

Figures for “The Future of the Fed”

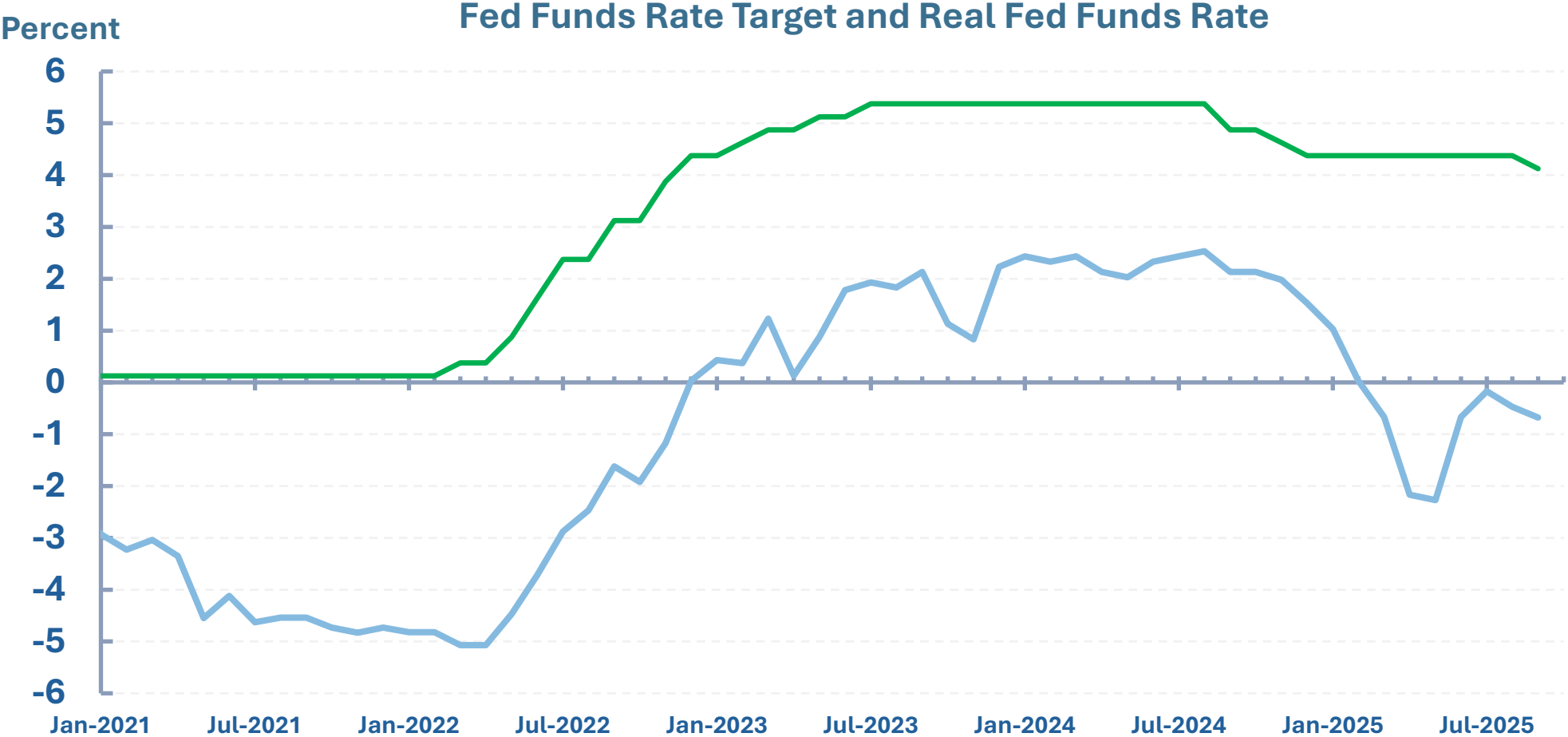
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**Madison, WI
September 19, 2025**

Figure 1. The FOMC cut its federal funds rate target to 4 to 4-1/4 percent in September, its first cut since last December



Real Fed Funds rate is effective ff rate minus U Michigan one-year ahead CPI inflation expectations

Source: Federal Open Market Committee and University of Michigan via Haver Analytics

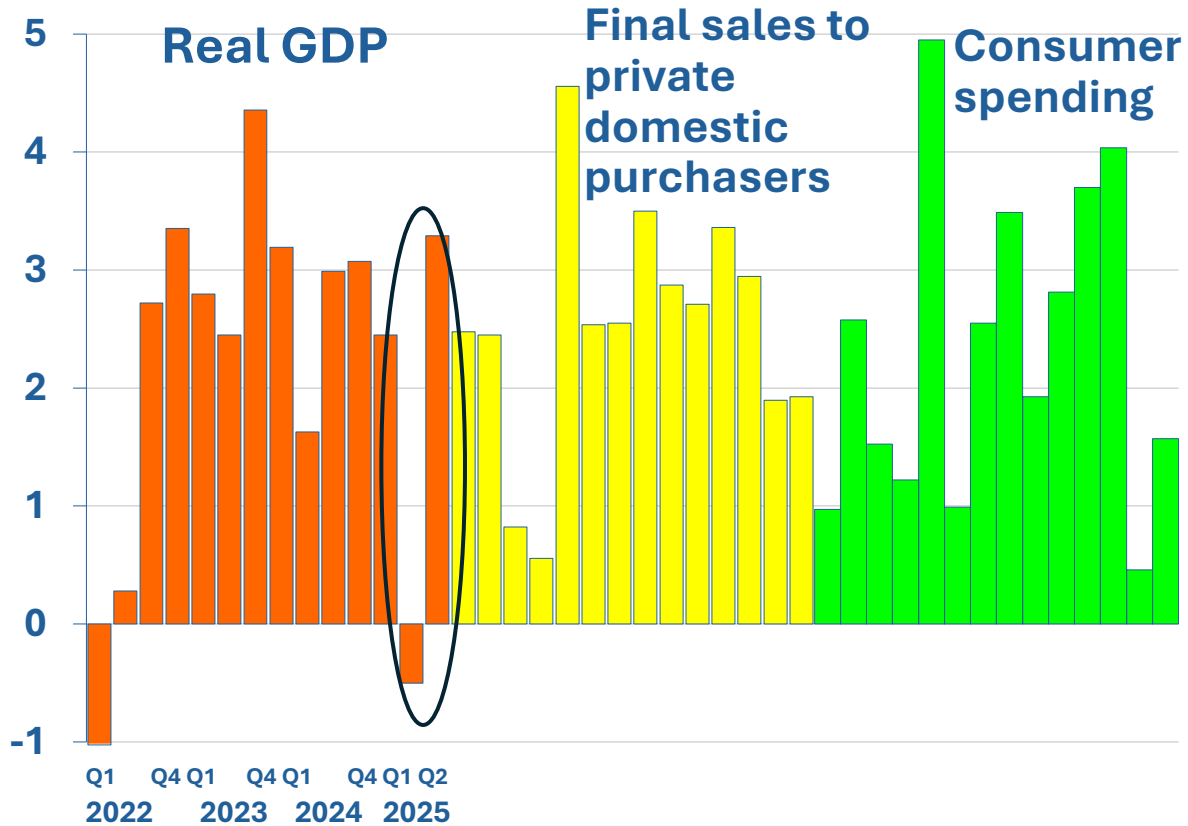
Monthly data, end of period, midpoint of target range starting in Dec 2008: Last obs. Sep 2025



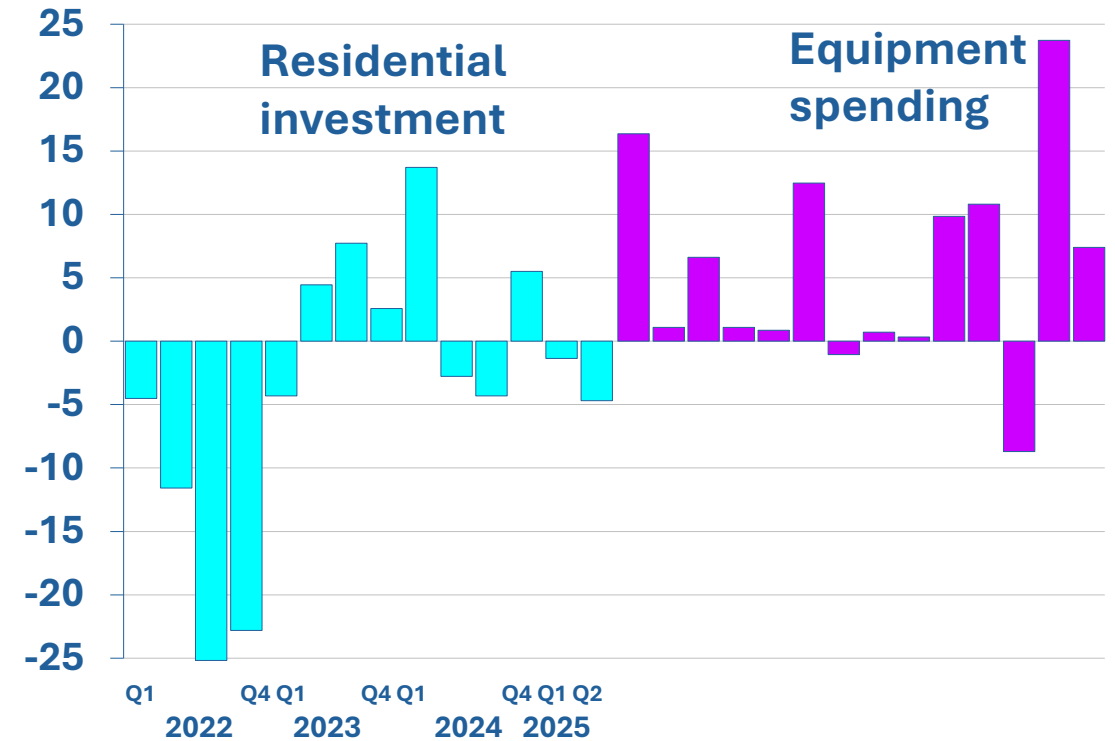
Figure 2. Output growth has slowed this year but by less than many economists expected

Percentage change, SAAR
2022 Q1 to 2025 Q2

Percent



Percent

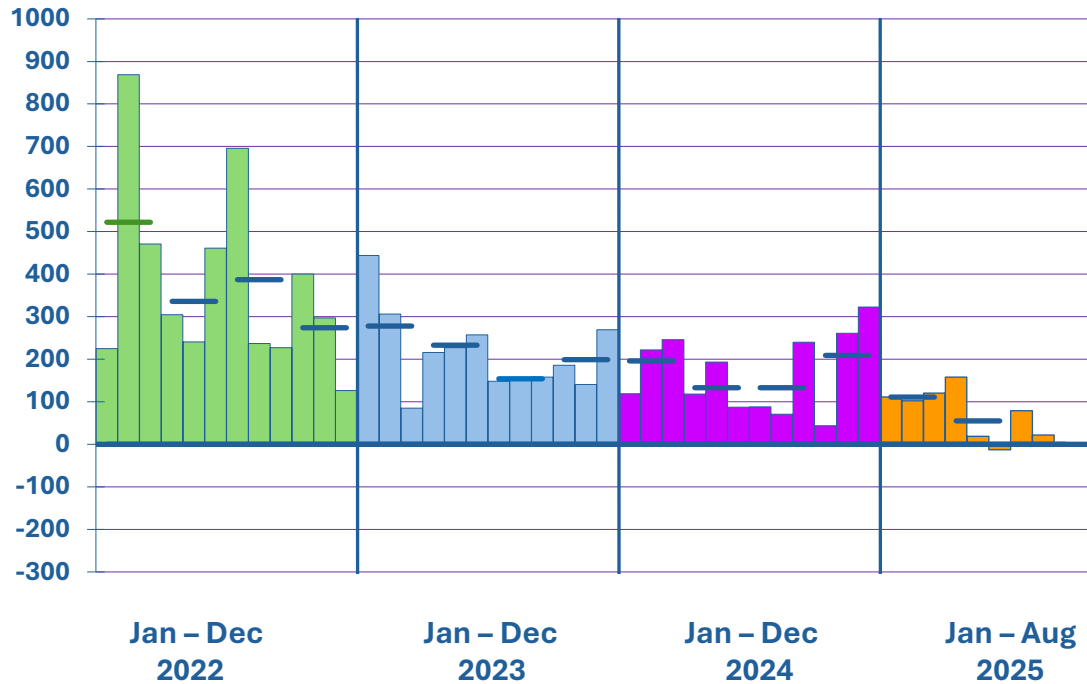


Source: Bureau of Economic Analysis via Haver Analytics
Quarterly data: Last obs. 2025 Q2

Figure 3. Labor market conditions have softened. Demand and supply remain in an uneasy balance.

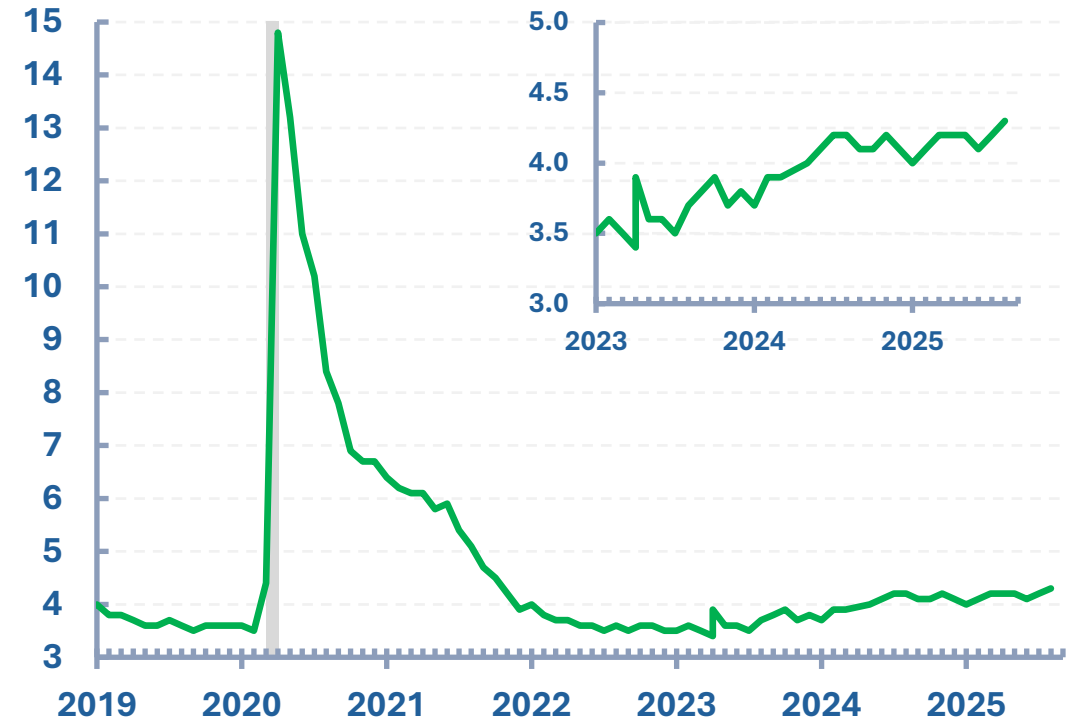
Monthly change in payroll employment and 3-month average change

Thousands of jobs



Unemployment rate

Percent

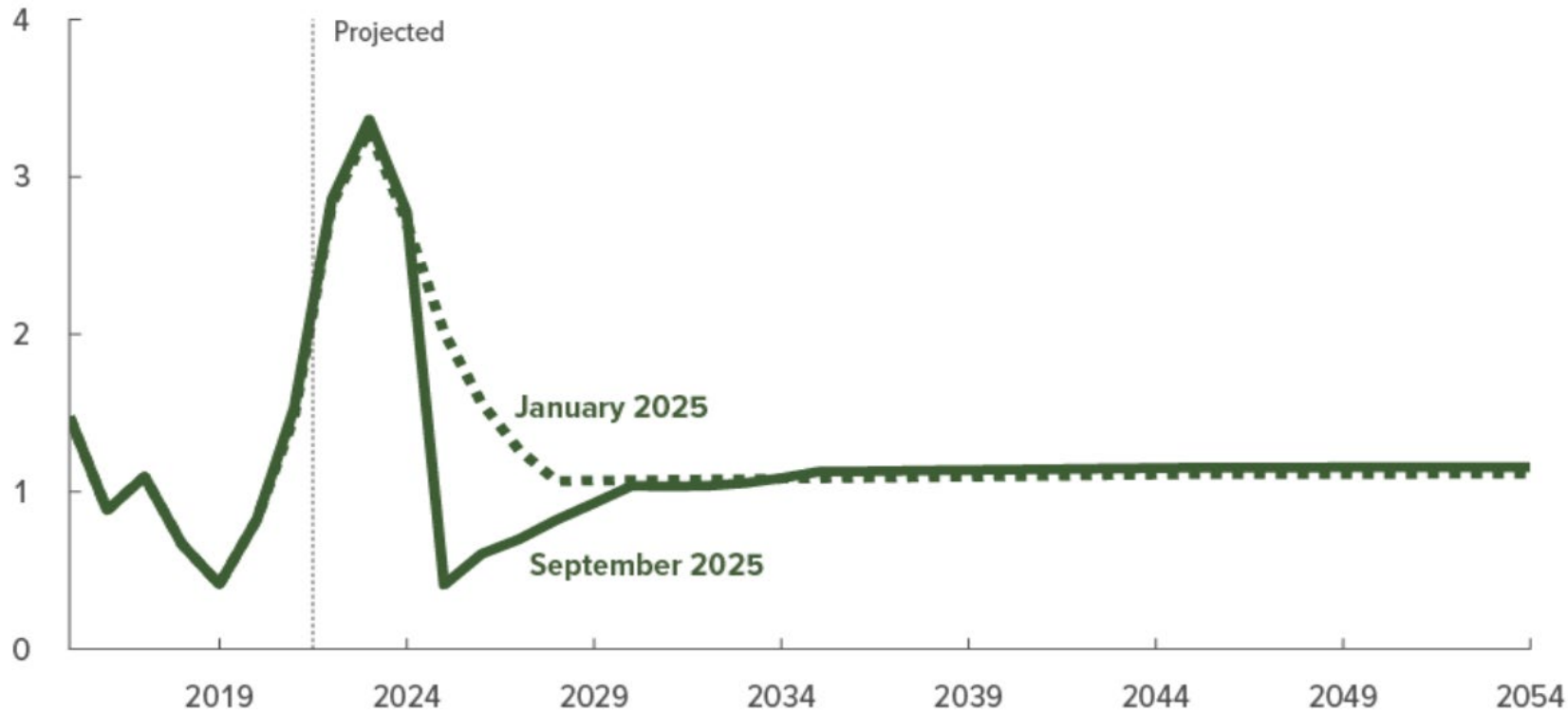


Source: Bureau of Labor Statistics via Haver Analytics
Monthly data: Last obs. Aug 2025

Figure 4. CBO projections indicate a sharp decline in net immigration this year

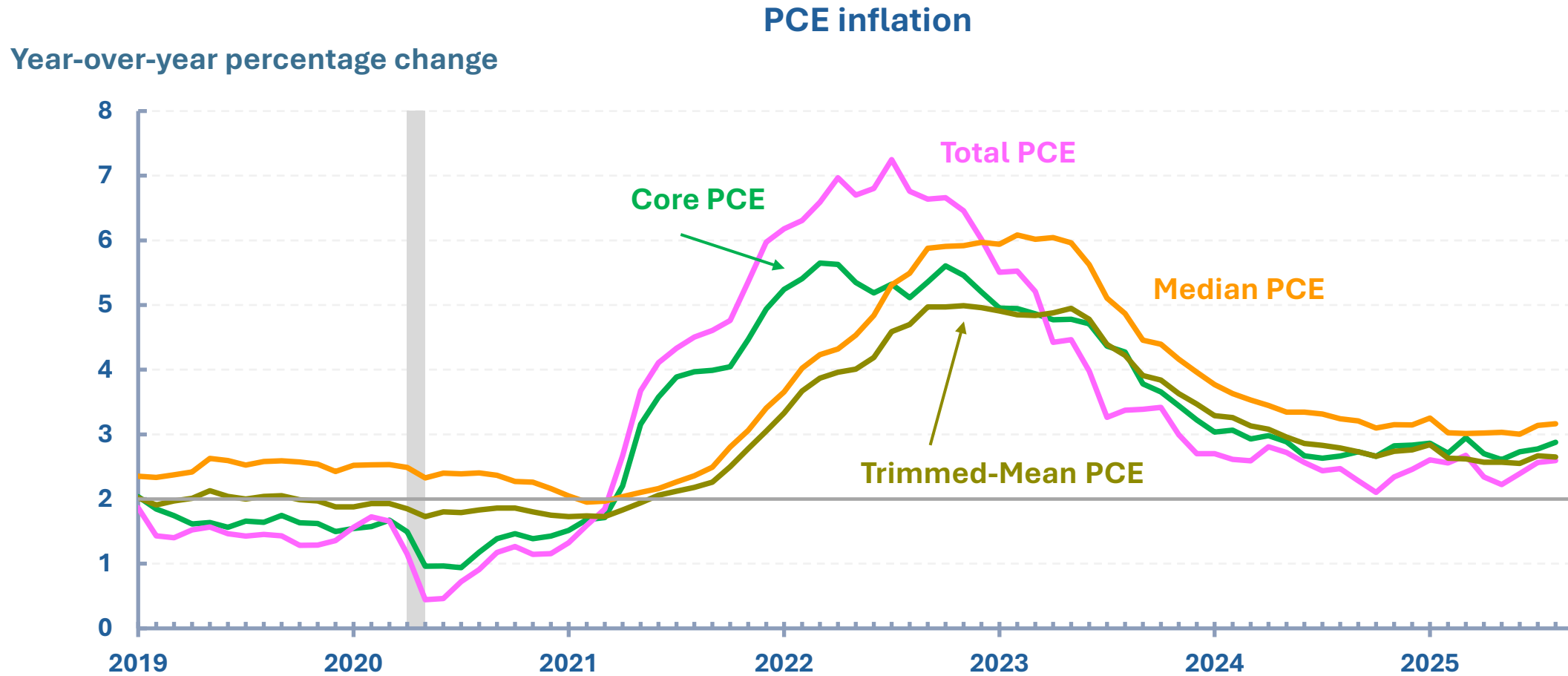
Net Immigration in CBO's January 2025 and September 2025 Projections

Millions of people



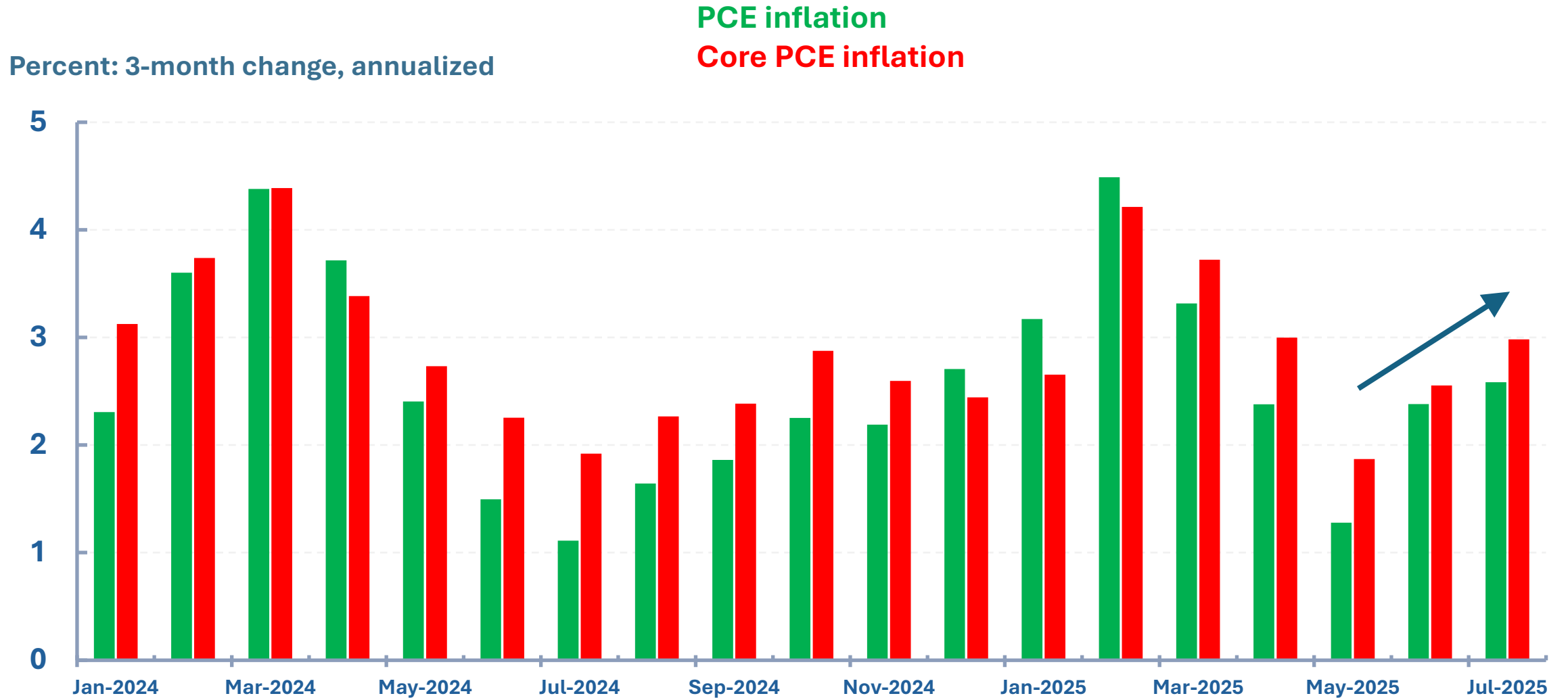
Source: Congressional Budget Office, *An Update to the Demographic Outlook, 2025-2054*, September 2025
Annual data and projections: data 2017-2021, projections 2022-2054

Figure 5. Inflation has been sticky and above the 2 percent target for over four years



Source: Cleveland Fed for median PCE, Dallas Fed for trimmed-mean PCE, Bureau of Economic Analysis for others, via Haver Analytics
Monthly data: Last obs. Jul 2025

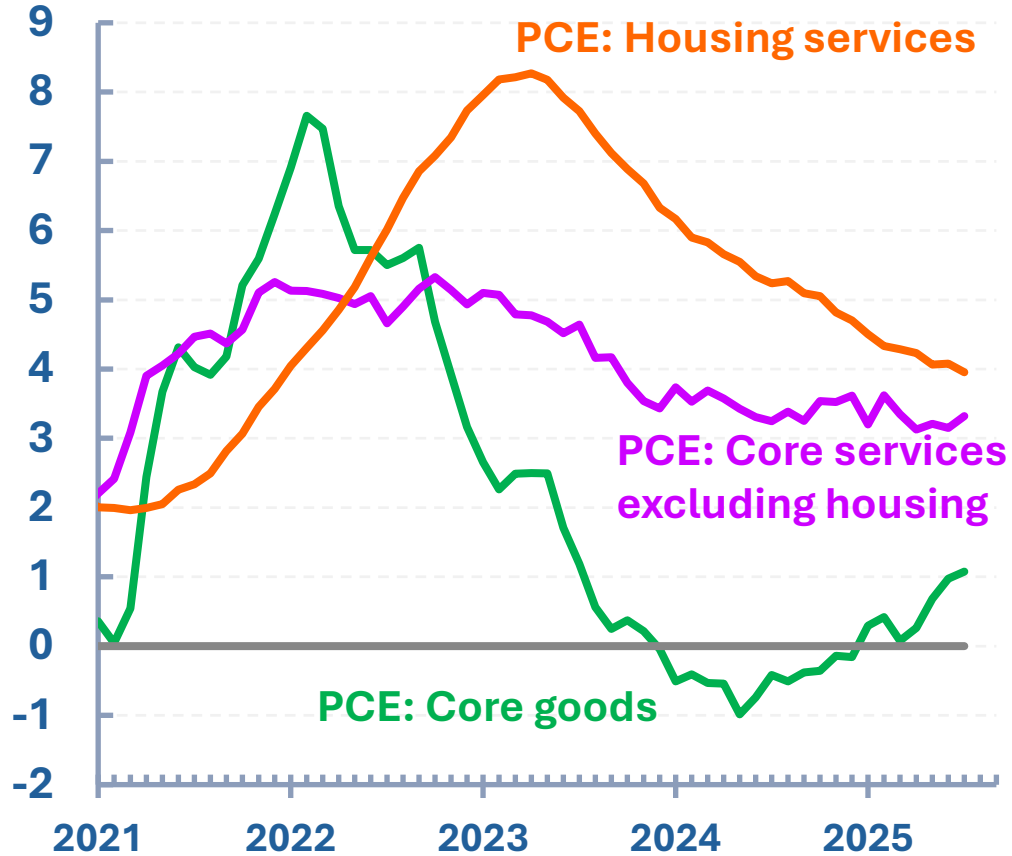
Figure 6. The 3-month changes in PCE inflation have move up over the past few months



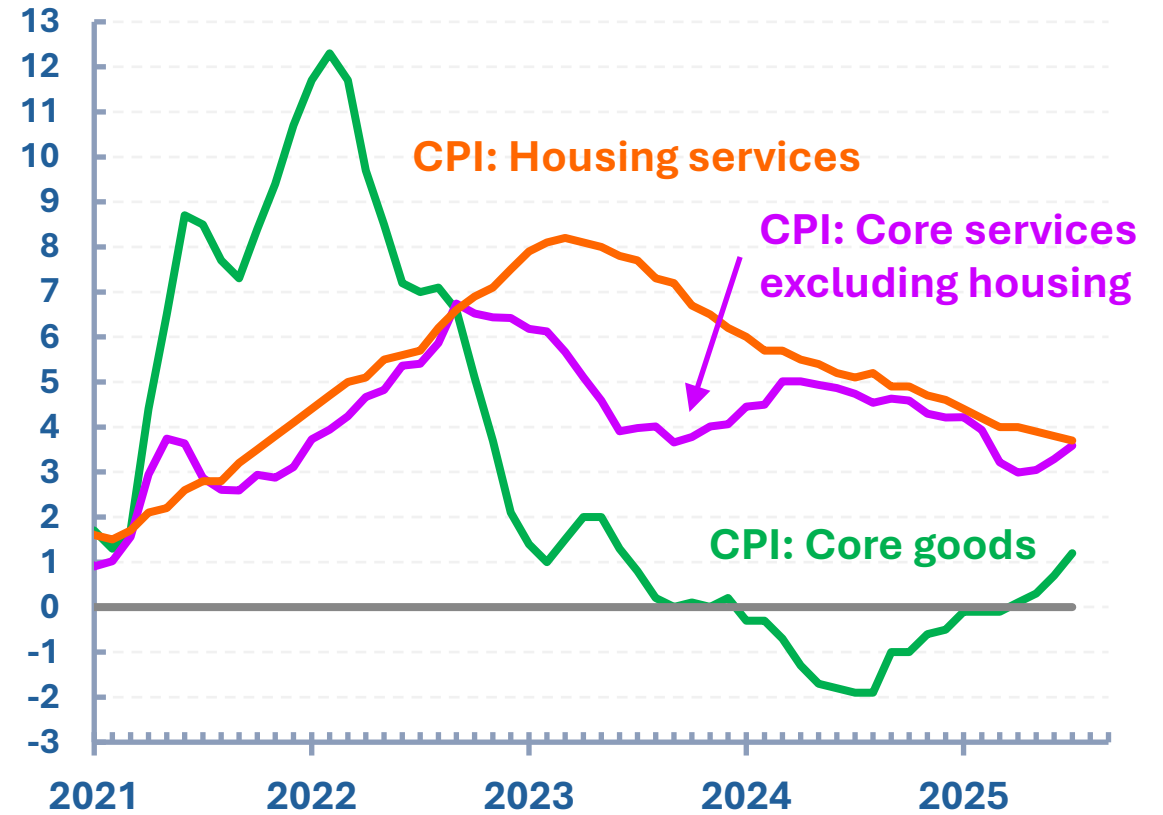
Source: Bureau of Economic Analysis
Monthly data: 3-month change, annualized: Last obs. Jul 2025

**Figure 7. Higher tariffs are beginning to show up in higher prices of goods.
Housing services inflation has fallen over time
but core services ex housing inflation may be moving up again.**

Year-over-year percentage change



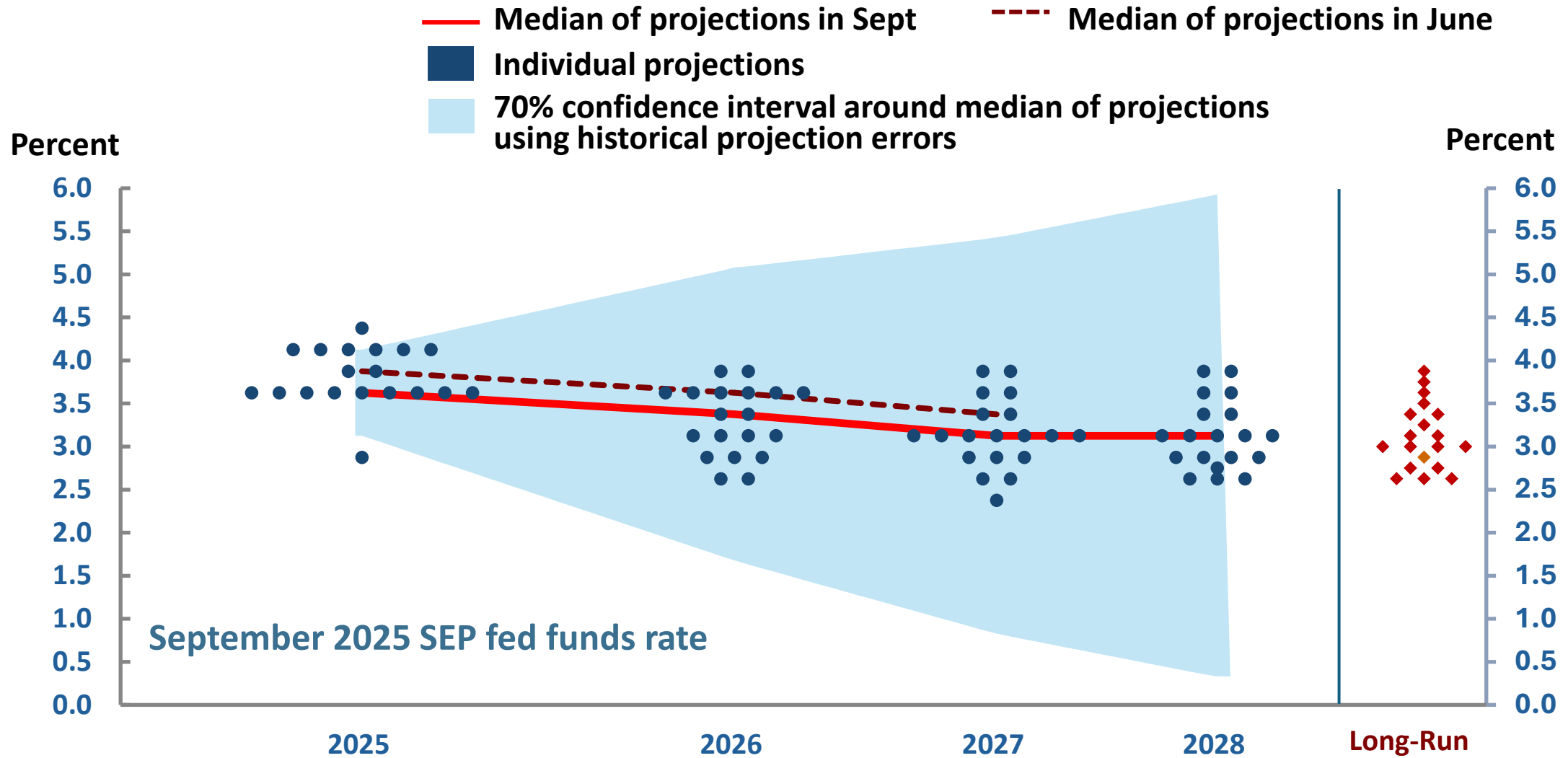
Year-over-year percentage change



Source: Bureau of Economic Analysis for PCE inflation and Bureaus of Labor Statistics for CPI inflation via Haver Analytics

Monthly data: Last obs. Jul 2025 for PCE inflation and Aug 2025 for CPI inflation

Figure 8. FOMC participants see a lower policy path than they did in June

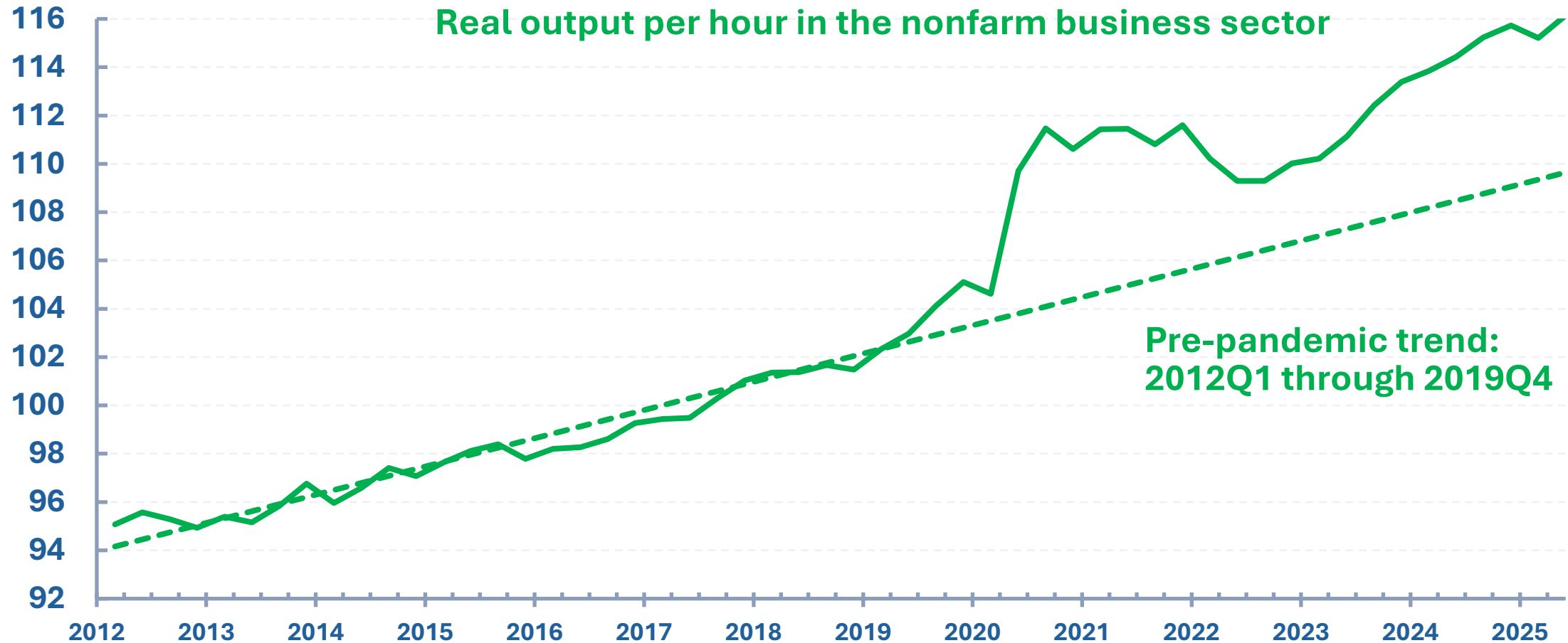


Source: FOMC’s Summary of Economic Projections (SEP), June and September 2025.
 Fan chart based on historical forecast errors from Table 2 of September 2025 SEP, based on
 D. Reifschneider and P. Tulip, Board of Governors FEDS Working Paper 2017-020 (Feb. 24, 2017).



Figure 9. Productivity growth in the U.S. is growing well above its pre-pandemic trend

Index = 100 in 2017

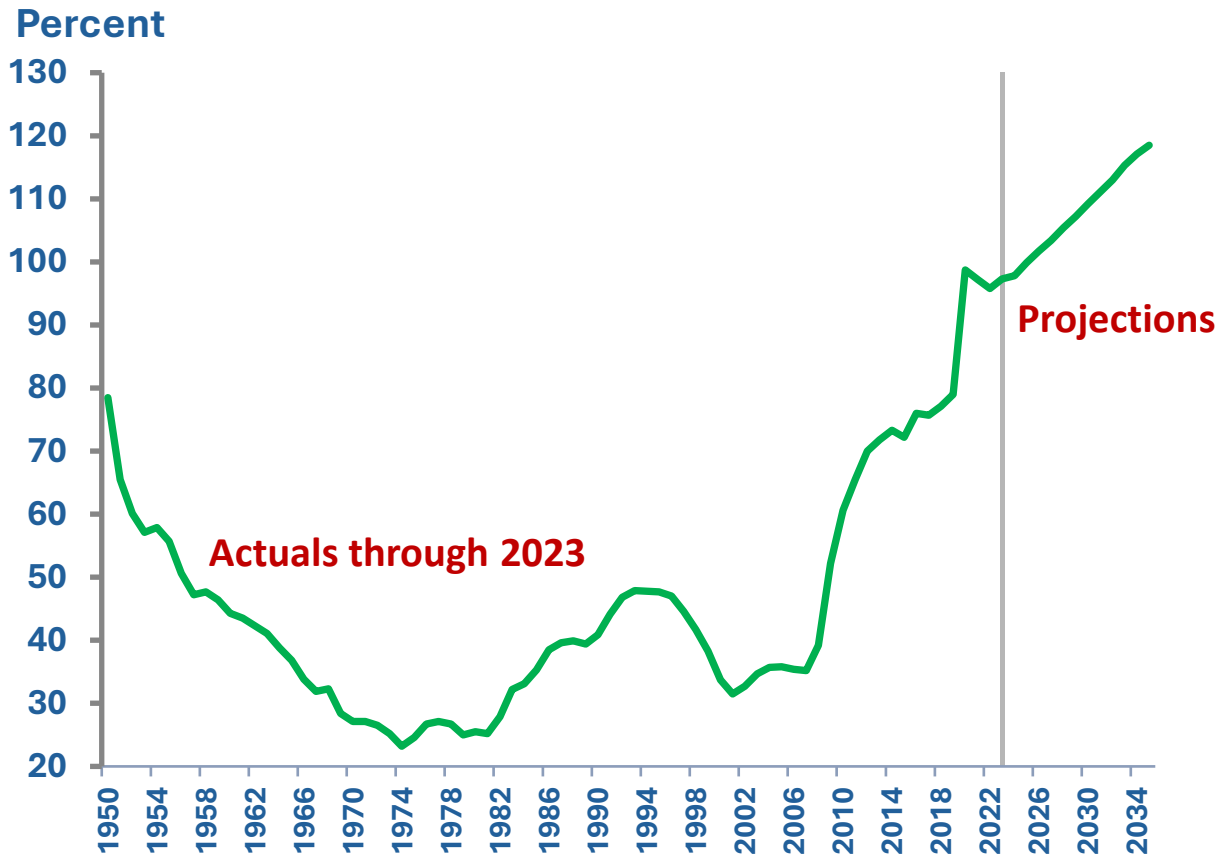


Source: Bureau of Labor Statistics via Haver Analytics and author's calculations
Quarterly data: Last obs. 2025Q2

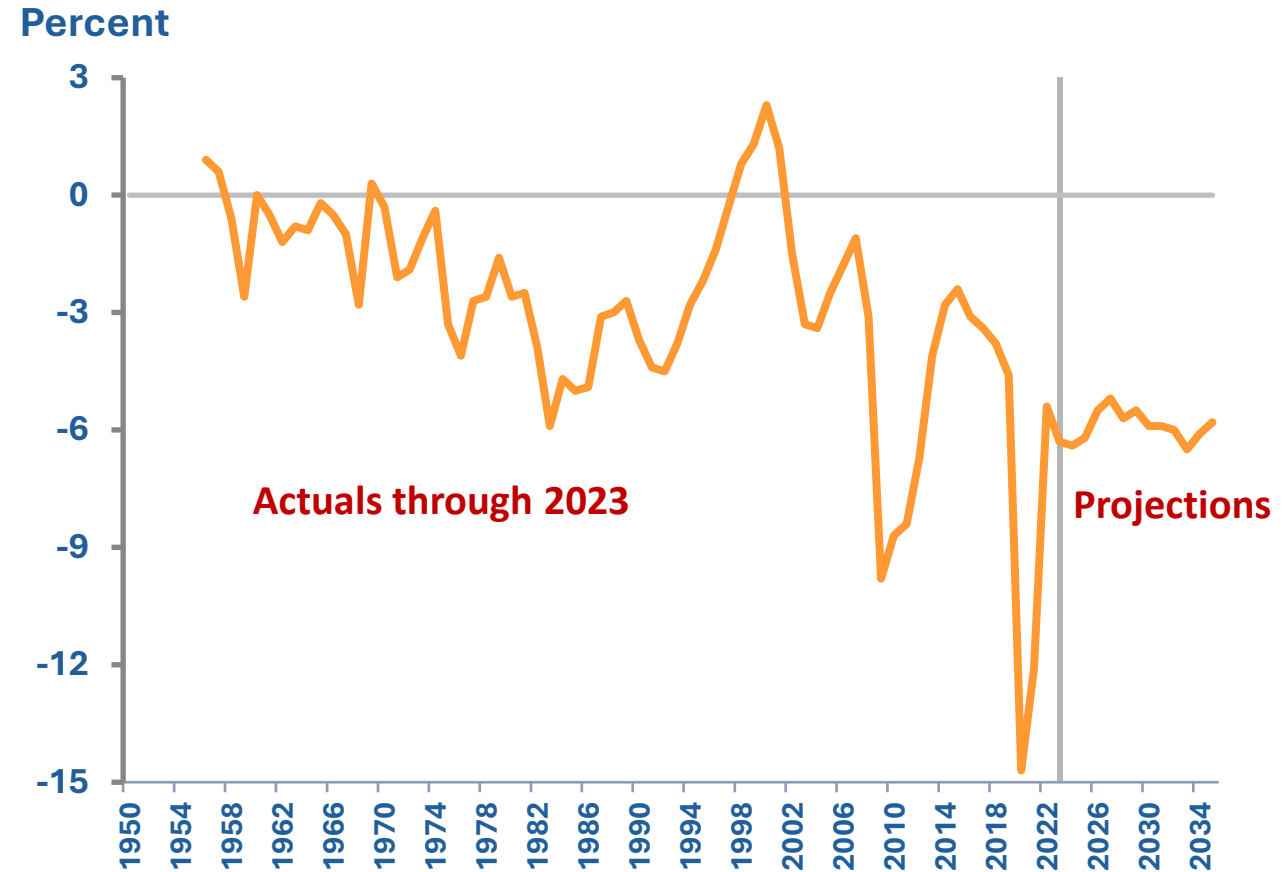
Figure 10. U.S. federal debt is projected to rise as a percent of GDP as deficits remain large

CBO baseline budget projections

Gross federal debt held by the public as a percent of GDP

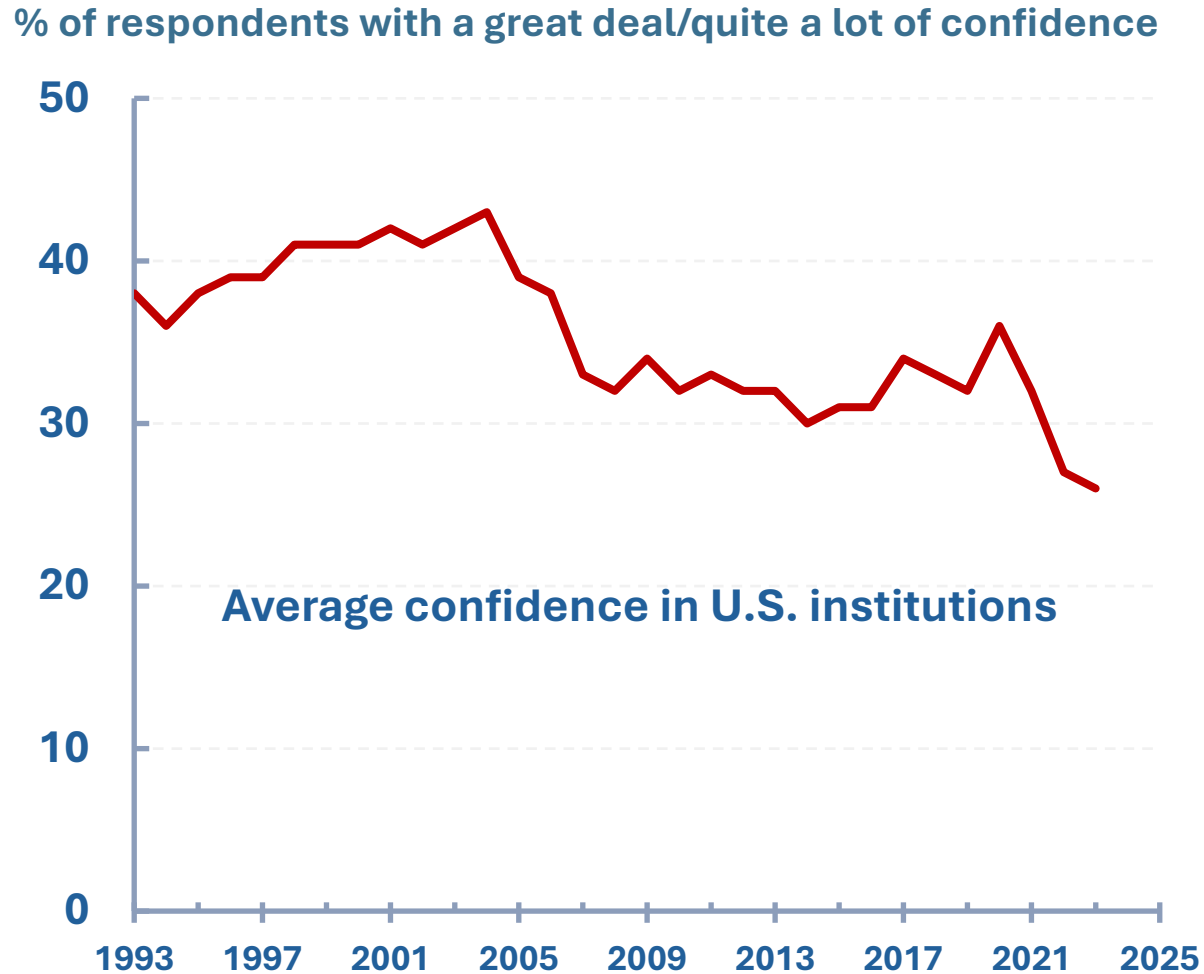


Surplus/Deficit as a percent of GDP

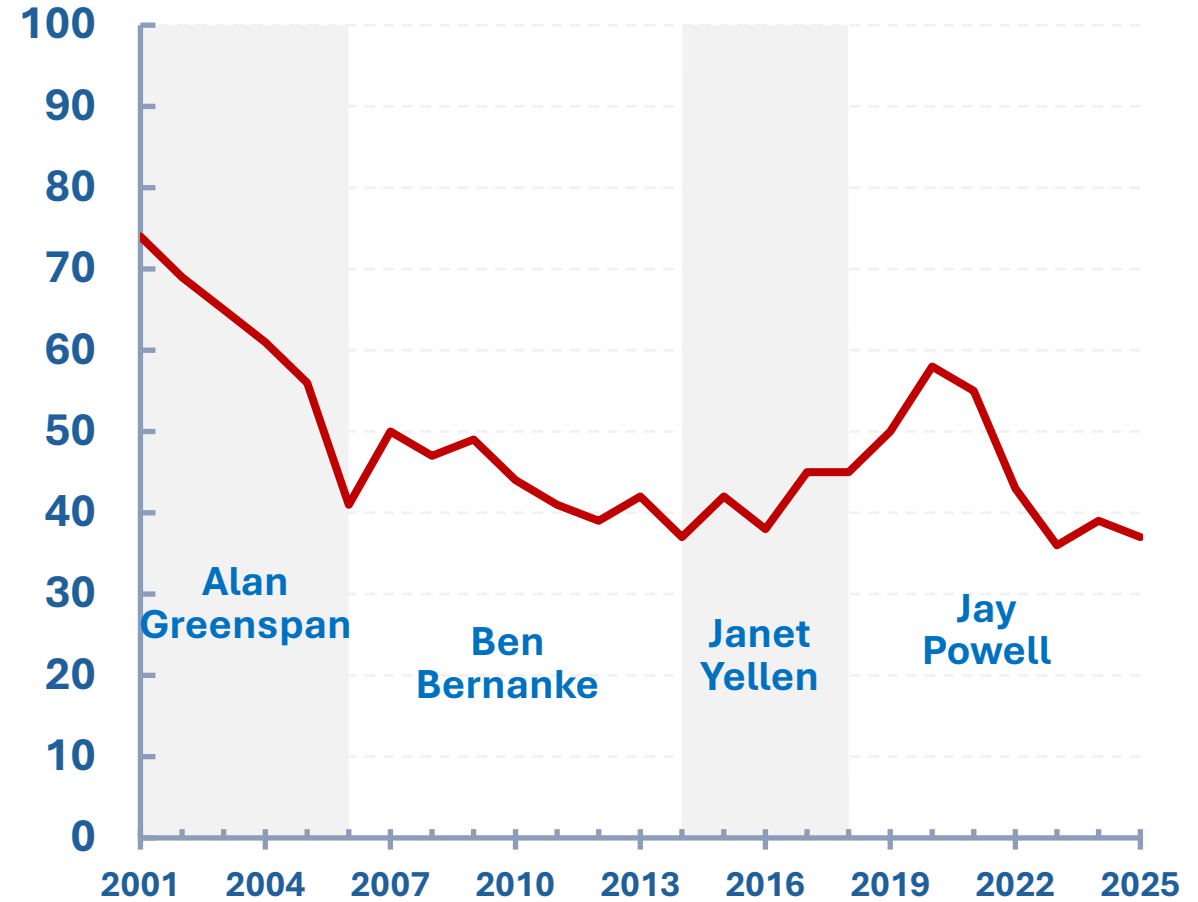


Source: Congressional Budget Office via Haver Analytics
Annual data: Last obs. Fiscal year 2023

Figure 11. Confidence in U.S. institutions, including the Fed, has fallen



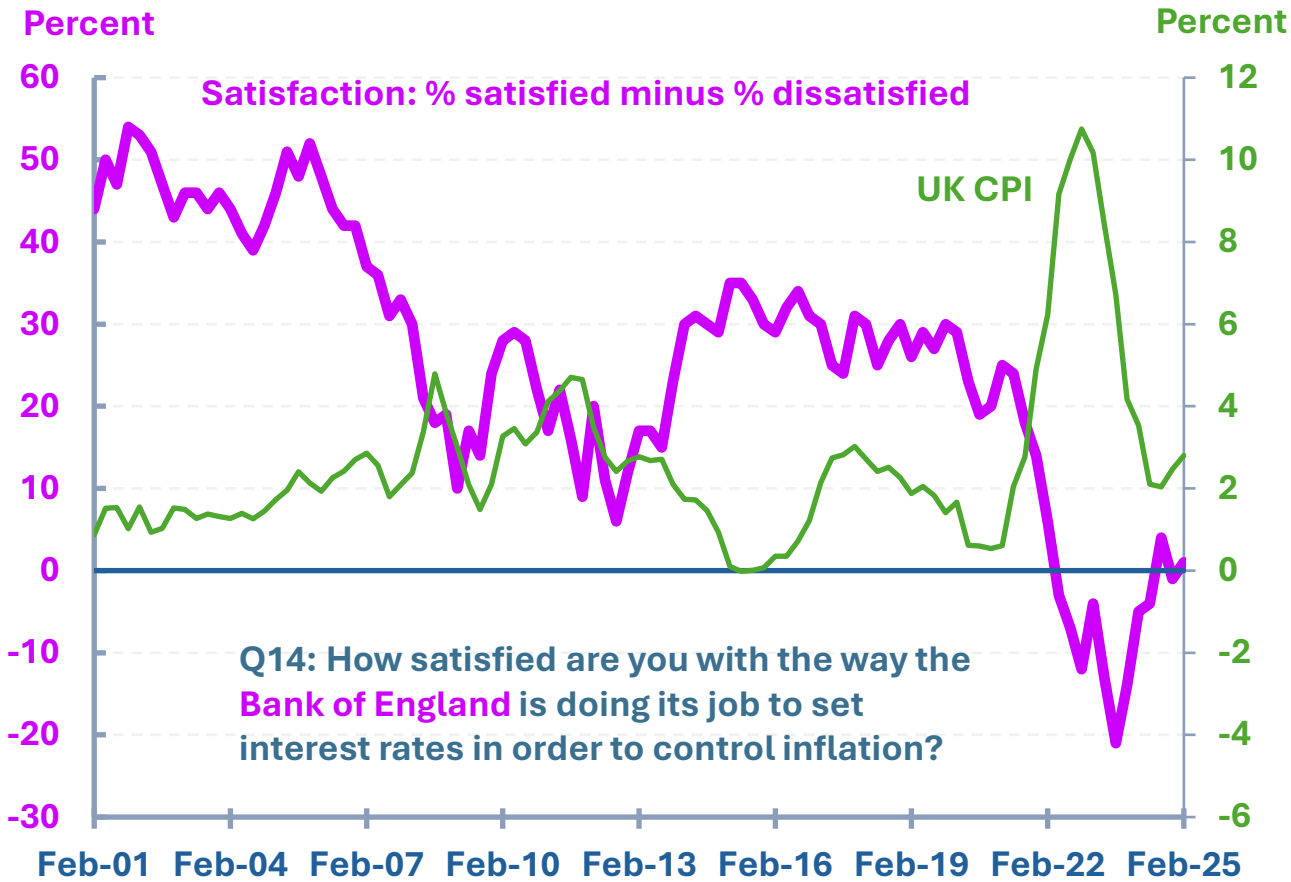
% of respondents with a great deal/fair amount of confidence
Fed Chair will do or recommend the right thing for the economy



Source: Gallup data; See Brenan (2024 and 2025); also see Goldman Sachs Research (2025)
Annual data: Last obs. 2025

Figure 12. Satisfaction in central banks has fallen over the past few years

Bank of England



European Central Bank

Chart 1

Trust in the ECB according to the Eurobarometer and the Consumer Expectations Survey

(left-hand scale: net trust in the ECB across euro area respondents (Eurobarometer), percentages; right-hand scale: average trust in the ECB (CES), scale of 0 to 10)



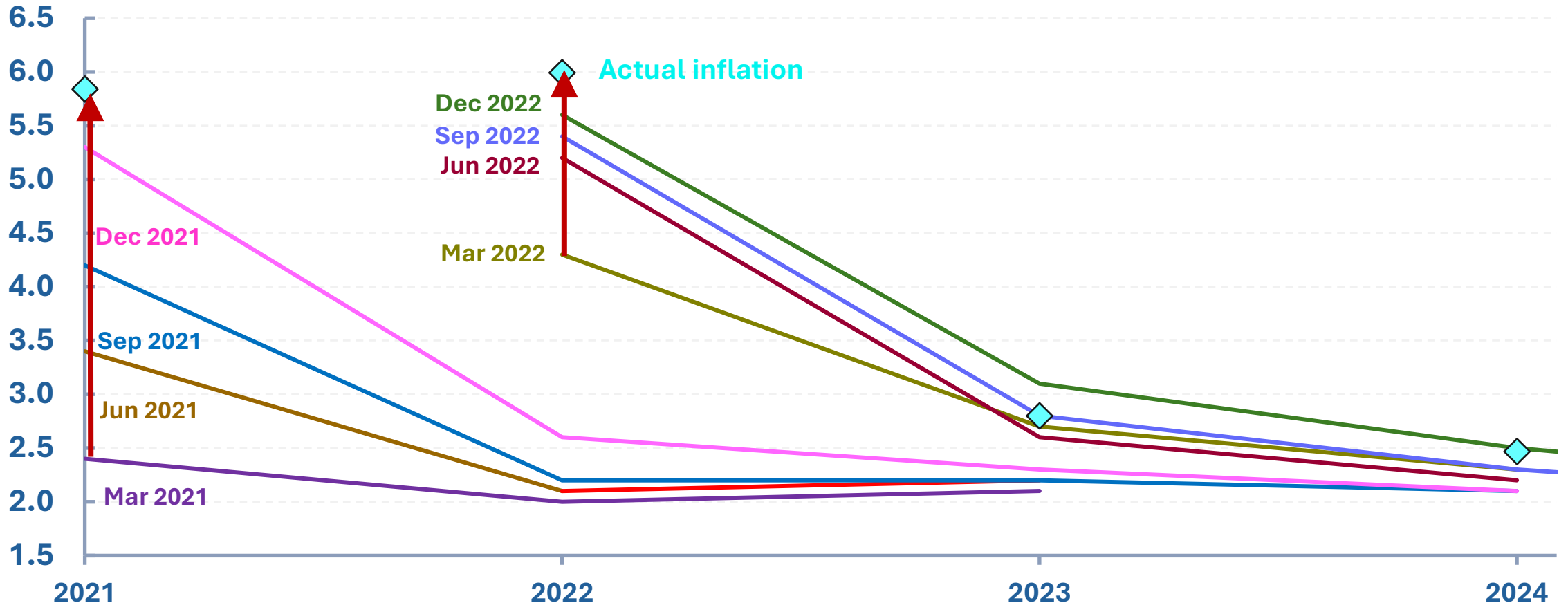
Sources: Standard Eurobarometer, ECB Consumer Expectations Survey and ECB calculations.
 Notes: Standard Eurobarometer data cover survey waves 51 (spring 1999) to 100 (autumn 2023). Net trust is the percentage of respondents answering “tend to trust” minus the percentage answering “tend not to trust”. Respondents who answered “don’t know” are disregarded. CES data are a weighted average and cover monthly survey waves from April 2020 to December 2023. The CES trust question is answered on a scale of 0 to 10 (with 0 being no trust at all and 10 being complete trust).

Source: Satisfaction is from Bank of England/IPSO Inflation Attitude Survey; Trust in ECB is from Eurobarometer; See Ehrmann (2024)
 Inflation is from UK Office of National Statistics via Haver Analytics
 Quarterly data: Last obs. Feb 2025

Figure 13. FOMC kept underpredicting inflation

Quarterly FOMC SEP Median PCE Inflation Projections for 2021 and 2022 and Actual Inflation

Q4-over-Q4 percentage change

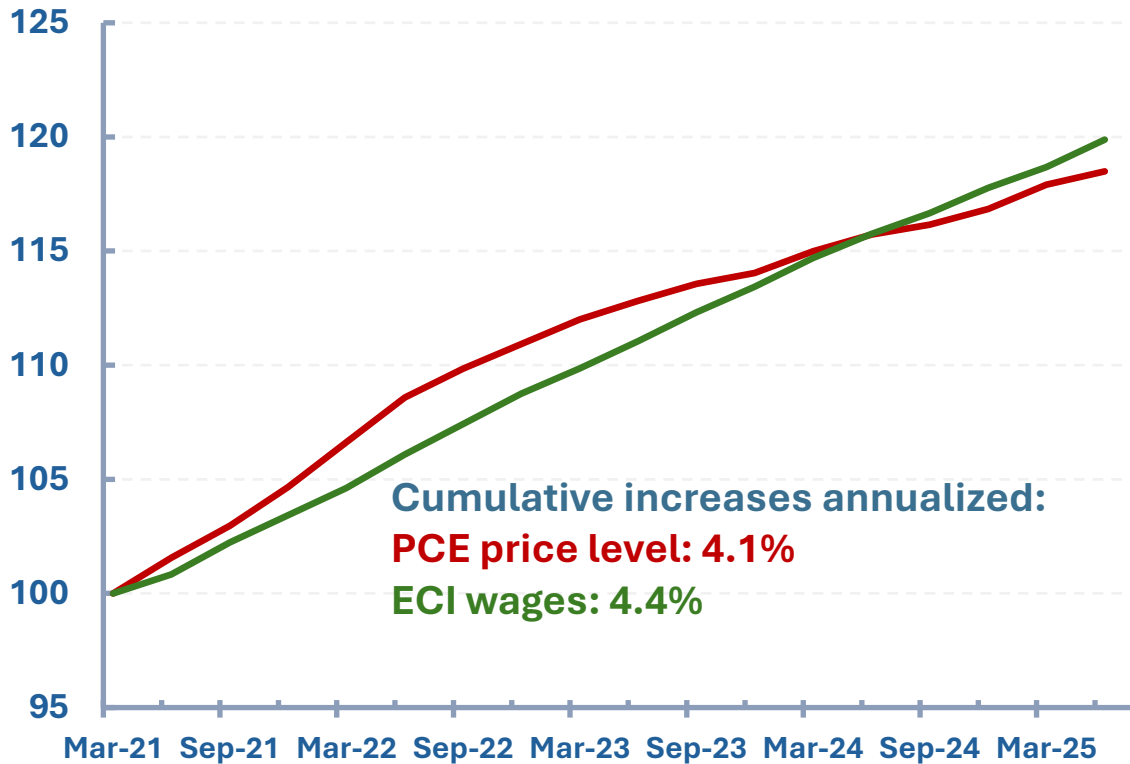


Source: FOMC Summary of Economic Projections (SEP)

Figure 14. By some measures, wage increases have not made up for inflation

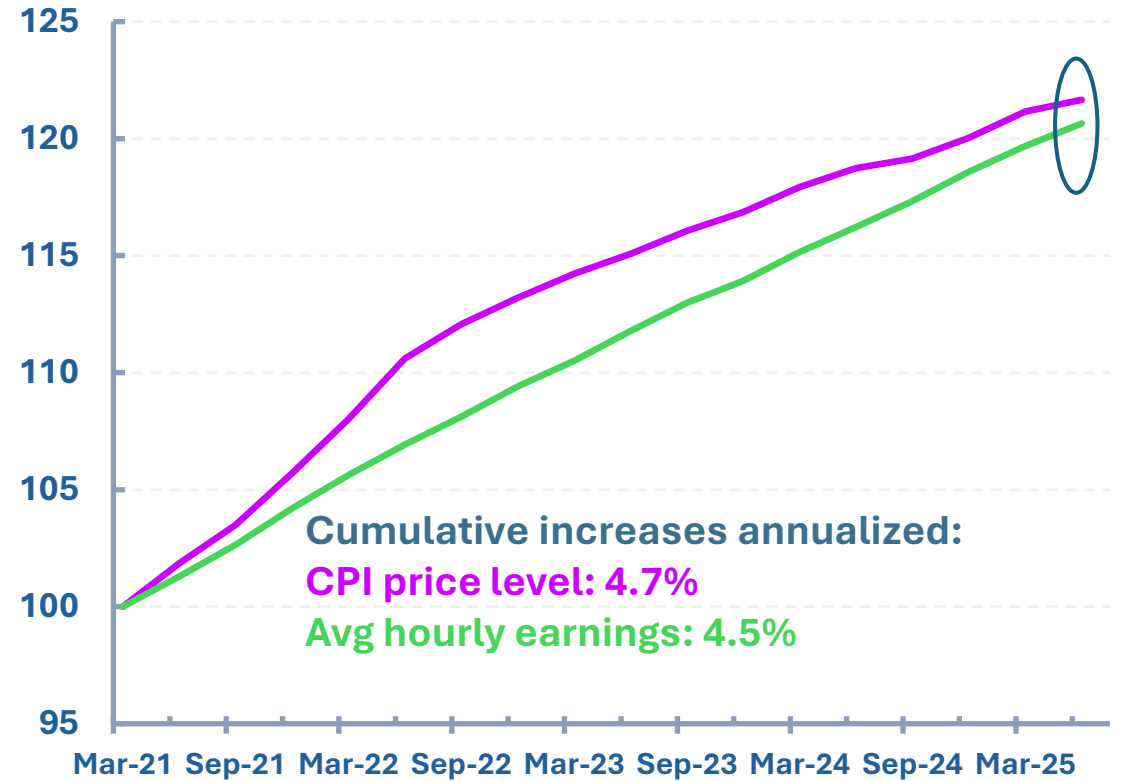
PCE price level and ECI: wages
(indexed so 2021Q1 = 100)

Index: 2021Q1 = 100



CPI price level and Avg hourly earnings
(indexed so 2021Q1 = 100)

Index: 2021Q1 = 100



Source: Bureau of Economic Analysis and Bureau of Labor Statistics via Haver Analytics
Quarterly data: Last obs. 2025 Q2

Figure 15: Central bank independence yields better economic outcomes

Central bank independence:

- Authority of central bankers to make monetary policy decisions independently from short-run political interference
 - Government sets monetary policy goals
 - Central bank decides how best to achieve those goals
- Independent \neq **unaccountable**
- **Benefits**
 - Long-term focus since monetary policy affects economy with a lag
 - Government has incentive to set interest rates low: spur economic growth and ignore longer-run inflation cost (esp. before elections)
 - Government can use inflation to keep debt-service costs low and inflate away debt
 - **Research: Independence => lower, more stable inflation; without cost of more variable growth**

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