Economic Update

July 10, 2025

FOMC Minutes: Uncertainty About Inflationary Impact of Tariffs; Near-Term Fed Funds Rate Cut Looks Unlikely

- **According to the minutes from the mid-June FOMC meeting, participants expect inflation to reaccelerate over the next few months, but with a great deal of uncertainty about the extent.**
- **Although the labor market is in good shape, participants were concerned about a potential softening.**
- **Given the uncertainty, and inflation that is already higher than the FOMC would like, most participants do not favor a near-term rate cut.**
- **However, most participants did expect rate cuts at some point in 2025.**
- **PNC is forecasting one cut in the fed funds rate in late 2025, with additional rate cuts in 2026.**

The Federal Open Market Committee remains attentive to the inflationary impacts of tariffs, according to the minutes from the committee's meeting on June 17 and 18, but were uncertain about the timing and magnitude. According to the minutes, "participants noted that increased tariffs were likely to put upward pressure on prices. There was considerable uncertainty, however, about the timing, size, and duration of these effects. Many observed that it might take some time for the effect of higher tariffs to be reflected in the prices of final goods because firms might choose not to raise prices on affected goods and services until they had run down inventories of products imported before the increase in tariffs or because it would take some time for tariffs on intermediate goods to work through the supply chain."

This concern was particularly pronounced given inflation that is already above the FOMC's 2% objective and that "shorter-term inflation expectations [have] been elevated and that this development [has] the potential to spill over into longer-term expectations or to affect price and wage setting in the near term." The minutes also say that "while a few participants noted that tariffs would lead to a one-time increase in prices and would not affect longer-term inflation expectations, most participants noted the risk that tariffs could have more persistent effects on inflation, and some highlighted the fact that such persistence could also affect inflation expectations."

With respect to the labor market, "participants judged that conditions remained solid and that the labor market was at, or near, estimates of maximum employment." However, "several participants also mentioned that their contacts and business survey respondents reported pausing hiring decisions because of elevated uncertainty. Several participants noted that immigration policies were reducing labor supply. In their outlook

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for the labor market, most participants suggested that higher tariffs or heightened policy uncertainty would weigh on labor demand, and many participants expected a gradual softening of conditions."

According to the minutes the overall outlook "was for continued economic growth, although a majority of participants expected that the pace of growth was likely to moderate going forward." Participants "observed that measures of household sentiment remained low, although these measures had risen a bit recently. A few participants noted that consumer sentiment had not been a good predictor of consumer spending in recent years." The minutes also noted that tariffs could be a drag on business investment, with "several participants [reporting] that business contacts had indicated that their firms were proceeding with existing investment projects but that heightened uncertainty was making them cautious about beginning new projects, especially larger ones."

The consensus was for a wait-and-see approach to near-term monetary policy: "with economic growth and the labor market still solid and current monetary policy moderately or modestly restrictive, the Committee was well positioned to wait for more clarity on the outlook for inflation and economic activity." But there was a bias toward federal funds rate cuts later this year, as "most participants assessed that some reduction in the target range for the federal funds rate this year would likely be appropriate, noting that upward pressure on inflation from tariffs may be temporary or modest, that medium- and longer-term inflation expectations had remained well anchored, or that some weakening of economic activity and labor market conditions could occur." And there was limited support for rate cuts at the FOMC's next meeting, in late July. But the minutes also say that "some participants saw the most likely appropriate path of monetary policy as involving no reductions in the target range for the federal funds rate this year, noting that recent inflation readings had continued to exceed the committee's 2% goal, that upside risks to inflation remained meaningful in light of factors such as elevated short-term inflation expectations of businesses and households, or that they expected that the economy would remain resilient."

The consensus was that risks were weighted toward higher inflation than expected, but also toward weaker growth and a softer labor market than expected. "Participants noted that the Committee might face difficult tradeoffs if elevated inflation proved to be more persistent while the outlook for employment weakened. If that were to occur, participants agreed that they would consider how far the economy is from each goal and the potentially different time horizons over which those respective gaps would be anticipated to close....Participants agreed that although uncertainty about inflation and the economic outlook had decreased, it remained appropriate to take a careful approach in adjusting monetary policy."

The minutes from the mid-June FOMC meeting indicate no rush to cut the federal funds rate. With participants generally expecting a near-term acceleration in inflation from tariffs, but uncertainty about the magnitude and timing, and with the labor market still solid, the majority view was that the FOMC did not need to cut the funds rate at the committee's next meeting, on July 29 and 30. At the same time, however, most participants viewed the current fed funds rate (in a range of 4.25% to 4.50%) as contractionary, weighing on economic activity, and indicated that they would like to cut the fed funds rate sometime in 2025. But that will depend on the evolution of inflation and the labor market in the months ahead.

The fed funds futures market is now pricing two rate cuts (25 basis points each) in the fed funds rate this year, little changed from yesterday. PNC's June baseline forecast is for one 25 basis point cut in the fed funds rate this year, at the last FOMC meeting of the year (mid-December), with two more 25 basis point cuts at the first two FOMC meetings of 2026. This would take the fed funds rate to a range of 3.50% to 3.75% by the spring of 2026.

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