

# U.S. FOMC Review

- FOMC: another downward shift in the dot plot
- Little forward guidance on timing of a rate hike

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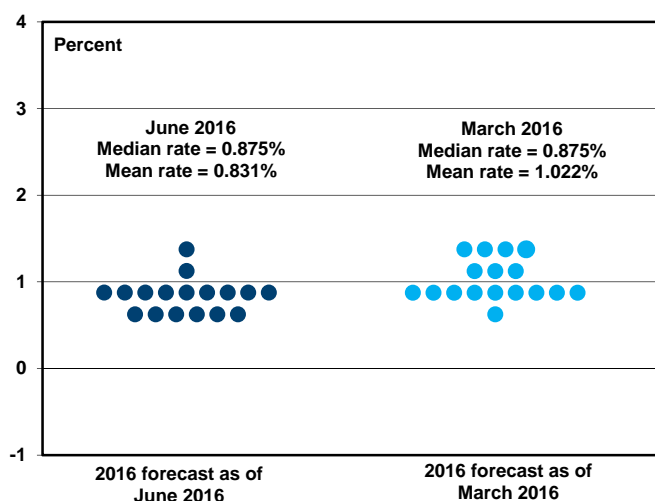
## FOMC Review

The median rate in the new dot plot of the Federal Open Market Committee was unchanged from that at the March meeting (0.875 percent), but the mean rate fell approximately 20 basis points (0.831 percent versus 1.022 percent in March). The shift reflected more officials expecting only one rate hike this year (six at this meeting versus one in March) and fewer policymakers expecting more than two hikes (only two at this meeting versus seven in March; chart, left).

Although the dot plot shifted downward, the FOMC still expects to alter policy this year; even the most dovish officials see the Fed moving once. There are more of these doves than there was in June (six versus one), but they see at least one step in the direction of normalization.

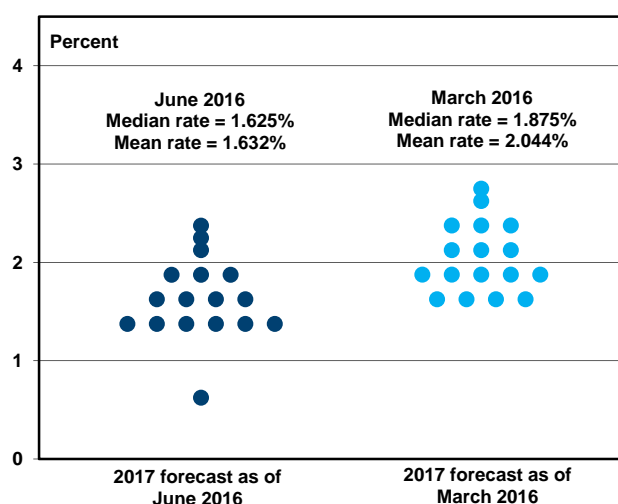
The dot plots for future years also have moved lower. For 2017, the median rate fell one-quarter percentage point to 1.625 percent, implying three tightenings rather than four suggested by the expectations in March. The mean rate for next year fell by more -- approximately 40 basis points to 1.63 percent (chart, right). The long-run projection of the FOMC also moved lower, with the median rate dropping one-quarter percentage point to 3.00 percent. This rate has now eased 125 basis points since early 2012 when the FOMC first provided such information. Chair Yellen was asked about the slow downward revisions over time, and her answer was essentially that policymakers continually reassess the likely level of the neutral short-term rate. In other words, Fed officials are slowly becoming more sympathetic to view that potential growth has slowed and that the sources of the slowdown (aging populations, slow productivity growth, secular shortfalls in demand) may be long lasting.

### Expected Fed Funds Rate (Year-End 2016)\*



\* Each dot represents the expected federal funds rate of a Fed official. Normally, this graph would contain 19 projections (seven governors of the Federal Reserve Board and 12 reserve bank presidents), but two governorships were open at the time of the June meeting.  
 Source: Federal Open Market Committee

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Neither the policy statement nor the Chair's press conference provide much insight into the timing of the expected rate hike(s) this year. Unsurprisingly, Ms. Yellen indicated that every meeting is live, and she noted that a hike in July was not impossible. That characterization (not impossible) suggested to us that she did not view a rate hike at the meeting next month to carry an especially high probability. September seems more likely. November is possible, despite the presidential election occurring in the following week. Chair Yellen noted in her press conference that decisions are based on economics not politics.

The FOMC's assessment of the economy changed (the first paragraph of the policy statement), but the new wording did not have a clear hawkish or dovish tilt. The statement recognized slower improvement in the labor market, but it also indicated that economic growth seems to have picked up. Similarly, the statement highlighted softness in business investment spending, but it also indicated that the drag from international trade seems to have lessened.

No member of the FOMC dissented from today's decision.

### Economic Projections of the FOMC, June 2016\*

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Longer Run</u>
<b>Change in Real GDP</b>	2.0	2.0	2.0	2.0
<b>March projection</b>	2.2	2.1	2.0	2.0
<b>Unemp. Rate</b>	4.7	4.6	4.6	4.8
<b>March projection</b>	4.7	4.6	4.5	4.8
<b>PCE Inflation</b>	1.4	1.9	2.0	2.0
<b>March projection</b>	1.2	1.9	2.0	2.0
<b>Core PCE Inflation</b>	1.7	1.9	2.0	--
<b>March projection</b>	1.6	1.8	2.0	--
<b>Federal funds rate</b>	0.9	1.6	2.4	3.0
<b>March projection</b>	0.9	1.9	3.0	3.3

\* Median projections

Source: Supplemental materials released with the June 15, 2016 FOMC Statement