



STONEBRIDGE  
Capital Advisors

# Stonebridge Economic Outlook: FOMC Update

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## **Press Release**

As widely anticipated, the Federal Open Market Committee (FOMC) raised its federal funds rate target by 25 basis points at the March meeting, the first change in its target rate in two years and the first increase in over three years. The reason for the rate hike given in the FOMC press release following the meeting was that “inflation remains elevated.” Although the FOMC noted that the “invasion of Ukraine by Russia” and “related events are likely to create additional upward pressure on inflation and weigh on economic activity,” they also noted that a firming in the stance of monetary policy seems appropriate for inflation returning to its 2 percent objective, while allowing the labor market to remain strong.

Monetary policy authorities have a dual objective of maximum employment and stable prices over the longer run. In this case, stable prices are defined as an inflation rate of 2 percent. Unfortunately, setting policy to achieve one of the objectives may not always yield the desired outcome for the other; achieving the desired outcome for both objectives is the so-called soft-landing for the economy.

Of course, when the Federal Reserve initially starts tightening monetary policy, a soft landing always seems possible. Such optimism survives for as long as the Fed is perceived to be on the right path. The Stonebridge Capital Advisors forecast, shown in Table 1, assumes that the Fed will indeed be perceived to be on the right path this year but it may not be so lucky next year.

## **Correction**

The Stonebridge economic forecast is shown in Table 1. It should look familiar. It was included in the Stonebridge Economic Outlook and Forecast Update released a few days ago. Unfortunately, the annual data for the various inflation measures shown in the previous table were either wrong or misplaced. I have made the necessary corrections in Table 1 in bold type. Also revised were the forecast of crude oil prices for the second and the third

quarters in response to the movements in crude prices the last few days owing to reports that Russia may be looking to end its war with Ukraine. Crude oil prices are always volatile but they likely will be even more so over the next year due to the geopolitical risks associated with Russia’s invasion of Ukraine.

## **Economic Projections**

At the March FOMC meeting, members of the Federal Reserve Board and the Federal Reserve Bank presidents submitted their projected outcomes for real GDP growth, the unemployment rate, inflation and the federal funds rate for each year from 2022 to 2024. The latest projections for 2022 and 2023 are included in Table 2. Also included in Table 2 are projections from the December FOMC meeting and the corresponding projections from Stonebridge Capital Advisors as reported in the Stonebridge Economic Outlook and Forecast Update in March 2022 and December 2021.

For 2022, the Fed’s median projection of the unemployment rate in March was the same as in December. However, the Fed’s median projection of real GDP growth in March is lower than it was in December, while the median projections of inflation and the federal funds rate are higher in March than in December. The federal funds rate projections of 1.9 percent by the end of 2022 and 2.8 percent by the end of 2023 imply that the Fed plans to increase its federal funds rate target 25 basis points at each of the remaining policy meetings this year (6 more times), with more to follow next year. Stay tuned.



**Table 1**  
**U.S. Economic Forecast**  
**2022f**

	Q1	Q2	Q3	Q4	2021	2022f	2023f
Real Gross Domestic Product	2.2	3.2	3.0	2.2	5.5	2.7	1.6
Consumer Price Index, All	5.5	5.0	3.8	3.7	<b>6.7</b>	<b>4.5</b>	2.2
Consumer Price Index, Core	5.4	4.8	3.8	4.0	<b>5.0</b>	<b>4.5</b>	2.8
GDP Chain-Type Price Index	3.0	3.0	3.5	3.9	5.5	<b>3.3</b>	2.2
Civilian Unemployment Rate	3.9	3.7	3.7	3.6	4.2	3.6	3.8
Price of WTI crude oil (\$/bbl)	96.0	<b>100.0</b>	<b>98.0</b>	95.5	77.4	95.5	70.0
Trade-Weighted Dollar	115.7	116.1	115.6	114.0	115.0	114.0	110.0
S&P 500 Operating Earnings	51.4	53.2	54.5	55.3	202.8	214.4	209.5
Percent vs. Year Ago	8.4	2.2	4.8	5.1	64.6	5.7	-2.3
91-Day Treasury Bill Rate	0.3	0.8	1.6	1.8	0.1	1.8	2.5
10-Year Treasury Note Yield	1.8	2.0	2.2	2.3	1.5	2.3	2.7
30-Year Mortgage Rate	3.6	3.8	3.9	4.0	3.2	4.0	4.5
Bank Prime Rate	3.3	3.8	4.6	4.8	3.2	4.8	5.5

*Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Standard and Poor's, Federal Reserve Board, Department of Energy, and Federal Home Loan Mortgage Corporation.*

*Annual changes in real gross domestic product (GDP) and all measures of inflation are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. The annual estimates of the unemployment rate, the price of crude oil, the trade-weighted dollar and all interest rates are averages for the last quarter of the year indicated. S&P 500 operating earnings per share are for the period indicated.*

*Quarterly changes in real GDP and all measures of inflation are percent changes from the previous quarter at annual rates. For the unemployment rate, the price of crude oil, the trade-weighted dollar and all interest rates, quarterly estimates are averages for the quarter indicated. S&P earnings are per share for the period indicated. Trade-weighted dollar is the new broad index from the Federal Reserve Board.*

*f-forecast; bold type reflects a major change from the previous forecast.*



**Table 2**  
**Economic Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents Under Their Individual Assumptions of Monetary Policy**

	2021	2022f	2023f
Change in Real GDP	5.5		
FOMC Median (March)		2.8	2.2
SCA (March)		2.7	1.6
FOMC Median (December)		4.0	2.2
SCA (December)		2.7	NA
Consumer Prices (CPI)	6.7		
FOMC Median (March) PCE Inflation		4.3	2.7
SCA (March) Consumer Price Inflation		4.5	2.2
FOMC Median (December) PCE Inflation		2.6	2.3
SCA (December) Consumer Price Inflation		2.8	NA
Consumer Prices, Core CPI	5.0		
FOMC Median (March) PCE Inflation		4.1	2.6
SCA (March) Consumer Price Inflation		4.5	2.8
FOMC Median (December) Consumer Price Index		2.7	2.3
SCA (December) Consumer Price Inflation		2.8	NA
Civilian Unemployment Rate	4.2		
FOMC Median (March)		3.5	3.5
SCA (March)		3.6	3.8
FOMC Median (December)		3.5	3.5
SCA (December)		3.9	NA
Short-term Interest Rates	0.1		
FOMC Median (March) Federal Funds Rate		1.9	2.8
SCA (March) 91-Day Treasury Bill Rate		1.8	2.5
FOMC Median (December) Federal Funds Rate		0.9	1.6
SCA (December) 91-Day Treasury Bill Rate		1.0	NA

*Sources: Bureau of Economic Analysis, Bureau of Labor Statistics and the Federal Reserve Board. Annual changes in real gross domestic product (GDP) are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. Annual changes in consumer prices projected by the FOMC are percent changes in PCE inflation from December of the previous year to December of the year indicated. Annual changes in consumer prices forecasted by SCA are percent changes in CPI from the fourth quarter of the previous year to the fourth quarter of the year indicated. The annual estimates of the unemployment rate and short-term interest rates are the levels expected at the end of the year indicated (December for the FOMC and fourth quarter for SCA).*

*f-forecast; NA-Not available.*

*The views expressed here reflect those of Daniel E. Laufenberg, Ph.D. as of the date noted and not necessarily those of Stonebridge Capital Advisors. They may change as economic fundamentals and market conditions change. This commentary is provided as a general source of information only and is not intended to provide investment advice for individual investor circumstances. Past performance does not guarantee future results.*

