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GLOBAL ECONOMICS

SCOTIA FLASH

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Powell Rules Out March, Signals Patience

- **The Federal Reserve left the policy rate and balance sheet plans unchanged as expected**
- **There were minor statement tweaks that were slightly hawkish**
- **Chair Powell emphasized patience and being in no rush…**
- **…which effectively rules out a March cut**
- **Press conference transcript provided**

The policy rate was left unchanged at 4.5% and there was no change in balance sheet policy guidance, both as universally expected. A combination of minor statement tweaks and a strong indication in the press conference that the FOMC will be patient made it clear that the March meeting is unlikely to introduce further easing. Markets are roughly pricing our two 2025 cuts.

While there was some market volatility through the communications, for the most part key measures ended up very little changed.

Please see the accompanying statement comparison and press conference transcript.

STATEMENT CHANGES WERE MILDLY MORE HAWKISH

The Committee mostly just changed the date on the statement and reissued December's but with two modest changes to the opening paragraph that certainly don't make it sound like they're in a rush to cut again any time soon.

On inflation, they now say "Inflation remains somewhat elevated" instead of previously saying "inflation has made progress toward the Committee's 2 percent objective but remains somewhat elevated." Powell downplayed the significance of this change in his press conference by staying "We just chose to shorten that sentence. This was not meant to send a signal."

On jobs, they now say "The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid" versus previously saying "Since earlier in the year, labor market conditions have generally eased, and the unemployment rate has moved up but remains low." Powell generally reinforced this change in the press conference.

The decision was unanimous.

POWELL EMPHASIZES PATIENCE

There were two key remarks in the press conference that effectively ruled out a March cut or at least set an exceptionally high bar for doing so.

Powell said point blank "We do not need to be in a hurry to adjust our policy stance."

When asked "Is a March cut still on the table? Are you looking to see better inflation data to cut or merely align with forecasts?" Powell said:

"We think disinflation continues on a broad an bumpy path, that tells me we don't need to be in a hurry to adjust our policy stance."

PRESS CONFERENCE TRANSCRIPT

Here is my attempt at providing a transcript of the press conference. Any omissions or errors are to be blamed on my typing fingers!

Q1. The President said he will demand that interest rates will drop immediately. Has the President done this? Has he made that demand? What was your response? What effect does this have?

A1. I'm not going to have any comment or response to what the President said. The public should be confident we will do our jobs. I've had no contact.

Q2. How has your confidence changed around saying that interest rates are meaningfully restrictive?

A2. I wouldn't say it has changed. We're going to be looking for further progress on inflation and jobs to adjust.

Q3. How should we interpret the removal of the statement that inflation has made progress?

A3. We just chose to shorten that sentence. We got two good readings in a row that are consistent with 2%. This was not meant to send a signal.

Q4. We've seen inflation expectations rise sharply on tariff concerns while getting better data. Please reconcile.

A4. Expectations are moving up a bit at the short end that could be related to some of the new policies. The Committee is waiting to see what policies are enacted. We don't know what will happen with tariffs, immigration, fiscal and regulatory policy. We need to let those policies be articulated before we assess. We won't be in a hurry to get to what our policy stance should be and will let it play out.

Q5. Is it fair to say you don't have a medium- to long-term forecast you have confidence in?

A5. At all times forecasts are conditioned on a set of assumptions and forecasting is really difficult. There is probably some elevated uncertainty because of significant policy shifts in those areas that I mentioned (fiscal, regulatory, trade and immigration). Forecasters are making assumptions as placeholders.

Q6. Are you looking for data that will tell you that you can cut or hold?

A6. We are looking at the data to tell us what we should do. Right now we feel like we are in a good place. The economy is in a good place. We do expect to see further progress on inflation and as we see that or see further weakening in the labour market then we could make further adjustments but right now we don't see that.

Q7. What reassurance can you give that the Fed will continue to operate independent of politics in this administration?

A7. I've said many times, we examine and assess and use our tools to give our best thinking to achieve our goals and don't look for anything else.

Q8. Has the Fed started to model changes in immigration etc?

A8. Our staff looks at a range of outcomes. In each five-year old Teal book that's what they show. They spark the policymakers to think and understand the uncertainties. You don't act until you see what you can see and right now we can't do that

Q9. Is it even more so the case you want to see further progress on inflation and jobs?

A10. I'd say it's the same. We want to look at twelve-month inflation that takes out the seasonality. OER is coming down pretty steadily now. In addition a big part of the overrun was in non-market services. You can look through that and say we're set up for further progress but you can say you are set up but need to see it.

Q9. Are you concerned about increased difficulty finding a job and other indicators?

A11. We look at a look of measures. It's a low hiring environment. If you have a job it's good but the job hiring rates have come down. We don't think it needs to cool off more. Overall, look at the aggregate data in the labour market and it does seem to be broadly stable and in balanced.

Q10. You noted previously that higher unemployment was driven by flows across the border. Now that flows have fallen what do you now think?

A10. The flows have diminished but job creation has slowed as well. As population growth slows, the breakeven rate for employment to keep a stable UR also falls.

Q11. Elon Musk says you're severely overstaffed. Can you comment on the Fed's budget?

A11. No further comment.

Q12. Trump says he will lower inflation by lowering gas and energy costs. Do you wish to comment?

A12. No

Q13. We've seen global trade wars before, notably in 2019, but notably in a different place on inflation etc. If we see tariffs again what could be different this time around? Tiff Macklem said that tariffs were no doubt a driver of the cut today, what evidence would the Fed need to see on tariffs, strategy or implementation or inflation expectations, before you are willing to change the path of monetary policy.

A13. A difference is we're coming back to 2%. Trade is more spread around; there is a lot of manufacturing that has moved to Mexico. The range of possibilities is very wide. I don't want to start speculating. We don't know what's going to be tariffed, for how long, which countries, retaliation, how it will transit through the economy between the manufacturer and the consumer. We didn't really know in 2018. The best we can do is study on and ready the literature and think of the factors that may change.

Q14. Was there any discussion about the timeline for ending QT? Did the AI-prompted sell off cue anything about the state of financial conditions?

A14. Reserves remain abundant. We track a bunch of metrics that support this. We're closely monitoring a range of indicators. I don't have anything to say to you about particular dates. Reserves do seem to be abundant. On AI, it's a big event in the stock market and parts of the stock market but what really matters for us is macro developments, in other words substantial changes that are persistent.

Q15. Since September long-term mortgage rates have moved up. Are you confident housing activity will remain stable?

A15. I think these high rates will hold back housing activity if they persist.

Q16. Do you believe the Committee should wait until inflation has fallen back to target before you cut again?

A16. No I wouldn't say that. We would want to see further progress. We think our policy is meaningfully restrictive, not highly restrictive. I wouldn't say we need to see inflation go all the way back to 2%.

Q17. Does the threat of tariffs cause companies to pull back and does the threat lead you to ponder your growth forecasts?

A17. I wouldn't want to criticize or comment, it's just not our job. In 2019 there was a lot of work on trade policy uncertainty. If persistent it can weigh on growth but that's what I'm seeing now but one of the things we'll be watching.

Q18. Do stock market valuations affect your decisions on further policy steps?

A18. We look at an array of financial conditions including asset prices and funding conditions. I would say they [valuations] are high. We think there is a lot of resilience. Banks have high capital. Households in the aggregate are in pretty good shape these days. We look at overall financial conditions and you can't just take equity prices, you have to look at rates too which are tightening.

Q19. What risks do you see that might challenge your assessment?

A19. A spike in layoffs that would drive the UR higher because the hiring rate is quite low. Lower income households are under significant pressure. It's the price level now more so than inflation. Overall the UR is pretty solid. Job creation is at a rate that could hold it right there at 4.1%.

Q20. Is uncertainty around immigration policy affecting the ability of companies to plan?

A20. There is nothing in the data, but you hear that and see it in surveys.

Q21. Are there any lessons in your career that can be helpful in today's uncertainty?

A21. Uncertainty is with us all the time. The tails are very fat. Think about the start of the pandemic. What we have now is a good labour market, inflation has come down. The kind of uncertainty we have now are the usual types and we have policy uncertainty and it's not our place to comment on them.

Q22. Is a March cut still on the table? Are you looking to see better inflation data to cut or merely align with forecasts?

A22. We think disinflation continues on a broad an bumpy path, that tells me we don't need to be in a hurry to adjust our policy stance.

Q23. Five years ago you said you wouldn't pre-emptively head off inflation. Has your thinking changed on that?

A23. It was a way of signalling how much humility we have around what is U* (equilibrium unemployment. At times when inflation persistently undershot 2% we would allow a moderate overshoot but that is not what happened when the pandemic hit. We looked at the inflation as transitory and when the data went against that we raised our rate.

Q24. Can you talk about cryptocurrency risks? Do you worry about speculation in this unregulated asset class?

A24. Our role is to look at the banks and we think banks are perfectly able to serve crypto customers and a good many of our banks do that. The threshold is high because it's so new. We're not against innovation and don't want to take actions that would cause banks to terminate customers who are perfectly legal.

RELEASE DATE: January 29, 2025

Recent indicators suggest that economic activity has continued to expand at a solid pace. ***The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid. Inflation remains somewhat elevated.***

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee judges that the risks to achieving its employment and inflation goals are roughly in balance. The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate.

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; Susan M. Collins; Lisa D. Cook; Austan D. Goolsbee; Philip N. Jefferson; Adriana D. Kugler; Alberto G. Musalem; Jeffrey R. Schmid; and Christopher J. Waller

RELEASE DATE: December 18, 2024

Recent indicators suggest that economic activity has continued to expand at a solid pace. ***Since earlier in the year, labor market conditions have generally eased, and the unemployment rate has moved up but remains low. Inflation has made progress toward the Committee's 2 percent objective but remains somewhat elevated.***

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee judges that the risks to achieving its employment and inflation goals are roughly in balance. The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate.

In support of its goals, the Committee decided to lower the target range for the federal funds rate by 1/4 percentage point to 4-1/4 to 4-1/2 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Thomas I. Barkin; Michael S. Barr; Raphael W. Bostic; Michelle W. Bowman; Lisa D. Cook; Mary C. Daly; Philip N. Jefferson; Adriana D. Kugler; and Christopher J. Waller. ***Voting against the action was Beth M. Hammack, who preferred to maintain the target range for the federal funds rate at 4-1/2 to 4-3/4 percent***