

Chart of the Day

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The 19 members of the Fed's FOMC hold eight regular meetings per year with additional meetings if needed. As happened last Wednesday, June 12th, the FOMC also updates a range of key economic and policy forecasts every three months.

As evident in the Fed's updated forecasts, the US economy has generally been quite resilient to a turbulent four year period which has included the most significant global pandemic in a century, the largest land war in Europe in 70 years, heightened Middle East risk, bank sector stress and the most rapid Fed tightening cycle in 40 years.

Earlier this year, the market was predicting that Fed rate cuts would already be underway. Though the US economy's performance has well exceeded expectations, the path ahead for policy and rates remains unclear.

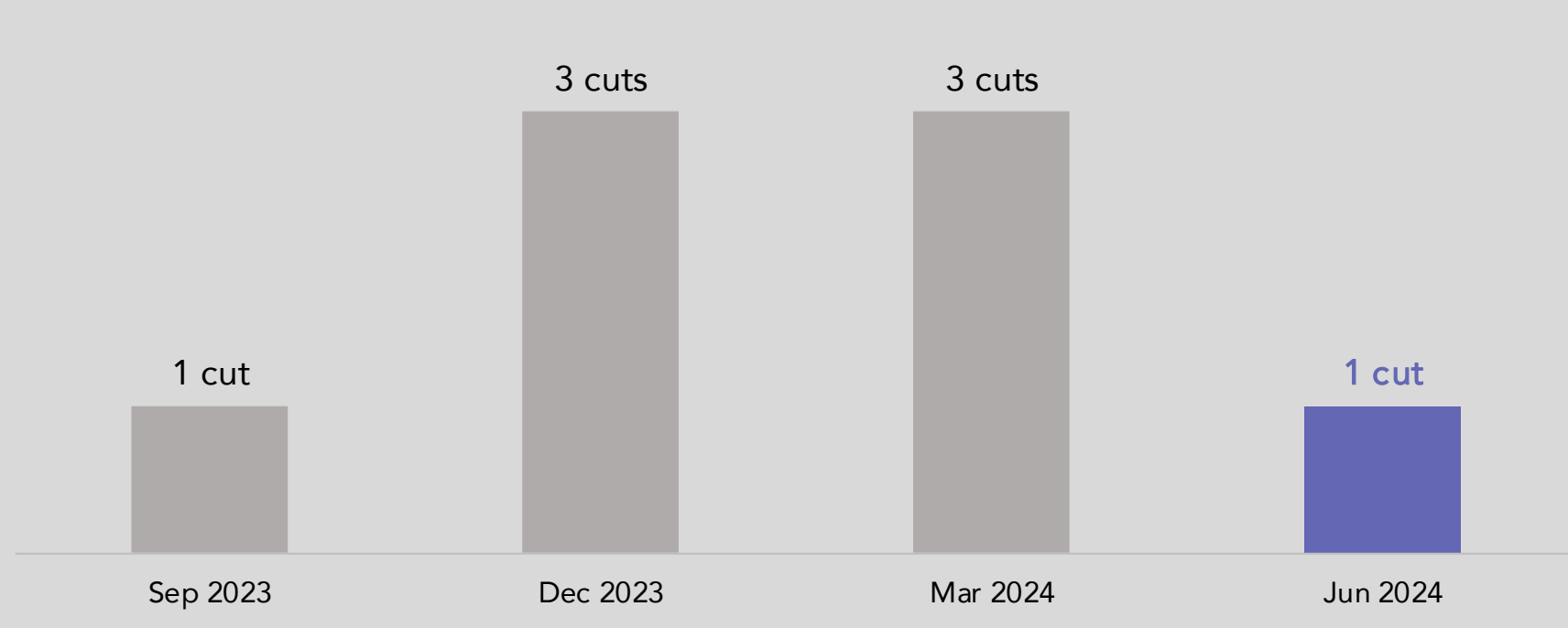
On Wednesday, June 12th, the FOMC maintained its prior quarterly forecasts for 2024 US GDP growth and unemployment. However, the Fed increased its forecast for year-end inflation, while reducing expectations for 2024 policy easing accordingly.

Change in Fed's summary of economic projections

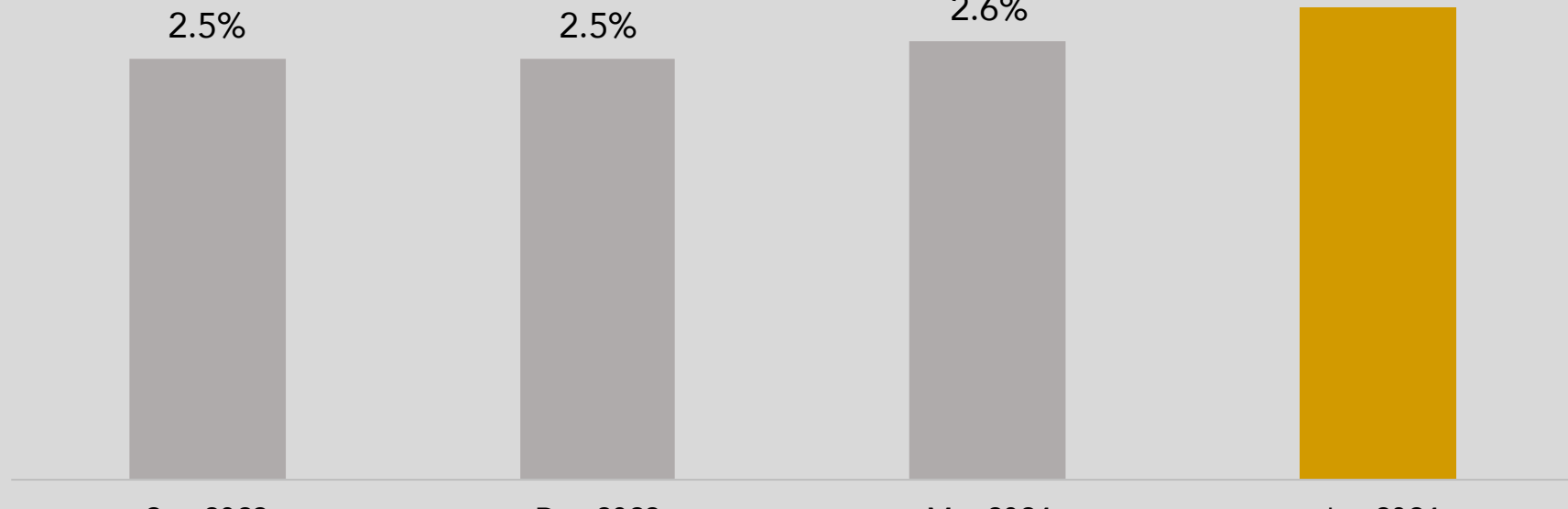
| Economic datapoint | March 2024 | June 2024 | Change |
|---------------------------------|------------|-----------|--------|
| Dec 2024 Fed Funds | 4.6% | 5.1% | +0.5% |
| Longer-run Fed Funds | 2.6% | 2.8% | +0.2% |
| Dec 2024 headline PCE inflation | 2.4% | 2.6% | +0.2% |
| Dec 2024 core PCE inflation | 2.6% | 2.8% | +0.2% |
| Dec 2024 unemployment | 4.0% | 4.0% | 0.0% |
| 2024 real GDP growth | 2.1% | 2.1% | 0.0% |

The most significant forecast change at last week's FOMC meeting was the reduction in expected 2024 policy easing from three rate cuts to one. Over the last nine months, the Fed has raised its 2024 US GDP growth forecasts, increased its expectations for inflation, and marginally reduced its year-end unemployment forecast. While the Fed's forecast changes may appear modest, the performance of the US economy represents a marked departure from market pricing at the beginning of the year.

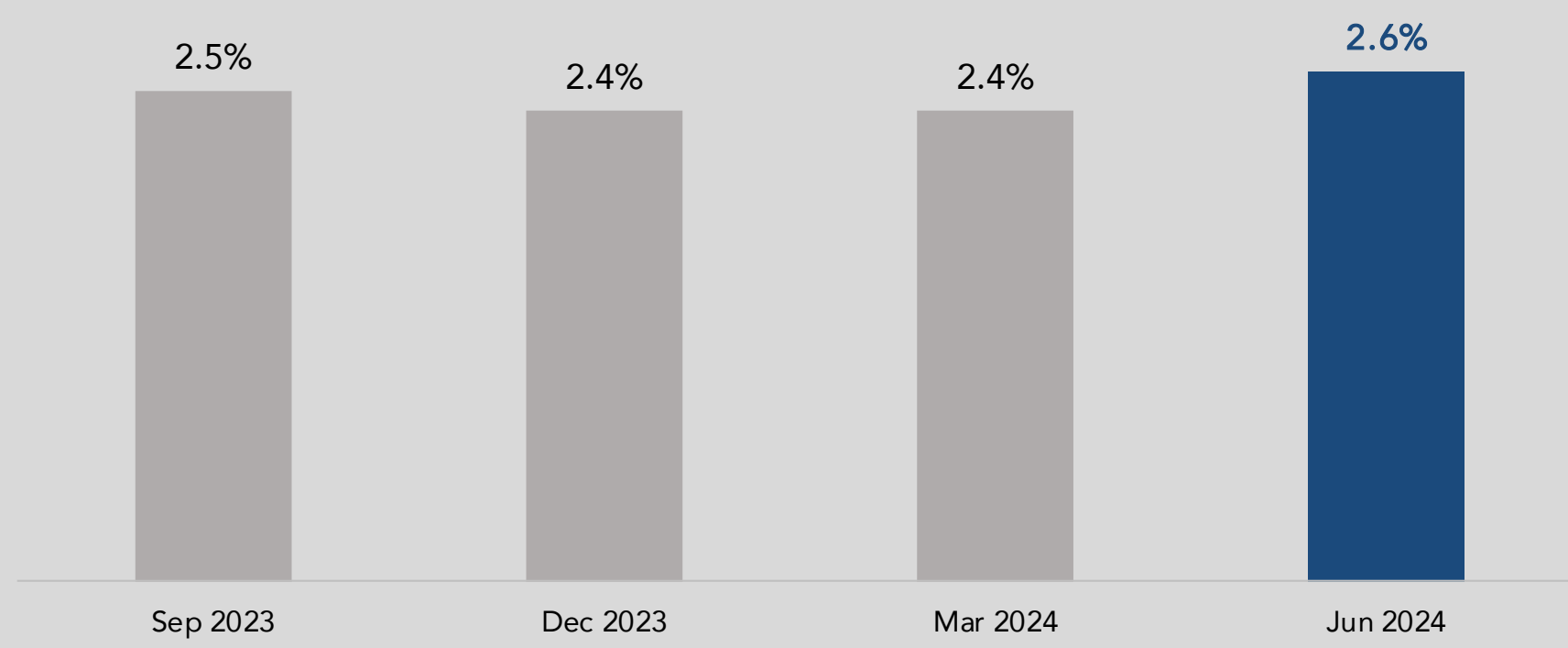
Fed forecasts for # of Fed policy rate cuts expected in 2024



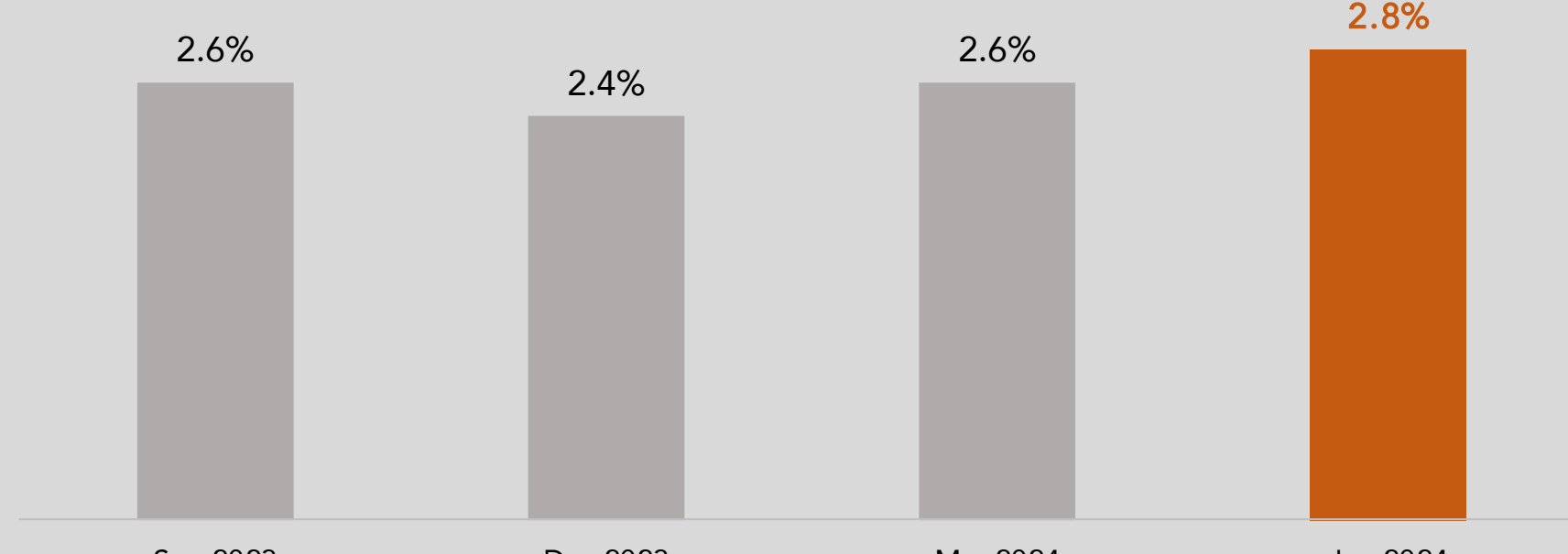
Fed forecasts for longer-run Fed Funds rate



Fed forecasts for YE 2024 PCE inflation, y/y



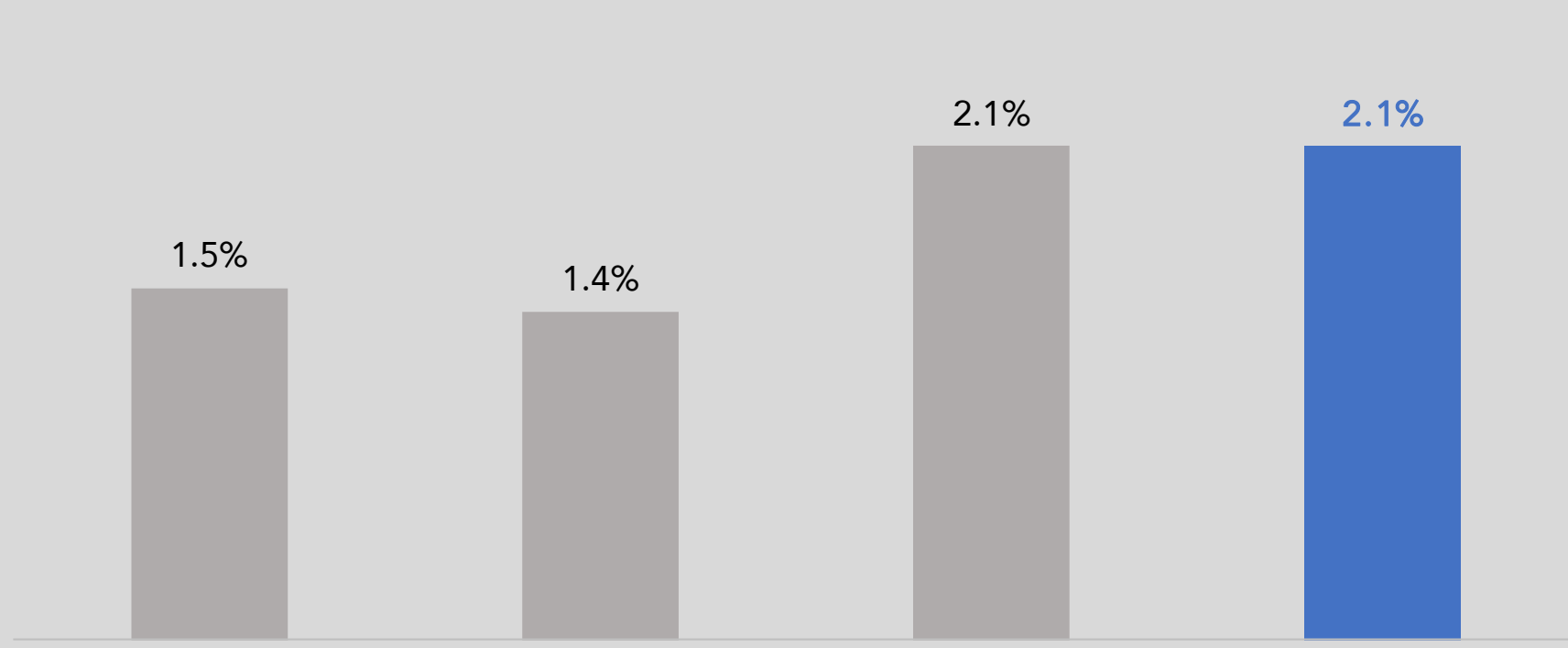
Fed forecasts for YE 2024 core PCE inflation, y/y



Fed forecasts for YE 2024 US unemployment rate



Fed forecasts for 2024 US real GDP, y/y



Source: (1-7) Federal Reserve, "Summary of Economic Projections". Data as of June 13, 2024. GDP, PCE, and core PCE forecasts are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. Longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy.

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"Macro stability isn't everything, but without it, you have nothing."