

Budget office expects Fed to cut rates this year

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WASHINGTON>> The Federal Reserve is expected to cut short-term rates in 2026, with its key interest rate settling at 3.4% toward the end of President Donald Trump's term in office in 2028, according to a new report released Thursday by the nonpartisan Congressional Budget Office.

Despite the Fed's cuts, however, the budget office projects the yield on 10-year Treasury notes to increase gradually, from 4.1% in the fourth quarter of 2025 to 4.3% in the fourth quarter of 2028. The 10-year Treasury yield is a benchmark for mortgage rates, so the forecast suggests mortgage borrowing could get more expensive over the next two years. ↗

The CBO on Thursday released new economic projections for the next three years, taking into account Trump's tariffs, immigration policies and last year's federal government shutdown, among other factors.

"Together, those adjustments affected the near-term path of GDP, employment, and inflation but did not materially change the overall economic outlook through 2028," the report states.

Jobless rates are expected to increase before they improve over the next two years, the report states.

The CBO expects the unemployment rate to peak at 4.6% in 2026 but then ease to 4.4% in 2028 — affected largely by the impacts of Trump's tax and spending law, passed by Congress and signed in July, as well as fewer migrants in the country.

Also, the budget office projects that real gross domestic product growth is expected to rise to 2.2% in 2026, supported by the tax and spending law and a rebound from the late-2025 shutdown. GDP growth is then set to slow to an average of 1.8% in 2027 and 2028 as fiscal support wanes and labor force growth slows. The forecasts are similar to those made by the Federal Reserve, though the Fed expects growth will reach 2% in 2027 and 1.9% in 2028.

Last September, when the CBO released an updated three-year outlook, it issued the same projection for GDP growth for the next three years.

Inflation is expected remain above the Fed's 2% target in the near term, the CBO says, due to tariffs and stronger demand, gradually falling to 2.1% in 2028.

On Wednesday, the CBO released data that predicts the U.S. population is projected to grow by 15 million people in 30 years, a smaller estimate than in previous years, due to Trump's hardline immigration policies and an expected lower fertility rate.

Lawmakers established the Congressional Budget Office more than 50 years ago to provide objective, impartial analysis to support the budget process.