Daiwa Capital Markets

U.S. FOMC Review

- FOMC: focused on inflation, but mindful of banking risks

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Monetary Policy

The actions taken today by the Federal Open Market Committee signaled that policymakers remain focused on reducing inflation. Certainly, they are aware of risks generated by recent events in the banking industry and are monitoring developments, but they see risks as contained for now. Thus, Fed officials took additional steps to limit price pressure (a 25 basis point hike in the target range for the federal funds rate to 4.75 percent to 5.00 percent).

While policymakers are continuing to fight inflation, they recognize that potentially tighter credit conditions because of stress in the banking system could reduce the amount of tightening required by the Fed. A shift in the wording of the policy statement signaled a less aggressive approach. The statement in February was definitive: "ongoing increases in the target range will be appropriate." "Ongoing" opened the possibility of multiple changes, and "will" suggested that further hikes were assured. The new statement was much less forceful: "some additional policy firming may be appropriate." As Chair Powell noted in the press briefing, the key words are "some" (implying little additional change) and "may" (leaving some doubt about additional hikes).

The press briefing was not especially enlightening. Naturally, most of the questions focused on developments in the banking industry and the implications for the Fed. Mr. Powell noted that tighter credit conditions could reduce the need to increase policy rates, but the situation was uncertain and therefore he could provide little guidance or insight.

The most notable information from the press briefing, in our view, involved the likelihood of a pivot toward lower interest rates later this year. Two reporters raised the issue, and the brief responses from Chair Powell suggested a low probability of such a shift.

The new Summary of Economic Projections showed only minor changes from the results in December. Economic growth this year and next was a touch slower than expected in December, while the unemployment rate at the end of this year was seen as one tick lower (4.5 percent rather than 4.6 percent). Core PCE inflation this year and next was one tick firmer than previously expected (table).

Economic Projections of the FOMC, March 2023*

	2023	2024	2025	Longer Run
Change in Real GDP	0.4	1.2	1.9	1.8
Dec. projection	0.5	1.6	1.8	1.8
Unemployment Rate	4.5	4.6	4.6	4.0
Dec. projection	4.6	4.6	4.5	4.0
PCE Inflation	3.3	2.5	2.1	2.0
Dec. projection	3.1	2.5	2.1	2.0
Core PCE Inflation	3.6	2.6	2.1	--
Dec. projection	3.5	2.5	2.1	--
Federal Funds Rate	5.1	4.3	3.1	2.5
Dec. projection	5.1	4.1	3.1	2.5

** Median projections*

Source: Federal Open Market Committee, Summary of Economic Projections, March 2023

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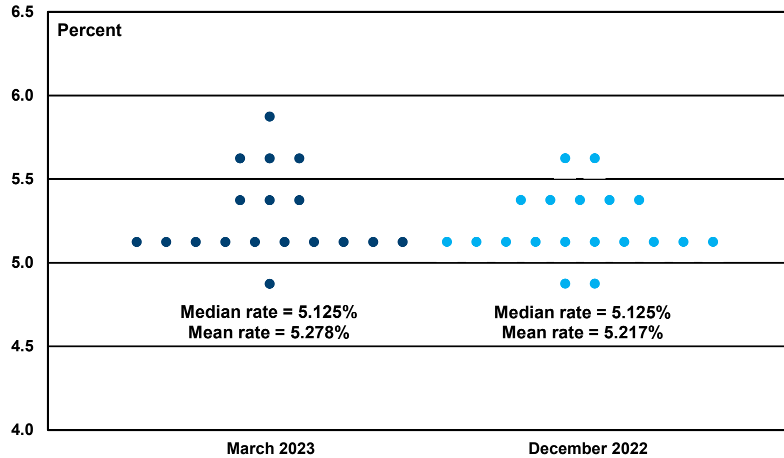
The median rate in the new dot plot was unchanged from that in December (5.1 percent), although the distribution also showed a slight upward shift. That is, only one official saw the funds rate as less that 5.1 percent (versus two in December), and one official lifted his/her expectation to 5.875 percent. The mean of the distribution was a tad higher (5.278 percent in the new plot versus 5.217 percent in December; chart).

FOMC Rate View: Year-End 2023*



** Each dot represents the expected federal funds rate of a Fed official at the end of 2023.*

Source: Federal Open Market Committee, Summary of Economic Projections, March 2023 and December 2022.