



FOMC Update – Nov 5, 2020

By Steve Brown, President & CEO of PCBB

Rates will remain at current levels for the foreseeable future, and the Fed will maintain its pace of Treasury purchases until inflation surpasses 2% and the economy has reached maximum employment, according to today's FOMC release. While the economy has continued its recovery, it remains well below pre-virus levels and weak demand and low energy prices are keeping inflation well below targeted levels. The statement also acknowledged that the economic recovery will be path-dependent on the progress with COVID, and maintaining liquidity to businesses and households remains a top priority. All considered, the FOMC delivered another statement right in line with market expectations.

Rates and Market:

- Fed Funds Target: 0% – 0.25%
- Policy Bias: Dovish
- Market Reaction: The short end of the curve dropped about 1 bp, while there was no meaningful reaction in the long end

The FOMC announced the following actions and analysis:

- 10-0 vote
- Economic activity remains well below pre-virus levels, and will be dependent on the path of the virus
- Inflation is being contained by weak demand and low energy prices
- Risks to economic outlook are considerable in the medium term

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.

The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. Economic activity and employment have continued to recover but remain well below their levels at the beginning of the year. Weaker demand and earlier declines in oil prices have been holding down consumer price inflation. 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 will depend significantly on the course of the virus. The ongoing public health crisis will continue to weigh on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation running 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. In addition, over coming months the Federal Reserve will increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace to sustain smooth market functioning and help foster 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; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; Mary C. Daly; Patrick Harker; Robert S. Kaplan; Loretta J. Mester; and Randal K. Quarles. Ms. Daly voted as an alternate member at this meeting.

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.