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Fed Chair Powell opens door to September rate cut in Jackson Hole speech, says economic outlook 'may warrant' change in stance

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Federal Reserve Chair Jerome Powell opened the door to a September rate cut on Friday, saying in a speech in Jackson Hole that "the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance."

In a speech that touched both on the economic outlook and the Fed's new policy framework, Powell took pains to note that risks from inflation remain "tilted to the upside," saying that tariff-related inflation pressures "are now clearly visible."

"We expect those effects to accumulate over [the] coming months," Powell said, "with high uncertainty about timing and amounts. The question that matters for monetary policy is whether these price increases are likely to materially raise the risk of an ongoing inflation problem."

Powell added on inflation that the Fed "will not allow a one-time increase in the price level to become an ongoing inflation problem."

The Fed kept interest rates unchanged in a range of 4.25%-4.50% at the conclusion of its most recent policy meeting on July 31.

US stocks soared in the wake of Powell's comments on Friday, as data from the CME Group showed the odds of a September rate cut rising to north of 90% in immediate reaction to the speech. Treasury yields also moved lower in response.

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Since that meeting, public statements from Fed officials suggest there remain mixed views on whether recent economic data warrants lower interest rates.

Fed governors Michelle Bowman and Chris Waller, both of whom voted against the decision to leave rates unchanged and would have preferred rate cuts last month, issued public statements expanding on their views in the days after that decision. While comments from some regional Fed presidents, including from Cleveland Fed president Beth Hammack on Thursday, have suggested inflation risks warrant the Fed keeping rates at current levels.

On the labor market, Powell noted that the hiring slowdown in recent data, combined with a slowdown in the growth of the labor force, creates "a curious kind of balance that results from a marked slowing in both the supply of and demand for workers."

"This unusual situation suggests that downside risks to employment are rising," Powell said. "And if those risks materialize, they can do so quickly in the form of sharply higher layoffs and rising unemployment."

The July jobs report showed the US economy added 73,000 jobs last month, while revisions to job gains in May and June removed some 250,000 job additions from those initial reports. Over the last three months, job gains have averaged just 35,000.

President Trump, who has called for lower rates for some time and has criticized Powell in recent months, removed the head of the BLS following that July jobs data.

Federal Reserve Chief Jerome Powell and his wife arrive at the Jackson Hole Economic Symposium on August 21, 2025 near Jackson Hole, Wyoming. Powell is scheduled to speak at the economic symposium on Friday. (Photo by Natalie Behring/Getty Images) · Natalie Behring via Getty Images

The Fed chair also spent a chunk of his speech discussing the Fed's new policy framework, which is reviewed every five years, and will now see the central bank more closely target 2% inflation rather than inflation that averages 2% over time.

"As it turned out, the idea of an intentional, moderate inflation overshoot had proved irrelevant," Powell said. "There was nothing intentional or moderate about the inflation that arrived a few months after we announced our 2020 changes to the consensus statement, as I acknowledged publicly in 2021."

The Fed's new language says the Fed "reaffirms its judgment that inflation at the rate of 2%, as measured by the annual change in the price index, … is most consistent over the longer run with the Federal Reserve’s statutory maximum employment and price stability mandates."