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FOMC holds in May, awaits greater clarity amid increased uncertainty

Transcript

Kathleen Navin: Welcome to this installment of *Take Five with the St. Louis Fed*. I'm Kathleen Navin, senior business economist, and today I'll be discussing the latest FOMC meeting that took place on May 6 and May 7.

At this meeting, the FOMC unanimously decided to maintain its current target range for the federal funds rate at 4.25% to 4.5%, where it has now been since December of last year. The theme of uncertainty continued into this meeting, and indeed, in the latest FOMC statement it read, "Uncertainty about the economic outlook has increased further. The Committee is attentive to the risks to both sides of its dual mandate and judges that the risks of higher unemployment and higher inflation have risen." The inclusion of this statement about higher unemployment and higher inflation is important, because it highlights a potential challenge the Committee could face if both of these risks were to occur. Now, this is because on the one side of the mandate, if you have higher inflation, the policy prescription would be to leave policy restrictive. Now, on the other side of the mandate, if you have a deterioration in labor market conditions or higher unemployment, that would suggest removing policy restraint or lowering rates. So, if both of these were to occur, the policy prescription is less clear.

Now, Chair Powell referenced this potential challenge in the opening statement of the press briefing. He noted, "If that were to occur, we would consider how far the economy is from each goal, and the potentially different time horizons over which those respective gaps would be anticipated to close." And he went on to say, "For the time being, we are well positioned to wait for greater clarity before considering any adjustments to our policy stance."

And for now, the hard data do continue to show a fairly solid U.S. economy, so let's take a look at some of the hard data that has been released in the last few weeks. Let's begin with real GDP growth. Now, the headline number for real GDP was soft. We saw a decline of 0.3% in the first quarter. But if we look at the contributions to real GDP growth, this shows us that that decline was more than accounted for by a large drag from net exports, and that was the result of a surge in imports, and this was related to consumers and mostly businesses trying to get ahead of those anticipated tariffs.

Now, if we look instead at contributions from personal consumption expenditures, business fixed investment, and residential investment, we see pretty healthy contributions to real GDP growth. Now, to be fair, some of that is likely due to those consumers and businesses looking to get ahead of anticipated tariffs. But still, those are healthy contributions. And inventory investment also added to real GDP growth in the first quarter—again, likely due to businesses bringing on board some more inventories, looking to get ahead of the anticipated tariffs.

When we turn to inflation, we see that progress has been made bringing inflation down from those very high rates we saw in 2021 and into 2022. As of March 2025, headline PCE inflation was 2.3% on a 12-month percent change basis. Now, looking at core PCE inflation, which removes the volatile components of food and energy, we see progress to 2.6%—again, on that 12-month basis. So those have really made progress from the very high levels we saw in 2021, 2022, and into 2023, so moving back to 2%.

When we look at labor market conditions, starting with the unemployment rate, we see again a fairly healthy picture. The April unemployment rate was 4.2%, and it’s really been in a range of about 4% to 4.2% for the last year. Now, this is up from 3.4% in April of 2023, but really, at 4.2%, this is consistent with a lot of estimates of maximum employment. When we look at the jobs data, we also saw a fairly solid number in April with jobs added of 177,000. So these hard data are continuing to paint a picture of a pretty resilient U.S. economy. That being said, more timely survey data do show a drop in sentiment from both businesses and households amidst concern of both slowing growth and also higher inflation. And as we discussed before, these have different policy responses when looking at them individually. And for this reason, it will just be very important to continue watching the incoming data to gain greater clarity on which way the economy moves and what the appropriate policy response will be. With that being said, we will continue watching those incoming data.

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

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