

TRENDMACRO LIVE!

On the March FOMC

Tuesday, March 15, 2011

Donald Luskin**The Fed continues to successfully remove itself as a source of uncertainty.**

Today's FOMC meeting feels like a non-event, but it's not just because all eyes are on Japan at the moment. It's because the Fed wants it that way. Since the embarrassing internal debates the Fed carried out in public last summer when QE2 was first being debated (see "[When PhD's Attack](#)" August 25, 2010), and since QE2 itself triggered significant global political backlash, the Fed has sought to keep a low profile (see "[On the December FOMC](#)" December 14, 2010). We think the improved performance of the economy and the stock market reflects the Fed's success in removing itself as a source of uncertainty.

- There was not a single changed word in [today's FOMC statement](#) in the long paragraph describing the ongoing execution of QE2, or the maintenance of extremely low rates for an "extended period." We continue to believe that QE2 will be completed, and that rates will not be raised any sooner than the first quarter of 2012.
- There were no dissents -- even though voting FOMC members Richard Fischer and Charles Plosser are both skeptics about QE2.
- The general discussion about economic conditions expressed a slightly more upbeat tone.
- The statement heightened the alert level about commodity prices, saying they have "risen significantly," and characterizing the move in oil as a "sharp run-up." While warning that this is "currently putting upward pressure on inflation," the rise in energy prices is ascribed to "concerns about global supplies of crude oil."
- The FOMC states that "The Committee expects these effects to be transitory, but it will pay close attention to the evolution of inflation and inflation expectations." We read this as indicating that the Fed feels no sense of urgency whatsoever about incipient inflation, and would only act when presented with extraordinarily disturbing evidence of a break-out.

**Update to
strategic view**

FED FUNDS: Another deliberately uncontroversial FOMC statement, as the Fed continues to successfully remove itself as a source of uncertainty. The alert level on rising commodity and energy prices has been raised, but there is no indication that Fed regards them as a serious source of inflation risk. QE2 will continue to completion, and the funds rate will stay near zero through at least the first quarter of 2012.

[\[Strategy Dashboard home\]](#)**Bottom line**

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