BBVA Research Flash

U.S.

Fed Watch: Semiannual Monetary Policy Report

- **Today's testimony shows FOMC is unconvinced of the recovery's sustainability, but will also not press for additional asset purchases unless a clear deterioration occurs**
- **Bernanke's comments suggest no major revisions to their forecast for inflation, but the Fed will closely monitor oil prices for permanent shocks**
- **Downside risks from deleveraging, housing and Europe continue to weigh on growth**

Chairman Ben Bernanke's speech before the House Committee on Financial Services offered little new information for characterizing the direction of policy, which is currently at a highly accommodative stance. In general, we believe that the Fed is unconvinced of the sustainability of the recovery, but due to some pockets of good data, the Fed needs to see clear deterioration before pushing the button for more large-scale asset purchases.

Bernanke's key phrase today is "In light of the somewhat different signals received recently from the labor market than from indicators of final demand and production, however, it will be especially important to evaluate incoming information to assess the underlying pace of economic recovery." This underscores our view that the Fed needs more clarity at this point in time. However, the oft-cited risks loom large: Europe can bobble their negotiations, household spending can be hit by oil prices, and housing is still under stress. Oil represents a risk to the FOMC's current outlook of subdued inflation, but they are not currently worried given anchored inflation expectations. As in the case of last year's oil shock, the Fed will monitor the situation in order to ascertain if the present oil shock is a permanent or transitory phenomenon.

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