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Le double dilemme de la Réserve fédérale

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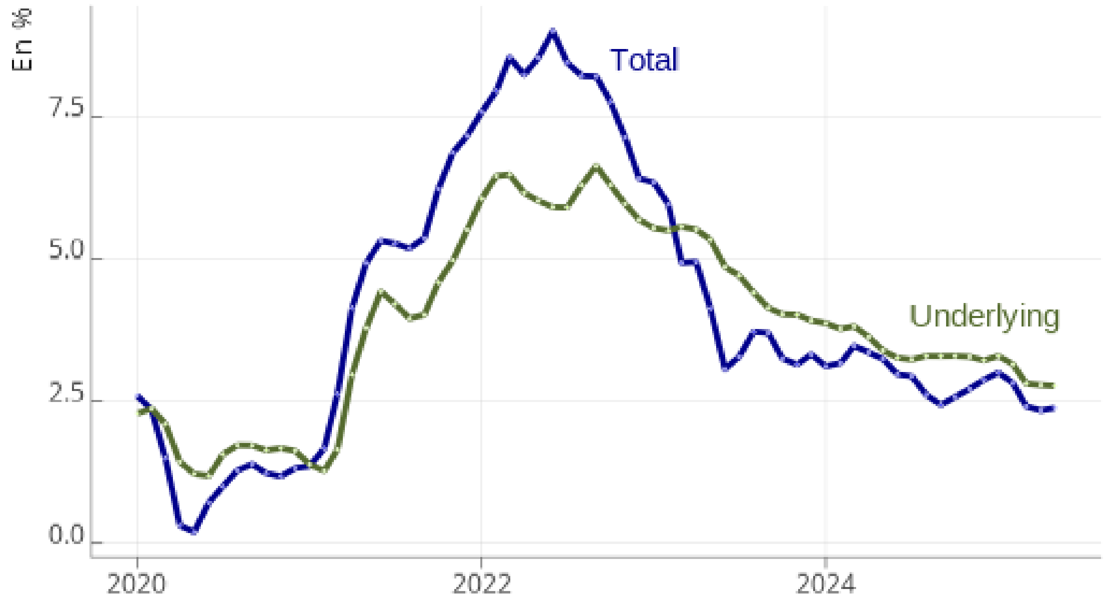
Since his return to the White House, Donald Trump has not stopped pressuring the President of the Federal Reserve to reduce interest rates. He has multiplied the invectives and even the insults against Jerome Powell, its president, even going so far as to suggest the possibility of trying to dismiss him. So far, Jerome Powell has resisted the pressure by maintaining the key rate at 4.5% since December 2024, arguing that growth remained dynamic, the labor market solid, and inflation high. The growth figures for the first quarter – a 0.1% drop in GDP – and those for inflation for the month of May – 2.4% – further increase the pressure on the shoulders of the FOMC (*Federal Open Market Committee*).

Political Pressure Intensifies

As during his first term, Donald Trump continues to regularly give his opinion on what the American central bank should do[1]. During the presidential campaign, he had indicated that he should have a say in the conduct of monetary policy, challenging the independence of the American central bank, which had undoubtedly contributed to the rise in sovereign rates observed at the end of 2024[2]. He then opened the possibility of dismissing Jerome Powell, suggesting that he would leave if he asked him to. Even if this option now seems abandoned, notably because it would have little chance of success[3], Donald Trump has once again summoned Jerome Powell to lower the key rate by one point during the Federal Reserve meeting to be held on June 17 and 18[4]. Beyond the desire to benefit from the support of monetary policy, Donald Trump this time highlights the evolution of inflation, less strong than anticipated in May and stable for three months at 2.4% according to data from the BLS (*Bureau of Labor Statistics*) (Figure 1).

[1] Between 2016 and 2018, it was the interest rate hikes that Donald Trump had strongly criticized, even suggesting that he could be a worse « enemy » than China (See here).
[2] See our previous post on this topic.
[3] See this analysis on the independence of the Federal Reserve and the possibility of dismissing its President.
[4] See here.

Figure 1: Inflation in the United States



Source : BLS (FRED).

Furthermore, the contraction of GDP in the first quarter of 2025 could also suggest that the American economy is showing signs of weakness and that it might therefore be appropriate to resume the rate-cutting movement, which had begun in September 2024 before being interrupted after December as inflation started to rise again and growth for 2024 reached 2.8%. Under these conditions, does Jerome Powell have less solid arguments to justify another *status quo*?

Can the Federal Reserve Resist the Pressure?

Despite the GDP contraction (-0.1%) in the first quarter, it would be premature to conclude that the American economy is experiencing a sharp slowdown. Indeed, the decline can be explained by specific factors directly linked to Donald Trump's trade policy. In anticipation of the increase in customs duties, purchases from abroad surged, resulting in a 13% jump in imports of goods in January 2025, with a particularly strong increase for industrial goods (33.2%). This resulted in a negative contribution from foreign trade of −1.4 points. Some of these goods were stocked, which partially offset the negative effect of foreign trade[5]. This increase in imports is also reflected in domestic demand, which remained well-oriented with a contribution of 0.6 points to the growth of the first quarter, still driven by household consumption but also by investment. The trend should reverse in the second quarter since for the month of April, imports of goods fell by nearly 20%. It is therefore highly likely that the contribution of foreign trade to growth will be positive next quarter[6]. Consequently, the contributions of inventories and domestic demand to growth should be weaker. In the labor market, the unemployment rate has remained slightly above 4% since June 2024. The labor market is, however, much less tight than at the

[5] The contribution of inventories to growth amounted to 0.6 points in the first quarter.

[6] Movements in exports have been much less erratic.

beginning of 2022, and job openings have decreased significantly, representing 4.4% of employment in April 2025 compared to a peak of 7.4% in March 2022.

On the price front, the stabilization of inflation is largely explained by the fall in energy prices. Inflation in services, which accounts for more than 60% of the total index, has also been gradually decreasing since early 2023 but remains high (3.6%) due to the cost of housing. As for the prices of goods and food prices, they are slightly accelerating. It can be imagined that the effects of the effective increases in customs duties will gradually spread to prices. This is what American households anticipate for 2026, as the one-year expectations indicator measured by the Michigan Survey rose from 2.8% in December to over 6% in April (Figure 2). The indicators calculated by the Federal Reserve of Cleveland from market data do not suggest such a significant change in the evolution of inflation. According to our April 2025 forecasts, the increase in inflation would materialize in the third quarter of 2025. Uncertainty and the increase in tariffs should also result in a slowdown in American economic activity without, however, causing a recession.

The Federal Reserve is therefore facing a double dilemma. On the one hand, it must arbitrate between price stability and full employment, the two objectives of its mandate. However, the increase in tariffs is likely to result in a temporary increase in inflation and a deterioration in activity, so Jerome Powell will have to arbitrate between the two objectives. As long as inflation remains above its 2% target, the FOMC can highlight the objective of price stability and maintain the rate, especially if GDP rebounds in the second quarter due to the fluctuations in imports. It will undoubtedly be more attentive to the dynamism of domestic demand. This should slow down more clearly in the second half of the year, which could then lead the members of the FOMC to lower interest rates. This is the scenario favored by the markets, which see a rate cut more likely at the September meeting[7].

The Federal Reserve's choice is, however, not solely economic. It has indeed become political. A rate cut would suggest that Jerome Powell has finally given in to Donald Trump's requests, which could be perceived as a loss of independence. A tougher strategy would be to assert the independence of the Federal Reserve and maintain the rates, assuming there is no strong increase in the unemployment rate or the inflation rate.

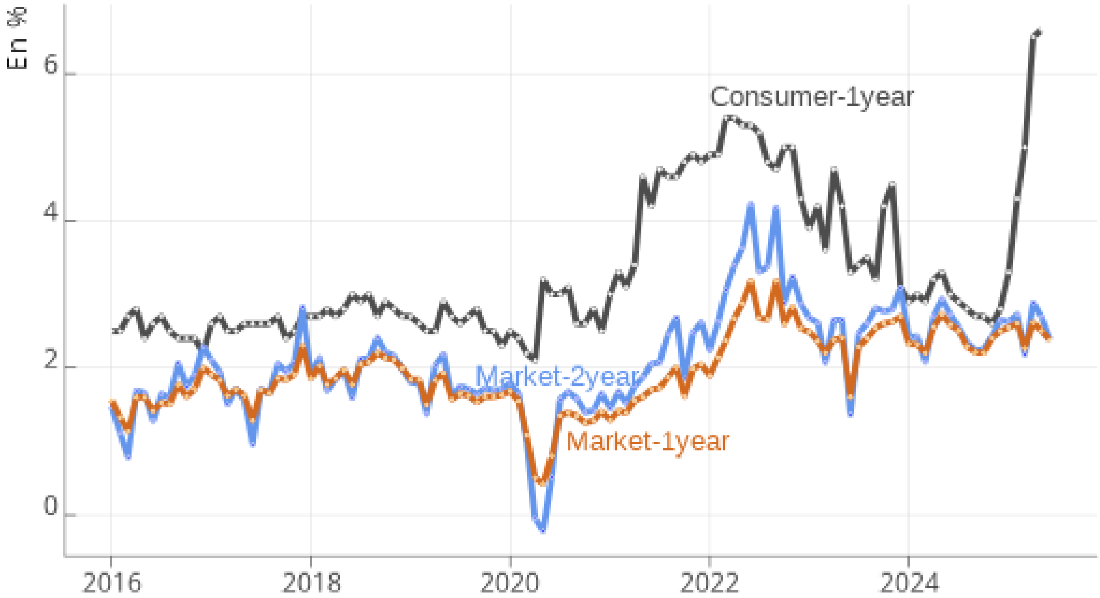
Jerome Powell's term as President of the Federal Reserve ends in May 2026, which will give Donald Trump the opportunity to appoint a new, more compliant President. It should not be forgotten, however, that decisions are not made by one person but by a committee that has been unanimous—since January—on the *status quo* of the interest rate. In the short term, only Adriana Kugler could be replaced in January 2026[8]. Jerome Powell could even remain a member of the FOMC after May since his term will not officially end until January 2028, although in practice, presidents have generally left the FOMC at the end of their presidency. In any case, it is highly likely that tensions between the Federal Reserve

[7] According to the expectations of FED Watchers on June 17, the probability of a cut in the Federal Reserve's target rate at the June 18 meeting was less than 1%. It rises to 12.5% for the July meeting and to more than 55% for the September meeting.

[8] See here for more detailed elements on the terms of the mandate of the different members of the FOMC. Let us also recall that the committee is also composed of members of regional Federal Reserves whose nomination rules are different from those of the seven members of the Board of Governors of the Federal Reserve.

and Donald Trump will continue, adding new pages to the history of conflicts concerning the independence of the Federal Reserve[9].

Figure 2: Household and Market Inflation Expectations in the United States.



Sources : Michigan Survey, Federal Reserve de Cleveland.

[9]See for example here for a summary.