FOMC Keeps Fed Funds Rate Unchanged, But Is Likely to Cut Later This Year

- The FOMC kept the fed funds rate unchanged.

- The statement noted risks to both parts of the dual mandate, inflation and the labor market; the previous statement just noted inflation risks.

- Today’s statement noted a softening in the labor market and a slowing inflation, relative to June.

- Today’s statement supports PNC’s forecast for a fed funds rate cut on September 18.

As expected the Federal Open Market Committee kept the federal funds rate unchanged in a range between 5.25% and 5.50% in its monetary policy statement today. The FOMC raised the fed funds rate aggressively from close to zero in early 2022 to its current range by the spring of 2023, and has held it steady since then.

The biggest change in the statement, relative to the previous one on June 12, dealt with the balance of risks. The central bank has a dual mandate of maximum employment and price stability, which the FOMC has defined as 2% inflation. In today’s statement the FOMC said that “the economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate.” In June the statement said that “the Committee remains highly attentive to inflation risks.” By emphasizing both parts of the dual mandate—inflation and the labor market—the FOMC is signaling that it is concerned that contractionary monetary policy could lead to a deterioration in the job market. Thus, today’s statement points to near-term cuts in the federal funds rate.

Today’s statement also says that “job gains have moderated, and the unemployment rate has moved up but remains low,” while the previous statement said that “job gains have remained strong, and the unemployment rate has remained low.” This downgrade of labor market conditions is further evidence that FOMC concern over the labor market is increasing, supporting near-term rate cuts.

In the section on inflation today’s statement said that “inflation has eased over the past year but remains somewhat elevated. In recent months, there has been some further progress toward the Committee’s 2% inflation objective.” In June the statement said that “inflation has eased over the past year but remains elevated. In recent months, there has been modest further progress toward the Committee’s 2% inflation objective.” The changes from June indicate that there has been additional progress on inflation since then, another factor supporting a near-term rate cut.

With the job market softening and inflation easing, the FOMC is setting the stage to cut the fed funds rate, probably at its next meeting, on September 18. Fed officials are likely to make public statements calling for a rate cut in the weeks ahead. PNC’s baseline forecast is for fed funds rate cuts of 25 basis points each at the FOMC’s September and December meetings, which would take the fed funds rate to a range of 4.75% to 5.00% by the end of 2024. PNC then expects further rate cuts in 2025, with the fed funds rate ending next year between 4.00% and 4.25%.
The fed funds futures market is pricing in a 100% probability of at least a 25-basis point cut in the fed funds rate on September 18. The S&P 500 is up almost 2% on the day, although most of that move came before the FOMC announcement. Treasury yields are little changes, as the market was already pricing in a September rate cut.

The statement was approved unanimously.

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