



Economy Is Improving, Says Fed

Steve Schaefer, 09.23.09, 4:20 PM ET

Wall Street was little changed Wednesday as investors spent much of the day awaiting and then digesting the latest statement from the Federal Reserve, which showed a rosier economic view from the central bank and no indication that its loose monetary policy will be tightened anytime soon.

The Fed's view on the economy continues to improve, with members noting better conditions in financial markets, increased activity in the housing sector and signals that consumer spending is steadying even with the continued headwinds of "ongoing job losses, sluggish income growth, lower housing wealth and tight credit."

A \$300 billion program to purchase Treasury securities is on pace to wrap up at the end of October, after the Fed slowed the pace of the program in August. In an echo of that decision, Wednesday's statement said its \$1.5 trillion program to purchase mortgage debt will be slowed "in order to promote a smooth transition in markets," and wrap up by the end of the first quarter of 2010.

Benny Lorenzo, chairman and chief executive of New York investment bank Kaufman Brothers, wasn't surprised by the market's tepid reaction. There was no expectation of movement on interest rates, and traders were expecting to see the Fed acknowledge the improvement in the economy.

"The Fed is walking a tightrope," Lorenzo said. The central bank must navigate between keeping its "easy money" policy too long and sparking inflation, or pulling back and tightening too soon and having a negative impact on the fragile recovery.

The central bank's plan to extend its \$1.5 trillion program of purchasing mortgage debt by another 90 days drew Lorenzo's approval. The move smoothes the transition away from using public money to prop up the housing market, but also leaves open the option of maintaining the program -- which buys debt and mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae -- if mortgage rates flutter back up and the housing rebound stalls.

Wall Street seemed to have the Fed's position priced in; after doubling modest gains immediately after the statement, the market sold off into the close to finish with moderate losses. The Dow Jones industrial average was down 81 points, or 0.8%, to 9,749 at the bell; while the S&P 500 lost 11 points, or 1%, to 1,061; and the Nasdaq fell 15 points, or 0.7%, to 2,131. Traders may have been waiting to gauge the response to the Fed's statement before making a move to sell high after a strong start to September and sideways action so far this week.

The automotive sector, which has received a government boost like that in the housing industry, was mixed Wednesday after AutoZone reported its fourth-quarter profits fell 3.1%. Shares of the auto parts chain tumbled 7.5% despite its confidence that American consumers will remain inclined to keep older vehicles running rather than loosening their purse strings for new cars. On the flip side, Ford Motor was up 5%, after the only one of Detroit's Big Three to stay out of bankruptcy said it expects domestic demand to pick up in 2010.

Earlier Wednesday, money manager BlackRock announced it received European Union approval to acquire Barclays asset management arm, Barclays Global.