FLORIDA PRIME™

Weekly Commentary

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Is the economy finally heeding the Fed's reins?

Has the U.S. economy finally responded to the Federal Reserve's repeated calls of "Whoa, Nelly"?

Last week, the Federal Open Market Committee again voted to hold rates. It's the third time in four meetings it has done so. Articulated through the statements and communications by Fed Chair Jerome Powell (not to mention those of the rest of the FOMC and regional presidents), the reasoning for the pause is to respect the lagging nature of restrictive monetary policy. It takes time for shifts in interest rates—in whichever direction—to impact gross domestic product (GDP) because they have to filter through many layers of the economy.

The Fed has been disappointed that aggressiveness of its tightening campaign has not significantly decreased inflation or cooled the labor market. But the latter might finally have started.

On Friday, the government said that payrolls increased by only 150,000 jobs in October, the weakest monthly gain since June. Revisions, an often underappreciated factor of the jobs report, played a big role in the data, as August and September gains were revised down by 101,000 jobs combined. That puts payroll growth at the lowest since December 2020. Other labor statistics indicate the market is indeed slowing, including the closely watched continuing weekly jobless claims (up 30% year-over-year) and the unemployment rate (up to 3.9% from 3.8%). GDP growth remains strong, but perhaps the stubborn horse that is the U.S. economy is starting to obey the Fed.

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