



Powell Suggests Rate Cuts Are Coming, But Rejects Political Pressures; Discusses New Post-Pandemic Monetary Policy Framework

Headlines

- **Fed Chair Powell's Jackson Hole speech suggested a fed funds rate cut in mid-September. Powell noted that current monetary policy is restrictive, pointing to additional near-term easing.**
- **Powell cited the weak July jobs report, and also said that any inflationary impact of tariffs is likely to be "relatively short lived."**
- **Powell pushed back against political pressure on the Fed to cut rates.**
- **President Trump called on Fed Governor Cook to resign.**
- **Market reaction to the speech was positive.**
- **Powell also discussed the central bank's updated long-term framework for monetary policy.**

Details

In his annual Jackson Hole monetary speech, Fed Chair Powell suggested that the Federal Open Market Committee is ready to cut the fed funds rate soon, likely at the committee's next meeting on September 17. Powell noted that with respect to the Federal Reserve's dual mandate of maximum employment and price stability, which the central bank defines as inflation of 2%, risks to the labor market are to the downside (weaker job growth), while risks to inflation are to the upside given tariffs. He also noted that monetary policy remains restrictive, weighing on economic growth.

Powell discussed the weak July jobs report, most notably job growth of just 35,000 per month on average since May, although he also noted that changes to immigration policy make it difficult to determine what is the "breakeven" level of job growth, where the economy is creating enough jobs to keep the unemployment rate steady. Taken together, Powell's speech suggests that he would favor a September 17 rate cut, which would move the fed funds rate closer to the neutral rate, where it is neither constraining nor supporting economic growth.



Powell also discussed the inflation outlook, noting that inflation has been above the Fed's 2% objective for years; that inflation has picked up in recent months, saying that "effects of tariffs on consumer prices are now clearly visible;" and that inflation is likely to move further above 2% in the near term as tariff effects "accumulate over coming months." But he also said that "a reasonable base case is that the [tariff] effects will be relatively short lived—a one-time shift in the price level." Powell also said that given the slowing labor market it is unlikely that tariff-driven inflation will lead to stronger wage growth. All of this suggests that the FOMC is likely to look through higher tariff-driven inflation in the short run. But Powell also noted that the FOMC would respond forcefully if tariffs appear to be driving up inflation over the longer run, saying "come what may, we will not allow a one-time increase in the price level to become an ongoing inflation problem."

Taken together, Powell's speech suggests a 25 basis point cut in the fed funds rate at the FOMC's next meeting, on September 17, with additional easing over the next few months. Even with one or two rate cuts monetary policy would still be restrictive, weighing on growth, and lower rates would support a bit stronger labor market in response to the recent weaker jobs numbers. Powell's speech signaling multiple rate cuts are coming may also be designed to quiet the voices calling for an even larger rate cut in mid-September.

A rate cut on September 17 would be consistent with PNC's baseline forecast for a 25 basis point cut in the fed funds rate in September, with additional similarly-sized cuts at each of the subsequent three FOMC meetings, through late January 2026. This would take the fed funds rate to a range of 3.25% to 3.50% by mid-winter.

Market reaction to Powell's speech was positive, with the S&P 500 up about 1.6% by midday. The yield on the 10-year Treasury note is down by 7 basis points to 4.26%, with the yield on the 3-month Treasury bill down 4 basis points to 4.19%. The dollar is down almost 1% against a basket of currencies on expectations for lower U.S. yields. The fed funds futures market is now pricing in an 89% probability of a 25 basis point rate cut on September 17, up from 75% yesterday.

Powell pushed back forcefully against political pressure coming from President Trump to aggressively cut rates. At one point he said that monetary policy will be "based solely on the assessment of the data and its implications for the economic outlook and the balance of risks. We will never deviate from that approach."

But the political pressure on the Fed ramped up shortly after Powell's speech, when President Trump said that he will fire Fed Governor Lisa Cook if she does not resign. One of the president's political appointees made allegations of mortgage fraud against Governor Cook this week. Cook said that she would not be "bullied" into resigning. Fed governors can



only be fired for cause; It is unclear what would happen if the President tried to fire Cook and she resisted.

Powell also discussed the FOMC's review of its monetary policy framework, which it undertakes roughly every five years. Powell noted that the last review came in the wake of the pandemic and following the recovery from the global financial crisis, when inflation was below 2% and interest rates have been historically low for more than a decade. At that time one major concern for the framework was the "effective lower bound," or ELB, when the fed funds rate was at zero. Now, shortly after inflation reached its highest level in 40 years and the FOMC aggressively raised the fed funds rate by more than 5 percentage points in 2022 and 2023, the new framework deemphasizes the ELB.

Second, the new framework does away with the concept of allowing inflation to temporarily run above 2% after a period of below-target inflation. This change should reemphasize the importance of the inflation target and keep long-term inflation expectations under control.

Third, the framework will no longer mention "shortfalls" in achieving the Fed's maximum employment mandate. Instead, the FOMC will emphasize employment that is either above or below its maximum, more clearly acknowledging that a too-tight labor market can lead to higher inflation. However, Powell also noted that "employment may at times run above real-time assessments of maximum employment without necessarily creating risks to price stability."

And finally, the new framework will acknowledge the need for a "balanced approach" in addressing times when inflation is above the 2% objective, but the labor market is not at maximum employment.

Powell also said that the 2% inflation target will not change, with inflation at the level "low enough to ensure that inflation is not a concern in household and business decisionmaking, while also providing a central bank with some policy flexibility to provide accommodation during economic downturns."

Please reach out with any questions,

PNC Economics
Gus Faucher, Chief Economist
economics@pnc.com