Will the Federal Reserve still cut rates this year?

By Phillip Molnar

Stubborn inflation might affect assumptions the Federal Reserve will cut interest rates this year.

March's inflation report showed prices were still rising, and higher than expected, making the Fed's job more difficult.

At the start of the year, some economic forecasts predicted six rate cuts, which has dropped to three or less in some cases. Some economists have even suggested a rate hike is coming.

"Recent data suggest it may take more time than I had previously thought to gain greater confidence in inflation's downward trajectory, before beginning to ease policy," Boston Fed President Susan Collins told Reuters.

Q: Will the Federal Reserve still cut rates this year?

Economists

Lynn Reaser, economist

YES: Rate reductions will be lower and more delayed than earlier predicted, but they should still take place. Housing represents the largest part of the Consumer Price Index, and rent increases are slowing after the largest rise in apartment construction in 23 years in 2023. Improving supply chains and consumer resistance will limit price increases for cars and other goods. Look for rate cuts in July and September.

James Hamilton, UC San Diego

YES: But not by as much or as soon as many people had been anticipating. The Fed has made less progress in bringing inflation down than they had hoped, and they won't bring rates down until the progress on inflation is very clear. If all goes well, we should see a quarter-point cut by the end of the year. But if war in the Middle East leads to a sustained spike in oil prices, even that could be off the table.

Norm Miller, University of San Diego

YES: My expectation is one cut, perhaps as early as, but not before September. A major flaw in the Consumer Price Index measurement is that it includes a survey of homeowner rents, and these lagged surveys rose over 5 percent, while actual single family rent data rose around 3 percent, which the Fed ignores. The March PPI (Producer Price Index) increased 2.4 percent per year, which is more indicative of where we are heading once the Fed figures out their numbers are biased upward.

David Ely, San Diego State University

YES: The disappointing inflation numbers over the past three months introduces more uncertainty into the timing and number of rate changes. But while inflation remains too high, significant progress has been made in bringing inflation closer to the Federal Reserve's target. Policymakers need to account for the lags between rate changes and their impact on the economy. The most likely scenario is for at least one rate cut by the end of the year.

Ray Major, SANDAG

NO: Inflation remains stubbornly problematic, rising to 3.5 percent, 75 percent higher than the Fed target of 2 percent. Any cuts in interest rates will fuel additional increases in inflation. Job numbers remain positive, pointing to a strong economy in the short run and a negative sign for rate cuts. Until federal spending is moderated, inflation will remain higher than desired and prevent the Federal Reserve from significantly cutting interest rates in the next year.

Caroline Freund, UC San Diego School of Global Policy and Strategy

NO: The Fed arrived late to the party and will have to hold the punch bowl a bit longer. Inflation is running well above target and remains persistent, with risks of a wage-price spiral not fully contained. Indeed, I've recently been notified of "price changes" at several local businesses due to rapid increases in compensation costs. And given current protectionist trade policies, price discipline that would otherwise come from imports is limited.

Kelly Cunningham, San Diego Institute for Economic Research

NO: The Fed should not cut rates but may still do so in a futile attempt to forestall inevitably intensifying economic turmoil. Persistent inflationary pressures remain with continual deficit spending, re-militarization of the world, restructuring of global trade, imposition of expensive green energy costs all compounding long-term inflation. It is ludicrous for the Fed to attempt to fine tune the economy after causing massive inflation by fabricating trillions of dollars from "quantitative easing" and spending each year.

Executives

Chris Van Gorder, Scripps Health

NO: I do not expect the Federal Reserve to cut rates. While inflation slowed last year, we are still above the Fed's target inflation level, with prices actually rising last month by 3.5 percent over the same time last year (the highest increase in six months). The economy also added some 300,000 jobs last month. If our economy keeps producing these results, it is hard to see how the Fed would reduce rates.

Austin Neudecker, Weave Growth

NO: Striking a balance between continued economic growth and containing inflation is difficult. The recent jobs report was positive, with unemployment remaining near record lows. The stock market achieved all-time highs, and inflation persists above the target. Lowering interest rates today could exacerbate inflationary pressures. However, higher rates, when consumer debt load topped $17 trillion, effectively caused household expenses to increase. The Fed will hold off rate cuts until inflation nears 2 percent or macro indicators substantially sour.

Jamie Moraga, Franklin Revere

NO: Further cuts are unlikely in the short term unless the monthly Consumer Price Index shows inflation decreasing toward the 2 percent goal. If there is another cut, it will likely be in the final quarter of 2024 or first quarter of 2025 when the Fed has more data. Should inflation continue to increase, they may decide to reverse course before the end of the year. Inflation isn’t transitory and continues to be stubborn and sticky.

Haney Hong, San Diego County Taxpayers Association

YES: Big picture, inflation has materially dropped from its post-COVID highs, and now we’re trying to get the last bits of consistently lower inflation rates. While we have a blip here, we’re still trending overall in the right direction. If anything, the rates just won’t go down as fast and as often as perhaps you and I were hoping — but they’ll still likely go down.

Phil Blair, Manpower

YES: The economy is showing signs of stabilizing after rapid recovery from COVID. The job market has returned to a reasonable balance of job openings and job seekers. We have seen the end of high wage inflation and that has helped cool the inflation rate. I see one interest rate cut in the third quarter and a wait-and-watch approach. This one cut will show optimism to the market that more are coming if inflation stays low.

Gary London, London Moeder Advisors

YES: But likely later in the year. The current inflation rate, while dramatically lower than last year, seems presently to be in rigor mortis. A couple of months do not necessarily define long-term policy, but clearly the Fed is fixated on its 2 percent target. The good news is that wage increases remain above inflation. The bad news is that the stuff that we really feel — gasoline prices and some food items — remain stubbornly inflationary.

Bob Rauch, R.A. Rauch & Associates

YES: If inflation declines gradually, the Fed will likely start lowering interest rates this summer. We need to bring interest rates back to normal levels, and due to election-year politics, it will begin this summer. Factors to consider are the impact of Middle East war activity, any additional destabilizing activity, and the continued decline of inflation here in the U.S. I do not see a significant reduction in mortgage rates until 2025.