
FOMC MINUTES REAFFIRM EXPECTATIONS FOR DECEMBER HIKE

The minutes to the November FOMC meeting reaffirmed expectations of an increase in the target federal funds rate in December. Most participants believed an increase was **appropriate “relatively soon” and some participants believed that a hike was important** to maintain credibility. Several dovish FOMC members argued to let the labor market **overheat for some time in order to push inflation towards the Committee’s 2% goal.**

Before the US presidential elections, the expectation was for the FOMC to lower its projected appropriate path of interest rates at its December meeting. However, a Trump presidency combined with the Republican-controlled House and Senate greatly increases prospects for tax reform and a large infrastructure spending package. Various Fed speakers have already stated that fiscal stimulus could lead to a higher real interest rate. Therefore, the monetary policy normalization process may be faster and end at a higher terminal rate than prior expectations. The Summary of Economic Projections from the December meeting could provide some key insight into what impact Fed participants expect fiscal policy to have on the economy and inflation and the appropriate level of interest rates needed.

The dynamics of the FOMC will change dramatically in coming years. President Trump will nominate two new Governors to the Federal Reserve to fill the current vacant spots. Several other exiting governors may retire. Fed Chair Yellen has stated that she intends to serve out the remainder of her term, which expires in February 2018. President-elect Trump is then expected to nominate someone else to serve as Chair. There is also banking and monetary policy reform legislation pending in Congress that may now gain momentum. All of these factors are expected to be important in shaping expectations the future direction of monetary policy.

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