June 16, 2023

Fed Holds in June to Assess Impact of Policy Tightening to Date

Transcript

Kathleen Navin: Welcome to this installment of *Take Five with the St. Louis Fed*. I'm Kathleen Navin, senior business economist in Supervision, and today, I will be discussing the FOMC meeting that took place on June 13 and 14. At this meeting, the FOMC maintained the target for the federal funds rate at a range of 5 to 5-1/4 %. This decision was unanimous and followed ten consecutive meetings of rate hikes for a cumulative tightening of 500 basis points. There were no changes to the Federal Reserve's balance sheet policy or the reduction of holdings in Treasurys; agency debt and agency MBS will continue as previously announced. The FOMC reiterated its strong commitment to bringing inflation back to the 2 % objective. In discussing the decision to hold at the June meeting, Chair Powell stated during the press briefing, "At this meeting, considering how far and how fast we moved, we judged it prudent to hold the target range steady to allow the committee to assess additional information and its implications for monetary policy."

At this meeting, we also received updated economic projections for real GDP, the unemployment rate, inflation, and monetary policy through the dots plot. Updated economic projections indicate stronger growth this year with a lower unemployment rate and higher core PCE inflation relative to the March projections. The updated dots plot showed the majority of FOMC participants use some additional tightening over the balance of the year as appropriate. Let's take a closer look at the projections.

Turning now to real GDP growth, this chart shows the median projection. For 2023, the median projection is that real GDP growth will be 1%t and then rise slightly to 1.1 percent by 2024. The forecast for 2023 was revised up relative to the March projection quite materially, and this upward revision is also reflected in projections for the unemployment rate, where we saw the stronger real GDP growth numbers implying a lower unemployment rate for 2023 relative to the March projections. Here we show that the unemployment rate is 4.1 %by the end of this year, which is still an increase from current levels of 3.7% as of May and then continuing its slight rise to 4.5 % by the end of 2024, where it remains through 2025. These projections would be above the longer-run estimate of 4 %.

Turning now to inflation, for headline PCE inflation, the median projection is for inflation of 3.2 % this year and then a further moderation to 2.5 % in 2024 and 2.1 % by 2025. This would be close in line with the longer-run expectation of 2 % and the Fed's objective of 2 % for PCE inflation. These were little revised relative to the March projections, and if you look instead at core inflation, we see a little bit more of the story forming here. What we see on core inflation, which removes the volatile components of energy and food, is that the inflation expectation was actually revised up for 2023 relative to the March forecast. Currently, the median projection is for core PCE inflation of 3.9 % this year, which is three-tenths higher than the March projection. Core inflation then slows to 2.6% by 2024 and further to 2.2 % in this latest set of projections. That core PCE inflation was revised higher suggests that core PCE inflation is proving stickier than was previously expected as of the March meeting, and this is consistent with the update we saw to the dots plot.

Turning now to the dots plot, what we see is that the committee raised the median projection for the federal funds rate at the end of this year by 50 basis points to 5.6 %. Given the current level, this would imply an additional two rate hikes of 25 basis points each by the end of the year. Rates then begin to come down in 2024 and further in 2025, returning slowly to that 2.5 % in the long run. But staying focused on 2023, we see that at 5.6 %, this would be higher than where we are currently by 50 basis points; and during the press briefing, Chair Powell reiterated his previous message that rate cuts this year would not be appropriate, a message that he has said at recent meetings, but markets seem to be picking up on. If we look at the latest market expectations—here, these are from the Chicago Mercantile Exchange—we see that markets expect for an additional rate increase at the July meeting of 25 basis points and then for the FOMC to hold rates there through the end of the year. This would leave the market expectation about 25 basis points below the latest FOMC projection, but is different from what we've seen recently, where they were putting in rate cuts.

With the next meeting taking place at the end of July, policymakers will continue evaluating incoming data—including economic data, banking data, and financial conditions—to determine the appropriate path for monetary policy going forward. This continues its data-dependent approach.

That concludes this segment of *Take Five with the St. Louis Fed*. Thanks so much for joining.

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