

FED SHADOW

## FOMC Preview: A Cut and So What

Monday, September 15, 2025

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Jobs data is only troubling enough to get the Fed to do what it said it would do all along.

We don't know why there's ever been any important doubt that the Fed will cut rates at Wednesday's FOMC, except that there's an industry that's built around having doubts about what the Fed will do. The FOMC has signaled three times in a row in the "dot plots" in the Summary of Economic Projections at the [December 2024](#), [March 2025](#) and [June 2025](#) FOMC's that the funds rate will be cut twice by this year-end. That last SEP, in June, was *after* the shock of "Liberation Day," so the FOMC knew everything it was ever going to know about the worst case for tariffs and, therefore, the worst case for the tariff-driven inflation it seems to fear. So either the Fed is lying with three quarters of "dot plots" all saying the same thing, or the only question is at which of the three FOMC's remaining this year the cuts will come. Okay, so technically that leaves September unknown, but that's why we began by saying there is no *important* doubt. If it's not September, then it will be October *and* December, so it really doesn't matter very much. If anything, the interesting question is whether it might be all three.

- For all the seeming clarity of the "dot plots," Chair Jerome Powell does little to clarify, and enables the guessing industry to keep guessing. His [Jackson Hole speech](#) was hailed as a "pivot," but it revealed nothing. We reiterate here that his tepid phrase,

"...with policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance"

just confirms what the "dot plots" have been saying since December (see ["On Powell at Jackson Hole"](#) August 22, 2025).

- The first five words are especially troublesome: "...with policy in restrictive territory." Powell always says that policy is restrictive (in December, it was "[meaningfully](#) restrictive" and now the *same* policy is "[modestly](#) restrictive"). But restrictive is restrictive, we suppose.
- The deeper problem is that Powell also repeatedly says things like this (from the [July FOMC press conference](#)):

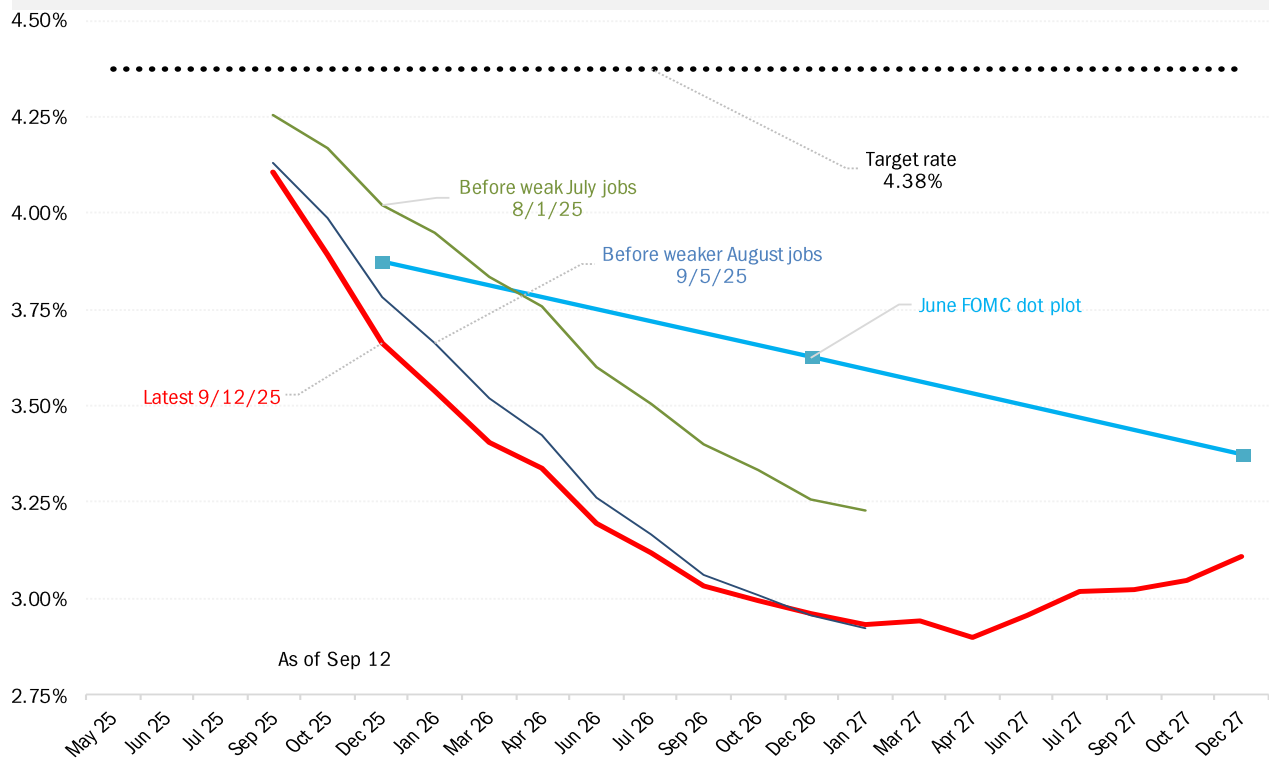
"... the economy is not performing as though restrictive policy is holding it back..."

### Update to strategic view

#### FEDERAL RESERVE, US MACRO, US STOCKS:

The FOMC will cut rates 25 bp Wednesday. We expect the 2025 "dot plots" to be revised to show three cuts, not two. We expect 2026 and 2027 to each build in an additional cut, not meeting market expectations that the funds rate will be below 3% by 2026, which embeds a recession call the Fed will not want to ratify. The Fed will be moved by troubling jobs data, but we don't think it rises yet to the level of indicating recession. June's contraction in payrolls, based on revisions, is a necessary condition, but not sufficient, especially with S&P 500 forward earnings estimates soaring. It arises because of the mass self-deportation of immigrants, leaving the labor market not slack – as in recessions – but tight, as the labor force struggles to fill the positions vacated by them. The payrolls benchmark revision has become an annual ritual with no predictive power. The bump in jobless claims is directionally troubling, but of small magnitude. This week's rate cut will have little economic importance, because the economy is not acting like it needs it.

Futures-implied policy path per FOMC meeting (based on effective rate, adjusted to target)



Source: Bloomberg, TrendMacro calculations

- So is policy restrictive or is it not, Mr. Chair?
- But since the last FOMC in July, indeed even since Jackson Hole, there is new and troubling labor market data. So a September cut is a lock, and the question shifts to whether there will be cuts in October and December as well, making three, not just the two promised by the “dot plots.” As of this writing, the money-market curve is almost fully expecting that (please see the chart above), and so the key unknown at Wednesday’s FOMC is whether the September SEP’s “dot plot” will affirm that or not.
- For that matter, after two bad payroll reports (see [“On the July Jobs Report”](#) August 1, 2025, [“On the August Jobs Report, and the June Contraction”](#) September 5, 2025), another bad downward [preliminary benchmark revision](#), and now a bump in new claims for unemployment benefits (see [“Data Insights: High Frequency Data and DOGE Monitor”](#) September 11, 2025), the curve has shifted to reflect expectations for a funds rate below 3% as soon as a year from now – six rate cuts from where we are now (again, please see the chart above). The curve’s expectation of three rate cuts this year only asks the 2025 “dot plot” to move by one additional rate cut. The curve’s expectation for a funds rate below 3% next year means the 2026 “dot plot” has to move an additional three cuts, from 3-5/8% (already reflecting two cuts in 2025 and one in 2026) to 2-7/8%.
- We’re comfortable betting that the 2025 “dot plot” will be moved on Wednesday to show three cuts this year. We can be pretty sure that Fed chair job-seekers on the FOMC – Governors Christopher Waller, Michelle Bowman and very likely Stephen Miran, swooping

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in from today's presumable Senate confirmation one day before his "dot plot" is due (see ["On Miran's Senate Banking Hearing: Triumph of the Weasel"](#) September 5, 2025) – will help at the margin.

- *You can see that as a down-payment on 2026 – indeed, accomplishing in 2025 everything already signaled for 2026. But adjusting 2026 to the market's expectation below 3% is still another three cuts versus what's in the "dot plot" now and it takes the funds rate below the "dot plot" for 2027, indeed below the "longer-run" "dot plot" at 3% that is the best signal of the Fed's idea of neutral policy. Below 3% starts being some degree of a recession forecast, and we doubt the Fed will want to ratify that. We think the adjustment will be one more cut in 2026 and 2027, carrying forward the additional cut we see for 2025.* At the end of the day, such adjustments in the Fed's self-forecast two years out are meaningless to markets, because such forecasts are constantly having to be revised in the light of new data.

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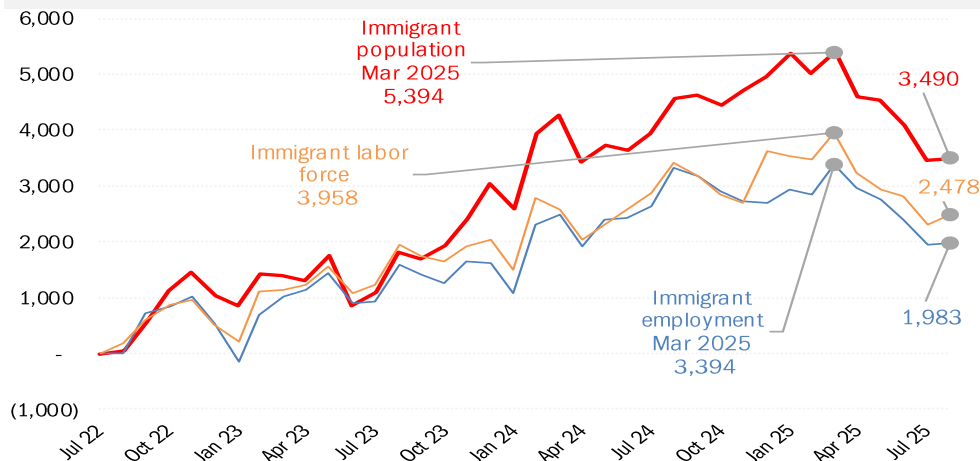
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Now what about that troubling labor market data?

- At the July jobs report, payroll growth for May and June was revised down to near zero (again, see ["On the July Jobs Report"](#)). At the August jobs report, June was revised to show modest contraction (again, see ["On the August Jobs Report, and the June Contraction"](#)). *We continue to believe this is a consequence of the dramatic decrease this year in the number of adult immigrants, many of whom have self-deported as economic opportunities for them have become riskier under the Trump administration.*
- According to the [BLS Current Population Survey](#) – the so-called "household survey" – adult immigrant population growth from mid-2022 peaked at 5.4 million in March and is now down by 1.9 million. The immigrant labor force peaked at 3.4 million and is now down 1.5 million. Immigrant employment peaked at 4 million and is now

Cumulative immigrant population employment, and labor force growth after pandemic normal (thousands, not seasonally adjusted, population-controls adjusted)

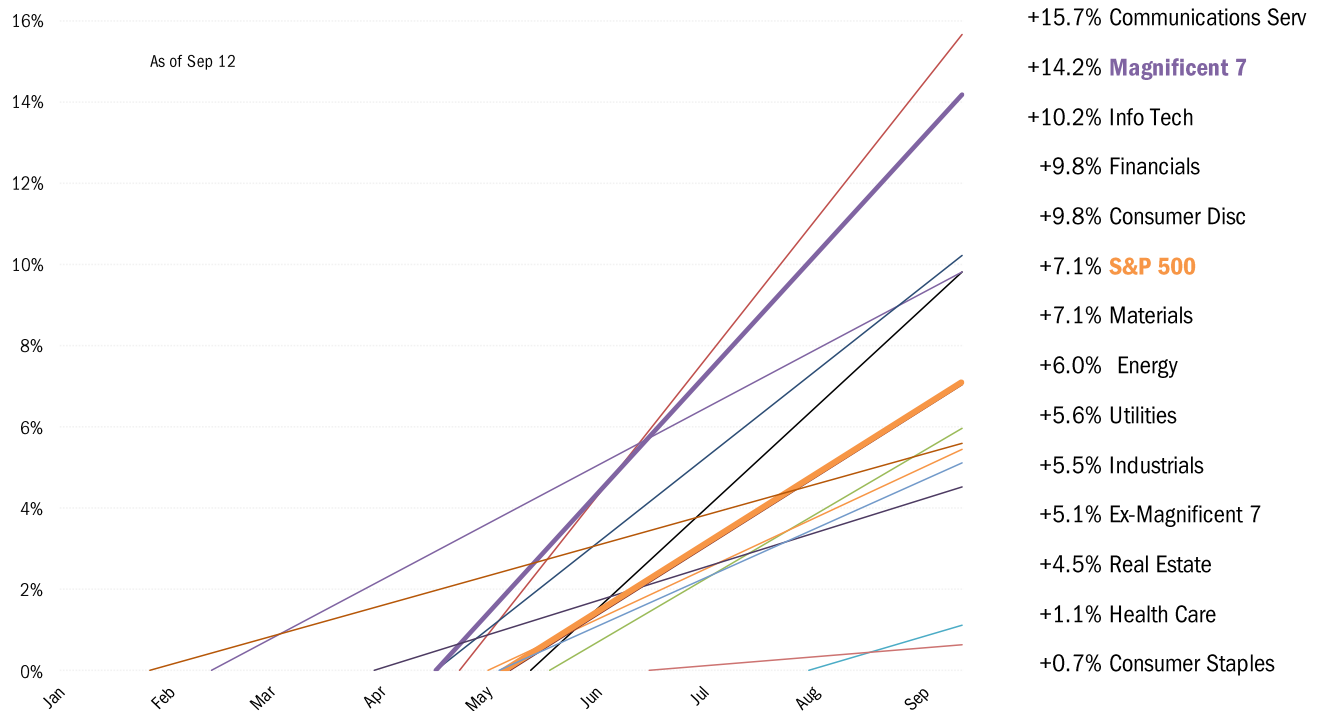


Source: [BLS Current Population Survey](#), TrendMacro calculations

down by 1.4 million (please see that chart on the previous page).

- There's no evidence in any labor market data-sets to suggest that these people, or anyone else, were laid off – it appears they just dropped their tools and left for greener, or at least less hostile, pastures. It's a miracle that the post-revision June payroll number shows as mild a contraction as it does – just 13,000 payrolls – and that other months since the March peak don't show contractions too. Maybe some of that is explained by immigrants recharacterizing themselves to BLS census-takers as “native born.”
- Be that as it may, during 2022 and 2023 when we stood alone – and correct! – in insisting there would be no recession as the Fed lifted off and raised rates in a scorched earth hiking regime, we always said that a payroll contraction would be a necessary condition for us to make a recession call. It never came, and we correctly never made the call. Now it has come.
- But for now, we're not making the call. Yes, a payrolls contraction is, historically, a necessary condition to make a recession call. But it is not sufficient.
- At least for now, the contraction arises from a non-recessionary cause – the self-deportation of over a million immigrants – that is not indicative of a weakening in the economy's ability to absorb and utilize labor resources. There is no slack in the labor market. Indeed, as immigrants leave and abandon their jobs, the labor market becomes tighter.
- We're simply not going to make a recession call based on what is now one month of payroll contraction when we know exactly the non-recessionary cause underlying it. Fine, a payroll contraction is

Growth in S&P 500 365 days-forward earnings estimates from respective 2025 troughs



Source: Bloomberg, TrendMacro calculations

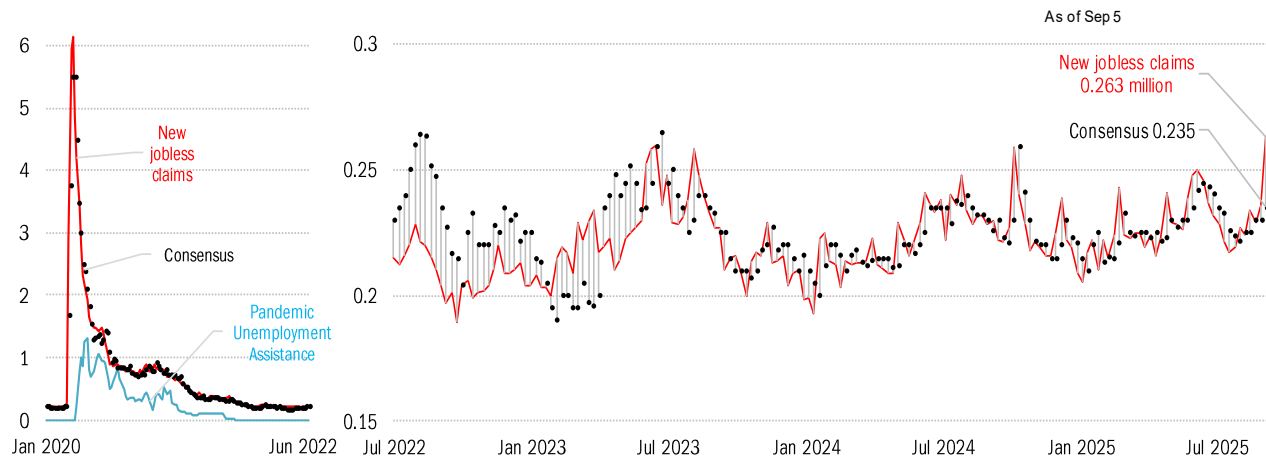
necessary to a recession call – but again, it isn't sufficient. Not when S&P 500 forward earnings estimates are at all-time highs, up more than 7% just since their trough in early May (please see the chart on the previous page), and implying over the coming eight quarters a compound annual growth rate of 13.5%?

- At this time, and in this context, the labor market data is simply not bad enough for us. Fed officials eager to primp for Powell's job – for instance Governor Waller – with no context at all, indeed no data other than payroll growth – [throw around shallow but mediagenic metaphors](#) characterizing the labor market as “on the edge” or “near stall speed and flashing red” (see [“Video: Iran hot take, and... What you're not hearing about Fed Governor Christopher Waller's job application to replace Jay Powell”](#) June 23, 2025).
- Powell, for all his talking about every subject out of both sides of his mouth, seems to have a subtler view that intersects to some degree with ours. In [his Jackson Hole speech](#), he said,

“...labor force growth has slowed considerably this year with the sharp falloff in immigration... Overall, while the labor market appears to be in balance, it is a curious kind of balance that results from a marked slowing in both the supply of and demand for workers.”

- We're not especially troubled by the [recently announced preliminary benchmark revision](#) to the BLS Current Employment Statistics – the so-called “payroll survey” – reducing the number of payrolls as of March 2025 by 911,000. It appears to be something of a new normal in labor statistics, or at least an annual ritual. [Last year's](#) was a reduction of 818,000 (or 0.5% of payrolls), and when the [final revision](#) was announced in February at the [January jobs report](#), it came in considerably below the preliminary estimate, at 589,000. The same pattern applied the prior year, with a [preliminary estimate](#) of a reduction of 306,000, and a [final revision](#) at 266,000.
- Moreover, when the final numbers are announced next February and all the historical data is officially revised, such revisions will also include tweaks to seasonal adjustment factors and the birth-death model, so who knows? But directionally, we can bet that hundreds of thousands of payrolls are going to have to be backed out of 2024 and 2025 – and that could easily produce more individual months showing payroll contractions which are, again, our necessary recession indicator.
- But telling us that payrolls contracted in a couple of months during 2024 won't give us useful predictors when we are informed of them in early 2026. Obviously, such contractions can't have been pin-point indicators of the end of the business cycle expansion (if only we had known!) because, obviously, the business cycle has continued to expand.
- There is one labor market data-point that has our attention, and that is last week's bump up to 263,000 new claims for

## New claims for unemployment benefits (millions)



Source: Bloomberg, TrendMacro calculations

unemployment benefits (see the chart above, and again, [“Data Insights: High Frequency Data and DOGE Monitor”](#)).

- *This would seem to fly in the face of our characterization of the labor market as tight, indeed eager to replace the workers who have self-deported.*
- While directionally troubling, at this point it's noise. Yes, 263,000 claims is the highest level in four years. But only 13,000 more than June of last year, and that didn't turn out to be anything bad. 263,000 is, historically, a very low number of claims as a share of payrolls – just 0.16%. In the entire history of the data since 1967, only 11% of data-points have been better. We're not going to pull the ripcord yet, any more than we did at the last little peak in claims last June.

Our call is that the FOMC will cut rates by 25 bp on Wednesday, move the 2025 “dot plot” from 3-7/8% (two cuts) to 3-5/8% (three cuts) and move the 2026 and 2027 “dot plots” down by one additional rate cut each, just carrying forward the additional 2025 cut.

- And it won't especially matter. We agree with Powell that the economy doesn't act like the Fed is too tight – and we're not letting the recent labor market data tell us it does.

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## Bottom line

The FOMC will cut rates 25 bp Wednesday. We expect the 2025 “dot plots” to be revised to show three cuts, not two. We expect 2026 and 2027 to each build in an additional cut, not meeting market expectations that the funds rate will be below 3% by 2026, which embeds a recession call the Fed will not want to ratify. The Fed will be moved by troubling jobs data, but we don't think it rises yet to the level of indicating recession. June's contraction in payrolls, based on revisions, is a necessary condition, but not sufficient, especially with S&P 500 forward earnings estimates soaring. It arises because of the mass self-deportation of immigrants, leaving the



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