Lindsey M. Piegza, Ph.D.
Chief Economist
(312) 454-3873
piegzal@stifel.com

Lauren G. Henderson
Economic Analyst
(312) 454-3987
hendersonla@stifel.com

Activity *"Turned Up"* but Rates Steady Through 2023

As expected, the Fed opted to leave rates unchanged at 0.00%-0.25% along with monthly asset purchases at $120 billion.

As far as the statement, the Fed acknowledged recent improvement, indicating activity and employment has *"turned up,"* however, this positive assessment was tempered with the recognition of ongoing pain in some of the hardest-hit industries, essentially underscoring the notion of a K-shaped recovery.

"Following a moderation in the pace of the recovery, indicators of economic activity and employment have turned up recently, although the sectors most adversely affected by the pandemic remain weak."

- March 17 FOMC statement

Along with the statement, the Committee also updated its latest projections. As expected, the Committee upgraded its growth outlook in the wake of an additional near $2T in fiscal spending and an acceleration in the vaccination initiative. The latest Summary of Economic Projections (SEP) shows a bump up in the Committee's GDP forecast for 2021 and 2020 to 6.5% and 3.3%, respectively, compared to December's projections at 4.2% and 3.2%.

As far as inflation, the Fed also increased its forecast for prices, no doubt reflecting recent weather effects, continued reflation as lower price readings from 2020 fall out of the annual calculation, and a stronger growth forecast. According to today's SEP, the Fed expects inflation to reach 2.4% in 2021 and 2.0% in 2022, up from 1.8% and 1.9%, respectively. The bigger issue, however, is the Fed's continued expectation for longer-run inflation to remain in line with the Fed's target of 2.0%, despite rising market expectations and concerns over the massive expansion of the government's balance sheet.

Finally, the dot plot suggests, despite an expectation for higher inflation, lower unemployment and stronger growth, the majority of officials see rates on hold through 2023. Although, notably four officials see the first rate rise in 2022, up from one in the December dot plot.

The policy decision was unanimous.

The press conference is underway. During the Q&A session, this is where the Chairman has an opportunity to expand on the Fed's perception of recent market volatility with the ten-year yield up 73bps since the start of the year and whether or not it is yet seen as *"disorderly."* And if so, what the Fed plans to do about it.

The Chairman will also be asked no doubt about the latest stimulus bill and the pressure this will create on longer-run inflation. The Chairman is likely to applaud the additional support to the economy – an economy Powell sees as still struggling to meet full employment and stable prices. Powell is unlikely, however, to focus or even acknowledge a longer-term threat from further government growth in the marketplace, instead insisting all efforts should be made to get the economy back on track here and now. Link to statement: https://www.federalreserve.gov/monetarypolicy/files/monetary20210317a1.pdf

-Lindsey Piegza, Ph.D., Chief Economist

Glossary

FOMC – Federal Open Market Committee
GDP – Gross Domestic Product
SEP – Summary of Economic Projections