Economic Update

January 29, 2025

FOMC Holds Fed Funds Rate Steady as Expected; Powell Says Fed Needs to See "Real Progress on Inflation" to Cut Again

- **The FOMC kept the fed funds rate unchanged, in a range between 4.25% and 4.50%.**
- **The language in the statement on inflation changed, indicating less progress in recent months. The statement was more optimistic on the outlook for the labor market compared to the previous one.**
- **In his press conference Fed Chair Powell said the FOMC needs to see “real progress on inflation,” or a deterioration in the labor market, to cut the fed funds rate again.**
- **PNC’s baseline forecast is for two cuts in the fed funds rate later this year.**

As expected, the Federal Open Market Committee left the fed funds rate unchanged in its policy statement this afternoon, in a range between 4.25% and 4.50%. The FOMC has cut the fed funds rate by a cumulative 100 basis points since it started easing in September to mid-December. The decision was unanimous.

The FOMC said that “inflation remains somewhat elevated,” which was included in the previous statement on December 18, but the committee took out wording that inflation “has made progress toward the Committee’s 2% objective.” This suggests more concern about recent inflation readings. Today’s statement added language that “the unemployment rate has stabilized at a low level,” and removed language that the labor market “has generally eased, and the unemployment rate has moved up.” This reflects continued solid job growth and an unemployment rate that has been between 4.1% and 4.3% for the last half-year.

The forward-looking section of the statement was unchanged from December. It said that the risks to the outlook are roughly balanced, and that the FOMC will consider both the labor market and inflation when making policy decisions.

In his post-meeting press conference, Fed Chair Jerome Powell said that the central bank needs to see “real progress on inflation or some weakness in the labor market before we consider making adjustments.” He also said that in terms of potential impacts of tariffs on the economy, “the range of possibilities is very, very wide.” His statements suggested the FOMC will not respond to tariffs until there is more clarity on the tariffs themselves and their impacts on growth and inflation.

As expected, the FOMC kept the fed funds rate unchanged today, after easing in the second half of 2024. In his press conference, Fed Chair Powell suggested that the FOMC is not ready to cut the fed funds rate again until there are either softer readings on inflation or indications of deterioration in the labor market. PNC’s baseline forecast is for two additional fed funds rate cuts in 2025 of 25 basis points each, but the timing of those cuts is uncertain. This would take the fed funds rate to a range of 3.75% to 4.00% by the end of 2025.

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