ECONOMIC UPDATE

REGIONS

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March FOMC Meeting: Still On Hold, But Maybe Not As Tightly?

- 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 2023

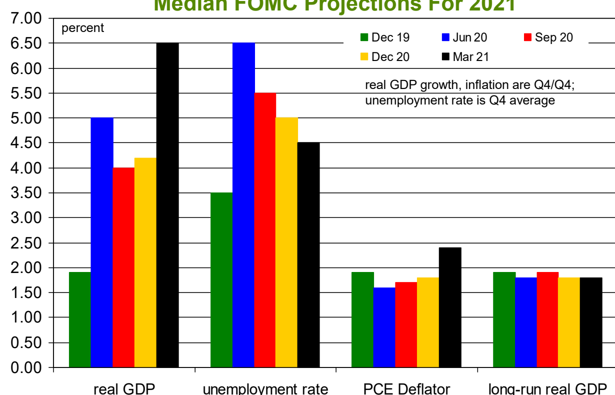
As was widely expected, the FOMC made no changes to the Fed funds rate target range and again reinforced the point that it will be some time before they consider a funds rate. A more favorable assessment of current economic conditions and expectations of firmer real GDP growth, a lower unemployment rate, and faster inflation in 2021 were not enough to move the median dots in the updated dot plot, but there was more dispersion around those median dots than in the past few sets of FOMC projections. As always, it is worth stressing that the path of the funds rate implied in the dot plot is based on how FOMC members see the economy evolving as they look ahead today, and as that view changes, the path of the funds rate implied by the dot plot will change accordingly. In that context, ongoing worries about the downside risks to the outlook – which have subsided but have not vanished – and an unchanged view of the economy's longer-term growth path may help account for the lack of reaction implied by the dot plot.

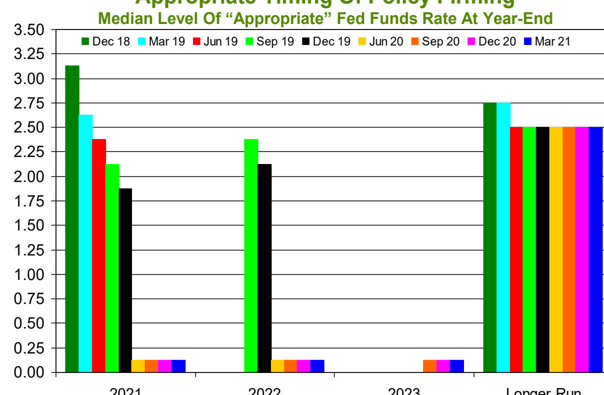
The Committee's post-meeting policy statement noted the recent improvement in economic activity but noted that the sectors that were hit the hardest by the pandemic remain weak. In his post-meeting press conference, Chairman Powell again noted that the economic recovery to date remains uneven, with low-wage workers in the service sector and minority workers having been disproportionately impacted. Mr. Powell also again noted the material decline in the labor force participation rate since the onset of the pandemic as a means of explaining why the unemployment rate is not a complete measure of the degree of labor market slack. These are clearly factors the FOMC will consider as they debate the appropriate course of monetary policy over coming quarters. The post-meeting statement again noted that the ongoing public health crisis continues to pose "considerable risks" to the economic outlook.

The FOMC's economic outlook was upgraded considerably in the latest round of projections. On a Q4/Q4 basis, median real GDP growth in 2021 is now expected to be 6.5 percent, up from 4.2 percent in the December projections. The median Q4 2021 unemployment rate is now expected to be 4.5 percent, down from 5.0 percent in the December projections. With the unemployment rate at 6.2 percent in February, a Q4 average rate of 4.5 percent implies a somewhat subdued rebound in the labor force participation rate, and it is worth noting that the Q4 2022 average unemployment rate is expected to be 3.9 percent, which would put the jobless rate in line with what most Committee members see as consistent with "full employment." The median projection for inflation in Q4 2021 is now 2.4 percent, up from 1.8 percent in the December projections, but expected inflation slips back down to 2.0 percent in 2022. Chairman Powell cited factors – base effects and what will be a normalization of services prices – which will push inflation higher later in 2021 but stressed that the effects on inflation will be transitory, and the FOMC projections are consistent with that view.

Based on the median dots, the updated dot plot implies no changes in the Fed funds rate target range through 2023, but that masks some notable changes in views amongst Committee members. Four members signaled at least one rate hike in 2022 would be appropriate, compared to a single member in the December edition, while seven members signaled at least one rate hike by year-end 2023, up from five in the December projections. It helps to put these changes in context; the projections of inflation show no member being worried about a significant and sustained increase in inflation through 2023, so those members signaling one or more rate hikes as being appropriate are more likely expressing their view that the economy will not require as much accommodation going forward as is now being provided. Still, the median dots show the FOMC moving at a slower pace than market participants expect will be the case.

In the wake of the release of the updated economic projections and Chairman Powell's press conference, equity markets have rallied, but U.S. dollar has weakened and yields on 30-year U.S. Treasury bonds have pushed higher. It could be that at least some market participants are more worried about inflation, or about the FOMC's ability to rein in inflation, than the FOMC seems to be at present. There is a lot riding on who will ultimately be shown to have been correct.





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