

“The Fed is doing an excellent job”

According to Jason Furman writing an op-ed for the WSJ:

My [@wsjopinion](#) argues the Fed should pause in December—**continuing the excellent job they have done**. I do think being ahead of the curve on inflation is AN important consideration. If inflation rises too much it could be costly to reverse.

Jay Powell thinks so too:

...I am pleased to say that our economy is now close to both of those objectives. The unemployment rate is 3.7 percent, a 49-year low, and many other measures of labor market strength are at or near historic bests. Inflation is near our 2 percent target. The economy is growing at an annual rate of about 3 percent, well above most estimates of its longer-run trend.

Powell hints that the hiking pace could slow:

We also know that the economic effects of our gradual rate increases are uncertain, and may take a year or more to be fully realized.

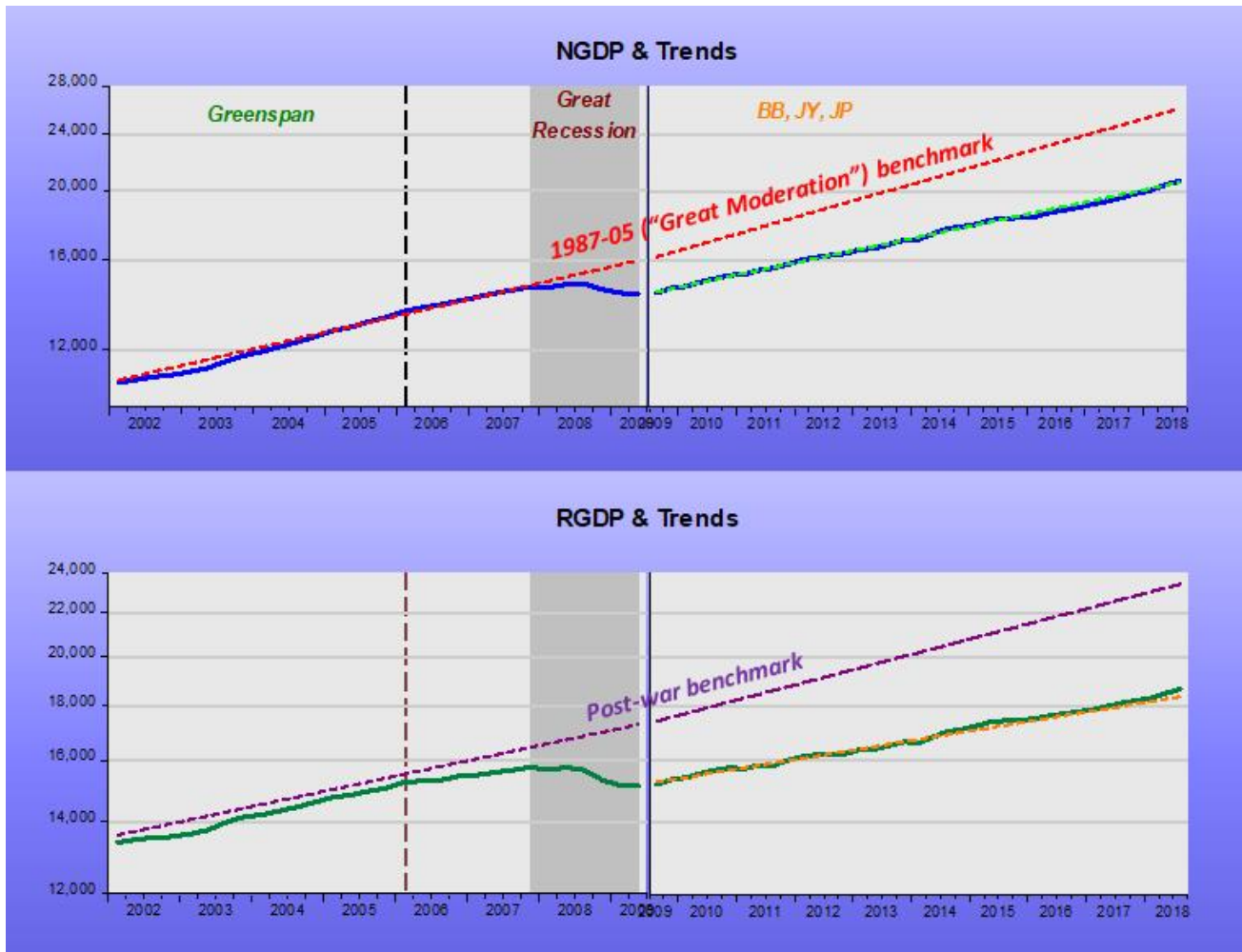
While FOMC participants’ projections are based on our best assessments of the outlook, there is no preset policy path. We will be paying very close attention to what incoming economic and financial data are telling us. **As always, our decisions on monetary policy will be designed to keep the economy on track in light of the changing outlook for jobs and inflation.**

The Fed is really doing an excellent job. For the past nine years, the economy has enjoyed another “Great Moderation”, brought about by the Fed sustaining nominal stability, which, like its predecessor has kept real output growth and inflation volatility low.

Unfortunately, the Fed has chosen the “wrong track” to sustain

nominal stability. In fact, you could say that we have endured a “nominally stable long depression”.

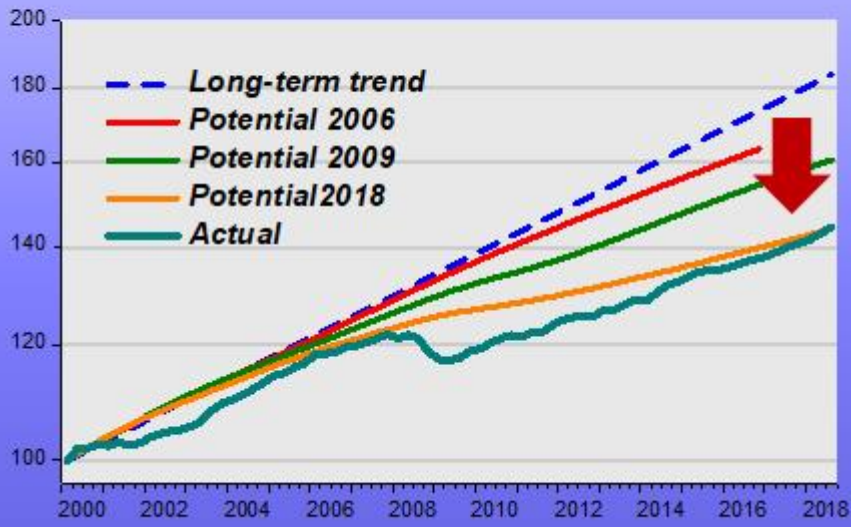
As the charts illustrate, following the massive monetary error of 2008, the path of both the nominal and real economy changed forever. In other words, a recovery never happened!



From looking at the charts, it is hard to accept that the Fed may be worried about “overheating”. If everyone’s “satisfied” with the “track” the economy is on, it shouldn’t be too hard for the Fed to keep the economy going along it.

The “overheating” worry may be the result of the fact that the latest revision to “potential output”, places the economy at “potential”. Therefore, to keep the economy there, growth has to slow down somewhat. If that sounds dumb, it’s because it is!

RGDP & Measures of Potential RGDP (2000 - 2018)



Given the Fed's track record...
