

June 12, 2024

U.S. Fed expects one rate cut this year

- The U.S. Fed held the fed funds target rate unchanged (as widely expected) in its June policy announcement, with minimal changes to the statement outside of recognizing “there has been modest further progress” on inflation towards the 2% target.
- The accompanying dot plot showed a median expectation from FOMC participants for just one 25 basis point interest rate cut this year, versus three expected as of the March meeting.
- Participants were largely split between one or two cuts this year – none thought more than 50 basis points of reductions (2 cuts) would be appropriate with four expecting no rate change this year. Views for 2025 also centered around four additional 25 basis point cuts that should leave the median fed funds range at 4% - 4.25%. That's more aggressive than our forecast that expects the fed funds range will be lowered to 4.5% - 4.75% range by the end of 2025.
- Much of consolidated upward shift in the dot plot can be tied to consecutive upside surprises in U.S. inflation readings in spring. This morning's CPI data was a welcome reprieve – with the ‘supercore’ CPI reversing to a small decline in May from April. But one slow reading doesn't make a trend.
- In the press conference following the decision, Fed Chair Powell confirmed “the data have not given us that greater confidence” that would “warrant beginning to loosen policy at this time”. On labour markets, Powell continued to point to “a broad set of indicators suggest that conditions in the labour market have returned to about where they stood on the eve of the pandemic, relatively tight but not overheated”.
- Outside of the upgrades to median fed funds projections, there were relatively few changes to the Fed's key macro forecast from the last update in March. GDP and unemployment rate projections were both left unchanged for this year, at levels that are broadly in line with our own forecast. Major changes were within core inflation estimates, that were revised higher for this year and next (2.8% and 2.3% for core PCE in 2024 and 2025, up from 2.6% and 2.2%, respectively, in March).

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- **Bottom line:** Progress on inflation has improved slightly over April and May but not nearly enough to fully reverse the upward trend seen earlier in Q1. Amid those uncertainties, U.S. Fed again reiterated that interest rates will need to stay higher until greater confidence that inflation will return to the 2% target can be built. Separate dot plot correspondingly showed a move in the median fed funds projection higher in both 2024 and 2025. We see the outcome of today's meeting as broadly in line with our expectations, and maintain the view that ongoing easing in inflation and gradual cooling in labour markets will persist, prompting the Fed to make a first rate cut later this year in December.