U.S. FOMC Review

- FOMC: patient; not ready to move

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FOMC Review

The Federal Open Market Committee made only a few changes to its post-meeting statement, but the shifts generally indicated that officials were not on the cusp of adopting another hike in interest rates.

In our view, the most notable aspect of the statement was the absence of a so-called balance of risk sentence. That is, the Committee made no mention of the risks to the economic outlook -- whether balanced or tilted to the upside or downside. The Committee dropped such an assessment in January because of marked uncertainty associated with developments in the global economy and financial markets. The inclusion of a sentence noting balanced or nearly balanced risks at this meeting would have been a signal that officials were reasonably comfortable with their favorable views on the economy and therefore likely to consider additional interest rate hikes at upcoming meetings. The absence of such a sentence, in our view, suggests that officials see no urgency in changing policy.

The assessment of the economy presented in the first paragraph also argued for patience in adjusting policy. Specifically, the opening sentence noted that "economic activity appears to have slowed." Such a description is hardly surprising in light of the upcoming GDP report that could show growth of less than one percent in the first quarter, but it is still notable by suggesting that officials will need a stronger performance before they hike interest rates. We also viewed the description of consumer spending as notable ("Growth in household spending has moderated…"). However, the statement also implied that the slowdown in consumer activity might be temporary, as it also mentioned solid growth in real income and elevated readings in consumer sentiment.

The statement included one slightly hawkish element: officials downgraded the influence of global economic and financial developments on their policy decisions. In March, the statement highlighted global economic and financial developments as factors posing downside risks to the U.S. economy, but the latest statement merely indicated that officials were monitoring such developments. In addition, the reference to global and financial developments was shifted from the middle of the second paragraph to the end of the paragraph -- now an afterthought in policy considerations rather than a driving force.

The statement was market friendly, suggesting that the probability of a rate hike in June is low. We believe it is premature to take a June shift off the table, but it will take strong economic data to prompt a Fed move.

FOMC Statement Comparison

Economic Setting and Current Policy Decision

April 27, 2016 FOMC Statement (In Part)*

Information received since the Federal Open Market Committee met in March indicates that labor market conditions have improved further even as **growth in economic activity appears to have slowed**. Growth in **household spending has moderated**, although households' real income has risen at a solid rate and consumer sentiment remains high. Since the beginning of the year, the housing sector has improved further but business fixed investment and net exports have been soft. A range of recent indicators, including strong job gains, points to additional strengthening of the labor market. Inflation has continued to run below the Committee's 2 percent longer-run objective, partly reflecting earlier declines in energy prices and falling prices of non-energy imports. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed, on balance, in recent months.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee currently expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market indicators will continue to strengthen. Inflation is expected to remain low in the near term, in part because of earlier declines in energy prices, but to rise to 2 percent over the medium term as the transitory effects of declines in energy and import prices dissipate and the labor market strengthens further. The Committee continues to **closely monitor** inflation indicators and **global economic and financial developments**.

March 16, 2016 FOMC Statement (In Part)*

Information received since the Federal Open Market Committee met in January suggests that economic activity has been expanding at a moderate pace despite the global economic and financial developments of recent months. Household **spending has been increasing at a moderate rate**, and the housing sector has improved further; however, business fixed investment and net exports have been soft. A range of recent indicators, including strong job gains, points to additional strengthening of the labor market. **Inflation picked up in recent months**; however, it continued to run below the Committee's 2 percent longer-run objective, partly reflecting declines in energy prices and in prices of non-energy imports. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed, on balance, in recent months.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee currently expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market indicators will continue to strengthen. However, **global economic and financial developments continue to pose risks**. Inflation is expected to remain low in the near term, in part because of earlier declines in energy prices, but to rise to 2 percent over the medium term as the transitory effects of declines in energy and import prices dissipate and the labor market strengthens further. The Committee continues to monitor inflation developments closely.

Forward Guidance (No change from March to April)

In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. In light of the current shortfall of inflation from 2 percent, the Committee will carefully monitor actual and expected progress toward its inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.

The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction, and it anticipates doing so until normalization of the level of the federal funds rate is well under way. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.

* *Emphasis added.*

Source: Federal Open Market Committee; Daiwa Capital Markets America