Economic Update

October 10, 2024

FOMC Minutes: More Confident Around Slowing Inflation, More Concern About the Labor Market

- **The minutes from the September 17-18 FOMC meeting indicated improved confidence that inflation was slowing to the 2% objective.**
- **Participants noted an easing in the labor market, but also believed that the economy was at maximum employment.**
- **The balance of risks between inflation and employment was roughly equal.**
- **The FOMC cut the fed funds rate by 50 basis points on September 18. Some participants favored a 25 basis point cut, but only one dissented.**
- **PNC expects additional 25 basis point rate cuts at the two remaining FOMC meetings this year, with additional rate cuts in 2025.**

According to the minutes of the Federal Open Market Committee's meeting on September 17 and 18, "almost all participants judged that recent monthly readings had been consistent with inflation returning sustainably to 2%," the FOMC's inflation objective. Anecdotal evidence from contacts indicated reduced pricing power and more consumer sensitivity to price increases, supporting a further slowing in inflation. In addition, "almost all participants indicated they had gained greater confidence that inflation was moving sustainably toward 2%," citing reduced wage pressures and weaker rent growth, which was expected to result in slowing shelter inflation.

The minutes say that "participants noted that labor market conditions had eased further in recent months and that, after being overheated in recent years, the labor market was now less tight than it had been just before the pandemic. As evidence, participants cited the slowdown in payroll employment growth and the uptick in the unemployment rate in the two employment reports received since the Committee's July meeting, lower readings on hiring and job vacancies, reduced quits and job-finding rates, and widespread reports from business contacts of less difficulty in hiring workers." There was agreement that the labor market at the time of the September 17-18 meeting was "consistent with the Committee's longer-run goal of maximum employment."

Gus Faucher
Chief Economist

Jay Hawkins
Senior Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Ershang Liang
Economist

In addition, “participants noted that further cooling did not appear to be needed to help bring inflation back to 2%,” that is, participants did not want to see the labor market soften further. The minutes do so that some participants were concerned that the potential for a further weakening in the labor market, noting that “the risk had increased that continued easing could transition to a more serious deterioration.”

Most participants agreed that the balance of risks had roughly equalized, with reduced risk of higher inflation but greater risk to a softer labor market. But the minutes also say that “a couple of participants, however, did not perceive an increased risk of a significant further weakening in labor market conditions.”

At the meeting the FOMC decided to cut the federal funds rate, the committee’s key short-term policy interest rate, by 50 basis points, to a range of 4.75% to 5.00%. The minutes note substantial discussion around this. They say that “some participants noted that there had been a plausible case for a 25 basis point rate cut at the previous meeting [on July 30 and 31] and that data over the intermeeting period had provided further evidence that inflation was on a sustainable path toward 2% while the labor market continued to cool.” At the same time, “some participants observed that they would have preferred a 25 basis point reduction of the target range at this meeting, and a few others indicated that they could have supported such a decision,” citing inflation that was still above the 2% objective and low unemployment. In the end, only one FOMC member, Fed Governor Bowman, dissented; she favored a 25 basis point reduction. The minutes say “a few participants remarked that the overall path of policy normalization, rather than the specific amount of initial easing at this meeting, would be more important in determining the degree of policy restriction.”

There was general agreement that if inflation continued to slow as expected and the labor market remained near maximum employment, “it would likely be appropriate to move toward a more neutral stance of policy over time.”

The minutes from the September 17-18 FOMC are consistent with PNC’s forecast for further fed funds rate cuts in 2024 and 2025. PNC expects the FOMC to cut the fed funds rate by 25 basis points at its remaining meetings this year, on November 7 and December 18, which would bring the rate down to a range of 4.25% to 4.50% at the end of 2024. PNC then expects additional 25 basis point rate cuts at the FOMC first four meetings next year, in the first half of 2025, and then hold the rate steady. This would bring the rate down to 3.25% to 3.50% by mid-2025.

However, this schedule depends on inflation and the labor market. If inflation is more stubborn in moving to 2%, the pace of rate cuts would be slower. Alternatively, a marked softening in the labor market would result in a faster pace of monetary easing.

PNC Economics
economics@pnc.com

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