

## Fed Perspectives

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As of mid-2025, the Federal Reserve finds itself navigating a complex and uncertain economic landscape. In its June 2025 Summary of Economic Projections, the Fed forecasted that U.S. real GDP will grow by about 1.4% in 2025, a noticeable slowdown compared to previous years. In 2026, modest improvement is expected, with GDP growth projected at around 1.6%, gradually rising toward a more stable long-run rate near 1.8% by 2027. These figures reflect a cautious optimism, acknowledging economic resilience while recognizing persistent headwinds.

Unemployment is anticipated to inch higher in the short term. The Fed expects the jobless rate to reach 4.5% by the end of 2025 and remain at that level through 2026. This is up from under 4% in 2024, reflecting a softening labor market. Demographic constraints—like an aging population and slowing immigration—are also limiting labor supply growth, adding complexity to employment dynamics.

Inflation remains a central concern for the Fed. Although it has eased significantly from its 2022–2023 highs, the central bank forecasts the personal consumption expenditures (PCE) inflation rate to average about 3.0% in 2025, before declining to 2.4% in 2026 and approaching the Fed's 2% target by 2027. This gradual path reflects the Fed's belief that while inflation is moving in the right direction, it's not yet under full control, and downside risks remain—especially from global instability and domestic policy shifts.

On the interest rate front, the Fed has maintained the federal funds target range at 4.25% to 4.50% as of June 2025. The consensus among FOMC members, reflected in their “dot plot” projections, suggests that two rate cuts are likely by the end of 2025, bringing the rate down to around 3.75%–4.00%. In 2026, the Fed expects to implement one more quarter-point cut, reducing the rate further to approximately 3.50%–3.75%. However, there is significant internal disagreement on the pace and timing of these cuts. Some members are pushing for an earlier start to rate reductions, possibly as soon as July 2025, citing improving inflation metrics and downside risks from trade tensions. Others remain cautious, preferring to wait for clearer evidence that inflation is on a sustainable path toward the 2% goal.

Chair Jerome Powell has described the current environment as a “foggy time,” reflecting the Fed's uncertainty and data-dependent stance. While some policymakers like Governor Christopher Waller support earlier rate cuts—arguing that recent tariff increases may not meaningfully fuel inflation—others, including Powell, urge patience, warning that premature easing could reignite inflation pressures.

External risks are also influencing the Fed's cautious posture. Escalating trade tensions, especially those stemming from newly imposed tariffs, as well as geopolitical instability in regions like the Middle East, have increased uncertainty in global markets. Moreover, concerns over the fiscal outlook, including rising U.S. debt and recent credit rating downgrades, weigh on the Fed's decision-making process.

In summary, the Fed's base case for 2025 and 2026 is a slow-growth economy with gradually declining inflation and a slightly higher unemployment rate. They foresee a measured path of interest rate cuts—about 75 basis points in total over the next 18 months—if inflation continues to ease and economic conditions permit. However, the central bank remains divided and cautious, signaling that flexibility and responsiveness to new data will guide monetary policy going forward.