

guidance to date--that market expectations about the Fed funds rate do not look unreasonable. (80%)

2) Taper by only a modest amount initially. (85%)

1) Re-emphasize their existing forward guidance, i.e., that they might not begin to raise rates until unemployment is well below the 6.5 threshold, depending on what the overall picture in the labor market, growth, and inflation looks like. (90%)

In brief, a taper is likely to be accompanied by a statement and press conference that reinforces the low for long message, by reemphasizing what has already been said, as well as by reducing interest rate forecasts in the SEP.

Finally, in this light, it is interesting that Stanley Fischer has apparently become a leading candidate for Fed Vice Chairman. We strongly endorse his candidacy—he would be an excellent appointment all around. What is interesting is that he has publicly favored giving less, not more forward guidance. We do not see Fischer's views having a significant effect on the outcome of the December meeting if the Fed does decide to taper, but this is an issue that will bear watching in the future.

October FOMC

Information received since the Federal Open Market Committee met in September generally suggests that economic activity has continued to expand at a moderate pace. Indicators of labor market conditions have shown some further improvement, but the unemployment rate remains elevated. Available data suggest that household spending and business fixed investment advanced, while the recovery in the housing sector slowed somewhat in recent months. Fiscal policy is restraining economic growth. Apart from fluctuations due to changes in energy prices, inflation has been running below the Committee's longer-run objective, but longer-term inflation expectations have remained stable.

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 pick up from its recent 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, on net, since last fall. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, but it anticipates that inflation will move back toward its objective over the medium term.

Taking into account the extent of federal fiscal retrenchment over the past year, the Committee sees the improvement in economic activity and labor market conditions since it began its asset purchase program as consistent with growing underlying strength in the broader economy. However, the Committee decided to await more evidence that progress will be sustained before adjusting the pace of its purchases. Accordingly, 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, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.

The Committee will closely monitor incoming information on economic and financial developments in coming months and 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