The Daily Dish

The Fed Stays Steady

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Eakinomics: The Fed Stays Steady

The Fed is a small island of predictability in a sea of DC policy uncertainty. To the surprise of exactly no one, the Fed left interest rates unchanged at its meeting yesterday. This does not mean it is done raising rates (and reducing the size of its holdings of Treasuries and mortgage-backed securities — the two-pronged approach to normalizing monetary policy). In its statement, the Federal Open Market Committee (FOMC) noted that it "expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective over the medium term."

The Fed remains bullish on the economic outlook, saying "Information received since the Federal Open Market Committee met in September indicates that the labor market has continued to strengthen and that economic activity has been rising at a strong rate. Job gains have been strong, on average, in recent months, and the unemployment rate has declined. Household spending has continued to grow strongly, while growth of business fixed investment has moderated from its rapid pace earlier in the year. On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2 percent."

This is essentially the same statement it issued in September. The only modifications were to note that the unemployment rate had declined and business investment had moderated. The latter is notoriously volatile and it may even be the case that revisions to the 3rd quarter gross domestic product report will show it to have not declined after all.

The election outcome confirms legislative gridlock for the near-term future. This removes the difficulty for the Fed of reacting to new tax cuts or large-scale infrastructure spending. The result is a more predictable path toward neutral over the course of 2019. At the same time, it makes the Fed a more visible actor in the policy process and, thus, guarantees more scrutiny and public commentary — to no real effect — from President Trump.