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FOMC Policy Announcement and Supporting Materials

Fed Raises Fed Funds Rate as Expected

- The FOMC voted today to increase the fed funds rate range to 2.25-2.50 percent.
- The new Dot Plot for 2019 is consistent with two 25 basis point rate hikes for the year.

The Federal Open Market Committee voted today to increase the fed funds rate range to 2.25-2.50 percent. The vote was unanimous. The assessment of economic conditions in today's policy announcement was nearly identical to the November 8 announcement, highlighting strong labor market conditions, good household spending and moderating business investment. Inflation has been well behaved. The Committee judges that some further gradual increases in the fed funds rate will be necessary. Their new dot plot, which shows individual members' expectations for future interest rates, has shifted down in 2019 compared with the previous dot plot from September. The December dot plot is consistent with two 25 basis point rate hikes in 2019. It does not indicate the timing of those hikes within the year. The new dot plot for 2020 is consistent with one 25 basis point rate hike for that year. This suggests that collectively, the Fed now thinks that it is close to the neutral fed funds rate for this cycle and that it anticipates a maximum fed funds rate of about 3.15 percent for this cycle. The Federal Reserve also released a new set of economic projections which show the median forecasts for GDP, the unemployment rate, PCE price inflation and core PCE price inflation. The median forecast for real GDP growth over 2018Q4-2019Q4 was revised down from 2.5 percent in September, to now 2.3 percent. The unemployment rate forecast for 2019Q4 was unchanged at 3.5 percent. Inflation forecasts were revised down slightly, still near 2 percent. The stock market reacted negatively to the Fed's policy announcement. Financial news commentary suggests that financial markets were expecting the Fed to be more dovish about future rate hikes.

In his post-meeting press conference FOMC Chair Jay Powell was positive in his assessment of current economic conditions, but more cautious about future economic risk factors. Powell acknowledge the lower expected path of the fed funds rate as shown by the new dot plot. He explicitly discussed the possibility of two 25 basis point rate hikes in 2019. Powell stressed that monetary policy will be shaped by the condition of the economy and is not on a pre-set course.

Today's set of information from the Federal Reserve marks a new phase of Fed policy. Fed policy in 2019 will be marked by fewer rate changes. The changes will remain small, but the timing of the rate changes will be more difficult to predict. Beginning in January, Powell will host a press conference after all eight FOMC meeting of the year, so every meeting will be a "live" meeting.

Market Reaction: U.S. equity prices fell with the release of the Fed policy announcement. The 10-year Treasury yield showed some volatility around the release of the policy announcement, and then dropped to 2.75 percent by about 3:00 pm eastern time. NYMEX crude oil increased to $47.96 per barrel. Natural gas futures are down to $3.48/mmbtu.