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September is a live meeting

FOMC Post-Meeting Comment July 2024

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Summary

- The FOMC statement was tweaked to lay the groundwork for a rate cut, but the Committee was careful not to commit to anything.
- In contrast, during the press conference Powell clearly put the September rate cut on display.
- We expect the first rate cut in September and the second in December.

Introduction

As widely expected, the Committee decided to keep the target range for the federal funds rate unchanged at 5.25-5.50% and to continue reducing its holdings of Treasury securities, agency debt and agency MBS at $60 billion per month. There was no update of the *Summary of Economic Projections*. The focus of attention was on the forward guidance that the FOMC statement and Powell's press conference provided regarding the first rate cut. While the FOMC did not want to commit to anything in the statement, Powell clearly put the September rate cut on display in the press conference. We have pointed out before that Powell has been more eager to cut than some others in the FOMC. Consequently, the 10 year US Treasury yield actually rose from 4.10% to 4.13% in response to the FOMC statement, but started to fall to 4.07% once Powell started talking.

Statement

The FOMC statement was tweaked to lay the groundwork for a rate cut, but the Committee refrained from altering its expression of confidence on the progress on inflation.

In its description of the economy, the weakening of the labor market was acknowledged by saying that job gains have moderated (instead of: job gains have remained strong) and that unemployment has moved up but remains low (instead of: has remained low). At the same time, there has been some further progress on inflation (instead of: modest further progress). So inflation is getting closer to target, but the labor market is weakening. Therefore, the Committee judged that the risks to achieving its employment and inflation goals continue to move into better balance (instead of: have moved toward better balance over the past year). Consequently, the Committee is attentive to the risks to both sides of its dual mandate (instead of: remains highly attentive to inflation risks). In other words, the FOMC is stressing the second door to rate cuts (deterioration in the labor market) instead of the first door (progress on inflation). This is in line with what we have been saying for some time, that the first rate cut is more likely to be motivated by a weaker labor market than by progress on inflation.

In fact, the FOMC did not change its words on the confidence that inflation is moving sustainably toward 2%. However, the Committee repeated that it does not expect it will be appropriate to cut until it has gained greater confidence that inflation is moving sustainably toward 2%. Therefore, we still need further progress on inflation before a September cut, or the deterioration in the labor market should start to outweigh any lack of progress on the inflation front. We would not be surprised to see the latter scenario develop.

Press conference

In his prepared statement, Powell said that second quarter inflation data have added to the confidence (of the FOMC that inflation is moving toward 2%) and more good data would further strengthen that confidence.

During the Q&A, when asked about a September rate cut, Powell said the Committee had made no decisions regarding future meetings and that included the September meeting. The question will be: whether the totality of the data, the evolving outlook, and balance of risks are consistent with rising confidence and maintaining a solid labor market. If that test is met, the reduction of the policy rate could be on table as soon as in September.

When asked why not today, at the July meeting, Powell said the broad sense of the Committee is we're getting closer to the point at which it will be appropriate to reduce our policy rate. They were not quite at that point yet. Later Powell added that there was a discussion of what the case would be for moving it this meeting. However, a strong majority supported not moving at this meeting.

When asked whether a September cut is the baseline scenario right now, Powell said that if inflation is moving down quickly or more or less in line with expectations, growth remains reasonably strong, and the labor market remains consistent with its current condition, then I would think that a rate cut could be on the table at the September meeting. Later he added that we're getting closer to the point at which it will be appropriate to begin to dial back restriction. We're not at the point yet. We want to see more good data.

When asked whether there's a growing sense of confidence that the FOMC could move at the next meeting, Powell said: assuming the data supports the outcome, no question that's the case. We think the time is approaching. If we get the data that we hope we get, a reduction of the policy rate could be on the table at the September meeting.

When asked in what ways are you not confident that inflation is moving back to 2%, Powell said it is just the question of seeing more good data. The last couple of readings have added to confidence. More good data would cause us to gain more confidence.

Table 1: Median projections of FOMC participants, June 2024

Variable	*2024*	*2025*	*2026*	*Longer run*
GDP growth	2.1 (2.1)	2.0 (2.0)	2.0 (2.0)	1.8 (1.8)
Unemployment	4.0 (4.0)	4.2 (4.1)	4.1 (4.0)	4.2 (4.1)
PCE inflation	2.6 (2.4)	2.3 (2.2)	2.0	2.0 (2.0)
Core PCE inflation	2.8 (2.6)	2.3 (2.2)	2.0 (2.0)	
Federal funds rate	5.1 (4.6)	4.1 (3.9)	3.1 (3.1)	2.8 (2.6)

Source: FOMC, June 12, 2024 (March 20, 2024)

When asked about Trump's remark that cutting rates so close to the election is something the central bank knows it should not be doing, Powell said that anything we do is based on the outlook, the data and the balance of risks, and not on anything else. We have pointed out before that Powell is not likely to get another term from Trump no matter what he does, so Powell actually has an incentive to cut before the election and appease the Democrats.

When asked about cutting by 50 bps, Powell said that's not something we're thinking about right now. Of course, we haven't made any decisions at all as of today. Finally, Powell did not want to give forward guidance on the pace of rate cutting.

Conclusion

Recent developments in both inflation and unemployment seem to warrant a rate cut in the coming months. However, inflation could still prove sticky going forward. If this is the case, we think that the deterioration in the labor market will still convince the FOMC to go ahead with a first rate cut in September and a second in December.

Looking further ahead, we think the 4 rate cuts per year projected by the FOMC for 2025 and 2026 will be derailed by politics. While the Democrats have improved their prospects for the November elections by pushing Biden off the presidential ticket, winning the Electoral College remains an uphill battle. Still assuming that Trump wins the elections and imposes a universal tariff, a rebound in inflation is unavoidable. This would halt any cutting cycle by the Fed in its tracks. We still expect only two rate cuts for 2025, in the first half of the year. Once inflation rebounds, the window of opportunity for rate cuts closes.

Table 2: Rabobank forecasts of target range for federal funds rate in 2024 and 2025

FOMC meeting	*Size of rate change (bps)*	*Target range (%)*
January 30-31, 2024	0	5.25-5.50
March 19-20	0	5.25-5.50
April 30-May 1	0	5.25-5.50
June 11-12	0	5.25-5.50
July 30-31	0	5.25-5.50
September 17-18	-25	5.00-5.25
November 6-7	0	5.00-5.25
December 17-18	-25	4.75-5.00
January 28-29, 2025	0	4.75-5.00
March	-25	4.50-4.75
April-May	0	4.50-4.75
June	-25	4.25-4.50
July	0	4.25-4.50
September	0	4.25-4.50
November	0	4.25-4.50
December	0	4.25-4.50

Source: Rabobank

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