Inside the Fed's Decision-Making

The Federal Reserve voted yesterday to reduce interest rates by a quarter point, to between 3.50% and 3.75%, amid unusual disagreement among Fed officials (The Wall Street Journal, subscription).

What he's saying: Fed Chair Jerome Powell explained the Fed's approach at a press conference yesterday.

- "There is no risk-free path for policy as we navigate this tension between our employment and inflation goals," he said in his opening statement. "A reasonable base case is that the effects of tariffs on inflation will be relatively short-lived—effectively a one-time shift in the price level."
- "Our obligation is to make sure that a one-time increase in the price level does not become an ongoing inflation problem. But with downside risks to

employment having risen in recent months, the balance of risks has shifted. Our framework calls for us to take a balanced approach in promoting both sides of our dual mandate."

Worrying data: During the press conference, Powell also warned that federal data might be overstating job creation, by as much as 60,000 jobs a month (The Wall Street Journal, subscription). That means job growth might have been negative since April.

- "It's a complicated, unusual and difficult situation, where the labor market is also under pressure, where job creation may actually be negative," Powell said.

Meanwhile … Yesterday's vote on rate cuts was the most divided in six years. Three officials voted against the move: Chicago Fed President Austan Goolsbee, Kansas City Fed President Jeff Schmid and Fed Gov. Stephen Miran. The first two did not think a cut was justified, while the latter wanted a half-point reduction.

- At the press conference, "Powell downplayed committee disagreements as a natural consequence of those tensions between its mandates to promote low and stable inflation with a solid labor market," according to the Journal.

Looking ahead: The FOMC's summary of economic projections, which contains the committee's expectations about future rates, also showed divides among officials.

- Twelve Federal Reserve officials (out of 19) predict additional rate cuts throughout 2026, while four expect no cuts and three project an increase of 25 basis points.

- Meanwhile, officials still expect inflation to remain elevated at an average of 2.4% in 2026, though they've reduced their estimates slightly since September, when they projected an average of 2.6%. However, officials also expect real GDP to rise more in 2026 than they previously did.

Switching chairs: Powell's term as chair ends in May, and he will preside over only three more meetings. President Trump has said he is conducting final interviews of Fed chair candidates this week.

- In addition, there will be four different FOMC voting members in 2026, with the rotating members being the presidents coming from the Federal Reserve Banks of Cleveland, Dallas, Philadelphia and Minneapolis.