JOINT ECONOMIC COMMITTEE

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April 2016 Federal Open Market Committee Policy Statement Review

Yesterday's Federal Open Market Committee (FOMC) policy statement announced no increase in interest rates, as expected. The Fed will pay particular attention to inflation and global economic conditions when considering any future increase from the present range of .25%-.50%. One member, Kansas City Fed President Esther George, dissented.

Context: The U.S. economy continues its slow recovery, with the labor market showing more vigor than the overall economy:

- Projections for US GDP growth are falling, with 1st quarter GDP numbers coming Thursday.
- The strong dollar, bolstered by the Fed's low-interest policy, pressures the ability of American manufacturers to compete globally.
- While the Fed seems close to its "full-employment" mandate – at least by the numbers – labor market softness persists given growth of part-time jobs and stubbornly high long-term unemployment.
- Gas prices are rising, but inflation stays below the Fed's 2.0% target.
- Investor confidence is up since the stock exchanges' bear market growls of the first quarter were followed by April's bull stampede to 2016 stock highs.

The Bigger Picture: While the Fed prepares the market for its next interest rate increase, other major central banks are experimenting with negative interest rates as a form of economic stimulus. The European Central Bank (ECB) and the Bank of Japan (BoJ) have implemented Negative Interest Rate Programs (NIRP) to encourage bank lending that provides economic stimulus in countries that have little or no growth and face risk of deflation. So far, BoJ's NIRP unexpectedly drove the Yen higher and dried up the country's money markets while the ECB claims that NIRP is providing economic stimulus. The FOMC decisions continue to factor in global economic conditions, and will evaluate NIRP along with:

- The uncertainty of UK possible exit from the EU; although the vote is two months away, central banks are assessing the market reaction to the June "Brexit" referendum.
- The booming activity in emerging markets resulting from investors' search for yield; continued low U.S. rates and negative interest rates in other major financial markets drive up demand for lower-quality sovereign debt.