



## The Daily Dish

# The Powell Federal Reserve

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### *Eakinomics: The Powell Federal Reserve*

The Federal Open Market Committee (FOMC) met for the first time under the chairmanship of Jerome Powell. In the words of the FOMC [statement](#), “the Committee decided to raise the target range for the federal funds rate to 1-1/2 to 1-3/4 percent.” The quarter-point increase was hardly a surprise. The more important question is the outlook for future rate hikes, which, in turn, depends on the Fed’s expectations for economic growth.

The FOMC noted: “The economic outlook has strengthened in recent months. The Committee expects that, with further gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace in the medium term and labor market conditions will remain strong.” It raised its outlook for economic growth to 2.7 percent in 2018 and 2.4 percent the year after. The Trump Administration is likely disappointed in both growth rates, but they mark sharp improvement over recent history.

And a lot of uncertainty remains. The FOMC appears to be split between expecting four rate hikes this year and expecting only three. If the FOMC assesses that the growth appears stronger, it will move more aggressively. In the FOMC’s words, “This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.”

The wild card in this assessment is the business tax reforms in the Tax Cuts and Jobs Act. Never before has the United States moved (and never again will it move) from a worldwide system of taxation to a territorial system of taxation. The magnitude of the impacts on international capital flows, business fixed investment, productivity, exchange rates, and inflation are all very difficult to gauge, making the Fed’s job very challenging in 2018.