Weekly Commentary

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The Fed has a lot to chew on

The Federal Reserve's policy plate is always full, but these days it is taking servings from an unusually extensive buffet of factors: from tariffs to immigration and from tax cuts to geopolitics, among others. But policymakers would be wise to focus just on their dual mandate of price stability and employment when their Federal Open Market Committee (FOMC) meets next week.

On Friday, the Personal Consumption Expenditures Index (PCE) report indicated that inflation is still not cooperating. Headline grew at the same month-over-month rate in January as December, and Core PCE's growth rose slightly, from 0.2% to 0.3%. While annualized growth levels for each declined, from 2.6% to 2.5% and 2.9% to 2.6%, respectively, inflation remains above the Fed's 2% target.

This week, the Labor Department will release the February jobs report. If it remains solid, both mandates are telling the Fed to keep rates higher for longer. But if the nonfarm payrolls report follows the worsening trend of Initial Jobless Claims, the Fed could be in a bind because that would argue for a rate cut.

Policymakers' thoughts likely will not be communicated through the meeting statement—probably indicated no rate cut—but rather by the Summary of Economic Projections. How many cuts might come this year (we think two quarter-point ones) and when (we expect the first at the June FOMC meeting), will show how the Fed is digesting the feast of information.

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