

Central Banks

# FOMC Statement: January 27<sup>th</sup> – 28<sup>th</sup>

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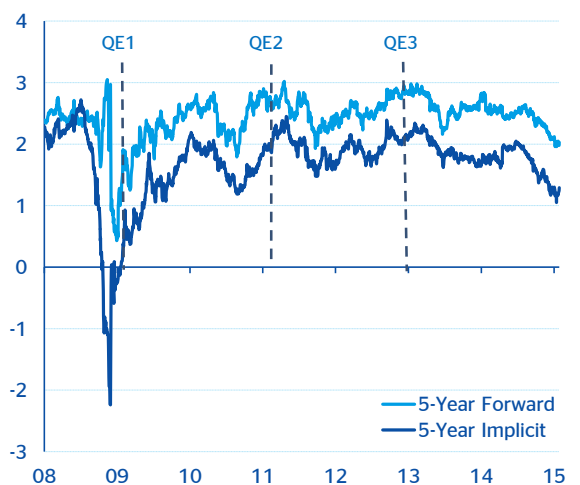
## Policy Stance on “Liftoff” Unchanged with Hints of Cautiousness

- **FOMC remains “patient” with regard to the timing of the liftoff**
- **Fed stance on the risks to the outlook remain “nearly balanced” despite the acknowledgement of near term inflation decline and “international developments”**
- **The Committee votes with unanimous support for the first statement of 2015**

The FOMC’s first statement of 2015 was packed with language changes regarding their assessment of the economy but lacked any indication on what that reassessment would mean for their stance on the liftoff. The Committee’s new language on the economic indicators was strong in both positives and negatives. The language changes were comprised of “solid” economic activity, “strong” job growth, “boosted household purchasing power” due to decline in energy prices, as well as “substantially” declined market inflation expectations.

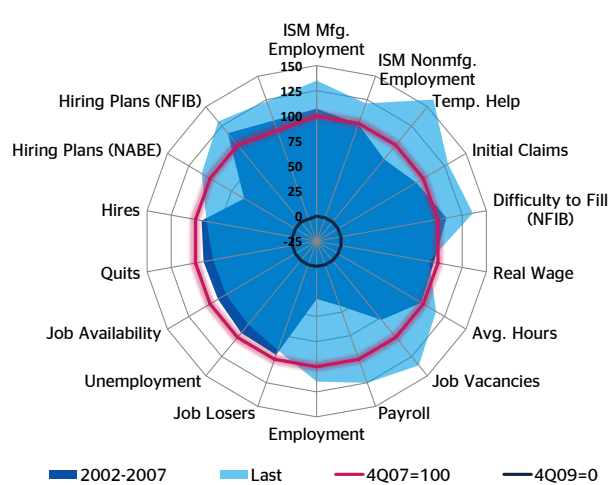
The forward guidance on the timing of the policy normalization remained unchanged, restating a “patient” approach. Nevertheless, the forward guidance gave out a hint of cautiousness, adding “international developments” to the list of the economic conditions that the Committee is monitoring to assess the progress towards its objectives. While the added cautious language likely pleased the dovish members of the Committee, there was also a hawkish addition to the statement. The FOMC formalized its anticipation of near term decline in inflation yet did not change its stance on the perceived risks, stating that it “continues to see” the risks to the economic outlook as “nearly balanced” – the same as in the past. The end result of the statement’s language modifications left all the voting members pleased and garnered unanimous support.

Chart 1  
**Market Inflation Expectations (%)**



Source: FRB & BBVA Research

Chart 2  
**Labor Market Outlook (%)**

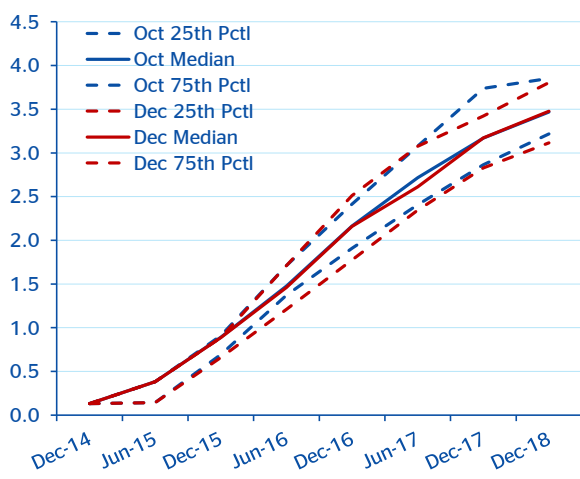


Source: BLS, DoL, NABE, NFIB, ISM & BBVA Research

## Bottom Line

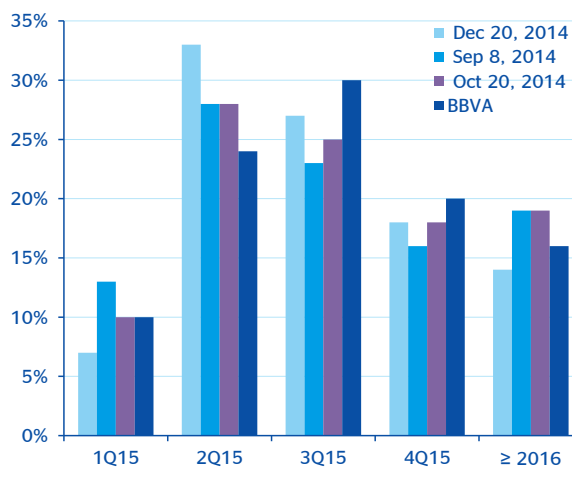
January FOMC statement added both dovish and hawkish language in their assessment of the progress towards Fed's objectives. At the same time, the Fed continues to maintain the stance that the effects of lower energy prices are transitory and will dissipate over time. While the January statement garnered unanimous support, FOMC opinions on the timing and the pace of policy normalization will likely diverge if the low inflationary environment will prove to be more long-lasting. Our expectation for a mid-2015 liftoff remains unchanged.

Chart 3  
**Fed funds survey expectations (%)**



Source: FRBNY & BBVA Research

Chart 4  
**Fed funds probability of first rate increase (%)**



Source: FRBNY & BBVA Research

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