FOMC Cuts Again; December Cut Not a "Foregone Conclusion"

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Headlines

- **The FOMC cut the fed funds rate by 25 basis points,** the second successive cut.
- **The statement noted slower job growth in recent months, as well as inflation that has moved up and remains above the 2% objective**.
- **The Fed is ending quantitative tightening on December 1.**
- **Chair Powell said in the press conference that a December rate cut is not a foregone conclusion, and the decision might hinge on the strength of the economic data reported when the government is finally reopened.**
- **PNC's forecast is for a fed funds rate cut of 25 basis points at the last FOMC meeting of this year on December 10, with another cut of 25 basis points in January 2026.** This would take the fed funds rate to a range of 3.25% to 3.50%.

Details

As broadly anticipated, the Federal Open Market Committee sliced the federal funds rate by 25 basis points to a range of 3.75% and 4.00%. The fed funds rate is the central bank's main short-term policy interest rate.

This is the second consecutive rate cut. The FOMC cut the fed funds rate quickly to close to zero in the early stages of the pandemic to support a recovery, and then rapidly lifted it to above 5% between the spring of 2022 and fall of 2023 as inflation surged. The FOMC then reduced the fed funds rate by a cumulative 100 basis points in the last few months of 2024 and then held it in a range between 4.25% and 4.50% until September.

In today's statement the FOMC specifically mentioned that *"downside risks to employment rose in recent months."* The committee also cited that *"economic activity has expanded at a moderate pace, job gains have slowed, and the unemployment rate has moved up since August."* This language reflects slower job growth, as well as the recent Bureau of Labor Statistics preliminary benchmark employment revisions that indicate weaker job growth than reported in 2024 and early 2025.

The statement also said that *"inflation has moved up since earlier in the year and remains somewhat elevated,"* above the Federal Reserve's 2% target. The statement also said that uncertainty about the economy remains elevated, and the Committee is *"attentive to the risks to both sides of its dual mandate and judges that downside risks to employment rose in recent months."*

There were two dissents at this meeting. Governor Stephen Miran dissented, calling for a 50-basis point cut in the fed funds rate. Miran is on leave as the Chair of President Trump's Council of Economic Advisers, and the President has made it clear that he wants the FOMC to cut rates more aggressively. Governor Jeffrey R. Schmid voted for no change in the target range at this meeting.

Also as expected, the FOMC *"decided to conclude the reduction of its aggregate securities holdings on December 1."* As securities mature beyond that date, the proceeds will be invested in shorter term treasury securities. The goal is to bring down the average maturity of the Fed's holding to be more in line with the average maturity of securities in the marketplace.

Most of today's FOMC policy statement unfolded as expected. Fed policymakers are still concerned about the labor market due to slower job growth and the preliminary annual benchmark employment downward revisions. Given the softening in the labor market, the FOMC lowered the fed funds rate by a cumulative 50 basis points over the past two months, even with inflation above the 2% target and set to move even higher in the near term due to tariffs. But even with today's rate reduction, monetary policy is still contractionary, weighing on economic growth, just not as much as before the rate cuts.

During the press conference, however, Powell said that a rate cut in December is *"not a foregone conclusion, indeed far from it."* If data is not available, Chair Powell said operating in the fog from a lack of data might cause the fed to pause. That said, PNC is still expecting a 25-basis point cut in the fed funds rate at the last FOMC meeting of this year in early December, as well as another rate cut in late January 2026. This would take the fed funds rate to a range of 3.25% to 3.50% by February 2026, where PNC expects it to remain throughout 2026.

Market reaction to the statement was initially muted but stocks fell, and bond yields moved up, after Powell said a December rate cut is not certain. Stock prices are down slightly so far on the day. The yield on the 10-year Treasury note was up by 9 basis points to 4.072%, with the yield on the 3-month T-bill up 5 basis points to 3.867%. The dollar is down slightly against a basket of currencies.

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