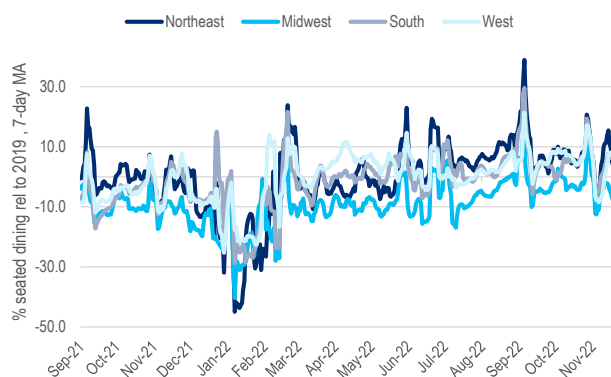
**Figure 12. Indeed total job postings slightly higher the first two weeks of November**



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Source: Citi Research, Indeed Hiring Lab

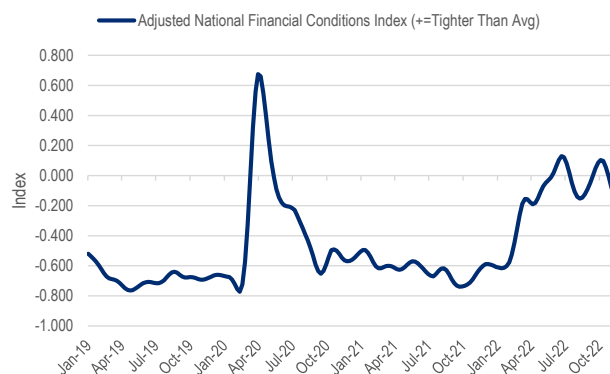
**Figure 14. Seated dining returned to normal levels after spiking last week**



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Source: Citi Research, Open Table

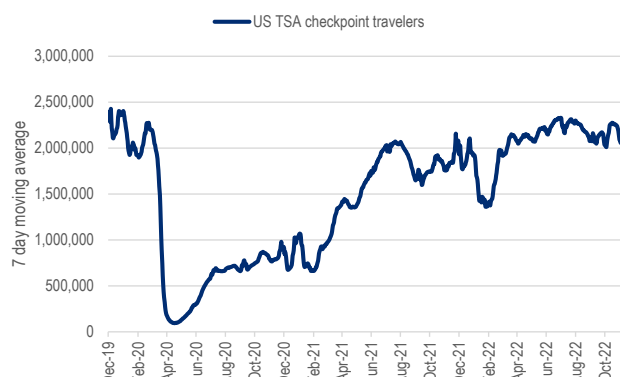
**Figure 13. Financial Conditions have been loosening**



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Source: Citi Research, Federal Reserve Bank of Chicago

**Figure 15. Air travel is close to 2019 levels**



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Source: Citi Research, TSA

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