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Special Update

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Expectations for the June 2025 Federal Reserve Meeting

Overview

- Date: June 17–18, 2025
- Current Federal Funds Rate: 4.25%–4.50%
- Market Expectation: 91% probability of no rate change (CME FedWatch Tool, May 26, 2025)

Economic Context

- Inflation: Core PCE at 2.6% (March 2025), above Fed's 2% target; short-term inflation expectations at 6.5% due to tariffs.
- Labor Market: Unemployment at 4.2%, with robust job growth (177,000 jobs added in April).
- Consumer Sentiment: Down 32.4% year-over-year, driven by trade policy uncertainty.

Key Expectations

- Rate Decision: Rates likely unchanged, with markets pricing a 91% chance of holding steady.
- Summary of Economic Projections (SEP): Expected to update forecasts for GDP, inflation, and rates, potentially signaling two to three quarter-point cuts in 2025, likely starting in July or September.
- Key Data Points: May CPI (June 11) and Employment Situation (June 6) reports will influence the Fed's outlook.

Analyst Insights

- J.P. Morgan: Anticipates a “wait-and-see” approach, with gradual easing later in 2025.
- Forbes: Highlights potential for July or September cuts if economic data supports easing.
- Goldman: Projects cuts in July, September, and October to address economic weakness.

Conclusion

The Federal Open Market Committee (FOMC) is scheduled to meet on June 17–18, 2025, to discuss monetary policy, with the policy statement and press conference set for June 18 at 2:00 PM ET. Market participants and analysts widely expect the Federal Reserve to maintain the federal funds rate at its current range of 4.25%–4.50%, reflecting a cautious approach amid economic uncertainties driven by trade policies and inflation trends. This expectation aligns with recent FOMC actions, as rates have remained unchanged since December 2024, following a series of cuts earlier that year.

Economic indicators suggest a complex environment for the Fed’s decision-making. Inflation, as measured by the core Personal Consumption Expenditures (PCE) index, was 2.6% year-over-year in March 2025, slightly above the Fed’s 2% target, with short-term inflation expectations rising to 6.5% due to tariff-related concerns. Meanwhile, the labor market remains robust, with unemployment stable at 4.2% and solid job growth reported in April. However, consumer and business sentiment has weakened, with a 32.4% year-over-year drop in consumer expectations, largely attributed to trade policy uncertainties. These mixed signals complicate the Fed’s dual mandate of price stability and maximum employment, as rising inflation may conflict with potential economic slowdown risks.

Market expectations, as reflected in the CME FedWatch Tool, indicate a 91% probability of rates remaining steady in June, up from a 49% chance earlier in May. Posts on X and analyst reports, such as those from Forbes and J.P. Morgan, suggest that while no rate cut is anticipated for June, the FOMC's updated Summary of Economic Projections (SEP) could provide critical insights into future policy moves. Analysts project two to three quarter-point rate cuts by year-end, with July or September as likely starting points, contingent on incoming data, particularly the May Consumer Price Index (CPI) report on June 11 and the May Employment Situation report on June 6. If inflation moderates and job growth remains strong, the Fed may signal a dovish tilt; however, persistent inflation or rising unemployment could delay cuts or prompt a tighter stance.

The Fed's cautious "wait-and-see" approach, emphasized by Chair Jerome Powell, reflects the need for clearer data on the economic impact of tariffs and other policies. While some analysts, like those at Goldman, expect cuts starting in July to address potential economic weakness, others note the risk of stagflation if tariffs drive prices higher while growth slows. The June meeting's SEP and Powell's press conference will be pivotal in shaping market expectations for the remainder of 2025.

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