

Special Commentary — August 13, 2025

## The Jackson 5

### Summary

At the 2020 Jackson Hole Economic Policy Symposium, Chair Powell used his address to lay out changes to the FOMC's monetary policy framework. A short five years later, the next monetary policy framework review is nearing a conclusion. We expect Powell to recap how the economy and policy setting evolved over his tenure as Fed Chair, and what the lessons learned mean for the optimal strategy for monetary policy in the years ahead.

- **Shaped by the Times:** The decade leading up to the FOMC's prior framework review was dominated by persistently low inflation, excess labor market slack and concerns about the zero lower bound. The adjustments made in 2020 at the height of the pandemic reflected these perceived asymmetric risks to the Fed's dual mandate. But, the macroeconomic environment soon proved wildly different. Inflation charged past 2% in March 2021 and has not returned to 2% since. The unemployment rate fell to less than 4% by the end of that same year.
- **Coming Full Circle:** Much of the past few years have been marked by U.S. monetary policymakers facing an old but new problem: overheated labor markets and above-target inflation. Today, the risks around the Fed's 2% inflation target and full employment mandate seem much more symmetric. We suspect changes to the policy framework will be aimed at this newfound symmetry in the dual mandate.
  - Specifically, we look for the FOMC to formally move away from Flexible Average Inflation Targeting (FAIT), which supported inflation running somewhat above 2% to make up for past undershoots, but not vice versa. In its place, we expect the Committee to return to a simple 2% inflation target, where it does not try to make up for past misses. The Committee has said explicitly that the 2% inflation target itself is not under review, so do not expect a new number or a range.
  - Similarly, we look for the FOMC to move away from its emphasis on addressing *shortfalls* from maximum employment and revert to its focus on *deviations*. The Fed's maximum employment goal is not directly observable but reveals itself through the labor market's impulse on inflation. Thus, the new framework may link its maximum employment objective more directly to its inflation goal.
- **All Quiet on the Balance Sheet Front:** We do not anticipate any changes to the Federal Reserve's toolkit as part of this year's review. The federal funds rate should remain the main policy tool, and, while we think the FOMC at some point ought to formalize how it uses its balance sheet in support of its longer-run goals, it appears to us that the Committee would prefer to de-emphasize this tool for the time being.
- **Formalizing What Is Already in Practice:** In our view, the FOMC already has been operating under a more symmetric approach to its inflation and employment objectives in recent years. As such, we expect the new framework to codify what we believe is already the modus operandi. Yet, the shift away from the asymmetric risks around low inflation and maximum employment marks an important departure from the psychology of the 2008-2020 period, and it could result in more preemptive policy tightening when the next inflationary episode occurs.
- **More to Come:** Part II of the FOMC's framework update will focus on the Committee's communication tools, such as the Summary of Economic Projections. Chair Powell has signaled that the second half of the framework review will occur later this year, and we will have more to say about it when the timing is closer.

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## Revisiting the FOMC's Framework at Jackson Hole

It is a well-known fact for financial market participants that the Federal Reserve targets maximum employment and price stability. But, the tools, strategies and communication practices the central bank uses to achieve these desired outcomes are perhaps less understood. The Federal Reserve's current Statement on Longer-Run Goals and Monetary Strategy was adopted in August 2020, and at that time policymakers agreed to undertake a review of these principles every five years. A short five years later, the next monetary policy framework review is upon us.

For nearly the entirety of 2008-2020, the FOMC faced below target inflation, excess labor market slack and fears about the zero lower bound. The 2020 framework review included changes to reflect these perceived asymmetric risks to the Fed's dual mandate. Today, the risks around 2% inflation and full employment seem much more symmetric. We expect Chair Powell to lay out changes to the Fed's Statement on Longer-Run Goals and Monetary Policy Strategy at his annual address at Jackson Hole on August 22.

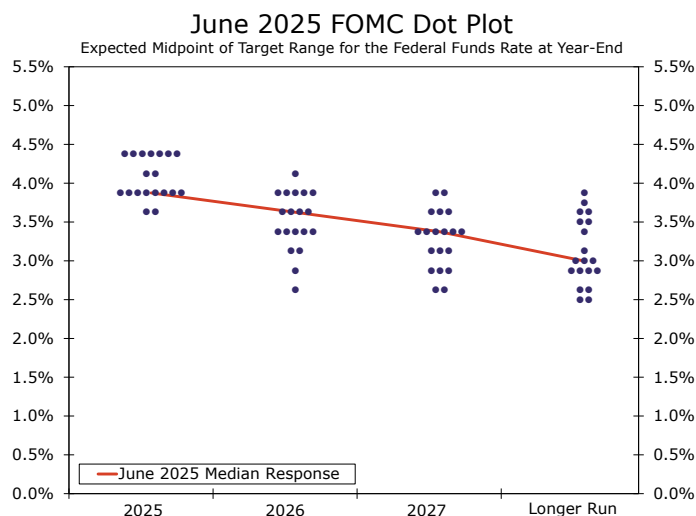
The 2025 Jackson Hole Economic Policy Symposium is almost certain to be Jay Powell's last as the sitting Chair of the FOMC. The Chair's annual address at Jackson Hole has become hotly anticipated by market participants due to its history of signaling policy turning points. Yet, it also has served as a platform for broader reflections on issues integral to the conduct of monetary policy. Thus, we expect Chair Powell to use the stage at Jackson Hole to recap how the economy and policy setting evolved over his eight-year tenure as Fed Chair. The setting offers the opportunity to give his account on how the Committee landed on the 2020 framework changes, how those circumstances shaped the FOMC's initial response to the pandemic and the lessons learned from the dichotomy of the pre- and post-COVID environments that can be carried forward by the Committee beyond Powell's leadership.

In this report, we explore the Federal Reserve's monetary policy framework review in greater detail. We cover the history of framework reviews, what changed last time and what changes we expect this go-round as we look ahead to the second half of the 2020s.

## The Summer of 2020: A Twist of FAIT

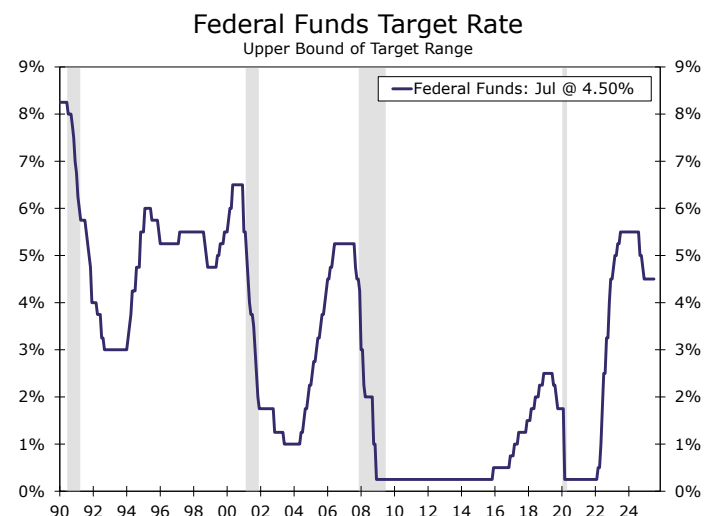
The FOMC first codified its monetary policy framework in 2012. [This document](#), titled the Statement on Longer-Run Goals and Monetary Policy Strategy, was a historic step in the structure and transparency of the Federal Reserve. For the first time, the FOMC adopted an explicit inflation target (2.0%), and the Committee began publishing each participants' projection of the federal funds rate over a multi-year period, i.e. the "dot plot" ([Figure 1](#)).

Figure 1



Source: Federal Reserve Board and Wells Fargo Economics

Figure 2



Source: Federal Reserve Board and Wells Fargo Economics

In 2019, the FOMC conducted its first-ever public review of the framework and announced that it would repeat these public reviews every five years. The 2019 review concluded in August 2020 during

the early months of the pandemic. At that time, the U.S. unemployment rate was 8.4%, the headline PCE deflator was up a scant 0.9% year-over-year and the federal funds rate was once again at the zero lower bound (Figure 2). Furthermore, this mix of high unemployment and low inflation came on the heels of the previous decade, which was marked by a very slow labor market recovery from the Great Recession and persistent shortfalls in inflation from the Fed's 2% target.

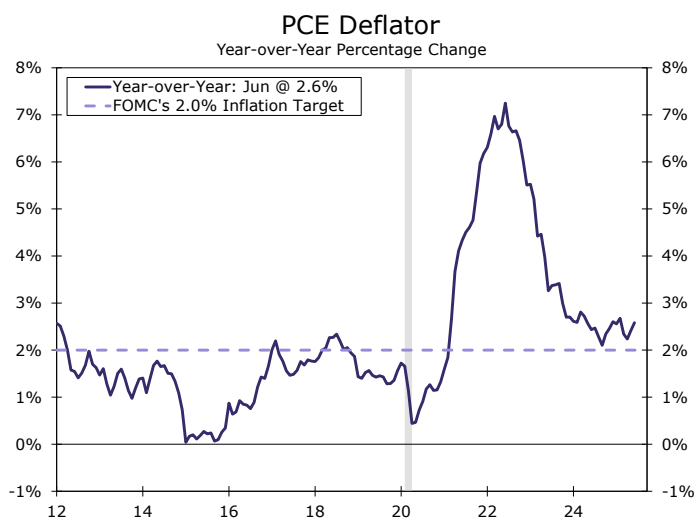
Against this backdrop, the FOMC made a few key changes to its policy framework. Perhaps most notably, the Committee formally backed a flexible average inflation targeting (FAIT) regime. The following language was newly inserted into the [longer-run goals statement](#): "In order to anchor longer-term inflation expectations at this level, the Committee seeks to achieve inflation that averages 2 percent over time, and therefore judges that, *following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time*" (emphasis ours). This language reflected a desire to let inflation run a bit above 2% to make up for past undershoots, but not vice versa.

The Committee also adjusted the language around its employment mandate, saying that it would seek to mitigate "shortfalls of employment from its maximum level" rather than "deviations of employment from the Committee's assessments of its maximum level" (again, emphasis ours). These changes were a subtle but important shift away from symmetry and toward asymmetry on full employment and price stability. The Committee seemed far more concerned about coming up short on full employment and 2% inflation and far less concerned about an overheating labor market and above target inflation. The Committee operationalized this strategy at the September 2020 FOMC meeting, inserting the following sentence into its post-meeting statement: "The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range *until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time*" (emphasis ours).

***Changes to the FOMC's framework in 2020 were a subtle but important shift away from symmetry and toward asymmetry on full employment and price stability.***

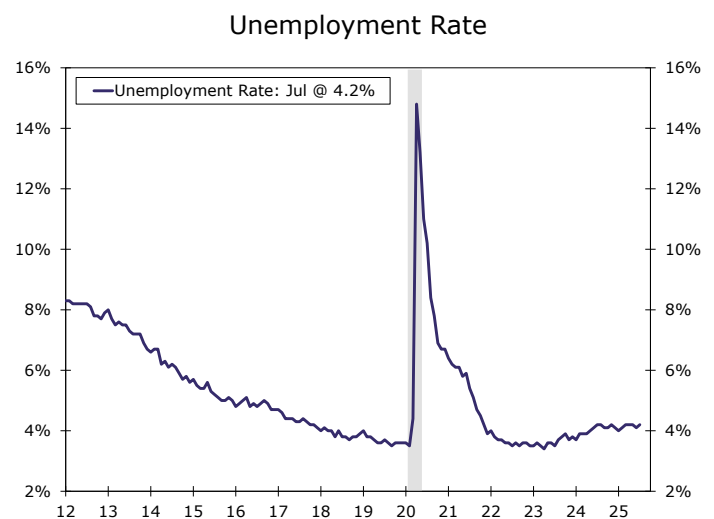
The subsequent months would see economic outcomes significantly different than what the Committee expected. Effective COVID vaccines were announced in November 2020, and they were widely available for most Americans by the following summer. Over the same period, Congress passed two sizable COVID relief packages that totaled nearly \$3 trillion. Monetary policy remained highly accommodative with the federal funds rate at 0% and quantitative easing in place for the entirety of 2021. Against this backdrop of major policy stimulus and a new tool to fight the virus, the U.S. economy rebounded forcefully. The headline PCE deflator rose above 2% in March 2021 and has not been below the FOMC's target since (Figure 3). The U.S. unemployment rate dropped to 3.9% by the end of the year (Figure 4).

Figure 3



Source: U.S. Department of Commerce and Wells Fargo Economics

Figure 4



Source: U.S. Department of Labor and Wells Fargo Economics

## Everything Old Is New Again: A Return to Symmetry

In short, the 2020 framework changes were shaped heavily by the prior years' environment. Yet, much of the past few years have been marked by U.S. monetary policymakers facing an old but new problem: overheated labor markets and above-target inflation. Both supply and demand factors played a role in the inflation surge over the past few years, and we believe it would be incorrect to blame the entirety of the run-up in prices on overly-accommodative monetary policy. A historic surge in government spending, Russia's invasion of Ukraine and supply chain woes all played a role in the sky-high inflation seen starting in 2021. That said, the post-pandemic jobs market showed that excessively tight labor markets can still generate inflationary pressure. Numerous labor market metrics, such as the ratio of job openings to unemployed persons, showed the labor market was historically tight from late 2021 through 2022 (Figure 5). The Employment Cost Index, the Fed's preferred labor compensation measure, grew at the fastest pace in decades in 2022 (Figure 6). Critically, the FOMC remained committed to hitting maximum employment *before* it began tightening policy. This unwillingness to preemptively tighten policy derived, at least in part, from the changes adopted in the 2020 framework review.

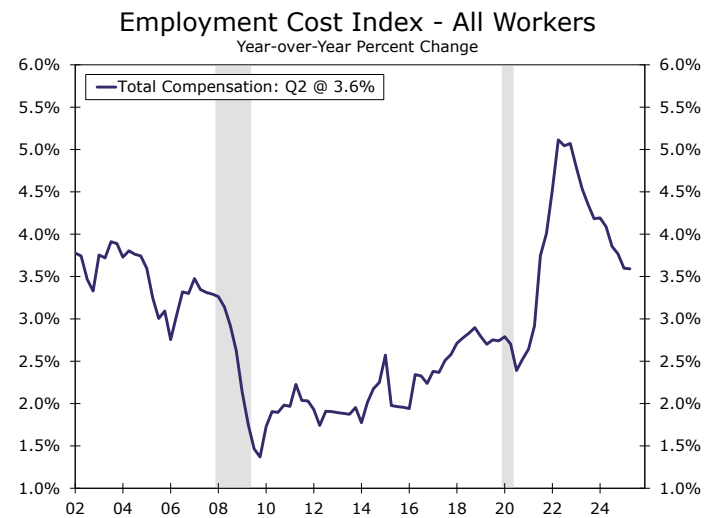
***The post-pandemic jobs market showed that excessively tight labor markets can still generate inflationary pressure.***

Figure 5



Source: U.S. Department of Labor and Wells Fargo Economics

Figure 6



Source: U.S. Department of Labor and Wells Fargo Economics

Accordingly, we expect Chair Powell to declare at Jackson Hole that the FOMC is moving to a framework that will hold up more robustly to varied macroeconomic environments. Specifically, we look for the FOMC to move away from FAIT and return to something similar to the previous model of a simple 2% inflation target. Practically speaking, this would codify what we believe is already the modus operandi. FOMC participants rarely reference FAIT in their public remarks these days, and using any look-back period, the 2010s inflation shortfall has been more than made up in the 2020s (Figure 7). Today, monetary policymakers seem far more concerned—correctly, in our view—about inflation spending yet more time above target and a potential de-anchoring of inflation expectations. With that in mind, we expect the updated framework to no longer mention making up for past inflation shortfalls with future overshoots. Note that the 2% inflation target itself is not under consideration for a change at this review. Do not expect to see a new number, such as 1% or 3%, or even a range, as a result of this process.

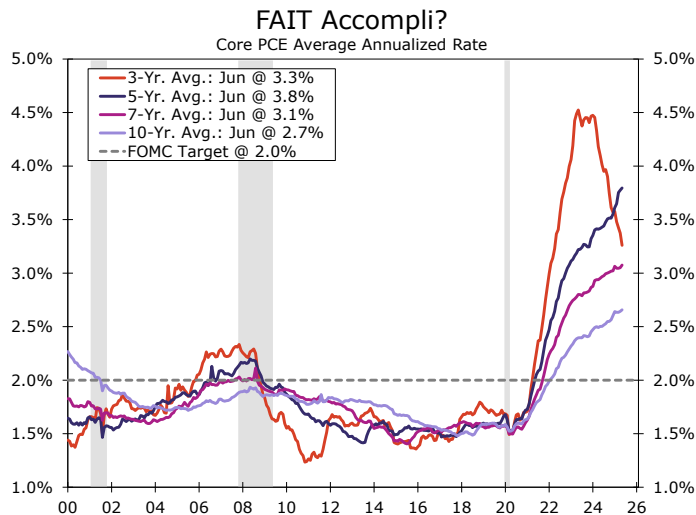
***We expect Chair Powell to declare at Jackson Hole that the FOMC is moving to a framework that will hold up more robustly to varied macroeconomic environments.***

Similarly, we look for the Committee to move away from its emphasis on addressing shortfalls from maximum employment and revert to its focus on deviations from maximum employment. A challenge for the Fed in this realm is that, unlike inflation, there is no single metric to evaluate if the labor market is at maximum employment. While the unemployment rate is the indicator used most commonly, including in the FOMC's Summary of Economic Projections, structural changes in the economy over time can lead to changes in the unemployment rate that is most consistent with full employment (Figure 8). As a result, we believe policymakers are likely to continue to avoid tying maximum employment to a single measure and will continue to consider "a wide range of indicators" when setting policy. Yet, while maximum employment may not be directly observable, whether the

economy is employing too many or too few workers reveals itself through the labor market's impulse on inflation. Thus, the new framework may link the maximum employment part of the Fed's mandate more specifically to the Committee's inflation goal.

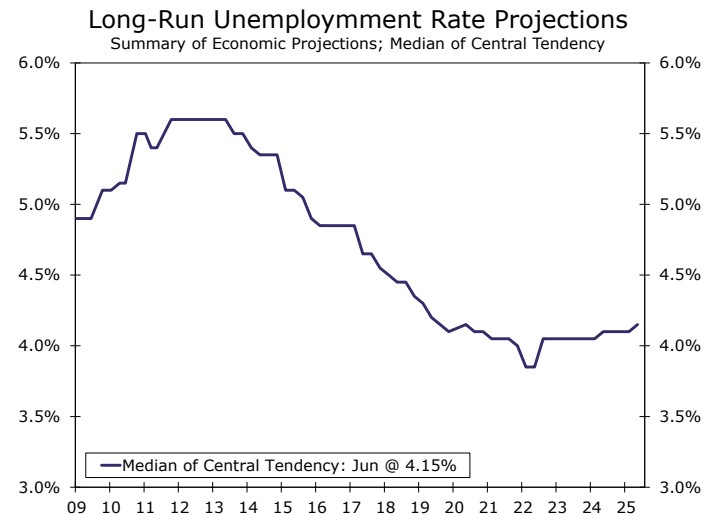
With the recent reminder that the labor market can indeed run too hot to be consistent with the Fed's inflation goal, we anticipate the updated framework will no longer state that the maximum level of employment is a "broad-based and inclusive goal." This was added to the statement following a focus in the late 2010s that preemptively tightening policy to ward off presumed inflation pressures from the jobs market disproportionately hurt low and moderate income communities.

Figure 7



Source: U.S. Department of Commerce and Wells Fargo Economics

Figure 8



Source: Federal Reserve Board and Wells Fargo Economics

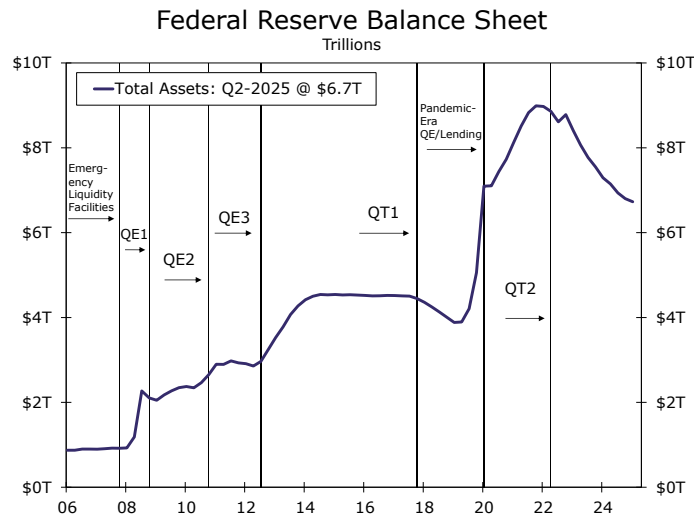
## What Other Framework Changes Are Possible?

Generally speaking, we do not expect any other consequential changes to the Federal Reserve's framework at Jackson Hole. We do not anticipate any changes to the Federal Reserve's toolkit. For example, we still expect the federal funds rate to be the FOMC's main monetary policy tool. We also do not expect anything new on the Federal Reserve's balance sheet, although this is an area with a bit of uncertainty on our end. The current statement on longer-run goals and monetary policy strategy states that the "primary means" of adjusting the stance of monetary policy is the federal funds rate. But, it makes no mention of the Federal Reserve's balance sheet as a policy tool.

It is clear to us that the Federal Reserve would prefer to deemphasize the balance sheet as a policy tool and conduct monetary policy primarily through the management of short-term interest rates. That said, the Federal Reserve has now resorted to wide scale asset purchases (also known as quantitative easing or QE) multiple times over the past 20 years, and it has become a de facto part of the central bank's playbook (Figure 9). Some of these asset purchase programs have been targeted at reducing long-term interest rates and stimulating economic growth (e.g., the purchases done in 2021), while other asset purchase programs have been done in order to restore financial market functioning (e.g., the purchases done in mid-March 2020). At various times the Fed's QE has been predetermined in size and duration (QE1 and QE2), or open-ended and conditional on economic outcomes (QE3 and pandemic-era QE). The range of assets purchased has varied from Treasury securities only, Treasuries and mortgage-backed securities (MBS) to Treasuries, MBS, corporate bonds and other assets (Figure 10).

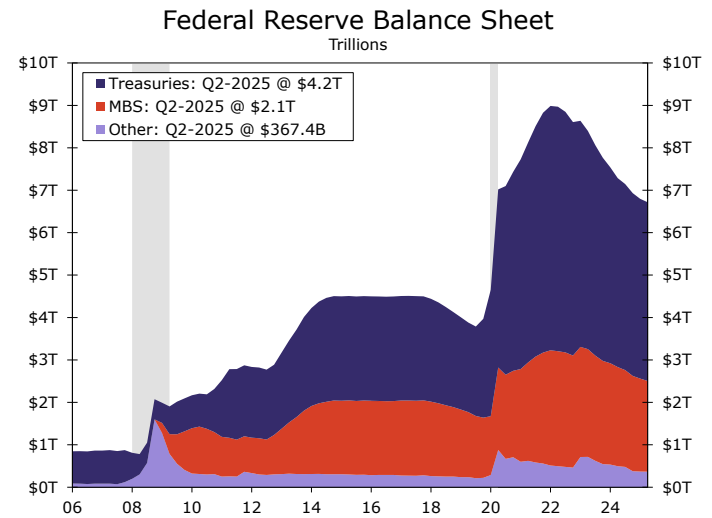
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Figure 9



Source: Federal Reserve Board and Wells Fargo Economics

Figure 10



Source: Federal Reserve Board and Wells Fargo Economics

Thus, we think it is reasonable to conclude that the FOMC ought to consider more formally creating a strategy regarding the usage of its balance sheet as a policy tool. For example, under what circumstances will QE be initiated? What assets are eligible for purchase? What should be the conditions for ending QE and initiating balance sheet runoff (quantitative tightening)? Are active asset sales a possible policy option, and what should the long-run composition of the Fed's Treasury holdings look like? Ultimately, these are difficult questions to answer, and we suspect the Committee is reluctant to tie its hands on a novel and flexible tool that is often brought out in emergencies. Furthermore, we believe the Federal Reserve is probably still "learning by doing" in terms of the assessing the appropriate size and composition of its balance sheet and understanding the impacts its actions have had on the real economy. Thus, we think policymakers may take a pass on this topic in the current framework review. Our belief is that this topic may get a bigger focus in the next policy framework review in 2030.

## Implications for Future Monetary Policy

We do not believe that the updated framework announced at Jackson Hole will alter the near-term course of U.S. monetary policy. The willingness to tighten policy aggressively in 2022 and keep the fed funds rate restrictive until inflation is under control demonstrates that the FOMC is already taking a more symmetric approach to policy. Despite economic theory suggesting tariffs provide a one-time lift to prices, some FOMC members remain hesitant to reduce the fed funds rate materially in the coming months due to inflation's prolonged overshoot of the FOMC's 2% target.

That said, a wide-range of indicators highlight that the jobs market is continuing to soften. The [July employment report](#) suggested the labor market may no longer be "solid" like it was characterized just days earlier in the July FOMC post-meeting statement. Jackson Hole will provide the opportunity for Chair Powell to indicate whether increased risks to the labor market are starting to outweigh inflation concerns, which would raise the prospects for policy easing to resume as soon as the FOMC's next meeting on September 17. Our forecast is for the FOMC to cut the federal funds rate by 25 bps at the September, October and December meetings, with no changes to the fed funds rate in 2026.

Beyond the next few months, the update to the FOMC's monetary policy strategy should give it more flexibility to react to different macroeconomic environments. The 2020 update was shaped by the aftermath of the Global Financial Crisis, where insufficient demand left policymakers fretting about persistently low inflation and the zero lower bound. The COVID-19 pandemic and Russia's invasion of Ukraine brought supply-side challenges to policy setting back into the fore, something the FOMC may have to contend with more frequently amid rapidly changing economic policy and geopolitics.

Even if the new framework at Jackson Hole does not seem to have immediate implications for policy setting, the experience post-Jackson Hole 2020 illustrates how the Federal Reserve monetary policy

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framework can lay the foundation for huge changes in economic outcomes. When the next economic boom and jump in inflation occurs, for example, the new framework and the experiences of recent history likely will lend themselves to more preemptive policy tightening than was seen in 2021. Part II of the FOMC's framework update will focus on the Committee's communication tools, such as the Summary of Economic Projections. This could lead to a better understanding of how the FOMC will react to a range of economic outcomes, instead of its reaction function to the modal outlook. Chair Powell has signaled that the second half of the framework review will occur later this year, and we will have more to say about it when the timing is closer.

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