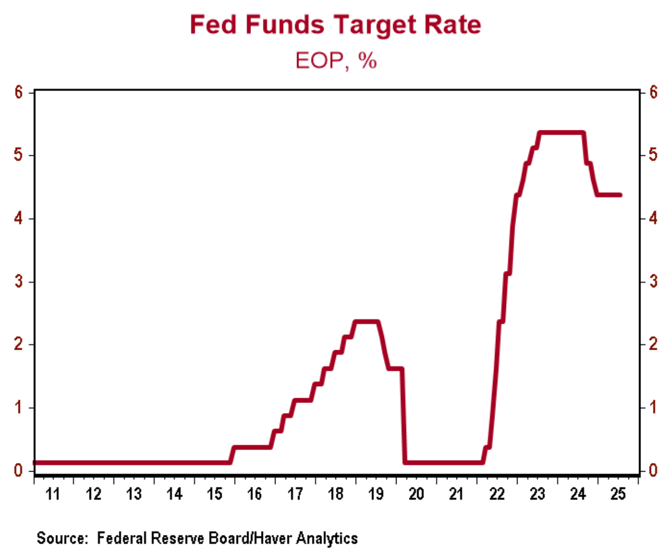
Andrew Opdyke, CFA – *Senior Economist*
Robert Stein, CFA – *Dep. Chief Economist*
Brian S. Wesbury – *Chief Economist*
July 30th, 2025 • 630.517.7756 • www.ftportfolios.com

Waiting, but Why?

The Federal Reserve held rates steady for a fifth consecutive meeting, though murmurs have begun in the Fed ranks that the time for more cuts is approaching. Yet while the Fed statement acknowledged the weakening of fundamentals since the last meeting in June, today's press conference suggests Powell and company are plenty willing to sit on the sidelines.



Starting with the Fed statement, the most notable change from June came in that two voting members – Fed Vice Chair for Supervision Michelle Bowman and Fed Governor Christopher Waller – dissented from today's decision to hold rates steady, instead stating that they would have preferred a 25-basis point cut. This is the first time since 1993 that two members of the Fed Board of Governors have dissented at a meeting. Other changes to today's release included a softening in language around GDP growth, from June's comment that activity "continued to expand at a solid pace" to now stating growth "moderated in the first half of the year". For our take on the Q2 GDP report released this morning, click here. Finally, the Fed removed language that economic uncertainty "has diminished" and now simply notes that uncertainty remains elevated. That seems a bit odd given the recent string of trade agreements that have removed unknowns around tariff rates as well as the passage of the OBBB which has removed uncertainty about the path forward on tax rates.

During the press conference, Chair Powell saw pushback from the start, as reporters probed for a better understanding of what, exactly, the Fed is waiting for. Powell once again stated that the current level of the Fed funds rate is only moderately restrictive and isn't having a dampening impact on the economy, yet at the same time acknowledged that real (inflation- adjusted) economic growth has slowed to a 1.2% annualized rate in the first half of 2025 from the 2.5% pace seen in 2024. On the employment side he brushed off the slowing in nonfarm payrolls growth (nonfarm payrolls gains have averaged 130,000 per month through the first half of this year, down from 168,000 per month in 2024) and instead put the focus on the unemployment rate which has stayed in a relatively steady range.

Even when it came to inflation, Powell wasn't let off the hook. In the five months since President Trump entered office, CPI has increased at a 1.8% annualized rate, below the Fed's 2% target. Yes, year-ago readings remain elevated because of weak inflation data twelve months ago, but the focus should be on the current trajectory, not events well past. But rather than acknowledge that tariffs may not be as inflationary as the Fed has anticipated, they have taken the same track as they did when they insisted inflation was transitory back in 2020 and 2021. It's not that their models are wrong, we just have to wait longer.

We believe that the Fed should act now, just as we believed they should have acted sooner to contain the rise in inflation from the COVID-era money printing, but we don't think they read the Monday Morning Outlook. While we wait on the Fed, we will continue to dive deeper into the data through our MMOs, Data Watches, Three on Thursday reports, and research pieces that we hope give you a window into how – and why – our views differ on both where we stand today, and where we see the economy heading in the months ahead.

Brian S. Wesbury, *Chief Economist*
Robert Stein, *Deputy Chief Economist*

Text of the Federal Reserve's 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.