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Fixed Income Chart Of The Day

Benchmarking a Fed pivot

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Benchmarking a Fed pivot

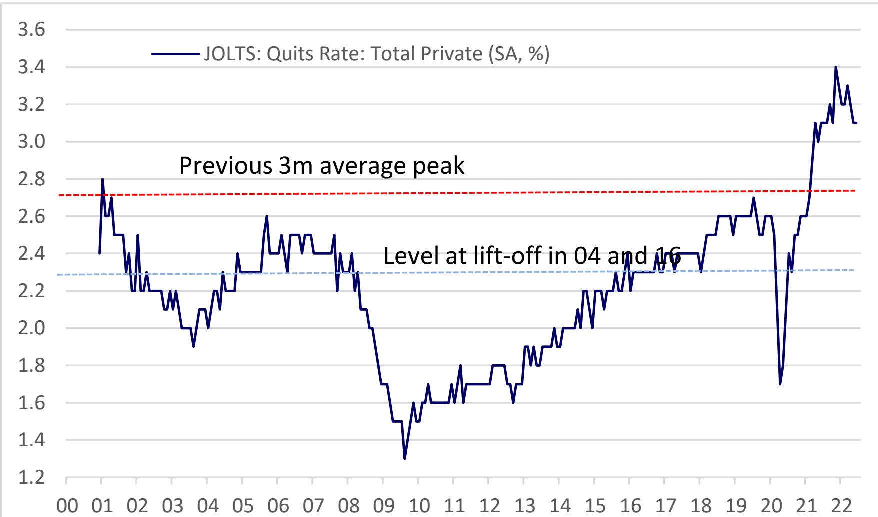
What could trigger a Fed pivot?

In recent decades, inflation did not materially deviate from target. Thus, slower growth and peaking inflation were enough to indicate that inflation will soon be below target and signal an imminent dovish shift from central banks.

We argued that this time is different. Underlying inflation is well above the Fed's target and the labour market is still extremely tight. Thus, even though both are lagging indicators, they are so far away from the Fed's targets, that an imminent Fed pivot is unlikely.

Still, at some point, slower growth will take its toll on inflation and the outlook will justify a Fed pivot. The quit rate could be useful in that context. It is well documented that the quit rate is the most reliable predictor of real wages. The quit rate peaked at 3.4% a few months ago and has recently been stable around 3.1%. Prior to covid, the quit rate never exceeded 2.7% (on a 3m moving average basis). Thus, allowing for the fact that the labour market lags and the downward momentum, **a quit rate at 2.7% could open the door to a Fed pivot**.

Figure 1: A quit rate at 2.7% could open the door to a Fed pivot



Source : Deutsche Bank, Haver Analytics, BLS

Appendix 1

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