

THE ECONOMY & STRATEGIES

Stephens Economic Quick Take

Thomas Goho, Ph.D.
Stephens Economic Contributor

Healthy economic data continues to suggest that the Federal Reserve should maintain its stance of holding short-term interest rates at the 5.25% to 5.50% range.

The Fed has two mandates: maximum employment and stable prices.

The first mandate has been achieved as the unemployment rate is at 3.7%. In addition, job quitting fell by 12% last year, while 353,000 jobs were added in January even as U.S. companies announced more than 82,300 layoffs – 136% higher than in December. Google, Amazon, Facebook, and Microsoft all announced large-scale layoffs in January.

Yes, inflation has decreased from a very high level of 9.1%. And inflation is headed toward the Fed's target of 2%. But stable prices are hardly a given. The Personal Consumption Expenditures (PCE) Index increased by 0.2% in December. On an annual basis, the PCE Index increased by 2.6% in 2023. Finally, the PCE Index, excluding food and energy, increased by 2.9% on an annual basis in December.

Strong labor data, strong consumer confidence, and continuing massive Federal deficits support the recent decision not to reduce short-term rates in the near future. But the Fed, in my opinion, needs at least several more months of data confirming that inflation is down and prices are stable.

As Fed Chair Jerome Powell recently said, interest rate cuts are coming. But he asked for patience, noting that a March cut is “probably not the most likely case.”

Thomas Goho, Ph.D. is formerly the Chief Economic Consultant for Stephens Inc. He also served as the Co-Director of Stephens University at Wake Forest University.

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