Data Release: Fed (largely) does away with forward guidance, but is unlikely to rush into rate hikes

- The Federal Open Market Committee reaffirmed that the current target range for the federal funds rate of 0 to ¼ remains appropriate, but eliminated from the statement the notion that it can be "patient in normalizing the stance of monetary policy."
- Instead, the remaining forward guidance suggests only that a hike "remains unlikely in the April FOMC meeting," adding that the change does not imply that the Committee has decided on the exact timing of the initial increase in rates.
- The assessment of economy was somewhat more downbeat. Growth was judged to have "moderated" from being qualified as "expanding at a solid pace" during the January meetings. At the same time, the Fed added an explicit reference to export growth having "weakened".
- Inflation is expected to remain "near its recent low level" by the Committee, but the FOMC expects it to rise gradually as transitory factors dissipate. Market-based measures of inflation expectations were quantified as remaining "low" after declining substantially in earlier months.
- Just as in January, the statement was adopted with unanimous support from the current voting members of the FOMC.
- The central tendency of the summary of economic projections (SEP) suggests:
  - A lower GDP growth trajectory than previously expected over the 2015-17 timeframe, with real GDP growth expected between 2.3% and 2.7% this year and next.
  - The jobless rate is expected to come in lower than previously thought. The FOMC also revised their view of the natural rate of unemployment lower by a quarter percentage point, with the current central projection range of 5.0% to 5.2%.
  - Inflation projections have been lowered, with a sharp downward revision to the headline number for 2015. Revisions to core PCE were less pronounced, but extended into next year.
  - A large majority (15 of 17) of FOMC members expect to begin raising rates in 2015. The share is unchanged from December's view, but the path of rate hikes now appears far more gradual, with the median projection for the federal funds target rate down by nearly 50 basis points across the forecast horizon. Median 'dots' now suggest the fed funds rate of 0.675% at the end of this year, rising to 1.875% at the end of 2016 and 3.125% as of December 2017.

Key Implications

- As expected, the Fed has dropped the "patient" qualifier from its statement, allowing itself increased flexibility in the future conduct of monetary policy. The added qualifier, that an April lift-off is unlikely, is of little consequence, given the previously telegraphed notion that after dropping "patient" the Fed will likely wait for at least two meetings before beginning to raise rates.
- As such, the Fed’s future decisions will be increasingly data-dependent. With that in mind, the downbeat assessment and more vocal concern related to external factors, which have increasingly hindered U.S. economic growth, suggest that the Fed will be in no rush to raise rates, especially given the lack of wage and inflationary pressures.
- The Fed's bias for patience was further telegraphed in the downward revision to the natural rate of unemployment, which should allow the Fed more time before that threshold is achieved, as well as the lower 'dots' projections from the FOMC members.
- In summary, while the Fed chose to explicitly drop the patient qualifier, the implicit patience remains intact. The Fed does not yet appear to be convinced that the economy can withstand higher interest rates at this point, especially in an environment of weak external demand and a surging dollar – which is
in and of itself a form of monetary tightening. As a result, while a June hike is not off the table, we expect that the Fed will wait until September to initiate a lift-off in rates.

Michael Dolega, Senior Economist
416-983-0500

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