Daiwa Capital Markets

U.S. FOMC Review

- FOMC policy action: officials met market expectations with a cut of 25 basis points in the target range for the federal funds rate to 3-1/2 to 3-3/4 percent amid dissents
- Policy statement: the "extent and timing" of additional adjustments will be dictated by the data; a rate in "the high end of the range of neutral" is appropriate at this juncture
- Balance sheet policy: as previously announced, maturing securities from the SOMA portfolio will be reinvested in Treasury bills; additionally, reserve management purchases will commence shortly in support of maintaining ample reserves
- Summary of Economic Projections: little change to the anticipated path of rates; near-term growth projections adjusted higher vis-à-vis September estimates, while expectations for inflation nudged lower

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The December FOMC Meeting

The FOMC eased monetary policy for the third consecutive meeting in December, cutting the target range for the federal funds rate by 25 basis points to 3-1/2 to 3-3/4 percent. In discussing the move, Chair Powell reiterated in his press conference the message that there is no "risk-free path for policy" when the dual mandate goals of maximum employment and price stability are in tension, although he indicated that the federal funds rate is now within estimates of neutral and thus leaves officials "well positioned" to be patient when evaluating the need for further rate reductions. That is, the "risk management" phase of sequential rate reductions has ended.

The Statement

In our view, the most notable element in the latest FOMC statement was a shift in language in the third paragraph noting the "extent and timing" of additional cuts potentially to be considered by the Committee (see the side-by-side statement comparison, p.3). The language was aligned with that from one year ago – which was followed by the Committee holding rates steady over a nine-month period. However, we suspect that any new pause is unlikely to last that long (as we expect that the FOMC will stay on the sidelines in January before easing again in March and June 2026 to provide further support to the labor market – a contrast to the current SEP median of only one cut next year).

Likely prompting the shift in language was robust debate about the utility of further rate cuts. Notably, Austan Goolsbee, President of the Chicago Fed, joined Jeffrey Schmid of Kansas City in favoring no change in monetary policy at this meeting (versus only Schmid dissenting in October). Additionally, four other individuals indicated in their forecasts for the path of the federal funds rate that a year-end median of 3.875 percent would be appropriate – projections that we view as informal dissents to the latest policy action. Contrastingly, Governor Miran again dissented in favor of a ½ percentage point reduction, although we remain inclined to view his opinions as a distinct outlier versus those of his colleagues.

Also included in the December policy statement was the announcement of outright purchases of shorter-term Treasury securities in support of maintaining the current ample reserves regime, a move that augments the previously announced end of quantitative tightening. A schedule for upcoming reserve management purchases (RMPs) of approximately $40 billion in Treasury bills will be released on December 11, 2025. In addition, policymakers eliminated that aggregate operational limit on standing overnight repo operations. In addressing these developments, Chair Powell noted that the ample reserves regime was achieved somewhat more rapidly than previously anticipated and that the first RMPs are to be sizable to allow for a seasonal buildup ahead of the April 2026 tax filing deadline.

The Summary of Economic Projections

Economic Projections of the FOMC, December 2025*

	2025	2026	2027	2028	Longer Run
Change in Real GDP	1.7	2.3	2.0	1.9	1.8
Sep. projection	1.6	1.8	1.9	1.8	1.8
Unemployment Rate	4.5	4.4	4.2	4.2	4.2
Sep. projection	4.5	4.4	4.3	4.2	4.2
PCE Inflation	2.9	2.4	2.1	2.0	2.0
Sep. projection	3.0	2.6	2.1	2.0	2.0
Core PCE Inflation	3.0	2.5	2.1	2.0	
Sep. projection	3.1	2.6	2.1	2.0	--
Federal Funds Rate	3.6	3.4	3.1	3.1	3.0
Sep. projection	3.6	3.4	3.1	3.1	3.0

** Median projections*

Source: Federal Open Market Committee, Summary of Economic Projections, December 2025

The December iteration of the Summary of Economic Projections left unchanged the median expectation for the path of interest rates (one additional reduction in each of 2026 and 2027), although expectations for several key economic variable changed (table). Regarding the economic data, expectations for GDP growth over the forecast horizon were adjusted upward; on the point, Chair Powell noted that while growth in 2026 would still have been projected to have a two-handle (which was firmer than the September median), about 20 basis points in growth was shifted on account of the government shutdown in late 2025 (had the shutdown not occurred, the 2025 median would have been approximately 1.9 percent and that for 2026 would have been 2.1 percent). Furthermore, Powell reconciled expectations for firmer growth but no change to forecasts for the unemployment rate in 2025 and 2026 by noting that meeting participants believe that trend productivity growth is brisker than previously assumed.

Turning to the outlook for inflation, the median projections for both the headline and core Price Index for Personal Consumption Expenditures were nudged lower versus those in September. Providing context for the adjustments, the Fed Chair highlighted ongoing disinflation in services prices, along with pressure in goods prices from tariffs that is anticipated to peak in Q1 of next year before leveling off (barring further policy changes by the Trump administration). With that said, Powell's prevailing narrative on inflation was broadly similar to that in other recent comments.

Daiwa's View

Although the Fed Chair signaled that further interest rate cuts are not guaranteed, we suspect that ongoing softening in labor market conditions will drive rate reductions next year beyond the one cut indicated in the December SEP. The Fed Chair suggested that payroll data are overstating monthly job creation by approximately 60,000 per month, which implies that firms are actually reducing staff. Thus, we posit that the unemployment rate may soon breach the expected year-end median of 4.5 percent, thereby suggesting that further support is required for the labor market side of the central bank's mandate. Given that view, we maintain our call for two cuts of 25 basis points in the first half of next year (March and June) and remain on guard for further weakening in the employment outlook that may warrant additional action by the FOMC.

FOMC Statement Comparison*

December 10, 2025 FOMC Statement

Available indicators suggest that economic activity has been expanding at a moderate pace. Job gains have slowed this year, and the unemployment rate has edged up through September. More recent indicators are consistent with these developments. Inflation has moved up since earlier in the year 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 rose in recent months.

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 **3-1/2 to 3-3/4 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 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.

The Committee judges that reserve balances have declined to ample levels and will initiate purchases of shorter-term Treasury securities as needed to maintain an ample supply of reserves on an ongoing basis.

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; Philip N. Jefferson; Alberto G. Musalem; and Christopher J. Waller. Voting against this action were Stephen I. Miran, who preferred to lower the target range for the federal funds rate by 1/2 percentage point at this meeting; and **Austan D. Goolsbee** and Jeffrey R. Schmid, who preferred no change to the target range for the federal funds rate at this meeting.

October 29, 2025 FOMC Statement

Available indicators suggest that economic activity has been expanding at a moderate pace. Job gains have slowed this year, and the unemployment rate has edged up **but remained low** through August; more recent indicators are consistent with these developments. Inflation has moved up since earlier in the year 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 rose in recent months.

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 3-3/4 to 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 decided to conclude the reduction of its aggregate securities holdings on December 1**. 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.

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** Changes from statement to statement shown in bold.*

Sources: Federal Open Market Committee; Daiwa Capital Markets America