Economic Update

September 18, 2024

FOMC Starts Rate Cut Cycle With 50 BPS Cut in Fed Funds Rate; Dot Plot Signals More Rate Cuts to Come

- **The FOMC kicked off an easing cycle with a 50-basis point cut in the federal funds rate. This is the first rate cut since early 2020.**
- **The statement announcing the decision noted slowing inflation and softening job growth.**
- **The dot plot has the median projected fed funds rate at 4.4% at the end of 2024, implying additional rate cuts later this year, and at 3.4% at the end of 2025.**
- **Market reaction to the 50-basis point cut was modest.**

The Federal Open Market Committee cut the federal funds rate by 50 basis points, the start of what is expected to be an extended easing in monetary policy. Although the rate cut was universally expected, the size of the cut was uncertain; PNC expected a 25-basis point cut. The fed funds rate is now in a range between 4.75% and 5.00%. This is the first cut in the fed funds rate since March 2020, when the FOMC cut the fed funds rate to close to zero in response to the pandemic.

The fed funds rate is the rate on overnight loans between banks, and is the central bank's key policy rate. When the FOMC wants to promote economic growth it cuts the rate, and when it wants to slow economic growth and reduce inflation it raises the rate. After slashing the rate in early 2020 with the pandemic, the FOMC kept the rate in a range between 0.00% and 0.25% until March 2022, when it started to raise the rate aggressively through July 2023 in an effort to cool off economic growth and bring down inflation. As inflation slowed it kept the rate in a range between 5.25% and 5.50% until today's action.

The Federal Reserve has a dual mandate of maximum employment and price stability. With inflation easing toward the Fed's 2% objective, and job growth slowing in recent months, the FOMC decided now was the time to begin reducing the fed funds rate to promote stronger economic growth and prevent a further softening in the job market. In his post-meeting press conference Fed Chair Jerome Powell said that the 50-basis point cut was "sign of a commitment not to get behind" the curve in terms of slowing growth.

Today's statement noted "further progress toward the Committee's 2% [inflation] objective," but also that "job gains have slowed, and the unemployment rate has moved up but remains low." The statement also said that risks between high inflation and a soft labor market "are roughly in balance."

PNC expects further cuts in the fed funds rate this year and next as the FOMC continues to ease monetary policy in an attempt to avoid recession.

Gus Faucher
Chief Economist

Jay Hawkins
Senior Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Ershang Liang
Economist

Fed Governor Bowman voted against the statement, preferring a 25-basis point cut in the fed funds rate.

Today's release also included the Summary of Economic Projections, or "dot plot," which shows FOMC participants' expectations for the economy and the fed funds rate. The median projected fed funds rate at the end of this year is 4.4%, which suggests 25-basis point cuts at each of the two remaining FOMC meetings this year (early November and mid-December). The median fed funds rate at the end of 2025 is 3.4%, which suggests an additional four 25-basis point cuts next year. The median projected fed funds rate is 2.9% at the end of 2026, the same as the long-run median fed funds rate.

Expectations for GDP growth were little changed in today's dot plot compared to the previous one, from June, at 2% over the next few years. The unemployment rate is projected to be 4.4% at the end of 2024 in the updated dot plot, higher than the 4.0% rate in the last dot plot (from June), a reflection of the increase in the unemployment rate over the past few months. Today's dot plot has the unemployment rate at 4.3% at the end of next year and 4.2% at the end of 2026 and beyond.

Inflation expectations are lower in today's dot plot compared to the June one, as inflation has slowed over the past few months. The dot plot has inflation slowing further in 2025, and getting to the Fed's 2% objective in 2026.

Market reaction to the 50-basis point cut was modest, with the S&P 500 up 0.5% on the day. There was little change in long-term yields, although the yield on the 3-month Treasury bill is down by 9 basis points to 4.76%. The dollar has weakened about 0.5% against a basket of currencies. The price of a barrel of West Texas Intermediate crude oil is down around 0.8% today, to around $70.60.

PNC Economics
economics@pnc.com

Visit pnc.com/economicreports for more information from PNC Economics.