



## FOMC Cuts Fed Funds Rate by 25 Basis Points, As Expected; Signals More Rate Cuts to Come This Year

### Headlines

- **The FOMC cut the fed funds rate by 25 basis points, the first rate cut since late 2024.**
- **The statement noted slower job growth in recent months, as well as inflation that remains above the 2% objective.**
- **The dot plot showed two more rate cuts this year, and another one in 2026, consistent with PNC's forecast.**

**As widely expected, the Federal Open Market Committee cut the federal funds rate by 25 basis points;** the rate is now in a range between 4.00% and 4.25%. The fed funds rate is the central bank's key short-term policy interest rate.

**This was the first rate cut since December 2024.** 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 raised it to above 5% between spring 2022 and fall 2023 as inflation surged. The FOMC then cut the fed funds rate by a cumulative 100 basis points in the last few months of 2024, before holding it in a range between 4.25% and 4.50% until now.

**In today's statement the FOMC specifically mentioned that "downside risks to employment have risen." The committee also cited moderating economic growth, slower job growth, and a higher unemployment rate.** This language reflects the weak August jobs report, as well as recent Bureau of Labor Statistics preliminary employment revisions that indicate weaker job growth in 2024 and early 2025.

The statement also said that "inflation has moved up and remains somewhat elevated," above the Federal Reserve's 2% objective. The statement also said that uncertainty about the economy remains elevated, with "risks to both sides of its dual mandate" of maximum employment and low inflation.

Governor Stephen Miran, who just joined the Board this week, 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 Lisa Cook, whom President Trump recently tried to fire from the Fed's Board of Governors but was reinstated by an appeals court, voted in favor of the 25 basis point rate cut.

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This release also includes the Summary of Economic Projections, or “dot plot,” which provides FOMC participants’ forecasts for the economy over the next few years. **The median FOMC participant has the fed funds rate at 3.6% at the end of 2025, indicating two more 25 basis point rate cuts this year,** at each of the two remaining FOMC meetings in 2025. The dot plot has the fed funds rate at 3.4% at the end of 2026, indicating one additional 25 basis point cut next year, and a long-run fed funds rate of 3.0%. The near-term path of monetary policy is slightly more dovish compared to the previous dot plot, from June.

The median FOMC participant has GDP growth of 1.6% in 2025 (on a Q4-to-Q4 basis) and 1.8% in 2026, slightly more optimistic than the June projections. The median unemployment rate is 4.5% at the end of 2025 (unchanged from June), 4.4% at the end of 2026 (down from 4.5% from the June SEP), and 4.2% over the longer run (unchanged).

**The inflation outlook in the dot plot is unchanged for 2025, but slightly higher for 2026.** The projection for the median overall inflation rate, measured using the personal consumption expenditures price index, is 3.0% in 2025 on a Q4-to-Q4 basis, with core PCE inflation of 3.1%. The median projection for overall PCE inflation is 2.6% in 2026 (up from 2.4% in the June dot plot), with the projection for core PCE inflation at 2.6% next year (up from 2.4% in June). Inflation is then expected to move lower in 2027 toward the 2% objective. In his post-meeting press conference Federal Reserve Chair Jerome Powell said that the most likely outcome is that tariffs will lead to temporarily higher inflation, but there is a risk that tariffs could lead to a more permanent acceleration in inflation, something that the central bank will need to guard against.

**There was nothing unexpected in today’s FOMC policy statement and SEP.** Fed policymakers are more concerned about the labor market now than they were when the last met in late June, because of weaker jobs reports and the preliminary employment revisions. Given the softening in the labor market the FOMC cut the fed funds rate by 25 basis points, 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 cut monetary policy is still contractionary, weighing on economic growth, just not as much as before the rate cut. The dot plot shows that FOMC members expect to cut the fed funds rate further in 2025 and 2026. During the press conference, Powell described today’s move as a “risk management cut”, noting that growth is now expected to be slightly higher than officials had projected three months earlier.

**Today’s statement and dot plot are consistent with PNC’s forecast for 25 basis point cuts in the fed funds rate at the remaining FOMC meetings this year, in late October and mid-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.

**Stock prices initially surged on the release of the statement, but then lost those gains, and the S&P 500 is down around 0.7% so far on the day.** The yield on the 10-year Treasury note was up by a few basis points to 4.08%, with the yield on the 3-month T-bill up slightly to 3.98%. The dollar initially weakened against a basket of currencies after the FOMC release but then strengthened.



Please reach out with any questions,

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