



FOMC STAYS THE COURSE

- **As was widely expected by the markets, the FOMC kept the fed funds rate unchanged at the range of 0.00% to 0.25%, and reiterated its commitment to keeping rates “exceptionally low” for an “extended period”.**
- **The economic assessment was slightly more upbeat, with the Fed noting that the economy continues to “strengthen” and labour market conditions are “stabilizing.”**
- **Kansas City Fed President Hoenig maintained his dissention to the majority decision.**
- **There is the faintest mention of an exit strategy, with the Fed indicating that it will “employ its policy tools as necessary.”**

As was widely expected by us (and to a lesser extent by the markets) the Fed kept the wording and tone of its interest rate decision statement largely unchanged, and maintained its commitment to keeping rates “exceptionally low” for an “extended period”. The fed funds rate was also left unchanged. The overall tone of the statement was as dovish as the prior one – reaffirming our bias for the Fed to keep rate unchanged until Q1 2011 – though the continued dissention by Kansas City Fed President Hoenig suggests that this position is not unanimous among Committee members.

With the benign inflation backdrop, the inflation assessments were left virtually unchanged, with the Fed reiterating that it expects the substantial level of resource slack to continue to “restrain cost pressures and longer-term inflation expectations” with inflation expected to remain “subdued for some time.”

The economic assessment, however, was strengthened somewhat, with the Fed noting that “economic activity has continued to strengthen and that the labor market is stabiliz-

ing.” The labour market reference is a slightly more upbeat assessment than in the previous statement, which noted that “the deterioration in the labour market is abating.” The Fed also noted that business spending on equipment and software has risen significantly, compared to its previous reference that spending is “picking up.” Consistent with the recent moderation in the housing market, the Fed noted that “investment in non-residential structures is declining, housing starts have been flat at a depressed level, and employers remain reluctant to add to payrolls.”

The other aspects of the communiqué were left largely intact, though the Fed noted that “the Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to promote economic recovery and price stability.” This reference is slightly stronger than in previous statement and is the clearest reference so far, albeit a very faint one, to the Fed’s recently outlined approach to exiting the current stimulative monetary environment.

All things considered, we come away from this statement thinking that the Fed is clearly in a wait-and-see mode, confident that the monetary policy actions taken so far will be sufficient to support the ongoing economic recovery. However, there is every indication in this statement that the Fed will likely continue to maintain a cautious posture to monetary policy, particularly given the very fragile nature of the recovery. As such, we continue to maintain our bias for the Fed to keep the policy rate unchanged until early 2011, though they are likely to be draining reserves from the system in advance of the first rate hike.

*Millan Mulraine
Senior Canadian Macro Strategist
TD Securities*

For further information, contact Beata Caranci at 416-982-8067.



This report is provided by TD Economics for customers of TD Bank Financial Group. It is for information purposes only and may not be appropriate for other purposes. The report does not provide material information about the business and affairs of TD Bank Financial Group and the members of TD Economics are not spokespersons for TD Bank Financial Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. The report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise TD Bank Financial Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.