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Fed Is Divided, But Isn't Ready To Cut Rates Yet

BY NICK TIMIRAOS

Federal Reserve officials expect they will need to resume lowering interest rates eventually— they just aren't ready to do so Wednesday. The questions dividing them center on what evidence they need to see first, and whether waiting for that clarity turns out to be a mistake.

The central bank had a united front when officials paused rate cuts earlier this year after President Trump's tariffs raised fears of renewed inflation. But with tariff-related price increases proving milder than many feared and signs that hiring may be softening, officials on the rate-setting committee are now fractured into roughly three camps over whether to resume easing.

The intricate internal debate coincides with unprecedented political pressure, with Trump demanding rate cuts and recently touring Fed building renovations that White House advisers have criticized as wasteful—part of a broader campaign to weaken Fed Chair Jerome Powell's standing.

The president may get what he wants, but not this week. The key focus will be whether Powell offers any hint of a September rate cut in his press conference Wednesday afternoon, and whether in the coming days and weeks his colleagues begin laying the groundwork for a cut at their next gathering.

San Francisco Fed President Mary Daly, whose views reflect the cautious center of officials on the committee, framed the dilemma facing policymakers: The inflation outlook has been too unsettled to justify cutting rates to preempt economic weakness, she said at a conference in Idaho this month.

But with rates still at a setting designed to slow the economy, “you can't wait forever” to lower rates without risking damage to the labor market, she said.

This group of centrists has signaled openness to reducing rates later this year but wants to study at least two more months of inflation and labor market data to see that the pass-through effects of tariffs aren't as bad as feared and that economic activity isn't reaccelerating. By the time the Fed meets again in September, officials will have seen two more months of employment and inflation data.

The group of cautious centrists faces opposing minorities. Two Fed governors, Christopher Waller and Michelle Bowman, have signaled that they could dissent this week, preferring to cut rates right away.

At a speech in New York two weeks ago, Waller publicly laid out the case to cut. He told at least one associate that, ahead of his remarks, he indicated privately to Powell that he would dissent at this week's meeting.

Waller argued that the headline unemployment rate, which edged down in June, is masking weakness in private sector hiring. It is a different argument from the one Trump is making for rate cuts because it presumes that the economy isn't actually very strong.

“If you're talking about [a cut in] September, what are you waiting for? Go ahead and do it now” to avoid allowing the labor market to weaken, Waller said.

On the other side of the debate is a third cluster of Fed officials who will want to see evidence of meaningful economic weakness before cutting, given their concerns that higher prices are in the pipeline.

Officials note that the tariffs currently being collected are running well below the rates Trump has announced, suggesting that price pressures could still build over the summer as customs enforcement and businesses' pricing decisions catch up with policy announcements.

This group is wary about setting up a possible September rate cut because officials would be nearing a possible decision at the moment when price pressures are most acute.

Atlanta Fed President Raphael Bostic fears that after years of inflation dominating headlines, the "constant drumbeat" of price concerns could shift how Americans think about costs, potentially making what should be temporary tariff effects more enduring.

Even though inflation has calmed considerably since the huge run-up of 2021-22, "the discussions of inflation, from what I can tell, haven't really dissipated at all," and tariff-related headlines could extend that focus, Bostic said in an interview this month.

Whether the Fed cuts this week, in September, or later this fall is likely to matter little for inflation or unemployment in the coming months, which means the decisions are "ultimately about the communication and politics of this," said William English, a former senior Fed adviser.

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