# POLICY RATE VIEWS

## Wait-and-see: Fed maintains policy rate

### Fed maintains policy rate

The US Federal Reserve (Fed) maintained the Federal Funds Target Rate (FFR) at 4.25%-4.50% at the Federal Open Market Committee (FOMC) meeting on July 29-30, with a 9-2 vote, as expected by financial markets. This is the fifth consecutive meeting that the Fed kept the FFR steady after lowering it by 100 basis points (bps) in 2024.

**Fed Funds Target Rate as of March 20, 2025**

**4.25% to 4.50%**

The committee remains in a wait-and-see mode in the last meeting as the FOMC continues to assess current risks on inflation, labor market and the broader economy.

Fed Chair Jerome Powell stated that although the economy remains in a "solid position", uncertainties remain elevated. He recognized that economic growth moderated in the first half of the year at 1.2% from 2.5% in the same period last year. A slow down in consumer spending contributed largely to recent growth moderation, although business investments picked up.

He noted as well that the labor market remains "in balance" as both demand for jobs and supply of workers are slowing at the same time, signaling some risks.

While the impact of elevated tariffs has begun to reflect on prices of select goods, services inflation continues to ease. The Fed's base case considers a one-time shift in price level. However, the committee acknowledges existing risk that the impact may persist.

Powell did not discount the possibility of a policy rate reduction in the next meeting in September as the committee awaits for more economic data for guidance.

Related article: [FOMC Preview: Neutral US Fed to keep rates steady]

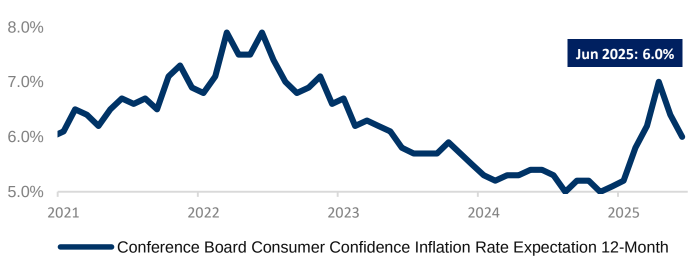
### US economic data

The Fed's preferred inflation measure, the US Core Personal Consumption Expenditure (Core PCE) Price Index, settled at 2.7% year-on-year (YoY) in June, higher than the 2.3% rate recorded in May. This figure sits above the Fed's 2.0% long-run goal as tariffs pushed up prices for some goods, even as services inflation eased. This aligns as well with changes in the headline Consumer Price Index (CPI), which rose 2.7% YoY in June from 2.4% in May from increases in the prices of tariff-sensitive goods like apparel and household furnishings.

US consumer expectations of inflation went down in June to 6.0% compared to its sharp rise to 7.0% in April. While tariffs still provide inflationary risks for consumers, concerns have eased since the sudden shocks from their first announcement. Furthermore, Powell shared that while near-term expectations for inflation have moved up, longer-term expectations remain consistent with their 2.0% target.

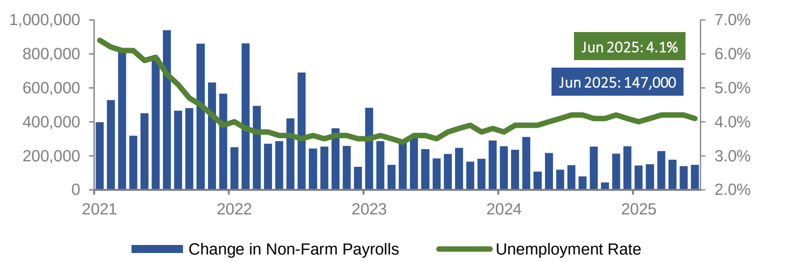
The unemployment rate in June was at 4.1%, slightly better than the 4.2% in the three months prior, and has stayed in a narrow range since the beginning of the year. Nonfarm payrolls saw an increase of 147,000 for June, slightly higher than the revised 144,000 added in May and exceeding consensus estimates for the month. This increase was attributed to a jump in employment in the government sector, which added 73,000 jobs.

**US Consumer Inflation Expectations**




*Source: Bloomberg*

**US Labor Market**

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## METROBANK'S TAKE

The recent Fed decision is in keeping with Metrobank's expectations. Although Powell's latest remarks highlighted that the labor market is in balance and that inflation remains elevated, growth figures point to soft consumer demand. Inflation expectations also continue to slow following its peak in April, as tariffs nudge lower than initially announced by US President Donald Trump, reducing uncertainty on US tariff policies. Considering inflation expectations, along with signs of weakness in the labor market stemming from soft economic activity, Metrobank maintains its forecast that the Fed will reduce its policy rate by a cumulative 50 bps in 2025, followed by another cumulative 50 bps in 2026. This will bring the target FFR range down to 3.75%-4.00% by end-2025 and to 3.25%-3.50% by end-2026.

In the local space, inflation continues to ease and full-year inflation is expected to settle at the lower-bound of the government's target. This, along with soft growth characterized by a still moderate consumer spending and private investments which have yet to pick up, suggests that the Bangko Sentral ng Pilipinas (BSP) has room to further reduce its policy rate. Metrobank forecasts that the BSP will cut by another cumulative 50 bps before the year ends, followed by another cumulative 50 bps in 2026. This will bring the target Reverse Repurchase (RRP) rate down to 4.75% by end-2025 and to 4.25% by end-2026, maintaining the interest rate differential (IRD) with the Fed at 75 bps.