Economic Update

November 26, 2024

FOMC Minutes Point to Gradual Fed Funds Rate Cuts Going Forward

- **According to the minutes from the FOMC's November 6-7 meeting, participants expected inflation to continue to slow in the near term toward the 2% objective.**
- **Participants viewed the current labor market as roughly consistent with the committee's mandate of maximum employment.**
- **Risks to the outlook were viewed as roughly balanced.**
- **The FOMC expects to continue to gradually reduce the fed funds rate in the near term, with PNC expecting a cut next month.**

According to the minutes from the Federal Open Market Committee on November 6 and 7, participants were optimistic that inflation would continue to slow toward the central bank's 2% objective in the near term. They cited lower inflation across a broad range of goods and services, anecdotal evidence from business contacts about consumer behavior, and slowing rent growth. Continued high interest rates, even after cuts in the federal funds rate; reduced business pricing power; slower wage growth; and strong supply-side growth that would allow for continued economic expansion without inflationary pressures were all expected to contribute to lower inflation in the short run.

Participants were also optimistic about the labor market. Wage pressures were expected to continue to ease as labor demand softened and there was less tightness in the job market. But at the same time "there was no sign of rapid deterioration in labor market conditions" as layoffs remained low. The minutes say that "participants generally judged that current labor market conditions were broadly consistent with the committee's long-run goal of maximum employment." Although the committee remained attentive to risks to the labor market, the minutes say that "many participants saw the risk of an excessive cooling in the labor market has having diminished somewhat since…September."

Recent economic data, including data on consumer spending, have come in somewhat stronger than expected. However, some participants did note increased financial stress for lower- and middle-income households. Downside risks to the economic and labor market outlooks had decreased somewhat since the previous meeting in late September, while upside risks to the inflation outlook were little changed. The minutes say that "almost all participants judged the risks to the attainment of their dual-mandate objectives of maximum employment and price stability to be roughly in balance."

In terms of monetary policy, the minutes say that "it would likely be appropriate to move gradually toward a more neutral stance of policy over time," indicating that further fed funds rate cuts are coming. That being said, the minutes also say "that monetary policy decisions were not on a preset course and were conditional on the evolution of the economy…and the balance of risks."

Gus Faucher
Chief Economist

Jay Hawkins
Senior Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Ershang Liang
Economist

The minutes of the FOMC meeting on November 6 and 7 point to further near-term rate fed funds rate cuts, but the pace of cuts will depend on the incoming data. Participants agreed that monetary policy is currently restrictive, that is weighing on economic growth, but wanted to move gradually to a more neutral stance. In a speech after the FOMC meeting Federal Reserve Chair Jerome Powell said that the FOMC does not “need to hurry” to reduce rates given the underlying strength of the economy. PNC’s current forecast is for a 25 basis point reduction in the fed funds rate at the next FOMC meeting on December 17 and 18, which would take the rate to a range of 4.25% to 4.50% at the end of 2024, down from 5.25% to 5.50% in the first eight months of 2024. PNC then expects additional gradual fed funds rate cuts in 2025.

PNC Economics
economics@pnc.com

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