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Federal Reserve Bank of New York President John Williams Says Fed Is Data Dependent, Leaves Door Open to Pause

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Federal Reserve Bank of New York President John Williams said he is monitoring how strains in the banking sector affect the US economy and left the door open to leaving interest rates on hold next month.

"I will be particularly focused on assessing the evolution of credit conditions and their effects on the outlook for growth, employment, and inflation," Williams said Tuesday at an event with the Economic Club of New York. "We're going to get a lot of data between now and our June meeting."

Fed officials lifted interest rates by a quarter point last week, bringing the target on their benchmark rate above 5% for the first time since 2007. Fed Chair Jerome Powell hinted it could be the last rate increase for the time being, but left the door open for the US central bank to do more should the inflation rate remain higher than officials expect.

Asked repeatedly if the Fed would pause next month, Williams declined to be drawn out but acknowledged that policymakers were no longer providing explicit forward guidance on rates.

"What we're signaling is we're going to make sure that we achieve our goals and going to assess what's happening in the economy and make the decision based on that data," he said. "And if additional policy firming is appropriate, then we'll do that."

He was more plainspoken on the question of rate cuts this year, which investors bet the central bank will deliver according to pricing in futures contracts. "I do not see in my baseline forecast any reason to cut interest rates this year," he said, adding that the economy began the year on a solid footing and he saw two-sided risks to the outlook. "In my forecast we need to keep restrictive stance of policy in place for quite some time."

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Williams said it was hard to judge how much of additional headwind these strains pose to the economy, but they will have some impact. "There's clearly a piece of this which is more than just tightening monetary policy and is maybe a reflection of caution or pulling back by some institutions," he told reporters after the event.

The New York Fed chief also expects GDP to "grow modestly this year," and then pick up "somewhat" in 2024. He expects the unemployment rate to rise to a range of 4% to 4.5% over the next year and the inflation rate to drop to about 3.25% this year and to reach the Fed's 2% goal over the next two years.

A Fed survey released Monday showed that banks reported tighter standards and weaker demand for loans in the first quarter, extending a trend that began before the latest stresses in the banking sector emerged.

Source: https://www.bloomberg.com/news/articles/2023-05-09/fed-s-williams-focused-on-credit-conditions-impact-on-economy

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Don’t Assume ECB Will Finish Hiking Rates in July, Governing Council Member Martins Kazaks Warns

“Investors shouldn’t count on the ECB’s unprecedented bout of rate increases ending in July, as most economists predicts, according to Governing Council member Martins Kazaks.”

Investors shouldn’t count on the European Central Bank’s unprecedented bout of interest-rate increases ending in July, as the majority of economists currently predicts, according to Governing Council member Martins Kazaks.

“I don’t think it is that clear yet,” the hawkish Latvian official told Bloomberg on Monday by phone. “We still have quite some ground to cover and further rate increases will be necessary to tame inflation.”

Looking further ahead, he described market bets for borrowing costs to be cut in the spring of next year as “significantly premature.”

The remarks are the toughest since the ECB slowed the pace of its rate increases last week, while pledging that it’s not following the Federal Reserve’s example by opening the door to a pause. Most members of the 26-strong Governing Council have mostly reiterated President Christine Lagarde’s stance that there’s more ground to cover.

“The first is raising the rates and of course we don’t know where the terminal rate is,” he said. “Another thing is keeping those rates at elevated and sufficiently restrictive levels.” With the economy holding up better than anticipated in the face of Russia’s war in Ukraine and the subsequent worsening of the inflation shock, Kazaks said the risk of over-tightening continues to be smaller than the danger of doing too little.

“Persistently high inflation is a bigger problem for society than a relatively short and shallow recession,” he said. “Failing to contain inflation would be a failure because then the policy response in the second go would then need to be much tighter.”

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One factor that some analysts have suggested could jolt the ECB off course in the months ahead is a period of rate cuts by the Fed, should the US economy succumb to a downturn. Kazaks, however, said it's possible to raise borrowing costs or pause, even as the US heads in the opposite direction, depending on the circumstances.

"The drivers for inflation in the US and the euro area have been somewhat different and that may also require different policy choices at a given moment in time," he said. "So I'd not exclude it, but that's still speculative."

Source: https://www.bloomberg.com/news/articles/2023-05-09/don-t-assume-ecb-will-finish-hiking-rates-in-july-kazaks-warns

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China Imports Plunge, Export Growth Slows as Recovery Wanes

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Chinese imports plunged and export growth slowed in April as the recovery waned, raising concerns about the country's ability to boost the global economy.

Overseas shipments expanded 8.5% from a year earlier to $295 billion, the customs administration said in Beijing, slowing from the double-digit gain in March. Imports, though, dropped 7.9% to $205 billion, much worse than the median projection of a 0.2% decline. That left a trade surplus of $90 billion for the month.

The export growth numbers were boosted by comparison with April last year when much of the country including major manufacturing areas in and around Shanghai were under lockdown and companies were unable to get their goods to port.

Economists caution that rising prices and interest rates in the rest of the world, high inventory levels and the war in Ukraine will serve as brakes on global consumer demand, meaning any increase won't last forever.

China's strong exports "can't last if the US is weakening and Europe's economy is kind of flat," said Iris Pang, chief economist for Greater China at ING Groep NV in Hong Kong. The drop-off in imports also suggests there is more reason for worry about the sustainability of China's rebound.

Pang of ING also sees possible government support in the future, potential options including support for the industry's labor market through electric vehicle subsidies, increasing the speed of infrastructure project deliveries or other means.

"Imports were quite disappointing, and would add concerns to China's demand recovery story," said Xiaojia Zhi, chief China economist at Credit Agricole CIB in Hong Kong.

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She suggested that the price drops in import items including energy products may be dragging on the headline figure. Tech imports contracted due to the global slowdown in electronics demand and the relocation of supply chains.

Source: https://www.bloomberg.com/news/articles/2023-05-09/china-s-exports-rose-in-april-in-boost-to-economic-recovery