SMITH SHELLNUT WILSON
AN AFFILIATE OF b1BANK

FOMC Update

As summarized by Smith Shellnut Wilson

December 18, 2024

"The Fed Cuts a Quarter-point, Powell States that Disinflation Remains on Track."

FOMC officials reduced their benchmark interest rate for the third time in a row. However, they have scaled back the number of cuts anticipated for 2025, indicating a more cautious approach to further lowering borrowing costs. The Committee voted 11-1 to reduce the rate to a range of 4.25%-4.5%. Cleveland Fed President Beth Hammack dissented.

New quarterly forecasts reveal that several officials have now projected fewer rate cuts for next year compared to their estimates from a few months ago. They anticipate the benchmark rate will reach a range of 3.75% to 4% by the end of 2025, suggesting two quarter-percentage-point reductions, based on the median estimate.

"With today's action, we have reduced our policy rate by a full percentage point from its peak, making our policy stance significantly less restrictive," Fed Chair Jerome Powell stated during a press conference following the Fed's decision. "This allows us to be more cautious as we consider further adjustments to our policy rate."

However, Powell noted that the policy still "meaningfully" restrains economic activity, and the Fed remains "on track to continue to cut." He emphasized that additional rate cuts would require more progress on inflation, which he described as moving "sideways."

Powell also addressed a question regarding the central bank's potential response to tariffs from the Trump administration. The chair mentioned that some policymakers have started to consider the potential impact of higher tariffs that President-elect Donald Trump might implement. However, he noted that the effects of such policy proposals are currently highly uncertain. "We just don't know much about the actual policies," he said. "So, it's very premature to draw any conclusions."

Policymakers now forecast the unemployment rate at 4.3% in 2025. They also slightly raised their forecast for economic growth in 2025 to 2.1%. The median projection for inflation at the end of next year jumped to 2.5%, from 2.1% in September.

The bond market now forecasts one 25-basis point cut over the next year (see chart below).

Please click the link for a side-by-side comparison of the U.S. Federal Open Market Committee statements from December 18, 2024 and November 7, 2024.

Current CME Fed Fund Rate Probabilities

	CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES					
MEETING DATE	300-325	325-350	350-375	375-400	400-425	425-450
12/18/2024		0.0%	0.0%	0.0%	3.5%	96.5%
1/29/2025	0.0%	0.0%	0.0%	0.2%	9.4%	90.3%
3/19/2025	0.0%	0.0%	0.1%	3.7%	40.2%	56.0%
5/7/2025	0.0%	0.0%	0.6%	8.7%	42.3%	48.4%
6/18/2025	0.0%	0.2%	2.7%	17.5%	43.9%	35.8%
7/30/2025	0.0%	0.4%	4.1%	19.9%	43.2%	32.4%
9/17/2025	0.1%	1.1%	7.0%	24.2%	41.2%	26.5%
10/29/2025	0.2%	1.7%	8.8%	26.0%	39.6%	23.7%
12/10/2025	0.4%	2.5%	10.8%	27.6%	37.7%	20.9%

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Chad McKeithen | Research Department
Smith Shellnut Wilson, LLC
661 Sunnybrook Rd., Ste 130
Ridgeland, MS 39157
601.605.1776
www.ssw1776.com
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