Economic Research Department

BBVA


# Fed Watch

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## FOMC Minutes from March 16, 2010

- **Economic data point to a moderate pace of recovery**
- **Primary concerns lie in employment and real estate**
- **Exit strategy will be dictated by economic and financial developments**

In the most recent FOMC meeting, participants concluded that recent data “confirmed that the economic recovery was likely to proceed at a moderate pace.” Furthermore, they believe that the financial market conditions continued to support economic growth. Nevertheless, their overall assessment remained cautious and highlighted many of the lingering risks in the economy.

As in the previous meeting, the most positive signs came from the demand side with, “significant gains in retail sales, [and] a substantial pickup in business spending on equipment and software.” This assessment was balanced by future constraints. The weak labor market, low housing wealth, tight credit and modest income growth could limit the expansion of consumer spending, despite positive first quarter results. Furthermore, business contacts have indicated that the pick-up in business spending has focused on updating existing capital and technology, rather than expanding capacity.

Exports were also cited as a driver of growth as, “[t]he continued gains in manufacturing production were bolstered by growing demand from foreign trading partners, especially emerging market economies.”

FOMC members’ primary concerns lay in the employment situation and real estate markets. Even though the labor market has yielded some positive signals, there is a scarcity of job openings and the extent of long-term unemployment could lead to a loss of worker skills. On the real estate front, housing demand has waned in recent months and housing starts have flattened at a low level. Furthermore, the commercial and industrial real estate markets continued to deteriorate.

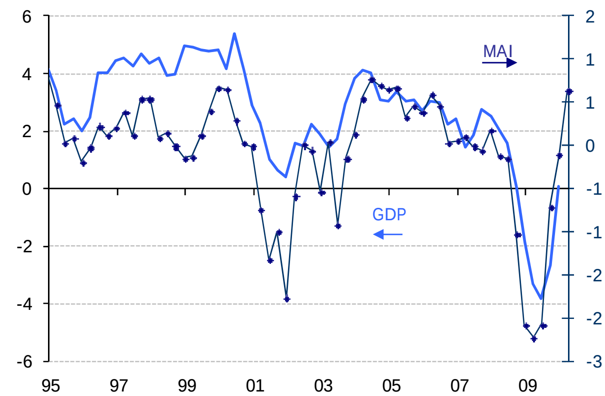
Participants unanimously agreed that inflation will remain subdued in the near-term due to substantial resource slack and well anchored inflation expectations. Moreover, “large margins of underutilized capital and labor and a highly competitive pricing environment were exerting considerable downward pressure on price adjustments.” Some members noted that medium-term risks are tilted to the upside due to the large fiscal deficit and the accommodative monetary policy.

Given the economic assessment, the committee maintained the target fed funds rate at 0%-0.25% and did not make any changes to planned expiration dates for its outstanding liquidity programs.

**Bottom-line:** The minutes are consistent with recent Fed speeches and testimony. While the Fed’s outlook is improving, members will continue to focus on the risks to recovery in order to determine the speed and timing of the exit strategy. Given the degree of slack that remains in the economy, we continue to maintain our forecast that the target federal funds rate will remain low for an extended period of time.

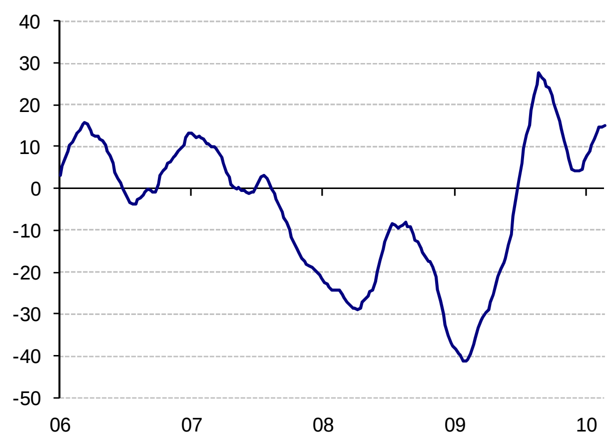
**Fed Funds: 0% to 0.25%**
**Next Meeting: April 27-28, 2010**
**Minutes Release: May 19, 2010**

**BBVA US Monthly Activity Index & Real Gross Domestic Product**
(4-Q % change)




Source: BBVA ERD & BEA

**BBVA US Weekly Activity Index**
(3 month % change)




Source: BBVA ERD