First Trust ECONOMIC RESEARCH REPORT
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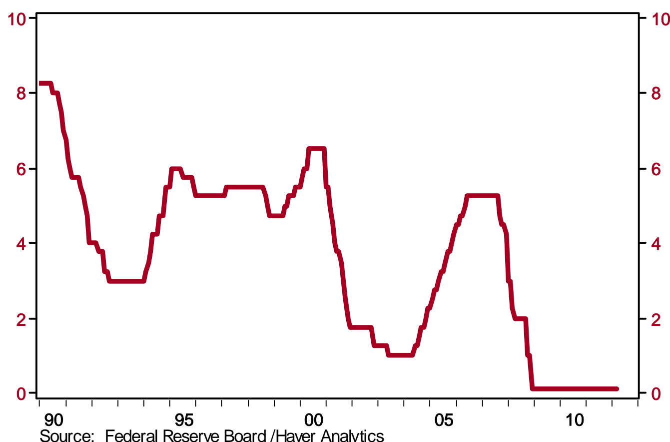
April 25, 2012 • 630.517.7756 • www.ftportfolios.com

Nothing New From the Fed

Today's statement from the Federal Reserve was almost a carbon copy of the last statement in March. The Fed made no changes to monetary policy: not interest rates, not the size of its balance sheet, not its forward guidance on when it thinks it will start raising rates (still late 2014).

The Fed did make some small changes to the language of the statement. Most of the changes supported a more hawkish stance for policymakers. The Fed acknowledged "some signs of improvement" in the housing sector and that inflation "has picked up somewhat." It also said economic growth should "pick up gradually" after growing moderately in the near future. The one more dovish change to the statement was that last month it said financial strains in Europe had "eased," but today the reference to strains having eased was gone.



In terms of its economic forecast, also released today, the Fed made a small increase to the pace of economic growth this year, but reduced the forecast slightly for 2013-14. It also slightly raised its inflation forecast for the next few years.

One minor but interesting change in the Fed's forecast of the path of the federal funds rate was that the median forecast among members of the Federal Open Market Committee is that the funds rate will end 2014 at 1%, not the 0.75% previously forecast. Given that the Fed's statement still says conditions are likely to warrant no change in the funds rate through at least late-2014, this probably reflects a growing gap in sentiment between Federal Reserve bank presidents (who tend to be more hawkish), and Fed Chairman Ben Bernanke.

Consistent with that gap, once again the lone dissent from the Fed's statement was from Richmond Fed President Jeffrey Lacker, who doesn't think conditions will warrant keeping the funds rate at zero through late 2014.

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Text of the Federal Reserve's Statement:

Information received since the Federal Open Market Committee met in March suggests that the economy has been expanding moderately. Labor market conditions have improved in recent months; the unemployment rate has declined but remains elevated. Household spending and business fixed investment have continued to advance. Despite some signs of improvement, the housing sector remains depressed. Inflation has picked up somewhat, mainly reflecting higher prices of crude oil and gasoline. However, 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 economic growth to remain moderate over coming quarters and then to pick up gradually. Consequently, the Committee anticipates that the unemployment rate will decline gradually toward levels that it judges to be consistent with its dual mandate. Strains in global financial markets continue to pose significant downside risks to the economic outlook. The increase in oil and gasoline prices earlier this year is expected to affect inflation only temporarily, and 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.

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