

Fed Watch

## Fed's dot plot signals fewer rate cuts in 2024...

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September 20, 2023

### ... and still points to one more 25bp rate hike this year

- **The FOMC voted unanimously to keep the fed funds rate steady at a 22-year-high 5.25-5.50% target range.** The statement wording was mostly unchanged, but the assessment of growth was improved from “moderate” to “solid” and noted that while job gains have slowed, they remain “strong.” The Fed kept its hawkish bias: “additional policy firming [...] may be appropriate.” Chair Powell acknowledged that inflation has moderated, but also stressed that it “remains well above goal” and restoring price stability is still Fed’s “number one concern.” With the recent inflation data in line with (or even somewhat better than) expectations, Chair Powell’s reason for delivering a more hawkish than expected message “is more about economic growth.” The Fed has not “gotten to a point of confidence yet”, and continued evidence of stronger growth is the main reason for possibly “needing to do more”<sup>1</sup> as “reducing inflation will require a period of below trend growth.”
- **The updated Summary of Economic Projections (SEP), especially the dot plot, reinforced the higher for longer rhetoric.** The median GDP growth forecast for 4Q23 was revised up from 1.0 to 2.1% and higher by 0.4 pp to 1.5% for 4Q24. The unemployment rate is now projected to peak at 4.1% during 2024-25, well below June’s projected 4.5% peak. Core PCE inflation was revised only slightly lower to 3.7% for 2023 (-0.2pp), left unchanged at 2.6% for 2024 and fine-tuned to 2.3% for 2025 (slightly up from 2.2%). It is forecasted to fully converge to the 2.0% target until 2026 ([Table 1](#)). More importantly, the “dot plot” now pencils in fewer rate cuts for 2024 (-50bp worth of cuts, down from -100 bps in June) and although it continues to forecast (-)120 bp worth of rate cuts for 2025, the median projected fed funds rate for 2025 moved up 50bp to 3.9%. Noticeably, if only one of the 19 officials would have forecasted a rate below 5.0% for 2024, the median would have moved only half of what it did. Also noteworthy is the different views within officials, reflecting the ample uncertainty around the dot plot signals: the range of the projections for 2024 and 2025 is significantly wide for both years, from 4.4% to 6.1% for 2024 and from 2.6% to 5.6% for 2025. The median estimate for the “neutral” rate continues to be 2.5%, with seven officials forecasting a higher level and three a lower one ([Figure 1](#)).
- **Main takeaways: the Fed is still not fully confident about inflation and feels it needs to strengthen market’s expectations about the need for “higher for longer” rates.** Yet, we think core inflation will continue to fall quicker than what the Fed is expecting as there are growing headwinds that will continue to bring the economy and the labor market into better balance. If the data suggests that there is no need for further hikes, we continue to think that the Fed will sit at the last two meetings of the year and if, as we think, core inflation falls quicker than what the Fed forecasts, the stance would tighten further and the Fed would cut rates more than signaled today by the dot plot. For now, the data-dependent approach needs more time. Once inflation is convincingly on a downward trajectory towards the goal, restrictive monetary policy would no longer be necessary and the Fed could move towards a neutral stance, i.e., it could start to cut rates. Risks are biased to higher rates, but a rate cut cycle in 2024 is still more likely than not.

<sup>1</sup> “[...] if the economy comes in stronger than expected, that just means we’ll have to do more [...] to get back to 2%.”

The updated SEP, especially the dot plot, reinforced the higher for longer rhetoric as the Fed is still not fully confident and feels it needs to strengthen expectations about the need for “higher for longer” rates

Table 1. **FOMC PARTICIPANTS’ SUMMARY OF ECONOMIC PROJECTIONS (SEPTEMBER 2023, %)**

Variable	Median					Central tendency					Range				
	2023	2024	2025	2026	LR	2023	2024	2025	2026	LR	2023	2024	2025	2026	LR
<b>Change in real GDP</b>	2.1	1.5	1.8	1.8	1.8	19-2.2	12-1.8	1.6-2.0	1.7-2.0	1.7-2.0	18-2.6	0.4-2.5	1.4-2.5	1.6-2.5	1.6-2.5
Jun-23	1.0	1.1	1.8		1.8	0.7-1.2	0.9-1.5	1.6-2.0		1.7-2.0	0.5-2.0	0.5-2.2	1.5-2.2		1.6-2.5
<b>Unemployment rate</b>	3.8	4.1	4.1	4.0	4.0	3.7-3.9	3.9-4.4	3.9-4.3	3.8-4.3	3.8-4.3	3.7-4.0	3.7-4.5	3.7-4.7	3.7-4.5	3.5-4.3
Jun-23	4.1	4.5	4.5		4.0	4.0-4.3	4.3-4.6	4.3-4.6		3.8-4.3	3.9-4.5	4.0-5.0	3.8-4.9		3.5-4.4
<b>PCE inflation</b>	3.3	2.5	2.2	2.0	2.0	3.2-3.4	2.3-2.7	2.0-2.3	2.0-2.2	2.0	3.1-3.8	2.1-3.5	2.0-2.9	2.0-2.7	2.0
Jun-23	3.2	2.5	2.1		2.0	3.0-3.5	2.3-2.8	2.0-2.4		2.0	2.9-4.1	2.1-3.5	2.0-3.0		2.0
<b>Core PCE inflation</b>	3.7	2.6	2.3	2.0		3.6-3.9	2.5-2.8	2.0-2.4	2.0-2.3		3.5-4.2	2.3-3.6	2.0-3.0	2.0-2.9	
Jun-23	3.9	2.6	2.2			3.7-4.2	2.5-3.1	2.0-2.4			3.6-4.5	2.2-3.6	2.0-3.0		
<b>Federal funds rate</b>	5.6	5.1	3.9	2.9	2.5	5.4-5.6	4.6-5.4	3.4-4.9	2.5-4.1	2.5-3.3	5.4-5.6	4.4-6.1	2.6-5.6	2.4-4.9	2.4-3.8
Jun-23	5.6	4.6	3.4		2.5	5.4-5.6	4.4-5.1	2.9-4.1		2.5-2.8	5.1-6.1	3.6-5.9	2.4-5.6		2.4-3.6

Figure 1. **FOMC PARTICIPANTS’ PROJECTED APPROPRIATE FEDERAL FUNDS RATE (%)**



Source: BBVA Research based on data by the Federal Reserve and Haver Analytics.

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