

Economic QuickView



FOMC Meeting: The Fed resumed its rate cut cycle after a 9-month pause

- The Fed decided to cut rates by 25 bps to 4.00-4.25% at its September meeting.
- The rate cut decision was not unanimous as one member dissented, preferring a 50-bps rate cut.
- A narrow majority of FOMC members projected two more cuts by the end of 2025.

The Fed resumed to cut rates amid rising downside risks to the labour market. During its September meeting, the Federal Open Market Committee (FOMC) voted to lower the federal funds rate by 25 basis points (bps) to 4.00-4.25%. The vote was 11-1, with the newly appointed Fed governor, Stephen Miran, dissenting and preferring a 50-bps rate cut. The post-meeting statement featured several key changes, adding phrases such as "job gains have slowed", "the unemployment rate has edged up", and "downside risks to employment have risen", reflecting the recent weakness in the labour market observed over the past few months. Additionally, the statement underscored that inflation "has moved up and remains somewhat elevated". Overall, the statement highlighted that the decision to cut rates was made in light of the shift in the balance of risks, which reflected a greater emphasis on the recent softening trend in the labour market.

The Fed's September Summary of Economic Projections (SEP) signalled a modest dovish tilt. The median forecast for the federal funds rate at the end of 2025 was downwardly revised to 3.625% in September's SEP, suggesting two more 25bps cuts through the year. In particular, the dot plot revealed a dovish tilt among the FOMC members, with 10 projecting at least 3 rate cuts in 2025, compared to 9 projecting 2 or less. This is a sharp shift from June's SEP, when only 2 members projected at least 3 rate cuts in 2025. Meanwhile, the median rate forecasts for 2026 and 2027 were also revised down to 3.375% and 3.125%, respectively, indicating one 25-bps cut in each of those years. The long run neutral rate remained unchanged at 3.0%.

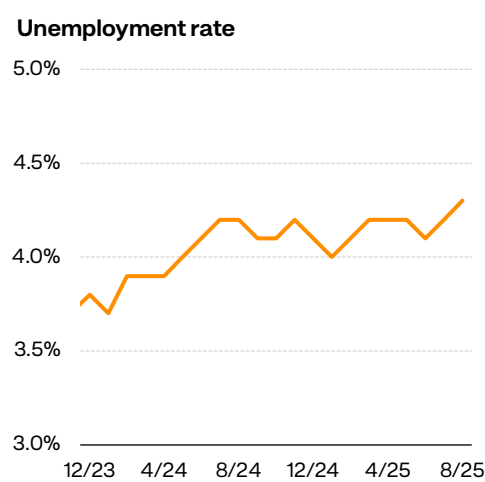
Economic Research Department

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The FOMC's updated economic assessment revealed an upgrade in growth expectations. Real GDP growth median forecasts for 2025, 2026 and 2027 were revised up to 1.6%, 1.8% and 1.9% from 1.4%, 1.6% and 1.8%, respectively. These revisions were probably driven by US economic resilience in recent better-than-expected readings, along with a less extreme rise in effective tariff rates following the conclusion of a series of trade deals. Regarding inflation, the Fed bumped up its core PCE inflation projections for 2026 (from 2.4% to 2.6%), while keeping the projections for 2025 (3.1%) and 2027 (2.1%) unchanged. This may reflect the FOMC's view of more lagged pass-through effects from tariffs. Regarding the labour market, the FOMC maintained its unemployment rate forecast for 2025 at 4.5%, while lowering the forecasts for 2026 to 4.4% and for 2027 to 4.3%, from 4.5% and 4.4%, respectively. Taken together, these changes showed that the FOMC holds a more positive outlook on the US economy.

FOMC Projections (September 2025)	2025	2026	2027	2028	Longer run
Real GDP growth (%)	1.6	1.8	1.9	1.8	1.8
[June 2025]	[1.4]	[1.6]	[1.8]	-	[1.8]
Unemployment rate (%)	4.5	4.4	4.3	4.2	4.2
[June 2025]	[4.5]	[4.5]	[4.4]	-	[4.2]
Core PCE inflation (%)	3.1	2.6	2.1	2.0	-
[June 2025]	[3.1]	[2.4]	[2.1]	-	-
Fed Funds rate (%)	3.6	3.4	3.1	3.1	3.0
[June 2025]	[3.9]	[3.6]	[3.4]	-	[3.0]

Source: The Fed



Source: CEIC

Powell described the September rate cut as a "risk management cut". In the press conference, Fed Chairman Jerome Powell described the 25-bps rate cut as a "risk management cut", acknowledging slowing job growth as a reason for rate and further attributed a good part of the labour market slowdown on a decrease in immigration and labour force participation. He referred to the effects of higher tariffs on inflation as "not very large effects at this point", indicating less worries of higher inflation due to tariffs. It is also worth mentioning that Powell referenced a "wide dispersion of views" among FOMC members, signalling a lack of consensus, while commenting that there wasn't "widespread support" for a larger rate cut during the meeting. This offered a more hawkish tone compared to the overall dovish message embedded in the post-meeting statement and the SEP, confusing markets over the Fed's future monetary policies.

Our base-line scenario expects an additional 2 rate cuts in the rest of 2025. Considering the latest SEP and the recent weakness in the labour market, we expect that the Fed is likely to proceed with two more 25 bps cut rates in October and December, respectively, bringing the total to 3 for 2025.

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