What the FOMC Said

Following the FOMC’s announcement of its third consecutive rate cut after its meeting this week, speculation immediately broke out among market participants about whether additional cuts or even rate increases might be on the horizon going into 2020. However, such speculation is probably more noise than substance at this point, since the Committee’s statement was fairly clear and became even more so during Chairman Powell’s press conference. Most commentators noted the change in language from the previous statement to the current one:

“September: As the Committee contemplates the future path of the target range for the federal funds rate, it will continue to monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2 percent objective.”

“October: The Committee will continue to monitor the implications of incoming information for the economic outlook as it assesses the appropriate path of the target range for the federal funds rate.”

But more important than the differences in the wording of the statements were several things that Chairman Powell made clear during his press conference. Specifically, he stated that, “We see the current stance of monetary policy as likely to remain appropriate as long as incoming information about the economy remains broadly consistent with our outlook of moderate economic growth, a strong labor market, and inflation near our symmetric 2 percent objective. We believe monetary policy is in a good place to achieve these outcomes.”

This assessment was made against a backdrop of an economy growing at a moderate rate, which was seen by the Committee as being about at trend, and a policy that Powell viewed as accommodative, with a slightly negative real rate. Consumer spending is supportive, as evidenced by Q3 GDP; and the job market is strong, unemployment is as low as it has been over the past 50 years, and wages are increasing. To be sure investment, exports, and manufacturing output are weak and/or declining, and inflation is running below target. The principal risks Powell noted were in trade and slow global growth, but trade concerns have moderated recently.

When pressed about what could induce the Fed to adjust its policy stance either by cutting rates further or raising them, Powell indicated that an increase in rates would be driven by an increase in inflation, which he didn’t expect to see in the near term. A further cut in rates would be determined by the flow of data that caused the Committee to revise their outlook. Given that both investment and exports are already weak, it is hard to see that a further declines in those sectors would be such a trigger. However, given that growth is currently being sustained mainly by consumer spending, it seems evident that deterioration in that sector, along with a falloff in the labor market, would be the most likely factors that would cause a reassessment and possible further rate cuts. At this time, however, there are no signs that meet those criteria.

So this leaves us with a pause in any further policy moves and the likelihood of continued moderate growth, with policy accommodative and room to tolerate somewhat higher growth and an even tighter labor market, since inflation is below target.

Finally, it is important to note that there were only two dissents from the policy move this time, by Presidents George and Rosengren, both of whom would have preferred no change. President Bullard had dissented in the decisions in June and September because he wanted a larger policy response. That he did not dissent this time suggests that he, too, may now be satisfied that policy is in the right place, and his shift clearly removes a least one member as an advocate for even greater policy accommodation and thus reduces the likelihood of further near-term rate cuts.

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