

FOMC meeting, June 11-12

June 12, 2024



Authors: **Lydia Boussour and Gregory Daco**

Meeting recap

Fed sees one rate cut ahead ... just because

The Federal Open Market Committee (FOMC or the Committee) voted unanimously to hold the federal funds rate at 5.25%-5.50%. The statement was largely unchanged, while the dot plot now indicates only one rate cut this year, down from three in the March dot plot, and four rate cuts next year instead of three. While the overall growth picture was unchanged, inflation projections were upgraded to reflect higher-than-expected inflation in Q1.

We continue to believe a July onset of the easing cycle would have been optimal given easing inflation and softening labor market conditions, but a September onset is now more likely given policymakers' backward-looking hawkish bias. We expect two 25 basis points (bps) rate cuts in 2024 and 125bps of easing in 2025.

- 1. Wait-and-see posture.** The FOMC policy statement was slightly tweaked to acknowledge the improvement in inflation data over the past two months. Officials substituted "a lack of further progress" for "modest further progress" toward the Fed's 2% inflation goal. The sentence noting "the Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%" was preserved, essentially taking a July rate cut off the table. On the balance sheet front, the Fed will continue with a tapered quantitative tightening program with adjusted redemption caps on Treasury securities at \$25b per month and on agency mortgage-backed securities at \$35b.
- 2. Hawkish dots.** The new interest rate dot plot shifted higher as the rebound in inflation at the start of the year led Fed officials to lean toward delaying the onset of the easing cycle.

The median interest rate projection points to only 25bps of easing expected in 2024 and the fed funds rate at 5.1% in Q4 2024. However, the Committee is almost evenly split on the number of rate cuts expected this year, with eight policymakers favoring two 25bps cuts and seven members favoring only one 25bps cut while four policymakers expect no rate cuts. It is worth noting that 10 policymakers had penciled in three or more cuts at the March meeting compared to none in the new projections.

The Q4 2025 median projection was revised higher from 3.9% to 4.1%, indicating another 100bps of rate cuts next year, compared to 75bps in the March dot plot.



The estimate of the long-term neutral rate was also revised up from 2.6% to 2.8% as Fed officials increasingly acknowledge that rates will likely stabilize higher than in the decade pre-pandemic. Still, Fed Chair Jerome Powell made sure to stress that the neutral rate estimate was of little significance in telling how restrictive monetary policy was today.

- 3. Summary of Economic Projections (SEP).** While the overall growth picture was unchanged, inflation projections were upgraded to reflect higher-than-expected inflation in Q1.

The GDP outlook was mostly unchanged with real GDP seen at 2.1% year over year (y/y) in Q4 2024 and 2% in Q4 2025. Meanwhile, the unemployment rate was also unchanged in 2024 but is now expected to rise a little higher toward 4.2% in Q4 2025 and settle at 4.2% in the long run, instead of 4.1% previously.

Fed officials acknowledged the stronger inflation data at the start of the year, with core inflation projections revised up: core personal consumption expenditures inflation is expected at 2.8% y/y in Q4 2024 (vs. 2.6% previously), while the 2025 projection was raised 0.1 percentage point (ppt) higher to 2.3% y/y. A majority of policymakers continues to see risks to the inflation outlook as tilted to the upside.

- 4. FOMC still searching for confidence.** During the press conference, Fed Chair Powell failed to provide any forward guidance on policy and monetary policy transmission. He simply reiterated that the inflation data has so far not provided policymakers with greater confidence that inflation is moving sustainably toward 2% and that gaining such greater confidence would require seeing “more good inflation readings” and improvements in the “totality of the data.” In a break from prior communication, he shied away from any mechanical estimate of how many “good” readings would be required to build confidence.

The softer-than-expected May Consumer Price Index (CPI) report does not appear to have swayed the Committee's lean toward fewer cuts. Fed Chair Powell acknowledged that the most recent inflation readings have been more favorable than earlier in the year but only noted that “there has been modest further progress” toward the 2% target. When asked if FOMC members had the chance to change their interest rate projections considering the latest CPI data, Fed Chair Powell stated that members have the ability to do so, but that “most people don't.”

Fed Chair Powell reiterated that an unexpected deterioration in labor market conditions is a risk that could lead to interest rate cuts in the coming months. But he offered a positive assessment of the labor market over the past few months, pointing to increased labor supply, softer labor demand and fewer quits along with stronger job creation. He noted that “the overall picture is one of a strong and gradually cooling, gradually rebalancing labor market.”

When asked about the current policy stance, Fed Chair Powell noted that “the evidence is pretty clear that policy is restrictive” and “about right,” and that “the question of whether it's sufficiently restrictive is going to be one we know over time.” He also highlighted the two-sided risks of easing monetary policy too soon or too late while keeping a neutral tone and avoiding putting emphasis on one side of the Fed's mandate.

Still, he didn't provide any forward-looking rationale as to why the Fed would cut interest rates later this year if economic conditions remained largely unchanged (as per the SEP), or conversely why the Fed wouldn't ease monetary policy today.

How EY-Parthenon can help

Strategy consulting services

[Read more](#)

Contacts



Gregory Daco

EY-Parthenon Chief Economist
Strategy and Transactions
Ernst & Young LLP



Lydia Boussour

EY-Parthenon Senior Economist
Strategy and Transactions
Ernst & Young LLP



Marko Jevtic

EY-Parthenon Senior Economist
Strategy and Transactions
Ernst & Young LLP



EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

About EY-Parthenon

EY-Parthenon teams work with clients to navigate complexity by helping them to reimagine their eco-systems, reshape their portfolios and reinvent themselves for a better future. With global connectivity and scale, EY-Parthenon teams focus on Strategy Realized – helping CEOs design and deliver strategies to better manage challenges while maximizing opportunities as they look to transform their businesses. From idea to implementation, EY-Parthenon teams help organizations to build a better working world by fostering long-term value. EY-Parthenon is a brand under which a number of EY member firms across the globe provide strategy consulting services. For more information, please visit ey.com/parthenon.

© 2024 Ernst & Young LLP.
All Rights Reserved.

CS no. 2407-4565112

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

ey.com

The views reflected in this article are the views of the author(s) and do not necessarily reflect the views of Ernst & Young LLP or other members of the global EY organization.

[See more on Macroeconomic insights](#)