



## **Federal Reserve Shows ‘Uncertainty’ Over Trump Economy**

**America's central bankers aren't clear on how the economy will evolve under the incoming administration.**

By Andrew Soergel | Economy Reporter - January 4, 2017

Officials at the Federal Reserve appeared to be anything but certain of the country's economic future when they opted to lift their benchmark interest rate last month for just the first time in 2016 and the second time in a decade.

According to minutes of the Federal Open Market Committee's December meeting published Wednesday, central bank officials were comfortable with the state of the economy when they gathered in Washington with only days remaining in 2016, judging that economic activity had been expanding "at a moderate pace" and that the labor market "had continued to strengthen" in recent months.

But the stock and sentiment rallies that have followed President-elect Donald Trump's Election Day victory – and the policies he's likely to implement once in office – appear to have left the Fed at a loss over what's to come.

December's minutes include 15 references to "uncertainty" or "uncertain" conditions. The minutes from November's meeting – which was held only days before the presidential election – used such terminology only five times.

"Many participants expressed the need for caution in evaluating the implications of recent financial market developments for the economic outlook, in light of the uncertainty about how federal spending, tax and regulatory policies might unfold and how global economic and financial conditions will evolve," December's minutes said.

Much of what was included in Wednesday's release was already public knowledge, as the Fed announced its rate hike and the rationale behind it in a brief statement last month. But officials' uncertainty over the economy's evolution under Trump had not previously been discussed at length.

Fed Chair Janet Yellen touched on the subject during a December press conference, indicating that "changes in fiscal policy or other economic policy" under Trump could throw off the Fed's outlook. But she repeatedly dodged specific questions during that appearance related to what sorts of specific actions would draw concern from the Fed or force it to adjust economic expectations.

Trump has promised to cut corporate and personal taxes, putting more money directly in consumers' pockets at the expense of government coffers. He also has advocated for infrastructure investment, which could help push inflation along, and tighter trade restrictions with other nations – moves that would boost inflation as well but could slow national economic growth if other countries retaliate, according to some trade-minded economists.

During his run for the White House, Trump threw out a cavalcade of policy positions and suggestions, yet already there are signs he may not follow up on at least some of his campaign promises – like the reintroduction of waterboarding as an interrogation tactic, for example. So it's difficult for analysts and for America's central bank to determine exactly what sorts of policies Trump will pursue until he's in office.

As such, the Fed essentially said in its minutes to take its economic projections with a grain of salt.

"In their discussion of their economic forecasts, participants emphasized their considerable uncertainty about the timing, size and composition of any future fiscal and other economic policy initiatives," the minutes said.

The Fed last month projected the economy would grow 2.1 percent in 2017 and then gradually slow down in the following two years with unemployment holding relatively steady. Most FOMC officials also indicated they believed they'd be able to raise rates at least three more times in 2017 following December's hike.

Yet in stark contrast to what the Fed's expecting to see, Trump has vowed to get growth up as high as 4 percent through his administration's policies.

It's also worth noting that America's central bank entered 2016 expecting to raise rates four times and were only able to do so once – and 2016 didn't include a significant presidential transition that's likely to send the regulatory policies of the Obama administration hurtling in the opposite direction under Trump and a GOP-controlled Congress.

The Fed's annual projections aren't exactly written in stone to begin with. But the extra dash of uncertainty associated with Trump's incoming administration is likely to keep analysts and central bankers guessing for months, potentially delaying further interest rate adjustments into the second half of 2017.

"Look, Janet Yellen, like everybody else, is in the dark as to what kind of fiscal policy will come out. And I think [Fed officials] are most likely going to take a wait-and-see attitude for at least the next six months before they make a move," **says Bernard Baumohl, chief global economist at The Economic Outlook Group.** "I just don't see [a rate hike] happening before midyear."

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