ECONOMIC UPDATE

REGIONS

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June FOMC Meeting: "Modest" Progress Isn't Sufficient Progress

- The FOMC made no change to the Fed funds rate target range, leaving the mid-point of the target range at 5.375 percent
- The median year-end 2024 dot is now at 5.125 percent, up from at 4.625 percent in the prior two editions

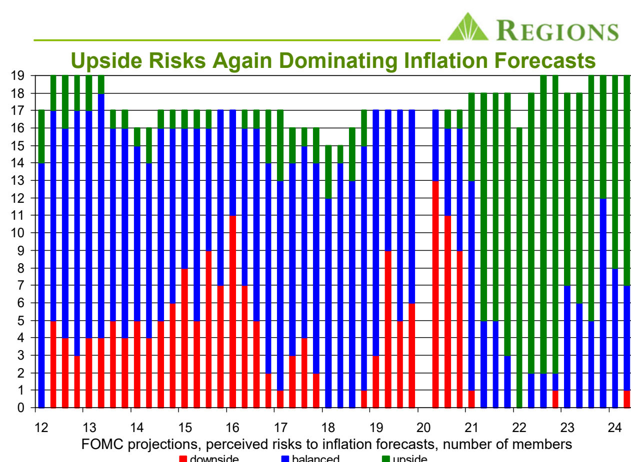
The questions heading into this month's FOMC meeting were not around whether there would be a cut in the Fed funds rate, as no one on this side of reality anticipated a rate cut. Instead, the questions were around the FOMC's updated economic and financial projections, specifically, how the inflation forecast and the dot plot would change. That the updated inflation forecast is higher than that issued in March is no surprise, nor is the fact that the updated dot plot implies fewer than three twenty-five basis point cuts in the funds rate by year-end 2024. What did come as a surprise to many, however, is that the updated dot plot implies but a single twenty-five basis point cut, a larger shift than many had expected and one that seems at odds with Chair Powell's perceived gradualist approach. Many had, in the wake of the fairly mild May core CPI print released earlier today, all but assumed the updated dot plot would imply a pair of rate cuts by year-end. While we are not surprised to see the dot plot imply only one rate cut by year-end, we are a bit surprised that it wasn't as close of a call between one cut or two as we anticipated. It is, of course, misguided to place too much stock in what any given dot plot implies about the path of the Fed funds rate. Our view is that the dot plot gets much too much emphasis, and we see the updated dot plot as merely reinforcing the message FOMC members have been sending for some time, i.e., yes, there has been progress on inflation, but not nearly enough.

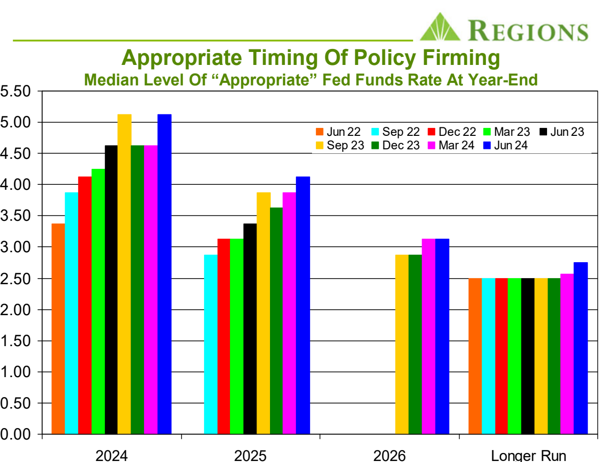
The post-meeting policy statement is little changed from the March version, again noting that "economic activity has continued to expand at a solid pace" and that job gains have remained strong. One noteworthy change is that whereas the March statement noted a "lack of further progress" toward the Committee's 2.0 percent inflation target, today's statement notes "modest further progress." This characterization goes right to our point about the message sent by the updated dot plot.

The updated economic forecasts bring no change in the expected rate of growth in real GDP, still at 2.1 percent, on a Q4/Q4 basis, in 2024 and still at 2.0 percent in both 2025 and 2026 (Q4/Q4). While the updated forecast shows an average unemployment rate of 4.0 percent in Q4 2024, as in the March forecast, the average Q4 rate in both 2025 and 2026 is one-tenth of a point higher than in the March forecast. Of more relevance is that the forecasts for inflation in Q4 2024, both headline and core, are twenty basis points higher than was the case in the March forecast, though in each case the average Q4 rate in 2025 and 2026 is unchanged from the March forecast, with inflation still above the FOMC's 2.0 percent target rate at year-end 2025. That the Q4 2024 forecast is higher might lead some to question why the updated dot plot implies any rate cuts at all in 2024, particularly in light of how Committee members assess the balance of risks to their inflation forecasts. We've noted that these assessments of risk get less attention than they deserve, and as our first chart below shows, upside risks are again dominating the inflation forecasts.

As noted above, the updated dot plot implies but a single twenty-five basis point cut in the Fed funds rate by year-end 2024, compared to the three cuts implied by the prior two editions. To our earlier point, it would have taken two members shifting their call from one cut to two to shift the median year-end dot, whereas in the March edition it would have taken only one member changing their call to shift the median year-end dot. Moreover, the dispersion of the dots shows four members seeing no rate cuts this year as being appropriate. In the "for what it's worth" category, the updated dot plot implies one hundred basis points worth of cuts in both 2025 and 2026, whereas the March edition implied seventy-five basis points of cuts in each year. Still, the median year-end 2025 dot is twenty-five basis higher than was the case in the March edition, which simply reflects two cuts having been taken out of 2024. The median estimate of the "neutral" Fed funds rate edged a bit higher, rising to 2.75 percent. While this marks the second straight time the median estimate of neutral has risen, it nonetheless remains well lower than we and many market participants would put it.

Interestingly, in his post-meeting press conference Chair Powell noted that rate cuts were pushed out into the future due to the delay in progress on disinflation, such that rate cuts that "might have taken place this year" are instead coming later. While downplaying the estimate of the neutral funds rate, Chair Powell reiterated that the Committee believes monetary policy is restrictive, such that over time the economy will weaken, thus bringing slower growth and a faster pace of disinflation.





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