

ECONOMICS

US FEDERAL RESERVE LOWERS FEDERAL FUNDS RATES BY 25 BASIS POINTS

Dr Jörn Quitzau, 17 September 2025

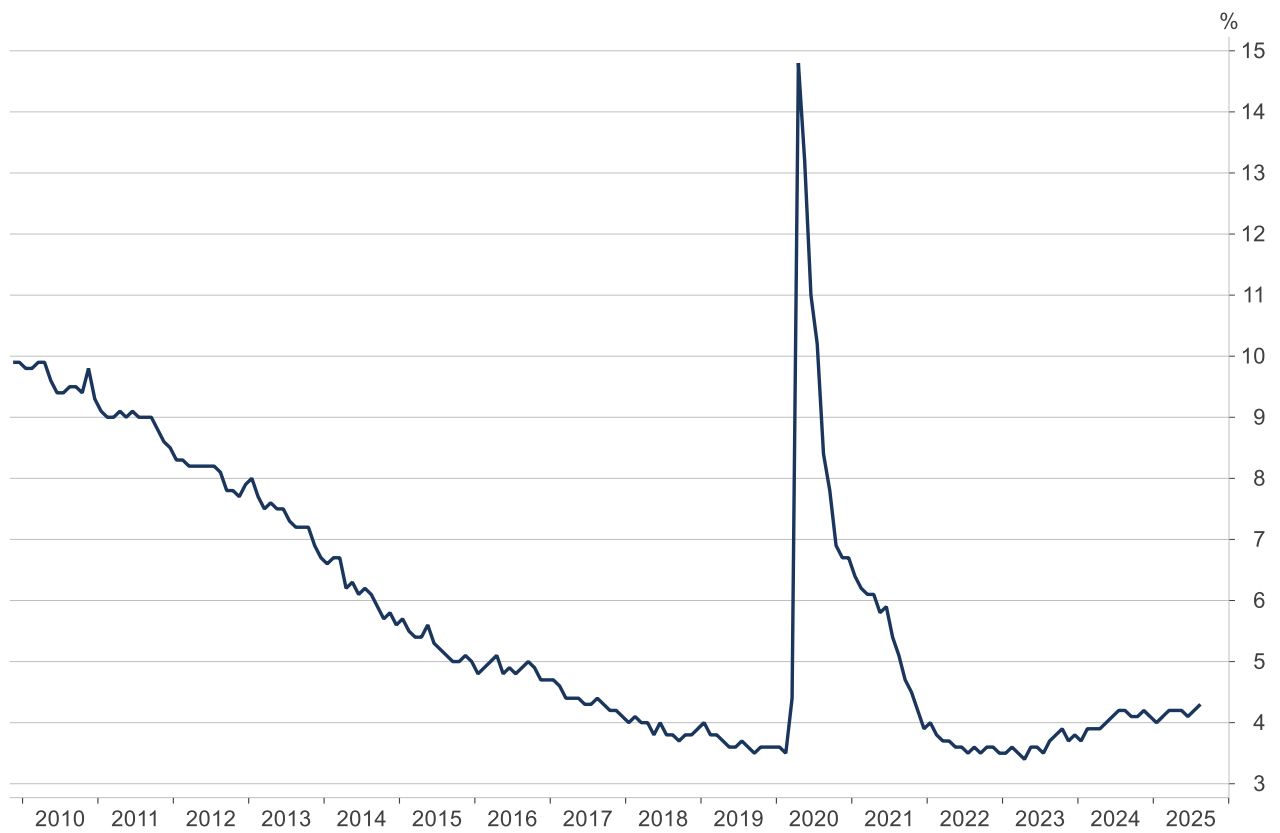
- **After Fed Chairman Jerome Powell had already hinted at a rate cut in his Jackson Hole speech, the move has now been implemented: the Fed decided to lower the federal funds rate by 25 basis points to 4.00–4.25%.**
- **Consumer price inflation is now back at 2.9%, which is clearly too high (PCE inflation, which is important for the Fed, stands at 2.6%). The fact that the Fed is lowering interest rates in such an inflationary environment is due to a weakening economy, but probably also to the massive pressure that US President Trump is exerting on the Fed.**

Following the last interest rate decision in July, Fed Chairman Jerome Powell indicated that the Fed needed more data to gain a better picture of the labor market, economic, and inflation environment. The data that has since become available has been complicated for the Fed. While the labor market reports for July and August were weaker and the unemployment rate rose from 4.1% to 4.3%, the inflation rate increased from 2.7% to 2.9%. The new data does not make the Fed's job any easier, as a weaker labor market argues for lower interest rates, while higher inflation argues for higher interest rates. In this situation, the Fed decided to cut interest rates by 25 basis points. In its press statement, it points to the increased downside risks for the labor market. Economic growth also nearly halved compared to last year. The decision was made by a vote of 11 to 1, with new Governor Stephen Miran voting for a 50 basis point rate cut.

Since the Fed's July meeting, it is not only macroeconomic data that has changed. In the meantime, political pressure on the Fed has increased massively once again. Governor Adriana Kugler resigned early at the beginning of August, giving Donald Trump the opportunity to send his chief economic advisor Stephen Miran to the Fed as Adriana Kugler's replacement. It was Miran who voted today for a more aggressive interest rate cut of 50 basis points. Trump fueled additional unrest by arbitrarily firing Fed Governor Lisa Cook. However, two courts have ruled that the dismissal was unlawful, so Lisa Cook remains in office (for now). Nevertheless, such actions certainly leave their mark and undermine the Fed's political independence.

The estimates of the members of the Federal Open Market Committee (FOMC) for the appropriate key interest rate at the end of 2025 now stand at 3.6%. This implies two further interest rate cuts of 25 basis points each at the two meetings on October 28/29 and December 9/10.

Unemployment rate USA



Source: Macrobond



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