First Trust
ECONOMIC RESEARCH REPORT
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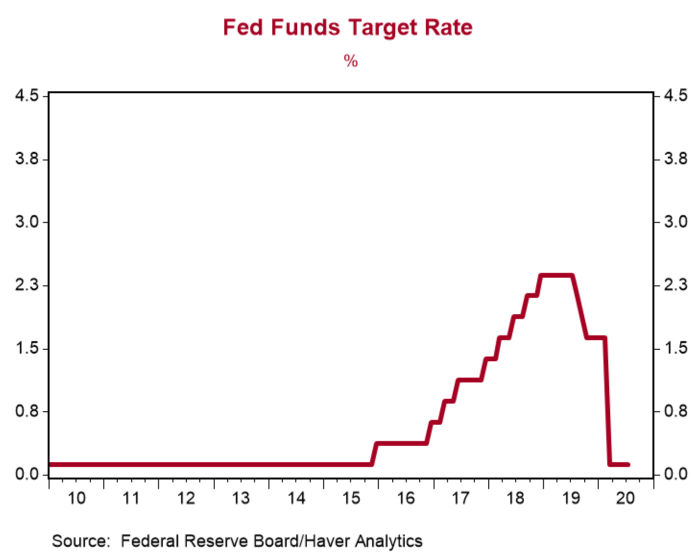
Steady As She Goes

If you didn't know there was a Fed meeting today, you didn't miss anything: it made no changes at all to monetary policy.

The only changes to the Fed's statement were an acknowledgement of some economic improvement since the last meeting in early June and an added sentence that the Fed thinks the "path of the economy will depend significantly on the course of the virus."

Fed Chairman Jerome Powell added some color in the press conference by noting that the pace of the recovery has slowed recently – although he didn't seem concerned about a double-dip recession – that the Fed has no plans to curtail its accommodative stance in any way, and that the Fed views the economic shock as "disinflationary."

Add it all up and it looks like we are eventually headed toward higher inflation. Broader measures of the money supply, have perked up much more noticeably than after the Subprime Panic in 2008-09. Meanwhile, we think the Fed would like to see a period of inflation above its target of 2.0% to offset the amount of time inflation has spent below 2.0%. Expect the Fed to be very slow to raise interest rates relative to economic fundamentals for the next several years.



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Text of the Federal Reserve's Statement:

The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

The coronavirus outbreak is causing tremendous human and economic hardship across the United States and around the world. Following sharp declines, economic activity and employment have picked up somewhat in recent months but remain well below their levels at the beginning of the year. Weaker demand and significantly lower oil prices are holding down consumer price inflation. Overall financial conditions have improved in recent months, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. In light of these developments, the Committee decided to maintain the target range for the federal funds rate at 0 to 1/4 percent. The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals.

The Committee will continue to monitor the implications of incoming information for the economic outlook, including information related to public health, as well as global developments and muted inflation pressures, and will use its tools and act as appropriate to support the economy. In determining the timing and size of future adjustments to the stance of monetary policy, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2 percent inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.

To support the flow of credit to households and businesses, over coming months the Federal Reserve will increase its holdings of Treasury securities and agency residential and commercial mortgage-backed securities at least at the current pace to sustain smooth market functioning, thereby fostering effective transmission of monetary policy to broader financial conditions. In addition, the Open Market Desk will continue to offer large-scale overnight and term repurchase agreement operations. The Committee will closely monitor developments and is prepared to adjust its plans as appropriate.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; Patrick

Harker; Robert S. Kaplan; Neel Kashkari; Loretta J. Mester; and Randal K. Quarles.