

[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 May 4, 2023.'

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

Tim: At its latest meeting, the FOMC chose to raise the target fed funds range 25 basis points to a level of 5.00 to 5.25 percent, and they also increased the rate on reserve balances by 25 basis points to a level of 5.15 percent. The decision to raise rates was a unanimous one and was widely expected by the marketplace.

Tim: The big question the markets were looking to answer concerned the Fed's intentions moving forward. The most significant change to the post-meeting statement gives us some idea. Instead of saying that "The committee anticipates that some additional policy firming may be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2% over time", the committee stated that, "In determining the extent to which additional policy firming may be appropriate to return inflation to 2 percent over time..."

Tim: This seems to indicate that the committee has left the door open for a pause in rate hikes if it feels that is appropriate. We'll see if Chair Powell gave us any further information about the future of monetary policy in his press conference, after the break.

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Tim: Welcome back! In his post meeting press conference, Chair Powell gave an assessment of the economy that highlighted modest GDP growth, a continued tight labor market, and inflation that is still running well above the committee's 2% longer-run goal. He stated that the FOMC has raised rates by 5 percentage points in a little over a year, and the effects of policy tightening are being felt in the most interest rate sensitive sectors of the economy. He also said that the full effect of monetary tightening will take time to be realized, especially on inflation.

Tim: Further, he noted the economy will also face headwinds from tighter credit conditions stemming from the recent banking sector turmoil. Given all of this, he indicated that future monetary policy actions will be dependent on how things transpire. He said the committee would take into account the cumulative tightening of monetary policy, the lags with which tightening affects the economy, and

economic and financial developments when assessing if additional policy firming may be appropriate, and they will determine that meeting by meeting.

Tim: In his question-and-answer session, Chair Powell received a number of questions about the possibility of pausing rate hikes. He said that the decision on whether or not to pause was not made at this meeting. He said the support for a 25-basis point increase was strong across the board, but the sense of the committee is that they are closer to the end of rate hikes than the beginning. He said they may be there or close, meaning a policy rate that is sufficiently restrictive, but that they need to see accumulating data to really make that judgement.

Tim: He indicated that it was a meaningful change to the post meeting statement that the committee no longer anticipates rate hikes, but they will remain data dependent and reassess in June. Further, he indicated that bank credit tightening complicates the monetary policy process as it is tough to precisely quantify the effects, but that rates will likely not have to go as high as they would have without it. Chair Powell still thinks that a soft landing is possible, and views an outlook without a recession more probable than one with a recession.

Tim: Well, I think what the Fed said is they may pause for a while at this point, but the reality is there are so many moving parts that the decision will really be made meeting by meeting. The Fed has been saying it is data dependent, and we are in the part of the game where that has taken center stage. That's the FOMC update for May. 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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