ECONOMIC UPDATE

REGIONS

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June FOMC Meeting: Policy To Remain Highly Accommodative Despite Notable Shift In The Dots

- The FOMC left the Fed funds rate target range unchanged, leaving the mid-point of the target range at 0.125 percent
- The updated dot plot implies the mid-point of the Fed funds rate target range will shift up by 50 basis points during 2023

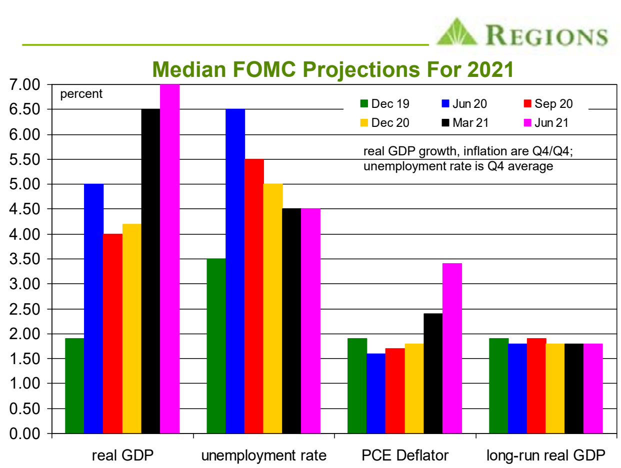
As was widely expected, the FOMC made no changes to the Fed funds rate target range but the Committee's updated projections show a decided shift in how members assess the appropriate path of monetary policy. The updated dot plot implies the mid-point of the Fed funds rate target range will increase by 50 basis points in 2023, in contrast to the past few editions which implied no change through 2023. Moreover, the updated dot plot shows more dispersion around the median year-end dots for 2022 and 2023 than had previously been the case, with 13 Committee members signaling at least one rate hike by year-end 2023 compared to the 7 members who did so in the March projections. As always, it is worth stressing that the path of the funds rate implied in the dot plot is based on how FOMC members see the economy evolving as they look ahead today, and as that view changes, the path of the funds rate implied by the dot plot will change accordingly. Still, given how little the collective outlook for economic growth, inflation, and unemployment changed between the March and June projections, the shift in the dot plot and the greater dispersion around the median dot are somewhat surprising. It could be that Committee members feel more confident in their outlook now than was the case in March, given the increase in the number of people who have been vaccinated and the extent to which the economy has more fully reopened.

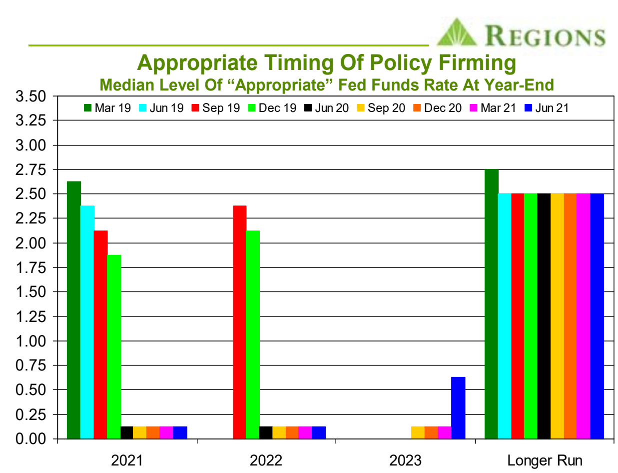
The Committee's post-meeting policy statement was almost completely unchanged from the April statement. This includes the comments on inflation, which are entirely unchanged – "inflation has risen, largely reflecting transitory factors." Many thought the Committee would at least acknowledge the extent to which inflation has risen over recent months, and the updated projections show a meaningful increase in expectations for PCE inflation on a Q4/Q4 basis. Chairman Powell did address this in his post-meeting press conference, pointing to the "notable" increase in inflation, but went on to stress the Committee continues to see inflation pressures as transient. The post-meeting statement retained the language around the Fed's monthly asset purchases, i.e., the pace of asset purchases will remain unchanged until "substantial further progress" has been made toward the Committee's maximum employment and price stability goals.

On a Q4/Q4 basis, the median forecast expects real GDP growth of 7.0 percent in 2021, up form 6.5 percent in the March projections, while the median forecast of the Q4 average unemployment rate remained at 4.5 percent. This is worth noting given that Committee members expect labor supply constraints to ease meaningfully later this year, implying they also expect a faster rate of job growth. What stands out in the updated projections is the increase in the inflation forecast. On a Q4/Q4 basis, the median forecast puts PCE inflation at 3.4 percent, up from 2.4 percent in the March projections, with core PCE inflation now at 3.0 percent compared to 2.2 percent in the March projections. Still, the longer-term forecasts have inflation settling back around 2.0 percent, consistent with the message that the Committee views inflation pressures as transient.

The updated dot plot shows seven Committee members signaling at least one 25-basis point increase in the mid-point of the Fed funds rate target range by year-end 2022, compared to the four who did so in the April projections. Another six signal at least one rate hike in 2023, compared to the three who did so in the April projections. Again, these shifts come despite there being little change in the growth outlook and the emphasis on the transient nature of inflation pressures. The shift in the dot plot naturally raises questions as to the potential timing around the tapering of the Fed's monthly asset purchases. While no one expected any kind of timeline being laid out at this meeting, Chairman Powell did note in his post-meeting press conference that this meeting could be considered "the talking about talking about meeting." The minutes of today's meeting, to be released on July 7, will shed more light on the nature and the extent of the tapering discussion. As to "substantial further progress," Chairman Powell stated that going forward there will be "meeting-by-meeting" discussions of that progress but offered no guidance around what would constitute such progress. Perhaps more tellingly, Chairman Powell noted that "we are a ways away from substantial further progress."

Some have referred to the shift in the dot plot as a "super hawkish" move on the part of the FOMC. That seems way too dramatic an interpretation of a policy regime that is, and will remain, highly accommodative.





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