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GLOBAL ECONOMIC & MARKET OUTLOOK

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FOCUS NOTES

March FOMC meeting: Dovish dots amid downside risks to the outlook

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- As widely expected, the Federal Reserve kept the target range for the fed funds rate unchanged at 25-50bp at its 15-16 March meeting. The Committee upgraded its assessment of economic activity in the post-meeting statement, stating that -despite soft business fixed investment and net exports- activity has been expanding at a moderate pace, supported by moderate household spending, an improved housing market and additional strength in labor market conditions. Although the recent readings in core CPI and core PCE inflation have surpassed market expectations, the committee acknowledged that inflation continued to run below the Committee's 2% longer-run objective, with market-based measures of inflation compensation remaining low and survey-based measures of longer-term inflation expectations little changed in recent months. Removing the text about the balance of risks, the Fed highlighted the risks from global economic and financial developments.

- The FOMC published its updated Summary of Economic Projections. The "dots", which indicate the Committee's assessment on appropriate monetary policy, took a dovish shift with the FOMC's median for end-2016 implying two rate hikes, down from four as of December 2015, i.e. a 50bp cut (nine FOMC members). As a result, the median dot by year-end 2016 currently stands at 0.9%, from 1.4% in December. The said dots revision narrowed the gap between the Fed's and markets expectations, which has been a major source of market uncertainty during 2015 that led to increased market volatility. Looking ahead, the median dot by year-end 2017 was lowered by 50bp as well to 1.9%, while the 2018 and long run dots declined by 25bp to 3.0% and 3.3%, respectively.

- As far as the US economic outlook is concerned, the Fed's estimate for 2016 and 2017 growth rate was lowered slightly by 0.2pp and 0.1pp to 2.2% and 2.1%, respectively, while the 2018 and longer-run forecast was left unchanged at 2.0%. Regarding the US unemployment rate, the 2016 forecast was left unchanged at 4.7%, while there was a small downward revision for 2017 and 2018 by 0.1pp and 0.2pp to 4.6% and 4.5%. Elsewhere, core PCE inflation is expected to average 1.6% (unchanged compared to December) in 2016, 1.8% in 2017 (down from 1.9% previously) and 2.0% (unchanged compared to December) in 2018.

- Following the FOMC policy announcement, the US dollar weakened against its major currency peers, with the DXY index recording a multi-month low of 94.681 points earlier today (Thursday, March 17th), after hitting levels slightly above 97.000 points in the prior session ahead of the release of the FOMC statement, on the view that the Fed will not rush to push interest rates higher any time soon. Elsewhere, US Treasuries firmed with short-dated notes outperforming. The 2-yr yield dropped to a $2^{1/2}$ week low of 0.82%, having retreated from a 2-month high of 0.99% hit early on Wednesday. Looking ahead, we expect up to two interest rate hikes in 2016, starting in June at the earliest, provided that inflation is trending higher, accompanied by faster wage growth and higher inflation expectations.

Table 1
Economic Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents, March 2016

	Median* (percent)			
USA	**2016**	**2017**	**2018**	**Longer run**
Change in real GDP	**2.2**	**2.1**	**2.0**	**2.0**
December projection	2.4	2.2	2.0	2.0
Unemployment rate	**4.7**	**4.6**	**4.5**	**4.8**
December projection	4.7	4.7	4.7	4.9
PCE inflation	**1.2**	**1.9**	**2.0**	**2.0**
December projection	1.6	1.9	2.0	2.0
Core PCE inflation	**1.6**	**1.8**	**2.0**	
December projection	1.6	1.9	2.0	
Fed Funds Rate	**0.9**	**1.9**	**3.0**	**3.3**
December projection	1.4	2.4	3.3	3.5

* For each period, the median is the middle projection when the projections are arranged from lowest to highest. When the number of projections is even, the median is the average of the two middle projections

Source: Federal Reserve, Eurobank Research

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