

# Fed Watch

US

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Economic Analysis

US

Hakan Danis  
hakan.danis@bbvacompass.com

Jeffrey Owen Herzog  
jeff.herzog@bbvacompass.com

Nathaniel Karp  
nathaniel.karp@bbvacompass.com

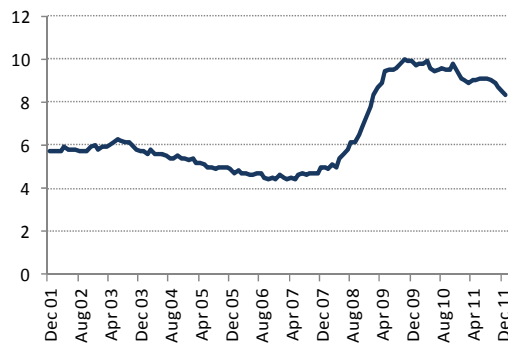
## FOMC Minutes: January 24-25 Despite recent good data, many downside risks

- Majority of FOMC needs to see deterioration before more asset purchases
- Downside risks still loom from persistent factors, external conditions
- No balance sheet normalization until 2015

### The Federal Reserve discusses drivers of household spending, communication policy

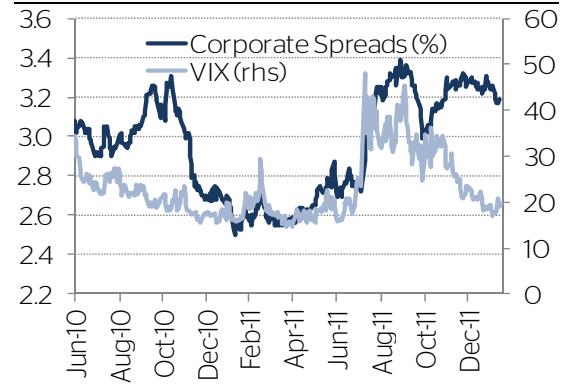
Today's release of the minutes revealed little additional information about the FOMC's outlook for the US economy. Although recent economic indicators have demonstrated improvement, the FOMC remains unconvinced and believes that persistent influences will weigh on the economy and that a number of risks pose a downside risk to growth. The FOMC still regards weak household spending, ongoing deleveraging, high duration of unemployment, high levels of fiscal and regulatory uncertainty, and a slowdown of economic activity abroad as weighing on growth. The economy remains vulnerable to shocks stemming from Europe's sovereign debt crisis and geopolitical oil pressures. Today's minutes revealed for the first time the FOMC's qualitative description of expectations for the size of the balance sheet. However, the information provided did not differ from Chairman Bernanke's press conference comments a few weeks ago. While a few FOMC members desire more asset purchased, the majority of the FOMC needs more evidence of deterioration in the economy before embarking on additional asset purchases. On the subject of communication policy, although members did further discuss recent measures, the minutes revealed few details of the FOMC's thinking. One issue does appear to remain unresolved: while it may or may not benefit policy to include some thresholds in the FOMC's forward guidance, in practice most of the indicators that may be used for thresholds are subject to statistical revision and are impacted by nonmonetary factors. Trends in inflation are still unfolding as expected by the FOMC. A majority of members expect high levels of resource slack to place inflation at or below the Fed's mandate during 2012. Although the exact level and scope of slack in the economy remains under debate within the FOMC, a variety of indicators suggest stable inflation expectations.

Chart 1  
**Unemployment Rate**



Source: BBVA Research and Haver

Chart 2  
**BBB Corporate Spread and Implied Volatility**



Source: BBVA Research and Haver

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