ECONOMIC UPDATE

REGIONS

September 17, 2025

September FOMC Meeting: Shift In The Assessment Of Risks Amongst A Divided Committee

- The FOMC lowered the Fed funds rate target range by twenty-five basis points, which puts the mid-point of the target range at 4.125 percent
- The updated dot plot implies fifty basis points of additional funds rate cuts by year-end 2025

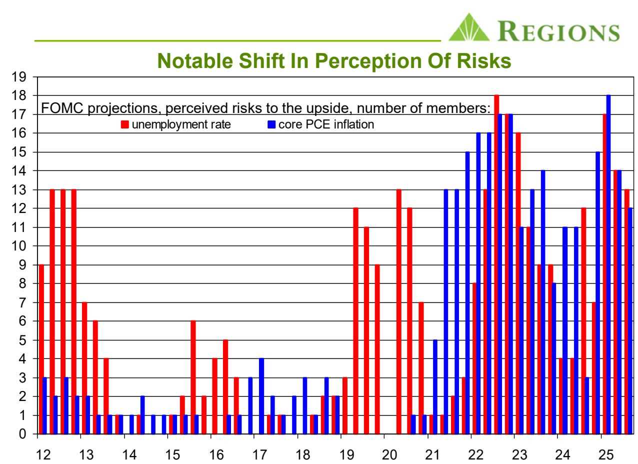
Ahead of this week's FOMC meeting, some were speculating that this gathering of the normally staid Committee would more resemble the Roy family gathering for a *Succession* reboot. We may never know whether, or to what extent, that was actually the case but, while the FOMC did deliver a widely expected twenty-five basis point cut in the Fed funds rate target range, the updated dot plot hardly shows a united front. Though the updated Summary of Economic Projections (SEP) shows no changes in the median forecasts for unemployment and inflation in Q4 2025 from those in the June edition of the SEP, the Committee is now more focused on the downside risks to the labor market than on the upside risks to inflation. While the updated dot plot implies two further twenty-five basis point cuts in the funds rate target range by the end of this year, there was considerable variation in the views of individual members as seven members saw no further cuts after today's being appropriate by year-end and one member (clearly a non-voting member) would have preferred not to have cut at all this year. To some extent, the splits apparent in the dot plot can be seen as a reasonable reaction to what remains an uncertain outlook for growth and inflation. That said, there was but a single dissent on the vote for a twenty-five basis point cut, with that being Stephen Miran, who preferred a fifty-basis point cut. There had been speculation that Governors Waller and/or Bowman would also dissent in favor of a larger cut and that at least one regional Fed Bank President would dissent in favor of no cut at this meeting. We'd argue that the dot plot, not the vote, is a more apt reflection of the extent to which the FOMC is divided over the appropriate course of monetary policy. While there is nothing wrong with members having varying views on the proper path of policy, it can be argued that the divisions apparent in the dot plot diminish the effectiveness of the forward guidance offered by the Committee.

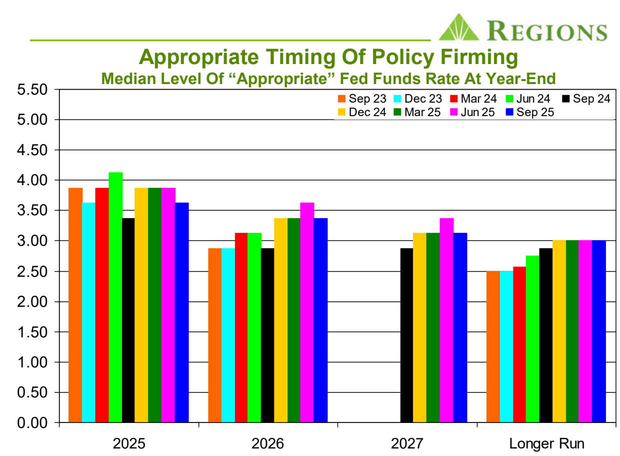
While the post-meeting policy statement noted, as in July, that the pace of economic activity moderated over the first half of the year, there were other changes reflecting the shifting assessment of risks. It was noted that job gains have slowed and the unemployment rate, while remaining low, has edged up; no longer are labor market conditions characterized as "solid." While the July statement noted that "inflation remains somewhat elevated," today's statement notes that "inflation has moved up and remains somewhat elevated." While again acknowledging elevated uncertainty around the economic outlook, today's points out that "downside risks to employment have risen," in lieu of the July statement that the FOMC is "attentive to the risks to both sides of its dual mandate."

Though the median forecast of 2025 real GDP growth, on a Q4/Q4 basis, is higher than in the June SEP (1.6 percent vs. 1.4 percent), the median forecasts for the unemployment rate (4.5 percent) and core PCE inflation (3.1 percent) are unchanged. The median forecast for 2026 real GDP growth was also bumped up, and while the median forecast of the Q4 2026 unemployment rate is down one-tenth of a point from June, both headline and core PCE inflation are expected to be higher than in the June SEP. It is also interesting to note that, despite the wide variance in the dot plot, the range of forecasts for growth, inflation, and the unemployment rate is no wider than was the case in June. In his post-meeting press conference, Chair Powell noted that it would have been more surprising had there not been a wide dispersion of views around the appropriate path of policy given the "highly unusual" situation facing the economy, yet that is not reflected in the range of forecasts.

While the median dot implies two additional twenty-five basis point cuts in the funds rate by year-end 2025, two members preferred only two more cuts, six members preferred only one more cut, and one member preferred no cuts (including at this meeting). At the same time, one member has 2.875 as the appropriate year-end 2025 target range mid-point. While the median year-end 2026 dot implies an additional twenty-five basis point cut, nine members were below the median and eight were above. Clearly a year-end 2026 projection has limited value today, but this does go to the degree of division around the appropriate path of policy.

In his post-meeting press conference, Chair Powell noted that there was not widespread support for a fifty-basis point cut while characterizing today's cut as "risk management." In a subtle shift, he noted that weaker job growth lessens the upside risks to the inflation side of the FOMC's dual mandate despite holding out the prospect of more intense tariff pass-through going forward. Clearly, at this point "risk management" refers to downside risks to the labor market rather than upside risks to inflation.





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