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July 31, 2024

## Fed announcement: Words spoke louder than actions

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Actions speak louder than words, but with no actions on the fed funds rate being unveiled today, the Fed had to use some dovish words to prevent market interest rates from climbing, since we came into today with a rate cut fully priced-in for September and more to come before year end. The FOMC statement offered a small dose of red meat for market doves. The notable wording changes from June were references to a moderation in job growth and a rise in the jobless rate (while saying it's still "low") and talking about "some" progress on inflation, an improvement from the "modest' progress cited in June, with inflation now only "somewhat" elevated.

The risks to its employment and inflation targets are seen as "continuing" to move into better balance, and in the most important change, the committee now mentions that its watching risks to both sides of its dual mandate, rather than just being attentive to inflation risks. This isn't a full declaration of victory over inflation, but it would have been difficult to do that without announcing a rate cut today.

The subsequent press conference saw Powell on the defensive, being challenged on why the Fed hasn't already started to cut rates. He didn't really have a great answer on why, if the labour market is no longer overheated and there are lags in the impact of a cut, the Fed isn't trying to pre-empt a move to a labour market with too much slack by cutting now.

The hesitation seems to be tied to keeping an eye on a full 12-month inflation rate which is still somewhat above target, rather than shorter measures that are already essentially on target, or on measures that exclude items like rent that might be based on data that lags actual conditions. Powell also drew comfort from the still reasonably-healthy pace of economic growth in the first half, and argued that the odds of a hard landing were still low.

That said, the tone from Powell did seem to confirm that the Fed's base case would likely include a September cut, in the sense that the type of data that Powell outlined as being consistent with a cut at that meeting appeared to be in line with what the central bankers might expect. The result was that two year rates, which had initially risen on the FOMC statement, headed lower again as Powell sounded more in line with market expectations for cuts ahead.

Judging by Powell's remarks, the data would have to be disappointing on inflation in order to stand in the way of that move, and Powell himself offered reasons why that's a less likely scenario, citing non-inflationary labour market conditions, improvement in employment costs, and a broader disinflationary trend in recent months than what we saw in late 2023. While the committee was unanimous in voting to stay on hold today, Powell also noted that there was in fact a discussion about cutting at this meeting, and also a consensus about a cut being on the table for September.

Putting both the press conference and Fed statement together, we'd argue that we have enough of a dovish tone to stick with our forecast for two cuts this year, one in September and a follow-up in December. Indeed, if inflation stays muted as we expect, we'll need growth to stay healthy enough for the Fed to actually squeeze in a pause rather than cut three times.  As for the election, Powell reiterated that it will have no impact on the policy path in the next few months.

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