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December FOMC Meeting: Divided We Meet, Divided We Cut . . .

- The FOMC lowered the Fed funds rate target range by twenty-five basis points, which puts the mid-point of the target range at 3.625 percent
- The updated dot plot implies a single twenty-five basis point cut in the Fed funds rate target range in 2026

The FOMC cut the Fed funds rate target range by twenty-five basis points at today's meeting. After several weeks of sharply shifting expectations around the probability of a cut at this meeting, market participants came to expect a third cut in the funds rate which, when all was said and done, aligned with the dot plot issued in conjunction with the September FOMC meeting. The uncertainty around today's meeting ultimately settled on two points – one, how many dissents there would be on a vote for a twenty-five basis point funds rate cut, and, two, how many funds rate cuts would the updated dot plot imply for 2026. There were a total of three dissents on today's vote, one the by now usual dissent in favor of a fifty-basis point cut and two in favor of no change in the funds rate at today's meeting. That there were five members indicating in the updated dot plot that they did not see a cut at this meeting as being appropriate does not necessarily mean there were "silent dissents" on today's vote given that not all Committee members vote at any given meeting. The updated dot plot implies but a single twenty-five basis point cut in 2026, though that means little given that assessments of the appropriate path of policy will shift with the evolution of the economic data. That said, with the updated economic projections showing inflation expected to remain above the FOMC's 2.0 percent target rate into 2027, that suggests limited room for further rate cuts barring a more material downturn in labor market conditions than Committee members are anticipating.

There was little change in the assessment of current economic conditions in the post-meeting policy statement. The economy is once again said to be expanding at a "moderate pace." Whereas the October statement noted that the unemployment rate had edged up but remained low through August, today's statement says "the unemployment rate has edged up through September." Once again, the post-meeting statement points to the rising downside risks to employment over recent months. The statement retained the language around inflation, saying that "inflation has moved up since earlier in the year and remains somewhat elevated."

We had expected the updated Summary of Economic Projections (SEP) would show faster real GDP growth than was the case in the September edition of the SEP, and that proved to be the case. On a Q4/Q4 basis, real GDP growth for 2025 is now expected to be 1.7 percent according to the

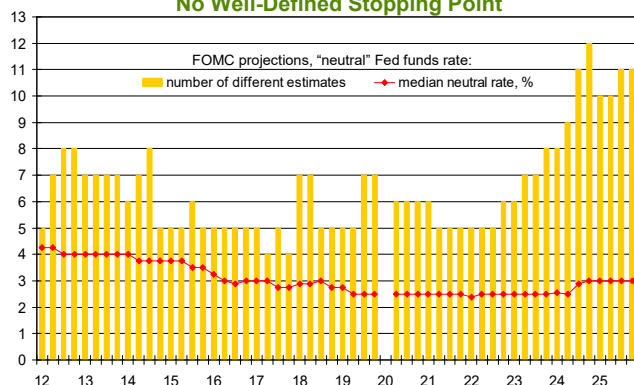
median forecast, compared to 1.6 percent in September, but the bigger change is to 2026, with real GDP now expected to be up 2.3 percent on a Q4/Q4 basis compared to 1.8 percent in September. Part of this shift, however, reflects the government shutdown weighing on Q4 2025 real GDP growth with most of this drag made up for in Q1 2026. Allowing for that shift, the outlook for real GDP growth is modestly more favorable than was the case in September. There were no changes in the median forecast of the unemployment rate for either Q4 2025 (still 4.5 percent) or Q4 2026 (still 4.4 percent). The median forecast for headline and core PCE inflation came down one-tenth of a point for both Q4 2025 and Q4 2026, with Chair Powell noting that tariff-based inflation is not as harsh as anticipated and that services price inflation has been moderating.

It is, however, worth noting that a majority of FOMC members sees the risks to their forecasts for inflation as weighted to the upside and a majority sees the risks to their unemployment rate forecasts as weighted to the upside. This would seem consistent with the notion of returning policy to a neutral stance and seeing how the data evolve. Chair Powell stated in his post-meeting press conference that the Committee was "well positioned" to wait and see how the economy evolves from here and also noted that the funds rate is "within a broad range" of estimates of a neutral setting. "Broad range," however, may be a bit of an understatement given that in the updated dot plot there are eleven unique estimates of the "neutral" funds rate. Indeed, the range of estimates of neutral is much broader over the past several meetings than has historically been the case despite the median estimate having not changed over that span.

This broadening range is not unique to the estimate of the neutral funds rate. Though the median year-end 2026 dot remained at 3.375 percent, as in September, the dispersion around that median dot is even wider, with a spread of 175 basis points between the low and high forecasts, up from 125 basis points in the September SEP. The FOMC has clearly become more divided, but Chair Powell noted that it isn't so much the perception of risks that is divisive, it's the weighting of those risks, i.e., higher inflation or lower employment, causing the divisions. In this environment the middle ground is to take a more neutral policy stance and wait for the data to sort out where the bigger risks to the outlook lie.



No Well-Defined Stopping Point



Appropriate Timing Of Policy Firming

