

## Economics Group

Mark Vitner, Senior Economist  
[mark.vitner@wellsfargo.com](mailto:mark.vitner@wellsfargo.com) • (704) 410-3277

### 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.”

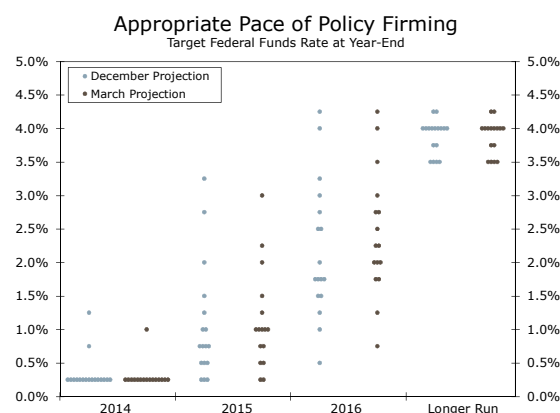
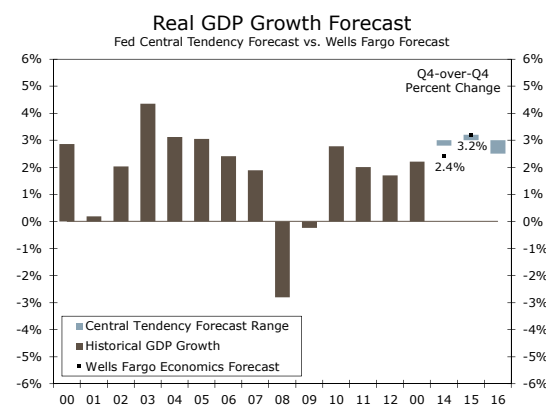
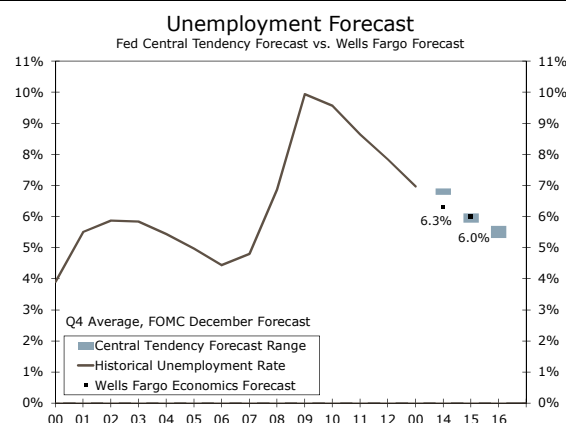
#### Changing the Guideposts

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.



## Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Anika R. Khan	Senior Economist	(704) 410-3271	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Vilorio, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Sarah Watt House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael T. Wolf	Economist	(704) 410-3286	michael.t.wolf@wellsfargo.com
Zachary Griffiths	Economic Analyst	(704) 410-3284	zachary.griffiths@wellsfargo.com
Mackenzie Miller	Economic Analyst	(704) 410-3358	mackenzie.miller@wellsfargo.com
Blaire Zachary	Economic Analyst	(704) 410-3359	blaire.a.zachary@wellsfargo.com
Peg Gavin	Executive Assistant	(704) 410-3279	peg.gavin@wellsfargo.com
Cyndi Burris	Senior Admin. Assistant	(704) 410-3272	cyndi.burris@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Advisors, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC. ("WFS") is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. ("WFBNA") is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. WFS and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2014 Wells Fargo Securities, LLC.

### Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. The content of this report has been approved by WFSIL a regulated person under the Act. For purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

