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**June 18, 2025**

# Fed Still in Wait-And-See Mode; Comerica Forecasts For Fed to Forgo 2025 Rate Cuts Signaled By Dot Plot

- **The Fed held interest rates unchanged at its June decision as expected.**
- **The June Dot Plot forecasts higher unemployment and inflation than the Fed expected in March, as well as slower GDP growth.**
- **A majority of FOMC members see the Fed cutting rates by year-end, but it's not a clear-cut call; a third of FOMC members think that holding rates steady is likely the more appropriate course of action.**
- **Comerica forecasts a lower unemployment rate than the Fed Dot Plot's median, and so sees the Fed forgoing rate cuts this year.**
- **Risks to inflation are to the upside, and risks to economic growth are to the downside.**
- **The Fed doesn't have great tools to combat stagflationary risks, making their response harder to predict.**

As universally expected, the Federal Open Market Committee (FOMC) held the federal funds target unchanged at the June 18 decision at a range of 4.25% to 4.50%. This marks six months of steady rates after cutting the target a full percentage point between September and December 2024. The Fed's statement was little changed, but did remove a phrase from the prior statement in May that read, "Uncertainty about the economic outlook has increased." Instead the June statement reads that "Uncertainty about the economic outlook **has diminished but remains elevated**" (Emphasis on the change in bold). In the press conference following the decision, Chair Powell clarified that the lower uncertainty refers to recent business and consumer surveys showing less uncertainty after the partial tariff rollbacks in April and May. However, most of those surveys were collected before the Israel-Iran war broke out, so the Fed's assessment is already out of date.

The statement also removed a phrase that said the FOMC "judges that the risks of higher unemployment and higher inflation have risen." This is because the Fed's June Summary of Economic Projections ("Dot Plot") downgrades the forecast for the unemployment rate and raises the forecast for inflation; FOMC policymakers see the outlook as relatively stable around these worse projections. The June Dot Plot raised the forecast for the unemployment rate in the fourth quarter of the year to 4.5% for 2025 and 2026, up from 4.4% for 2025 and 4.3% for 2026 in the prior Dot Plot. The forecast for Q4/Q4 real GDP growth was downgraded 0.3 percentage points to 1.4% in 2025, and cut 0.2 percentage points to 1.6% in 2026. The 2027 forecast was unchanged at 1.8%.

The June Dot Plot median raised the forecast for total and core PCE inflation by 0.3 percentage points for 2025, 0.2 percentage points for 2026, and 0.1 percentage point for 2027. The latest forecasts are for total PCE inflation of 3.0% in 2025, 2.4% in 2026, and 2.1% in 2027. The Dot Plot sees core PCE inflation of 3.1% in 2025, with core PCE inflation matching total PCE inflation in 2026 and 2027.

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With slightly higher inflation and slightly higher unemployment, the median FOMC member still thought the most appropriate course for monetary policy would be to cut the federal funds target a half percent by year-end 2025. However, there was less unanimity around the appropriateness of rate cuts than in March. In the March Dot Plot, 15 of 19 FOMC members saw at least one rate cut in 2025. In the June Dot Plot, that fell to 12 of 19, with the remaining seven thinking it would be more appropriate to hold rates steady. Also, the median FOMC member thinks the federal funds rate should average a quarter percentage point higher in 2026 and 2027 than they forecast back at the March decision.

The Fed is in a tough spot. Their mandate requires them to pursue maximum employment and price stability. In the rear-view, they're doing pretty well against both legs of the mandate—the unemployment rate was in a pretty good spot at 4.2% in May, and PCE inflation was likely near their 2% target in the month as well. The forward-looking view is more concerning. Tariff hikes are expected to raise inflation and slow job creation. And to the extent that the Israel-Iran war affects the U.S. economy, the effect would likely be even more inflation and less job creation. The Fed doesn't have great tools to address stagflationary shocks like these.

When asked about the tradeoff between supporting the job market and controlling inflation, Powell responded, "Our obligation is to keep longer-term expectations anchored and prevent a one-time increase from becoming an ongoing problem. We will balance our maximum employment and price stability mandates, keeping in mind that without price stability, we cannot achieve the long periods of strong labor market conditions that benefit all Americans." That sounds like the Fed sees stable inflation as a precondition of maximum employment. At the very least, that sets a high bar for the Fed to cut interest rates if both unemployment and inflation go in the wrong directions.

Comerica's forecast anticipates a better outlook for the unemployment rate than the Fed's June Dot Plot, with the rate expected to average 4.2% in the second half of 2025—unchanged from April and May. Job growth is slowing. But there are also fewer new entrants to the labor force given tighter immigration enforcement, so less job creation is needed to keep the labor market on a steady keel. As a result Comerica forecasts for the Fed to hold the target rate steady through year-end at its current level of 4.25%-4.50%. If the job market starts to deteriorate sharply, or if weak demand conditions force businesses to absorb the cost of tariffs rather than pass them on to consumers, the Fed would be more likely to cut interest rates later this year.

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