Take 5 Five
WITH THE ST. LOUIS FED

December 12, 2025

FOMC lowers policy rate 25 basis points to a range of 3.5% to 3.75%

Transcript

Kathleen Navin: Welcome to *Take Five with the St. Louis Fed*. I'm Kathleen Navin, senior economist, and today I'll be discussing the latest FOMC meeting that took place on December 9 and 10.

At this meeting, the FOMC voted to lower the target for the federal funds rate by a quarter of a percentage point to a new range of 3.5% to 3.75%.

Now, there were three dissents from the December meeting, with Governor Stephen Miran dissenting in favor of a 50-basis point reduction in the policy range, while Federal Reserve Bank Presidents Jeffrey Schmid of Kansas City and Austan Goolsbee of Chicago dissenting in favor of no rate cut. Nevertheless, with the reduction in the policy rate in December, that brings the total reduction over the last three meetings to a cumulative 75 basis points.

In putting this into context, Chair Powell noted during the press briefing, "The adjustments to our policy stance since September bring it within a range of plausible estimates of neutral and leave us well positioned to determine the extent and timing of additional adjustments to our policy rate based on the incoming data, the evolving outlook, and the balance of risks."

Now let's take a minute to talk about the balance sheet. At our last *Take 5*, we discussed that the FOMC viewed it would be appropriate to essentially end the quantitative tightening as of December 1. At that time, it viewed that reserves were nearing the level that it viewed as ample.

Now, what we saw at this FOMC meeting is that the FOMC now views that reserves have reached that level of ample. So it is now time to begin reserve management purchases.

As discussed in the FOMC statement, "The Committee judges that reserve balances have declined to ample levels and will initiate purchases of shorter-term Treasury securities as needed to maintain an ample supply of reserves on an ongoing basis."

Reserve management purchases are essentially a technical adjustment to ensure smooth market functioning and sufficient liquidity. And that's really important when ensuring that the federal funds rate will trade within the target range. So this is really about proper implementation.

Now, if you want to learn more about reserve management purchases, as well as some changes to standing repo operations that were also made at this meeting, check out the New York Fed's website. They released two statements on this with some of the technical details around these changes.

Let's take a minute now to talk about the latest economic projections from FOMC participants. Let's begin with real GDP growth.

Here we see the median projection is for real GDP growth to firm from 1.7% this year to 2.3% next year. Now, some of this could be about the shift in growth from this year to next year related to the government shutdown in the fourth quarter of this year. And as the government reopened, that may be shifting some growth in to 2026, but still underlying that number is the projection for a pretty healthy economy in 2026.

Growth is then expected to moderate over the next two years, moving back in line with that longer-run estimate of 1.8%.

Turning to the unemployment rate, we see the median projection is for 4.5% in the fourth quarter of this year and then for the unemployment rate to gradually moderate back to 4.2% by 2027.

Looking at the latest projections on inflation, we see inflation is expected to be 2.9% in 2025 when looking at headline PCE inflation and then 3% looking at core PCE inflation for this year. We know core PCE inflation removes those volatile components of food and energy.

So we see that inflation expected to be elevated this year and then resuming that downward progress over the next few years, essentially moving back to 2% by 2028 on both headline and core PCE inflation.

Now, given these forecasts, where does that leave us on the appropriate path of monetary policy going forward?

When we look at the median projection, we see essentially the same forecast that we had in September, with the Committee looking for 3.6% by the end of this year. And with the 75 basis points in reduction that we've had over the last three meetings, that did bring us to that number. So that number is essentially now in the books.

Looking forward to next year, you see one additional rate cut to 3.4%, and then in 2027, an additional 25-basis point rate cut to 3.1%, bringing that in line to very close to that longer-run estimate of 3% that we get from the median projection.

However, when we look at the individual forecasts for the appropriate path of monetary policy moving forward, we see that there remains a lot of variation.

When we look at 2026, we see that 11 of 19 participants view either no rate cuts or one rate cut as appropriate. However, on the other end, there's one participant who views an additional 150 basis points in rate reduction as appropriate next year. And this variation we see as well in the longer-run estimates for the federal funds rate.

And this really highlights the difficulty around pinpointing what is the neutral level for the federal funds rate. However, we know that at our current range of 3.5 to 3.75%, we're now in this upper end of the range of neutral when we look at these ranges, look at these estimates from the participants. And this really allows the FOMC to be in a good position for evaluating the incoming data as it comes and looking at those balance of risks around the mandate and determining the best path forward.

Well, that concludes this installment of *Take Five with the St. Louis Fed*. Thanks so much for joining us.

(END OF RECORDING)