March 20, 2024

U.S. Fed still expecting rate cuts but risks tilted to slower pace

- As universally expected, the Fed held the fed funds target range unchanged (at 5.25% to 5%) for a fifth consecutive policy meeting.
- The policy statement was essentially unchanged from the January decision -- reiterating that "the Committee judges that the risks to achieving its employment and inflation goals are moving into better balance." That was despite upside inflation surprises in both January and February and strong labour market data.
- Updated projections showed the median FOMC participant still expects to cut the policy rate by 75 basis points in 2024, but with the distribution skewing towards a smaller reduction. Only one participant expects the policy rate to fall by more than 75 basis points as of the March dot plot versus 5 in December. Still, all but two participants continue to expect to cut interest rates this year with none expecting that a hike will be appropriate.
- The range of expectations for the policy rate beyond the current year remains wide (consistent with an uncertain outlook for inflation and economic growth) but the median expected policy rate is 25 basis points higher for the end of both 2025 and 2026.
- Fed Powell reiterated in the press conference that those expected interest rate cuts are conditional on inflation slowing further. Projections for price growth and broader economic conditions were little changed through 2026, but slightly higher in the near-term for 2024.
- **Bottom line:** Federal Reserve officials are clearly concerned about recent upside inflation surprises but not to the point yet that would warrant a significant change in the framing of current and expected future monetary policy decisions. Inflation has surprised on the upside in recent months, but Powell reiterated that policymakers are also concerned that higher interest rates could ultimately cause the economy to soften more than necessary and interest rates are already at levels that should be enough to slow inflation over time. Our own base-case assumption is broadly consistent with FOMC participants - that economic growth will slow enough, and inflation will ease enough, to allow for the first interest rate cut in June, with 75 total basis points of cuts in 2024.

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