



# FOMC: projections highlight heightened uncertainty in rate outlook

Fed remains data dependent; main focus is on inflation uncertainty

By Naomi Fink, Chief Global Strategist  
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## Fed keeps rates on hold, projects a mildly more optimistic outlook

The Federal Open Market Committee (FOMC) kept interest rates on hold as expected at its June meeting. The June monetary policy statement had a mildly more optimistic outlook compared to May. The latest statement noted that “heightened risks of both higher unemployment and inflation” cited in May “diminished but remain elevated”. However, the June Summary of Economic Projections (SEP), compared to the March release, indicates that the direction of the economy has shifted to a lower-growth, higher inflation environment in the short term.

## Growth and employment

At the post-FOMC press conference Federal Reserve (Fed) Chair Jerome Powell described current conditions as “solid”, saying that the 4.2% unemployment rate “remains low”. Powell pointed out that real wages are still in positive territory. However, he also cited the SEP’s projection for the unemployment rate to reach 4.5% by the end of the year; conditions are expected to worsen. Meanwhile, recent GDP data have not been useful reference to gauge trend developments, with investment surging and net exports skewed by front-loaded imports ahead of anticipated tariffs. On the other hand, the consumption component was softer, and PDFFP (private domestic financial purchases) growth was reliant on domestic investment to expand at a healthy rate of 2.5% in Q1. Because investment was driven by anticipation of tariffs, a temporary factor, its contribution is likely to decrease. Notably, growth expectations were shifted lower in June (1.4-1.5%) vs. March (1.6-1.7%). Projections for unemployment in 2025 remains at 4.4-4.5%, reflecting a more defined central tendency.

## Inflation: the big unknown

Powell said inflation “eased significantly” from highs in 2022, but “remains somewhat elevated” compared to the Fed’s 2% target. However, he also noted that near-term inflation expectations have “moved up” in recent months, with tariffs a big “driving factor”. Although the SEP’s total PCE inflation projection of 3% was higher than March, the Fed Chair expected the inflation rate to subside in the longer-term. The uncertainty associated with such an outlook, however, may make the FOMC’s rate trajectory highly unpredictable. The mode in inflation expectations moved higher from

2.7-2.8% to 2.9-3%, with both upside and downside risks becoming more prominent. The full range of expectations remains clearly above 2% in 2025 and 2026, subsiding to around target level in 2027, albeit with some upside tail risks. We also note that while FOMC members' diffusion indices assessing uncertainties regarding unemployment and GDP decreased somewhat after March's substantial increase, uncertainty over inflation remained elevated at levels similar to those in March.

## Majority of members see two rate cuts in 2025 but outlook more disperse

The FOMC's median projection for the Fed Funds rate by the year-end remains 3.9%, unchanged from the March projection. The longer-term projection for 2027 was raised modestly to 3.4%. Ten of the 19 FOMC members see at least two rate cuts in 2025, while the number of those who do not expect the Fed to cut at all this year rose to seven from four in March. The varied projections highlight the elevated uncertainty in the outlook for the Fed Funds rate.

For now, it appears that the FOMC remains data-dependent, with the main focus on the uncertainty over near-term inflation expectations.

The FOMC's statement and SEP align with the central scenario of slower growth with trade détente outlined in our [Global Investment Committee review: scenarios for a less certain global outlook](#). However, persistent uncertainty means that the probability of scenarios involving stagflation or recession with disinflation remains well above zero.

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