

Fed's Powell signals a willingness to cut rates, but more progress is required

Progress appears to be being made on the Fed's aspiration of moving the economy into better balance and thus bringing inflation down towards the 2% target. Two-way risks are also increasingly being acknowledged and if the data moves in the direction we expect the potential of a September interest rate cut in the US will build further



Economy remains robust, but some progress has been made

In Federal Reserve Chair Jerome Powell's written testimony on monetary policy to the US Senate, he talks a little more of two-way risk, but while the Fed is open to the possibility of rate cuts at some point, he emphasises that the data needs to be there to justify it.

He acknowledges that first quarter data did not give them great confidence inflation was returning to target, but that "the most recent inflation readings, however, have shown some modest further progress, and more good data would strengthen our confidence that inflation is moving sustainably toward 2 percent". Regarding growth he recognises that "growth appears to have moderated in the first half of this year following impressive strength in the second half of last year", primarily due to "slower but still-solid increases in consumer spending". As for the jobs market, his description is "strong, but not overheated" with the higher unemployment rate

resulting from increased labour supply rather than weakness in payrolls growth.

Two-way risks emerging

The monetary policy stance is described as “restrictive” and that is helping to bring the economy into better balance and is putting downward pressure on inflation. He states that “reducing policy restraint too soon or too much could stall” progress on inflation, but at the same time he suggests that “elevated inflation is not the only risk we face. Reducing policy restraint too late or too little could unduly weaken economic activity and employment.” As such it appears that they are open to the idea of loosening monetary policy, but it has to be backed up by the data.

Jackson Hole could firm up expectations of a September cut

Our position is that the Fed doesn't want to cause a recession if they can avoid it and if the data allows we expect the Federal Reserve to start moving monetary policy from “restrictive” territory to “slightly less” restrictive policy from September.

To deliver this we look for three things.

1. **Core inflation to continue coming in at 0.2% month-on-month or below** – the run rate required to bring annual inflation to the 2% target.
2. **The unemployment rate**, which has already risen from 3.4% to 4.1%, to push higher towards 4.3%.
3. **Consumer spending growth**, which has slowed from a 3%+ annualised rate in 2H 2023 to 1.6% in 1H 2024, to decelerate further.

Such outcomes should give the Fed confidence that the economy is on the path for a “soft landing” and they can start to move their policy stance closer to neutral. If we are right and the data comes in as we project, we suspect that the Jackson Hole symposium in late August will be used as the venue to give the market the clearest indication on impending policy loosening.

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person

for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.