Fed Resumes Policy Easing, Reducing FFR by -25bps to More Normal Levels

Economic Review
Sep-25 FOMC Meeting



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Economic Review

- The Fed's FOMC decided to cut the fed funds rate by -25bps to 4.00-4.25%, in line with our and market expectations. The balancing role for the dual mandates (price stability and full employment) requires the Fed to ease further to bring interest rates to more normal levels.
- The Fed shared the updated FOMC projection with little adjustments to the forecasts for GDP growth and fed funds rate. The US GDP is projected to grow at +1.6% this year (Jun-25 projection: +1.4%), while fed funds rate is expected to be slashed to 3.6% by end-2025 (Jun-25 projection: 3.9%).
- The FOMC statement reiterated that the US inflation remained "somewhat elevated" and added the reading has also "moved up". The Fed Chair once again indicated concerns about inflation outlook, where the higher (import) tariffs could result in more persistent price pressures, instead of "short-lived" and "one-time" shift in the price level.
- We expect the Fed to carry out 1 or 2 additional rate cuts at the upcoming FOMC meetings later this year. As we argued previously, the Fed is likely to pivot towards supporting growth amid signs of labour market weakness. However, the trajectory of policy easing may be complicated by a more pronounced rise in inflation and resilient consumer spending.

Fed cut fed funds rate by -25bps as widely expected

The Fed's FOMC decided to cut the fed funds rate by -25bps to 4.00-4.25%, in line with our and market expectations. The Fed indicated that the dual mandates (to maintain price stability and full employment) become equally important at the current juncture, therefore the balancing role requires the Fed to ease further to bring interest rates to more normal levels. The balanced pressures come from recent softening of the labour market conditions (with heightened downside risks) and continued concerns over rising inflation due to impacts from tariff hikes.

Minor adjustments to economic projections

The Fed shared the updated FOMC projection with little adjustments to the forecasts for GDP growth and fed funds rate. The US GDP is projected to grow at +1.6% this year (Jun-25 projection: +1.4%) and accelerate slightly to +1.8% in 2026 (Jun-25 projection: +1.6%). Meanwhile, the FOMC expects quicker rate cuts which will bring the fed funds rate to 3.6% this year (Jun-25 projection: 3.9%). Despite concerns prices will continue to inflate in the coming months due to tariff effects, inflation projection for 2025 remained unchanged as the headline and core PCE inflation will likely accelerate to +3.0% and +3.1%, respectively. Inflation outlook for 2026, however, is revised higher; with headline and core PCE inflation both will moderate to +2.6%, +0.2ppt higher than the FOMC's Jun-25 projection. Meanwhile, the US jobless rate would edge slightly higher to 4.5% in 2025 (unchanged from the Jun-25 FOMC projection) and will likely remain elevated in the next 2 years as the rate is predicted to decline marginally to 4.4% in 2026 and 4.3% in 2027.

Minimal impact from balance sheet reduction

The Fed continues to reduce its balance sheet through Quantitative Tightening but according to the Fed Chair the negative impact to the economy has been minimal given the slow and gradual pace of reduction. While there is no active selling, the reduction is done passively because existing assets held by the Fed will be allowed to mature without re-investing the full amount. The reduction amount is also capped, which helps to minimize the disruptive impacts on the financial market. As of 10th September 2025, the size of the

Fed's balance sheet has declined to USD6.61t, decreasing cumulatively by -USD2.36t from the peak in Apr-22.

Economic growth moderated in 1H due to slower consumer spending

At the press conference, the Fed Chair again stated that the US GDP growth moderated to +1.5% in 1HCY25, slower than the robust +2.5% expansion last year. This can be attributable mainly to the slowdown in consumer spending. The US continued to show resilience, as shown by the rebound in GDP growth to annualised +3.3%qoq in 2QCY25 after the -0.5%qoq contraction in 1QCY25, which was largely dragged down by the surge in imports prior to the (import) tariff hikes. Taking into account the lagged effect of monetary policy adjustment, we have been projecting a more moderate growth this year due to the previous policy tightening. We also expect aggregate demand to moderate as recent data releases point to weaker job market conditions.

Inflation accelerated and remained "somewhat elevated"

The FOMC statement reiterated that the US inflation remained "somewhat elevated" and added the reading has also "moved up". The headline CPI inflation, for example, accelerated to +2.9%yoy in Aug-25, the highest reading in 7 months. Core CPI inflation, however, remained unchanged at +3.1%yoy in Aug-25, similar to the level last recorded in Feb-25 and rising back to above +3.0%yoy after hovering around +2.8-2.9%yoy in Mar-25 to Jun-25. The core PCE inflation also accelerated to +2.9%yoy in Jul-25, the fastest in 5 months. The Fed Chair described that the recent rise in price pressures was mainly contributed by higher goods prices, in contrast to disinflation in the services inflation. He believes the price pressures will continue to increase as producers pass on more price increases to the consumers in the coming months. The Fed Chair once again indicated concerns about inflation outlook where the higher (import) tariffs could result in more persistent price pressures, compared to only "short-lived" and "one-time" shift in the price level.

Job market weaker than previously reported, no further softening needed

Following the downward revisions, job growth in the US economy turned out to be slower than previously reported. The nonfarm payrolls (NFP) only increased by +22K in Aug-25 (Jul-25: +79K); in particular the monthly job creation dropped to below +100K since May-25 indicating hirings were affected by the tighter immigration and trade policy. The revised figures also showed NFP dropped by -13K in Jun-25, the first decline since Dec-20. With slower hirings and low firings, unemployment edged up to 4.3% in Aug-25, the highest level since Oct-21. Other data like filings for unemployment benefits and job openings also point to softer job market conditions. More people relied on the jobless benefits, with initial claims surging to 263K for the first week of Sep-25 which marked the highest weekly claims in almost 4 years. Job openings, which decreased to 10-month low of 7.18m in Jul-25, signaled softer labour demand. The Fed Chair indicated that the rate cut is justified to avoid further softening in the US labour market in view of heightened downside risks.

Expect 1-2 more rate cuts this year

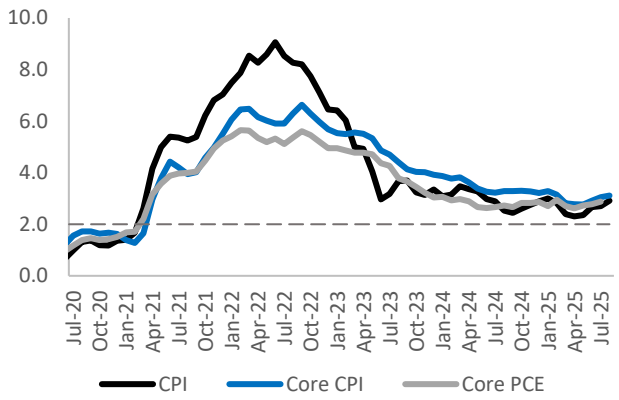
We expect the Fed will implement 1 or 2 additional rate cuts at the upcoming FOMC meetings later this year. As we argued previously, the Fed is likely to pivot towards supporting growth amid signs of labour market weakness, which points to softening aggregate demand and deceleration in the US growth momentum. The updated dot plot also reinforces this shift, with the FOMC members now projecting a faster pace of easing — bringing the fed funds rate down to 3.6% by end-2025 (Jun-25 projection: 3.9%). However, the trajectory of policy easing may be complicated by a more pronounced acceleration in the US inflation outlook. This can be due to the impact of higher tariffs as well as continued resilience in consumer spending and the broader economy.

Table 1: Central Bank Policy Rate by Selected Economies (%)

	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	2.75	2.75	2.75
Indonesia	5.75	5.75	5.75	5.75	5.50	5.50	5.25	5.00	4.75
Philippines	5.75	5.75	5.75	5.50	5.50	5.25	5.25	5.00	5.00
Thailand	2.25	2.00	2.00	1.75	1.75	1.75	1.75	1.50	1.50
Vietnam	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
South Korea	3.00	2.75	2.75	2.75	2.50	2.50	2.50	2.50	2.50
India	6.25	6.25	6.25	6.00	6.00	5.50	5.50	5.50	5.50
Japan	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
UK	4.75	4.50	4.50	4.50	4.25	4.25	4.25	4.00	4.00
Euro area	2.90	2.90	2.65	2.40	2.40	2.15	2.15	2.15	2.15
USA	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.00-4.25

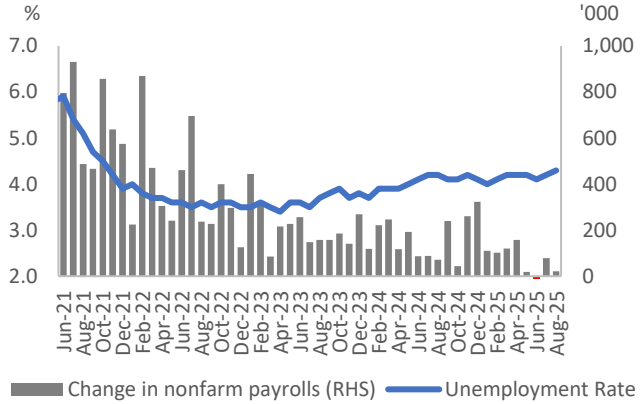
Source: Macrobond, MBSBR

Chart 1: US CPI vs Core PCE Inflation (YoY%)



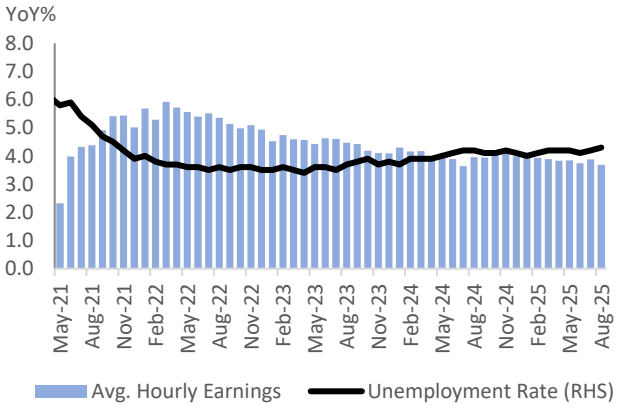
Source: Macrobond, MBSBR

Chart 2: US Unemployment Rate (%) vs Change in Non-Farm Payrolls ('000)



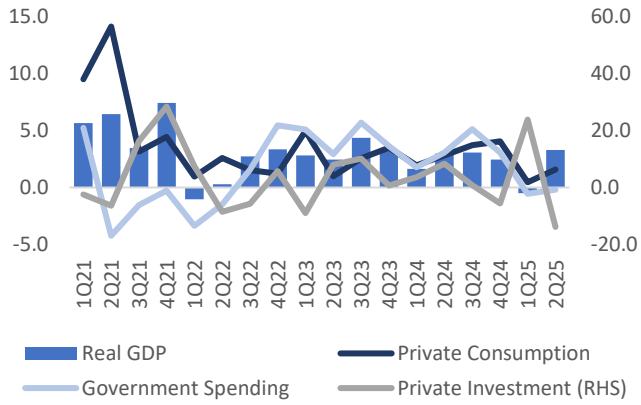
Source: Macrobond, MBSBR

Chart 3: Wage growth (YoY%) vs Unempl. Rate (%)



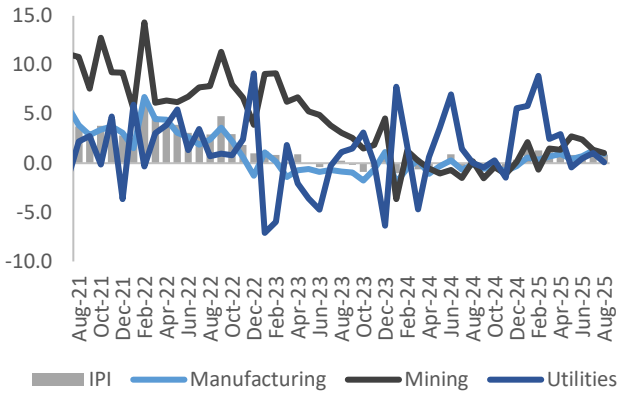
Source: Macrobond, MBSBR

Chart 4: US GDP Growth (Annualised QoQ%)



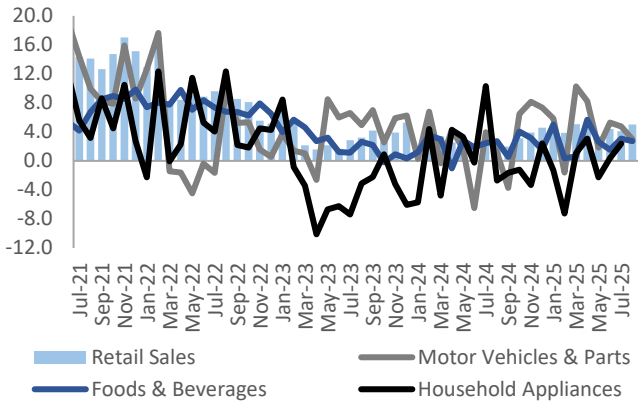
Source: Macrobond, MBSBR

Chart 5: US IPI Performances (YoY%)



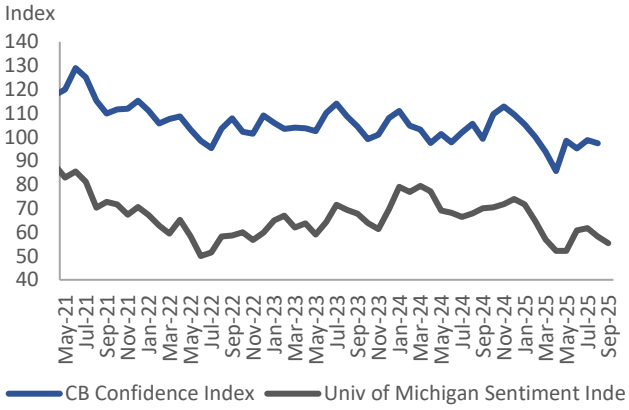
Source: DOSM, MBSBR

Chart 6: US Retail Sales (YoY%)



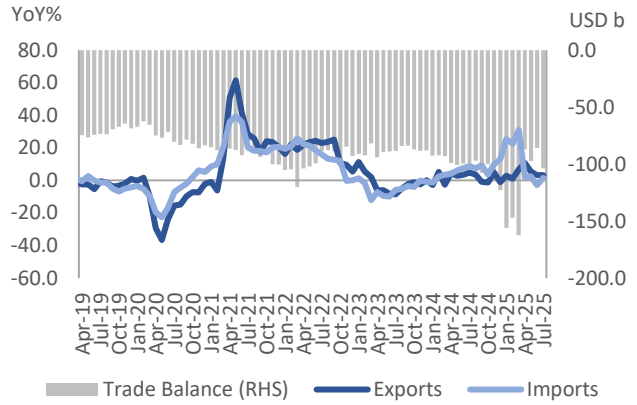
Source: DOSM, MBSBR

Chart 7: US Consumer Sentiment and Confidence (Index)



Source: Macrobond, MBSBR

Chart 8: US External Trade Performance (YoY%)



Source: Macrobond, MBSBR

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