FOMC Update

. . . as summarized by Smith Shellnut Wilson

June 16, 2021

SMITH SHELLNUT WILSON

INVESMENT COUNSEL AND MANAGEMENT

SSW Research Department
Ray Thompson
Office: (601) 605-1776
Email: rayt@ssw1776.com
website: www.ssw1776.com

The Federal Reserve on Wednesday held interest rates at near-zero but optimism over the progression of the U.S. economic recovery spurred more Fed officials to pencil in rate hikes by the end of 2023.

The Fed also reiterated for now its commitment to its asset purchase program, which is absorbing about $120 billion a month in assets.

“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 Federal Open Market Committee said in a statement.

A fresh round of its quarterly economic projections reflected the central bank’s optimism over the economic outlook, with 13 of the FOMC’s 18 members projecting at least one rate hike by the end of 2023.

The median member of the FOMC in the so-called “dot plot,” which maps out each member’s expectations for rates over coming years, now expects two rate hikes by the end of 2023.

For comparison, the Fed’s dot plots in March of this year showed the median member expecting no rate hikes through that time horizon.

The upward revision suggests that the Fed sees a faster-than-expected recovery. The economic projections raised expectations for real GDP growth in 2021 to 7.0%, a notch up from March projections for 6.5%.

The Fed however, maintained its March expectation for the headline unemployment rate to end 2021 at 4.5%.

Tapering?

The Fed statement reiterated that for now the central bank will continue to purchase at least $120 billion a month in agency mortgage-backed securities and U.S. Treasuries as part of its quantitative easing program.

The decision to hold interest rates at near-zero was unanimous among the voting members of the FOMC.

Smith Shellnut Wilson, LLC
661 Sunnybrook Road, Ste 130
Ridgeland, MS 39157-1813
Office: (601) 605-1776
Fax: (601) 605-1710
Website: www.ssw1776.com

SMITH
SHELLNUT
WILSON

INVESMENT COUNSEL
AND MANAGEMENT

SSW Research Department
Ray Thompson
Office: (601) 605-1776
Email: rayt@ssw1776.com
website: www.ssw1776.com

But chatter is building within the central bank over kicking off discussions about when to begin slowing the pace of those purchases. Those eager to begin the "taper talks" have also expressed concern over the risk of rising inflation.

The FOMC's Summary of Economic Projections show the median member of the committee viewing inflation rising at a faster clip than its last round of forecasts in March, expecting core personal consumption expenditures (the Fed's preferred measure of inflation) clocking in at 3.0% in 2021 (compared to 2.2% in its March forecast).

The Fed's inflation target is 2%.

Other changes

The Fed also made a technical change by saying it would raise the interest it pays on reserves and excess reserves, from 0.10% to 0.15%.

The tweak does not change the Fed's interest rate target, which remains unchanged at a range between 0% and 0.25%. But banks, swelling with deposits amid the Fed's money printing, have been lending overnight funds at rates closer to the bottom of that range.

The Fed also announced it would extend its temporary U.S. dollar liquidity swap lines with nine central banks through December 31, 2021. The swap lines were originally set to expire in September 2021.

Please click the link for a side-by-side comparison of the U.S. Federal Open Market Committee statements from June 16, 2021 and April 28, 2021.

Source: Yahoo Finance

Smith Shellnut Wilson, LLC
661 Sunnybrook Road, Ste 130
Ridgeland, MS 39157-1813
Office: (601) 605-1776
Fax: (601) 605-1710
Website: www.ssw1776.com