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FED SHADOW

# Fun Facts about the Fed's Dots

Thursday, December 15, 2016

**Donald Luskin**

**Dots all folks. Another fake emergency. The Fed is absolutely not tightening policy.**

Markets continue to freak out about the fact that in yesterday's FOMC Summary of Economic Projections, the median "dot" for the path of the funds rate implies three rate hikes in 2017, not the two implied in September (see "On the December FOMC" December 14, 2016 and "Data Insights: Federal Reserve" December 14, 2016).

*Get a grip, people. There is way less here than meets the eye. It absolutely does not mean the Fed now envisions tighter policy than before.*

- The new rate hike in 2017 implied by the median "dot" is the only new rate hike implied for the three-year projection period. That is, no new rate hikes are implied for 2018 or 2019. *Is this such a big deal? One more rate hike over three years?*
- That one rate hike is mostly explained by the change in the projected unemployment rate in 2017, from 4.6% to 4.5%. The standard Taylor Rule coefficient of 1.95 explains 19.5 basis points of the 25 basis points additional hike. *So the Fed isn't getting tighter, it's just tracking the underlying economy.*
- And the new rate hike implied for 2017 actually leaves the funds rate *lower* by 20 bp than implied by the median "dot" in the June FOMC projections. *So if we ignore September's "dot," rather than fretting about one additional hike in 2017, we could be celebrating that the December "dot" implies one less rate hike.*
- And if it's not too fussy, who ever said the *median* "dot" was determinative? *The average 2017 "dot" only went up by 6 basis points. And in the end, Chair Janet Yellen's "dot" is the only one that counts.*

Markets should relax. Or more precisely, they should generally continue the trends they've been in since mid-summer, after Brexit and the substantial recovery in oil prices, when the world turned away from near-recession (see "Have We Suffered Enough?" February 26, 2016) and away from secular stagnation (see "Trump and the 'Reflation Trade'" November 15, 2016). The Fed is an effect here, not a cause. The global economy is improving, and the Fed is simply responding to that. There's a world of difference between that and a tightening of policy.

**Update to strategic view**

**US FED, US MACRO:** Markets are still freaked out by the FOMC's median "dot" yesterday, pointing to an additional rate hike in 2017. But the "dots" show no more additional hikes in 2018 or 2019. One new hike in three years isn't a big deal. For that matter, the 2017 hike isn't a policy tightening – it is explained perfectly by applying a standard Taylor Rule coefficient to the drop in the median "dot" for 2017 unemployment. The 2017 "dot" is still lower than thought in June. And if we look at average rather than median, it barely changed at all from September. The move in markets isn't about the Fed, or at least it shouldn't be. Markets and the Fed are simply tracking the momentous changes since the global economy came out of near-recession, and following Brexit, turned away from secular stagnation and toward growth.

[Strategy dashboard]

## Bottom line

Markets are still freaked out by the FOMC's median "dot" yesterday, pointing to an additional rate hike in 2017. But the "dots" show no more additional hikes in 2018 or 2019. One new hike in three years isn't a big deal. For that matter, the 2017 hike isn't a policy tightening – it is explained perfectly by applying a standard Taylor Rule coefficient to the drop in the median "dot" for 2017 unemployment. The 2017 "dot" is still lower than thought in June. And if we look at average rather than median, it barely changed at all from September. The move in markets isn't about the Fed, or at least it shouldn't be. Markets and the Fed are simply tracking the momentous changes since the global economy came out of near-recession, and following Brexit, turned away from secular stagnation and toward growth.

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**Recommended Reading**

**First 100 Days: Rules, Regulations and Executive Orders to Examine, Revoke and Issue**
Congressman Mark Meadows
House Freedom Caucus
December 14, 2016

[Reading home]