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# The Fed's Dot-Plot Predicament: False Precision in Uncertain Times

Investors treat the Fed's rate projections as a promise from central bankers. They're not.

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On the eve of Wednesday's [Federal Reserve decision](#), traders, economists and central-bank watchers across Wall Street are fixated on a single, perplexing question: Will the median of 19 policymakers project one or two rate cuts in 2025?

The amount of attention on the Fed's "dot plot" partly reflects the lack of suspense for a meeting at which interest rates are widely expected to be left alone.

Still, the focus borders on the absurd given the high degree of uncertainty behind the economic forecast upon which officials build these quarterly interest-rate projections. It illustrates why some officials are ready to give the exercise a rethink.

The Fed releases a dot plot at every other meeting. Each dot on a matrix grid represents one official's rate projection for the end of the year under appropriate interest-rate policy.

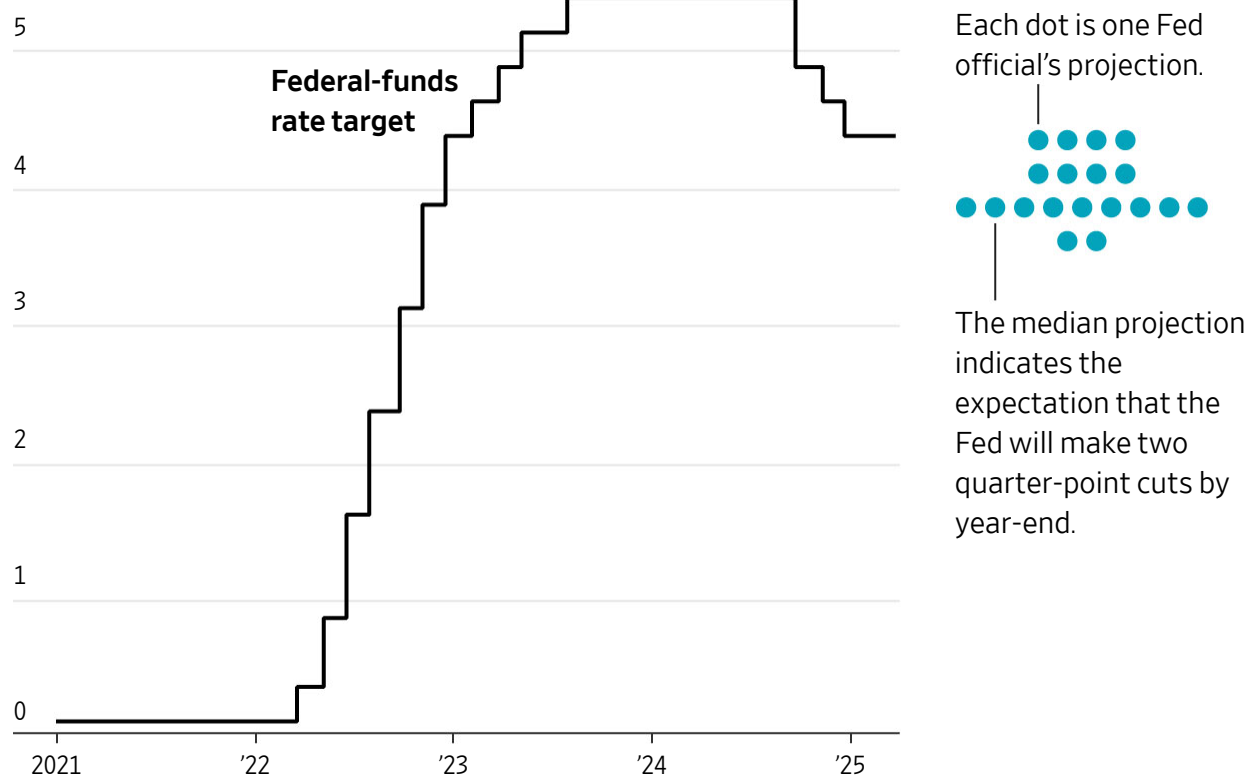
Whether the median of those dots shows one cut or two might matter enormously to markets. But 2024 illustrated that the zealous attention placed on small shifts in the median rate projection isn't always a useful guide to the economic outlook or the Fed's reaction to incoming data.

Consider: At the Fed's [June 2024 meeting](#), the median interest-rate projection for the year moved to a single, quarter-point cut, [down from three](#) in March 2024. The Fed subsequently proceeded to deliver 1 percentage point in rate cuts beginning in September, with a half-point rate cut at that meeting.

## 'Dot plot' rate projections from the Fed's March meeting

6%

YEAR-END 2025  
PROJECTIONS



Note: Chart shows Fed officials' projections for the midpoint of the target range at the end of 2025.

Source: Federal Reserve

This past March's [fairly narrow distribution](#)—four officials penciled in zero cuts; another four put down one; nine wrote down two cuts; and two of them projected three cuts—left the median projection at two cuts. The median could drop to one from two if just a couple of officials revise in that direction this week.

The upshot is that a seemingly small shift could reshape the Fed policy narrative for the summer.

The dot plot has been useful at times where the economic outlook was relatively straightforward but causes confusion when the Fed reacts to unexpected outcomes.

“You’re having to make, essentially, forecasts that people take very seriously, and you can’t communicate just how uncertain you really are, because you have to put these handful of dots down,” Minneapolis Fed President Neel Kashkari said last year.

Fed Chair [Jerome Powell](#) and his colleagues frequently remind audiences that the dot plot, part of a broader “Summary of Economic Projections,” isn’t an agreed-upon plan or promise. Market participants often still treat it as a commitment.

“Most of the time, I really regret having to fill out the SEP,” Kashkari said at a Fed conference last month. “Once in a while, I’m really glad we have the SEP.”

## A dot-plot rethink looms

This week's meeting threatens to become Exhibit A in the case against dot-plot precision. It could animate a broader discussion officials are poised to take up later this year about their overarching communications tools.

The dot plot was introduced in 2012. With rates pinned near zero, officials wanted to provide extra stimulus by showing they would keep rates lower for longer than many investors anticipated.



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Powell more recently has indicated that officials could weigh potential refinements to their communications, part of a continuing review of the Fed's policy framework. Some think the dot plot outlived its original purpose long ago and is ripe for revision.

Supporters of the dot plot decry any loss of transparency. Critics say transparency isn't worthwhile if it confuses as often as it informs.

One middle-ground option would be to stop publishing the dot plot and the median projection. Instead, the Fed could continue releasing the full range of officials' rate projections along with the "central tendency," which removes the three highest and lowest projections. The central tendency, in particular, conveys much of the same information as the dot plot but without generating the spurious sense of certainty from investors' intense focus on medians.

## Behind this week's calculus

Tariffs make this week's projections fraught. The central bank's last projections were released before President Trump's "Liberation Day" [tariff announcement](#) on April 2.

The case for officials to continue to lower their rate-cut projections for 2025 is simple: Higher taxes on imported goods have introduced new risks of higher inflation to the outlook. As officials raise their inflation forecast, they will grow less confident in their ability to lower rates in the time frame they previously expected.

At the same time, the outlook for where tariffs will settle and how businesses will pass through potential cost increases remains highly uncertain. The labor market looks a touch softer than it did a few months ago. The argument for holding the rate projections steady is that any changes provide a feigned specificity regarding a rapidly shifting outlook.

That was the explanation Powell offered in March. The unchanged median rate projection at that meeting was a function of "just really high uncertainty," he said. "What *would* you write down?"

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