ECONOMIC UPDATE
REGIONS
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June FOMC Meeting: Moving Faster To A Still Unknown Destination

- The FOMC raised the Fed funds rate target range by 75 basis points, with the mid-point of the target range rising to 1.625 percent
- The updated dot plot implies year-end target range mid-points of 3.375 percent for 2022, 3.750 percent for 2023, and 3.375 percent for 2024

The FOMC raised the Fed funds rate target range by 75 basis points at their June meeting, a move largely thought to be off the table a week ago but put in play by the recent inflation data. To that point, the updated dot plot implies a much more aggressive course of funds rate hikes than was the case with the March projections, which is curious in the sense that the updated economic projections show a higher Q4 2022 rate of inflation than was the case in the March projections but virtually no change to the expected Q4 rates in 2023 and 2024. At the same time, the updated projections suggest a not so soft landing for the U.S. economy, with a pronounced slowdown in the anticipated path of real GDP growth and a higher unemployment rate relative to the March projections. Clearly, the FOMC was late to the game in responding to elevated inflation, and just as clearly, they seem intent on making up for lost time. What is far less clear, however, is how far the FOMC will ultimately go and what the effects will be on the labor market and the broader economy.

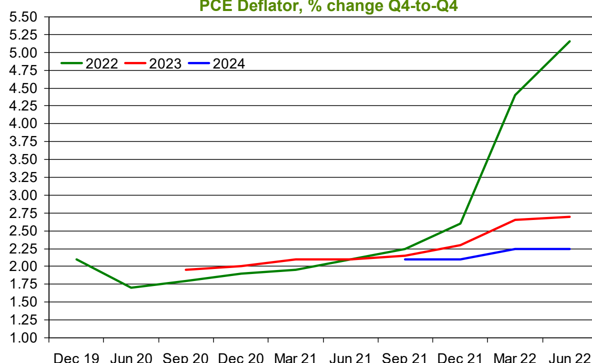
The Committee's assessment of current economic conditions notes that economic activity appears to have picked up following the contraction in real GDP in Q1. The Committee further notes that Russia's invasion of Ukraine is "creating additional upward pressure on inflation" and that China's COVID-related lockdowns will likely exacerbate supply chain disruptions. While both are true, it is also true that none of the upward pressure on inflation resulting from these factors will be relieved by a higher Fed funds rate. That said, the Committee anticipates that "ongoing increases in the target range will be appropriate" and is "strongly committed to returning inflation to its 2.0 percent objective."

The updated economic projections show a meaningful downgrade to expected real GDP growth; on a Q4/Q4 basis, the mid-point of the central tendency forecasts now shows anticipated growth of 1.70 percent for 2022 compared to the March projection of 2.75 percent, with growth of 1.65 percent for 2023, down from 2.30 percent in the March projections. While the median projection of PCE inflation (on a Q4/Q4 basis) for 2022 is now 5.2 percent compared to 4.3 percent in March, the median projections for 2023 and 2024 are each one-tenth of a point lower than in the March projections. At the same time, the unemployment is expected to average 3.7 percent during Q4 2022, up from 3.5 percent in the March projections, while the Q4 average is now at 3.9 percent for 2023 and 4.1 percent for 2024, compared to the March projections of 3.5 percent and 3.6 percent, respectively. This implies a higher unemployment rate is now consistent with the same path of inflation beyond 2022 that was anticipated in the March projections, which were criticized for being unduly sanguine. As has been the case for some time, the vast majority of Committee members see the risks to their inflation forecasts to the upside, whereas 13 of the 18 Committee members see the risks to their unemployment forecasts as being to the upside, up from eight who thought so in March.

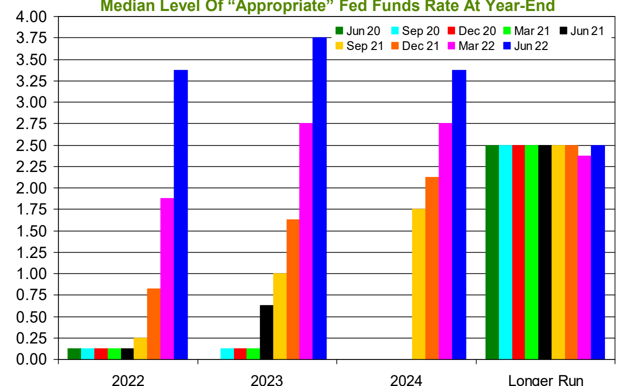
The updated dot plot implies an additional 1.75 percentage points of funds rate hikes by the end of 2022 with another .375 percentage points of hikes in 2023 followed by .375 percentage points worth of cuts by year-end 2024. Note that the implied year-end 2023 target range mid-point of 3.75 percent is 125 basis points above the median estimate of the "neutral" funds rate, which is pegged at 2.5 percent in the updated projections, and even with the cuts implied in the dot plot, the target range mid-point would also end 2024 well above neutral. We'll make the same point here we made earlier, which is that the expected path of inflation beyond 2022 is basically no different than that in the March projections, yet the implied path of the funds rate is much more aggressive.

In his post-meeting press conference, Chairman Powell implied that it wasn't so much the May CPI data, which showed inflation at 8.6 percent, that spurred the Committee to go by 75 basis points at this meeting, but instead the University of Michigan survey of consumer sentiment which showed an increase in inflation expectations. While stating that the FOMC does not expect 75-basis point hikes "to be common," he did leave open the possibility of a like-sized move at the July meeting and noted that the Committee thinks policy will need to be restrictive, the question being how much so. While noting there has as of yet been no progress on inflation, it remains to be seen how CPI inflation pushing past 9.0 percent, as it will likely do in the June data, will impact inflation expectations and how the FOMC might respond to that at their July meeting.

Mid-Point Of FOMC Central Tendency Forecasts
PCE Deflator, % change Q4-to-Q4



Appropriate Timing Of Policy Firming
Median Level Of "Appropriate" Fed Funds Rate At Year-End



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