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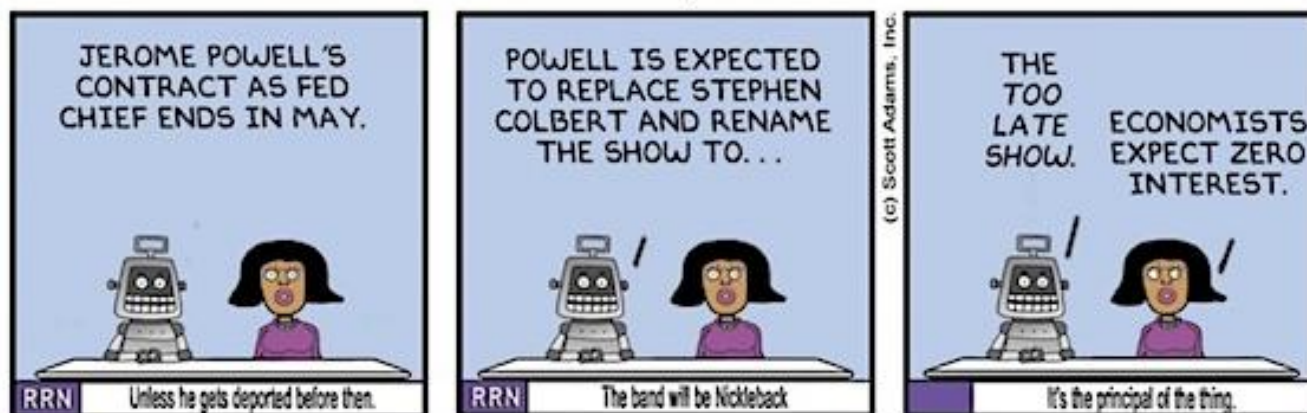
On the July FOMC

Wednesday, July 30, 2025

Donald Luskin

The committee was dovish. The chair was hawkish. The chair is just one guy.

Robots Read News: An Occasional Web Comic by Scott Adams



As we expected (see [“Video: What you're not hearing about Trump versus Powell, and this week's FOMC meeting”](#) July 28, 2025), the FOMC didn't cut the funds rate at today's meeting, but there was a decidedly dovish tone change. There were two dissents in favor of a rate cut, Governors Christopher Waller and Michelle Bowman. What most gets our attention is the one and only language change in today's FOMC statement:

“Although swings in net exports ~~have affected~~ continue to affect the data, recent indicators suggest that growth of economic activity ~~has continued to expand at a solid~~ pace moderated in the first half of the year.”

Stop and savor this. In [June's statement](#), when the latest GDP numbers showed an outright contraction in Q1, “economic activity has continued to expand.” Now, with this morning's Q2 GDP showing a robust and consensus-beating 3% real growth rate (see [“Data Insights: GDP”](#) July 30, 2025) – [today's statement](#) says “economic activity moderated in the first half). The only way you get that is to dilute Q2's strong GDP number with Q1's weak one – but in the prior statement with the weak one the economy was said to be strong.

That's bending over backward to create a dovish rationale – that is, a

Update to strategic view

FEDERAL RESERVE, US MACRO: On a day when Q2 GDP was announced at 3%, the FOMC statement invented a way to say growth “moderated.” At the prior meeting, after GDP showed an outright Q1 contraction, the statement said growth was “solid.” This was the only change in the statement, and it points to a rationale for enough dovishness to ensure two rate cuts this year, as the last two “dot plots” have said all along. Two governors, Waller and Bowman, dissented, preferring a rate cut immediately. Powell was...

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rationale for two rate cuts this year. But remember, they shouldn't really be a surprise – they've been promised all year in the “dot plots” at both the [March](#) and the [June FOMC](#) meetings' Summary of Economic Projections.

There are other – and more honest – dovish rationales. Tariff risks have become smaller with various trade deals completed (at least *said* to be completed see [“What is the Tariff Endgame?”](#) July 21, 2025) at lower than “Liberation Day” tariff rates. At the same time, inflation risk has become smaller, with \$75 billion more tariff revenue collected year-to-date versus 2024, but little or no sign of impact in consumer prices so far (see [“Data Insights: CPI/PPI”](#) July 15, 2025).

But in the [post-meeting press conference](#), [Chair Jerome Powell](#) – not wearing a hard-hat – didn't take the opportunity to use them to shift his views. Quite the contrary.

In the presser's prepared remarks, Powell treated it as “settled science” that tariffs are starting to show up in *some* consumer prices. Yet he admitted they are not showing up overall, noting that inflation is little changed from the beginning of the year. Surely the Fed's 2% target applies to the *overall* price level – not just the components arguably affected by tariffs. Yet, we must say, hearing Powell's tone and not just his words, it would seem that his confirmation bias about tariff-driven inflation is so strong, he may well be unable to see the larger picture.

- Indeed, in response to a question, Powell made a statement that strikes us as taking confirmation bias to the edge of madness: “You can argue we are a bit looking through goods inflation by not raising rates.”

The statement is a consensus process. It was dovish. Powell's presser is just him. It was hawkish. It's a bully pulpit. But he's just one vote. We stand by our take that this FOMC took a turn to the dovish, and it points to two rate cuts this year. As of this writing, the Fed funds futures markets are moving away from expecting that. We don't agree.

Bottom line

On a day when Q2 GDP was announced at 3%, the FOMC statement invented a way to say growth “moderated.” At the prior meeting, after GDP showed an outright Q1 contraction, the statement said growth was “solid.” This was the only change in the statement, and it points to a rationale for enough dovishness to ensure two rate cuts this year, as the last two “dot plots” have said all along. Two governors, Waller and Bowman, dissented, preferring a rate cut immediately. Powell was almost comical in his confirmation bias about tariff-driven inflation in the press conference, saying at one point that the Fed has been “looking through goods inflation by not raising rates.” The statement, with its language change and two dissents, is a consensus product – it was dovish. The presser is Powell on his own – it was hawkish. We continue to expect two cuts this year, despite

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