

US Daily: June FOMC Recap: Taking Higher Tariffs on Board, Cautiously (Mericle)

- FOMC participants raised their inflation forecasts and lowered their GDP growth forecasts to reflect larger tariff increases than they had previously assumed, but they made only moderate changes and were likely cautious in their tariff assumptions. The median 2025 dot—the key market focus at the June meeting—was unchanged by a narrow 10-9 majority at two cuts to 3.875%, in line with our expectations. The median 2026 and 2027 dots both increased by 25bp, against our expectation that they would remain unchanged, but the means were little changed and Powell downplayed these more distant projections.
- In the press conference, Powell said four times that monetary policy is in a “good place.” While he acknowledged the favorable recent inflation news, he also made it clear that he still expects to see meaningful further tariff effects on consumer prices over the summer. We likewise expect a sizeable further tariff effect that is only partially offset by other disinflationary forces, and we have a slightly higher end-2025 core PCE inflation forecast than the median FOMC participant.
- In part for this reason, we continue to expect just one cut this year in December followed by two more in 2026 to a terminal rate of 3.5-3.75%. While an earlier cut is possible, we continue to expect that the peak tariff effects on monthly inflation will show up over the summer and that FOMC participants will want a bit more distance from them before they resume rate cuts.

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June FOMC Recap: Taking Higher Tariffs on Board, Cautiously

The median FOMC participant's core PCE inflation forecast for 2025 rose 0.3pp to 3.1% and the median GDP growth forecast for 2025 fell by 0.3pp to 1.4%, likely reflecting the impact of a larger tariff increase than participants had previously assumed in March. The changes were meaningful but moderate, and we suspect that most participants penciled in somewhat more limited tariff increases than we have in our forecast because of the still considerable uncertainty about what additional tariffs might take effect.

The key focus for markets at the June meeting was whether the median 2025 dot would show one or two cuts. It remained unchanged at two cuts to 3.875% by a narrow 10-9 majority, in line with [our expectation](#) for the June meeting. Of the nine participants in the minority, two projected one cut and seven projected no cuts in 2025.

The median 2026 and 2027 dots both increased by 25bp, against our expectation that they would remain unchanged. But the moves in the medians overstated the change—the mean projection declined by the same 55bp from 2025 to 2026 as it had in March, the mean 2026 projection was just 5bp higher, and the mean 2027 projection was just 3bp higher. Powell also downplayed these more distant projections.

In the press conference, Powell said that monetary policy is in a “good place” four times, down from twelve times at the [May meeting](#) but enough to reiterate the Committee's recent message that with risks to both sides of the mandate and uncertainty still elevated, it is not planning to act soon.

While Powell acknowledged the favorable recent inflation news, he also made it clear that he still expects to see meaningful further tariff effects on consumer prices over the summer. He noted that some of the recent good inflation news reflected other factors, namely a decline in shelter inflation, and said that goods inflation had been “moving up a bit” and showing “some effects” from tariffs. He added that “It takes some time for tariffs to work their way through the chain of distribution to the end consumer,” and larger tariff effects would likely appear over the summer. He also highlighted that businesses have said in surveys that they expect to pass some or all tariff costs along to consumers.

We likewise expect a sizeable further tariff effect that is only partially offset by other disinflationary forces. Likely because we have built a somewhat larger tariff assumption into our forecast, we have a slightly higher 2025 Q4/Q4 core PCE inflation forecast of 3.3% than the median FOMC participant at 3.1%.

In part for this reason, we continue to expect just one cut this year in December followed by two more in 2026 to a terminal rate of 3.5-3.75%. While an earlier cut is possible, we continue to expect that the peak tariff effects on monthly inflation will show up over the summer and that FOMC participants will want a bit more distance from them before they resume rate cuts.

David Mericle

Disclosure Appendix

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