

FOMC Update

... as summarized by Smith Shellnut Wilson

Sept. 21, 2022



Federal Reserve officials raised interest rates by 75 basis points (2.25 – 2.50 to 3.00 – 3.25) for the third straight meeting. This is the highest the overnight rate has reached since 2008 and it marks the most aggressive tightening cycle (300 basis points this year) since the Fed began using the overnight rate as a primary monetary policy tool, in 1990. In a statement following the two-day meeting, Chair Jerome Powell repeated that they are “highly attentive to inflation risks.” The central bank also reiterated it “anticipates that ongoing increases in the target range will be appropriate,” and “is strongly committed to returning inflation to its 2% objective.” He said that the central bank’s tightening will bring labor market pain and that there will likely be a “sustained period of below-trend growth”.

The FOMC sharply increased the “dot plot” projection of individual members and added 2025 to the forecast. Prior to today the effective fed funds rate was projected to end 2022 at 3.4%, 2023 at 3.8% and 2024 at 3.4%. Following today’s announcement 2022 is projected to end at 4.4%, 2023 at 4.6%, 2024 at 3.9% and 2025 at 2.9%. Following the meeting the options market was pricing in a 74% chance that the overnight rate would increase by another 125 basis points by year end. The market is forecasting a 75-basis point hike in November and a 50-basis point hike in December.

From a macro view, this was a more hawkish forecast than was expected. The Fed front loaded more rate hikes, than expected, into the remainder of 2022 and forecasts no easing in 2023. They also lowered GDP forecasts and increased Core PCE inflation expectations.

Please click the link for a [side-by-side comparison](#) of the U.S. Federal Open Market Committee statements from September 21, 2022 and July 27, 2022.

September 21, 2022 SEP (Summary of Economic Projections)

Percent					
Variable	Median ¹				
	2022	2023	2024	2025	Longer run
Change in real GDP	0.2	1.2	1.7	1.8	1.8
June projection	1.7	1.7	1.9		1.8
Unemployment rate	3.8	4.4	4.4	4.3	4.0
June projection	3.7	3.9	4.1		4.0
PCE inflation	5.4	2.8	2.3	2.0	2.0
June projection	5.2	2.6	2.2		2.0
Core PCE inflation ⁴	4.5	3.1	2.3	2.1	
June projection	4.3	2.7	2.3		
Memo: Projected appropriate policy path					
Federal funds rate	4.4	4.6	3.9	2.9	2.5
June projection	3.4	3.8	3.4		2.5