Comerica Economic Alert

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FOMC Policy Announcement and Supporting Materials

Fed Leaves Fed Funds Rate Unchanged as Expected

- The FOMC voted today to keep the fed funds rate range at 2.25-2.50 percent.
- The new Dot Plot for 2019 is consistent with zero rate hikes for the year.

As widely expected, the Federal Reserve left the fed funds rate range unchanged at 2.25-2.50 percent today at the conclusion of the Federal Open Market Committee meeting. The policy announcement contains the now familiar "patient" language that the Fed first rolled out in December. The economic commentary in the policy announcement was slightly downgraded from the policy announcement of January 30. According to the Fed, "…growth of economic activity has ***slowed*** from its solid rate in the fourth quarter." And further, "…indicators point to ***slower*** growth of household spending and business fixed investment in the first quarter" (emphasis, ours). That view is consistent with the new set of economic projections issued by the Fed. The median projection of real GDP growth for 2019 was downgraded from 2.3 percent from last December, to 2.1 percent. This is the Fed's second consecutive downgrade of expected GDP growth for 2019. The new dot plot is consistent with zero rate hikes in 2019 and just one more rate hike over 2020 and 2021. The vote on today's policy decision was unanimous.

Also, the Fed released more details on balance sheet normalization. The Fed now plans to begin reducing the pace of balance sheet reduction this May and conclude the reduction Treasury bonds on its balance sheet at the end of September 2019. Reduction of agency debt and MBS will continue past September. As roll-off of maturing assets tapers down, the Fed will invest maturing principal across a range of Treasury bond maturities consistent with the composition of maturing Treasury bonds outstanding. This means that the Fed will not try to bend the yield curve as part of this normalization process, and they will not use normalization to materially change the average duration of their assets. The Fed explicitly stated that limited sales of agency MBS might be warranted after September in order to reduce or eliminate residual holdings, meaning that they do not want to hold MBS over the long term.

In his post-announcement press conference, Fed Chairman Jay Powell stated that Brexit and trade tensions remain downside risks to the U.S. economy. Powell also said that a flat or inverted yield curve does not alarm him at this time.

The next FOMC meeting will be held over April 30/May 1.

Market Reaction: U.S. equity prices dropped through the morning. But stocks rebounded after the Fed policy announcement was released at 1pm central time as investors learned that the Fed will likely keep the fed funds rate unchanged for the duration of 2019. The 10-year Treasury yield dropped to 2.54 percent after the release of the policy announcement. NYMEX crude oil is up to $60.12 per barrel. Natural gas futures are down to $2.83/mmbtu.