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Economics Group

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FOMC Meeting: Committee Ready To Do More, If Needed

Because it has implemented a number of unprecedented policy steps in recent weeks, the FOMC took no further action at today's meeting. But it is prepared to do more, if needed.

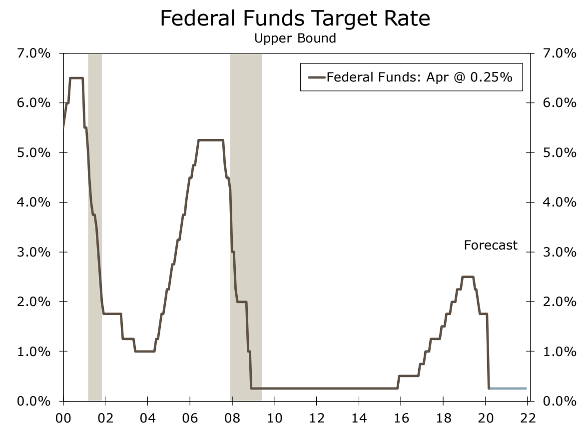
No Changes in Policy, At Least for Now

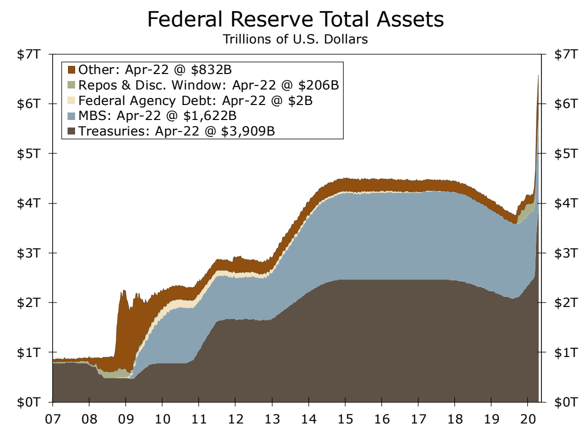
The Federal Open Market Committee (FOMC) held its first formal meeting in three months today—the meeting originally scheduled for March 18 was cancelled due to a number of policy steps that the Fed took on March 15–and, as widely expected, did not make any policy changes. That said, the committee left little doubt that it will do whatever is needed to help the economy weather the economic disruption that the coronavirus pandemic has caused.

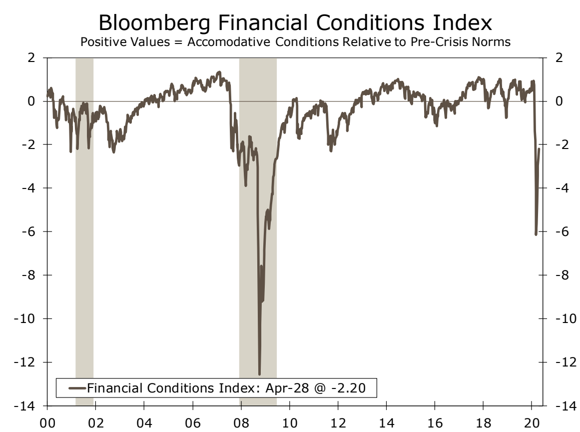
The FOMC stated the obvious in its post-meeting statement when it said the measures taken to combat the outbreak "are inducing sharp declines in economic activity and a surge in job losses." But the committee stressed throughout its statement that it "will use its tools and act as appropriate to support the economy." For starters, the FOMC has already slashed its target range for the fed funds range to 0.00% to 0.25%, and it noted in today's statement that it "expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals." Because we forecast that the unemployment rate, which is set to surge from the 4.4% rate that was registered in March, will remain higher than 6% at the end of 2021, we think that the FOMC will keep the fed funds rate pressed to 0.00% through at least the end of next year (top chart).

In addition, the Fed ramped up its quantitative easing (QE) purchases of Treasury securities and mortgage-backed securities (MBS) starting on March 15, which has caused its balance sheet to balloon again (middle chart). Although the Fed has slowed its pace of QE purchases recently, the committee pledged to maintain purchases "in the amounts needed to support smooth market functioning, thereby fostering effective transmission of monetary policy to broader financial conditions." The FOMC also announced programs to support other financial markets, such as the commercial paper market, the corporate bond market and the structured securities market, as part of its March 23 package of liquidity-enhancing policy steps. Although tensions in financial markets have subsided somewhat in recent weeks (bottom chart), the committee stated that it "will closely monitor market conditions and is prepared to adjust its plans as appropriate."

We look for real GDP to contract at an annualized pace in excess of 20% in Q2-2020, but expect that a gradual recovery will begin in Q3 as the economy emerges from lockdown. But we also acknowledge that there is tremendous uncertainty surrounding this outlook depending on how the pandemic evolves. Although it appears that the FOMC shares this uncertainty, it is also apparent that it is committed to do even more to support the economy, if necessary.







Source: Federal Reserve Board, Bloomberg LP and Wells Fargo Securities

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