Hot jobs report cements a Fed rate hold this month — and possibly the foreseeable future

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A hot jobs report makes it even more likely the Federal Reserve won't cut rates at its first meeting of the year in January — or for the foreseeable future.

"I think they are done here," Blake Gwinn, the head of US rates strategy at RBC Capital Markets, told Yahoo Finance on Friday.

"That January cut was already nearly dead before this print," Gwinn added. "Now we are looking at that March print" — ahead of the Fed's second meeting of 2025.

Whether or not the Fed will pause "isn't a question anymore," added UBS Global Wealth Management's Leslie Falconio. "It'd be highly unlikely that they cut in March unless you see some true collapse in next week's inflation report."

Fed officials were already concerned about signs of persistent inflation, citing that as a reason to move cautiously in 2025, along with expectations that the trade and immigration policies of the new Trump administration might provide more upward price pressure.

New evidence of a strong economy will make it even more difficult for the Fed to justify any further easing of monetary policy in the near term.

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Data from the Bureau of Labor Statistics released Friday showed 256,000 new jobs were created in December, far more than the 165,000 expected by economists and higher than the 212,000 seen in November.

The unemployment rate fell to 4.1% from 4.2% in November. December marked the most monthly job gains seen since March 2023.

Entering Friday's jobs report, markets were pricing in just a 5% chance the Fed would cut rates at its Jan. 28-29 meeting, per the CME FedWatch Tool.

Those odds dropped even lower following the report. The odds of a rate cut at the March 18-19 meeting are now at just 25%.

The markets were expecting the Fed to possibly make cuts every other meeting at the start of 2025, said Gwinn of RBC Capital Markets, but "I think this really challenges that."

Several Fed officials said in the days leading up to this latest report that they were already becoming cautious about any rate cuts going forward.

Federal Reserve governor Michelle Bowman said Thursday that she could have backed a pause in interest rates last month, citing both inflation and strength in the US economy, and thus supported the last December cut as the "last step" in the central bank's "policy recalibration."

Federal Reserve Chair Jerome Powell at a December press conference after the central bank approved a new rate cut. REUTERS/Kevin Lamarque · REUTERS / Reuters

"Given the lack of continued progress on lowering inflation and the ongoing strength in economic activity and in the labor market, I could have supported taking no action at the December meeting," she said in a speech on Thursday in Laguna Beach, Calif.

Now that the Fed has cut rates by a full percentage point since last September, the level of those rates is closer to Bowman's estimate of neutral — a reference to the level that is intended to neither boost nor slow economic growth.

"I supported the December policy action because, in my view, it represented the Committee's final step in the policy recalibration phase," Bowman said, noting that she now wants "a cautious and gradual approach to adjusting policy." Bowman opposed the Fed's first jumbo-sized cut in September.

Kansas City Fed president Jeff Schmid, a voting member this year, said Thursday, "I believe we are near the point where the economy needs neither restriction nor support and that policy should be neutral."

Schmid said he is in favor of adjusting rates "gradually," noting that the strength of the economy allows the Fed to be patient.

Federal Reserve governor Michelle Bowman in 2019. REUTERS/Ann Saphir · REUTERS / Reuters

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Boston Fed president Susan Collins, another voting member this year, also called for a gradual approach.

"With policy already closer to a more neutral stance, I view the current nature of uncertainty as calling for a gradual and patient approach to policymaking," Collins said.

Almost all Fed officials agreed at the last December meeting that "upside risks to the inflation outlook had increased" due in part to the "likely effects" of expected changes in trade and immigration policies, according to meeting minutes released Wednesday.

In December, Fed officials reduced their estimate of 2025 rate cuts to two from a previous estimate of four, based in part on elevated inflation concerns.

Several of the participants in that Dec. 18-19 meeting even "observed that the disinflationary process may have stalled temporarily or noted the risk that it could."

One official, Cleveland Fed president Beth Hammack, objected to the rate cut "in light of uneven progress in returning inflation to 2%" and argued for holding it steady.

Central bank officials will be paying close attention to new inflation data as they prepare for their next meeting on Jan. 28-29 following the inauguration of Trump as president on Jan. 20.

Not all policymakers sounded hawkish this week. Philadelphia Fed president Patrick Harker said in a speech Thursday that he still expects the Fed to cut rates even though inflation is taking longer than thought to get back to the Fed’s 2% goal.

"I still see us on a downward policy rate path," Harker said. "Looking at everything before me now, I am not about to walk off this path or turn around. But the exact speed I continue to go along this path will be fully dependent upon the incoming data."