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Taking No Chances: Fed Leaves Rate Alone With Slight Change In Language

Out with the old, in with the New. What's out? ",,,although the labor market has been weakening…" The new is that the "labor market appears to be stabilizing." Some evidence is there, but it is not overwhelming. Still, not to have recognized **change** would have risked much comment. The "considerable period" mantra is waved once again with the hopes that the Bond Market Junkies will hold their fire until the 'slack' is taken up. Euro dollars had been discounting a change in the Funds rate by March. The immediate reaction was a spike of 8 basis points upward on the March contract and a corresponding drop in the 10-year bond. The "exit problem" has not been solved but the equity market will take some joy from the chanting of the mantra. For how long? We're not sure, but we think that by December or January, the Fed will be forced to acknowledge that the economy is in far better shape

Release Date: October 28, 2003

The Federal Open Market Committee decided today to keep its target for the federal funds rate at 1 percent.

The Committee continues to believe that an accommodative stance of monetary policy, coupled with robust underlying growth in productivity, is providing important ongoing support to economic activity. The evidence accumulated over the intermeeting period confirms that spending is firming, ***and the labor market appears to be stabilizing. Business pricing power and increases in core consumer prices remain muted.***

The Committee perceives that the upside and downside risks to the attainment of sustainable growth for the next few quarters are roughly equal. In contrast, the probability, though minor, of an unwelcome fall in inflation exceeds that of a rise in inflation from its already low level. The Committee judges that, on balance, the risk of inflation becoming undesirably low remains the predominant concern for the foreseeable future. In these circumstances, the Committee believes that policy accommodation can be maintained for a considerable period.

The decision was unanimous. When the Minutes of the meeting are released in six weeks, we will get a better picture of the "exit" debate, that must already be percolating within the FOMC.

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