ECONOMIC UPDATE

REGIONS

June 18, 2025

June FOMC Meeting: Still Watching, Still Waiting, For What And For How Long Remain To Be Seen

- The FOMC made no change to the Fed funds rate target range, leaving the mid-point of the target range at 4.375 percent
- The updated dot plot implies fifty basis points of funds rate cuts by year-end 2025, matching the March edition

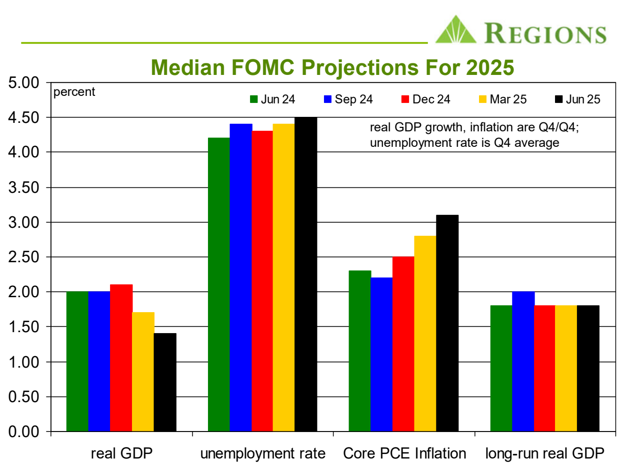
As was widely expected, the FOMC made no changes to the Fed funds rate target range, leaving the mid-point of the target range at 4.375 percent. The main questions around this week's meeting centered on the updated Summary of Economic Projections (SEP). Specifically, whether, or to what extent, the revised projections would show slower real GDP growth, a higher unemployment rate, and higher inflation in Q4 2025 relative to the SEP issued in March, and whether the updated dot plot would deviate from the two twenty-five basis point funds rate cuts by year-end 2025 implied in the March edition. While the updated SEP did indeed downgrade the growth outlook and up the inflation forecast, the updated dot plot again implies two funds rate cuts by year-end 2025, though the updated dot plot implies only a single twenty-five basis point cut in 2026 rather than the two such cuts implied in the March edition. How relevant that is at this point, however, is an open question given that 2026 seems even longer away than the calendar tells us is the case given the considerable uncertainty looming over the economic landscape, which is a common theme in the updated SEP and in the messaging of the Committee. Essentially, the FOMC remains in "watch and wait" mode, and the updated SEP suggests that the Committee is settling in for a period of what will be a somewhat stagflationary environment but does not intend to respond in an aggressive manner. We continue to maintain that the one thing that would change their response would be a more marked deterioration in labor market conditions than they now anticipate.

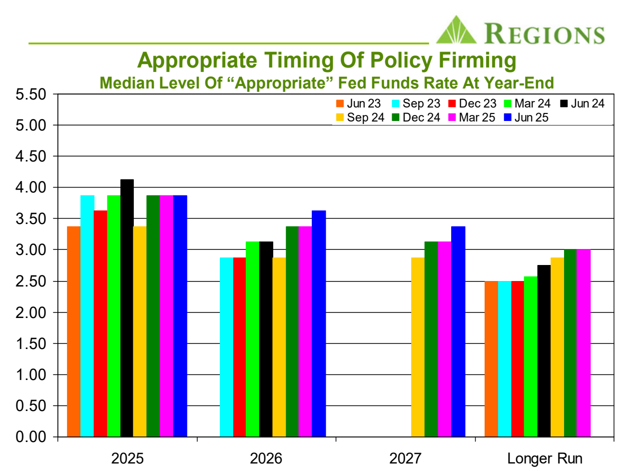
There were a few changes in the characterization of current economic conditions in the post-meeting policy statement. The Committee notes that uncertainty around the economic outlook "has diminished but remains elevated," whereas in the May statement uncertainty was said to have "increased further." Additionally, today's statement notes that "the Committee is attentive to the risks to both sides of its dual mandate," whereas in the May statement the Committee explicitly pointed to the risks of higher unemployment and higher inflation as having risen.

As we expected would be the case, the median forecast of 2025 real GDP growth, on a Q4/Q4 basis, is lower than in the March SEP while the median forecast of headline and core inflation, again on a Q4/Q4 basis, is higher. Recall that while some increases in tariffs had been put into place prior the March FOMC meeting, that was before the April 2 announcement and subsequent developments on the trade policy front. The updated SEP shows real GDP growth of 1.4 percent for 2025, down from 1.7 percent in March, with core PCE inflation now put at 3.1 percent, up from 2.8 percent in March. The unemployment rate is now expected to average 4.5 percent in Q4 2025, up slightly from 4.4 percent in March. It is likely that the Committee anticipating only a modestly higher unemployment rate reflects what is expected to be meaningfully slower labor force growth, as is the case with many private sector forecasts, including ours. It is worth noting that forecasts of the "long run" values of real GDP growth, the unemployment rate, and PCE inflation all remain unchanged, suggesting that Committee members view disruptions from trade policy to be, well, transitory. Though members' assessments of the risks to their forecasts for inflation and the unemployment rate are still weighted to the upside, there are a few more members who see the risks as balanced than was the case in March.

Ahead of this week's meeting, there was considerable discussion as to whether the updated dot plot would imply one or two twenty-five basis point cuts in the Fed funds rate by year-end 2025. The median dot again implies two such cuts, but the dispersion of the dots around that median is wider than was the case in March. To that point, seven Committee members saw no cuts this year as being the appropriate policy stance, and there were nine members whose dot was higher than the median, up from eight in March. The updated dot plot did take one implied cut out of 2026 though, as noted earlier, we're not sure that's all that relevant at this point.

In his post-meeting press conference, Chair Powell stressed that it is still far from clear whether higher tariffs will lead to one-off increases in prices, as opposed to "an ongoing inflation problem." Chair Powell downplayed the dot plot, noting a lack of conviction given the elevated degree of uncertainty, and did note that it is likely that we'll "get to a place where rate cuts are appropriate." Exactly where that place is, however, remains to be seen and the FOMC does not see the need to be in a hurry to answer that specific question.





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