

Infographic 1: US Inflation and Fed Rate Cuts in 2025: Outlook and Challenges

Introduction

The US economy in 2025 is navigating a complex landscape marked by persistent inflation and the Federal Reserve's (Fed) cautious approach to monetary policy. This infographic explores the current state of inflation, the Fed's projected rate cuts, and the challenges that lie ahead for the US financial system.

Current Inflation Landscape

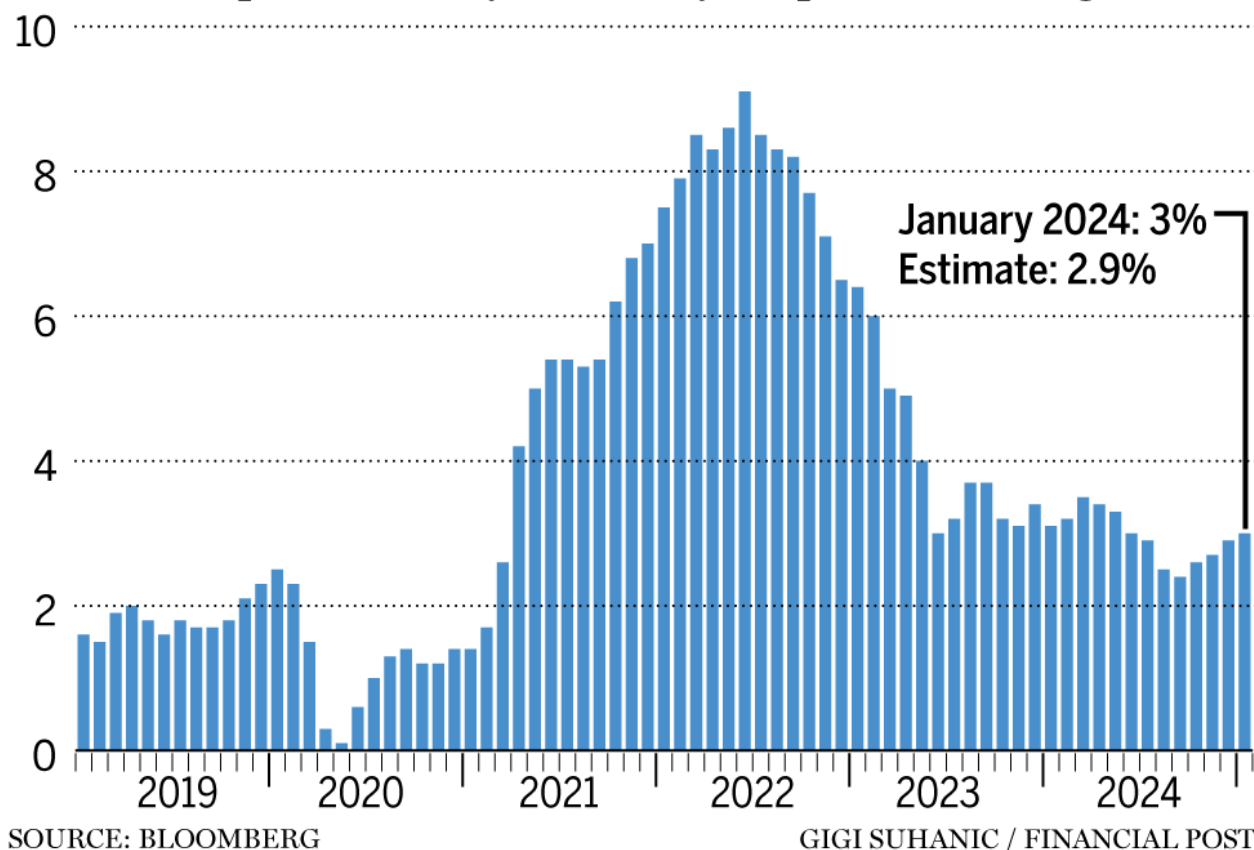
While headline inflation has shown signs of easing, underlying inflationary pressures remain a concern. As of May 2025, the annual core inflation rate is still elevated at 2.8%, slightly above the Fed's target of 2.0% [1, 3]. Other indicators, however, are showing a gradual convergence towards the target [1].

Key Inflationary Factors:

- **Strong Consumer Spending:** Despite some signs of slowing, consumer spending remains robust, contributing to demand-side inflationary pressures [2, 4].
- **Labor Market Dynamics:** A tightening labor market, characterized by low unemployment and rising wages, has historically fueled inflation. While the labor market is showing signs of weakening, it still contributes to upward price pressures [1, 4].
- **Supply-Side Shocks:** Geopolitical tensions and trade policies, particularly tariffs, continue to pose supply-side risks that can lead to price increases [3, 4].

U.S. INFLATION ACCELERATES

Consumer price index, year-over-year per cent change



Federal Reserve's Stance and Projections

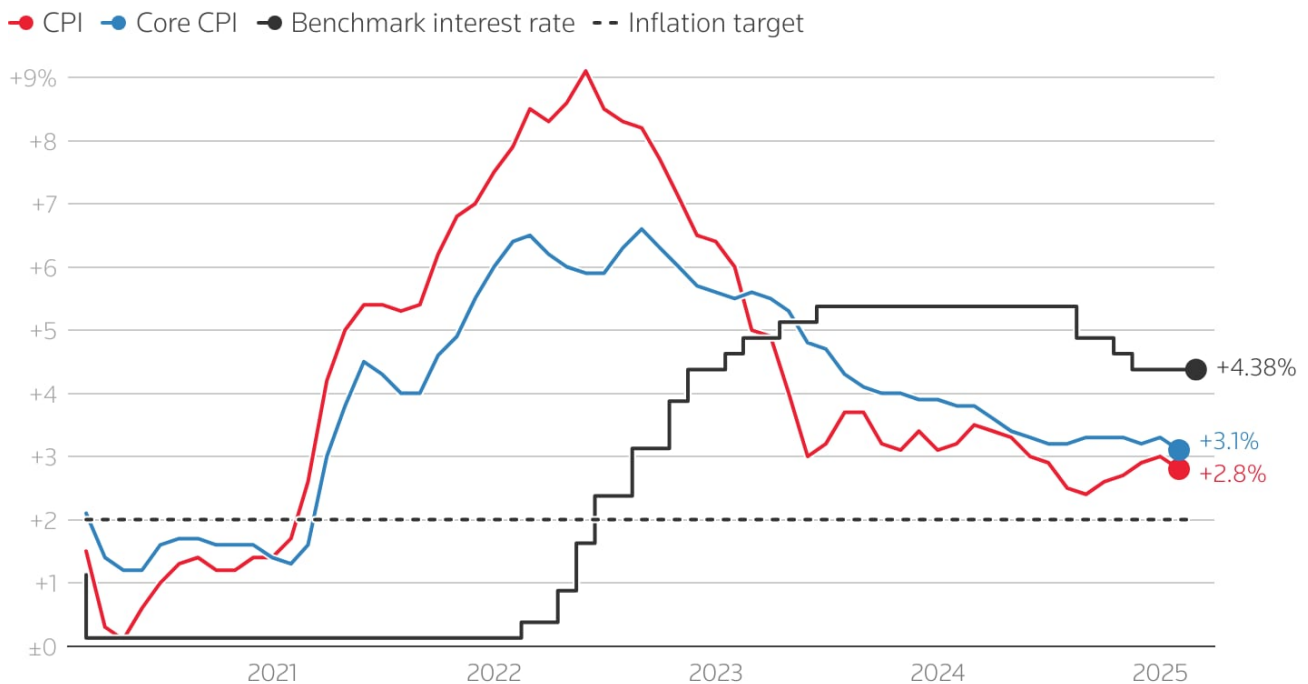
The Federal Open Market Committee (FOMC) has maintained a restrictive stance, keeping the federal funds rate between 4.25% and 4.50% in May 2025 [3]. The Fed's primary objective is to bring inflation down to its 2.0% target while ensuring sustainable economic growth.

Rate Cut Expectations:

Initially, the FOMC projected three rate cuts in 2025. However, due to persistent inflation and other economic uncertainties, this projection has been revised to only two rate cuts [1, 4]. Some analysts even suggest the Fed might hold off on any cuts throughout 2025 if inflationary risks persist, especially those stemming from tariff increases [3].

US inflation and interest rates

Benchmark interest rate and year-on-year change in CPI inflation



The benchmark interest rate is the midpoint of the federal funds target rate.

By Reuters • Sources: Bureau of Labor Statistics, LSEG

Factors Influencing Fed Decisions:

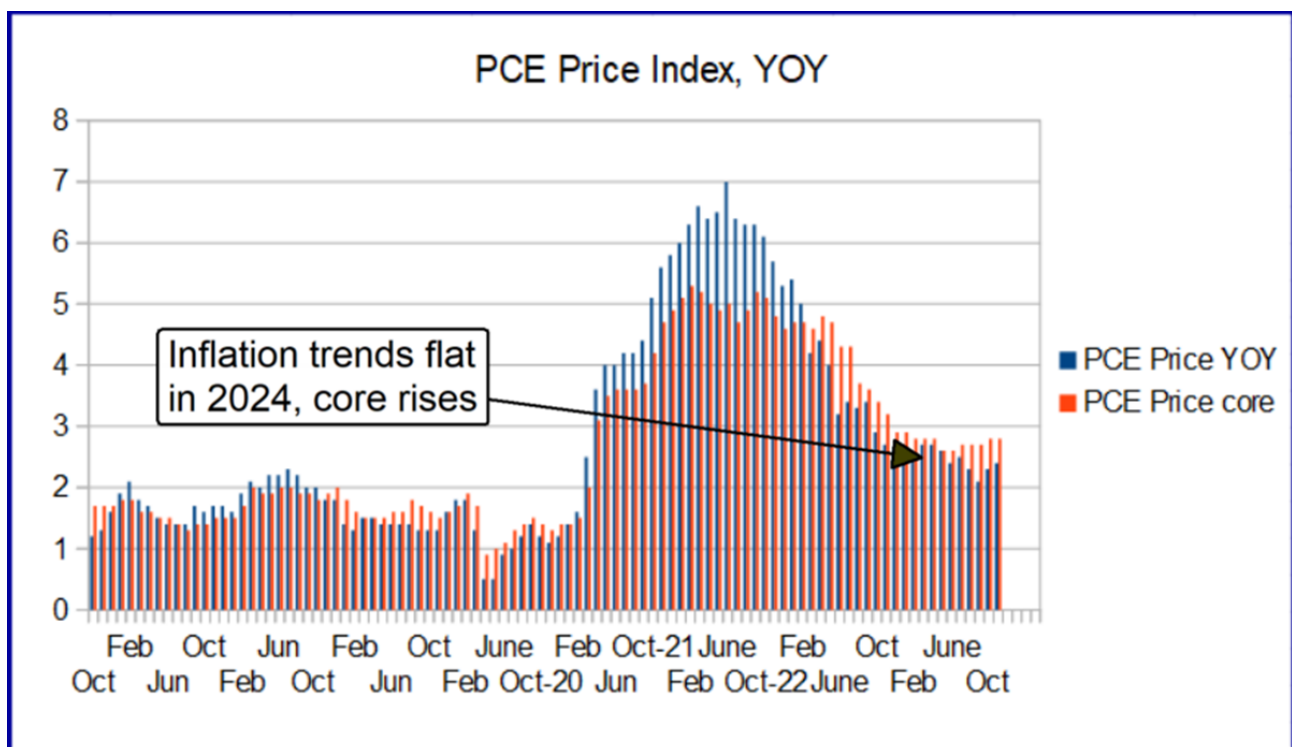
- **Inflation Data:** The Fed will closely monitor inflation data, particularly core inflation, to assess the effectiveness of its policies [1, 4].
- **Labor Market Health:** Signs of significant weakening in the labor market could prompt the Fed to act more aggressively with rate cuts [1].
- **Geopolitical and Trade Policies:** Unpredictable trade policies and ongoing geopolitical conflicts introduce significant uncertainty, making the Fed's decisions more complex [3, 4].

Challenges and Outlook

The path to price stability in 2025 is fraught with challenges. The interplay of inflation, labor market dynamics, and global economic factors will determine the Fed's actions and the overall economic trajectory.

Potential Scenarios:

- **Soft Landing:** If inflation gradually recedes without a significant economic downturn, the Fed could achieve a soft landing, characterized by stable growth and controlled inflation.
- **Stagflation Risk:** Persistent inflation coupled with slowing economic growth, potentially exacerbated by trade tensions, could lead to a stagflationary environment [3].
- **Recessionary Pressures:** A more aggressive tightening by the Fed to combat inflation, or a significant external shock, could trigger a recession [4].



References

- [1] Rextie. (2024, December 23). *Economía de Estados Unidos para 2025: inflación y recorte de tasas*. <https://www.rextie.com/blog/tendencias-actuales-de-la-economia-estadounidense/> [2] BOK Financial. (n.d.). *2025 U.S. Economic and Market Outlook*. <https://es.bokfinancial.com/wealth/market-insights/2025-outlook> [3] FocusEconomics. (2025, May 7). *Estados Unidos Política monetaria Mayo 2025*. <https://www.focus-economics.com/es/countries/estados-unidos/news/politica-monetaria/united-states-central-bank-meeting-07-05-2025-el-banco-central-mantiene-los-tipos-sin-cambios-en-mayo/> [4] EY. (2025, May). *US economic outlook May 2025*. https://www.ey.com/en_us/insights/strategy/macroeconomics/us-economic-outlook