May 5, 2026

Monday Monetary Thoughts

Bar to hike has come down, but still high

Hawks want no more "additional adjustments"

Last week, the bar to rate hikes came down as a trio of regional Fed Presidents dissented, not in favor of a rate hike, but for a change to the press statement. The third paragraph notes "in considering the extent and timing of additional adjustments to the target range for the federal funds rate" – this is widely interpreted as a signal for future rate cuts.

Getting to a hike is probably a drawn-out process, with changes in the FOMC statement and SEP along the way, but the debate has shifted and the monetary policy hawks are ascendant.

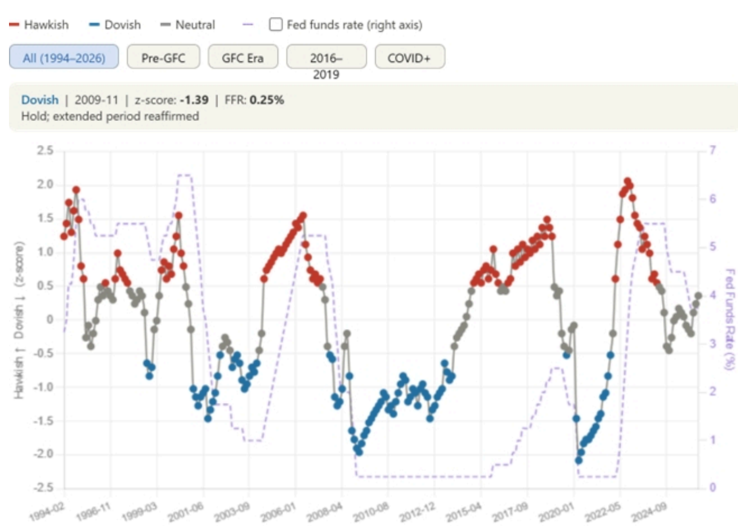
I don't think the Fed will hike this year, but this is beside the point now. The main story is that policy doves started the year talking about how many rate cuts were likely and now policy doves are talking about why hiking is unwise.

Hawks have the upper-hand for now

I ran a sentiment analysis on FOMC policy statements. In terms of communications importance, I rank the FOMC statement above the Summary of Economic Projections.

See our nearby figure. Each FOMC post-meeting statement is scored on hawkish/dovish language. Raw scores are z-score standardized across the full 1994–2026 sample. The figure shows that the statement has been becoming more hawkish on net and that rates tend to historically follow these shifts. But it can also be the case that policy can be too hawkish at the wrong time or at turning points.

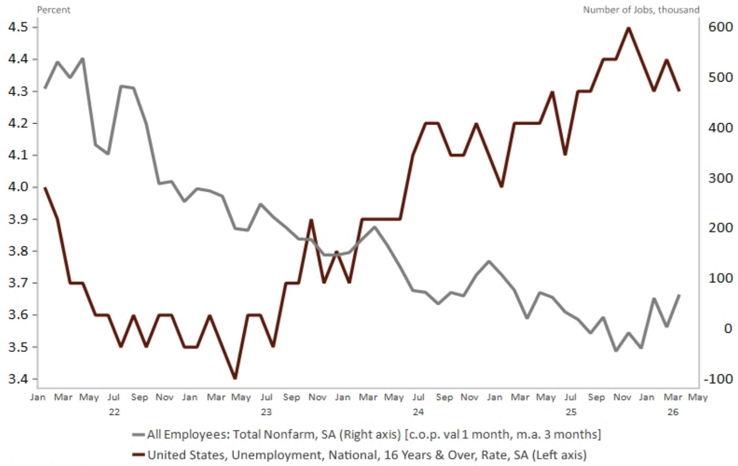
The hawks have the upper hand in the debate now because of the realized data. As Powell acknowledged last week, it's hard not to see where they are coming from.



Methodology: Each FOMC post-meeting statement is scored on hawkish/dovish language. Hawkish signals: rate hike language, "elevated," "vigilant," "firm," "inflation risks," tightening bias. Dovish signals: rate cut language, "accommodative," "downside risks," "support," easing bias, ZLB commitments. Raw scores are z-score standardized across the full 1994–2026 sample. Gray bands = NBER recessions.

The U3 jobless rate has stopped rising, employment growth has stabilized, albeit at low rates, and most importantly, underlying inflation has perked up alongside household measures of inflation expectations.

Job growth steadies as unemployment levels off



Source: Renaissance Macro Research, Macrobond

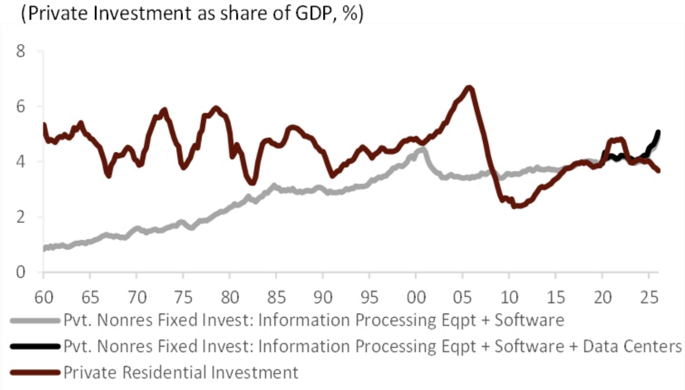
Doves have a case too

That said, doves have pretty good arguments too.

First, I'm skeptical that rate hikes will stop the momentum in AI tech boom. Monetary policy is a blunt tool; you cannot aim it directly at one sector of the economy. Trying to "prick" AI capital spending will likely exacerbate weakness in other areas of the economy – namely, housing and durable goods spending. And, note, those areas are already quite weak.

Tech investment now exceeds residential investment

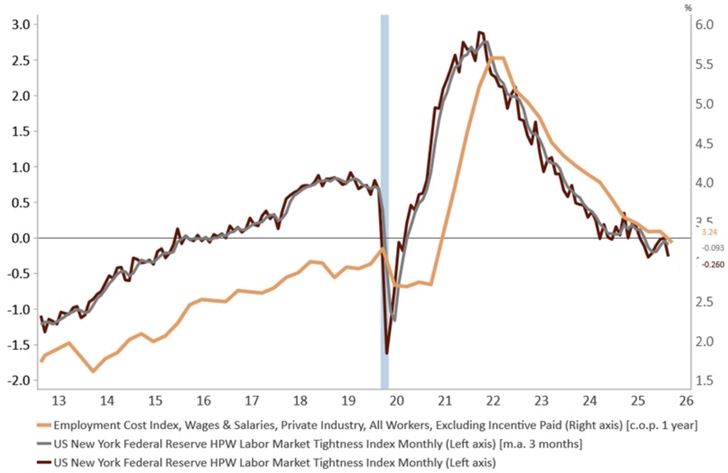
(Private Investment as share of GDP, %)



Source: Haver Analytics, Renaissance Macro Research

Put differently, assume a scenario where AI-related business investment was not as much of a driver for growth as it has been. Would growth be stronger? Maybe in some areas of the economy (like housing), but in the aggregate it is probably safe to assume that equity prices would be much lower, which means earnings would be too.

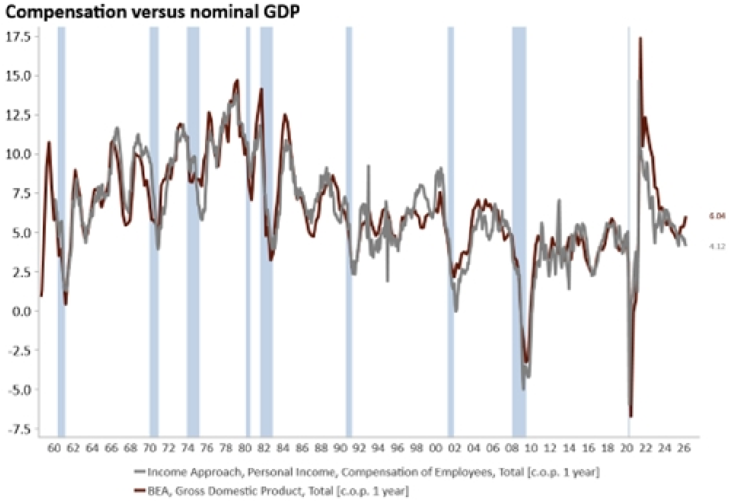
Moderating labor costs



Source: Renaissance Macro Research, Macrobond

Second, the Fed did not close the Strait of Hormuz, nor did it increase effective tariff rates across a range of industrial and consumer goods. Of course, I can appreciate that inflation expectations have increased, but there is scant evidence that household inflation expectations have also pushed up wage demands as a result. The balance of power in the jobs markets remains with employers.

Compensation versus nominal GDP



Source: Renaissance Macro Research, Macrobond

Third, income growth is cooling off in nominal terms. I'm not entirely sure how much inflation we can plausibly see if nominal compensation growth is up just 4.1 percent over the last 12 months. Real income growth is close to nil. Price increases in energy will erode households' purchasing power. In turn, consumers will slow spending on other goods and services, driving down the prices for those goods and services.

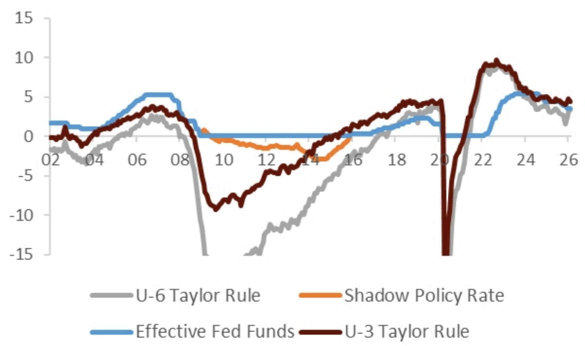
The Fed's bias shouldn't change

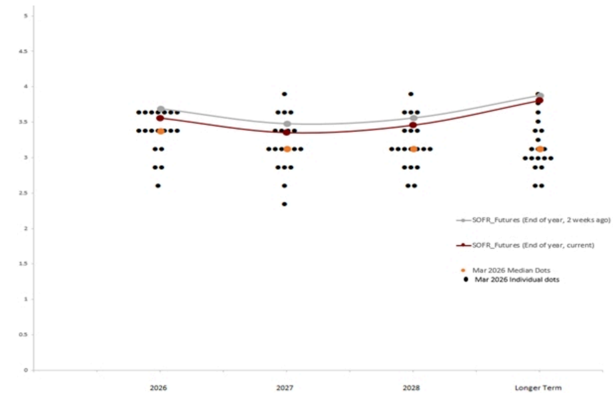
When I put this together, I don't see a need for the Fed's bias to change. The best doves can do right now is push back on hikes, not deliver on cuts. If labor market conditions show a meaningful pick-up, then that will be a different story and the Fed should drop the language around "additional adjustments".

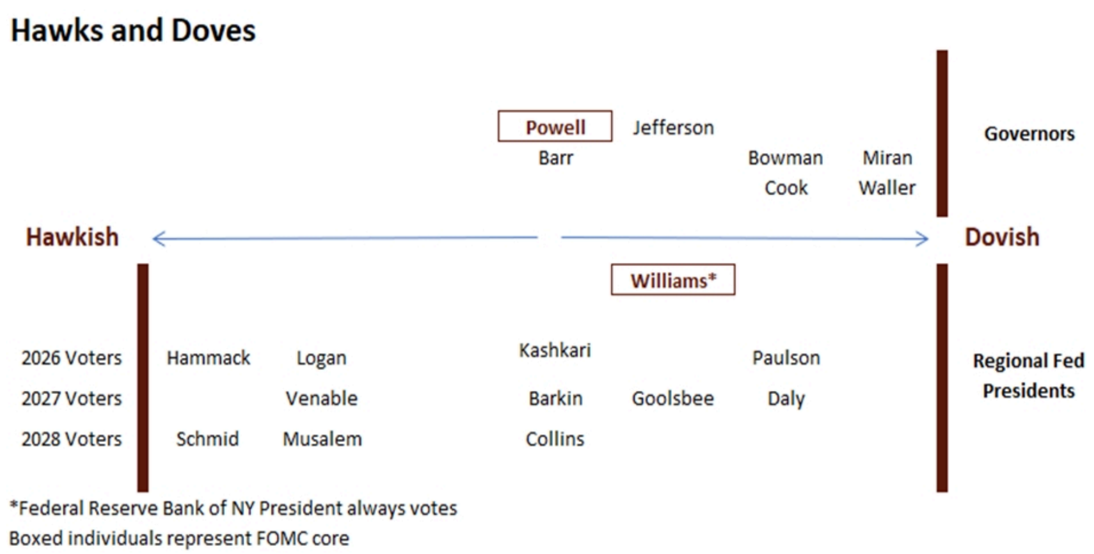
On the flip side, if the war ends, oil prices come down and if labor market conditions remain sluggish, cuts should still be on the table – though I recognize that is a lot of "ifs" – regional Fed presidents next year might be somewhat more open to the idea, at the margin.

For incoming Chair Warsh, delivering on the dovish policy the President wants will probably take on a much different meaning than at the time he was nominated. It means keeping the policy rate from climbing – balancing the tensions of higher spot inflation against cooling real activity. If he can do that over his first six months, he will have been persuasive enough.

Monetary metrics

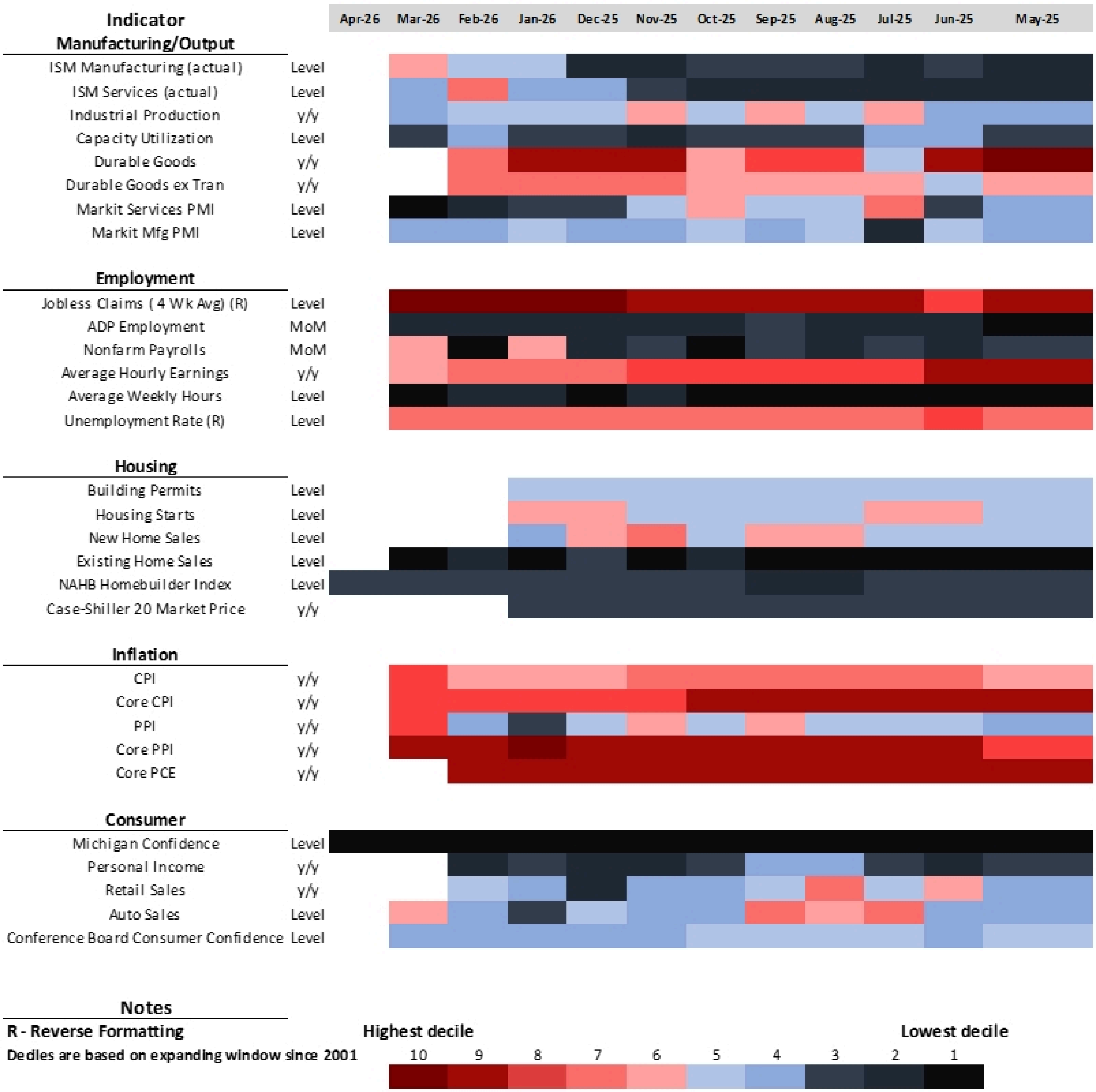




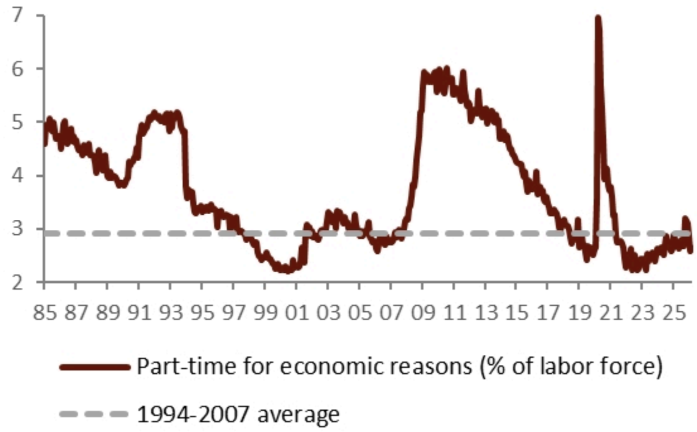


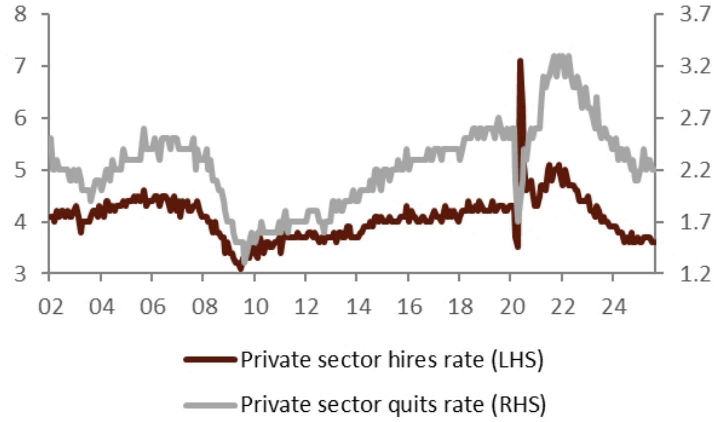
FOMC Forecasts	Median				Central Tendency			
	2026	2027	2028	Longer run	2026	2027	2028	Longer run
Change in real GDP	2.4	2.3	2.1	2.0	2.2–2.5	2.0–2.4	2.0–2.3	1.8–2.0
December projection	2.3	2.0	1.9	1.8	2.1–2.5	1.9–2.3	1.8–2.1	1.8–2.0
Unemployment rate	4.4	4.3	4.2	4.2	4.3–4.5	4.2–4.4	4.0–4.4	4.0–4.3
December projection	4.4	4.2	4.2	4.2	4.3–4.4	4.2–4.3	4.0–4.3	4.0–4.3
PCE inflation	2.7	2.2	2.0	2.0	2.6–3.1	2.0–2.3	2.0	2.0
December projection	2.4	2.1	2.0	2.0	2.3–2.5	2.0–2.2	2.0	2.0
Core PCE inflation	2.7	2.2	2.0		2.5–2.8	2.0–2.4	2.0	
December projection	2.5	2.1	2.0		2.4–2.6	2.0–2.2	2.0	
Projected policy path								
Fed funds rate	3.4	3.1	3.1	3.1	3.1–3.6	2.9–3.6	2.9–3.6	2.9–3.5
December projection	3.4	3.1	3.1	3.0	2.9–3.6	2.9–3.6	2.8–3.6	2.8–3.5

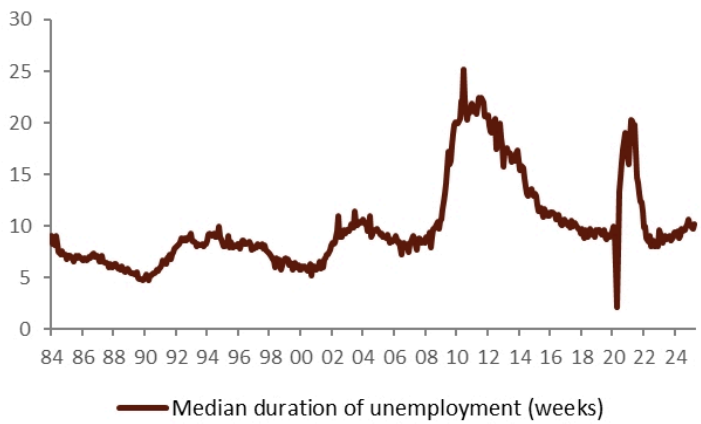
High frequency data heat-map

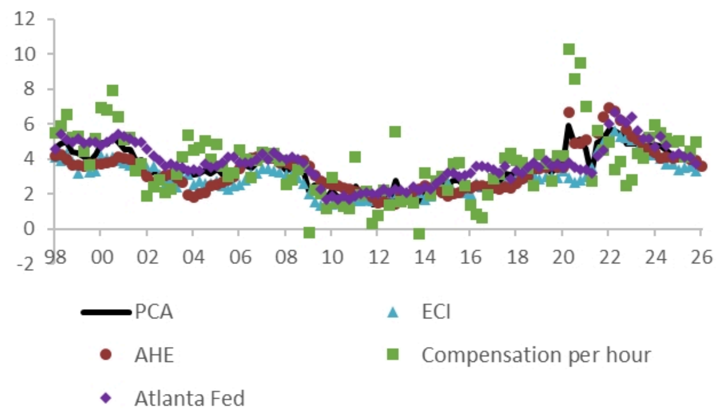


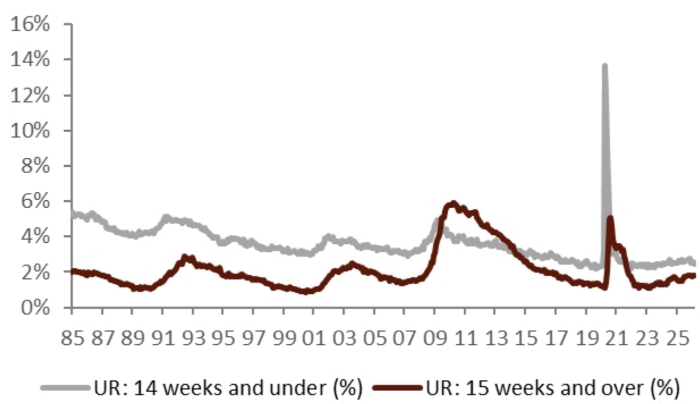
Labor market indicators

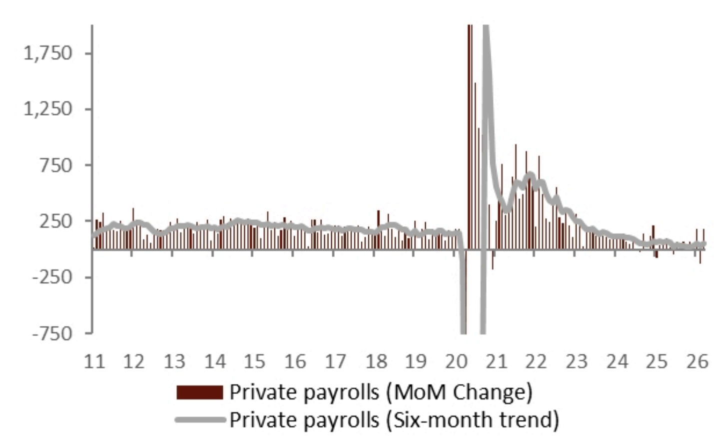




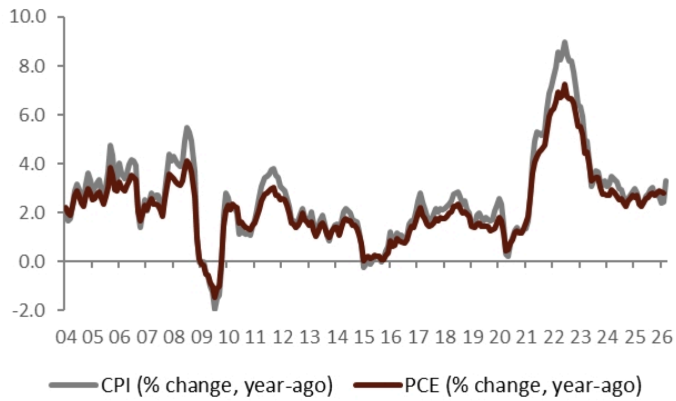


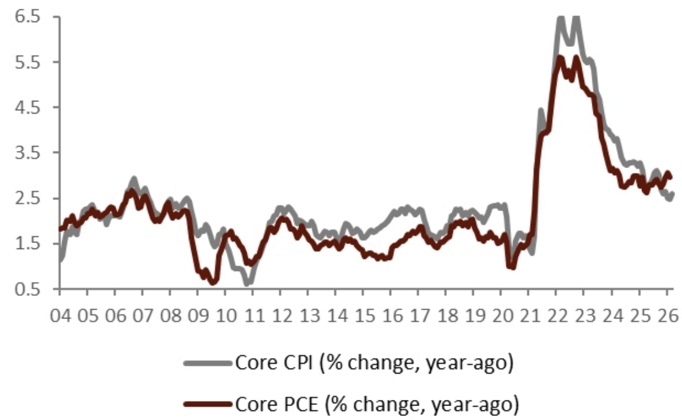


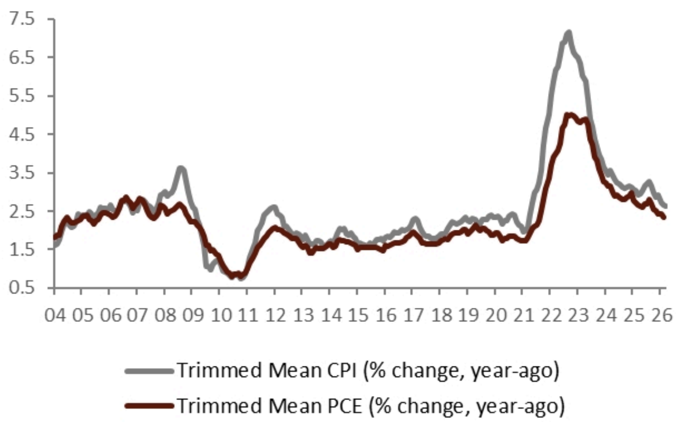


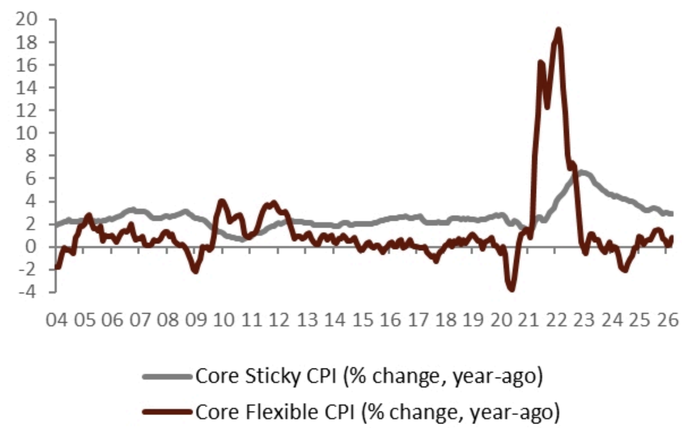


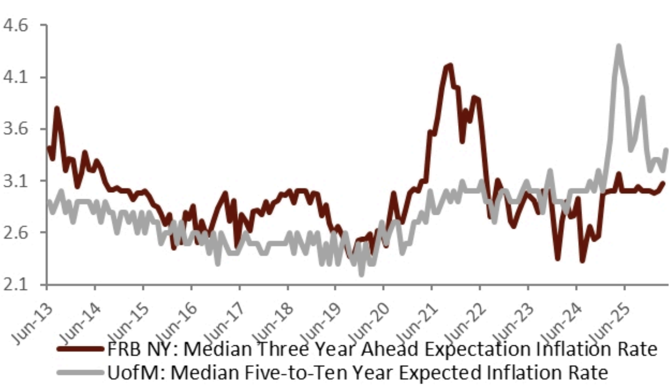
Inflation indicators

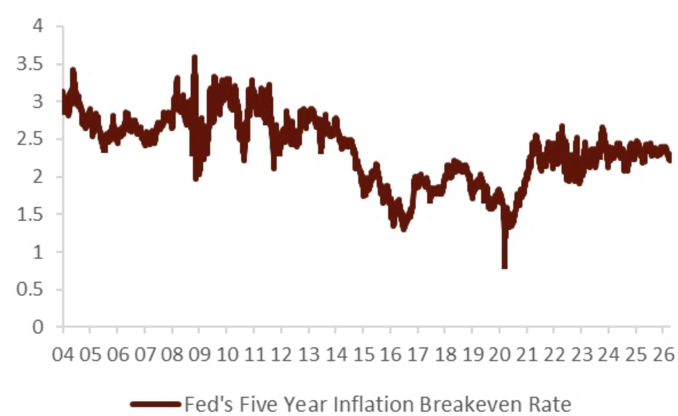








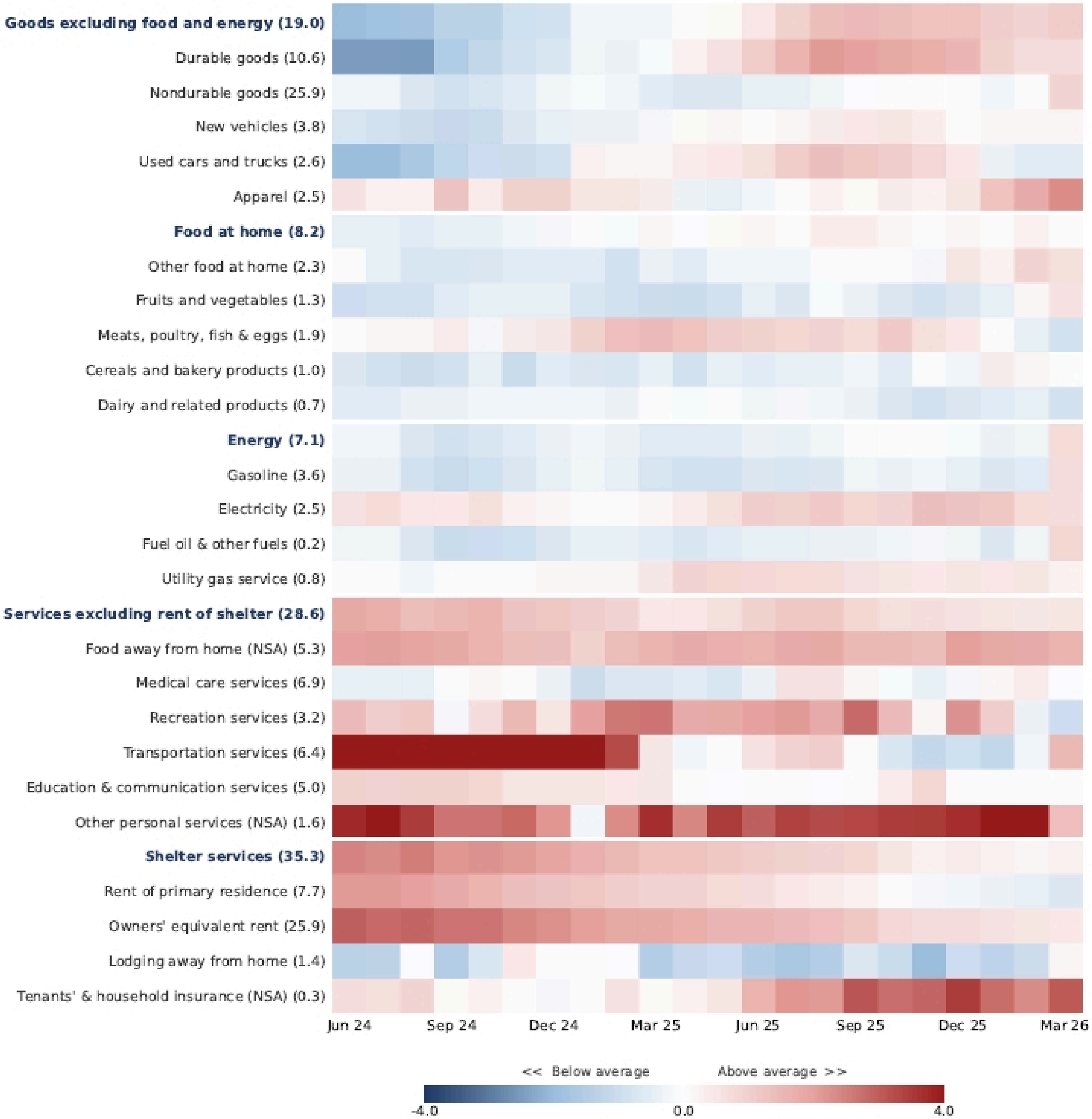




RENMAC RENAISSANCEMACRO

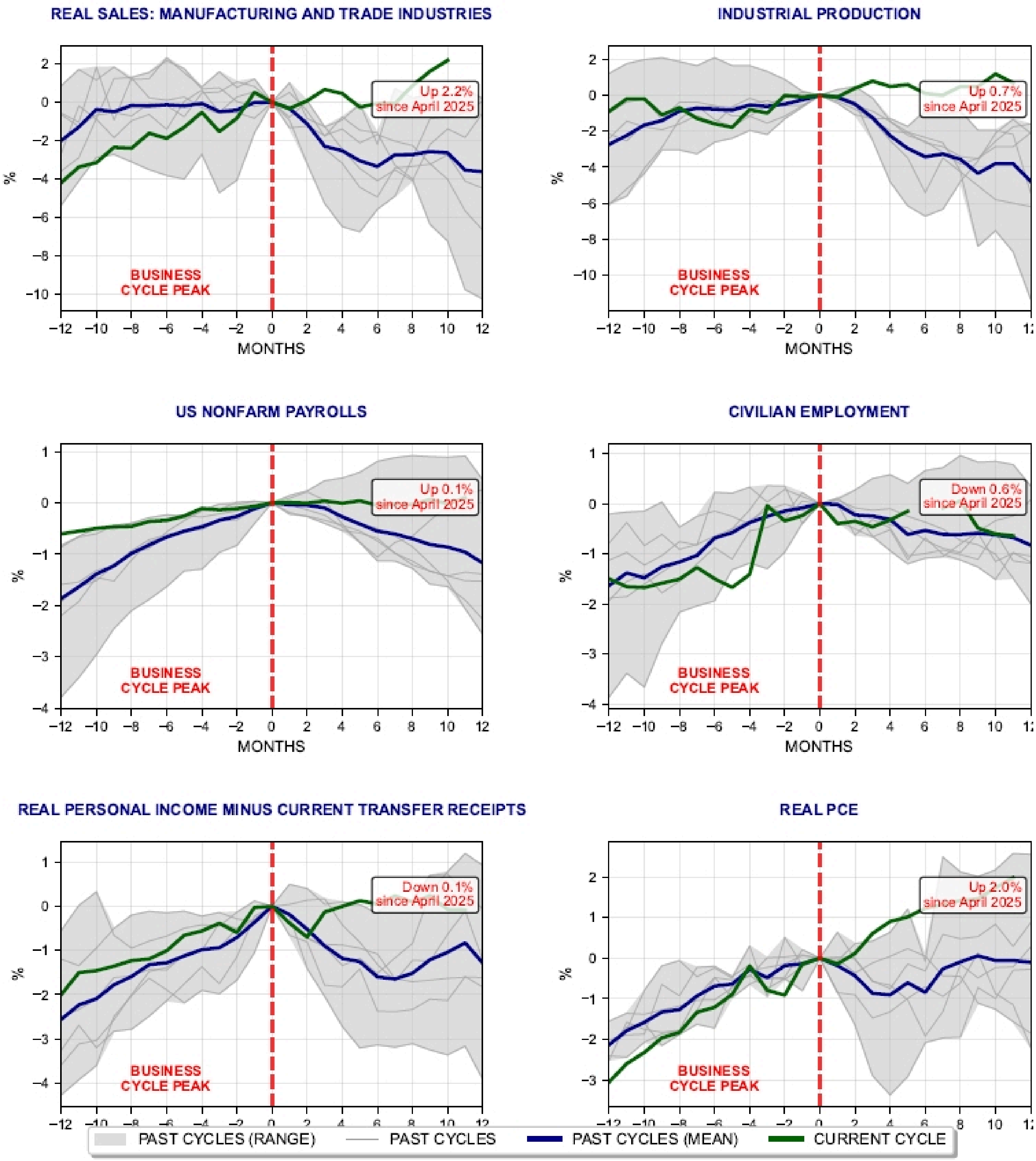
Friday, May 1, 2026

US Inflation Heatmap



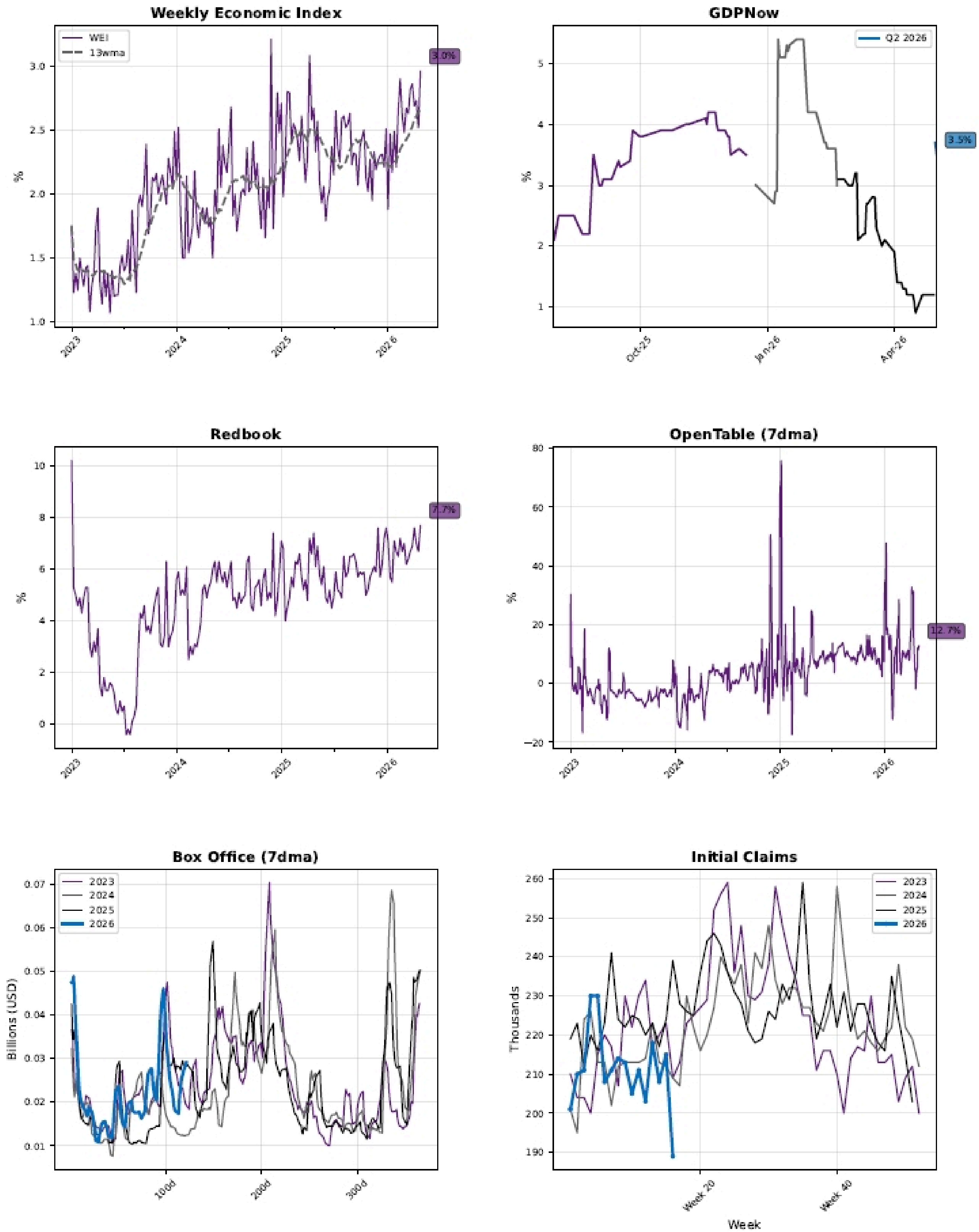
Note: The heatmap shows the distance of each US CPI component's year-over-year inflation rate from its historical average. The colour is white when a component's inflation rate is close to its average and is a varying shade of blue (red) when the rate is below (above) the average. Each inflation rate is standardized by subtracting its mean and dividing by its standard deviation, computed over 1996-2019. 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. Values in parentheses are CPI relative importance weights (parts per 100). Sources: BLS via Haver Analytics; RenMac calculations. Last observation: March 2026.

NBER RECESSION INDICATORS DASHBOARD



Past 7 cycles excluding Covid-19 period

High Frequency Economic Dashboard



High Frequency Economic Dashboard