U.S. FOMC Review

- FOMC: headed toward restrictive policy…
  … and hopeful for a *softish* landing

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U.S. Monetary Policy

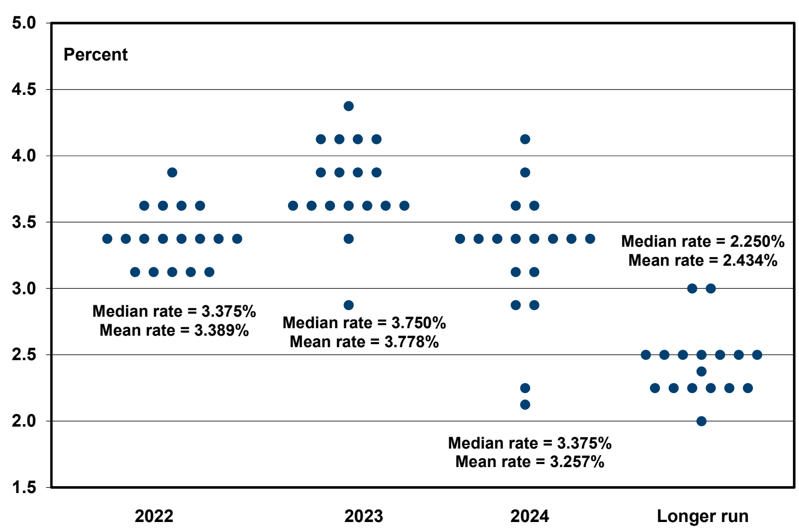
The Federal Open Market Committee ratified the market expectation of a 75 basis point rate hike and suggested that additional increases would be implemented in the months ahead. The policy statement indicated that officials anticipate that ongoing increases in the target range will be appropriate, and Chair Powell noted in his press conference that a change of 50 or 75 basis points is likely in July. The new dot plot shows a median expectation for a federal funds rate of 3.375 percent at the end of this year, above the perceived neutral rate of 2.5 percent. Additional tightening is expected next year, with the dot plot showing a median funds rate of 3.75 percent (chart).

Fed officials see the restrictive stance as slowing the pace of economic growth and generating an increase in unemployment, but the changes are not pronounced. The new Summary of Economic Projections shows expected GDP growth of 1.7 percent both this year and next, 1.1 and 0.5 percentage points slower than the paces in the March projections (table, next page). The unemployment rate gradually increases over the next three years to 4.1 percent at the end of 2024. Fed officials believe that this slowdown will push inflation to 2.2 percent in the fourth quarter of 2024.

Chair Powell noted in his press conference that such a performance should be viewed as consistent with a soft landing. An unemployment rate of 4.1 percent is still low by historical standards, and an expected inflation rate of 2.2 percent is only slightly above target. At the same time, Chair Powell indicated that the path to this soft landing was narrow. Many factors outside the Fed's control will influence the inflation rate, and thus he saw the possibility of less desirable outcomes. In fact, Mr. Powell noted in response to a question that the Committee dropped an important sentence from the policy statement because of the many factors that will be driving inflation and the Fed's inability to have complete control. (The dropped sentence in question was: "With appropriate firming in the stance of monetary policy, the Committee expects inflation to return to its 2 percent objective and the labor market to remain strong.")

Reporters at the press briefing wondered about triggers that might slow or quicken the pace of tightening. Chair Powell noted that officials want compelling evidence that inflation is slowing, which would take the form of a series of reductions in the monthly inflation

FOMC Rate View: Year-End 2022, 2023, 2024 & Long-Term*



** Each dot represents the expected federal funds rate of a Fed official at the ends of 2022, 2023, 2024, and long-term. Normally, this graph would contain 19 projections (seven governors of the Federal Reserve Board and 12 reserve bank presidents), but one governorship was open at the June 2022 meeting. Moreover, only 17 Committee members provided forecasts for the long-term projection.*

Source: Federal Open Market Committee, Summary of Economic Projections, June 2022 rate. Another interesting question involved the factors that prompted the shift to 75 basis points. Mr. Powell indicated that the increase in long-term inflation expectations in the University of Michigan survey of consumers was “eye-catching” (up 0.3 percentage point to 3.3 percent). Mr. Powell also indicated that the Fed’s measure of common inflation expectations was notable. The hefty increase in the May CPI likely played a role as well, but we found the emphasis on inflation expectations interesting.

Economic Projections of the FOMC, June 2022*

	2022	2023	2024	Longer Run
Change in Real GDP	1.7	1.7	1.9	1.8
March projection	2.8	2.2	2.0	1.8
Unemployment Rate	3.7	3.9	4.1	4.0
March projection	3.5	3.5	3.6	4.0
PCE Inflation	5.2	2.6	2.2	2.0
March projection	4.3	2.7	2.3	2.0
Core PCE Inflation	4.3	2.7	2.3	--
March projection	4.1	2.6	2.3	--
Federal Funds Rate	3.4	3.8	3.4	2.5
March projection	1.9	2.8	2.8	2.4

** Median projections*

Source: Federal Open Market Committee, Summary of Economic Projections, June 2022