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December FOMC Meeting: Wherever We're Going, We're Going There More Slowly

- The FOMC raised the Fed funds rate target range by 25 basis points, taking the mid-point of the target range to 2.375 percent
- The "dot plot" implies a total of two 25-basis point hikes in the target range mid-point in 2019, one less hike than in the prior dot plot

The FOMC raised the Fed funds rate target range by 25 basis points at the conclusion of their two-day meeting, pushing the target range mid-point to 2.375 percent. The updated "dot plot" implies a total of two 25-basis point funds rate hikes for 2019, with one additional hike in 2020, with the three total hikes through 2020 one fewer than was implied in the September 2018 edition of the dot plot. The updated dot plot also shows the median estimate of the "neutral" funds rate target range mid-point is now at 2.75 percent, down from 3.00 percent in September.

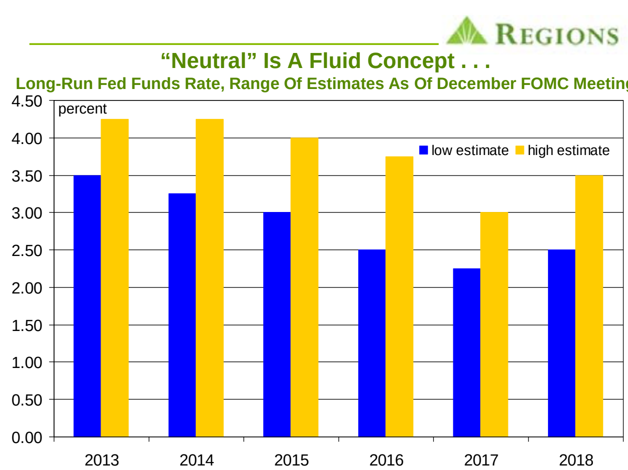
Interestingly enough, the Committee's assessment of current economic conditions was virtually unchanged from the November 8 statement, with economic activity again characterized as "rising at a strong rate." Ahead of the meeting, perhaps the biggest question looming over the post-meeting statement was whether or not the Committee would drop the reference to "further gradual increases in the target range for the federal funds rate" being consistent with the Committee's expectations for growth and inflation being realized. Some felt that, in conjunction with the increase in the funds rate target range, dropping this phrase would have constituted a "dovish hike" that would have soothed the financial markets. Instead, today's statement notes that "some further gradual increases" in the funds rate target range will be consistent with the Committee's expectations for growth and inflation being realized. At some point it is reasonable to expect this phrase to be stricken in total, given that Chairman Powell has implied he would like to do away with forward guidance, but today's alteration reflects a middle ground.

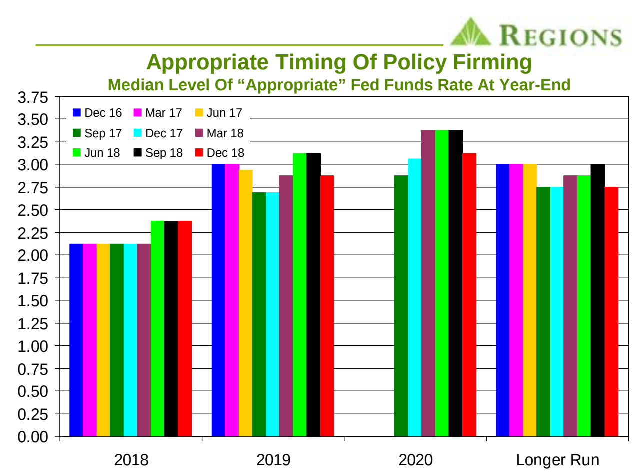
There were some modest changes to the Committee's expectations for growth and inflation in 2019. Median real GDP growth for 2019, on a Q4/Q4 basis, is now at 2.3 percent, down from 2.5 percent in the last set of projections issued in September. The median estimates of both headline and core PCE inflation are both one-tenth of a point lower, and are now 1.9 percent and 2.0 percent, respectively. The median estimate of the average Q4 2019 unemployment rate remains at 3.5 percent.

As was widely expected to be the case, the updated "dot plot" now implies a total of two 25-basis point hikes in the Fed funds rate target range in 2019, down from the three hikes implied in the September edition of the dot plot. It is interesting to note that the range of estimates of the appropriate year-end 2019 funds rate target range mid-point is narrower in today's dot plot than was the case in September, with estimates ranging from 2.375 percent (which implies no rate hikes next year) to 3.125 percent (which implies three rate hikes). Additionally, six Committee members see three hikes as being appropriate in 2019, the largest block on the dot plot despite the median dot calling for only two hikes. It is also interesting to note that the median estimate of the "neutral" funds rate target range mid-point dropped from 3.00 percent in the September dot plot to 2.75 percent in the updated dot plot. As Chairman Powell routinely notes, we cannot actually observe the neutral funds rate. We can, however, observe how estimates of the neutral funds rate change over time. It is telling that the highest estimate of neutral in the updated dot plot, 3.50 percent, was the lowest estimate of neutral in the dot plot issued at the December 2013 meeting.

There are some who downplay the relevance of the dot plot, and even former Fed Chairwoman Janet Yellen at times seemed to distance herself from it. In contrast, Chairman Powell noted in his post-meeting press conference that the dot plot, while not a formal forecast, does convey useful information. So, while the dots can, and do, shift, it would be wise to not disregard the dots. Chairman Powell acknowledged that while the recent unrest in the financial markets has contributed to tighter financial conditions and global growth has moderated, U.S. growth is nonetheless expected to be "solid" in 2019.

Perhaps the most telling thing Chairman Powell said today is that "monetary policy is a forward looking exercise." We sense that the FOMC is angling to give itself as much flexibility to respond to the evolution of the economic data as is possible. In other words, while "data dependent" has in the past been little more than a central bank catchphrase, Chairman Powell seems quite comfortable in using that as an actual guide to policy.





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