Daiwa Capital Markets

U.S. FOMC Review

- Monetary policy: the FOMC voted to keep the target range for the federal funds rate at 4-1/4 to 4-1/2 percent, although 2 governors dissented in favor of easing
- Policy statement: growth of economic activity “has moderated”; economic uncertainty “remains elevated”
- Powell press conference: base case for tariff-pressure to generate one-off price level increase; mildly restrictive policy stance appropriate at this time

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The July FOMC Meeting

The FOMC left unchanged the target range for the federal funds rate at 4.25 to 4.50 percent for the fifth consecutive meeting, a move well transmitted by the majority of Fed officials ahead of the blackout period and viewed as a near certainty by the vast majority of market participants (as inferred by futures market pricing that suggested in the days leading up to the meeting). As explained in Chair Powell’s press conference, the majority of policymakers were still concerned about the highly uncertain (and yet mostly unrealized) impacts of tariffs on consumer inflation and viewed monetary policy as well positioned to respond to economic developments and were therefore willing to await further data to help further inform their views (employment and CPI data for July and August will be released ahead of the September 16-17 FOMC meeting, as will the PCE price index for June and July). With that said, two officials – Governors Bowman and Waller – dissented from the latest policy action, as both “preferred to lower the target range for the federal funds rate by 1/4 percentage point at this meeting.”

Although the tone of discussion amongst policymakers has perhaps shifted to a degree, the latest FOMC statement offered few clues to suggest that the majority is becoming increasingly sympathetic to the view of dissenting colleagues. The latest statement indicated that “growth of economic activity moderated in the first half of the year” versus “continued to expand at a moderate pace,” perhaps hinting that easing policy could be appropriate at some point, although it maintained language noting that the labor market is “solid” and inflation “remains somewhat elevated.” In contextualizing the labor market and inflation during his press conference, Chair Powell emphasized several times over that the labor market was in balance (with unemployment low) and inflation was somewhat above target, conditions that in his view demanded “slightly restrictive” policy. Another change to the statement, the dropping of “has diminished” when referring to economic uncertainty was likely inconsequential. When questioned about the change, Chair Powell argued that uncertainty about the economic outlook had diminished during the intermeeting period from May until June but that further easing was not achieved in recent weeks. In essence, economic uncertainly has subsided vis-à-vis the period immediately following the Liberation Day announcements, but it has not improved further.

We also found noteworthy as few other discussion points in the Chair’s presser. First with respect to the labor market, we found it interesting that he returned several times to the idea that officials are attentive to risks to the employment side of the dual mandate. He noted that unemployment remained low and that deceleration in hiring and growth of labor force participation suggest that the labor market is in balance, but we did read his comments as pointing to increased concern versus previous statements. Similarly, he highlighted consumer spending as the key variable contributing to a downgraded assessment of the economy. In that regard, he pointed out that this shift (captured in the 1.4 percent annualized growth rate of consumer expenditures reported in today’s Q2 GDP release) could signal the long-projected slowing by forecasters that had previously not materialized. Finally, we saw the Chair’s tone on inflation as having evolved to a point where he’s gaining some clarity on tariff implications for prices, and that he views them as somewhat less threatening than previously feared. When questioned about inflation at one point, he commented that it was “most of the way back” to 2 percent. He appeared sanguine about the path of service-sector inflation and cited “artifacts” (e.g., residual price increases in auto insurance costs) as reasons for it being elevated – not newly emergent pressure points. Additionally, Chair Powell suggested that tariff-related price impacts could be worth “three or four tenths” with respect to core goods inflation (which we interpreted as suggesting that they could temporarily boost core inflation by 30 to 40 basis points). All this to say, conditions appeared to be aligning in such a way that tariff impacts are at least somewhat well understood and that the most likely outcome for inflation is that duties will generate a one-off price level shift rather than generate a more persistent inflation problem.

In context, we view today’s events as very much keeping open the possibility of a cut in September despite futures market pricing that has now shifted back in favor of the Committee remaining on hold (futures pricing suggests a 55 percent probability of no change at the next meeting as of writing, a distinct change from the days leading up to the gathering). We suspect that softening in underlying labor market conditions will intensify (and importantly be captured in the next two employment reports), which will give credence to the calls by Governors Bowman and Waller to bring the federal funds rate closer to neutral. And, we also expect that softening underlying demand will blunt firms’ ability to pass along the full extent of tariff costs to consumers. That said, recent data still imply that a patient approach was justified at today’s meeting.

FOMC Statement Comparison*

July 30, 2025 FOMC Statement

Although swings in net exports **continue to affect** the data, recent indicators suggest that **growth of economic activity moderated in the first half of the year**. The unemployment rate remains low, and labor market conditions remain solid. Inflation remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook remains elevated. The Committee is attentive to the risks to both sides of its dual mandate.

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Susan M. Collins; Lisa D. Cook; Austan D. Goolsbee; Philip N. Jefferson; Alberto G. Musalem; and Jeffrey R. Schmid. **Voting against this action were Michelle W. Bowman and Christopher J. Waller, who preferred to lower the target range for the federal funds rate by 1/4 percentage point at this meeting. Absent and not voting was Adriana D. Kugler**.

June 18, 2025 FOMC Statement

Although swings in net exports **have affected** the data, recent indicators suggest that **economic activity has continued to expand at a solid pace**. The unemployment rate remains low, and labor market conditions remain solid. Inflation remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook **has diminished but** remains elevated. The Committee is attentive to the risks to both sides of its dual mandate.

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

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Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; **Michelle W. Bowman**; Susan M. Collins; Lisa D. Cook; Austan D. Goolsbee; Philip N. Jefferson; **Adriana D. Kugler**; Alberto G. Musalem; Jeffrey R. Schmid; and **Christopher J. Waller**.

** Changes from statement to statement shown in bold.*
Sources: Federal Open Market Committee; Daiwa Capital Markets America