First Trust
ECONOMIC RESEARCH REPORT

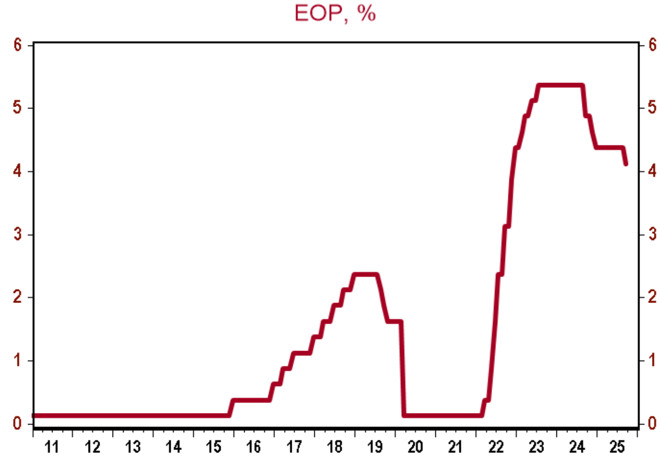
Andrew Opdyke, CFA – *Senior Economist*
Robert Stein, CFA – *Dep. Chief Economist*
Brian S. Wesbury – *Chief Economist*

September 17th 2025 • 630.517.7756 • www.ftportfolios.com

Risk Management

The Federal Reserve cut rates by 0.25% today, citing a rising risk to the employment side of their dual mandate. While that was no surprise, there were many questions on where the Fed would go from here, and what it would take to accelerate or slow the pace of policy adjustment.

Starting with the Fed statement, the most notable change from July came in highlights to the weakening employment picture. While there was no direct reference here to the 911,000 job downward revision to nonfarm payrolls that the Bureau of Labor Statistics announced last week for the twelve months ending in March, new text was added that "job gains have slowed" and "the downside risks to employment have risen." Inflation does still remain a concern, with a comment added that inflation has moved up since the last meeting, but there was across the board agreement from voting members that it was appropriate to resume the rate-cut process. There was one dissent among voters, as newly appointed Fed Governor Stephen Miran would have preferred a 0.5% cut today.



In an odd twist, the release of updated forecasts on the path of rates, inflation, employment, and GDP (the so-called "dot plots") shows the Fed expects stronger employment but higher inflation risk moving forward. Compared to their forecasts in June, the Fed is expecting faster economic growth for this year, with no change to the outlook for inflation or the unemployment rate in 2025. But starting in 2026, the Fed now expects the unemployment rate to be 0.1% lower than previously estimated, while inflation and growth forecasts were each raised by 0.2%. Along with these changes, the dot plots signal Fed voters now expect two more rate cuts by year end (so three cuts including today, versus an expectation of two cuts total back in June), with 2026 and 2027 forecast to see just one cut each year of 0.25%. It's possible that forecasters are simply anticipating that the rate cuts they are projecting will spur improvement in the labor market while also putting upward pressure on inflation, but it's important to remember that the Fed's track record with forecasts is less than stellar. We believe that inflation will moderate and employment continues to grow at a very modest pace. Only time will tell.

During the press conference, Chair Powell faced questions on everything from political independence to the reliability of employment data. Arguably the most important comment came when Chair Powell was asked if today's rate cut should be viewed as an insurance policy against the risk of further deterioration in the labor market or if the dynamics for a downturn are already here. In Chair Powell's words, today's move could be viewed as a "risk management cut". As mentioned above, the Fed has raised their GDP growth outlook for this year as well as the years ahead, and they are primarily reacting to data suggesting employment was and remains weaker than previously believed. In response, they are shifting from a restrictive monetary policy focused on bringing down inflation, towards a neutral policy that balances inflation and employment concerns. If employment data improves, the Fed could just as quickly stop cuts and put inflation back at the forefront.

As ever, the path forward from here will depend on the data, but another rate cut looks likely when the Fed meets again in late October. Two more rate cuts this year sounds about right. If we had to put an over/under on the Fed's projected single rate cut in 2026, we would take the over, as a slowed pace of M2 growth impacts both the inflation data and – along with immigration changes, potential moderation in tech hiring related to AI, and slower/negative government hiring following outsized growth over recent years – the employment picture. We would love to see a productivity boom and a resurgence in broad-based business hiring, but expect some adjustment pains as the economy continues to move away from short-term growth driven by government stimulus towards a better mix of policy and spending with private markets at the helm.

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

Text of the Federal Reserve's Statement:

Recent indicators suggest that growth of economic activity moderated in the first half of the year. Job gains have slowed, and the unemployment rate has edged up but remains low. Inflation has moved up and 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 and judges that downside risks to employment have risen.

In support of its goals and in light of the shift in the balance of risks, the Committee decided to lower the target range for the federal funds rate by 1/4 percentage point to 4 to 4-1/4 percent. In considering 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; Michelle W. Bowman; Susan M. Collins; Lisa D. Cook; Austan D. Goolsbee; Philip N. Jefferson; Alberto G. Musalem; Jeffrey R. Schmid; and Christopher J. Waller. Voting against this action was Stephen I. Miran, who preferred to lower the target range for the federal funds rate by 1/2 percentage point at this meeting.