



## **FOMC Update – May 2, 2018**

By Steve Brown, President & CEO of PCBB

The FOMC left the targeted Fed Funds rate unchanged at 1.50% to 1.75%, as widely anticipated, and once again called out a moderation in household spending balanced out with strong business investment. The job market is still strong, and expected to remain so, according to committee members, and the language regarding inflation was slightly modified to reflect progress towards the 2% target.

### **Rates and Market:**

- Fed Funds Target: 1.50% - 1.75%
- Policy Bias: remains accommodative
- Market Reaction: yields dropped about 1bp across the curve

### **The FOMC announced the following actions and analysis:**

- 8 -0 vote
- Economic expansion will continue at a moderate pace
- Inflation is moving closer to 2%
- Risks to economic outlook are roughly balanced

### **The Statement:**

Information received since the Federal Open Market Committee met in March indicates that the labor market has continued to strengthen and that economic activity has been rising at a moderate rate. Job gains have been strong, on average, in recent months, and the unemployment rate has stayed low. Recent data suggest that growth of household spending moderated from its strong fourth-quarter pace, while business fixed investment continued to grow strongly. On a 12-month basis, both overall inflation and inflation for items other than food and energy have moved close to 2 percent. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed, on balance.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with further gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace in the medium term and labor market conditions will remain strong. Inflation on a 12-month basis is expected to run near the Committee's symmetric 2 percent objective over the medium term. Risks to the economic outlook appear roughly balanced.

In view of realized and expected labor market conditions and inflation, the Committee decided to maintain the target range for the federal funds rate at 1-1/2 to 1-3/4 percent. The stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return to 2 percent inflation.

In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The Committee will carefully monitor actual and expected inflation developments relative to its symmetric inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant further gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.

Voting for the FOMC monetary policy action were Jerome H. Powell, Chairman; William C. Dudley, Vice Chairman; Thomas I. Barkin; Raphael W. Bostic; Lael Brainard; Loretta J. Mester; Randal K. Quarles; and John C. Williams.

### **About Steve Brown:**

Steve has over 30 years of banking and capital markets experience, is frequently quoted in the press on banking issues and trends and is a regular speaker at industry conferences. He is also the author of the popular Banc Investment Daily, distributed to over 75,000 community bankers and regulators nationwide. Steve joined PCBB in 2002, where he was CEO of its broker dealer subsidiary and later became President/CEO of PCBB in 2007. Prior to joining PCBB, Steve was cofounder of a financial technology (fintech) company; ran a sales group at Bank of America Securities focused on community banks; and was on the sales team at the world's largest wholesale broker of federal funds, interest rate hedging and foreign exchange. Steve began his banking career in the finance and treasury departments of a large community bank in Arizona in the mid-1980's.