

*Powell hints at no rate cut in December, but why cut this week?*

Editorial  
Section

## The Fed Is 'Driving in a Fog'

### REVIEW & OUTLOOK

What the Federal Open Market Committee giveth, it also taketh away. No sooner had Federal Reserve Chair--man Jerome Powell handed Wall Street a quarter-point interest- rate cut Wednesday, than Mr. Powell spoiled the party by warning that another cut may not arrive in December. Confused by these mixed signals? So is the Fed.

The reduction in the fed funds rate, to 3.75%- 4% comes despite an economy that's starting to feel stagflationary. Signs of labormarket softness are spreading, especially as the uncertainty surrounding President Trump's tariffs persists.

Yet inflation remains above the Fed's official 2% target even excluding tariffs. When the Fed chief says inflation would be 2.3%-2.4% without tariffs rather than 2.8% (according to the Fed's core personal-consumption-expenditure measure), Mr. Powell is admitting that he isn't hitting his target even without tariffs.

The cross-cutting data on the Fed's two mandates—price stability and full employment—argues for caution from policy makers. Mr. Powell claims that's what he's delivering by warning investors off any hopes for another rate cut in December. "What do you do if you're driving in a fog?" he asked during his press conference. "You slow down."

This FOMC meeting marks the first time in this easing cycle that any meeting participant has voted against rate cutting, as Kansas Fed President Jeffrey R. Schmid preferred holding rates steady. Previous disagreements centered on the pace of reductions.

But Mr. Schmid was a lone vote for caution. Whatever Mr. Powell says about slowing down, his actions and financial markets say otherwise. Equity valuations remain near record highs and credit spreads are unusually tight. Despite 50 points of short-term rate cuts since September, long rates have barely moved and they rose Wednesday. Financial conditions aren't restrictive.

Oh, and Mr. Powell says the Fed will end quantitative tightening on Dec. 1. The plan is to freeze the central bank's balance sheet at about 21% of GDP, which is down from its 35% peak in early 2022 but still above its 18% level before the pandemic—and much higher than it had ever been before 2008.

The Fed will continue to shrink its portfolio of mortgage-backed securities by shifting into Treasury debt instead—a good step away from credit allocation for housing. But otherwise Mr. Powell is trying to sneak through a huge change in U.S. economic governance on a technicality. He describes the permanently larger balance sheet as a technocratic necessity to accommodate commercial banks' demand for reserve deposits at the Fed—the so-called ample reserves regime introduced after 2008.

But that demand is largely a function of Fed regulatory decisions. The Fed said quantitative easing would stoke inflation when doing so was the Fed's goal, but now claims its decision to maintain a large balance sheet is irrelevant to inflation. Talk about "fog."

Mr. Powell is admittedly in a tough position. Faced with contradictory data about two prongs of a mandate in conflict, he must pick one to focus on—with a President sniping at him to ease money at every opportunity. But inflation in our view remains the bigger threat until it's vanquished.

The Fed's confusion means it's time for Mr. Trump to put the Fed out of its misery by announcing an early decision on Mr. Powell's successor when his term as chairman ends in May. And to choose someone with the credibility, both in the financial markets and at the Fed, to whip the place into shape.

This would send a clearer signal to markets on the way forward, and give voters some more clarity and accountability—in time for next year's midterms.

---

Copyright (c)2025 Dow Jones & Company, Inc. All Rights Reserved. 10/30/2025

Powered by TECNAVIA

---

The following is a digital replica of content from the print newspaper and is intended for the personal use of our members. For commercial reproduction or distribution of Dow Jones printed content, contact: Dow Jones Reprints & Licensing at (800) 843-0008 or visit [djreprints.com](http://djreprints.com).

---

For personal, non-commercial use only.