Take 5 Five
WITH THE ST. LOUIS FED

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Fed holds again in June; future path for policy remains data dependent

Transcript

Kathleen Navin: Welcome to this edition of *Take Five with the St. Louis Fed*. I'm Kathleen Navin, senior business economist in Supervision, and today, I'll be discussing the latest FOMC meeting that took place on June 11 and June 12.

At this meeting, the FOMC voted unanimously to maintain its current target for the federal funds rate at a range of 5.25% to 5.5%, where it has been now for almost a full year. In addition, the FOMC continues to reduce its security holdings. Both the FOMC statement and Chair Powell's press briefing reiterated the sentiment that the FOMC remains strongly committed to bringing inflation back to the 2% objective. Indeed, in the latest FOMC statement, it noted, "In recent months, there has been modest further progress toward the Committee's 2% inflation objective." This was an improvement from the previous statement in May that noted there had been a lack of further progress toward that 2% objective. Indeed, as of the timing of the May meeting, there had been a string of disappointing inflation ratings through the first three months of the year, but more recent readings for April and May, including the May CPI report that was released on the morning of the FOMC announcement, those have been more favorable. Still, inflation remains too high relative to the 2% objective. And as Chair Powell stated during the press briefing, "We will need to see more good data to bolster our confidence that inflation is moving sustainably toward 2%."

Let's take a look at the latest set of economic projections. Turning first to real GDP growth, we see the Committee continues to look for growth to slow from 3.1% in 2023 to 2.1% in 2024 and then slightly further to 2% in 2025 and 2026. These were unrevised from the set of projections released in March. We see that all three of these forecasts are running above the longer-run estimate of 1.8%, so painting a fairly solid picture for economic growth in the baseline forecast. This is consistent with an unemployment rate that remains low in the historical context. We see that the median projection is for the unemployment rate to rise very gradually from 4% in 2024 to 4.2% in 2025. It ticks back a little to 4.1% in 2026, but all three of these forecasts are either at or below that longer-run estimate, which was revised to 4.2%, so fairly solid labor market conditions in this median set of projections.

Let's turn now to inflation, where we did see some material revisions to the forecast relative to March. We have an upward revision to headline PCE inflation to 2.6% in 2024, and then the median projection is for inflation to continue to moderate to 2.3% in 2025 and 2% in

2026, which is in line with that longer-run objective of 2%. When we compare these to the March set of projections, we see an upward revision of two-tenths of a percentage point to 2024 and one-tenth of a percentage point to 2025. We saw similar revisions to the set of projections for the core PCE inflation measure, which removes the volatile components of food and energy. Here, we see that the median projection is for core PCE inflation to be 2.8% in 2024, slow to 2.3% in 2025, and then slow further to 2% in 2026, again showing some upward revision from March.

And those upward revisions are important when we think about the appropriate path of monetary policy going forward, and indeed, we did receive a new set of projections for that appropriate path. And when we look at how those changed relative to the March set of projections, we see that the federal funds rate is now expected to end the year at 5.1% according to these projections, which implies just one rate cut this year, and this was revised from the March set of projections where we had three rate cuts penciled in in the set of the median projections. We see that policy restraint continues to be removed over the next couple of years, and by 2026, ending the year at 3.1% where it was in that March set of projections. So, essentially, overall, the same number of rate cuts throughout the next three years, but just pushed further into 2025 and 2026. And by 2026, that 3.1% still slightly above the longer-run estimate of 2.8%, which was revised up in this set of projections as we saw the distribution of estimates for the longer-run federal funds rate kind of drift higher toward a higher rate.

It's important to keep in mind, however, that the outlook remains uncertain and can, and most likely will, change over the course of the year and that the actual path of policy remains data dependent. And so, when thinking about monetary policy and interest rates and how that could evolve over the year, it's important to keep in mind, really, three points that Chair Powell has made during his press briefing. The first is that we know the Committee is looking to gain greater confidence, that inflation is sustainably on a path back to 2%, and once this confidence has been reached, the Committee will begin removing policy restraint. The second case is if the economy remains solid but inflation remains persistently elevated, and in that case, the Committee has noted that they are prepared to maintain the current level of the federal funds rate essentially for as long as it's needed to bring inflation back down. And then, we know the Fed has a dual mandate, and Chair Powell noted during the press briefing that risks around that dual mandate have come back into better balance. So, the Committee is also looking at labor market conditions, and the third case would be if there was to be a material weakening, an unexpected weakening in labor market conditions. This could also move the Committee to lowering interest rates. So, kind of keeping those three situations in mind when looking at the data as the data come in, and that's something that we'll be continuing to do as well. Monitoring the data, the evolving outlook, and that balance of risks around the dual mandate—we'll be keeping an eye on those as the months progress.

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

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