Federal Reserve

Yellen to quit Fed board after Powell sworn in

Decision not to finish term on board of governors gives Trump more room to reshape central bank

Janet Yellen said she was 'gratified' by the 'substantial improvement' in the economy during her tenure as Fed chair © Bloomberg

NOVEMBER 21, 2017 Sam Fleming in Washington

Janet Yellen will leave the Federal Reserve Board when her successor is sworn in as chair, further broadening Donald Trump's scope to reshape the leadership of the US central bank.

Ms Yellen, whose term in the top seat ends in February of next year, said in a letter to President Trump that she will leave the board when Jay Powell takes over. While Mr Trump decided not to renew her position as Fed chair, she could have stayed on the board of governors until January 2024.

The decision means Mr Trump will have four vacancies on the Fed's seven-person board to fill, one of which is the position of vice-chair, which was vacated by Stanley Fischer in October.

It means the Fed faces an extraordinary period of change at its highest ranks at a time when difficult policy decisions lie ahead. Among the questions confronting Mr Powell, who faces a Senate confirmation hearing next week, is how to balance weak inflation against the lowest unemployment since the start of the century and increasingly effervescent financial markets.

A former president of the San Francisco Fed, Ms Yellen was made vice-chair of the Federal Reserve Board in October 2010 when the jobless rate was 9.4 per cent following the trauma of the property and financial collapse, and became chair in February 2014. Joblessness now stands at 4.1 per cent.

Ms Yellen said in her letter that she was "gratified" by the strengthening of the financial system from the crisis, as well as the "substantial improvement" in the economy over the same period. "The economy has produced 17 million jobs, on net, over the past eight years and, by most metrics, is close to achieving the Federal Reserve's statutory objective of maximum employment and price stability," Ms Yellen wrote to Mr Trump.

17m

US jobs created over the past eight years

"Sustaining this progress will require continued monitoring of, and decisive responses to, newly emerging threats to financial and economic stability," she added.

If Ms Yellen had stayed on after stepping down as chair it would have been an unusual but not unprecedented step. Marriner Eccles, the Fed chairman from 1934 to 1948, stayed on for three years after being replaced.

Mr Trump's first Fed nomination was Randal Quarles, who has taken over as vice-chair for financial supervision. The other remaining governor is Lael Brainard, who like Mr Powell was brought on to the board by Barack Obama. Further change looms midway through next year, when the New York Fed's influential president Bill Dudley stands down.

Ms Yellen's resignation letter noted she had served in the Fed system over "three eventful decades". Her period at the helm has seen the Fed gradually pare back its crisis-era stimulus programmes via a series of quarter-point rate increases beginning in late 2015 and the recently begun process of reducing its $4.5tn balance sheet.

Tim Duy, a close Fed-watcher at the University of Oregon, said Ms Yellen had successfully managed to navigate the reduction of Fed stimulus without roiling markets — confounding predictions from some investors. "There were a lot of people who would say you are never going to get out of QE without financial turmoil," he said. "None of that happened — it has been smooth sailing so far."

The central bank is widely expected to be ready to lift rates a third time this year in its December meeting.

Robert Kaplan, the Dallas Fed chief, told the FT this month that he was closely watching commercial real estate prices, an equity market valuation which is now as large as a share of the economy as it was in 1999 or 2000, high levels of margin debt, and ultra-low volatility.

Congressional Republicans are seeking to add further fuel to the recovery via tax cuts at a time when the US has just seen two successive readings of 3 per cent annualised GDP growth. Fourth-quarter growth is estimated to be 3.4 per cent according to the Atlanta Fed's GDPNow tracker.