Take Five WITH THE ST. LOUIS FED

June 20, 2025

FOMC holds in June as uncertainty remains

Transcript

Kathleen Navin: Welcome to *Take Five with the St. Louis Fed*. I'm Senior Economist Kathleen Navin, and today I'll be discussing the latest FOMC meeting that took place on June 17 and 18. There were no changes to monetary policy at this meeting. The FOMC unanimously voted to maintain the current target range for the federal funds rate at 4.25% to 4.5%. In addition, the Fed continues to reduce the size of its balance sheet as previously announced.

Now, there's two quotations that I want to share with you that I think give context to the decision to maintain the target range at the latest June meeting. The first comes from the FOMC's statement, which read, "Uncertainty about the economic outlook has diminished but remains elevated." The second comes from Chair Powell's opening statement of the press briefing where he stated, "For the time being, we are well positioned to wait to learn more about the likely course of the economy before considering any adjustments to our policy stance."

Now, with the June meeting, we also have a fresh set of economic projections from policymakers. So let's take a look at how those have evolved since the March meeting. First, let's look at real GDP growth where we see the median projection is for growth to slow from 2.5% last year to 1.4% this year, and this was a downward revision from the March set of projections where anticipated growth was 1.7% this year. After this year, we see real GDP growth firming to 1.6% in 2026 and then further to 1.8% in 2027, and this is consistent with the longer-run estimate of real GDP growth. Looking now at the unemployment rate, we see an upward revision to the anticipated path for the unemployment rate over the next few years, and this is consistent with that modest downgrade in growth that we also saw. We see that by the end of this year the unemployment rate is anticipated to be 4.5%, where it remains in 2026 before ticking down to 4.4%. So these were revised up about one or two-tenths of a percentage point relative to March. And we that throughout this forecast the unemployment rate remains above that longer-run estimate of 4.2%, but just modestly above that estimate.

Turning now to inflation, the inflation forecast gives us some insight into what policymakers are thinking about anticipated tariff inflation in response to recent tariff policies. What we see is an increase in inflation forecasts relative to March. So for headline PCE inflation, we see an increase in inflation to 3% this year before that disinflationary process resumes, bringing us to 2.4% in 2026 and then 2.1% in 2027. Looking at core PCE inflation, which removes the volatile components of food and energy, we see an increase to 3.1% in 2025 before, again, that downward movement resumes to 2.4% in 2026 and then 2.1% in

2027. These were revised up by the same amounts relative to March. So for 2025, for both headline and core, we saw an upward revision of three-tenths of a percentage point, for 2026 two-tenths of a percentage point, and then in 2027, one-tenth of a percentage point. So by the end of this forecast horizon, just one-tenth above that longer-run estimate of 2%, which is in line with the 2% objective for inflation.

Now, what does all of this mean for the appropriate path of monetary policy? When we look at the latest dots plot, we see that the median projection is still for 50 basis points in rate cuts this year, or two 25-basis point rate cuts. Then, looking ahead to 2026, this was revised. So we see one additional rate cut in 2026 and then one more rate cute in 2027, bringing the path to 3.4%. Now, if we look at the dot plot in a slightly different way and instead look at each participant's view, we see that, while the median estimate is still for two rate cuts this year, the distribution around that has really changed. And in particular, when we look at the number of FOMC participants that anticipate no change in the federal funds rate this year, we see that that count has increased to seven from four in March and one in December. To me, this highlights the amount of uncertainty that remains around the forecast, as well as the appropriate path of policy. So we will continue monitoring the incoming data, as well as the evolving outlook and the balance of risks through the end of the year to gain more clarity.

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

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