Economic Update

June 18, 2025

FOMC Keeps Policy Rate Unchanged; Dot Plot Shows Two Rate Cuts in 2025

- **Monetary policy was unchanged at today's FOMC meeting.**
- **The statement noted that uncertainty has declined since May, but remains elevated.**
- **The dot plot shows two rate cuts this year.**
- **Compared to the last dot plot, today's shows weaker growth, a higher unemployment rate, and higher inflation.**
- **PNC expects one fed funds rate cut this year, with two more in early 2026.**
- **Market reaction was muted.**

As expected the Federal Open Market Committee kept the federal funds rate unchanged this afternoon, in a range between 4.25% and 4.50%. After cutting the fed funds rate by a cumulative 100 basis points between September and December 2024, the FOMC has kept the rate in its current range at the first four meetings of 2025.

In its policy statement the committee did not indicate a bias toward easing (fed funds rate cuts) or tightening (rate increases). The statement said that the FOMC is "attentive to risks to both sides of its dual mandate," i.e., either higher inflation or a weaker labor market. And the statement referred to the "extent and timing of additional adjustments to the target range" (emphasis added).

The committee said that "uncertainty about the economic outlook has diminished" since the last FOMC meeting, in early May, but that it "remains elevated." The committee noted that the economy appears to be expanding "at a solid pace," although it also noted "swings in net exports [that] have affected the data." The statement also said that the "unemployment rate remains low, and labor market conditions remain solid." In discussing inflation, the statement noted that it "remains somewhat elevated."

The FOMC maintained its policy of reducing the Federal Reserve's balance sheet by allowing up to $5 billion of longer-term Treasurys and $35 billion of mortgage-backed security and agency debt to mature and roll off the balance sheet every month.

According to the Summary of Economic Projections, or "dot plot," released after today's meeting, the median FOMC participant expects to cut the fed funds rate by a cumulative 50 basis points through the end of this year (presumably two 25 basis point rate cuts). This is unchanged from the last dot plot, from March 19. The median expected fed funds rate is then 3.6% at the end of 2026, 3.4% at the end of 2027, and 3.0% over the longer run.

Gus Faucher
Chief Economist

Jay Hawkins
Senior Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Ershang Liang
Economist

Expectations for near-term economic growth have been revised lower, and for the unemployment rate have been revised higher, compared to the last SEP. The median projection for GDP growth in 2025 is now 1.4%, down from 1.7% in March. The median participant expects an unemployment rate of 4.5% at the end of 2025, up from an expected 4.4% in March, with an expected rate of 4.5% at the end of 2026 (up from 4.3% in the last dot plot). The unemployment rate has been at 4.2% from March to May.

Unsurprisingly given tariffs, inflation expectations have moved higher. The median participant now has core PCE inflation of 3.1% in 2025, revised up from 2.8% in March. Expected inflation is also higher in 2026 (2.4%, from 2.2%), and 2027 (2.1%, from 2.0%).

Despite all the uncertainty in the economy, the FOMC statement and the dot plot were just as expected. The committee kept its current monetary policy in place, with no indication of when the next change in the fed funds rate will come. The dot plot signaled two 25 basis point rate cuts this year, but with no indication that a rate cut is imminent. Expectations for growth were revised lower, and expectations for the unemployment rate and inflation were revised higher, consistent with tariffs weighing on growth and boosting inflation. This was the first dot plot since President Trump announced dramatically higher tariffs in April.

PNC expects one 25 basis point cut in the fed funds rate in 2025, at the FOMC's last meeting of the year, in December. PNC's baseline forecast then has two 25 basis point cuts at each of the FOMC's first two meetings of 2026; this would take the fed funds rate to a range of 3.50% to 3.75% by the spring of next year. The fed funds futures market is now pricing in a median of two cuts by the end of this year, consistent with the SEP, but with a broad range of outcomes. The fed funds futures market is pricing in a little more easing now compared to before the release of the dot plot.

There was little market reaction to the release of the statement and the dot plot, with the yield on the 10-year Treasury note at 4.40%. Oil prices, which are up since the initial Israeli attack on Iran's nuclear program, are little changed today, with the price of a barrel of West Texas Intermediate crude oil at somewhat above $75. The dollar is little changed against a basket of currencies.

PNC Economics
Gus Faucher, Chief Economist
economics@pnc.com

Visit pnc.com/economicreports for more information from PNC Economics.