



TD Economics

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Data Release: Fed betting that patience will indeed prove to be a virtue, as international risks mount

- The Federal Market Open Committee (FOMC) dropped from its post-meeting statement the "considerable time" portion, already made largely inconsequential in the December 2014 statement.
- Still, the Committee stressed that it "can be patient" in beginning to normalize policy based on its assessment of wide range of information.
- The information set on which the Fed will be making the decision was expanded to explicitly include assessment of "international developments," in addition to the core Fed dashboard which already includes labor market, inflation, and financial information.
- Assessment of the domestic economy appeared more upbeat relative to that in December, with economic expansion now qualified as *solid* instead of *moderate*, referring explicitly to improved purchasing power of consumers due to lower energy costs. Inflation was deemed to have declined further, and is expected to dip even more over the near term. But, the FOMC continues to view the dip as transitory, and expects it to move back to target, albeit perhaps over a longer time frame, with the statement suggesting the *medium term* as a horizon.
- The FOMC statement was unanimously approved by the voting FOMC members, as the three December dissenters (Fisher, Kocherlakota, and Plosser) rotated off the voting panel this year.

Key Implications

- As expected, the Fed dropped the confusing and largely inconsequential "considerable time" reference, shortening and simplifying the statement. Given the fact that "considerable time" was only mentioned to instill a sense of continuity in the Fed's thinking in the aftermath of the December meeting, dropping it is a welcomed development with the focus now fully on the exact degree of "patience" the Fed has.
- To that effect, the amount of patience among the FOMC looks to be slightly higher than in December. While the Fed gave a nod to a "solid" recovery, and continues to see the low inflation readings as transitory, the explicit addition of the international elements to the list of closely watched indicators is a tell-tale sign of increased concern regarding potential spillovers to the U.S. economy.
- Given the looming international risks and the somewhat less upbeat data as of late, we expect the Fed to remain patient, with any rate hikes unlikely to take place before September 2015. Even then, we would expect the pace of any eventual tightening to remain very gradual.

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