

Fed Rate Cuts in 2025? What the Latest Data and Policy Rules Say

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Introduction

With inflation still running above target and the labor market sending mixed signals, the Federal Reserve's next moves are under intense scrutiny. Economists and market watchers alike look to the Fed's own playbook, most notably, the "seven simple monetary policy rules" maintained by the Cleveland Fed, along with the Philadelphia Fed's benchmarking framework, for guidance. As of August 13, 2025, a fresh batch of economic data and shifting policy signals have complicated the calculus. Should the Fed cut rates now? If so, by how much? This article breaks down the latest data, what the rules suggest, and how policymakers are likely to respond.

Fresh Inflation, Growth, and Labor Market Data

The latest data paints a nuanced picture. Inflation, while down from its 2022-2023 highs, is still running above the Fed's 2% target. July's Consumer Price Index (CPI) showed headline inflation at 2.7% year-on-year (y/y) and core at 3.1% y/y, both rising 0.3% month-on-month (Bureau of Labor Statistics, 2025). The Federal Reserve's preferred inflation gauge, core Personal Consumption Expenditures (PCE), came in at 2.8% y/y in June, with July's data still pending (Cleveland Federal Reserve, 2025; Dallas Fed, 2025).

Growth has rebounded after a weak first quarter: Real GDP grew at a 3.0% seasonally adjusted annual rate (SAAR) in Q2, with much of the strength attributed to swings in imports and exports. The Atlanta Fed's GDPNow model projects Q3 growth at about 2.5% SAAR, suggesting an economy close to its potential (Bureau of Economic Analysis, 2025; Federal Reserve Bank of Atlanta, 2025).

The labor market, however, is showing clearer signs of cooling. July payrolls rose by just 73,000, and the unemployment rate ticked up to 4.2%. Large downward revisions to previous months' job growth confirm a softening trend (Bureau of Labor Statistics, 2025).

Policy Setting and Recent Fed Actions

At its July 30 meeting, the Federal Open Market Committee (FOMC) held the federal funds target range steady at 4.25–4.50%. Notably, two governors, Bowman and Waller, dissented in favor of a 25 basis point (bp) cut, reflecting growing concern about labor market weakness (Federal Reserve, 2025).

Understanding the “Seven Simple Monetary Policy Rules”

The Cleveland Fed’s dashboard synthesizes recommendations from seven widely used policy rules (including Taylor 1993, Taylor 1999/core, inertial, alt- r^* , forward-looking, first-difference, and low-weight-on-gap variants), running updated economic data through each (Cleveland Federal Reserve, 2025). Mid-2025 readings cluster around the mid-4% range for the federal funds rate, with some rules, particularly the first-difference variant, pointing slightly higher.

According to the Philadelphia Fed’s benchmarking guidance, these rules should be used as reference points, not as mechanical triggers (Dotsey & Sill, 2015; Federal Reserve Bank of Philadelphia, 2025). This means the Fed weighs these rule prescriptions alongside broader risk-management considerations and qualitative judgments.

What Do the Rules Say Right Now?

With core inflation around 2.8% (PCE) and GDP growth close to potential, classic Taylor-type rules do not call for aggressive rate cuts. Most still support a funds rate near its current level. However, the inertial and forward-looking rules, which factor in the recent softening in activity and rising unemployment, begin to justify a small cut, aiming to cushion the labor market as inflation gradually returns to target (Cleveland Federal Reserve, 2025).

Should the Fed Cut Now, and By How Much?

From an economic perspective, a measured 25 bp cut at the September meeting is warranted, provided tomorrow’s Producer Price Index (PPI) doesn’t show a major inflation re-acceleration and July’s PCE report confirms core inflation near 2.7–2.8%. The case for a modest cut rests on three pillars: clear labor market cooling, core inflation that is still above, but trending toward, target, and growth reverting toward its long-run trend (Bureau of Labor Statistics, 2025; Bureau of Economic Analysis, 2025; Cleveland Federal Reserve, 2025).

Why Not a Larger Cut?

Core inflation remains above 2%, and CPI shelter costs are decelerating only gradually. Several rules continue to cluster in the mid-4s for the funds rate, warning that a larger (50 bp) cut could reignite price pressures, especially if growth turns out to be stronger than it appears once temporary trade swings are accounted for (Cleveland Federal Reserve, 2025).

What Will the Fed Actually Do in 2025?

After holding steady in July, the FOMC is clearly open to easing, with public and political calls for cuts growing louder (Reuters, 2025; MarketWatch, 2025; Investopedia, 2025). If inflation continues to edge lower and the labor market weakens further, the most likely scenario is two 25 bp cuts, one in September and one in December. A third cut could materialize if unemployment rises above 4.3–4.4% and core PCE drifts closer to 2.5%. Conversely, if inflation proves sticky or the PPI/PCE data comes in hot, the Fed may limit itself to a single cut or delay action until 2026 (Cleveland Federal Reserve, 2025).

Conclusion

With inflation easing but still above target and the labor market showing unmistakable signs of cooling, the Fed faces a delicate balancing act. The seven simple policy rules, combined with the Philadelphia Fed's benchmarking framework, provide a useful reference, but the ultimate decision will be guided by risk management and evolving data. Unless tomorrow's PPI or upcoming PCE releases deliver a surprise, the case for a small, risk-managed rate cut in September is compelling. Larger or faster moves remain unlikely, absent a sharp turn in the data. For now, the Fed's dual mandate, price stability and maximum employment, argues for patience, flexibility, and incrementalism.

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