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FOMC Update

As summarized by Smith Shellnut Wilson

May 1, 2024

FOMC Holds Steady at 5.25% - 5.50%, Cites Lack of Inflation Progress

The FOMC expressed renewed concerns regarding inflation, emphasizing the need for further evidence of a cooling trend in price increases before considering a reduction in interest rates from their current two-decade high. Following a review of recent data indicating persistent price pressures in the US economy, Fed officials unanimously opted to maintain the target range for the benchmark federal funds rate at 5.25% to 5.5%, unchanged since July.

In a statement released today, the FOMC highlighted the lack of substantial progress towards its 2% inflation target in recent months. This marked a departure from December's statement, which noted a gradual easing of inflation over the preceding year while acknowledging its elevated state. Additionally, the Fed indicated a shift in the risks associated with achieving its employment and inflation objectives, noting a move towards better balance in the past year, as opposed to the previous statement's assertion that such balance was in progress.

While refraining from signaling a potential rate hike, policymakers outlined plans to reduce the pace at which the central bank is shrinking its asset portfolio. Specifically, the Fed announced a reduction in the cap on runoff for Treasuries to $25 billion per month from $60 billion, starting in June, aimed at mitigating the risk of financial-market turbulence experienced during previous balance-sheet adjustments in 2019. The cap for mortgage-backed securities remains unchanged at $35 billion, but any principal payments exceeding this cap in June will be reinvested into Treasuries instead of MBS.

Regarding the balance sheet, policymakers, as revealed in minutes from the Fed's previous meeting in March, generally agreed on a cautious approach towards further runoff, known as quantitative tightening, given the market turmoil experienced in 2019. They emphasized that the decision to slow QT is independent of rate cuts and their timing.

Despite a rapid cooling of price pressures towards the end of 2023, progress towards the central bank's 2% inflation goal has stagnated in 2024. *The Fed's preferred price gauge showed a 2.7% increase in March, accelerating from the previous period. Excluding food and energy, it advanced by 2.8%*. Nevertheless, the economy continues to expand, propelled by a robust labor market and consistent consumption and investment.

Today's statement reiterated the strength of job gains and the solid pace of economic expansion, even as inflation figures have disappointed for three consecutive months, prompting a significant adjustment in interest-rate expectations. Fed officials have shifted their stance in response to the pickup in prices, with Chair Jerome Powell suggesting in April that gaining the necessary confidence in inflation's trajectory to warrant interest rate cuts may take longer than anticipated. He emphasized the central bank's ability to maintain rates steady for as long as necessary.

Please see the attached document for a side-by-side comparison of the U.S. Federal Open Market Committee statements from May 1, 2024 and March 20, 2024.

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May 1

Recent indicators suggest that economic activity has continued to expand 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. In recent months, there has been a lack of further progress toward the Committee's 2 percent inflation objective.

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 have moved toward better balance over the past year. 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. Beginning in June, the Committee will slow the pace of decline of its securities holdings by reducing the monthly redemption cap on Treasury securities from $60 billion to $25 billion. The Committee will maintain the monthly redemption cap on agency debt and agency mortgage-backed securities at $35 billion and will reinvest any principal payments in excess of this cap into Treasury securities. 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.

March 20

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