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Bernanke's Appointment Doesn't Cause a Course Change…yet

"…and the band played on."

A comparison of the pre and post appointment FOMC statement reveals more unanimity, with no dissenting opinions lurking in the closets at the FOMC meeting room. What changed in the statement this time, as the FOMC voted to raise another 25 basis points (to 4.00), is that implication has become reality. In September, the FOMC deduced that Katrita and the resulting refinery shutdowns in addition to the "widespread devastation" would imply hits to spending, production and employment The November 1st Statement takes the implication into a fuller realization of that outcome. "Elevated energy prices and hurricane-related disruptions in economic activity have temporarily depressed output and employment." However, monetary policy is still accommodative and the drama between top line inflation flowing ultimately into inflationary expectations by economic agents, will give no pause for the FOMC now or in the remaining days of this year. We fully expect the Fed to continue its course of "removing monetary accommodation" with its "measured pace" doctrine still in place.

While promising to be attentive to any real changes in economic prospects, the criterion employed to decipher the state of the economy at this moment is still any incipient inflation that seems to embed itself in elevated inflationary expectations. The FOMC is worried about a specie crossover, much as informed observers of the Bird Flu worry about its potential to migrate into a contagious human epidemic. So far, no real evidence of that inflationary spiral that would translated elevated top line inflation into core inflation. Indeed, one could infer from the total unanimity of all voting FOMC members and the fact that all District Banks asked for permission to allow a further 25 basis-point increase in their discount rate (to 4 ¾ %) suggests that the Bernanke nomination has not disturbed the Greenspan consensus.

We infer from the stolidity of this statement that monetary policy is still judged to be accommodative and that it will continue to be removed at that preferred "measured" pace. If there is fear of an overshoot on the high side, it does not appear in this statement. We believe that absent any real data that suggest an impending cyclical setback caused by this very steady course of "disaccommodation," the FOMC shows no hesitance to continue raising unless they see or hear something untoward is likely to occur. So far, they have not seen those signs and we are led to conclude that the most probable outcome is for nominal rates to rise another 75 basis points or well into the beginnings of the New Era at the Fed.

Are changes in the wind for the Bernanke era? Only if the data start doing their thing and only if the Fed feels it can intervene even more strongly without causing an overshoot. So far, so good!

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