FOMC Update

. . . as summarized by Smith Shellnut Wilson

June 14, 2023

SMITH SHELLNUT WILSON
AN AFFILIATE OF b1BANK

FOMC officials paused today, following 15 months of consecutive interest-rate hikes. They did signal that they would likely resume tightening to cool inflation, projecting more increases than the market was expecting. The FOMC stated that “Holding the target range steady at this meeting allows the committee to assess additional information and its implications”. This leaves the benchmark federal funds rate in a target range of 5.00% to 5.25%.

The surprising aspect of the decision came with the “dot plot” in which the individual members indicate their expectations for rates further out. The dots moved decidedly upward, pushing the median expectation to a funds rate of 5.6% by the end of 2023. Assuming the committee moves in quarter-point increments, that would imply two more hikes over the remaining four meetings this year. That compares with 5.1% in the previous update to the projections. The vote was unanimous. 12 of the 18 policymakers forecast rates at or above the median range of 5.5% to 5.75% by year end, showing that policymakers mostly agree that further tightening is needed to contain price pressures.

Members also moved up their forecasts for future years, now anticipating a fed funds rate of 4.6% in 2024 and 3.4% in 2025. That’s up from respective forecasts of 4.3% and 3.1% in March. Those increases most likely occurred due to an increase in economic growth expectations. Members now forecast a 1% gain in GDP by year end, compared to the 0.4% estimate in March. Officials also were more optimistic about unemployment, now seeing a 4.1% rate by year’s end compared to 4.5% in March.

Futures immediately jumped to between 5.30-5.40% by September and equity markets immediately feel following the update.

The next meeting will be in six weeks on July 25-26.

Please click the link for a side-by-side comparison of the U.S. Federal Open Market Committee statements from June 14, 2023 and May 3, 2023.

Smith Shellnut Wilson | Chad McKeithen
Office: (601) 605-1776 | Email: chad.mckeithen@ssw1776.com | Website: www.ssw1776.com