



**Bank
Financial
Group**

TD Economics

Commentary

August 5, 2008

U.S.: FOMC PAUSED WITH A NEUTRAL TONE

- **The FOMC kept the fed funds rate steady at 2% for the second straight meeting, with a somewhat balanced tone.**
- **In the statement, the Fed expressed concerns about the upside risks to inflation, with a renewed mention of the downside risks to growth.**
- **As before, Dallas Fed President Fisher dissented, preferring an increase in the target rate.**

As was widely expected by financial markets, the FOMC kept the federal funds rate target unchanged at 2% for the second consecutive meeting. The tone of that accompanying statement was somewhat more balanced than the prior one. As before, the decision was not unanimous, with Dallas Fed President Fisher dissenting for the fourth consecutive time, preferring an increase in the policy rate.

The inflation assessment by the Committee was somewhat similar to the last. In particular, it noted that “some indicators of inflation expectations have been elevated.” However, in contrast to the prior communiqué, the Committee acknowledged the recent retreat in commodity prices by noting that the high inflation rate has been spurred by “the earlier increases in the prices of energy and some other commodities” instead of “continued increases”. Interestingly, despite repeating its belief that inflation will

“moderate later this year and next year” the Committee did express its “significant concern” about the upside risks to inflation.

In terms of economic growth, the Statement affirms the Fed’s belief that the “downside risks to growth remain”, which contrasts quite starkly with its assertion in the last Statement that these risks have “diminished”. It also repeated the now familiar factors of “tight credit conditions, the ongoing housing contraction, and elevated energy prices” as the key sources of downside pressure on economic growth. In terms of the growth outlook, the statement noted that the “substantial easing of monetary policy, combined with ongoing measures to foster market liquidity, should help to promote moderate economic growth.”

On the financial sector, the language of the communiqué was essentially unchanged, as the Fed maintained that the “financial markets remain under considerable stress”, as it has in the past.

On the whole, the Fed continues to shy away from suggesting an explicit bias for the future, but reading between the lines suggests a somewhat neutral bias. And going forward, we expect the Fed to remain on hold as it assesses the tension between the elevated level of consumer price inflation and the fragility in the overall economy.

*Millan Mulraine
Economics Strategist
TD Securities*

For further information, contact James Marple at 416-982-2557.

The information contained in this report has been prepared for the information of our customers by TD Bank Financial Group. The information has been drawn from sources believed to be reliable, but the accuracy or completeness of the information is not guaranteed, nor in providing it does TD Bank Financial Group assume any responsibility or liability.