Powell was different, but humdrum

Coming into his second post FOMC presser, Powell was more relaxed(?). The Bloomberg headline by Jeanna Smialeck seems an apt description:

Powell Styles Himself a Fed Chairman for the People:

> Alan Greenspan famously said he had mastered the art of mumbling “with great incoherence” as Federal Reserve chair. Jerome Powell is attempting the opposite approach.
>
> “Because monetary policy affects everyone, I want to start with a **plain English** summary of how the economy is doing, what my colleagues and I at the Federal Reserve are trying to do and why.”

He continued:

> As Chairman, I hope to foster a public conversation about what the Fed is doing to support a strong and resilient economy. And one practical step in doing so is to have a press conference like this after every one of our scheduled FOMC meetings. We’re going to do that beginning in January. **That will give us more opportunities to explain our actions and to answer your questions.**

I was glad to hear him say, in answer to a question on “natural rates” that “**we cannot be attached to these unobservable variables**”.

He´ll have some convincing to do because only the next day outgoing New York Fed President William Dudley said:

> “The federal funds rate will probably have to climb a little bit above neutral, because the unemployment rate is already – **from most people’s vantage points** – below a sustainable level of unemployment consistent with stable inflation. “So, I think the **move will be eventually to a slightly tight monetary policy**.”

Unfortunately, when asked about policy changes, Powell was dismissive. “Price level targeting and that sort of thing, it´s not on the agenda”.

He thinks inflation targeting has served the Fed well.

Interestingly, this month is the 10th anniversary of the June FOMC meeting, the one, to my mind that defined the tragedy that was about to happen.

In Bernanke´s summary of that meeting, we read:

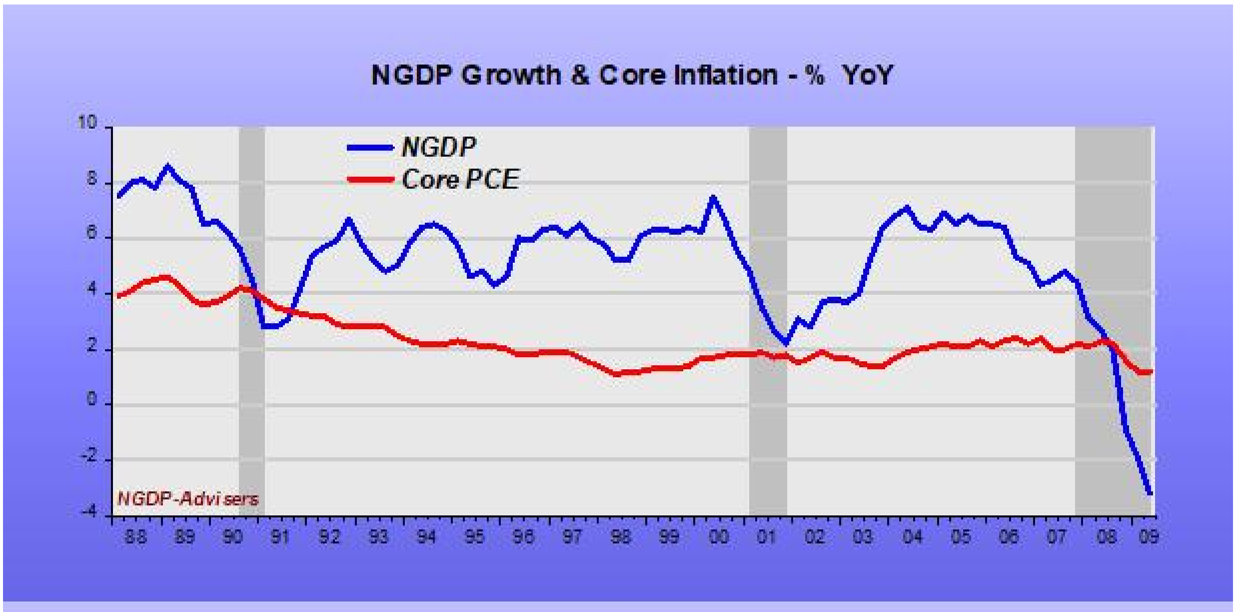
> I’m also becoming concerned about the inflation side, and I think our **rhetoric, our statement, and our body language at this point need to reflect that concern**. We need to begin to prepare ourselves to respond through policy to the inflation risk; but we need to pick our moment, and we cannot be halfhearted.

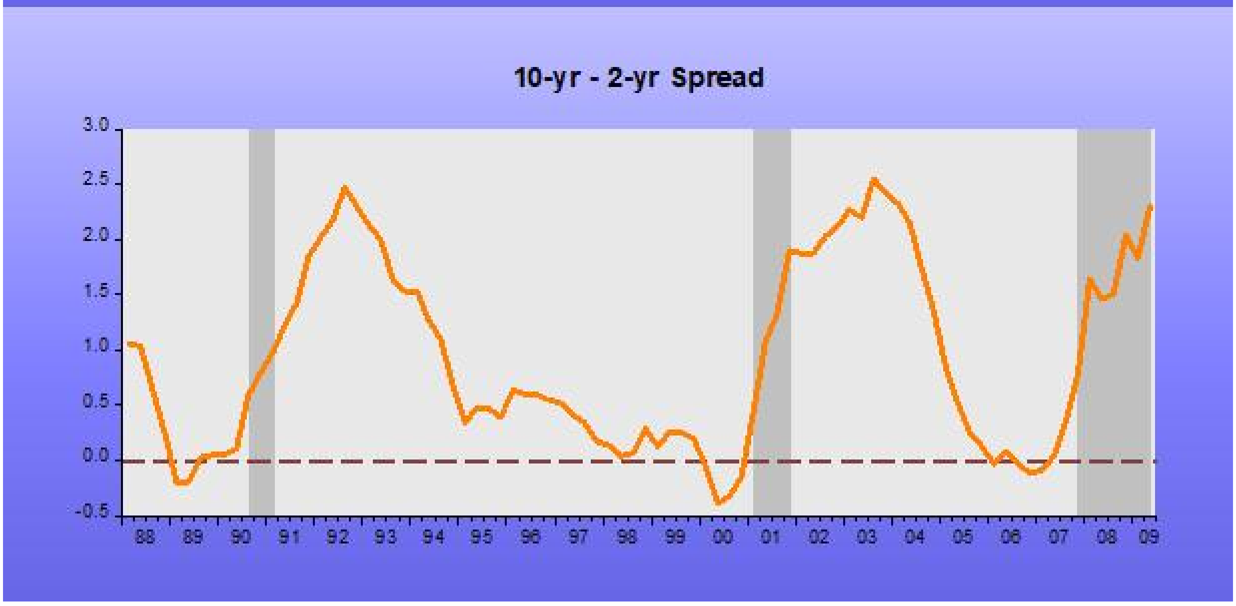
When asked about yield curve inversion, Powell answers:

> You know, it’s an interesting question, and there are a range of views there. I think it’s true that yield curves have tended to predict recessions if you look back over many cycles, **but a lot of that was just situations in which inflation was allowed to get out of control, and the Fed had to tighten, and that put the economy into a recession**. That’s really not the situation we’re in now, so I don’t know that that’s—I don’t know that—I don’t think that recession probabilities are particularly high at the moment, any higher than they normally are.

Note he´s more subtle in arguing, “this time is different”, avoiding the popular “term premiums are low” reason for not paying attention to a flattening yield curve.

He certainly could do a bit of research. The charts show that just before the last three recessions, the yield curve inverted, and those occasions were certainly not situations where “inflation was allowed to get out of control.”





The Fed tightened, as gauged by drops in NGDP growth, and recession followed.

Powell said: “We continue to believe that a **gradual approach for increasing the federal funds** rate will best promote a sustained expansion of economic activity, strong labor market conditions, and inflation near our symmetric 2 percent goal.”

Therein lies the danger!