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Data Insights: FOMC Minutes

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[September minutes](#) Key signaling language: **Featured** **Important** **Very important**



...Participants observed that inflation had moved up since the beginning of the year and remained somewhat above the Committee's 2 percent longer-run goal. Although participants generally assessed that this year's tariff increases had put upward pressure on inflation, some remarked that these effects appeared to have been somewhat muted to date relative to expectations from earlier in the year. A few participants suggested that productivity gains may be reducing inflation pressures. A couple of participants expressed the view that, excluding the effects of this year's

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tariff increases, inflation would be close to target. A few other participants, however, emphasized that progress of inflation toward the Committee's 2 percent objective had stalled, even excluding the effects of this year's tariff increases.

With regard to the outlook for inflation, participants generally expected that, given appropriate monetary policy, inflation would be somewhat elevated in the near term and would gradually return to 2 percent thereafter. Some participants noted that business contacts had indicated that they would raise prices over time because of higher input costs stemming from tariff increases. Uncertainty remained about the inflation effects of this year's increase in tariffs, though most participants expected these effects to be realized by the end of next year. Some participants remarked that the labor market was not expected to be a source of inflationary pressure. A couple of participants expected that the reduction in net migration would be associated with lower demand and lower inflation, and a couple of participants observed that continued productivity gains would likely reduce inflation pressures. Participants noted that longer-term inflation expectations continued to be well anchored and that it was important they remain so to help return inflation to 2 percent. Various participants stressed the central role of monetary policy in ensuring that longer-term inflation expectations remained well anchored. A majority of participants emphasized upside risks to their outlooks for inflation, pointing to inflation readings moving further from 2 percent, continued uncertainty about the effects of tariffs, the possibility that elevated inflation proves to be more persistent than currently expected even after the inflation effects of this year's tariff increases fade, or the possibility of longer-term inflation expectations moving up after a long period of elevated inflation readings. Some participants remarked that they perceived less upside risk to their outlooks for inflation than earlier in the year.

In their discussion of the labor market, participants observed that job gains had slowed and the unemployment rate had edged up. Participants noted that the low level of estimated job gains over recent months likely reflected declines in growth of both labor supply and labor demand. Participants noted low net immigration or changes in labor force participation as factors reducing labor supply. As for factors that may be reducing labor demand, participants noted moderate economic growth or the effects of high uncertainty on firms' hiring decisions. Under these circumstances, participants cited a number of other indicators as helpful for assessing labor market

conditions. These included the unemployment rate, the ratio of job vacancies to unemployed workers, wage growth, the percentage of unemployed workers who find a job, the quits rate among employed workers, and the layoff rate. Participants generally assessed that recent readings of these indicators did not show a sharp deterioration in labor market conditions. A few participants, though, saw recently released labor market data, including revisions to previously released data and the BLS's preliminary estimate of the payroll employment benchmark revision, as indicating that labor market conditions had been softening for longer than was previously reported.

With regard to the outlook for the labor market, participants generally expected that, under appropriate monetary policy, labor market conditions would be little changed or would soften modestly. Several participants noted that the number of monthly job gains consistent with a stable unemployment rate had declined over the past year and would likely remain low, citing the large number of workers nearing retirement age or continued low net immigration. Participants indicated that their outlooks for the labor market were uncertain and viewed downside risks to employment as having increased over the intermeeting period. In support of this view, participants mentioned a number of indicators, including the following: low hiring and firing rates, which are evidence of less dynamism in the labor market; concentrated job gains in a small number of sectors; and increases in unemployment rates for groups that have historically shown greater sensitivity to cyclical changes in economic activity, such as those for African Americans and young people. Several participants saw continuing adoption of artificial intelligence as potentially reducing labor demand. Some participants noted that survey responses indicated that household sentiment regarding the labor market had moved down.

Participants observed that growth of economic activity slowed in the first half of the year relative to last year. Regarding the household sector, participants noted that lower consumption growth had contributed to the slowdown in the growth of economic activity in the first half of the year. Several participants remarked that recent data indicated some firming of consumption expenditures this quarter. Some participants mentioned that households were showing greater price sensitivity, and several participants observed that high-income households were increasingly doing better, economically, than lower-income households. Several participants noted

continued weakness in the housing market, and a couple of participants mentioned the possibility of a more substantial deterioration in the housing market as a downside risk to economic activity. For businesses, many participants noted strong high-tech investment. Several participants noted that financial conditions were supportive of economic activity. A few participants commented that the agricultural sector continued to face headwinds because of low crop prices and high input costs.

In their consideration of monetary policy at this meeting, participants noted that inflation had risen recently and remained somewhat elevated, and that recent indicators suggested that growth of economic activity had moderated in the first half of the year. While participants noted the unemployment rate remained low, they observed that it had edged up and job gains had slowed. In addition, they judged that downside risks to employment had risen. Against this backdrop, almost all participants supported reducing the target range for the federal funds rate 1/4 percentage point at this meeting. Participants generally noted that their judgments about this meeting's appropriate policy action reflected a shift in the balance of risks.

In particular, most participants observed that it was appropriate to move the target range for the federal funds rate toward a more neutral setting because they judged that downside risks to employment had increased over the intermeeting period and that upside risks to inflation had either diminished or not increased. A few participants stated there was merit in keeping the federal funds rate unchanged at this meeting or that they could have supported such a decision. These participants noted that progress toward the Committee's 2 percent inflation objective had stalled this year as inflation readings increased and expressed concern that longer-term inflation expectations may rise if inflation does not return to its objective in a timely manner. One participant agreed with the need to move policy toward a more neutral stance but preferred a 1/2 percentage point reduction at this meeting. All participants judged it appropriate to continue the process of reducing the Federal Reserve's securities holdings.

In considering the outlook for monetary policy, almost all participants noted that, with the reduction in the target range for the federal funds rate at this meeting, the Committee was well positioned to respond in a timely way to potential economic developments. Participants observed that monetary policy was not on a preset course and would be informed by a wide range of incoming data, the evolving economic

outlook, and the balance of risks. Participants expressed a range of views about the degree to which the current stance of monetary policy was restrictive and about the likely future path of policy. Most judged that it likely would be appropriate to ease policy further over the remainder of this year. Some participants noted that, by several measures, financial conditions suggested that monetary policy may not be particularly restrictive, which they judged as warranting a cautious approach in the consideration of future policy changes.

In discussing risk-management considerations that could bear on the outlook for monetary policy, participants generally judged that upside risks to inflation remained elevated and that downside risks to employment were elevated and had increased. Participants noted that, in these circumstances, if policy were eased too much or too soon and inflation continued to be elevated, then longer-term inflation expectations could become unanchored and make restoring price stability even more challenging. By contrast, if policy rates were kept too high for too long, then unemployment could rise unnecessarily, and the economy could slow sharply. Against this backdrop, participants stressed the importance of taking a balanced approach in promoting the Committee's employment and inflation goals, taking into account the extent of departures from those goals and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with the Committee's mandate.

...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.

...Voting for this action: Jerome H. Powell, John C. Williams, 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: Stephen I. Miran.

Governor Miran preferred to lower the target range for the federal funds rate by 1/2 percentage point at this meeting in light of further softening in the labor market over the first half of the year and underlying inflation that in his view was meaningfully closer to 2 percent than was apparent in the data. Governor Miran also expressed the

view that additional policy easing was also appropriate to reflect that the neutral rate of interest had fallen due to factors such as increased tariff revenues that had raised net national savings and changes in immigration policy that had reduced population growth.

Source: Federal Reserve Board