<u>FOMC Update – Jul 31, 2019</u>
By Steve Brown, President & CEO of PCBB

In a widely anticipated move, the FOMC lowered the Fed Funds rate by 25bps to a range of 2.00% - 2.25%, citing global risk and soft business spending as the catalyst for the decision. Although acknowledging strength in the labor market and moderate growth in economic activity, the Committee implied that soft inflation allowed the flexibility to lower rates in order to help sustain the expansion. While the statement left the door open for more cuts, 2 committee members dissented in favor of leaving policy unchanged, suggesting today's move may not necessarily portend an extended easing campaign going forward.

Rates and Market:

- Fed Funds Target: 2.00% – 2.25%
- Policy Bias: neutral to slightly dovish
- Market Reaction: Yields rose 1-2bps following the announcement and immediately retreated to pre-announcement levels.

The FOMC announced the following actions and analysis:

- 8-2 vote
- Economic activity is rising at a moderate rate
- Inflation pressure is muted
- Risks to economic outlook appear balanced

The Statement:
Information received since the Federal Open Market Committee met in June indicates that the labor market remains strong and that economic activity has been rising at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although growth of household spending has picked up from earlier in the year, growth of business fixed investment has been soft. On a 12-month basis, overall inflation and inflation for items other than food and energy are running below 2 percent. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate to 2 to 2-1/4 percent. This action supports the Committee's view that sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective are the most likely outcomes, but uncertainties about this outlook remain. As the Committee contemplates the future path of the target range for the federal funds rate, it will continue to monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2 percent objective.

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 maximum employment objective and its symmetric 2 percent inflation objective. 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 conclude the reduction of its aggregate securities holdings in the System Open Market Account in August, two months earlier than previously indicated.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michelle W. Bowman; Lael Brainard; James Bullard; Richard H. Clarida; Charles L. Evans; and Randal K. Quarles. Voting against the action were Esther L. George and Eric S. Rosengren, who preferred at this meeting to maintain the target range for the federal funds rate at 2-1/4 to 2-1/2 percent.

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.