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FOMC Update

As summarized by Smith Shellnut Wilson

March 20, 2024

Fed Holds, Signals Three Rate Cuts in 2024 with a Shallower Path Ahead

Federal Reserve officials maintained their projection for three quarter-point rate cuts this year but revised down their forecast for 2025 amid a recent uptick in inflation.

Officials unanimously opted to keep the benchmark federal funds rate within a range of 5.25% to 5.5%. They signaled their commitment to lowering the overnight rate this year, marking the first such cut since March 2020. However, their updated outlook now anticipates only three reductions in 2025, a decrease from the four previously forecasted in December.

“The committee judges that the risks to achieving its employment and inflation goals are moving into better balance,” the FOMC said.

The Fed's post-meeting statement closely mirrored that of January, emphasizing that rate cuts would be considered only when there is increased confidence that inflation is steadily progressing towards their 2% target.

Additionally, the central bank reiterated its plan to continue reducing its balance sheet by up to $95 billion per month, although some policymakers have recently advocated for a potential slowdown in this pace.

Although policymakers envision the median federal funds rate reaching 4.6% by the close of 2024, individual expectations varied. The Fed's "dot plot" revealed that while ten officials envisioned three or more quarter-point cuts this year, nine now anticipate two or fewer.

Furthermore, policymakers adjusted their projections for inflation and economic growth for 2024, lifting their forecast for underlying inflation to 2.6% from 2.4% and increasing GDP growth to 2.1% from 1.4%. They also slightly lowered their unemployment rate projection to 4% from 4.1% for 2024.

Following the announcement, the S&P 500 index of US stocks experienced gains, while Treasury yields declined. Traders heightened the likelihood of a rate cut in June from 50% to 68%. The next meeting will be May 1.

CME Fed Fund Rate Probabilities

CME FEDWATCH TOOL - MEETING PROBABILITIES

MEETING DATE	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
3/20/2024				0.0%	0.0%	0.0%	0.0%	1.0%	99.0%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	9.1%	90.8%
6/12/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	6.6%	68.1%	25.3%
7/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	3.2%	35.8%	47.7%	13.3%
9/18/2024	0.0%	0.0%	0.0%	0.0%	2.5%	28.6%	45.1%	20.8%	2.9%
11/7/2024	0.0%	0.0%	0.0%	1.2%	15.2%	36.7%	33.3%	12.1%	1.5%
12/18/2024	0.0%	0.0%	0.8%	10.9%	30.1%	34.3%	18.6%	4.8%	0.5%
1/29/2025	0.0%	0.4%	6.1%	20.9%	32.3%	26.1%	11.4%	2.5%	0.2%
3/19/2025	0.2%	3.4%	13.9%	26.9%	29.1%	18.4%	6.7%	1.3%	0.1%

Please see the attached document for a side-by-side comparison of the U.S. Federal Open Market Committee statements from March 20, 2024 and January 31, 2024.

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March 20

Recent indicators suggest that economic activity has been expanding at a solid pace. Job gains have remained strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee judges that the risks to achieving its employment and inflation goals are moving into better balance. The economic outlook is uncertain, and the Committee remains highly attentive to inflation risks.

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 5-1/4 to 5-1/2 percent. In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. 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 percent. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is strongly committed to returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Thomas I. Barkin; Michael S. Barr; Raphael W. Bostic; Michelle W. Bowman; Lisa D. Cook; Mary C. Daly; Philip N. Jefferson; Adriana D. Kugler; Loretta J. Mester; and Christopher J. Waller.

Jan. 31

Recent indicators suggest that economic activity has been expanding at a solid pace. Job gains have moderated since early last year but remain strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated.

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