

FED SHADOW

Yellen Adds “Uncertainty”

Wednesday, March 30, 2016

Donald Luskin

...and in changing the title of her speech, confesses “liftoff” was an error. One and done.

Yesterday’s speech by Fed Chair Janet Yellen was exactly what we’ve been expecting – a virtual confession of error for the Fed’s misguided “liftoff” last December, and confirms the policy posture we’ve been predicting. She said, “I consider it appropriate for the Committee to proceed cautiously in adjusting policy.” That means: one and done.

- We haven’t seen anyone else mention this, but *a remarkable indicator of the significance of this speech is that Yellen changed its name at the last minute* -- and in a most revealing way. As posted in advance on [the Fed’s “What’s Next” web page](#), the title was “Economic Outlook and Monetary Policy.” When the text was released yesterday, the title had been changed to “The Outlook, Uncertainty, and Monetary Policy” (please see the screen shots below).

Yellen speech as pre-announced on “What’s Next” page of FRB web site

What's Next

Items we expect to post to our web site over the next two months, including speeches, congressional testimony, Federal Open Market Committee material, and statistical releases issued less frequently than weekly. [Meetings](#) of the Federal Reserve Board and all [statistical releases](#) are shown elsewhere.

March

March 29 **Speech - Chair Janet L. Yellen**
Economic Outlook and Monetary Policy
At the Economic Club of New York Luncheon, New York, New York
12:20 p.m. ET

...and final version in “Speeches” section

Speech

Chair Janet L. Yellen

At the Economic Club of New York, New York, New York

March 29, 2016

The Outlook, **Uncertainty**, and Monetary Policy

For more than a century, the Economic Club of New York has served as one of the nation’s leading nonpartisan forums for discussion of economic policy issues. It is an honor to appear before you today to speak about the Federal Reserve’s pursuit of maximum employment and price stability.

Source: FRB, TrendMacro calculations

Update to strategic view

US FED: The title of Yellen’s speech yesterday was changed at the last minute to include the word “uncertainty” – an extraordinary step signaling a major change in policy posture. Belatedly recognizing the tightening of financial conditions worked by too-low oil prices and China’s FX policies, and collapsing long-term inflation expectations, Yellen is effectively admitting that “liftoff” was an error. It’s one and done until the environment changes substantially.

- To bother to change the title to include the word “uncertainty” implies how central the idea of uncertainty is in Yellen’s mind now – in stark contrast to the almost reckless nonchalance with which she executed “liftoff” in December, even in the face of visibly weakening economic conditions (see [“On the December FOMC”](#) December 16, 2015).
- And to *not* add the word “uncertainty” until the speech was actually delivered means Yellen thought it was dynamite – something about which she didn’t want markets to speculate upon before she was able to explain herself.
- *With these gestures, she is revealing that this is a major turning point in her policy outlook. But we think her pride wouldn’t let her confess it until some time had passed since the “liftoff” error and the markets’ thunderous disapproval of it* (see [“On the March FOMC”](#) March 16, 2016).

None of Yellen’s explanations for her uncertainty come as any surprise to us. It’s just surprising that it’s taken Yellen so long come around.

- As we have said now for over a year (see, among many, [“Oilageddon”](#) December 16, 2014), Yellen now sees that “the price of oil was nearing a financial tipping point for some countries and energy firms.”
- As we have been saying since August (see [“On the RMB Devaluation”](#) August 11, 2015), “uncertainties were heightened by market confusion...over China’s exchange rate policy.”
- As we have been saying since last fall (see [“On the September FOMC”](#) September 17, 2015), Yellen now admits that “low readings for some indicators of expected inflation do concern me,” and “the stability of longer-run inflation expectations cannot be taken for granted.”

[Holy Saint Francis, what a change is here](#). How quickly [Vice Chair Stanley Fischer’s statement](#) that four rate hikes are “in the ballpark” has been rendered [inoperative](#). For that matter, as recently as the [press conference](#) following the March FOMC two weeks ago, Yellen herself was saying, “we are likely to gradually raise rates over time. ...we are not spending time actively debating and considering things we could do for additional accommodation and certainly not actively considering negative rates.”

- *In her speech yesterday, she mentioned the possibility of “cutting the federal funds rate back to near zero.”*
- She devoted no less than 178 words to assurances that “the FOMC would still have considerable scope to provide additional accommodation... and we would do so...if needed.”

Bottom line

The title of Yellen’s speech yesterday was changed at the last minute to include the word “uncertainty” – an extraordinary step signaling a major change in policy posture. Belatedly recognizing the tightening of financial

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Donald Luskin
Chicago IL
312 273 6766
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625
tdemas@trendmacro.com

Michael Warren
Houston TX
713 893 1377
mike@trendmacro.energy

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