Economic Research Department

BBVA

US

Fedwatch

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FOMC January 29-30, Meeting

- **In a decision anticipated by the market, the FOMC cut the fed funds rate by 50 basis points to 3.0 percent**
- **FOMC members stressed that the uncertainty surrounding the outlook remains, and inflation expectations seem to be well anchored**
- **Overall, we believe that future rate cuts depend heavily on the pace of economic activity**

There are considerable downside risks to economic growth and there has been no improvement since the last FOMC scheduled meeting in December. In the press release following today's decision, committee members pointed out that recent information about economic activity is consistent with a "deepening of the housing contraction" and a "softening in labor markets." This implies that the ongoing adjustment in the housing sector is making its pass-through to the broader economy, and recent data is more consistent with the prelude to a recession rather than a soft landing.

FOMC members stated that "Financial markets remain under considerable stress." We consider that the longer these pressures remain the more likely is that economic growth will be significantly affected.

In our view, FOMC members remain concerned about the uncertainty surrounding the near-term outlook generated by the potential spillover effects that the current turmoil in financial markets could have on household spending.

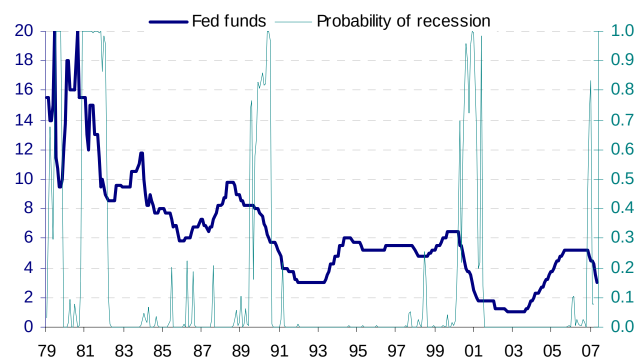
Today's rate is intended to "promote moderate growth over time and to mitigate the risks to economic activity"; however, it is not certain if this is enough to offset some of the negative effects on the broader economy that might arise from the ongoing adjustment in financial markets.

In addition, the committee indicated that inflation is likely to moderate in coming quarters. Overall, the FOMC is entering an evaluation phase in which the impact of the series of rate cuts has to be carefully analyzed before more adjustments to the target fed funds rate are implemented.

In our view, FOMC members are forced to leave all their options open in a context where uncertainty is high; this stresses that monetary policy depends on future economic developments. Given the available economic data, we expect a less restrictive policy if economic conditions do not improve or a pause if the economy responds well to the aggressive series of rate cuts.

Fed Funds: 3.00%
Minutes Release: February 21
Next FOMC Meeting: March 18

Fed funds & probability of recession (%)



Fed Funds Expectations
(BBVA USA & Fed Funds futures, end of contract, %)

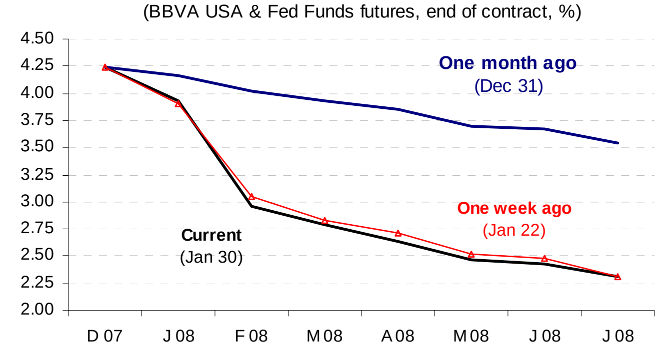


Table 1: FOMC's Statements

	October 31	December 11	January 22	January 30	Comments
Productivity	(No reference)	(No reference)	(No reference)	(No reference)	**----**
Activity	Economic growth was solid in the third quarter and strains in financial markets have eased somewhat on balance. However, the pace of economic expansion will likely slow in the near term	Economic growth is slowing, reflecting the intensification of the housing correction and some softening in business and consumer spending. Moreover, strains in financial markets have increased in recent weeks.	Economic growth was solid in the third quarter and strains in financial markets have eased somewhat on balance. However, the pace of economic expansion will likely slow in the near term	Financial markets remain under considerable stress, and credit has tightened further for some businesses and households. .. deepening of the housing contraction as well as some softening in labor markets.	**Downside risks remain as the correction in the housing sector and the weakness in labor markets affects other sectors of the economy**
Inflation	Readings on core inflation have improved modestly this year, but recent increases in energy and commodity prices, among other factors, may put renewed upward pressure on inflation.	Readings on core inflation have improved modestly this year, but elevated energy and commodity prices, among other factors, may put upward pressure on inflation.	The Committee expects inflation to moderate in coming quarters, but it will be necessary to continue to monitor inflation developments carefully.	The Committee expects inflation to moderate in coming quarters, but it will be necessary to continue to monitor inflation developments carefully.	**Inflation expectations are well anchored**
Risks	Risks to inflation balance risks to growth	Uncertainty surrounding the outlook for growth and inflation	Appreciable downside risks to growth remain.	However, downside risks to growth remain	**Downside risks to growth remain**
Monetary Policy	The committee will continue to asses the effects of financial and other developments on economic prospects and will act as needed to foster price stability and sustainable economic growth	The Committee will continue to assess the effects of financial and other developments on economic prospects and will act as needed to foster price stability and sustainable economic growth	The Committee will continue to assess the effects of financial and other developments on economic prospects and will act in a timely manner as needed to address those risks.	. The Committee will continue to assess the effects of financial and other developments on economic prospects and will act in a timely manner as needed to address those risks.	**Growth and financial stability bias; the FOMC is willing to -act as needed- regarding future monetary policy**
Action	-25	-25	-75	-50	**9 in favor – 1 against**
Fed Funds	4.50	4.25	3.50	3.00	**Reduction**

* BBVA USA Economic Research Department interpretation of FOMC's perception regarding the economic variables included in the statement

Relevant events before FOMC's March 18 meeting

February	
26	Producer price index
27	Durable goods orders
28	Personal consumption
29	U. of Michigan confidence
March	
3	ISM Manufacturing
7	Employment situation
8	Wholesale trade
18	Housing starts and building permits