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December 16, 2024

Another Rate Cut but a Shallower Path Going Forward

The Federal Open Market Committee will conclude a two-day monetary policy meeting on Wednesday and it is widely expected that the Fed funds target range will be lowered by 25 basis points to 4.25% - 4.5%. This would represent the third rate cut in as many meetings and a cumulative 100 basis points of policy rate reduction since September. However, recent inflation and labor market data suggest that policymakers may outline a shallower path of rate cuts going forward relative to the forecasts made by FOMC participants in the September Summary of Economic Projections.

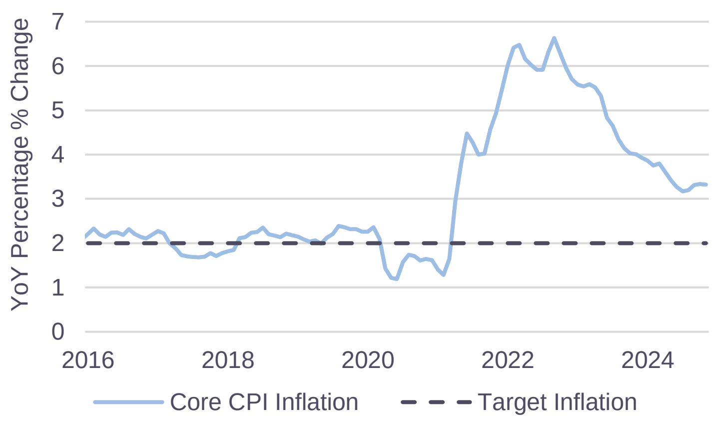
The Conversation

Interest rate futures markets are roughly fully priced for a quarter-point rate cut on December 18—in part because of the guidance of some Fed officials prior to the start of the communications blackout. Given that the Fed is averse to hawkish surprises, anything other than a quarter-point rate cut on Wednesday would be a shock.

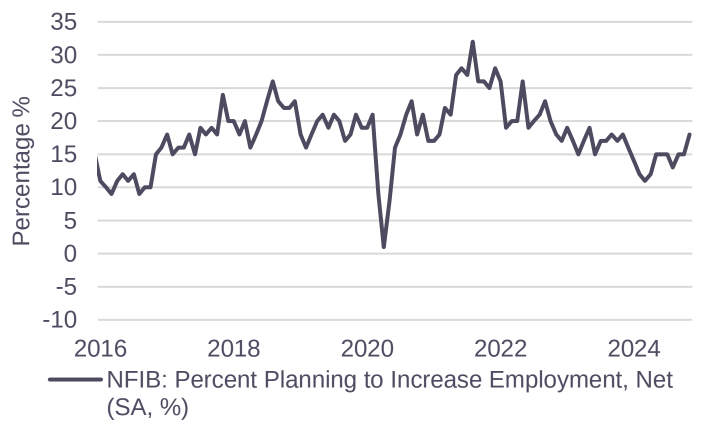
However, the economic data reports do not make a strong case for another rate cut following the 75 basis points of rate reduction already delivered by the Fed. For example, the December 11th CPI report featured a core CPI inflation rate that remains elevated and has failed to moderate for five months. The labor market picture is more mixed but the Fed's preferred measure of labor market slack, the ratio of job openings to unemployed job seekers, was 1.08 in the latest report, which is little changed from the 1.10 ratio four months prior.

Looking forward, while there are uncertainties related to trade and immigration policy next year, recent surveys of CFOs, CEOs and small business owners show improved hiring expectations, and pricing expectations that remain elevated. For example, NFIB plans to hire rose to the highest level since May 2023 and the hiring intentions in the CEO survey were the strongest in over two years.

Inflation Progress has stalled[1]



Hiring Intentions have strengthened[1]



The Rithm Take

The Fed will likely cut rates on Wednesday despite stalled inflation progress and reduced labor market risks. Given the recent inflation and labor market data, and surveys that point to upside inflation risks and less downside risk to employment, it seems probable that the pace of rate cuts will slow in the coming months. Indeed, unless inflation resumes its move toward the Fed's 2% target or there is a marked increase in downside labor market risks, the Fed may be getting close to the end of its rate cutting cycle.

1. Sources: Bureau of Labor Statistics, National Federation for Independent Business

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