

U.S. FOMC Review

- FOMC: still divergent views on rate path; no one wildly dovish

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FOMC: Status Quo

As widely expected, the Federal Open Market Committee reduced the target range for the federal funds rate by 25 basis points to 1.75 to 2.00 percent. However, the information released by the Committee indicated little or no follow through in coming months. The median dot in the new dot plot shows policy unchanged over the closing months of 2019 and throughout 2020. Additional reductions are possible, as nearly half of Fed officials (seven of 17) expect another reduction of 25 basis points this year, and an eighth policymaker expects to nudge rates lower next year, but no one envisions more than one additional cut. Five policymakers see the federal funds rate at 2.125 percent at the end of this year, but this view is undoubtedly from officials that did not favor a cut at this meeting and expected the pre-September level of rates to carry through to the end of the year. Next year, seven officials see the federal funds rate at 2.125 percent, indicating that two officials expecting another cut this year see a high probability of reversing that move next year (charts, next page).

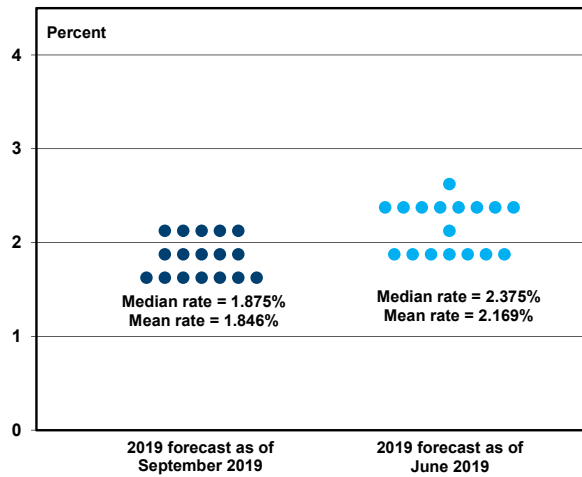
The Committee could be viewed as more dovish than it was in July because Chair Powell did not characterize today's shift as a "mid-cycle adjustment." The first question in the press briefing raised this issue, and Powell appeared to be reciting a prepared response that studiously avoided this characterization. The absence of this phrase suggested that the door is open to further rate cuts, but the Fed is not expecting an aggressive move.

Reporters at the press briefing asked about the pressure in overnight funding markets that emerged this week. Chair Powell noted that officials saw the potential for pressure, but the magnitude of the increase in overnight rates was a surprise. He noted that the funding pressures did not represent a risk to the economic outlook but the Fed will be discussing potential adjustments to its policy procedures that will promote smoother functioning of the overnight markets. He indicated that the topic will be addressed at the next FOMC meeting.

Three officials dissented from today's policy decision. Eric Rosengren (Boston) and Esther George (Kansas City) favored steady policy rather than the rate reduction, repeating their objection to the cut in July. James Bullard (St. Louis) favored a reduction of 50 basis points. The unusually large number of dissents indicated a wide divergence of views among policymakers. The divergence also was evident in the degree of dispersion in the dot plots. Dispersions were tighter than in June, but they were still wide in an absolute sense.

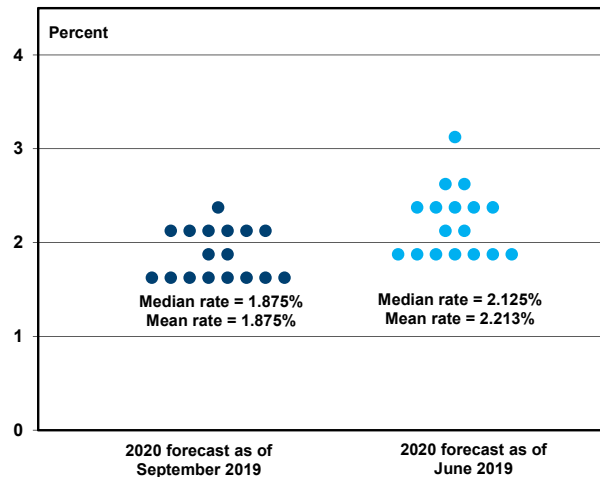
The policy statement and the Summary of Economic Projections did not provide much fodder for market participants to digest, as both were largely unchanged (SEP is shown in the table on the next page).

FOMC Rate View: Year-End 2019*



* Each dot represents the expected federal funds rate of a Fed official at the end of 2019. 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 June 2019 and September 2019 meetings.
Source: Federal Open Market Committee, Summary of Economic Projections, September 2019 and June 2019

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Economic Projections of the FOMC, September 2019*

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Longer Run</u>
Change in Real GDP	2.2	2.0	1.9	1.8	1.9
June projection	2.1	2.0	1.8	--	1.9
Unemp. Rate	3.7	3.7	3.8	3.9	4.2
June projection	3.6	3.7	3.8	--	4.2
PCE Inflation	1.5	1.9	2.0	2.0	2.0
June projection	1.5	1.9	2.0	--	2.0
Core PCE Inflation	1.8	1.9	2.0	2.0	--
June projection	1.8	1.9	2.0	--	--
Federal Funds Rate	1.9	1.9	2.1	2.4	2.5
June projection	2.4	2.1	2.4	--	2.5

* Median projections
Source: Federal Open Market Committee, Summary of Economic Projections, September 2019