June 18, 2014

Economics Group

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No Major Changes in the FOMC Policy Statement

The FOMC policy statement contained surprisingly few changes from the prior meeting. Economic growth is seen rebounding at an above trend pace and inflation is seen as running below the Fed's long-run objective.

The Fed Ignores Recent Headlines

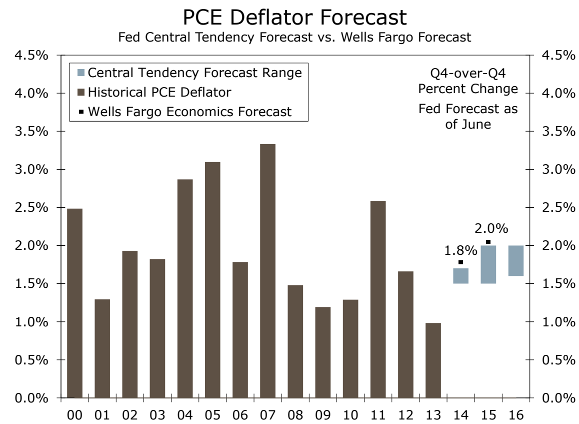
The Federal Open Market Committee (FOMC) made surprisingly few changes to their policy statement at the June meeting, despite two months of stronger-than-expected increases in the Consumer Price Index and weaker-than-expected increases in retail sales and most housing-related indicators. When pressed on the lack of any acknowledgement of the recent pickup in the CPI and likely increase in the personal consumer expenditures deflator to a pace at or above the Fed's forecast as early as next week, Chair Yellen essentially brushed these concerns aside. She noted that the monthly numbers were volatile, that the Fed's forecast was consistent with other forecasters and inflation was gradually returning to target. While Yellen's complacency on inflation may seem a bit surprising given the back-to-back stronger gains in the core CPI, they are understandable given the Fed's well-established concerns about excess slack in the labor.

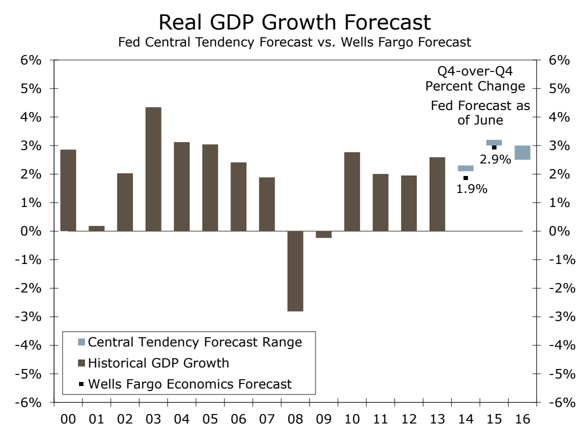
There was also no mention of the heightened geopolitical risk in the policy statement, despite heightened tensions in Ukraine and Iraq. We suspect this omission may simply have been driven by a desire to prevent the Fed's guidance from becoming more confounding than it already is.

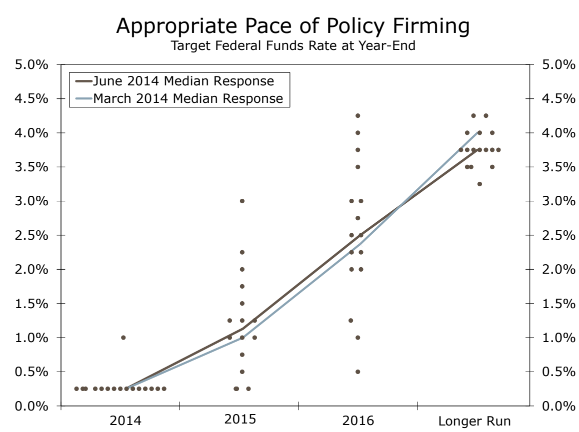
As far as policy actions are concerned, the Fed announced that it would reduce its securities purchases by another $10 billion in July and remains on pace to complete the tapering of their securities purchases by October. Yellen also noted that the Fed would convey their plans for reinvesting the proceeds of maturing securities before they end their securities purchases.

The Fed's forecast for economic growth, the unemployment rate and inflation were also updated. The Federal Open Market Committee reduced its real GDP forecast for 2014, taking fourth-quarter to fourth-quarter growth down to a range of 2.1 to 2.3 percent, compared to an earlier forecast of 2.8 to 3.0 percent. The FOMC left the forecast for 2015 and 2016 GDP growth unchanged, but slightly reduced the lower bound of its long run forecast. The downward revisions to 2014 GDP growth essentially acknowledge the decline in economic activity that has already been reported for the first quarter. Growth will need to average well in excess of 3 percent through the end of the year in order to get to the Fed's forecast.

Another significant change stemmed from FOMC participant's expectation for the appropriate level of the federal funds rate and appropriate timing of the first rate hike. Participants again see the federal funds rising a bit faster in 2015 and 2016 and that a majority of participants now see the appropriate level of the federal funds rate over the long run at 3.25 percent or above.







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

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