

DAILY GLOBAL  
COMMENTARY

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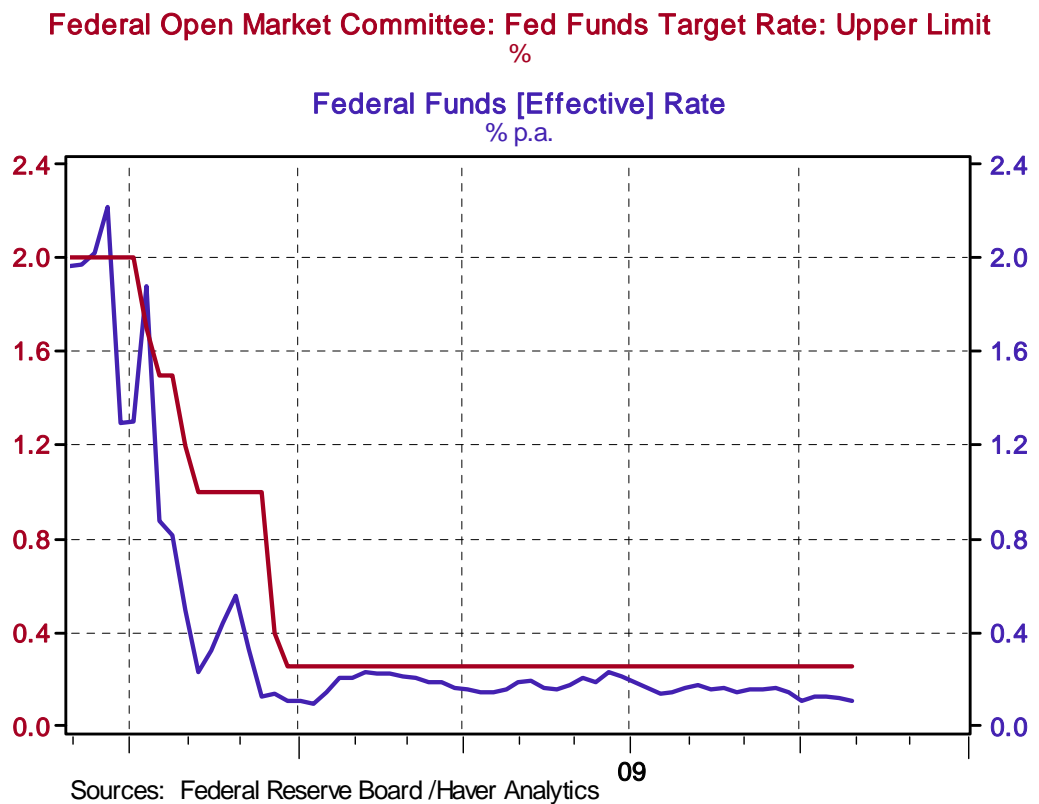
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## Fed Retains Stance of September FOMC Meeting

November 4, 2009

The FOMC policy statement following the meeting of November 3-4 retains roughly the stance that was conveyed in the September policy statement. In the November 4 policy statement, the Fed also left unchanged the much quoted phrase – “warrant exceptionally low levels of the federal funds rate for an extended period.” Essentially, the Fed is no rush to change its monetary policy stance. The financial media appears to have reacted prematurely after the 3.5% increase in third quarter real GDP. The effective federal funds rate continues to trade below the upper limit of the target federal funds rate (see chart 1).

Chart 1



The modifications of today’s policy statement are consistent with the nature of incoming economic reports and financial market conditions. The outlook for inflation was not modified. The reduction in the quantity of agency bonds the Fed plans to purchase (to \$175 billion from \$200 billion) is due to a limited availability of these bonds.

This is the Bernanke Fed and we are in extraordinary times; it is not the Greenspan Fed in 2004. Irrespective of these major differences, the timeline of the change in Fed policy following the 2001 recession is instructive. The Fed reduced the federal funds rate to 1.00% on June 25, 2003. The Fed started the easing process on January 3, 2001 from a federal funds rate of 6.50%. The tightening phase of monetary policy commenced on June 30, 2004.

Between the FOMC meetings of June 2003 and June 2004, the unemployment rate had declined from a cycle high of 6.3% in May 2003 to 5.6% in May 2004 (see chart 2).

Chart 2

**Civilian Unemployment Rate: 16 yr +**

SA, %



Non-farm payrolls had posted several months of meaningful gains (see chart 3) and the year-to-year change in hourly earnings was showing an accelerating trend (see chart 4). Real GDP had risen for several quarters (chart 5). Chart 2-5 illustrate that the situation today is vastly different to expect a change in the Fed's posture in the near term despite the enormous easing put in place and the recent bullish economic reports.

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Chart 3

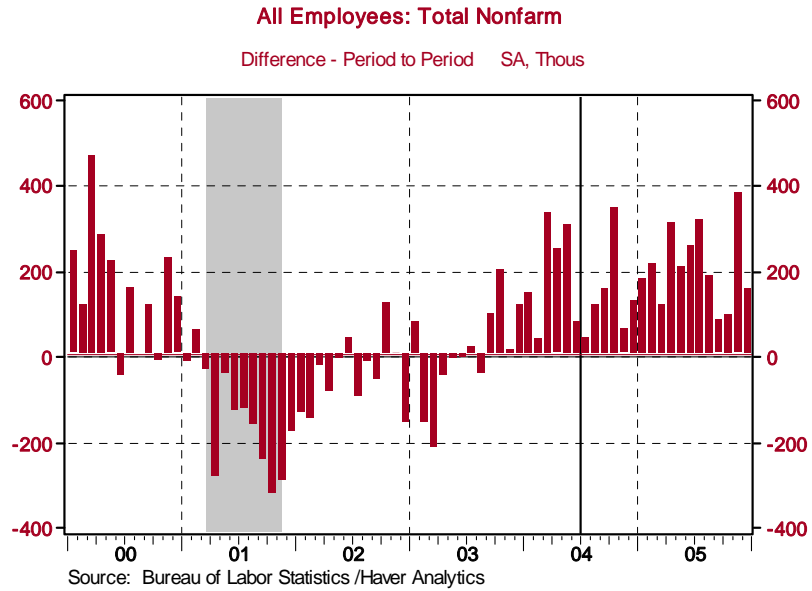
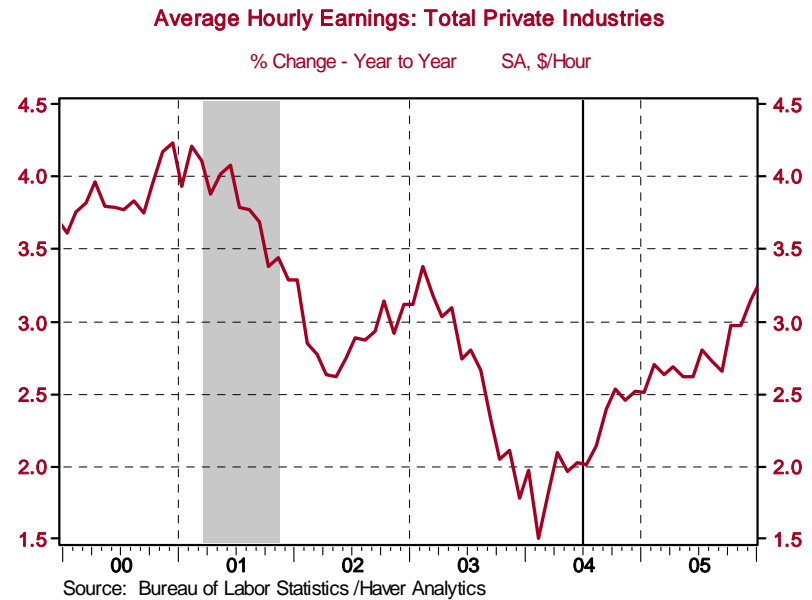
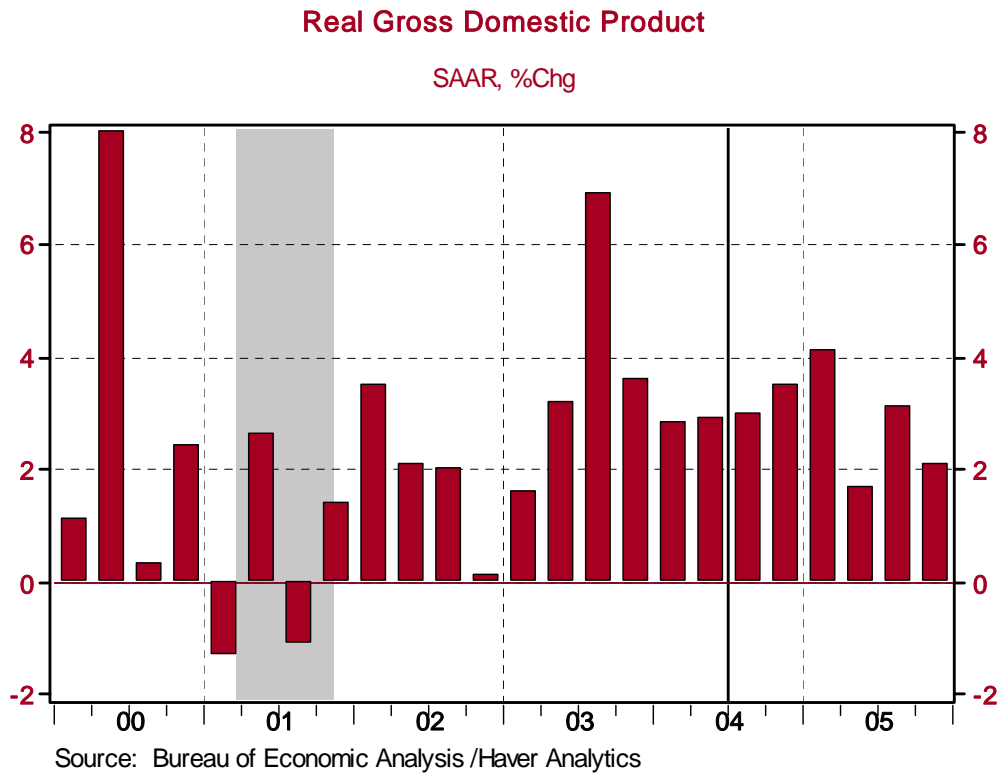


Chart 4



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Chart 5



With regard to the Fed preparing markets for the change in Fed policy, the following excerpts from the policy statements of 2004 prior to June indicate that the Fed provided an explicit warning about the impending change in monetary policy only one meeting prior to raising the federal funds rate in June 2004.

**From policy statement of January 28, 2004**

*“The Committee perceives that the upside and downside risks to the attainment of sustainable growth for the next few quarters are roughly equal. The probability of an unwelcome fall in inflation has diminished in recent months and now appears almost equal to that of a rise in inflation. With inflation quite low and resource use slack, the Committee believes that it can be patient in removing its policy accommodation. “*

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**From policy statement of March 16, 2004:**

*“The Committee perceives the upside and downside risks to the attainment of sustainable growth for the next few quarters are roughly equal. The probability of an unwelcome fall in inflation has diminished in recent months and now appears almost equal to that of a rise in inflation. With inflation quite low and resource use slack, the **Committee believes that it can be patient in removing its policy accommodation.**”*

**From policy statement of May 4, 2004**

*“The Committee perceives the upside and downside risks to the attainment of sustainable growth for the next few quarters are roughly equal. Similarly, the risks to the goal of price stability have moved into balance. At this juncture, with inflation low and resource use slack, **the Committee believes that policy accommodation can be removed at a pace that is likely to be measured.**”*

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