

Economic Indicator — March 20, 2024

March FOMC Meeting: Still Building Confidence

Summary

- As was widely expected, the FOMC left the fed funds target range unchanged at 5.25-5.50% at the conclusion of its March meeting.
- The Summary of Economic Projections showed that the vast majority of the Committee continues to believe some easing of policy will be appropriate this year. The median projection for the federal funds rate at year-end was unchanged from December's projection at 4.625%. However, the distribution of expectations shifted higher for 2024 and the median dot for 2025 and 2026 moved up 25 bps, implying an incrementally more hawkish outlook.
- Notably, the median "longer-run" dot also moved higher. While the increase was small (6 bps), we suspect the longer-run dot will drift higher very slowly to reflect a neutral rate that may have moved somewhat higher relative to the pre-pandemic period.
- The slightly higher fed funds rate outlook comes amid more upbeat projections for economic growth and stickier inflation this year. That said, the Committee's estimates for unemployment and inflation were barely changed for 2025-2026.
- The statement was virtually unchanged, with only a minor tweak to the paragraph on recent economic conditions. The Committee continues to seek "greater confidence that inflation is moving sustainably toward 2%" before reducing the fed funds rate.
- Overall, the updated Summary of Economic Projections suggests that the FOMC believes that inflation is on a path back to its 2% target, but it is likely to be achieved *slightly* later than previously expected. We continue to look for the FOMC to start reducing the fed funds rate at its June 12 meeting. However, the risks to our outlook are skewed toward the FOMC beginning to ease a little later in the summer or potentially proceeding at a slower pace that leads to less than the 100 bps of easing we project through the end of this year.
- While risks to the FOMC beginning to cut the fed funds rate skew toward later in the year, balance sheet normalization looks likely to occur somewhat earlier. In light of Powell's comments at today's press conference, we think an announcement to slow the pace of quantitative tightening is coming at the May 1 meeting, although we would not be surprised if it slipped to the following meeting on June 12.

Economist(s)

Sarah House

Senior Economist | Wells Fargo Economics
Sarah.House@wellsfargo.com | 704-410-3282

Michael Pugliese

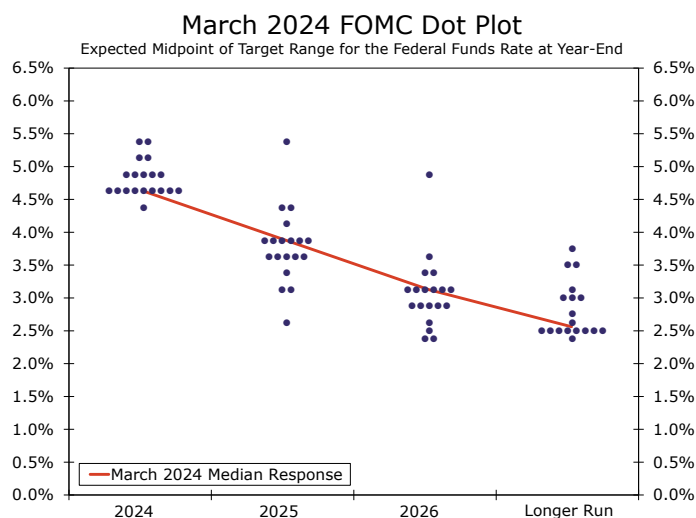
Senior Economist | Wells Fargo Economics
Michael.D.Pugliese@wellsfargo.com | 212-214-5058

FOMC Signals Cuts Coming, Just Not Yet

As widely expected, the FOMC left the target range for the federal funds rate unchanged at 5.25-5.50% at the conclusion of its March meeting. The last rate hike occurred in July 2023, and the Committee has left its policy rate unchanged in the eight months since.

The Summary of Economic Projections (SEP) signaled that all but two of the Committee members expect to start cutting rates this year, with the median participant projecting 75 bps of easing by year-end 2024 ([chart](#)). The 2024 median dot was unchanged from the December SEP, although the distribution drifted higher in a sign that policymakers remain on guard against sticky inflation. In that vein, the median dots for 2025 and 2026 rose by 25 bps in each year, consistent with 75 bps of easing in 2025 and another 75 bps of cuts in 2026.

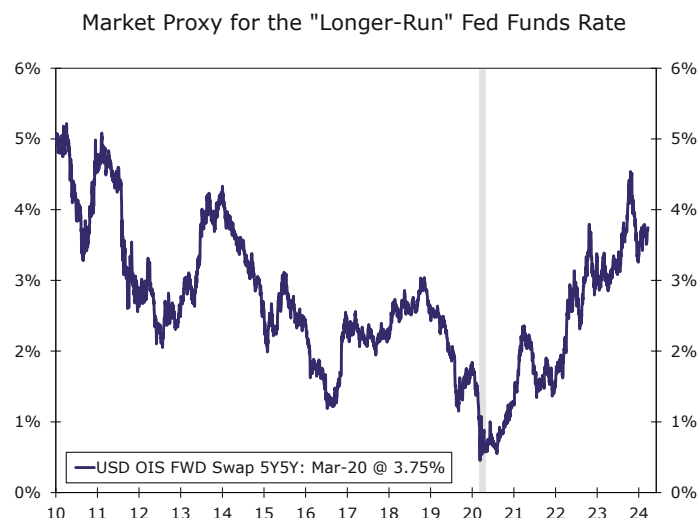
The median "longer-run" dot also moved higher. The longer-run dot represents each participant's view of the level of the federal funds rate that would be most consistent with achieving the Federal Reserve's dual mandate of maximum employment and price stability over the long-run. The increase in the longer-run dot was small, just 6 bps, but it marks the first time the median has been above 2.5% since March 2019. We suspect the longer-run dot will drift higher very slowly to reflect a neutral rate that may have moved somewhat higher relative to the pre-pandemic period. Markets appear to be ahead of the Committee and are priced for short-term interest rates to be between three and four percent over the longer-run ([chart](#)).



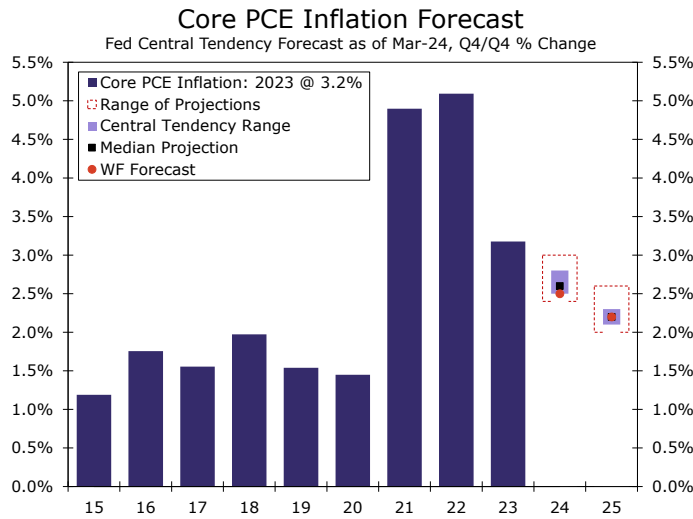
Source: Federal Reserve Board and Wells Fargo Economics

Elsewhere, the Committee's projections for the economy reflected continued resilience in both output and price growth. The median projection for real GDP growth in 2024 is 2.1%—up from 1.4% in the December SEP. Growth projections in 2025 and 2026 were also revised up by two tenths and one tenth of a percentage point, respectively. The Committee's inflation projections also rose modestly, most notably an increase in the median projection for 2024 core PCE inflation from 2.4% to 2.6% ([chart](#)). That said, the median forecasts for core inflation in 2025 and 2026 were left unchanged in a sign that the Committee remains confident that inflation progress will continue, just at a slightly slower pace than previously believed.

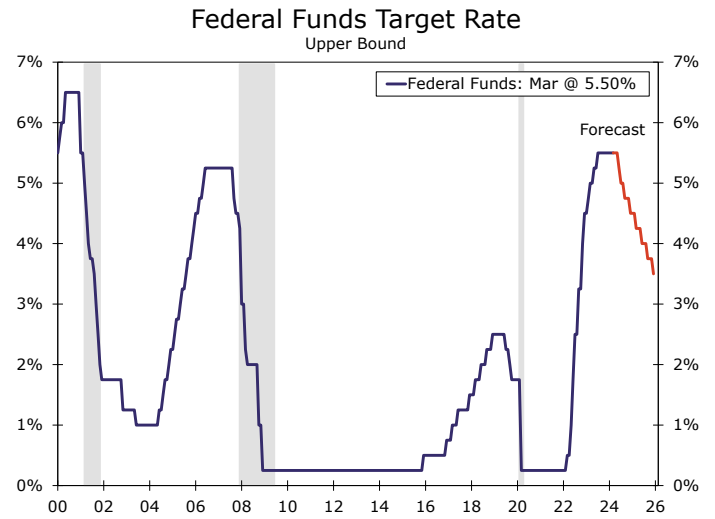
The post-meeting statement contained virtually no changes to what was released following the January 31 meeting. Job gains were still characterized as "strong," although the phrase that hiring has "moderated since early last year" was stricken with payrolls averaging 265K the past three months. The remainder of the statement contained no changes. Economic activity continues to expand at a "solid" pace, and inflation "remains elevated." Notably, the FOMC continues to seek "greater confidence that inflation is moving sustainably toward 2%" before reducing the fed funds rate.



Source: Bloomberg Finance L.P. and Wells Fargo Economics



Source: U.S. Department of Commerce, Federal Reserve Board and Wells Fargo Economics



Source: Federal Reserve Board and Wells Fargo Economics

Overall, the updated Summary of Economic Projections suggests that the FOMC believes that inflation is on a path back to its 2% target, but it is likely to be achieved *slightly* later than previously expected. We currently expect the Committee to first ease policy at its June 12 meeting, at which time officials will have seen three more months of inflation and employment data, and ultimately reduce the fed funds rate by a total of 100 bps this year ([chart](#)). However, with the Committee more upbeat on prospects for economic activity and a bit more worried about inflation, the risks to our outlook are skewed toward the FOMC beginning to ease a little later in the summer (at its July 31 meeting), or potentially proceeding at a slower pace (e.g., every other meeting).

The Committee also reaffirmed its ongoing pace of balance sheet runoff, commonly referred to as quantitative tightening (QT), but Chair Powell's comments in the post-meeting press conference suggested that changes are coming. Powell stated that it is the Committee's view that it would be appropriate to slow the pace of asset runoff "fairly soon." Note that a slower pace of QT would still involve shrinking the Fed's balance sheet, just at a slower pace than what has occurred since QT ramped up in mid-2022. Coming into the meeting, our [forecast assumed](#) that the FOMC would announce a plan to slow the pace of QT at its June meeting. In light of Powell's comments today, an announcement at the May meeting seems slightly more likely than a June announcement, although we would not be surprised if it slipped to the June meeting. Either way, we expect the runoff caps for Treasury securities to be reduced to \$30 billion while mortgage-backed securities caps are dropped to \$20 billion, with this slower pace of runoff continuing until roughly year-end 2024.

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	212-214-1164	Jeremiah.J.Kohl@wellsfargo.com
Aubrey George	Economic Analyst	704-410-2911	Aubrey.B.George@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. (“WFBNA”). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation, offer or solicitation with respect to the purchase or sale of any security or other financial product, nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report or such earlier date as may be indicated for a particular price or forecast. The views and opinions expressed in this report are those of its named author(s) or, where no author is indicated, the Economics Group; such views and opinions are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report, and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks, and is a wholly-owned subsidiary of Wells Fargo & Company. © 2024 Wells Fargo Bank, N.A.

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited (“WFSIL”). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority (“FCA”). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (the “Act”), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU (“MiFID2”). The FCA rules made under the Act for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. (“WFSE”). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in MiFID2. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE