

Data Integrity and Monetary Policy Credibility

The Federal Reserve, data revisions, and the course of U.S. monetary policy

- Large negative revisions to employment data have complicated the Federal Reserve's task of gauging the degree of slack in the economy, with concerns related to the reliability of U.S. economic data adding to the already uncertain economic outlook.
- 2026 is set to mark the sixth consecutive year of inflation above the Federal Reserve's two-percent target, heightening risks to its institutional credibility as prolonged price pressures could erode public and investor confidence in the Fed's independence and effectiveness.

Shifting U.S. outlook amid job losses and data revisions

Extremely large negative revisions to the level of employment, and a string of weak jobs reports were nearly overshadowed by the dismissal of the U.S. Bureau of Labor Statistics (BLS) Commissioner on August 1st. While the firing of the BLS chief is an important development, the recent softening in the U.S. labor market is likely to be more consequential over the year ahead. Not only has the pace of job creation slowed, but revisions to historical data also revealed that over 2024-2025 far fewer jobs had been created than previously estimated.

This year's revision equates to roughly 5 months of jobs creation at 2023-24's average pace and is the largest in recent history

Released in September, the BLS's annual preliminary benchmark revisions to U.S. nonfarm payrolls data showed that 910,000 fewer jobs were created compared to initial estimates for the year ending in March 2025, mirroring a similarly large negative revision of — 818,000 fewer jobs— in September 2024. This year's revision equates to roughly 5 months' of jobs creation at 2023-2024's average pace and is the largest in recent history. The scale of revisions has grown since the pandemic, with 2025's preliminary benchmark revision nearly double the size of 2019's 501,000 negative revision, the largest in the period prior to the pandemic (Exhibit 5.0).

While the Federal Reserve resisted political pressure to reduce interest rates over much of 2025, it could not resist the pressure coming from the slowing labor market

Rate cuts resume despite tariff-driven inflation

After revised data indicated that the labor market was significantly weaker than previously thought the Fed swiftly reduced the federal funds rate by 25 basis points (bps) in mid-September, and again in late-October. The combined 50 bps in cuts followed a nearly 10 months pause in easing and

brought the federal funds rate to the 3.75-4.00 percent range, 1.5 -1.75 percentage points below the pandemic era peak of 5.25-5.5 percent.

The decision to ease appears to be at odds with the path of inflation —at least for now— with the Federal Reserve’s preferred gauge of inflation, the Personal Consumption Expenditure (PCE) Price Index remaining stubbornly above the two percent inflation target. In August both total and core PCE inflation accelerated as the effect of tariffs and the weaker U.S. dollar contributed to an acceleration in goods inflation.¹ While disinflation took hold in 2023, and total and core inflation have both declined from their pandemic-era peak of 7.2 percent and 5.6 percent respectively, they have both tracked above the Federal Reserve’s target for some time, plateauing just beneath three percent since late 2023 and early 2024.

Data revisions fuel uncertainty

Large negative revisions to employment have made gauging the degree of slack in the economy increasingly difficult. While elevated inflation in the context of a robust labor market is consistent with expectations about the relationship between employment and inflation, accelerating inflation coupled with a softening labor market is more worrying, potentially pointing to stagflation. Weaker job creation suggests that the economy may not be as resilient as what was thought just a few months ago. On the other hand, slowing job creation may reflect elevated uncertainty and hesitancy to expand payrolls, as employers take a cautionary approach amid still steady activity. In either case, distrust and questions over the data reliability and quality are only complicating the assessment.

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With the government shutdown delaying the BLS’s September’s employment and inflation reports, and possibly October’s, challenges related to data availability is adding to concern related to reliability. The shutdown is also contributing to risks related to U.S. governance and is part of a pattern of rising political dysfunction that is eroding trust in key U.S. institutions including the Fed, Treasury and the BLS.

Signals coming from U.S. GDP and inflation are also adding to the uncertainty. Over 2025 GDP data has consistently surprised to the upside, even after tariffs took effect, while inflation has been more muted than anticipated to date. Indeed, in October the International Monetary Fund (IMF) warned that this might be the result of several temporary factors converging, rather than a sign of durable economic strength.²

Frontloading of consumption and investment ahead of tariffs temporarily boosted activity in the first half of 2025, while trade shifted to third countries to avoid increased tariffs.³ Over the same period, various factors such as delayed tariff collection, running down of inventories, holding orders, pre-established prices, and the testing of consumer price sensitivity are thought to have collectively delayed the pass-through of rising tariff-related costs to inflation, suggesting more may be to come.⁴

With elevated uncertainty, rising political pressure, and a softer labor market, the Fed's communications strategy pivoted at September's press conference

The decision to cuts rates is not without peril, and doubts about data reliability will only add to uncertainty

The Federal Reserve, and its conduct of monetary policy, need to continue to be perceived as independent and credible

Fed shifts messaging amid labor market slowdown

With elevated uncertainty, rising political pressure and dysfunction, and a softer labor market, the Fed's communications strategy appeared to pivot in September and October.⁵ Following each of the cuts, messaging at the FOMC press conferences appeared to shift from prioritizing inflation, to prioritizing employment as part of the Fed's mandate to conduct monetary policy to "support the [dual] goals of maximum employment and stable prices".⁶ Indeed, Powell cited a changing balance of risks – with weight shifting from inflation toward weakness in the labor market, and when pushed by reporters in October, suggested that the cuts were part of a "risk management strategy", which appears to be focused on protecting against a rapid slowing in activity.⁷

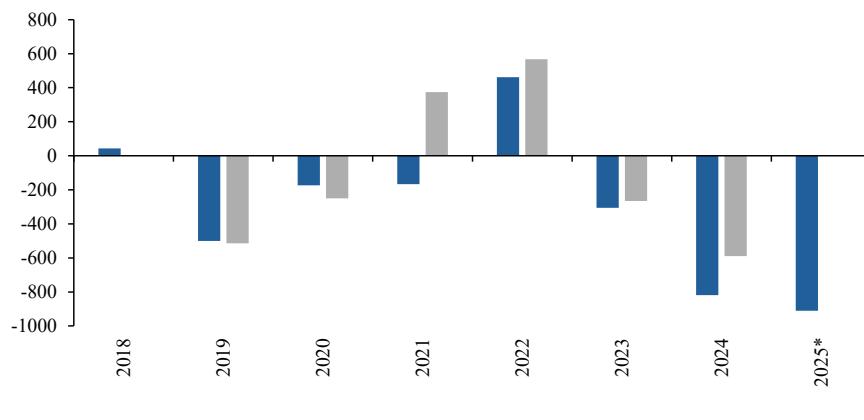
The Fed's credibility challenge

The decision to cuts rates is not without peril, and doubts over data reliability will only add to uncertainty. With tariff-driven inflation surging, and the final magnitude of tariff pass-through to prices unclear, 2026 will mark the 6th consecutive year with above target inflation. Moreover, the risk management approach given to justify cuts create a degree of tension with the idea that slowing job creation "is mostly a function of the change in the supply of labor", as monetary policy is ill-equipped to influence workforce growth. The current circumstance runs the possibility of creating a "time inconsistency problem" for the Federal Reserve. That is, with the passing of time, and in the context of a changing political and institutional environment, meeting the inflation target may no longer be perceived to be optimal.⁸

Such circumstances would generate a serious credibility challenge for the Federal Reserve with deteriorating data reliability exacerbating the situation. Concerns over the independence and effectiveness of the Fed, as well as other institutions, would also increase. Taken together with rising political interference and growing U.S. fiscal deficits, markets may increasingly question the long-term credibility of U.S. economic and financial policy making, potentially leading to increased financial volatility and risks.

U.S. monetary policy must remain credible

With tariff driven goods inflation continuing to rise, and with uncertainty, supply chain damage, and restrictive immigration policy remaining possible triggers of second round inflationary effects, the Fed must be clear in the coming months that it is committed to bringing inflation back to target, even if that means sacrificing growth and the labor market. Petitioning for another "immaculate disinflation" is not an effective strategy.

**EXHIBIT 5.0 – ANNUAL REVISIONS TO U.S. EMPLOYMENT
(THOUSANDS)**

Note: Data shows preliminary and final benchmark revisions to current establishment survey data to the National Current Employment Series (CES) for total nonfarm payrolls (thousands) at the national level. Benchmark revisions indicate adjusted estimates for the 12 months ending in March of corresponding year.

*Final revisions to 2025 will be released by the BLS in early 2026.

Source: U.S. Bureau of Labor Statistics.

Notes

- ¹ Total PCE inflation (including food and energy) rose about 0.15 percentage point (pp), to 2.75 percent in August; Core PCE inflation (excluding food and energy) rose by about 0.1 pp, to 2.9 percent in August.
- ² <https://www.imf.org/en/Publications/WEO/Issues/2025/10/14/world-economic-outlook-october-2025>; https://www.wsj.com/economy/trade-tensions-weigh-on-imfs-outlook-for-global-economy-8ed17b31?gaa_at=eafs&gaa_n=AWEtsqfQUPOpMgchPIEmQzHMb2u6yZ1MdTTMKfN1C6GeObYOQiVstelAp-D2&gaa_ts=68f51b49&gaa_sig=diRAq1sb8T6qoWYj0FUvzw2kvwjwybp5p1K48QoFOISXj2Ov-GRUP0Qyk7W8wvMBiQsys_cRuQCM6S8dMrw5Qg%3D%3D
- ³ <https://www.imf.org/en/Publications/WEO/Issues/2025/10/14/world-economic-outlook-october-2025>
- ⁴ *Ibid*; Bauer, Haltom, and Martin 2025: https://www.richmondfed.org/region_communities/regional_data_analysis/regional_matters/2025/why_businesses_say_tariffs_delayed_effect_inflation
- ⁵ <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20250917.pdf>;
<https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20251029.pdf>;
<https://www.federalreserve.gov/monetarypolicy/fomcpresconf20250917.htm>
- ⁶ <https://www.federalreserve.gov/faqs/what-economic-goals-does-federal-reserve-seek-to-achieve-through-monetary-policy.htm>
- ⁷ <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20250917.pdf>;
<https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20251029.pdf>;
<https://www.federalreserve.gov/monetarypolicy/fomcpresconf20250917.htm>
- ⁸ <https://www.frbsf.org/research-and-insights/publications/economic-letter/2003/04/time-inconsistent-monetary-policies-recent-research/>