Economic Update

PNC

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FOMC Minutes Suggest December Rate Cut Was a Closer Call Than Thought, With More Gradual Easing in 2025

- **The minutes from the December 17-18 FOMC meeting suggest more gradual fed funds rate cuts this year.**
- **The minutes say that the decision to cut the fed funds rate in December was "finely balanced."**
- **Participants expect that inflation will continue to slow toward the committee's 2% objective this year, but with upside risks to inflation from potential tariff increases and immigration restrictions.**
- **The FOMC views risks to the outlook as balanced.**
- **PNC's baseline forecast is for two fed funds rate cuts in the first half of this year.**

According to the minutes from the December 17-18, 2024, Federal Open Market Committee meeting, participants generally favored slowing the pace of rate cuts going forward. The minutes say that "participants indicated that the Committee was at or near the point at which it would be appropriate to slow the pace of policy easing. They also indicated that if the data came in about as expected, with inflation continuing to move down sustainably to 2% and the economy remaining near maximum employment, it would be appropriate to continue to move gradually toward a more neutral stance of policy over time. Some participants observed that, with the target range for the federal funds rate having been lowered a total of 100 basis points with this meeting's decision, the policy rate was now significantly closer to its neutral value than when the Committee commenced policy easing in September." Other factors supporting more gradual easing include recent somewhat higher inflation, strong consumer spending growth, and "increased upside risks to the outlook for inflation," in part because of the potential for higher tariffs under the incoming Trump administration.

Although all but one FOMC voting member supported the decision by the FOMC to reduce the federal funds rate by 25 basis points on December 18, the minutes say that "a majority of participants noted that their judgments about this meeting's appropriate policy action had been finely balanced. Some participants stated that there was merit in keeping the target range for the federal funds rate unchanged," citing the potential for consistently higher inflation in the near term.

Participants noted progress in slowing inflation over the past couple of years, but also that it also remained above the committee's 2% objective. The minutes say that "participants expected that inflation would continue to move toward 2%, although they noted that recent higher-than-expected readings on inflation, and the effects of potential changes in trade and immigration policy, suggested that the process could take longer than previously anticipated. Several observed that the disinflationary process may have stalled temporarily or noted the risk that it could."

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The minutes said that recent supply-side factors were a reason for optimism about the inflation outlook: "several participants remarked that insofar as recent solid increases in real GDP reflected favorable supply developments, the strength of economic activity was unlikely to be a source of upward inflation pressures. Participants cited various factors as being likely to put continuing downward pressure on inflation, including waning business pricing power, the Committee's still-restrictive monetary policy stance, and well-anchored longer-term inflation expectations. Some participants noted that nominal wage growth had continued to move down. Further, several observed that, with supply and demand in the labor market being roughly in balance and in light of recent productivity gains, labor market conditions were unlikely to be a source of inflationary pressure in the near future. However, several remarked that nominal wage growth remained slightly above the pace likely to be consistent over time with 2% inflation."

Although the general view was that risks to the outlook were roughly balanced, the risks to both the upside and the downside had increased since the election, citing trade, immigration, and tax and regulatory policies. There were differences as to what extent FOMC participants had adjusted their forecasts in response to potential policy changes from the incoming Trump administration: some had made placeholder assumptions, others had not, and a few did not specify their response. There was a general sense that risks to the inflation outlook had increased since the election.

The minutes from the December 17-18 FOMC meeting point to a more cautious view of monetary policy. Recent choppier inflation numbers, continued strength in consumer spending, and potential Trump administration policies all made participants somewhat more concerned about inflation. In addition, with the fed funds rate down 100 basis points since the FOMC started to ease in September 2024, there was agreement that the committee would move more gradually in cutting the rate in 2025. This is reflected in the Summary of Economic Projections ("dot plot") also released on December 18, which pointed to two 25 basis point cuts in the fed funds rate in 2025. This is consistent with PNC's baseline forecast, which has the FOMC cutting the rate at every other meeting in the first half of this year (at the FOMC's meetings in March and June), which would take the rate to a range of 3.75% to 4.00% by mid-2025, and then holding the rate there through the rest of the year and into 2026.

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