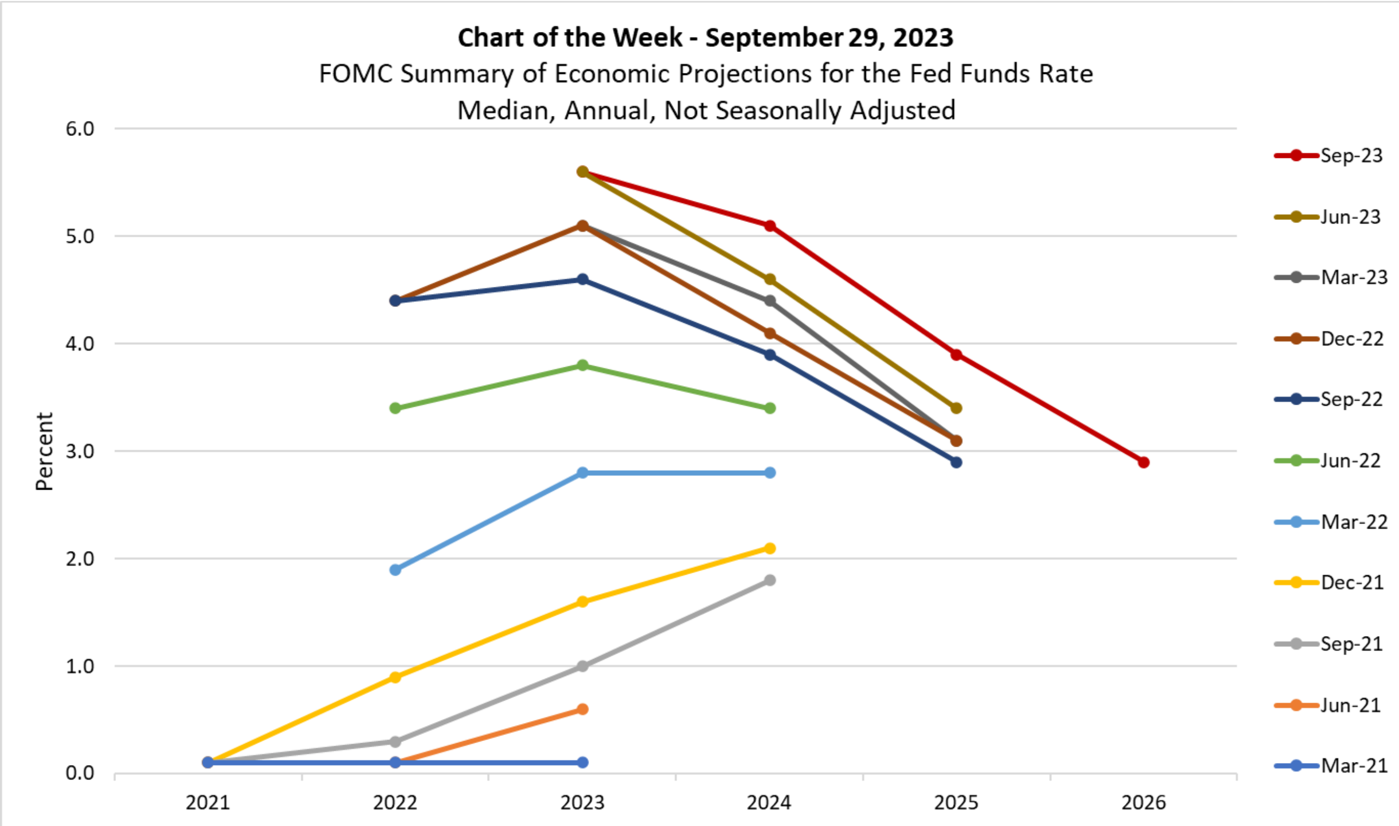

Source: U.S. Federal Open Market Committee Summary of Economic Projections

Each quarter, members of the Federal Open Market Committee (FOMC) submit their projections for various economic measures (i.e., real gross domestic product growth, the unemployment rate, inflation, and the federal funds rate). This month's projections, shown in the Summary of Economic Projections (SEP), included 2026 for the first time.

In this week's MBA Chart of the Week, we track changes in policymakers' quarterly published SEP federal funds rate forecasts over the last eleven quarters. Each line represents, for a given vintage of predictions, the median value of the projected appropriate target level for the federal funds rate at the end of the specified calendar year. For example, the red line, which depicts the September 2023 projections, shows a median target level at the end of 2023 of 5.6%. That is, the median participant projects that the fed funds rate target level will be increased by 0.25% between now and the end of the year (although 7 out of 19 participants projected no change from the current target range).

The chart illustrates how policymakers' views have evolved upward quarter after quarter since March 2021. This quarter's projections are no exception. At the end of 2023, the June and September projections are the same (at 5.6%), but the September projections are higher at the end of 2024 (5.6% vs. 5.1%), and the end of 2025 (3.9% vs. 3.4%). That is, higher for longer. It is not until the end of 2026 that the participants' median target level falls below 3% and is within 0.5% of the 2.5% longer-run value.

The FOMC policymakers also highlighted their uncertainty about inflation in the future, with 16 out of 19 expressing higher uncertainty about PCE inflation. They are also increasingly confident about a soft-landing, raising their economic growth forecasts and lowering their forecasts for unemployment —thus, the "higher for longer" monetary policy response. These developments prompted the recent spike in Treasury yields, driving mortgage rates higher.

MBA is forecasting a mild recession for the first half of 2024, as the full impact of all the rate hikes is absorbed throughout the economy. If the economy does slow markedly, we expect the Fed to cut rates more quickly than they indicate above.

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