

DAILY GLOBAL  
COMMENTARY

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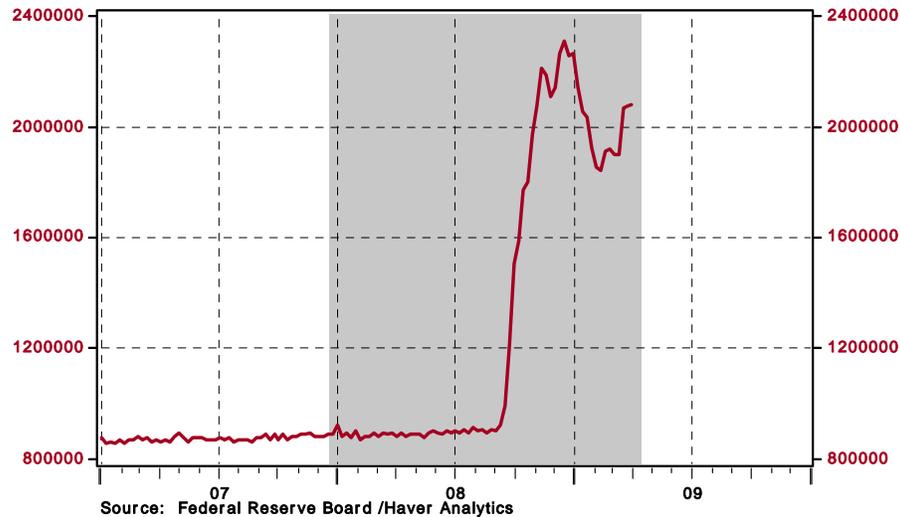
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## Minutes of March 2009 FOMC Meeting – Highlights Concerns that Led to a Further Expansion of the Fed’s Balance Sheet

April 8, 2009

The March 17-18 FOMC meeting concluded with the federal funds rate left unchanged – no surprises there. However, the policy announcement indicated that the Fed would increase its balance sheet by another \$1.15 trillion (\$750 billion MBS + \$100 billion agency debt +300 billion Treasury securities) – this was the surprise. The minutes succinctly state the reason for the bold and outsized move: *“In light of the economic and financial conditions, meeting participants viewed the expansion of the Federal Reserve’s balance sheet that might be associated with these and other programs as appropriate in order to foster the dual objectives of maximum employment and price stability.”* *“Several members felt that the significant deterioration in the economic outlook merited a very substantial increase in purchases of longer-term assets.”* In addition, *“participants expressed concern about downside risks to an outlook for activity that was already weak.”* [Emphasis added]. The precise quantity and types of securities purchased appears to be a compromise because the minutes note that members had different preferences about both aspects.

Chart 1  
All Fed Res Banks: Total Assets  
EOP, Mil.\$

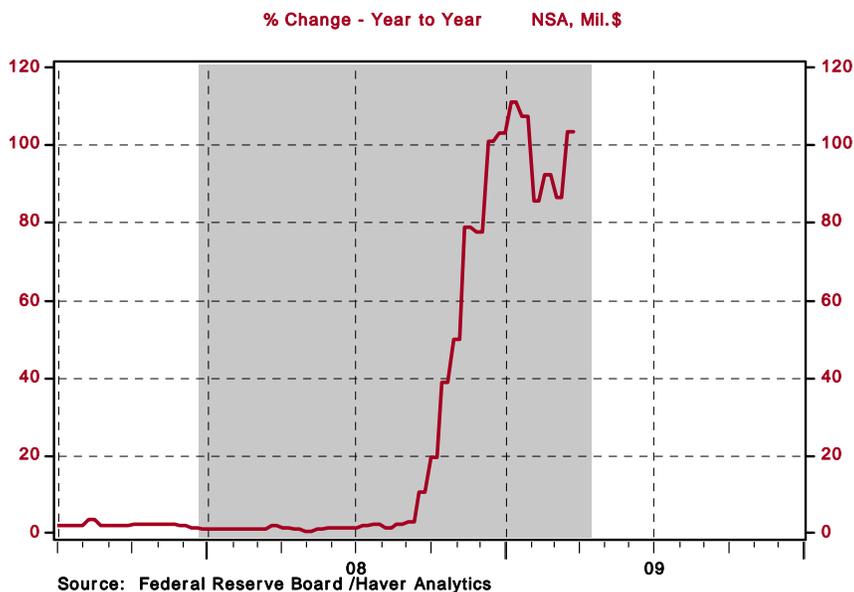


With regard to economic conditions, the staff and members of the FOMC revised down the outlook for 2009. Inflation is not on the radar of the Fed, for now. The Fed’s view about inflation is best summarized here: *“Participants saw little chance of a pickup in inflation over the near term, as rising unemployment and falling capacity utilization were holding down wages and prices and inflation expectations appeared subdued. Several expressed concern that inflation was likely to persist below desired levels, with a few pointing to the risk of deflation. Even without a continuation of outright price declines, falling expectations of inflation would raise the real rate of interest and thus increase the burden of debt and further restrain the economy.”*

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As part of the extensive discussion about the Fed's balance sheet, "members agreed that the monetary base was likely to grow significantly as a consequence of additional asset purchases; one, in particular, stressed that sustained increases in the monetary base were important to ensure that policy was consistently expansionary."

Chart 2  
Adjusted Monetary Base



The discussion also touched on the implications of the Fed's recent large and innovative actions: "Also, some participants were concerned that Federal Reserve purchases of longer-term Treasury securities might be seen as an indication that the Federal Reserve was responding to a fiscal objective rather than its statutory mandate, thus reducing the Federal Reserve's credibility regarding long-run price stability. Most participants, however, saw this risk as low so long as the Federal Reserve was clear about the importance of its long-term price stability objective and demonstrated a commitment to take the necessary steps in the future to achieve its objectives."

### An Important Message from a Second Tier Report

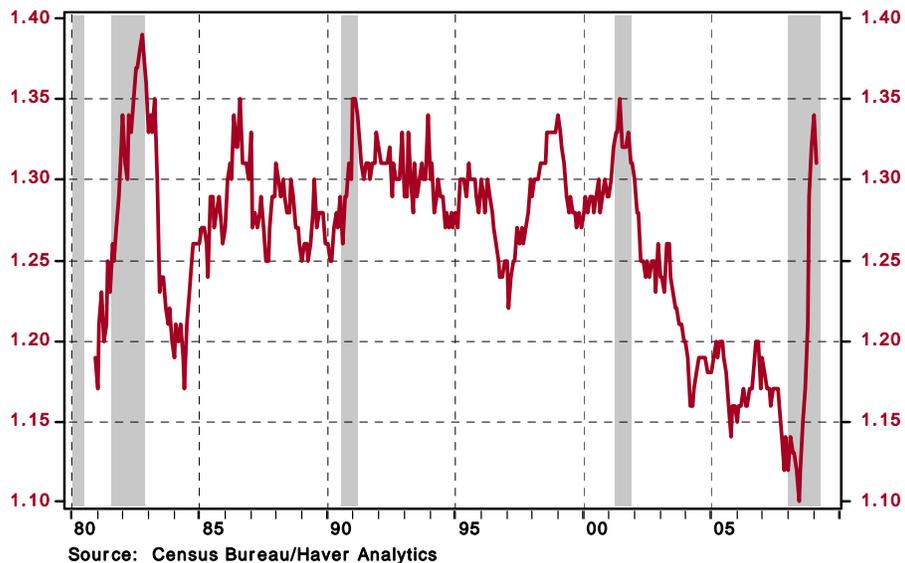
Wholesale inventories fell 1.5% in February, with the auto component (-7.9%) at the lead and inclusive of declines in other components. At the same time, sales at the wholesale level moved up 0.6% in February. Consequently, the inventories-sales dropped to 1.31 from 1.34 in January. This is a positive signal because it will eventually translate into increased production as stockpiles at wholesalers dwindle.

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Chart 3

Merchant Wholesalers: Inventories/Sales Ratio: Total

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