

# United States

## Taper talk to intensify as Fed sees downside risks as having diminished

- **Federal Open Markets Committee leaves interest rates unchanged and asset purchase programme at \$85bn per month in October**
- **Statement sounds bullish, despite added uncertainty due to government shutdown**
- **Any decision on tapering unlikely this year**

Fed policymakers held asset purchases at \$85bn per month at the October FOMC meeting, awaiting a clearer picture of how the economy is faring in the face of disruptions caused by the government shutdown and budget crisis.

While the statement sent a message of reassurance that the economy was set to rebound from its recent bout of weakness, it seems likely that the Fed will need to wait several months before the picture clears sufficiently, meaning no tapering of the stimulus programme until next year.

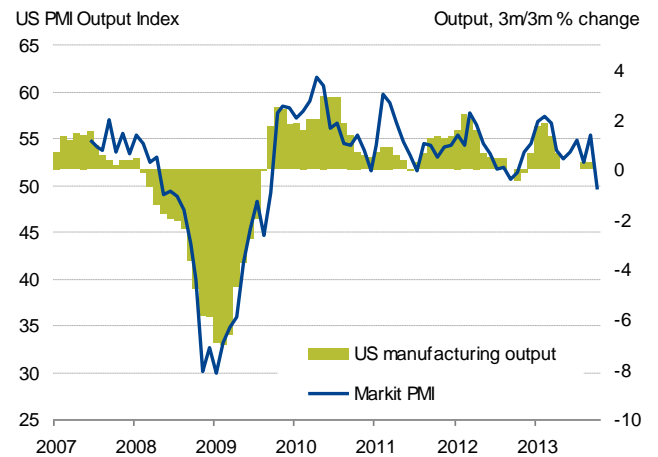
### Weakening economy

Back in September, the Fed surprised the markets by deciding not to taper its asset purchases. The Fed noted that a weaker economic data flow compared with earlier in the year had led to some uncertainty as to the durability and strength of the economic upturn. With recent data having shown signs of a further easing in the pace of growth, there was therefore no surprise at the lack of action at the October meeting.

The most up-to-date indications on the health of the economy are provided by the surveys, which point to the government shutdown having hit both business and consumers in October. Markit's [flash manufacturing PMI survey](#) registered the first fall in factory output since 2009, while both the University of Michigan and Conference Board surveys showed steep falls in consumer confidence.

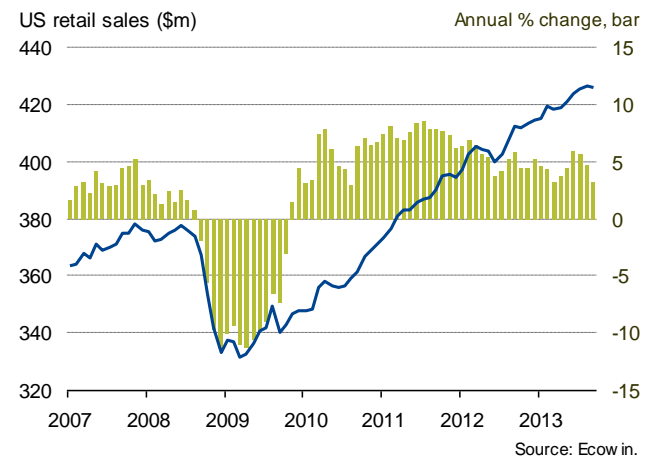
However, recent updates to official data have shown the economy to have been slowing even before the government shutdown. Manufacturing output rose a meagre 0.1% in September, compared to a 0.6% rise in August, though the more stable three-month growth

### US manufacturing output\*



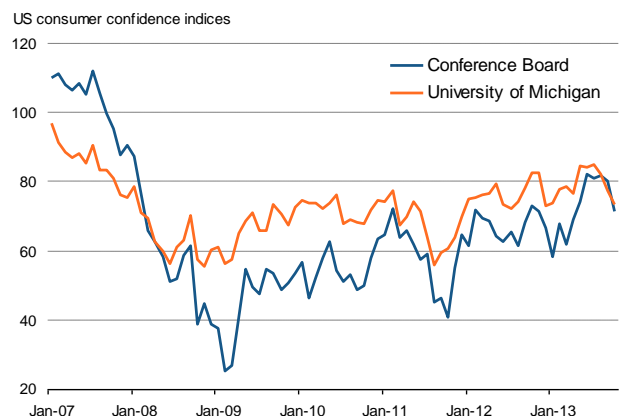
\*with October flash PMI reading. Sources: Markit, EcoWin.

### US retail sales



Source: EcoWin.

### US consumer confidence



Source: EcoWin.

rate held steady a 0.3%. Retail sales meanwhile fell 0.1% in September, leaving sales just 3.2% higher than a year ago, one of the weakest annual growth rates seen since the recession.

Employment data meanwhile showed a lower than expected 148k increase in non-farm payrolls in September, compared to an average 181k rise in the first eight months of the year, though these data are susceptible to major revision.

### No tapering until the new year?

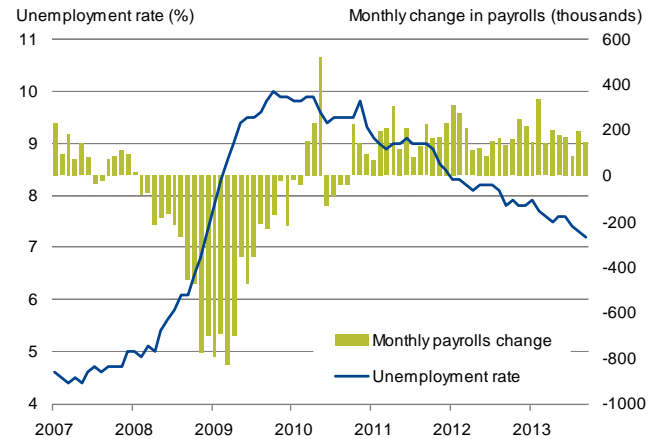
The Fed statement nevertheless noted that “economic activity has continued to expand at a moderate pace” and that “with appropriate policy accommodation, economic growth will pick up from its recent pace”. Furthermore, the FOMC “sees the downside risks to the outlook for the economy and the labour market as having diminished, on net, since last fall.”

However, there remains a large degree of uncertainty as to how much of the weakening of the economy in September and the deterioration in survey data in October are temporary set-backs due to the budget crisis and shutdown. The statement added that “the Committee decided to await more evidence that progress will be sustained before adjusting the pace of its purchases.” It may take several months before a clear picture emerges as to the underlying health of the economy and the extent to which it might bounce back, or not, from the recent bout of weakness.

The Fed may therefore need to wait until the new year, possibly February or March, until the economic picture clears to an extent that will enable a properly-informed decision on tapering.

No new forecasts or press conference accompanied the FOMC decision.

### US labour market



Source: EcoWin.

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