DECEMBER 2025 SURVEY OF FORMER FED OFFICIALS & STAFF

Doubts about an end-of-year rate cut

The Federal Reserve is widely expected to reduce its benchmark interest rate to between 3.5% and 3.75% at this week's policy meeting, but a majority on the panel of former officials and staff doesn't believe that is the appropriate policy. Among 28 people who provided interest rate projections, fifteen said the Fed should hold its benchmark interest rate steady at this week's meeting, 12 said it should cut the rate, and one said it should raise the rate. All but two nevertheless said they expected the Fed to cut the rate.

Looking out to 2026 and beyond, the group said it expected the median projection of the current cohort of Fed officials to be about a quarter percentage point lower than the ex-Fed estimates of appropriate policy over the forecast horizon.

The group of former Fed officials saw competing challenges facing the central bank. Inflation, growth and unemployment estimates were nudged up modestly, relative to Fed estimates from September … meaning a bit more output with more inflation, yet a weaker job market. This may reflect the group internalizing the effects of an artificial intelligence investment boom in real assets and stocks. Several people mentioned the AI boom as a wildcard that could alter the economy's path from their baseline projections, for better and worse. For example, investment in labor-saving technology could mean more growth but less work. Several people also mentioned fiscal policy putting upward pressure on demand and inflation.

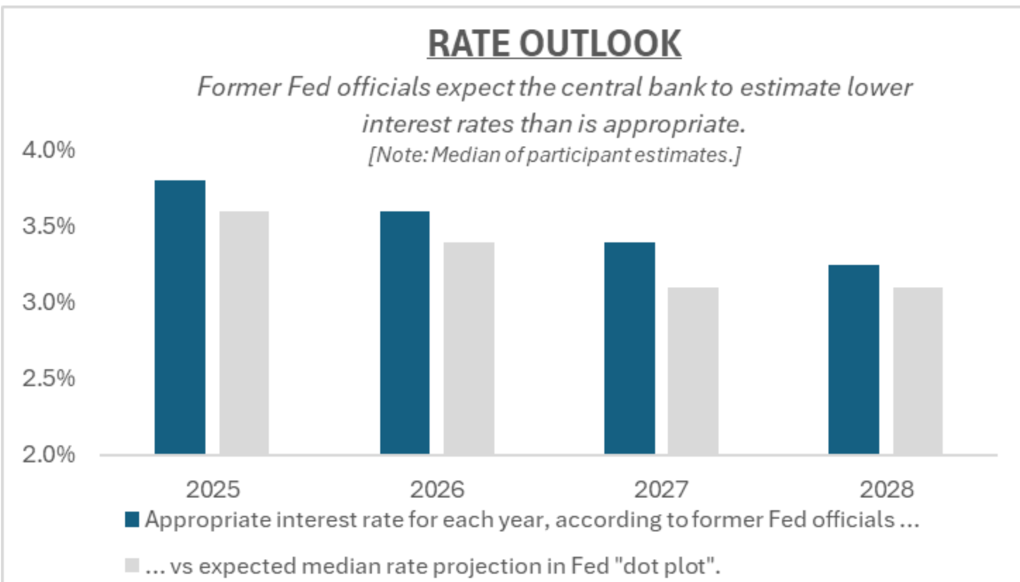
DECEMBER ECONOMIC PROJECTIONS, FORMER FED OFFICIALS AND STAFF

		2025	2026	2027	2028	Long Run
ECONOMY	CHANGE IN REAL GDP	1.8	1.8	2.0	1.9	1.9
	Fed September SEP	*1.6*	*1.8*	*1.9*	*1.8*	*1.8*
	Ex-Fed September Result	*1.4*	*1.6*	*1.9*	*2.0*	*1.8*
	UNEMPLOYMENT RATE	4.5	4.5	4.4	4.3	4.2
	Fed September SEP	*4.5*	*4.4*	*4.3*	*4.2*	*4.2*
	Ex-Fed September Result	*4.5*	*4.5*	*4.5*	*4.3*	*4.2*
	PCE INFLATION	2.9	2.7	2.3	2.2	2.0
	Fed September SEP	*3.0*	*2.6*	*2.1*	*2.0*	*2.0*
	Ex-Fed September Result	*3.0*	*2.6*	*2.2*	*2.1*	*2.0*
	CORE PCE INFLATION	3.0	2.7	2.4	2.2	
	Fed September SEP	*3.1*	*2.6*	*2.1*	*2.0*	
	Ex-Fed September Result	*3.1*	*2.7*	*2.2*	*2.1*	
POLICY	Federal Funds Rate (Appropriate)	3.8	3.6	3.4	3.2	3.1
	Fed September SEP	*3.6*	*3.4*	*3.1*	*3.1*	*3.0*
	Ex-Fed September Result	*3.9*	*3.5*	*3.4*	*3.1*	*3.1*
	Federal Funds Rate (Median Dot)	3.6	3.4	3.1	3.1	3.0

[Note: Median estimates.]

In all, 32 people responded to the survey. Some did not answer every survey question. This included eleven former policy makers – former regional bank presidents and governors, including "troika" members of past central bank core leadership teams – and twenty-one former staff members, 16 from the Fed board in Washington and five from regional Fed banks. The survey was conducted between Dec. 1 and Dec. 5. Summary numbers in this review are based on the median of their estimates.

The group projected that Fed officials would write down one additional quarter percentage rate cut this year – to be delivered at the December meeting – another next year and another in 2027, bringing the policy rate near 3% by 2027. In aggregate the group said an *appropriate* policy would be no more cuts this year, then one more in 2026, one the following year, and perhaps one more after that, bringing the policy rate to just under 3.5% by 2027.

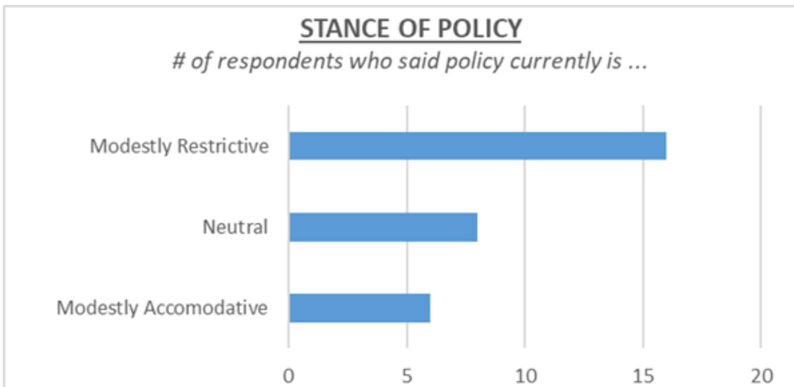


<u>DISPARATE VIEWS IN THE NEUTRAL RATE DEBATE</u>: In addition to inflation concerns, the group expressed disagreement about what constitutes a "neutral" policy rate. This is a rate that is neither so high that it restrains borrowing, spending and overall economic activity; nor so low that it boosts borrowing spending and overall economic activity. When inflation is high, the Fed seeks a rate above neutral to slow consumer price increases. Eighteen people said that the fed funds rate, at its present level just below 4%, is modestly restrictive. However, fourteen people said the policy rate is either neutral or modestly accommodative at present levels.

Participants offered different metrics to assess the level of restriction of policy. Several people focused on labor market conditions, for example noting that the unemployment rate is edging up, and thus concluded policy is modestly restrictive. Several other people said that because inflation is above target and financial conditions are easy, monetary policy is not restrictive. (One person noted, "the stock market is bonkers.")

Several people also noted that large budget deficits, which could grow in 2026, must also be taken into consideration when assessing the level of accommodation being provided to the economy; i.e. even if monetary policy isn't providing much demand stimulus, fiscal policy is. Among those who said policy is restrictive, several said the level of restriction is "very modest" and might disappear with one more rate cut.

The discussion of the neutral rate is pertinent because officials, including Fed Chairman Jerome Powell, have argued that the central bank has room to cut interest rates further given that policy is currently restrictive. In aggregate the group comments suggest this argument about a neutral rate doesn't carry much more wait as the Fed looks out to 2026.

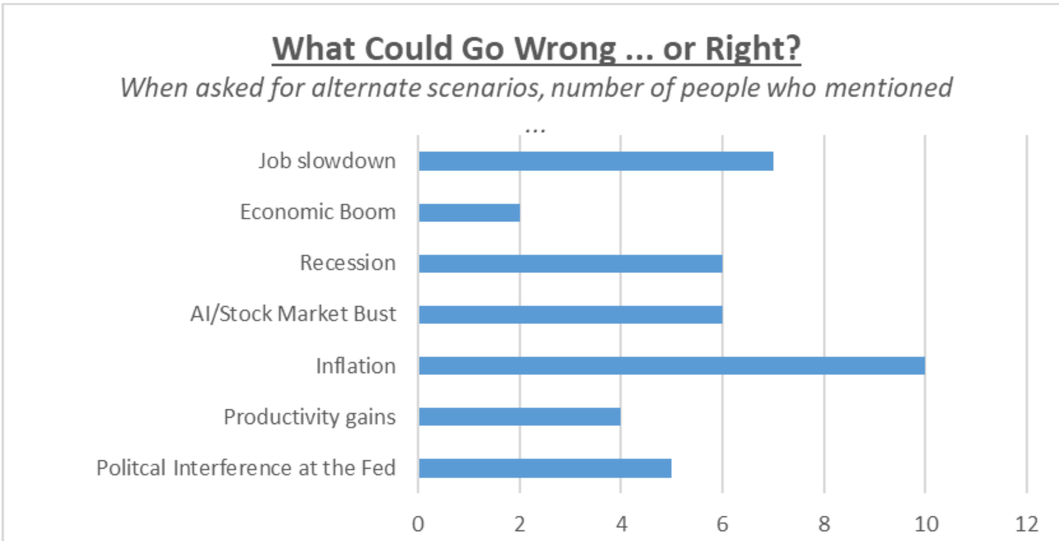


A sampling of comments on the policy stance:

- *"The fact that the labor market seems to have been gradually cooling is consistent with the stance of policy being modestly restrictive."*
- *"The large fiscal deficit keeps US neutral higher than in other advanced economies."*
- *"Once they cut next week, I think they will be slightly accommodative. With a funds rate around 3.625 and inflation running near 3 over the next quarter or two, the real funds rate is below 1."*
- *"Growth in interest-rate-sensitive sectors like housing and business investment (excluding AI-related) remains modest, a sign of some monetary policy restraint. However, the monetary policy restriction is modest and currently overall financial conditions are supportive of growth."*
- *"A further cut in rates this round (moving rates close to neutral) is warranted by risks to labor market. But further easing into modestly accommodative territory could be a step too far in light of likely fiscal stimulus coming in the year ahead."*

ALTERNATE SCENARIOS: When asked to discuss alternate scenarios for the economy, the group outlined a range of risks, including more entrenched inflation than currently projected, a deepening job slowdown, recession or a stock market bust. The most commonly mentioned risk was more inflation. Several people, when asked about alternate scenarios, and also in the general comment section, expressed concern that the central bank's independence will be compromised with the Trump Administration's nomination of a new chairman in 2026, when Powell's term as chair ends.

President Trump has called for a much lower central bank policy rate. Some people said this could lead to a central bank error. As one person noted: "*A plausible alternative is that with thew new chair appointed and a couple other current governors replaced, the FOMC consensus could move significantly in the direction of the cuts in rates President Trump is calling for. If such a move did not disrupt financial markets, it would result in significantly higher growth and inflation than in my baseline*."



Survey responses also focused on the implications of an AI investment boom. In this respect, responses were two-sided. Some officials saw net positive effects, including labor productivity gains, accompanied by less inflation pressure and faster economic growth. Others saw an investment bubble that could burst and lead to a slowdown or recession. On net, the responses indicated considerable uncertainty about the path of the investment boom.

A sampling of comments from former officials when asked to describe alternate scenarios:

- *"The new chair of the FRB, together with at least three other members of the Board, dismiss one or more of the more hawkish Reserve Bank presidents, undermining confidence in the FOMC's commitment to pursuing the 2% inflation target."*
- *"Inflation becomes quite entrenched in the 3% to 4% range, in part because credibility erodes with various Trump administration appointments and rhetoric."*
- *"The AI boom suffers a setback in early 2026, so business investment and the stock market drop sharply."*
- *"AI could lead to a repeat of the late-90s economy, with high productivity growth that puts downward pressure on inflation."*
- *"The labor market appears to be significantly weakening. The odds of a recession have risen, in my view. If there is a recession, I'd expect a significantly lower path for the fed funds rate."*
- *"Boom in 2026 generated by a faster recovery from tariffs than envisaged, a little more fiscal stimulus than estimated and accommodative policy."*