ECONOMIC UPDATE

March 19, 2025

March FOMC Meeting: Watch And Wait . . . At Least For Now

- The FOMC made no change to the Fed funds rate target range, leaving the mid-point of the target range at 4.375 percent
- The updated dot plot implies fifty basis points of funds rate cuts by year-end 2025, matching the December edition

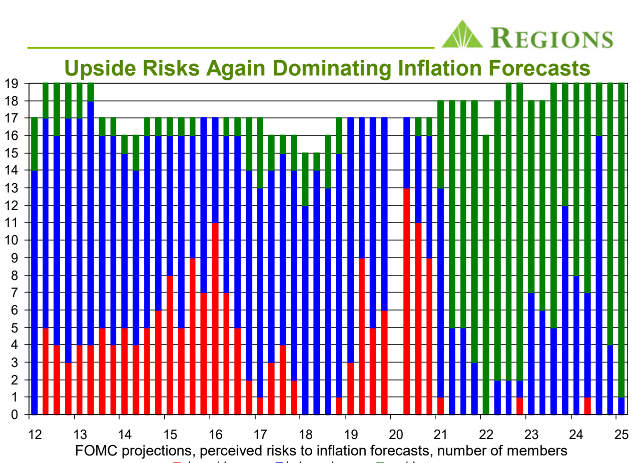
As was widely expected, the FOMC made no changes to the Fed funds rate target range at this week's meeting, leaving the mid-point of the target range at 4.375 percent. The main questions around this week's meeting centered on the updated Summary of Economic Projections (SEP). Specifically, whether, or to what extent, the revised projections would show slower real GDP growth, a higher unemployment rate, and higher inflation in Q4 2025 relative to the SEP issued in December, and whether the updated dot plot would deviate from the two twenty-five basis point funds rate cuts by year-end 2025 implied in the December edition. While the updated SEP did indeed downgrade the growth outlook and up the inflation forecast, the updated dot plot again implies two funds rate cuts by year-end 2025 while the median year-end dots for 2026 and 2027 are also unchanged from the December edition. The Committee expressed greater uncertainty around the path of the labor market and the broader economy and seem to have gone into "watch and wait" mode as they, like the rest of us, await clarity on the policy front in terms of trade, fiscal, regulatory, and immigration policy. The FOMC did vote to slow the pace at which the Federal Reserve's balance sheet is being run down, which they had telegraphed in advance of today's meeting. The vote to keep the Fed funds rate target range unchanged was unanimous, but Governor Waller opposed slowing the pace of balance sheet run-off.

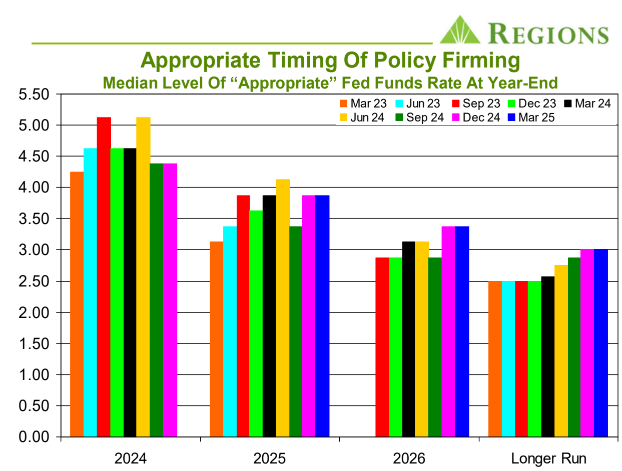
Interestingly, the post-meeting policy statement again characterizes economic activity as expanding at "a solid pace" despite what seem clear signs of a slowing pace of activity. Along those same lines, labor market conditions are again characterized as "solid" despite a steadily slowing trend rate of job growth, suggesting that the unemployment rate remains the main labor market indicator members are watching even as what should be a much slower pace of labor supply growth this year will blunt upward pressure on the unemployment rate as job growth slows further. The statement did note that "uncertainty around the economic outlook has increased" while dropping the passage noting that the risks to the dual mandate of price stability and full employment are roughly in balance.

The updated SEP show real GDP growth of 1.7 percent in 2025, on a Q4/Q4 basis, down from 2.1 percent in the December SEP while showing a slightly higher Q4 2025 unemployment rate – 4.4 percent – than in the December SEP. Most notably, PCE inflation, again on a Q4/Q4 basis, is now expected to run at 2.7 percent for 2025 while core PCE inflation is now expected to run at 2.8 percent, up from 2.5 percent in the December SEP and 2.2 percent in the September SEP. Though acknowledging that higher tariffs may, over the course of 2025, delay further progress on pushing inflation back to the FOMC's 2.0 percent target rate, Chair Powell noted in his post-meeting press conference that while the Committee's base case is that higher tariffs will not lead to sustained inflation pressures, it is simply too soon to know and that "we are going to have to see how things actually work out."

At the same time they downgraded their growth forecasts, Committee members significantly changed their assessments of risks to those forecasts. Eighteen of the nineteen Committee members see the risks to their GDP forecast as being weighted to the downside, up from five who did so in December and the most in the history of the SEP (which go back to 2012). At the same time, seventeen members assessed the risks to their unemployment rate forecast as being weighted to the upside, up from the seven who did so in December. Risks to the inflation forecasts were again heavily weighted to the upside, with eighteen members making that assessment for both total and core PCE inflation.

The changes to the growth and inflation forecasts reflect a FOMC left somewhat in a bind by a volatile and uncertain policy landscape. In that sense, it is fitting that the updated dot plot conveys no change in how members see the appropriate path of the funds rate. That said, the dispersion of the dots is more hawkish than in the December edition. Chair Powell stressed that the Committee need not be in a hurry to adjust their policy stance, particularly as the hard data remain "solid." Chair Powell did acknowledge the deterioration in survey (sentiment) data, but also noted that survey data are not always a good barometer of how the hard data will evolve. As long as the Committee consider the labor market and the broader economy to be on solid ground, they have time to wait for clarity on the policy front. Chair Powell's post-meeting press conference made it clear that they intend to make full use of that time.





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