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Chart 1

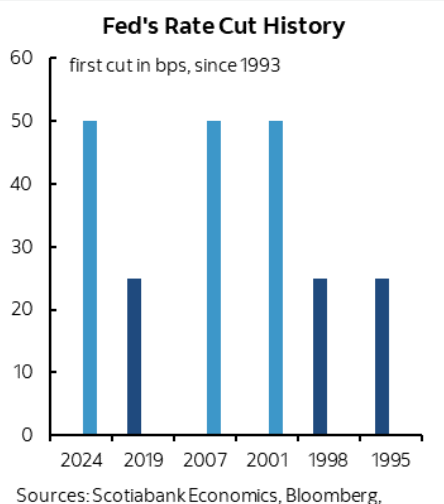
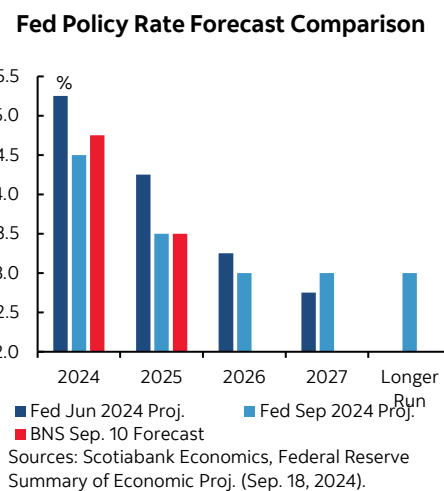


Chart 2



# The FOMC Is Signalling More Worry About the Outlook—And Didn't Say Why

- The FOMC cut 50bps, increased projected easing...
- ...yet left projected growth unchanged at a higher unemployment rate...
- ...that embeds more pessimism over future prospects absent increased easing
- This is a negative signalling effect from the Fed...
- ...that Chair Powell did not address and wasn't even asked about
- Could it be the election?

The Federal Reserve delivered an emergency rate cut of 50bps to a new upper limit of the fed funds target range of 5% in a non-emergency setting unlike the last two times they went big to start (chart 1). 2024 is now in the same company as the opening rate cuts in the dot-com and GFC eras. In so doing, they buried increased pessimism toward the outlook in the remainder of their projections and offered no explanation as to why.

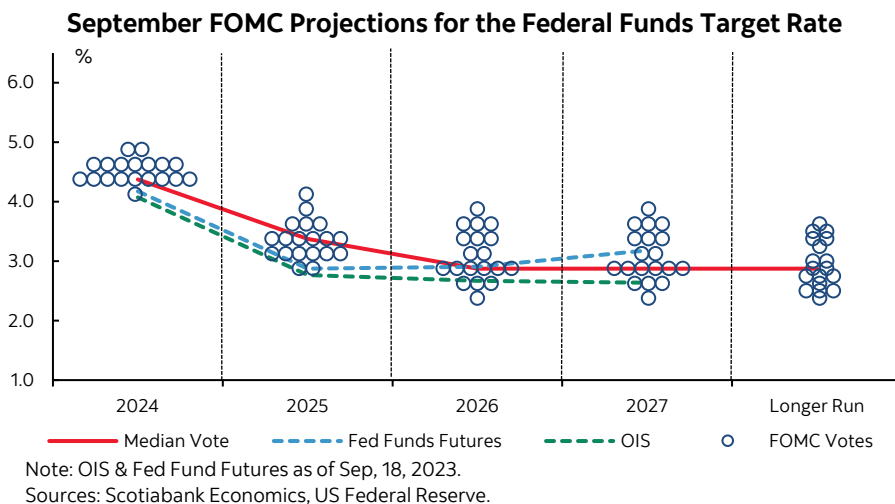
How else can you explain why the Committee upped the size of its first rate cut and significantly increased the amount of projected easing throughout 2025, and yet delivered the exact same GDP growth forecast throughout the entire projection period and at a higher unemployment rate than they previously predicted? In the textbooks that I studied long ago, if you ease more, you probably get more growth and lower unemployment—all else equal!

The strong signal from the Committee is probably that they are more concerned about the risks facing the outlook for the US economy and seeking to counter them with more easing. That to me is a negative signalling effect if ever I've seen one.

What was missing from the entire suite of communications including Chair Powell's press conference was why they are more concerned about the outlook. Sorry, but quoting statistics from the past handful of months and during their communications blackout doesn't cut it. That shouldn't be enough to sway the Committee toward more easing, and yet opting to signal faster easing should have been accompanied by upward revisions to projected growth and a downward revision to unemployment rates which did not happen.

Thus, the money question for the presser would have been "Chair Powell, why do you see the same economy at a higher unemployment rate despite the Committee's shift toward more easing than previously guided?" And no one asked. The crickets were deafening. I want a re-do on that presser as Chair Powell got away scot-free from having to explain

Chart 3



what they are seeing or fear about the outlook which would have helped markets have a better understanding of their thinking while formulating their own expectations. It's possible that the coming election and its aftermath is one thing, but he'd of course never admit to that.

This is one reason why the Fed gets an 'F' for communicating into this decision and while communicating it. Chair Powell shrugged his shoulders in the presser by intimating they couldn't offer better guidance on the size of the first cut in advance because they got data during their communications blackout. Not so fast, Chair Powell, you've used clandestine tactics to send messages to key media during blackouts in the past. Why not this time?

Clearly we've entered a new era in which Chair Powell has ended his approach of holding hands into perfectly set up meetings. As a result, this may drive heightened market volatility and even greater skepticism toward any forward guidance that is provided. The combination of poor communication and not being forthcoming on the fuller motivations behind the suite of forecasts will not help confidence.

**Forward Guidance**

Charts 2 and 3 show the Committee's refreshed expectations for the policy rate. The revised 'dot plot' shows another 50bps of cuts over the remaining two meetings this year but opinions vary. Two Committee participants see no more cuts this year, seven think there will be 25bps more, 9 expect 50bps of cuts and one expects 75bps of cuts which may imply one more 50bps cut this year in that person's opinion, The median estimate is probably a signal that this is a one-and-done 50bps cut unless they wish to front-load 100bps of easing and then skip which seems unlikely.

The FOMC also projects another 100bps of cuts next year and then another 50bps of cuts in 2026 at which point the Committee's median forecast indicates that rate cuts will end. The Committee's median estimate for the longer-run neutral rate was slightly raised to 2.9% from 2.8%.

**Forecasts**

Charts 4–7 show the Committee's updated forecasts and compares them to their June projections and our September forecasts. GDP was revised down a tick for this year to 2% and left unchanged at 2.0% throughout 2025–26 with 2% freshly inserted for 2027 and an unchanged long-run potential growth rate of 1.8%.

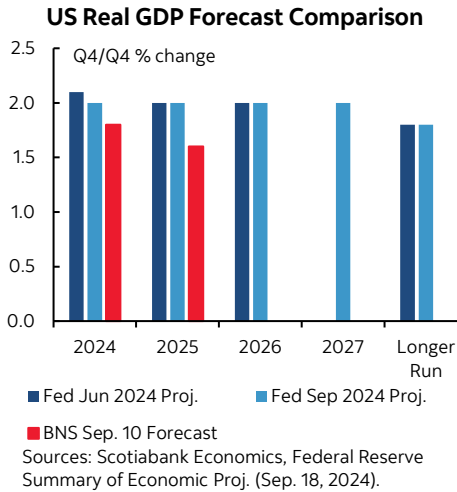
The unemployment rate was revised up to 4.4% from 4% for this year, and by two-tenths in each of 2025 (4.4%) and 2026 (4.3%) before a freshly forecast 4.2% rate in 2027 and an unchanged 4.2% long-run natural rate.

PCE inflation was revised down three-tenths to 2.3% this year, down two-tenths to 2.1% next year, and then left at 2% in 2026 and with 2% added for 2027 with an unchanged 2.0% long-run estimate. Core PCE inflation was revised down two-tenths this year to 2.6%, down a tick to 2.2% next year, and left at 2% in 2026 with 2027 freshly forecast at 2% and no longer-run forecast as usual.

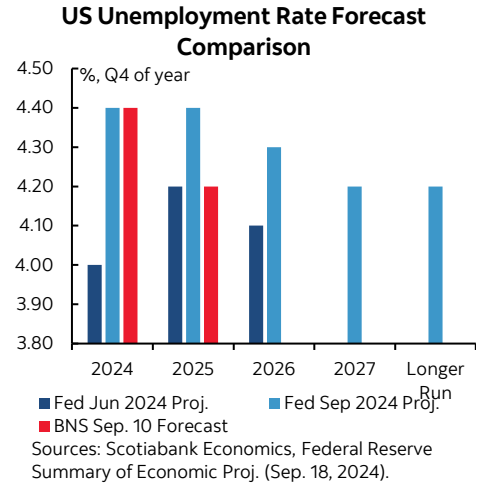
Stocks ended the day slightly weaker. The US Treasury curve ended steeper through higher longer-dated yields. The dollar appreciated.

Please see the accompanying statement comparison. The original statement is [here](#) and the SEP can be found [here](#).

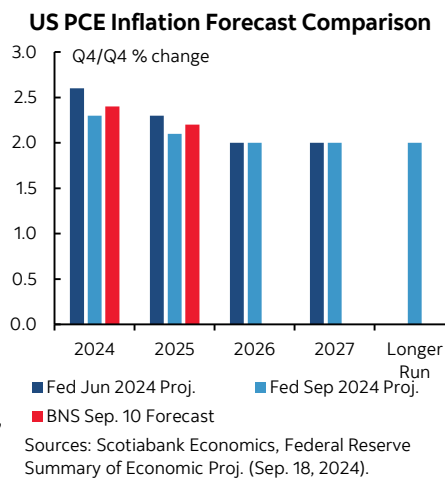
**Chart 4**



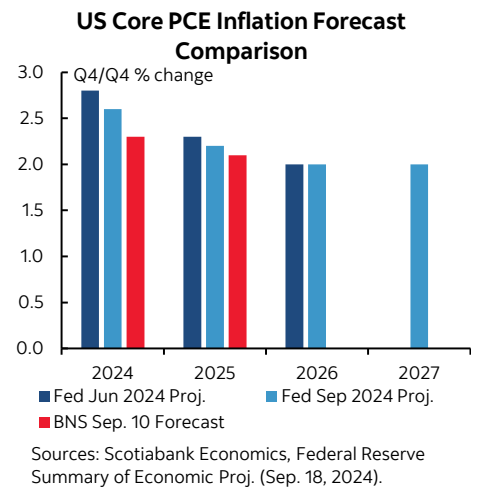
**Chart 5**



**Chart 6**



**Chart 7**



September 18, 2024

**RELEASE DATE: September 18, 2024**

Recent indicators suggest that economic activity has continued to expand at a solid pace. **Job gains have slowed**, and the unemployment rate has moved up but remains low. **Inflation has made further progress toward the Committee's 2 percent objective but remains somewhat elevated.** The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run.

**The Committee has gained greater confidence** that inflation is moving sustainably toward 2 percent, **and judges that the risks to achieving its employment and inflation goals are roughly in balance.** The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate.

**In light of the progress on inflation and the balance of risks, the Committee decided to lower the target range for the federal funds rate by 1/2 percentage point to 4-3/4 to 5 percent.** In considering **additional** adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Thomas I. Barkin; Michael S. Barr; Raphael W. Bostic; Lisa D. Cook; Mary C. Daly; Beth M. Hammack; Philip N. Jefferson; Adriana D. Kugler; and Christopher J. Waller. **Voting against this action was Michelle W. Bowman, who preferred to lower the target range for the federal funds rate by 1/4 percentage point at this meeting.**

**RELEASE DATE: July 31, 2024**

Recent indicators suggest that economic activity has continued to expand at a solid pace. **Job gains have moderated, and the unemployment rate has moved up but remains low.** Inflation has eased over the past year but remains **somewhat** elevated. In recent months, there has been **some** further progress toward the Committee's 2 percent inflation objective.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee judges that **the risks to achieving its employment and inflation goals continue to move into better balance.** The economic outlook is uncertain, and the Committee **is attentive to the risks to both sides of its dual mandate.**

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 5-1/4 to 5-1/2 percent. In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Thomas I. Barkin; Michael S. Barr; Raphael W. Bostic; Michelle W. Bowman; Lisa D. Cook; Mary C. Daly; Austan D. Goolsbee; Philip N. Jefferson; Adriana D. Kugler; and Christopher J. Waller. Austan D. Goolsbee voted as an alternate member at this meeting.

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