First Trust
ECONOMIC RESEARCH REPORT
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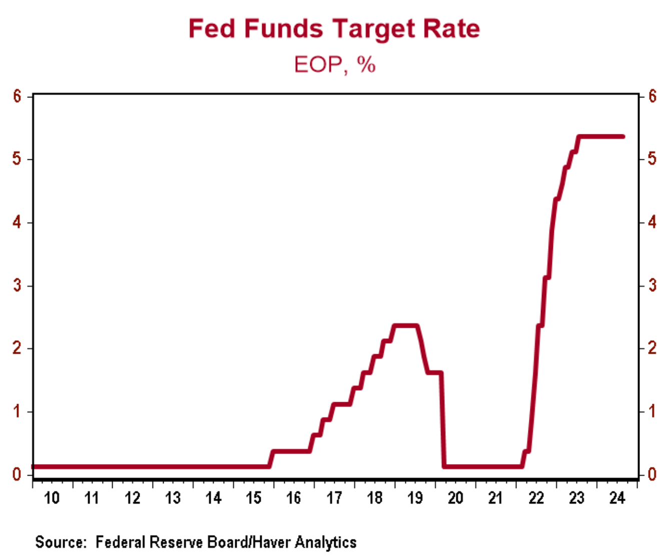
September is Live

Could this be the last Fed meeting before rate cuts begin? With inflation moderating and job growth weakening, the Fed prepared markets for a more eventful meeting in September while not committing to anything just yet.

The Fed's statement included a number of changes, including language surrounding softening job gains, highlighting a higher unemployment rate, noting further progress on inflation, and changing language to note they are now focused on risks to both sides of their dual mandate (this text previously focused only on inflation risk). However, the Fed did keep language that they "do not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent."



During the press conference, Powell was a bit more forthcoming. The very first question from a reporter asked if September is on the table, as markets are now pricing in a rate cut at the next meeting as a done deal. Powell confirmed that if data continues to show the progress it has of late, it may very well be appropriate to move as soon as the next meeting. In fact, Powell later stated that "a strong majority of members supported not moving at today's meeting" showing that there was at least some discussion at this week's meetings of starting rate cuts today.

Powell also spent time expanding on how the Fed views the balance of risks. As employment indicators have weakened, the Fed no longer sees the labor market as a source of higher inflation, and a material weakening in the labor market would now bring forward the potential for policy easing. In Powell's words, "the downside risks to the employment mandate are now real." It still appears the Fed is more worried about moving too soon rather than moving too late, but that too is coming into more even balance.

Fed confidence is growing, and easing looks on the horizon, but that doesn't mean the job is done. There are a handful of reports on both inflation and employment to come between now and the September meeting, which could shift expectations just as reports did earlier this year. The Fed have been consistently following the wrong signals since the start; ignoring the growth in the M2 money supply in favor of blaming supply changes, which resulted in targeting a symptom rather than the disease. They flooded the system with excess reserves, muting their ability to manage economic activity through monetary policy and putting themselves in the awkward position of running large losses. They find themselves reacting to stubbornly high inflation they told us would be transitory, and constantly trying to explain away why their forecasts have been off base.

We do expect that the Fed will cut rates twice later this year, once in September and again in December, but we see these cuts accompanied by a slowing economy, higher unemployment, and modest progress on inflation. The morphine is wearing off and the aftereffects of money printing, excessive and misguided spending from Washington, and companies getting a bit over their skis in terms of hiring are starting to show.

Brian S. Wesbury, *Chief Economist*
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Text of the Federal Reserve's Statement:

Recent indicators suggest that economic activity has continued to expand at a solid pace. Job gains have moderated, and the unemployment rate has moved up but remains low. Inflation has eased over the past year but remains somewhat elevated. In recent months, there has been some further progress toward the Committee's 2 percent inflation objective.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee judges that the risks to achieving its employment and inflation goals continue to move into better balance. The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate.

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 5-1/4 to 5-1/2 percent. In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess *incoming data, the evolving outlook, and the balance of risks. The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to returning inflation to its 2 percent objective.*

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Thomas I. Barkin; Michael S. Barr; Raphael W. Bostic; Michelle W. Bowman; Lisa D. Cook; Mary C. Daly; Austan D. Goolsbee; Philip N. Jefferson; Adriana D. Kugler; and Christopher J. Waller. Austan D. Goolsbee voted as an alternate member at this meeting.

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward-looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.