



The Daily Dish

The Outlook for the Fed

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Eakinomics: The Outlook for the Fed

Yesterday the Federal Open Market Committee (FOMC) – the policy arm of the Federal Reserve Board – announced an increase in the federal funds rate (the target policy rate) by 0.25 percent (25 basis points) to a range of 2.00 to 2.25 percent. The increase was widely expected as part of the normalization of monetary policy in the aftermath of the Great Recession. Indeed, failing to raise the funds rate would have been a shockingly negative comment on the outlook for the economy.

The more important piece of information was the likely future of rate increases. Members of the FOMC provide their economic forecasts, including their expectation of future values of the federal funds rate. The so-called “dot plot” is reproduced below. As one can see, the 16 members expect the funds rate to be rising over the next year, which looks like another increase in December and three increases in 2019.

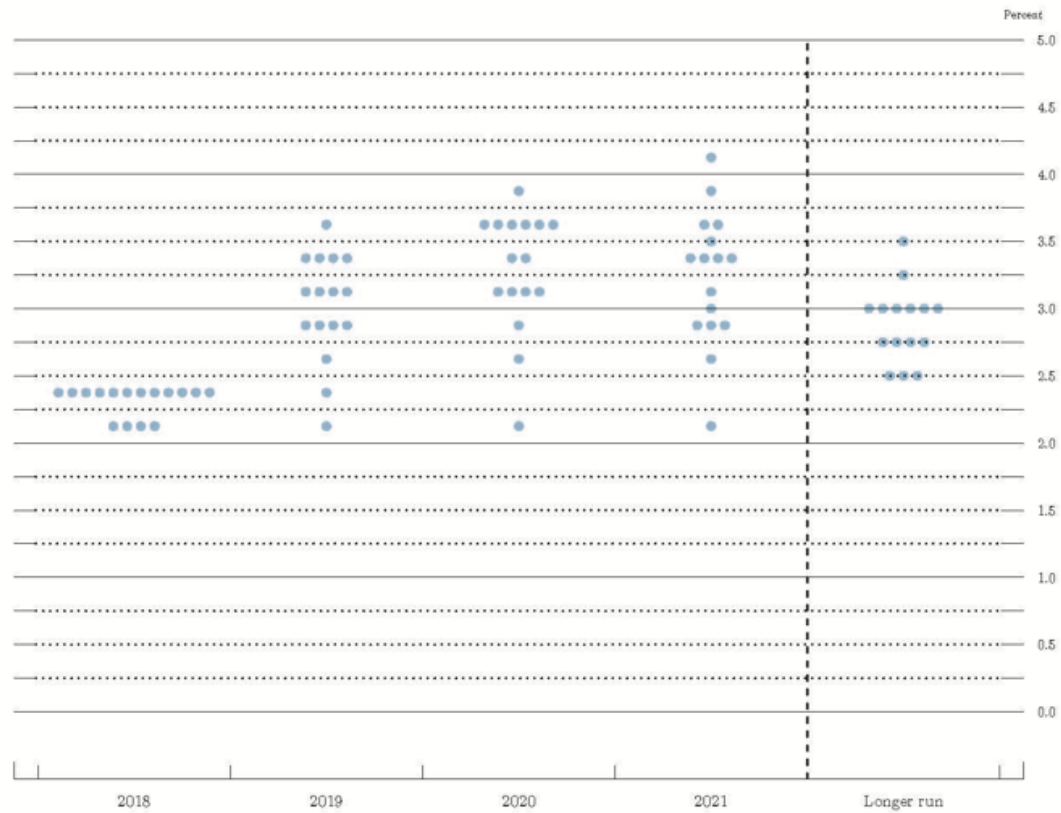
Taken as a whole, the Fed trajectory is an endorsement of the beneficial growth effects of the Trump Administration’s approach to regulation and tax policy over the next 18 months (the Fed forecasts are now above 3 percent for 2018). Perhaps equally important, there does not appear to be substantial damage thus far from the Trump tariffs and retaliation from trading partners.

Note, however, that the dot plot suggests an easing of the funds rate – perhaps in 2021 and certainly over the longer run. Taken at face value, this suggests weaknesses emerging in 2020. Certainly, the visible threats include rising budget deficits, the lack of a long-term agreement on annual funding, tariffs, a weakening housing market, and the sunset of the individual provisions in the Tax Cuts and Jobs Act.

The near-term outlook is relatively benign. But that does not mean that there isn’t a lot of policy work that needs to be done.

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Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



NOTE: Each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual participant's judgment of the midpoint of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. One participant did not submit longer-run projections for the federal funds rate.

