Comerica Economic Alert

Comerica Bank

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Fed Holds Rates Steady in July and Tees Up a Rate Cut in September

- **As expected, the Fed held the federal funds target steady at the July 31 decision.**
- **However, the Fed's rate setting committee tweaked their policy statement to show they think a rate cut will likely be appropriate soon.**
- **Where the June statement said the Fed was still primarily focused on inflation, the July statement said they see downside risks to the job market as balancing upside risks to inflation.**
- **The economy downshifted in the first half of 2024, with slower growth of real GDP, payrolls, an uptick in unemployment, and cooler inflation.**
- **Comerica forecasts for the Fed to make quarter percentage point rate cuts in September and December, with gradual rate cuts likely continuing in 2025.**

As expected, the Fed's rate setting committee the Federal Open Market Committee (FOMC) held the federal funds target unchanged at a range of 5.25% to 5.50% at today's decision. The FOMC also held unchanged its other policy interest rates, and continues to reduce its bond holdings at a rate of $60 billion per month.

Compared with their prior statement June 12, the FOMC's most important change to their policy statement in July was replacing the phrase, "The Committee remains highly attentive to inflation risks," with one reading, "The Committee is attentive to the risks to both sides of its dual mandate." This recognizes that data on growth, inflation, and the job market have all cooled over the last six months. Real GDP growth slowed to 2.3% annualized in the first half of 2024 from 3.8% annualized in the second half of 2023. Inflation by the Fed's preferred measure, the personal consumption expenditures price index, slowed to 2.5% in June and doesn't look far from the Fed's 2% target with glasses off. And the unemployment rate ticked up to 4.1% in June, the highest since late 2021, as payrolls growth slowed to a 177,000 three-month average.

Chair Powell took a step beyond the FOMC's consensus policy statement in the press conference following the decision. Responding to a reporter's question about the likelihood of a cut at the next meeting, he stated, "If we see inflation moving down more or less in line with expectations, growth remains reasonably strong, and the labor market remains consistent with its current condition, a rate cut could be on the table at the September meeting." That's about as specific as Powell would allow himself to be, since he doesn't want to annoy FOMC members who are reserving judgement about their upcoming votes.

Following the July decision, Comerica is holding unchanged our forecast for the Fed to reduce the federal funds target by a quarter percent at the next decision September 18, and to make another quarter percentage point rate cut at the December 18 decision. That would lower the federal funds target to a range of 4.75% to 5.00% at the end of this year. Comerica's forecast anticipates additional quarterly interest rate cuts in 2025, which would reduce the federal funds target to a range of 3.75% to 4.00% by the end of 2025.