ECONOMIC UPDATE

REGIONS
March 20, 2024

March FOMC Meeting: Some Subtle Shifts, But No Major Moves

- The FOMC made no change to the Fed funds rate target range, leaving the mid-point of the target range at 5.375 percent
- The median year-end 2024 dot remained at 4.625 percent, again implying 75-basis points of rate cuts in 2024

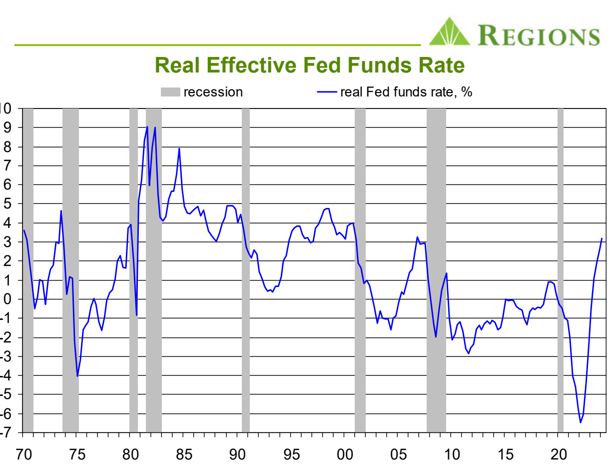
To the surprise of no one, the FOMC left the Fed funds rate target range unchanged at this month's meeting. What was much more uncertain, however, was how the Committee would revise their economic and financial projections, including the number of Fed funds rate cuts that would be implied by the updated dot plot. That ended up as pretty much of a wash, however, as the updated dot plot continues to imply three twenty-five basis point cuts by year-end 2024, but at the same time the updated dot plot implies one fewer cut in 2025 than had the prior edition. The Committee's updated economic projections show the expectation of meaningfully faster real GDP growth in 2024 and higher core inflation than had been implied in the December 2023 projections, with a modestly lower unemployment rate. As was widely expected, the Committee also acknowledged that they would maintain the pace at which the Fed's balance sheet is being pared down. Thus far, the reaction in the financial markets can best be characterized as relief, but, with the updated dot plot again implying three funds rate cuts this year, it will be interesting to see whether or not market participants once again get ahead of themselves, or at least ahead of the FOMC, and price in even further easing.

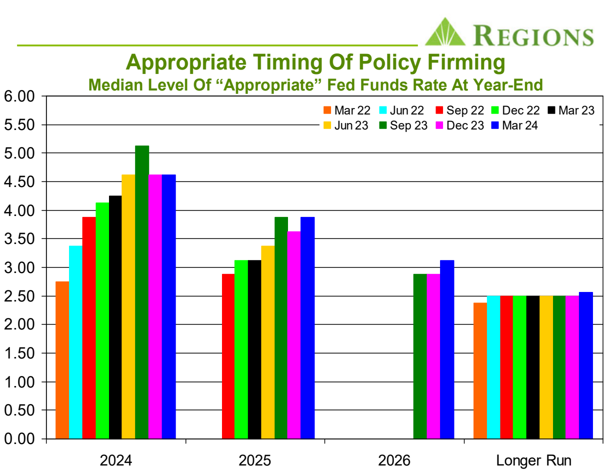
The post-meeting policy statement is little changed from the January version, again noting that "economic activity has been expanding at a solid pace" and that job gains remain strong. The Committee again notes that "inflation has eased over the past year but remains elevated." In terms of forward guidance, the very much open-ended statement that "the Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals" remains in place.

The median forecast amongst Committee members puts real GDP growth at 2.1 percent, on a Q4/Q4 basis, in 2024, up from the December forecast of 1.4 percent. To a large extent, however, this simply reflects stronger than expected growth in Q4 2023 – a print which was not available at the time of the December 2023 FOMC meeting – setting a higher base for 2024 growth. There were also modest upgrades to the median real GDP growth forecasts for 2025 and 2026. Interestingly enough, the median forecast of headline inflation, as measured by the PCE Deflator, remained unchanged at 2.4 percent for 2024, again on a Q4/Q4 basis. Given recent upward pressure on energy prices, it is a bit surprising that the forecast of headline inflation did not move higher, though the range of forecasts did shift modestly higher. In contrast, the median forecast of core PCE inflation for 2024 moved up to 2.6 percent from the 2.4 percent forecast in the December projections. It should be noted that the majority of members now see the risks to their inflation forecasts as weighted to the upside, i.e., if their forecast is wrong, they see inflation being higher than their forecast as being more likely than inflation being lower than their forecast. This is in contrast to December, when the majority of members saw the risks to their inflation forecast as being balanced.

It is fair to ask how the three-cut scenario in the dot plot survived the upgraded core inflation forecast and the meaningful shift in the balance of risks to the inflation forecasts. Note, however, that the 2024 dots shifted higher; there is only one 2024 dot below the median, down from five in the December edition, while nine dots are at the median, up from six in December, and nine dots are at the median, up from eight in December. To that point, it would have taken only one member to shift their call from three cuts to two to drive the median 2024 dot higher. At the same time, the updated dot plot implies three twenty-five basis point cuts in the funds rate in 2025, down from the four cuts implied in the December edition. Ahead of the meeting, we noted our expectation that the median estimate of the longer-run, or, "neutral," funds rate would be revised higher, which proved to be the case. Kind of. At least if you consider an increase of six basis points as being meaningful. We'll just consider that to be the first, tiny, step on a long journey as, at 2.56 percent, we still consider the median estimate of neutral as being far too low.

In his post-meeting press conference, Chair Powell noted that, the hotter than expected January and February data notwithstanding, the inflation story hasn't changed – inflation is coming down gradually, but the road is "bumpy." Offering no specific timing, he again stressed that the start of rate cuts would depend on the incoming data. Chair Powell also noted that the pace of "quantitative tightening" would be scaled back fairly soon. We see after the May FOMC meeting as being the likely timing.





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