

Economics

Fed Seen Announcing Bond Taper in November, Rate Liftoff in 2023

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► Rate hikes will accelerate in 2024, survey of economists finds

► FOMC seen as updating forward guidance on tapering at meeting

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The Federal Reserve will probably hint at its meeting next week that it is moving toward scaling back monthly asset purchases and make a formal announcement in November, according to a Bloomberg survey of economists.

The survey of 52 economists also predicted the U.S. central bank would hold interest rates near zero through 2022 before delivering two quarter-point increases by the end of the following year.

The Federal Open Market Committee meets for two days starting Tuesday and will issue a policy statement at 2 p.m. Washington time Wednesday. Updated quarterly economic and rate forecasts will be released at the same time. Chair Jerome Powell will hold a press conference 30 minutes later.

Two-thirds of economists surveyed expect the bond-buying announcement at the Fed's Nov. 2-3 meeting, with more than half seeing the tapering starting in December. That's earlier than the July survey, when a plurality expected the decision in December and four fifths were looking for tapering to start in 2022. The survey was conducted Sept. 10-15.

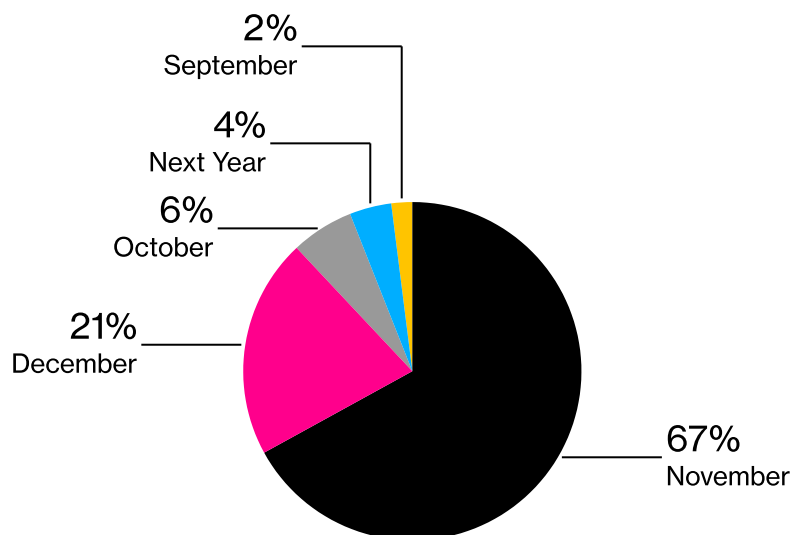
As well as expecting rate liftoff in 2023, which matches the median projection of Fed officials in June, the survey predicts three more increases in 2024 that lift the upper bound of the federal funds rate to 1.5% by year end.

Powell will still be at the helm for that policy normalization, according to an increasingly large majority of economists, who expect President Joe Biden will renominate him for another four-year term after his current tenure as Fed chair expires in February.

The tapering debate will be a central question for the FOMC next week. The policy group is expected to hold rates near zero and continue monthly purchase of \$80 billion in Treasuries and \$40 billion in mortgage securities. Officials have pledged to maintain bond buying until the economy shows "substantial further progress" on inflation and employment as it recovers from Covid-19.

November Taper?

Most economists see FOMC announcement of bond tapering in two months



Bloomberg News survey of economists September 10-15

Tapering Debate

Some regional Fed presidents, worried by rising prices and the hot U.S. housing market, have pushed for tapering as soon as September. They want to complete winding down asset purchases before raising rates. Starting this month would mean finishing in time to lift rates as soon as late 2022 if necessary to curb inflation.

Others have argued for patience to assess the economic impact of a rise in Covid infections stemming from the spread of the delta variant.

“The delta variant and some moderation in inflation should allow the Fed to be patient in tapering, with an announcement likely in November or December, depending on the economic data,” said Scott Brown, chief economist with Raymond James Financial, in a survey response. “The liftoff in short-term interest rates is still a long way off (2nd half of 2023 most likely).”

What Bloomberg Economics Says

“FOMC participants caused a stir in June by releasing projections showing -- for the first time -- two rate hikes in 2023. Putting a finer line on the matter, Bloomberg Economics currently expects interest-rate liftoff to occur in the third quarter of that year. But only a small change in circumstances could shift the first rate increase forward or back considerably.”

--David Wilcox, economist

A consensus is emerging among economists on how the tapering will unfold. While most expect updated guidance in the FOMC statement signaling a tapering in November or December, those looking for no change in guidance after this meeting expect Powell instead will signal a slowing later this year in his press conference.

How Long to Taper

In addition, nearly three quarters of economists expect the Fed to slow purchases of Treasuries and mortgage securities at the same pace, rejecting suggestions of some policy makers to halt MBS purchases first in light of a hot housing market.

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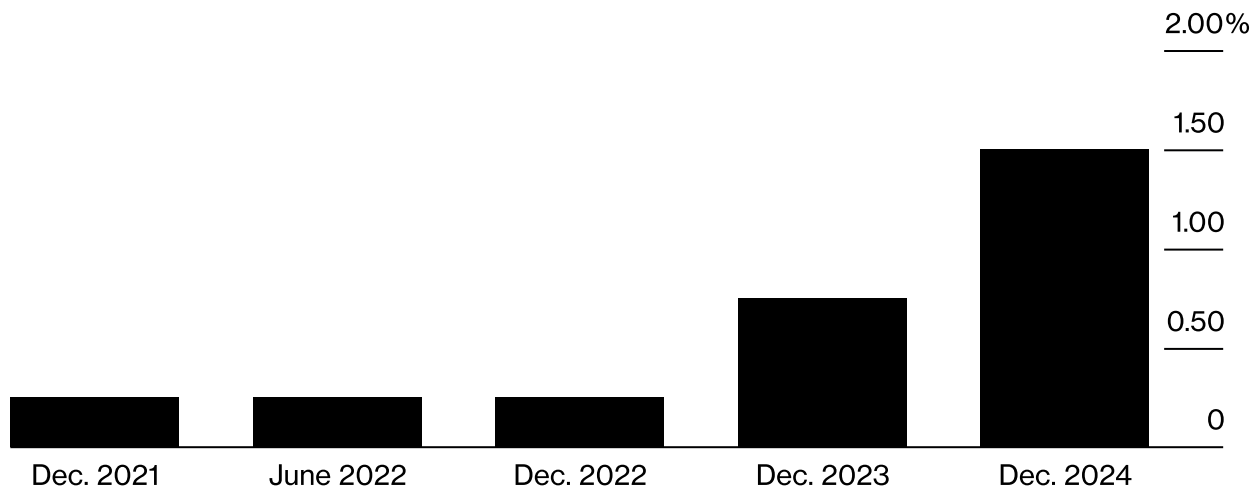


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One big area of uncertainty among economists is how long the tapering will last. While some Fed presidents led by St. Louis Fed's James Bullard have pushed for a quick taper to end purchases by 2022's first quarter, others have seemed more comfortable with a pace similar to the 2014 tapering of asset purchases, which lasted 10 months. A plurality of 33% looks for an eight-month taper, though nearly half are looking for 10 months or longer.

Higher Rates

Fed seen raising rates in 2023 and 2024



Source: Bloomberg News survey of economists September 10-15
Figures shown are the median forecast among the economists

Dot Plot

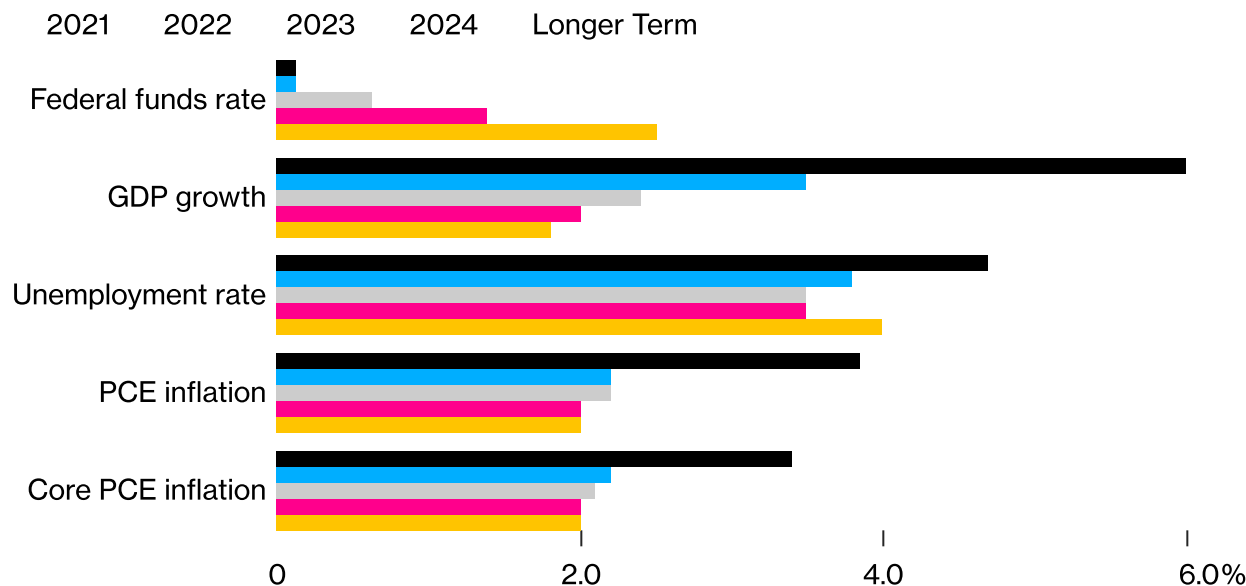
“We expect policymakers to announce tapering plans at its November policy meeting and to start tapering in December or January,” said Kathy Bostjancic of Oxford Economics. “However, the challenge for officials will be continuing to delink the timing of tapering from eventual rate liftoff amid splintering views within the FOMC as a new round of interest rate dot plot estimates will be released.”

FOMC participants submit their quarterly forecasts at this meeting, including the much-watched “dot plot” of rate forecasts. The economists don’t expect the rate forecasts to shift from the June forecasts, with liftoff of rates occurring in 2023. The forecasts will include 2024 for the first time, with rates expected to rise another three times then.

Some Fed officials say they want to finish tapering before raising rates and their median forecast in June showed them on hold through next year, though seven of 18 officials did favor a rate hike in 2022.

A 2023 Move?

Faster growth and inflation make a rate hike more likely in future years



Source: Bloomberg survey of economists September 10-15

Note: Economists were asked to forecast what the median Federal Open Market Committee participant would estimate in the Summary of Economic Projections.

“The big story could be the Fed dots,” said James Knightley, chief international economist at ING, in a survey response. “Currently 7 out of 18 going for 2022 and could conceivably see one or two more bring their forecast forward to 2022.”

The policy committee will need to revise its economic projections to reflect much higher inflation as well as some slowing of growth from delta. The FOMC may project 3.9% inflation for 2021, with 2.2% the following two years, and the unemployment rate falling to its pre-Covid low of 3.5% by 2023, according to the economists.

Most of the economists see the risks to the outlook for growth and inflation as weighted to the upside, which is consistent with the July survey’s concern over rising prices.

As Biden considers openings for the Fed chair’s job and other slots, 89% of the economists expect Biden to keep him in the job, an overwhelming number that’s risen slightly from June.

Powell has deflected all questions on whether he’d serve four more years if asked, leaving the impression intact that he’d like to stay at the helm. Fed Governor Lael Brainard, a Democrat, is

seen as the most likely alternative, with 9% of economists predicting she will be chosen as chair.

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