Central bank depository.

Policymakers take a “wait-and-see” attitude.

SEI’s view

A surprisingly sharp downward revision in U.S. job growth enhances the likelihood that the Federal Open Market Committee (FOMC) will reduce the federal-funds rate at its September meeting. The recent resignation of a Federal Reserve (Fed) governor also gives President Donald Trump the opportunity to appoint a replacement that is more sympathetic to lowering the policy rate. During the FOMC’s meeting in late July, two dissenters argued for a 0.25% rate cut while other members also have struck a more dovish tone of late. The European Central Bank and the Bank of Canada have been cutting rates aggressively for more than a year due to economic weakness and muted inflation. The Bank of England and the Fed have been slower to ease monetary policy as their inflation rates remain well above target. The U.S. has reached trade agreements with several major trading partners. The current effective average tariff imposed on imported goods amounts to 18%—equal to the rate following the enactment of the Smoot-Hawley Act in 1930—compared to 2.5% in 2024. Since other countries have mostly avoided retaliation, the impact on the global trading system should not be as negative as it otherwise could be. Nonetheless, the tariffs will likely weigh on global economic growth and lead to a period of higher inflation in the U.S. SEI expects the Fed to look through the impact that tariffs may have on prices and reduce the federal-funds rate in September.

Federal Reserve (Fed)

- In a split 7-2 vote, the Federal Open Market Committee (FOMC) left the federal-funds rate unchanged in a range of 4.25% to 4.50% following its meeting on July 29-30. Two Committee members supported a rate cut of 25 basis points (0.25%).
- In a statement announcing the rate decision, the FOMC noted that “growth of economic activity moderated in the first half of the year” and that inflation “remains somewhat elevated.” The FOMC reiterated that it will continue to assess “a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations…”
- At a news conference following the Committee meeting on July 30, Fed Chair Jerome Powell stated that the central bank’s decision on a rate cut would be dependent upon the “totality of the evidence” released before the next FOMC meeting in mid-September. “We have made no decisions about September,” Powell said. The Fed Chair also cited the difficulties that the central bank faces in seeking to achieve its dual mandate of maximum employment and stable prices, noting that the Fed is “trying to do the right thing in what is a challenging situation because you're being pulled in two directions and you have to decide which of those to go in.”

European Central Bank (ECB)

- The ECB left its benchmark interest rate unchanged at 2.00%—its lowest level since November 2022—following its meeting on July 23-24, citing the slowdown in inflation and wage growth in the region.
- In a news release announcing the rate decision, the ECB’s Governing Council commented that inflation in the eurozone came in at the central bank’s 2% target rate in June, but cautioned that the longer-term impact of U.S. tariffs on European imports remains unclear.
- The ECB noted, “The incoming information is broadly in line with the Governing Council’s previous assessment of the inflation outlook. Domestic price pressures have continued to ease, with wages growing more slowly. Partly reflecting the Governing Council’s past interest rate cuts, the economy has so far proven resilient overall in a challenging global environment. At the same time, the environment remains exceptionally uncertain, especially because of trade disputes.”

Bank of England (BOE)

- In a tight 5-4 vote at its meeting on August 6, the BOE reduced the Bank Rate by 0.25% to 4.00%—its lowest level since March 2023. Four BOE Monetary Policy Committee (MPC) members favored maintaining the policy rate at 4.25%. The MPC needed to take a second vote after one member favored a 0.50% rate cut, resulting in a 4-4-1 stalemate.
- In its announcement of the rate decision, the MPC commented, "There has been substantial disinflation over the past two and a half years, following previous external shocks, supported by the restrictive stance of monetary policy. That progress has allowed for reductions in the Bank Rate over the past year." The BOE members also said that an aggressive monetary stance is not needed. "A gradual and careful approach to the further withdrawal of monetary policy restraint remains appropriate," the central bank noted. "The timing and pace of future reductions in the restrictiveness of policy will depend on the extent to which underlying disinflationary pressures continue to ease."
- During a news conference on August 7, BOE Governor Andrew Bailey said, "We've cut interest rates today, but it was a finely balanced decision. It remains important that we do not cut bank rate too quickly or by too much." He also commented that "there are good reasons to think that this rise in headline inflation will not persist."

Bank of Japan (BOJ)

- In a unanimous vote, the BOJ maintained its benchmark interest rate at 0.50% at its meeting on July 30-31. The central bank has stood pat since raising the rate by 0.25% in late January of this year.
- In a statement announcing the rate decision, the BOJ noted that, while underlying inflation has been sluggish due to a deceleration in economic growth, the central bank believes that price pressures will rise gradually as labor shortages intensify and inflation expectations increase. The BOJ commented that "it remains highly uncertain how trade and other policies in each jurisdiction will evolve and how overseas economic activity and prices will react to them. It is therefore necessary to pay due attention to the impact of these developments on financial and foreign exchange markets and on Japan's economic activity and prices."
- At a news conference following the central bank's meeting on July 31, BOJ Governor Ueda said, "If the economy and prices move in line with our forecast, we expect to continue raising interest rates and adjust the degree of monetary support in accordance to improvements in economic and price developments." He also noted that the BOJ does not need to wait for underlying inflation to hit 2% before acting, as monetary policy decisions will be based on the likelihood of reaching that level.

Bank of Canada (BOC)

- At its July 30 meeting, the BOC maintained its policy rate at 2.75%—the third time that the central bank has left the rate unchanged following rate cuts totaling 2.25% at its previous six meetings.
- In a statement announcing the monetary policy decision, the BOC cited the ongoing uncertainty regarding U.S. trade policy. "While some elements of US trade policy have started to become more concrete in recent weeks, trade negotiations are fluid, threats of new sectoral tariffs continue and US trade actions remain unpredictable," the central bank noted.
- The BOC also projected that the U.S. tariffs will slow global economic growth to roughly 2.5% by the end of 2025, before rebounding to approximately 3.0% in 2026 and 2027.

Summary Table

Central Bank	Current Rate	Prior Rate	Change	Next Meeting
Fed	4.25%-4.50%	4.25%-4.50%	Unchanged	Sept. 16-17 2025
ECB	2.00%	2.00%	Unchanged	Sept. 10, 2025
BOE	4.00%	4.25%	-0.25%	Sept. 18, 2025
BOJ	0.50%	0.50%	Unchanged	Sept. 18-19, 2025
BOC	2.75%	2.75%	Unchanged	Sept. 17, 2025

Sources: Fed, ECB, BOE, BOJ, BOC. As of August 7, 2025.

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