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On the April FOMC

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Donald Luskin

A bland statement after Yellen's carnival of errors -- seems she is learning on the job.

Today's FOMC statement almost seems designed to leave a light footprint, with virtually no changes from March's statement -- except for the removal of a paragraph that had claimed the Fed's policy change in eliminating the so-called "Evans Rule" was *not* a policy change (see "Data Insights: Federal Reserve" April 30, 2014).

- Mission accomplished. No dissents this time, and essentially no reaction in markets.
- The only verbal tweaks were in the manner of stating the obvious, noting that the economy has "picked up recently" and that consumer spending "appears to be rising more quickly" after "adverse weather conditions."

It was important for Yellen to have calmed things down after a series of mis-steps marking a most inauspicious debut as Fed chair.

- Her first FOMC statement, in March, was such a mish-mash that its overtly dovish message nevertheless drew a dovish dissent from Minneapolis Fed President Narayan Kocherlakota (see "On the March FOMC" March 19, 2014).
- In her first post-FOMC press conference, she let slip a stammered forecast of when the funds rate target would be hiked following the end of asset purchases: "…you know, it probably means something on the order of around six months or that type of thing."
- She got tangled up by a question about the "dots" representing FOMC participants' views on the optimal funds target in 2016 -- so much so that she doctored the minutes of the meeting, released two weeks later, with 101 words designed to give a better answer.
- And she humiliated herself by answering a soft-ball question on how she learns about the "human side" of unemployment by saying, "I talk to a broad range of business contacts…"
- As though to make up for *that*, in her first public speech -- before a convention of community organizers in Chicago -- she pointed to three individuals in the audience who had lost their jobs, a rhetorical technique more suited to political rallies (see "On Yellen's First Public Speech as Fed Chair" March 31, 2014). And it turned

Update to strategic view

US FED: With acknowledgement that the economy is picking up after a harsh winter, today's uncontroversial FOMC statement is a moment of calm after an embarrassing series of mis-steps by Yellen as new chair. While Yellen is stumbling, we see her as attempting to learn from her mistakes and become a better leader. She has a window of time to do this, before some major policy decision -- or crisis -- requires real leadership. For now, the Fed is operating on the tapering autopilot activated by Bernanke. And it's the market, not the Fed, that is likely to set the timing of the first rate hikes -- just as it was the market that set the zero rate in 2008 three months before the Fed did.

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out that two of the three have arrest records (see their mug shots here and here).
- Then, as though to make up for *that*, in her next speech, at a lunch of the New York Economics Club -- a rite of passage for Fed chairs -- she stuck closely to economic policy. But her statements were so careful as to be painfully banal. As just one example, she uttered this truism as though it were a deep personal insight: "…I believe that long-term unemployment might fall appreciably if economic conditions were stronger."

The good news -- the very good news about this series of unfortunate events -- is that Yellen is definitely learning on the job. Each mistake is a clumsy attempt to fix the prior mistake. At least that shows she's trying.

- We have worried that Yellen's policy dogmatism and lack of interpersonal skills required for leadership could lead to a dysfunctional FOMC (see "Yellen and Screamin' at the Fed" December 5, 2013).
- She has a window of opportunity to grow into the transcendently important role that she finds herself in -- that is, *before* a crisis requires true leadership at the helm of the world's most important financial institution.
- We're delighted to see that she is taking her lumps, picking herself up, and trying to learn from her mistakes while that window is still open.

But even more than the absence of crisis at the present moment, for now the Fed is on policy autopilot -- so there is really no policy decision that the FOMC might have to debate, ideally under the guidance of an effective leader.

- As we expected, Ben Bernanke succeeded in leaving a durable policy pattern in place (see "Bernanke's Last Big Call" January 21, 2014). Thanks to his courage in establishing the regular tapering of Large Scale Asset Purchases in his final two FOMC meetings, the Fed can coast until tapering is complete, and then take its time in determining when to raise the funds target.
- When will that be?
- We think it will be the market that determines that, not the Fed.
- Remember, short-term rates fell to zero on "Lehman day" in September 2008, when the funds target was -- remarkably -- still 2%. The target was not lowered to zero for three longs months, at the December FOMC meeting.
- If the market is going to lead policy again, then it doesn't matter that much whether or not Yellen can lead the Fed.

Bottom line

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