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TRENDMACRO LIVE!

On Powell at Jackson Hole

Friday, August 22, 2025

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No promise for September, but no betrayal. And a strategy doc that abandons policies already abandoned.

Chair Jerome Powell's Jackson Hole speech this morning didn't exactly signal a rate cut at the next FOMC meeting in September – but as of this writing, markets are celebrating as though he did. He said,

> "…with policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance."

- Well… we are getting into the back half of the year, and the "dot plots" released at both the March and June FOMC's pointed to two rate cuts this year. So Powell's remark is really just a reaffirmation.
- Indeed, as of this writing, the stock market is responding jubilantly while the fed funds futures implied probabilities for a September cut have barely budged, and remain below 100%.
- We suppose a reaffirmation is *useful* – but not a dovish surprise, but it is the alleviation of fear that there would be a hawkish surprise and Powell would recant the "dot plots."
- Since the July FOMC (see "On the July FOMC" July 30, 2025) – at which two members dissented, wanting a rate cut then and there – *there has been a disturbing jobs report* that would seem to justify a cut. But it's not clear that report, and the downward revisions to prior reports, was the result of anything except two-and-a-half years of an immigration wave ebbing somewhat (see "On the July Jobs Report" August 1, 2025).
- And since the July FOMC *consumer inflation has been well behaved*, especially against the backdrop of expectations that it should heat up due to tariffs (Powell claimed in this speech, without evidence, that it is already happening). It is nevertheless a fact that there was effectively no goods inflation in Q2-2024. On the other hand, *the most recent Producer Price Index data was disturbingly hot* (see "Data Insights: CPI/PPI" August 12, 2025).
- *With this data that can and is being cited by both hawks and doves to make their cases*, it makes sense for Powell to take a wait-and-see approach, especially when there will be another jobs report and another CPI report before the meeting.
- *All the more so for Powell as a strategy for keeping his dignity in the midst of a political firestorm* (see "Video: What you're not hearing about Trump versus Powell, and this week's FOMC

Update to strategic view

FEDERAL RESERVE, US MACRO, US STOCKS: Powell says conditions "may warrant a shift in policy stance," but no promise for September and nothing different than already promised in the "dot plots" posted at both the March and June FOMCs. While stocks are jubilant, that is likely only because in this political environment for Powell, and with so much key economic data seemingly in conflict, there was a chance he would recant the "dot plots," and he did not. The Statement on Longer-Run Goals and Monetary Policy Strategy recants the prior version from 2020, when "flexible average inflation targeting" was introduced and a focus on "shortfalls" from maximum employment effectively abandoned the deeply flawed Phillips Curve concept. Both proved to be embarrassments in the post-pandemic inflation crisis. Average inflation targeting was a flawed idea to begin with, supported by the misconception that the Fed needed to harm the economy every day with above-zero inflation…

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[meeting"](#) July 28, 2025). He can't move toward the dovish for fear of seeming to be caving to the demands of President Donald J. Trump. But neither can he move to the hawkish for fear of seeming to arbitrarily defy Trump for its own sake.

- *Again, nothing here should really be a surprise.*

Powell's speech also outlined the newly released 2025 Statement on Longer-Run Goals and Monetary Policy Strategy.

The Fed is always fighting the last war. The 2020 Statement on Longer-Run Goals and Monetary Policy Strategy was revealed at a virtual Jackson Hole conference in the worst of the pandemic lockdowns, but *it was designed to deal with two policy problems that had been experienced in the long wake of the Global Financial Crisis*.

- First, the decade-plus following the collapse of Lehman Brothers and all that went with it was a time of slow growth, but the Fed could not effectively respond with a stimulative policy rate because market rates were already very low – a funds rate of zero wasn't seen as low enough, and the Fed was unwilling to experiment with a negative policy rate. *They were stuck at what they call the "Effective Lower Bound" (ELB) of zero*.
- Second, it was a decade of very low sub-target inflation, which persisted despite generationally low unemployment rates. This was a demonstration to the Fed that *the Phillips Curve – the idea that low unemployment inevitably leads to high inflation – was not the unbreakable law of nature they had held it to be*.

To deal with the ELB issue, the Fed introduced "flexible average inflation targeting." This effectively recontextualized its 2% inflation target to apply to expectations rather than inflation itself – and to the Fed introduced the idea that it is inflation expectations that were to be targeted, not inflation itself. And the way to anchor inflation expectations at the target of 2% was to allow inflation itself to average 2% over time – rather than be capped there – which means sometimes it will be below target and sometimes it will be allowed to be above target. As the Statement put it,

> "The Committee judges that longer-term inflation expectations that are well anchored at 2 percent foster price stability and moderate long-term interest rates and enhance the Committee's ability to promote maximum employment in the face of significant economic disturbances. In order to anchor longer-term inflation expectations at this level, the Committee seeks to achieve inflation that averages 2 percent over time, and therefore judges that, following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time."

- In the pandemic, two presidents and two congresses passed three massive stimulus bills totaling $6 trillion dollars, which passed directly into the money supply and fueled the worst inflation since

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… so that it could save the economy every ten years by cutting rates, without hitting the Effective Lower Bound. The shortfall approach was excellent policy, as the Phillips Curve concept is not supported empirically and is ethically bankrupt. But none of this matters – both moves were clearly signaled in the minutes of the March and May FOMC meeting, and the Fed had already *de facto* abandoned the policies that it is now officially abandoning.

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the early 1980s. There was nothing the Fed could have possibly done to prevent the inflation – yet nevertheless the Fed was blamed. *It was said that average inflation targeting fooled them into letting inflation run too high for too long – to make up for a decade-plus of below-target inflation. By the time they admitted inflation wasn't "transitory" in late 2021 it was too late*.

- The Fed ultimately abandoned the policy and embarked on a scorched-earth hiking regime in 2022.
- *The new 2025 Statement makes it official. The average inflation targeting language targeting is simply eliminated in its entirety*, and replaced by nothing else.
- *We are happy to see average inflation targeting abandoned*.
- *Targeting inflation to target expectations to target inflation is not a sensible policy.*
- There is not the slightest empirical evidence that inflation expectations lead to actual inflation. If anything, it is the opposite.
- And we don't endorse the idea that the Fed should seek above-zero inflation under the rationale that this will keep rates higher, and permit the Fed to cut rates when necessary without hitting the ELB. Inflation at 2%, or any rate above zero, harms the economy every day – for sure – and yet this rationale positions that harm as allowing the Fed to protect the economy once every ten years in a recession – maybe.
- *And if this means the Fed is less worried about the ELB, we don't disagree* – we are no longer in the long wake of the GFC, an era of "secular stagnation" with a low natural rate of interest. We are in a post-pandemic productivity-led boom in which the natural rate of interest is higher.
- *But it doesn't matter anyway, because effectively average inflation targeting was already abandoned in 2022. And making it official in the new Statement was well advertised in the minutes of the May FOMC* (see "Data Insights: FOMC Minutes" May 28, 2025).

To deal with the demonstrated failure of the Phillips Curve – in which too-low inflation was occurring simultaneously with generationally low unemployment rates – the Fed began adopting a "shortfall" approach. *the Fed was to worry only when too few people were working, not when too many people were*. As the Statement put it,

> "…the Committee's policy decisions must be informed by assessments of the shortfalls of employment from its maximum level, recognizing that such assessments are necessarily uncertain and subject to revision."

- Unlike the ill-advised average inflation targeting idea, this one was very smart, and very revolutionary.
- The Phillips Curve has not been borne out empirically since the early 1970s – indeed, if anything since then, it seems to work backward. Yet a near-religious adherence to it has caused the Fed, even under smart leaders like Alan Greenspan, to tighten policy unnecessarily simply because the unemployment rate seemed low.

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- But this, like average inflation targeting, was abandoned after the pandemic. *Unwilling to explain inflation as the result of three stimulus bills that Powell had publicly pounded the table for, the Fed blamed the "tight labor market" as the post-pandemic economy recovered, returning to the Phillips Curve religion that had been disowned in the 2020 strategy statement.* There are no atheists in foxholes, especially when excuses have to be made.
- *The new 2025 Statement makes it official.* The "shortfall" language is gone, and the Phillips Curve focused on the level of maximum employment is back:

> "…the Committee's policy decisions must be informed by assessments of the ~~shortfalls~~maximum level of employment ~~from its maximum level~~, recognizing that such assessments are necessarily uncertain and subject to revision. The Committee considers a wide range of indicators in making these assessments.

- In case you have any doubt that this enshrines the Phillps Curve once again, the statement adds language that defines "maximum employment" as having nothing to do with the number of people who want jobs and can get them, but rather a number that cannot be understood outside the context of inflation:

> "The Committee views maximum employment as the highest level of employment that can be achieved on a sustained basis in a context of price stability."

- In his speech, Powell pretends that there's really no change here – it's just that we silly market participants were stupid enough to take them at their word five years ago:

> "…our use of the term "shortfalls" was not always interpreted as intended, raising communications challenges. In particular, the use of 'shortfalls' was not intended as a commitment to permanently forswear preemption or to ignore labor market tightness. Accordingly, we removed 'shortfalls' from our statement."

- *We are unhappy to see the shortfall approach abandoned*. We don't endorse the idea that the Fed should throw people out of work to lower inflation – especially when decades of data show that *low* unemployment is actually associated with *low* inflation. *Throwing people out of work should not be a policy of the federal government to begin with, but all the more so when doing so is shown empirically as making inflation worse, not better.*
- *But it doesn't matter, because effectively the 2020 abandonment of the Phillips Curve was already reversed in 2022. And making it official in the new Statement was well advertised in the minutes of the March FOMC* (see "Data Insights: FOMC Minutes" April 9, 2025).

So once again the Fed is fighting the last war – redefining policy in the future for what they think it should have been in the recent past.

Another way of framing all this would be to recognize that *the Statement of Longer-Run Goals and Monetary Policy Strategy is phony from the get-go*. It is nothing remotely like a policy rule that objectively sets Fed strategy based on objective inputs. It's just a jumble of noble-sounding words that gives the Fed a curtain behind which it can make it up as it goes along. It always has and it always will. Nothing about today's new Statement changes that, or anything else.

We can guarantee that incoming Fed Chair Stephen Miran won't even read it (see "Miran: We Warned You, and We're Warning You Again" August 8, 2025).

Bottom line

Powell says conditions "may warrant a shift in policy stance," but no promise for September and nothing different than already promised in the "dot plots" posted at both the March and June FOMCs. While stocks are jubilant, that is likely only because in this political environment for Powell, and with so much key economic data seemingly in conflict, there was a chance he would recant the "dot plots," and he did not. The Statement on Longer-Run Goals and Monetary Policy Strategy recants the prior version from 2020, when "flexible average inflation targeting" was introduced and a focus on "shortfalls" from maximum employment effectively abandoned the deeply flawed Phillips Curve concept. Both proved to be embarrassments in the post-pandemic inflation crisis. Average inflation targeting was a flawed idea to begin with, supported by the misconception that the Fed needed to harm the economy every day with above-zero inflation so that it could save the economy every ten years by cutting rates, without hitting the Effective Lower Bound. The shortfall approach was excellent policy, as the Phillips Curve concept is not supported empirically and is ethically bankrupt. But none of this matters – both moves were clearly signaled in the minutes of the March and May FOMC meeting, and the Fed had already *de facto* abandoned the policies that it is now officially abandoning.