# US Daily: Jackson Hole Preview: A Case for Cutting but No Definitive Signal (Mericle)

- The Fed's Jackson Hole Economic Policy Symposium will take place Thursday through Saturday. The theme this year is "Labor Markets in Transition: Demographics, Productivity, and Macroeconomic Policy." The key event for markets is Chair Powell's speech on the "Economic Outlook and Framework Review" at 10am New York time on Friday, August 22.
- We expect Powell to modify his statement from the July FOMC press conference that the FOMC is "well positioned" to wait for more information. Instead, he might note that the FOMC is well positioned to address risks to both sides of its mandate but emphasize that downside risks to the labor market have grown following the July employment report, while reiterating that tariffs are likely to have only a one-time effect on the price level. We do not expect him to decisively signal a September cut, but the speech should make it clear to markets that he is likely to support one.
- On the framework review, we expect the FOMC to partially reverse some of the changes it made in 2020, as it has foreshadowed in the minutes to its recent meetings. Specifically, we expect the FOMC to return to saying that it will respond to "deviations" from maximum employment in both directions rather than just to "shortfalls" or to at least water down the shortfalls language and to return to flexible inflation targeting (rather than flexible average inflation targeting) as its main strategy while retaining the option to use a make-up strategy at the zero lower bound.

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# Jackson Hole Preview: A Case for Cutting but No Definitive Signal

**Q: What is the agenda for the Fed's Jackson Hole conference?**

A: The theme of this year's conference is "Labor Markets in Transition: Demographics, Productivity, and Macroeconomic Policy." The key event for markets is Chair Powell's speech on the economic outlook at 10am New York time on Friday, August 22. The rest of the conference on Friday and Saturday consists of presentations of research papers, panel discussions, and policymaker speeches. The Fed will release the conference agenda on Thursday at 8pm and will release the research papers before each event begins.

**Q: What is your current Fed forecast?**

A: We expect an initial string of three consecutive 25bp cuts in September, November, and December, followed by two more next year to a terminal rate of 3-3.25%. As we noted last weekend, we think that the weak July employment report and in particular the soft pace of trend job growth has likely already convinced the Fed leadership to resume rate cuts. Even if job growth bounces back in August, the downward revisions in July were likely unsettling enough to make delaying any further seem unwise.

**Q: What do you expect Chair Powell to say about the economy and a possible September cut?**

A: We expect Powell to modify his earlier statement from the July FOMC press conference that the FOMC is "well positioned to learn more about the likely course of the economy and the evolving balance of risks before adjusting our policy stance." Instead, he might note that the FOMC is well positioned to address risks to both sides of its mandate while making it clear that he is more concerned about risks to the labor market. He will likely emphasize that downside risks to the labor market have grown following the July employment report, which showed large negative revisions to job growth that imply a weak trend pace and narrow breadth of job creation. He will also likely reiterate that a reasonable base case is that tariffs are likely to have only a one-time effect on the price level.

We do not expect Powell to decisively signal a September cut, but the speech should make it clear to markets that he is likely to support one. We suspect that most FOMC participants who have expressed mixed feelings about cutting in September will be willing to support a cut if Powell pushes for one, but that he will think it more reasonable to make that case to them closer to the meeting with more data in hand.

Possible dovish surprises could include an even more concerned tone on the labor market or a stronger message that it will likely be appropriate to lower the funds rate soon. Possible hawkish surprises could include a more balanced tone on risks to the two sides of the mandate or a focus on the easy level of broad financial conditions, which might be taken to imply that cutting the funds rate is less urgent.

**Q: Does Jackson Hole matter? Has Powell provided market-moving policy guidance in the past?**

A: Powell has often given policy guidance and moved the bond market in his speeches at Jackson Hole, as Exhibit 1 shows. He argued for continuing quarterly cuts in 2018; hinted at the need to deliver cuts that the market had already priced to keep financial conditions easy and support the economy in 2019; announced the largely expected outcome of the first framework review in 2020; reinforced expectations of an upcoming taper in 2021; reiterated that it would be appropriate to slow the pace of tightening "at some point" and said another 75bp hike "could be appropriate" but would depend on the data in 2022; said the FOMC would "proceed carefully" in 2023, which wound up signaling that it would not hike at the next meeting; and signaled that a cut that had already been foreshadowed in the July minutes was coming and said that the balance of risks had changed and the "timing and pace" of cuts would depend on the data in 2024, which led the bond market to price a greater probability of a 50bp cut.

**Exhibit 1: Chair Powell Has Often Given Policy Guidance and Moved Markets in His Speeches at Jackson Hole, Though in Some Cases the FOMC Had Already Begun Adjusting Policy or Signaled Its Next Action**

| Date | Impact on 2y Yield* | Key Messages from Chair Powell's Speech at Jackson Hole |
|---|---|---|
| 8/24/2018 | -1bp | Argued for gradual—interpreted to mean quarterly—rate hikes as a reasonable compromise. Quarterly hikes had been ongoing for a while and continued afterwards. |
| 8/23/2019 | -4bp | Argued for additional rate cuts (one had already occurred) in response to downside risks and hinted at the need to deliver cuts that the market had already priced to keep financial conditions easy and support the economy. China announced retaliatory tariffs on US exports the same morning as Powell's speech. We nudged up our odds of further cuts after the speech. |
| 8/27/2020 | +0.4bp | Announced the adoption of flexible average inflation targeting to conclude the monetary policy framework review, in line with expectations. We pulled forward our forecast of when changes to the forward guidance and asset purchase program would be announced by one meeting. |
| 8/27/2021 | -2bp | Acknowledged both strong job gains and the downside risks from the Delta variant. Reinforced expectations of an upcoming announcement of the tapering of asset purchases. |
| 8/26/2022 | +4bp | Reiterated that it would be appropriate to slow the pace of tightening "at some point" but said that policy would likely have to remain restrictive "for some time" to bring inflation down and that another 75bp hike "could be appropriate" and would depend on the data. |
| 8/25/2023 | +4bp | Said the FOMC would "proceed carefully" when deciding whether to hike at future meetings, which it did not. Gave a somewhat more hawkish assessment of risks to the outlook and noted that the FOMC was "attentive to signs that the economy may not be cooling as expected." |
| 8/23/2024 | -7bp | Signaled a cut in September ("the time has come for policy to adjust") that had already been foreshadowed in the July minutes. Said "the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks." Emphasized downside risks in the labor market and said further weakening would be "unwelcome." A 50bp cut followed in September. |

* We show the change in 2-year Treasury yields from 30 minutes before to 1 hour after the release of Powell's remarks.

**Q: What do you expect Chair Powell to say about the FOMC's framework review?**

We discussed our expectations for the framework review in an earlier report. The FOMC has already foreshadowed in the minutes to its recent meetings that it is likely to partially reverse some of the changes it made in its first framework review in 2020. But it will likely do so in moderation because Powell and other Fed officials have rejected the argument that those changes contributed meaningfully to the pandemic inflation surge and have noted that the FOMC might find itself constrained by the zero lower bound and in need of tools for supporting the economy again someday.

Specifically, we expect the FOMC to return to saying that it will respond to "deviations" from maximum employment in both directions rather than just to "shortfalls," or to at least water down the shortfalls language, which was meant to indicate that the FOMC would not tighten monetary policy solely in response to a low unemployment rate if it is not creating excessive inflationary pressure.

We also expect the FOMC to return to flexible inflation targeting as its main strategy rather than "flexible average inflation targeting," under which it would have allowed inflation to modestly overshoot 2% after prolonged periods of low inflation in order to average 2% over time and keep inflation expectations anchored. However, the FOMC is likely to retain the option to use a make-up strategy when the economy is weak and funds rate is at the zero lower bound. The FOMC could also pledge to respond forcefully to deviations of inflation in both directions, as the ECB did in its recent strategy update.

Neither change is likely to have an immediate impact on monetary policy. Powell is unlikely to discuss the review of the Fed's communications practices, which will conclude later this year.

**Q: What are your views on the conference theme, "Labor Markets in Transition: Demographics, Productivity, and Macroeconomic Policy"?**

The conference theme is broad, and we are not sure what angles the economists presenting papers will explore. Our recent research on the labor market has focused on the impact of the rise and fall of immigration over the last several years. On the theme of productivity, presenters might note that labor productivity growth has averaged a healthier 1.8% annualized pace since 2019Q4, above the 1.5% pace it averaged in the prior cycle from 2007Q4-2019Q4 and closer to the historical average of around 2%.

**David Mericle**

# Disclosure Appendix

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