Economic Update

August 21, 2024

Some FOMC Participants Supported a Rate Cut in July; The Committee Held Off But Is Ready to Cut in September

- **Some participants supported a rate cut at the FOMC's late-July meeting, but committee members decided to await further slowing in inflation.**
- **Committee members were supportive of a rate cut at the committee's next meeting, on September 18.**
- **The balance of risks between high inflation and a weak labor market were moving into better balance.**
- **PNC's forecast is for a 25-basis point cut in the fed funds rate on September 18, with additional rate cuts later this year and in 2025.**

According to the minutes from the Federal Open Market Committee meeting on July 30 and 31, there was discussion of a possible rate cut at that meeting. The minutes say that "several [participants] observed that the recent progress on inflation and increases in the unemployment rate had provided a plausible case for reducing the target range 25 basis points at this meeting or that they could have supported such a decision." However, in the end, the committee voted to keep the fed funds rate unchanged in a range between 5.25% and 5.50%.

Although participants were encouraged by the ongoing slowing in inflation, "additional information was needed to provide greater confidence that inflation was moving sustainably toward the Committee's 2% objective before it would be appropriate to lower the target range for the federal funds rate. Nevertheless, participants viewed the incoming data as enhancing their confidence that inflation was moving toward the Committee's objective. The vast majority observed that, if the data continued to come in about as expected, it would likely be appropriate to ease policy at the next meeting."

In discussing inflation "participants judged that recent data had increased their confidence that inflation was moving sustainably toward 2%. Almost all participants observed that the factors that had contributed to recent disinflation would likely continue to put downward pressure on inflation in coming months." They noted that the slowing in inflation in recent months had been broad-based, across goods, housing, and non-housing services. They also mentioned slower wage growth, with a better balance between supply and demand in the labor market, as a contributor to lower inflation.

Participants noted slower but still-solid growth in consumer spending as a result of tighter monetary policy, a softening labor market, and slower income growth. Some participants observed increasing strain for lower- and middle-income households with elevated inflation and a rundown of savings accrued during the pandemic.

Gus Faucher
Chief Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Ershang Liang
Economist

The general view was that the balance of risks was improving. The risk of higher inflation had eased, while the risk of a deteriorating labor market had increased.

The FOMC is ready to cut the federal funds rate at their next meeting on September 18. Some participants wanted to cut the rate on July 31, but others wanted to see more progress on inflation, so the committee held off. But with another good CPI inflation report and softer job growth in July, and the committee more concerned about the labor market, the pieces are in place for a rate cut. PNC expects a 25-basis point cut in the fed funds rate on September 18, with additional 25-basis point cuts at the FOMC's remaining meetings this year, in November and December. This would take the rate to a range between 4.50% and 4.75% at the end of 2024. PNC then expects additional rate cuts in the first half of 2025 as the FOMC continues to ease. Rate cuts this year and next should allow for a "soft landing" with a continued slowing in inflation and weaker near-term economic growth, but no recession. Growth should pick up in mid-2025 as rate cuts boost economic activity with a lag.

PNC Economics
economics@pnc.com

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