

# THE ECONOMIC OUTLOOK GROUP



475 Wall Street  
PRINCETON, NEW JERSEY 08540 Tel: 609 - 529 - 1300  
[www.economicoutlookgroup.com](http://www.economicoutlookgroup.com)

## ECONOMIC TALKING POINTS

Bernard Baumohl  
Chief Global Economist

November 2, 2016

### Fed To Raise Rates in December --- Regardless of Who Wins the Election

With many disgruntled Democrats and Republicans regularly howling to remake the Federal Reserve, it made perfect sense for the FOMC to avoid the harsh election spotlight and take no action this time. Yet neither could they get away with another bland and directionless statement on what it might do in December. It appears to me that this time they did offer more evidence that a rate increase would come before the year is out.

How so? For the second time in a row, the Fed's statement acknowledged that labor markets continue to improve and household spending is rising. The one new and significant upgrade in today's release was their verbalization that inflation is also moving higher.

So what do we make of the Fed's latest missive?

Essentially this: It's time to raise rates next month no matter who wins the presidency, though ironically for polar opposite reasons.

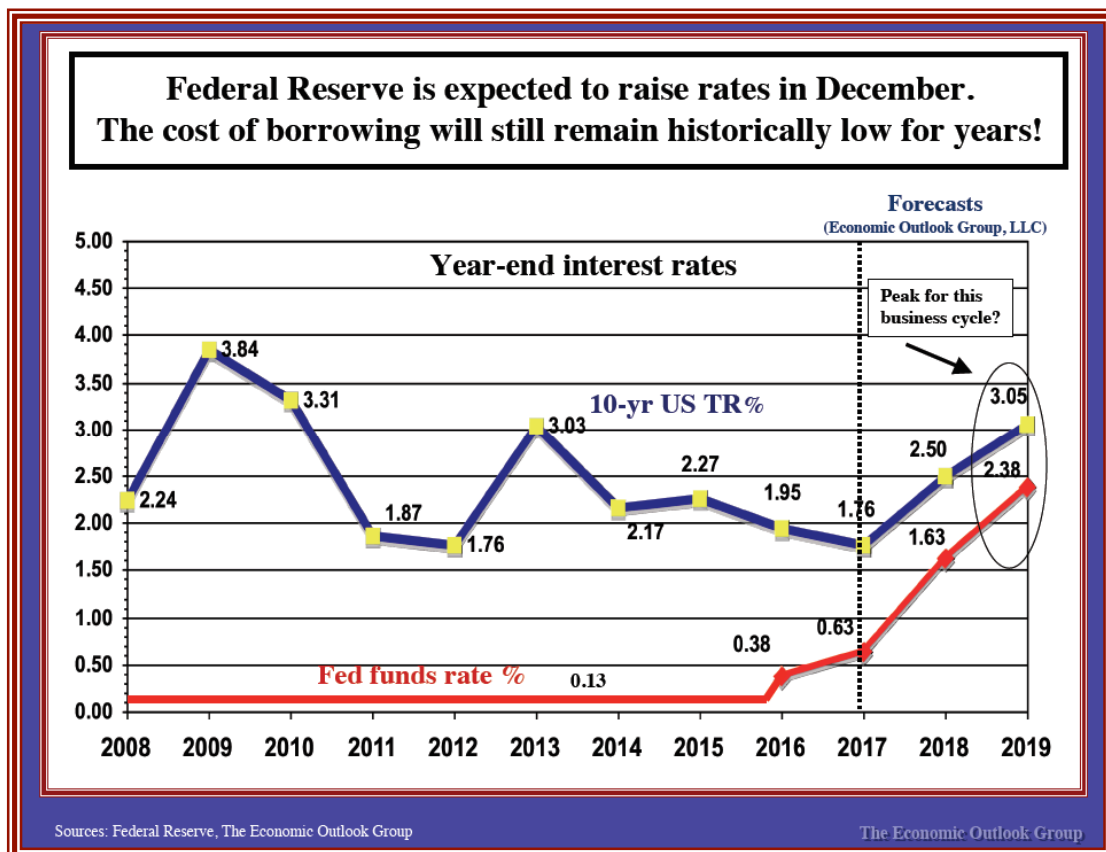
A Hillary Clinton victory will finally remove a major uncertainty about the kind domestic and foreign policies we'll see in her Administration. Once this wacky election cycle is over, there is likely to be a relief rally that could recharge the real and financial economies, both in the US and abroad. With the fog of election year politics over, the lame duck session of Congress could move ahead and ratify the Trans-Pacific Partnership. In addition, business activity should accelerate and with it, job creation and

inflation. A December rate hike would thus be necessary if the Fed is to stay ahead of the curve.

On the other hand, should Donald Trump win the White House, a far different set of dynamics come into play that would still make it necessary for the Fed to raise rates. A President-elect Trump represents to many the mother of all uncertainties when it comes to public policy. For instance, how far will he go to implement his threats and impose substantial tariffs on goods coming in from China and Mexico? Will those countries then retaliate against the US? Could Trump also go after Ford, Carrier AC and Apple as he promised because they bring in goods made at foreign plants? Will Trump seek Yellen's resignation shortly after his inauguration?

At the very least, his policy pronouncements have dropped a heavy curtain of doubt over the economic outlook. Nonetheless, Yellen will likely have raise interest rates next month just to give the Fed some room to lower them again later in the year if the economy starts to wobble. For if the central bank doesn't act at the year's final meeting and the economy stumbles, Yellen and her colleagues may have little choice but to pursue the more distasteful option of negative interest rates.

Simply put, Fed really doesn't have the luxury of standing pat any longer. Rates will need to be raised as the pace of growth speeds up, which is our baseline forecast for 2017. A Trump victory, however, may well force the Fed to lift rates too so they have room to lower them again later in the event consumers and businesses turn excessively cautious.



## Key Economic Forecasts

- Actual
- Forecast

### United States

	I 2015	II 2015	III 2015	IV 2015	I 2016	II 2016	III 2016	IV 2016	I 2017	II 2017	III 2017	IV 2017
<b>Real Gross Domestic Product (GDP):</b>												
%	2.0	2.6	2.0	0.9	0.8	1.4	2.9	2.6	2.4	3.3	2.8	2.4
<b>Personal Consumption Expenditures:</b>												
PCE	2.4	2.9	2.7	2.3	1.6	4.3	2.1	2.7	2.4	3.0	2.7	2.8
<b>Inflation, end of period, year-over-year:</b>												
CPI %	-0.1	0.1	0.0	0.7	0.9	1.0	1.5	1.5	1.8	1.9	2.2	2.3
<b>Unemployment Rate (end of period):</b>												
%	5.5	5.3	5.1	5.0	5.0	4.9	5.0	4.5	4.5	4.5	4.5	4.9
<b>Non-farm Payrolls, monthly avg. thousand:</b>												
	195	231	174	282	196	146	192	175	200	190	220	210
<b>Treasury 10-yr Note Yield % (end of period)</b>												
	1.93	2.38	2.06	2.27	1.78	1.49	1.60	1.78	2.10	2.30	2.55	2.90
<b>Federal funds rate % (end of period)</b>												
	0.13	0.13	0.13	0.38	0.38	0.38	0.38	0.63	0.88	1.13	1.38	1.63

## GDP Growth - Global Economy

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
US	1.8	-0.3	-2.8	2.5	1.6	2.2	1.7	2.4	2.6	1.8	2.7
Eurozone	2.6	0.6	-4.1	1.7	1.4	-0.6	-0.4	0.9	1.5	1.5	1.3
United Kingdom	3.1	0.6	-5.2	1.7	0.7	0.3	1.8	2.9	2.2	1.6	0.8
Japan	2.1	-0.7	-5.4	4.6	-0.4	1.6	1.5	-0.1	0.5	0.6	0.8
Canada	2.7	0.7	-2.8	3.1	3.1	1.7	2.2	2.5	1.2	1.4	2.5
India	9.1	8.8	6.3	8.4	8.6	6.7	4.9	7.4	7.8	7.5	7.6
China	14.2	9.6	9.2	10.5	9.5	7.8	7.7	7.3	6.9	6.2	6.0
Brazil	5.7	5.1	-0.3	7.5	2.7	0.9	2.3	0.1	-3.8	-4.0	0.2
Mexico	3.3	1.4	-4.7	5.2	4.0	3.9	1.4	2.3	2.5	2.2	2.6
Australia	4.0	2.3	1.2	2.8	2.6	3.6	2.4	2.6	2.5	2.5	3.0
Russia	8.1	5.6	-7.9	4.0	4.3	3.4	1.3	0.6	-3.7	-2.0	-0.2
World	5.4	1.6	-1.9	4.2	3.0	2.6	2.9	3.0	2.6	2.4	2.9