VOLUME XVIII No. 41 S A T U R D A Y February 27, 2016

WILL THE FED HAVE TO BACK-PEDAL, NOW ?

Should Janet Yellen Be Replaced ?

It must have come as a bit of a shock to many members of The Federal Reserve (The **FED**) when The Bureau of Economic Analysis, a branch of the Government of The United States of America, brought out its findings with regard to the Fourth Quarter of 2015.

The Bureau stated, inter alia, that advanced estimates of the national income and product accounts for the Fourth Quarter of 2015, real **G**ross **D**omestic **P**roduct***** (**GDP**) '*increased 2.4 percent, the same rate as in 2014.*'.

(Real GDP: '*Real*' is defined as being chained to 2009 US dollars. GDP is defined as being the total value of all the goods and services, produced by a country in one year.)

In the first paragraph of The Bureau's report with regard to the Fourth Quarter of 2015, it is stated:

> '*Real Gross domestic product (GDP) increased 0.7 percent at an annual rate in the fourth quarter of 2015 after increasing 2.0 percent in the third quarter, according to the advance estimates of the national income and product accounts (NIPAs).*'

In brief, the largest economy of the world slowed down, somewhat markedly, in the final quarter of 2015, ended December 31.

The Bureau, then, went on to state that the deceleration in real GDP in the Fourth Quarter '*primarily reflected a deceleration in consumer spending and downturns in nonresidential fixed investment, in exports and in state and local government spending …*'.

After stating the above, The Bureau explained:

> '*Prices of goods and services purchased by U.S. residents increased 0.2 percent in the fourth quarter after increasing 1.3 percent in the third quarter. Food prices decelerated, and energy prices decreased more in the fourth quarter than in the third quarter. Excluding food and energy, gross domestic purchases prices increased 0.9 percent after increasing 1.3 percent*'; and,
>
> '*Real disposable personal income (DPI) increased 3.2 percent in the fourth quarter after increasing 3.8 percent in the third quarter. Current-dollar DPI increased 3.3 percent in the fourth quarter after increasing 5.1 percent in the third quarter. The smaller deceleration in real DPI relative to the deceleration in current-dollar DPI primarily reflected a deceleration in the implicit price deflator for consumer spending, which is used to deflate DPI. The personal saving rate, personal saving as a percentage of current-dollar DPI, was 5.4 percent in the fourth quarter; in the third quarter, the rate was 5.2 percent.*'

All of the above, one would have surmised, The FED would have had more than an inkling, but, clearly, it could not tell its arse from its elbow, as the informal idiom, goes.

In a televised address to the citizens of The United States of America, Ms Janet Yellen, the Chairperson of The FED, said, on November 12, 2015, inter alia:

> *'As I have often stressed before, in addition to its responsibilities for monetary policy and financial regulation and supervision, the Federal Reserve takes very seriously its role as a research institution.'*

On December 2, 2015, Ms Janet Yellen went on record as stating that The FED was poised to raise interest rates in December, following what she described as '*a robust recovery*' as well as indications that wages in the country had started to rise.

She said, also, that the US economy had '*recovered substantially since the Great Recession*and that the current rate of growth was '*sufficient enough*' to steer the labour market in the direction of full employment, resulting in inflation, rising to two percent, which is The FED's target.

She stated that consumer spending was '*particularly solid*' and that she was '*looking forward*' to the day when The FED could start to tighten policy.

On February 10, 2016, Ms Janet Yellen, in her report to The US Congress said, among other things, that there were risks to the economic outlook with regard to the country; and, this could delay interest-rate increases.

(The FED had raised interest rates on December 16, 2015, to a range of 0.25 percent to 0.50 percent, up from the near zero level that it had held since December 2008.)

There have been calls for Ms Janet Yellen to be replaced as the Chairperson of the de facto Central Bank of The United States of America.

It is hardly any wonder, is it?

-- E N D --

While TARGET makes every attempt to ensure accuracy of all data published, TARGET cannot be held responsible for any errors and/or omissions.