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Weekly Commentary

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The Fed punts

Well, here goes nothing.

One wonders if that is what Federal Reserve Chair Jerome Powell and the rest of the members of the Federal Open Market Committee thought at the conclusion of last week's meeting. For one, they did nothing in terms of rate action by leaving the federal funds rate in the target range of 5-5.25%. That was the first meeting in more than a year that policymakers did not hike. Ten straight increases dating back to March of 2022.

For another, their updated Summary of Economic Projections (SEP) indicated they remain worried about inflation. The new "dot plot" showed that on average they forecast the median rate at year-end to be 5.6%, with 12 of 18 voters expecting at least two more 25 basis-point hikes this year. That essentially means the lack of action also meant nothing as it essentially just pushed the 11th rate hike to July's FOMC meeting, which is only a few weeks after this one.

Finally, their concern, if not outright worry, about inflation was unchanged. They actually projected the core Personal Consumption Expenditures Index (which strips out volatile food and energy price changes) to rise in the near future. The SEP's prediction was for it hitting 3.9%, compared to a call of 3.6% at the May meeting.

The only thing that likely did change is the increased probability that the U.S. economy will slip into a recession in response to even tighter policy. And that is something, for sure.