October 28, 2025

Dutta's Monetary Thoughts

Not risk-free but pretty low-risk

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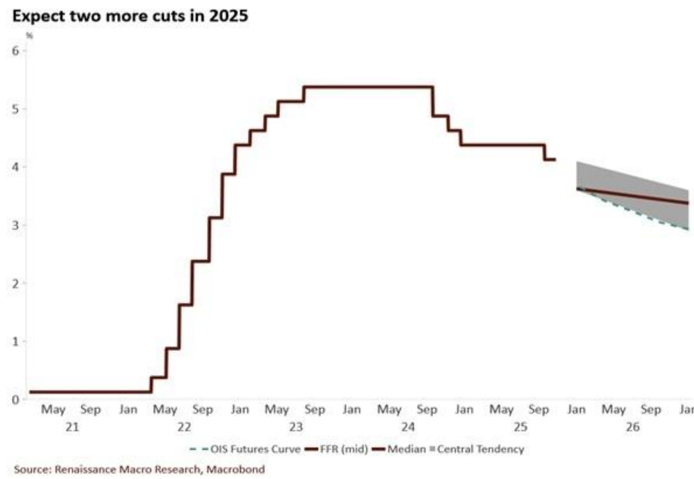
Another cut in October

It's hard to be data dependent when the data are not being released, but it's widely anticipated that the Fed will cut another 0.25ppt this week. That would take the upper bound of the federal funds rate to 4.00 percent.

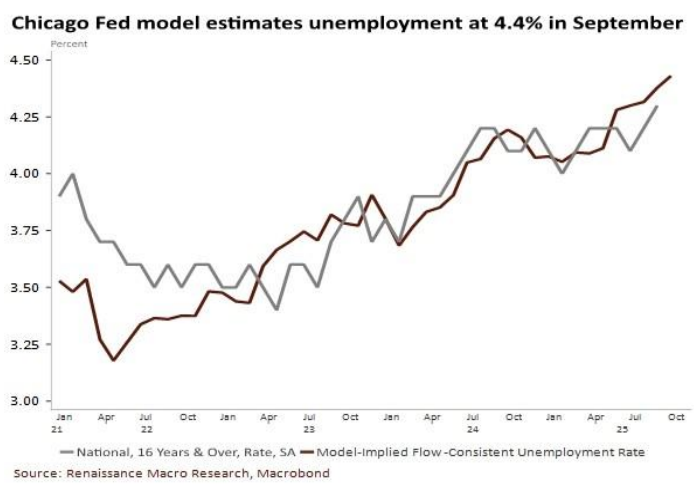
Powell talks of no risk-free path, but another quarter-point rate cut feels like a very low risk move. Labor market slack continues to build and there is reason to expect inflation to cool as a result.



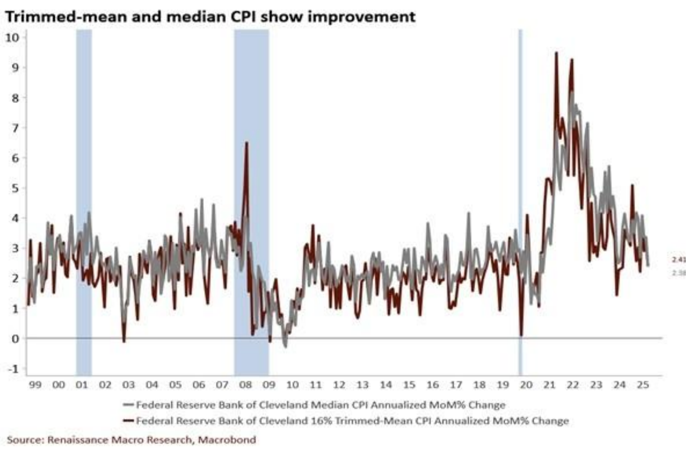
Labor market slack is building

Let's start with the jobs market. Had the September employment data been released, a model estimate from the Chicago Fed concludes that the unemployment rate likely would have increased another tenth to 4.4 percent. Into Q4, we see that job openings have been sliding, week in and week out. As we've noted, the labor market is operating along a point in the Beveridge Curve where declines in labor demand imply a more rapid increase in the unemployment rate.

Next, anecdotally, layoff news appears to have perked up somewhat. [Amazon](), [Nestle](), [Molson Coors](), [Target](), [Applied Materials](), [Charter Communications](), [Carter's]() and [GM]() have all announced layoffs in the last week. What strikes us about these announcements is that the cast a fairly wide net across different industries in the economy.

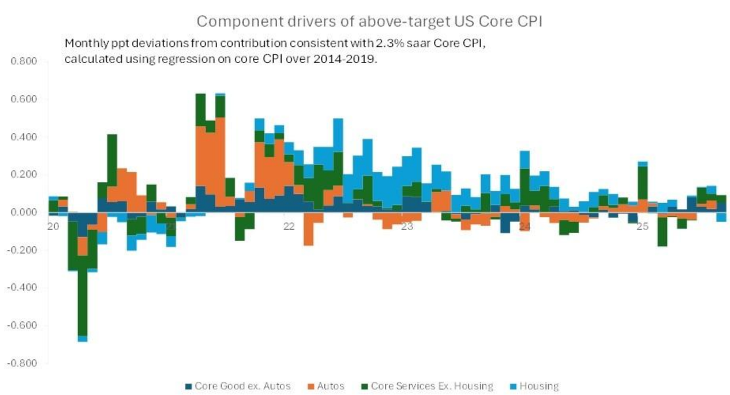


Finally, unemployment appears to be climbing across the English-speaking world. In the most recent month of data, unemployment rates have increased in Australia and United Kingdom. In Canada, the unemployment rate stands at a cycle high. This would lend support to the notion that there is a common factor across these economies pushing unemployment up – weaker labor demand.



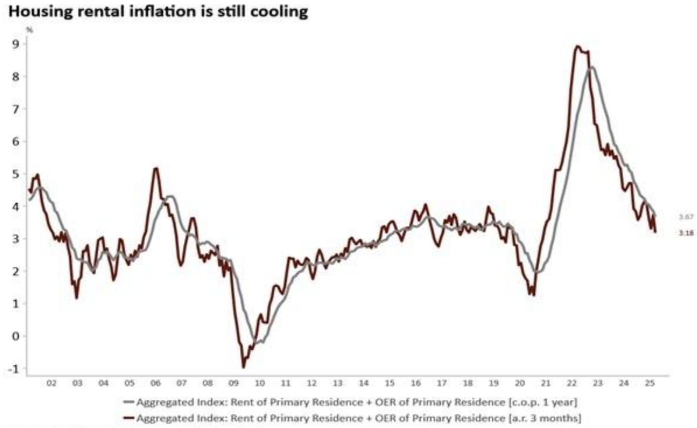
Underlying inflation easing

Next, inflation concerns ought to be fading, at the margin. In September, underlying inflation measures eased; trimmed-mean and median CPI both slid over the month. Most empirical research finds that trimmed mean and median measures are less biased and more closely track the persistent component of inflation, providing a more accurate signal of true inflation trends. Thus, it is fair to conclude that the drop in trimmed-mean and median CPI reflects an improvement in underlying inflation.



The gap in core inflation relative to the Fed's target is mostly non-auto core commodities and that is about tariffs. Put differently, in the absence of tariffs, inflation is running at target. Our nearby figure provides the illustration, showing monthly deviations consistent with 2.3 percent core CPI inflation – recall that core CPI tends to run somewhat above core PCE historically, so the CPI "target" is somewhat above the formal PCE one.

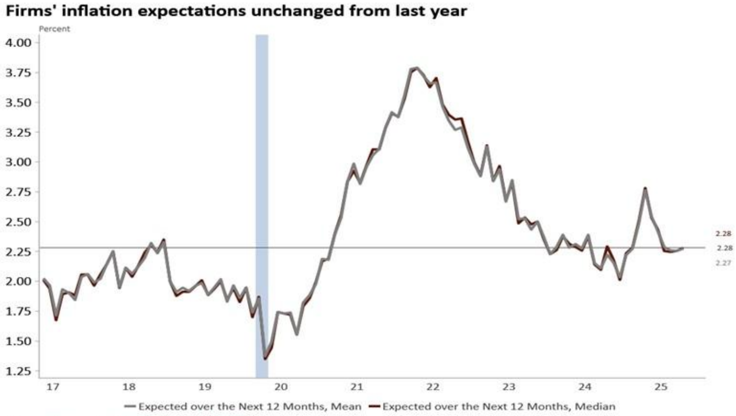
Housing rental inflation is still cooling



Source: Renaissance Macro Research, Macrobond

The figure also shows that housing is contributing less than what's consistent with two percent inflation. I suspect that housing rental inflation continues to cool off in the year-ahead. After all, official measures tend to lag market-based measures of rents as market-based rents continue to ease and vacancy rates climb.

Firms' inflation expectations unchanged from last year



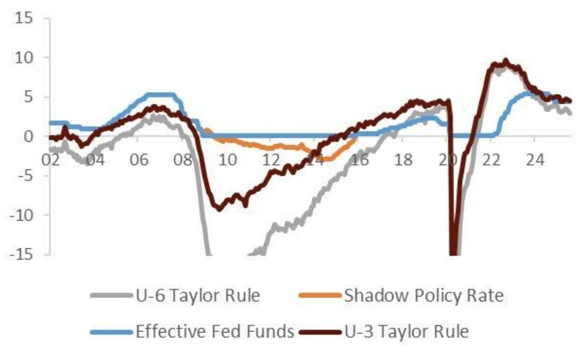
Source: Renaissance Macro Research, Macrobond

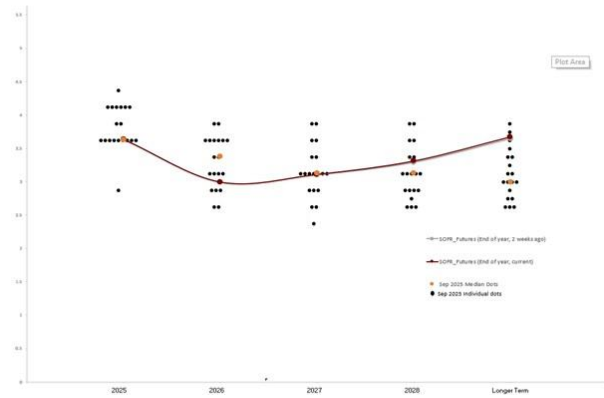
Finally, business inflation expectations remain anchored.

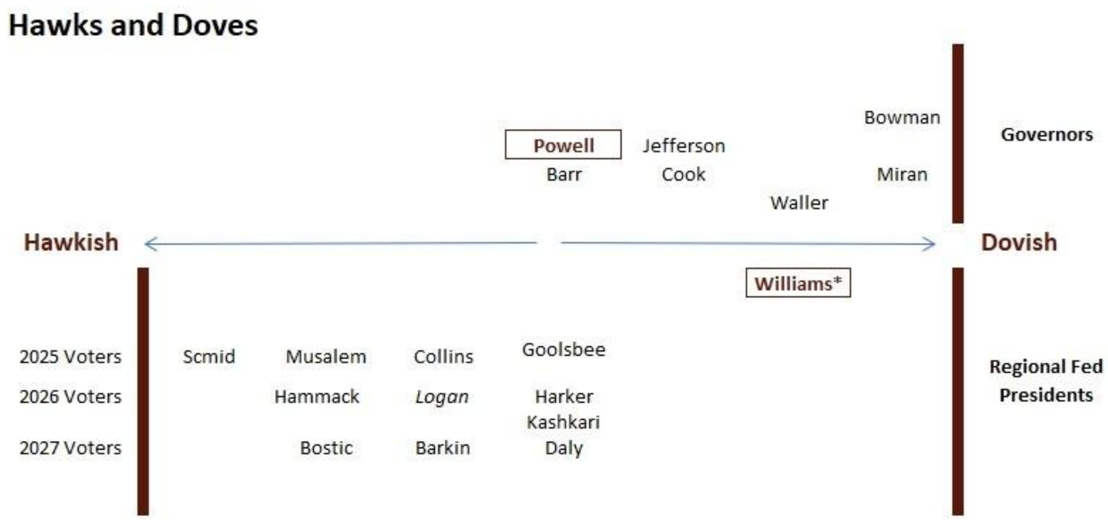
According to the Atlanta Fed's Business Inflation Expectations Survey, firms' year-ahead inflation expectations remain unchanged at 2.3% in October. This is exactly where this series stood in October 2024. Consumer attitudes tend to be shaped primarily by those goods and services they purchase frequently, such as food and gasoline, while businesses tend to take on a wider range of information.

In short, labor market slack is increasing, underlying inflation is cooling, and actual inflation will continue to cool as tariff-effects fade and as housing rents ebb. Cutting for the rest of the year is very low risk.

Monetary metrics



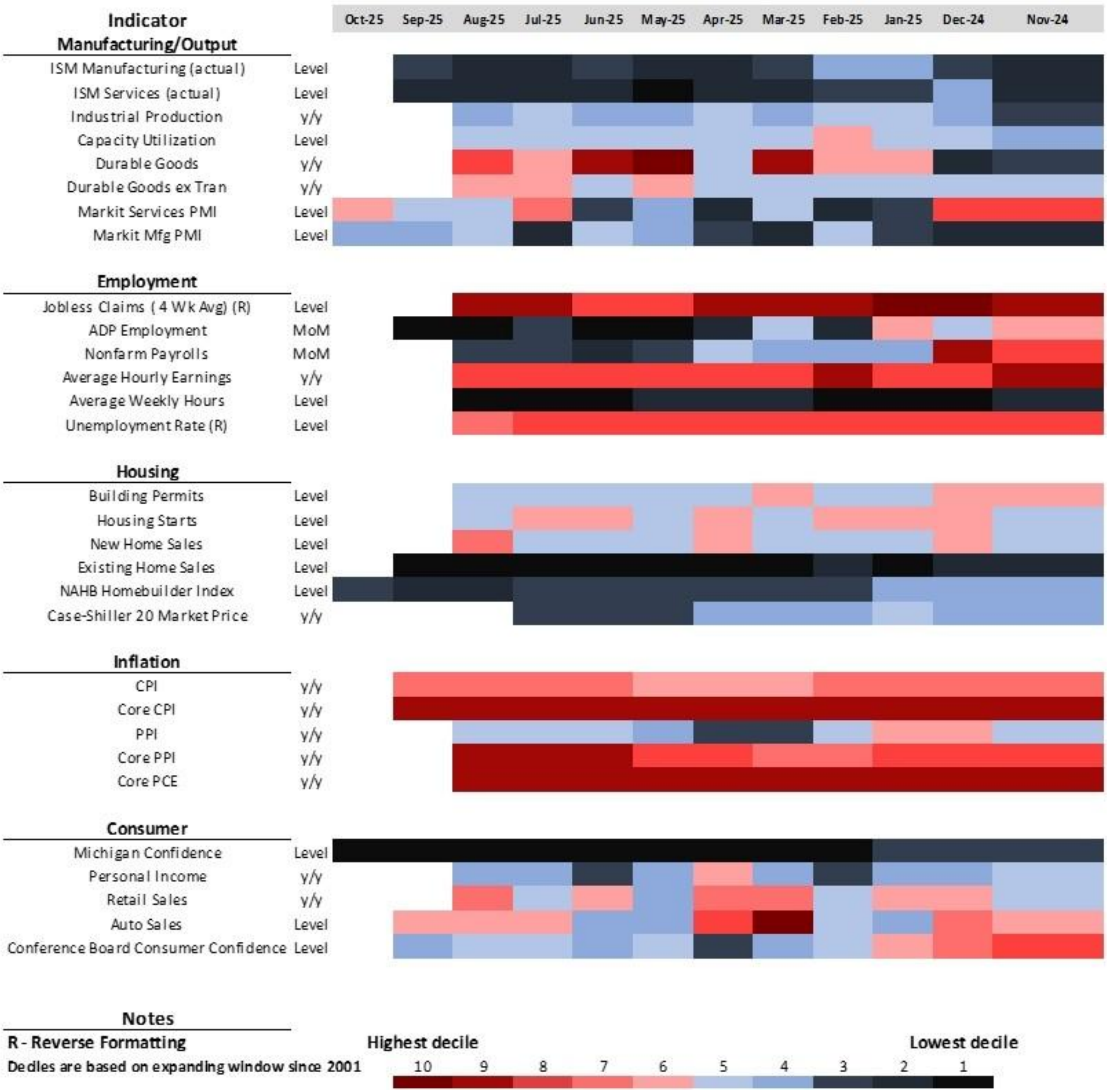




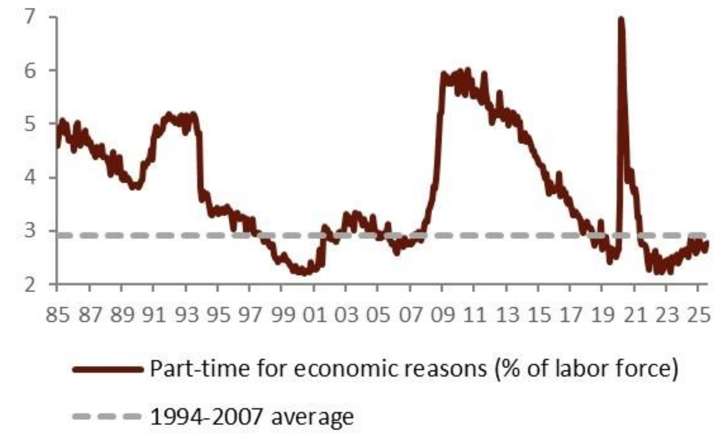
*Federal Reserve Bank of NY President always votes
Boxed individuals represent FOMC core

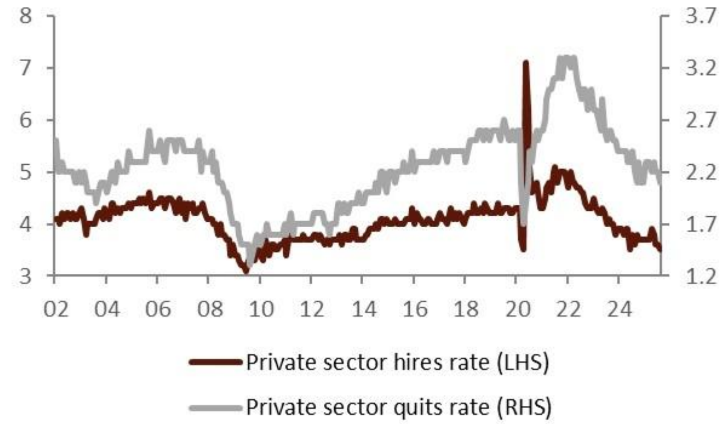
FOMC Forecasts	Median					Central Tendency				
	2025	2026	2027	2028	Longer run	2025	2026	2027	2028	Longer run
Change in real GDP	1.6	1.8	1.9	1.8	1.8	1.4–1.7	1.7–2.1	1.8–2.0	1.7–2.0	1.7–2.0
June projection	1.4	1.6	1.8		1.8	1.2–1.5	1.5–1.8	1.7–2.0		1.7–2.0
Unemployment rate	4.5	4.4	4.3	4.2	4.2	4.4–4.5	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

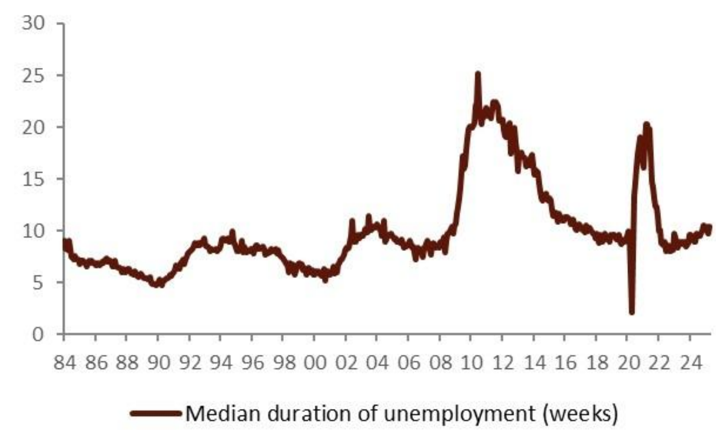
High frequency data heat-map

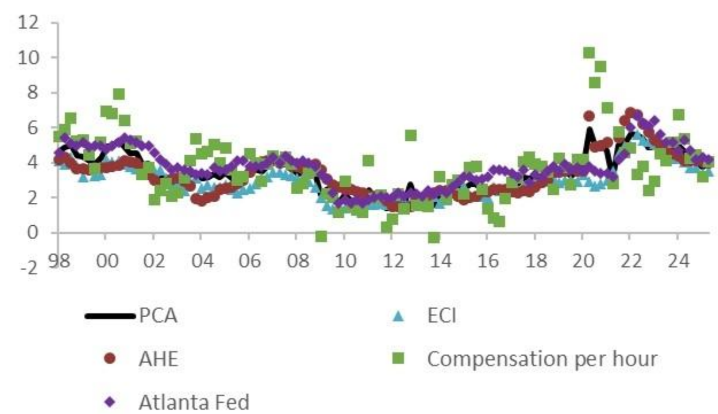


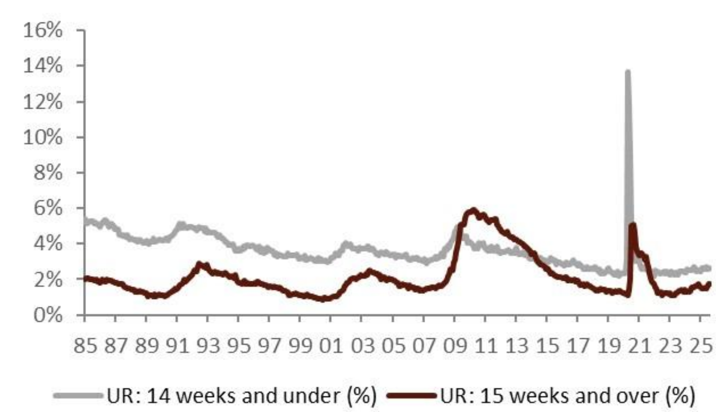
Labor market indicators

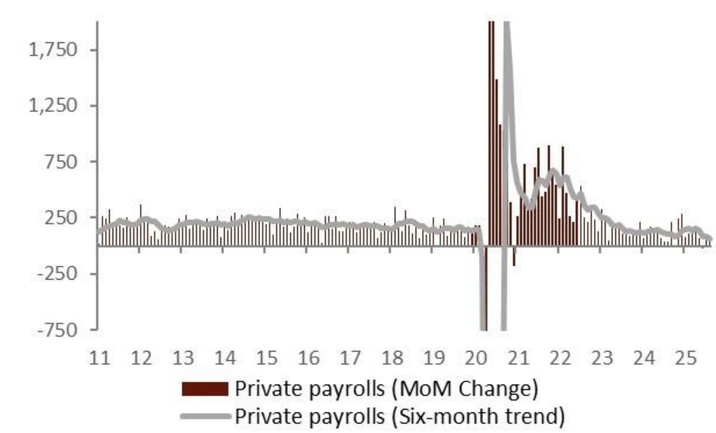




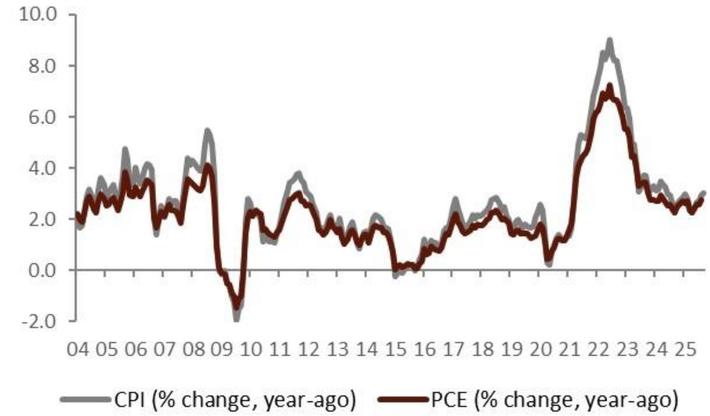


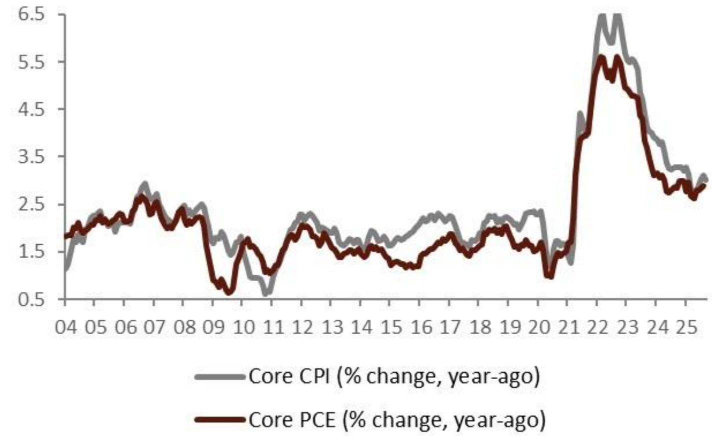


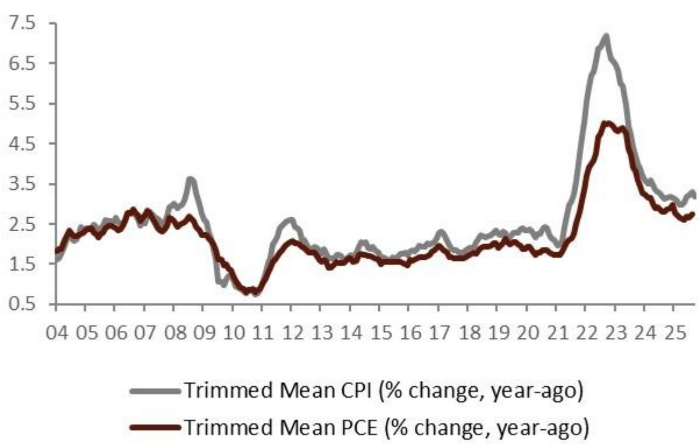


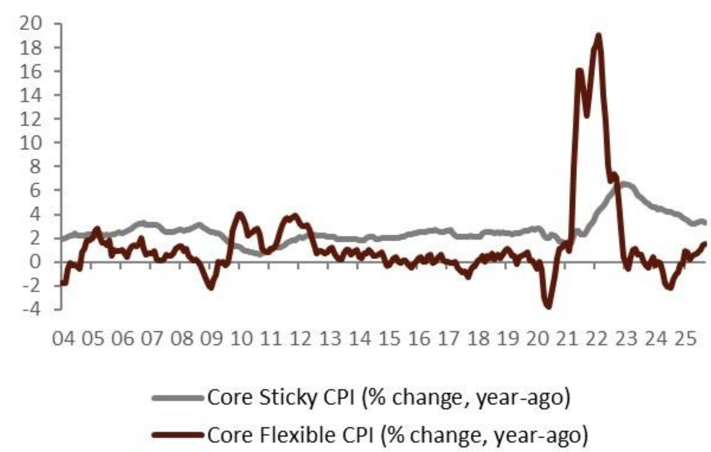


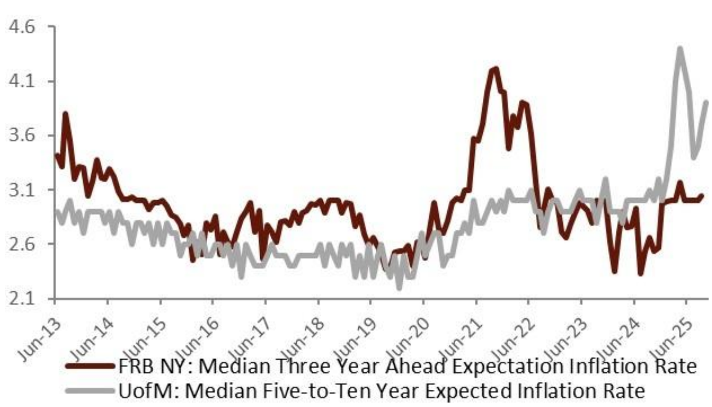
Inflation indicators

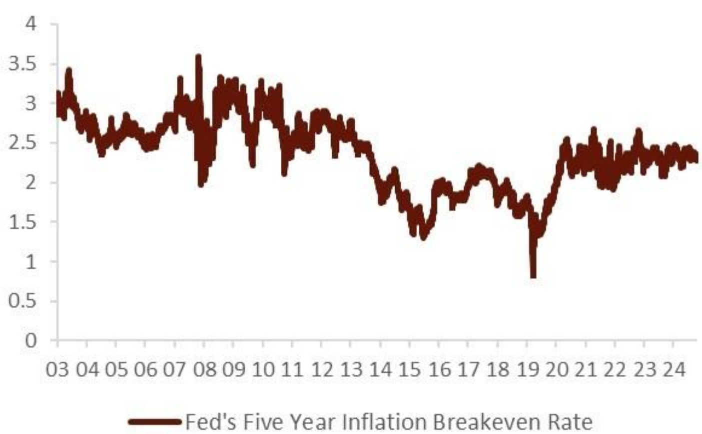




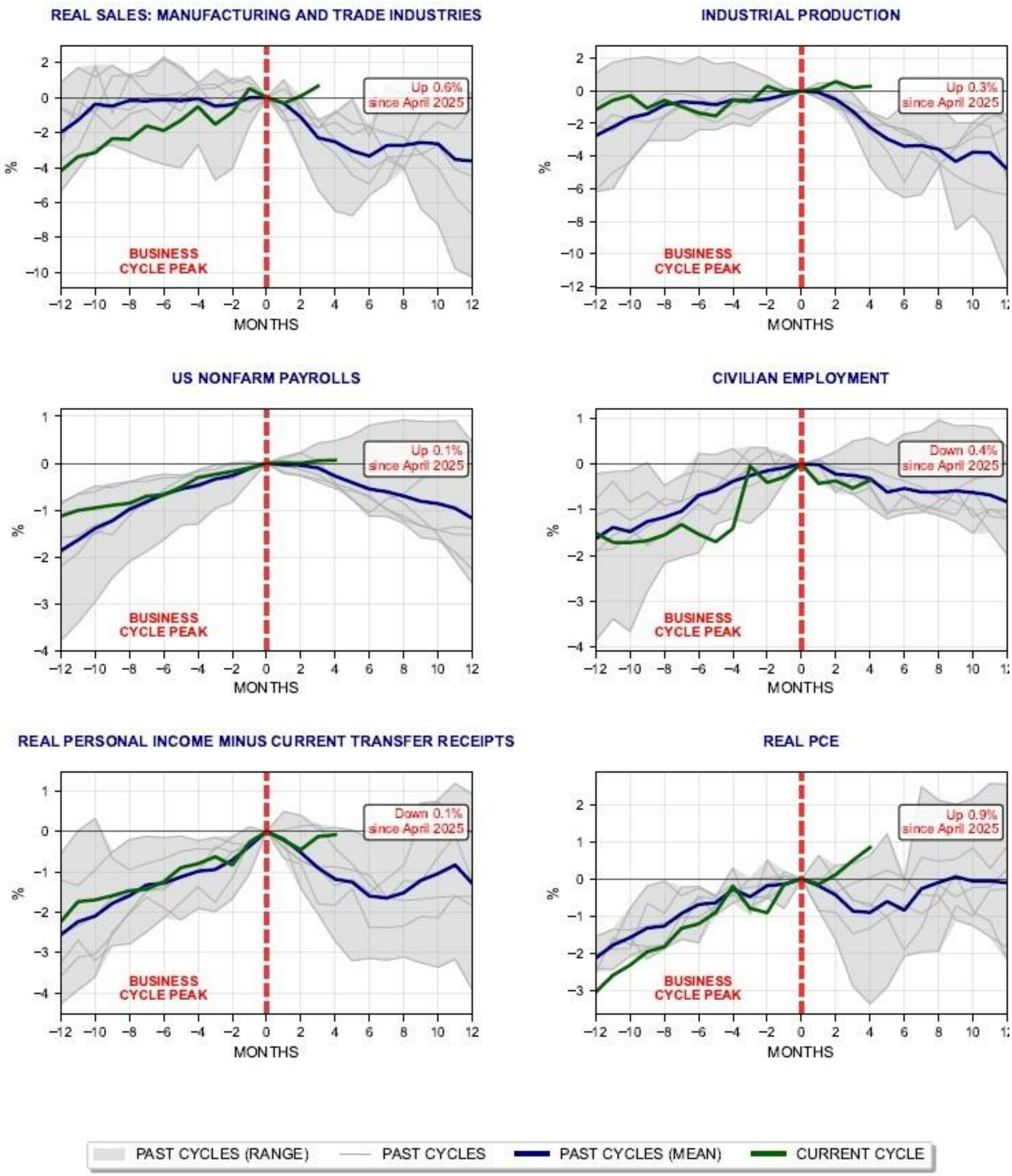






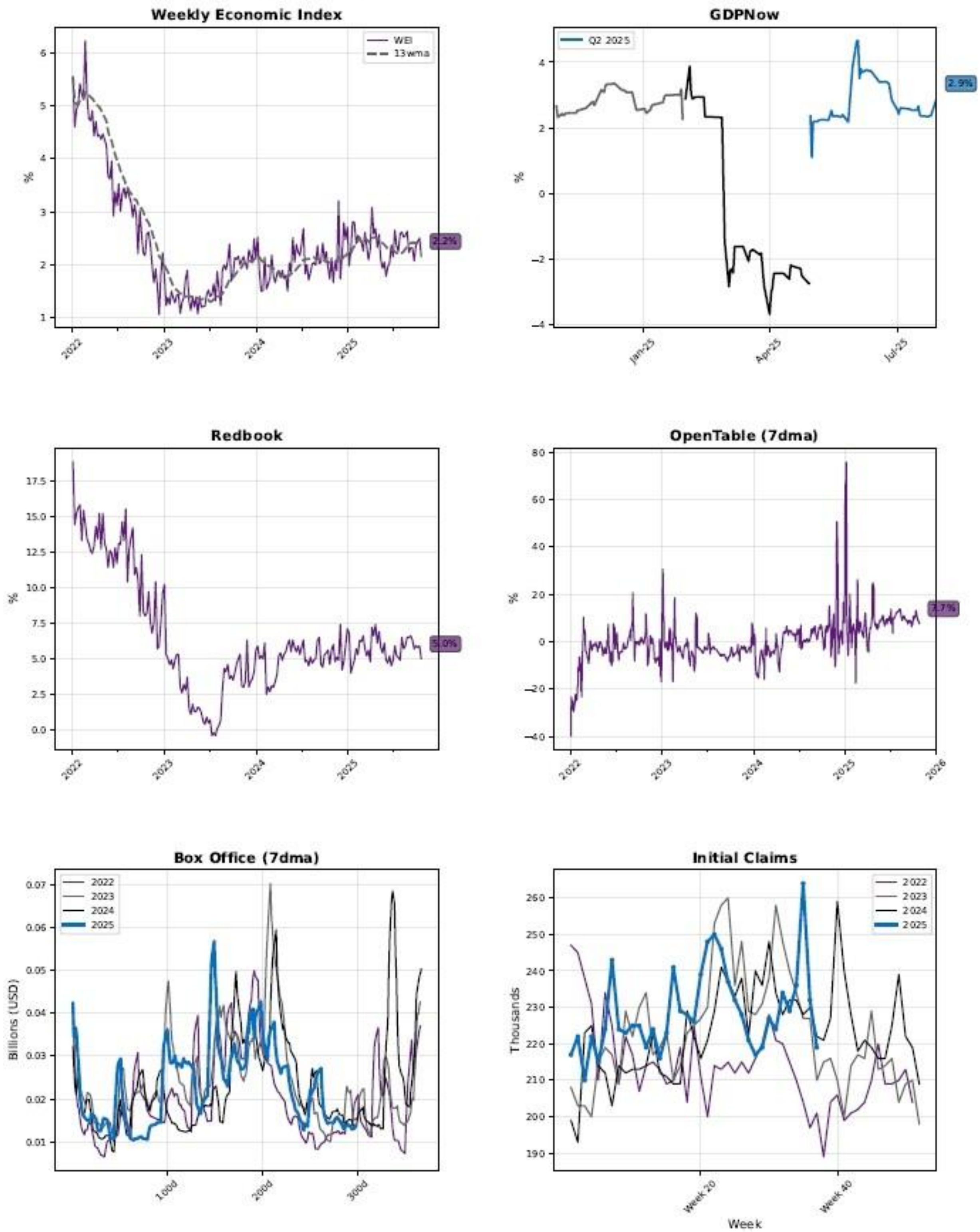


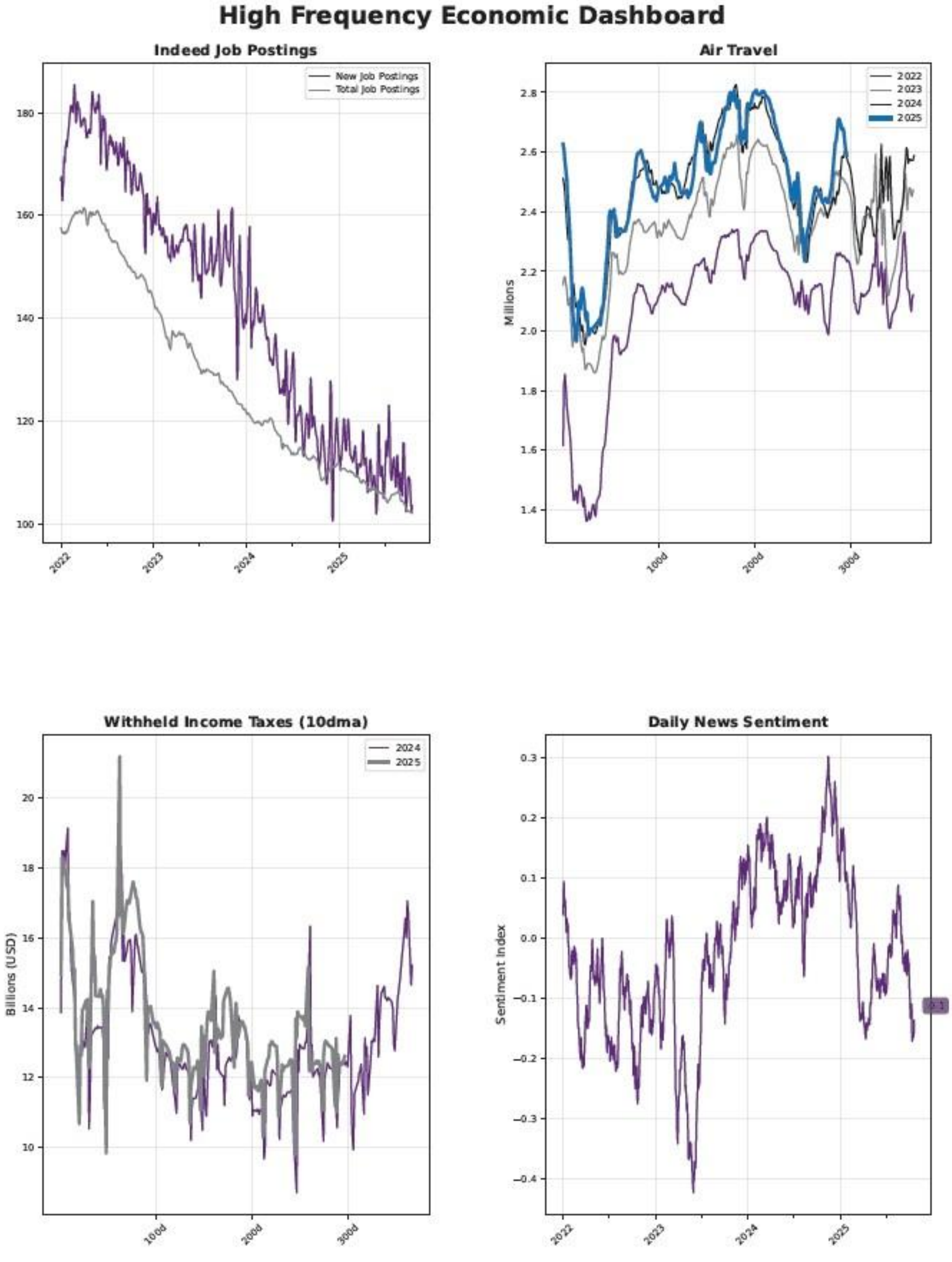
NBER RECESSION INDICATORS DASHBOARD



Past 7 cycles excluding Covid-19 period

High Frequency Economic Dashboard




High Frequency Economic Dashboard
Indeed Job Postings
New Job Postings
Total Job Postings
180
160
140
120
100
2022
2023
2024
2025
Air Travel
2022
2023
2024
2025
Millions
2.8
2.6
2.4
2.2
2.0
1.8
1.6
1.4
100d
200d
300d
Withheld Income Taxes (10dma)
2024
2025
Billions (USD)
20
18
16
14
12
10
100d
200d
300d
Daily News Sentiment
Sentiment Index
0.3
0.2
0.1
0.0
−0.1
−0.2
−0.3
−0.4
2022
2023
2024
2025