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Economics Group

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FOMC Signals It Is on Hold for Foreseeable Future

Most FOMC members expect that rates will be on hold through 2023. The Fed could eventually dial up the rate of its asset purchases if inflation does not soon show signs of moving up toward 2%.

No Major Policy Changes at This Meeting

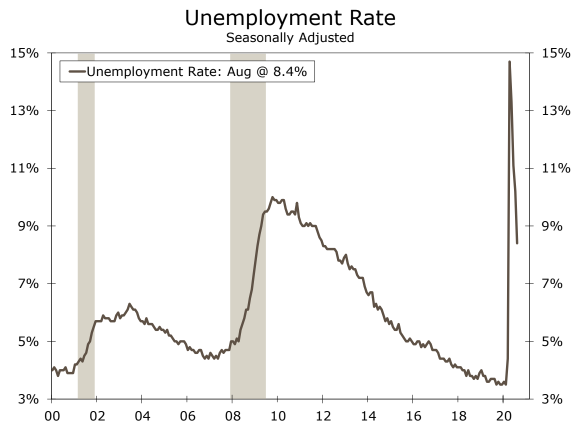
As widely expected, the Federal Open Market Committee (FOMC) made no substantive changes to its policy stance at today's meeting. Not only did the committee leave its target range for the fed funds rate unchanged between 0.00% and 0.25%, but it also maintained its monthly purchase rate for Treasury securities at $80 billion and $40 billion for mortgage-backed securities (MBS).

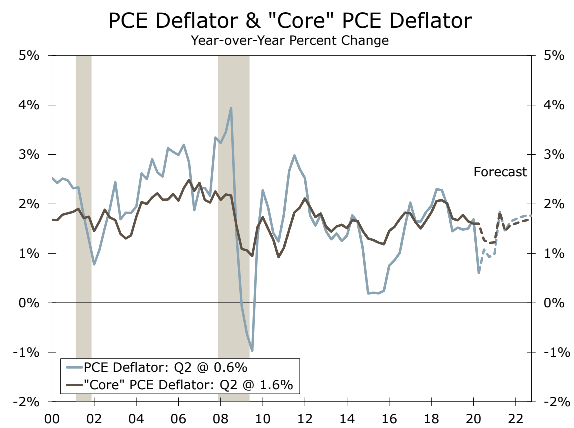
That said, the overall tone of the FOMC's statement was rather dovish, which was also widely expected. Although the committee acknowledged that "economic activity and employment have picked up in recent months," it also noted they "remain well below their levels at the beginning of the year." The FOMC also highlighted the risks to the outlook by stating that "the path of the economy will depend significantly on the course of the virus," which obviously is unknowable at this time.

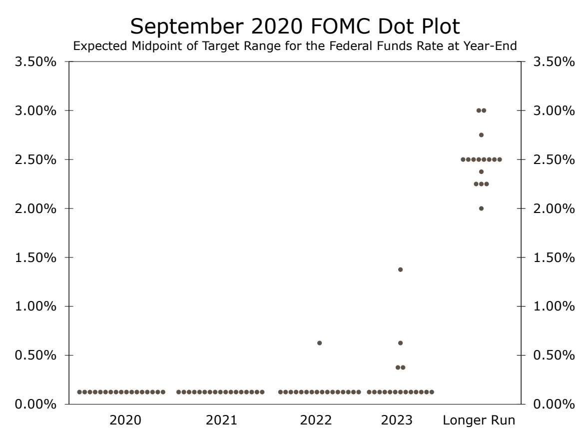
Furthermore, the committee indicated that it expects to remain in an accommodative policy stance for quite some time. Reflecting the new framework that Chair Powell outlined in his August 27 speech for the Jackson Hole Symposium, which we described in a previous report, the FOMC said that it expects to maintain the target range for the fed funds rate at its current level until employment reaches what the Fed deems to be its "maximum" level and "inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time." In our view, this explicit mention of inflation needing to reach 2% before the committee hikes rates constitutes a form of "forward guidance."

With the unemployment rate currently above 8% (top chart) and inflation well below 2% (middle chart), it appears that the FOMC will not be raising rates anytime soon. Specifically, the so-called "dot plot" was extended at this meeting to show 2023 for the first time. As shown in the bottom chart, only one of the 17 members expects that the committee will find it appropriate to raise rates in 2022, with 13 of the 17 members expecting that the committee will be on hold through 2023. In an environment of ultra-low short-term interest rates, long-term rates likely will remain at extraordinarily low levels for quite some time.

As described in our recent *Monthly Economic Outlook*, we look for rates of consumer price inflation to creep higher in coming quarters. That said, we generally expect that inflation will remain below 2%. In order to show that it is serious about reaching its inflation target, the FOMC may eventually feel compelled to provide more accommodation. We do not expect that the committee will take the target range for its policy rate into negative territory, as some other major central banks have done. But, the committee could eventually decide to dial up the rate of its asset purchases if inflation does not soon show signs of moving up toward 2%.







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

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