First Trust
ECONOMIC RESEARCH REPORT
Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – *Dep. Chief Economist*
Strider Elass – *Senior Economist*
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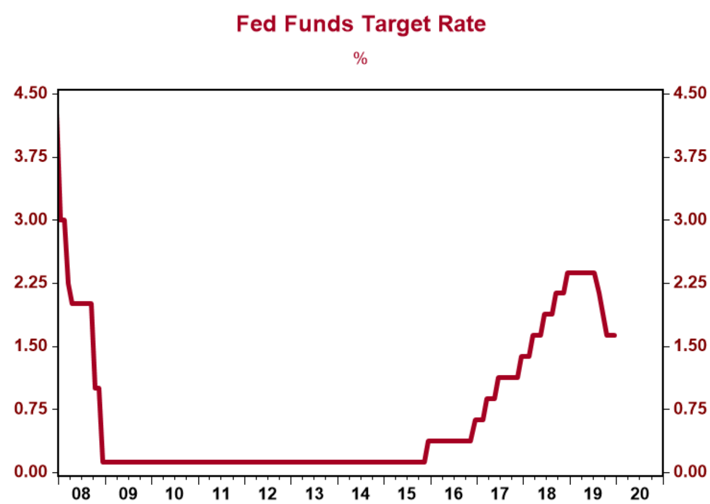
Fed on Hold

If today's Fed meeting didn't happen, it would not have been missed. No one expected the Federal Reserve to change short-term rates today and no change was made. Meanwhile, the Fed made no significant changes to its policy statement and the statement was unanimous.

In terms of the economic forecast, the Fed made almost no changes compared to September, with the same exact forecasts for both real GDP growth and overall PCE inflation in 2019, 2020, 2021, 2022, and the longer run. Both are expected to hover near 2.0% or slightly less. Unemployment is projected to be slightly lower than previously estimated, with a bottom of 3.5% in the fourth quarter of 2020.



Source: Federal Reserve Board/Haver Analytics

In terms of expectations for short-term rates, the vast majority of Fed policymakers think there will be no changes to rates in 2020. The median among policymakers projects one 25 basis point rate hike in 2021, another in 2022, and that the average federal funds rate in the longer run will be 2.5%. This path is similar to the one projected in September but starts at a lower base because of the rate cut on October 30.

Notably, a year ago, at the end of 2018, the Fed was projecting two rate **hikes** in 2019; instead we got three rate **cuts**. So you'd think, looking back, that we'd find a big gap between how the economy performed this year versus what was expected in late 2018. But we don't find that at all. Today's forecast for real GDP growth in 2019-2021 is almost exactly the same as it was a year ago. Ditto for unemployment, which, if anything, should average at lower levels during 2019-21 and beyond than the Fed thought a year ago.

The only notable change was the cutting of its PCE target to 1.5% from 1.9% in 2019. For 2020 and 2021 the Fed now expects inflation of 1.9% and 2.0%, respectively, versus 2.1% and 2.1%. These are not huge differences, though, and a "data dependent" Fed would not have reacted in 2019 as it did.

Looking forward, we think the Fed will stand pat for 2020, just like it says, which means monetary policy will not at all be an impediment to economic growth. The M2 measure of the money supply has accelerated sharply in the last year and we expect this to translate into faster inflation in the year ahead as well as faster growth in nominal GDP (real GDP growth plus inflation).

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Text of the Federal Reserve's Statement:

Information received since the Federal Open Market Committee met in October indicates that the labor market remains strong and that economic activity has been rising at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although household spending has been rising at a strong pace, business fixed investment and exports remain weak. On a 12-month basis, overall inflation and inflation for items other than food and energy are running below 2 percent. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee decided to maintain the target range for the federal funds rate at 1-1/2 to 1-3/4 percent. The Committee judges that the current stance of monetary policy is appropriate to support sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective. The Committee will continue to monitor the implications of incoming information for the economic outlook, including global developments and muted inflation pressures, as it assesses the appropriate path of the target range for the federal funds rate.

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 monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michelle W. Bowman; Lael Brainard; James Bullard; Richard H. Clarida; Charles L. Evans; Esther L. George; Randal K. Quarles; and Eric S. Rosengren