Fed keeps rates on hold prompting further Trump attacks

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18 June 2025

The US Federal Reserve kept its interest rate on hold at its meeting yesterday, setting the stage for further conflicts with President Trump, who has issued a series of denunciations of its chairman Jerome Powell.

In the lead-up to the meeting, Trump last week called Powell a “numbskull” for not cutting rates by at least a percentage point. He warned the White House may “have to force something,” without specifying what that might be.

Significantly, Trump linked the issue to the rising interest bill on US debt, which is becoming an issue of increasing concern.

“We are going to spend $600 billion a year because of one numbskull that sits there, [saying] ‘I don’t see enough reason to cut the rates,’” he told reporters. “I may have to force something.”

Speaking to reporters on Wednesday, before the Fed announced its decision, Trump renewed his attack, upping his demand for an interest rate cut to 2 percent. “We have a stupid person, frankly, at the Fed,” he said, asking if he could “appoint myself” to the central bank.

“I’m nasty. I’m nice. Nothing works,” he went on, again pointing to the need to cut rates to reduce the payments on US debt.

Apart from the concerns over US debt, the ongoing Trump outbursts are an expression of the deepening problems confronting the US economy, which threaten to blow apart his election pledge fiction that his winning of the presidency would bring a new “golden age” of economic expansion.

These issues were at least partly reflected in the deliberations and projections of the Federal Open Market Committee (FOMC) on the direction of the US economy. The word was not mentioned, but there is a fear that it may be entering a period of stagflation, in which inflation rises while the economy slows. Growth will come nowhere near 2.5 percent for 2024.

In their forecasts, Fed officials cut the median expectation of growth for this year from 1.7 percent to 1.4 percent, with an increase in the unemployment rate from 4.2 percent to 4.5 percent. They raised their prediction of inflation for the end of 2025 from 2.7 percent to 3 percent.

In his prepared remarks, Powell noted that surveys of households and businesses had reported “a decline in sentiment over recent months and elevated uncertainty about the economic outlook, largely reflecting trade policy concerns.”

He warned that the Fed could find itself in the “challenging scenario in which our dual-mandate goals are in tension.” The dual mandate refers to the twin goals of price stability and the maintenance of maximum employment.

Powell claimed the Fed was in a good position to see how the tariff hikes worked their way through the economy, but he made clear there would be an increase in inflation.

“Ultimately the cost of the tariff has to be paid and some if it will fall on the end consumer,” he said during question time at his press conference.

“We know that because that’s what businesses say, that’s what the data say from the past. We know that’s coming and we just want to see a little bit of that before we make judgments prematurely,” he continued, seeking to justify the decision to hold interest rates at their present level.

Powell previously came under heavy fire for not raising interest rates fast enough following the surge in prices at the start of the COVID-19 pandemic, saying the price hikes were “transitory.” His remarks yesterday were intended as a reassurance that the criticism had been taken on board. He said that “our job is to ensure that a one-time increase in inflation doesn't turn into an inflation problem."

The uncertain outlook saw a widening divergence among the 19 Fed officials who submitted their projections. Ten of them said they expected the Fed to cut rates before the end of the year. This was a smaller majority than in the March projections. Two said they expected one rate cut and seven forecast no change—up from four in March.

The *Financial Times* reported comments by Capital Economics chief North American economist Paul Ashworth that there were "two very distinct camps developing within the FOMC." One group was looking to lower borrowing costs as they fretted about growth, while the other was focused on inflation risks.

International developments are not explicitly addressed in the Fed's pronouncements on interest rates, but they no doubt loom large in its deliberations behind closed doors. Among the most prominent is the growing lack of confidence in the US dollar as the global reserve currency.

This development is intimately linked to the tariff question as revealed in response to the April 2 "reciprocal tariffs" announced by Trump. The interest on Treasury debt rose but, contrary to what usually takes place, the value of the US dollar fell in currency markets—a decline which has since continued.

Powell maintained that since April uncertainty levels had declined. But that could all change next month when the three-month pause in the reciprocal tariff hikes expires.

Last week, the European Central Bank reported that gold had become the second-largest reserve asset held by central banks, after the dollar—the first time this has happened since US President Nixon removed its gold backing in August 1971.

Gold prices have surged by 30 percent since January and doubled in the past two years.

A survey conducted by the World Gold Council (WGC) released this week found that a record 95 percent of respondents said they expected central bank holdings of gold to increase this year. More than 70 central banks responded to the survey and three quarters said they expected US dollar holdings to decline over the next five years.

WGC representative Shaokai Fan told the FT: "The sentiment is very strong, certainly there's more confidence among central banks that the entire universe of central banks is going to buy and that their own central bank might buy."

While such purchases do not yet amount to a vote of no confidence in the US dollar as the global currency, they are a move in that direction.