

[theme music]

A dark background with financial graphs, the words 'FOMC' with money graphics across it scrolls across the screen in segments. FOMC graphic then scales down to the full title in blue that reads, 'FOMC UPDATE'. Scene fades to black.

A male host named Tim Sustak stands in front of two bookcases with various books and decorations on them. Below him is a gray graphic with a blue border on top and white letters that reads, 'Federal Open Market Committee Update- Tim Sustak Chief Treasury Officer July 27, 2023.'

Tim: Hi, I'm Tim Sustak, chief treasury officer with Vizo Financial, and this is your FOMC update for the July 2023 meeting.

Tim: At its latest meeting, the FOMC chose to raise the target fed funds range 25 basis points to a level of 5.25 to 5.50 percent, a 22 year high, and they also raised the rate on reserve balances 25 basis points to a level of 5.40 percent. The decision was a unanimous one and was widely expected by the marketplace. The post meeting statement did not change much. The only real change other than the rate hike was that economic activity was described as expanding at a moderate pace versus the prior statement that said the economy had continued to expand at a modest pace. We'll see if Chair Powell gave us any information about the future of monetary policy in his press conference, after the break.

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Tim: Welcome back! In his press conference following the meeting, Chair Powell first gave his prepared remarks. He described the economy as one that has been expanding at a moderate pace, with consumer spending slowing from earlier in the year, a housing sector that has picked up a bit but remains well below levels of a year ago, and business fixed investment that is being weighed upon by higher rates and slower output growth. He also said the labor market remains very tight and inflation remains well above the committee's 2% longer run goal. He indicated it will take time for the economy, and particularly inflation, to feel the full effects of monetary policy that has raised rates 5.25% since early last year.

Tim: He said looking ahead, the committee will continue to take a data dependent approach when considering additional policy firming; and will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. He indicated that the committee will make decisions meeting by meeting and will consider the balance of risks as well. Further, he mentioned that reducing inflation is likely to require a period of below trend growth and some softening of labor markets.

Tim: In the question-and-answer session, the press was fishing for more information about future monetary policy, but Chair Powell was not really biting. When questioned about the future of rates he reiterated the committee will be looking at rates meeting by meeting and will be assessing what is

needed to return inflation to 2% over time. He said they will look at the totality of data but need to see continued progress on inflation. He said the recent inflation report showing the headline number coming down to 3% was welcomed, but that the committee would not make any decisions based on one report and that the core inflation number needed to come down further because it signals where the headline number is going. He said that policy was restrictive, though it has not been restrictive enough, long enough, to get inflation under control so it will be necessary to keep policy firmer for longer.

Tim: Further, commenting on future policy, Chair Powell said it makes sense to slow down concerning rate increases, but that does not necessarily mean every other meeting. The committee has come a long way in its inflation fight and they can afford to be patient as well as resolute when bringing inflation down to their goal. Chair Powell indicated that the future path is uncertain, and it makes sense at this point to give less policy guidance.

Tim: Chair Powell does not see rate cuts this year, but they will come when the committee is confident inflation is coming down to its 2% goal. Further he said it makes sense to stop increases before inflation gets to 2%, and there would likely be cuts before 2% as well, so the committee does not overshoot its target. Chair Powell believes there is a pathway to a soft landing and that is his base case, though there is a long way to go in the inflation fight. He also indicated that the Fed's independent staff forecast is for no recession. In another interesting tidbit, a question was asked concerning whether Chair Powell felt that more banks are in a position to use the discount window and if he thought that was a good idea. He replied that he felt more banks were ready and that the Fed is encouraging that.

Tim: Well, Chair Powell and the Fed are giving us a consistent message. Data dependent, no cuts this year, decisions meeting by meeting. The inflation fight continues to be the ballgame on which the Fed is focused, and they are telling us as much as they can about the game plan. That's the FOMC update for July. Thanks for watching and be well!

White screen with blue, red and green paint splashing together to form Vizo Financial logo. Logo fades to a green Vizo Financial logo 'V', a red heart and the words, "CUs" in green on a light gray background. Dark gray words appear underneath that read, 'A Vizo Financial Production.'

Logo fades out and disclaimer text appears on screen.

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