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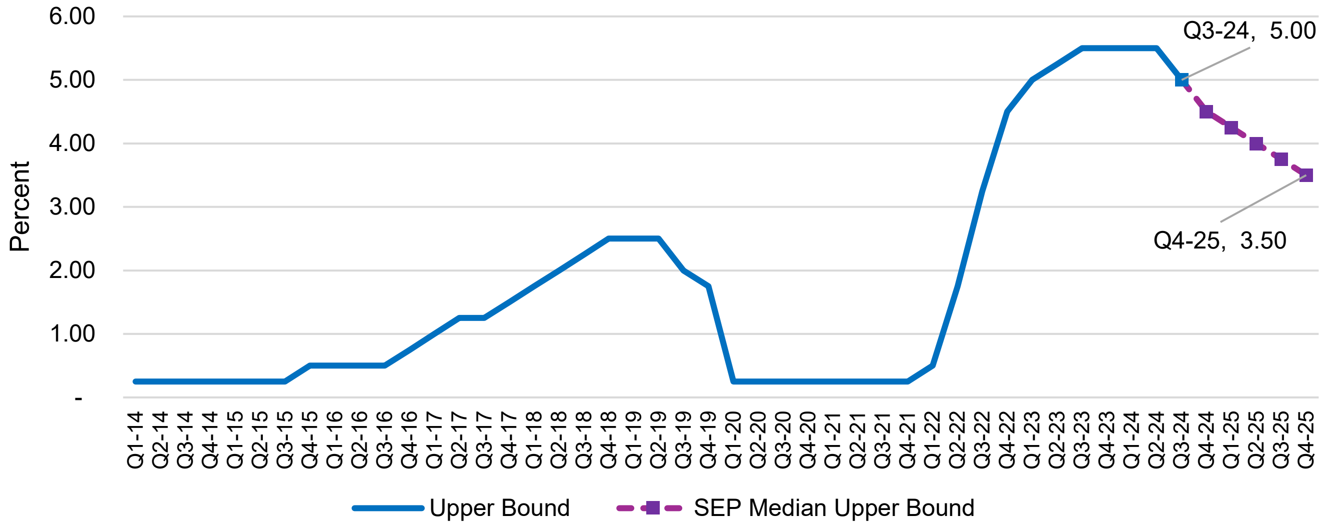
RESEARCH AND ECONOMICS

Chart of the Week - September 20, 2024
Target Fed Funds Rate (Upper Bound)



Source: Federal Reserve Board

The FOMC lowered the target Fed Funds rate by 50 basis points at its September meeting and signaled that this is the first cut in a series that is expected to bring the Fed Funds rate down by about 2 percentage points by the end of 2025. This week's chart shows the upper bound of the target Fed Funds rate, at a quarterly frequency, combined with the FOMC's median forecast from the Summary of Economic Projections (SEP) until the end of 2025.

It is also important to note that the FOMC's estimates of the neutral fed funds rates have moved up in recent meetings, and that the committee members see a range of 2.5 to 3.5 percent as consistent with neutral in the long run.

Market participants had been divided about how much the Fed would cut at its meeting, so this decision is likely to spur some rate volatility as investors adjust to this expected path for monetary policy. The Committee's concerns have shifted from inflation to the weakening job market. The SEP indicated that inflation is returning to its 2-percent target more quickly than the Committee had expected in June, but that the unemployment rate has moved higher and is likely to stay higher than previously expected.

Recent data on payroll growth have shown that the three-month moving average for nonfarm job gains has declined in each of the past five months from 267,000 jobs down to 116,000 jobs as of August, while the unemployment rate has risen from 3.8 percent to 4.2 percent over the corresponding period. While we are not seeing outright job losses or an acceleration in unemployment, and the U.S. economy is not facing elevated recession risk, we are likely in for a period of slower economic growth.

Mortgage rates likely had this cut – and this expected rate path – priced in. MBA's Weekly Applications Survey showed that the 30-year fixed rate was 6.15 percent most recently, which was 35 basis points lower than a month prior and more than a full percentage point below last year's rate. This has resulted in much more refinance applications and some additional purchase activity in recent weeks. We expect that barring no significant surprises in the Fed's actions or major economic or external shocks to the economy, mortgage rates will remain around 6 percent in the months ahead, which will support a slightly stronger fall housing market and a bigger rebound in home buying next spring.

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