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TRENDMACRO LIVE!

On the January FOMC

Wednesday, January 30, 2013

Donald Luskin

No policy changes, no more details on the Evans Rule. But a slight shift to the hawkish.

As we expected (see "2013 Outlook: Doves Ruled Out at the Fed" January 25, 2013), the FOMC today made no substantive changes in policy. With no specific end-point, the Fed will continue asset purchase at the pace of $85 billion per month, approximately equivalent to total net Treasury issuance. But our take on the language of today's statement is that it subtly lays the groundwork for a less accommodative posture later this year -- which is sooner than we think the markets expect.

- There was no further specification of the so-called Evans Rule that will trigger rake hikes when the unemployment rate hits 6.5%. The only change in the statement language on this subject was to omit the sentence from December's statement that this trigger is "consistent with its earlier date-based guidance" -- perhaps because, as we have shown, it is most certainly not (again, see "2013 Outlook: Doves Ruled Out at the Fed"). The date-based guidance was given as mid-2015, but we think the Evans Rule actually points to September 2014.
- The FOMC has backed away from the panicked attitude that we think was essential in provoking QE3 last September (see "On the October FOMC" October 24, 2012). Now, for the first time since September a year before *that*, the statement did *not* say that "strains in global financial markets" pose "significant economic risk." Now, they are said to "have eased somewhat."
- To be sure, today's statement said that "economic activity has paused somewhat is recent months" -- a downgrade from just last month when it was said to have "continued to expand at a moderate pace." But this was excused as being "in large part because of weather-related disruptions and other transitory factors."
- Most significant for the Fed's future policy posture -- and admitting that *all* this involves greatly magnifying very small tea leaves -- today's statement said that "with appropriate policy accommodation, economic growth will proceed." That bland tautology -- it *has* to be true given what "appropriate" means -- is a much more positive statement than last month's fretting that "without sufficient policy accommodation, economic growth might not be strong enough to generate sustained improvement."

Update to strategic view

US FED: No change in policy, and no more details on the Evans Rule. But all the subtle shifts in language point toward less accommodation, sooner than markets expect.

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Bottom line

No change in policy, and no more details on the Evans Rule. But all the subtle shifts in language point toward less accommodation, sooner than markets expect.

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