Three Fed Governors' Forward Views after the September 17, 2025, FOMC Meeting

The following are summaries of three post-September 17, 2025, FOMC meeting speeches which highlight each Governor's framework and monetary policy considerations forward.

Chair Powell
2025 Economic Outlook Luncheon
The Greater Providence Chamber of Commerce, Warwick, Rhode Island
September 23, 2025
https://www.federalreserve.gov/newsevents/speech/powell20250923a.htm

In the **labor market**, there has been a marked slowing in both the supply of and demand for workers—an unusual and challenging development. In this less dynamic and somewhat softer labor market, the downside risks to employment have risen. The unemployment rate edged up to 4.3 percent in August but remained relatively stable at a low level over the past year. Payroll job gains slowed sharply over the summer months, as employers added an average of just 29,000 per month over the past three months. The recent pace of job creation appears to be running below the "breakeven" rate needed to hold the unemployment rate constant. But a number of other labor market indicators remain broadly stable.

Inflation has eased significantly from its highs of 2022 but remains somewhat elevated relative to our 2 percent longer-run goal. The latest available data indicate that total PCE prices rose 2.7 percent over the 12 months ending in August, up from 2.3 percent in August 2024. Excluding the volatile food and energy categories, core PCE prices rose 2.9 percent last month, also higher than the year-ago level. Goods prices, are driving the pickup in inflation. Incoming data and surveys suggest that those price increases largely reflect higher tariffs rather than broader price pressures. Disinflation for services continues, including for housing. Near-term measures of inflation expectations have moved up, on balance, over the course of this year on news about tariffs. Beyond the next year or so, however, most measures of longer-term expectations remain consistent with our 2 percent inflation goal.

Recent data show that the pace of **economic growth** has moderated. In recent months, it has become clear that the balance of risks has shifted, prompting the Committee to move its policy stance closer to neutral rate (r*)[1] at the September 2025, meeting. The overall economic effects of the significant changes in trade, immigration, fiscal and regulatory policy remain to be seen. A reasonable base case is that the tariff-related effects on inflation will be relatively short lived—a one-time shift in the price level. Tariff increases will likely take some time to work their way through supply chains. As a result, this one-time increase in the price level will

[1] the policy rate that would be neither expansionary nor contractionary when the economy is at full employment.

likely be spread over several quarters and show up as somewhat higher inflation during that period. level. A "one-time" increase does not mean "all at once." Tariff increases will likely take some time to work their way through supply chains.
Near-term risks to inflation are tilted to the upside and risks to employment to the downside. Two-sided risks mean that there is no risk-free path. When the goals are in tension like this, the Committee framework calls for balancing both sides of the dual mandate.

Governor Stephen I. Miran
2025 Economic Outlook Luncheon
The Economic Club of New York, New York, New York
September 22, 2025
https://www.federalreserve.gov/newsevents/speech/miran20250922a.htm

Current policy as very restrictive, it poses material risks to the Fed's employment mandate. There's no perfect means for determining appropriate monetary policy at any given time. The Taylor rule suggests policymakers ought to think about three key variables in determining the appropriate fed funds rate: inflation, the neutral rate of interest, and the output gap. Many r* estimates are based on empirical models requiring a great deal of time-series data, they can be backward-looking and slow to adjust. Moving too slowly to update a rapidly changing neutral rate raises the risk of policy mistakes.

R* reflects the balance of saving and investment in an economy and it evolves over time with demographics, productivity, fiscal policy, and other factors. For example, previously high immigration rates and large fiscally driven decreases in net national saving, both of which raise neutral rates, were insufficiently accounted for in previous estimates of neutral rates. Monetary policy was not as tight as many believed. That same effect may be taking place today, but in the opposite direction. Today, insufficiently accounting for the strong downward pressure on the neutral rate resulting from changes in border and fiscal policies is leading some to believe policy is less restrictive than it actually is.

Nonmonetary factors—such as shifts in border and tax policy, trade renegotiation, and regulatory dynamics—can have substantial effects on the appropriate setting for monetary policy. Factors that have changed most meaningfully over the course of 2025 as they relate to inflation expectations, r*, and the output gap, are most underappreciated. Based on this analysis, the appropriate fed funds rate is in the mid-2 percent area, almost 2 percentage points lower than current policy.

The following factors are highlighted that would impact r*:

A) RENT- Housing represents nearly 16 percent of the personal consumption expenditures (PCE) price index, and more than double that in the consumer price index (CPI). Housing affordability is highly influential for Americans' perception of, and experience of, the economy. Because measured inflation incorporates rental inflation with a lag, it has remained elevated above market rents for several years. The gap created from the spike in new rents in 2021 and 2022, has subsequently closed, indicating the catch-up is complete. Now, new rent indices show this inflation is well below all-tenant inflation, around 1 percent annualized. Rents for all tenants will fall toward this low rate as people moving or renewing leases sign at current market rates, and CPI rent inflation is expected to decline from its current level of roughly 3.5 percent to below 1.5 percent in 2027. This

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implies a roughly 0.3 percentage point decline in total PCE inflation; by early 2028, This effect is expected to grow to a 0.4 percentage point decline. Per Taylor rule, that works out to an appropriate fed funds rate roughly **half a percentage point lower** than current shelter inflation would imply. Net immigration averaged roughly 1 million per year in the decade leading up to the pandemic. Given that roughly 100 million Americans rent, net zero immigration going forward would imply **1 point lower rent inflation per year**.

B) POPULATION GROWTH - Steady-state population growth matters for neutral rates, and U.S. border policy changed from effectively open borders to potentially negative net migration. These effects may interact with a structurally aging population, which increases the supply of capital and reduces demand for investment. Demographic changes may have already lowered the neutral rate by over 1 percentage point since 1980. The U.S. population has grown by around 1 percent annually in recent years, driven in large part by illegal immigration. Already in the first half of this year, roughly 1.5 million of these immigrants have left the country, though this number may be an overestimate due to nonresponse issues. It is plausible that 2 million illegal immigrants will have exited the country by year-end, thereby reducing annual population growth from 1 percent to 0.4 percent. A 1 percentage point drop in annual population growth can reduce r* by 0.6 percentage point. So, the expected decline in U.S. population growth equates to **a nearly 0.4 percentage point drop in the neutral fed funds rate**.

C) TARIFF & PEDGE REVENUE - The Congressional Budget Office estimates tariff revenue could reduce the federal budget deficit by over $380 billion per year over the coming decade.10 This is a significant swing in the supply–demand balance for loanable funds, as national borrowing declines by a comparable amount. A 1 percentage point change in the deficit-to-GDP (gross domestic product) ratio moves r* by nearly four tenths of a percentage point, according to the average of estimates summarized by Rachel and Summers. This 1.3 percent of GDP change in national saving reduces the neutral rate by half a percentage point. Loan guarantees pledged by East Asian countries in exchange for relatively low tariff ceilings have reached $900 billion. These guarantees entail an exogenous increase in credit supply, which research suggests would be around 7 percent. This would further **reduce neutral policy rates by around two tenths of a percentage point**

D) TAX POLICY - The passing of OBBBA has a strong effect on national saving. The Council of Economic Advisers (CEA) calculates an increase in national saving of $3.83 trillion over the next 10 years (relative to the previous policy baseline), resulting from economic growth induced by tax policy. This represents roughly 1.3 percent of GDP, implying a half of a percentage point reduction in r*. The federal deficit in the second and third fiscal quarters of this year was nearly $140 billion less than in the comparable period last year. This is a small sample size but indicative of the direction of the deficit. The CEA estimates that the tax law will generate annual investment increases of up to 10 percent in the next several years relative to the previous policy baseline. This should be associated with an increase in r*, and thus **the appropriate fed funds rate, of around three tenths of a point**.

E) DEREGULATION & ENERY - Regulation hinders productivity growth, restricts capacity, and ultimately helps fuel inflation. Deregulation raises the neutral rate of

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interest by increasing the marginal product of capital. Previous CEA research on the benefits of deregulatory efforts suggests a roughly 0.5 percent annual boost to growth over a 20-year period, whereas CEA research on new energy policies suggests something closer to a 0.1 percent annual boost over a 10-year period. The cumulative effect of these policies is anywhere from a 3 to nearly 9 percent increase in TFP, **translating to about a 0.1 to 0.2 percentage point increase in r***. Half of the output effects of deregulatory policy are channeled improvements in total factor productivity (TFP), the key ingredient to greater living standards and higher real wages for workers.

The following factors are highlighted that would impact Output Gap (which reflects actual production's strength relative to the economy's potential)

A) TAX POLICY - The substantial tax cuts recently passed by the Congress should significantly push out the economy's supply side, an important change to help minimize the potential for inflationary shocks. Aggregate demand is also boosted by reduced taxes on seniors and lower-wage workers, balanced somewhat by cuts to entitlement spending and student lending. The literature consistently finds the tax multiplier to be larger than the spending multiplier. This implies an **increase in the output gap of nearly 0.2 percent of GDP.**

B) REGULATORY & ENERGY POLICIES - When a regulatory barrier is removed, there is an immediate increase in potential output, but it takes time for actual output to catch up. This suggests 0.2 to 0.6 percentage point of downward pressure on the output gap over the next couple of years. That translates into a **policy rate that is 0.1 to 0.3 point lower** under a standard Taylor rule, or doubly as strong under the balanced-approach rule.

These factors should not imply more precision than is possible in economics. The upshot is that monetary policy is well into restrictive territory. Leaving short-term interest rates roughly 2 percentage points too tight risks unnecessary layoffs and higher unemployment.

Governor Stephen I. Miran
Thoughts on Monetary Policy Decision Making and Challenges Ahead
The Forecasters Club of New York Luncheon, New York, New York
September 26, 2025
https://www.federalreserve.gov/newsevents/speech/bowman20250926a.htm

FLEXIBLE APPROACH to POLICYMAKING

The Committee's dual mandate places equal weight on both maximum employment and price stability, when these objectives are in tension it is important not to favor one side of the mandate over the other. The Committee should be flexible and direct its focus to the side of the mandate that deviates the most from its goal or that shows the greater risk of persistently departing from it. Hesitating to address existing or emerging departures from the dual-mandate goals, due to self-limitations stemming from **an unwillingness to depart from outdated past policy communication**, increases the likelihood that policymakers will need to implement abrupt and large policy corrections.

Recent data show a materially more fragile labor market along with inflation that, excluding tariffs, has continued to hover not far above our target. Given this shift in labor market conditions, at last week's FOMC meeting began the process of removing policy restraint and bringing the federal funds rate back to its neutral level. Up until the July FOMC meeting, even with inflation

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within range of our target, the Committee has focused primarily on the inflation side of the dual mandate. Now witnessing many months of deteriorating labor market conditions, it is time for the Committee to act decisively and proactively to address decreasing labor market dynamism and emerging signs of fragility. The recent data, including the estimated payroll employment benchmark revisions, show that there is serious risk of already being behind the curve in addressing deteriorating labor market conditions. Should these conditions continue, the Committee needs to adjust policy at a faster pace and to a larger degree going forward.

With tariff-related price increases likely being a one-time effect, inflation will return to 2 percent after these effects dissipate. Because changes in monetary policy take time to work their way through the economy, it is appropriate to look through temporarily elevated inflation readings and therefore remove some policy restraint to avoid weakening in the labor market, provided that long-run inflation expectations remain well anchored.

Further, the U.S. economy may also be experiencing an extended productivity surge, in large part because of recent technological advances. And productivity growth has likely been higher than reported due to the downward benchmark revisions to payroll gains. These developments reinforce the case for removing policy restraint because monetary policy should accommodate productivity shocks that raise potential output.

In the past, with unusually high uncertainty around the state of the economy and the economic outlook, and with significant risks to employment and price stability goals, judging where the economy is headed in the future is much more challenging. Therefore, it made sense in the past to consider and be informed by the incoming data and its implications for the outlook in assessing the appropriate path for monetary policy.

Facing different conditions today, it is concerning that the labor market could enter into a precarious phase, and there is a risk that a shock could tip it into a sudden and significant deterioration. An inflexible and dogmatic view of data dependence gives an inherently backward-looking view of the economy and would guarantee that the Committee remains behind the curve, requiring us to catch up in the future.

The Committee **should consider shifting its focus from overweighting the latest data points to a proactive forward-looking approach** and making a forecast that reflects how the economy is likely to evolve going forward. Because policy actions take time to flow through to, or have their full effect on, the economy, labor markets, and inflation, it is important that the Committee is making predictions about where the economy is headed and to act on those forecasts in real time. **A forward-looking approach ensures that monetary policy can help support the economy**. It also better positions us to avoid falling behind the curve and then having to implement abrupt and dramatic policy actions. In my view, it is more effective to act promptly and decisively in the face of fragility than to be forced to dramatically adjust policy after damage has occurred.

A LIMITED FOOTPRINT FOR THE BALANCE SHEET

Over the longer run, the preference is to **maintain the smallest balance sheet possible** with reserve balances **at a level closer to scarce than ample**. First, a smaller balance sheet would minimize the Fed's footprint in money markets and in Treasury markets. Of course, in order to

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efficiently implement monetary policy, it is necessary to have some footprint in these markets. Second, holding less-than-ample reserves would return the Committee to a place where it is actively managing the balance sheet, identifying instead of masking signals of market stress. Actively managing the balance sheet would give a more timely indication of stress and market functioning issues, as allowing a modest amount of volatility in money markets can enhance our understanding of market clearing points.

Lower levels of reserves may also incentivize banks to engage in more active management of their liquidity positions and liquidity risks. Finally, a lower terminal level of reserves and a smaller balance sheet as a percentage of gross domestic product (GDP) would provide the FOMC with the optionality to respond to future shocks or economic downturns without worrying whether there is enough room to expand the balance sheet as a potential tool.

In terms of the composition of the Fed's securities holdings in the longer run, the System Open Market Account portfolio should consist **only of Treasury securities** to minimize the effects of the Federal Reserve's holdings on the allocation of credit across the economy. Holding agency mortgage-backed securities (MBS), or other non-Treasury securities, could be seen as selective credit allocation.

One benefit of a Treasury portfolio maturity structure that mirrors the broader Treasury market is that the Fed's holdings would be "neutral." This means that these holdings would not disproportionately affect the pricing of any given maturity of Treasury security or provide incentives for the issuance of any given type of Treasury security. A balance sheet tilted slightly toward shorter-dated Treasury securities would allow a more flexible approach.

Emergency lending facilities should be reserved for the single-purpose use in emergency circumstances and should not be institutionalized. In other words, they should not be converted to permanent standing facilities. Instead, they should be activated for only the most exceptionally stressed circumstances. Institutionalizing an activity that was created to temporarily respond to emergency conditions essentially normalizes an extreme emergency response to market illiquidity. Increase the Fed's footprint in financial markets and have adverse implications, such as distorting private-sector market dynamics and market pricing during normal, noncrisis times.

CHALLENGES FOR MONETARY POLICY AHEAD

A) Supply Shocks

   Supply shocks, which move economic activity and inflation in opposite directions, can be challenging for monetary policy to address because they can put the pursuit of the dual-mandate goals in conflict. The development of **new technologies that raise productivity is an example of a positive supply shock** that increases potential output, while **supply chain disruptions are an example of a negative supply shock**. To properly address these shocks, for situations in which the policy objectives are in tension, the Committee needs to consider how large and persistent the deviations implied by the shock to the price-stability and maximum-employment mandates will likely be. Importantly, supply shocks can also affect demand, as such, assessing how the relative effects on supply and demand are likely to evolve is needed.

   Tariffs can be seen as a negative shock to the supply of imported goods but can also be viewed as a surcharge on demand for imported goods. Like any surcharge on sales, the effects on inflation are likely short lived, as reduced demand increases slack in the

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economy and restrains any follow-on price increases, assuming that inflation expectations remain anchored. Therefore, it makes sense for monetary policy to mostly look through the one-off effect on prices and put more weight on the likely more persistent effects on demand and employment.

A **step-down in population growth** is also a negative supply shock, as it slows the increase in the labor force and output. This development would also represent a negative shock to demand, with the two effects roughly balancing out over time. However, the source of the shock, whether due to lower immigration or the aging of the population, seems relevant. While aging of the population is a gradual process that is less likely to generate sudden deviations in either of our mandates, a shock to immigration can have sharper effects on demand in the near term, as supply is likely to adjust more slowly—for example, housing.

B) Term Premium
A second challenge for monetary policy would be a significant rise in longer-term interest rates driven by higher term premiums, which could offset a reduction in the expectations component stemming from monetary policy easing. This scenario would weaken the transmission of changes in the policy rate to economic activity, as investment decisions of households and businesses are dependent on longer-term rates, such as mortgage rates and corporate bond yields. A further rise in the term premium could reflect higher compensation for expected inflation and increased risks that monetary policy may need to address future shocks to real activity or inflation. Some of the factors that could lead to higher term premiums would be concerns about **fiscal sustainability** and the **FOMC's credibility** to achieve its inflation goal.

C) Housing Market
A third challenge for monetary policy would be a sharp housing market correction. Demand factors appear to have recently become the dominant force. Elevated mortgage rates may be exerting a more persistent drag, as income growth expectations have declined while house prices remain high relative to rents. Given very low housing affordability, existing home sales have remained depressed despite higher inventories of homes for sale. Declines in house prices could accelerate is a concern, posing downside risks to housing wealth and inflation in the years ahead.

D) Artificial Intelligence
The surge in AI investment could also be challenging for monetary policy. Investment in new technologies is likely to raise productivity and lower inflation in the medium term. Although the additional investment also boosts demand, the effects on productivity and supply are likely to occur relatively quickly, and the economy is less likely to tighten appreciably in the near term. In this case, monetary policy should refrain from restraining aggregate demand, as any deviation from maximum employment is likely to be temporary. There is a risk that expectations of returns on these high-tech investments may be too optimistic and raise financial stability concerns. If expectations of future revenues do not materialize, we may see a large correction in equity markets and a slump in investment spending due to over-capacity. Such a correction would lead to a contraction in aggregate demand through lower household wealth and lower expected profits.

E) Neutral Rate of Interest – r*

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Slower population growth and fiscal sustainability risks require more attention. Although these factors have opposite effects on the balance between savings and investment and r*, slower population growth and the aging of the population as more prominent factors in pulling down the neutral interest rate. If fiscal sustainability concerns are not addressed in the years ahead, by stabilizing or reversing the upward trajectory of the federal debt-to-GDP ratio, r* and interest rates could rise and crowd out private investment.

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