**Federal Reserve’s Short-Term Rate Path Unchanged by US Election Outcome**

[Sam Bourgi](http://www.economiccalendar.com/author/sambourgi/) – *EconomicCalendar.com* - November 13, 2016

The [Federal Reserve](http://www.economiccalendar.com/federal-reserve/)’s short-term policy outlook remains largely unchanged in the wake of the US election results, although the prospect of more fiscal stimulus from Washington could alter the central bank’s view on what constitutes neutral rates for the economy.

Those views were echoed by Federal Reserve Vice Chair Stanley Fischer, who said last week he welcomes expansionary fiscal policy in the wake of Donald Trump’s election victory. The President-elect has promised a massive spending program to rebuild American infrastructure, a sign that fiscal stimulus could be be on the way early in his four-year term.

Trump swept to power last week after dominating battleground states on route to an easy electoral college majority. The news triggered initial volatility in equities before the market staged a massive rally that sent the [Dow Jones Industrial Average](http://www.economiccalendar.com/dow-jones-industrial-average/) to multiple record highs.

Fischer, who is also a voting member of the Federal Open Market Committee (FOMC), told a conference of the Central Bank of Chile that the case for raising interest rates is “quite strong.” Fischer added that expansive fiscal policy will increase the neutral rate and “ease the task of monetary policy.”

Members of the FOMC “have commented that it would be useful to have more expansionary fiscal policy… I’m on record with that,” Fischer said.

The Fed is closer to achieving its dual targets of maximum employment and 2% longer-run inflation, setting the stage for a 25 basis point increase in the federal funds rate next month. The markets are pricing in a more than 81% chance of a rate hike at the conclusion of the Fed’s two-day policy meeting December 14, according to 30-day Fed Fund futures prices.

The December rate statement will also be accompanied by revised economic projections, including the central bank’s “dot plot” chart of interest rate expectations.

Expectations for higher interest rates sent the US dollar to its highest close since January. The [dollar index](http://www.economiccalendar.com/us-dollar-index/), which measures the performance of the greenback against a basket of other major currencies, rose 2.1% on the week to close at 99.06.

**Federal Reserve’s vice-chair readies markets for rate rise**

Stanley Fischer lays out case for a second increase in short-term rates

Sam Fleming – *The Financial Times* - November 11, 2016

Even as global markets churned in the wake of [Donald Trump](https://www.ft.com/topics/people/Donald_Trump)’s stunning election win, the [US Federal Reserve](https://www.ft.com/content/3ea324de-a1dc-11e6-82c3-4351ce86813f) appeared to be sticking to its guns on monetary policy on Friday as one of its top officials laid the ground for a second increase in short-term interest rates.

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Stanley Fischer, vice-chair of the Federal Reserve Board, said in a [speech](https://www.federalreserve.gov/newsevents/speech/fischer20161111a.htm) that the case for gradually removing some more monetary accommodation was “quite strong” although policy was by no means on a preset course.

Mr Fischer also said the Fed would welcome greater fiscal support for the economy amid signs that Mr Trump and the Republican-dominated Congress are preparing for tax cuts and larger budget deficits.

Speculation that the incoming Trump administration will be pushing for a reflationary fiscal stimulus has triggered tumult in global markets, provoking the worst week for global fixed income since the taper tantrum in 2013.

Mr Fischer said in a question-and-answer session that the Fed was monitoring events in financial markets, but Tim Duy, a close Fed watcher at the University of Oregon, said if rising bond yields were reflecting expectations that looser fiscal policy will deliver an improving growth outlook it should leave the Fed on track to lift rates by another quarter point in December.

“They don’t want to be behind the curve,” he said. “They have repeatedly said they want [more fiscal support] and one reason is to get interest rates higher so they could use traditional monetary tools again. They wanted that help from the fiscal side and it looks like they are going to get it.”

Mr Trump’s [plans](https://www.ft.com/content/b5b78c76-a769-11e6-8898-79a99e2a4de6) for unfunded personal and business tax cuts would, according to analysis from the Tax Policy Center, lead to a rise in the federal debt by $7.2tn over the first decade. In addition, Mr Trump’s transition team has pledged to invest $550bn in infrastructure.

Congress is unlikely to accede to such a vast deficit blowout but analysts have noted that there is a history of Republican-led administrations loosening fiscal strictures despite conservatives’ notional opposition to Keynesian stimulus efforts. The response to a big budgetary stimulus would be for the central bank to tighten on the monetary side as it ensures inflation stays under wraps.

In a note, Roberto Perli of Cornerstone Macro said: “The US economy has been plagued by low productivity, a low potential growth rate, and a low neutral interest rate ever since the crisis. Cuts in corporate taxes, government investment in infrastructure, and a reduction in the regulatory burden have at least the potential for changing all that and for bringing with them a more normal inflation rate.

“At the same time, the size of the fiscal expansion proposed by Trump during the campaign raises concerns about the size of the debt.”

Even before the Trump win opened up the prospects for a fiscal stimulus, the US economy was on a strengthening path and numerous Fed policymakers were agitating for higher rates amid a jobless rate that stands at just 4.9 per cent. Wage inflation now stands at its quickest pace since 2009, supporting arguments that the US is nearing full employment.

The Fed’s next meeting is on December 13-14. In its last statement the central bank said the case for higher rates had strengthened and that it was now just waiting for “some further evidence” of progress before pushing through a second rate increase following last December’s quarter-point move.

Speaking to a Central Bank of Chile conference via video link, Mr Fischer said: “In my view, the Fed appears reasonably close to achieving both the inflation and employment components of its mandate. Accordingly, the case for removing accommodation gradually is quite strong, keeping in mind that the future is uncertain and that monetary policy is not on a preset course.”

Mr Fischer added that no one could claim to be surprised if and when the Fed lifts rates. “Whoever is very surprised and loses a lot of money will have walked into that with their eyes open,” he said.

**Trump’s win might blow up the Federal Reserve’s plans for next year**

[Jim Tankersley](http://www.washingtonpost.com/people/jim-tankersley) – *The Washington Post* - November 11, 2016

Donald Trump's presidential victory has tossed new uncertainties into the carefully crafted plans of the Federal Reserve, complicating what was meant to be a slow-but-steady course to raise interest rates from historically low levels.

The Fed still appears likely to raise rates in December, economists say, but big questions over Trump's policy agenda have clouded the outlook for future increases next year. The central bank also appears likely to gain two new Trump appointees on its board of governors, who will likely favor more aggressive action to raise rates, and to face a renewed push in Congress for stricter lawmaker oversight of its activities.

Its chair, Janet L. Yellen, appears likely to serve out her term, which ends in early 2018. But she will do so after enduring heavy criticism — and occasional praise — from the new president while he was campaigning.

At one point in the race, Trump said he has "great respect" for Yellen. At another, he said he was not a person who thought Yellen was doing a bad job. But he mostly criticized her throughout the race, accusing Yellen and the Fed of keeping rates low to help President Obama in advertisements and public statements.

"I think she is very political," Trump said in September, "and to a certain extent, I think she should be ashamed of herself."

It would be unusual for Trump to continue that line of criticism once he is in the White House, because presidential administrations usually decline to discuss monetary policy, but it seems unlikely that he would appoint Yellen to another term.

Yellen has defended herself and the Fed against the criticism. "I can say emphatically," she said during a September news conference, "that partisan politics plays no role in our decisions about the appropriate stance of monetary policy."

Analysts say Trump's statements are less likely to affect her decisions than the choices he makes on policy — and how those choices might affect economic growth and inflation.

"If she thinks the economy needs more rate hikes, she’ll do them," said Ryan Sweet, the director of real-time economics at Moody’s Analytics. "He really doesn’t change her plan. The economy will change her plan, if needed."

The plan the Fed has inched toward all year is a measured normalization of interest rates, which have now sat near zero for the longest stretch in American history. Fed officials have already taken a first, small step to raise rates. They are expected to raise again in December. Forecasts by board members and regional bank presidents indicate that officials expect rates to rise by about a half-percentage point in 2017 and nearly a full point in 2018.

Trump's plans could accelerate those hikes — or sweep them off the table.

The effects are particularly hard to predict because it is unclear how aggressively Trump will move on several fronts of economic policy, including taxes and trade, and what he will ultimately win congressional support for.

Trump might, for example, push Congress to approve massive tax cuts and infrastructure spending increases, which could, at a moment when unemployment is low, both accelerate economic growth and inflation. He might erect high tariffs on imports from China, Mexico and other countries, a move his team predicts would increase growth but which other economists have forecast would push America into recession.

"Trump’s exact policies are unknown," researchers at the investment bank ING wrote in a report this week. "Fiscal stimulus and tax cuts could generate inflationary pressure," forcing the Fed to raise rates more quickly. "However, a protectionist approach could damage growth and call for further easing" -- meaning, rate cuts and other monetary stimulus to prop up growth.

Financial markets are focusing on the upside so far, with U.S. stocks rallying after Trump's win and bond yields suggesting an expectation of higher growth to come. Analysts say that appears to reflect a belief that Trump and Republican leaders are more likely to find common ground on tax cuts and deregulation — which forecasters believe would boost growth — than on potentially growth-dampening trade restrictions.

"It’s fair and safe to say that the market is thinking of this in net positive terms," said Tom Porcelli, chief U.S. economist for RBC Capital Markets. "People are reassessing their view on what growth and inflation are going to look like in a new Trump administration. If the tea leaves are right, it looks like we’re headed for a little higher growth and a little higher inflation."

Perhaps the biggest unknown, for the Fed and for markets, is what sort of congressional moves the Trump administration might champion to increase oversight of the central bank. Republicans have floated several proposals, some of which would add only modest new accountability measures, and others that would curb the Fed's independence or change its policy mandate.

Analysts at JPMorgan Chase wrote this week that they see those more aggressive proposals as "less likely" for Trump to sign into law than less aggressive ones. "Nonetheless," the analysts wrote, "these are risks that bear monitoring."