ECONOMIC RESEARCH

The NewsLine

January 29, 2015

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USA

Fed remains patient

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In its statement following its monetary policy meeting the US Federal Reserve emphasized that the decision on a normalization of key rates is data-dependent. It has now stated explicitly that "international developments" will also play a role. An initial rate hike as early as the second quarter no longer looks likely.

At its first meeting of the year the Federal Open Market Committee (FOMC) reaffirmed its monetary policy stance. A target range for the federal funds rate of 0%-0.25% is still viewed as appropriate. And the forward guidance was also left unchanged from the December meeting, with the Committee judging that it can be "patient" in beginning to normalize the level of key rates.

The Fed emphasized that the decision on the normalization of the monetary policy stance remains data-dependent. New in this context was the observation that account would also be taken of "international developments". It might seem obvious that the central bank keeps an eye on external factors in its monetary policy deliberations, but the explicit reference in its monetary policy statement is nevertheless unusual. With the chosen wording, the Fed is evidently keen to highlight the downside risks to the economy and inflation in the event of a (further) strong appreciation in the US dollar.

At the same time the Committee is more upbeat about the economic situation and employment growth than previously, describing the pace of economic growth to date as solid rather than moderate. This is certainly warranted given average quarterly growth of 4.8% (annualized) in the second and third quarters of 2014 and likely above-average growth of around 3% in the final quarter as well. Looking forward, however, the Fed still expects a moderate pace, suggesting that it is assuming somewhat slower growth momentum in the coming quarters.

The inflation picture also remains fundamentally unchanged, with inflation expected to rise gradually toward the 2% target as the labor market improves further. However, the pointer that inflation is anticipated to decline further in the near term suggests that the Fed is now assuming that the return to the target figure will take longer than previously expected.

All told, the signals still point to a shift in the monetary policy stance this year. But in contrast to Fed Chairwoman Janet Yellen's commentary at the December press conference, it now no longer seems likely that this will already occur in the second quarter. However, early in the second half of the year it will likely be evident that the economy in important trading partners is firming up, which should help to stabilize exchange rates.

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