[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 sits in front of a white wall with a fireplace with various decorations on top of it and a Christmas tree with lights. Below him is a screen width gray graphic with a blue border on top and white letters that reads, 'Federal Open Market Committee Update- Tim Sustak Chief Credit Officer December 16, 2021.

Tim: Hi, I'm Tim Sustak, chief credit officer with Vizo Financial, and this is your FOMC update for December 2021.

Tim: Well, the Fed has changed its tune since the November meeting, so let's look at what that means for monetary policy. As far as rates go, the post meeting statement indicated the committee maintained the current fed funds target range at a level of 0-25 basis points, and also maintained the rate on reserve balances at 15 basis points. The biggest, and widely expected, change in the statement this month was the announcement of a faster tapering of asset purchases.

Tim: Beginning in January 2022, the FOMC will reduce the pace of treasury security purchases by $20 billion per month, and the pace of agency mortgage-backed security purchases by $10 billion per month. That is a doubling of the previous pace and should complete the taper about three months sooner than estimated last month; or, by mid-March 2022. The post meeting statement also updated the language around inflation, saying now only that inflation has exceeded the Fed's 2% goal for some time, with no reference to the term transitory anywhere in the statement. More about inflation later.

Tim: We also received an updated set of economic projections from the Fed as it is the end of a quarter. Supporting the revised view on inflation, the trajectory of expected rate increases has changed as well. The median estimate in the dot plot now shows three 25 bp rate hikes in 2022, with further hikes in 2023 and 2024. Illustrating the change in the inflation view, the Fed's median projection for inflation in 2021 rose 1.1%, and for 2022 rose 0.4%, from the September projections.

Tim: We'll talk about what Chair Powell had to say about all of this in his press conference, after the break.

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Female voice: The COVID-19 pandemic stepped up the need for technology and digital services. Now, more than ever, members are evolving in their expectations. Whether it's how they apply for a loan or how they make person-to-person payments, they expect services to meet their needs more efficiently than ever before. And since this digital transformation journey is one that credit unions are traveling together, we're inviting you to join us, developers, innovators and researchers at our virtual TechCon on February 8-9, 2022!

Female voice: You'll see demos and presentations of all the latest fintech products and services! And even better, you'll get time to ask all your technology questions to the speakers at the end of the presentations.

Female voice: Technology is a train that waits for no one. Launch your credit union into the future by registering for this exciting event today!

Fade to black.

Tim: Welcome back! So, what is behind the change in the FOMC's outlook? Chair Powell said it simply in the opening remarks of his press conference; "in light of the strengthening labor market and elevated inflation pressures, we decided to speed up the reductions in our asset purchases." More specifically, he explained that the economy has been making rapid progress towards maximum employment as there has been very strong demand for workers with the economy adding an average of 378,000 jobs per month over the last three months, and the unemployment rate has fallen 0.6% from the FOMC's prior meeting to 4.2%. The FOMC expects that the labor market will continue to improve, with current projections for the unemployment rate at a median of 3.5% by the end of next year.

Tim: Regarding inflation, he explained that supply and demand imbalances related to the pandemic and the reopening of the economy have contributed to elevated levels of inflation, and have been larger and longer lasting than anticipated. Consequently, inflation has been running well above the FOMC's 2% longer-run inflation goal, and they expect that to continue well into next year.

Tim: Chair Powell also indicated that inflation has spread to a broader range of goods and services than just those most affected by the pandemic. The FOMC expects inflation will move closer to its 2% goal by the end of next year, as evidenced by the FOMC median projection of 5.3% at the end of 2021, falling to 2.6% for year-end 2022. Given the inflation picture, the committee now only needs a bit more improvement in the labor market, which it believes it will get next year, in order to raise rates. In his Q+A session after his prepared remarks, chair Powell also explained that the committee does have the monetary policy framework in place to raise rates before their employment test is met, but given the pace of labor market improvement they do not believe they will need it.

Tim: So, the tune of monetary policy has changed a fair amount since November. A faster taper, steeper trajectory for rate increases, and the committee remains ready to adjust as necessary. If you haven't done so already, it's probably a good time to dust off the ALM model to see what a few rate rise scenarios do to your balance sheet. Obviously, you never know what will happen for sure in an environment like this, but right now it looks like rate liftoff is getting closer by the meeting. That's the FOMC update for December. Happy Holidays 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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