ECONOMIC UPDATE

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March FOMC Meeting: Full Speed Ahead . . . At Least For Now

- As expected, the FOMC announced no changes to current Fed policy and offered no additional guidance as the timing of any future changes.
- The FOMC's central tendency forecasts show slightly slower rates of real GDP growth over 2013-2015, a lower anticipated unemployment rate, and little change to the expected rate of inflation.

As anticipated, the March FOMC meeting resulted in no changes to current Fed policy and no additional guidance around the timing of any future policy changes. Along with their post-meeting policy statement, the Committee also released the latest round of economic projections of the Board of Governors and regional Federal Reserve Presidents, followed by Chairman Bernanke's press conference.

The Committee's assessment of current economic conditions acknowledged the return to "moderate economic growth" after a pause in late 2012. While pointing to some improvement in labor market conditions, the FOMC nonetheless remains focused on an unemployment rate which it characterized as "elevated." In a new passage, the FOMC noted that fiscal policy has become "somewhat more restrictive." On the inflation front, there were no changes from the January statement – aside from some volatility due to swings in energy prices, inflation continues to run below the Committee's objectives and longer-term inflation expectations remain "stable."

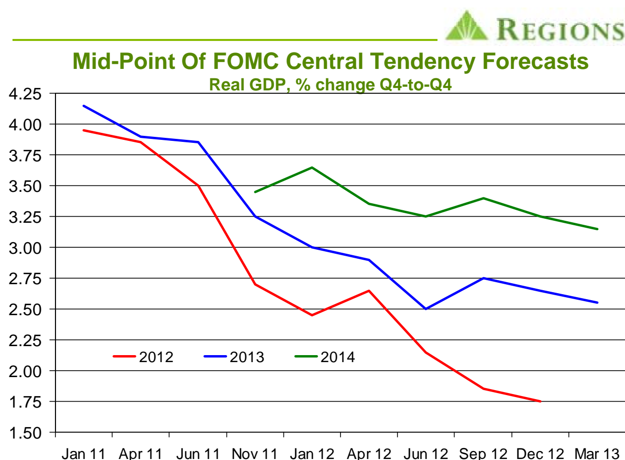
There were some modest changes to the economic projections made by individual FOMC members. The mid-point of the central tendency forecasts for real GDP growth fell to 2.55 percent for 2013 (from 2.65 percent), 3.15 percent for 2014 (from 3.25 percent), and 3.30 percent for 2015 (from 3.35 percent). Though not elaborating on the factors behind the slight downgrade to growth expectations, it is likely that the tighter fiscal policy noted in the policy statement is one such factor.

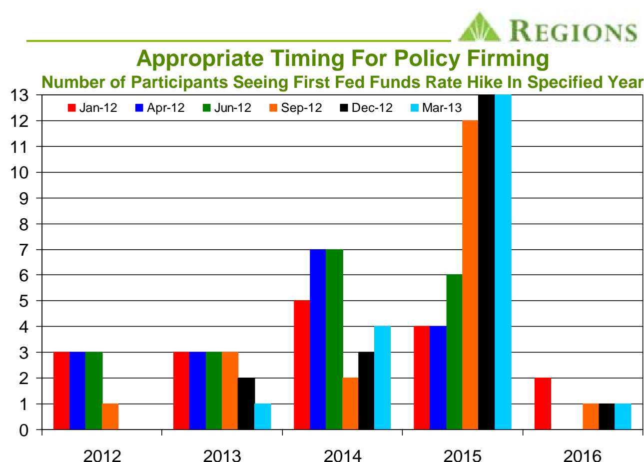
Despite the slight downgrade to expectations for real GDP growth, the central tendency forecasts for the unemployment rate were marked down modestly as well. Note that these figures reflect the expected average unemployment for the fourth quarter of each year. The mid-point of the central tendency forecasts fell to 7.40 percent for 2013 (from 7.55 percent), 6.85 percent for 2014 (from 7.05 percent), and 6.25 percent for 2015 (from 6.30 percent). These changes, however, suggest that an unemployment rate of 6.50 percent – one of the thresholds that will help determine the timing of the initial increase in the Fed funds rate – will still be hit sometime around mid-2015. This remains consistent with the original calendar based guidance the FOMC had offered before moving to the unemployment/inflation thresholds.

As such, the vast majority of meeting participants continue to expect the first funds rate hike to come in 2015, as indicated in the second chart below. The number of those seeing an initial rate hike in 2013 fell from two to one, and there are now four FOMC members who view 2014 as the appropriate timing. Still, the five members who at present feel a hike in the funds rate will be in order before the end of 2014 are significantly outnumbered by the 14 who do not at present see any such funds rate hike as appropriate until at least 2015.

This does not, however, shed much light on the debate surrounding the timing of any tapering, let alone the end, of the Fed's large-scale asset purchases, which at least for now will continue at a monthly rate of $85 billion. In his press conference, Chairman Bernanke noted the difficulty involved in offering any guidance as to the timing of any changes to the asset purchases, particularly the cost-benefit analysis which is not easily quantified in a manner that would facilitate formal guidance. The Chairman did, however, stress that we will see the purchases tapered before they are ended, and that the timing of this decision will be based on an array of labor market indicators. In addition to the unemployment rate, this includes payroll job growth, hiring and quit rates, claims for unemployment insurance, and the pace of wage growth. With these metrics, however, there are no thresholds, rather, they will be viewed in their entirety as a portrait of the overall health of the labor market, but Chairman Bernanke made it clear it will take sustained improvement in the health of the labor market to alter the asset purchases.

In short, not much changed at the March FOMC meeting but, given the more hawkish tenor of the minutes to recent meetings, that is perhaps in and of itself a story.





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