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Economics Group

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A Few Key Takeaways from the March FOMC Meeting

The Fed chose to taper their securities purchases by another $10 billion, and is shifting their guidepost for future policy decisions away from the unemployment rate toward a broader set of labor market conditions.

The Fed Tapers On

The Federal Open Market Committee voted to further reduce their monthly securities purchases by an additional $10 billion, beginning in April. The reductions came despite generally disappointing economic news, which the policy statement linked back to the severe winter weather. The policy statement expressed somewhat more concern about the housing recovery, noting that the recovery in the housing sector remained slow. The Fed also noted that "labor market indicators were mixed but on balance showed further improvement."

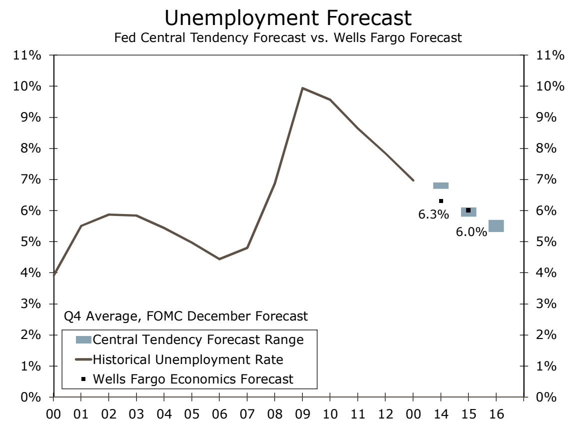
Changing the Guideposts

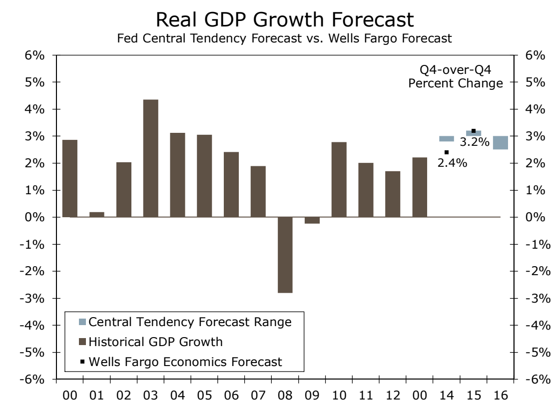
One of the most anticipated changes in the policy statement was the Fed's move away from linking future policy decisions to declines in the unemployment rate and towards a range of labor market indicators. The Fed did just that by replacing the language in their policy statement that referenced a further decline in the unemployment rate with language referencing a gradual improvement in labor market conditions. The de-emphasis on the unemployment rate has been in the works for quite some time and, while it will remain vitally important to future Fed policy decisions, the Fed will likely weigh future declines in the unemployment rate against a whole host of other labor market indicators.

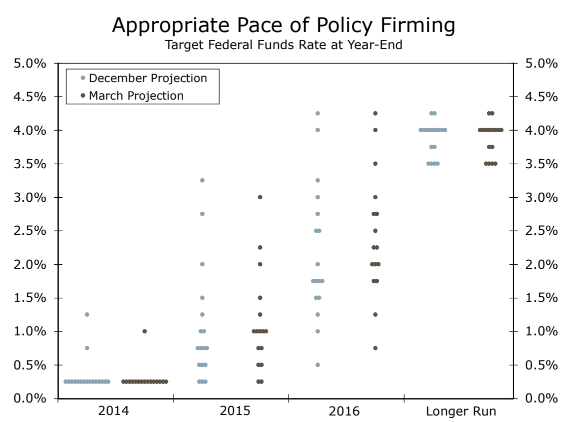
Slower Growth, yet Still Lower Unemployment

The Federal Reserve also tweaked their forecasts for economic growth over the next couple of years. The lower limit for real GDP growth was left unchanged for 2014, 2015 and 2016, but the upper limit was reduced for all three years, as well as for the long-term. Although the changes appear relatively small, the fact that they were coupled with reductions in the upper limit on the unemployment rate forecast for the same time periods suggests that the Fed is becoming even more cautious in the forecast of the economy's long-run potential growth rates. Forecasts for inflation were nearly identical compared to the December FOMC meeting.

Lower potential real GDP growth might set the stage for a more rapid increase in short-term rates once the Fed begins the rate hike process. Right now, such a decision still seems a year or more off, as the overwhelming majority of FOMC members expect the Fed to initiate their rate hikes at some time during 2015. The pace of rate hikes is expected to accelerate in 2016 but only marginally relative to what was expected in December. One variable to watch is the number of FOMC participants that are looking for the appropriate level of the federal funds rate over the longer-term to be below 4 percent. That number has increased gradually since the FOMC began to release forecasts, even as the Fed's estimates of inflation have been gradually scaled back, hinting that potential economic growth is now less than previously thought.







Source: U.S. Department of Commerce, Federal Reserve Board and Wells Fargo Securities, LLC

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