

U.S. Fed Flash

Fedwatch: FOMC Meeting Minutes, October 23-24

- **Fiscal cliff and uncertainties in 4Q12 the highlight of discussions**
- **Additional asset purchases likely after Operation Twist expires at the end of 2012**

The October FOMC meeting minutes highlighted a discussion focused mostly on the implications of the fiscal cliff and its related uncertainty. Given that the September meeting was filled with changes to policy accommodation, the October meeting was more reflective. Despite positive data regarding consumer and housing activity throughout the intermeeting period, committee members noted particular concerns on the business side. On the topic of the surprising drop in the unemployment rate to 7.8%, FOMC members mostly agreed that with current growth expectations, job creation would not be strong enough to significantly reduce unemployment in the coming quarters. Adding to this concern was the idea that increasing business uncertainty has led to a decline in hiring plans, or simply a shift from full-time to part-time or temporary employees in order to avoid rising health insurance expenditures. FOMC members also addressed the idea of quantitative and/or qualitative thresholds for effectively communicating their forward guidance, but ultimately they concluded that practical issues need to be resolved before moving ahead with any of these strategies.

As for the initial assessment of QE3, committee members agreed that the accommodation thus far has helped to ease overall financial conditions, noting a drop in MBS and corporate bond yields. The meeting minutes suggest a divide among members related to the inflationary effects of additional easing that will likely continue to be an issue throughout the QE3 horizon. On the bright side, several members pointed to the increasing benefits resulting from an extended period of Fed accommodation. With Operation Twist scheduled to end in December, many FOMC participants noted that "additional asset purchases would likely be appropriate next year in order to achieve a substantial improvement in the labor market." However, several members of the committee spoke of concerns that "sizeable asset purchases" might make it that much more difficult for the Fed to exit out of this strategy and tighten policy at the appropriate time. Still, members are committed to assessing the potential costs of additional purchases and whether a continuation of current accommodation would be effective. With the details from the October FOMC meeting minutes, we expect that the Fed will increase the size of its accommodation beginning in January 2013 in order to offset the expiration of Operation Twist at the end of the year. The possibility of a full fiscal cliff resolution is becoming smaller by the day, and the FOMC has already acknowledged the impact of uncertainty leading up to a potential deal. Thus, we expect that the Fed will not significantly adjust its policy accommodation even in the off chance that Congress fully addresses the fiscal cliff by the end-of-year deadline.

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