

[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 Credit Officer June 16, 2022.'

Tim: Hi, I'm Tim Sustak, chief credit officer with Vizo Financial, and this is your FOMC update for the June 2022 meeting.

Tim: At its June meeting, the FOMC chose to raise the target fed funds range 75 basis points to a level of 1.50 to 1.75 percent, and they also increased the rate on reserve balances by 75 basis points to a level of 1.65 percent. The decision to raise rates 75 basis points had one dissenting vote, Esther George, the president of the Federal Reserve Bank of Kansas City. In its post meeting statement, the committee acknowledged that economic activity appears to have picked up so far in the second quarter, that the war in Ukraine is causing tremendous human and economic hardship and is creating additional upward pressure on inflation, and that the COVID related lockdowns in China are likely to add to supply chain disruptions. On inflation, the committee said that it remains elevated due to supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures.

Tim: This month also gave us a look at the latest Fed economic projections. The dot plot showed a median estimate of 3.4 percent for the fed funds rate at the end of 2022, versus the March projection of 1.9 percent, and there was less variation in the projections. The Fed also reduced its growth projection for the economy in 2022, lowering the GDP estimate from 2.8% in March, to 1.7% in the current projection.

Tim: We'll see what Chair Powell said about the largest rate increase since 1994, after the break.

Scene fades to black

[music playing]

Female voice: The Vizo Financial virtual hot dog eating contest is back and as always, all proceeds will be donated to one of our local Children's Miracle Network hospital, Penn State Health Children's Hospital.

Female voice: No matter where you are, join us on July 20th.

Female voice: We're welcoming credit unions across the country to join us in the fun as contestants, sponsors and supporters of CMN hospitals.

Female voice: Register now at vfccu.org.

Screen fades to black

Tim: Welcome back! In his press conference, Chair Powell started with his prepared remarks in which he reviewed the state of the economy and explained that real GDP had picked up in the current quarter with consumption spending remaining strong, though business fixed investment and activity in the housing sector appear to be softening. He indicated that the labor market remained very tight, with unemployment near a 50-year low, job vacancies at historical highs, and wage growth elevated. He said that aggregate demand remained strong and price pressures have spread to a broad range of goods and services.

Tim: Price pressures have been intensified by the war in Ukraine and COVID lockdowns in China. Regarding the committee's choice to increase rates by 75 basis points at this meeting instead of the 50 basis points they previously communicated, he explained that inflation had surprised to the upside, some indicators of inflation expectations had risen, and projections for inflation this year had been notably revised up. In the Q and A session after his remarks he also mentioned that it was unusual to get such significant information so close to the committee's meeting, which is why they did not have time to communicate the change in the rate decision.

Tim: He also reminded us that the path of rate increases is not set in stone, and the committee will act based on incoming data, which is what they did at this meeting. He said the 75-basis point rate increase is clearly a large move, and he did not expect moves of that size to be common. Regarding future rate increases, Chair Powell said that a 50 or 75 basis point increase was likely at the meeting in July, though the committee will again act based on the data it receives between now and then.

Tim: Chair Powell also made it clear that the soft landing for the economy the Fed is trying to achieve, meaning inflation is contained while unemployment remains low, will largely be dictated by factors that are out of the committee's control such as supply chain constraints and the effects of the war in Ukraine. The committee will be looking for compelling evidence that inflation is coming down, which Chair Powell indicated meant a series of declining monthly readings, before it can declare any sort of victory regarding inflation.

Tim: It's obvious the Fed is intent on fighting inflation, but the reality is that much of pressure causing inflation is coming from the supply side which the Fed cannot control through monetary policy. Chair Powell addressed that fact a number of times at his press conference, and it makes you wonder that if the Fed is successful in squashing inflation by beating down demand to a level that matches the current level of constrained supply, what does that mean as conditions begin to normalize. It is a delicate balance, and one which makes the soft economic landing the Fed is trying to engineer increasingly difficult to achieve. That's the FOMC update for June. 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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