



# Economics Group

**Jay Bryson, Global Economist**  
[jay.bryson@wellsfargo.com](mailto:jay.bryson@wellsfargo.com) • (704) 410-3274  
**Sarah House, Senior Economist**  
[sarah.house@wellsfargo.com](mailto:sarah.house@wellsfargo.com) • (704) 410-3282

## FOMC Leaves Rates Unchanged and Nods to Softer Inflation

*The FOMC made no changes to the fed funds rate at today’s meeting. The Committee continued to pledge patience on future rate adjustments, as inflation continues to fall short of its 2% target.*

### “We don’t see a strong case for a rate move in either direction”

As expected, members of the Federal Open Market Committee (FOMC) unanimously voted to keep the target range of the fed funds rate unchanged at 2.25-2.50%. While today’s statement was not accompanied by an update to the Committee’s economic projections and expectations for the fed funds target range, there were a number of changes to the statement worth noting. For starters, the Committee appeared somewhat more constructive on recent growth. Economic activity expanded at a “solid” rate since March, although it did make note of the slowdown in household spending and business fixed investment during the first quarter.

We, as well as the FOMC, look for topline GDP growth to slow from the first quarter’s 3.2% rate, but for underlying domestic demand to bounce back. Overall growth for the year is still likely to come in around 2.5%—a slowdown from 2018, but still above the economy’s potential rate of growth, which FOMC members estimated to be a little under 2% as recently as March.

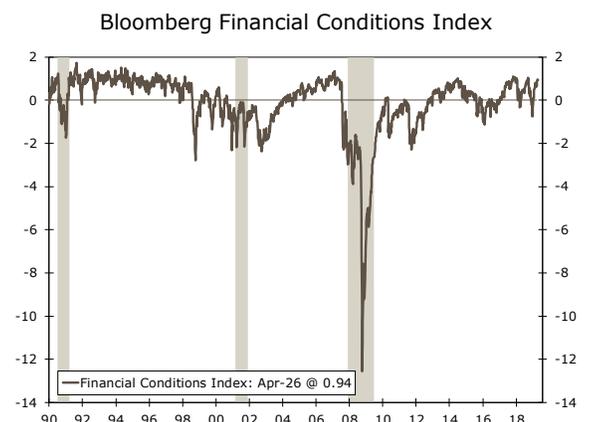
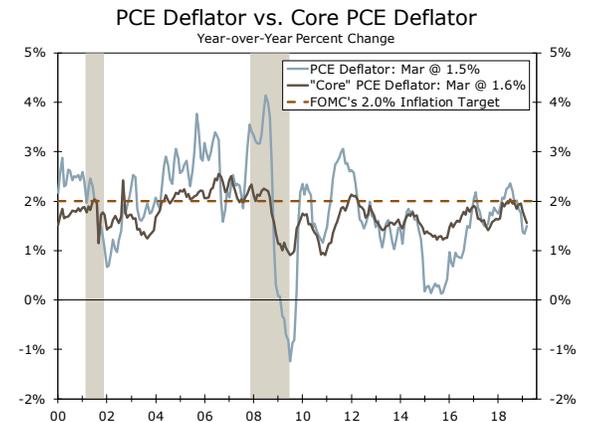
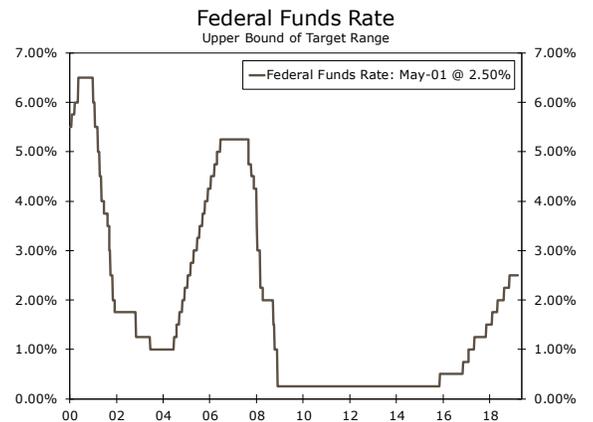
### Inflation Requiring the FOMC to Remain “Patient”

Although growth has picked up over the past month, inflation has not followed. The Committee downgraded its read on inflation, noting that it is running below its 2% target. The core PCE deflator stalled in March and slipped to a 15-month low of 1.6% on a year-ago basis.

Inflation expectations also remain low. The FOMC noted both market and survey-based measures of inflation expectations have been little changed, but the characterization is somewhat understated in our view, as both short- and long-term measures from the Consumer Sentiment survey have slipped back near the lows of the current cycle.

We expect core inflation to edge up over the course of the year as recent figures were held down by a few technical factors, but core inflation looks unlikely to re-visit 2.0% this year. The dogged shortfall of inflation from the FOMC’s target is a major reason the FOMC has maintained its “patient” stance on future policy adjustments.

The interest rate the Fed pays on excess reserves was reduced 5 bps, but that was only a technical adjustment to keep the effective funds rate within the targeted range. We do not view it as a signaling device for an upcoming change in the fed funds target. With U.S. growth already slowing back toward its potential trend and core inflation remaining stubbornly low, we do not expect the FOMC to tighten policy anytime soon. That said, policy easing also looks premature. While slowing, growth remains above potential. Financial conditions are more supportive of growth than at the start of the year, and the labor market remains tight. We maintain the view that the FOMC will likely be on hold through the remainder of this year, and possibly a good portion of 2020.



## Wells Fargo Securities Economics Group

Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Macro Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Erik Nelson	Macro Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	Macro Strategist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Matthew Honnold	Economic Analyst	(704) 410-3059	matthew.honnold@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2019 Wells Fargo Securities, LLC.

### Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE