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FOMC Update

As summarized by Smith Shellnut Wilson

June 12, 2024

June 12, 2024 - FOMC Dials Back Rate Forecasts to One in 2024, Holds Steady at 5.25% - 5.50%

Federal Reserve officials have projected just one interest-rate cut this year and anticipate more cuts in 2025, emphasizing their stance to maintain higher borrowing costs longer to curb inflation.

Officials unanimously voted to keep the benchmark federal funds rate in the range of 5.25% to 5.50%. However, they now expect only one rate cut this year, compared to three reductions forecasted in March, according to the median projection. They foresee four cuts in 2025, an increase from the previously outlined three.

The Fed's "dot plot" revealed that four policymakers expect no cuts this year, seven anticipate one reduction, and eight foresee two cuts.

The FOMC adjusted its post-meeting statement, acknowledging "modest further progress toward the committee's 2% inflation objective" in recent months, a change from the previous statement that noted a "lack" of progress. This reflects recent data showing price growth slowed in April and May.

Fed officials have reiterated that interest rates will likely remain elevated longer due to stubborn 2024 price pressures. They also raised their forecast for underlying inflation to 2.8% from 2.6% in March, while maintaining economic growth and unemployment rate projections at 2.1% and 4%, respectively. The unemployment rate rose to 4% in May.

Officials also increased their long-term interest rate projection to 2.8% from 2.6% in March, indicating expectations of sustained higher rates.

The Fed will continue to shrink its balance sheet at the slower pace announced in May, reducing Treasury securities holdings by up to $25 billion per month, down from the previous cap of $60 billion, while keeping the cap for mortgage-backed securities unchanged at $35 billion.

Please click the link for a side-by-side comparison of the U.S. Federal Open Market Committee statements from June 12, 2024 and May 1, 2024.

	CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES							
MEETING DATE	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
6/12/2024			0.0%	0.0%	0.0%	0.0%	0.6%	99.4%
7/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	8.8%	91.1%
9/18/2024	0.0%	0.0%	0.0%	0.0%	0.0%	5.3%	58.2%	36.5%
11/7/2024	0.0%	0.0%	0.0%	0.0%	2.1%	25.6%	49.9%	22.5%
12/18/2024	0.0%	0.0%	0.0%	1.5%	19.1%	43.1%	30.1%	6.2%
1/29/2025	0.0%	0.0%	0.8%	11.2%	32.4%	35.9%	16.9%	2.8%
3/19/2025	0.0%	0.5%	7.5%	24.9%	34.7%	23.6%	7.8%	1.0%
4/30/2025	0.3%	3.8%	15.6%	29.4%	29.5%	16.3%	4.6%	0.5%

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