



Fed Watch

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Kristin Lomicka

Kristin.Lomicka@bbvacompass.com

FOMC Minutes April 28-29, 2009

- Signs of stabilization in economic and financial activity
- Risks of deflation have diminished
- Interest rates are expected to remain unchanged

The FOMC agreed that the near-term economic outlook has improved, but there are still *“significant downside risks.”* In addition, financial market conditions have strengthened but the system remains vulnerable to shocks and credit markets are still weak.

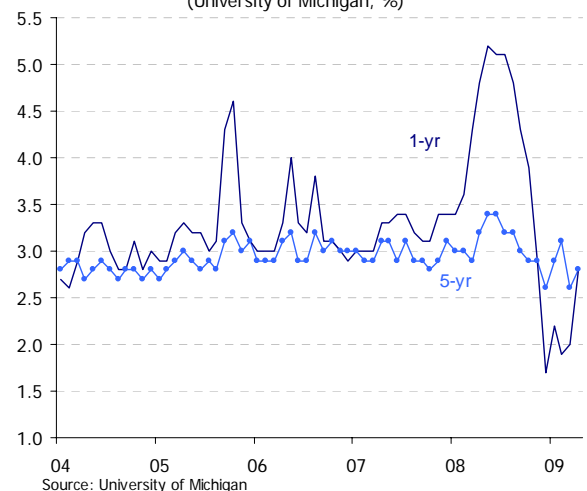
Staff revised up its forecasts for 2H09 and 2010 after revising them down in March in response to positive financial developments, stabilization in personal consumption expenditures and easing in the housing sector’s decline. They expect real GDP *“to edge higher in the second half [of 2009] and then increase moderately next year.”* Members also highlighted signs of economic stabilization in consumer spending, housing and factory orders. However, they emphasized the magnitude of unemployment claims and the ongoing weakness in the labor markets, which could dampen growth in consumption. In addition, the outlook for US export demand remains low as many of the US’s key trading partners continue to experience severe economic contractions. Nevertheless, they cited the firming of commodities prices as a sign that the global weakness may be abating. Business investment is expected to decrease further as the credit market remains tight, but *“some participants expected that a gradual strengthening of retail sales would lead to an abatement of the decline in capital investment.”* In regards to the financial markets, members saw positive developments, citing rising stock prices, better functioning in money markets and more activity in the issuance of corporate bonds and convertible securities.

When addressing inflation, the committee agreed that the risk of deflation has diminished, yet levels could persistently remain below those ideal for economic growth. In addition, in regards to monetary policy, members agreed that the Fed should continue making securities purchases within the previously agreed upon limits and that the stimulus will *“contribute to the gradual resumption of sustainable economic growth in the context of price stability.”*

Bottom-line: The FOMC minutes show a notable improvement in the economic and financial outlook compared to the previous meeting. Although the committee acknowledged concerns in the market about high future inflation, members stressed that levels would remain *“subdued over the next few years.”* Lastly, FOMC reemphasized their commitment to expand the balance sheet as needed, which is exhibited in their recent announcements to purchase CMBS to support the financial system and long-term treasuries to contain interest rates.

Fed Funds: 0 to 0.25%
Next Meeting: June 23-24
Minutes Release: July 15

Inflation Expectations
 (University of Michigan, %)



Factors Supplying Federal Reserve Funds
 (\$bn)

