
Weekly Market Flash

Forecast for Jackson Hole Is Cloudy and Unpredictable

August 15, 2025

Well, it's that time of the year again (seriously, how did it get to be the second half of August already?). The world's great and good central bankers will meet, as they always do, amid the soaring peaks of the Grand Tetons that ring the posh ski resort town of Jackson Hole, Wyoming for their annual confab, ending with a much-anticipated valedictory by Fed chair Jerome Powell. The weather forecast for next week looks appropriately delightful for the bankers, with highs in the mid-80s and lows in the 40s and 50s. The intellectual atmospherics may be rather more unsettled, though. The global economy is in a very different place this year than it has been in years past. Forging a sound monetary policy, never easy in the most forgiving circumstances, is of several magnitudes more difficult when the policymakers don't always even know the right questions to ask, let alone what the right answers might be.

The Specter of Stagflation

The frothy performance of the stock market in recent weeks may have created the impression that all that worry earlier in the year about the likelihood of stagflation – the unappetizing combination of tepid growth and high inflation last endured in the 1970s – had gone away. No, it hasn't. Two recent pieces of data illustrate why. Two weeks ago, complacency about the state of the labor market took a hit when the Friday jobs report from the Bureau of Labor Statistics revealed a sharp downturn in nonfarm payroll gains, not just for the most current month but for the prior two as well. Amid other recent signs of a slowdown in consumer spending, the continued strength of the labor market had been one of the key positive indicators. Now that is in question.

This week, from that same BLS, came two inflation reports suggesting that the long-expected effect of tariffs on prices may finally be showing up in the numbers. The Consumer Price Index, which came out on Tuesday, showed an uptick in core inflation (excluding the volatile food and energy categories) to a year-on-year rate of 3.1 percent, with notable price gains in categories with direct exposure to tariffs. Then, on Thursday, the Producer Price Index (which measures price changes among wholesalers) came in at a much hotter than expected 3.7 percent, which included a month-to-month gain in July of 0.9 percent (economists had expected the monthly gain to be just 0.2 percent).

For the Fed, with its dual mandate of stable prices and full employment, this presents a dilemma. Members of the Federal Open Market Committee have been signaling in recent days a predisposition towards a rate cut when the Committee meets next on September 16-17. Financial markets are betting heavily on a 0.25 percent cut in the Fed funds rate when that meeting concludes, which is one of the go-to explanations for the stock market's recent giddiness. But there is a potential downside to moving ahead with successive rate cuts if inflation takes another turn upwards. The PPI can be a leading indicator for what may happen downstream (i.e., at the consumer level) in future months. There will be three more inflation reports for the FOMC to consider at the September meeting – the July Personal Consumption Expenditures index that comes out next week, and the August CPI and PPI reports next month.

Data, What Data?

Of course, we assume that there actually will be monthly inflation and jobs reports for the FOMC to consider. Going forward, though, that assumption is not as rock-solid as it has been. The CPI/PPI inflation

reports and the jobs report are all under the purview of the Bureau of Labor Statistics, and that institution has found itself in the cross-hairs of political interests, with which it is entirely unfamiliar. Following that dour jobs report two weeks ago, the administration promptly announced the firing of the BLS commissioner (who, it should be noted, has absolutely no role in the actual work of conducting the work that lead to the production of the numbers in the report) and proposed replacing her with someone whose candidacy has elicited widespread criticism across the spectrum of economic experts on the right and the left. Among the potential “reforms” to the BLS on the table, apparently, are simply doing away with the monthly reports until such time as current practices and procedures have been reviewed and revamped to something more of the administration’s liking.

We bring this up not to make a political point (which is not the purview of this commentary) but to highlight one of the new realities facing the central bankers as they get together in Wyoming next week. The bankers don’t have access to a crystal ball, and they rely on the very same data that you and I rely on to make assessments about economic conditions – including, importantly, the reports produced by the BLS, the Bureau of Economic Analysis (where the PCE inflation report and the GDP numbers, among other data points, reside) and others. Independent, statistically robust and reliable information is key to the formation of monetary policy. It shouldn’t have to be something that weighs on the minds of Powell and his colleagues next week – but it will no doubt be a topic of discussion as they countenance the many challenges arrayed in front of them.

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