FLORIDA PRIME™

Weekly Commentary

JULY 29, 2024

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Sound of silence

The Federal Reserve banks across the country closed their doors to news outlets last week in the customary "quiet period" ahead of a Federal Open Market Committee (FOMC) meeting. The latest gathering takes place this week, with the release of its statement of monetary policy and Chair Jerome Powell's press conference Wednesday afternoon. The shift in sentiment about policy in July intensified during the media blackout, namely that the Fed might finally pivot to rate cuts in September's FOMC meeting. Conventional wisdom is that the central bank avoids policy changes in months near a presidential election so as not to look political. But the opposite applies: if the data says the Fed should ease, foregoing a rate cut could appear politically motivated, too.

It would be nice if the data were weighted one way, making the decision easy. But that's usually not the case in economics, and certainly isn't this time. While measures of inflation are slipping, they aren't plunging, and the labor market continues to be tight. Gross domestic product growth reports are backward looking, but the second quarter's annualized growth rate of 2.8% is twice as high as the first's—hardly a sign of a country in need of accommodative policy.

Yet the Fed, especially Powell, seem to think they can stick the landing, that is, tame inflation without tanking the economy. Knowing how long it can take for rate changes to have actual impact on people and business, officials may want to ease before inflation falls closer to its 2% target. It's a risk. The Fed made such a move in the late 1970s only to have inflation re-accelerate. That haunts members old enough to have lived through it; they don't want new nightmares.