



# Phillip Macro

## 5 Key Points from September FOMC Meeting

17 September 2020

MACRO | U.S. | MONETARY POLICIES

### Background

The September FOMC meeting marks the first policy meeting since Fed Chair Jerome Powell announced a more accommodative stance on inflation and put new emphasis on the labour market.

There may also be higher expectations from the Fed, considering that fiscal relief talks are still in a stalemate. The importance of more fiscal stimulus to support the economic recovery is essential as the economy is losing some economic momentum as recently reflected in the slower U.S retail spending in August.

### Five Key Points to note

**1. Dot plot shows interest rates to stay near zero until at least 2023:** In line with the Fed's 'lower for longer' stance, the dot plot released showed that interest rates are expected to remain low at 0 – 0.25% until at least 2023 (Figure 1). Low interest rates may have already been widely expected by the markets, but the extension of this timeline may further reassure markets of Fed's dovish stance.

**2. Economic growth projection revised upwards:** Real GDP growth is projected to be between -5.5% to 1.0% in 2020. This is an upward revision from June's projection where real GDP growth is projected to be between -10.0% to -4.2%. Although Powell acknowledged that the recovery has progressed faster than expected, he indicated that the "path ahead remains highly uncertain". The comment seems to question the fact whether the strong pace of economic recovery can be sustained moving forward.

**3. Unemployment projection revised downwards:** The Fed projects unemployment to average around 7.0% to 8% for Q4 2020. This is a downward revision from June's projection of around 9% to 10%, which indicates that the economic recovery may progress faster than expected. The strong recovery in the labour market could have been expected, considering that we have seen a better-than-expected fall in unemployment figure in August. However, despite the recovery, we note that the current 8.4% unemployment is still way higher than pre-COVID level of 3.5% and that recovery may drag through 2021.

**4. Inflation will be tolerated:** The Fed reiterated a willingness to tolerate periods of higher inflation in favour of recovery in the labour market. With the more accommodative stance on inflation, the core PCE inflation is projected to be between 1.2% to 1.6%, an upward revision from June's projection of between 0.7% to 1.3%.

There is no specific period given in terms of how long inflation remain above 2% before any rate increase will be considered. However, looking at the projections, it will be at the end of 2023 where we will see the unemployment rate reaching pre-COVID level of 3.5% and inflation picking up towards 2%. This further confirms that rates will remain low until 2023 but may start to pick up in 2024 if the projections hold true.

### 5. Press Conference:

Powell reiterated that the Fed is "certainly not out of ammo" and that they have plenty of tools to support the economy. He indicates that purchases of Treasury and mortgage-backed securities are being maintained now to also support a faster economic recovery.

However, Powell signalled that more fiscal support is likely to be needed and is "essential in the good progress we see now". The term 'essential' highlights the utmost importance of the impending relief stimulus which have been put on a stalemate and remain a key risk to the economic recovery process.

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Figure 1: Dot Plot (6 June 2020 vs 17 September 2020)

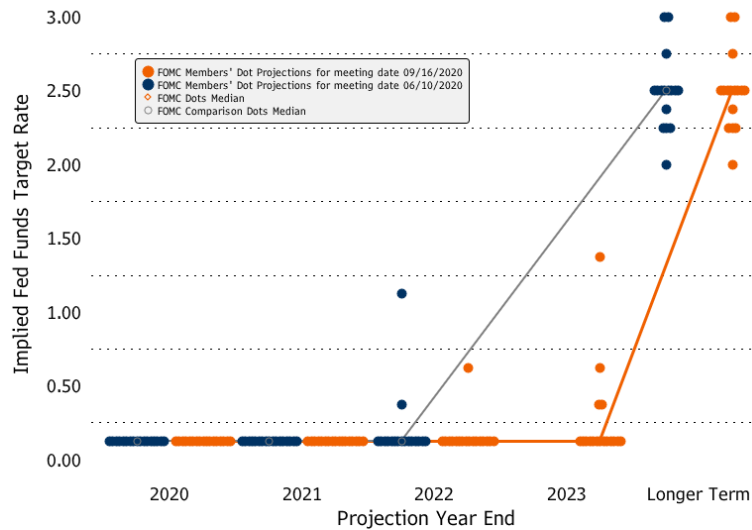


Figure 2: US Real and Nominal GDP Growth

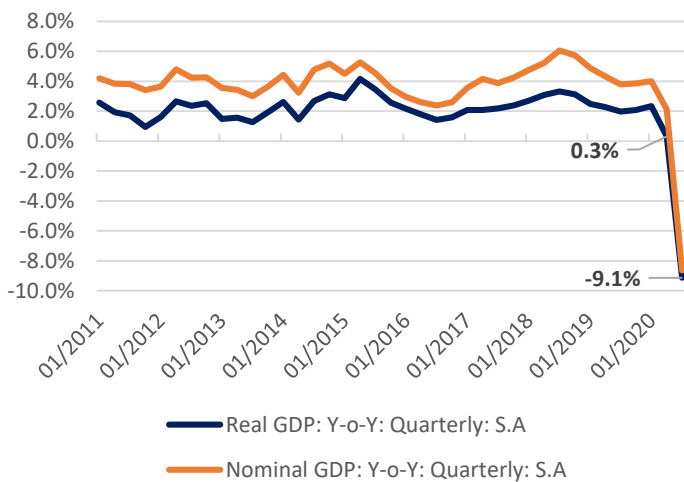


Figure 3: US Unemployment Rate

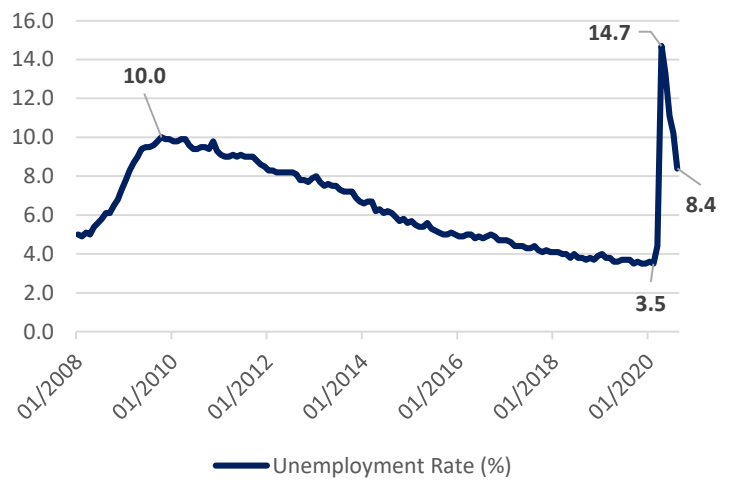


Figure 4: PCE Headline and Core Inflation

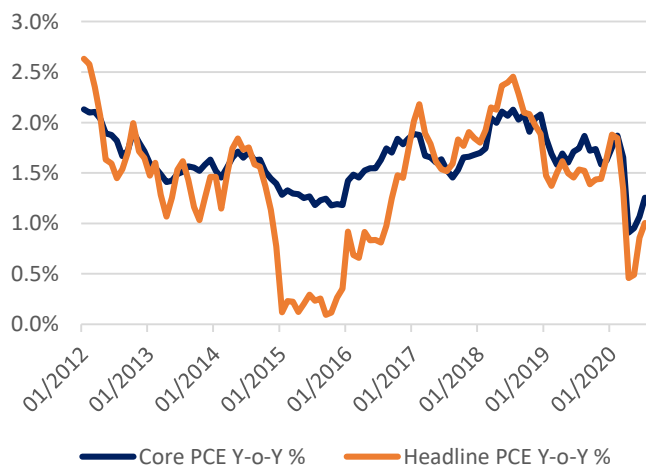
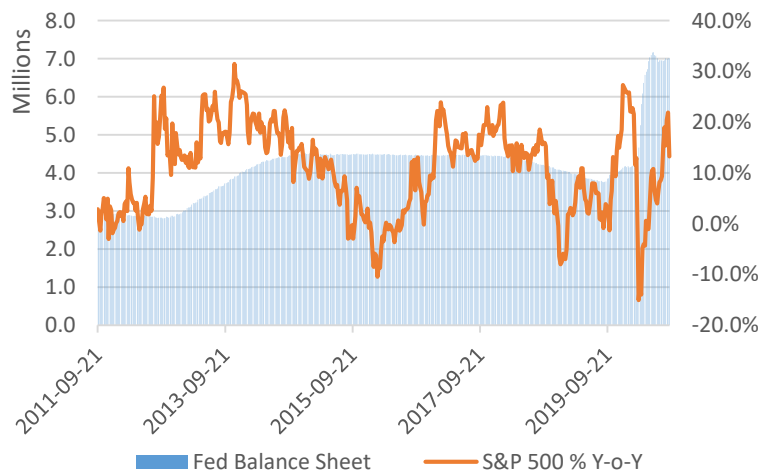


Figure 5: Fed Balance Sheet vs S&P 500 weekly change



Source: Bloomberg, CEIC, PSR

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