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FOMC: No Distractions

by Pierre Ellis*

The Fed meets general expectations, tapering back another $10 billion per month, equally split between Treasuries and Agency mortgage-backed securities.

Notably, even super-dove Kocherlakota does not dissent from the action, but it is not clear whether he agrees with it, or is following his custom of refraining from repeated dissents from settled policies--Rosengren already dissented from this tapering program last time.

The economic assessment is actually upgraded very modestly, with the judgment now being that "growth in economic activity picked up in recent quarters," whereas last month the read was that "economic activity is expanding at a moderate pace."

The latest labor market data are taken note of: "Labor market indicators were mixed but on balance showed further improvement." But, that erring on the side of optimism is evidently seen as being justified by the fact that consumer and business fixed investment have strengthened--instead of just having "advanced," as perceived at the last meeting, they have now "advanced more quickly."

Also, the extent of fiscal restraint now "is diminishing," whereas last time the phrasing was "may be diminishing." What a difference a month makes.

In terms of the big policy-driving assessments, everything is status quo. The sentence on the balance of risks is left unaltered: "The Committee sees the risks to the outlook for the economy and the labor market as having become more nearly balanced." (The repetition could be read, literally, as indicating that the balance is even closer than last time.)

Also, the broad judgment, made last time, that improvement in the economy over the period "since the inception of (the) current asset purchase program" is "consistent with growing underlying strength in the broader economy" is carried over verbatim, with the simple addition of the phrase (the Committee) "continues to see."

All of this shows a Committee intent on sticking with its decided program, unless things go very wrong. How far things have to go before the Fed shifts course is not clear, but most outside analysts would probably agree with the judgment made on the domestic economy.

External problems almost certainly need to rise to the level of being a real threat to the US economy--or an intolerable threat to global financial system--before the Fed would acknowledge them.

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