Canally, McCarthy Say Fed, Markets Look to January FOMC Meeting

By Vivien Lou Chen - Dec 13, 2011 4:30 PM ET

John Canally, an economist at LPL Financial Corp., and Ward McCarthy, chief financial economist at Jefferies & Co., said investors are looking to the Federal Open Market Committee's January meeting for policy makers to further develop their communications plans. They spoke after the Fed's decision today to keep policy unchanged.

Gerald O'Driscoll, a former Dallas Fed vice president and now senior fellow at the Cato Institute in Washington, and John Silvia, chief economist at Wells Fargo Securities LLC, also commented today.

Canally:

"The market expected some type of move on communication and that's what's missing from this."

"The biggest disappointment is the fact the Fed did not extend its promise to keep rates exceptionally low from mid-2013 until the end of 2013. That intensifies the release of the minutes a lot -- we'll see what kind of discussion there was among FOMC members about communications -- and really makes the January meeting all that more important."

"The Fed senses its hands are tied politically and yet needs to make some move to help stimulate the economy, without buying more securities. They didn't have enough time to make any changes. That will be evident when we get the minutes."

McCarthy:

"It's as close to the Nov. 2 statement as you can get, so their thinking hasn't changed a whole lot and they apparently have not yet resolved some of the differences that they've had in terms of trying to figure out how they want to change their communications. They made a big splash between June and September and now they're content to sit tight."

"The only surprise is that there's so little change. I thought there might be some change in their efforts to communicate -- they've been telling us that they really want to do that. That's something that will have to wait until the end of January."

"The economy is limping along. There are still significant risks and most of them are political. The European politicians need to get their act together and the same applies to those who live in Washington.

“If the politicians don’t screw it up, we’ll be okay.”

O’Driscoll:

“They took cognizance of the fact that there is moderate improvement in the economy, but not enough to change course.”

Even if unemployment falls next year, “I would be really surprised if they tightened in any way in 2012 going into an election because if they miscalculate it could have big political consequences. So they’re going to stay as accommodative as they are now.”

The Fed’s decision to push down the fed funds rate to near zero “hasn’t had much effect. Of course, the housing market is dragging things down. People are deleveraging. It’s very hard to induce people to borrow when in fact what they’re trying to do is deleverage. And of course nonfinancial corporations have a lot of cash. They don’t need to borrow in many cases.”

“It’s difficult to guess what they’re going to do next. I would suggest they really are doing QE3: that the swap line with the European Central Bank is a way of injecting liquidity, it’s just not in the United States.”

If the Fed announces clearer guidance next month, “it means -- if you are more explicit and open -- you can be more clearly wrong, but I think it’s better than confusing the markets.”

Silvia:

“They have got to be pretty happy right now.”

“The economy is expanding moderately and inflation looks like it is coming down in line with what they had hoped for. Evans still is the only dissenter. They are happy with the program they are on.”

“Any additional stimulus is greatly going to depend on what happens in Europe or any changes in the U.S. outlook.”

“They will wait for a longer meeting, maybe in January, to come up with anything regarding communications. How specific they can be is really hard. The Fed doesn’t really control employment or the unemployment rate.”