savills Studley

Economic Pulse

Federal Open Market Committee

National

The FOMC Holds Rates "For the Time Being"

September 21, 2016

	1:55 PM	2:30 PM
USD/JPY:	100.81	100.83
EUR/USD:	1.1161	1.1141
2Y UST:	0.807%	0.803%
10Y UST:	1.700%	1.691%
S&P 500:	2142	2150
Prob. of December Hike:	59%	59%

- The Federal Open Market Committee voted to hold the target range for the Federal Funds rate at 0.25% to 0.50%, although three dissenters voiced support for a rate hike today. In a dovish statement, while the Committee judged that "the case for an increase in the federal funds rates [had] strengthened" and that "near-term risks to the economic outlook appear roughly balanced," the Committee ultimately **"decided…to wait for the further evidence of continued progress toward its objectives."**
- **"So why didn't we raise the rate today?"** asked Chairwoman Yellen. In short: there appears to be little risk of falling "behind the curve," she responded. She noted that the today's "decision does not reflect a lack of confidence in the economy" so much as "labor market slack being taken up at a somewhat slower pace than in previous years" and "inflation continuing to run below [the] 2 percent target." In perhaps a token nod to the persistence of deflation in Japan, she added that "this cautious approach to paring back monetary policy support is all the more appropriate given that short-term interest rates are still near zero, which means that **we can more effectively respond to surprisingly strong inflation pressures in the future by raising rates, then to a weakening market rate and falling inflation by cutting rates."**
- Once again, the Committee scaled back expectations for a rate hike, trimming expectations by one full rate hike in 2016 and two rate hikes in 2017 and 2018 (*Table 1*). **Rates (again) will be lower for (even) longer.**

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

Variable	2016	2017	2018	2019	Longer Run
	≈ ↓ ↑				
Change in real GDP, %	**1.7 to 1.9 ↓**	**1.9 to 2.2 ≈**	**1.8 to 2.1 ≈**	**1.7 to 2.0**	**1.7 to 2.0 ↓≈**
Jun 2016 projection, %	1.9 to 2.0	1.9 to 2.2	1.8 to 2.1	n/a	1.8 to 2.0
Unemployment rate, %	**4.7 to 4.9 ↑**	**4.5 to 4.7 ≈**	**4.4 to 4.7↓≈**	**4.4 to 4.8**	**4.7 to 5.0 ≈**
Jun 2016 projection, %	4.6 to 4.8	4.5 to 4.7	4.4 to 4.8	n/a	4.7 to 5.0
PCE inflation, %	**1.2 to 1.4 ↓**	**1.7 to 1.9 ↓≈**	**1.8 to 2.0 ↓≈**	**1.9 to 2.0**	**2.0 ≈**
Jun 2016 projection, %	1.3 to 1.7	1.7 to 2.0	1.9 to 2.0	n/a	2.0
Core PCE inflation, %	**1.6 to 1.8 ≈**	**1.7 to 1.9 ↓≈**	**1.9 to 2.0 ≈**	**2.0**	**n/a**
Jun 2016 projection, %	1.6 to 1.8	1.7 to 2.0	1.9 to 2.0	n/a	n/a
Fed Funds (average)	**0.65% ↓**	**1.31% ↓**	**2.11% ↓**	**2.65%**	**2.91% ↓**
Jun 2016 projection	0.83%	1.63%	2.46%	n/a	3.14%
Fed Funds (median)	**0.625% ↓**	**1.125% ↓**	**1.875% ↓**	**2.625%**	**2.875% ↓**
Jun 2016 projection	0.875%	1.625%	2.375%	n/a	3.00%

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 September 2016 forecasts** (versus June 2016). Arrows (↑,↓ and ≈) indicate direction of change in forecast from June 2016 to September 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