December 13, 2017, FOMC Press Release – Economic projections

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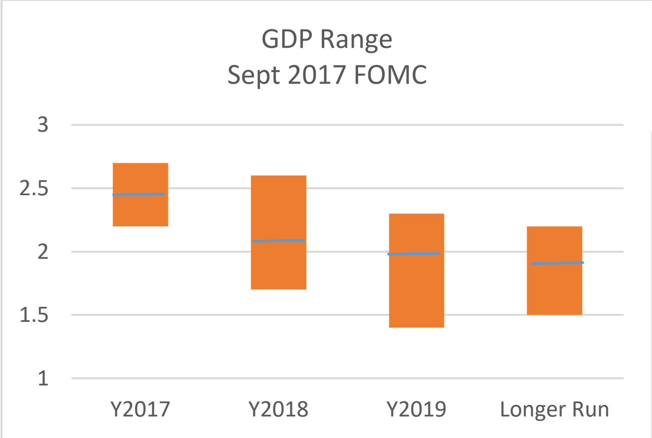
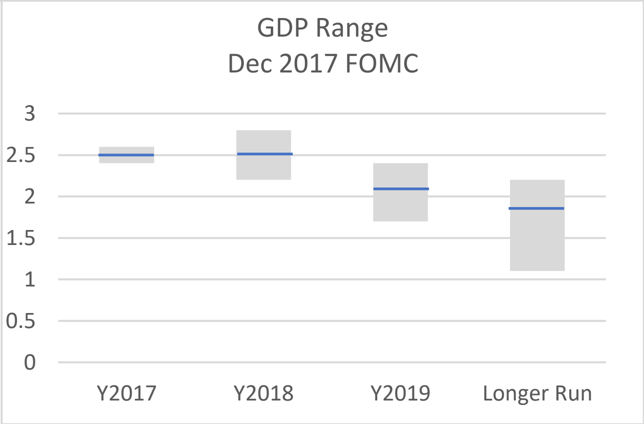
Philip Chao, December 13, 2017

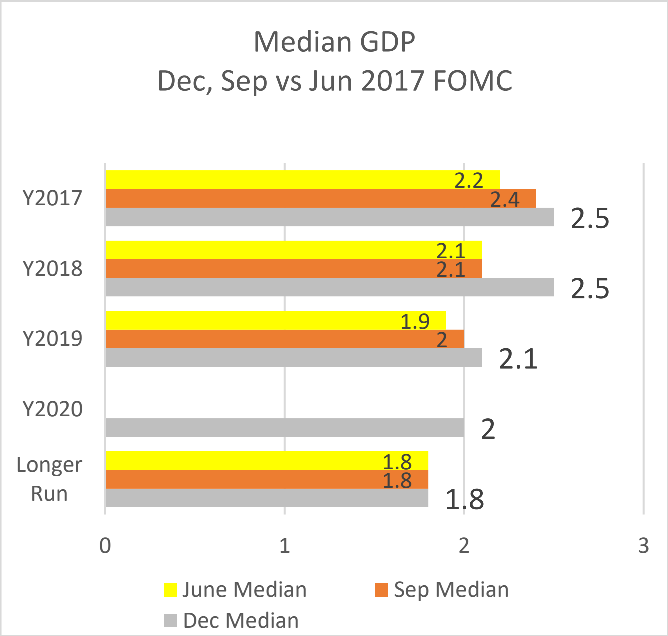
Four times per year, the FOMC releases its forward looking economic projections for the economy (GDP), labor (U3 unemployment), core inflation (PCE) and Fed Funds rate as a part of its meeting minutes. The economic projections offer the upper, lower and median values submitted by the members. Here we summarize the latest projections as compared to the previous projections to identify any changes in the FOMC's positions. The projections offer some understanding of FOMC members' prospective views to better inform us of the likely interest rate (R* neutral rate) path forward.

GDP

Economic activities have revised up significantly for 2018 and then falls. U.S. Remains in a sub 3% real GDP world

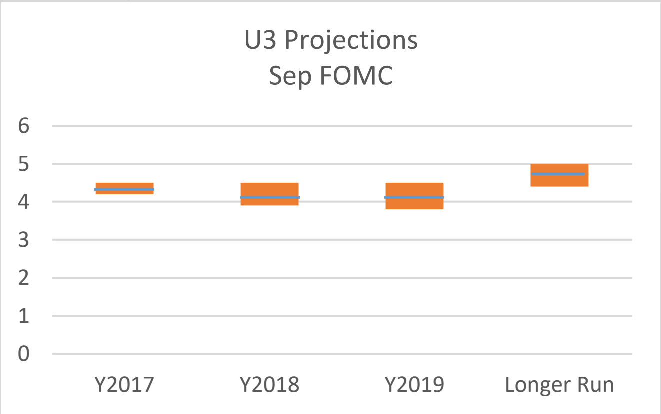


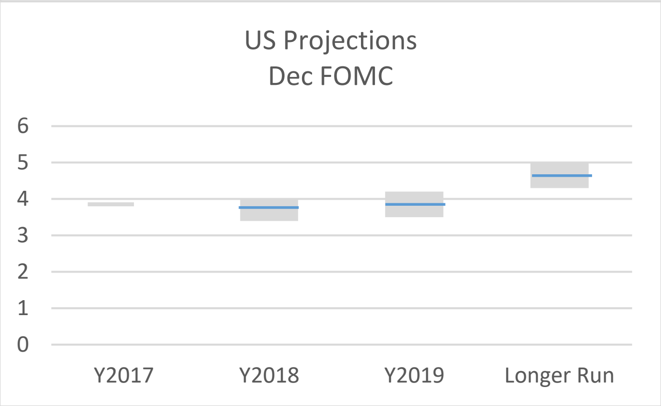


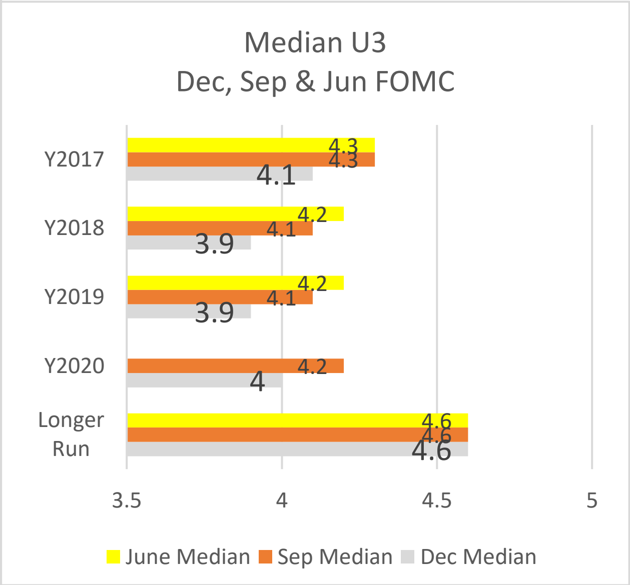


Unemployment

U3 is expected to trend down further before trending back up in the long run. This means there may still be some slack in the labor market.

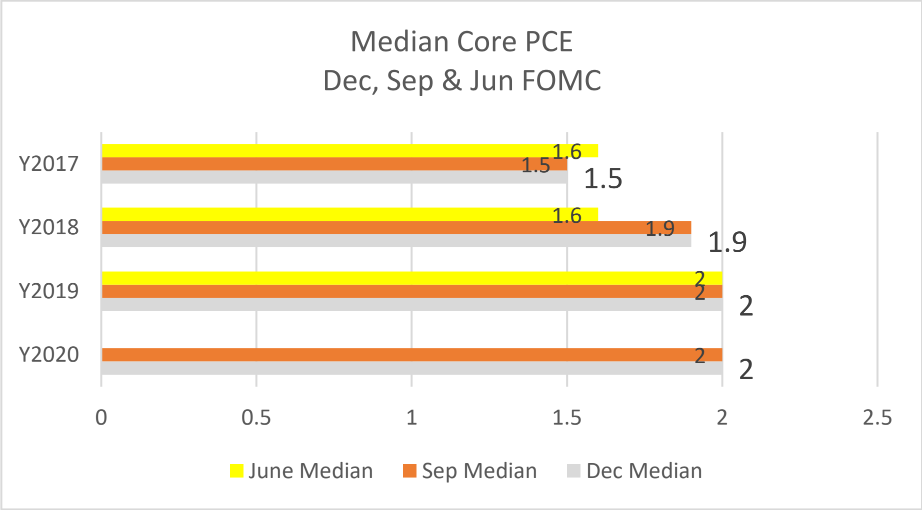






Inflation

Core PCE is expected to gradually (ever so slowly) reaching the 2% target.



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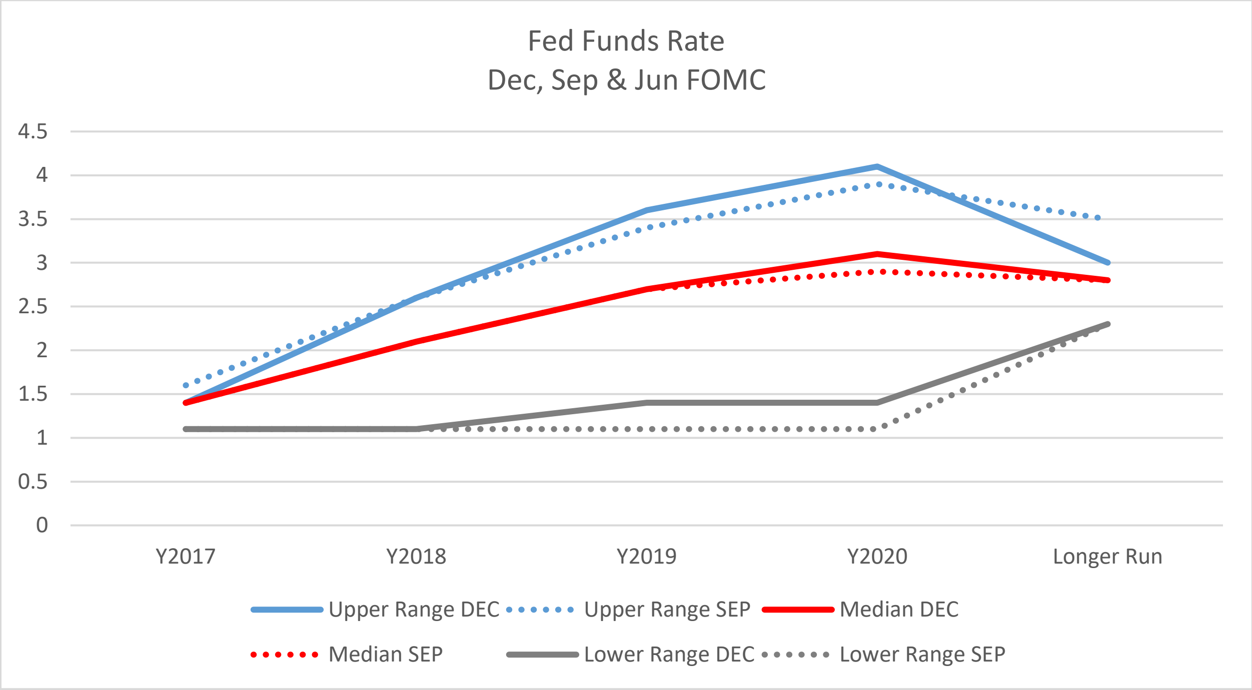
Federal Funds Rate
Although the neutral rate (R*) is not well quantified, the projections offer a peak at FOMC members' expectations in the medium term. The graph below shows the changes between September and December projections where the dotted lines are for September projections and solid lines represent December projections.



The December projections show a clear shift of both lower (higher) and upper (higher) bounds to higher rates from 2018 through 2020 and a narrowing consensus in the longer run. It is important to note that interest rate projections have consistently been revised downward over the past few years as the FOMC recognizes the "lower for longer" reality and this graph represents the current thinking of the members. It does nonetheless suggest that the FOMC is likely to hike rates in light of the significantly improved projections for GDP and unemployment in the near term. If there is an upside surprise to Core CPE, the FOMC is likely to be even more aggressive in its rate action. For now, the projection remains at four rate hikes (of 25bp each) in 2018.

Source: The Federal Reserve
https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20171213.pdf

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