New York • London • Boston
DECISION ECONOMICS, INC.
Information for Decisions™

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

Pierre Ellis

October 24, 2012

FOMC: Clarification

As generally expected, the FOMC makes no changes in its policy settings, and--perhaps not so completely expected--makes no dramatic changes in the text of its statement.

There were a number of detailed text changes, however. In the economic assessment, a somewhat faster rate of consumer spending growth is noted, but it is also acknowledged that business investment growth "has" slowed, as against the September 13 view that it "appears to have" slowed. Those changes are apparently seen as a wash, with overall growth still called "moderate."

Also, inflation is now seen as having "recently picked up somewhat, reflecting higher energy prices," whereas before the view was that it "has been subdued. But, importantly, just as before, "Longer-term inflation expectations have remained stable." No new motivation for action there either.

Perhaps more importantly, there is an apparent effort to portray thinking about the need for further accommodation as now being agnostic, with the earlier view that "without further policy accommodation, economic growth might not be strong enough..." now phrased as "without sufficient policy accommodation..." In other words, the original QE3 monthly dosage has made the necessity for more steps an open issue, rather than a settled one.

There is also an interesting one-word change in the body of the description of Operation Twist. In the earlier text, it was referred to as a "program to extend the average maturity of its holdings of securities," now the wording is "program to extend the average maturity of its holdings of Treasury securities."

Perhaps there is a concern that mortgage-related securities will somehow start pulling down the average maturity of the overall portfolio, and the Committee does not want to be on the hook to offset that effect. There is also an implicit suggestion that the role of the mortgage-security purchases is more to remove duration risk from the market than to remove duration per se.

The final change is a sharpening in Richmond Fed President Lacker's dissent, with him now objecting directly to the "description of the time period" over which "highly accommodative" policy will be appropriate, rather than to the notion of including a description at all, as he did in September. Presumably, he sees the likely necessity for an exit arriving earlier.

Of all these adjustments, perhaps the substitution of "sufficient" for "further" is the most significant--portraying the Fed as being in the practice of fully adjusting policy at each point to just that degree of accommodation which the Committee's consensus economic outlook would call for. There is a desire to avoid creating any sense of policy-adjustment momentum. Each meeting end with the establishment of a blank-slate outlook for the next.

© 2012 Decision Economics, Inc. All rights reserved. Reproduction in whole or in part without the written permission of the copyright owner is prohibited.