First Trust
ECONOMIC RESEARCH REPORT
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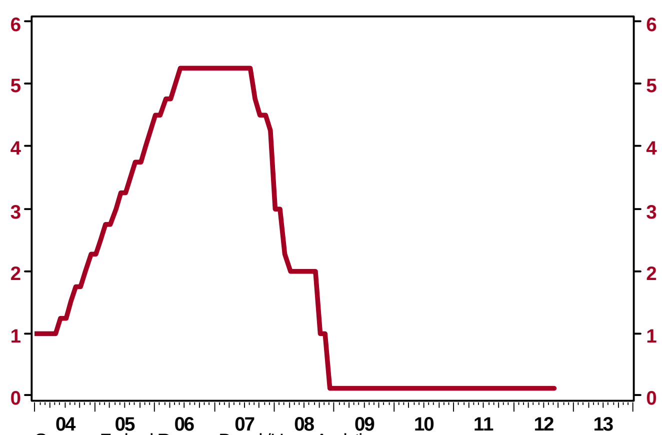
Fed Doesn't Budge

The Federal Reserve made no changes to monetary policy today and made only minimal changes to the language of its statement. The Fed maintained its open-ended commitment to buy additional mortgage-backed securities at a pace of $40 billion per month. It also reiterated that it will "closely monitor" the economy and financial markets to gauge whether it should continue these purchases or even expand them.

Once again, the Fed said this kind of accommodation will continue until it sees substantial improvement in the outlook for the labor market. Notably, the language in the statement addressing the labor market – "growth in employment has been slow, and the unemployment rate remains elevated" – was unchanged despite the big drop in the jobless rate last month to 7.8%.

Slight changes to the statement included a reference to consumer spending growing a "bit more quickly" and that "inflation recently picked up somewhat." Otherwise, this month's statement was almost a carbon copy of last month's statement.



Also, of note, the Fed did not change its guidance on how long it will wait before it expects to raise the federal funds rate, staying at mid-2015. Some analysts had expected a shift to economic targets, like not until either the unemployment rate goes below 7% or the inflation rate hits 3%.

Once again, the lone dissent from the Fed's statement was from Richmond Fed President Jeffrey Lacker, who opposed both QE3 and the description of a time frame before the Fed would raise rates.

Like we said after the last meeting, QE3 will simply keep adding to the already enormous excess reserves in the bank system, not deal with the underlying causes of economic weakness, including the growth in government spending, excessive regulation, and expectations of higher future tax rates. QE3 will not add anything to economic growth and, as long as banks are reluctant to lend aggressively, not cause hyper-inflation either.

For more on the future of the Fed, please see our recent video on the topic of another term as Chairman for Bernanke.

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Text of the Federal Reserve's Statement:

Information received since the Federal Open Market Committee met in September suggests that economic activity has continued to expand at a moderate pace in recent months. Growth in employment has been slow, and the unemployment rate remains elevated. Household spending has advanced a bit more quickly, but growth in business fixed investment has slowed. The housing sector has shown some further signs of improvement, albeit from a depressed level. Inflation recently picked up somewhat, reflecting higher energy prices. Longer-term inflation expectations have remained stable.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee remains concerned that, without sufficient policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. Furthermore, strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee also anticipates that inflation over the medium term likely would run at or below its 2 percent objective.

To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee will continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month. The Committee also will continue through the end of the year its program to extend the average maturity of its holdings *of Treasury securities, and it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. These actions, which together will increase the Committee's holdings of longer-term securities by about $85 billion each month through the end of the year, should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.*

The Committee will closely monitor incoming information on economic and financial developments in coming months. If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability. In determining the size, pace, and composition of its asset purchases, the Committee will, as always, take appropriate account of the likely efficacy and costs of such purchases.

To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens. In particular, the Committee also decided today to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; William C. Dudley, Vice Chairman; Elizabeth A. Duke; Dennis P. Lockhart; Sandra Pianalto; Jerome H. Powell; Sarah Bloom Raskin; Jeremy C. Stein; Daniel K. Tarullo; John C. Williams; and Janet L. Yellen. Voting against the action was Jeffrey M. Lacker, who opposed additional asset purchases and disagreed with the description of the time period over which a highly accommodative stance of monetary policy will remain appropriate and exceptionally low levels for the federal funds rate are likely to be warranted.