FOMC Minutes: Watching Inflation Expectations, Greater Downside Risks

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Headlines

- **FOMC participants still expect inflation to pick up in the near term, to further above the 2% objective. Inflation risks are to the upside, but the risks did not increase between late July and mid-September.**
- **FOMC participants remain focused on keeping inflation expectations under control.**
- **The minutes note a softening in the labor market in mid-2025, with risks to the labor market increasing to the downside.**
- **The government shutdown has complicated the FOMC's task.**
- **PNC Expects 25 basis points cuts at each of the next three FOMC meetings, through late January.**

Details

According to the minutes from the September 16-17 Federal Open Market Committee meeting, the outlook for inflation remained uncertain. Some participants observed that inflation had risen less than anticipated this year, yet they expected the effects of higher tariffs to persist, keeping inflation "somewhat elevated in the near term" before gradually returning to the Fed's 2% objective.

A majority of participants viewed inflation risks as to the upside. Participants viewed long-term inflation expectations as "well anchored," and said "that it was important that they remain so help return inflation to 2%." Participants also noted the "central role of monetary policy in ensuring that longer-term inflation expectations remained well anchored."

With respect to the labor market, participants noted both slower job growth in recent months and a higher unemployment rate. Participants noted the role of both weaker labor supply, due in part to slower net immigration, and weaker labor demand in the slowing of the job market. There was a general agreement that recent labor market "indicators did not show a sharp deterioration in labor market conditions."

Near-term expectations were for little change in the labor market or a modest softening. There was uncertainty about the outlook for the labor market, however, and participants "viewed downside risks to employment as having increased over the intermeeting period."

Given that downside risks to the labor market had increased between the FOMC's late-July and mid-September meetings, while risks to inflation were unchanged, **FOMC participants generally supported a 25 basis point cut in the federal funds rate cut at the September 16-17 meeting**. The minutes say that "a few participants stated there was merit in keeping the federal funds rate unchanged at this meeting or that they could have supported such a decision." Fed Governor Miran, sworn in shortly before the meeting, favored a 50 basis point cut in the fed funds rate.

Participants noted both the potential risk of cutting rates too quickly – higher inflation for longer – as well as the risk of not cutting aggressively enough, which could lead to higher unemployment. Beyond the September meeting the minutes say that "most [participants] judged that it likely would be appropriate to ease policy further over the remainder of this year." However, "some participants noted that…financial conditions suggested that monetary policy may not be particularly restrictive," supporting a "cautious approach" to future rate cuts.

Overall, the minutes from the September 16-17 FOMC meeting support PNC's forecast for additional 25 basis point cuts in the federal funds rate at the committee's next three meetings, in late October, mid-December, and late January 2026. This would take the fed funds rate to a range of 3.25% to 3.50% by the end of January. However, the FOMC's task is complicated by the government shutdown, which has delayed the release of data on the labor market, including the September jobs report, and could delay inflation readings later this month.

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