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Weekly Commentary

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Fed might soon regret its aggressive first cut

With nearly every new economic report, it seems more and more likely the Federal Reserve cut rates by too much in September.

If the members of the Federal Open Market Committee (FOMC) do have regrets, they probably began with the shock of the September nonfarm payrolls report, which came in much hotter than expected. Inflation is looking like it might be hitting a plateau, a scary prospect for a central bank starting on an easing path. And then last week, September retail sales came in stronger than anticipated, rising 0.4%. It is hard to know how much the damaging hurricanes are skewing the data, but despite the widespread destruction, they are only part of picture. America is a big country.

Ultimately, this is an economy that is showing few signs of heading into a recession, or even much of a slowdown. Lowering the fed funds target range by 50 basis points probably won't come back to haunt the Fed, but the policymakers might want to slow that pace. An influential FOMC voter, Gov. Chris Waller, said last week that the robustness of the economy means the Fed must "proceed with more caution," hinting that he might be fine with skipping a cut altogether at the next meeting on November 7. Would that be a sign of prudence, or an admission of guilt?

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