Rate Cuts Incoming

Jobs report, dissents, and a new rate cut forecast

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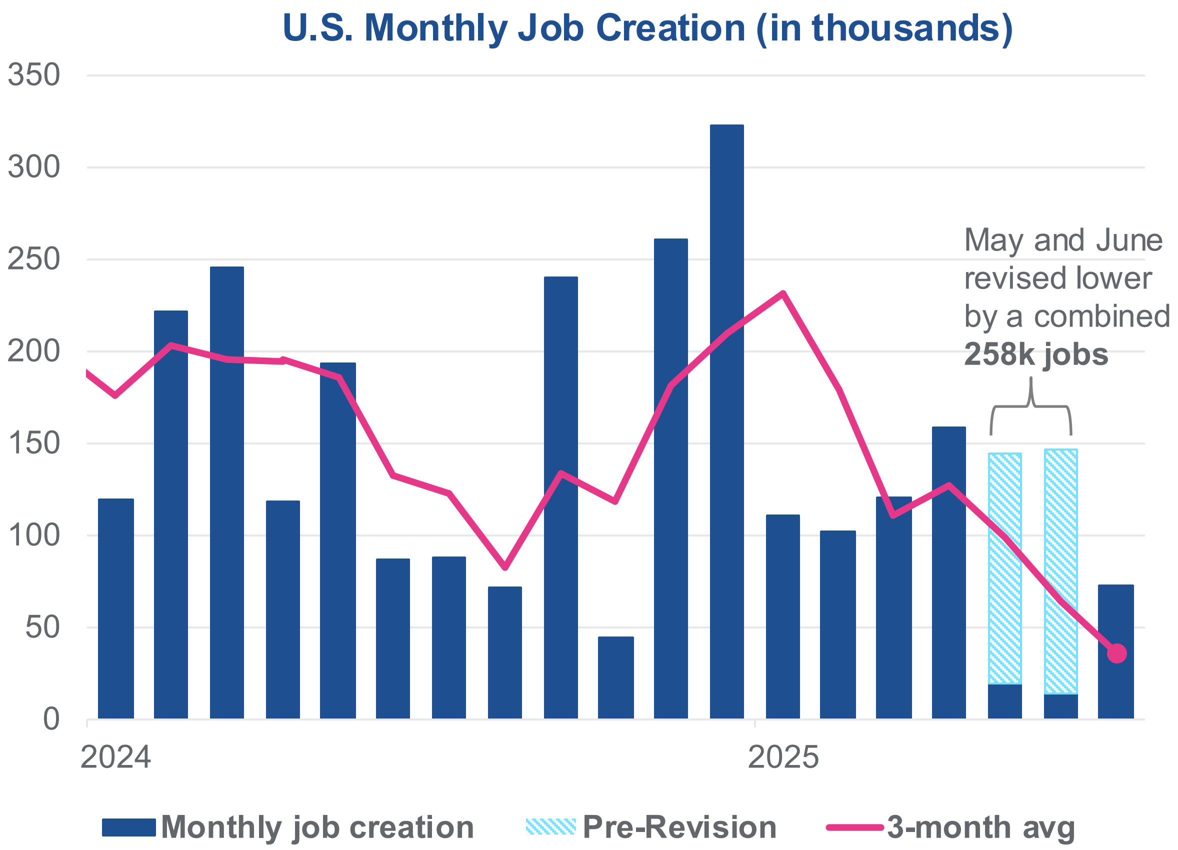
Overview and Key Takeaways

The latest Jobs Report casts doubt on the Fed's (and many economists') narrative that the labor market is on solid footing. New data now show that job creation is near stall speed and other areas of the economy are slowing as well. This data, combined with a growing view that the impact of tariffs on inflation will be neither as significant as first anticipated (though still meaningful) nor as persistent, is likely to lead the Fed to cut rates at their September meeting. **Our latest view is that the Fed will make three 25bp (up from two) cuts in 2025 – one at each of their next three meetings in September, October, and December.**

- The July Jobs report showed job creation slowing to 73,000, but the big story was the significant downward revisions to May and June, showing employers added 258,000 fewer jobs than previously thought. This brings average monthly job creation over the last three months down to 35,000 – the slowest pace since 2020. There remains disagreement about what is driving the slowdown – is it the supply side from fewer immigrants looking for work or is it the demand side from employers slowing hiring? Likely a combination of both.
- In addition to a slowing labor market, weakness is showing up in measures of consumer spending, business investment, and income growth – dynamics that highlight growing risks to the economy.
- Even before the weaker-than-expected Jobs Report, Fed officials debated the merits of a rate cut prior to deciding to hold rates steady at their July meeting. However, two Fed Governors publicly dissented, citing concern for rising risk in the labor market as a reason to cut rates. This was the first time two Governors dissented at a meeting in over 30 years.
- Inflation expectations for consumers and business have receded roughly to pre "Liberation Day" levels, which signal tariffs may not have the dramatic impact initially feared, and that risks may be higher on the employment side of the Fed's dual mandate – thus a reason to cut rates

Big Revisions to Job Creation Casts Doubt on Strength of Labor Market

Latest data shows 3-month avg job creation running at only 35,000 per month – the lowest level since 2020



Headlines After the July Jobs Report

Big Downward Jobs Revisions Could Be a Warning Sign for the Economy

Trump Orders Firing of Bureau of Labor Statistics Chief

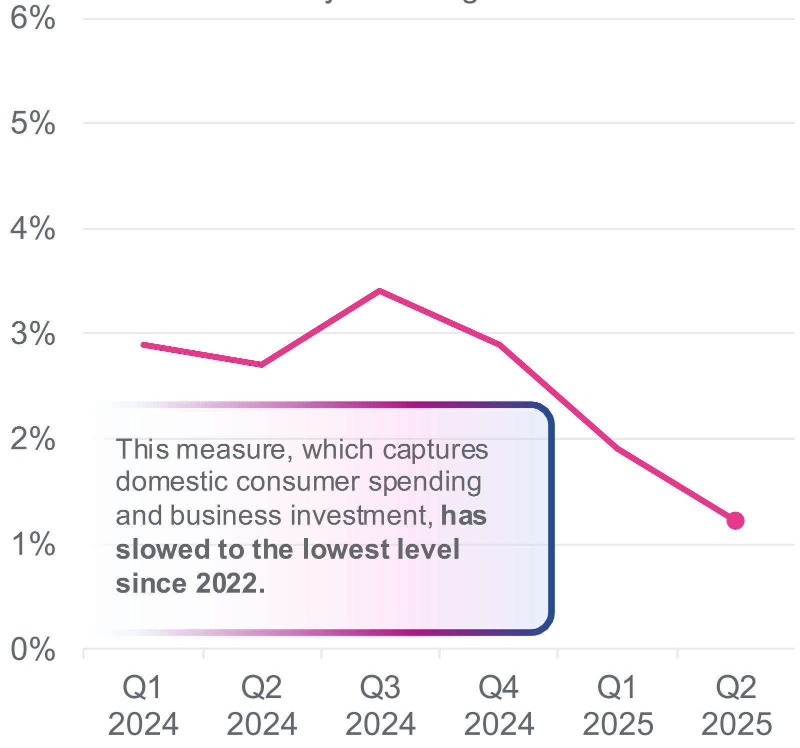
The Jobs Report Stunned. The Fed Has to Recalculate.

Sources: Bureau of Labor Statistics, New York Times, Barrons, WSJ, and Experian Economic Strategy Group

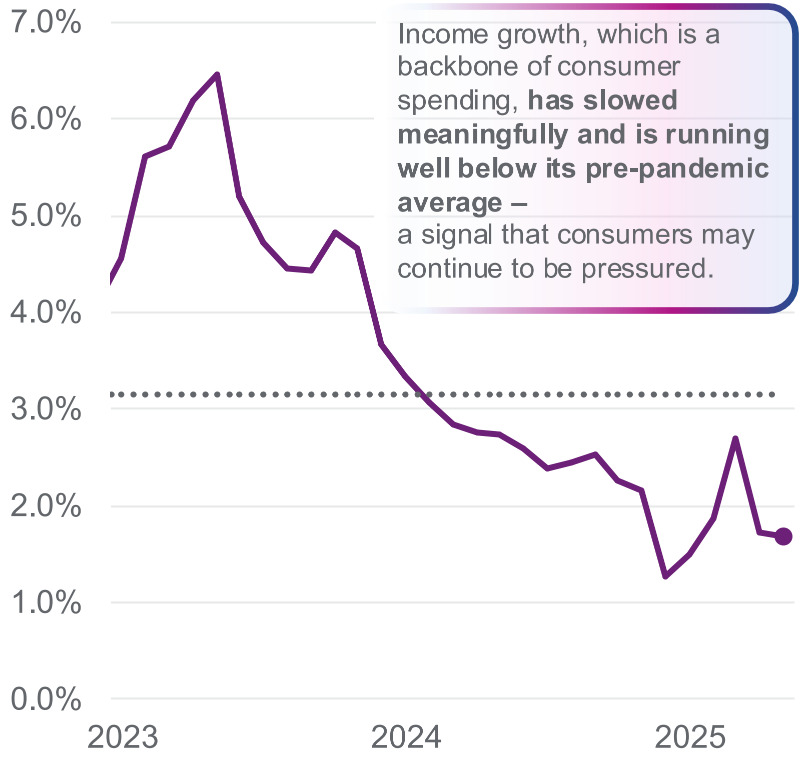
Other signals flashing caution and potential need for rate cuts

The latest job creation figures are not the only reason to be hesitant about the outlook

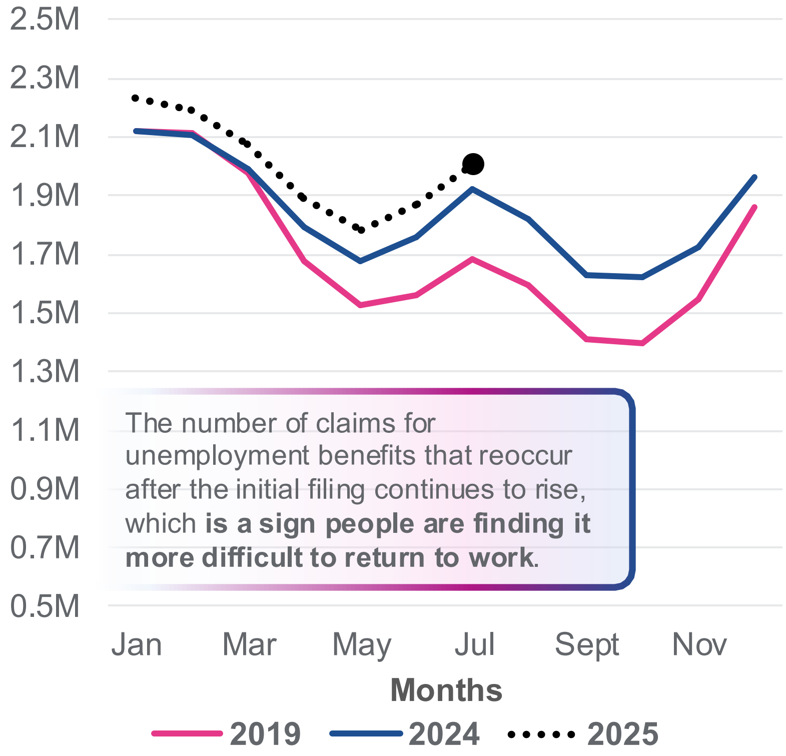
Real Final Sales to Private Domestic Purchasers
Quarterly % Change SAAR



Real Disposable Personal Income:
Monthly YoY % Change



Continued Unemployment Claims
Monthly Average, NSA

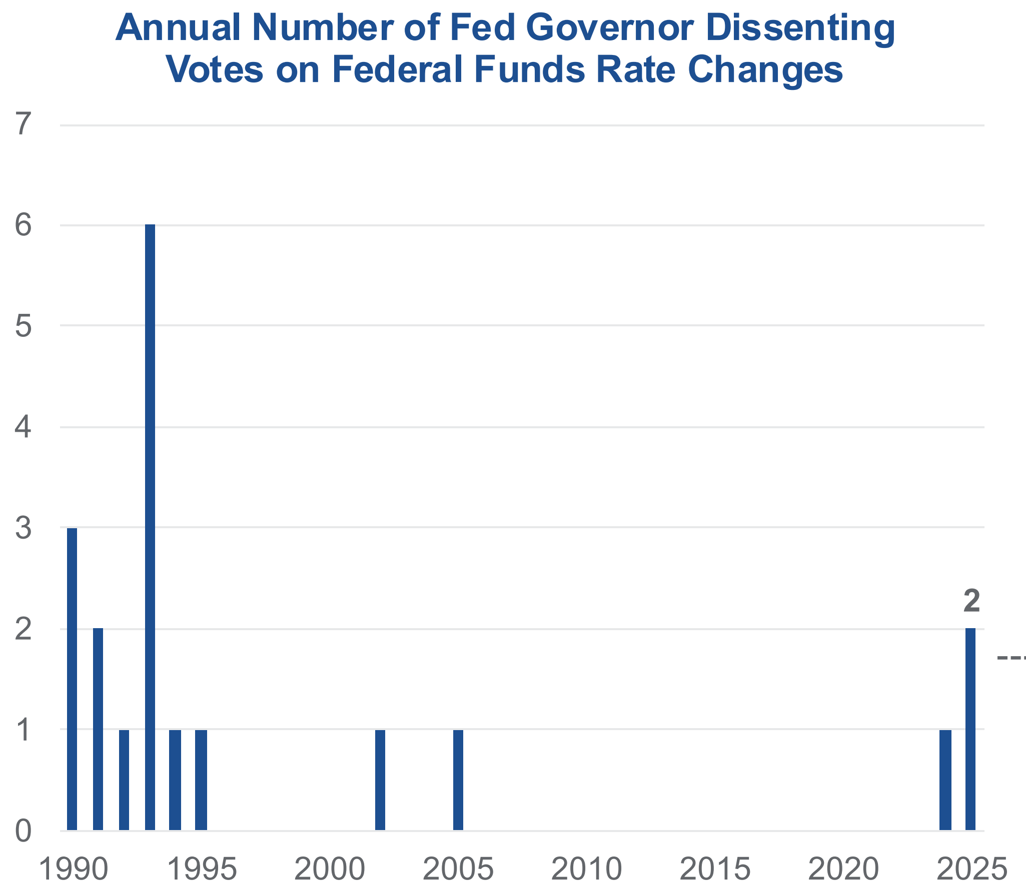


Sources: Bureau of Economic Analysis, Department of Labor, and Experian Economic Strategy Group

  8/8/2025

Two Fed Governors Wanted to Lower Rates at July FOMC Meeting

It was the first time two Fed governors dissented at a meeting since 1993. The dissenters, Waller and Bowman, highlighted the potential for further labor market weakness.



Christopher Waller

“**First, tariffs are one-off increases in the price level and do not cause inflation beyond a temporary increase. Standard central banking practice is to "look through"** such price-level effects as long as inflation expectations are anchored, which they are.”

“Second, a host of data argues that **monetary policy should now be close to neutral, not restrictive**.”

“My final reason to favor a cut now is that while the labor market looks fine on the surface, once we account for expected data revisions, private-sector payroll growth is near stall speed, and other **data suggest that the downside risks to the labor market have increased**.”

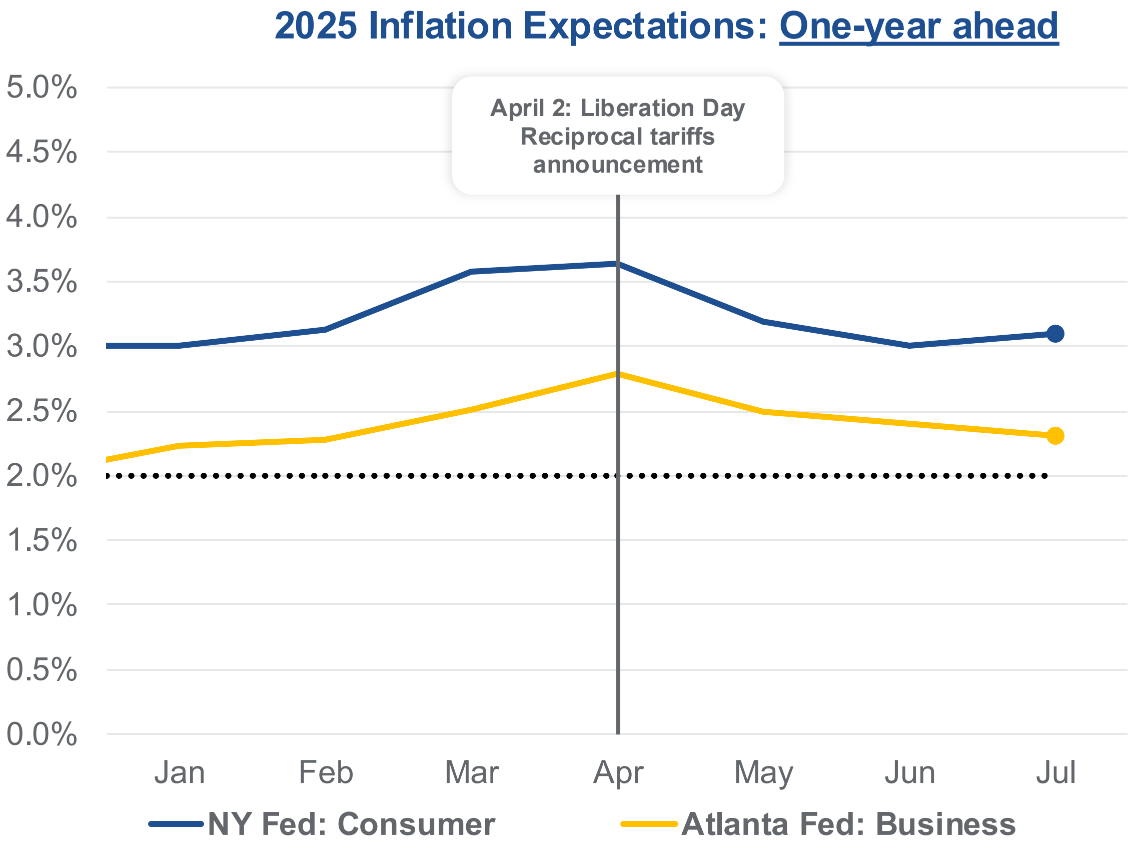
Michelle Bowman

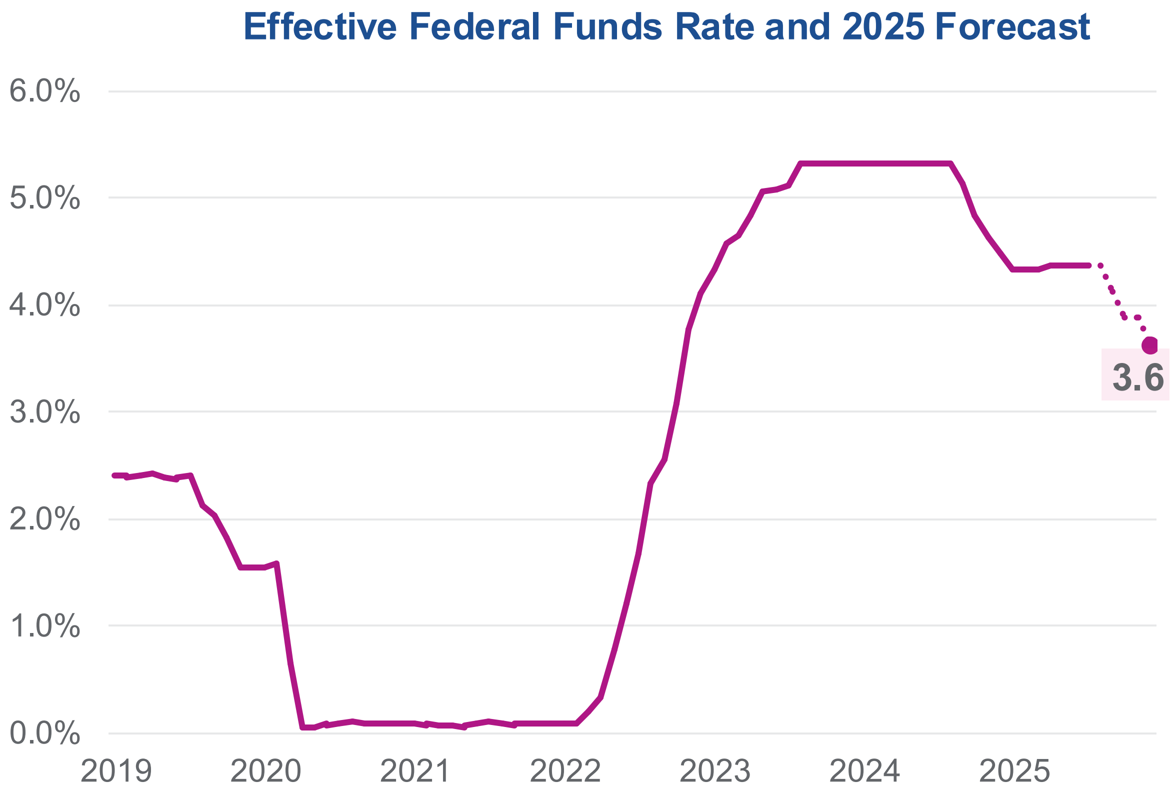
"**With economic growth slowing this year and signs of a less dynamic labor market, I saw it as appropriate to begin gradually moving our moderately restrictive policy stance toward a neutral setting.** In my view, this action would have proactively hedged against a further weakening in the economy and the risk of damage to the labor market.”

Sources: Federal Reserve and Experian Economic Strategy Group

While still Elevated, Year-Ahead Inflation Expectations have Eased

Given the less-than-feared impact of tariffs on inflation and the totality of risks to the economy, our view is now that the Fed will make three 25bp rate cuts in 2025.





Sources: Federal Reserve Bank of New York, Federal Reserve Bank of Atlanta, and Experian Economic Strategy Group

