October 31, 2025

FOMC reduces policy rate another 25 basis points, announces end to QT on Dec 1

Transcript

Kathleen Navin: Welcome to this edition of *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 October 28 and 29.

At this meeting, the FOMC voted to lower its target range for the federal funds rate by a quarter of a percentage point to a new range of 3.75% to 4%.

There were two dissents from this policy decision. Governor Miran dissented in favor of a 50-basis point reduction, while on the other side of the decision, Kansas City Fed President Schmid voted in favor of no change in policy. So we had two dissents on either side of the policy decision. Now, this is not the most common of outcomes, but it has happened in the past. In fact, the most recent outcome where we had a dissent on one side and another dissent on the other was in September of 2019. So while not very common, it does happen from time to time.

Now, another event that occurred with the October meeting was the announcement that Federal Reserve balance sheet policy, which we've seen normalizing over the last few years, that this approach of quantitative tightening would come to an end on December 1. So this was announced in the FOMC statement and then discussed throughout the press briefing.

Now let's take a look at the Federal Reserve's balance sheet over the last few years. Here we have a chart—total assets—and what you see is an increase in overall assets on the Federal Reserve's balance sheet to about $9 trillion in early 2022. Then we had quantitative tightening that began in June of 2022, and we see that steadily decline through the most recent weekly data to about $6.6 trillion. Now, you do see that bump in early 2023 with the introduction of BTFP, but we've seen that overall quantitative tightening resuming and going over the last three and a half years.

Now, as Chair Powell discussed during the press briefing, essentially the next path for normalization—the next phase—is to hold the balance sheet steady. So this will begin in December, but continuing allowing reserves to steadily reduce to that level of ample. So currently a little bit above ample, allowing it to gradually decline toward ample, we know the goal is ample reserves. Now, at the same time, in order to keep the overall balance sheet steady, we'll see a gradual increase in non-reserve liabilities such as currency. So we'll see that somewhat offsetting. So overall, no change. Now, it will become appropriate in the future to allow the balance sheet to continue growing along with the size of the economy to ensure appropriate liquidity in the overall economy. But for now, the next phase is this normalization phase with balance sheet remaining steady.

Another theme that was very common throughout the press briefing, and even within the FOMC statement, was the lack of government data available heading into the October meeting. We saw it in the very first phrase, even, in the FOMC statement, which read, "Available indicators suggest that economic activity has been expanding at a moderate pace. Job gains have slowed this year, and the unemployment rate has edged up but remained low through August; more recent indicators are consistent with these developments."

So we see the reference to the August employment report. We know that just following the start of the government shutdown, on October 3, we would have received the September jobs report. So we'll wait until after the government shutdown ends to see those data. In the meantime, though, we can look at other data on the employment sector. And actually, one came out just prior to the government shutdown, and that was from the Bureau of Labor Statistics. It was the monthly JOLTS data. So this tells us something about labor turnover. What we see is a continuation of what we've had in the labor market the last few months, this low-hiring, low-firing environment. We see that continue. But while waiting for the next JOLTS report after the government shutdown ends, we can look at private sector data from Indeed to get a sense of what job postings are doing.

Here I have another chart on job postings for the United States, as well as for the seven states within the St. Louis Federal Reserve's district. Here we see that continuation, that slow, gradual decline in job postings kind of returning towards the pre-pandemic level. And this is very useful because it gives us a sense of the trend. It is something that can complement the government data in this case. And another series that we can look at are data on initial claims.

Now, normally we would receive the weekly initial claims data from the Department of Labor. Again, during the government shutdown, we won't have these data, but state data are still being collected. And actually, Haver Analytics, a data firm, has been taking the state data and aggregating it so that we can get a sense of the overall initial claim situation for the United States. And what we see here is that if you look at relative to the 2019 average—so we know in 2019, the labor market was very healthy. It was pre pandemic and all the disruptions we had during that time. So we kind of look towards that. We see that the official Department of Labor data, the last indicator we had was very close to that average. Now, running a little bit above it more recently, but we're not seeing a sharp increase in the weekly data we've had since then. So a sharp increase would correspond to job losses, and if we're trying to get a sense of is there an increase happening in the unemployment rate, this is a very helpful series to look at.

I will note that jump that we had at the beginning of September, there were a lot of instances of fraud in that case. So that was somewhat of a false signal. We see that reversal in the week since. And so we're seeing that kind of continuation of a slowing labor market, but one where we're not seeing widespread job losses.

Now, on the other side of the dual mandate, if we look back to that FOMC statement from October, we read, "Inflation has moved up since earlier in the year and remains somewhat elevated." So this is very similar to what we saw at the September meeting.

And interestingly, we do have new government data when it comes to inflation. Now, because the Consumer Price Index is used for cost-of-living adjustments on Social Security, those furloughed workers were actually brought back in to compute the September CPI report. So we actually can take a look at those latest data. And what we see here is, yes, a modest increase over the last few months, but still kind of the same situation we were in when it came to the last FOMC meeting, with inflation running above the 2% objective. But we're not seeing a surge in inflation at this time.

Now, that's a review of the recent data that we've had. But we know we also need to take into account the balance of risks. And in my opinion, when I look at the data, when I look at the evolving outlook, I still see on the employment side, more downside risks and on the inflation side, more upside risks to the outlook. And these have different policy responses, as we've discussed in previous *Take Five*s.

So where does that leave the FOMC when it comes to the December meeting? Well, interestingly, markets had pretty much priced in a full 25-basis point rate cut in December prior to the October meeting. But in the October press briefing, Chair Powell actually talked a little bit more about the December meeting, and he stated, "A further reduction in the policy rate at the December meeting is not a foregone conclusion—far from it. Policy is not on a preset course."

And what we saw in the market data after the FOMC meeting on Wednesday, October 29, was that markets kind of pulled back a little bit on the December expectation, pricing in more like 18 basis points in reduction at that time. So somewhere between no cut and a 25-basis point cut.

We know, as mentioned in that quotation, that policy going forward will depend on the evolving outlook, the incoming data, and the balance of risk. So continuing to watch those leading into December.

Well, that concludes this installment of *Take Five*. Thanks.

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