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Economics Group

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FOMC Patiently Lays Groundwork

With three dissenters, the FOMC slightly tweaked its language describing the period of time between the end of the QE program and when the first rate hike will take place. The inflation outlook was revised down.

The FOMC Has Its Cake and Eats It Too

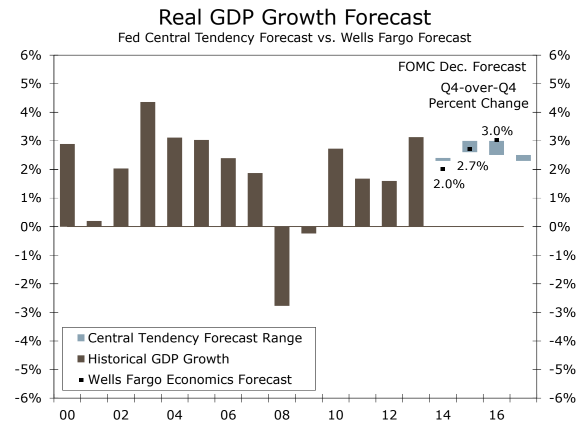
The policy statement released today indicated that the "Committee judges that it can be patient in beginning to normalize the stance of monetary policy." However, the FOMC emphasized that this stance is consistent with its previous language of keeping the fed funds target range low for a "considerable time" after the end of the asset purchase program. The Committee continued to reiterate that changes in monetary policy will remain data dependent. Given that the FOMC has recognized that "labor market conditions improved further, with solid job gains and a lower unemployment rate," our view is that the Committee will shift their focus more towards inflation and inflation expectations in order to determine the timing of future policy moves. Today's statement acknowledged the recent dramatic slide in energy prices, but indicated that inflation was expected to gradually rise toward 2 percent, citing lower energy prices as being transitory. Beyond the policy statement, these changes since the last meeting were also reflected in the Committee's new projection materials.

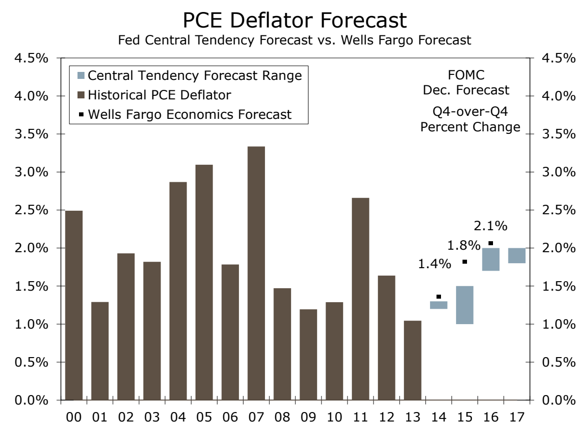
Updated Projections: Stronger Growth, Softer Inflation

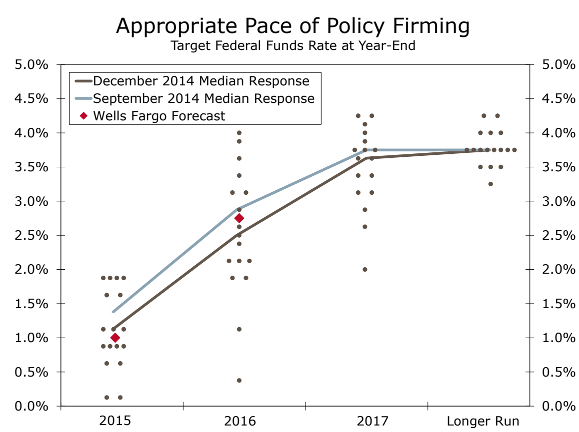
In addition to the release of the policy statement from the FOMC, we also received updated economic projections from the Committee. The new projection figures indicated that the Committee sees GDP growth picking up slightly faster than their September projections. Our forecast indicates a slightly slower pace of GDP growth than the Committee is projecting for 2014, while our 2015 GDP forecast falls within the central tendency range. Our outlook is for GDP growth in 2016 around the upper bound of the new FOMC projections. Updated inflation projections from the Committee reflected the slide in oil prices. The new central tendency range for the PCE deflator is now 1.2 to 1.3 percent for 2014, down from the September range of 1.5 to 1.7 percent. Central tendency projections for 2015 were also downgraded to 1.0 to 1.6 percent from September's 1.6 to 1.9 percent range. Our view is that inflation will be slightly above the new central tendency ranges through 2016.

Pace of Policy Tightening Remains Aggressive

The updated projection materials also include the Committee's views on the appropriate pace of policy tightening in the form of the "dot plots." Compared to the September meeting, FOMC members slightly reduced their median pace of policy firming. In our view, the pace of monetary policy tightening indicated by the Committee seems aggressive. We see the FOMC increasing the target fed funds rate in June with the rate at the end of 2015 at 1.00 percent and 2.75 percent at the end of 2016. Given how cautious the Fed has been up to this point, we do not see them moving too quickly to tighten monetary policy, especially with inflation and inflation expectations only drifting marginally higher next year.







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

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