Quick Take: Speech by Kevin Warsh

CIBC Economics

It’s ironic after a speech in which the Fed Chair decried forward guidance, markets took his remarks as signaling a higher probability of rate hikes ahead. Certainly, if this speech had come from any one of his recent predecessors, that would have been a reasonable conclusion to draw from the final segment of his Jackson Hole remarks. In that section, Warsh effectively downplayed any of the items that might have been raised to bolster the case for remaining on pause. On the growth side of the ledger, he didn’t focus on higher long term bond yields and mortgage rates and concluded that financial markets are not restrictive, and similarly showed no concern about slower net hiring, focusing on the low jobless rate. On inflation, he dismissed the importance of some recently slower monthly core CPI and PCE prints, rightly noted that slower wage growth often failed to steer inflation, and argued that stable inflation expectations could disappear in a hurry. That said, at the end of his speech, he opted to reiterate that these words don’t tell you about what he’ll opt to do, saying “I stand before you committed to a discipline, not a decision.”

The reality is that he could have given this exact same speech just ahead of the July meeting, since nearly all of the points he raised would have been equally valid then. The only real change is that oil prices have headed higher, and if there’s a sign of a turn in the other direction for fuel costs before year end, the FOMC could stay in its watchful waiting stance.

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