

ECONOMIC UPDATE

January 28, 2015

- **Fed in wait-and-see mode**

The Federal Open Market Committee (FOMC) concluded its meeting on an optimistic note. There were no dissents, following three at the December 2014 meeting.

Key points from today's statement:

1. FOMC members, for the first time since the Great Recession, view the current expansion as "solid." They assessed the pace of activity as "moderate" at the previous meeting.
2. The Fed noted that job gains were "strong," another first for the current expansion. But it left unchanged the reference to underutilization of labor resources.
3. Low inflation readings are seen to reflect mostly a decline in energy prices. Inflation is expected to head lower in the near term and then move gradually toward the Fed's 2.0% target as the "transitory" influence of lower energy prices dissipates and labor market conditions improve.
4. The Fed continues to differentiate between market-based and survey-based inflation expectations, with the latter seen as stable.
5. The Fed did away with the "considerable time" phrase. It retained the language indicating it can be "patient" in normalizing interest rates.
6. The statement notes that "international developments" are another factor that will influence its evaluation of progress toward the dual mandate of full employment and price stability.
7. Although the Fed noted that economic activity is solid, the forward-looking statement mentions that it expects economic activity to expand at a "moderate" pace. The Committee also sees risks to the economic outlook as evenly balanced.
8. We continue to expect monetary policy tightening to commence in September 2015.

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