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Real Time Economics

Economists React to the Fed's December Decision: 'What Was The Point!'

By Sarah Portlock – December 18, 2014

Federal Reserve officials said Wednesday they would be "patient" as they considered when to start raising interest rates next year. But the central bank's policy statement retained some of its earlier language, mitigating the effect of the shift in wording. Here's how economists reacted to the Fed's statement, new economic projections and Chairwoman Janet Yellen's press conference.

"In one line: **Edging closer to a hike, but still very keen to hedge their bets**. The FOMC dropped 'considerable time' from the statement. It now says it can be 'patient in beginning to normalize' policy, but argues that this is 'consistent' with the previous 'considerable time' formulation. 'Patient' is undefined, so it's hard to see what is achieved by this change; Plosser dissented on these grounds. More significant, then, is the slightly more forceful language on the labor market, which has 'improved further', so the degree of underutilization 'continues to diminish.' And the Fed is dismissive of the drop in headline inflation due to lower energy prices, which it calls 'transitory.' In other words, we think the statement represents another small step towards the first rate hike, but the Fed has offered no new information on what exactly will trigger the move." *–Ian Shepherdson, Pantheon Macro*

"**What was the point! The last FOMC meeting of 2014 was not just a disappointment, the outcome was plainly bizarre, if not outright confusing.** 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 U.S. 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." *–Bernard Baumohl, The Economic Outlook Group*

“**In a statement that resulted in three dissenting votes,** the Fed left in the ‘considerable time’ language but also introduced wording that they could be ‘patient’ in terms of hiking rates. It seems to us at first blush that the Fed is setting the stage to remove the language at the next fed meeting but frankly, we’re unsure why it remained if the word ‘patient’ was inserted. Our first inclination is to think that this simply causes more confusion than it seeks to solve… Bottom line: the Fed didn’t do itself any favors by using both phrases on which market participants were focused.” *–Dan Greenhaus, BTIG*

“**Unlike the Fed’s decision to use the word ‘patient’ in January 2004,** five months before the initial tightening of monetary policy, the current verbiage ties the fed funds liftoff explicitly to economic criteria, namely inflation. Bottom line: If inflation does not trend toward 2% next year, then the Fed will not begin raising interest rates.” *–Joseph LaVorgna, Deutsche Bank*

“**The overriding tone of the report suggests that the Fed might be moving closer, rather than farther away, from the start of policy tightening**. This was particularly evident in the upbeat growth and unemployment assessment. Not surprisingly, the Fed continues to see the weakening in inflation momentum to be the result of ‘transitory effects of lower energy prices.’ In this regard, they remain confident in inflation moving back to target in a timely manner.” *–Millan Mulraine, TD Securities*

“**In one sense, dropping the ‘considerable time’ language demanded a dovish policy statement** to keep the markets from reacting in such a way as to price in a more aggressive pace of tightening than what the Fed anticipates at the moment. In another sense, reading through the Fisher and Plosser dissents, Yellen appears to have taken control of the FOMC and is now firmly driving policy as she sees fit.” *–Steve Blitz, ITG Investment Research*

“**In short, officials have not changed their Plan A for the year ahead**, which includes the start of the policy normalization process. With an expected funds rate of over 1% by year-end, officials are implicitly suggesting a first move by around mid-year. That said, the plan is clearly contingent on economic and financial conditions.” *–Jim O’Sullivan, High Frequency Economics*

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