What central bankers must tackle at Jackson Hole

Monetary policymakers are on divergent paths, but face common threats

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At last year's Jackson Hole symposium in Wyoming, central bankers were in a quietly confident mood. Across the US and Europe, the post-pandemic surge in inflation was well on its way down, job markets were sturdy, and interest-rate cutting cycles were just getting started. The 2025 confab, which starts today, will be a far more apprehensive affair. Rate-setters at the US Federal Reserve, European Central Bank and Bank of England are now on divergent paths, and each faces tricky decisions in the coming weeks and months.

In the US, the Fed's elevated interest rates are squeezing the economy, but President Donald Trump's tariff agenda is increasingly putting upward pressure on prices. This is paving the way for a contentious committee meeting in September.

In the Eurozone, the ECB is concerned that the global trade war could now cause inflation to undershoot its 2 per cent target for an extended period. The central bank has already slashed the cost of credit by 200 basis points since June last year.

Meanwhile, in Britain, inflation — which hit 3.8 per cent in July — has been trending higher in recent months, partly because of increases in regulated energy prices, the minimum wage and payroll taxes. The BoE is split on whether it should look through these one-off price level increases.

Still, for all the distinct monetary policy dilemmas, there are three common problems that central bankers should begin to address at this year's conference.

First, with Trump putting the Fed's independence under increasing pressure, rate-setters must reiterate the crucial importance of keeping politics out of monetary policy. The president's goading of Fed chair Jay Powell and his plans to replace him, possibly with a more amenable leader, should concern central bankers everywhere. An unstable Fed risks wreaking havoc across global financial markets. Economists are also more generally concerned that high public debt and rising borrowing costs in advanced economies will raise political incentives for governments to pressure central bankers for looser policy.

Second, poor economic data is becoming a growing problem. A decline in survey response rates, particularly since the pandemic, has meant central bankers are having to base critical monetary policy decisions on unreliable statistics. The BoE is making do with dodgy jobs data, as the UK's Office for National Statistics sluggishly revamps its sampling. In the US, the Bureau of Labor Statistics faces similar difficulties. This month, a significant unfavourable revision to non-farm payrolls data triggered an egregious sacking of its chief by Trump. Monetary policymakers should voice support for better-resourced independent statistics agencies, and collaborate on how best to plug information gaps with alternative data.

Third, central bankers ought to assess how they can improve their ability to map the effects of government decisions on inflation. Right now, policies on taxation, spending and import duties are impacting economies faster than the blunt tools of monetary policy can remedy them. With state interventionism seemingly on the rise, central banks will need to ensure they have the knowledge base and tools to project politics, policy and economic dynamics together.

If central bankers use this year's gathering to reinforce their independence, share insights and adapt to a shifting political economy, it will be time well spent. They may face disparate rate choices ahead. But at a time when the economic and foreign policy decisions of political elites seem erratic, Jackson Hole offers a rare global stage for steady, unified and detail-driven leadership.