

TRENDMACRO LIVE!

On the July FOMC

Wednesday, July 31, 2013

Donald Luskin**The FOMC admits the risk of too-low inflation. Tapering may not come as soon as expected.**

We see [today's FOMC statement](#) as dovish at the margin. Does it even matter? We have become quite certain that the Fed's Large-Scale Asset Purchases are irrelevant at this point, whether they are tapered or not (see ["US Fixed Income Strategy: The Fed Irrelevancy Hypothesis"](#) July 2, 2013). But for what it's worth, this increases our doubts about whether tapering will begin as soon as the market seems to expect (see ["Taper Your Tapering Expectations"](#) June 27, 2013).

- As we've been saying all along, the key issue is the very low level of core Personal Consumption Expenditures inflation. It's now just 1.05% year-over-year, four tenths of a basis points off last month's all-time low in the 54-year history of the data (see ["To Taper or Not to Taper?"](#) June 7, 2013).
- The FOMC specifically acknowledged today that it "recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance."
- The [previous FOMC statement](#) made no such acknowledgement, which earned a dissent from St. Louis Fed President James Bullard (see ["On the June FOMC"](#) June 19, 2013) -- plus [a most scorching explication of the matter](#) on the St. Louis Fed's web site two days later.
- There was no dissent from Bullard today. It would seem that the committee has -- wisely, in our view -- come around to his way of thinking.
- At the same time, today's statement downgraded economic growth to "modest," from the prior statement's "moderate" (see ["Data Insights: Federal Reserve"](#) July 31 2013).
- And today's statement noted that "mortgage rates have risen somewhat."

Bottom line

The FOMC moved toward the dovish. Most important, it acknowledged the risk of persistent low inflation. It downgraded growth to "modest," and noted that mortgage rates have been rising. We don't think it matters whether the Fed tapers or not. But today's statement reinforces our doubts that it will do so as soon as the market seems to have come to expect. ▶

Update to strategic view

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