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Statement by Vice Chair for Supervision Michelle W. Bowman

On Wednesday, July 30, 2025, I dissented from the Federal Open Market Committee's (FOMC) decision to maintain the target range for the federal funds rate at its current level. As the Committee's post-meeting statement notes, I preferred to lower the target range for the federal funds rate by 25 basis points.[1]

Inflation has moved considerably closer to our target, after excluding temporary effects from tariffs, and the labor market remains near full employment. With economic growth slowing this year and signs of a less dynamic labor market, I saw it as appropriate to begin gradually moving our moderately restrictive policy stance toward a neutral setting. In my view, this action would have proactively hedged against a further weakening in the economy and the risk of damage to the labor market.

The U.S. Economy Has Remained Resilient

The U.S. economy has remained resilient in the first half of the year. Although underlying economic growth has slowed markedly, the labor market has remained stable near estimates of full employment. We have also seen meaningful progress in lowering inflation toward our 2 percent target, excluding tariff-related increases in goods prices.

Private domestic final purchases have increased at a much slower pace this year as compared to strong gains in 2024, reflecting softening consumer spending, and declining residential investment. This weakness in demand likely reflects elevated interest rates, slower

[1] The descriptions of economic conditions contained in this statement are based solely on the information that was available to the Committee at the time of the meeting.

growth in personal income, and smaller liquid asset buffers and elevated credit card utilization rates among lower-income households.

Total payroll employment continued to increase moderately, and the unemployment rate remained historically low in June. However, the labor market has become less dynamic and shows increasing signs of fragility. The employment-to-population ratio has dropped significantly this year, businesses are reducing hiring but continue to retain their existing workers, and job gains have been centered in an unusually narrow set of industries that are less affected by the business cycle, including health care and social services.

In the absence of tariff effects on goods prices, the 12-month change in core personal consumption expenditures (PCE) prices would have been less than 2.5 percent in June, lower than its elevated reading of 2.9 percent in December and considerably closer to our 2 percent target. This progress reflects the recent considerable slowing in core PCE services inflation, which is consistent with recent softness in consumer spending and the labor market no longer being a source of inflation pressures.

Increased Concerns about Our Employment Mandate

In terms of risks to achieving our dual mandate, I see that upside risks to price stability have diminished as I gain even greater confidence that tariffs will not present a persistent shock to inflation. With inflation on a sustained trajectory toward 2 percent, softness in aggregate demand, and signs of fragility in the labor market, I think that we should start putting more weight on risks to our employment mandate.

Thus far, with the memories of pandemic worker shortages still fresh, firms have resisted reducing their work forces in response to the slowing economic conditions. And they have appeared to be more willing to reduce profit margins as they are less able to fully pass through higher costs and raise prices given the weakness in demand. If demand conditions do not improve, firms may have little option other than to begin to lay off workers, recognizing that it may not be as difficult to rehire given the shift in labor market conditions.

The Policy Path as I See It

With tariff-related price increases likely representing a one-time effect, it is appropriate to look through temporarily elevated inflation readings. As I recognize that economic conditions are shifting, I believe that beginning to move our policy rate at a gradual pace toward its neutral level will help maintain the labor market near full employment and ensure smooth progress toward achieving both of our dual-mandate goals. I see the risk that a delay in taking action could result in a deterioration in the labor market and a further slowing in economic growth. Taking a proactive approach in moving closer to neutral would avoid an unnecessary erosion in labor market conditions and reduce the chance that the Committee will have to carry out a significantly larger policy correction at a future date.

In my view, it is also important that the Committee's approach to monetary policy decision making is consistent over time—especially when we are facing shifting economic conditions.

I recognize and appreciate that other FOMC members may see things differently and that they were more comfortable with leaving the target range for the policy rate unchanged. I remain committed to working together with my colleagues to ensure that monetary policy is appropriately positioned to achieve our dual goals of maximum employment and price stability.