Economics

ECONOMIC FLASH!

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In a good place

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No surprises today with the Fed funds rate reduced by a quarter-point, and there were also modest changes to the statement that Powell dismissed as not having much policy substance behind them. The main takeaway from the press conference was the Chair keeping the door wide open to further gradual easing by emphasizing the "recalibration of policy", which is their latest slang for a base case of view of a steady easing cycle to a neutral rate they are still trying to figure out.

That makes a lot of sense to us, reinforcing our conviction that the Fed will move again with another quarter-point rate cut in December. Powell was singing the praises of the economy, referencing the underlying strength in GDP made clear from the NIPA revisions, inflation momentum being in a good place, and the labor market being solid but no threat to inflation. While he stopped short of declaring victory on inflation, he sounded very confident about reaching target on a sustainable basis, describing some of the main upward forces on prices, such as shelter and car insurance, as "catch-up" elements that reflected past pressures showing up in measured inflation today. That is a view we have held for a while. He also described consumer spending as resilient in his opening remarks and made no mention of it afterward, implying little risk for inflation and supporting the view that potential output growth could be materially higher.

One interesting comment he made about the prospect of a pause in December was that they were prepared to "adjust" the pace of their recalibration in light of changing data, to either side. The association of a pause with an "adjustment" in policy setting made it very clear that the base case view is that the data will support further easing in December. But one shouldn't also expect a lot of spoon-feeding either, with the Chair pushing against giving a lot of forward guidance given noisy data flow and likely growing risks ahead.

One of those key risks -- the economic implications of the incoming administration -- obviously featured prominently in the discussion. Much of what Powell said was expected, being clear that the Fed would not guess or speculate about policies and that it will take a lot of time for potential fiscal and trade policies to filter into the Fed's decision-making process. He also poured some cold water on speculation that the rise in long-rates was a risk to current policy being too tight, laying down markers that material and persistent moves in markets matter and this has yet to meet that mark. So he took a very even handed position on the economic implications and even went into boss-mode a few times when asked about whether he would leave his job if asked ("No").

Implications & actions

Re: Economic forecast — We continue to expect the Fed will ease by a quarter-point in December and gradually in 2025, reaching neutral territory by the middle of next year. See our latest rate forecast which takes into account the results of the US election.