

TRENDMACRO LIVE!

On the November FOMC

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Growth improves despite hurricanes and policy normalization. So where's the inflation?

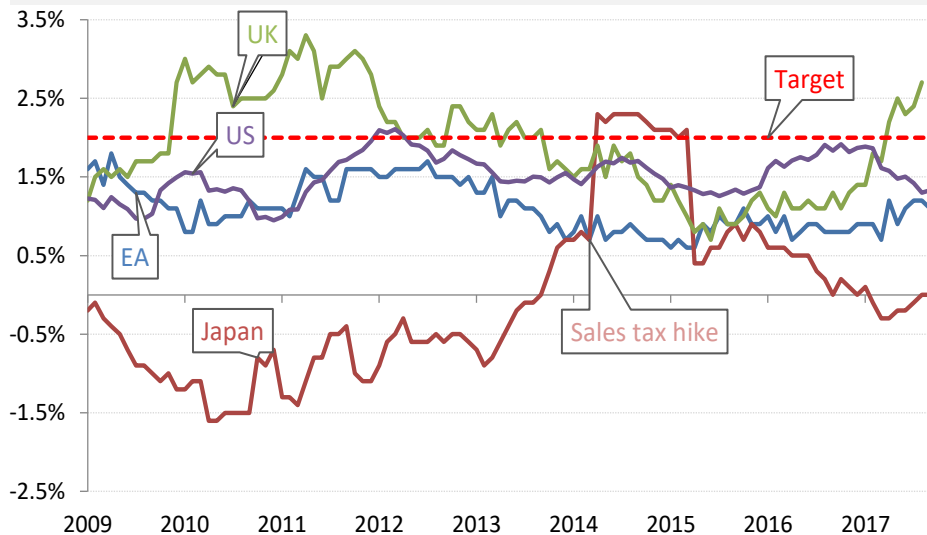
What is likely the [“excellent”](#) Janet Yellen’s penultimate FOMC meeting has come and gone with no surprises. There’s not a lot for us to say about it. There are only two language changes in [today’s FOMC statement](#) worth noting.

- Economic activity has been upgraded from “rising moderately” to “rising at a solid rate” – and this “despite hurricane-related disruptions.”
- The normalization of the Fed’s asset portfolio is given just two words: it “is proceeding.”

But it seems one thing never changes. Once again, the FOMC has had to admit that both headline and core inflation “have declined this year and are running below 2 percent.” In fact, core PCE inflation has fallen to about six-year lows. *Greenspan had his “conundrum,” and this is Yellen’s: why has inflation stayed so low despite all the heavy lifting by central banks around the world* (please see the chart below)?

- A potentially corollary conundrum would be why, after four Fed rate

Core consumer inflation YOY



Source: Bloomberg, TrendMacro calculations

Update to strategic view

US FED, US MACRO:

The FOMC upgraded its growth outlook despite the hurricanes, and subtly noted that the onset of balance sheet normalization has been a non-event. Despite that good news, headline and core inflation remain below target, and indeed have fallen – with core PCE back to six-year lows. This is Yellen’s “conundrum.” For her successor, the challenge will be to set policy when growth seems to call for higher rates, and inflation seems to call for lower. We’re not convinced that Powell will be up to it.

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hikes over two years, and now the onset of balance sheet normalization, has this already long-lived economic expansion lived on and gotten stronger? *Does nothing that central banks do actually matter to the real economy any more?*

- [Unless President Trump really has a surprise for us](#) – Yellen can consider this in retirement.
- Her successor will have his or her own conundrum. What is the correct policy response when, on the one hand, evidently accelerating growth would seem to call for higher policy rates, but too-low inflation, on the other hand, would seem to call for letting the good times roll?
- We might find we miss Yellen. Her silly notions of "[optimal control](#)" and "[Yale economics in Washington](#)" wouldn't be much help going forward (nor were they in retrospect). But at least she has shown the intellectual range and vigor to drive to ask the right questions (see "[Yellen Gives Conservatives Something to Cheer](#)" February 17, 2017).
- If, as seems likely, Jerome Powell is Trump's nominee to succeed Yellen, we would have a chair who seems to lack that range and vigor (see "[Warsh the Reformer, Powell the Plodder](#)" October 3, 2017). That will probably be more a missed opportunity than a risk. We will have a lot more to say about it tomorrow, when Trump makes his long-awaited announcement.

Bottom line

The FOMC upgraded its growth outlook despite the hurricanes, and subtly noted that the onset of balance sheet normalization has been a non-event. Despite that good news, headline and core inflation remain below target, and indeed have fallen – with core PCE back to six-year lows. This is Yellen's "conundrum." For her successor, the challenge will be to set policy when growth seems to call for higher rates, and inflation seems to call for lower. We're not convinced that Powell will be up to it. ▶

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