

## *Economic Update*

THOUGHTS FROM OUR ECONOMICS TEAM

AUGUST 1, 2012

### Still in Wait-and-See Mode? More Accommodation "As Needed"

Despite the clamor, today's Federal Open Market Committee (FOMC) statement brought no "QE3," no cut in the interest rate on excess reserves (IOER), no change in forward rate guidance – at least not for now.

In the face of weaker economic data since the June meeting, Federal Reserve policy makers huddled in Washington and acknowledged in the statement released at 2:15pm EST that the US economy "has decelerated over the first half of the year," but the Committee elected to stay in "wait-and-see" mode instead of engaging in additional accommodation.

In fact, the August statement looks remarkably similar to the June FOMC statement, retaining the "economic conditions are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014" portion rather than pushing forward rate guidance out to 2015 (the market already priced the first rate hike to mid-2015 anyway).

Compare the key differences in the forward-looking parts of the June and August statements:

**August 2012:** *The Committee will closely monitor incoming information on economic and financial developments and will provide additional accommodation as needed to promote a stronger economic recovery and sustained improvement in labor market conditions in a context of price stability.*

**June 2012:** *The Committee is prepared to take further action as appropriate to promote a stronger economic recovery and sustained improvement in labor market conditions in a context of price stability.*

We think the Committee preferred today to set the table for further action "as needed" at its September 12-13th meeting (a meeting accompanied by the release of new forecasts and the Bernanke press conference).

As a result, the next month's economic data remains paramount. Today's ADP Employment report points to continued sub-par job growth (+163k). The FOMC will also see two BLS jobs reports before September 12th—Friday's release of the July jobs report and the September 7th release of the August jobs report. The Committee will expect a "sustained improvement" in the pace of payroll growth from Q2's dismal 75k average monthly gain. If a pick-up fails to materialize, the stage is set to do more.