Take 5 Five
WITH THE ST. LOUIS FED

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FOMC holds policy rate unchanged in March amid heightened uncertainty

Transcript

Kathleen Navin: Welcome to this edition of *Take Five with the St. Louis Fed*. I'm Kathleen Navin, senior business economist, and today I'll be discussing the latest FOMC meeting that took place on March 18 and 19.

At this meeting, the FOMC decided to maintain the current target for the federal funds rate at a range of 4.25% to 4.5%. Now, while there were no changes to the policy rate at this FOMC meeting, there were changes to balance sheet policy. In particular, the FOMC decided to slow the pace of decline in its securities holdings. In particular, it will do this through lowering the cap on the allowed runoff of Treasury securities from $25 billion per month to $5 billion dollars per month. At the same time, there were no changes to the amount of runoff for agency debt and agency MBS, with the cap remaining at $35 billion dollars per month. This is consistent with the FOMC's intention of holding primarily Treasury securities in the longer run.

Now, March also marked the first set of projections from the FOMC this year, and, as was discussed throughout the press briefing, there is a lot of uncertainty currently around the economic outlook. As Chair Powell mentioned in his opening remarks, "Surveys of households and businesses point to heightened uncertainty about the economic outlook. It remains to be seen how these developments might affect future spending and investment."

So let's keep this in mind as we look through the latest set of projections. When we look at the median projection for real GDP growth, we see a slowing to 1.7% as of this latest set of projections. Now, this was marked down from the December set of projections by four-tenths of a percentage point. We see a slight increase, a slight firming, to 1.8% over the next two years.

Turning now to labor markets, as the FOMC statement indicated, "The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid." Looking ahead, the Committee anticipates the unemployment rate to rise from 4.1% at the end of last year to 4.4% at the end of this year, and that's on a fourth-quarter basis. We then see a slight easing to 4.3% in 2026 and 2027 when looking at that median projection, which is still slightly above the longer-run estimate of 4.2%.

Now, turning to inflation, as the FOMC statement indicated, "The Committee continues to view that inflation is somewhat elevated." And when we look at the latest set of

projections, we see a slight delay in progress towards that 2% objective as of this March set. What we see is an upward revision to the 2025 estimate for both headline and core inflation, and, as we learned during the press briefing, this reflects anticipated tariff inflation this year. Now, after this year, we see projections move back in line in terms of this median projection about where it was as of the December set of projections, reaching 2% (the objective) by 2027.

Now, it's important when thinking about these inflation forecasts that inflation expectations remain well anchored in the long run, and this was a discussion throughout the press briefing following the March meeting. In particular, while we've seen increases in short-term measures of inflation expectations across households and businesses, we don't want to see those translate to increases in longer-run inflation expectations. That's where we can get that self-fulfilling prophecy between inflation expectations and actual inflation, which makes the objective of getting back to 2% that much harder. So continuing to watch not only incoming inflation data, but also surveys and different measures—both market survey, also professional forecasters, of those longer-run inflation expectations, ensuring they remain well anchored at 2%—will be very important in the months ahead.

Now, given these forecasts—both particularly for the lower GDP growth profile, as well as higher inflation—on balance, when we look at the median projection for the federal funds rate in this latest set of projections, we see no change relative to December. The median projection is still for two 25 rate cuts this year, so two 25-basis-point rate cuts this year, an additional two in 2026, and then one more in 2027. As of Wednesday's close, market expectations had also fully priced in two rate cuts this year and perhaps a third, so around 60 basis points as of Wednesday's close, but somewhat in line with these projections.

Now, it's important to keep in mind, especially right now given the amount of uncertainty, that policy is not on a preset course. These decisions will continue to be made on a meeting-by-meeting basis taking into consideration the evolving outlook, incoming data, as well as risks around the dual mandate.

And I want to close today's segment with highlighting a few quotes from Chair Powell's opening remarks of the press briefing, which I think really summarize the current environment. He noted, "As we parse the incoming information, we are focused on separating the signal from the noise as the outlook evolves." In addition, he stated, "We do not need to be in a hurry to adjust our policy stance, and we are well positioned to wait for greater clarity."

Well, that concludes this installment of *Take Five with the St. Louis Fed*. Thanks so much for joining us.

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