

Economic Pulse

June 19, 2019

Patience: No Longer a Virtue

Today's FOMC statement all but guaranteed a rate cut will be forthcoming at its next meeting in July. Whereas the May statement from the Fed read: "In light of global economic and financial developments and muted inflation pressures, *the Committee will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate to support these outcomes,*" today's statement removed the reference to "patience" and similarly deleted the reference to global developments. Instead, "uncertainties" about the outlook for domestic economic activity, labor market conditions and inflation increased, with one member voting for a rate cut today.

What changed?

While the outlook for GDP growth and unemployment for the balance of the year was largely unchanged from March, there was a clear deterioration in inflation expectations. Even with the **two cuts that the Committee foresees this year**, core PCE inflation is unlikely to reach the Fed's symmetric two per cent objective by year end. However, with a return to target inflation and stable GDP growth in 2020 and 2021, **the average Fed Funds rate forecast shows a gradual increase in rates by next year**. It may not last, but for now, the market is interpreting this as dovish news.

Table 1: Central Tendency Projections of Federal Reserve Board Members and Presidents, June 2019 (in per cent)

| Variable | 2019 | 2020 | 2021 | Longer Run |
|------------------------------|----------------|----------------|----------------|----------------|
| Change in real GDP, % | 2.0 to 2.2 ≈ ↑ | 1.8 to 2.2 ≈ | 1.8 to 2.0 ≈ ↑ | 1.8 to 2.0 ≈ |
| March Projection | 1.9 to 2.2 | 1.8 to 2.0 | 1.7 to 2.0 | 1.8 to 2.0 |
| Unemployment rate, % | 3.6 to 3.7 ≈ ↓ | 3.5 to 3.9 ≈ ↓ | 3.6 to 4.0 ≈ ↓ | 4.0 to 4.4 ≈ ↓ |
| March Projection | 3.6 to 3.8 | 3.6 to 3.9 | 3.7 to 4.1 | 4.1 to 4.5 |
| PCE inflation, % | 1.5 to 1.6 ≈ ↓ | 1.9 to 2.0 ≈ ↓ | 2.0 to 2.1 ≈ | 2.0 |
| March Projection | 1.8 to 1.9 | 2.0 to 2.1 | 2.0 to 2.1 | 2.0 ≈ |
| Core PCE inflation, % | 1.7 to 1.8 ≈ ↓ | 1.9 to 2.0 ≈ ↓ | 2.0 to 2.1 ≈ | n/a |
| March Projection | 1.9 to 2.0 | 2.0 to 2.1 | 2.0 to 2.1 | n/a |
| Fed Funds (average) | 2.17% ↓ | 2.21% ↓ | 2.32% ↓ | 2.70% ↓ |
| March Projection | 2.49% | 2.67% | 2.74% | 2.80% |
| Fed Funds (median) | 2.38% ≈ | 2.13% ↓ | 2.38% ↓ | 2.50% ↓ |
| March Projection | 2.38% | 2.63% | 2.63% | 2.75% |

Source: Federal Reserve



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