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Comments on Current Economic Indicators – United States

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FOMC: Rates Steady; Hike "Soon"

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The Federal Open Market Committee (FOMC) held the Federal Funds Rate target range at 0% to 0.25%.

The FOMC also announced that Tapering will continue at the current pace.

As a result, the FOMC will purchase at least $20B in Treasuries and at least $10B in Mortgage-Backed Securities for February (compared with $40B and $20B in January). Purchases will end in early March.

This is all what DE expected.

The statement also mentioned that "With inflation well above 2 percent and a strong labor market, **the Committee expects it will soon be appropriate to raise the target range for the Federal Funds Rate."**

The FOMC also released information regarding longer-term plans to reduce the balance sheet.

The FOMC still views the Federal Funds Rate as the primary policy tool but expects to begin reducing the balance sheet once rate hikes are underway.

The balance sheet reduction would occur by altering reinvestments for principals on securities in the System Open Market Account (SOMA).

"Over time, the Committee intends to maintain securities holdings in amounts needed to implement monetary policy efficiently and effectively in its ample reserves regime," the additional release mentioned. "In the longer run, the Committee intends to hold primarily Treasury securities in the SOMA, thereby minimizing the effect of Federal Reserve holdings on the allocation of credit across sectors of the economy."

Regarding interest rates, DE thinks the first hike will occur in March (25 bps) followed by similar hikes in May, July, September and December. The policy rate should then rise 25 bps each quarter in 2023.

There was no new Summary of Economic Projections.

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