Economic Update

PNC

December 18, 2024

FOMC Cuts Fed Funds Rate as Expected, Signals More Gradual Pace of Rate Cuts Going Forward

- **The FOMC reduced the fed funds rate by 25 basis points as expected.**
- **The dot plot suggests two fed funds rate cuts in 2025, consistent with PNC's baseline outlook, but fewer than in the previous dot plot.**
- **In his press conference Chair Powell indicated that the FOMC is unlikely to cut the fed funds rate at every meeting in the near term.**

As expected, the Federal Open Market Committee cut the federal funds rate by 25 basis points at its meeting this afternoon, to a range of 4.25% to 4.50%. Today's statement was very similar to the previous statement, from November 1. The only substantive change was adding "the extent and timing of" to the sentence "In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks." This addition suggests that the FOMC is somewhat less confident about the pace of fed funds rate cuts going forward.

Cleveland Fed President Beth Hammack voted against the action, preferring to keep the fed funds rate unchanged.

This release also included the Summary of Economic Projections, or "dot plot," showing FOMC participants expectations for the economy and the fed funds rate over the next few years. The median fed funds rate at the end of 2025 in today's SEP was 3.9%, up from 3.4% in the previous projections, from mid-September. This suggests that participants expect to cut the fed funds two times in 2025 (assuming each cut is 25 basis points). The median fed funds rate projection at the end of 2026 is 3.4% (up from 2.9%), and at the end of 2027 is 3.1% (up from 2.9%). The longer-run value of the fed funds rate was up marginally in today's SEP, to 3.0% from 2.9% in September.

The inflation outlook is slightly higher. Median projected PCE core inflation (the FOMC's preferred inflation measure, on a Q4-to-Q4 basis) is now 2.5% in 2025, up from 2.2% in the September dot plot. The median FOMC participant now has core inflation reaching the FOMC's 2% objective in 2027, compared to 2026 in previous SEP. Some of this change is likely from recent somewhat higher inflation numbers, but also from the potential for tariffs from the incoming Trump administration.

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The near-term economic outlook is better in today's SEP, with median expected real GDP growth (Q4 to Q4) of 2.5% in 2024 (up from 2.0% in September, largely reflecting the strong third quarter), and around 2% in 2025 through 2027, little changed from September. The outlook for the unemployment rate is little changed, with a 2024 Q4 median of 4.2% today (compared to 4.4% in the previous dot plot) and 4.3% in 2025 through 2027.

In discussing current economic conditions today's statement noted "solid" expansion, but also discussed an easing in labor market conditions, including an increase in the unemployment rate. The statement mentioned slowing inflation, but also noted that it remains "somewhat elevated." The statement also said that risks to the outlook remain balanced. All of this language was unchanged from November 7.

In his post-meeting press conference Fed Chair Powell said that the FOMC is "at or near the point" where it does not need to cut the fed funds rate at every meeting going forward, saying that the committee will "move cautiously," although he also said that the committee is "still on track to continue to cut" the fed funds rate. He said that the fed funds rate currently is "significantly closer to neutral" (where the fed funds rate neither adds to nor subtracts from growth) than it was before the FOMC started to ease monetary policy in mid-September, but that monetary policy now is "still meaningfully restrictive." Powell also said that "downside risks to the labor market appear to have diminished," but that the committee also does not think the labor market needs "further cooling" to get inflation to the FOMC's 2% objective.

Powell was asked about the impact of potential tariffs on FOMC decision making. Citing the uncertainty around tariffs, he called for a wait-and-see approach.

Today's FOMC statement, dot plot, and Powell's press conference were all as expected. The committee cut the fed funds rate by 25 basis points, and the expected pace of rate cuts in 2025 in the dot plot is more gradual than in the previous one. In his press conference Chair Powell indicated that the FOMC is unlikely to cut the fed funds rate at every meeting in the near term. PNC's baseline outlook is for two cuts in the fed funds rate in the first half of next year, in March and June, skipping the FOMC's January and April meetings. PNC then expects the FOMC to hold the fed funds rate in a range between 3.75% to 4.00% in the second half of 2025 and beyond.

The S&P 500 is down almost 2% following today's FOMC statement. The yield on the 10-year Treasury note is up by 9 basis points following the release, at 4.49%. The yield on the 3-month T-bill is up by a couple of basis points, to 4.36%. The dollar has strengthened against a basket of currencies, with little reaction in oil prices.

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