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The Fed's premature rate cuts look worse all the time.

Did Someone Say Tight Money?

Well, that was good while it lasted— about an hour. We're referring to the good news in Friday's Labor Department report that the economy created 256,000 net new jobs in December. Wonderful. More people working. Then financial markets opened, and investors sold off stocks and bonds.

The markets are behaving as if good jobs news is bad news for interest rates and perhaps inflation. They're not crazy. The economy is more robust and financial conditions easier than the Federal Reserve has been expecting, which means interest rates won't be coming down as rapidly as investors (and Donald Trump) have hoped.

That doesn't mean we should sniff at the jobs report, which is hard to fault on any measure. Private employers reported 223,000 net new jobs in the month, notably in some form of services. The household survey was especially buoyant with 478,000 more Americans working. The national jobless rate fell a tick to 4.1%, and average hourly earnings rose a dime, or nearly 4% over the last 12 months.

This isn't a sign of a slowing labor market, or a near-term economic downturn. If anything, it's further proof that the Fed blundered in September when it cut its short-term rates by 50 basis points, adding another 25-point cut at its December meeting. The markets have reacted to those cuts by sending long-bond rates up. The 10 year Treasury note hit 4.76% on Friday, and it has climbed by 100 basis points since the Fed's September cut. The 30-year bond is close to 5%, which means that the average 30year fixed-rate mortgage rate is nearly 7%. Somehow we doubt this is the market response that Fed Chair Jerome Powell and his mates wanted.

Will the Fed admit its mistake? Don't count on it. More likely, as this week's release of the minutes of its December meeting showed, the Fed is already preparing to blame any inflation revival on Mr. Trump's tariff and tax policies. The press will be happy to play along.

But the Fed hasn't seemed to mind the Biden Administration running $2 trillion annual deficits while the economy grows at nearly 3% a year. The Fed would be better off looking inward at its financial models for why it keeps making these mistakes.

