

TRENDMACRO LIVE!

On the December FOMC

Tuesday, December 14, 2010

Donald Luskin

The FOMC keeps a low profile, and QE2 becomes business as usual.

We can't recall an FOMC statement with fewer changes from the one preceding it than [today's](#). It's no surprise that the Fed would keep a low profile on this one, and give the market as little to talk about as possible, in light of the intense political criticism it has received since QE2 was announced (see ["Eyeing an Exit from 'No Exit'"](#) November 18, 2010).

The one substantive change in the statement text was a nod to the disappointing [jobs report](#) the week before last, noting, "the economic recovery is continuing, though at a rate that has been insufficient to bring down unemployment." We wrote at the time of that report, "If the labor market has offered this morning an argument against the critics of QE2, then all the more reason to expect a better 2011, because the chances that the Fed might abort QE2 early have been substantially reduced" (see ["On the November Jobs Report"](#) December 3, 2010). Indeed, today's FOMC statement affirmed the continuation of the Fed's asset purchase program as though QE2 were now business as usual.

- We remain convinced that almost no matter what good news happens in the US economy over the coming months, that the Fed is on what amounts to autopilot with respect to completing QE2.
- We continue to believe that QE2 is working, and that rising interest rates -- which we predicted would be result (see ["When PhD's Attack"](#) August 25, 2010) -- are the evidence for that. Rates rose following today's FOMC, with QE2's affirmed continuation.
- We think it's significant that today's *Wall Street Journal* ran both an [an op-ed](#) and an [unsigned house editorial](#) making all our arguments on this. This is an important signal of capitulation from a thought-leader on the political right, which has violently opposed QE2 -- even they have to admit it seems to be working.

Bottom line

The embattled Fed kept a low profile with today's unchanged statement. But it treated the continuation of QE2 as business as usual. It is working, and we have no doubt it will be continued to its scheduled conclusion next June. ▶

Update to strategic view

FED FUNDS: The embattled Fed kept a low profile with today's unchanged statement. But it treated the continuation of QE2 as business as usual. It is working, and we have no doubt it will be continued to its scheduled conclusion next June.

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