MNI Fed Review: June 2021

MNI View: Dots Throw Doubt On Reaction Function

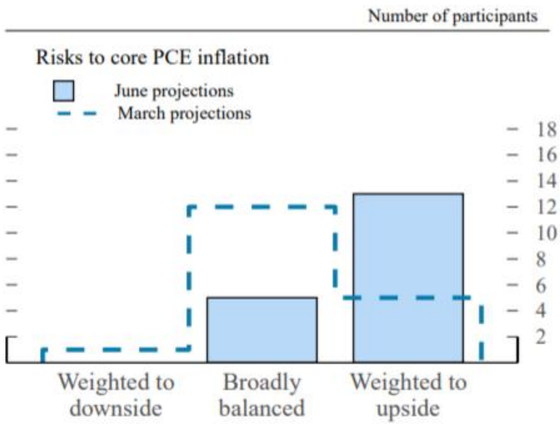
By Tim Cooper

- The combination of greater FOMC confidence in the economic outlook and increasing concern about upside inflation risks led to a more-hawkish-than-expected June meeting outcome.
- Many analysts questioned if the new tightening outlook meant that FOMC's reaction function had changed.
- Markets priced in earlier Fed liftoff, with real rates higher and breakeven inflation lower. Several sell-side analysts pulled forward their expectations for tapering and/or rate hikes.

The June FOMC meeting showed that Fed officials are increasingly confident in the US economic outlook while also increasingly concerned about inflation pressures. The combination of these shifts resulted in a more hawkish outcome than the market had expected from this meeting. As expected, the FOMC revealed it had started "talking about talking" about tapering asset purchases, but the major surprise was the dot plot's 50bps funds rate hike median in 2023 (which was the base case of only one sell-side analyst we read, Credit Suisse; and above MNI's 1 hike expectation / BBG consensus of between 0 and 0.5 hikes).

While the Dot Plot is often overblown as a means of gauging FOMC opinion (and Chair Powell attempted as usual to downplay them in the press conference), in June's case the dots were telling. Apart from the two hikes now expected by end-2023 by the median dot, it's notable that only 5 on the 18-member FOMC saw rates on hold through 2023 (vs 11 in previous dot plot), while 8 saw more than 2 hikes by end-2023. Seven of those eight are presumably the ones who see a hike by end-2022 (was 4 in the previous dot plot).

The question is, why this shift vs March's projections? The main reason is rising confidence among FOMC members that the downside economic from the risks of the pandemic are abating. The statement dropped language referring to the pandemic's impact on the economy, and Powell noted that "many participants are more comfortable that the economic conditions in the committee's forward guidance will be met sooner than previously anticipated". So even with 2022-23 growth/inflation/unemp forecasts little changed from March, the hiking path became more hawkish.



A second but arguably more concerning reason is the FOMC's newfound worries about upside inflation risks. Not only did Powell mention multiple times that the Fed might be wrong about how quickly "transitory" inflation readings might fade, we note that in the 'balance of risks' to inflation portion of the SEP release, there was a major shift for core PCE inflation forecasts toward "weighted to upside" selected by 13 of 18 members vs just 5 in March (**see chart**). This was broadly seen in the 28 sell-side notes we read as suggesting that many on the FOMC are concerned that the strong April/May inflation prints may prove to be signals of more than just "transitory" price pressures. Powell also noted upside risks.

Some analysts expressed concern that this calls not just the Fed's outlook on transitory inflation into question, but also the Fed's willingness to adhere to its new framework (including flexible average inflation targeting with overshoots) as it weighs the uncertainty of rising inflation and the risk of falling behind the curve. Several queried whether the Fed's reaction function had changed, and/or whether FOMC participants are less

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concerned about structural disinflation than they were when the framework was devised. One, Goldman Sachs, wondered given recent strong inflation readings whether the FOMC had a "more firmly backward-looking interpretation of average inflation targeting than we had assumed". We may get a better sense in the coming weeks (and in the meeting minutes out July 7) whether these observations are on the right track, or whether the FOMC didn't intend to send such a hawkish message.

At the end of the day though the current situation is that 7 of 18 members see 2022 hikes based on the current forecasts, and strong data in the summer could well be enough to tip at least 2 into the hiking camp for a 2022 liftoff to appear in the SEP. Tapering will be well underway and probably over by the time the FOMC lifts off on rate hikes, so it stands to reason that a taper timeline is set to be roughly in line with pre-June FOMC expectations (late-2021 announcement for late 2021/early 2022 start) barring downside surprises in the data.

Market reaction: The belly of the curve saw the brunt of the sell-off (5Y +12bp), while money markets fully pricing in a rate hike by end-2022 and an additional ¾ of a 25bp rate hike for end-2023. Real yields rose sharply (10Y +15bp), with implied breakeven inflation falling 5-10bp over the curve – a sign that the market is looking for tighter policy earlier, but also that the FOMC may prove more hawkish on inflation than some had previously believed. The dollar strengthened while equities weakened.

Analyst reaction: While most sell-side analysts' outlooks on Fed policy were unchanged following the meeting, several pulled forward their expectations for tapering and in some cases rate hikes. These include Barclays, Danske, Goldman Sachs, Nomura, and TD.

FOMC Links:

Statement: https://www.federalreserve.gov/newsevents/pressreleases/monetary20210616a.htm

SEP/Dot Plot: https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20210616.htm

Implementation note: https://www.federalreserve.gov/newsevents/pressreleases/monetary20210616a1.htm

MNI Instant Answers (released 1400ET):

- Changes to Fed Funds / Interest Rate Paid on Excess Reserves (IOER) / ON RRP? **YES, 5bp hike to both. IOER at 0.15%, ON RRP at 0.05%**
- Does the Fed announce changes to asset purchases with regard to size, duration, and/or Tsy vs MBS? **NO**
- How many 'dots' imply higher rates by end-2022? End-2023? **7 dots favor higher rates by end-2022 (vs 4 in March); 13 dots favor higher rates by end-2023, taking the median to 0.6% or two hikes by end-2023**
- 2021, 2022 and 2023 core PCE inflation medians? **3.0% in 2021, 2.1% in 2022, 2.1% in 2023**
- Does the Fed announce the creation of a standing repo facility? **NO**
- Any dissents to the decision? **NO**

MNI POLICY TEAM STATE OF PLAY

Fed Tapering Talk Begins; 2023 Hikes Eyed

By Jean Yung

WASHINGTON (MNI) - Federal Reserve Chair Jay Powell on Wednesday kicked off discussions that will lead to a winding down of the central bank's USD120 billion a month in asset purchases as officials advanced their timeline for a first interest-rate increase following the pandemic, noting conditions in the FOMC's forward guidance may be met sooner than previously anticipated.

The central bank kept benchmark interest rates just above zero but a majority of officials now see at least one interest-rate increase by the end of 2023, sooner than in March, and the risk that core inflation will be higher than forecast.

"Think of this meeting as the 'talking about talking about' meeting," Powell told reporters after a two-day FOMC gathering. "The economy has clearly made progress, although we are still a ways from our goal of 'substantial further progress'" toward full employment and 2% inflation, policymakers' bar for reducing QE.

"At coming meetings, the committee will continue to assess the economy's progress toward our goals and will give advance notice before announcing any decision" on tapering, Powell said. "The timing of course, a lot will depend on the pace of that progress, and not on any calendar."

--INFLATION RISKS TILTED UP

Three more policymakers now support a rate hike next year, adding to the four who forecast doing so in March. Thirteen out of 18 officials see higher rates by the end of 2023, with a median forecast showing a 50 bp rate increase. Markets still expect a first quarter-point rate hike by the end of 2022, with stocks slipping and dollar soaring after Powell's press conference.

As Covid-19 cases, hospitalizations and deaths have declined sharply in the past three months, Powell said, "there is more grounds for confidence, we have seen growth come in higher than we expected, we have seen strong labor demand."

Inflation has also risen rapidly above 2% in the past two months on a spike in demand and limited supply, a phenomenon "principally associated with reopening of the economy, and not with a tight labor market or tight resource constraints," Powell said. "It seems likely that these specific things that are driving up inflation will be temporary." Longer-term inflation expectations have moved up to a range consistent with the Fed's objectives, something "gratifying to see," he added. "They are anchored and they are at a good place right now."

"Even though our forecasters do see inflation coming back down over '22 and '23 into areas that are consistent with our mandate, nonetheless the risk is something that can factor into people's thinking about appropriate monetary policy," he said. "If we see inflation moving above our goals to a level or persistently enough, we would be prepared to use our tools to address that."

Powell also expressed optimism on the labor market, in spite of slower hiring progress than expected earlier in the year.

"I'm confident that we are on a path to a very strong labor market, a labor market that shows low unemployment, high participation, rising wages for people across the spectrum," he said.

It takes time for people to find new jobs, and some are still held back by health concerns or child care responsibilities, he said. "I would expect that we would see strong job creation, building up over the summer and going into the fall."

Analysts' Key Comments

BofA: Many On The FOMC Are Getting Restless

- BofA saw a more hawkish tone from the Fed at the June meeting, mostly from the FOMC as a whole but also with Powell offering an upbeat assessment of the economy with small steps toward the exit.
- "While Fed officials are talking about 'transitory' inflation, some clearly believe in greater persistence, which was reflected in upside risks to the PCE outlook in the SEP. Many on the Committee are getting restless, which shows that Powell will likely face dissents given that he leans on the more dovish side."
- The FOMC moved a step closer to tapering: BofA notes that substantial further progress is now "a ways" away vs "some time".
- Powell acknowledged the risk that inflation could be more persistent; also noted that the labor force might be impaired for longer, which per BofA "changes the thresholds with regards to normalizing the employment-to-population ratio and also allows the Fed to consider greater upward pressure on wages".
- **Future action:** September taper announcement most likely, with tapering beginning at turn of the year.

Barclays: A Strange Twist Of FAIT

- A more hawkish meeting than anticipated has led Barclays to expect an early start to tapering than previously forecast.
- Two components of the statement were hawkish: the first was dropping the language about the pandemic causing hardship etc; and saying that progress on vaccinations "will likely continue to reduce the effects of the public health crisis on the economy". These effectively declare the end of the pandemic, in economic terms. "This is significant to our eye because it is likely a strong signal about the willingness of the committee to move toward a reduction in the pace of asset purchases.
- The second was no reflection in the statement about disappointing jobs growth.
- Powell tried to push back on some of the forecast revisions' hawkish undertones but was largely unsuccessful. His subtle rephrasing of "a long way" to "a ways away" from substantial further progress "likely reflects the view of the committee that progress has been made".
- Further, Barclays sees credibility issues arising: "a lack of credibility in current tapering guidance that is underscored by the fact the committee says it has not seen enough to talk publicly about tapering at the same time the median member has penciled in two hikes in 2023…[and] we have concerns that a change in messaging following stronger-than-expected inflation outturns during re-opening could lead markets to question the Fed's commitment to its new framework".
- "A wholesale revision in the dots for virtually the same inflation trajectory speaks to more than simply risks around the baseline outlook." Indeed, Barclays notes that perhaps the FOMC sees fewer concerns about structurally low inflation going forward, than it did when it underwent the framework review.
- **Future action:** Barclays now expect a taper formally announced in September and to begin in November (prior: Nov announce, Jan 2022 start).

BNP Paribas: Hawkish Dots And A Step Toward Taper

- BNP saw the FOMC as conveying more confidence in its outlook at the June meeting, with growth higher, unemployment rate projections retained, and "hefty" upward revisions to inflation in 2021.
- While "upgrades to 2022 and 2023 inflation appear modest, we note that in level terms the Fed is anticipating significantly higher price levels by the end of 2022 and 2023" – and that at least some of the transitory inflation this year that would reverse later would be offset by stronger inflation in other categories.
- The higher hiking dots may reflect increasing confidence among FOMC members that the balance of risks has shifted positively. And also to signal comfort/optimism with eventual policy normalization and avoid criticism that the Fed is "sticking its head in the sand regarding inflationary risks".

CIBC: Fed Largely Sticks To Their Prior Script

- CIBC takes a dovish angle on the FOMC meeting: "Neither snow, nor rain, nor a surge in inflation and growth could stay the Fed from its dovish path, at least not yet...despite having to sharply revise its outlook for inflation this year, and nudge higher an already buoyant growth forecast, the [FOMC] largely stuck to

their prior script on monetary policy, with only one small concession to those of us who see their interest rate outlook as unrealistic."
- Though the FOMC doesn't want to hint at more hawkishness "until it's got the job gains its looking for."
- **Future action:** CIBC sees inflation in 2022 and 2023 as likely to come in higher than the SEP projections, "enough to push the central bank off the sidelines and into two quarter point hikes in the latter half of 2022." Tapering in early 2022.

Citi: Fed Messaging Poses Risk Of Earlier And Faster Taper

- Citi saw the June FOMC as hawkish per their expectations, with new forecasts justifying a hawkish dot shift. They saw the taper timeline as little changed (with a hint coming as early as July or Jackson Hole, w actual taper 4Q or 1Q 2022), but the language used at the meeting "does pose some risk of a slightly earlier and potentially faster pace of tapering once it occurs".
- Powell sounded upbeat, noting upward price pressure from a rebound in spending and possibility that inflation could turn out higher than expected. This puts more weight on incoming inflation data.
- Powell repeatedly noted we are likely to see strong job creation through summer/into fall, with a "very very strong" labor market 1-2 years out. He noted himself that the conditions for hikes will likely now be met sooner than expected.
- The only dovish language was Powell downplaying the dots.

Danske: Slowly Taking The Foot Off The Gas

- Danske saw the Fed as more hawkish than anticipated, with the June meeting most likely marking the first step of the Fed “taking the foot off the gas”.
- The main reason is not that actual inflation has moved higher (the Fed says it’s largely transitory), and the Fed remains calm on inflation due to still-well anchored expectations.
- Rather, it’s due to labor market developments, with several indicators quite strong and Powell noting “we are on path to a very strong labour market recovery” highlighting that temporary factors are keeping job growth low.
- **Future action:** Danske now expects the Fed to start tapering in 4Q 2021 (vs Jan 2022 prior); first hike in 2H 2022 (vs 1Q 2023 prior).

Goldman Sachs: Pulling Forward Liftoff to 2023 On Fed’s Interpretation of Average Inflation

- Goldman sees the June meeting as having delivered a hawkish surprise.
- Despite the discussion of tapering largely in line with their expectations, the 2 hikes in 2023 in the dot plot was “particularly striking because the 2023 core PCE inflation forecast remained steady at 2.1%”. To Goldman, this can be explained by the FOMC taking “a more firmly backward-looking interpretation of average inflation targeting than we had assumed”, lowering the future inflation bar for liftoff, vs a larger sustained overshoot of 2%.
- **Future action:** Goldman has shifted its forecast for rate liftoff to 3Q 2023 from 1Q 2024 previously, but the odds of a hike by end-2023 are only modestly above 50%. But still expect first tapering hint in Aug / Sep, with details in Nov, announcement in Dec and beginning in Jan.

HSBC: Getting More Confident

- HSBC saw the underlying theme of the June FOMC as being one of participants’ increased confidence in the outlook, as well as for upside risks for inflation.
- While Powell didn’t lay out specific details about how tapering might be structured, HSBC see the minutes as “likely to show a discussion about the pros and cons of different approaches.”
- **Future action:** HSBC continues to see a formal taper announcement in December, with no hikes until at least 2023.

ING: Fed Fires The Starting Gun

- ING saw the Fed as signalling that they are not so confident in their transitory inflation narrative, with the forecasts clearly firing “the starting gun” on a tapering discussion that could start earlier/conclude more quickly than previously anticipated.
- Re the inflation forecasts, ING writes “it appears therefore that the narrative remains that inflation will be transitory, but it is clear from the press conference they are less confident in that assessment than they were a couple of months ago – Powell certainly talking about the risks it stays elevated for longer”.
- **Future action:** ING still sees the taper announcement coming at the Dec FOMC but the timeframe could be brought forward; 3 rate hikes in 2023 starting in 1Q 2023.

JPMorgan: Now We’re Talking

JPM saw the June FOMC outcome as “a fair bit more hawkish than expected”, with the 2023 2 rate hike median the most notable element.

- “The combination of the economic forecasts and the statement suggest that the reduction in pandemic-related growth risks was the main motivation for the revision to the policy outlook.”
- Powell likewise said that changing risk assessments likely affected FOMC members’ views of optimal monetary policy.
- His comments on the dot plot / forecasts not necessarily him intentionally downplaying this specific SEP’s dot plot, as he’s been pretty consistent on that message over the years.
- On FAIT, Powell said “there is an element of discretion”, to which JPM noted: “the same could be said of the tapering discussion”.
- Inflation forecasts suggest FOMC members forecast a pretty quick slowing of inflation in coming months.
- **Future action:** JPM still looks for rate liftoff in 2023, with tapering beginning in 1Q 2022 (with a risk of Dec 2021 start – but before that would be “pretty rushed”).

Lloyds: Starting To Talk Tapering

- Lloyds saw the Fed’s guidance on the future path of monetary policy remaining dovish, but “with tweaks in a more hawkish direction that shows the Fed’s position is evolving as the economic rebound gathers pace”.

Morgan Stanley: Operating With One Eye on the Exit

- Morgan Stanley saw the FOMC solidifying a more hawkish shift in tone at the June meeting, while laying the groundwork for increased policy flexibility in the coming months.
- They see the forecast changes indicating “that the FOMC may have previously erred on the side of overestimating how long it would need to keep its foot on the gas pedal to achieve the economic outcomes it wants to see, but now the Committee sees an economy that may need less policy support in order to achieve the same outcomes.”
- **Future action:** No change in outlook: taper notification in September, but with data settling from peak rate of economic growth the Fed will not feel rushed to move, formally announcing taper in Mar 2022.

NatWest: Connecting The Dots

- Apart from the statement, NatWest saw the rest of the outcome from the June FOMC as leaning more hawkish than expected.
- The dot plot presents risks to NatWest’s views that liftoff will begin in early 2024 (even though Powell again downplayed the importance of the dots).
- Additionally, the projections show a much less patient FOMC vs March: 12 participants project core PCE of at least 2.1% in 2023 with 13 seeing at least 1 hike; in March this was 11 and 7 respectively. So “with only one additional member who modestly pushed up his/her core inflation forecast six additional members
- showed an implied higher funds rate—consistent with the officials will be less ’patient’ on liftoff.”
- Powell sounded especially upbeat about the economy, and more open to the idea of some upside risks around inflation than he has in the past.
- The minutes could shed some more light on tapering.
- **Future action:** Tapering discussed in Jul and Sep, formally announced in Dec before early 2022 start. Rate liftoff in early 2024.

Nomura: Adding A Rate Hike To 2023

- **Future action:** Nomura now expects two rate hikes in 2023, vs one (in Q3) previously. But they have not changed their taper call (announcement in December, effective Jan 2022).

Nordea: We Are Now (Officially) Talking About Tapering

- Nordea says we seem to have passed “talking about talking about tapering” to actually talking about tapering, based on the June FOMC outcome – so don’t rule out a taper decision in September.
- A couple of strong labor market reports over the summer “could really start fuelling expectations for a more hawkish Fed…labor market participation ratios (also from minorities) are now KEY to watch over summer.”
- Powell sounded a bit less convinced that inflation is completely transitory, which suggests the Fed will get more worried by each upcoming inflation print.

Rabobank: FAIT Is Crumbling

- Rabobank says based on the new dot plot, FAIT is “crumbling”, as the recent rise in inflation has “changed the mind of the Committee”- while they see the current surge in inflation as transitory, “they no longer feel comfortable waiting for 2024 to start the hiking cycle”.
- Adopting FAIT was an extreme monetary policy position which should not pose problems if higher inflation is transitory, but if it turns out to be longer lasting/permanent then the Fed will be very far behind the curve. June’s projections suggest the Fed has come to that realization.
- **Future action:** The “fog” around labor data may not dissipate until the November FOMC, but a tapering announcement then about a decision to taper in Dec or Jan may not be much of an early warning signal – so early signal may be given in Aug or Sep.

RBC: The Powell Pivot?

- RBC has “no doubt” the FOMC meeting leaned hawkish.
- This is despite Powell striking “the same almost unbearably cautious view toward the backdrop…and his prepared comments about inflation where he effectively waved away recent inflationary pressures as reopening related and base effects”.
- He caveated in the presser though: using the word “humble no less than 3 times” referencing forecasts; “That’s not a small change in view for a person who has forcefully pushed the idea of transitory inflation.”

Scotiabank: The FOMC Took A More Hawkish Turn

- The set of overall communications at the June FOMC was more hawkish than anticipated, writes Scotiabank, with the large swing in rate hike forecasts, more upbeat forecasts, and Powell noting that “coming meetings” suggests importance of nearer-term jobs and inflation data in determining taper.
- **Future action:** The June FOMC reinforced Scotia’s expectations for tightening, with tapering late in 2021 and rate hikes in 2023 (or possibly sooner), and offered more aggressive signals in this direction sooner than anticipated.

SEB: Fed Is Moving Toward Tapering

- The Fed delivered a few hawkish surprises at the June meeting, writes SEB, with the tone of the press conference being “markedly optimistic”.
- Re the more hawkish dot plot, SEB says that “even if Powell continued to downplay the importance of the rate projections, this is a go ahead to markets to start pricing in earlier rate hikes. It also suggests that the time period between the end of tapering and the start of rate hikes could be shorter than after the 2014 tapering process.”
- **Future action:** Fed to formally announce taper in November, beginning in December. SEB saw the Fed signalling this step in Sep but this could happen even in July if job growth is strong in June. Hikes to start in 3Q 2023.

Societe Generale: It's Time To Talk…But Not Yet Time To Act

- SocGen saw this meeting as a "turning point", with Powell acknowledging that taper discussions had begun.
- Should the Fed hike in 2022 (as could be indicated in upcoming meetings's dot plots), the need to taper faster becomes more important.
- **Future action:** SocGen sees a formal taper announcement by end-summar or autumn, with modest cuts beginning in Jan 2022. Two rate hikes in latter part of 2023.

Swedbank: Fed Signals Faster Tightening

- The Fed meeting was hawkish, according to Swedbank, with the new forecasts being generally upbeat (including a brighter labor market outlook), the dot plot hawkish, and Powell saying that inflation could turn out to be higher and more persistent than the Fed currently expects.

TD: Walking The Taper Talk

- TD saw a noticeably less dovish tone than in the March and April meetings, with the dot plot hawkishness reinforced by Powell starting the process of preparing markets for QE tapering.
- On rate hikes, "the Fed's reaction function appears to be less dovish than we thought previously".
- Expect officials to start providing some indication of perceived "progress" in upcoming FOMC statements, starting in July, with the tone on relative improvement to become more positive over the coming meetings.
- **Future action:** TD has brought forward its tightening forecasts: now see taper formally announced in Dec 2021 (vs Mar 2022 previously), with rate liftoff in Dec 2023 (was Sep 2024).

Unicredit: Decidedly Hawkish

- Unicredit saw the June FOMC outcome as "decidedly hawkish", with "FOMC participants' increased concern about upside risks to inflation [as] the real driver of the hawkish shift".
- That said, "while the timing of the first rate hike may have been brought forward, there appears to be little scope for speeding up the timing of tapering asset purchases."
- **Future action:** Unicredit still expects the FOMC to formally begin the taper discussion in Aug/Sep, with Dec announcement and 1Q 2022 taper start. First hike in late 2032, with risks skewed toward earlier hike.

Wells Fargo: Notable Shift In The Dot Plot

- Apart from the notable shift in the dot plot, Wells Fargo took from the new FOMC economic projections that "most members believe that the higher inflation rates that the economy is experiencing now will prove to be largely 'transitory' … however, a majority of FOMC members see the risks to the infation forecast as skewed to the upside."
- **Future action:** Like the dot median, Wells Fargo expects the FOMC will hold off from raising rates before end-2022, but hikes in 2023 look increasingly likely. Fed to signal in late summer/early August that tapering is coming.

Westpac: Pragmatic And Optimistic Tone

- For Westpac, the most important feature of the FOMC's meeting communications "is the pragmatic and optimistic tone towards the economy for the coming year".
- The FOMC is focusing on two factors for "progress" toward a taper: the return to work by many individuals over the coming months, and uncertainty over the number of older workers who have left the labor force.
- **Future action:** Westpac sees a mid-2022 start to the taper, with labor / inflation data unlikely to be definitive enough by end-2021.

Wrightson ICAP: Happy To Be Wrong On Administered Rate Hike Size

- Wrightson ICAP writes they were "very happy to have been wrong" about the Fed only boosting its administered rates 3bp (they rose 5bp).

- "Our assumption was that concerns about the optics of an unexpected rate "hike" might persuade the Fed to limit the size of this tweak, but the Fed delivered a full five basis point adjustment. We think it will be a worthwhile investment in market functioning."
- In their view, the ON RRP rate rise will make the facility more attractive to market participants, with a "surge" in cash in the facility tomorrow.

FOMC Statement Comparison

Changes in June 16 Statement Compared to April 28

The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

~~The~~Progress on vaccinations has reduced the spread of COVID-19 ~~pandemic is causing tremendous human and economic hardship across~~in the United States~~ and around the world.~~. Amid this progress~~ on vaccinations~~ and strong policy support, indicators of economic activity and employment have strengthened. The sectors most adversely affected by the pandemic remain weak but have shown improvement. Inflation has risen, largely reflecting transitory factors. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy will depend significantly on the course of the virus~~, including progress~~. Progress on vaccinations~~. The ongoing~~ will likely continue to reduce the effects of the public health crisis ~~continues to weigh~~ on the economy, ~~and~~but risks to the economic outlook remain.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation ~~running~~having run persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. In addition, the Federal Reserve will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals. These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Thomas I. Barkin; Raphael W. Bostic; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; Mary C. Daly; Charles L. Evans; Randal K. Quarles; and Christopher J. Waller.

Dot Plot / Econ Projections Comparison

Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy. Source: Federal Reserve

JUNE 2021 FOMC:

Percent

Variable	Median[1]				Central Tendency[2]				Range[3]			
	2021	2022	2023	Longer run	2021	2022	2023	Longer run	2021	2022	2023	Longer run
Change in real GDP	7.0	3.3	2.4	1.8	6.8–7.3	2.8–3.8	2.0–2.5	1.8–2.0	6.3–7.8	2.6–4.2	1.7–2.7	1.6–2.2
March projection	6.5	3.3	2.2	1.8	5.8–6.6	3.0–3.8	2.0–2.5	1.8–2.0	5.0–7.3	2.5–4.4	1.7–2.6	1.6–2.2
Unemployment rate	4.5	3.8	3.5	4.0	4.4–4.8	3.5–4.0	3.2–3.8	3.8–4.3	4.2–5.0	3.2–4.2	3.0–3.9	3.5–4.5
March projection	4.5	3.9	3.5	4.0	4.2–4.7	3.6–4.0	3.2–3.8	3.8–4.3	4.0–5.5	3.2–4.2	3.0–4.0	3.5–4.5
PCE inflation	3.4	2.1	2.2	2.0	3.1–3.5	1.9–2.3	2.0–2.2	2.0	3.0–3.9	1.6–2.5	1.9–2.3	2.0
March projection	2.4	2.0	2.1	2.0	2.2–2.4	1.8–2.1	2.0–2.2	2.0	2.1–2.6	1.8–2.3	1.9–2.3	2.0
Core PCE inflation[4]	3.0	2.1	2.1		2.9–3.1	1.9–2.3	2.0–2.2		2.7–3.3	1.7–2.5	2.0–2.3	
March projection	2.2	2.0	2.1		2.0–2.3	1.9–2.1	2.0–2.2		1.9–2.5	1.8–2.3	1.9–2.3	
Memo: Projected appropriate policy path												
Federal funds rate	0.1	0.1	0.6	2.5	0.1	0.1–0.4	0.1–1.1	2.3–2.5	0.1	0.1–0.6	0.1–1.6	2.0–3.0
March projection	0.1	0.1	0.1	2.5	0.1	0.1–0.4	0.1–0.9	2.3–2.5	0.1	0.1–0.6	0.1–1.1	2.0–3.0

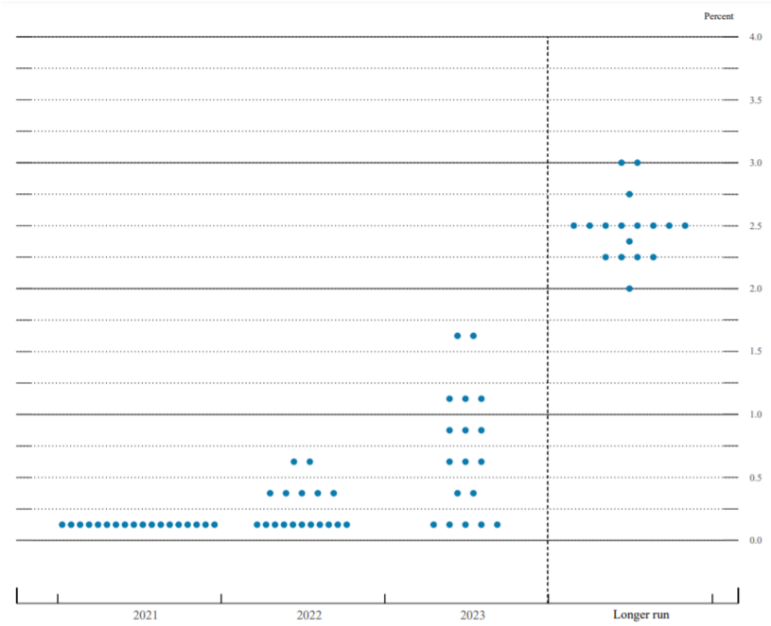
MARCH 2021 FOMC:

Percent

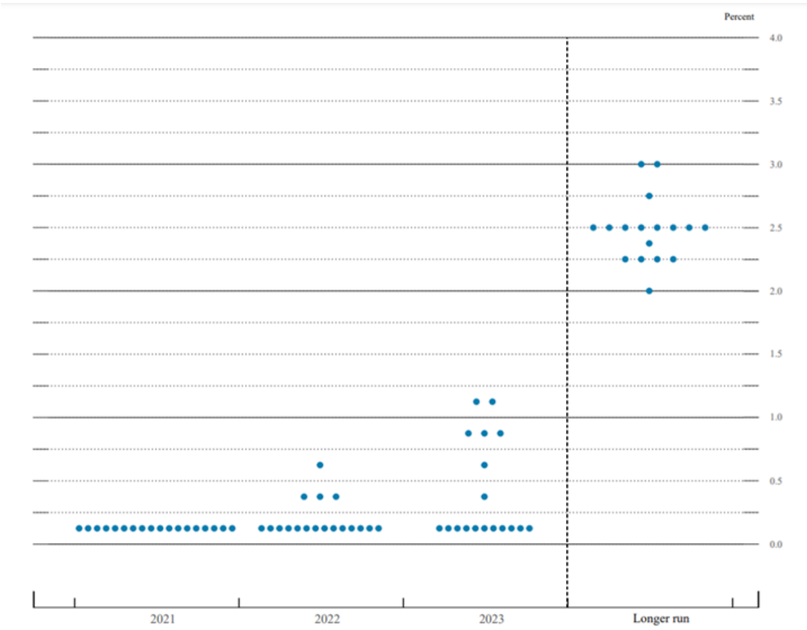
Variable	Median[1]				Central Tendency[2]				Range[3]			
	2021	2022	2023	Longer run	2021	2022	2023	Longer run	2021	2022	2023	Longer run
Change in real GDP	6.5	3.3	2.2	1.8	5.8–6.6	3.0–3.8	2.0–2.5	1.8–2.0	5.0–7.3	2.5–4.4	1.7–2.6	1.6–2.2
December projection	4.2	3.2	2.4	1.8	3.7–5.0	3.0–3.5	2.2–2.7	1.7–2.0	0.5–5.5	2.5–4.0	2.0–3.5	1.6–2.2
Unemployment rate	4.5	3.9	3.5	4.0	4.2–4.7	3.6–4.0	3.2–3.8	3.8–4.3	4.0–5.5	3.2–4.2	3.0–4.0	3.5–4.5
December projection	5.0	4.2	3.7	4.1	4.7–5.4	3.8–4.6	3.5–4.3	3.9–4.3	4.0–6.8	3.5–5.8	3.3–5.0	3.5–4.5
PCE inflation	2.4	2.0	2.1	2.0	2.2–2.4	1.8–2.1	2.0–2.2	2.0	2.1–2.6	1.8–2.3	1.9–2.3	2.0
December projection	1.8	1.9	2.0	2.0	1.7–1.9	1.8–2.0	1.9–2.1	2.0	1.2–2.3	1.5–2.2	1.7–2.2	2.0
Core PCE inflation[4]	2.2	2.0	2.1		2.0–2.3	1.9–2.1	2.0–2.2		1.9–2.5	1.8–2.3	1.9–2.3	
December projection	1.8	1.9	2.0		1.7–1.8	1.8–2.0	1.9–2.1		1.5–2.3	1.6–2.2	1.7–2.2	
Memo: Projected appropriate policy path												
Federal funds rate	0.1	0.1	0.1	2.5	0.1	0.1–0.4	0.1–0.9	2.3–2.5	0.1	0.1–0.6	0.1–1.1	2.0–3.0
December projection	0.1	0.1	0.1	2.5	0.1	0.1	0.1–0.4	2.3–2.5	0.1	0.1–0.4	0.1–1.1	2.0–3.0

Participants' assessments of appropriate monetary policy:
Midpoint of target range or target level for the federal funds rate. Source: Federal Reserve

JUNE 2021 FOMC:



MARCH 2021 FOMC:



Press Conference Summary

As live-reported by MNI Analysts and Policy Reporters on our MainWire, Edge and Bullets services (transcript may not exactly match what what said).

On starting to talk about tapering: At our meeting that concluded earlier today, the Committee had a discussion on the progress made toward our goals since the Committee adopted its asset purchase guidance last December. While reaching the standard of “substantial further progress” is still a ways off, participants expect that progress will continue. In coming meetings, the Committee will continue to assess the economy’s progress toward our goals. As we have said, we will provide advance notice before announcing any decision to make changes to our purchases.

On a timeline for tapering: I expect we will be able to say more about timing as we see more data, there is not more light I can shed on that. But think of the meeting as the talking about talking about meeting. I suggest that we retire that term, which has served its purpose well, I think. Committee participants were of the view that since we adopted that guidance in December the economy has clearly made progress, although we are still a ways from our goal of substantial further progress. Participants expect continued progress, ahead toward that objective. Assuming that is the case, it will be appropriate to consider announcing a plan for reducing our asset purchases at a future meeting. At coming meetings the committee will continue to assess the economy's progress toward our goals and will give advance notice before announcing any decision. The timing of course a lot will depend on the pace of that progress, and not on any calendar.

On the Dot Plot / rising FOMC confidence in the outlook: These are of course individual projections, not a committee forecast. They are not a plan. We did not have a discussion of whether lift off is appropriate in any particular year, because discussing lift off now would be highly premature, wouldn't make any sense. …The dots are not a great forecaster of future rate moves. … so dots to be taken with a big grain of salt.…The main message I take away from the SEP is that many participants are more comfortable that the economic conditions in the committee's forward guidance will be met sooner than previously anticipated. That would be a welcome development, if such outcomes materialize, it means the economy will have made faster progress toward our goals.

On transitory inflation / labor market progress: That narrative seems still likely to prove correct, although as I pointed out at the last press conference, the timing of that is uncertain. So are the effects in the near term. But over time, it seems likely that these specific things that are driving up inflation will be temporary. We are going to be looking at the monthly pricing data. I'll say that the labor market is going to be important both for the maximum employment goal but also for inflation, and we will be looking at that. As I mentioned, we expect and I expect that we will see increases in supply over coming months, as the factors that we believe have been suppressing supply abate, wane, move down. I can't give you a exact number or exact time. But I would say that we do expect inflation to move down.

On upside inflation risks: Is there a risk that inflation will be higher than we think, yes, as I said earlier. We don't have any certainty about the timing or the extent of these effects from reopening. Therefore, we don't think that, we think it's unlikely that they would materially affect the underlying inflation dynamics that the economy has had for a quarter of a century. The underlying forces around the globe that have created those dynamics are intact and those are aging population, low productivity, globalization, all those things that we think have held down inflation, all that is out there still. When we get through this, we may be facing those same forces. Nonetheless, is there a risk that inflation will remain higher than we thought? Yes. If we see inflation moving above our goals to a extent, to a level or persistently enough, we would be prepared to use our tools to address that… we don't in any way dismiss the chance that it can work out that this goes on longer than expected and the risk would be that over time, it does begin to affect inflation expectations. If we see inflation expectations and inflation or inflation moving up in a way that is really materially above what we would see as consistent with our goals, and persistently so, we wouldn't hesitate to use our tools to address that, price stability is half of our mandate, and we would certainly do that. We do not expect that though.

FULL TRANSCRIPT AVAILABLE HERE:
https://roar-assets-auto.rbl.ms/documents/10491/Powell%20Press%20Conference%20June%202021.pdf