July 13, 2026

Monday Monetary Thoughts

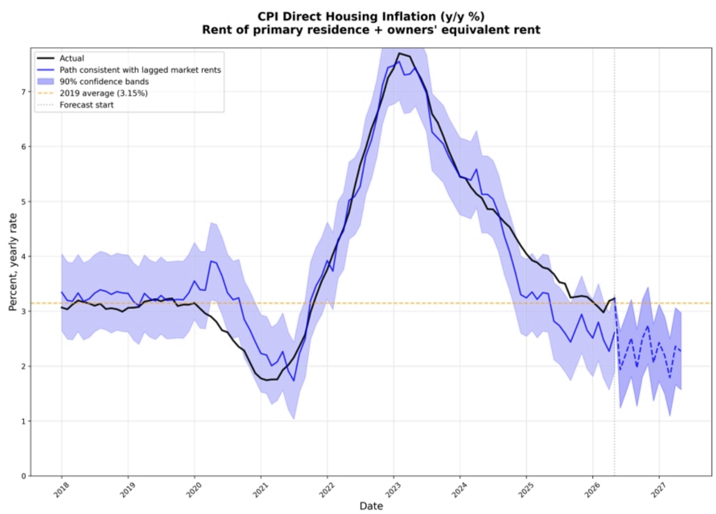
Bar feels low for a hike

Stable conditions help hawks

Looking at the economic data, I am not sure much is genuinely changing.

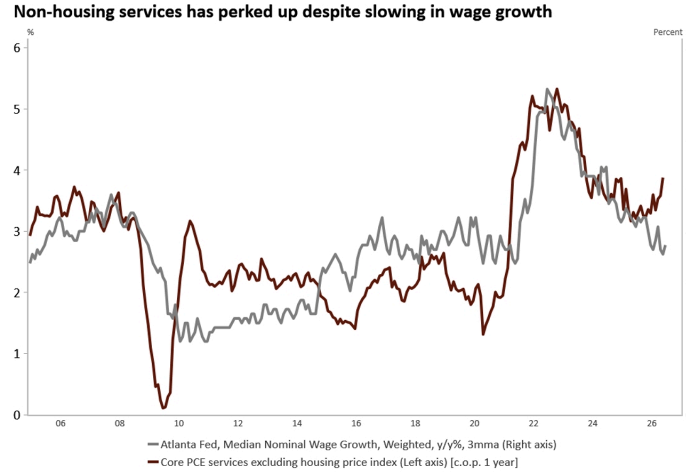
Real US GDP is running at about two percent, close to potential. Consumption continues to run well ahead of income growth. Housing market conditions remain sluggish with new housing construction sliding. The boom in tech equipment and software spending continues as does the slump in nonresidential structures. Likely the economy, the labor market is uneven, but there is no smoking gun.

On consumer prices, the drop in retail gasoline prices implies that headline inflation will moderate. A model that links wholesale gasoline futures to headline CPI inflation implies cooling ahead – not a forecast, just stating the obvious. Meanwhile, the pressure from tariffs and supply-chain disruptions is unlikely to get any worse. Our projection of housing rental inflation based on market rents points to some cooling ahead.

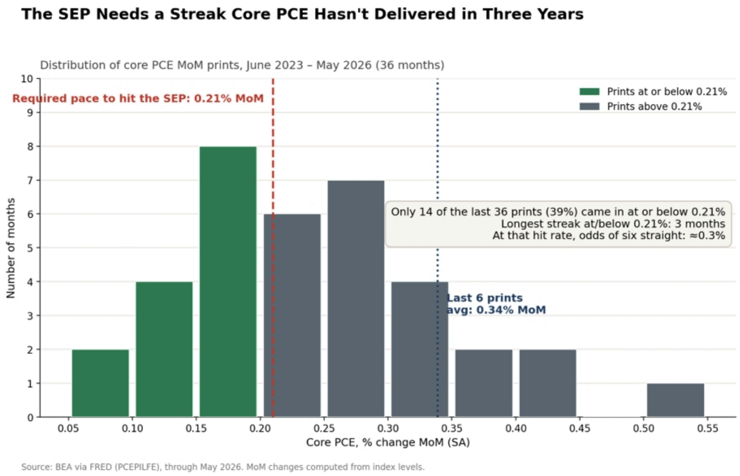


For the hawks that are ascendant on the FOMC, however, it is not so simple. Non-housing core services inflation has been accelerating even as labor cost pressures have eased. This indicates some risk that (a) inflation expectations are becoming unglued and/or (b) a pick-up in labor market conditions might quickly translate into broader inflationary pressures. What if the Philips Curve is not all that flat?

Non-housing services has perked up despite slowing in wage growth



Source: Renaissance Macro Research, Macrobond

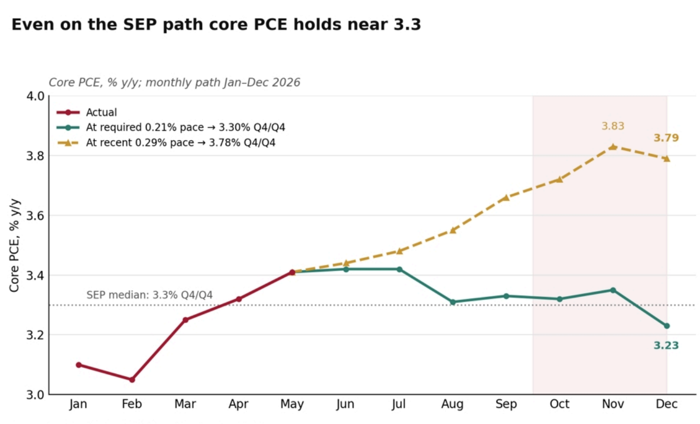


The bar feels low for a hike

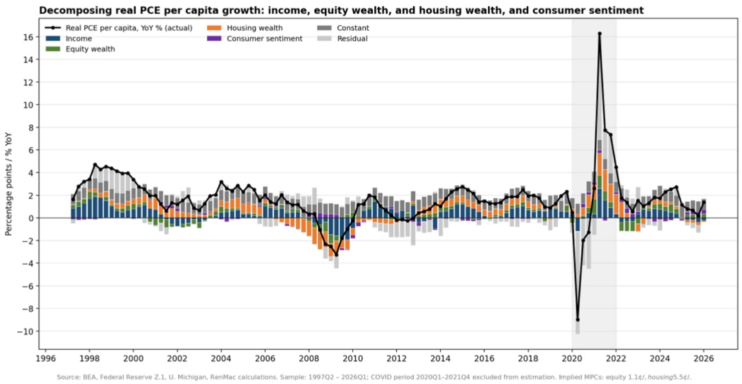
Putting it all together, the US economy is operating much closer to the Fed's growth and employment objectives than it is the Fed's inflation objectives. Thus, based on how the rhetoric has shifted on the FOMC, I think the bar to a rate hike is relatively low. Officials need to see inflation progress relatively soon and if they don't, a hike in on the horizon.

The latest issue of the FOMC minutes were quite informative in terms of laying out what would need to happen for a hike.

- *"Most participants remarked on scenarios in which inflationary pressures would dissipate and inflation* ***would soon begin to return to 2 percent****. In such scenarios, almost all of these participants noted that it would likely be appropriate to maintain or eventually lower the target range for the federal funds rate. Most participants, however, also pointed to scenarios in which, in the context of stable labor market conditions, inflation would remain elevated due to strong AI-related demand, the conflict in the Middle East, or the effects of tariffs. In such scenarios, almost all of these participants indicated that some policy firming would likely be warranted to return inflation to 2 percent."*



At present, the median SEP estimate for core PCE is 3.3 percent for Q4/Q4 2026 and at present core PCE is 3.41 percent. Hitting the SEP estimate implies a constant monthly pace of 0.21 percent per month, about 2.6 percent annualized, from June through December. Note that methodological changes to core PCE will lower 12-month core PCE by two-tenths in August. So, an achievable forecast, but even with the help, I would not bank my life on it.



Trade-offs can shift quickly

That said, I continue to see downside risks to the economic outlook.

- Given the sluggish growth in labor income, household consumption is being largely supported by a drawdown in savings and an equity market wealth effect. This leaves households vulnerable to an abrupt shift in market sentiment.

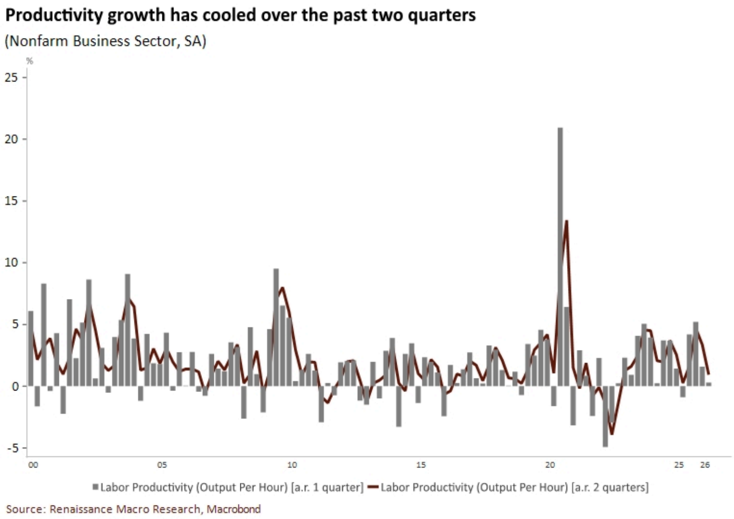
- Fiscal policy is likely tightening into next year as the Fed remains hawkish. Households no longer have the support from tax refunds with fiscal conditions tightening on net next year.

In short, if the Fed begins hiking, I think the trade-offs will not be as simple in a few quarters time. Hikes can quickly be reversed in the coming year if the Fed decides to go ahead with them now.

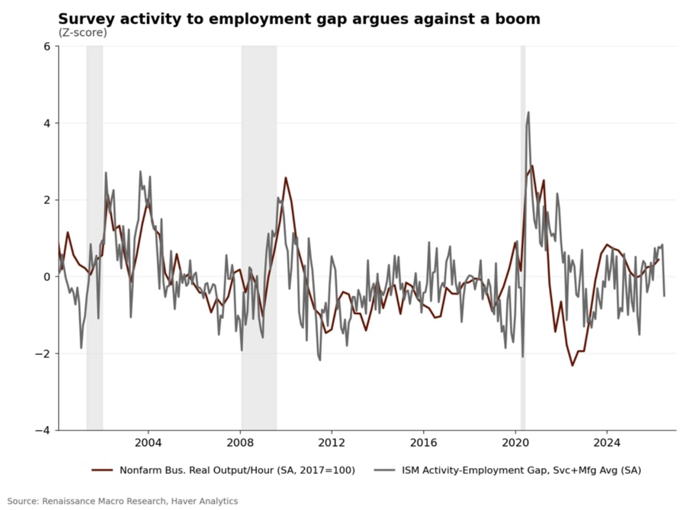
Productivity confidence is misplaced

The latest Monetary Policy Report (MPR) notes, “the economy’s productive capacity appears to be rising at a solid pace as historically subdued growth in the labor force has been offset by strong growth in labor productivity.” I am not sure where the confidence in this view comes from. A supply-driven productivity boost is very much a forecast, not a present-day reality.

Strong productivity growth might be yesterday’s story. Indeed, after a solid year, labor productivity has softened in recent quarters and the latest data don’t imply much of a turnaround.



While productivity expanded 2.5 percent in 2025, over the last two quarters, nonfarm business sector productivity has advanced just 0.9 percent SAAR. Current quarter tracking estimates imply another soft quarter of productivity. After all, aggregate hours worked rose 1.3 percent SAAR in Q2 while GDP is tracking roughly 2.5 percent, implying productivity of roughly 1.0 to 1.5 percent – a golden-age productivity boom this is not.

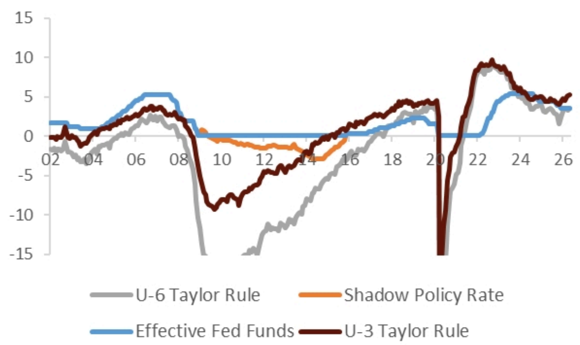


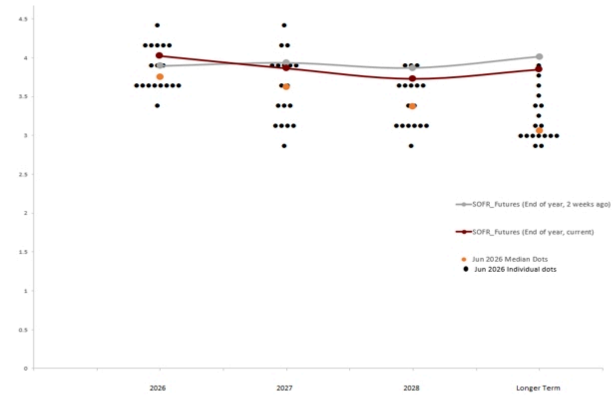
High-frequency survey data don't point to a boom either. In both the ISM manufacturing and non-manufacturing PMI, we've seen production and business activity moderate somewhat as employment has perked up. If productivity was taking off, I'd expect to see the opposite. To the extent there has been a productivity boom, it seems to be related to the bullwhip dynamics following the pandemic. Conditions today hardly point to the strong growth seen from 2023-25.

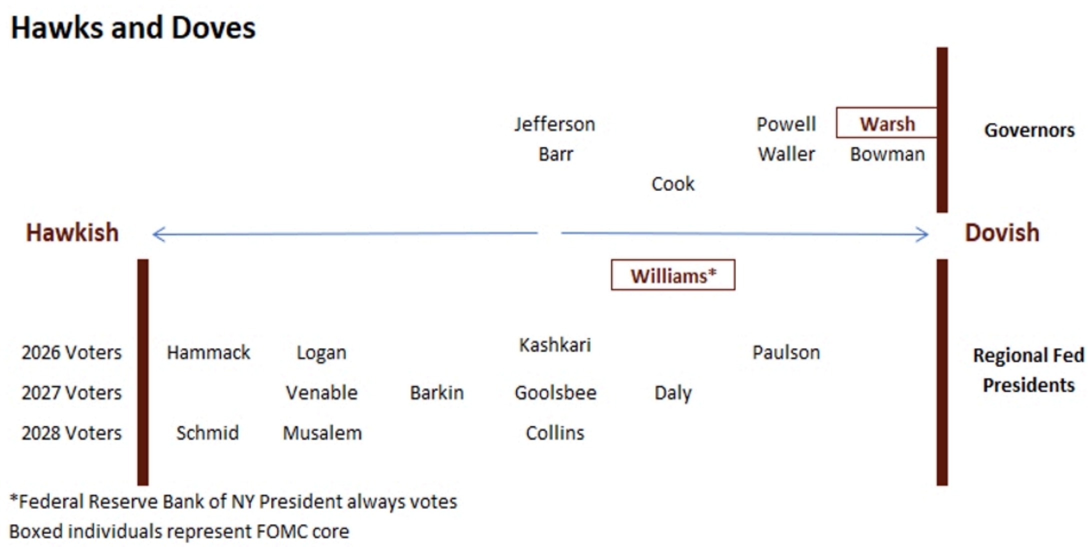
Lastly, I'd argue that since we're not seeing much economic growth beyond AI related investment spending, it is a sign that we don't have as much capacity as implied by the MPR. If productivity capacity was expanding shouldn't there be enough growth to go around? Instead, we see that both non-AI structures and residential investment remain sluggish – residential and non-residential structures have been a drag on US GDP.

The productivity boom is still very much a forecast, not something policymakers should be basing policy on at present.

Monetary metrics

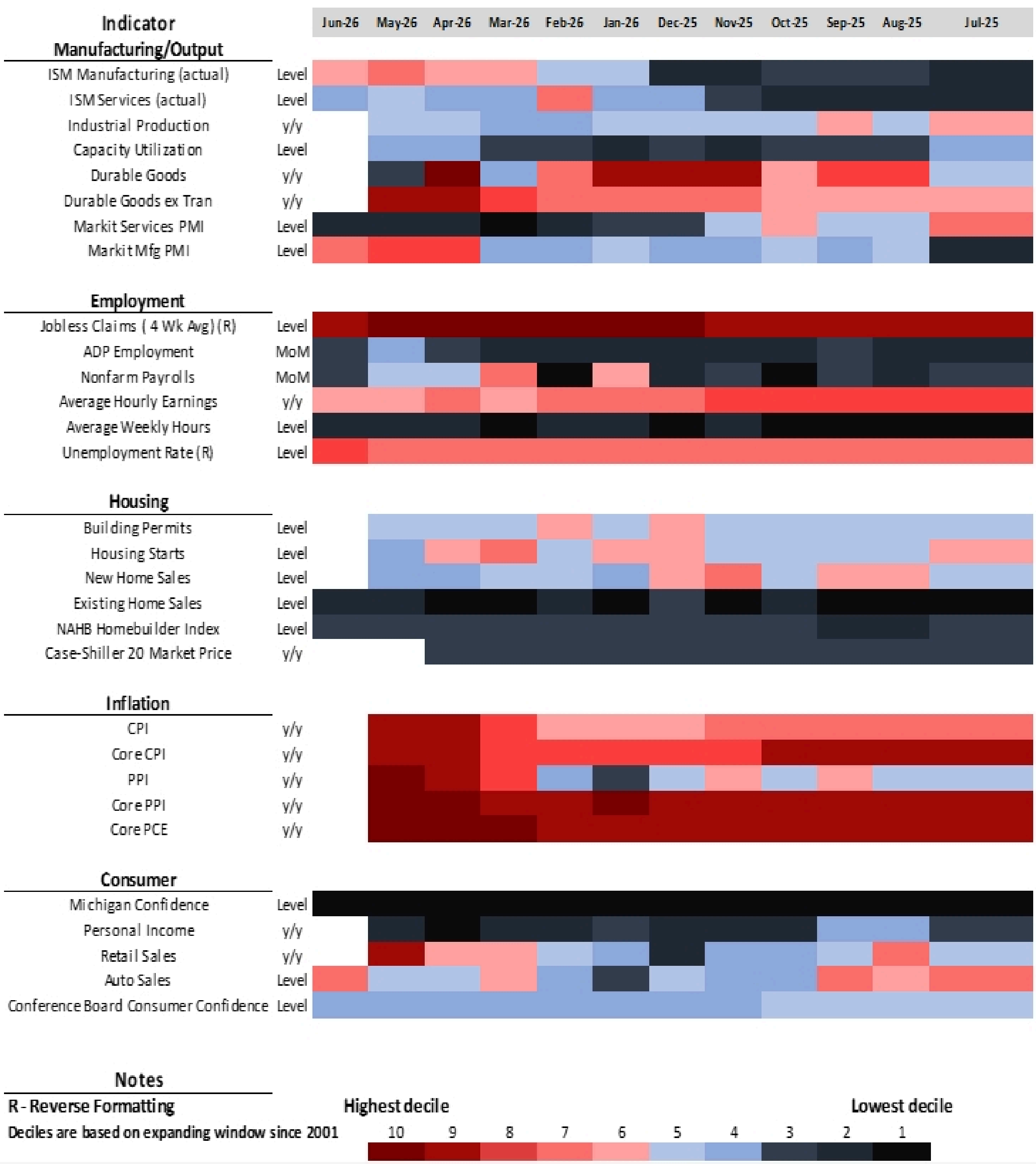




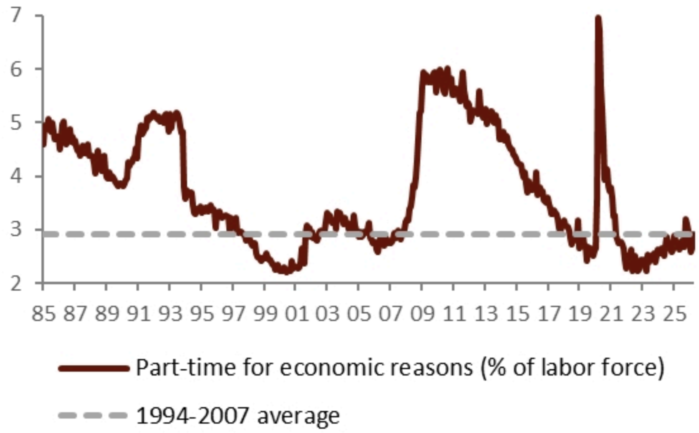


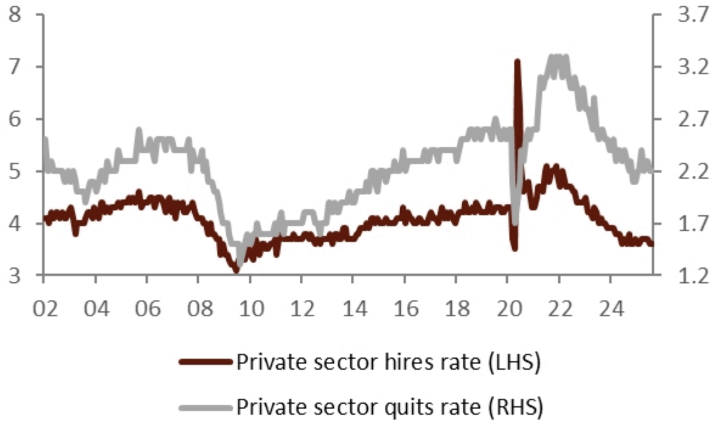
FOMC Forecasts	Median				Central Tendency			
	2026	2027	2028	Longer run	2026	2027	2028	Longer run
Change in real GDP	2.2	2.3	2.2	2	2.0–2.3	2.0–2.4	2.0–2.3	1.8–2.0
March projection	2.4	2.3	2.1	2	2.2–2.5	2.0–2.4	2.0–2.3	1.8–2.0
Unemployment rate	4.3	4.3	4.2	4.2	4.3–4.4	4.2–4.5	4.1–4.3	4.0–4.3
March projection	4.4	4.3	4.2	4.2	4.3–4.5	4.2–4.4	4.0–4.4	4.0–4.3
PCE inflation	3.6	2.3	2	2	3.5–3.7	2.2–2.5	2.0–2.1	2
March projection	2.7	2.2	2	2	2.6–3.1	2.0–2.3	2	2
Core PCE inflation4	3.3	2.5	2.1		3.2–3.5	2.3–2.6	2.0–2.2	
March projection	2.7	2.2	2		2.5–2.8	2.0–2.4	2	
Projected policy path								
Fed funds rate	3.8	3.6	3.4	3.1	3.6–4.1	3.1–3.9	3.1–3.6	3.0–3.5
March projection	3.4	3.1	3.1	3.1	3.1–3.6	2.9–3.6	2.9–3.6	2.9–3.5

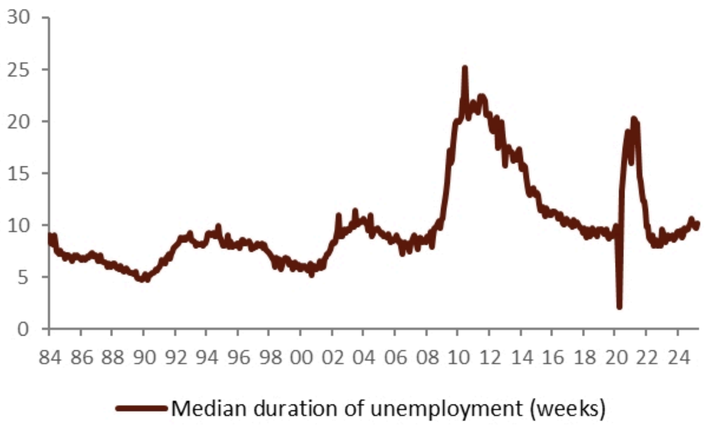
High frequency data heat-map

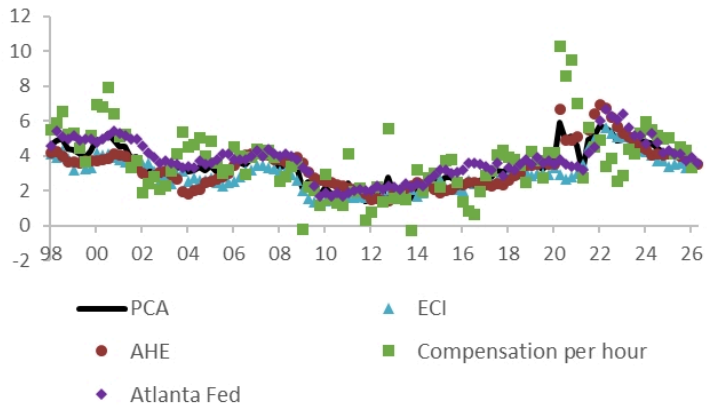


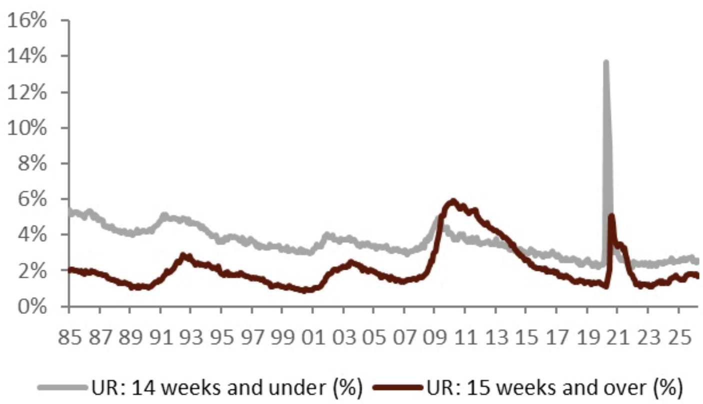
Labor market indicators

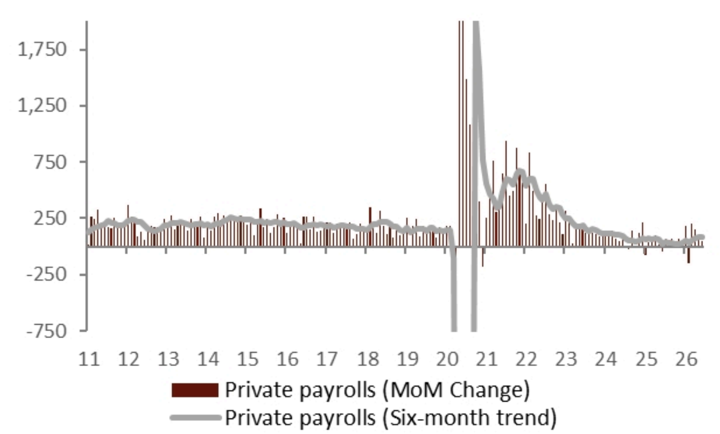




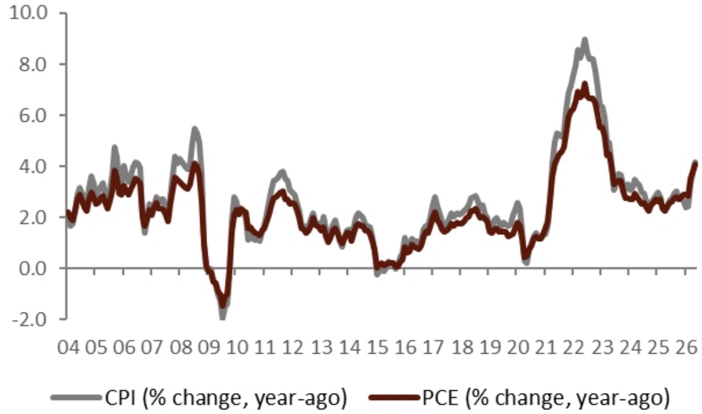


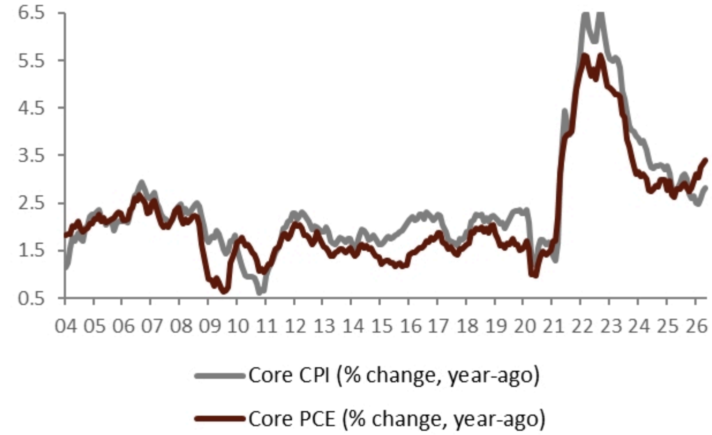


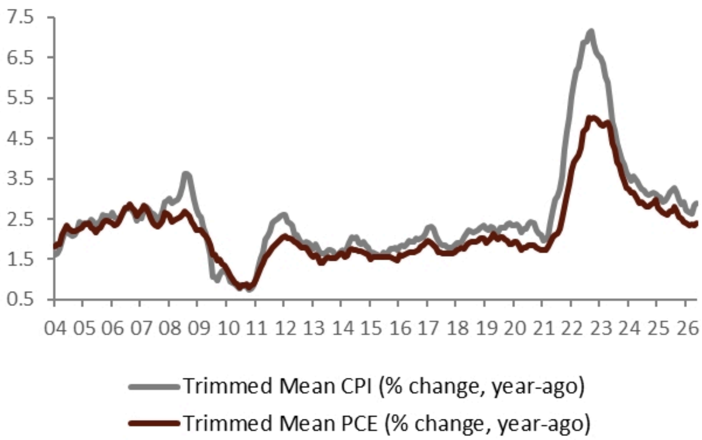


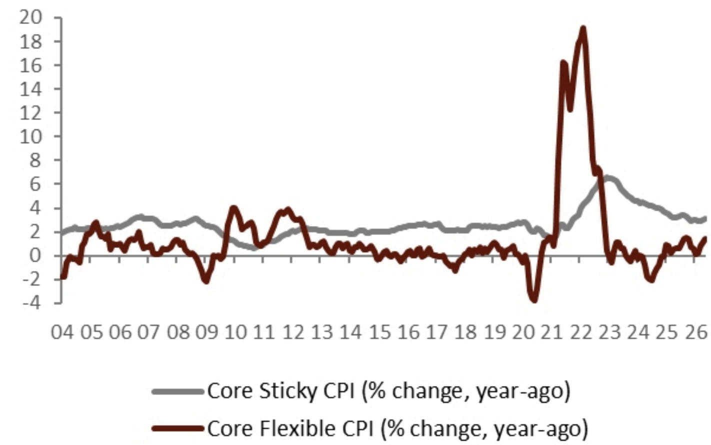


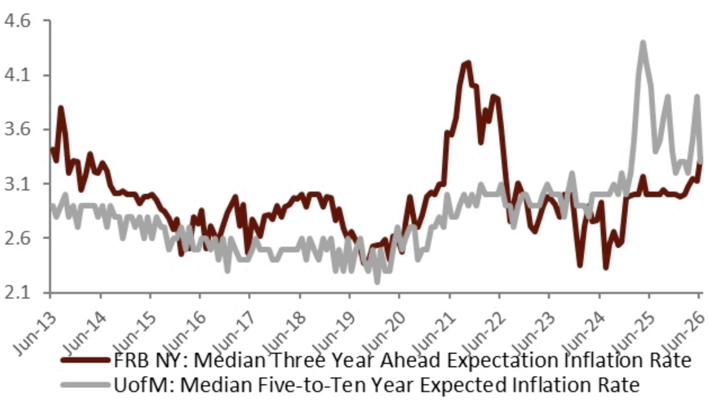
Inflation indicators

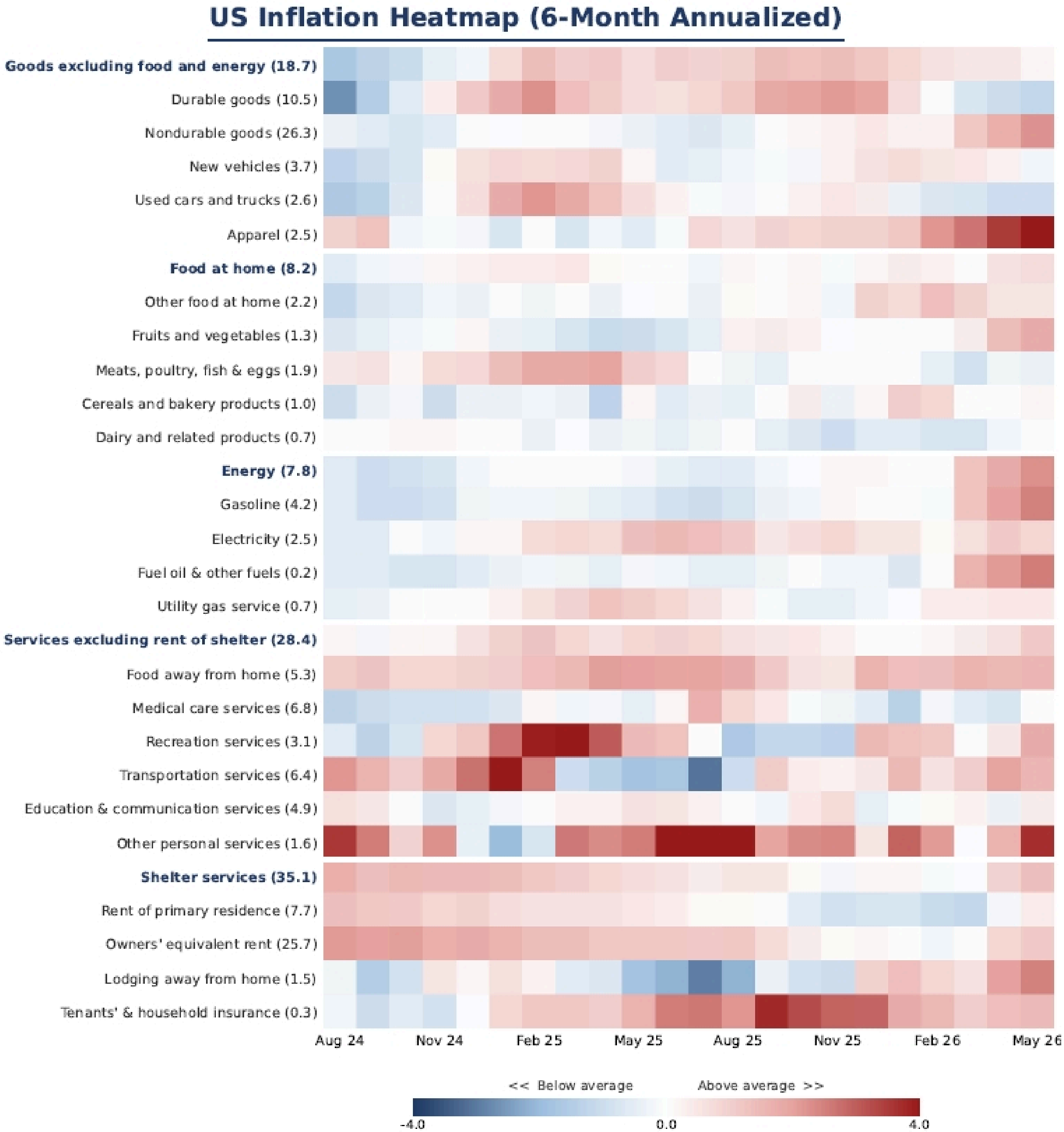






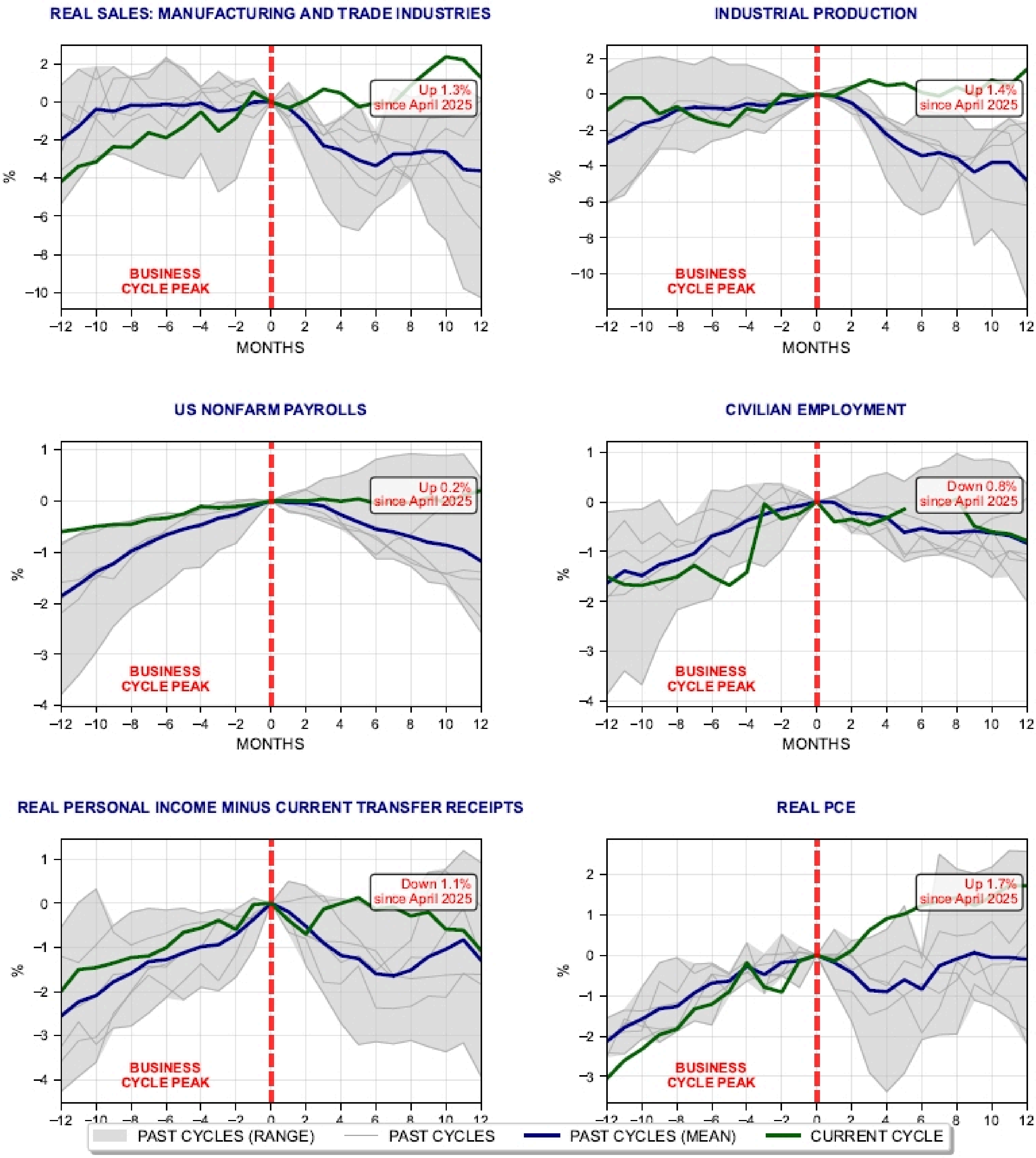






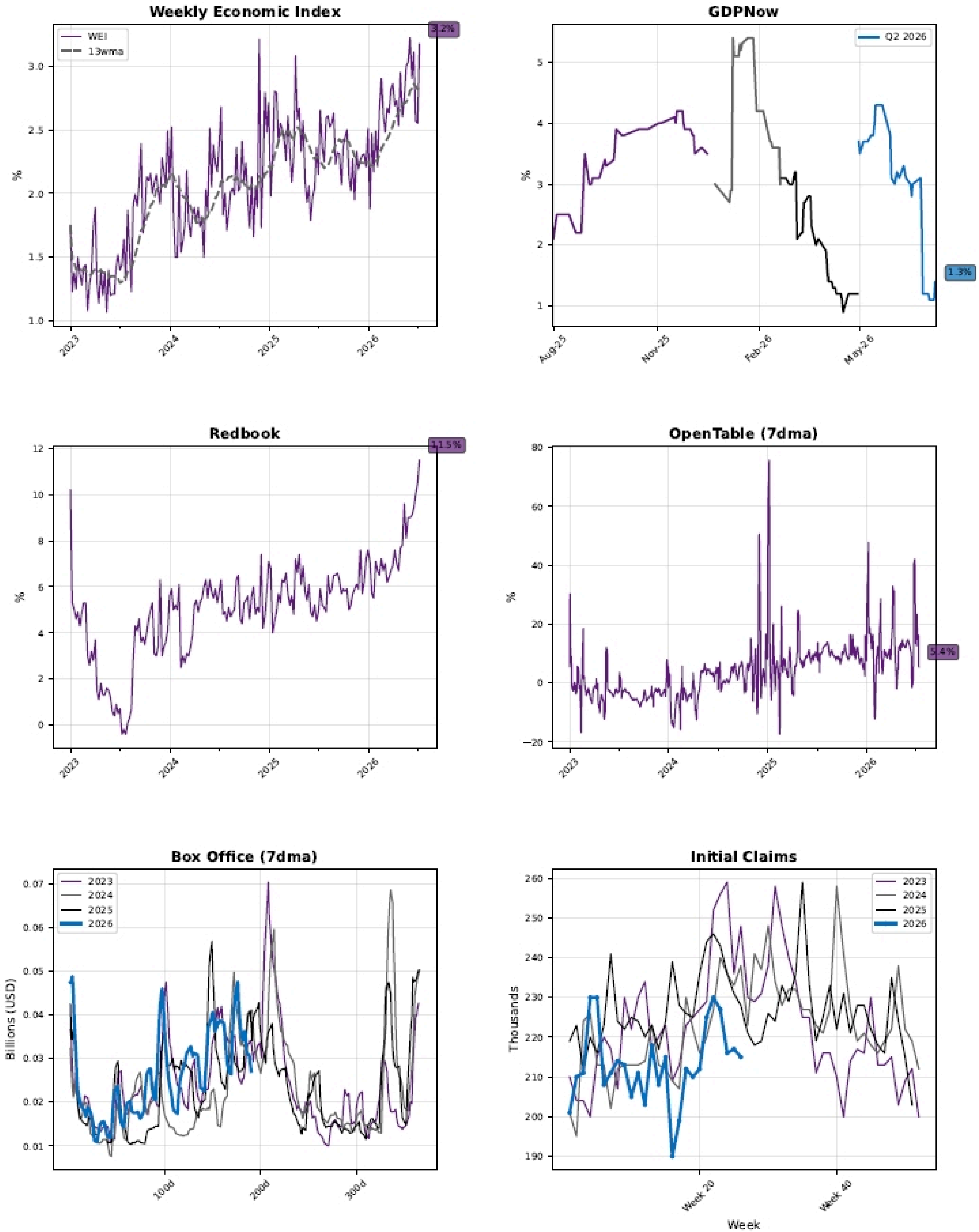
Note: The heatmap shows the distance of each US CPI component's 6-month annualized inflation rate from its historical average. The colour is white when a component's inflation rate is close to its average and is a varying shade of blue (red) when the rate is below (above) the average. Each inflation rate is standardized by subtracting its mean and dividing by its standard deviation, computed over 1996-2019. and We show full Nondurables (which includes food and energy components) alongside Durables, New vehicles, Used cars and trucks, and Apparel; the parent group itself excludes food and energy. Food away from home, Other personal services, and Tenants' & household insurance are published NSA by BLS and seasonally adjusted via X-13ARIMA-SEATS. Values in parentheses are CPI relative importance weights (parts per 100). Sources: BLS via Haver Analytics; RenMac calculations. Last observation: May 2026.

NBER RECESSION INDICATORS DASHBOARD



Past 7 cycles excluding Covid-19 period

High Frequency Economic Dashboard



High Frequency Economic Dashboard