U.S. FOMC Review

- FOMC: target range for the federal funds rate unchanged from July at 5.25 to 5.50 percent
- SEP: upward adjustment to growth; unemployment rate projections lower; inflation to target in 2026
- Dot Plot: signaling add'l hike of 25 basis points in 2023 and less easing in 2024-25

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September FOMC

The Federal Open Market Committee voted unanimously today to maintain the target range for the federal funds rate at 5-1/4 to 5-1/2 percent, an outcome almost universally anticipated by market participants. The statement released at the conclusion of the Committee's meeting was mostly unchanged from that in July, with modest adjustments made in the first paragraph. Economic activity was described as expanding at a "solid pace" (versus "moderate pace" in the July statement), and labor market conditions were downgraded slightly. The new statement indicted that "job gains have slowed in recent months but remain strong," while the July release described them as "robust." Unemployment was still described as "low." Inflation continued to be characterized as "elevated."

The statement maintained previous language signaling the hawkish tilt of the Committee while also indicating that future policy decisions will be determined by the evolution of the data. It noted again that meeting participants "will continue to assess additional information and its implications for monetary policy" and use it in the context of "determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time."

More revealing than the Committee statement was the new Summary of Economic Projections (SEP), which suggested firmer growth and more modest adjustments in labor market conditions than perhaps anticipated by market participants. GDP growth for 2023 was 1.1 percentage points higher than the June estimate (2.1 percent versus 1.0 percent), and growth in 2024 was projected at 1.5 percent – a rate close to the estimate of potential implied by the longer run view (table). The expectation for the unemployment rate in 2023 was nudged lower to 3.8 percent from 4.1 percent, indicating little change from current levels. The rate in 2024/25 was revised to 4.1 percent from 4.5 percent, readings only one tick above the longer-run estimate. Despite expectations for faster growth and more modest recalibration in the labor market, views on inflation were little changed from the previous SEP. Aside for near term adjustments, they estimate inflation nearing two percent in 2025 and matching target in 2026 (new information). We also expect inflation to follow a similar path, but we suspect additional slowing in economic growth and softening in labor market conditions will be required to achieve the projected slowing in inflation.

The forecasts of Fed officials likely influenced adjustments in the new iteration of the dot plot. Expectations for near-term GDP growth exceeding two percent and core inflation of 3.7 percent left the median projection of an additional hike of 25 basis points in the federal funds rate by year-end unaltered. The medians for both 2024 and 2025 increased by 50 basis points each to 5.125 percent and 3.875 percent, respectively, suggesting that more restrictive policy would be required for longer to achieve a return to the price stability mandate (charts, next page). The median in 2026 gravitated toward the longer run view, which remained at 2.5 percent.

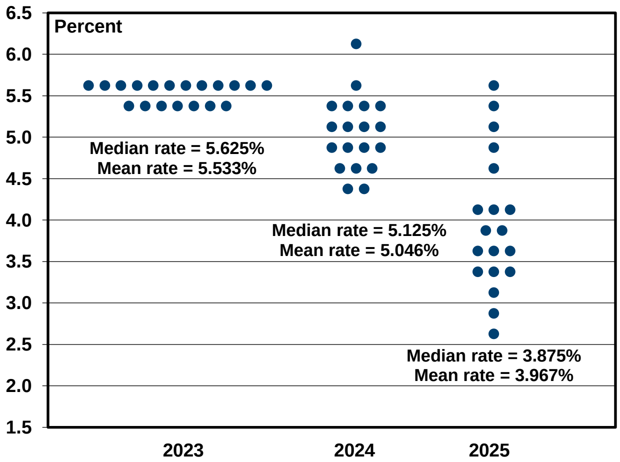
Economic Projections of the FOMC, September 2023*

	2023	2024	2025	2026	Longer Run
Change in Real GDP	2.1	1.5	1.8	1.8	1.8
June projection	1.0	1.1	1.8	--	1.8
Unemployment Rate	3.8	4.1	4.1	4.0	4.0
June projection	4.1	4.5	4.5	--	4.0
PCE Inflation	3.3	2.5	2.2	2.0	2.0
June projection	3.2	2.5	2.1	--	2.0
Core PCE Inflation	3.7	2.6	2.3	2.0	--
June projection	3.9	2.6	2.2	--	--
Federal Funds Rate	5.6	5.1	3.9	2.9	2.5
June projection	5.6	4.6	3.4	--	2.5

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

The post-meeting press conference provided some insight into officials' thinking, but it offered little definitive guidance. Chair Powell reiterated that the Committee is committed to its dual mandate. He acknowledged that monetary policy had been tightened significantly and that the full effects of prior policy actions were not yet fully realized in economic outcomes. However, while he stated that the current target range for the federal funds rate was well positioned to allow the Committee to "proceed carefully" in assessing its next steps, he refrained from characterizing it as "sufficiently restrictive." That is, the Committee would need to assess the incoming data to see if further increases were necessary to properly calibrate the performance of the economy and inflation. Specifically with regard to the economy, Chair Powell pushed back against the idea that a "soft landing" was his baseline expectation, instead arguing that there "was a path" to achieving that outcome. With that said, his comments still struck us carrying an optimistic tone. However, even if optimism is increasing among officials, the months ahead will require careful consideration of the incoming data and a prudent approach to policy.

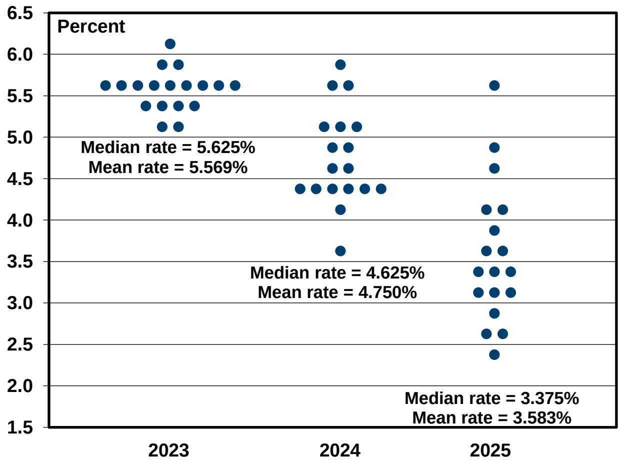
FOMC Rate View, September 2023*



** 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, September 2023

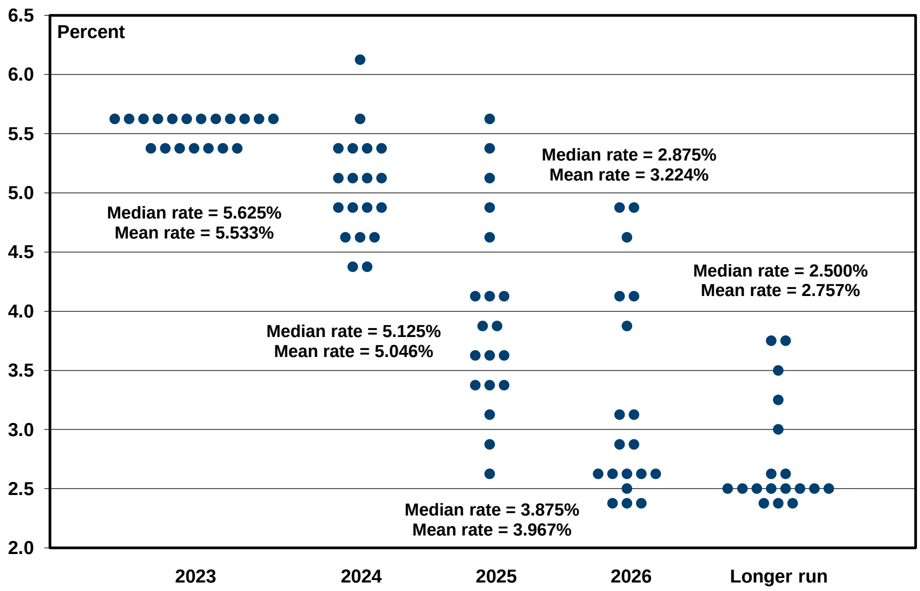
FOMC Rate View, June 2023*



** 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, September 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, September 2023