

Analysis of Chair Powell's September 2025 Press Conference

Executive Summary: A "Risk Management" Rate Cut in a "Curious Balance"

The September 2025 Fed meeting marked a notable **dovish pivot**. The Federal Reserve reduced the federal funds rate by 25 basis points (to 4.00–4.25%), signaling a cautious approach amid an uncertain economic landscape. Powell described this as a **"risk-management cut"**, aimed at safeguarding the labor market rather than responding to worsening conditions or an imminent recession.

Key Themes and Insights

1. The Rationale for the Rate Cut: A Softening Labour Market

- Slowing Job Growth:** Payroll gains have plummeted from around 150,000/month earlier this year to roughly 29,000/month over recent months.
- Rising Unemployment:** The rate has edged up to **4.3%**, signaling a marked softening.
- "Curious Balance":** Powell highlighted that both supply (lower immigration/employment participation) and demand (jobs creation) for labor have declined sharply, creating a scarce labor environment that is now cooling off.
- Downside Risks to Employment:** The Fed perceives increased risks of unemployment rising further if layoffs intensify, prompting preemptive easing.

2. Inflation Dynamics: Sticky, Tariff-Driven, and Temporary

- Recent Inflation Data:** August's total PCE inflation increased to **2.7%**, with core PCE at **2.9%**—both above earlier estimates.
- Tariff Impact:** Most of this rise is attributed to higher tariffs, which increased from 2.3% in 2024 to about 17% in 2025. This has temporarily pushed goods prices higher.
- Base Case:** The Fed views this as a **"one-time"** surge likely to fade, not signaling a self-sustaining inflation problem.
- Long-term Outlook:** The Fed's projections suggest inflation will not return to 2% until 2028, meaning inflation is sticky but not escalating runaway.

3. Policy Stance: Toward "Neutral," Not Emergency

- Gradual, Meeting-by-Meeting Decisions:** Powell emphasized that the rate cut was **not an emergency** or a sign of panic. No support was seen for a larger 50-basis-point cut.
- Divergent Views:** The FOMC's dot plot reveals a wide dispersion—some members see more cuts, others fewer or none—highlighting uncertainty.
- Balancing Mandates:** The Fed is navigating a **"challenging tension"** between supporting employment and controlling inflation.

4. The Economic Outlook: Slow Growth, No Recession

- GDP:** Growth cooled to roughly **1.5%** in H1 2025. The median SEP forecast revised slightly higher to 1.6% for 2025 and 1.8% for 2026, reflecting cautious optimism.
- Growth Drivers:** A significant portion of recent expansion stems from **AI investment and corporate investment**—a narrow sector whose longevity remains uncertain.
- Labor Market:** Signs of cooling include slower payroll gains and rising unemployment—conditions that Powell described as a **"challenging environment"** but not indicative of a downturn yet.

Core Quotes and Their Meaning

"Risks to employment have increased; the balance has shifted."

Implication: The Fed is prioritizing employment risks over inflation and easing rates preemptively.

"Risk-management cut."

Implication: The rate cut acts as insurance, aiming to prevent deeper job losses if the labor market weakens further.

"The labor market is really cooling off."

Implication: Recent data on job creation and revisions prompted policy easing; the Fed is monitoring the slowdown closely.

"No widespread support for a 50 basis point cut."

Implication: The Fed prefers gradual adjustments, signaling ongoing cautiousness rather than abrupt moves.

"Focus on living life looking through the windshield."

Implication: Powell dismisses hindsight critiques, emphasizing data-driven decisions in real time.

Conclusion: An "Unusual" Tension and Cautious Outlook

The September 2025 meeting signals the Fed's shift from a tightening bias towards **"risk management" easing** amid signs of a cooling labor market and persistent, tariff-driven inflation. The committee remains divided, and future policy will hinge on incoming data—particularly employment and inflation indicators.

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