

TRENDMACRO LIVE!

On the FOMC Statement

Tuesday, March 16, 2004

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As we [suggested yesterday](#) that it might, **the FOMC** marginally downgraded its assessment of the job market, and the credit markets took the hint, turning a quarter-point loss on the 10-year Treasury to a near three quarter-point gain, while interest rate futures whittled down the odds that any rate hikes will come before December.

In virtually the only substantive change in today's announcement from the one issued following the previous meeting on January 28, the FOMC stated, "Although job losses have slowed, new hiring has lagged." That compares with the January statement, which offered that "Although new hiring remains subdued, other indicators suggest an improvement in the labor market." While the contrast between the two might seem inconsequential, for a policymaking panel that considers its task incomplete absent a restoration of solid payroll growth, the shading toward a less upbeat view carries non-trivial information content. It surely was no accident that the shift in wording on jobs came in an announcement that otherwise was left essentially unchanged. The panel wanted that language to stand out.

Maintaining the jobs-based rationale to support its ultra-easy policy stance, however, is compelling **the Fed** to continue offering observations about current economic conditions that increasingly defy credulity. The economy has been growing at a rate of some 6% since the second quarter of last year, and by the Fed's own estimation should continue expanding at a rate exceeding 4% this year. But, according to the FOMC announcement -- using a formulation that has been repeated after each meeting since last May -- "upside and downside risks to the attainment of sustainable growth for the next few quarters are roughly equal." And though the dollar's value against gold, foreign exchange and other sensitive market indicators has declined by some 15% to 20% in the past year, and by more than 30% in a little over two years, the Fed remains on deflation watch. Today's announcement again offered the hackneyed boilerplate that "the probability of an unwelcome fall in inflation has diminished in recent months and now appears almost equal to that of a rise in inflation." In other words, even as its too-easy posture gives rise to growing signs of inflation risk, the Fed continues to describe its posture as marginally biased toward countering nonexistent deflationary forces. **TM**