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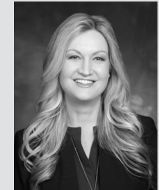
Key Takeaways from the June Federal Open Market Committee Meeting: A Message of Patience for "Eventual" Easing



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As expected, the Federal Reserve (Fed) opted to keep rates unchanged in a range of 5.25% to 5.50% for the seventh consecutive meeting since September 2023. But while the policy announcement itself was uneventful, there were several key takeaways for investors desperately trying to gauge the outlook and expected timeline for any adjustment in policy.

INFLATION IS EASING BUT THERE IS A LONG WAY TO GO

Reiterating a commitment to returning inflation back to the Committee's target level of 2%, the updated Summary of Economic Projections (SEP) indicated the timeline for achieving that goal is still years away.

Despite the recent improvement in inflation, price pressures are elevated well beyond earlier expectations. The Fed has acknowledged as much, lifting its outlook for headline inflation this year from 2.4% to 2.6%, and from 2.2% to 2.3% in 2025. The core PCE forecast was also revised higher from 2.6% to 2.8% this year and from 2.2% to 2.3% next year. In 2026, however, Committee members kept their projections unchanged at 2.0% for both the headline and the core

As Fed Chairman Jay Powell noted during the press conference, the economic outlook remains highly uncertain, and the Committee remains *"highly attentive to inflation risks."*

June 12 Summary of Economic Projections

	Median				Central Tendency				Range			
Variable	2024	2025	2026	Longer Run	2024	2025	2026	Longer Run	2024	2025	2026	Longer Run
PCE inflation	2.6	2.3	2.0	2.0	2.5-2.9	2.2-2.4	2.0-2.1	2.0	2.5-3.0	2.2-2.5	2.0-2.3	2.0
March projection	2.4	2.2	2.0	2.0	2.3-2.7	2.1-2.2	2.0-2.1	2.0	2.2-2.9	2.0-2.5	2.0-2.3	2.0
Core PCE inflation	2.8	2.3	2.0		2.8-3.0	2.3-2.4	2.0-2.1		2.7-3.2	2.2-2.6	2.0-2.3	
March projection	2.6	2.2	2.0		2.5-2.8	2.1-2.3	2.0-2.1		2.4-3.0	2.0-2.6	2.0-2.3	

Source: Federal Reserve

Cost pressures have made *"modest"* further progress towards the Fed's 2% target, and the May Consumer Price Index (CPI) report *"was a better inflation report than almost anyone expected."* But while inflation *"has eased substantially from peak levels,"* Powell continued, it *"is still too high."*

The headline and core CPI slowed from 3.4% to 3.3% and 3.6% to 3.4%, respectively in May. The Producer Price Index (PPI), meanwhile, fell outright, down 0.2% for the month

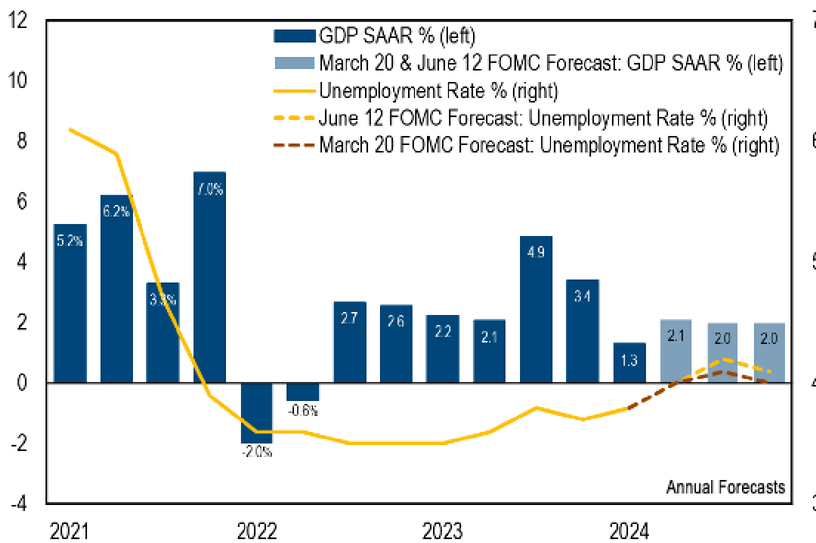
and remained unchanged excluding food and energy. Year-over-year, the PPI and core PPI rose 2.2% and 2.3%, respectively. At the very least, while the latest read on inflation earlier this week showed further disinflationary progress, the still sticky nature of cost pressures highlights the ongoing *"bumpy"* pathway back toward price stability.

SOLID LABOR MARKET CONDITIONS CALL INTO QUESTION THE RESTRICTIVE NATURE OF POLICY

Despite the fastest acceleration in rates in four decades, the retarding impact on consumers, the labor market and more broadly topline growth has been markedly muted. Recall, the latest employment report indicated a 272,000 gain in monthly payrolls and a minimal uptick in the jobless rate to 4.0%, reflecting in good part both ongoing sizable immigration flows as well as a technology-driven increase in productivity.

The lack of downward pressure on payrolls, coupled with the Fed's still solid expectation for growth, further justifies a higher-for-longer scenario, but it also calls into question the Fed's relatively tempered terminal rate decision, which could, on one hand, increase the odds of a soft-landing, but equally threaten stagflationary conditions. While the Chairman noted the Committee is well aware of the delicate balance between cutting rates too early and keeping rates too high for too long, despite the absence of a meaningful drag on the consumer and topline activity, Powell noted the current *"policy stance"* is *"about right."*

The Fed's GDP projections were unchanged in June; the Committee continues to anticipate a 2.1% growth rate for 2024, and 2.0% for 2025 and 2026, as well as in the longer run. The unemployment rate, meanwhile, was unrevised at 4.0% this year, while officials revised up their forecast for next year and 2026 – albeit minimally – from 4.1% to 4.2% and from 4.0% to 4.1%, respectively. *"We see gradual cooling,"* Powell said during the Q&A portion of the press conference, with the labor market moving towards a better balance.



Source: Census Bureau/Federal Reserve/Bloomberg

THE FED WILL EXPECTEDLY REMAIN ON HOLD FOR LONGER THAN EXPECTED

With inflation and the broader economy failing to evolve as expected, the Committee has materially revised down expectations for nearer-term rate reductions. According to the dot plot, on average, Committee members now see just one rate cut by year end with the federal funds rate projected to decline to 5.1%, up from the median forecast of 4.6% indicated in the March release amid the prospect of three rate cuts.

GLOSSARY

CPI – Consumer Price Index

FOMC – Federal Open Market Committee

PCE – Personal Consumption Expenditures

PPI – Producer Price Index

SAAR – Seasonally Adjusted Average Rate

SEP – Summary of Economic Projections

YoY – Year over Year

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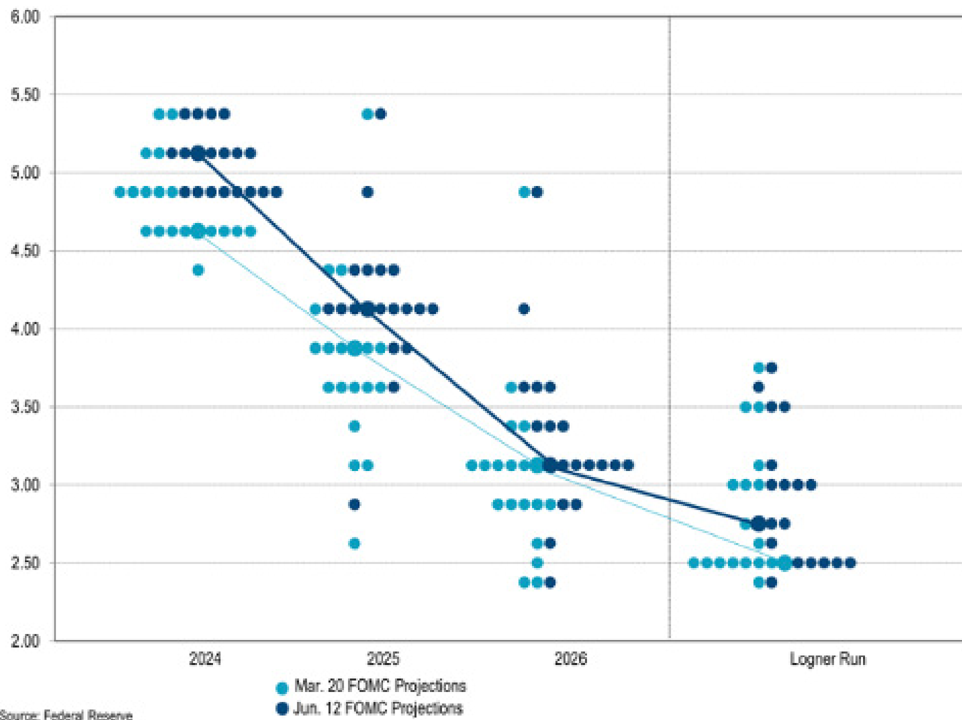

Furthermore, as expected, there appears to be a growing divide between those members hopeful of inflation resuming its previous disinflationary path and those underscoring rising risks – upside risks – to price pressures. Four Fed officials, in fact, see no rate cuts in 2024, while eight see as many as two rate reductions.

The median estimate for rates at the end of 2025, meanwhile, rose from 3.9% to 4.1% suggesting, on average, Committee members now expect four rate cuts versus an earlier estimate of three cuts next year.

INTEREST RATES ARE HEADING LOWER, EVENTUALLY

Despite the extended timeline for rate cuts, the Fed retains a bias towards easing – eventually. Dispelling any need – or at least consideration – for additional rate hikes at this point, the Committee continues to wait until rate reductions are warranted. The Chairman was clear that a reduction will not be appropriate until policymakers have gained the needed confidence inflation is back on a clear disinflationary path towards 2%. But "no one" on the Committee, Powell underscored, has a base case of additional rate hikes.

While at least some Committee members may be concerned with upside inflationary pressures and have voiced a "willingness to tighten policy further should risks to inflation materialize," the consensus remains strong that the Fed's current position on the sidelines is simply a delay in eventual rate cuts and not a contemplation of the potential need for additional policy firming. That being said, with inflation still well above target with uneven momentum since the start of the year, coupled with a still "solid" economy, "eventually" increasingly appears to be a 2025 event.

The Fed has indicated a willingness to hold policy steady for as long as needed to gain confidence inflation is receding before initiating rate cuts. However, the longer the Fed remains on the sideline with above-target inflation, the more price pressures become ingrained in the economy and the more difficult it will become to tame price pressures. Furthermore, while the Committee may not be directly considering an alternative – less

favorable – scenario, if inflation fails to improve or pushes higher, at some point the Fed would be forced to adjust from simply delaying rate cuts to actively considering additional rate hikes. The bar is notably higher for further policy firming than it is to initiate policy easing, but if price pressures reverse course in a materially and sustained fashion, given the clear mandate of price stability, the Committee would expectedly be forced into a corner to hike beyond the current level of 5.5%.

BOTTOM LINE

A cooler-than-expected May inflation report following minimal improvement in April has reinforced the Fed's position on the sidelines. Although on a relative basis, with the annual pace of inflation still above January levels, (3.3 vs. 3.1% for CPI and 2.2% vs. 1.0% for PPI) and nominally, the growth rate exceeding the 2% target, it's clear the Committee has more work to do before the goal of price stability is achieved, let alone gain the needed confidence to justify a reduction in policy firming.

The Fed has conceded it will take longer than expected for such assurance, resulting in a further limited expectation for policy easing in the near term. However, despite such a realization, policy makers continue to maintain a policy bias towards easing – eventually. Nevertheless, with a lack of realized disinflationary gains and ongoing solid growth in labor market conditions as well as the broader economy, despite the Fed's optimism, rate cuts are unlikely to be a 2024 event.

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