The Daily Dish

All Eyes on the Fed

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While the week will bring modest news on other issues – housing market data on Monday, Tuesday, and Wednesday; claims for unemployment insurance on Thursday – the focus of the week will be the meeting of the Federal Open Market Committee (FOMC). The FOMC arrives at 2 p.m. Wednesday and is followed by Chairman Powell's press conference. The FOMC is widely expected to raise the target for the federal funds rate (its policy instrument) by 75 basis points. This raises the range from 2.25–2.5 percent to 3.0–3.25 percent.

Recall that even core inflation is well above 3.25 percent, so real (inflation-adjusted) interest rates remain negative – it is thus hard to describe monetary policy as "tight." Instead, it is getting closer to a neutral position where it no longer pushes the economy to faster growth in demand and exacerbates inflation pressures in the process. The problematic reports on Consumer Price and Producer Price inflation have highlighted the need for the Fed to move quickly and aggressively.

Certainly, one can expect to see weak reports on building permits and housing starts (Tuesday's data) and existing home sales (Wednesday's data). And, as expected, this is having impacts in the broader economy. *The Wall Street Journal* ran a story entitled "Home-Goods Retailers Jolted by Slowdown in Housing Market" that noted "When people buy new homes, they typically buy a lot to go inside, including furniture, curtains, lighting fixtures and appliances. Such spending has slowed or fallen this year as many home buyers moved to the sidelines in the face of climbing interest rates and a shortage of homes to buy, according to government data and businesses. Sales declined in August from a year before by a seasonally adjusted 1.6% at furniture and home-furnishing stores, and by 5.7% at electronics and appliance stores, according to the Commerce Department."

Nevertheless, overall retail spending remained solid in August, which came on the heels of a solid report on durable goods orders in July. So, despite some apocalyptic talk about a global recession by the CEO of Fedex, the data do not yet show any indication that the Fed

should change course.