First Trust
ECONOMIC RESEARCH REPORT
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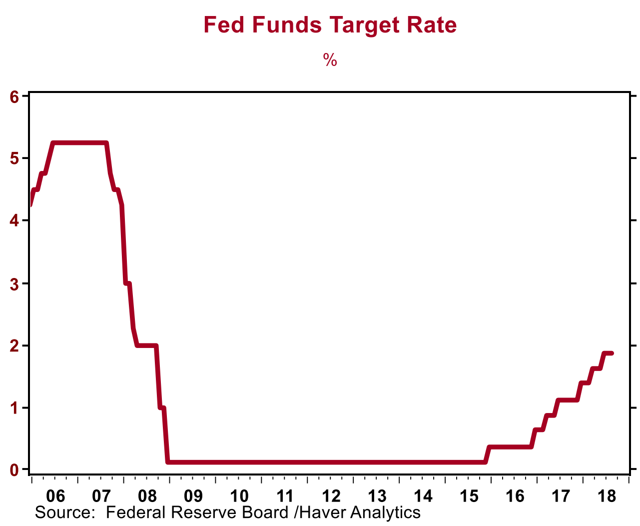
August 1, 2018 • 630.517.7756 • www.ftportfolios.com

Waiting for September

The Federal Reserve made no changes to monetary policy today and it barely changed the language of its statement. That makes sense to us because we haven't changed our outlook for monetary policy or the economy, either.

The investor consensus, the Fed, and our view are all agreed that the Fed will raise twice more this year, most likely in September and again in December, 25 basis points (bps) each time. However, there's a notable discrepancy about 2019.



The investor consensus, as represented by the futures market in federal funds, expects one or two rate hikes in 2019 (25 bps each). The Fed says three rate hikes is the most likely outcome. By contrast, we think real GDP growth and inflation will both exceed the Fed's expectations while unemployment falls below Fed projections. As a result, we think the Fed will raise rates four times next year, just like this year.

The most significant change in today's statement was that the Fed described recent economic activity as rising at a "strong" rate, rather than a "solid" rate, like it said in its statement back in June. That's consistent with the Fed gradually realizing the economy is better than it thinks and moving toward our view of more aggressive rate hikes. As this continues, look for long-term interest rates to keep moving up, as well.

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Text of the Federal Reserve's Statement:

Information received since the Federal Open Market Committee met in June indicates that the labor market has continued to strengthen and that economic activity has been rising at a strong rate. Job gains have been strong, on average, in recent months, and the unemployment rate has stayed low. Household spending and business fixed investment have grown strongly. On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2 percent. Indicators of longer-term inflation expectations are little changed, on balance.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective over the medium term. Risks to the economic outlook appear roughly balanced.

In view of realized and expected labor market conditions and inflation, the Committee decided to maintain the target range for the federal funds rate at 1-3/4 to 2 percent. The stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return to 2 percent inflation.

In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2 percent inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.

Voting for the FOMC monetary policy action were: Jerome H. Powell, Chairman; John C. Williams, Vice Chairman; Thomas I. Barkin; Raphael W. Bostic; Lael Brainard; Esther L. George; Loretta J. Mester; and Randal K. Quarles.