March 19, 2025

Sticking with the status quo in the face of uncertainty

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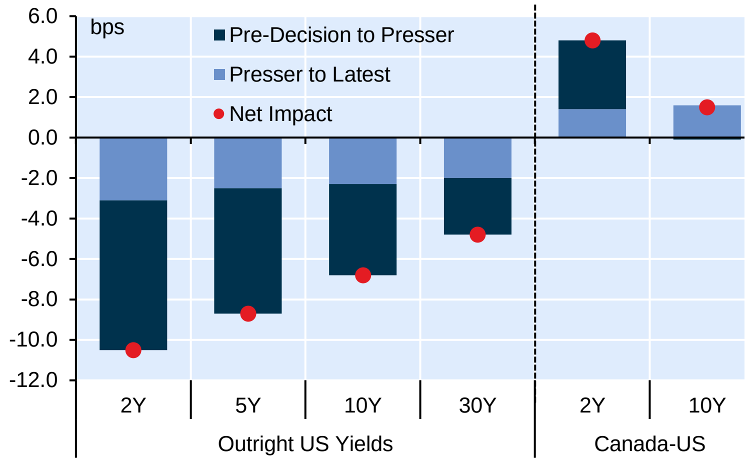
Decision Details & Rate Statement

- The FOMC kept the target policy range unchanged at **4.25-4.50%,** in line with market pricing and a unanimous consensus.
    - There were no dissents on the *rate* decision itself, but Christopher Waller voted against balance sheet changes (more on that below).
    - This is the 2nd consecutive 'hold', leaving the policy rate 100 bps below last year's peak.
- The Fed will begin to slow the pace of its balance sheet run-off starting in April. The monthly pace of run-off will move to $5 billion (from $25 billion). They will maintain the monthly redemption cap on MBS ($35 billion). Note that Christopher Waller voted against this particular action, preferring to continue the existing pace of run-off.
- There were no changes to the statement's economic or inflation assessment. However, the statement drops the reference that risks to the dual mandate are "roughly in balance". They now add that "uncertainty around the economic outlook has increased".
- There were no changes to the forward-looking segment of the rate statement: "In considering the extent and timing of additional adjustments to the [policy rate], the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks."

Bonds rally on weaker growth outlook, unchanged dots

Change in yields/differentials: Pre-decision to presser



Sources: NBF, Bloomberg | Note: Latest as at 4:00pm EST

Summary of Economic Projections

- **GDP growth:** Real GDP projections took a hit across the forecast horizon. The committee sees 2025 growth at 1.7% (versus 2.1% in December SEP), while 2026 and 2027 got a two- and one-tick downgrade, respectively. Note that assessed risks to the growth outlook were also shifted more to the downside.
- **Labour market:** The committee made only cosmetic changes to their jobless rate forecast. They see the 2025 unemployment at 4.4% versus 4.3% in December. Projections for 2026, 2027 and onwards were unchanged. Risks to the unemployment rate projections were weighted more to the upside relative to December.
- **Inflation:** For the second straight SEP, the inflation outlook was nudged up materially. Headline PCE is seen at 2.7% in 2025 vs. 2.5% in December while core PCE is expected to run at 2.8% at the end of the year (2.5% in December). Inflation is seen falling close to target in 2026, before settling at 2% in 2027. Here, the FOMC assesses that risks remain skewed to the upside.
- **Dot plot:** There was a lot of uncertainty surrounding updates to the dot plot but ultimately, the Fed collectively opted for the status quo. There remains 50 bps of easing implied in 2025, although there appears to be some drift upwards in thinking, as more policymakers (8 of 19) call for less easing. Rates are seen declining further from there but by 2027, the median dot remains above the longer-run estimate. Speaking of the longer-run (a good proxy for the Fed's thinking on neutral), the median estimate remains at 3.0%, though some were expecting that to be increase slightly.

FOMC Summary of Economic Projections

Latest vs December SEP

	Latest	December Projections
Change in real GDP (%)		
2025	**1.7**	2.1
2026	**1.8**	2.0
2027	**1.8**	1.9
Long run	**1.8**	1.8
Unemployment Rate (%)		
2025	**4.4**	4.3
2026	**4.3**	4.3
2027	**4.3**	4.3
Long run	**4.2**	4.2
PCE Inflation (%)		
2025	**2.7**	2.5
2026	**2.2**	2.1
2027	**2.0**	2.0
Long run	**2.0**	2.0
Core PCE inflation (%)		
2025	**2.8**	2.5
2026	**2.2**	2.2
2027	**2.0**	2.0

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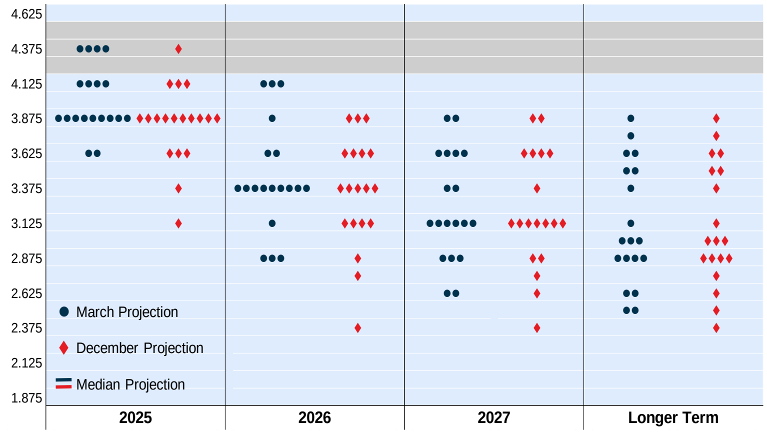
Press Conference

Below, we outline some of the highlights from the Q&A segment of the press conference.

- Inflation and tariff policy was one of the more prominent areas of discussion in the Q&A. When asked how much of rising inflation is coming from tariffs, Powell said "Clearly some of it. A good part of it is coming from tariffs." He stressed, however, that it's highly difficult to tell how much. On the policy response to tariff inflation, he noted that this kind of price increase can be "transitory" if longer-term inflation expectations are well anchored. And if inflation impulse *is* transitory, you don't want to react with tighter monetary policy. Powell later added that the earlier round of tariffs (in Trump's first administration) had only a temporary price impact. As it relates to the Fed's price stability mandate, he noted they were getting close to achieving that. However, the arrival of tariff inflation means "further progress could be delayed".

FOMC 'dot plot': Mar-25 vs. Dec-24

Current target range: 4.25%-4.50% (grey area)



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- When asked about inflation expectations, he acknowledged the rise in the short-run, which is very likely attributable to tariffs. However, further out the inflation expectations horizon "you really don't see much in the way of rising inflation expectations" in survey data or in breakevens. That of course, is inconsistent with recent University of Michigan survey data but Powell largely downplayed this data point, calling it an "outlier".

- When it comes to the real economy, Powell repeatedly stressed the hard data is solid and the labour market is in a good place. They don't expect a recession, and he pointed to private sector recession probability which has risen but remains low. They're of course seeing the deterioration in confidence and other survey data and will be watching these carefully. However, he thinks policy is in a good place and the appropriate response to this uncertainty is to wait for greater clarity. Powell was also asked about equity market weakness and if that could have economic impacts. He noted that what matters to the Fed is persistent and material changes in financial conditions, a threshold that evidently hasn't been crossed. Powell stopped short of opining on what timeline/level would trigger greater concern and a policy response.

- When asked about the expected policy rate path being unchanged, Powell said that higher inflation (arguing for fewer cuts) was offset by weaker growth (arguing for more cuts). There's also inertia in forecasts. He speculated that when uncertainty is high, committee members may be biased to stay where they've been. The Chair was also pressed on the rate statement dropping the nod to inflation and employment risks being balanced but he said this wasn't a signal and was rather about cleaning up the statement text.

- On the balance sheet changes, Powell said that this was not meant to send any signal for broader monetary policy. It simply allows them to approach the steady state for reserves more slowly. The Fed Chair also said the FOMC has a strong desire to continue to let MBS roll off the balance sheet. Eventually, they'll want to stop *net run-off* but that could still involve MBS run-off (and that would imply net treasury purchases).

Bottom Line

There was no doubt the Fed would hold today but the messaging (particularly via the dot plot) was uncertain. Ultimately, there was no change to the median expectation of the rate path, although there was a bit of upward dot drift in 2025 (there are now 8 of 19 participants who see one cut or no cuts this year). While that might be interpreted as marginally hawkish, the downward revisions to the growth outlook say otherwise, as 2025, 2026 and 2027 were all marked down. It's true that the inflation outlook was also nudged up but the 2.7% expectation for inflation this year gives way to (effectively) on-target inflation next year. On balance, the full suite of communications reads dovish to us, relative to expectations going into the decision. That was certainly the market's interpretation too based on the significant decline in yields (-10 bps in 2s) and the rally in equity markets.

As for how we see things playing out, we expect the Fed to react more to slowing growth rather than upside inflation risks. We therefore continue to forecast three cuts this year (one more than is in the dot plot), assuming our projection for slower growth materializes. That said, inflation and its expectations bear close monitoring. If price pressures remain firm and consumers/businesses/markets anticipate faster price increases, the Fed could have to resist the urge to cut that much. That's not our base case and Powell's remarks about longer run expectations being well anchored reinforce that. Nonetheless, it is a risk worth acknowledging. What we see as even less likely is the Fed being prevented from cutting because of sticky inflation *and* above-potential growth continuing. We think those days are behind us.

The Fed's next decision will take place on May 7th, and will *not* include an updated SEP. The minutes for this meeting will be published April 9th.

Here is the interest rate statement:

Federal Reserve issues FOMC statement

Recent indicators suggest that economic activity has continued to expand at a solid pace. The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid. Inflation remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty around the economic outlook has increased. The Committee is attentive to the risks to both sides of its dual mandate.

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. Beginning in April, the Committee will slow the pace of decline of its securities holdings by reducing the monthly redemption cap on Treasury securities from $25 billion to $5 billion. The Committee will maintain the monthly redemption cap on agency debt and agency mortgage-backed securities at $35 billion. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; Susan M. Collins; Lisa D. Cook; Austan D. Goolsbee; Philip N. Jefferson; Adriana D. Kugler; Alberto G. Musalem; and Jeffrey R. Schmid. Voting against this action was Christopher J. Waller, who supported no change for the federal funds target range but preferred to continue the current pace of decline in securities holdings.

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