Florida PRIME Weekly Commentary

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Fed lays out path for recovery

The Federal Reserve has been reticent to say anything definite about the future of the U.S economy, and understandably so. Covid-19 has thrown up a dust storm so dense as to make forecasts all but useless. Unsurprisingly, the Federal Open Market Committee (FOMC) left the federal funds target range unchanged at 0-0.25% and confirmed continued purchases of Treasury and agency mortgage-backed securities.

Many surmised that the unclear future would lead policymakers to forgo releasing a new Summary of Economic Projections. This is also known as the “dot plot,” in which FOMC participants anonymously predict, via points on a chart, what the health of the economy and the level of the fed funds rate will be over the next two years. The Fed has refrained from releasing one in 2020 because of the massive uncertainty caused by the pandemic.

But the FOMC did release projections this time, painting a picture of an economy expected to improve at a snail’s pace. All FOMC participants project that the fed funds target range will remain at 0-0.25% through the end of 2021, with only two looking for higher rates in 2022. The median projection for gross domestic product is for a decline of 6.5% for 2020, followed by increases of 5% in 2021 and 3.5% in 2022. The forecast for the unemployment rate is for a decline to 9.3% by the end of 2020, 6.5% by year-end 2021 and 5.5% by the end 2022. Lastly, the median inflation projection reaches only 1.7% by the end of 2022. To do its part to aid the recovery, the Fed continues to evaluate the need for additional action, including issuing more forward guidance and potentially adopting yield-curve control.

London interbank offered rates (LIBOR) were mixed this week. While 1-month and 3-month LIBOR rose to 0.20% and 0.32%, respectively, 6-month fell to 0.43%.

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