Economic Update

PNC

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FOMC Minutes: Uneven Progress on Inflation, Good Labor Market; "Further Progress on Inflation" Before Cutting Rates Again

- **The FOMC remained concerned about elevated inflation in early 2025, according to the minutes from the committee's late January meeting, but expected inflation to slow over the course of the year.**
- **The labor market was at the FOMC's goal of maximum employment.**
- **The committee wanted to see further progress on inflation before cutting the fed funds rate again.**
- **PNC expects two fed funds rate cuts this year, in the late spring and summer.**

According to the minutes from the January 28 and 29 meeting of the Federal Open Market Committee, participants expected inflation to slow further in 2025, but that progress would be uneven. Inflation had slowed substantially from a few years earlier. However, it remained above the FOMC's 2% objective in early 2025, although inflation was slower over shorter time periods. Some factors were expected to support a further easing in inflation in the near term, including lower housing inflation, softer wage growth, and limited business pricing power. But other factors could support higher inflation, including seasonal-adjustment issues in the data, and the potential for higher inflation from tariffs, and stronger wage growth from restrictions on immigration.

Participants viewed the labor market as consistent with the Federal Reserve's legislated mandate of maximum employment, citing solid job growth at the end of 2024, an unemployment rate just above 4%, and slowing wage growth. Overall economic growth was also solid at the end of last year.

Given the strong labor market and concerns about elevated inflation, participants believed it appropriate to keep the fed funds rate unchanged at the FOMC's late January meeting, in a range between 4.25% and 4.50%. Participants agreed that the fed funds rate in this range was contractionary, weighing on economic growth, but did not view further rate cuts as necessary to support the labor market given its ongoing strength. The minutes say that participants "would want to see further progress on inflation before making additional adjustments to the target range for the federal funds rate." The FOMC cut the fed funds rate by a cumulative 100 basis points in the last four months of 2024.

Participants viewed risks to the outlook as roughly balanced between inflation of 2% and maximum employment. Participants agreed that there was room to adjust monetary policy in response to a deterioration in the labor market or higher inflation.

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There was continued support for reducing the size of the Fed's balance sheet, although the minutes say that the composition of the balance sheet might need to be restructured to roughly match the supply of outstanding Treasury debt. Some participants also suggested that the Fed might need to temporarily slow the pace of balance sheet runoff in case of concerns over lifting of the debt limit.

The minutes from the FOMC's late January meeting are consistent with PNC's forecast for federal funds rate cuts at the committee's May and July meetings of 25 basis points each. By the spring there should be an additional slowing in inflation, giving the central bank the confidence to ease monetary policy. These actions would take the fed funds rate to a range of 3.75% to 4.00% by the late summer, and then PNC expects the fed funds rate to remain in that range into 2026. Risks to this forecast are to the upside—inflation and the fed funds rate are more likely to be higher than PNC projects in 2025 than lower.

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