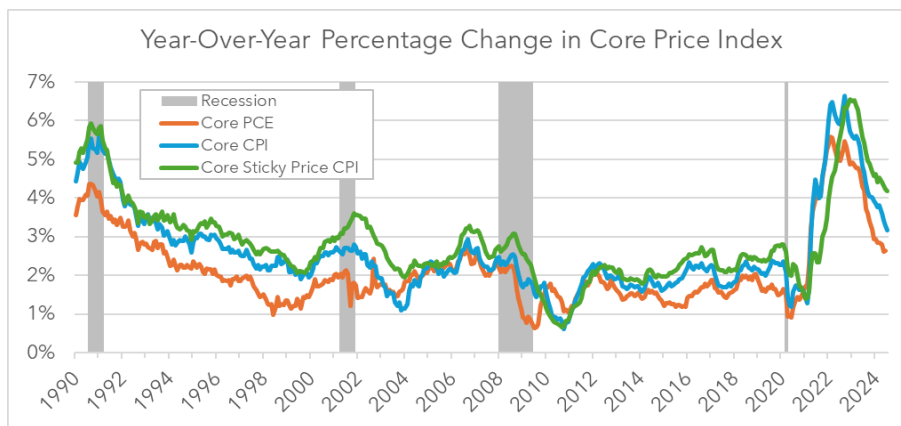




Friday, August 23, 2024

What a crazy month, amiright? First, the Fed says they wouldn't cut rates yet but probably would in September. The markets had expected that decision, but they hadn't expected the July jobs report to be so soft, with unemployment rising from 4.1 percent to 4.3. The markets responded quickly, with the S&P falling by 6.1 percent in a few days. It was widely speculated the Fed may not wait until its September meeting to cut rates. Then, last week, the BLS released its estimate of year-over-year CPI-based inflation in July at 2.9 percent - well above the Fed's two percent target, but it marks the fourth consecutive month of disinflation.

Today, in a prepared speech, Fed Chair Jerome Powell said, "the time has come for policy to adjust." As such, it is now clear the Fed will cut its target interest rate soon, either at its September meeting or sooner. Powell also said, "the timing and pace of rate cuts will depend on incoming data." Next Friday's announcement of July's PCE inflation estimate will certainly be among the most critical datapoints.



The graph at left shows three popular measures of "core inflation," meaning they're estimated without the most volatile consumer prices. The Fed weights personal consumption expenditures (PCE) most heavily, and as the graph shows, core inflation metrics tend to move together. Core CPI fell by 0.1 percent in July, so PCE inflation will probably drop during next week's announcement.

So can we guess whether the Fed will cut rates next Friday? Well, let's see...

If core PCE inflation fell by 0.1 percent in July, just like core CPI, then we'll see an estimate of 2.5 percent inflation. Over the same period, as mentioned above, unemployment rose by 0.2 percent to 4.3 percent. The next BLS jobs report comes out 9/6, almost two weeks before the Fed's next meeting on 9/18. Naturally, next Friday (8/30) is far too late to affect the 9/18 jobs report, but if the Fed predicts the report will show a 4.5 percent unemployment rate for August, then I'd predict they'll seek to avoid the same thing happening in September by cutting interest rates next Friday afternoon around 1pm Eastern.

Until next week,

Michael Uhrich

Founder & Chief Economist

[Seventh Point Analytic Consulting](http://SeventhPointAnalyticConsulting.com)