



FOMC Update – July 28, 2021

By: Steve Brown, President & CEO of PCBB

The FOMC left the Fed Funds rate unchanged at 0% – 0.25%, with Fed policy and vaccinations contributing to the ongoing recovery. Although the areas of the economy most affected by the pandemic are still challenged, they continue to make progress towards pre-pandemic levels. As we've yet to reach full employment and the long-term 2% inflation target, policy will remain accommodative for the time being. However, given the progress that's been made thus far, the statement for the first time hinted towards the much anticipated "taper" of Treasury and mortgage securities purchases, likely in a calculated move to ensure an orderly market reaction when the time eventually comes.

Rates and Market:

- Fed Funds Target: 0% – 0.25%
- Policy Bias: Accommodative
- Market Reaction: The long ended initially jumped 2-3 bps, largely on the "taper" implication

The FOMC announced the following actions and analysis:

- 11-0 vote
- Economic activity has continued to strengthening
- Inflation has risen but will be transitory
- Risks to the economic outlook remain

The Statement:

The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

With progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the pandemic have shown improvement but have not fully recovered. Inflation has risen, largely reflecting transitory factors. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy continues to depend on the course of the virus. Progress on vaccinations will likely continue to reduce the effects of the public health crisis on the economy, but risks to the economic outlook remain.

The Committee seeks to achieve maximum employment and inflation at the rate of 2

percent over the longer run. With inflation having run persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. Last December, the Committee indicated that it would continue to increase its holdings of Treasury securities by at least \$80 billion per month and of agency mortgage backed securities by at least \$40 billion per month until substantial further progress has been made toward its maximum employment and price stability goals. Since then, the economy has made progress toward these goals, and the Committee will continue to assess progress in coming meetings. These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Thomas I. Barkin; Raphael W. Bostic; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; Mary C. Daly; Charles L. Evans; Randal K. Quarles; and Christopher J. Waller.

[Implementation Note issued July 28, 2021](#)

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.