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TRENDMACRO LIVE!

On the May FOMC

Wednesday, May 3, 2017

Donald Luskin

What, FOMC worry? Overlooking a quarter of weak data, and silent on the balance sheet.

There was not a single word in today's FOMC statement about the bombshell dropped in the minutes of the March meeting – that the Fed will likely cease reinvestments in its asset portfolio later this year (see "Time for Taper Tantrum Two?" April 6, 2017). Apparently Vice Chair Stanley Fischer's sheepish mid-April confession about that revelation being "not aligned with market expectations" is sufficient to, now, proceed as though it had never been made.

- *In other news…* Today's statement added the disclaimer that "The Committee views the slowing in growth during the first quarter as likely to be transitory" and continues to keep its present policy stance of gradual adjustments.
- The FOMC is overlooking last month's very weak jobs headline – as we ourselves are (see "On the March Jobs Report" April 7, 2017) – repeated as in the March FOMC statement that "the labor market has continued to strengthen" and that "job gains were solid."
- In a statement notable for how little in it is notable, we note that the FOMC seems to be trying a little too hard to imagine that inflation is still approaching its target after all these years of missing (see "Data Insights: Federal Reserve" May 3, 2017).
- Gone is the language that inflation "increased in recent quarters."
- Today's statement admitted that core inflation "declined in March" and "continued to run somewhat below 2 percent." Well, yeah… if you call 1.56% "somewhat" below 2.0%.
- With inflation so soggy, and with the Fed's favorite measure of the neutral rate of interest (see "Yellen's March to Neutrality" March 6, 2017) having advanced only 5 basis points with the latest update – and with two rate hikes already under the FOMC's belt over the last four meetings – it will take an acceleration of growth to drive more than a single additional hike this calendar year.

Bottom line

The FOMC is discounting the quarter's weak headline growth and jobs data, turning a blind eye to soggy inflation, and staying mum on plans to wind down the balance sheet. Without a growth acceleration, we think the Fed is on track for only one more rate hike this calendar year.

Update to strategic view

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