Daiwa Capital Markets

U.S. FOMC Review

- FOMC statement: no change in the target range for the federal funds rate; characterization of labor market upgraded; dropped language indicating inflation "made progress" toward 2 percent
- Powell press conference: economy strong; labor market solid; monetary policy well positioned

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The January FOMC Meeting

In a unanimous decision, the FOMC left unchanged the target range for the federal funds rate at 4-1/4 to 4-1/2 percent, a move widely anticipated by market participants. The pause indicated a clear end to what Chair Powell characterized in his press conference as the "recalibration" phase of rate cuts. That is, the reduction of 100 basis points in the target range for the federal funds rate over the final three meetings of 2024 transitioned the policy stance from "highly restrictive" (language deployed in the latter part of the press conference) to at different points "meaningfully less restrictive" (in light of previous policy adjustments) or still "meaningfully restrictive" (with both characterizations consistent with the view that the current setting is well positioned to deal with either upside risks to inflation or downside risks to the labor market).

Perhaps a bit more surprising than the outcome of the policy meeting were significant adjustments to the first paragraph of the statement – although Chair Powell later downplayed the changes by seemingly dismissing them as "language cleanup" and not intended to send any specific signal on policy outside of the FOMC's commitment to return inflation to 2 percent. With respect to changes, the new statement, at least on face, suggested a modest upgrade to the assessment of underlying labor market conditions, noting that the unemployment rate "stabilized at a low level." However, it was seemingly less sanguine on inflation (dropping verbiage noting "progress" toward the 2 percent target; statement comparison, p. 2). Importantly, the statement maintained language that preserved optionality for the Committee with respect to future changes in the policy rate: "In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks." With that said, we still view the passage as indicating a bias toward lower rates with an eye on neutral.

Beyond giving context for changes to the FOMC statement, Chair Powell's press conference provided other potentially useful information. With regard to dual mandate objectives, he suggested that in the aggregate the labor market was "stable and in balance," although he noted that the hiring rate was relatively low and that the unemployment could move higher should layoffs pickup. Regarding inflation, he indicated that December data for the CPI and PPI pointed to year-over-year changes in the price index for personal consumption expenditures of 2.6 percent for the headline measure and 2.8 percent for the core and suggested that further process was possible (although not yet realized). In particular, data showing cooling in market rents was finally filtering through to the official inflation statistics. Moreover, he emphasized that longer-term inflation expectations were anchored.

Powell also addressed several other topics. On President Trump, he acknowledged the uncertainty surrounding priorities of the new administration (fiscal and regulatory policy, tariffs, immigration), but he argued that the error bands around economic projections are always wide (even under normal circumstances) and reiterated that the economy is "in a good place" thereby allowing policymakers to remain patient. On quantitative tightening (QT), the Fed Chair offered no clues on the timeline for the program's end. He simply suggested that reserves remain "abundant" and that signs of stress in money markets were absent as the federal funds rate remained relatively stable within its current range. Regarding equity market volatility earlier in the week, he noted that officials were watching developments but that volatility needed to be "persistent" for it to have a meaningful impact on financial conditions. Finally, when one reporter asked him if a rate cut in March is still on the table, Chair Powell replied that the "broad consensus" is that the Committee is not in a hurry to adjust the policy stance. All that said, Fed officials will receive multiple inflation and labor market reports before the next FOMC meeting. In light of this fact, and the six-plus weeks until the next gathering on March 18, we remain open to the possibility that the Committee will cut by 25 basis points (although we are perhaps a bit less confident in that view given today's comments).

FOMC Statement Comparison*

January 29, 2025 FOMC Statement

Recent indicators suggest that economic activity has continued to expand at a solid pace. **The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid**. Inflation remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee judges that the risks to achieving its employment and inflation goals are roughly in balance. The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate.

In support of its goals, the Committee decided to **maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent**. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; Susan M. Collins; Lisa D. Cook; Austan D. Goolsbee; Philip N. Jefferson; Adriana D. Kugler; Alberto G. Musalem; Jeffrey R. Schmid; and Christopher J. Waller.

December 18, 2024 FOMC Statement

Recent indicators suggest that economic activity has continued to expand at a solid pace. **Since earlier in the year, labor market conditions have generally eased, and the unemployment rate has moved up but remains low**. Inflation **has made progress toward the Committee's 2 percent objective but** remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee judges that the risks to achieving its employment and inflation goals are roughly in balance. The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate.

In support of its goals, the Committee decided to **lower the target range for the federal funds rate by 1/4 percentage point to 4-1/4 to 4-1/2 percent**. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Thomas I. Barkin; Michael S. Barr; Raphael W. Bostic; Michelle W. Bowman; Lisa D. Cook; Mary C. Daly; Philip N. Jefferson; Adriana D. Kugler; and Christopher J. Waller. **Voting against the action was Beth M. Hammack, who preferred to maintain the target range for the federal funds rate at 4-1/2 to 4-3/4 percent.**

** Changes from statement to statement shown in bold.*
Source: Federal Open Market Committee; Daiwa Capital Markets America