

USA: Governor Waller Supports Removing Easing Bias From FOMC Post-Meeting Statement

BOTTOM LINE: In a speech at the Centre for Central Banking in Frankfurt, Fed Governor Christopher Waller said he would support removing the implicit easing bias from the FOMC's post-meeting statement. While Waller said he did not think the FOMC should hike "in the near future," he noted he could "no longer rule out rate hikes further down the road if inflation does not abate soon," especially if inflation expectations showed "signs of becoming unanchored." At the same time, Waller said there would need to be "improvement on inflation or a significant deterioration in the labor market" for him to support cuts. Waller's comments today and the minutes to the FOMC's April meeting released on Wednesday suggest that the Committee has become more reluctant to cut and more open to the possibility of rate hikes in recent weeks.

MAIN POINTS:

1. In a speech at the Centre for Central Banking in Frankfurt, Fed Governor Christopher Waller said he would support removing the implicit easing bias from the FOMC's post-meeting statement. While Waller said he did not think the FOMC should hike "in the near future," he noted he could "no longer rule out rate hikes further down the road if inflation does not abate soon," especially if inflation expectations showed "signs of becoming unanchored." At the same time, Waller said there would need to be "improvement on inflation or a significant deterioration in the labor market" for him to support cuts.
2. Waller said that recent data showed that "inflation is not headed in the right direction." He noted that the ultimate effects of the Middle East conflict on inflation would "depend on the length of the conflict, how severely supplies are disrupted, and the pass-through of input costs to final product prices," which he said were "more uncertain than was the impact of tariffs." Waller also said he found the breadth of consumer price increases in April "concerning."
3. Waller noted that long-term inflation expectations still "appear well anchored." That said, he stressed that the recent increases in some measures of inflation expectations over the next 1-5 years were "concerning" and noted the risk that people come to expect persistently higher inflation following a series of supply shocks. He said he would be monitoring market-based measures of long-term inflation expectations "carefully." Long-term inflation expectations in the University of Michigan were revised up 0.5pp to 3.9% in the final May reading at the same time that Waller's speech was published.
4. Waller noted that the economy had grown at a "solid" pace recently, reflecting "torrid" investment in artificial intelligence and "resilient" consumer spending

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despite higher energy prices. He also said that the recent data suggested the labor market may have “finally come into a rough balance” and that he does not “see the prospect of a weakening labor market as the dominant force that should be guiding monetary policy in the months ahead.”

5. Waller’s comments today and the [minutes](#) to the FOMC’s April meeting released on Wednesday suggest the Committee has become more reluctant to cut and more open to the possibility of rate hikes in recent weeks.