# FOMC Update

. . . as summarized by Smith Shellnut Wilson

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## FED SIGNALS BOND-BUYING TAPER MAY START SOON, SPLIT ON 2022 HIKE

Federal Reserve officials signaled they would probably begin tapering their bond-buying program soon and revealed a growing inclination to start raising interest rates in 2022.

If progress toward the Fed's employment and inflation goals "continues broadly as expected the committee judges that a moderation in the pace of asset purchases may soon be warranted," the U.S. central bank's policy-setting Federal Open Market Committee said Wednesday in a statement following a two-day meeting.

The Fed also published updated quarterly projections which showed officials are now evenly split on whether or not it will be appropriate to begin raising the federal funds rate as soon as next year, according to the median estimate of FOMC participants. In June, the median projection indicated no rate increases until 2023.

## NEW PROJECTIONS

The FOMC decided to maintain the target range for its benchmark policy rate at zero to 0.25% and continue purchases of Treasuries and mortgage-backed securities at a pace of US $120 billion per month. The vote was unanimous.

Projections for 2024 were also published for the first time, with the median suggesting a federal funds rate of 1.8% by the end of that year. The median for 2023 rose to 1%, from 0.6% in the June projection.

The Fed also said it would double the per-counterparty limit on its overnight reverse-repurchase agreement facility to US $160 billion daily.

The U.S. unemployment rate fell to 5.2% in August, well below the April 2020 peak of 14.8%. But it's still above the 3.5% rate that prevailed in February 2020, just before the pandemic struck. Fed officials have said they expect to keep the funds rate near zero "until labor-market conditions have reached levels consistent with the committee's assessments of maximum employment."

Inflation, according to the Fed's preferred measure, was 4.2% in the 12 months through July, well above the central bank's 2% target. Many Fed officials have said they expect it to return to around 2% after temporary supply-chain disruptions resulting from the pandemic have been resolved, though several have also cited the rapid price increases as a reason to begin raising rates as early as next year.

Please click the link for a side-by-side comparison of the U.S. Federal Open Market Committee statements from September 22, 2021 and July 28, 2021.

*Source: BNN Bloomberg*

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