ECONOMIC UPDATE

REGIONS

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June FOMC Meeting: The Story – For The Economy And For The FOMC – Is Far From Being Written

- The FOMC left the Fed funds rate target range unchanged, leaving the mid-point of the target range at 0.125 percent
- The updated dot plot implies no change in the Fed funds rate target range through 2022

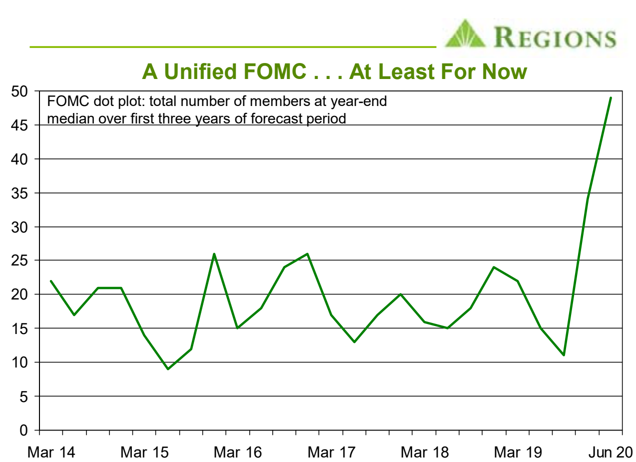
As was widely expected, the FOMC made no changes to the Fed funds rate target range nor did they announce any new policy initiatives. The post-meeting policy statement stressed the human and economic toll of the COVID-19 virus and the considerable degree of uncertainty around the economic outlook. After having opted not to do so at their March meeting, the Committee released an updated round of economic projections, including an updated "dot plot" which implies no changes in the Fed funds rate target range through 2022. As was to be expected under the circumstances, the Committee was very unified around the implied path of the funds rate. As economic and financial conditions begin to normalize, however, views of the appropriate policy stance are likely to diverge. When that will happen, however, remains anyone's guess, FOMC members included.

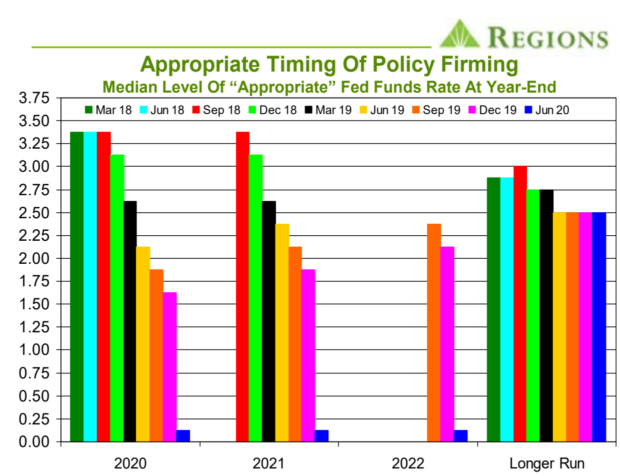
After noting in their post-meeting policy statement that "the coronavirus outbreak is causing tremendous human and economic hardship across the United States and around the world," the Committee went on to state that "the public health crisis will weigh heavily on economic activity" in the near term and "poses considerable risks to the economic outlook over the medium term." Given that the path of the economy is highly contingent on the path of the COVID-19 virus, which itself remains highly uncertain, the FOMC will be in no hurry to even hint at any withdrawal of the high degree of monetary accommodation now being provided. The Committee noted that "the Federal Reserve will increase its holdings of Treasury securities and agency residential and commercial mortgage-backed securities at least at the current pace" to facilitate the smooth functioning of the credit markets.

From the updated economic projections, the median projection calls for a 6.5 percent decline in real GDP on a Q4/Q4 basis for 2020, followed by growth of 5.0 percent in 2021 and 3.5 percent in 2022. The median projection for the average unemployment rate in Q4 2020 is 9.3 percent (with a range of 9.0 to 10.0 percent), with averages of 6.5 percent in Q4 2021 and 5.5 percent in Q4 2022. The projections of the PCE Deflator show both total and core PCE inflation remaining below the FOMC's 2.0 percent target rate through year-end 2022.

The updated dot plot implies no change in the path of the Fed funds rate target range through 2022. While that is perhaps not unexpected, what does stand out is the degree to which the Committee is unified around this view. Over the Committee's three-year forecast horizon, 49 of the dots are at the year-end medians, with the only two differences coming in the 2022 projections – one member expects a mid-point of 0.375 percent will be appropriate by year-end 2022 and another expects a mid-point of 1.125 percent will be appropriate. It is noteworthy that the implied "neutral" Fed funds target rate range mid-point remains at 2.50 percent. This could suggest either that FOMC members see no lasting effects of the downturn associated with the COVID-19 virus or that they simply think it too soon to draw any meaningful conclusions as to what those lasting effects may be – we'd go with the latter explanation.

In his post-meeting press conference, Chairman Powell emphasized that the recovery from the downturn associated with the COVID-19 virus "will take some time" and, as such, "we're not even thinking about raising rates." Even allowing for a period of "significant job growth" over coming months, Chairman Powell noted that it is likely that potentially large numbers of people will remain displaced from the labor market. Mr. Powell noted that he has not changed his views of the economy's longer-term trend rate of growth or the "neutral" Fed funds rate because he is hopeful that policy can fend off any lasting damage and, though it may take considerable time, the economy can eventually recover. One could take this to mean that the door to additional policy measures remains open. On the question of yield curve control, Mr. Powell simply offered that this remains an "open question" and that "we'll continue those discussions" which is hardly the strong endorsement many market participants had been expecting. It is, however, in keeping with the main theme of the post-meeting policy statement and Chairman Powell's press conference – it is simply too soon, and the outlook is too uncertain, to assess whether, or to what extent, further monetary accommodation is warranted.





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