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## Yellen: Her Inner Dove

by Pierre Ellis \*

Chairwoman Yellen quite competently handles a long session of mainly regulatory questions in her Senate round of Humphrey Hawkins testimony.

Inquiries were generally much more specific and well posed than those she faced in her round before the House Committee. She addressed virtually all of them in detail--and received a warm welcome and praise from both sides of the aisle.

### Negative Impact of Higher Long-Term Rates

Interesting questions or answers on monetary policy were few, though there was a somewhat revealing response when Yellen was asked by "Tea-Party" Senator Toomey to quantify the positive effects of the asset-purchase policy.

She avoided supplying a number, but did argue for the efficacy of the purchases, saying "asset purchases and forward guidance, I think they have served to push down longer-term interest rates. We have seen some significant recovery in housing. The backup in rates we have seen last spring and summer clearly seems to have had a negative impact on housing."

### Economy Still Very Rate-Sensitive

The interesting thing is the "clear" restraining effect on housing that she sees having occurred--suggesting that she still does not see the economy as having reached escape velocity in the sense of natural recovery-style growth in credit demand being strong enough to begin to offset long-term interest rate increases, even at current low rate levels.

That, of course, is the reason that Fed doves were always hesitant about "tapering," and probably would become very concerned if tapering starts to push long rates up again--or if interest-rate-sensitive spending weakens from here.

### DE View

The DE view is that conditions forcing a retreat from tapering are very unlikely to arise, and that the process will continue essentially on the track laid out by Chairman Bernanke.

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