

Who Will Be the Next Fed Chief?

One of the key decisions President Biden will make later this year is who is going to run the Federal Reserve for the next four years. Current Fed chief Jerome Powell’s term as chairman runs out in February 2022. We think the choice will ultimately come down to two people: Roger Ferguson or Jerome Powell.

The case for Roger Ferguson is easy. First, presidents like to appoint people from their own party and Ferguson is a Democrat. Second, Ferguson already has experience at the Fed, having been appointed as a Governor and then Vice-Chairman by President Clinton in the late 1990s and serving through 2006.

Third, Ferguson has both a law degree and Ph.D. in economics from Harvard. Fourth, he was the CEO at TIAA-CREF for almost thirteen years after leaving the Fed. And last, he would be the first Fed chief of African descent, which should make him politically attractive to the president. Notably, Ferguson retired from TIAA-CREF in March, which means he’s available at a moment’s notice.

However, we also think Biden will take a long hard look at re-appointing Powell. The last “dot plot” from the Fed, setting out projections for the future path of monetary policy, showed seven policymakers thinking short-term interest rates will rise in 2022 and a majority (13 of 18) thinking rates will go up by the end of 2023. In fact, the “median dot” shows two rate hikes (25 basis points each) by the end of 2023. And yet, based on our interpretation of his comments after the meeting and since, Powell is likely to be one of the policymakers projecting no rate hikes through 2023.

So, if you’re Biden, and you want the Fed to postpone rate hikes as long as possible, Powell makes an attractive choice. As

chairman already, he has both credibility with the financial markets as well as inside knowledge of how other policymakers are thinking about monetary policy. Based on his experience, he might be better prepared to privately debate more hawkish policymakers and convince them to hold off on rate hikes.

Plus, even though Biden would like to reward someone from his own party, like Ferguson, Powell is a Republican and the political situation later this year might favor re-appointing Powell as a gesture of bipartisanship, like Clinton re-appointing Alan Greenspan twice.

Other possible appointees include current Fed governor Lael Brainard and Treasury Secretary (and former Fed chief) Janet Yellen. Both would be qualified, but Yellen’s previous chairmanship has already broken a “glass ceiling” for women, Yellen seems interested in staying at Treasury and Brainard might be too dovish to convince more hawkish policymakers that they should hold off on rate hikes in 2022-23.

Regardless of who Biden picks, if we are right about inflation outstripping the Fed’s expectations next year, the next chairman will face a potential mutiny starting late next year. Monetary policy is extremely loose right now and likely to stay that way. But there is no financial crisis; markets are working fine. Yes, some of the inflation is “transient” – used car prices are not going to keep soaring like they have recently – but just wait until rents start going up later this year when limits on evictions are removed.

Whomever Biden appoints to run the Fed is going to have his hands full.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
6-30 / 8:45 am	Chicago PMI - Jun	70.0	74.4		75.2
7-1 / 7:30 am	Initial Claims - Jun 26	389K	387K		411K
9:00 am	ISM Index – Jun	61.0	61.1		61.2
9:00 am	Construction Spending – May	+0.4%	+1.1%		+0.2%
afternoon	Total Car/Truck Sales – Jun	17.0 Mil	16.0 Mil		17.0 Mil
afternoon	Domestic Car/Truck Sales – Jun	12.4 Mil	12.2 Mil		12.6 Mil
7-2 / 7:30 am	Non-Farm Payrolls – Jun	700K	675K		559K
7:30 am	Private Payrolls – Jun	600K	550K		492K
7:30 am	Manufacturing Payrolls – Jun	25K	20K		23K
7:30 am	Unemployment Rate – Jun	5.6%	5.7%		5.8%
7:30 am	Average Hourly Earnings – Jun	+0.4%	+0.4%		+0.5%
7:30 am	Average Weekly Hours – Jun	34.9	34.9		34.9
7:30 am	Int’l Trade Balance – May	-\$71.3 Bil	-\$71.8 Bil		-\$68.9 Bil
9:00 am	Factory Orders – May	+1.5%	+1.3%		-0.6%