FOMC Holds Fed Funds Rate Steady; Two Dissents for Rate Hike

Headlines

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- **The Federal Open Market Committee (FOMC) kept the fed funds rate in a range between 3.75% and 4.00%.**
- **Two FOMC participants dissented, calling for a 25-basis point increase in the rate.**
- **PNC expects a 25-basis point rate hike at the next FOMC meeting, on December 9.**

Details

As expected, the Federal Open Market Committee kept the fed funds rate unchanged in a range between 3.75% and 4.00% in its policy statement this afternoon. The FOMC raised the funds rate by 25 basis points at its previous meeting, on September 15. That was the first rate increase in more than three years; the FOMC had lowered the fed funds rate by a cumulative 175 basis points between late 2024 and late 2025, before leaving it unchanged through the first eight months of this year.

There were two dissents in favor of a 25-basis point rate hike, from Governor Cook and Cleveland Fed President Hammack. The decision to raise the fed funds rate at the September meeting was unanimous. Three FOMC participants dissented at the committee's late July meeting, supporting a rate hike, while the majority favored keeping the rate unchanged.

As has been the case under new Federal Reserve Chair Warsh, the statement was shorter than under the term of his predecessor, current Fed Governor Powell. Today's statement said that "economic activity is expanding at a strong pace"; this is an upgrade from "a solid pace" in the September statement. Today's statement referenced "resilient" domestic spending, "strong" productivity growth, and "robust" capital investment. Today's statement said that job growth has been consistent with growth in the labor force, and that "the unemployment rate has changed little."

Today's statement said that "inflation remains elevated," in language unchanged from September. In an addition from September, the statement said that "the accumulation of more information will help the Committee determine the policy stance appropriate to ensure a timely return of inflation to the Committee's 2% goal." The final sentence of the statement before discussing the vote was unchanged from September: "The Committee will deliver stability," which the FOMC has defined as 2% inflation using the personal consumption expenditures price index. Inflation has been above this objective since early 2021 and has moved higher since early 2025.

PNC expects the FOMC will increase the fed funds rate by 25 basis points at its next meeting, on December 8 and 9. Today's meeting was less than a week before the midterm elections, and the committee likely wanted to avoid a rate hike ahead of the election to avoid being dragged into a political debate. But with inflation continuing to run hot, a majority of FOMC participants have made it clear that future rate hikes are warranted. PNC's baseline forecast is for the FOMC to hold the funds rate steady at its late January 2027 meeting and then hike again by 25 basis points in mid-March. This would bring the rate to a range of 4.25% to 4.50%; PNC then expects the FOMC to keep the rate in that range indefinitely.

The fed funds futures market is pricing an 88% probability of a 25-basis point hike on December 9, with a 12% probability of no change, and less than a 1% probability of a larger rate increase. The median outcome for the futures market is a range of 4.50% to 4.75% for the fed funds rate at the end of 2027, but with a wide dispersion around both a higher rate and a lower rate.

The S&P 500 was down slightly following the release of the statement, perhaps because there were two dissents, but then rose during Chair Warsh's post-statement press conference. The yield on the 10-year Treasury note jumped by a few basis points after the statement release and then fell during the press conference, while the yield on the 3-month Treasury bill fell by about a basis point. The dollar is slightly stronger against a basket of currencies.

In his press conference, Warsh said that the FOMC will have one of its eight meetings in 2027 focused on longer-run monetary policy strategy, with no vote on the fed funds rate. In 2028 that will shift to two meetings without a vote. In addition, Warsh reaffirmed his commitment to achieving the 2% inflation objective at the press conference, but without providing any mechanism for doing so.

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