



Economics

# Fed Notes

Date

22 August 2025

## Powell's speech at Jackson supports September action

Chair Powell's Jackson Hole speech leaned more dovish than we expected. Two points were most notable to us.

First, in the opening paragraph, Powell emphasized "the balance of risks appears to be shifting." As the speech made clear, downside risks to the labor market have risen in Powell's view following the last jobs report, which showed substantially cooler job gains following surprisingly large downward revisions. In Powell's words: "Overall, while the labor market appears to be in balance, it is a curious kind of balance that results from a marked slowing in both the supply of and demand for workers. This unusual situation suggests that downside risks to employment are rising. And if those risks materialize, they can do so quickly in the form of sharply higher layoffs and rising unemployment." This showed increased concern around the labor market picture that could potentially warrant a policy response.

Second, near the end of the discussion around the economic outlook, Powell noted "Nonetheless, with policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance." Though this line did not contain a time reference, it does suggest that the balance of risks are shifting enough in Powell's view to possibly necessitate a near-term policy response. While this line was followed by the usual disclaimers around data dependence and not being on a preset course, it did not contain any conditionality around, or reference to, upcoming data points on the labor market or inflation. As such, we took this as a reasonably strong signal that Chair Powell is leaning towards a 25bps reduction in September.

For our Fed view, we now see a 25bp rate cut in September as most likely. After that, we see the Fed delivering 25bp reductions in December and March, which would bring the fed funds rate to our longer-run estimate of nominal neutral. While a sequential path is possible if upcoming data reinforces worries around the labor market, we think Powell signaled a more cautious approach by noting: "the stability of the unemployment rate and other labor market measures allows us to proceed carefully as we consider changes to our policy stance."

Beyond the near-term outlook, the changes to the policy framework were very close to expectations. These included:

1. Removal of an emphasis on the zero lower bound as critical to the economic backdrop and monetary policy decisions.
2. Removal of FAIT and the inflation makeup strategy and a return to a symmetric 2% inflation objective.

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3. Removal of a reference to “shortfalls” from the maximum employment objective, which was replaced by a reference to “the Committee recognizes that employment may at times run above real-time assessments of maximum employment without necessarily creating risks to price stability.”

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## Appendix 1

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