ECONOMIC UPDATE
REGIONS
September 22, 2021



## September FOMC Meeting: No Taper, No Tantrum. Check Back In November . . .

- 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 shows the Committee evenly split on raising the Fed funds rate in 2022

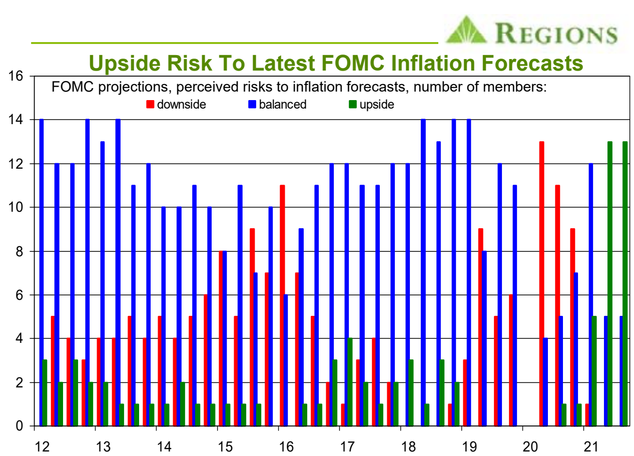
The September FOMC meeting played out right in line with expectations. No change in the Fed funds rate target range, adjustments in the outlooks for real GDP growth and inflation, a hint of tapering with no specific time frame offered, and the "dot plot" showing the Committee evenly split on the initial hike in the funds rate coming 2022. Reading between the lines, or between the dots as it were, suggests most FOMC members continue to believe that inflation pressures will prove to be transitory, and market participants still seem happy to accept that take. While that may seem at odds with the shift in the dot plot, an additional hike being added into 2023 (relative to the June edition), and the first look at 2024 implying 75-basis points worth of additional funds rate hikes, keep in mind that the updated dot plot shows the median year-end 2024 dot below the collective estimate of the "neutral" funds rate of 2.50 percent. So, while the Committee may be in more of a hurry to get going, they are not in any particular hurry to get to the final destination in terms of the funds rate.

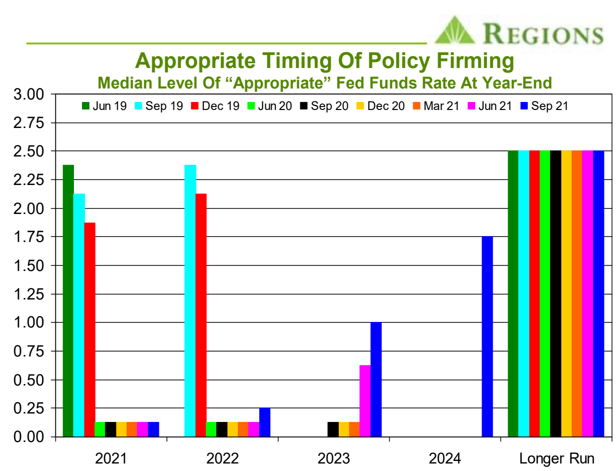
The Committee's assessment of current economic conditions was little changed from June, noting that indicators of economic activity and employment have continued to strengthen. Whereas the June assessment noted that inflation had risen, inflation is now characterized as "elevated" but the Committee continues to attribute higher inflation to "transitory factors." The main change in the post-meeting policy statement is the language on the Fed's monthly asset purchases. Today's statement notes that if further progress in the Committee's dual goals of full employment and price stability continues as expected, "a moderation in the pace of asset purchases may soon be warranted." Chairman Powell noted in his post-meeting press conference that "soon" could mean as soon as the November FOMC meeting, and also offered that "so long as the recovery remains on track, a gradual tapering process that concludes around the middle of next year is likely to be appropriate." Obviously, this is no firm commitment, but it is in line with expectations of market participants.

On a Q4/Q4 basis, the median FOMC projection expects real GDP growth of 5.9 percent in 2021, down from 7.0 percent in the June projections, while PCE inflation is expected at 4.2 percent, up from 3.4 percent in the June projections. At the same time, real GDP growth in 2023 is now expected to be slightly faster than shown in the June projections. These changes are in line with how many private sector forecasters, us included, have altered their forecasts amid the spike in COVID-19 cases and lingering supply chain and logistics bottlenecks that have weighed on economic activity of late. It is interesting to note that, as was the case in June, 13 of the 18 Committee members see the risks to their inflation as being weighted to the upside, the highest number in the life of the FOMC projections. Still, at least some of these 13 members don't feel this assessment of risks warrants a move on the funds rate during 2022, at least judging by the updated dot plot.

The updated dot plot shows nine members feel it would be appropriate for the first Fed funds rate hike to come in 2022, up from seven in the June projections. The median 2022 dot falls at 0.25 percent, or, right at the high end of the current funds rate target range. The median 2023 dot falls at 1.00 percent, up from 0.75 percent in the June projections, and the median dot falls at 1.75 percent in the initial projections for 2024. To our earlier point, however, this is still below where most members peg the "neutral" funds rate, i.e., 2.50 percent.

While in his post-meeting press conference Chairman Powell opened the door for the FOMC to announce plans for tapering the Fed's monthly asset purchases at their November meeting, he also once again stressed that the timing of tapering offers no hints as to when the Committee may begin to raise the funds rate. Chairman Powell noted that we'll still be "well away from satisfying the liftoff test" when tapering starts. This is worth noting given that while several of the regional Fed bank presidents have taken an aggressive stance on funds rate hikes, Chairman Powell remains somewhat dovish on this point, as are other members of the Board of Governors. Sure, all FOMC members have a voice, but not all of them have a vote. It also helps to recall that the dot plot is intended as a signaling mechanism, not as a forecast. So, even when the FOMC does begin to taper the Fed's monthly asset purchases, policy will remain very accommodative for some time to come.

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