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Instant Analysis of Today's September FOMC Meeting

FOMC Delays - no interest rate hike in September, still planning one this year
Cites recent global economic and financial developments
Could restrain economic activity and put further downward pressure on inflation
FOMC scales back median rate hike projections for 2015, 2016 and 2017 by 0.25%
Almost a quarter of FOMC participants now see the first rate hike in 2016 or 2017
Lowers GDP and Inflation forecasts a bit for 2016 and 2017
Unemployment rate forecast for 2015, 2016, and 2017 lowered by 0.3 to 0.2pct
Long-run Fed Funds rate median drops to 3.5% from 3.8% at June meeting
Inflation expected to remain low over the near-term
PCE-core not back to 2.0% target until 2018
Market reaction- S&P 500 +1.3%, 10-Yr Treasury at 2.21% down 8 bps, USD weakens

If you were looking for the Fed to finally rip the Band-Aid off and begin interest rate normalization today, you are going to have to wait a little longer for that satisfaction. It has been 9 Years and 2 months since the FOMC last raised interest rates. The FOMC left interest rates unchanged at their September meeting, but the median still anticipates one Fed funds rate hike this year. This outcome is in-line with my pre-meeting expectations and current U.S. economic and interest rate forecasts. Jeffrey M. Lacker was the lone dissent on the decision, preferring to hike the Fed funds rate by 0.25 basis points at today's meeting.

I continue to expect the first Fed funds rate hike to come at the December FOMC meeting. However, nearly a quarter of FOMC participants (4 total) now see the appropriate time for a rate hike in 2016 or 2017. The FOMC sees moderate U.S. economic growth continuing, but lowered their forecasts a bit for real GDP growth and inflation for 2016 and 2017, citing recent global economic and financial developments that "could restrain U.S. economic activity somewhat and are likely to put further downward pressure on inflation near-term."

The FOMC "dot-plot" median fell by 0.2 percentage points for 2015 and 2016 to 0.4% and 1.4% respectively at year-end, and by 0.3 percentage points for 2017 to 2.6%. At the same time, the terminal, or long-run, Fed funds rate was reduced to 3.5% from 3.8% at the June meeting. The FOMC doesn't see getting to that level of Fed funds rate until 2018. This downward adjustment in the FOMC dot-plot was also in-line with our forecasts.

The FOMC today appeared to be somewhat more concerned about the inflation side of their mandate. The September statement noted that inflation is still running below the Fed's long-run objective due to declining energy and non-energy import prices, while market inflation expectations have continued to move lower. The FOMC still sees the risks to the economic outlook and labor market as nearly balance, but added the caveat that it is "monitoring developments abroad".

On a brighter note, the FOMC raised their labor market view of the outlook. The median unemployment rate forecast for the FOMC in 2015, 2016, and 2017 was reduced by 0.3 to 0.2 percentage points. The FOMC now sees the U.S. unemployment rate falling below the natural rate in 2016 and 2017.

Bottom-line, the FOMC statement and updated economic and interest rate projections showed a somewhat heightened concern for the global economic, financial market, and inflation outlook, which clouds the economic and inflation outlook here at home. In that context, the statement and decision by the FOMC today fell on the side of caution and delay. However, as things stand now, the U.S. growth and inflation outlook have not yet changed materially, and the delay in

interest rate liftoff should still prove to be temporary. However, the Fed wants to see more evidence that their forecasted outlook is holding up and a rate hike in the midst of global economic uncertainty remains the right path to follow.