# ECONOMIC UPDATE

REGIONS

December 13, 2023



## December FOMC Meeting: Surprising Shift In Tone . . . And Dots

- 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 2024 dot was lowered to 4.625 percent, implying 75-basis points of rate cuts in 2024

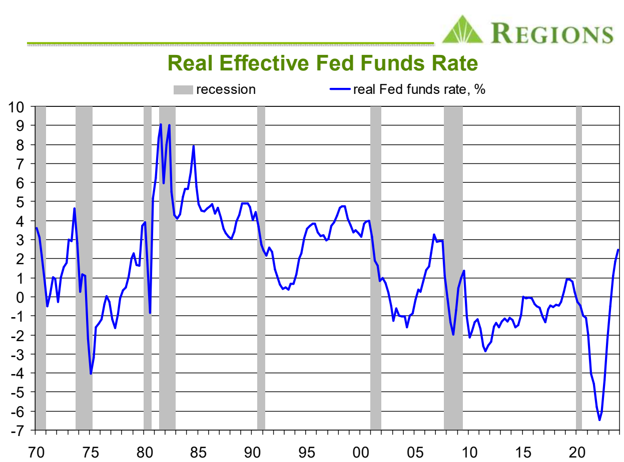
That the FOMC left the Fed funds rate target range unchanged at this month's meeting came as absolutely no surprise. That didn't mean the Committee was incapable of springing a surprise, which is exactly what they did. In addition to softening the language of their post-meeting policy statement, the Committee signaled an additional funds rate cut in 2024, moving closer to where the markets are as opposed to trying to pull the markets to where the Committee is, or at least had been. Though not explicitly coming out and saying so, the Committee sent a strong signal that their most recent tightening cycle has run its course. Moreover, that the updated dot plot added an additional twenty-five basis points of funds rate cuts in 2024 suggests those cuts will come sooner than had been anticipated. This seems quite a turn in a relatively short period of time, as recently as a few weeks ago Chair Powell was insisting that it was premature to be considering the whys and whens of funds rate cuts. It is, however, worth noting that there is considerable dispersion around the median year-end 2024 dot, and the Committee remains meaningfully divided on the appropriate path of the funds rate. We think, however, the markets will choose to overlook this point, focusing instead on the rate cut added into this edition of the dot plot.

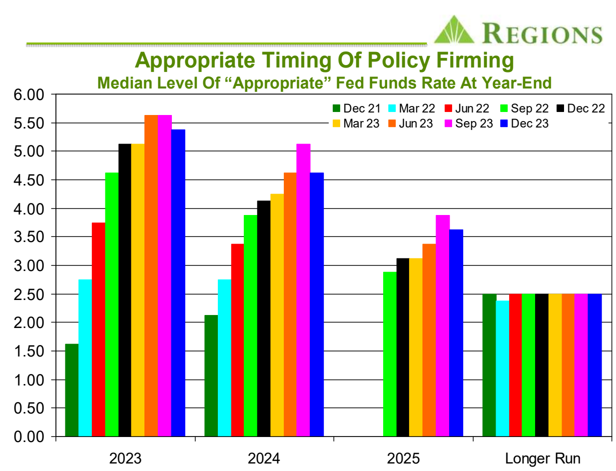
The post-meeting policy statement acknowledges that the pace of economic activity has slowed but continues to characterize inflation as easing but remaining elevated. The most noteworthy change to the statement, however, involves one small word. The statement now reads "In determining the extent of <u>any</u> additional policy firming that may be appropriate to return inflation to two percent over time . . ." (our emphasis), in contrast to past phrasings omitting the word "any." When asked to explain this in his post-meeting press conference, Chair Powell stated the addition of "any" is meant to imply that, while the funds rate is at or near its peak, the Committee wished to keep open the possibility of one or more additional funds rate hikes should inflation reaccelerate. This bit of nuance, however, will almost surely be lost on the markets.

In keeping with the unexpectedly robust real GDP growth seen in Q3, the updated economic projections show a faster rate of 2023 real GDP growth (on a Q4/Q4 basis) with the unemployment rate still expected to average 3.8 percent in Q4 2023 and 4.1 percent in Q4 2024. The most noteworthy change in the projections is to the inflation forecasts. Both headline and core PCE inflation for Q4 2023 were marked sharply lower relative to the prior set of projections, reflecting the faster than expected deceleration with more modest markdowns to projections for 2024 and 2025.

It was a given that the additional 2023 rate hike implied in the September dot plot would be removed from the updated edition, with that change carrying through to the subsequent years. Of more relevance, the updated dot plot implies seventy-five basis points of funds rate cuts in 2024 compared to the fifty basis points of cuts implied in the prior edition. The updated dot plot implies one hundred basis points worth of cuts in 2025, down from the 125 basis points of cuts implied in the prior edition. In that sense, then, the Committee pulled one rate cut forward into 2024, which could be a nod to inflation decelerating more rapidly than had previously been anticipated. We will, however, note that eight Committee members see a funds rate above the 4.625 percent median as being appropriate at year-end 2024, compared to the six at that median. By the same token, there are more members above the median year-end 2025 and 2026 rates than are at those medians. In other words, the FOMC is far from having settled at a consensus view, making the median year-end dots more of a math question than a policy statement. Again, though, any such nuance will almost surely be lost on the markets.

We and most others expected Chair Powell to use his post-meeting press conference as a platform from which to push back against the recent easing in financial conditions and market expectations of an aggressive course of funds rate cuts, with our only question being how forcefully he would attempt to do so. Anyone having "not at all" in their office pool walked away the winner. To be sure, Chair Powell again noted that it is too soon to declare victory in the fight against inflation and reiterated that the Committee would raise the funds rate further if appropriate, i.e., if inflation reaccelerates. It is worth keeping in mind that, as inflation eases, cuts in the funds rate are warranted to keep policy from effectively becoming more restrictive, via increases in the real funds rate. How many rate cuts that buys us in 2024, however, remains to be seen.

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