

Economics

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Fed announcement: Good things come to those who wait

Ali Jaffery ali.jaffery@cibc.com

There were a lot of different strands in today's press conference and a little less focus on the economy than normal. But Powell's message about the course of monetary policy was very clear -- the Fed is on hold and has no reason to move unless inflation progress materially picks up or the labor market cools in a hurry. And those don't seem like major risks judging by Powell's tone, or their noisy pace over recent history.

But the regular reference to "adjust" instead of lower policy rates perhaps is an indication that Powell and his team could be thinking that monetary policy might actually not be far from where they want it, and the neutral rate estimates that they wrote down aren't what they truly believe. Or at least, some doubt could be seeping in given the economy is still growing close to 3%, the job market looking solid and underlying inflation not very far above target (and essentially at target excluding shelter). The revisions to the long-run dot could be a constant theme throughout 2025 and we expect there is still more room to run higher for that measure.

But on the main theme of 2025 -- what President Trump could do to the economy -- Powell did not seem overly worried. Tariffs, fiscal policy, immigration and regulatory changes -- the four buckets he mentioned -- can have important implications for the US economy but the Chair seemed fairly confident in the strength and stability of the economy weather potential shocks, reminding journalists that where the economy sits today is very different than where it as in recent history.

On tariffs, its likely the Fed has reached a similar conclusion as the CBO, the Yale Budget Lab and other institutions in assessing that the US might face only a modest hit on growth but the inflationary implications could be material upfront. He alluded to companies likely wanting to pass-on higher costs, and judging by the risk bias in the December 2024 projections, it's clear the Fed sees even more benefits of waiting to see what transpires from the administration.

As they say, "good things come to those who wait" and all of this seems like a reasonable strategy. The only bone we have to pick with the chair is on inflation. We are a little less convinced that inflation is truly sticky in the US and are less worried about inflation expectations becoming unanchored in a tariff event. But we'll wait and see too.

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