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## March FOMC Meeting: A Dovish Hawkish Uncertain Rate Hike

- › The FOMC raised the Fed funds rate target range by 25 basis points, with the mid-point of the target range rising to 4.875 percent
- › The updated dot plot implies a terminal Fed funds rate target range mid-point of 5.125 percent, unchanged from the December edition

The FOMC raised the Fed funds rate target range by twenty-five basis points at their March meeting, bringing the mid-point of the target range to 4.875 percent. Our long-time readers may notice that for the first time in years the first sentence of our FOMC review did not start with the words "as was widely expected." This simply reflects the fact that, ahead of this month's meeting, no one quite knew what to expect from the FOMC as they try to balance concerns over inflation against concerns over financial stability. Indeed, ahead of this meeting we saw forecasts for a rate hike, a rate cut, and no change in the funds rate, the first time in all the years we've been at this we've seen forecasts for all of these at the same meeting. At the end of the day, or at least the end of the meeting, concerns over inflation carried the day, hence the increase in the Fed funds rate. Still, Chair Powell opened his press conference by addressing the recent stress in the banking system, noting that "serious difficulties in a small number of banks" have emerged, and that it was critical to address them so as to prevent a loss of confidence. While stressing that the banking system is "sound and resilient with strong capital," Chair Powell stated that the Fed is committed to learning lessons from this episode.

The FOMC's post-meeting statement also acknowledged the stress in the banking system, acknowledging that these recent developments are likely to result in tighter credit conditions for businesses and households but noting that it is too soon to quantify these effects. In a nod to this uncertainty, gone is the reference to "ongoing increases" in the funds rate as being appropriate to bring inflation back down to the 2.0 percent target rate. The Committee now states that "some additional policy firming may be appropriate" in order to achieve the inflation target. To the extent tighter credit conditions lead to a slower pace of economic activity and in turn alleviate inflation pressures, that would obviate the need for some, if not all, of the subsequent rate hikes that prior to recent events many, if not most, FOMC members had anticipated.

In terms of the updated economic projections, the median forecast has real GDP up by 0.4 percent in 2023 on a Q4/Q4 basis, one-tenth of a point lower than in the December projections. At the same time, the median forecast for PCE inflation is now 3.3 percent in 2023, on a Q4/Q4 basis,

up from 3.1 percent in the December projection. At the same time, however, there was a marked shift in perceived risks to the Committee's inflation forecasts. Eleven of the eighteen FOMC members (there is one current vacancy) see the risks to their inflation forecast as being weighted to the upside, the smallest number since the March 2021 meeting, while seven members see the risks to their inflation forecast as being balanced. This is likely a reflection of the uncertainty to which any further stress in the banking system may result in tighter credit conditions. In his post-meeting press conference, Chair Powell noted that while inflation is coming down, it is doing so at a rate too slow for the FOMC's comfort.

The updated dot plot shows a terminal funds rate target range mid-point of 5.125 percent, unchanged from the December edition, with the year-end 2024 mid-point at 4.25 percent and the year-end 2025 mid-point at 3.125 percent, virtually unchanged from December. While there is slightly more dispersion around the year-end 2023 median dot than was the case in the December edition, there is less around the year-end 2024 median dot – we expected to see much more of a range given the still uncertain extent to which stress in the banking system may impact credit conditions. To that point, however, in his post-meeting press conference Chair Powell noted that tighter credit conditions, and tighter overall financial conditions, can to some extent "substitute for rate hikes" in terms of the ultimate effects on growth and inflation. Chair Powell also noted that a significant number of Committee members incorporated the anticipated tightening in credit conditions in their funds rate forecasts. He was, however, very clear in stating that if the recent stress in the banking system proves to be contained and inflation pressures do not ease at a faster pace, the Committee "will do enough" to get inflation down.

To no one's surprise, Chair Powell's post-meeting press conference was heavy on questions about the recent bank failures, particularly whether those held any implications for regulation/supervision. While citing SVB as a case of management failure, Chair Powell stated that the Fed will conduct a "thorough and transparent" review, and that supervision and regulation need to be strengthened. As with the economic impact, it is too soon to know the ultimate regulatory impact of these bank failures.

