

Political Pressure Remains a Factor

Jerome Powell, whose term as Fed chair ends in May, guided the economy through the worst inflation in four decades and relentless political pressure to change course.

He is poised to leave with the soft landing closer than anyone had good reason to expect. But it isn't secured.

If the economy stays strong, the White House might find itself demanding rate cuts that solid growth wouldn't historically justify. Whether President Trump's choice to succeed Powell, Kevin Warsh, inherits a mandate to consolidate recent gains or push for something more ambitious could determine what comes next.

Economic Signs Point to a Soft Landing

Inflation is easing, jobs are holding up and growth is solid, defying predictions

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BY NICK TIMIRAOS

The vital signs of the American economy are pointing in the same favorable direction more convincingly than at any point since before the pandemic. Inflation is falling. The labor market is holding. Growth has been solid.

It is a snapshot, not a verdict— but it is the closest the economy has come to achieving a soft landing, a moderation in inflation without recession. Just four years ago, many economists said that was impossible. This past April, as the economy closed in on a soft landing, steep tariffs had forecasters bracing for a new surge in inflation.

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Now, it again looks plausible that inflation could return to the Federal Reserve's 2% goal without a recession.

Friday's inflation report showed so-called core prices, which strip out volatile food and energy costs, rose 2.5% in January from a year earlier— the lowest since the pandemic price surge began in 2021. While that number has been held down artificially by a data gap from last fall's government shutdown, it nonetheless showed less of the start-of-the-year price pressure that tripped up the falling- inflation story in each of the past three years.

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Meanwhile, separate data Wednesday showed the unemployment rate ticked down to 4.3% in January, with employers adding a larger-than-anticipated 130,000 jobs.

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"The worst calamity that everyone had in mind didn't happen," said Jeffrey Cleveland, chief economist at Payden & Rygel. "People would say to me, 'The only way you'll get to 2% inflation is the unemployment rate has to spike.'" Even if oxygen masks weren't needed, it is too soon to remove the seat belts. Core prices as measured by the Fed's preferred inflation gauge, which differs from the consumer- price index released Friday, are rising nearly 3%, up from the recent low of 2.6% recorded this past April and well above the 2% target. Several forecasters expect little progress this year as tariff-related price increases work their way from ports to store shelves.

Fed officials worry less that inflation will surge again than that it will stall at recent levels.

"You're not going to get me to declare victory on 'soft landing,'" said Anna Paulson, president of the Philadelphia Fed, in an interview last month. "Inflation needs to be at 2%. So we haven't finished the job." Her forecast pencils in monthly inflation readings consistent with 2% by year's end.

The labor market, meanwhile, might be less sturdy than the report this past week suggested. Annual revisions showed the economy added an average of 15,000 jobs a month in all of 2025, lower than in almost any year outside of recessions since World War II. Job growth has been narrowly concentrated in healthcare and education.

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“The labor market has been objectively weak,” said Cleveland. He added that the unemployment rate is more likely to rise than fall this year and that core inflation, using the Fed’s preferred gauge, will drop to 2.1% by year-end.

Unemployment has been stable because even though employers aren’t adding many workers, they aren’t cutting many either. It wouldn’t take much to shatter that fragile equilibrium.

One candidate: companies whose stock prices have tumbled as the artificial-intelligence boom reshuffles winners and losers might be forced to cut costs, including through layoffs.

Another risk is that household wealth has been buoyed by years of equity gains, and a sustained selloff could cause consumers to pull back, undermining an engine of economic growth.

Others think the bigger risk to the soft landing comes not from the labor market but from resilient consumers keeping inflation stuck above 2%.

“I’m a little nervous about the whole soft landing here because households are overall in good financial shape,” said Marc Giannoni, chief U.S. economist at Barclays. “Wealth has gone up pretty much across the board.” Giannoni sees unemployment decreasing to 4% this year with inflation holding around 2.8%—the mirror image of Cleveland’s forecast.

He said the popular narrative of a K-shaped economy in which wealthy households drive disproportionate growth in spending, masking broader fragilities among savings-depleted, lower-income consumers, has been exaggerated. That is good news for the expansion. It is less good news for getting inflation back to 2%.

Capital spending on AI contributed nearly a full percentage point to economic output last year and could do so again this year, said Daleep Singh, chief global economist at PGIM Fixed Income.

Fiscal policy might add another tailwind. Ahead of this fall’s midterm elections, the Trump administration has reason to pursue expansive fiscal policies and to be more careful about trade actions that, after steep tariff increases this past April, added to the cost-of-living pressures the president had promised to fix, said Singh, a former economic adviser to President Joe Biden. He sees inflation ending the year at around 3%.

A closer look at Friday’s report revealed inflation challenges lurking under the surface. Shelter costs, which had been the single largest driver of elevated inflation in recent years, have finally cooled meaningfully.

But prices for services outside of housing remained firm, and tariff-sensitive goods prices accelerated. Stripping out used cars, core goods prices rose at a 4.4% annualized rate in January, the fastest pace in three years.

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