September 18, 2025

FOMC cuts by quarter-point in September, as downside risks to employment have risen

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 September 16 and 17.

At this meeting, the FOMC voted to lower the federal funds rate target to a range of 4% to 4.25%, which was a cut of 25 basis points. In addition, the FOMC voted to continue allowing its balance sheet to reduce in size as previously announced.

There was one dissent from the September policy decision, with newly confirmed Fed Governor Stephen Miran preferring instead to see a 50-basis point rate cut at the meeting. Now when putting the September FOMC decision into context, it's very important to look at the balance of risks, and we get some light on this in both the FOMC statement as well as Fed Chair's press briefing. According to the September 2025 FOMC statement, "The Committee is attentive to the risks to both sides of its dual mandate and judges that downside risks to employment have risen."

And we also see quite a material change to the language around labor market conditions in the FOMC statement. If we look back to the July FOMC statement, it read, "The unemployment rate remains low, and labor market conditions remain solid." Now, fast-forward to the September FOMC decision, and that statement, we see "Job gains have slowed, and the unemployment rate has edged up but remains low." So that removal of "labor market conditions remain solid," and this shift instead to highlighting the slowdown in growth and the tick up and the unemployment rate really shows that change in sentiment and help underlie the overall decision to remove that policy restraint in September with a 25-basis point cut.

Now, let's take a look at the economic data that put this into better context. Here we have the overall total nonfarm payroll employment, and this has changed month over month. We see that over the last four months this has really slowed to just 27,000 jobs added per month. And in addition, when we look at the unemployment rate, we see that tick up to 4.3%.

Now, it's important to keep in mind that the FOMC does not just have one mandate, but we know that's the dual mandate. So we also have to look at what's going on, on the inflation side. And here we also saw a change to the FOMC statement, which in July read, "Inflation remains somewhat elevated." Now this sentiment remained in the September statement, but with the addition of "inflation has moved up."

So here, if we look at the data that underlie this change, we see—what I have here is headline PCE inflation and then core PCE inflation. In both cases, we see that increase over the last couple months. Now we're still down materially from where we were in 2022. We have made a lot of progress over the last few years, but we see that increase over the last few months. So risks on that side of the mandate still remain.

Now, it's really helpful to look at the economic data in hand, but it's also helpful to look at what policymakers are thinking about the path forward. And with that, we can look at the latest set of economic projections released at the September meeting. Let's start first with real GDP growth.

Well we already know that real GDP growth has slowed from 2.5% last year to 1.4% over the first half of this year. What we see in the projections is for overall growth to be 1.6% in 2025. So this implied somewhat stronger growth over the second half of the year relative to the first half.

When we look to 2026, we see a firming to 1.8%; 2027, a further firming to 1.9%; and then a slight edging to 1.8% in 2028, which is consistent with the longer-run estimate from the median participant, the median projection. And it's important to note that we do also see now an additional year of forecast. So we're going to be adding 2028 throughout the next few charts.

Meanwhile, the unemployment rate, what we see here is that the median projection is for an increase from 4.3% as of August to 4.5% on average over the fourth quarter of 2025. After that, we see an easing in the unemployment rate back to 4.2%, which is consistent with the median projection in the longer run.

Turning to inflation, we see that both for headline and core PCE inflation, we see a move up this year in 2025. Before that, disinflationary trend resumes beginning next year with both cases getting to 2%, which is the Fed's objective by 2028.

Now where does this put us on the appropriate path of policy moving forward? Here we can reference the latest dots plot. And what I'm showing here is the median projection for the federal funds rate at the end of each year. Now we see for 2025 that median projection is 3.6%. Well, that implies a total of 75 basis points in rate cuts this year.

We know that 25 basis points has already occurred at the September meeting, which leaves an additional two 25 basis point rate cuts over the remainder of the year, according to that median projection. 2026 and 2027, we see an additional rate cut of 25 basis points, so that by the time of 2027 and 2028, the median projection is back closely in line to the longer-run estimate of 3% for the nominal federal funds rate.

Now, even though we see the median projection is for three rate cuts this year—each of 25 basis points—we see there's still a lot of dispersion among policymakers around that median, especially to one side. If we look here, we see that there are actually nine policymakers who view it as appropriate for fewer rate cuts in 2025 (than three), with one showing no rate cuts this year, six showing one rate cut, which we had occur at the September meeting, and then two additional FOMC participants seeing that two rate cuts this year would be appropriate.

And if we look at the other end of the spectrum, we see there is one FOMC participant with an expectation that more rate cuts would be appropriate than the median. So that's a pretty large span of projections with just two meetings to go this year. So this shows the continued importance on evaluating the incoming data, looking at the evolving outlook, and it all comes back to that dual mandate in the balance of risks around it. So continuing to watch that to see what the appropriate path of policy will be going forward.

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