VOLUME XV No. 115 M O N D A Y June 24, 2013

THE FED'S STATUS QUO WILL BE MAINTAINED … FOR THE TIME BEING

But Things Could Change Before The Year Is Out

Contrary to what many financial analysts and economists had expected, late last year and earlier this year, it really looks as though the economy of the United States of America is well on the way to a decided mend.

The question is, of course, whether or not it can consolidate the gains in respect of the first quarter of 2013.

As long as the US Federal Reserve, the de facto Central Bank of the US, continues to support the gains, recorded earlier in the year, there is every probability that one may expect even greater improvements to the US economy before this calendar year is out.

However, easing of The Fed's *'appropriate policy accommodation'* of the past few years, accommodations that were aimed at giving one fillip after another to the largest single economy of the world, must come to an end, sooner or later – and, perhaps, sooner than later.

But, as The Fed pointed out in its statement, following the two-day meeting of the Open Market Committee:

> *'The Committee will closely monitor incoming information on economic and financial developments in coming months. The Committee will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. The Committee is prepared to increase or reduce the pace of its purchases to maintain appropriate policy accommodation as the outlook for the labor market or inflation changes. In determining the size, pace, and composition of its asset purchases, the Committee will continue to take appropriate account of the likely efficacy and costs of such purchases as well as the extent of progress toward its economic objectives.'*

The Mother-Bird Parellelism

As with a mother bird, having given birth to her chicks, which have grown fat and healthy and are sufficiently mature to fend for themselves, she must force them out of the nest so that they can find their own way and start their own families.

So The Fed must be considering, today, how best to cut that *'appropriate policy accommodation'* umbilical cord so that the US economy can go it alone.

It is quite likely to come before the end of the year if the economic situation in the largest, single economy of the world continues to make gains, similar or better than those of the first quarter of this year.

The writing is on the walls, all things being equal.

Again, quoting from the FOMC:

> *'In determining how long to maintain a highly accommodative stance of monetary policy, the*

Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.'

In the preamble to its statement, disseminated at the conclusion of the FOMC, it was pointed out:

> *'Information received since the Federal Open Market Committee met in May suggests that economic activity has been expanding at a moderate pace. Labor market conditions have shown further improvement in recent months, on balance, but the unemployment rate remains elevated. Household spending and business fixed investment advanced, and the housing sector has strengthened further, but fiscal policy is restraining economic growth. Partly reflecting transitory influences, inflation has been running below the Committee's longer-run objective, but longer-term inflation expectations have remained stable.*
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> *'Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic growth will proceed at a moderate pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the downside risks to the outlook for the economy and the labor market as having diminished since the fall. The Committee also anticipates that inflation over the medium term likely will run at or below its 2 percent objective.'*

The current economic projections of The Fed in respect of unemployment in the US is:

2013	Between 7.20 to 7.30 percent
2014	Between 6.50 to 6.80 percent
2015	Between 5.20 to 6.20 percent

The Fed's *'appropriate monetary policy'* is, simply put, at achieving its dual mandate of maximum employment and price stability in the longer run.

Last Thursday, the United States Department of Labour announced that claims for unemployment insurance were edging up – again.

For the week, ended June 15, The Employment and Training Administration Division of The Department of Labour announced:

> *'In the week ending* (sic) *June 15, the advance figure for seasonally adjusted initial claims was 354,000, an increase of 18,000 from the previous week's revised figure of 336,000. The 4-week moving average was 348,250, in increase of 2,500 from the previous week's revised average of 345,750…*
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> *The total number of people claiming benefits in all programs for the week ending* (sic) *June 1 was 4,533,560, an increase of 18,115 from the previous week. There were 5,818,334 persons claiming benefits in all programs in the comparable week of 2012.'*

The Bureau of Economic Analysis

The US Government's **B**ureau of **E**conomic **A**nalysis (**BEA**), in its Second Estimate of the **G**ross **D**omestic **P**roduct (**GDP**) with regard to the first quarter of 2013, said that GDP increased by 2.40 percent *'after increasing 0.40 percent in the fourth quarter of 2012'*.

Summarising the highlights of the GDP, The BEA said:

1. Inventory investment turned up notably, more than accounting for the acceleration in the first-quarter

GDP growth. Manufacturing turned up, farming accelerated, and wholesale trade declined less than in the previous quarter;

2. Consumer spending picked up, reflecting an acceleration in spending for services, mainly for household utilities;
3. Federal defence spending fell less than in the previous quarter, more than offsetting a downturn in nondefence spending; and,
4. Exports turned up; the main contributors were *"foods, feeds and beverages"* and nonautomobile capital goods.

But on the flip side of the coin, The BEA pointed out:

> *'In contrast, imports turned up, reflecting in part a rebound in nonpetroleum industrial supplies and materials. Also, business investment slowed, reflecting a downturn in structures and a slowdown in equipment and software.'*

As for corporate profits, The BEA said that its estimate of first-quarter corporate profits was a fall of about 2.20 percent at a quarterly rate in the first quarter after rising 2.30 percent in the fourth quarter of 2012.

Profits of nonfinancial corporations fell 0.80 percent at a quarterly rate in the first quarter, while profits of financial corporations fell 0.40 percent. Profits from the rest of the world fell 7.30 percent.

And so, there you have it from The BEA.

Too hasty a decision from The Fed to reduce or retract in part some of its accommodative measures to continue to stimulate the economy could, perhaps, upset the US economic applecart so that, in the opinion of **TARGET** (), the key to The Fed's determination must be to find the right time to make its definitive move.

As the idiom goes: '*Slowly, slowly, catchy monkey*'.

On May 1 and in last Wednesday's Federal Open Market Committee Meeting, The Fed stated, verbatim, inter alia:

> *'To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month and longer-term Treasury securities at a pace of $45 billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. Taken together, these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative …'*

When the unemployment rate in the US falls to below about seven percent, then, one may expect a determined change in The Fed's stance with regard to what it has coined as its '*highly accommodative stance of monetary policy*'.

However, according to its current projections, the target level of seven percent in respect of unemployment cannot be achieved until next year.

In this world of ours, the only consistent element is change, is it not?

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