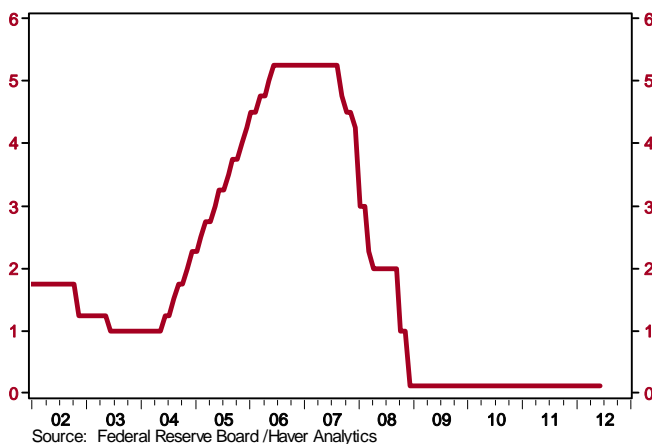


## Status Quo Fed

Just like before the meeting back in June, news outlets have been breathlessly reporting that the Federal Reserve could today launch into another round of quantitative easing, probably including major purchases of mortgage backed securities. Instead, the Fed did essentially nothing, not even changing when it thinks it will start raising rates (still late 2014).

**Fed Funds Target Rate**  
%



Compared to the last statement from June, the Fed made some mild changes to its language, mostly in a dovish direction. The Fed said the economy has “decelerated somewhat in the first half of the year,” but also acknowledged “further” improvement in the housing sector.

In addition, the Fed hinted at potential action at future meetings by saying it will “closely monitor” incoming information and “provide additional accommodation as needed.” In other words, the Fed will take action if Europe goes substantially further south or the labor market gets worse. Our best guess is still that a third round of quantitative easing is unlikely.

Once again, the lone dissent from the Fed’s statement was from Richmond Fed President Jeffrey Lacker, who opposed reiterating the late 2014 time frame before short term rates will move up.

**Brian S. Wesbury, Chief Economist**  
**Robert Stein, Senior Economist**

### Text of the Federal Reserve's Statement:

*Information received since the Federal Open Market Committee met in June suggests that economic activity decelerated somewhat over the first half of this year. Growth in employment has been slow in recent months, and the unemployment rate remains elevated. Business fixed investment has continued to advance. Household spending has been rising at a somewhat slower pace than earlier in the year. Despite some further signs of improvement, the housing sector remains depressed. Inflation has declined since earlier this year, mainly reflecting lower prices of crude oil and gasoline, and 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 very gradually. Consequently, the Committee anticipates that the unemployment rate will decline only slowly toward levels that it judges to be consistent with its dual mandate. Furthermore, strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee anticipates that inflation over the medium term 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 through the end of the year its program to extend the average maturity of its holdings of securities as announced in June, and it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. The Committee will closely monitor incoming information on economic and financial developments and will provide additional accommodation as needed to promote a stronger economic recovery and sustained improvement in labor market conditions 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; Jerome H. Powell; Sarah Bloom Raskin; Jeremy C. Stein; Daniel K. Tarullo; John C. Williams; and Janet L. Yellen.*

*Voting against the action was Jeffrey M. Lacker, who preferred to omit the description of the time period over which economic conditions are likely to warrant an exceptionally low level of the federal funds rate.*