BEA 東亞銀行

Economic Research Department **19 June 2025**

Economic QuickView

FOMC Meeting: The Fed held rates steady and reiterated its cautious stance

- The Fed held rates steady at 4.25-4.50%, as expected.
- June's quarterly dot plot kept the median forecast for 2 rate cuts in the reminder of 2025, while the projections for 2026 and 2027 were adjusted from two cuts to one each year.
- The Fed expects tariffs to increase inflation but have modest impacts on the labour market.

The Fed held rates steady in June, as expected. During its June meeting, the Federal Open Market Committee (FOMC) voted unanimously to hold the federal funds rate unchanged at 4.25-4.50% and to continue reducing its holdings of securities. The post-meeting statement featured a few key alterations compared to May's statement. Primarily, the FOMC adopted a softer tone in describing economic uncertainty, with the phrase "has diminished but remains elevated", compared to "has increased further" in March. Furthermore, the statement removed the reference "the risks of higher unemployment and higher inflation have risen". These changes revealed that the FOMC is less worried about the US economic outlook, allowing its officials to take a patient approach in adjusting the monetary policies. Overall, the statement reiterated the Fed's cautious stance that it prefers to wait for more clarity on the economic trajectory before deciding to cut rates.

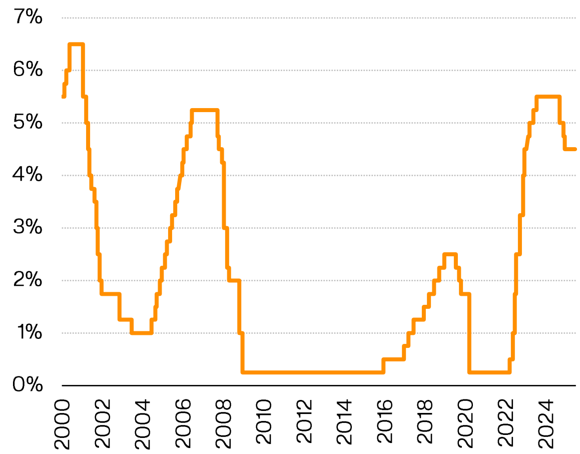
June's Summary of Economic Projections (SEP) continued to expect 2 rate cuts in 2025 but with a sharp divergence of views. The median forecast for the federal funds rate at the end of 2025 remained unchanged at 3.875% in June's SEP, suggesting 2 rate cuts in the remainder of 2025, the same as in March. However, the dot plot showed a sharp divergence of views, with 7 participants expecting no rate cuts, compared to 8 participants expecting two cuts. Additionally, the dot plots for 2026 and 2027 indicated an upward shift in forecasts, with members anticipating fewer rate cuts compared to March. June's median rate forecast at the end of 2026 was raised to 3.625% (implying only 1 rate cut in 2026), compared to 3.375% in March (implying 2 rate cuts). For 2027, the median rose to 3.375% from 3.125%, suggesting only one rate cut.

The June SEP offered insights into the FOMC's expectations on the tariff impacts. The FOMC lowered its forecasts for real GDP growth in 2025 and 2026 from 1.7% and 1.8% in March to 1.4% and 1.6% in June, respectively. Meanwhile, the projections for core PCE inflation were revised up to 3.1% in 2025, 2.4% in 2026, and 2.1% in 2027, from 2.8%, 2.2%, and 2.0%, respectively. Besides, the unemployment rate projections were slightly increased. These revisions offered the first glimpse of the FOMC officials' view on the economic implications of recent tariff hikes. Notably, it suggests that they expect tariffs to raise inflation in the near term, cause slower growth, and have only a relatively modest impact on the labour market.

FOMC Projections (June 2025)	2025	2026	2027	Longer run
Real GDP growth (%)	**1.4**	**1.6**	**1.8**	**1.8**
[March 2025]	[1.7]	[1.8]	[1.8]	[1.8]
Unemployment rate (%)	**4.5**	**4.5**	**4.4**	**4.2**
[March 2025]	[4.4]	[4.3]	[4.3]	[4.2]
Core PCE inflation (%)	**3.1**	**2.4**	**2.1**	-
[March 2025]	[2.8]	[2.2]	[2.0]	
Fed Funds rate (%)	**3.9**	**3.6**	**3.4**	**3.0**
[March 2025]	[3.9]	[3.4]	[3.1]	[3.0]

Source: The Fed

US Fed Funds Rate (Upper)



Source: Bloomberg

Fed Chairman Powell expected prices to rise as tariff impacts unfold. When speaking to the press, Powell stated that higher tariffs are poised to pass through distribution channels to the end consumer, putting upward pressure on inflation. While acknowledging a highly uncertain inflation outlook, Powell pointed to early signs of tariff impacts, citing price increases in certain products like personal computers and audio-visual equipment. Furthermore, Powell also described the economy as being in solid shape and the labour market as not being in urgent need of rate cuts. These assessments supported his decision to adopt a wait-and-see approach, evaluating whether the impacts of tariffs are just a one-off price increase or a sustained rise in inflation. In the aftermath of the meeting, financial markets priced in September as the most likely time for the first rate cut. In our view, while it is true that the tariff measures are inflationary to goods inflation, slower price growth has been seen in the services basket, which would support a further moderation in core inflation. We also view the current monetary environment as restrictive. Thus, we continue to expect two rate cuts by the Fed for 2025, likely in September and December. Following the FOMC decision to hold rates unchanged, banks in Hong Kong also held their prime rates unchanged, a widely expected move given the linked exchange rate system.

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