Federal Reserve FOMC Recap & Regional Economic Development Update

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Executive Summary

Yesterday, the Federal Open Market Committee (FOMC) lowered its policy rate by 25 basis points to a target range of 3.50%–3.75%. The decision reflects elevated uncertainty, a cooling labor market, and inflation that remains above the 2% objective. Implementation actions include resetting administered rates and resuming reserve-management purchases of short-term U.S. Treasuries to maintain ample bank reserves. For Southern Oregon, the policy shift interacts with sector-specific cost dynamics, particularly energy, insurance, labor, and freight. This leaves Rogue Valley restaurants and small operators under pressure even as credit conditions modestly ease.

FOMC Decision & Rationale

The Committee reduced the federal funds rate by 0.25 percentage points to a target range of 3.50%–3.75%, with a split vote and explicit data-dependent forward guidance. Available indicators point to moderate growth with job gains slowing down, while the unemployment rate has been edging up. Inflation has also inched upward since earlier in the year and remains elevated above the 2% target.

Policy Implementation Details

The FOMC directed the New York Fed's Desk to purchase Treasury bills (and, if needed, other Treasuries with maturities ≤ 3 years) to keep reserves ample. Powell noted an initial reserve-management purchase of about $40 billion in the first month and removal of the aggregate limit on standing repos. This removal is a change in policy from the October FOMC meeting and gives the Fed the ability to run as many same-day overnight repos as needed to keep short-term rates in the target range. <u>Note</u>*: An overnight repo is a one-day, collateralized loan the Fed makes to eligible firms. The Fed buys high-quality securities (like Treasuries) from a counterparty today and sells them back tomorrow at a slightly higher price; that price difference is the interest. This temporarily adds cash (reserves) to the financial system and helps keep very short-term interest rates inside the Fed's target range.*

Supporting Data & Powell's Forward-Looking Expectations

<u>Summary of Economic Projections (SEP)</u>: Median projections point to real GDP strengthening in 2026, unemployment edging down after 2025, and inflation returning toward 2% over the forecast horizon.
<u>Chair's Remarks</u>: Powell emphasized a balanced-risk framework. He indicated that in the near-term, inflation could surprise on the high side, and hiring could cool more than we'd like. He also signaled a willingness to pause to assess incoming data and reiterated that monetary policy decisions are not on a preset course.

Credit Markets & Lending Implications

<u>Prime Rate</u>: As of December 11, 2025, the WSJ Prime Rate moved down 25 basis points to 6.75% from 7.00%, following yesterday's Fed action. The change lowered borrowing costs on variable-rate products indexed to Prime.
<u>Lending</u>: Expect modest improvement in variable-rate borrowing costs (credit cards, HELOCs, small-business lines) and steady conditions in asset-based facilities. Long-term rates continue to be driven primarily by market yields (e.g., the 10-year Treasury).

Rogue Valley Conditions

Despite national signals of ‘solid’ consumer spending, some Rogue Valley businesses in restaurants, breweries and lodging report rising input costs and fragile demand. Several region-specific forces include:

- Food-away-from-home (FAFH) inflation (West Region) has been running hotter than groceries, keeping menu pricing pressure elevated. As of August 2025, the 12-month FAFH for the region rose 4%, compared to 2.9% for food at home.
- Energy costs: Regional CPI data show the West energy index up 0.9% year over year (August 2025), with natural gas +6.6% and electricity +2.1%, adding pressure to back-of-house utilities for kitchens, breweries, and lodging. It is noted that while there has been upward pressure, Oregon remains one of the more affordable states for electricity with an average retail price of 11.11 cents per kilowatt hour compared to the U.S. average of 12.94 cents per kilowatt hour.
- Insurance: Wildfire-risk exposure in Jackson and Josephine counties is contributing to higher premiums and tighter underwriting, even as state law limits direct use of hazard maps for rating.
- Freight/fuels: Oregon diesel and distribution dynamics (including prior pipeline disruptions and Clean Fuels market conditions) have lifted delivered costs for ingredients.

Why Price Hikes are Hitting Resistance:

- Elasticity: Peer-reviewed estimates show fast-food demand price elasticity is −1.0 (unit elastic), which means that for every 1% increase in prices, businesses lose 1% of customers. This indicates that while cost of goods continue to rise, small employers cannot raise prices without losing customers at the same rate. This is especially true with delivery business.
- Household capacity: Real wages have risen only modestly this year (roughly +0.8% to +1.4% year over year, depending on the month), limiting room for continued price/pass-through. Surveyed diners report trading down 37% and are eating out less than a year ago; 60% choose cheaper restaurants, and 53% rely more on discounts and coupons.
- Bifurcation: A national bellwether reports nearly double-digit declines in low-income traffic while higher-income traffic rose nearly double-digits in Q3 2025, which demonstrates that operators are leaning into everyday value platforms to sustain visits.

Perspective from the Medford Chamber of Commerce:

“Businesses across the Rogue Valley are energized by the Fed’s decision. Even a quarter-point cut sends a strong signal that conditions are shifting, and our employers are ready to seize the moment. We’re seeing real momentum in manufacturing, healthcare, construction, and logistics, and local entrepreneurs continue to innovate despite higher operating costs. There’s a renewed sense of optimism that 2026 can be a year of growth, investment, and expansion. Rogue Valley businesses are resilient, adaptive, and stepping into this next phase with confidence.” – *Alex Nixon*

Analysis Related to SOREDI’s September 30, 2025 Economic Report

Our Q3 report noted steady momentum in healthcare, advanced manufacturing, construction, logistics, and a resilient visitor economy, with active equipment financing and industrial retrofit projects across the region. Today’s decision modestly improves variable-rate affordability for working capital and equipment loans, supporting automation and energy-efficiency upgrades that manufacturers are pursuing. At the same time, previously flagged headwinds such as insurance premiums, utility costs, and selective labor shortages are intensifying for hospitality and trades; reinforcing the need for tight menu engineering and local-sourcing strategies to stabilize margins.

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