First Trust
ECONOMIC RESEARCH REPORT

Andrew Opdyke, CFA – *Senior Economist*
Robert Stein, CFA – *Dep. Chief Economist*
Brian S. Wesbury – *Chief Economist*

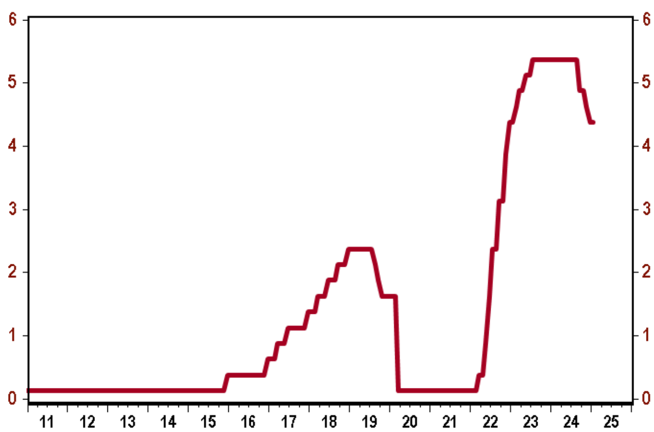
January 29, 2025 • 630.517.7756 • www.ftportfolios.com

Wait and See

Following 100 basis points in rate cuts through the back half of 2024, the Fed started 2025 with a pause, placing itself in wait and see mode for the foreseeable future.

Starting with today's FOMC statement, there were a few language changes worthy of note. On the employment front, prior comments that labor market conditions have eased and the unemployment rate has risen, now state that the unemployment rate has stabilized and labor market conditions "remain solid." With regards to inflation, the FOMC removed language that noted "progress towards the Committee's 2 percent objective" and now simply state that inflation "remains somewhat elevated." Both of these suggest more hawkishness, or at least less dovish news.

Fed Funds Target Rate
EOP, %



Source: Federal Reserve Board/Haver Analytics

If there was one consistent theme Powell himself stressed throughout his press conference, it's that the Fed believes their current policy stance is well positioned to respond if and when the data demand it. If the employment situation unexpectedly weakens, they stand ready to cut, but likewise they stand confident that keeping rates at current levels is enough to put continued pressure on inflation towards their 2 percent target.

It's worth noting that the FOMC previously expressed confidence in their policy stance back in 2020 when they felt any rise in prices from massive government stimulus would be "transitory". They also felt confident when they acknowledged that inflation wasn't so transitory, but forecast a modest pace of rate hikes would have inflation back down to 2 percent by the time 2024 was out. Yet here we stand, continuing an inflation fight that has stalled above target, despite rate hikes that went well past forecasted levels.

And now a new battle in Washington has begun. From tax cuts and deregulation which stand to boost businesses, to a clamping down on government excess which could temporarily slow the outsized deficit spending that has propped up economic growth. We may experience pain before the gain, as the economy moves to more sustainable footing. Along the way, the Fed is likely to spend much of this year reactively, though their guideposts have proven less than reliable.

What will we be watching? If M2 growth remains modest, both inflation and economic growth will slow, and the Fed will have room to continue cuts. If, however, rate cuts (or movements by the Treasury to draw down their checking account at the Fed and put that money back into the economy) lead to a rapid rise in M2 growth, the Fed has shown an active neglect of the warning signs that would have preempted the inflation debacle to begin with.

Brian S. Wesbury, *Chief Economist*
Robert Stein, *Deputy Chief Economist*

Text of the Federal Reserve's Statement:

Recent indicators suggest that economic activity has continued to expand at a solid pace. The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid. Inflation remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee judges that the risks to achieving its employment and inflation goals are roughly in balance. The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate.

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could *impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.*

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; Susan M. Collins; Lisa D. Cook; Austan D. Goolsbee; Philip N. Jefferson; Adriana D. Kugler; Alberto G. Musalem; Jeffrey R. Schmid; and Christopher J. Waller.