Federal Reserve: On track for a December hike

No change from the Fed today but policymakers remain on track to deliver further gradual rate hikes. A December hike looks pretty much baked in at this point, and three further hikes in 2019 still seem like the most likely outcome

Fed Chair, Jerome Powell

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Today's policy statement from the FOMC is largely similar to the September statement. The Fed upgraded its assessment of business fixed investment to say it has "grown strongly", reflecting the latest data for 3Q, but otherwise left its language unchanged. This suggests policymakers remain content with the way the economy is evolving, and will stick to their current policy stance of "gradual increases" in the policy rate.

Near-term momentum in the US economy remains strong, with 3Q GDP coming in at 3.5% QoQ annualised in the advance reading. The labour market is going from strength to strength, with the highest wage growth since 2009 and the lowest unemployment rate since the dotcom bubble. Inflation remains around the 2% target on all the key measures the Fed looks at. The recent volatility in equity markets looks unlikely to derail the Fed's plans – after all, the more severe volatility episode back in February didn't affect the March hike, and equity markets appear to have regained their poise, at least for now.

All this suggests further interest rate rises are on the way. We expect another 25 basis point hike in December, and three more in 2019, in line with the Fed's 'dot plot'. Recent speeches by Fed governors, including newly appointed vice-chair Richard Clarida, suggests the FOMC remains in an optimistic mood.

That said, the outlook for 2019 is in our view turning a bit cloudier. The economy faces more headwinds as the support from this year's massive fiscal stimulus gradually fades and borrowing costs rise. The stronger dollar and softer growth in the rest of the world, particularly emerging markets, will also act as a brake on US growth. In addition, there is the drag from trade tensions that will impact supply chains and put up the cost of doing business. This may dampen inflation pressures in the medium term. Set against that, there are upside risks if these external tensions ease, or if President Trump and the newly elected Democratic majority in Congress can agree on a major infrastructure spending package next year.