In her post-meeting press conference, Dr. Yellen described today’s vote to raise the funds rate target range as a sign of confidence in the progress the economy has made and the Committee’s judgement that progress will continue. Or, as she put it, it is a “vote of confidence” in the economy. Where we go from here, however, remains uncertain, and the path of the funds rate will clearly be impacted by whatever changes we get in fiscal, regulatory, and trade policy next year. What is not clear, however, is what those policy changes will be. As Dr. Yellen noted, it would be premature to base monetary policy projections on nothing but speculation over any such changes. Dr. Yellen also dismissed the notion that the FOMC is already “behind the curve” in terms of inflation – some analysts make this argument, which to us is a very curious argument to make. Moreover, as Dr. Yellen noted, inflation is still running below the FOMC’s target rate, and with there still being at least some degree of slack in the labor market, there is still some room to run before inflation becomes a pressing concern.

As for the “dot plot,” which shows what each Committee member sees as the appropriate year-end value of the Fed funds rate range mid-point if the economy evolves as they now expect, the December projections imply three 25-basis point hikes in the target range mid-point in 2017. This is one additional hike relative to the September projections, but it probably is worth not reading too much into this change. After all, a year ago the dot plot implied four hikes in 2016 and the number varied between two and four over the course of the year, making this no different than any other year in that regard. Dr. Yellen did note some FOMC members did factor in some effects of fiscal stimulus, but also noted that, on the whole, the Committee’s discussion of potential policy changes only served to highlight how much uncertainty there is now over the policy outlook and, in turn, how that will impact the economy.

We don’t agree with those who see the additional rate hike implied by today’s dot plot as sending a “hawkish” signal. The FOMC notes policy remains “accommodative” and that further rate hikes will come at a “gradual” pace. That will surely change should the data warrant it, but for now we don’t see a material shift in how the FOMC sees the world.