Fed Vows Patience on Rates While Dropping Considerable Time

By Christopher Condon - Dec 17, 2014

The Federal Reserve said it will be patient on the timing of the first interest-rate rate increase since 2006, replacing a pledge to keep borrowing costs near zero for a “considerable time,” and raised its assessment of the labor market.

“The committee judges that it can be patient in beginning to normalize the stance of monetary policy,” the Federal Open Market Committee said today in a statement in Washington, removing a calendar-based phrase with language that gives it more flexibility to respond to economic data. “The committee sees this guidance as consistent
with its previous statement that “rates are likely to stay near zero for a “considerable time.”

The reference to “patience” signals policymakers “are trying to give themselves more flexibility,” said Jay Bryson, global economist at Wells Fargo Securities LLC in Charlotte, North Carolina. “This puts the onus on the data and they can interpret what patience means.”

The labor market “improved further,” the Fed said. “Underutilization of labor resources continues to diminish,” it said, dropping the word “gradually” used in its previous statement.

Stocks extended their gains and Treasury yields were higher after the Fed’s announcement. The Standard & Poor’s 500 Index rose 33.41 points, or 1.69 percent, to 2,006.15 as of 2:23 p.m. in New York. The 10-year Treasury note yielded 2.09 percent, a gain of three basis points.
The change in guidance is another step in the Fed’s plan to exit from the loosest monetary policy in its 100-year history. While a faster-than-expected drop in unemployment is pushing the central bank toward raising rates next year, plunging prices of oil and commodities are holding inflation below its target.

“The committee continues to monitor inflation developments closely,” the FOMC said. It expects inflation to “rise gradually toward 2 percent.”

Today’s statement didn’t mention global market turmoil sparked by oil and the Russian currency crisis.

“They are looking through all that,” Bryson said. “They want the focus on the U.S. economy.”

Quarterly forecasts released by the Fed today show officials see interest rates rising more slowly over the next two years compared with their September estimates. They also see the
economy reaching full employment later next year, while inflation remains below their target at 1 percent to 1.6 percent.

**Full Employment**

Restating language introduced in October, the FOMC said evidence of faster progress toward its goals of full employment and price stability could accelerate the timing of a rate increase, while disappointing figures could delay it.

The Fed repeated it will continue reinvesting proceeds from its bond portfolio until after interest rates start to rise. Three rounds of so-called quantitative easing have swollen the Fed’s balance sheet to a record $4.49 trillion. The central bank stopped purchases at the end of October.

Minneapolis Fed President Narayana Kocherlakota, Philadelphia Fed President Charles Plosser and Dallas Fed President Richard Fisher all dissented. Kocherlakota said the decision “created undue downside risk to the credibility of the 2 percent inflation...
target.”

**Rate Date**

Plosser said the statement shouldn’t say the new forward guidance is consistent with the previous statement, and Fisher said the improvement in the economy has moved forward the date when it will be appropriate to raise rates.

Fed Chair Janet Yellen is due to give a press conference at 2:30 p.m. today in Washington.

Officials met as the Russian currency crisis highlighted risks to the U.S. from the rest of the world that also include slower growth in China, a recession in Japan and the threat of deflation in Europe.

So far, the U.S. economy has powered through the global slowdown as an improving job market and falling gasoline prices spur consumer confidence and spending.

“The economy looks great, particularly on the labor-market side,” Guy Berger, a U.S.
economist at RBS Securities Inc. in Stamford, Connecticut, said before the decision. “We've seen no job losses, and the domestic economy looks even better than before because oil prices are down.”

**Profit Outlook**

Fairfield, Connecticut-based General Electric Co. yesterday said it expects profit from its industrial units to rise at least 10 percent in 2015.

“The U.S. economy still feels like it’s getting better,” Chief Executive Officer Jeffrey Immelt told investors. “Certain things are clearly under stress,” he said, referring to the Russian crisis and plunging oil. “But we still think there is plenty of growth out there.”

American employers added 321,000 workers to payrolls in November, bringing the total number of jobs gained this year to 2.65 million, the most since 1999. The jobless rate remained at a six-year low of 5.8 percent, close to the Fed’s goal for full employment.
Retail sales climbed by the most in eight months in November. Industrial production jumped 1.3 percent, powered by the biggest jump in the output of consumer goods, including cars and electronics, in 16 years.

Strong consumer spending will help drive economic growth of 2.9 percent next year, the fastest pace in a decade, according to a Bloomberg survey of economists.

The Fed’s easy money policies have kept borrowing costs low, making it cheaper for consumers to buy homes, appliance and cars, while fueling-stock market gains that have boosted household wealth.

The Standard & Poor’s 500 Index of stocks was up 6.7 percent this year through yesterday, even as concerns about global growth and oil prices have trimmed its gains.

The Fed cut its benchmark rate for overnight loans among banks to zero in December 2008 to battle the financial crisis while embarking on three rounds of large-scale asset purchases.
aimed at suppressing longer-term rates and stimulating growth.

Another easing tool has been forward guidance to manage expectations for the future path of rates. Since September 2012, the Fed has assured investors that policy would remain easy for a “considerable time.”

Still, with the economy in its sixth year of expansion after the worst recession since the 1930s, wages haven’t picked up. Nor has inflation, weighed down by oil’s drop, moved closer to the Fed’s 2 percent goal.

Average hourly wages rose 2.1 percent in November from a year earlier. The Fed’s preferred inflation gauge, the personal consumption expenditures index, rose 1.4 percent in the year through October, the 30th straight month below the target.

Data released today confirm the trend. The consumer price index, a separate inflation measure, rose 1.3 percent from a year earlier in November, down from a 1.7 percent gain.
the month before.

Some gauges of expectations for future inflation are falling. The five-year breakeven rate has dropped almost a quarter of a percentage point since the FOMC’s October meeting to 1.96 percent, its lowest since 2008. At the same time, inflation expectations based on surveys of consumers have been stable.

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