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In a nutshell

- FOMC left the federal funds rate target unchanged at 2.25% to 2.5%
- Policymakers still judge the economy to be performing well, and see the economic outlook as solid, consistent with achieving their dual-mandate objectives
- The Fed's balance sheet will likely remain much larger than would have been implied by pre-crisis trends

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A Viewpoint from Joshua N. Feinman

FOMC decision

As almost universally expected, the Federal Open Market Committee (FOMC) left the federal funds rate target unchanged at 2.25% to 2.5%. In terms of messaging, I see several important takeaways:

The watchword is patience. Building on themes laid out at the last FOMC meeting, and strengthened in speeches since then, FOMC participants stressed that they are in "wait-and-see" mode. That with several crosscurrents clouding the outlook, such as trade tensions, weakness abroad, financial-market turbulence, with inflation near target but not threatening a breach ("muted inflation pressures"), and with monetary policy having already done quite a bit, the prudent course is to pause and take time to assess how these things play out.

Policymakers still judge the economy to be performing well, and see the economic outlook as solid, consistent with achieving their dual-mandate¹ objectives. But given the uncertainties, and given that they no longer see policy as so clearly accommodative, policymakers removed any forward guidance language about the likely near-term direction of policy, and any assessment of the balance of risks to the outlook. In short, they are maximizing their room for maneuver and scope to respond to incoming events.

All told, barring an outsized shock, U.S. Federal Reserve (Fed) policy is unlikely to change for the next few FOMC meetings at least. Where it goes beyond that is highly conditional. I still think that we are close to the end of rate hiking, but not quite there yet; that the economy is apt to evolve in a way that dictates another couple of hikes. But nothing before summer at the earliest, and the range of plausible outcomes is wider than it has been in recent years. And I do not see the United States as on some sort of knife's edge, where 25 basis points (bps) one way or the other is apt to make or break the outlook.

As for the balance sheet, while policymakers noted that they would stand ready to adjust should circumstances dictate, it would take a lot to alter the current course – the federal funds rate remains the primary lever of policy. The balance sheet will remain on the runoff schedule that has been in place, and end when technical considerations related to reserve management and control of the federal funds rate dictate. The FOMC did confirm, as they have long intimated, and we have long anticipated, that they will continue operating in an "abundant reserves" environment; in our estimation, that likely implies an end to balance-sheet runoff sometime between late 2019 and mid-2020, when the cumulative runoff will have reached between 800 billion U.S. dollars (USD) and 1 trillion USD. Though there is some uncertainty around that, which policymakers will clarify in the coming months, the Fed's balance

¹The Fed follows the objective to achieve both stable prices and maximum sustainable employment.
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sheet will likely remain much larger than would have been implied by pre-crisis trends and we are now perhaps 40% to 50% of the way to the end of runoff.

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Glossary

Accommodative

The aim of an **accommodative** monetary policy is to support the economy by means of monetary expansion.

Balance sheet

A **balance sheet** summarizes a company's assets, liabilities and shareholder equity.

Basis point

One **basis point** equals 1/100 of a percentage point.

Federal funds rate

The **federal funds rate** is the interest rate, set by the Fed, at which banks lend money to each other, usually on an overnight basis.

Federal Open Market Committee (FOMC)

The **Federal Open Market Committee (FOMC)** is the committee that oversees the open-market operations (purchases and sales of securities that are intended to steer interest rates and market liquidity) of the U.S. Federal Reserve.

Inflation

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

Monetary policy

Monetary policy focuses on controlling the supply of money with the ulterior motive of price stability, reducing unemployment, boosting growth, etc. (depending on the central bank's mandate).

U.S. dollar (USD)

The **U.S. dollar (USD)** is the official currency of the United States and its overseas territories.

U.S. Federal Reserve Board (the Fed)

The **U.S. Federal Reserve Board**, often referred to as "**the Fed**", is the central bank of the United States.

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