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DECISION ECONOMICS, INC.
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New York: 212 884 9440
London: 011 44 20 7814 6706
Boston: 617 994 0500
Email: decisioneconomics@pdeeco.com

Pierre Ellis

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FOMC: Eager to Accommodate

The dovish majority of FOMC voters was quite vocal in the July 31-August 1 Minutes—not so much because of any apparent perception that downside risks had increased sharply since the last meeting as because of the longstanding concern, highlighted by the downward forecast revisions at the June meeting, that the economy was likely to underperform the mandate goals significantly, even by the end of 2014.

There was also a secondary concern, voiced by "a number" of voters, "...that if the recent modest rate of economic growth were to persist, the economy would be less able to weather a material adverse shock without slipping back into recession."

Conspicuous among the dovish voices was apparent great confidence that further accommodation would be effective, with "a number" asserting that "additional accommodation could help foster a more rapid improvement in labor market conditions ...," and even more of them seeming willing to at least give it a shot before too long: "Many members judged that additional monetary accommodation would likely be warranted fairly soon unless incoming information pointed to a substantial and sustainable strengthening in the pace of the economic recovery."

What seemed to stay the hand of the Committee was, first, that "more time was seen as necessary to evaluate the effects" of the June decision to extend Operation Twist, and, second, that "Several members noted the benefits of accumulating further information that could help clarify the contours of the outlook for economic activity..."

All of this suggests that the hard-core dovish group had, in August, extensive buy-in from most other voters to the idea of stepping-up accommodation before very long. Based on the comments from Lockhart yesterday, he was not among the latter group—having less confidence that the risks entailed in further outright QE would yield worthwhile benefits.

The issue now is when the ready-to-ease group might decide that the necessity to act is sufficiently severe to steamroll the views of the obviously fully engaged, and not at all doctrinaire, Atlanta Fed president.

It seems hard to imagine that another general downgrading of forecasts such as occurred in June would not produce an easing move. But the "further information" obtained so far since the August meeting does not push in that direction, and neither does the recent stock-market advance—reflecting either a general improvement in expectations, or ongoing effects of the monetary "accommodation" already provided.

If the September-meeting forecasts do not worsen, a decision to ease further would reflect an exhaustion of patience among the doves—a tough call for them even in a period of political stability, let alone in the current environment.

Odds favor some compromise action, like a shift of the existing portfolio towards mortgage-backed securities, that would not be so readily portrayed as an accommodation of Obama-administration fiscal policy—and to which Lockhart might not object.

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212-884-9442

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