First Trust
ECONOMIC RESEARCH REPORT
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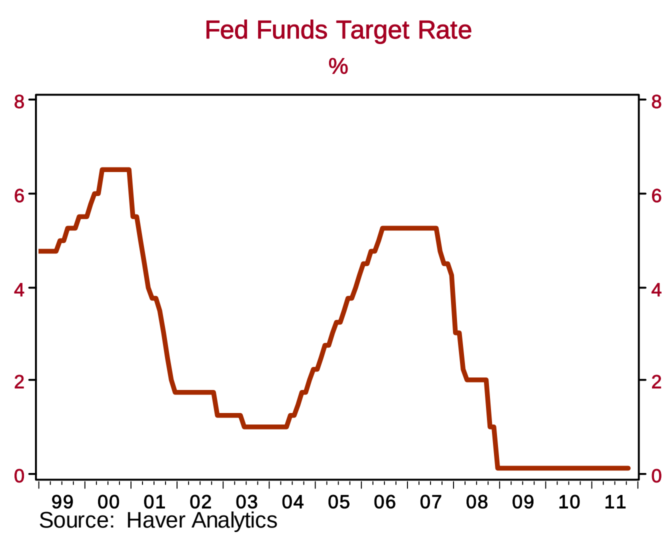
Fed Stands Pat on Policy

The Federal Reserve made no significant changes to monetary policy today. No change in interest rates, no changes to the size of its balance sheet, and no changes to its current policy of paying interest on excess reserves. In other words, no third round of quantitative easing.

The only changes the Fed made were some alterations in the language of the statement, which signaled modestly greater optimism on the state of the economy. It acknowledged that economic growth and household spending strengthened in the third quarter. In addition, the Fed said only part of the acceleration in economic growth could be attributed to the end of factors that artificially weighed on growth in the first half of the year.

One other notable change in language was that the Fed said it would use its tools "to promote a stronger economic recovery in a context of price stability," not just "as appropriate," possibly hinting at changes in policy at future meetings if economic growth were to falter. We don't anticipate that happening, and so think a third round of quantitative easing will remain just chatter.



In terms of its balance sheet, the Fed reiterated what it said at its last meeting in September, that it would keep rolling over the principal payments it receives so that the size of its Treasury portfolio would remain unchanged and the size of its mortgage security portfolio would remain unchanged as well.

The last significant news in today's statement was that the three dissenters from the prior two meetings, all of whom did *not* support additional policy accommodation in August or September, agreed to the statement today. Instead, the only dissent today came from Chicago Bank President Charles Evans, who wanted more policy accommodation.

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Text of the Federal Reserve's Statement:

Information received since the Federal Open Market Committee met in September indicates that economic growth strengthened somewhat in the third quarter, reflecting in part a reversal of the temporary factors that had weighed on growth earlier in the year. Nonetheless, recent indicators point to continuing weakness in overall labor market conditions, and the unemployment rate remains elevated. Household spending has increased at a somewhat faster pace in recent months. Business investment in equipment and software has continued to expand, but investment in nonresidential structures is still weak, and the housing sector remains depressed. Inflation appears to have moderated since earlier in the year as prices of energy and some commodities have declined from their peaks. Longer-term inflation expectations have remained stable.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee continues to expect a moderate pace of economic growth over coming quarters and consequently anticipates that the unemployment rate will decline only gradually toward levels that the Committee judges to be consistent with its dual mandate. Moreover, there are significant downside risks to the economic outlook, including strains in global financial markets. The Committee also anticipates that inflation will settle, over coming quarters, at levels at or below those consistent with the Committee's dual mandate as the effects of past energy and other commodity price increases dissipate further. However, the Committee will continue to pay close attention to the evolution of inflation and inflation expectations.

To support a stronger economic recovery and to help ensure that inflation, over time, is at levels consistent with the dual mandate, the Committee decided today 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.*

The Committee also decided 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 mid-2013.

The Committee will continue to assess the economic outlook in light of incoming information and is prepared to employ its tools 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; Richard W. Fisher; Narayana Kocherlakota; Charles I. Plosser; Sarah Bloom Raskin; Daniel K. Tarullo; and Janet L. Yellen. Voting against the action was Charles L. Evans, who supported additional policy accommodation at this time.