Economic Update

June 12, 2024

FOMC Holds Fed Funds Rate Steady, Expects Just One Fed Funds Rate Cut This Year

- **The FOMC kept the fed funds rate unchanged in a range between 5.25% and 5.50%.**
- **The dot plot showed a median of one 25 basis point rate cut this year, compared to a median of three cuts in the previous dot plot.**
- **The dot plot shows little progress in reducing core PCE inflation this year.**
- **In his post-meeting press conference, Chair Powell noted that most FOMC participants expect some monetary policy easing this year.**
- **PNC expects two fed funds rate cuts in 2024, at each of the last two meetings of the year.**
- **Market reaction was muted to the FOMC release, but the reaction was positive to this morning's lower-than-expected inflation numbers.**

As expected, the Federal Open Market Committee kept the federal funds rate unchanged in its policy statement today, in a range between 5.25% and 5.50%. After rapidly cutting the fed funds rate to essentially zero in the aftermath of the pandemic, the FOMC increased the fed funds rate to its current level from early 2022 to mid-2023.

In its previous statement on May 1, the FOMC announced that it would slow the pace of the reduction of the central bank's balance sheet. The Fed is now rolling over $35 billion of mortgage-backed securities and $25 billion per month of long-term Treasurys per month; the rollover of Treasurys is down from $60 billion per month prior to June 1.

This FOMC meeting included the release of the Summary of Economic Projections (SEP), or "dot plot." According to the dot plot, four FOMC participants expect no cut in the fed funds rate this year, seven expect one 25 basis point cut, and eight expect a cumulative 50 basis point cut this year (presumably two 25 basis point cuts). This is a change from the previous dot plot, on March 20, when the committee was about evenly divided between three or more cuts (10 participants) and two or fewer cuts (9 participants). Today's SEP had the median fed funds rate at 4.1% at the end of 2025, up from 3.9% in the March SEP, suggesting four 25 basis point rate cuts next year. The median long-run fed funds rate in today's dot plot was 2.8%, up from 2.6% in the March dot plot.

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There was little change in the dot plot relative to March for the median forecasts for GDP growth and the unemployment rate. However, there was a bit of surprise in the inflation forecast. In particular, the median participant expected the core personal consumption expenditures price index (the FOMC's preferred inflation measure) to be at 2.8% at the end of this year, up from 2.6% in the March dot plot. Similarly, overall PCE inflation at the end of this year was 2.6% in today's dot plot, compared to 2.4% in the March projections. This occurred despite a slowing in PCE inflation in April, and in CPI inflation in April and May. In fact, year-over-year core PCE inflation was 2.8% in April; the dot plot suggests no further progress in slowing core inflation through the rest of this year.

In his post-meeting press conference, Chair Powell noted that fifteen of the FOMC participants were clustered around one or two rate cuts this year, indicating that the FOMC does expect to cut the fed funds rate this year. He also said it is "taking a bit longer to get the confidence" about slowing inflation to support a fed funds rate cut, compared to earlier this year.

Powell also noted that today's dot plot, compared to the March one, suggests that some of the expected monetary easing has been moved from 2024 to 2025. Powell said the FOMC wants to "gain further confidence" that inflation is slowing. He also said the FOMC will look at the totality of the data, including the labor market and balance of risks, in making decisions about the fed funds rate.

In discussing inflation, Powell noted recent "modest further progress" toward slower inflation. He called the labor market "relatively tight, but not overheated" and said it is "not the superheated labor market" of year or two ago.

Powell said that "we think policy is restrictive," i.e., at its current level, the fed funds rate is weighing on growth. Therefore, the FOMC wants to eventually cut the fed funds rate to support growth and avoid recession. That being said, Powell noted that growth in mid-2024 is still good, despite current restrictive monetary policy.

PNC's June interest rate forecast is for two 25 basis point fed funds rate cuts this year, at the FOMC's November and December meetings. This forecast assumes that inflation gradually eases this year due to a combination of slower housing inflation and a reduction in inflationary wage pressures with a slight softening in the labor market.

In the section of the statement on current conditions, the statement noted solid growth, a strong labor market, and slowing but elevated inflation. The statement noted recent "modest further progress toward the Committee's 2% inflation objective."

The statement was approved unanimously.

Even with the change in the dot plot showing fewer rate cuts this year, compared to March, the fed funds futures market is pricing in a 61% probability of at least a cumulative 50 basis point rate cut this year, up from 52% yesterday. The big driver of the change in the fed funds future market today was lower-than-expected inflation in May in this morning's CPI release. Similarly, the S&P 500 is up 1% for the day, but is down from the opening this morning. And the yield on the 10-year Treasury note is at 4.31% currently, down from 4.41% yesterday, but again that change was mostly due to the CPI release.

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