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MARKET SIGHT*LINES*

A Diversity of Thinking: The Fed Will Debate, but Will It Cut?

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The Federal Reserve will hold its final meeting of the year next week, with voting members more divided than usual as they begin the two-day meeting. Officials are focused on data related to the Fed's dual mandate – maximum employment and stable prices – with officials weighing the risks to each in different ways. For example, San Francisco Fed President Mary Daly supports a cut, emphasizing emerging softness in the labor market. By contrast, Boston Fed President Susan Collins sees "no urgency" for action, noting restrictive policy may help with still firm inflation. In some ways, a diversity of thinking – and healthy, well-informed debate – can be good, perhaps lowering the chances of policy error. At present, futures markets point to a quarter-point cut.

THE TAKEAWAY: A DIVERSITY OF THINKING AND A HEALTHY DEBATE

Data shows a softening job market and still firm inflation, leading to a wide range of views among Fed officials. In summary:

- The Fed has a dual mandate: stable prices and maximum employment.
- The labor market is cooling, not collapsing, and remains tight by historical standards.
- Inflation is easing modestly and is still above the Fed's long-run 2% target.
- Inflation expectations remain well anchored.
- Fed Chair Jerome Powell has described "strongly differing views" among policymakers.
- Officials are divided on timing, not direction, as most see a path to lower rates.
- Fed funds futures have swung widely in recent weeks, now signaling a cut next week.

IN-DEPTH: A DIVERSITY OF THINKING AND AN ANTICIPATED DEBATE WITH A FOCUS ON THE FED'S DUAL MANDATE

Data around the Fed's dual mandate shows a softening job market and still firm inflation, supporting a wide range of views among Fed officials. Going deeper:

- The Fed set policy to manage the risks and opportunities around its dual mandate:
  - Stable prices, with a target of 2% inflation over time.
  - Maximum employment, a labor market not overheating or softening unnecessarily.
- The labor market is cooling, but not collapsing… and it remains tight by historical standards:
  - Nonfarm payrolls rose 119,000 in September, but the six-month average is 58,500.
  - The unemployment rate edged up to 4.4%, a level still associated with full employment.
- Inflation has been easing modestly and remains above the Fed's long-run 2% target. For example:
  - The Core Personal Consumptions Expenditures Index (Core PCE) – closely watched by the Fed – rose 2.8% over the last year, well below peak levels of 5.6% in 2022
  - Three-month annualized Core PCE is 2.6%, above the 2-2.5% range.
- Inflation expectations – also important to the Fed – remain well anchored:
  - Breakeven rates – a measure of investor expectations – sit at 2.2% for the next 5-10 years.
  - Some consumer expectations measures show medium-term views clustered between 2%-3%.
- Chair Powell has described "strongly differing views" among policymakers, seen by:
  - Mary Daly, President of the San Francisco Fed, has said she "supports lowering interest rates," citing a "vulnerable labor market."
  - Susan Collins, President of the Boston Fed, sees "no urgency" to lower rates at this meeting.
- Officials appear divided on timing, but not direction, as most see a path to lower rates over time:
  - September and October Fed meeting minutes show "most" officials anticipate additional cuts over time if inflation continues to cool.
  - The latest Fed Summary of Economic Projections (SEP) shows Fed officials, on average, expect federal funds rate declines in 2026, and again in 2027.
- Fed funds futures, which have swung widely in recent weeks, are now signaling a cut next week:
  - The probability of a quarter-point cut next week fell to about 30% on November 19.
  - But that probability now hovers in the 80%-90% range.

CONCLUSION

As the Fed holds its final 2025 meeting next week, officials are more divided than usual, representing a diversity of thinking and signaling the strong likelihood of a healthy debate. The focus remains, as it should be, on the Fed's dual mandate – maximum employment and stable prices – with officials weighing the risks to each. And, while we've seen futures markets sing dramatically in recent weeks, probabilities point to a quarter-point cut, but more muted action in 2026.

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