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ECONOMIC TALKING POINTS

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A Fed Statement That Appears Trapped More In The Past Than One Preparing For The Future

What was the point!

The last FOMC meeting of 2014 was not just a disappointment, the outcome was outright confusing, if not bizarre. For a Fed that seeks to introduce more clarity and transparency of its views, they have in fact done the opposite. The tortuous, semantic-conscious language of the statement is really an exercise in obfuscation, one that harkens back to the days of Alan Greenspan.

In stark contrast to this now stale Fed note is the fact the US economy is unambiguously stronger and more dynamic than anytime we have seen in at least a decade. Frankly, I think the FOMC has done the institution some harm. By retaining the "considerable time" phrase, we begin to worry whether the Fed is now falling behind the economic cycle.
Slipping in the term "patient" changes really nothing.

Worse, the value of the speeches and testimonies given by key Fed policymakers now comes into question as well. Here's why. The two most common responses uttered by Fed officials when asked about what will drive interest rate policy is that it will be "data-driven" or "data-dependent." Here are some of those explicit references:

"We've said we're data-driven and if that's where the data drive us, that's what we will do."
Stanley Fisher, December 2, 2014

"It's important with respect to our own monetary policy ... to recognize we are very much in a data-driven, data-dependent economy,"
Daniel Tarullo, October 11,2014

"The decisions that the Committee makes about what is the appropriate time to begin to raise its target for the federal funds rate will be data dependent.
Janet Yellen, September 17, 2014

""I would not focus on words that are tied to calendar dates. I think the more we can move to a data dependent statement the better."
Eric Rosengren, October 20,2014

Very well, so what has the data actually shown?

•. November payrolls surged by 321,000, the biggest monthly increase in three years. So far this year, employers have added an average of 241,000 workers per month, the best pace since 1999, **a year when the funds rate ranged 5% to 5.5%**

• The unemployment rate is 5.8%, lowest since 2008 **when the fed funds rate was 2%.** The jobless rate is now about 50 basis points away from what is considered a full employment economy, and indicates the slack in the labor market is diminishing. It is one of the reasons average hourly earnings last month climbed by the most in a more than a year.

• The sustained strength in the job market has boosted household confidence to the highest in more than 7 years.

• Small businesses --- which hire seven out of every ten workers--- are now the most optimistic about the economic outlook since February 20007!

• Both retail sales and industrial production climbed sharply last month.

• Six months of falling gasoline prices has saved Americans $55 billion, money that can now be deployed elsewhere.

• Finally, let's not forget that real GDP growth has been 3.5% or greater in four of the last five quarters!

If the Fed is truly data driven, then the time had clearly come for a meaningful, forward-looking re-write of the Fed statement, one that openly acknowledges the improvement in the economy and the need for monetary policy to reflect that strength.

Instead, we got a gallimaufry of sentiments in five paragraphs that delicately tip-toes around the issue of when short term rates should begin to normalize. How strange they have decided on a sterile statement, when the Fed's own central tendency forecasts show the economy growing even stronger in 2015 than this year, and with unemployment dropping to 5.2% to 5.3%.

So while we end the year on a visibly strong economic note, Fed monetary policy still seems frozen more to reflect the past than towards the future.

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