

POLICY RATE VIEWS

Meeting-by-meeting: More cuts to come

Fed delivers first rate cut for the year

The US Federal Reserve (Fed) lowered the Federal Funds Target Rate (FFR) at 4.00%-4.25% at the latest Federal Open Market Committee (FOMC) meeting, with a 11-1 vote, as expected by financial markets. This is the first policy rate reduction in the year so far following five consecutive meetings where the Fed kept the FFR steady.

The committee broke out of its wait-and-see stance in the last meeting, as it moved to address the weakening US labor market.

The newly appointed Stephen Miran was the only member who voted for a 50-basis points (bp) cut, which Fed Chair Jerome Powell reported was not widely supported.

Powell said there are no “risk-free paths” for the Fed, highlighting that although the Fed is keeping tabs on inflation, it cannot forget about maximum employment, the second half of its dual mandate.

While inflation continues to hover above the Fed’s target of 2.0%, the Fed Chair reported that although companies have taken their time when it comes to passing the cost of the tariffs to consumers, the costs may build up over time. Powell said the latest decision reflects the Fed addressing risks to the economy, adding that a “very different picture” of risks have come into light, as the labor market showed signs of softening and inflation remains above target.

Powell did not discount the possibility of more rate cuts before the end of the year but said the Fed now takes on a “meeting-by-meeting” stance when it comes to reducing rates further.

Related article: [Fed Preview: Powell's reason to cut rates](#)

Fed Funds Target Rate
as of
September 18, 2025

4.00% to
4.25%

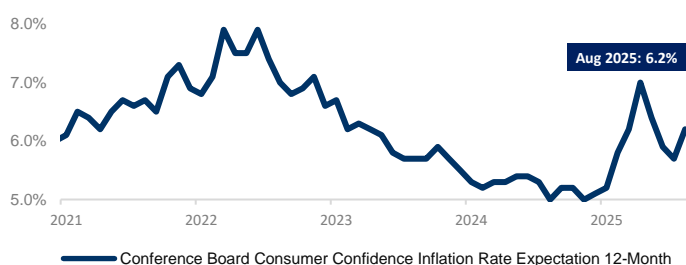
US Economic Data

The Fed’s preferred inflation measure, the US Core Personal Consumption Expenditure (PCE) Price Index, settled at 2.9% year-on-year (YoY) in July, higher than the 2.8% rate recorded in June. This figure remains above the Fed’s 2.0% long-run goal, as tariffs pushed up prices for some goods. This aligns as well with changes in the headline Consumer Price Index (CPI), which rose 2.9% YoY in August on higher food and energy costs. The number was 2.7% in July.

US consumer expectations of inflation bounced higher to 6.2% in August from 5.7% in July. Although inflation expectations eased slightly the previous month, the survey results show consumers expect prices to increase further in the next 12 months. Nonetheless, Powell said risks to inflation are tilted to the upside but anticipates the effect of tariffs on prices to be short-lived.

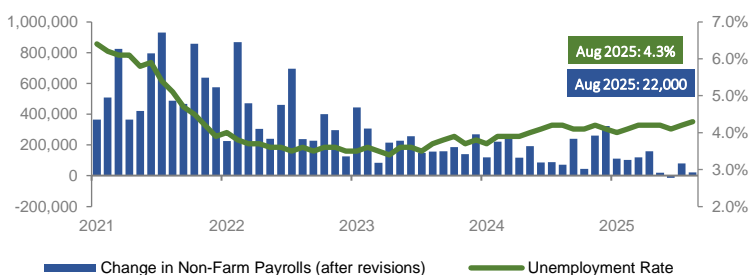
The US labor market finds itself in more shaky territory than the Fed initially thought, as massive revisions over 12 months through March of 2025 indicate 911,000 fewer jobs were created than what were initially reported. Nonfarm payrolls fell to 22,000 in August from the 79,000 jobs added in July. Meanwhile, the US unemployment rate in August was at 4.3%, even higher than the 4.2% in the previous month, and is the highest US unemployment rate since October 2021.

US Consumer Inflation Expectations



Source: Bloomberg

US Labor Market



Source: Bloomberg

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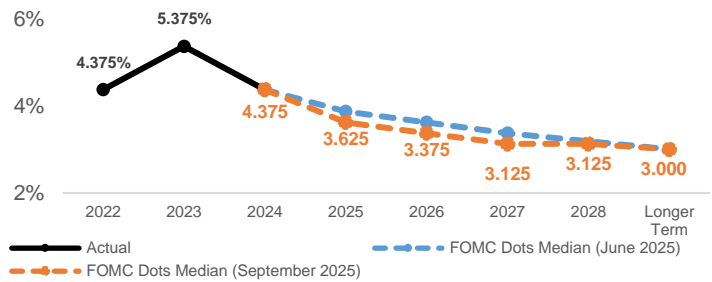
FED'S SEPTEMBER 2025 SUMMARY OF ECONOMIC PROJECTIONS

Summary of Economic Projections

	As of June 2025					As of September 2025				
	2025	2026	2027	2028	Longer run	2025	2026	2027	2028	Longer run
Real GDP	1.4	1.6	1.8	-	1.8	1.6	1.8	1.9	1.8	1.8
Unemployment Rate	4.5	4.5	4.4	-	4.2	4.5	4.4	4.3	4.2	4.2
PCE Inflation	3.0	2.4	2.1	-	2.0	3.0	2.6	2.1	2.0	2.0
Core PCE Inflation	3.1	2.4	2.1	-	-	3.1	2.6	2.1	2.0	-

Source: US Federal Reserve

Fed Dot Plot



Higher inflation expectations next year versus previous projections

The latest Summary of Economic Projections (SEP) shows that Fed officials are anticipating faster inflation moving forward, as the impact of President Donald Trump's tariffs begin to reflect on prices of some commodities. While the Fed maintains its base case that the impact of tariffs is likely short-lived, the committee still acknowledges the risk that their impact on inflation become more persistent.

The Fed's median projection for both PCE and core PCE inflation for 2026 ticked up to 2.6% for both inflation indicators, an increase from its June projection of 2.4%. Median PCE and Core PCE projections for 2025 were kept 3.0% and 3.1%, respectively.

On the labor market, the Fed's projection on unemployment rate for 2025 remained at 4.5% but adjusted lower for the succeeding years.

More Fed cuts for the year

The Fed's dot plot moved lower in the latest SEP amid concerns on downside risks to the labor market despite risks on inflation. The year-end median target FFR projection by end-2025 is now at 3.875%, signaling the possibility of another cumulative 50 bps worth of cuts for the rest of the year. The projections for 2026 and 2027 were also adjusted lower to 3.625% and 3.375%, respectively.

METROBANK'S TAKE

Risks on inflation and labor market moving towards a balance

A solid labor market, along with inflation consistently above-target, has provided the Fed enough room to maintain a restrictive policy stance. However, recent labor market data has shown signals of weakness, providing the Fed more urgency to reduce policy rates to support the economy.

For the most of this year, the Fed prioritized controlling inflation, especially as services inflation remain sticky and as inflation on some goods begin to reflect Trump's tariff. However, given recent downside risks to the labor market, the Fed is now expected to adjust policy rates downward to balance the risks on its dual mandate.

Metrobank expects to see sustained labor market weakness as other indicators of growth in the US begin to reflect softness in demand. However, weak demand is likely to cap acceleration in inflation caused by the tariffs.

Fed and BSP to continue reducing rates

Metrobank adjusted its forecasts and now expects the Fed to deliver two more 25-bp cuts for the rest of the year, in line with the Fed's dot plot. This will bring the target FFR to 3.50%-3.75% by year-end. For 2026, we still expect the Fed to deliver another cumulative 100 bps worth of cuts, bringing the target FFR to 2.50%-2.75%.

On the local front, full-year target-consistent inflation provides the BSP enough room to reduce policy rates further. We continue to expect the BSP to deliver another 25-bp cut this year, bringing the BSP RRP to 4.75% and allowing a 100-bp interest rate differential (IRD) with the Fed by year-end.