ECONOMIC UPDATE
REGIONS
September 18, 2019

September FOMC Meeting: No Clear Consensus On The Path Ahead

- The FOMC lowered the Fed funds rate target range by 25 basis points, with the mid-point of the target range now at 1.875 percent
- The updated "dot plot" shows that, at least for now, there is no clear consensus for additional funds rate cuts

As was widely expected, the FOMC cut the Fed funds rate target range by 25 basis points at the conclusion of their two-day meeting, which puts the mid-point of the target range at 1.875 percent. There was little change in the Committee's assessment of current economic conditions and, relative to the June projections, expectations for growth and inflation have not meaningfully changed. The updated "dot plot" shows that, at least at present, there is no clear consensus for additional rate cuts. To that point, there were three dissents on the vote to cute the funds rate target range by 25 basis points. As in July, Boston Fed President Rosengren and Kansas City Fed President George favored holding the target range steady, while St. Louis Fed President Bullard favored a 50-basis point cut. Once again, Committee reiterated that they would act "as appropriate to sustain the expansion."

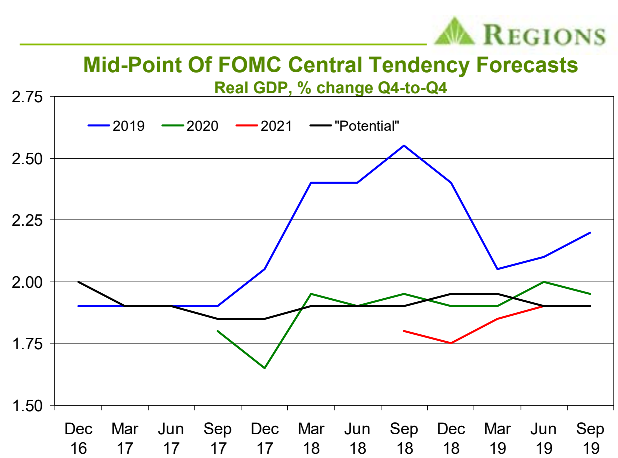
The assessment of current economic conditions again characterizes economic growth as moderate. While the Committee noted household spending has been "rising at a strong pace," they also noted that business investment and exports "have weakened." In the July statement, business investment was characterized as being "soft" while there was no mention of exports, so the September statement reflects a downgrade in these areas." In his post-meeting press conference, Chairman Powell noted that slower global growth and uncertainty over trade policy have acted as drags on business investment.

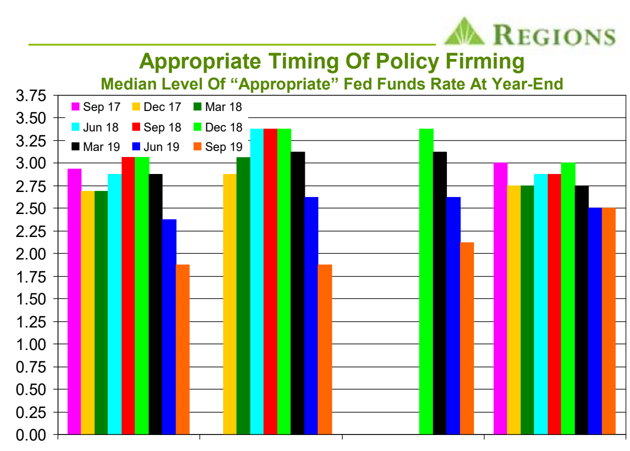
The median of the central tendency projections for 2019 real GDP growth stands at 2.20 percent, up from 2.10 percent as of the June projections (recall there were no updated projections issued when the FOMC cut the funds rate in July), with a modest (five basis points) reduction in 2020 growth and no change in 2021 growth. The median assessment of "longer run" growth remained unchanged at 1.90 percent.

The updated dot plot reflects the lack of consensus within the FOMC on the appropriate course of monetary policy. Seven members see a year-end 2019 target range mid-point of 1.625 percent – consistent with one additional rate cut – as appropriate, four members see 1.875 percent as the appropriate year-end target range mid-point, while five see 2.125 percent as the appropriate year-end target range mid-point. Keep in mind that not all FOMC members are voting members, which accounts for why there only two votes against lowering the funds rate at this meeting. The median year-end 2020 target range mid-point is also 1.875 percent, with a range of 1.625 percent to 2.375 percent, while the median year-end 2021 target range mid-point stands at 2.125 percent.

Perhaps the best thing to do with the updated dot plot is to ignore it. Sure, there are those who say this about any given dot plot, though we're by no means in that camp. But, we say this now only in the sense that given the preponderance of downside risks to the growth outlook, the assessment of the appropriate course of monetary policy will by nature be fluid and subject to rapid change. To this point, in his post-meeting press conference Chairman Powell once again noted that the Committee remains "highly data dependent" and that monetary policy is not on a "pre-set course," while repeatedly stressing the high degree of uncertainty around the growth outlook. As Chairman Powell put it, "honestly, I think it's hard to have hardened expectations where rate policy is going to be a year from now."

Thus far, the markets have interpreted the updated dot plot as implying little room for additional rate cuts – yields on two-year U.S. Treasury notes have risen, with the 10/2 section of the yield curve flatter than was the case ahead of the release of the FOMC projections, and the U.S. dollar has strengthened. That said, the markets' collective perceptions can and will change. Chairman Powell noted that while the U.S. economy has evolved largely in line with expectations, there are significant downside risks which are global in nature, suggesting that should any of these downside risks turn into threats to the U.S. economy, the Committee will respond, preemptively to the extent possible as "it can be a mistake to try and hold on to your firepower too long." With Chairman Powell clearly embracing the notion of the FOMC acting as a risk manager, it's easy to conclude that, while the bar may be a bit higher, the FOMC isn't quite done cutting the funds rate.





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