

Vital Signs: Jackson Hole could deliver the monetary change Xenophon wants

Written by Richard Holden, Professor of Economics and PLuS Alliance Fellow, UNSW Australia

Vital Signs is a weekly economic wrap from UNSW economics professor and Harvard PhD Richard Holden (@profholden). Vital Signs aims to contextualise weekly economic events and cut through the noise of the data impacting global economies.

This week: The US Fed's annual meeting will signal interest rates, and ultimately the path of the Aussie dollar.

The biggest economic news this week is not, believe it or not, some obscure purchasing manager survey from Guangzhou. It is the US Federal Reserve's annual meeting in Jackson Hole, Wyoming.

Every year since 1982 the Kansas City Fed has hosted a conference in Jackson Hole that serves, as [they put it](#), as:

“a forum that brings together central bankers, private market participants, academics, policymakers and others to discuss the issues and challenges we hold in common. Removed from the day-to-day political and market pressures, this event takes place each year within the Kansas City Fed's region. This site, which allows attendees to step back and challenge their assumptions, is a key component of the symposium's success.”

Well, I don't know about that. But it's definitely a very important and highly watched event.

Interestingly, the Kansas City Fed president, Esther L. George, is a huge inflation hawk and consistent [dissenter from her FOMC colleagues](#). It's curious that one of the “lesser Feds”, led by someone who has been rather unhelpful to the last two Fed chairs, gets to host such an influential event.

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This year's topic is "Designing Resilient Monetary Policy Frameworks for the Future".

That is certainly topical, as central banks around the world struggle with the failure of low (or negative) interest rates to breathe life back into ailing economies.

Although the program won't be announced until after this article goes to press (you can [find it here](#)), one likely topic is inflation-targeting regimes such as that used by the Reserve Bank of Australia, and pioneered (and staunchly defended) by the Reserve Bank of New Zealand.

Senator Nick Xenophon will not be an invited speaker (if he is, then I'm getting out of show business), but some of the people he has claimed support his proposal that the RBA target nominal GDP ("NGDP"), instead of inflation, will be there.

Xenophon has claimed that the former US treasury secretary, Larry Summers, supports a NGDP-targeting regime. That [may be the case for the US](#), but it is unclear that the idea is a good one for Australia. Former CEA chair Christina Romer is a strong proponent, but others like San Francisco Fed president John Williams [seem less persuaded](#).

We will learn a lot about this from Jackson Hole. Fed chair Janet Yellen will be giving a much-anticipated speech. It is not always the case that the Fed chair addresses the Jackson Hole guests, so perhaps this is a signal that she has something important to say.

Who knows what that is, but I'm willing to speculate.

The last two labour market reports have shown strong job growth. If one more is met with no rate rise by the Fed, then one might well ask: what will it take them to raise rates?

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This would be a good time to lay out a plan for a slow sequence of rate rises over the coming months (and years).

Markets put the chance of a Fed hike at the next meeting [at just 12%](#) . I think it's (much) higher than that.

Why? Well, even though the FOMC meets every six weeks, only four meetings a year are followed by a press conference. September is one of them.

So if the Fed is going to raise rates, but also wants to send some other messages, September would be a good time.

And the Fed has every reason to want to “noise up” a seemingly clear announcement, like a 25 basis point interest rate rise. As I [pointed out here](#) a couple of years ago, it is impossible for policymakers to be both credible and be precise at the same time. I call this Greenspan's Uncertainty Principle.

So Jackson Hole will be interesting. It will inform the debate on how central banks around the world conduct monetary policy. It will fuel further debate in Australia, as the populist Senator Xenophon may have stumbled upon the only sensible economic idea of his political life. And it will give us a better picture of what the Fed might do on interest rates, and hence the path of the Australian dollar.

Stay tuned.

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