November 17, 2025

Dutta’s Monetary Thoughts

Monetary Malpractice

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Hawks squawk

Monetary policy hawks have been ascendant in the last week even though, as I will explain, the evidence supporting their case has weakened, at the margin. The economic outlook demands not only a cut in December, but a signal for additional easing in 2026. This holds across several dimensions, and the tradeoffs are not nearly as onerous as the hawks claim them to be.

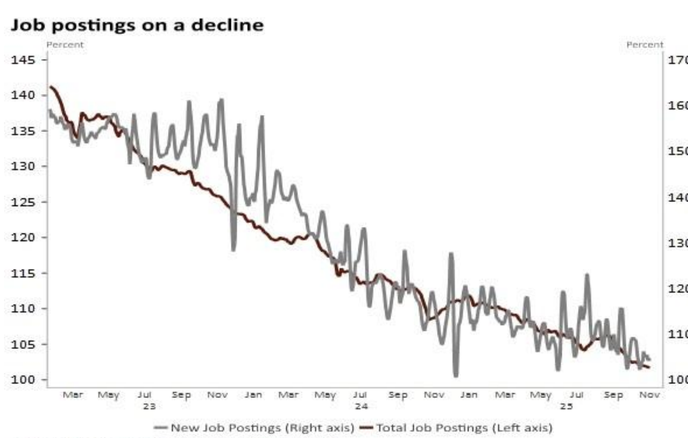
Sorry, but the labor market sucks

First, the labor market is slowing down. While it is true that official data is on hold, there is nothing in the bevy of alternative data to suggest conditions have stabilized. The most widely followed private data points to ongoing cooling

Demand dictates

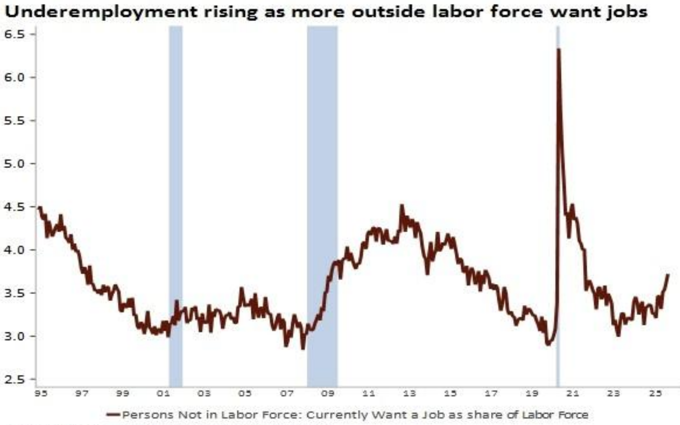
Hawks have argued that slowing in jobs growth is primarily a function of declining labor supply due to stricter immigration enforcement. I don’t buy this for several reasons.

- Consumers continued to point to a cooling in job market conditions. The Conference Board’s Labor Differential has declined 12.8pts this year. Importantly, more survey respondents see jobs as hard to get.
- Job vacancies continue to decline. Companies are not cutting job openings because immigration is slowing. Shouldn’t they increase their recruitment intensity if workers are scarce? The ongoing decline in vacancies implies excess labor demand continues to cool.



Source: Renaissance Macro Research, Macrobond

Underemployment rising as more outside labor force want jobs



Source: Renaissance Macro Research, Macrobond

- Underemployment is climbing. If a decline in immigration was behind the drop in employment, I'd expect the share of workers in underemployment to also be steady. That's not the case. As a share of the labor force, those not in the labor force that currently want a job has surged to 3.72 percent, jumping nearly half a percentage point this year.

- The distribution of employment weakness has been widespread. The payroll diffusion index has been under 50 percent since April. If this was just about immigration, then the weakness in payroll employment would be less dispersed across industries.
- If there was less labor supply, it implies less competition for those still employed and that would tend to push up real wage growth. Instead, real wages are falling more quickly for the workers most likely to be competing with undocumented immigrants.

In short, the primary reason behind the weakness in the labor market is about demand, not supply.

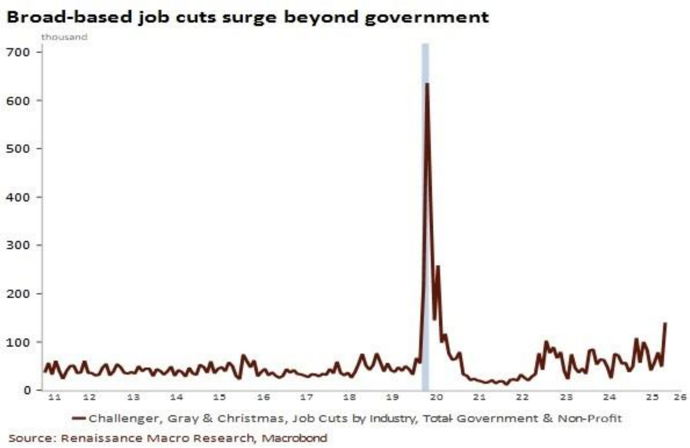
Weakest seeing the most slowing in wage growth

Source: Renaissance Macro Research, Macrobond

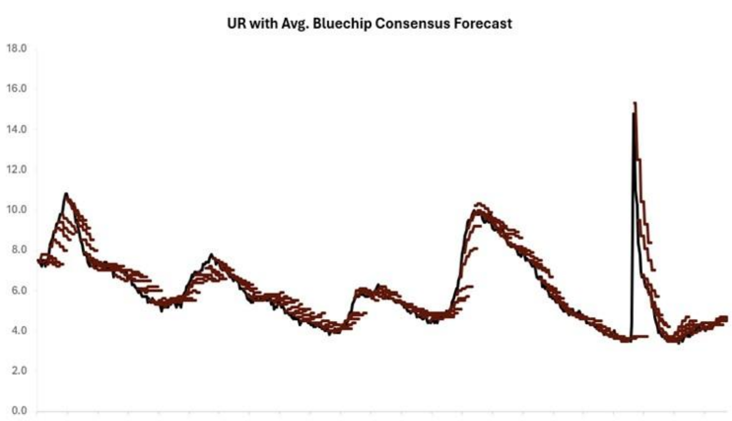
False security in low claims

Officials seem to be bizarrely complacent on the labor market outlook. It's not so much about where conditions stand right now, but where they are headed. At his last press conference, Chair Powell referenced the low level of initial jobless claims no fewer than three times as if low initial jobless claims are a sufficient condition to not be worried about the jobs market. This myopic fixation with initial jobless claims misses a few points:

- Low initial jobless claims have not kept the unemployment rate from rising in the first place. This is because the bulk of the upward movement in the jobless rate has come from a decline in hiring. That's to be expected. Firms tend to resort to layoffs after curbing hiring. Thus, initial claims are less a leading indicator and more an indicator that just happens to come out every week.
- There is always a temptation to ignore anecdotes around the jobs market because anecdotes are not a substitute for hard data. But sometimes even hard data is not a substitute for sound judgement. When companies like Verizon, Amazon, and Target are all announcing layoffs around the same time, one would expect at least some follow-through into measures like initial claims.



- Margins across several important industries are being squeezed. Homebuilders are having trouble moving homes despite substantial rate buydowns. Restaurants are holding the line on price to maintain market share. With the prices for oil and lumber below breakeven, it's easy to see how mining & logging employment can drop.



This is about the distribution of risks. It is not especially difficult to see why the unemployment rate keeps climbing from here. In a genuine downturn, the consensus typically assumes a gradual linear increase in unemployment. There is really no way of knowing ex-ante if the labor market conditions will transition from linear to nonlinear. Historically, the consensus never sees it even after it has arrived. That things seem to be evolving in a stable fashion now doesn't negate the possibility of an unstable move later.

Inflation is getting better not worse

Upside risks to inflation are the main defense the hawks have used to justify their position. Slowing employment makes it challenging to see sustained price pressures. Yet, even here, I don't find the arguments especially persuasive.

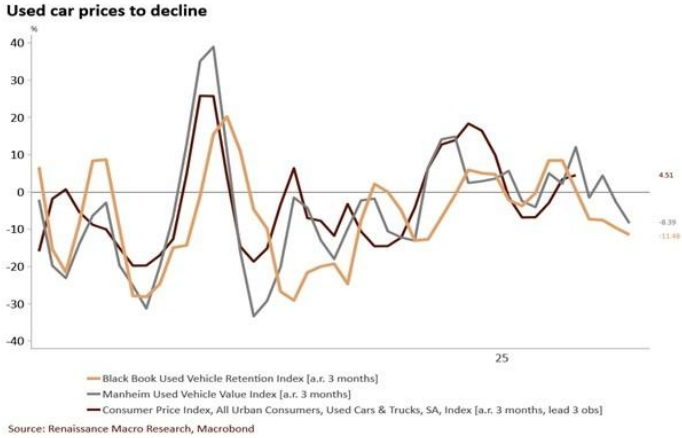
Over the last six months, core PCE inflation is up 2.5%, a somewhat slower pace than it ran last year. Moreover, at least some of the recent upside to core inflation has come from non-observed prices. For example, the increase in stock prices has pushed up portfolio management.

Unobservable prices pushing up core PCE inflation

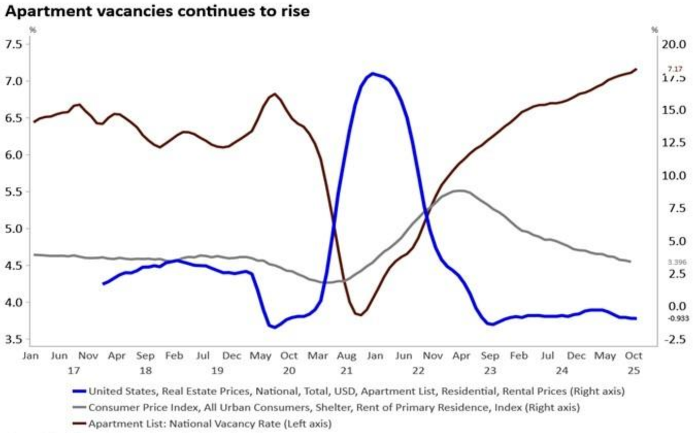
The important story, however, is the outlook and there are a few reasons to expect renewed disinflationary pressure in the coming quarters.

- Used car and truck prices will moderate in the months ahead. The Manheim Used Vehicle Value Index and Black Book Used Vehicle Retention Index has declined 8.4 percent and 11.5 percent SAAR over the last three months, respectively. These indicators measure wholesale auction prices and tend to lead the CPI measure by roughly three months. The slowing in car prices is likely to take some pressure off auto-adjacent services. Motor vehicle insurance, as one example, is following car prices down.

Used car prices to decline



Apartment vacancies continues to rise

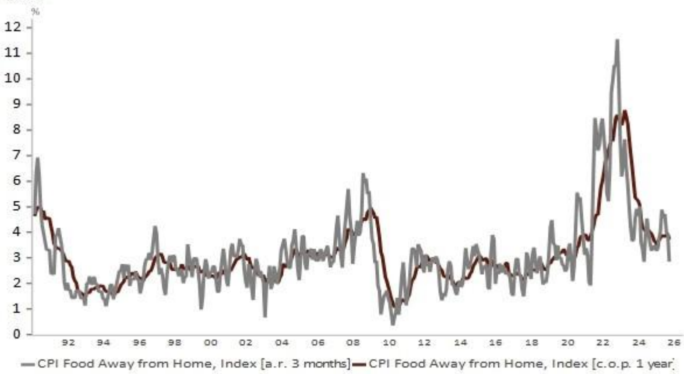


Source: Renaissance Macro Research, Macrobond

- Housing rental inflation is likely to ease. Zillow's Observed Rent Index moderated to 2.35 percent year-over-year in October, a fresh low. According to ApartmentList, rent prices are down 0.9% compared to one-year ago, a sign of weakness in multi-family housing; the National Vacancy Rate has jumped to a fresh high of 7.2 percent. Official measures tend to follow market-based measures of apartment leases.

Restaurants see slowing price growth

(nsa)



Source: Renaissance Macro Research, Macrobond

- Food away from home inflation is cooling. Restaurants are holding the line on prices to maintain market share. Indeed, there has been a notable slowing in menu prices in recent months and if [corporate earnings commentary]() is any guide, there is more room for this to continue into 2026.

The slowing in service sector inflation like rents and restaurants is especially notable since these prices are set with inflation expectations in mind. If household and business inflation expectations were becoming unanchored, one would expect sticky prices like rents and restaurants to be accelerating. Sorry, but that's not happening. And, while there has been much attention to [one specific measure of consumer expectations](), business inflation expectations are exactly where they stood a yearago. Firms tend to incorporate a wider set of information when forming their expectations than consumers.

Now, it is true that tariffs have pushed up prices for specific items. Core goods CPI inflation excluding used cars has increased 3.2 percent SAAR over the six months ending in September, the fastest six-month clip since the pandemic.

That said, I find it curious how the story around tariffs has shifted at multiple junctures throughout the year. First, it was firms will raise prices before the tariffs go into effect. Next, firms will draw down inventories first and then raise prices. Now, the view is wait until next year, price increases are only being delayed. What's clear is that since tariffs have been put on, inflation has generally come in weaker than expected. This would imply less pass-through than expected.

Ultimately, with labor market conditions cooling, households lack the wherewithal to absorb higher prices. Tariffs raise costs. How much they raise consumer prices because of tariffs depends.

Fed doesn't have your back

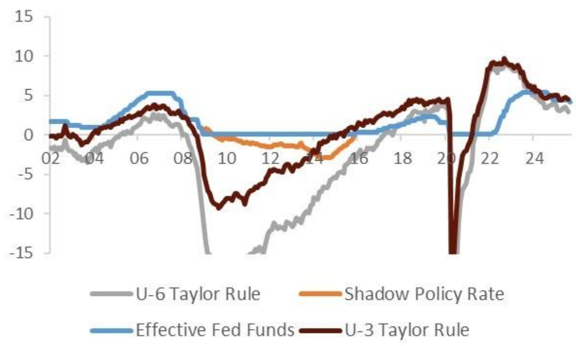
For investors, what we're presently experiencing is nothing like last year. Back then, the gap between what the Fed should do and what I thought they would do was not especially wide. Cutting last year was about being proactive to backstop labor market conditions. This year, the gap appears to be growing. My views appear increasingly out of step with the burgeoning consensus on the FOMC.

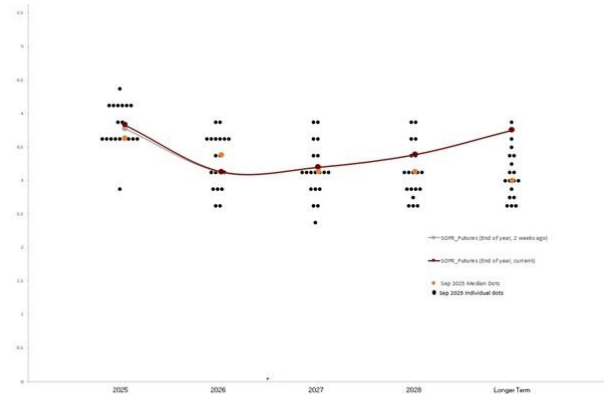
Looking ahead to the December meeting, there appears to be a growing chorus to do nothing and if the Fed does nothing next month, they won't do anything in January. You don't skip one month if you think you are going the next. I see either a hawkish cut (25 with a signal to do nothing next year) or a hawkish hold.

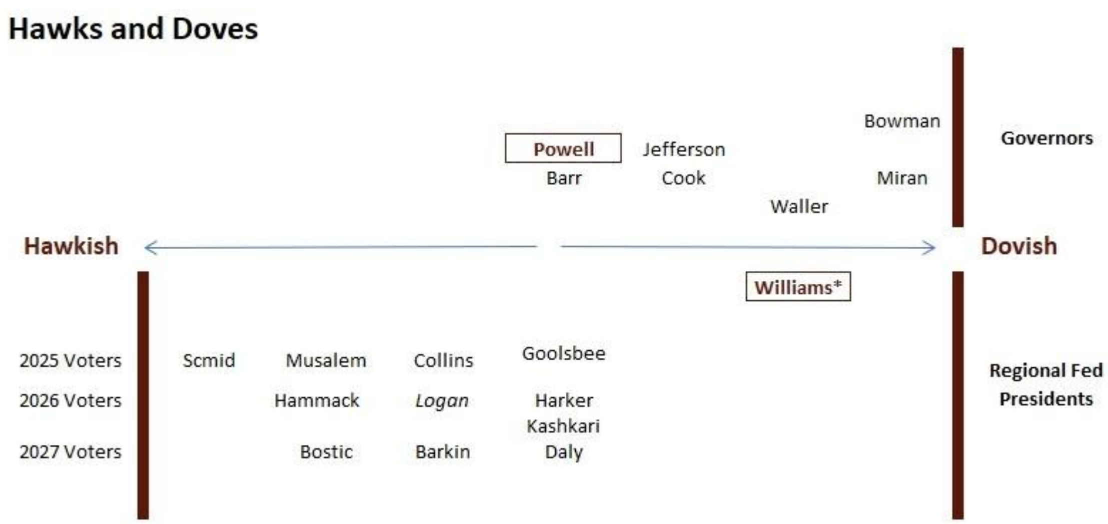
In September 2024, there was a lot of talk about a hawkish 50 basis point cut. As we argued at the time, there was no planet where cutting 50bps would be hawkish. In the same way, there is no planet where skipping December can be viewed as dovish. Skipping the meeting means risk management has been achieved. That means that from here on out the Fed is comfortable being reactive, waiting for things to be obvious before deciding to do something about it.

Not great.

Monetary metrics



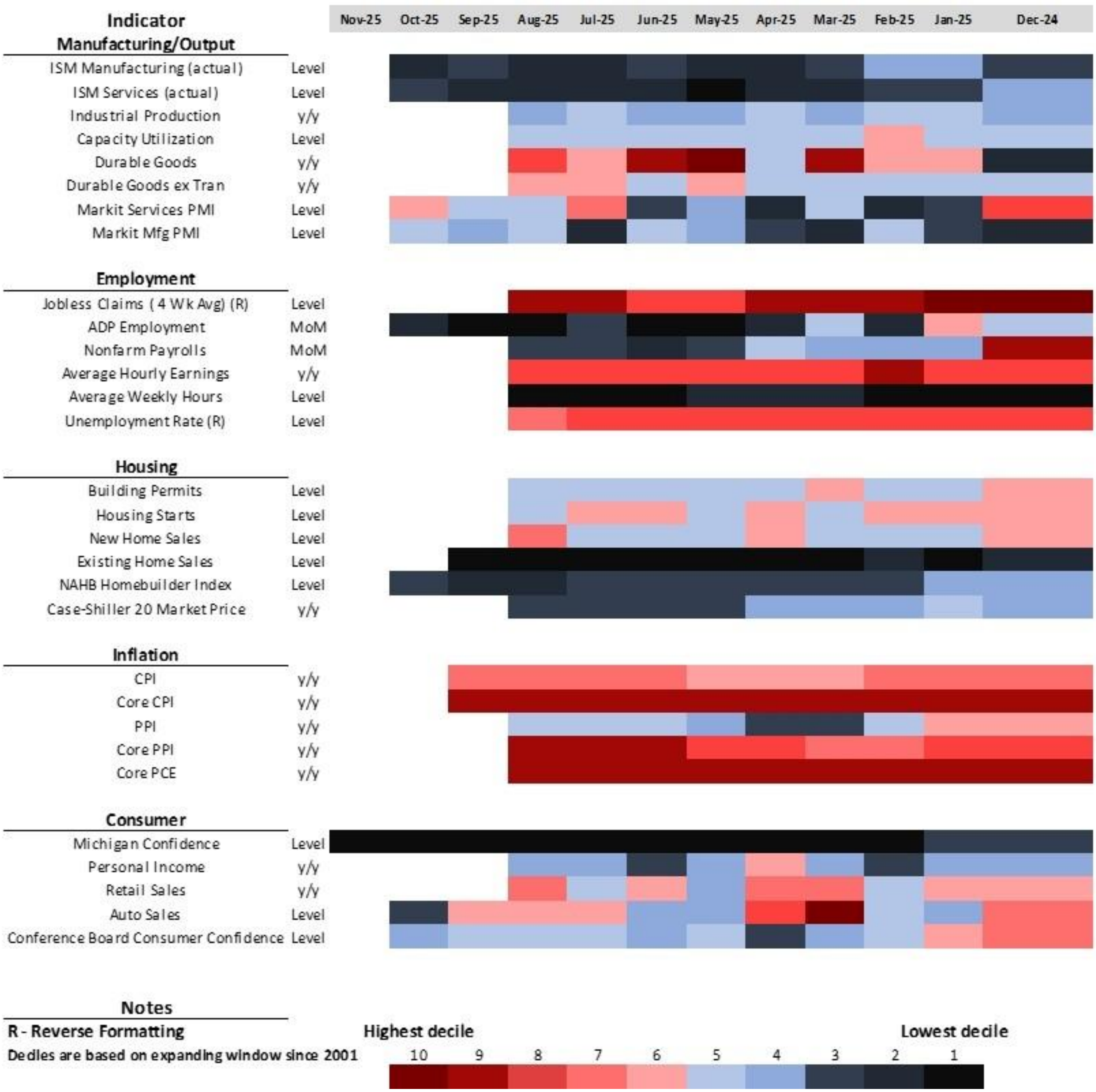




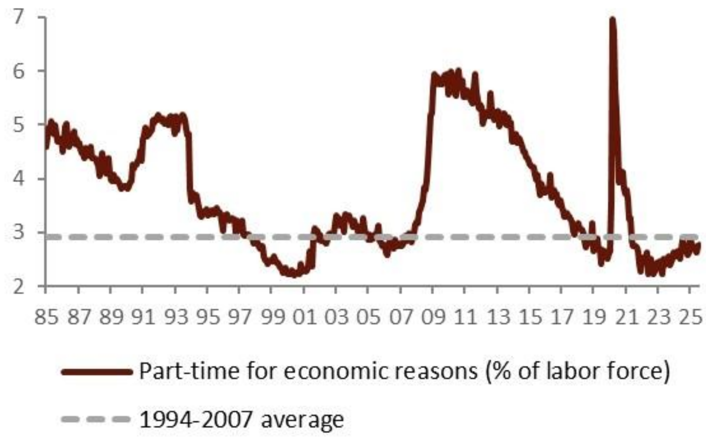
*Federal Reserve Bank of NY President always votes
Boxed individuals represent FOMC core

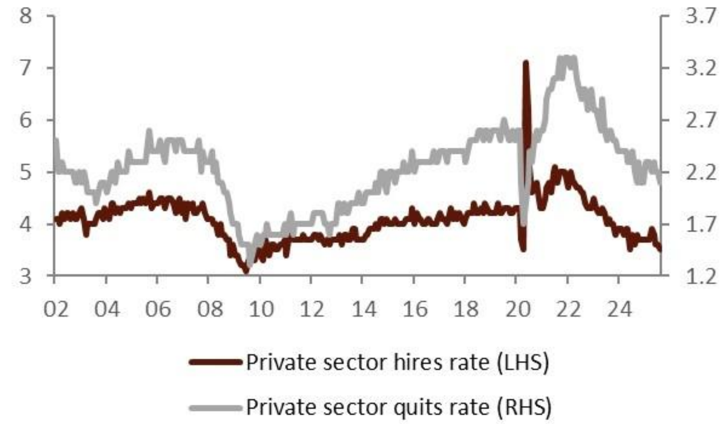
FOMC Forecasts	Median					Central Tendency				
	2025	2026	2027	2028	Longer run	2025	2026	2027	2028	Longer run
Change in real GDP	1.6	1.8	1.9	1.8	1.8	1.4–1.7	1.7–2.1	1.8–2.0	1.7–2.0	1.7–2.0
June projection	1.4	1.6	1.8		1.8	1.2–1.5	1.5–1.8	1.7–2.0		1.7–2.0
Unemployment rate	4.5	4.4	4.3	4.2	4.2	4.4–4.5	4.4–4.5	4.2–4.4	4.0–4.3	4.0–4.3
June projection	4.5	4.5	4.4		4.2	4.4–4.5	4.3–4.6	4.2–4.6		4.0–4.3
PCE inflation	3.0	2.6	2.1	2.0	2.0	2.9–3.0	2.4–2.7	2.0–2.2	2.0	2.0
June projection	3.0	2.4	2.1		2.0	2.8–3.2	2.3–2.6	2.0–2.2		2.0
Core PCE inflation	3.1	2.6	2.1	2.0		3.0–3.2	2.5–2.7	2.0–2.2	2.0	
June projection	3.1	2.4	2.1			2.9–3.4	2.3–2.7	2.0–2.2		
Projected policy path										
Fed funds rate	3.6	3.4	3.1	3.1	3.0	3.6–4.1	2.9–3.6	2.9–3.6	2.8–3.6	2.8–3.5
June projection	3.9	3.6	3.4		3.0	3.9–4.4	3.1–3.9	2.9–3.6		2.6–3.6

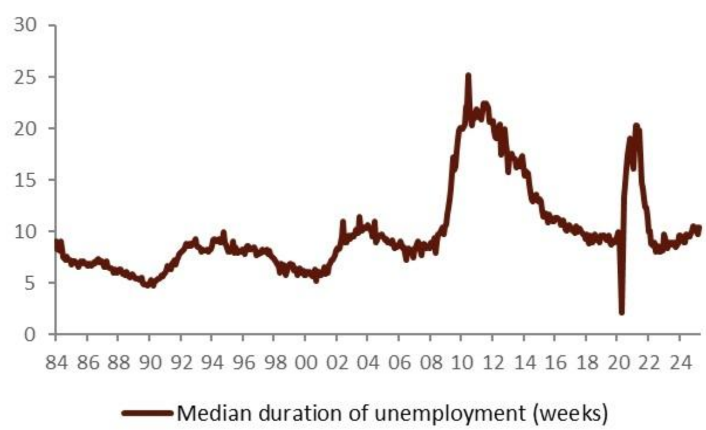
High frequency data heat-map

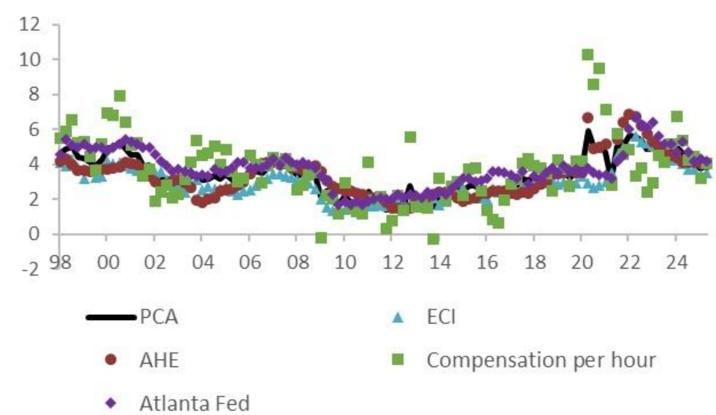


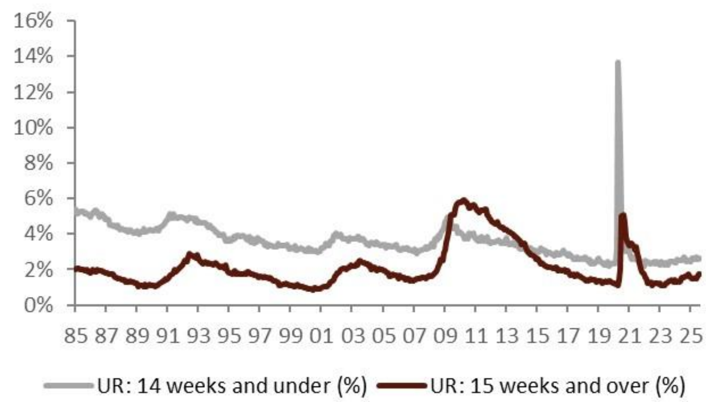
Labor market indicators

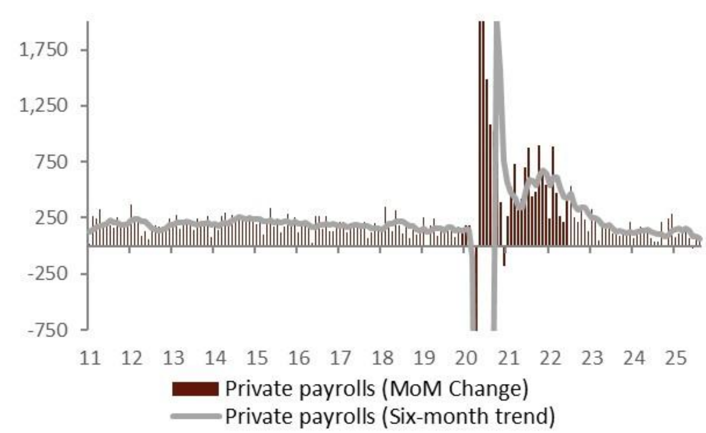




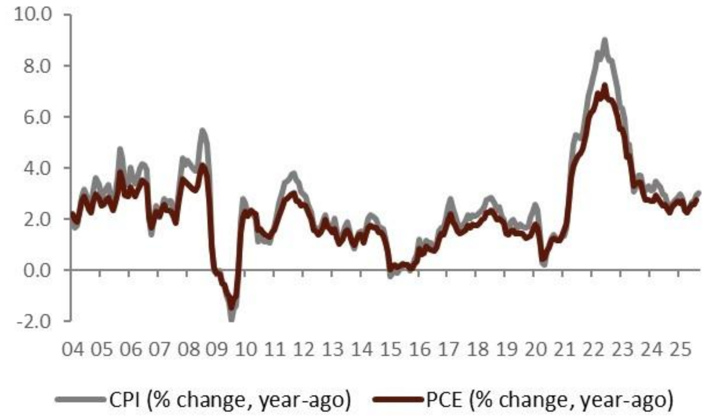


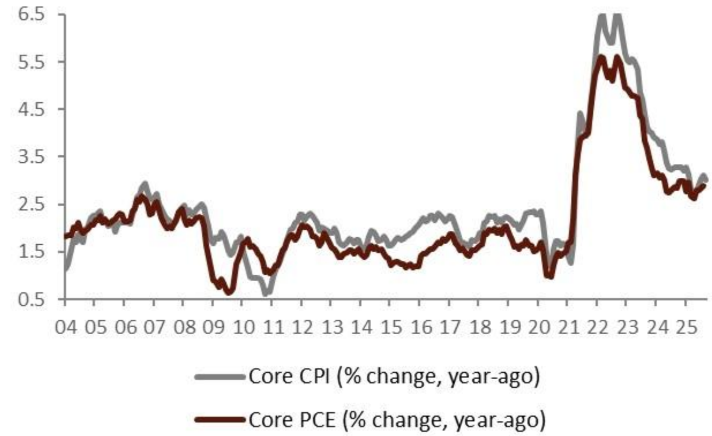


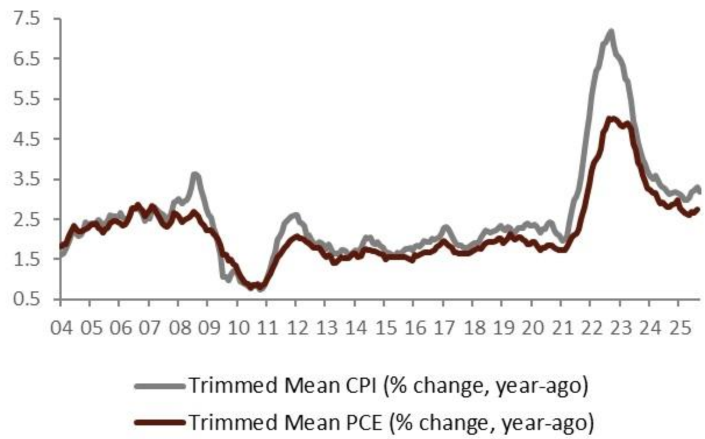


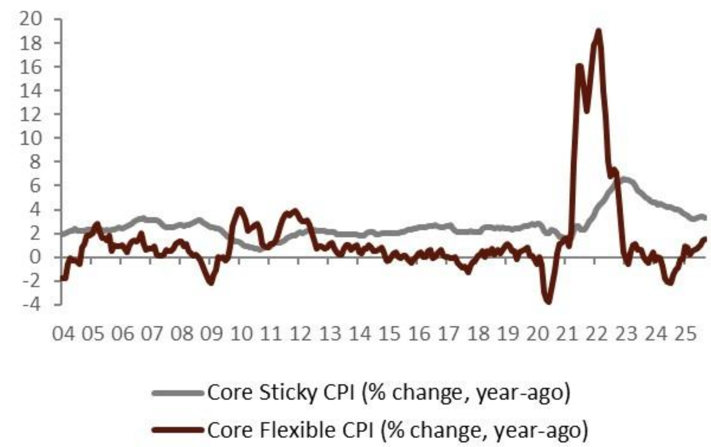


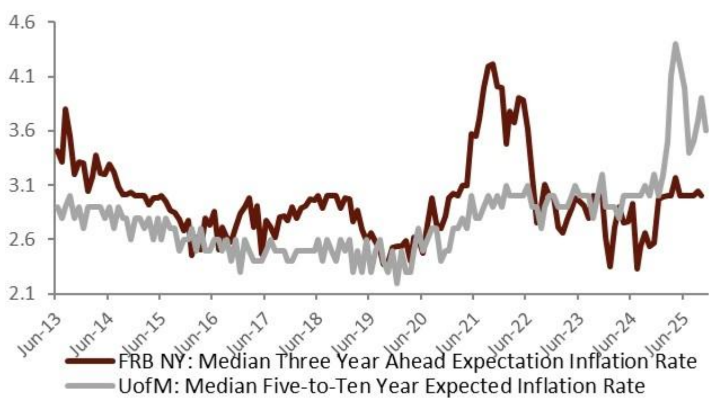
Inflation indicators

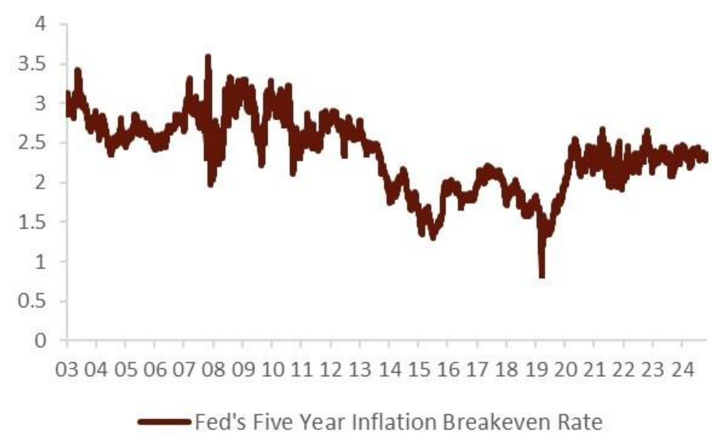




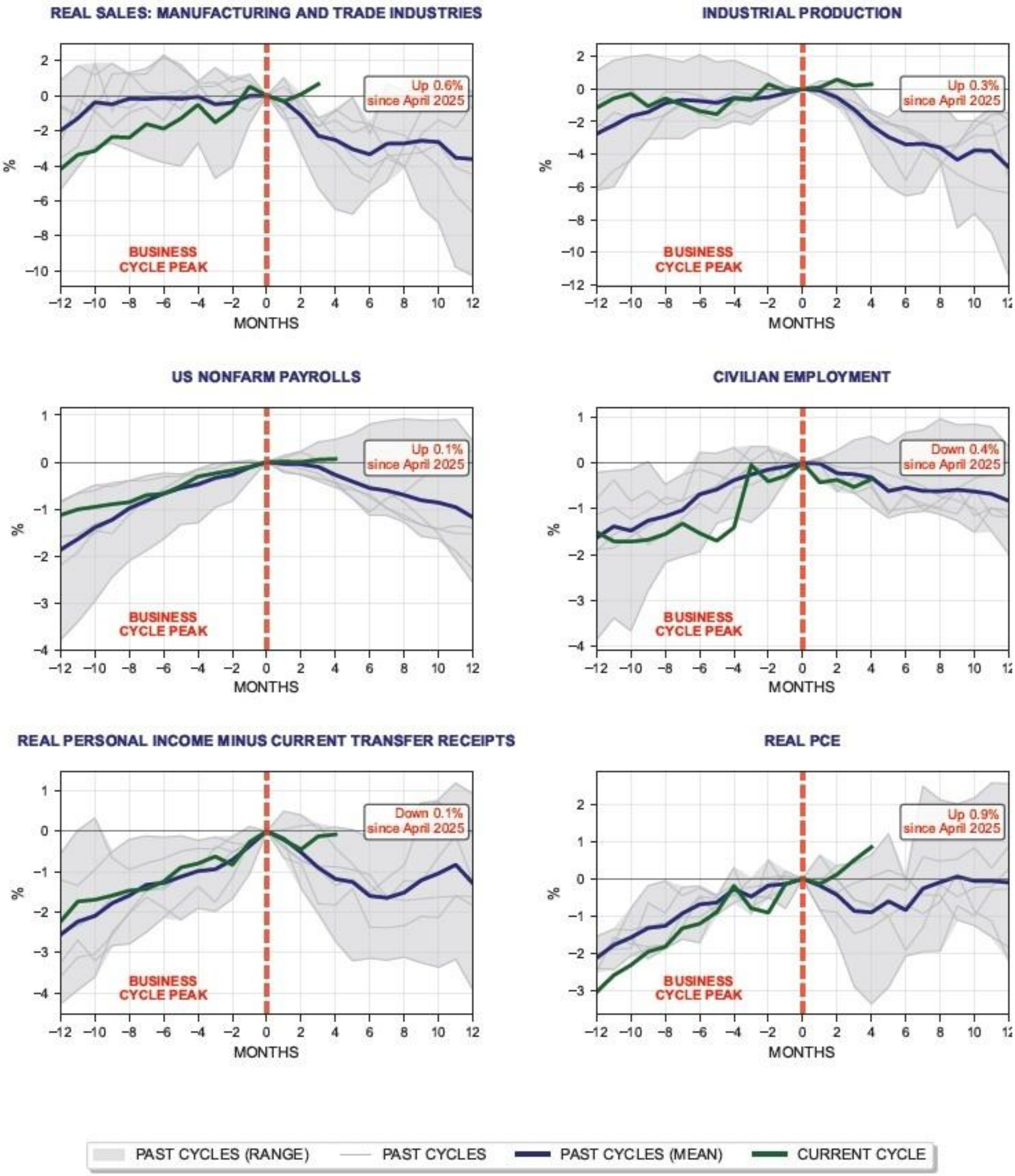




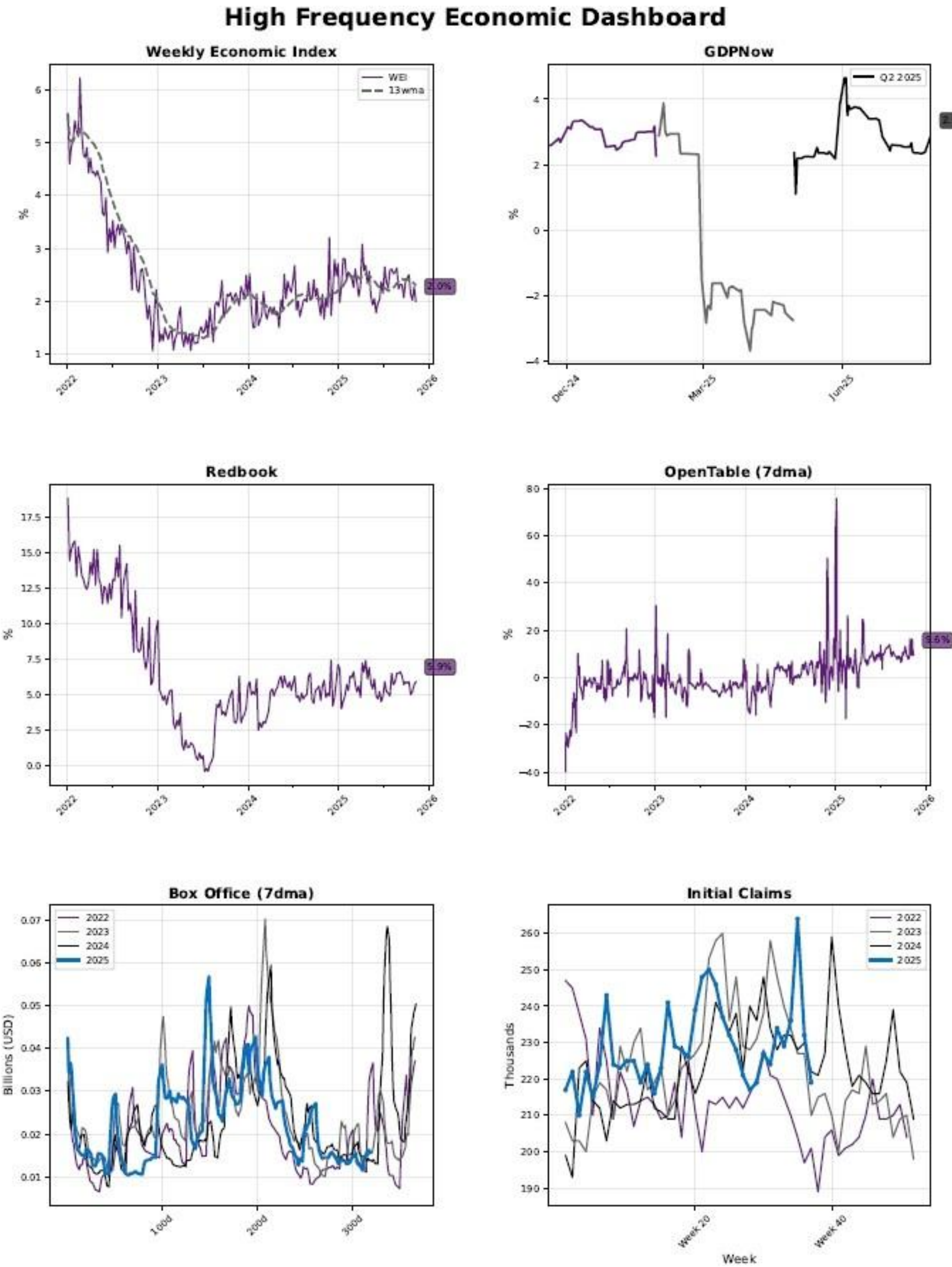




NBER RECESSION INDICATORS DASHBOARD



Past 7 cycles excluding Covid-19 period


High Frequency Economic Dashboard
Weekly Economic Index
WEI
13wma
GDPNow
Q2 2025
Redbook
OpenTable (7dma)
Box Office (7dma)
Billions (USD)
Initial Claims
Thousands
Week

High Frequency Economic Dashboard