FMOC POST-MEETING ANALYSIS

Good day everyone. Thank you for joining us once again here at Seifried & Brew for our weekly briefing. I am Jamie Sumner, chief analyst. For this week's briefing, we just want to review over the statement last week by the Fed, when the ***FOMC*** chair, Janet Yellen came out and gave her analysis, the group's analysis of the economy, and then their statement as well as their projections. So, we just want to review over some of this information that has come out.

(Slide 2) So when we look at this overall with inside their statement, you can see they continue to say "*that the labor market has continued to strengthen*". And while it has, we start to see a little bit over the last three months, those number of jobs created kind of tick down in here. But it is continuing that process of creating jobs. "*Overall housing spending has been expanding at a moderate rate*", however we did see retail sales start to pull off in August. And then we see the "*growth in business fixed investment has picked up in recent quarters*" and that's a big positive. And that's what we've been waiting for; business investments to start picking up and we are finally seeing a little bit of that come through.

Overall when we look at ***inflation***, however they continue to say that it will remain low for an extended period of time, and running below their expectations of that 2%, (their target of the 2%). So, with that, we look at the results here (Slide 3) and they did not change the ***Fed Funds rate***. That stayed the same for the 1-1 ¼%. They expect that the economic conditions will warrant just continual gradual increases in that Fed funds rate. We'll look at that in just a moment when we look at their projections and the dot plot.

The bigger news and maybe expected was that in October they're planning to initiate that normalization of their balance sheet. So, if you recall back in June they kind of laid out that structure. That structure was to sell off about $6 billion in Treasury securities a month at the initial phase and then increase that in 3-month intervals by $6 billion up to a cap of $30 billion. And then as far as the mortgage-backed and agency debt they start off at $4 billion and then they increase into 3-month increments of $4 billion to get to that cap of $20 billion. When we look at this long term, the first year about $300 billion will roll off of their $4 trillion+ balance sheet. And then in years 2 and beyond you will have that $600 billion per year. So, over a period of 3 years, we're going to look at about $1.5 trillion rolling off of that balance sheet. This is going to be a very steady and a long-term process in here for them to normalize or bring down their balance sheet.

We saw the Treasury's pick up a little bit after the news conference, however we come back down and today we're around that 2.20-2.22 mark on the 10-year. So really no big increases as of yet. We'll see once they start, the actual (letting it) run off in October. If we should start to see a pick up, probably not too much of an increase in long-term rates, just because of everything else that's happening geo-politically across the world. As well as the fact that we just still don't see that growth in the economy that would support a rise in that long-term rate.

When we look at the projections (Slide 4), we can see they changed a little bit in here from where they were in June; the ***GDP*** came up from a 2.2% to a 2.4%. Just a minor adjustment, but it was a positive upward adjustment. 2018 stayed the same for the GDP at 2.1%. 2019 up just slightly up to 2%. And then they added the 2020 in here and that came in at 1.8%. And in the long run, at 1.8% continuing here. So, when we look at the growth prospects or projections here, there just doesn't seem anything inside the economy that they're looking at that is going to spur on that growth that we want, (and you know 3% to the 3.5% growth rate on GDP). ***Unemployment*** down here at 4.3%, 4.1%, 4.1%, 4.2%. So, we kind of level out on the overall unemployment rate. Inflation still on the actual

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and the core inflation. We can see them just not reaching that 2% target out till 2019. So, we still continue to run at this very low rate of inflation.

When we look at that dot plot though (Slide 5), we can see in here they're building in still one more rate hike in 2017. Most likely if they do raise, it will happen in December of 2017, so that would be the final rate hike for this year. Then we look at the end of 2018 at that 2.1%, again about three more rate hikes in 2018 is what they're showing. And then when we go out to 2019, we have two more rate hikes built in there. So just that steady 2-3 rate hikes a year. Interestingly when we come all the way out to the long run we're down to 2.8% in here. So, once we get there, seems like that's where they want to stay.

However, when we look at the market (Slide 6) this morning, we can see here that November is pricing in staying the same. December is where they're putting that increase and then it stays, (the probability says) that it's going to stay there throughout 2018. So that's something just to keep an eye on. These numbers change every day so it's something to keep an eye on. You can find this on your Bloomberg Terminal if you have Bloomberg at WIRP. But if they do raise rates in December that brings up that question again. *How is this going to impact our overall deposit pricing?* And I've been saying that once we get above that 1%, it's going to start to raise the question of *where, at what point are depositors going to start to demand a higher rate on their money markets, NOWs and savings accounts?* And that just hasn't really happened yet. Some of my clients (when I see them at ***ALCO***) are saying they're getting a little bit of pressure (more so than they were before) on the CD terms, but not yet on those money market or those transactional type accounts or savings accounts. However, if we do see another increase in rates we might start seeing pressure. So, it's important when you're looking at next year's budget. We're in that budget season looking at next year's budget. Think about how that's going to impact the overall pricing structure of your deposits and the potential increase in your overall cost of funds going throughout 2018.

That's what we have for you this week. We hope to see you back here next week. Have a great week everyone.

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