Fed Members Voice Inflation Concern Before Next Week's FOMC Meeting

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The July FOMC meeting begins next Tuesday and concludes on Wednesday afternoon. Although committee members are widely expected to hold the overnight rate steady, the inflation *outlook* has recently worsened, and a number of Fed officials have indicated their patience may be wearing thin. Before the Fed's 10-day quiet period began on Saturday, several FOMC members took the final opportunity to set a hawkish pre-meeting tone.

In a LinkedIn post last Friday, Cleveland Fed President Beth Hammack wrote: "Inflation is too high. The labor market is right around my level of maximum employment." Hammack, one of 12 current voting members, went on to say that business leaders were actively telling her the Fed may need to take action to restrain inflation. She indicated a willingness to tighten policy if inflation remains elevated.

A day earlier, Dallas Fed President Lorie Logan argued that current conditions require "modestly higher interest rates," pointing to persistent inflation pressures, including energy-related risks stemming from the Middle East conflict and capacity pressures associated with AI-driven data center investment. That same day, Fed Vice Chair Philip Jefferson told a Stanford University audience that "If inflation does not start to cool down soon, I believe that it could be appropriate to reconsider our current policy stance."

Fed Governor Chris Waller was less committed, telling a New York Association for Business Economics audience that another hot core inflation reading could prompt the FOMC to consider tightening monetary policy in the near term, but several months of cooler readings would support continued steady policy.

While nine of 18 committee members had signaled at the June FOMC meeting that a rate hike would be appropriate later this year, there is still no clear consensus. Last week, New York Fed President John Williams said "unquestionably high inflation" will soon ease, along with shelter costs and fading wage-growth. Williams seems to believe inflation has peaked and expects price pressure to edge lower in coming quarters.

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Unfortunately, more recent events have made that expectation harder to grasp. A reescalation of hostilities in the Gulf has pushed WTI crude up from around $68 per barrel at the beginning of July to around $86 this morning. Rising oil prices have increased the cost of gasoline along with broader inflation expectations. *With increased inflation comes higher market yields and mortgage rates.* While the May CPI and PPI reports showed an encouraging drop in both the headline and core readings, retreating energy prices were the dominant factor. Obviously, this is no longer the case.

Still, a rate increase is very unlikely next week. Between now and the next scheduled FOMC meeting, committee members will have the opportunity to review both July and August employment and consumer inflation reports. If price pressure were to increase and labor conditions didn't completely deteriorate, a rate hike would warrant serious discussion at September's meeting.

However, *the act of tightening rates doesn't lower inflation*. Rate increases are intended to make borrowing more expensive, lowering demand for both businesses and consumers. Given how inflation has held persistently above target, it would require significant demand destruction over a prolonged period. The idea that the FOMC would begin orchestrating an economic downturn months before the mid-term elections would be controversial, but simply hoping that prices retreat would risk damaging the fledgling credibility of the Warsh Fed.

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Market Indications as of 11:29 A.M. Central Time

DOW	Up 489 to 52,329 (HIGH: 53,056)
NASDAQ	Up 333 to 25,841 (HIGH: 27,094)
S&P 500	Up 63 to 7,507 (HIGH: 7,610)
1-Yr T-bill	current yield 4.06%; opening yield 4.01%
2-Yr T-note	current yield 4.26%; opening yield 4.20%
3-Yr T-note	current yield 4.30%; opening yield 4.24%
5-Yr T-note	current yield 4.37%; opening yield 4.32%
10-Yr T-note	current yield 4.63%; opening yield 4.59%
30-Yr T-bond	current yield 5.13%; opening yield 5.11%