ECONOMIC UPDATE
REGIONS
September 20, 2023

This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.

September FOMC Meeting: Dot Plot Hammers Home the "Higher For Longer" Message

- The FOMC made no change to the Fed funds rate target range, leaving the mid-point of the target range at 5.375 percent
- The median year-end 2023 dot remained at 5.625 percent; the median year-end 2024 dot is at 5.125 percent, up 50 basis points from June

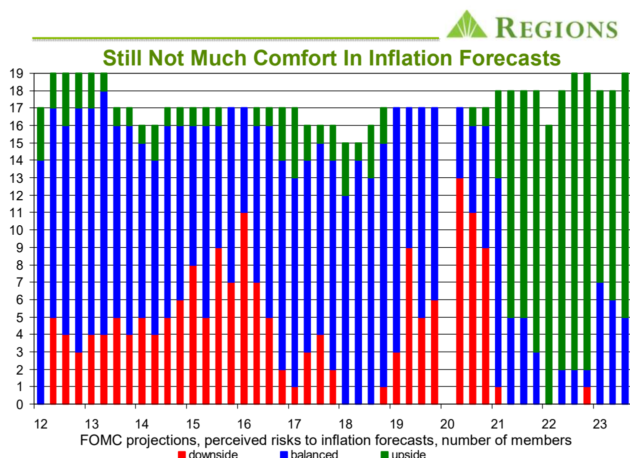
To the surprise of no one, the FOMC left the Fed funds rate target range unchanged at the outcome of today's meeting. What was surprising to many, however, is that the updated dot plot implies fifty basis points less of rate cuts in both 2024 and 2025 than had been implied in the June edition of the dot plot. This is a clear signal from the FOMC that they are not yet confident that inflation is firmly on a path back to their 2.0 percent target. To that point, in his post meeting press conference, Chair Powell noted that the Committee is "prepared to raise rates further if appropriate" and that policy will remain restrictive until the Committee is confident of inflation returning to their target rate. In keeping with the incoming economic data, there were some sizable changes to the Committee's projections for real GDP growth and unemployment in 2024 and 2025 with only slight changes to the inflation outlook. Like any projections, today's set will survive only until first contact with the incoming data, which could be some time given how the looming shutdown of the federal government would greatly constrict the flow of economic data, which could easily take the November FOMC meeting and possibly the December meeting out of play.

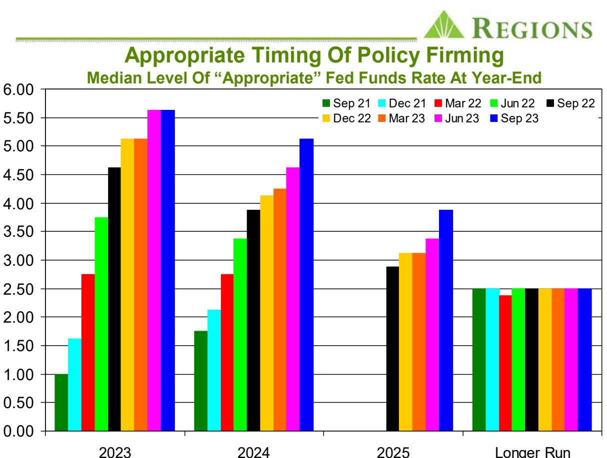
The description of economic conditions in the post-meeting policy statement acknowledges the faster pace of economic growth while noting that, though having slowed, job growth remains strong. Inflation is once again characterized as "elevated," and also unchanged is the passage noting that the banking system is "sound and resilient" but that tighter credit conditions will likely weigh on economic growth, hiring, and inflation to an uncertain degree.

The median forecast amongst FOMC members shows real GDP growth of 2.1 percent on a Q4/Q4 basis for 2023, up from 1.0 percent in the June projections, with 2024 growth marked up to 1.5 percent from 1.1 percent. This mimics the forecasts of most private sector forecasters after the July data on consumer spending set a much higher floor under Q3 growth. The median projection shows an average Q4 2023 unemployment rate of 3.8 percent, down from 4.1 percent in the June projections, while the Q4 average for both 2024 and 2025 not stands at 4.1 percent, down from 4.5 percent in each case in the June projections, thus straying much less further from the 4.0 percent rate deemed by most members to constitute full employment. As we anticipated would be the case, the median estimate of headline PCE inflation in Q4 2023 is slightly higher and the median estimate of core PCE inflation in Q4 2023 is slightly lower relative to the June projections. Both headline and core inflation are, expected to remain above 2.0 percent through 2025.

The updated dot plot shows a terminal funds rate target range mid-point of 5.625 percent, unchanged from the June edition. As noted above, however, the bigger surprise is that the median year-end 2024 and 2025 dots are each fifty basis points higher than in the June edition. It is worth noting that while the median dots are higher, there is less dispersion around those median dots in both the 2024 and 2025 projections than was the case in the June projections, the notable outlier being the one member apparently channeling their inner James Bullard by placing their year-end 2024 dot at 6.125 percent. What is interesting is that many FOMC members have noted that one rationale for rate cuts in 2024 despite inflation remaining above the FOMC's target rate would be to prevent the real funds rate from rising, thus making monetary policy more restrictive as the nominal rate remained unchanged. This could help account for why there are more year-end dots below both the 2024 and 2025 dots than was the case in the June projections. It is also worth noting that more FOMC members see the risks to their inflation forecasts as being to the upside than was the case in either the March or June projections, which could have helped push the median dots higher.

In his post-meeting press conference, Chair Powell stressed that while a "soft landing" remains the FOMC's primary objective, the Committee is not yet convinced their job is done in terms of getting inflation on a firm path back to 2.0 percent. That said, that the FOMC moved so fast last year gives them latitude to "move a little more carefully now" in hitting the "right level of restriction" in their policy stance. The worst thing the FOMC could do, he noted, was to fail to restore price stability. That not only enters into the decision on whether or not to raise the funds rate further, but also into the decision on when, and by how much, to begin cutting the funds rate.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com