

# THE ECONOMIC OUTLOOK GROUP



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## ECONOMIC TALKING POINTS

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### **The Fed Has An Open & Shut Case To Pause. But Will They?**

**When discussing future monetary policy, there's always a distinction to be made between what one thinks the Fed *ought to do*...and what you *expect they will do*. This dichotomy is especially apparent now.**

**There's now a credible argument to be made why Jerome Powell and his colleagues should take no action next week and step aside to better understand the inflation dynamics at work. Every major inflation metric lately has pivoted back up and done so with the kind of bias that should unnerve the Fed. The forces that support disinflation appear to have faded, if not disappeared. Consumer prices, the PCE price index, and today's report on Producer Prices are all uniformly working against a return to the 2% target.**

**Of course, with regards to today's PPI, we will see analysts point to the surge in egg prices as the culprit behind November's annual headline jump of 3%, the biggest increase since February 2023! Seeking out reasons behind anomalies is sound economics. Nothing to quibble about here. What is worrisome, however, is that at some point such microanalysis distracts from the broader question of whether the Fed has lost its grip on constraining prices. Case in point: Even though all the major inflation reports show prices marching higher, there is still strong conviction the Fed will cut rates anyway. Traders place the odds of a quarter point reduction at nearly 100%.**

**But here's something to ponder. Had these same inflation numbers been published last summer and early fall, would the Fed have lowered rates as they did in September and November? I doubt it.**

**There's also another critical issue at stake here – Fed credibility! Remember, Powell said countless times over the past year that members of the Open Market Committee have to be “*confident*” that inflation is moving in the right direction and nearing 2% before they ease up on the monetary brakes. Well, how confident are they now given how persistent inflation has moved in the opposite direction?**

**I think it's worth repeating what Powell himself admitted just last week in NYC: “Growth is definitely stronger than we thought, and inflation is coming in a little higher.” His comments were further substantiated by the latest Beige Book, which reported that economic activity rose in most of the 12 Federal Reserve districts since October.**

**If, in fact, the Fed does cut rates next week, Powell will have to work hard at the press conference to explain (better word is “rationalize”) this latest action.**

**My sense is he may want to slip in one more quarter-point cut before the Trump Administration takes over in January and starts to follow through on its promise to lift tariffs and slash corporate and personal income taxes.**

**If that is the plan, fine, though it makes little economic sense in my opinion. But we cannot ignore another potential risk to the economy and financial markets, which is the confusion that follows whenever there's a divergence between Powell's words and his deeds. I think a rate cut next week will prove to be a mistake because (a) it isn't warranted and may backfire to fuel more inflation, and (b) it risks eroding Fed credibility.**

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(Graphs to follow below)

## United States

	I 2025	II 2025	III 2025	IV 2025	I 2026	II 2026	III 2026	IV 2026	I 2027	II 2027	III 2027	IV 2027	I 2028	II 2028	III 2028	IV 2028
Real Gross Domestic Product (GDP):																
%	2.1	3.3	2.8	2.4	1.9	2.6	2.2	1.9	1.2	2.0	1.5	1.8	0.9	1.2	1.4	1.2
Personal Consumption Expenditures:																
PCE %	1.5	1.7	2.0	1.8	1.4	1.8	2.1	2.3	0.9	1.6	1.7	2.1	1.3	1.9	2.0	2.2
Inflation, end of period, year-over-year:																
CPI %	2.9	3.2	3.4	3.5	3.6	3.5	3.5	3.3	3.0	3.3	3.3	3.1	2.9	2.9	2.6	2.8
Unemployment Rate (end of period):																
%	4.0	4.0	3.9	3.8	3.9	3.7	3.6	3.6	3.9	4.1	4.3	4.2	4.3	4.4	4.2	4.1
Non-farm Payrolls, monthly avg. thousand:																
	155	165	160	170	155	170	175	160	145	140	130	130	100	85	95	115
Treasury 10-yr Note Yield % (end of period):																
	4.55	4.65	4.85	5.10	5.05	5.15	5.10	5.10	5.00	5.10	5.05	4.85	4.55	4.45	4.30	4.20
Federal funds rate % (mid-point, end of period):																
	4.63	4.63	4.63	4.63	4.63	4.38	4.13	3.38	3.38	3.38	3.38	3.13	3.13	2.88	2.88	2.88

## GDP Growth - Global Economy - Year over Year

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
US	2.6	1.6	2.2	1.8	2.3	2.7	1.8	2.5	3.0	2.6	-2.2	6.1	2.5	2.9	2.5	2.7	2.2	1.6	1.2
Eurozone	1.7	1.4	-0.9	-0.2	1.4	2.1	1.9	2.5	1.8	1.6	-6.2	5.7	3.5	0.5	0.7	1.2	1.6	1.3	1.1
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.9	1.7	1.6	-10.4	8.7	4.3	0.1	1.1	1.2	1.5	1.3	1.2
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	0.5	1.7	0.6	-0.4	-4.3	2.3	1.0	1.9	0.2	1.3	0.9	0.8	1.0
Canada	3.1	3.1	1.8	2.3	2.9	0.7	1.0	3.2	2.8	1.9	-5.1	5.0	3.4	1.1	1.4	2.3	1.8	1.7	1.6
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.4	4.0	-5.9	9.2	7.2	7.7	6.9	6.4	6.1	6.0	5.8
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.7	6.0	2.2	8.5	3.0	5.2	4.6	4.5	4.3	4.6	4.4
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.2	1.2	1.4	-3.6	5.3	3.0	2.9	3.1	2.4	2.2	2.7	2.6
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.7	2.4	2.2	-0.3	-8.8	6.1	3.9	3.1	1.4	1.5	1.9	2.2	2.4
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.7	1.8	-1.1	4.7	3.7	1.5	1.5	2.1	2.5	2.2	1.9
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.8	2.2	-2.7	5.6	-1.2	3.6	3.9	2.3	2.4	2.4	2.1
World	4.2	3.1	2.5	2.6	2.8	2.8	2.6	3.4	3.2	2.7	-3.0	6.2	3.0	2.7	4.4	4.1	3.9	3.9	3.6

## Key Currency Values

	End 2008	End 2009	End 2010	End 2011	End 2012	End 2013	End 2014	End 2015	End 2016	End 2017	End 2018	End 2019	End 2020	End 2021	End 2022	End 2023	End 2024	End 2025	End 2026	End 2027	End 2028
USD/¥en	91	93	81	77	87	105	119	120	117	113	110	109	104	115	131	141	155	148	139	135	130
Euro/USD	1.40	1.43	1.34	1.29	1.32	1.37	1.21	1.09	1.05	1.20	1.14	1.12	1.23	1.17	1.07	1.10	1.03	1.00	1.04	1.10	1.12

## Oil (Brent spot) & Gasoline (U.S. average retail unleaded, \$)

	End 2008	End 2009	End 2010	End 2011	End 2012	End 2013	End 2014	End 2015	End 2016	End 2017	End 2018	End 2019	End 2020	End 2021	End 2022	End 2023	End 2024	End 2025	End 2026	End 2027	End 2028
Crude oil per barrel	46	78	95	107	111	111	58	38	49	67	54	67	52	78	85	77	75	80	74	71	70
Gasoline	1.61	2.57	3.00	3.27	3.30	3.32	2.26	2.00	2.31	2.47	2.26	2.58	2.30	3.38	3.20	3.12	3.10	3.30	3.22	3.10	3.12