Take Five
WITH THE ST. LOUIS FED

March 22, 2024

Fed holds steady in March, discusses slowing balance sheet runoff “fairly soon”

Transcript

Kathleen Navin: Welcome to this edition of *Take Five with the St. Louis Fed*. I’m Kathleen Navin, Senior Business Economist, and today, I’ll be talking about the latest FOMC meeting that took place on March 19 and March 20.

At this meeting, the FOMC maintained the current target for the federal funds rate at a range of 5.25 to 5.5%, where it has been since July of 2023. This current stance of monetary policy is viewed as restrictive and should be putting downward pressure on economic activity and, most importantly, on inflation. Indeed, the FOMC remains committed to bringing inflation back to its 2% objective. And in thinking about when it may be appropriate to begin removing policy restraint—in other words, cutting interest rates—the Committee again noted in its statement, and then Chair Powell in the press briefing, that it was continuing to look for greater confidence that inflation was on a sustainable path back to 2%.

Let’s turn now to the balance sheet. There were no changes to Federal Reserve balance sheet policy at this meeting in March. It continues to reduce security holdings at a pace of $95 billion per month. Since quantitative tightening began in 2022, the Federal Reserve’s balance sheet has declined by nearly $1.5 trillion. Now, while there were no changes to policy at this meeting, Chair Powell did note that Committee members discussed potentially slowing the pace of runoff “fairly soon.” And as he put it, “Slowing the pace of runoff will help ensure a smooth transition, reducing the possibility that money markets experience stress and thereby facilitating the ongoing decline in our securities holdings consistent with reaching the appropriate level of ample reserves.”

Also new to this meeting were an updated set of economic projections. Let’s look first at real GDP growth. Here, we see the median projection for real GDP growth was revised up from 1.4% to 2.1% in 2024. This is a fairly notable upward revision. Turning to 2025 and 2026, we see that the median projection was revised higher to 2% in both years, and the longer-run estimate of real GDP growth was unchanged at 1.8%. So, this new set of projections shows real GDP growth stronger than that longer-run rate, which is a change from previous forecasts, where we saw a more notable slowdown in 2024 moving back up toward the longer-run rate.

And what did this mean for the unemployment rate projections? Well, we did see a slight downward revision in the unemployment rate when looking at the median projection. For 2024, the median projection is for the unemployment rate to end the year at 4% before

ticking up to 4.1%. So, similar to the December set of projections, but a slightly lower rate for 2024. But, in the longer run, continuing back to 4.1%. So, fairly similar.

Looking now at inflation, when we look at headline PCE inflation, we see the median projection was unchanged, with the Committee continuing to look for a further moderation in inflation. Here, we have 2.4% in 2024 and then further moderating to 2.2% in 2025 and then to 2% in 2026, becoming in line with that 2% FOMC objective for inflation. So, very similar to the December set of projections, a slight upward revision for the 2025 number, but broadly similar.

And when we look at core PCE inflation, which removes the volatile components of food and energy, we see that the median projection was revised up for 2024 from 2.4% to 2.6% in this latest set of projections. Now, that likely reflects the incoming data we've had on inflation since the December meeting. Specifically, both January and February inflation numbers did come in higher than expected. So, essentially, this results in a higher jump off for the forecasts, but by 2025, the median projection is for core inflation to continue to moderate to 2.2% and then further to 2% in 2026.

And what does this mean for the appropriate path of monetary policy moving forward? Well, also included in the projections are the dots, or the dot plot. And essentially, when we look at the median projection of the federal funds rate, we see that the federal funds rate is expected to end this year at 4.6%, which implies 75 basis points and rate cuts this year, or three-quarter-point cuts. This is unchanged from the December set of projections. Looking ahead to 2025, we do see an upward revision from 3.6% to 3.9% for the federal funds rate at the end of the year, essentially implying one fewer rate cut in 2025, and then that carries into 2026, where we saw an upward revision from 2.9% to 3.1%.

Now, interestingly, in this set of projections, we did also see an upward revision to the longer-run estimate of the nominal federal funds rate from 2.5% to 2.6%, and when we look at the range of estimates—so looking at all of the individual dots, or projections—we see that the range itself in terms of the lowest projection to the highest projection did not change, but the distribution within that range did move slightly higher, essentially bringing the median dot up to 2.6%.

And how did markets feel about this latest meeting? Well, when we look at market expectations for the federal funds rate, we did see a move back toward expecting three rate cuts in 2024. Prior to the meeting on Tuesday, March 19, markets were seeing the most probable outcome as two rate cuts. So, after the announcement, after the press conference, we see markets move back to three rate cuts, essentially bringing it in line by the end of the year with that latest projection in the SEP. And in the latest set of market expectations, that first cut occurs in June.

But as we know, the data are continuing to evolve. The economic outlook does remain uncertain and is also evolving. So, we will continue to monitor incoming data on economic conditions, financial conditions, and banking conditions between now and the May meeting. That concludes this installment of *Take Five with the St. Louis Fed*. Thank you so much for joining us.

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