

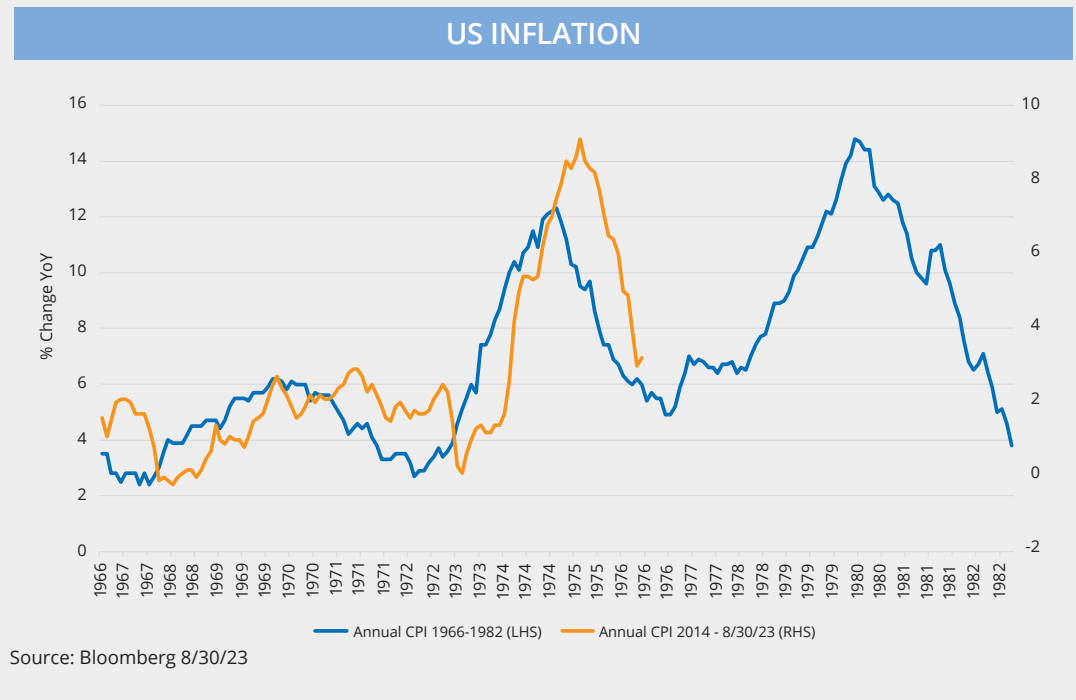
Jackson Hole: To Hike or Not to Hike

The Kansas City Fed's Jackson Hole Symposium, which took place August 24–26, was headlined by Fed Chair Jerome Powell to address attendees. While some had expected significant announcements, there was not a great deal of new information released. However, there were two key takeaways from the speech.

First, Powell reaffirmed the central bank's commitment to its 2% inflation target. This was a clear signal to markets that the Fed is resolute about restoring its inflation-fighting credibility. In recent months, there has been speculation that the Fed might be willing to tolerate higher inflation in order to support economic growth. However, Powell's emphatic reaffirmation of the Fed's 2% target puts that idea to rest.

Second, the Fed now sees risks to both sides of its dual mandate of full employment and price stability as becoming more balanced. Unlike last year, when Powell provided an unambiguous outlook for an increasingly hawkish policy stance, this year's remarks emphasized the need for the Fed to take a 'wait and see' approach. In other words, further hikes are on the table, but not guaranteed. Given the lagged effects of monetary policy, Powell acknowledged "there may be significant further drag in the pipeline" and "doing too much could also do unnecessary harm to the economy."

The Fed's decision to preserve its optionality is prudent under the current economic circumstances. Disinflationary trends and labor market cooling are encouraging signs, but declaring victory at this juncture would be premature and ignore the painful lessons of the 1970s. Allowing time for the economy to digest the policy tightening it has already swallowed, with the intent to do more only as needed, strikes a happy medium for both hawks and doves for now.



Overall, while Powell's speech did not provide any major revelations, it served to reinforce two very important messages the Fed has been telegraphing at recent press conferences. Perhaps the most revealing moment occurred towards the conclusion of his remarks when he added a dose of humility by declaring "we [The Fed] are navigating by stars under cloudy skies" as a metaphor for the challenge he and his colleagues are facing in the waning phase of this tightening cycle.



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