ECONOMIC UPDATE
REGIONS
September 26, 2018



## September FOMC Meeting: No Surprises, Few Changes

- The FOMC raised the Fed funds rate target range by 25 basis points, taking the mid-point of the target range to 2.125 percent
- The "dot plot" again implies a total of four 25-basis point hikes in the target range mid-point in 2018, three in 2019, and one in 2020

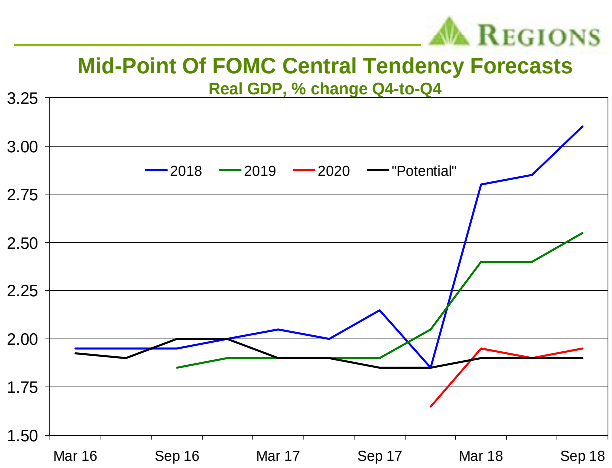
To the surprise of no one, the FOMC raised the Fed funds rate target range by 25 basis points at the conclusion of their two-day meeting, pushing the target range mid-point to 2.125 percent. The updated "dot plot" implies a total of four 25-basis point funds rate hikes for 2018, with three additional hikes in 2019 and one in 2020, the same trajectory implied by the June edition of the dot plot. The one change in the dot plot is that the median estimate of the "neutral" funds rate target range mid-point is now at 3.00 percent, up from 2.875 percent.

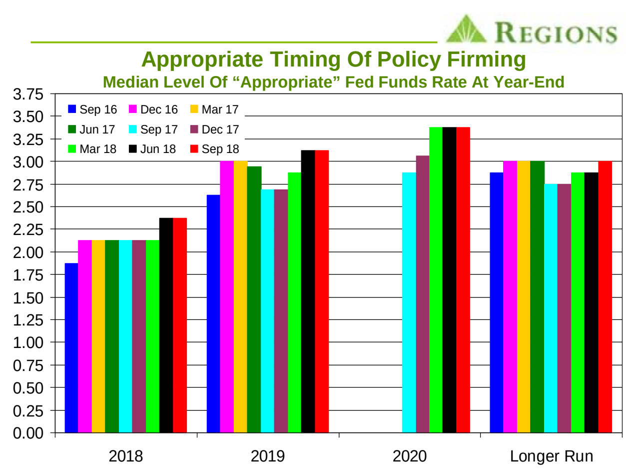
The Committee's assessment of current economic conditions was left unchanged from the August 1 statement, with economic activity again characterized as "rising at a strong rate." The one change to the post-meeting statement is that the passage stating that "the stance of monetary policy remains accommodative" has been stricken. There had been considerable discussion ahead of this meeting as to whether or not this change would be made, so that it is no longer there is not a big surprise. The more relevant question, however, is what it means that this passage is no longer there. We think not much. Some have interpreted its elimination as a "dovish signal," i.e., with the funds rate approaching neutral there may be a pause in the current run of rate hikes. That interpretation is at odds with the path of the funds rate implied by the dot plot. Moreover, with the funds rate still easily below the Committee's current estimate of the "neutral" funds rate, it simply isn't reasonable to be looking for the FOMC to pause any time soon. Any doubts along these lines should have been put to rest by Chairman Powell stating in in his post-meeting press conference that the removal of this passage does not signal any change in monetary policy.

The updated economic projections show real GDP growth is expected to be faster than was the case in the June projections. Expected 2018 Q4/Q4 real GDP growth now stands at 3.10 percent compared to 2.85 percent in the June projections, with expected growth in 2019 nudged up to 2.5 percent from 2.4 percent in the June projections. At the same time, however, there was no change in expectations for either headline or core PCE inflation, indicating that the Committee sees more slack in the economy than would be implied by a sub-4.0 percent unemployment rate. Today's projections include the first look at expected real GDP growth in 2021 which, at 1.8 percent, matches the median estimate of the economy's "potential" growth rate. By that time, the dot plot implies the funds rate would be above the Committee's current estimate of neutral. But, as Chairman Powell noted in his press conference, that estimate of neutral can, and likely will, change between now and 2021. Chairman Powell reiterated a broader point he frequently makes which, if we can be allowed to paraphrase, is that forecasting the future is really hard and no one should today put too much stock in any forecast that far out in the future.

Chairman Powell had some interesting comments about inflation in his post-meeting press conference. Specifically, he noted that "inflation seems to be fairly nonreactive" to economic slack and attributed a flat Phillips curve to inflation expectations being well anchored, noting that the "inflation process has changed dramatically from where it was in the 1960s." This is consistent with previous statements he has made that suggest he is less inclined to continue pushing the funds rate higher on a pre-emptive basis simply because the unemployment rate is lower than rates that in the past have been associated with full employment. This is not inconsistent with removing remaining monetary accommodation, nor is it inconsistent with expectations that the funds rate will ultimately push past the current estimate of the neutral funds rate.

As he did in June, Chairman Powell opened his press conference by stating that "our economy is strong." That inflation remains fairly well behaved gives the FOMC the latitude to continue normalizing monetary policy at a gradual pace. There should be no doubt that a meaningful and sustained acceleration in inflation would be matched by the FOMC moving at a faster pace, but the FOMC won't pick up the pace of rate hikes preemptively to fend off faster inflation that may or may not actually come. In other words, while "data dependent" has in the past been little more than a central bank catchphrase, Chairman Powell seems quite comfortable in using that as an actual guide to policy.




Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com