Updated Expectations for the Federal Open Market Committee (FOMC) Meeting: September 16-17, 2025

Introduction

As of September 16, 2025, the Federal Open Market Committee (FOMC) has commenced its two-day meeting, with the policy statement and interest rate decision scheduled for announcement on September 17 at 2:00 p.m. ET, followed by a press conference with Federal Reserve Chair Jerome Powell at 2:30 p.m. ET. This gathering arrives against a backdrop of persistent economic softening, particularly in the labor market, and inflation that continues to ease toward the Fed's 2% target but remains elevated. The meeting marks the potential start of the first rate-cutting cycle in 2025, following steady policy holds earlier in the year. Market participants and analysts overwhelmingly anticipate a 25 basis point (bps) reduction in the federal funds rate, though the exact forward guidance on subsequent cuts will be closely watched for signals on the pace of easing. This updated report incorporates the latest pre-meeting data and sentiment as the deliberations begin today.

Economic Context Leading into the Meeting

Recent economic indicators continue to underscore labor market vulnerabilities, bolstering the case for monetary policy easing. The August 2025 jobs report, released earlier this month, showed nonfarm payrolls adding fewer positions than forecasted, with the unemployment rate edging up to 4.3%, heightening concerns over a potential slowdown. Wage growth has decelerated, reducing inflationary pressures from the labor side, while core PCE inflation held steady at 2.6% in July, per the latest figures.

Fed Chair Powell's recent speeches have reinforced a data-dependent approach, emphasizing the need to support employment amid cooling growth without prematurely stoking inflation. The July FOMC minutes, released in August, revealed a consensus among members that downside risks to the labor market had intensified, paving the way for action this week. GDP estimates for Q3 2025 suggest annualized growth around 2.0%, supported by consumer spending but weighed down by manufacturing weakness and high borrowing costs. External factors, including geopolitical risks and softening global demand, add layers of uncertainty to the outlook.

Market Expectations

Markets remain firmly positioned for easing, with fed funds futures reflecting near-certainty of a rate cut., up slightly from 89.4% last week, alongside a roughly 3-4% chance of no change and under 1% for a 50 bps move. Total easing priced in through year-end stands at approximately 68 bps, implying two additional 25 bps cuts in November and December.

Anticipation has driven pre-meeting market movements: the U.S. dollar index has slipped to a four-year low against the euro at $1.1838, reflecting bets on looser policy, while 10-year Treasury yields hover near 3.75%. Equity indices opened lower today amid broader uncertainty, with the S&P 500 pulling back from recent records as investors position for the decision. Rate-sensitive sectors like real estate and technology show mixed signals, buoyed by cut hopes but cautious on potential volatility from Powell's remarks.

Analyst and Expert Predictions

Consensus among economists tilts strongly toward a 25 bps cut, viewed as a measured response to labor data without overreacting to inflation trends. J.P. Morgan maintains its call for the first cut this week, projecting three total reductions in 2025 to align policy with a neutral rate around 3.0%-3.5%. Governor Christopher Waller reiterated support for easing, noting in a recent address that current conditions warrant lowering rates to avoid undue economic restraint.

Skeptics, however, caution against haste. Cato Institute analysis argues that robust GDP and services inflation do not yet justify a cut, potentially advising a hold or even a hike under standard rules. Morningstar highlights a slim possibility of a 50 bps cut if the Committee signals heightened recession risks, though it deems this unlikely given financial conditions already loosening. Kiplinger's live coverage emphasizes the "extraordinary" nature of this meeting, with debates over the dot plot's implications for 2026 projections. Overall, analysts expect Powell's press conference to clarify the Committee's view on the neutral rate and the balance of risks, potentially endorsing a gradual path to 3.00%-3.25% by mid-2026.

Potential Outcomes and Forward Guidance

The CME Group's FedWatch Tool, as of this morning, indicates a 96.4% probability of a 25 bps cut to a 4.00%-4.25% target range

A 25 bps cut remains the baseline scenario, consistent with the Fed's preference for incremental adjustments to assess incoming data. The updated Summary of Economic Projections (SEP), or dot plot, could show median fed funds rates implying 75-100 bps of total 2025 easing, a dovish shift from June's outlook. A hold, while improbable at under 4% odds, might cite sticky inflation; a 50 bps cut (less than 1% priced in) would indicate urgency on employment risks.

Powell's comments will be pivotal, particularly on whether policy is "restrictive" and the timeline for reaching neutral. External pressures, including political commentary on Fed independence, may color the discourse but are unlikely to sway the decision.

Implications for Markets and the Economy

Should a cut materialize as expected, it would ease borrowing costs, aiding housing and consumer sectors while supporting equity valuations in a high-valuation environment. However, historical patterns post-first cuts suggest potential S&P 500 drawdowns in the ensuing months if growth falters. For the economy, this could stabilize employment but risks embedding higher inflation if supply dynamics worsen. Post-announcement volatility is anticipated, with focus on yield curve shifts and currency moves.

Conclusion

With the September 16-17, 2025, FOMC meeting underway, expectations for a 25 bps rate cut stand at over 96%, driven by labor market signals and moderating inflation. As the policy statement and Powell's press conference approach tomorrow, any deviations could reshape year-end outlooks. This pivotal juncture highlights the Fed's ongoing navigation of dual mandates amid uncertainty.

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