TD Economics

March 15, 2017

Data Release: Federal Reserve raises its key lending rate and signals more hikes to come

- As expected, the Federal Open Market Committee (FOMC) announced an increase in the federal funds target rate of 0.25 percentage points to a range between 3/4 to 1 percent.

- The Committee's assessment of the economic outlook noted ongoing progress toward the Fed's dual mandate. The unemployment remained little changed and inflation moved "close to the Committee's 2 percent longer run objective." The statement did note that core inflation was little changed and remained below 2 percent.

- The summary of economic projections (SEP) released with the statement was largely unchanged. Expected economic growth edged up 0.1 percentage points to 2.1% for 2018, according to the median measure. The longer-run unemployment rate edged down 4.7% (from 4.8%). Inflation, as measured by the personal consumption expenditure (PCE) deflator, was unchanged, but core PCE inflation expectations edged up to 1.9% (from 1.8% previously) in 2017.

- The median "dot" projection of FOMC members remained unchanged for both 2017 and 2018, but edged up 12 basis points to 3.0% from their December expectations.

- There was one dissenter at the meeting, Neel Kashkari (President of the Minneapolis Federal Reserve Bank), "who preferred…to maintain the existing target range for the federal funds rate."

Key Implications

- The FOMC's decision to raise interest rates was telegraphed in advance and well-anticipated by financial markets. The FOMC dots – members' expectations for future policy rates – was the real focus of this announcement. The dots showed a coalescing in the opinion of Fed members around expectations for three hikes in 2017 and 2018, but no significant change in the median projection. So, the Fed is a bit more confident, but no more hawkish than it was in December.

- The Fed's statement seemed to say mission accomplished on inflation, taking out its expectation that inflation would "rise" to target, but rather "stabilize" around it. It also noted that it would monitor "inflation developments relative to its symmetric inflation goal."

- With continued progress toward the dual mandate, there is good reason to expect rates to continue to rise this year. However, flanking this view are considerable risks on both the upside and downside. On the upside, a more expansionary fiscal policy would likely cause the Fed to move faster than currently anticipated. On the downside, a bout of financial instability or heightened political uncertainty (either global or domestic) could stymie current economic progress and set the Fed back.

James Marple, Senior Economist
416-982-2557

@TD_Economics

DISCLAIMER
This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.