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Economies and Markets.
FOMC POLICY DECISION AND STATEMENT.

EXECUTIVE SUMMARY

The policymaking Federal Open Market Committee (FOMC) held policy rates steady at this week's meeting and also repeated the criteria for taking the first step toward policy normalization: "[T]he Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen some further improvement in the labor market and is reasonably confident that inflation will move back to its 2% objective over the medium term." Today's statement implicitly acknowledged "some further improvement in the labor market," including "solid job gains and declining unemployment," which tend to bolster confidence in the medium-term inflation outlook. At the same time, confidence that inflation will move back toward 2% over the medium term is undermined by adverse global economic and financial developments.

The policymaking Federal Open Market Committee (FOMC) held policy rates steady at this week's meeting and also repeated the criteria (from the July 29 policy statement) for taking the first step toward policy normalization: "[T]he Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen some further improvement in the labor market and is reasonably confident that inflation will move back to its 2% objective over the medium term."

HIGHLIGHTING ADVERSE INTERNATIONAL DEVELOPMENTS.

Relative to these criteria, today's statement implicitly acknowledged "some further improvement in the labor market" since the July FOMC meeting, including "solid job gains and declining unemployment," which tend to bolster confidence in the medium-term inflation outlook. At the same time, confidence that inflation will move back toward 2% over the medium term is undermined by adverse global economic and financial developments, which "may restrain economic activity somewhat [weakening the growth-employment-inflation nexus] and are likely to put further downward pressure on inflation in the near term."

Changes to the Summary of Economic Projections were relatively minor (table below) in light of these expressions of concern; near-term confidence in the forecasts may be lower.

FOMC Summary of Economic Projections – September 17, 2015

(The "central tendency" range of 17 individual forecasts: excludes the three highest and three lowest projections for each variable in each year.)

Percent	2015	2016	2017	2018	Longer Run
Real GDP	2.0 to 2.3	2.2 to 2.6	2.0 to 2.4	1.8 to 2.2	1.8 to 2.2
June Projection	1.8 to 2.0	2.4 to 2.7	2.1 to 2.5	--	2.0 to 2.3
Unemployment Rate	5.0 to 5.1	4.7 to 4.9	4.7 to 4.9	4.7 to 5.0	4.9 to 5.2
June Projection	5.2 to 5.3	4.9 to 5.1	4.9 to 5.1	--	5.0 to 5.2
PCE Inflation	0.3 to 0.5	1.5 to 1.8	1.8 to 2.0	2.0	--
June Projection	0.6 to 0.8	1.6 to 1.9	1.9 to 2.0	--	2.0
Core PCE Inflation	1.3 to 1.4	1.5 to 1.8	1.8 to 2.0	1.9 to 2.0	--
June Projection	1.3 to 1.4	1.6 to 1.9	1.9 to 2.0	--	--
Fed Funds Rate (median)	0.375	1.375	2.625	3.375	3.50
June Projection	0.625	1.625	2.875	--	3.75

Note: Real GDP and PCE price indexes are projections for both measures of inflation are from the fourth quarter of the previous year to the fourth quarter of the year indicated. Unemployment rate projections are for the fourth quarter average of the year indicated. Fed funds rate projections are for year-end. Each participant's projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy.

Source: Federal Reserve.

- **Real GDP growth.** The median 2015 forecast rose by 20 basis points (bp), incorporating stronger growth in the first half of the year than was apparent at the time of the June FOMC meeting, but implying just 2.0% growth in the second half of the year. Growth forecasts for 2016-17 were revised slightly lower, perhaps reflecting both the restraint from developments abroad and slightly lower estimates of longer-run ("potential") growth.
- **Unemployment.** The forecasts for the Q4 average unemployment rates were cut by 20-30 bp in 2015-17. The 2015 revision largely reflects a re-leveling to account for August's surprising 20 bp decline to 5.1%. Farther out in the forecast horizon, a slightly lower collective view of the longer-run ("natural") unemployment rate may also have played a role.
- **Inflation.** Forecasts of 2015 headline PCE inflation were reduced by 30 bp, largely reflecting lower energy commodity prices; the central tendency of 2015 core PCE inflation forecasts was unchanged despite the dollar's summer appreciation. Inflation forecasts for 2016-17 were little changed, suggesting that policymakers expect the stronger dollar's pass-through to PCE inflation to run its course this year.

Fed funds rate forecasts shifted lower, with the median year-end forecast -25 bp in 2015-17 and in the longer run. Eleven of 17 participants came into this week's meeting forecasting no more than one hike this year. I was in that camp, thinking it would come today. I still expect lift-off in 2015, and I view December 16 as being far more likely than October 28. If the Committee is concerned about the impact of international developments in general and of the July-August tightening of financial conditions in particular, September data probably will not be sufficient to sound the all-clear.

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The views contained herein are as of September 2015 and may have changed since that time. Unless indicated otherwise the source of all market data is June 2015.

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