

FOMC Indicates No Near-Term Change in Fed Funds Rate, Dot Plot Shows Two or Three Rate Cuts in 2024

- **The FOMC kept the fed funds rate unchanged, in a range of between 5.25% and 5.50%. The FOMC maintained a bias toward rate cuts.**
- **The dot plot is about evenly split between two and three fed funds rate cuts in 2024, with additional cuts in 2025.**
- **The outlook for the economy over the next few years remains solid.**
- **PNC expects three fed funds rate cuts in 2024.**

The Federal Open Market Committee maintained the fed funds rate in a range of 5.25% to 5.50% in its policy statement today and suggested that a rate cut is not imminent. The statement said that “the Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%.” Given the acceleration in core inflation in early 2024, this suggests that the FOMC does not expect to cut the fed funds rate at its next meeting. That being said, the fact that the FOMC mentioned conditions for a rate cut, but made no mention of a potential rate hike, indicates that the FOMC is maintaining a bias toward rate cuts.

In his press conference following the release of the statement, Federal Chair Powell said that the FOMC is likely to cut the fed funds rate at some point this year.

The FOMC made no announcement about its plans for the central bank’s balance. Right now, the Fed is reducing the size of its balance sheet, allowing mature long-term Treasuries and mortgage-backed securities to roll off without replacement, up to preset limits; in early 2024 the balance sheet is shrinking by about \$80 billion to \$90 billion a month. In his press conference Powell said that the FOMC expects to “slow the pace of runoff” “relatively soon,” suggesting some time over the next few months.

The Summary of Economic Projections, or dot plot, points toward a few rate cuts in 2024. The median projection of the fed funds rate at the end of 2024 is 4.6%, suggesting three 25 basis point cuts in the fed funds rate this year. But ten participants showed three or more rate cuts this year, while nine showed two or fewer, indicating that participants are about evenly split between 2 and 3 rate cuts. The median projected fed funds rate at the end of 2025 is 3.9% in today’s dot plot, compared to 3.6% in the previous one.

The outlook for economic growth in 2024 has been revised up substantially, with a median increase in real GDP this year (Q4 to Q4) of 2.1%, up from 1.4% in the December dot plot. Growth expectations for 2025 and 2026 are modestly higher. The median outlooks for the unemployment rate and inflation are little changed from the previous dot plot. FOMC participants expect core PCE inflation to return to the 2% objective in 2026.

According to the press release the economy is in solid shape in early 2024, with strong job gains and low unemployment. Job growth in today's statement is called "strong," the same word used in the previous statement on January 31, but today's statement removed a reference to job growth "easing." This was the only change to the statement from January 31.

Today's statement says that "inflation has eased over the past year but remains elevated," and that the FOMC "remains highly attentive to inflation risks." The statement also says that "the Committee is strongly committed to returning inflation to 2%."

The statement was approved unanimously.

There were few surprises in today's FOMC statement and dot plot. The committee kept the fed funds rate unchanged and maintained a bias toward rate cuts. The dot plot now shows a roughly even split between 2 and 3 fed funds rate cuts this year, indicating that FOMC participants are perhaps a bit more reticent about cutting rates multiple times in 2025. The outlook for GDP growth in 2024 is somewhat better, but there were only minor changes to the outlooks for inflation and the labor market.

PNC expects three 25 basis point cuts in the fed funds rate this year, with the first one coming in the second quarter. This would take the fed funds rate to a range between 4.50% and 4.75% at the end of 2024, consistent with the median view in the dot plot. PNC then expects two additional 25 basis point fed funds rate cuts in 2025, to a range of 4.00% to 4.25%.

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