U.S. FOMC Review

- FOMC: no big revelations, but a few interesting points

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FOMC

The policy statement issued by the Federal Open Market Committee made two small changes. The paragraph assessing current conditions recognized that the economy has lost a degree of momentum, with the new statement indicating that economic activity and employment had moderated; in December the Committee saw the economy as continuing to recover. Despite the downgrade, the statement still suggested recovery, and Chair Powell in his prepared remarks for the press briefing referred to the "pace of recovery" and steered clear of mentioning a possible downturn.

The second change involved the dropping of references to "near term" and "medium term" from the following sentence in the December statement: "The ongoing public health crisis will continue to weigh on economic activity, employment, and inflation in the *near term*, and poses considerable risks to the economic outlook over the *medium term*." (Emphasis added.) We did not know what to make of the change upon the first reading, and others apparently were mystified as well because a reporter at the press briefing asked about the change. Chair Powell indicated that time references were dropped because the risks primarily exist in the near term. The message, although opaque, is that the outlook is bright later this year because of vaccine distribution and supportive monetary and fiscal policies.

We did not learn anything new from the press briefing, but comments from Chair Powell should remove any doubts that the Fed has a strong dovish bias. He was asked in different ways about risks of inflation and asset bubbles because of the Fed's highly accommodative stance and because of generous fiscal policy. He was largely dismissive of such risks. He argued that the advance in the equity market was more the result of prospects for strong recovery because of vaccines and fiscal policy; the link between interest rates and equity values, in his view, was uncertain. In the housing market, he saw the robust recovery and the upward pressure on home prices as the result of a one-time step-up in demand; he expects this pressure to fade.

Chair Powell indicated that he would welcome a pickup in inflation (presumably a moderate one), and he did not seem concerned about inflation getting out of hand. He argued that price dynamics in recent years have been in the direction of disinflation. He also noted that such dynamics (related to demographics, technology, globalization) change slowly and thus will remain in place to restrain inflation.

Naturally, reporters raised the issue of tapering the QE program, but this is not an issue in Mr. Powell's mind. He noted that the Fed is far from achieving its policy goals and thus it is far too early to be thinking about tapering. His focus is on promoting the recovery. He is not concerned about a tantrum when the time to end QE arrives. He believes that clear communication well in advance of a change in policy will allow the Fed to unwind the effort smoothly.

In summary, we did not receive much new information, but we heard a strong, strong dovish tone from Chair Powell.