Yellen Isn't Buying Trump's Tax Cut Talk of an Economic Miracle

By **Rich Miller**
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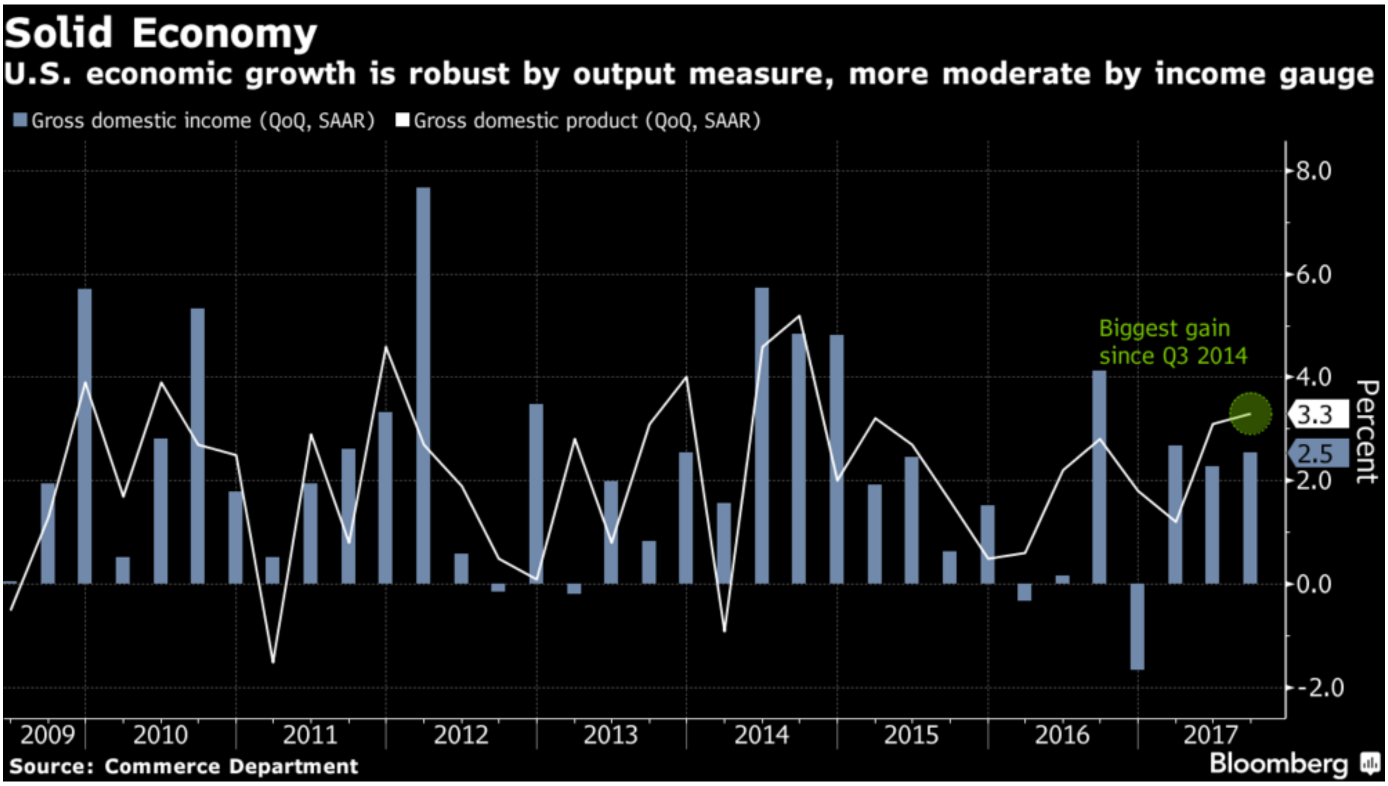
- Outgoing Fed chief doesn't see "gigantic" rise in economy
- Fed lifts 2018 growth call but holds long-term estimate steady

The Federal Reserve isn't buying President Donald Trump's argument that his tax cut package will lead to a significantly stronger, sustainable expansion of the economy.

While the central bank would welcome such a development, outgoing Fed Chair Janet Yellen suggested on Wednesday that policy makers generally see the plan as having a modest and mostly short-term impact.

"It's not a gigantic increase in growth," she told a press conference after the Fed raised its target for short-term interest rates for the third time this year.



Policy makers boosted their economic forecast in 2018 to 2.5 percent from 2.1 percent in September as they increasingly factored the effects on the tax package into their outlooks.

Yet they left their estimate of the long-run growth rate of the economy unchanged at 1.8 percent, according to the median projection of policy makers released on Wednesday.

That's in line with its pace in recent years but well below the roughly 3 percent level the Trump administration has penciled into its budget for the government.

Even as Yellen was sounding cautious about the tax cut's impact, Trump was across town at the White House trumpeting its benefits to the point of seemingly suggesting that growth could hit 4 percent or even more.

"We stand on the verge of a new economic miracle," he said.

Asked about the president's remarks, Yellen twice said that it would be a "challenge" to achieve such a rate.

No Game Changer

"The Fed doesn't see the tax package as a game changer in terms of growth -- just some modest upside, concentrated mostly in 2018," Roberto Perli, a former central bank official who is now a partner at Cornerstone Macro LLC in Washington.

Policy makers do see the faster growth leading to lower unemployment, with joblessness projected to fall to 3.9 percent by the end of next year, from 4.1 percent now.

While the labor market is expected to stay strong, the pace of payroll gains is likely to moderate over time as the central banks gradually raises interest rates, Yellen said.

Officials penciled in three interest rate hikes for next year -- the same amount that they foresaw in September -- and further gradual increases thereafter.

Yellen, who is due to step down as chair on Feb. 3, is leaving her designated successor -- Fed Governor Jerome Powell -- with an economy she said is "performing well," and a job market "in the vicinity of full employment."

"I feel very pleased when I hear anecdotes from firms that tell me they're having a hard time finding workers" and are hiring people with lesser skills and providing them with training, she said.

'I Feel Good'

"I feel good about the economic outlook," Yellen declared. "The risks are balanced, and there's less to lose sleep about now than has been true for quite some time."

She played down fears that surging prices for stocks and the cryptocurrency bitcoin posed a danger to the financial system and the economy.

"When we look at other indicators of financial stability risks, there's nothing flashing red there or possibly even orange," she said, noting that "bitcoin at this time plays a very small role in the payment system."

Yellen though did express some unease about the Fed's continued failure to lift inflation to its 2 percent goal, even while arguing that that the surprising softness of price pressures this year was mainly due to transitory factors.

"Our understanding of the forces driving inflation is imperfect," she said.

And she stressed the importance of the Fed hitting its objective.

"'We are prepared to adjust monetary policy as needed to achieve our inflation and employment objectives over the medium-term," she said.