

## Fed's Powell: In labour economics and Keynes we trust!

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### KEY MESSAGES

- The real news yesterday was not at the laborious Fed press briefing, but in the presidential tweet about Syria and the New York Times story about Facebook.
- The Big Question (amongst others) for the FANGS, is whether shock revelations suggesting at worst data abuse on a large scale, could further turn the court of public opinion in a more hostile direction against all those involved in the supposed deals (including Amazon, Google amongst others). In particular, could the Trump Administration, in the context of recession, strike a populist chord by going for these “cronies of the Democratic Party”? .

### The real news: Fang shock and US abandonment of Kurds

An ex-BoJ governor recounts on how during the first few weeks of his term he re-read several works by Milton Friedman (the other side of the moon from the present era of Abe-economics!). Well there was every indication from Fed Chief Powell's lengthy and in fact tedious press briefing yesterday that he had opened the pages of the Chicago economist during his first months office; and of course it goes without question that von Mises and his essay on the futility of economic forecasting is not on the Chief's bookshelves. Instead what we have here is a firm believer not just in Trump-economics (big corporate tax cuts and de-regulation are bringing about economic renaissance) and in the neo-Keynesian economic assessments of his staff (yes; he has expressed some doubts about those stars, but believes that “data dependency” can overcome the potential difficulties here.

For the neo-Keynesian economists devoutly committed to the 2 per cent standard from which Chief Powell gets his advice the core focus is the labor market; with unemployment at the lowest level since the 1960s how could there be serious doubt about the present strength of the US economy. Some contrarian economists may warn about the credit cycle or the unpredictable path of asset deflation, but that is all just chatter; wait for the data and for now this is flashing mostly green. There are little bits of caution here and there, so yes, remove one of those dot plots for next year. What was that? Did Milton Friedman tell us that fine-tuning the economy and data dependency is an exercise in futility? But monetarism died in discredit decades ago; we are in the brave new age of which Professor Stanley Fischer and his brand of neo-Keynesian economics has been the candle!

Ultimately there are no surprises here other than apparently for the day-traders who seem to have been positioned for Chief Powell to cancel the planned rate rise yesterday. As explained in yesterday's Economic Viewpoint, a 25bp more or less on Fed Funds is almost a total irrelevance at this stage of the monetary inflation cycle. The fanning of genuine fear yesterday lay elsewhere. First, there is the tweeted plan of President Trump to pull US troops out of Northern Syria, abandoning Kurdish forces there to an onslaught from the Turkish army (who take no prisoners) and the vengeance of the Iranians, who together with the Russians can consummate their hold in that region. The Day of Reckoning for Trump foreign policy may come even sooner than for Trump monetary policy (yes, this Fed was virtually in total appointed by this President).

And the FANGS; the New York story on Facebook could bring devastation.

# Economic Viewpoint

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