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**Jerome Powell Speaks at the Economic Club of New York**

Federal Reserve Chairman Jerome Powell provided an update on the current economic data and reaffirmed the path of monetary policy at the Economic Club of New York Luncheon on Thursday, October 19, 2023. Keeping in mind that the two main goals of the Federal Reserve are stable prices and maximum employment, Powell declared that incoming data over the recent months show ongoing progress toward both of these goals. With inflation, 12-month headline PCE (personal consumption expenditure) inflation has dropped from a peak of 7.1 percent in June 2022 to an estimated 3.5 percent in September. Short-term measures of inflation such as the three-month annualized inflation rate are now below 3 percent for the first time in over 2 years. However, even though the September inflation data continued the downward trend from last summer, the most recent data is less encouraging than the previous months as inflation is still running well above the 2 percent mandate.

On the labor market, Powell noted that the declining inflation has not yet come at the cost of meaningfully higher unemployment, which is historically rare. For example, the last period of major disinflation in the early 1980s saw the unemployment rate rise from 6 percent all the way up to 11%. Although the labor market appears to be resilient at the moment, increased labor force participation, normalization of immigration trends from depressed Covid levels and decreased job openings all signal toward a cooling labor market. Total job quits are also back to pre-pandemic levels while people who change jobs are no longer seeing a wage premium at their new jobs which are both signs of a slowing labor market.

To many economists’ surprise, declining inflation has not come at the cost of substantially weaker economic activity as GDP continues to grow close to the 2% mark. Powell highlighted the strong retail sales data released earlier in the week and expectations of strong GDP growth in Q3. Atlanta Federal Reserve’s GDPNow suggests real GDP growth in Q3 could come in at over 5% y/y. Even though Powell said Q4 growth will slow down, current forecasts have estimates above the long-term trend nonetheless. That being said, in order to return to the mandated 2 percent inflation target, a period of below-trend growth and some further softening of the labor market is likely required.

Over the past 18 months, the Federal Reserve has increased the federal funds rate by 5.25 percent and decreased their securities holdings by roughly $1 trillion in response to the inflationary pressures. While there has been some progress in cooking inflation, Powell has reaffirmed that quantitative tightening will continue to bring inflation back down to 2 percent. Acknowledging the strong growth estimates this quarter and potential tightening in the labor market, there still remains the possibility of significant tightening in the future. However, Powell stated that financial conditions have significantly tightened in the past few months mostly due to the rise in longer-term bond yields. Because of this, it is unlikely that the Federal Funds rate will be raised at the next FOMC meeting. CME FedWatch Tool prices have a 99.5 percent chance of no change in the Federal Funds rate next meeting on November 1st and a 25 percent chance of a 25bps hike on the December 13th meeting.