New York • London • Boston • Chicago
DECISION ECONOMICS, INC.
Information for Decisions™
New York: 212 884 9440
London: 011 44 20 7814 6706
Boston: 617 994 0500
Email: decisioneconomics@pdeeco.com

Andrew Husby

April 25, 2012

FOMC (2) Low for slightly less long?

FOMC Projections: firmer growth now, weaker later; firmer inflation and lower unemployment

FOMC central tendency forecasts (omitting the three highest and three lowest projections) shifted in an expected configuration compared to the January figures - reflecting slightly firmer growth and lower unemployment rate.

* GDP - 2012 boosted by 0.2 percentage points to 2.4-2.9%, 2013 lowered by 0.1 percentage points, 2014 lowered from a 3.3-4.0% range, to 3.1-3.6%.

* Unemployment rate - 2012 lowered by 0.45 percentage points in 2012 to 7.8-8.0%, with modest pulling-down of the upper end of the 2013 and 2014 ranges, now 7.3-7.7% in 2013, 6.7-7.4% in 2014, respectively.

* PCE inflation - 2012 now seen at 1.9-2.0%, that range fully excluding the 1.4-1.8% range projected in January. Lower end of 2013 and 2014 ranges boosted slightly.

Fiscal cliff! At the press conference, Chairman Bernanke thought it plausible that participants' weaker growth projections in 2013 and 2014 were related to fiscal drag.

Slight hawkish turn in rate projections - Still "low for long," but not quite as long

In terms of FOMC participants views on the appropriate policy stance that would lead to the economic outcomes above, interest rate forecasts did tilt in a more-hawkish direction, and a bit more strongly that markets likely anticipated.

Timing of policy tightening:

* Three members still saw policy tightening starting in 2012, and three in 2013.

* 2014: now seven, previously five.

* 2015: now four.

* 2016: now zero, previously two.

Pace of policy tightening:

* Five FOMC participants now see the Fed Funds rate at or above 1% by the end of 2013, only three had previously.

* Ten participants see the target rate at or above 1% by the end of 2014, previously eight.

* Longer-term expectations continue to hover in the 4-4.5% range, but two members now see the appropriate longer term rate below 4%, previously one.

* Eleven participants remain anchored at 0-0.25% in 2013, but only four in 2014 (previously six).

Some might note that when looking at the 2014 inflation projection - specifically the full range that includes the outliers omitted in the central tendency calculation - at least one member sees 2.2% core and headline PCE inflation, which is above target. Projections are based on each member's assessment

© 2012 Decision Economics, Inc. All rights reserved. Reproduction in whole or in part without the written permission of the copyright owner is prohibited.

of appropriate monetary policy, implying some tolerance of higher inflation, presumably to help in meeting the employment half of the dual mandate.

That sort of shift would only become noteworthy if it showed up in the central tendency ranges, which is unlikely. At the press conference, Bernanke suggested that risking 30 years of credibility on the inflation front for uncertain employment gains could very well be unwise.

Little New Revealed at Presser

When asked whether maintaining forward guidance of exceptionally low rates through 2014 was inconsistent with the shift in individual members' assessments, he noted the FOMC as a whole is comfortable with the guidance, stressed that guidance is conditional on data, and that the Committee remains able and willing to take further action.

The Bottom Line

Overall, while the FOMC did on balance turn a bit more hawkish, nothing in the projection materials, or statement, signal the Committee consensus will be moving in a direction of removing policy stimulus in the near future.

The doves still rule the roost, concerned that employment gains from here on will remain unimpressive. Should conditions surprise to the upside, rates hikes by the end of 2013 will again appear more plausible - in line with DE's baseline expectation that the funds rate will be at 25 or 50 basis points at the end of next year.