FOMC Reaffirms Hawkish Expectations—And Possibly Then Some

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- **This is a mildly more hawkish statement overall because of the insertion of one word that softens "gradual" guidance and because of upgraded inflation and growth language.** Market movements over recent days largely anticipated a slightly more hawkish bias and so post-statement pricing largely just confirmed such expectations. That said, I think there is a fair debate to be had over the meaning of one single additional word in the statement that could mean it was more hawkish than markets are taking it to be.

- **Inserting the word 'further' in describing 'further gradual increases' may well be the next natural progression toward strengthening 'gradual' hike language to imply more hikes.** Recall that in the statement last January, the Fed was saying that "only gradual" rate hikes would be forthcoming and then subsequently dropped "only" and retaining solely "gradual" language over the duration of the year. Now inserting "further" may be a signal of somewhat expedited forthcoming rate hikes. An alternative explanation may be that they inserted it because they didn't hike today but will hike further in future, but a) that seems to be a useless truism if so, and b) then why suddenly insert "further" when they didn't include that in prior statements when they also didn't previously hike? There is always a danger to over-interpreting Fed language as a pseudo-science, but then again, if they do choose each and every word as carefully as most generally assume, then **I think this was a deliberate signal that the risk toward future dot plot forecasts is skewed higher than the present 3 hikes this year.**

- **Inflation language was slightly upgraded in three spots:**

    - **They signalled greater conviction that inflation has bottomed** when they changed to inflation measures "have continued to run below 2 percent" versus previously saying "have declined this year and are running below 2 percent."

    - **Two is that they acknowledge higher market derived inflation compensation measures** but say they still remain low which suggests they won't be swayed much by impure market based measures.

    - Three is that they now say "Inflation on a 12-month basis is expected to move up this year and to stabilize around the Committee's 2 percent objective over the medium term." That is slightly more affirmative compared to the prior statement: "....Inflation on a 12-month basis is expected to remain somewhat below 2 percent in the near term but to stabilize around the Committee's 2 percent objective over the medium term." **In other words, stating "this year" adds a sense of immediacy.**

- **Growth references were slightly upgraded**. The Fed still describes growth as "solid" but also said that "Gains in employment, household spending, and business fixed investment have been solid" which is a small upgrade from the prior statement when household spending was advancing at a "moderate rate" i.e., it signals more encouragement in terms of their reading of the consumer.

- **What's missing is also interesting and not to be neglected.** There is no statement codification of stimulus influences which is surprising to me. The December statement didn't mention the Tax Cuts and Jobs Act in any way while the discussion on mildly positive nearer-term fiscal influences was left to Yellen's press conference and the meeting minutes. I would have thought the Fed might have tossed in acknowledgement of fiscal stimulus effects unless it either thinks that's a stale point to make now or it is now more uncertain. Maybe that judgement is being left to Powell to pass and Yellen chose to stay neutral in assessing the Trump administration's policy influences on growth. There were also no direct or indirect or subtly nuanced dollar references despite the marked softening. That's not terribly surprising but an influence upon import prices and pass-through effects could have been signalled to reinforce the changes to inflation language. Maybe doing so would have amplified dollar volatility when the Trump administration has done enough of that, or maybe the FOMC didn't want to come across as too hawkish.
- The vote was unanimous in Yellen's final show.
- Please see the attached statement comparison.
- The next FOMC meeting will be on March 20-21st and we expect the fed funds target range to be raised by 25bps.

RELEASE DATE: JANUARY 31, 2018

Information received since the Federal Open Market Committee met in December indicates that the labor market has continued to strengthen and that economic activity has been rising at a solid rate. **Gains in employment, household spending, and business fixed investment have been solid**, and the unemployment rate has stayed low. On a 12-month basis, both overall inflation and inflation for items other than food and energy **have continued to run below 2 percent**. **Market-based measures of inflation compensation have increased in recent months** but remain low; survey-based measures of longer-term inflation expectations are little changed, on balance.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with further gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market conditions will remain strong. **Inflation on a 12-month basis is expected to move up this year** and to stabilize around the Committee's 2 percent objective over the medium term. Near-term risks to the economic outlook appear roughly balanced, but the Committee is monitoring inflation developments closely.

In view of realized and expected labor market conditions and inflation, the Committee decided to maintain the target range for the federal funds rate at 1-1/4 to 1-1/2 percent. The stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return to 2 percent inflation.

In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The Committee will carefully monitor actual and expected inflation developments relative to its symmetric inflation goal. 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. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.

Voting for the FOMC monetary policy action were Janet L. Yellen, Chair; William C. Dudley, Vice Chairman; Thomas I. Barkin; Raphael W. Bostic; Lael Brainard; Loretta J. Mester; Jerome H. Powell; Randal K. Quarles; and John C. Williams.

RELEASE DATE: DECEMBER 13, 2017

Information received since the Federal Open Market Committee met in November indicates that the labor market has continued to strengthen and that economic activity has been rising at a solid rate. Averaging through hurricane-related fluctuations, job gains have been solid, and the unemployment rate declined further. Household spending has been expanding at a moderate rate, and growth in business fixed investment has picked up in recent quarters. On a 12-month basis, both overall inflation and inflation for items other than food and energy have declined this year and are running below 2 percent. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed, on balance.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. Hurricane-related disruptions and rebuilding have affected economic activity, employment, and inflation in recent months but have not materially altered the outlook for the national economy. Consequently, the Committee continues to expect that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market conditions will remain strong. Inflation on a 12-month basis is expected to remain somewhat below 2 percent in the near term but to stabilize around the Committee's 2 percent objective over the medium term. Near-term risks to the economic outlook appear roughly balanced, but the Committee is monitoring inflation developments closely.

In view of realized and expected labor market conditions and inflation, the Committee decided to raise the target range for the federal funds rate to 1-1/4 to 1-1/2 percent. The stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return to 2 percent inflation.

In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The Committee will carefully monitor actual and expected inflation developments relative to its symmetric inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant 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. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.

Voting for the FOMC monetary policy action were Janet L. Yellen, Chair; William C. Dudley, Vice Chairman; Lael Brainard; Patrick Harker; Robert S. Kaplan; Jerome H. Powell; and Randal K. Quarles. Voting against the action were Charles L. Evans and Neel Kashkari, who preferred at this meeting to maintain the existing target range for the federal funds rate.