BEA 東亞銀行

Economic Research Department

31 July 2025

Economic QuickView

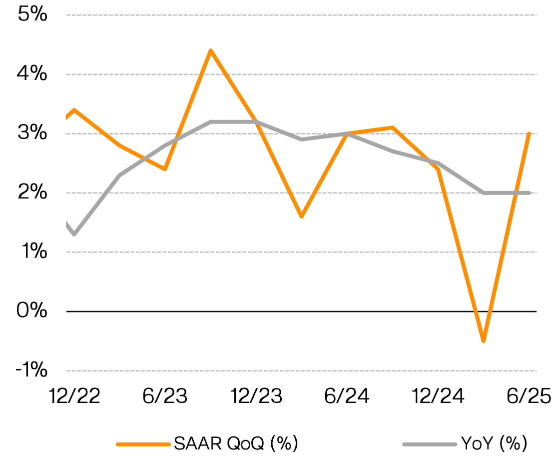
FOMC Meeting: The Fed held rates steady as pressure builds to cut rates

- The Fed held rates steady at 4.25-4.50%.
- The Fed's vote was not unanimous as two FOMC governors dissented, the first time since 1993.
- With largely stable inflation, particularly core PCE inflation, and a moderate weakening in the labour market, we expect the Fed to cut rates in the second half of the year.

The Fed held rates steady in July. During its July meeting, the Federal Open Market Committee (FOMC) voted to hold the federal funds rate unchanged at 4.25-4.50%. Notably, two FOMC governors, Michelle Bowman and Christopher Waller, dissented and preferred to cut rates by 25 basis points (bps). This marked the first time since 1993 that two governors dissented during a single meeting, underscoring a possible growing divide within the committee and amplifying calls for Powell to consider rate cuts going forward. The post-meeting statement only featured a few changes, particularly, introducing that economic growth had "moderated in the first half of the year" compared to "expand at a solid pace" in previous statements. Additionally, the statement omitted the phrase "has diminished", with Powell acknowledging that while uncertainty had diminished ahead of last month's meeting, it hasn't diminished further since then and remains elevated.

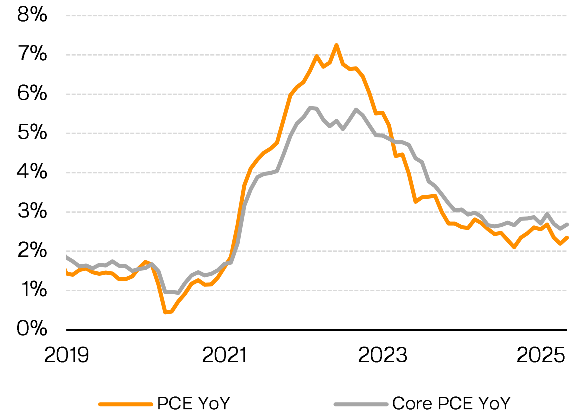
Powell exhibits hawkish tone when speaking to the press. When fielding questions from the press, Powell reiterated the Fed's patient approach, refusing to give forward guidance on a September rate cut. He noted, as in previous meetings, that more data is needed before the Fed decides its next monetary policy action. Notably, before the Fed's next meeting in September, the Fed will receive two rounds of employment and inflation data. Despite this, Powell maintained a hawkish tone. Powell also acknowledged the effects from higher tariffs are starting to feed into inflation data, with higher goods prices. He also mentioned that while various trade agreements have been reached, uncertainty remains high, and the full economic impact of tariffs is still unclear.

US GDP growth



Source: Bloomberg

US PCE Inflation



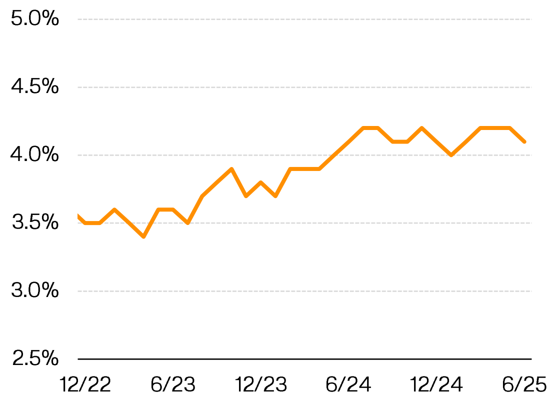
Source: Bloomberg, data as of 31/07/2025

Pressure building on Powell to introduce rate cuts. While core PCE inflation remained above target at 2.7% year-on-year (YoY) in May, inflation readings have been largely range-bound. The labour market has softened recently, with a slowdown in hiring practices, the easing of wage growth, and a softening in private sector job creation. Meanwhile, political pressure has intensified, with President Trump urging Powell to cut rates. The two Fed governors dissenting in favour of rate cuts further underscores the committee's divide.

Despite this, the US economy performed better than expected in Q2, as evidenced by real GDP growing at a seasonally adjusted annual rate (SAAR) of 3.0%, following a 0.5% contraction in Q1. However, even with the announcement of new trade agreements, overall tariff rates are higher than they were previously, casting a shadow of uncertainty over the future trajectory of inflation, the labour market, and economic growth.

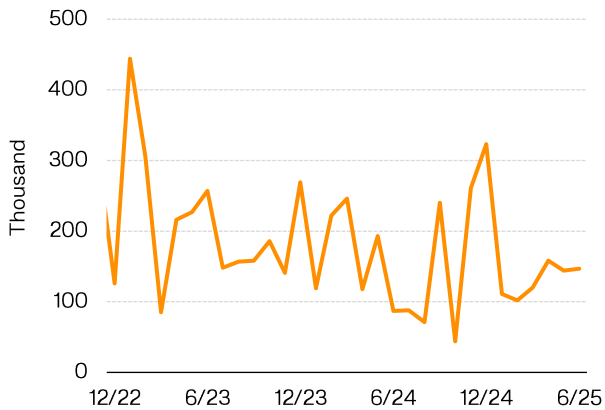
Considering these factors, pressure is building on Powell to cut rates going forward. We continue to project two rate cuts for the second half of the year.

Unemployment rate



Source: CEIC

Change in non-farm payroll employment



Source: CEIC

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