VIEWS | SEPTEMBER 2025

Central bank depository.

North America cuts rates while others stand pat.

SEI's view

As expected, softening labor-market conditions provided the rationale for the Federal Reserve (Fed) to reduce the federal funds rate by 25 basis points (0.25%) in September. The inflation outlook provides less support. Core inflation, as measured by the year-over-year personal-consumption expenditures (PCE) price index, has moved back up toward 3%, well above the Fed's 2% target. Services inflation remains quite elevated, rising 3.8% over the 12 months ended July. We note that durable goods prices are on the rise again. The Trump administration's tariffs on imported goods, the U.S. dollar's decline, and the disruption of long-established supply chains away from China may finally be showing up in the data. The resulting price increase, 1.1% over the past year, is still modest. But compared to the long deflation in durable-goods prices starting in 1995 and lasting until the COVID-19-related supply-chain snags earlier this decade, we consider this change in trend to be noteworthy. The U.K. continues to record the highest inflation rate for services, running 4.7% over the 12-month period ending in August. The nation also has the highest wage growth. Other countries, including the U.S., have seen improvement. U.S. services inflation, however, has been hovering around an annual rate of 3.8% throughout 2025. The weaker economies of Canada and the eurozone have recorded further deceleration in growth, justifying the easier monetary policies those central banks have pursued.

Federal Reserve (Fed)

- In a split 11-1 vote, the Federal Open Market Committee (FOMC) reduced the federal funds rate by 0.25% to a range of 4.00% to 4.25% following its meeting on September 16-17—its first rate cut since December 2024. Stephen Miran, a recent appointee of President Donald Trump, supported a 0.50% rate decrease.
- In a statement announcing the rate decision, the FOMC commented, "In considering additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks."
- The Fed's so-called dot plot of economic projections indicated a median federal funds rate of 3.6% at the end of 2025, down from its previous estimate of 3.9% issued in June, signaling that the central bank anticipates two more federal funds rate cuts by the end of this year. The Fed estimated that core inflation, as measured by the core PCE price index—which measures the prices that consumers pay for goods and services (excluding volatile food and energy prices) to reveal underlying inflation trends—will rise 3.1% for the 2025 calendar year, unchanged from its forecast in June. Additionally, the FOMC pegged U.S. gross domestic product (GDP) at 1.6% in 2025—an upward revision from the projected 1.4% annual growth rate in its previous dot plot.

European Central Bank (ECB)

- As widely anticipated, the ECB left its benchmark interest rate unchanged at 2.00%—its lowest level since November 2022—following its meeting on September 10-11, citing concerns regarding the impact of the Trump administration's tariffs on inflation and economic growth in the region.
- In a news release announcing the rate decision, the ECB's Governing Council noted that its inflation outlook is unchanged since its meeting in August and that it is "determined to ensure that inflation stabilises [sic] at its 2% target in the medium term."
- The Governing Council also said that its "interest rate decisions will be based on its assessment of the inflation outlook and the risks surrounding it, in light of the incoming economic and financial data, as well as the dynamics of underlying inflation and the strength of monetary policy transmission. The Governing Council is not pre-committing to a particular rate path."

Bank of England (BOE)

- At its meeting on September 17, the BOE voted by a 7-2 margin to maintain the Bank Rate at 4.00%—remaining at its lowest level since March 2023. Two BOE Monetary Policy Committee (MPC) members favored a 0.25% reduction to the policy rate.
- Additionally, the MPC will slow the pace of the reduction of its holdings in U.K. gilts between October of this year and September 2026, to £70 billion from £100 billion over the previous 12-month period, in an effort to ease the upward pressure on gilt yields.
- During a news conference on September 18, BOE Governor Andrew Bailey said, "The new target means the MPC can continue to reduce the size of the Bank's balance sheet in line with its monetary policy objectives while continuing to minimize the impact of gilt market conditions."
- According to minutes of the meeting, the MPC members "judged that a gradual and careful approach to the further withdrawal of monetary policy restraint remained appropriate. The restrictiveness of monetary policy had fallen as Bank Rate had been reduced. The timing and pace of future reductions in the restrictiveness of policy would depend on the extent to which underlying disinflationary pressures would continue to ease."

Bank of Japan (BOJ)

- By a 7-2 majority, the BOJ voted to maintain its benchmark interest rate at 0.50% at its meeting on September 18-19, indicating a sooner-than-expected unwinding of its monetary stimulus. The central bank has stood pat since raising the rate by 0.25% in late January of this year. Two BOJ Policy Board members favored a 0.25% rate hike.
- In a statement announcing the rate decision, the BOJ projected that the country's economic growth will moderate "as trade and other policies in each jurisdiction lead to a slowdown in overseas economies and to a decline in domestic corporate profits and other factors, although factors such as accommodative financial conditions are expected to provide support." The central bank also announced the sale of its holdings in exchange-traded funds (ETFs) (¥330 billion or $2.2 billion annually) and Japanese real-estate investment trusts (J-REITs) (¥5 billion or $33.8 million per year).
- At a news conference following the central bank's meeting, BOJ Governor Kazuo Ueda commented that he is monitoring the economic impact of the Trump administration's tariffs. "So far, we're not seeing a major impact from U.S. tariffs on Japan's economy," he said. "But we need to be mindful of downside economic and price risks, as the impact from U.S. tariffs will start to intensify."

Bank of Canada (BOC)

- At its September 17 meeting, the BOC reduced its policy rate by 0.25% to a three-year low of 2.50%—the first rate cut since March of this year.
- In a statement announcing the monetary policy decision, the BOC noted that, given Canada's weaker economic outlook and lower risk of higher inflation due to the Canadian government's removal of most retaliatory tariffs on imported goods from the U.S., "[the BOC] Governing Council judged that a reduction in the policy rate was appropriate to better balance the risks."
- During a news conference following the rate-cut announcement, BOC Governor Tiff Macklem acknowledged the ongoing uncertainty surrounding the Trump administration's tariffs on imported goods from Canada. "Through the recent period of trade upheaval, Governing Council has been proceeding carefully, paying particular attention to the risks and uncertainties facing the Canadian economy," he commented.

Summary Table

Central Bank	Current Rate	Prior Rate	Change	Next Meeting
Fed	4.00%-4.25%	4.25%-4.50%	-0.25%	Oct. 28-29, 2025
ECB	2.00%	2.00%	Unchanged	Oct. 29, 2025
BOE	4.00%	4.00%	Unchanged	Nov. 6, 2025
BOJ	0.50%	0.50%	Unchanged	Oct. 29-30, 2025
BOC	2.50%	2.75%	-0.25%	Oct. 29, 2025

Sources: Fed, ECB, BOE, BOJ, BOC. As of September 22, 2025.

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