Economic highlights from the week ending on June 16, 2017

The Federal Open Market Committee (FOMC) raised the fed funds target rate by 25 basis points to a range of 1.00%-1.25% this week. However, the FOMC statement indicated that the stance of monetary policy remains accommodative. The FOMC also noted that economic activity has been rising moderately and job gains have been solid, but inflation has recently declined. Nevertheless, the FOMC expects inflation to stabilize around 2.0% over the medium term. The Committee expects to begin trimming the Fed's balance sheet later this year. The Fed's updated Summary of Economic Projections reflects downward revisions to the Fed's median unemployment rate projections for this year and future years, as well as a downward revision to the Fed's median 2017 inflation forecast. The updated projections suggest that the Fed anticipates the labor market to tighten further over the coming years without much impact on inflation. The Fed still expects the fed funds rate to reach 1.4% by the end of this year and 3.0% over the longer-run.

We believe the FOMC has become less data-dependent and more path-dependent when it comes to monetary policy. Although job growth has moderated, inflation remains below target, and other economic data has recently softened, the Fed's median forecast calls for another rate hike this year, three more rate hikes next year, and explicit plans to start trimming the balance sheet later this year. Nevertheless, we think it is possible that the Fed will put their rate hikes on pause for the remainder of this year. This view is based on our outlook for economic growth to remain modest and fiscal stimulus to be delayed until later this year or 2018. Recall that the FOMC has already hiked the fed funds target rate by 25 basis points three times in the past 7 months (December 2016, March 2017, and June 2017). Many policymakers based their economic and fed funds rate forecasts on the expectation for fiscal stimulus this year, but given that the timing and magnitude of fiscal stimulus remains uncertain, we believe policymakers may soon begin to recalibrate their projections.

On a month-over-month basis, retail sales declined 0.3% in May, below expectations for a 0.1% increase, following a 0.4% increase in April. Excluding autos and gas, retail sales were flat in May, following a 0.5% gain in April. Overall, consumer spending trends remain soft. The University of Michigan's consumer sentiment index also declined this month, suggesting that consumers' confidence in the economy may be easing.

Next Week

Existing Home Sales, FHFA House Price Index, Leading Indicators, New Home Sales