

Economic Analysis

Yellen Semiannual Testimony to the Congress

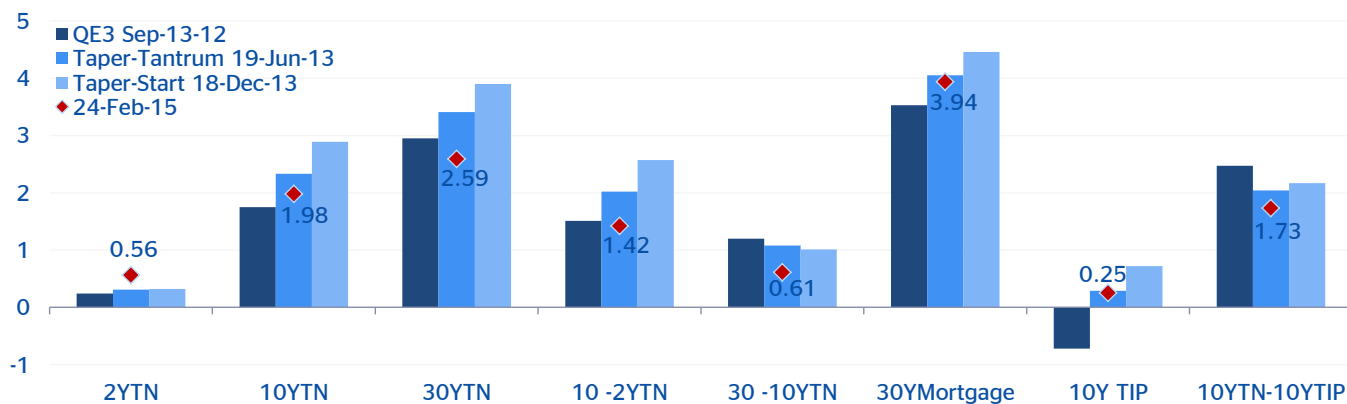
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- **Change to the forward guidance should be expected sooner rather later**
- **The liftoff will be considered “on a meeting-by-meeting basis” once the word “patient” is dropped**
- **FOMC will continue to monitor inflation developments closely**

Yellen’s statement to the Congress was cautiously crafted to manage financial market expectations with regard to near term FOMC policy actions. There was an intentional effort to explain how to interpret a modification to the current forward guidance, for example the removal of the word “patient,” signaling that the change to forward guidance should be expected sooner rather later. Overall, Yellen was upbeat in the assessment of economic growth and labor market improvements with monetary policy remarks that were balanced and did not lean towards dovish or hawkish views. The testimony was in line with our baseline scenario of a mid-2015 liftoff.

The first monetary policy takeaway was a reiteration of the past statement by Yellen that as long as the FOMC’s assessment towards the start of policy normalization remains “patient” it will warrant no federal funds rate hike for “at least the next couple of FOMC meetings.” Second, there would be a modification to the forward guidance to indicate the first step towards policy normalization. The change in forward guidance, specifically dropping the word “patient,” will mean that the Committee will deliberate on the liftoff at each subsequent meeting and “that conditions have improved to the point where it will soon be the case that a change in the target range could be warranted at any meeting.” Yellen highlighted that the increase in the federal funds target range will remain data dependent and will be considered “on a meeting-by-meeting basis.” At the same time, the statement suggested that the inflation outlook is pivotal in the Committee’s decision on whether the liftoff is appropriate: “the Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when, on the basis of incoming data, the Committee is reasonably confident that inflation will move back over the medium term toward our 2 percent objective.”

Chart 1
Interest Rates (%)



Source: FRB & BBVA Research

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