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# On the June FOMC

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**Donald Luskin**

**No forward guidance anymore. But no marijuana either. Powell is slowly learning to do this.**

Let us begin with an uncharacteristic complement to new Fed Chair Jerome Powell. In today's post-meeting press conference he uttered *the single most profound policy statement in the century-plus history of the Federal Reserve: "Our mandate has nothing to do with marijuana."*

But seriously… The Powell Fed overlooks no opportunity to overlook an opportunity. Having signaled in the minutes of the May FOMC potential changes to two key components of long-standing forward guidance (see "The Powell Fed Rewrites the Play-book" June 11, 2018), *today's FOMC statement arbitrarily eliminated a sensible statement that could have endured, and kept an untrue statement that should have been eliminated.*

- *Completely gone are 44 wise words that had been, with only trivial variation, in every FOMC statement since March 2014:*

  ~~*"The Committee expects that economic conditions will evolve in a manner that will warrant further gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run."*~~

- *This, essentially, leaves the FOMC statement without anything you could really call "forward guidance" for the first time since December 2008. Are we really ready for that?*
- We know what "levels that are expected to prevail in the longer run" because the longer-run "dotplots" tell us so. According to today's Summary of Economic Projections, that's 2.87%, actually down a basis point from March's SEP. The year-by-year "dotplots" show that rate being ever-so-slightly exceeded by the end of 2019, and exceeded by half-a-percent by the end of 2020 (see "Data Insights: Federal Reserve" June 13, 2018). *But neither of these is a change from March – so why eliminate the "some time" language now?*
- At the same time, the FOMC preserved a statement that, for several months now, has been tangibly untrue according to the Fed's own models:

  *"The stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return*

**Update to strategic view**

**US FED:** The elimination of the "some time" language that has been in every FOMC statement since March 2014 leaves no forward guidance at all, for the first time since December 2008. There seems to be little reason for it, as the "dotplots" show almost no change versus March in the out-years. The untrue statement that policy remains "accommodative" is still there. The economic outlook in the statement was very upbeat. But the 2019 "dotplot" only upticked slightly, still implying less than one-and-a-half 25 bp rate hikes by year-end. Powell was smoother in the press conference than in March, and offered sensible views about the importance of the neutral rate of interest, and the unimportance of the Phillips Curve as policy benchmarks. He is learning on the job.

[Strategy dashboard]

*to 2 percent inflation."*

- After today's hike, the fed funds rate is only 6.2 bp below the nominal neutral rate of interest (obtained by deflating the Laubach-Williams model's estimate of "R-star"). That's within rounding error of neutral. It was above neutral, calculated the same way, in March. *Why continue to pretend that policy is accommodative?*
- *This view, combined with the removal of the "some time" language, doesn't mean the Fed has become more hawkish. Since the release of the statement, there has been little change in the curve-implied path of rates.* In the post-meeting press conference, Powell explained away the elimination of the "some time" language as a matter of mere housekeeping, indeed citing the 2019 and 2020 "dotplots" we just mentioned to indicate that "some time" hasn't been an appropriate descriptor for, well, "some time."
- *Furthermore, the 2019 "dotplots" haven't really gotten any more aggressive. Despite* rapid-response headlines *that they now indicate a total of four rate hikes this year, the tiny move in the average "dotplot" from 2.19% in March to 2.24% today leaves the implicit number of hikes below three-and-a-half, which is to say less than one-and-a-half to go before year end.*
- More deeply, both the FOMC in its statement and Powell in his post-meeting press conference were silent on their meta-forecast as to changes in the "levels that are expected to prevail in the longer run." In other words, the "dotplots" may have indeed already indicated getting there (in this and the prior SEP) – but that forecasted longer-run level of the equilibrium funds rate is itself subject to change, and as the "new normal" of "secular stagnation" dissipates, could move higher – in which it truly would be "some time" before the funds rate reaches it.

The rest of today's FOMC statement – aside from the elimination of the "some time" language, and the preservation of the "accommodative" language – tended strongly toward the optimistic.

- Labor market and economic activity is upgraded from "moderate" to "solid."
- Household spending has "picked up."

The really good news is that new Chair Jerome Powell, for all our criticism, acted considerably more chairmanical in today's post-meeting press conference. He didn't have to ask for any questions to be repeated (in March, that happened three times).

- And since he's getting better at it, he announced today that press conferences will now follow *every* FOMC meeting, rather than just every-other one. He assured markets that "having twice as many press conferences does not signal anything about the timing or pace of future interest rate changes. This change is only about improving communications."

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[About us]

**Recommended Reading**

**A Process for Capturing CO2 from the Atmosphere**
David W. Keith, Geoffrey Holmes , David St. Angelo and Kenton Heidel
*Joule*
June 7, 2018

[Reading home]

- We suspect it is more about his vanity (just remember that painfully goofy selfie video he produced on his first day in office as chair, introducing himself: "Hello. This is Jay Powell…").
- The *real* communications – the Summary of Economic Projections – will "continue…on the existing quarterly schedule."
- But, hey, as people who earn their living speculating on the Fed, we have to welcome the advent of eight "live" FOMC meetings per year, rather than just four. It's like having twice as many slot machines in the casino.

But there really was more substance from Powell his time.

- Instead of completely ignoring the central role of the neutral rate of interest in benchmarking policy, he referred to it sensibly several times. He explicitly stepped back from some his earlier reckless and simplistic remarks that made him seem an adherent to primitive Phillips Curve logic, this time carefully disentangling the paradox of a seemingly low unemployment rate and, at the same time, sluggish inflation.
- *We're not happy with the casual way he dropped long-standing "some time" guidance today, nor that he clings to the lie that policy is "accommodative." But that said, he is learning on the job, and the markets' quiescent reaction to what might have been a tumultuous FOMC statement today shows that he is beginning to learn on the job.*

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**Bottom line**

The elimination of the "some time" language that has been in every FOMC statement since March 2014 leaves no forward guidance at all, for the first time since December 2008. There seems to be little reason for it, as the "dotplots" show almost no change versus March in the out-years. The untrue statement that policy remains "accommodative" is still there. The economic outlook in the statement was very upbeat. But the 2019 "dotplot" only upticked slightly, still implying less than one-and-a-half 25 bp rate hikes by year-end. Powell was smoother in the press conference than in March, and offered sensible views about the importance of the neutral rate of interest, and the unimportance of the Phillips Curve as policy benchmarks. He is learning on the job.