Data Release: Despite downbeat assessment, the door for rate hikes is open

- The Federal Open Market Committee reaffirmed that the current target range for the federal funds rate of 0 to \(\frac{1}{4}\) remains appropriate, eliminating from the statement the last obsolete vestige of forward guidance, namely that a rate hike "remains unlikely in the April FOMC meeting."
- The assessment of the economy was somewhat more downbeat. Growth was judged to have "slowed during winter months" albeit only partly reflecting "transitory factors."
- Labor market progress was also deemed to have stalled, with pace of job gains "moderating," the unemployment rate remaining "steady," and underutilization of labor resources "little changed."
- Business investment was seen as having "softened," housing remained "weak," and exports "declined" – all more downbeat than previously quoted.
- Inflation was viewed as running below the FOMC's longer-run objective, but the earlier declines in energy and decreasing prices of non-energy imports were only "partly" to blame.
- Perhaps the only upbeat parts were related to the rise in household incomes and consumer sentiment, in part due to lower energy costs.
- The Fed remained confident that despite output and employment slowing in the first-quarter, it will be able to achieve its dual mandate.
- The statement was once again adopted with unanimous support from the current voting members of the FOMC.

Key Implications

- The Fed statement did little to brighten the mood following this morning's disappointing GDP report from the Bureau of Economic Analysis, which reported that U.S. economic growth effectively stalled in the first quarter of 2015.
- While the FOMC viewed the slowdown in the first-quarter as somewhat transitory, temporary factors were viewed as only partly to blame. The other less-transitory factors that have led to the slowdown were presumably the dollar, which was front-and-center in this report, dragging down exports and inflation (through non-energy import prices), and the decline in oil prices, which caused business investment to decline for the first time since the recession on account of slower drilling activity.
- Despite the transitory element related to the first quarter slowdown, the FOMC largely left their forward looking projections unchanged, expecting a moderate pace of growth going forward. As such, a vote of confidence for a strong rebound over the remainder of the year was notably missing from the statement.
- While the Fed appears to be more downbeat than in March, we view the slowdown in the first quarter as largely temporary and expect growth to pick-up strongly in the remainder of the year. As long as this materializes, we expect the Fed will begin to raise rates in September.

Michael Dolega, Senior Economist
416-983-0500

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.