



Fedwatch

February 20, 2008

FOMC Minutes January 29-30th Meeting

- Fed more worried on downside risks to growth
- Strains in financial markets continued to pose significant uncertainty to the economic outlook
- We expect further monetary policy easing

FOMC more pessimistic on economic activity

The staff forecast for GDP growth in the first half of 2008 was revised down, reflecting weaker conditions in the housing sector, labor markets and industrial output. In addition, consumer and business sentiment deteriorated while restrictions in some financial markets continued. For the second half of 2008, the staff expects domestic demand to improve as a result of monetary policy easing, the fiscal stimulus and less drag from housing activity and oil prices. The estimate for headline PCE inflation was revised up as a result of previous elevated readings and high energy prices. Thus, headline inflation is now expected to exceed that of core prices, while 2009's forecasts remained unchanged. In line with the staff's estimates, the projections of Fed governors and presidents for GDP were revised downward while those for unemployment and inflation –both headline and core –were adjusted upward.

Discussion reflected widespread deteriorating conditions steaming from the housing meltdown and its potential spillover effects on income, employment and wealth. In addition, participants noted that firms were scaling back capital spending and that overall business sentiment appeared to be shifting downwards. Moreover, members were concerned that growth outside the U.S. seemed to be decelerating while financial market conditions were viewed as a source of greater uncertainty on the economic outlook. Some participants were concerned that tighter credit conditions could depress consumer and business expenditures, which in turn could tighten financial conditions even further. Discussion on inflation was less optimistic as commodity prices had remained persistently high, some firms were able to pass increasing costs to consumers, and inflation expectations could be affected by high inflation readings.

FOMC will cut rates again in next meeting

Minutes reflect that FOMC members were significantly worried on “the considerable worsening of the economic outlook” even after the 75bp intermeeting rate cut a week earlier. We consider that given the increasing downside risks to growth, FOMC will cut rates 25 or 50 bp in March 18th despite the fact that inflationary trends are not converging within Fed comfort zone. When economic conditions improve FOMC will remove some of the recent rate cuts possibly at a fast pace.

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Fed Funds: 3.00%
Next FOMC Meeting: March 18
Minutes Release: April 8

FOMC Meeting Minutes

January 29-30, 2008

“As had been the case in some previous cyclical episodes, a relatively low real federal funds rate now appeared appropriate for a time to counter the factors that were restraining economic growth, including the slide in housing activity and prices, the tightening of credit availability, and the drop in equity prices. Members judged that a 50 basis point reduction in the federal funds rate, together with the Committee's previous policy actions, would bring the real short-term rate to a level that was likely to help the economy expand at a moderate pace over time. Still, with no signs of stabilization in the housing sector and with financial conditions not yet stabilized, the Committee agreed that downside risks to growth would remain even after this action.”

Economic Projections of Federal Reserve Governors and Reserve Bank Presidents

(Percent)

	2008	2009	2010
Central Tendency			
Growth of real GDP	1.3 to 2.0	2.1 to 2.7	2.5 to 3.0
<i>October projections</i>	<i>1.8 to 2.5</i>	<i>2.3 to 2.7</i>	<i>2.5 to 2.6</i>
Unemployment rate	5.2 to 5.3	5.0 to 5.3	4.9 to 5.1
<i>October projections</i>	<i>4.8 to 4.9</i>	<i>4.8 to 4.9</i>	<i>4.7 to 4.9</i>
PCE inflation	2.1 to 2.4	1.7 to 2.0	1.7 to 2.0
<i>October projections</i>	<i>1.8 to 2.1</i>	<i>1.7 to 2.0</i>	<i>1.6 to 1.9</i>
Core PCE inflation	2.0 to 2.2	1.7 to 2.0	1.7 to 1.9
<i>October projections</i>	<i>1.7 to 1.9</i>	<i>1.7 to 1.9</i>	<i>1.6 to 1.9</i>
Range			
Growth of real GDP	1.0 to 2.2	1.8 to 3.2	2.2 to 3.2
<i>October projections</i>	<i>1.6 to 2.6</i>	<i>2.0 to 2.8</i>	<i>2.2 to 2.7</i>
Unemployment rate	5.0 to 5.5	4.9 to 5.7	4.7 to 5.4
<i>October projections</i>	<i>4.6 to 5.0</i>	<i>4.6 to 5.0</i>	<i>4.6 to 5.0</i>
PCE inflation	2.0 to 2.8	1.7 to 2.3	1.5 to 2.0
<i>October projections</i>	<i>1.7 to 2.3</i>	<i>1.5 to 2.2</i>	<i>1.5 to 2.0</i>
Core PCE inflation	1.9 to 2.3	1.7 to 2.2	1.4 to 2.0
<i>October projections</i>	<i>1.7 to 2.0</i>	<i>1.5 to 2.0</i>	<i>1.5 to 2.0</i>