Fed Dot Plots Steal the FOMC Show

With the Fed pausing rate hikes yesterday, as was widely expected, the focus is now on what comes next. Will the Fed hike one or two more times as is implied in the Fed Futures contracts, or will they pause and let the monetary policy lags catch up to the economy? No one, including Fed members, know the answer, but they have forecasts. Their forecasts are released quarterly and summarized in what is known as the Fed ?dot plots.? The Fed dot plots summarize each member?s expectations for GDP, unemployment, PCE inflation, and Fed Funds rate. The projections are for the remainder of this year, 2024, 2025, and the ?longer run.?

Yesterday?s Fed dot plot shows the projections we noted above and the change from the prior projections in March. The significant change, which we circle, shows that the Fed now expects the Fed Funds rate to be 50bps higher than it did three months ago. Why? As we shade in blue, they expect GDP to be stronger than it did in March and Unemployment (yellow) to be decently lower. They think PCE will be one-tenth lower than they did (green), but the core PCE (white) is now projected to be three-tenths higher. The dot plots point to a Fed that remains hawkish despite its first no-action at an FOMC meeting in a year and a half.

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, June 2023

Percent

Variable	Median[1]				Central Tendency[2]				Range[3]			
	2023	2024	2025	Longer run	2023	2024	2025	Longer run	2023	2024	2025	Longer run
Change in real GDP	1.0	1.1	1.8	1.8	0.7–1.2	0.9–1.5	1.6–2.0	1.7–2.0	0.5–2.0	0.5–2.2	1.5–2.2	1.6–2.5
March projection	0.4	1.2	1.9	1.8	0.0–0.8	1.0–1.5	1.7–2.1	1.7–2.0	-0.2–1.3	0.3–2.0	1.5–2.2	1.6–2.5
Unemployment rate	4.1	4.5	4.5	4.0	4.0–4.3	4.3–4.6	4.3–4.6	3.8–4.3	3.9–4.5	4.0–5.0	3.8–4.9	3.5–4.4
March projection	4.5	4.6	4.6	4.0	4.0–4.7	4.3–4.9	4.3–4.8	3.8–4.3	3.9–4.8	4.0–5.2	3.8–4.9	3.5–4.7
PCE inflation	3.2	2.5	2.1	2.0	3.0–3.5	2.3–2.8	2.0–2.4	2.0	2.9–4.1	2.1–3.5	2.0–3.0	2.0
March projection	3.3	2.5	2.1	2.0	3.0–3.8	2.2–2.8	2.0–2.2	2.0	2.8–4.1	2.0–3.5	2.0–3.0	2.0
Core PCE inflation[4]	3.9	2.6	2.2		3.7–4.2	2.5–3.1	2.0–2.4		3.6–4.5	2.2–3.6	2.0–3.0	
March projection	3.6	2.6	2.1		3.5–3.9	2.3–2.8	2.0–2.2		3.5–4.1	2.1–3.1	2.0–3.0	
Memo: Projected appropriate policy path												
Federal funds rate	5.6	4.6	3.4	2.5	5.4–5.6	4.4–5.1	2.9–4.1	2.5–2.8	5.1–6.1	3.6–5.9	2.4–5.6	2.4–3.6
March projection	5.1	4.3	3.1	2.5	5.1–5.6	3.9–5.1	2.9–3.9	2.4–2.6	4.9–5.9	3.4–5.6	2.4–5.6	2.3–3.6

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	2023	2024	2025	Longer run	2023	2024	2025	Longer run	2023	2024	2025	Longer run
Change in real GDP	1.0	1.1	1.8	1.8	0.7–1.2	0.9–1.5	1.6–2.0	1.7–2.0	0.5–2.0	0.5–2.2	1.5–2.2	1.6–2.5
March projection	0.4	1.2	1.9	1.8	0.0–0.8	1.0–1.5	1.7–2.1	1.7–2.0	-0.2–1.3	0.3–2.0	1.5–2.2	1.6–2.5
Unemployment rate	4.1	4.5	4.5	4.0	4.0–4.3	4.3–4.6	4.3–4.6	3.8–4.3	3.9–4.5	4.0–5.0	3.8–4.9	3.5–4.4
March projection	4.5	4.6	4.6	4.0	4.0–4.7	4.3–4.9	4.3–4.8	3.8–4.3	3.9–4.8	4.0–5.2	3.8–4.9	3.5–4.7
PCE inflation	3.2	2.5	2.1	2.0	3.0–3.5	2.3–2.8	2.0–2.4	2.0	2.9–4.1	2.1–3.5	2.0–3.0	2.0
March projection	3.3	2.5	2.1	2.0	3.0–3.8	2.2–2.8	2.0–2.2	2.0	2.8–4.1	2.0–3.5	2.0–3.0	2.0
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March projection	5.1	4.3	3.1	2.5	5.1–5.6	3.9–5.1	2.9–3.9	2.4–2.6	4.9–5.9	3.4–5.6	2.4–5.6	2.3–3.6

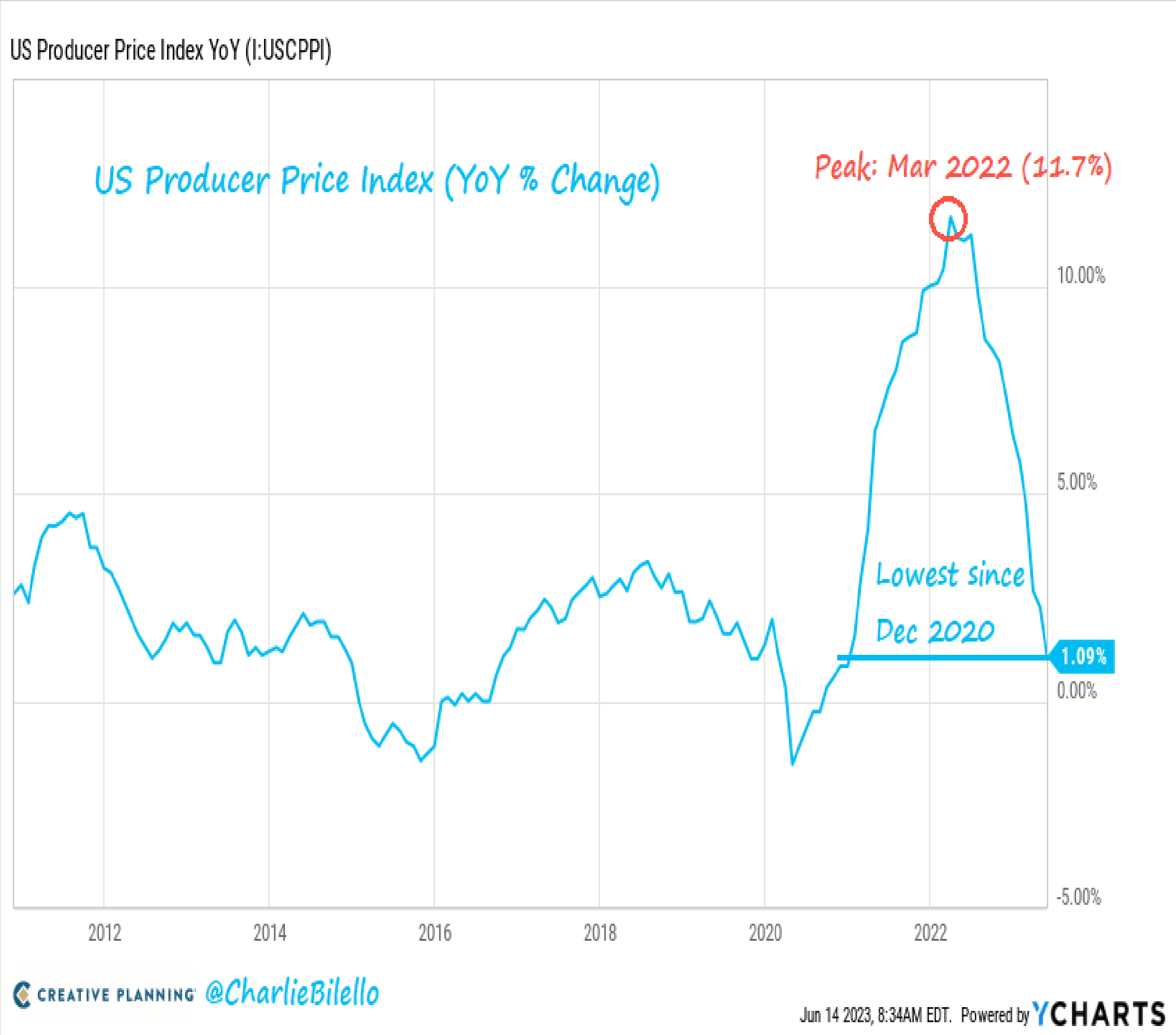
What To Watch Today

Market Trading Update

PPI Enters Deflation

Following Tuesday?s CPI data, PPI, a measure of producer prices, fell 0.3% in May. The annualized rate of change based on the last three months is -2.0%, and for the last six months, it is -1.0%! The year-over-year measure is only +1.1%, down from +11.7% in March 2022. The year-over-year rate is much higher than more recent data due to +0.8 and +0.9% price increases in May and June 2022. As the two data points roll off in two months, the year-over-year calculation will likely be closing in on zero.

Within PPI, the bifurcation between goods and services continues. PPI- final demand for goods fell by 1.6%, while services increased by 0.2%. Like CPI, the core PPI is running hotter than the headline PPI. The monthly rate, excluding food and energy, is +0.2%.


US Producer Price Index YoY (I:USCPPI)
US Producer Price Index (YoY % Change)
Peak: Mar 2022 (11.7%)
Lowest since
Dec 2020
1.09%
10.00%
5.00%
0.00%
-5.00%
2012
2014
2016
2018
2020
2022
CREATIVE PLANNING @CharlieBilello
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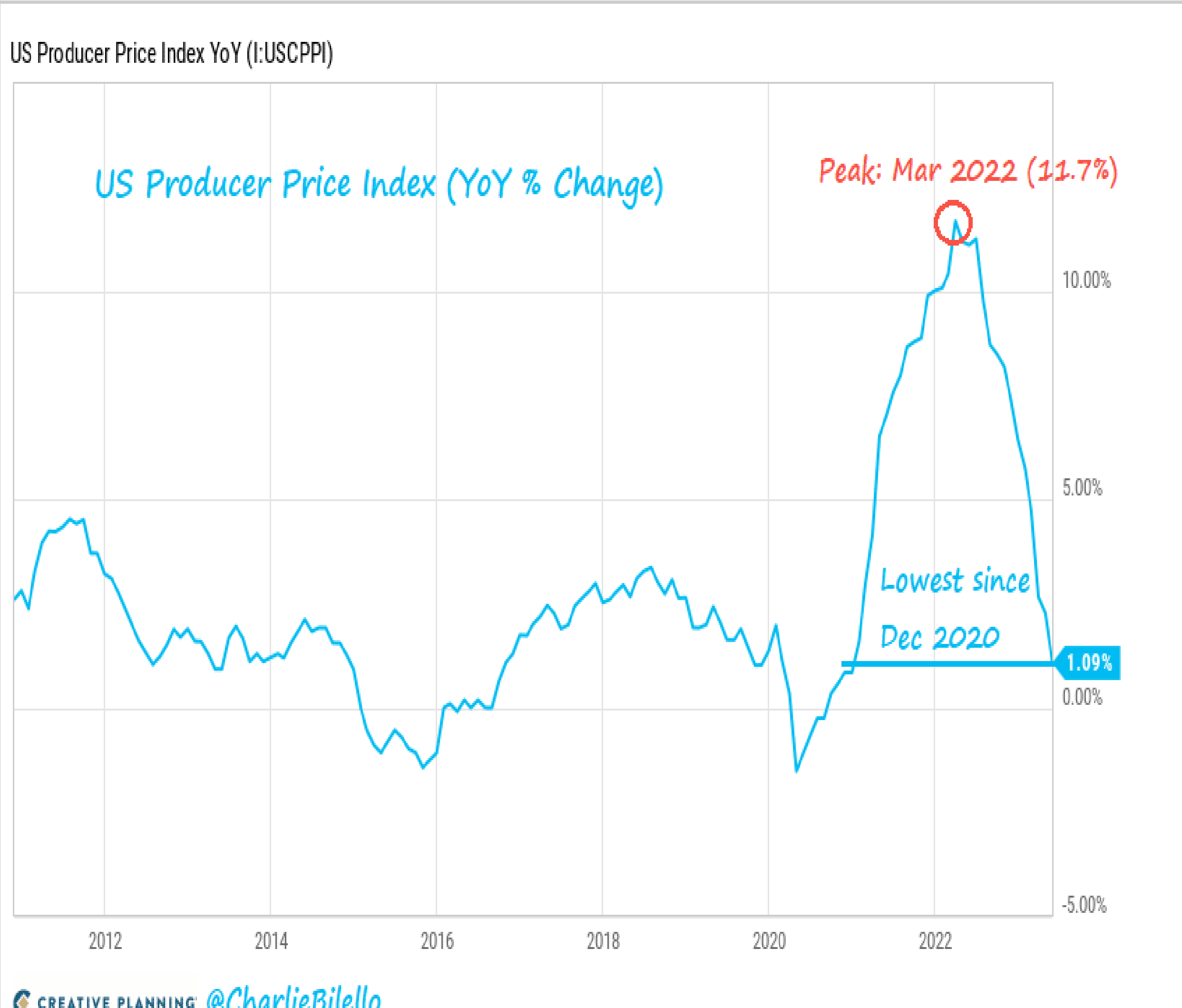
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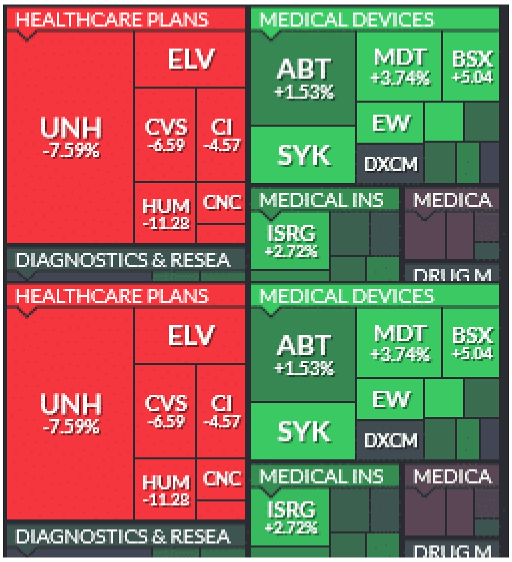
CREATIVE PLANNING @CharlieBilello

Seniors Are Getting Surgery To the Chagrin of Healthcare Insurers

> *?We?re seeing that more seniors are just more comfortable accessing services for things that they might have pushed off a bit like knees and hips.? &#2013266080;*

The quote above from UNH CEO Tim Noel did not sit well with the shareholders of large health insurance companies. After postponing surgery due to the pandemic, older people are electing to take care of health issues. As such, health insurers will see a rise in claims and, therefore, lower profits.

The heat map below shows that health insurance companies are down from 5-10% at yesterday?s opening. At the same time, the beneficiaries of more surgery, the medical device companies, are trading higher. UNH is the highest-priced stock in the price-weighted Dow Jones Industrial Average. Therefore the decline of UNH is having a much more significant effect on the Dow than the market cap-weighted S&P 500.



Oil Demand Growth is Peaking

The graph below shows the IEA expects that the growth rate of oil demand will shrink but still remain positive. However, the peak in gasoline demand may have been in 2019, and they expect it to continue lower.

Per [Kailash Concepts]

> *What?s incredible is those are cumulative GROWTH in demand bars. So it is ?peak demand growth? not really peak demand. India?s GDP per capita is just $2.5k, they?re going to add 400ml people (an America) and they are growing like gangbusters. When peak?*

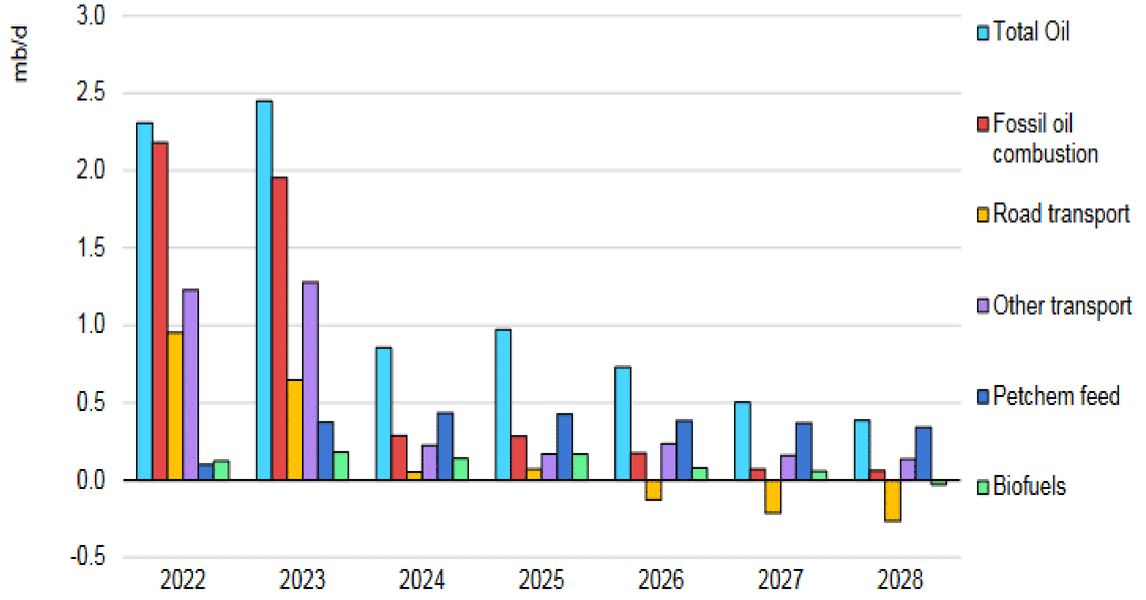
The difficulty in forecasting oil demand lies in the balance between the switch to greener energy sources from traditional energy versus the rapid growth of developing nations like India. The IEA expects annual EV sales will rise to 25 million per year in 2028, more than double current sales. If that occurs, a third of annual global sales would be EV, which would clearly dent oil demand.

Per the [IEA]:

> *?The shift to a clean energy economy is picking up pace, with a peak in global oil demand in sight before the end of this decade as electric vehicles, energy efficiency and other technologies advance,? said IEA Executive Director Fatih Birol. ?Oil producers need to pay careful attention to the gathering pace of change and calibrate their investment decisions to ensure an orderly transition.?*

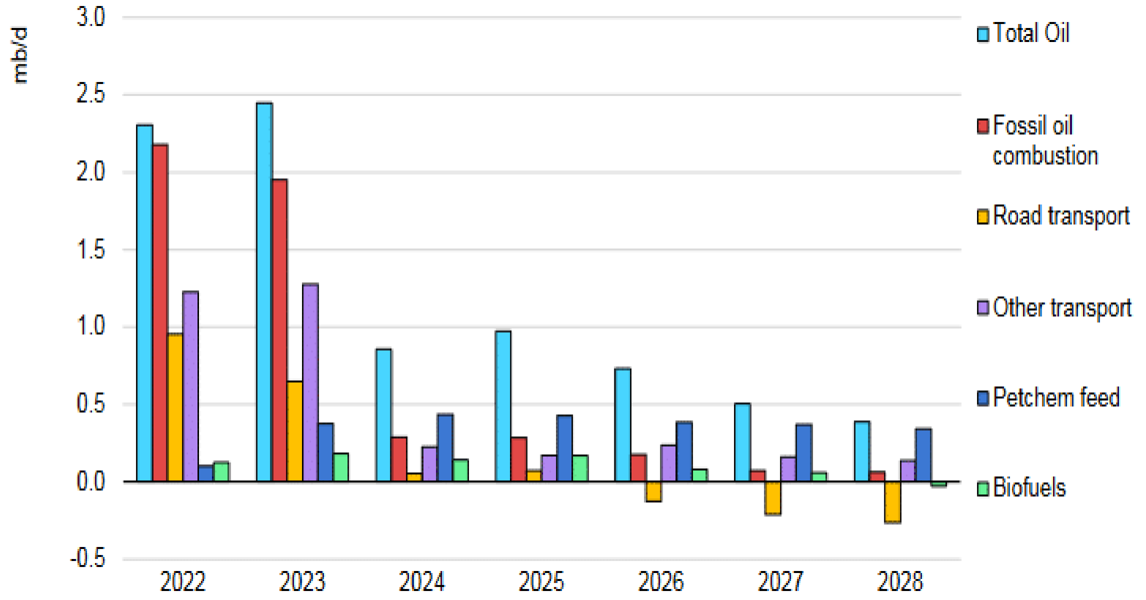
The entire 127-page report by the EAI can be found HERE.

Annual oil demand growth, 2022-2028



Note: Fossil oil combustion is total demand minus feedstock use, other non-energy uses and biofuels consumed.

Annual oil demand growth, 2022-2028



IEA. CC BY 4.0.

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Global oil demand by product (mb/d), 2019-2028

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2022-28 Growth Rate	2022-28 Growth
LPG/Ethane	13.2	13.2	13.8	14.2	14.4	14.6	14.8	15.1	15.5	15.9	1.9%	**1.7**
Naphtha	6.6	6.4	6.9	6.8	7.0	7.4	7.8	8.0	8.2	8.3	3.4%	**1.5**
Gasoline	26.7	23.7	25.6	26.0	26.6	26.6	26.6	26.4	26.1	25.8	-0.2%	**-0.3**
Jet/Kerosene	8.0	4.7	5.2	6.2	7.3	7.5	7.6	7.9	8.0	8.2	4.7%	**2.0**
Gasoil/Diesel	28.3	26.1	27.5	28.3	28.4	28.5	28.7	28.7	28.8	28.9	0.4%	**0.6**
Residual fuel oil	6.2	5.6	6.2	6.5	6.7	6.7	6.7	6.7	6.7	6.7	0.4%	**0.2**
Other products	11.8	11.9	12.2	11.8	11.8	11.9	11.9	12.0	12.0	12.0	0.3%	**0.2**
Total products	**100.7**	**91.7**	**97.5**	**99.8**	**102.3**	**103.1**	**104.1**	**104.8**	**105.3**	**105.7**	**1.0%**	**5.9**
Annual change	*0.6*	*-9.0*	*5.8*	*2.3*	*2.4*	*0.9*	*1.0*	*0.7*	*0.5*	*0.4*		

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Annual change	*0.6*	*-9.0*	*5.8*	*2.3*	*2.4*	*0.9*	*1.0*	*0.7*	*0.5*	*0.4*		

Tweet of the Day

Ross Hendricks
@Ross__Hendricks

PPI -0.3% is a mixed bag

Yes, PPI falling is a leading indicator for further downward pressure on inflation

It's also a leading indicator for corporate pricing power

For the past year, corporations have struggled to offset falling volumes with higher prices - as shown below in the persistent decline in same store sales

What happens when corporations now face falling volumes plus falling prices?

(Answer: profit squeeze)

Ross Hendricks
@Ross__Hendricks

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What happens when corporations now face falling volumes plus falling

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Michael Lebowitz, CFA **is an Investment Analyst and Portfolio Manager for RIA Advisors.** specializing in macroeconomic research, valuations, asset allocation, and risk management. **RIA Contributing&#2013266080;Editor and Research Director.** CFA is an Investment Analyst and Portfolio Manager; **Co-founder of&#2013266080;720 Global Research.&#2013266080;**

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