First Trust
ECONOMIC RESEARCH REPORT
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elass – Economic Analyst
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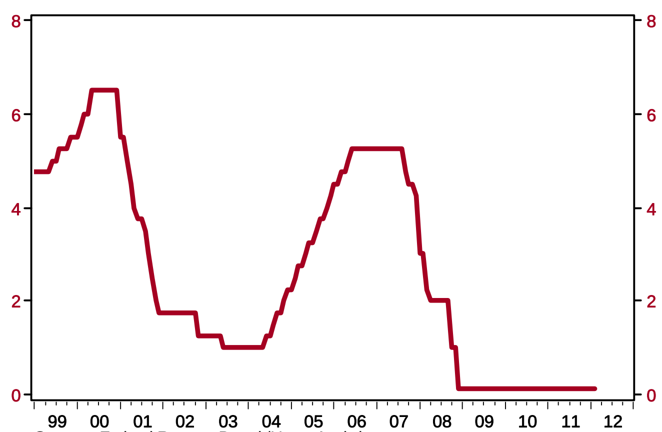
No Sign of QE3

Absolutely no sign of a third round of quantitative easing. That was the big news from today's statement from the Federal Reserve. The stance of monetary policy remains unchanged.

The only alterations to the Fed's statement, compared to what it released after the last meeting on January 25, indicated somewhat faster economic growth and higher inflation.

Fed Funds Target Rate
%



Source: Federal Reserve Board /Haver Analytics

The Fed said unemployment "has declined notably," growth in coming quarters should be "moderate" (last time it said "modest"), and that strains in global financial markets have eased. On inflation, the Fed acknowledged that crude oil and gas prices have risen lately, but says these increases will only keep inflation up "temporarily."

Otherwise, the Fed made no changes to interest rates, the size of its balance sheet, or its policy of paying interest on excess reserves. In other words, no third round of quantitative easing. Given the re-acceleration in the economy we continue to think QE3 is a ship that will never sail.

Once again, the only dissent came from Richmond Bank President Jeffrey Lacker, who believes economic conditions will warrant raising rates before late 2014.

Brian S. Wesbury, *Chief Economist*
Robert Stein, *Senior Economist*

Text of the Federal Reserve's Statement:

Information received since the Federal Open Market Committee met in January suggests that the economy has been expanding moderately. Labor market conditions have improved further; the unemployment rate has declined notably in recent months but remains elevated. Household spending and business fixed investment have continued to advance. The housing sector remains depressed. Inflation has been subdued in recent months, although prices of crude oil and gasoline have increased lately. Longer-term inflation expectations have remained stable.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects moderate economic growth over coming quarters and consequently anticipates that the unemployment rate will decline gradually toward levels that the Committee judges to be consistent with its dual mandate. Strains in global financial markets have eased, though they continue to pose significant downside risks to the economic outlook. The recent increase in oil and gasoline prices will push up inflation temporarily, but the Committee anticipates that subsequently inflation will run at or below the rate that it judges most consistent with its dual mandate.

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 expects to maintain a highly accommodative stance for monetary policy. In particular, the Committee decided today to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that economic conditions--including low rates of resource utilization and a subdued outlook for inflation over the medium run--are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014.

The Committee also decided to continue its program to extend the average maturity of its holdings of securities as announced in September. The Committee is maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate to promote a stronger economic recovery in a context of price stability.

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; Sarah Bloom Raskin; Daniel K. Tarullo; John C. Williams; and Janet L. Yellen. Voting against the action was Jeffrey M. Lacker, who does not anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate through late 2014.