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Weekly Commentary

AUGUST 21, 2017

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Fed concerned about low inflation

With tragic geopolitical events happening here and abroad and controversy again arising in Washington, the slow pace of central bank policy got somewhat lost. But the minutes of the Federal Reserve's July Federal Open Market Committee meeting released last week showed policymakers finding no consensus on where stubbornly low inflation is headed. Some members were concerned enough to question raising rates in December of this year, something that once had been considered a given. However, the Fed wants to trim its immense balance sheet and it still appears that could begin as early as September. We may get more insight this week as the world's central bankers arrive in Wyoming for the annual Jackson Hole meeting.

In economic reports last week, retail sales grew in July at the steepest pace of the year, with June estimates revised upward. With the importance of consumer sales for the U.S. economy, this increase may mean GDP growth may also be moving higher. Combining this with a solid labor market, Fed policymakers hope soon to see the increase in wages and inflation they have been predicting.

The short end of the London interbank offered rate (Libor) yield rose slightly last week from the week prior, ending with 1-month Libor moving higher by 2 basis points to 1.24%, while 3-month and 6-month Libor remained at 1.32% and 1.46%, respectively.

G40461-19 (8/17)