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Economic Pulse

Federal Open Market Committee

National

The FOMC Holds Rates Steady Amid Slowing Labor Market

June 15, 2016

- The Federal Open Market Committee voted unanimously to hold the target range for the Federal Funds rate at 0.25% to 0.50%. In its press release, the FOMC referenced the less-than-stellar May payrolls figure, noting a slower pace of improvement in the labor market as well as "diminished" job gains even as growth in economic activity "picked up." While the drag from net exports appeared to "have lessened," the statement continued to highlight "soft" business fixed investment.
- The Committee also released its quarterly statement of economic projections (*Table 1*). As has been the case over the past several quarters, GDP forecasts were trimmed for both 2016 and 2017, leading the Fed again to cut its forecast for the pace of policy normalization. The Committee still sees a median Fed Funds rate target of 0.875% by year-end 2016—which implies two additional rate hikes in 2016. However, even by the end of 2018, FOMC participants see the Fed Funds rate as below that consistent with longer-run levels, suggesting that **full rate normalization is at least two years out.**
- During today's Q&A, Chairwoman Yellen was asked: "What does it take to see two rate increases in 2016?" Not surprisingly, the Chairwoman reiterated that decisions are undertaken on a meeting by meeting basis, but that the Committee wants to be assured that the "underlying momentum in the economy has not diminished," with an "adequate" pace of job creation going forward. She acknowledged that "international uncertainties loom large" and in response to a question on Brexit, noted that it was "one of the factors that" played a role in the Fed's decision today.
- US Treasury rates were largely unchanged following the statement—a reflection of the fact that today's policy decision was entirely expected by the market. **10-year rates dipped below 1.6%, however, for the first time since 2012. The bottom line? Rates (again) will be lower for (even) longer.**

Table 1. **Economic Projections of Federal Reserve Board Members and Presidents, June 2016**

Variable	2016	2017	2018	Longer Run
Change in real GDP	**1.9% to 2.0% ↓**	**1.9% to 2.2% ≈ ↓**	**1.8% to 2.1% ≈**	**1.8% to 2.0% ≈**
Mar 2016 projection	2.1% to 2.3%	2.0% to 2.3%	1.8%– 2.1%	1.8% – 2.1%
Unemployment rate	**4.6% to 4.8% ≈**	**4.5% to 4.7% ≈**	**4.4% to 4.8% ≈↓**	**4.7% to 5.0% ≈**
Mar 2016 projection	4.6% to 4.8%	4.5% to 4.7%	4.5% to 5.0%	4.7% to 5.2%
PCE inflation	**1.3% to 1.7% ↑**	**1.7% to 2.0% ≈**	**1.9% to 2.0% ≈**	**2.0 % ≈**
Mar 2016 projection	1.0% to 1.6%	1.7% to 2.0%	1.9% - 2.0%	2.0%
Core PCE inflation	**1.6% to 1.8% ≈ ↑**	**1.7% to 2.0% ≈**	**1.9% to 2.0% ≈**	**n/a**
Mar 2016 projection	1.4% to 1.7%	1.7% to 2.0%	1.9% to 2.0%	n/a
Fed Funds (average)	**0.83% ↓**	**1.63% ↓**	**2.46% ↓**	**3.14% ↓**
Mar 2016 projection	1.02%	2.04%	2.95%	3.31%
Fed Funds (median)	**0.875% ≈**	**1.625% ↓**	**2.375% ↓**	**3.00% ↓**
Mar 2016 projection	0.875%	1.875%	3.000%	3.25%

Source: Federal Reserve

Note: Excludes the three highest and three lowest projections for each variable in each year (except average and median Fed Funds rate figures, which include all participants.) **Bolded figures are June 2016 forecasts** (versus March 2016).
Arrows (↑,↓ and ≈) indicate direction of change in forecast from March 2016 to June 2016.
Real GDP and inflation projections are from Q4 of the previous year to Q4 of the year indicated. PCE inflation refers to the price index for personal consumption expenditures. Projections for the unemployment rate are for the average rate during Q4 of the year indicated.

RESEARCH CONTACT
Heidi Learner, Chief Economist
212-326-8648
hlearner@savills-studley.com