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Think Strategically

Analyzing the Federal Reserve's Projections: What Investors Should Expect for 2024?

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Decoding the Federal Reserve's Insights and Implications for 2024

On March 16, 2022, the Federal Reserve Bank began its late entry into the inflation fight, as it maintained since April 2021, when the Consumer Price Index rose to 4.16% or 51.92% above the Fed's 2% Inflation target rate, in the words of Fed Chairman Jerome Powell, stating that "higher inflation is temporary, the Fed will be 'patient' as inflation will pick up in the coming months but that it would likely prove to be temporary and not enough for the Fed to alter its record-low interest rate policies." The Fed's patient and temporary outlook on inflation proved to be wrong as by March 2022, the CPI had risen to 8.54%, and it was at that point that the Fed began to act, increasing rates on March 16, 2022, by 25 basis points.

The Fed would increase rates six more times during 2022, taking rates from 0.25% to the range of 4.25%-4.50%, and it dented the inflation reading slightly to end 2022 with a CPI of 6.45% or 69% above the Fed's 2% inflation target, proving that the "Temporary Theory" was flawed.

As 2023 began, the CPI date opened 2023 at 6.41%, and the Fed raised rates five more times during 2023, taking rates to the range of 5.25%-5.50%; by the time the August CPI hit 3.67%, some 45.50% above the Fed's 2% target during the following FOMC meeting the Fed paused its interest hiking campaign, in November also paused and following its December 13 meeting with the CPI at 3.14% the Fed decided to maintain rates unchanged as well. In all the instances leaving the door open for further rate action, we detail the FOMC meeting dates and its rate actions.

Inflation		
November	CPI	Core CPI
	3.14%	3.99%

US Consumer Price Index is at 3.14%, compared to 3.24% last month, and has decreased 65.34% since its high of 9.06% in June 2022.

The Fed From Low Rates to High Rates

The journey from a mere 0.25% to the current 5.50% rate has been marked by 11 deliberate and calculated steps, proving the Federal Reserve's commitment to maintaining economic stability and admitting it was wrong to assert that inflation was temporary.

However, the Fed's entry into the inflation fight has not been without its fair share of scrutiny. Some critics argue that the central bank might have been a late entrant to the battle, allowing inflationary pressures to gain momentum before taking decisive action.

As we delve into the intricacies of the Federal Reserve's decision-making process and the impact of its interest rate adjustments, it becomes evident that the central bank's actions reverberate far beyond the confines of monetary policy. The narrative of rate hikes unfolds against the backdrop of a complex economic landscape, inviting us to analyze the nuances of the Federal Reserve's strategy and its implications for the broader financial markets, economic development, and investment landscapes.

FOMC Meeting	Rate Change	Fed Funds Rate
12/13/23	Unchanged	5.25% - 5.50%
11/1/23	Unchanged	5.25% - 5.50%
9/20/23	Unchanged	5.25% - 5.50%
7/26/23	0.25%	5.25% - 5.50%
5/3/23	0.25%	5.00% - 5.25%
3/22/23	0.25%	4.75% - 5.00%
2/1/23	0.25%	4.50% - 4.75%
12/14/22	0.50%	4.25% - 4.50%
11/2/22	0.75%	3.75% - 4.00%
9/21/22	0.75%	3.00% - 3.25%
7/27/22	0.75%	2.25% - 2.50%
6/16/22	0.75%	1.50% - 1.75%
5/5/22	0.50%	0.75% - 1.00%
3/17/22	0.25%	0.25% - 0.50%

In its statement, the Fed said, "The Committee seeks to achieve maximum employment and inflation at the rate of 2%; in support of these goals, the Committee decided to maintain the target range for the federal funds rate at 5-1/4 to 5-1/2 percent".

Federal Reserve Board Projections 2023-2026

The FOMC meeting held on December 12–13, 2023, provided insights into the Federal Reserve's outlook on the U.S. economy, and the economic projections presented by the Fed offer a comprehensive view of their expectations for Real Gross Domestic Product growth, unemployment rates, inflation, and the federal funds rate.

Real GDP Growth 2023-2026:

The median projection for the change in real GDP indicates a growth rate as follows:

- 2023 2.6% GDP
- 2024 1.4% GDP
- 2025 1.8% GDP
- 2026 1.9% GDP
- Long Term GDP 1.8%

The range of projections provides a more nuanced perspective, suggesting a consensus that growth will hover around the 1.5–2.0% range in the medium term. The Banks signals a cautious optimism, with expectations tempered compared to the September projections.

Unemployment Rate 2023-2026:

The unemployment rate, which fell this last month to 3.70%, the Fed provided a projection as follows:

- 2023 3.80%
- 2024 4.1%
- 2025 4.1%
- 2026 4.1%
- Long Term 4.1%

The Fed expects a marginal increase of 10.81% from the current 3.70% to 4.10% in the following years. The central tendency and range projections indicate a consensus that unemployment will stay within the 3.8–4.3% range. The Fed projections suggest confidence in the labor market's resilience, aligning with its September projections.

Inflation, PCE, and Core PCE Inflation:

The projections for the Fed's preferred inflation benchmark, the Personal Consumption Expenditures (PCE) inflation, show a moderation from the previous estimates.

The PCE median forecast is as follows:

- 2023 2.8%
- 2024 2.4%
- 2025 2.1%
- 2026 2.0%
- Long Term 2.0%

The tendency suggests a consensus around the 2.0–2.5% range.

The Core PCE inflation, which excludes food and energy, is projected as follows:

- 2023 3.2%
- 2024. 2.4%
- 2025 2.2%
- 2026 2.0%
- Long Term 2.0%

These inflation projections indicate the Federal Reserve's commitment to achieving its dual mandate of maximum employment and price stability, though at a more measured pace.

Federal Funds Rate:

The projected federal funds rate path reflects a gradual easing monetary policy, which is why Wall Street took markets higher following the FOMC meeting.

The median projection anticipates the Fed Funds Rates as follows:

- 2023 5.4%
- 2024. 4.6%
- 2025 3.6%
- 2026 2.9%
- Long Term 2.5%

The central tendency and range suggest a decrease in rates of 0.90 basis points during 2023, and the consensus is that the rate will be within the 2.5%–3.8% range.

The cautious approach to monetary policy balances the need for economic growth with concerns about inflation.

Comparative Analysis Against the Fed's September Projections:

The December outlook reflects a more conservative stance than the September projections. The adjustments in GDP growth, unemployment, and inflation projections indicate a measured approach to economic management, possibly influenced by evolving global and domestic economic conditions.

The changes in the Fed's projections from its September Forecast versus its latest one in the long term are as follows:

GDP:

- September Long Term GDP 1.8%
- December Long Term GDP 1.8%

Unemployment Rate:

- September Long-Term Unemployment Rate 4.0%
- December Long-Term Unemployment Rate 4.1%

PCE:

- September Long-Term PCE 2.0%
- December Long-Term PCE 2.0%

Core PCE:

- September Long-Term Core PCE 2.0%
- December Long-Term Core PCE 2.0%

Fed Funds Rate:

- September Long-Term Fed's Funds Rate 2.5%
- December Long-Term Fed's Funds Rate 2.5%

The Final Word: Expect at least 75 basis points rate decrease for 2024

Lastly, the Federal Reserve's journey from a conservative 0.25% interest rate to the current 5.50% interest rate has been marked by 11 deliberate and calculated steps. The central bank's commitment to economic stability was evident as it admitted its earlier assertion that inflation was temporary was flawed.

The Federal Reserve's economic outlook and projections offer a measured approach influenced by evolving global and domestic economic conditions. The central bank's projections for real GDP growth, unemployment rates, inflation, and the federal funds rate offer a comprehensive view of their expectations.

The Federal Reserve Bank of Atlanta
GDPNow Forecast for the Fourth Quarter 2023

Date	GDPNow 4Q23	Change
10/27/23	2.30%	Initial Forecast
11/1/23	1.20%	-47.8%
11/7/23	2.10%	42.9%
11/8/23	2.10%	0.0%
11/15/23	2.20%	4.5%
11/17/23	2.00%	-9.1%
11/22/23	2.10%	4.8%
11/30/23	1.80%	-16.7%
12/1/23	1.20%	-50.0%
12/6/23	1.30%	7.7%
12/7/23	1.20%	-8.3%
12/14/23	2.60%	53.8%

Comparative analysis with September projections reveals a more conservative stance in the December outlook, emphasizing a cautious yet optimistic approach. Adjustments in GDP growth, unemployment, and inflation projections suggest a measured economic management strategy. The Fed's commitment to achieving its dual mandate of maximum employment and price stability is evident in the moderated pace of inflation projections. The latest GDPNow was updated last week, rising to 2.60% GDP, up from 1.20% GDP, a 53.80% increase.

Wall Street can anticipate gradually easing monetary policy to maintain stability while fostering economic growth. The nuanced projections provide valuable insights for investors, guiding their strategies in the coming years. Market participants should stay vigilant to evolving economic conditions and policy changes that may impact investment landscapes.

Embracing Change becomes the Key to Unlocking Progress, So Dive In and Change Your Reality.

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