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December FOMC Meeting: Policy To Remain Highly Accommodative For "Quite Some Time"

- The FOMC left the Fed funds rate target range unchanged, leaving the mid-point of the target range at 0.125 percent
- The updated dot plot implies no change in the Fed funds rate target range through 2023

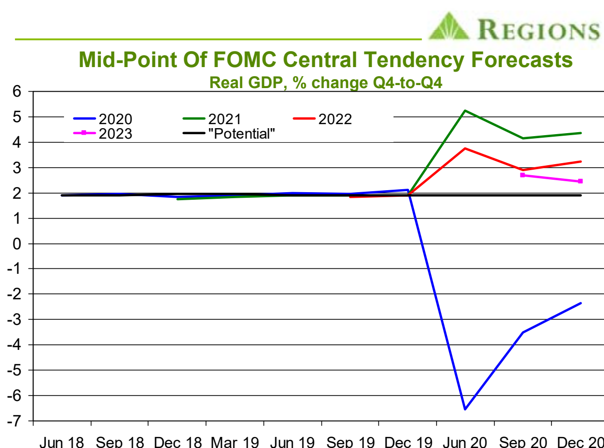
As was widely expected, the FOMC made no changes to the Fed funds rate target range, while strongly reinforcing the point that it will be some time before they consider a funds rate hike. The Committee did modify their forward guidance around their bond purchases but made no changes in either the rate or maturity structure of the bond purchases. Updated economic projections are more constructive for real GDP growth and the path of the unemployment rate through 2022. The updated "dot plot" implies no changes in the Fed funds rate target through 2023, but it is worth once again stressing that the path of the funds rate implied in the dot plot is based on how Committee members see the economy evolving as they look ahead today, and as that view changes, the path of the funds rate implied by the dot plot will change accordingly. The main takeaway for now, however, is that with the shift in the FOMC's inflation strategy and their assessment of labor market conditions no longer predicated on a pre-defined notion of "full employment" – both changes announced earlier this year – the bar for a funds rate hike remains significantly elevated.

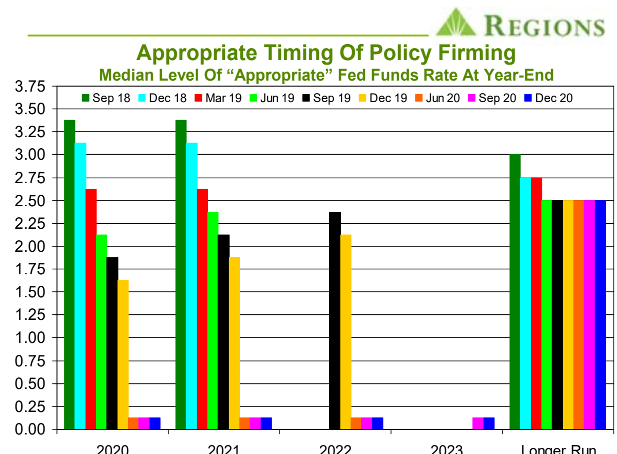
There was no change in the tone of the Committee's post-meeting policy statement, with the main point remaining that the "path of the economy will depend significantly on the course of the virus." We had thought the Committee might distinguish between the downside risks posed to near-term growth by the ongoing surge in cases and the upside risks posed to medium-term growth by the prospect of an effective vaccine being widely available in 2021. Instead, the Committee again noted that the pandemic "poses considerable risks to the economic outlook over the medium term" which is unchanged from the September statement. As to the bond purchase program, the forward guidance was modified to indicate that bond purchases will remain at least at the current pace "until substantial further progress has been made toward the Committee's maximum employment and price stability goals" which brings it more in line with the guidance around changes in the funds rate. Though still somewhat vague, Chairman Powell did note in his post-meeting press conference that it is not possible to put specific numbers around the unemployment rate or inflation rate that would lead to a shift in the pace of bond purchases.

The FOMC's updated economic projections reflect the improvement in the economy since the September projections, which to a large extent has come at a faster pace than had been anticipated. On a Q4/Q4 basis, the median projection calls for real GDP to contract by 2.4 percent in 2020, compared to a 3.7 percent contraction in the September projections. On a Q4/Q4 basis, the December projections call for real GDP to grow by 4.2 percent in 2021 and 3.2 percent in 2022, whereas the September projections called for growth of 4.0 percent and 3.0 percent, respectively. There is similar improvement in the projected path of the unemployment rate, with a Q4 average rates of 6.7 percent in 2020, 5.0 percent in 2021, and 4.2 percent in 2022, which compare to the September projections of 7.6 percent, 5.5 percent, and 4.6 percent, respectively. Against this backdrop of better growth and a lower unemployment rate, there were but very modest changes in the path of inflation laid out in the FOMC's projections.

The updated dot plot continues to imply no changes in the Fed funds rate target range through 2023. In the September projections, there were four members who thought a higher funds rate would be warranted by year-end 2023, and the updated projections show five members aligned with that view, a smaller number than we expected. Again, it should be noted that perceptions of the economy will evolve over time, and as that occurs, perceptions of the appropriate Fed funds rate target range will also evolve. But, as they see the world today, the FOMC continues to strongly signal they are on hold for quite some time to come.

Though not addressed in the post-meeting statement, Chairman Powell did note that an effective vaccine would mean the economy should be "performing strongly" over the back half of 2021. But, he also was very direct in stating that "the issue is getting through the next four-to-six months" and the looming downside risks are clearly a major concern for the FOMC. Chairman Powell's overriding point in his press conference, however, was that it will be "quite some time" before it is appropriate to begin removing the current high degree of monetary accommodation.





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