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## The Fed must have it both ways

Perhaps the Federal Reserve should ask Congress to drop “full employment” as a mandate.

Unlike most central banks tasked with restraining inflation, the U.S. government requires the Fed to stabilize prices and the labor market. Often called the dual mandate, it must craft monetary policy to address both. For about two years now, both have been too hot.

While aggressively raising interest rates has chipped away at inflation, the job market continues to be tight. The Labor Department last week reported that nonfarm payrolls soared by 336,000 jobs in September—far above consensus. It was the largest monthly gain since January. This might mean that the Fed will conclude that it needs to raise the fed funds rate higher. The idea is that throwing cold water on the economy might lead people to save instead of spend, which could pull inflation down further. Unfortunately, that game plan usually leads to businesses laying off workers. Policymakers don’t want that, but traditionally have accepted it as a necessary evil. Ultimately, they would like to see labor coming into better balance with business to slow wage inflation and reduce spending. For now, the markets think the Fed will forgo a hike in the early November FOMC meeting. But another might be on its way.

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