U.S. FOMC Review

- FOMC: steady in June, but biased toward additional hikes
- FOMC forecasts: median projections for core inflation and growth increased

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Monetary Policy

The actions taken today by the FOMC in part ratified market expectations, with the Committee voting unanimously to hold the federal funds target rate in a range of 5.00 percent to 5.25 percent but they also caught analysts and traders off guard with notable adjustments to forecasts published in the Summary of Economic Projections (SEP).

The FOMC statement for June was little changed from that released in early May, with alterations only occurring in the third paragraph. Aside from noting that the Committee decided to "maintain" rather than "raise" the target range for the federal funds rate, the following sentence was changed substantially. The May statement noted that "[T]he Committee will closely monitor incoming information and assess the implications for monetary policy," while the new statement argued "[H]olding the target range steady at this meeting allows the Committee to assess additional information and its implications for monetary policy." Previously, the Committee saw it fit to hike while monitoring; now, it wanted to buy a bit more time to assess the incoming data.

More revealing than the verbiage of the June statement was the data contained in the new SEP. Economic growth this year was revised higher by 0.6 percentage point to 1.0 percent, while it was nudged modestly lower in the following two years. The unemployment rate was revised down by 0.4 percentage point to 4.1 percent in 2023 and 4.5 percent in each of the following two years (versus 4.6 percent). Headline PCE inflation for 2023 was nudged one tick lower, but the core inflation was revised to 3.9 percent from 3.6 percent (table). The data in total suggested the need for a somewhat more forceful policy response than previously anticipated.

The median rate for 2023 in the new dot plot increased by 50 basis points to 5.625 percent from 5.125 percent in March, with 12 of 18 dots at or above the median. The new projection showed a high of 6.125 percent versus 5.875 percent in March. The median for 2024 shifted from 4.250 percent in March to 4.625 percent in June (charts, next page). The shifts suggested that the target for the federal funds rate was likely close to its peak but that additional tightening was likely required to address persistently elevated inflation.

The press briefing was not especially enlightening. Some reporters pressed Chair Powell on the merits of a pause versus just raising rates to the desired level, while others questioned him about potential sources of disinflation. The Fed Chair mostly stuck to the script, arguing that a pause was just part of the progression (speed) of rate shifts, tapering from large increases (75 basis points) and moderating over time. With regard to sources of disinflation, Chair Powell hearkened back to prior press briefings, noting

Economic Projections of the FOMC, June 2023*

	2023	2024	2025	Longer Run
Change in Real GDP	1.0	1.1	1.8	1.8
Mar. projection	0.4	1.2	1.9	1.8
Unemployment Rate	4.1	4.5	4.5	4.0
Mar. projection	4.5	4.6	4.6	4.0
PCE Inflation	3.2	2.5	2.1	2.0
Mar. projection	3.3	2.5	2.1	2.0
Core PCE Inflation	3.9	2.6	2.2	--
Mar. projection	3.6	2.6	2.1	--
Federal Funds Rate	5.6	4.6	3.4	2.5
Mar. projection	5.1	4.3	3.1	2.5

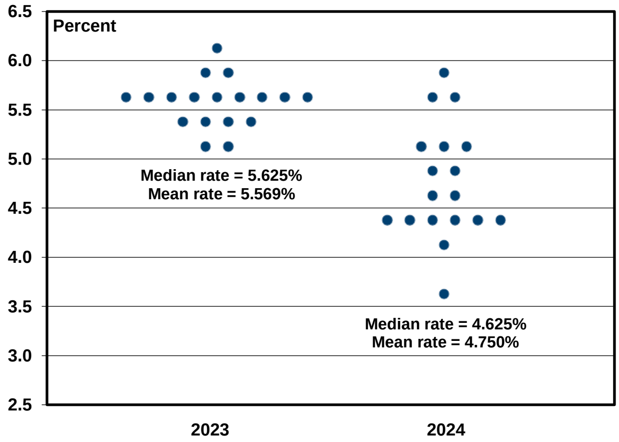
** Median projections*
Source: Federal Open Market Committee, Summary of Economic Projections, June 2023

slowing goods inflation as supply chains continued to heal and expected moderation in the costs of housing services as the stock of leases turns over. He still believed that more work needed to be done in correcting supply-demand imbalances in the labor market to slow wage growth. Interestingly, the Fed Chair noted that forecasting the path of inflation was tricky, and that officials had to consistently revise higher their expectations for inflation.

At one point, the Fed Chair referred to the June meeting as a “skip”, perhaps suggesting that another hike was a predetermined outcome in July. He quickly backtracked and emphasized that July was a “live” meeting and very much dependent on the incoming data.

All told, today’s policy statement, SEP, and press conference suggest a Fed attentive to inflation risks and willing to tighten policy further to return to the two-percent inflation objective.

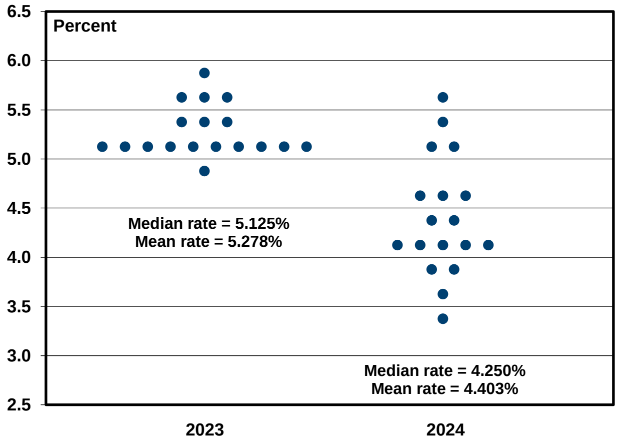
FOMC Rate View, June 2023*



** Each dot represents the expected federal funds rate of a Fed official at the end of the year.*

Source: Federal Open Market Committee, Summary of Economic Projections, June 2023

FOMC Rate View, March 2023*



** Each dot represents the expected federal funds rate of a Fed official at the end of the year.*

Source: Federal Open Market Committee, Summary of Economic Projections, March 2023