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Williams Interview: The Market Just Wants to Know the Fed Cares

Following the surprising FOMC statement, projections, and press conference on Wednesday (click here for our take), there was a sell-off. This morning, only two days later, President Williams (New York Fed) gave an interview on CNBC, to which markets responded quite positively. The market's positive response notwithstanding, the substance of Williams' remarks didn't seem to depart substantially from what Powell delivered on Wednesday. One possible exception was with respect to balance sheet normalization. Whereas Powell seemed to all but rule out any adjustment to the FOMC's plans, Williams did seem to express some openness, at least in theory, to reconsidering them.

All in all, however, the market seems to have reacted principally to the fact that the most recent downturn provoked a reaction out of Powell, who we assume trotted out Williams for this performance (okay, "trotted out" may be a bit strong). Yes, Williams had a more dovish emphasis than Powell. Over and over, he tried to soothe the market by assuring it that the Fed cares. He emphasized that the Fed is "listening to markets very carefully." The Fed is not dismissing concerns about a possible slowdown, and further hikes are not set in stone: "This is not a commitment, or a promise, or in any way a sense that we know for sure that's what we are going to do."

While Williams repeated over and over that the FOMC is "listening" to markets, the substance, if not the emphasis, of his comments was essentially in line with Powell's recent remarks. In fact, Williams reinforced key themes from Wednesday—themes that the market didn't like when Powell delivered them at his press conference. The economy is strong and the outlook is strong despite a tightening in financial conditions. It's the economic data that the Fed is focused on, and the data don't indicate a fundamental change. Given that, "something like two rate increases would make sense in the context of a really strong economy moving forward." He also echoed Powell's remarks about where the funds rate is relative to neutral: "Well, as Chairman Powell said, and it's absolutely right, we're now basically at the bottom end of the range of neutral interest rates in terms of you know, our best estimates."

Williams explained that what's happening in financial markets affects the outlook in two ways: First, it impacts the outlook directly because tighter financial conditions restrain economic activity. Second, it suggests there are concerns about a "potential further slowdown than we currently expect in our base case." Regarding the first point, as Powell explained on Wednesday, FOMC participants have incorporated the direct effect of the tightening in financial conditions, and they still see the outlook as "healthy" and warranting further rate hikes despite it. So no difference here. FOMC participants will interpret the results of the Michigan Surveys of Consumers for December, released this morning, as supporting that view. It was reported that, "Surprisingly, even in the last week of the survey, falling stock prices were reported by just 12% as a primary concern about recent economic developments...While next month's data may reflect increased concerns, it has been news of changing job and income prospects that have been of the greatest concern to consumers." As for the second point, he's suggesting that market concerns about a slowdown make it especially important for policymakers to be looking for signs of a slowdown. However, he'll still be looking to the economic data for evidence of a slowdown before adjusting his views, not just taking the market's word for it. And the data haven't shown anything yet. This doesn't seem any different from Powell either.

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As noted above, there was a difference in how Williams and Powell talked about the balance sheet. Williams expressed slightly more openness than Powell to adjusting balance sheet policy: ″We did not make a decision to change the balance-sheet normalization right now, but as I said, we′re going to **go into the new year with eyes wide open**…I don′t see the need **today** to change our balance-sheet normalization″ (emphasis ours). A key source of market angst has been Powell′s firm stance against changes in balance sheet runoff policy: ″I don't see us changing that.″

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