

Economics Group

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Fed Stays on the December Rate Hike Path

As expected, the FOMC remained on hold at its policy meeting today, though constructive language on the economy keeps expectations high for another rate hike in December.

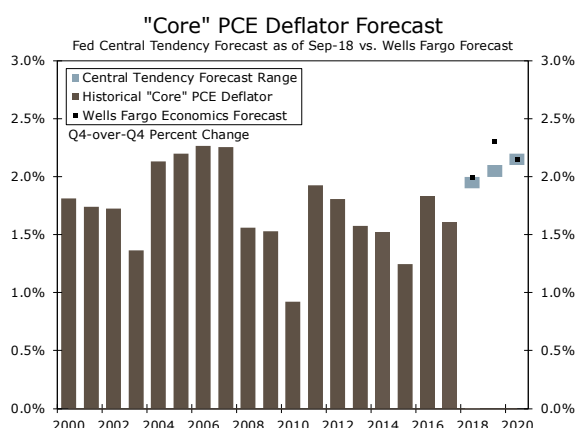
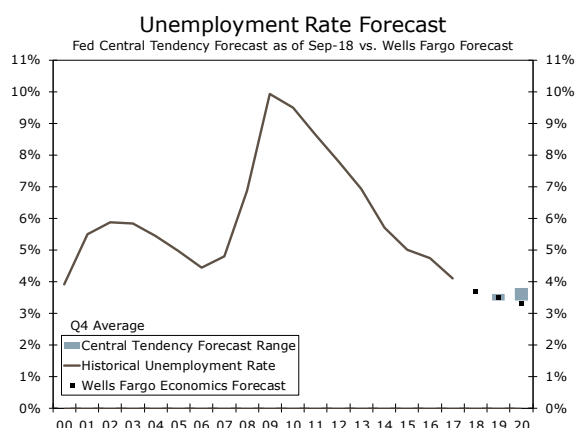
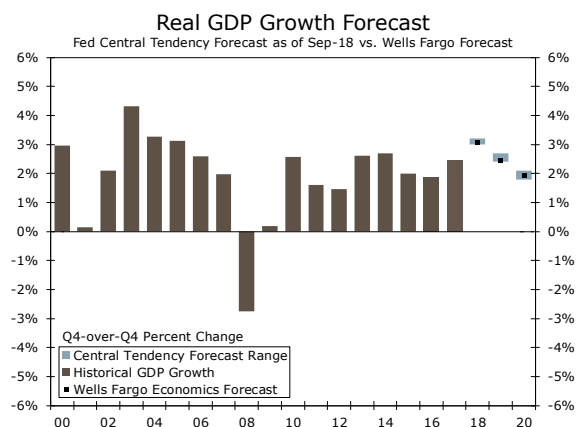
U.S. Economic Activity Remains “Strong”

As widely expected, the Federal Open Market Committee (FOMC) decided in a unanimous vote to leave its federal funds target rate range unchanged at 2.00%-2.25%. This was the last FOMC meeting without a press briefing. As such, the market's focus was entirely on the policy statement, with particular focus on the officials' updated assessment of the U.S. economy and whether any new signals were being sent as to a change in the Fed's projected pace of interest rate tightening—given the implicit acknowledgement last meeting that the funds rate may have entered neutral territory. With little change to the policy statement compared to September's meeting, today's statement maintains current policy expectations. The release of the meeting minutes on November 29 may provide policy watchers instructive updates to the discussions officials are engaging in over the future path for interest rates and the balance sheet, both hot topics within financial market circles.

Within the policy statement, the FOMC maintained its characterization of the current pace of U.S. economic activity as “strong,” unchanged from September and a sentiment with which we would agree. Officials' assessments of the labor market and household spending were also unchanged, with some form of a “strong” description. Indeed, nonfarm hiring has averaged an above-trend 218,000 monthly pace over the past three months, while the recently released third quarter GDP report showed real personal consumption expenditures rose at an annualized rate of 4.0%—marking a four-year high. The FOMC did, however, downgrade the assessment of business fixed investment following a decelerating pace of growth in the third quarter. As expected, there was no change in the statement's description of inflation or inflation expectations, with September core PCE inflation spot on the 2.0% target.

Fed Sticks With “Gradual” Tightening Plan

Collectively, there was little in today's statement that would suggest any change from the expectation for further gradual rate hikes. Forward guidance remained intact as the Fed sees the economy moving in the right direction against the pace of policy action taken so far. We look for GDP growth to continue to run above potential in the coming quarters, though it should generally decelerate as fiscal stimulus fades and monetary policy exerts greater headwinds on the economy. We expect the unemployment rate to steadily decline over the coming year as employers continue to add jobs to meet demand. Moreover, rising labor and material costs should continue to generate additional inflation pressures in 2019. As next year comes into view, we believe economic conditions will remain strong enough for the Fed to continue raising interest rates each quarter until Q3-2019, which if realized, pushes the federal funds target rate modestly into “restrictive” territory.



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