Powell pivots to patience

Policy-makers parrot new philosophy at every opportunity

by Darrell Delamaide in Washington

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US Federal Reserve Chair Jerome Powell wanted to make sure everyone understood that the Fed has changed its stance and that patience is the new byword. Not gradual rises in interest rates, not balanced risks, but patience.

The consensus statement following the Federal Open Market Committee meeting on January 30 included the word 'patient' with regard to any future 'adjustments' in monetary policy, given 'muted inflation pressures'. In his opening remarks at the following press conference, the chair used a variation of 'patient' eight times.

Investors understood – interest rates are on hold, so stocks and bonds both gained. The journalists, however, wanted to chide Powell for his reversal after his remarks at the December press conference had come across as so hawkish.

'Does patient have some sort of time frame?' they asked. Will the Fed be patient 'if there are modest, if transient, overshoots to the inflation target by core inflation?' Will it require both an improved economy and an upsurge of inflation 'for [the Fed] to change this patient stance?'

Powell echoed the word patience in his answers so that the concept floated through the press conference as a kind of leitmotif. Patience, patience, patience, patience.

St. Louis Fed Chief James Bullard was the first willing to put a time frame on patience, saying in an interview the stance 'set us up for a very good couple of years', and that it is the right approach for the US economy. Dallas Fed President Robert Kaplan was more cautious, saying after an event in Austin the Fed's pause would last at least the first couple of quarters.

Patience has been on Fed policy-makers' minds for some time. The minutes of the December FOMC meeting, released in January, already contained the word 'patient' and 'muted inflation pressures' that crept into the January statement. They were attributed to 'many participants', who may have been chafing in the aftermath of Powell's December press conference, which preceded a market downturn.

The reversal in message began long before the FOMC meeting at the end of January. On 4 January, Powell mentioned muted inflation and a patient Fed in his remarks at the American Economic Association meeting in Atlanta. A week later, he was proclaiming patience again, this time before the Economic Club of Washington.

Even avowed hawk Esther George, head of the Kansas City Fed, joined the chorus: 'I am mindful that the effects of past policy actions have not yet fully played out, calling for patience in considering our policy actions.' Chicago Fed Chief Charles Evans, a former dove who often sounded hawkish in 2018, is back to being patient as well: 'We're just at a good point for sort of pausing… I'm not worried about inflation getting out of hand.'

Bullard, George and Evans all rotated into voting positions on the FOMC this year, so the consensus seems assured going forward.

Richard Clarida, the new Fed vice-chair and former Columbia University economist, is proving to be a reliable indicator for how sentiment is changing at the Fed. In the first half of January, he was talking about muted inflation and being patient. 'I believe we can afford to be patient about assessing how to adjust our policy stance to achieve and sustain our dual-mandate objectives,' he said. 'We begin the year as close to our assigned objectives as we have in a very long time. In these circumstances, I believe patience is a virtue and is one we can today afford.'

Clarida, as a member of the board of governors, is a permanent voting member on the FOMC. Backed by its large Washington staff, the board tends to dominate policy-making at the Fed.

When New York Fed Chief John Williams urged 'prudence, patience, and good judgement' at a bankers forum in New Jersey, the FOMC began to resemble an echo chamber. The former research director and president of the San Francisco Fed, who is ex officio vice-chair of the FOMC in his current position and a permanent voting member, urged a return to 'data dependence', calling it more relevant than ever.

'If growth continues to come in well above sustainable levels, somewhat higher interest rates may well be called for at some point,' Williams said. 'However, if conditions turn out to be less robust, then I will adjust my policy views accordingly.'

Investors are expecting no less. The CME Group's Fed Watch programme said the jump in fed funds futures following the FOMC meeting suggested a one-in-three chance the Fed would lower rates over the next 12 months. But they won't be in a hurry to do that.

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