USA: Fed Vice Chair Jefferson Says Future Adjustments Require "Carefully Examining Trends," Hinting at an October Pause

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BOTTOM LINE: Fed Vice Chair Philip Jefferson said today that "any future adjustments in policy should be determined by carefully examining trends in the data, the evolving outlook, and the balance of risks." Noting that rising yields indicate that "investors are reassessing the evolving macroeconomic landscape," Jefferson said that "my colleagues and I will need to come to our own judgment, which may take more time." Earlier this week, New York Fed President John Williams similarly noted that "with the policy action we took at our September meeting, there is no need for urgency, and we have time to gather more information." We think Jefferson's comments are consistent with our view that an October hike is now unlikely. We continue to expect the second hike in December, and we see a strong chance that the FOMC will ultimately conclude that additional rate hikes are unnecessary.

MAIN POINTS:

1. In a speech at the University of Virginia Darden School of Business, Fed Vice Chair Philip Jefferson said that he supported the decision to raise the Fed funds rate at the September FOMC meeting because he saw that as "an important step to ensure longer-term inflation expectations remain well anchored and to validate the public's confidence that we will achieve our 2 percent inflation objective in a timely manner." Moving forward, however, he noted that "any future adjustments in policy should be determined by carefully examining trends in the data, the evolving outlook, and the balance of risks." He said that "since our September meeting, yields across the term structure have increased further, a sign that investors are reassessing the evolving macroeconomic landscape," adding that "my colleagues and I will need to come to our own judgment, which may take more time." Earlier this week, New York Fed President John Williams similarly noted that "with the policy action we took at our September meeting, there is no need for urgency, and we have time to gather more information."

2. Jefferson said that he remains "concerned about the risk of higher energy prices leading to a persistent rise in inflation more broadly," and that the "boom in AI-related demand is driving unusually strong increases in the cost of producing related goods and services," boosting core inflation. However, he also noted that "most measures of longer-term inflation expectations have remained stable at levels consistent with 2 percent inflation," adding that "these developments suggest that we are not yet seeing spillovers from tariffs, energy price shocks, and the surge in certain categories of goods prices into broader and more persistent inflation."

3. We think Jefferson's comments are consistent with our view that an October hike is now unlikely. Following yesterday's inflation data and comments by New York Fed

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President Williams earlier this week, we pushed back the second hike in our forecast to December, and we see a strong chance that the FOMC will ultimately conclude that additional rate hikes are unnecessary.