Take 5 Five
WITH THE ST. LOUIS FED

November 13, 2024

Policy recalibration continues with 25 basis point cut in November

Transcript

Kathleen Navin: Welcome to this installment of *Take 5 with the St. Louis Fed*. I'm Kathleen Navin, senior business economist. And today, I'll be discussing the latest FOMC meeting that took place on November 6 and November 7.

At this meeting, the FOMC unanimously decided to lower the federal funds rate by 25 basis points to a target range of 4.5 to 4.75%. This continued the recalibration that began at the September meeting with a 50-basis point rate cut. So total through the November meeting now 75 basis points in rate cuts this year. In describing the recalibration, Chair Powell remarked during the opening statement of the press briefing, "We continue to be confident that with an appropriate recalibration of our policy stance, strength in the economy and the labor market can be maintained, with inflation moving sustainably down to 2%."

Now, while we didn't have new projections at this meeting, we did have a lot of new data heading into it. So, for example, we had new data on Q3 GDP, also new inflation data, and an October Jobs Report, all prior to the November meeting. So let's start with looking at real GDP.

While real GDP rose at a 2.8% annualized rate in the third quarter, close to expectations, and also close to where it was in the second quarter. And this was really driven by strong consumer spending with a very robust 3.7% annualized increase in consumer spending in the third quarter. There were also healthy contributions from business fixed investment as well as government spending, both for the third quarter.

Now, moving onto inflation, what we see here is a continued moderation toward 2%. Headline PCE inflation over the last 12 months has come down to 2.1%. So on a 12-month basis. Now, core PCE inflation slightly higher at 2.7% over the last 12 months. So measured on a 12-month basis. So still above that 2% objective, but well below the highs seen in 2022. And when we look at core PCE inflation on a shorter horizon, say a three-month or a six-month, you do see that continued progress toward 2%, which is encouraging.

Now, moving to the October Jobs Report, when we look at the unemployment rate, we see it held steady at 4.1% in October, the same as September; down a little from 4.3% a few months ago, but still up when we compare it to the lows that were reached in early 2023 of 3.4% as of April last year. So we do see that kind of moderate easing and labor market conditions, but still at a healthy level.

Now, turning to the Jobs Report, the latest figure for October, when we look at the headline, it was very soft, with just 12,000 jobs added overall in the U.S. economy for October. However, there was a lot of noise in this report. We had a lot of strike activity occurring in October, which brings down that overall number. Also, there was a lot of storm activity with the hurricanes in October. So when we look at this, you want to take that with a grain of salt. And on another, kind of more technical aspect, there was a very low response rate in this initial October survey. So we'll continue to watch those revisions and see if that affects the overall number.

But, kind of setting October aside, when we look at the last six months, so looking at Q2 and Q3, average job gains, they have slowed from where they were in the first quarter and last year and the years prior. So averaged over those two quarters, about 148,000 jobs added per month, down from just under 270,000 jobs added in the first quarter. So when we think about that, you are seeing that slowing, that normalization. But what we don't want to see is a more material weakening in labor market conditions. So that's why we'll continue to watch this data very closely.

And at the end of the day, this is really the balance that the FOMC is doing right now; wanting to remove policy restraint at a pace that allows inflation to keep moving down to 2%, but doesn't overly tighten the labor market, overly weaken the labor market. When we think about this, we want to look for that, kind of middle path as Chair Powell described in the press conference. In particular, he noted that really the baseline expectation for the U.S. economy and policy is still that they'll be able to gradually remove policy restraint, moving the federal funds rate toward neutral, but allowing the economy to continue growing at a healthy cliff under those conditions. So we'll continue to watch this going forward, watching the incoming data, the balance of risks around the dual mandate, and that evolving outlook and how that will determine policy going forward.

That concludes this installment of *Take 5 with the St. Louis Fed*. Thanks so much for joining us.

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