For release at 8:00 a.m. EDT
August 1, 2025

Statement by Governor Christopher J. Waller

At the most recent Federal Open Market Committee (FOMC) meeting, I dissented because I concluded that cutting the policy rate by 25 basis points was the appropriate stance of policy. In a speech I gave July 17, I laid out the case for cutting the policy rate at the July FOMC meeting and my views have not changed since then. I will recap the reasons for doing so.

First, tariffs are one-off increases in the price level and do not cause inflation beyond a temporary increase. Standard central banking practice is to “look through” such price-level effects as long as inflation expectations are anchored, which they are.

Second, a host of data argues that monetary policy should now be close to neutral, not restrictive. Real gross domestic product (GDP) growth was 1.2 percent in the first half of this year and is expected to remain soft for the rest of 2025, much lower than the median of FOMC participants’ estimates of longer-run GDP growth. Meanwhile, the unemployment rate is 4.1 percent, near the Committee’s longer-run estimate, and total inflation is close to our target at just slightly above 2 percent if we put aside tariff effects that I believe will be temporary. Taken together, the data imply the policy rate should be around neutral, which the median FOMC participant estimates is 3 percent, and not where we are—1.25 to 1.50 percentage points above 3 percent.

My final reason to favor a cut now is that while the labor market looks fine on the surface, once we account for expected data revisions, private-sector payroll growth is near stall speed, and other data suggest that the downside risks to the labor market have increased. With underlying inflation near target and the upside risks to inflation limited, we should not wait until the labor market deteriorates before we cut the policy rate.

I fully respect the views of my colleagues on the FOMC that suggest we need to take a "wait and see" approach regarding tariffs' effects on inflation. There is nothing wrong about having different views about how to interpret incoming data and using different economic arguments to predict how tariffs will impact the economy. These differences are a sign of a healthy and robust policy discussion.

But, I believe that the wait and see approach is overly cautious, and, in my opinion, does not properly balance the risks to the outlook and could lead to policy falling behind the curve. The price effects from tariffs have been small so far, and since we will likely not get clarity on tariff levels or their ultimate impact on the economy over the course of the next several months, it is possible that the labor market falters before that clarity is obtained—if it ever is obtained. When labor markets turn, they often turn fast. If we find ourselves needing to support the economy, waiting may unduly delay moving toward appropriate policy.

My position does not mean I believe the FOMC should reduce the policy rate along a predetermined path. We can cut now and see how the data evolves. If the tariff effects do not lead to a major shock to inflation, the Committee can continue reducing the rate at a moderate pace. If we do get significant upside surprises to inflation and employment, we can pause. But I see no reason that we should hold the policy rate at its current level and risk a sudden decline in the labor market.