Daiwa Capital Markets

U.S. FOMC Review

- FOMC: no change in the target range for the federal funds rate (midpoint 4.375 percent)
- QT: Treasury redemptions reduced beginning in April; "no decision" about the ultimate end of QT
- The March SEP: median expectation for growth eases over forecast horizon; faster near-term inflation expected; uncertainty regarding forecast "remarkably high"
- Dot plot: median expectations remain unchanged from December
- Powell press conference: economy strong; monetary policy well positioned despite heightened uncertainty

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The March FOMC

The FOMC left unchanged the target range for the federal funds rate at 4-1/4 to 4-1/2 percent, ratifying the near unanimous expectation among market participants that the FOMC would proceed cautiously in an environment of heightened uncertainty. The Committee did, however, adjust the pace of QT, slowing the pace of Treasury redemptions from $25 billion per month to $5 billion per month. Contrastingly, the cap for mortgage-backed securities was left unchanged at $35 billion per month (although actual redemptions have run well below the cap), supporting the longer-term goal of returning to a Treasuries-only portfolio. Policymakers also revised forecasts in the new Summary of Economic Projections (SEP), with expectations for growth nudged lower and those for inflation and unemployment – to varying degrees – higher. Officials appeared broadly aligned with the latest policy decision, although Governor Christopher Waller dissented from the action. He supported the call to leave unchanged the target range for the federal funds rate but preferred to maintain the current redemption cap for Treasury securities. Regardless of the aforementioned uncertainty, and dissent concerning balance sheet management, Chair Powell noted that strong economic conditions allow the Committee to be patient, with monetary policy well positioned to address the evolving outlook.

The verbiage of the latest FOMC statement maintained previous language with respect to the characterization of the economy, noting that it expanded at a "solid pace," and similarly "labor market conditions remain solid." Moreover, inflation continued to be described as "somewhat elevated." The second paragraph, however, was altered significantly. Language noting that risks to achieving the Committee's employment and inflation goals as "roughly in balance" was removed, although Chair Powell downplayed the omission in his press conference, indicating that the phrase had exceeded its useful life and was no longer a "salient point" at this time. More importantly, previous phrasing indicating that "The economic outlook is uncertain" was strengthened to "Uncertainty around the economic has increased," a change likely implemented to underscore heightened challenges in implementation of monetary policy amid still elevated inflation and the implementation of the Trump administration's agenda (four prongs noted in the press conference included shifts with respect to trade and tariffs, immigration policy, fiscal policy and regulation). Moreover, as mentioned above, the third paragraph contained new verbiage pertaining to adjustments to the quantitative tightening (QT) program.

As previously mentioned, the new SEP contained several noteworthy changes (table). On the growth front, the median projection for GDP growth in 2025 was adjusted lower by 0.4 percentage point (1.7 percent versus 2.1 percent in December), with smaller cuts in the following two years. Amid expectations for slower growth, the median projection for the unemployment rate rose by 0.1 percentage point in 2025 to 4.4 percent (although the medians for 2026 and 2027 were unchanged at 4.3 percent and the longer-term median remained at 4.2 percent). At the same time, the median

Economic Projections of the FOMC, March 2025*

	2025	2026	2027	Longer Run
Change in Real GDP	1.7	1.8	1.8	1.8
Dec. projection	2.1	2.0	1.9	1.8
Unemployment Rate	4.4	4.3	4.3	4.2
Dec. projection	4.3	4.3	4.3	4.2
PCE Inflation	2.7	2.2	2.0	2.0
Dec. projection	2.5	2.1	2.0	2.0
Core PCE Inflation	2.8	2.2	2.0	--
Dec. projection	2.5	2.2	2.0	--
Federal Funds Rate	3.9	3.4	3.1	3.0
Dec. projection	3.9	3.4	3.1	3.0

** Median projections*
Source: Federal Open Market Committee, Summary of Economic Projections, March 2025

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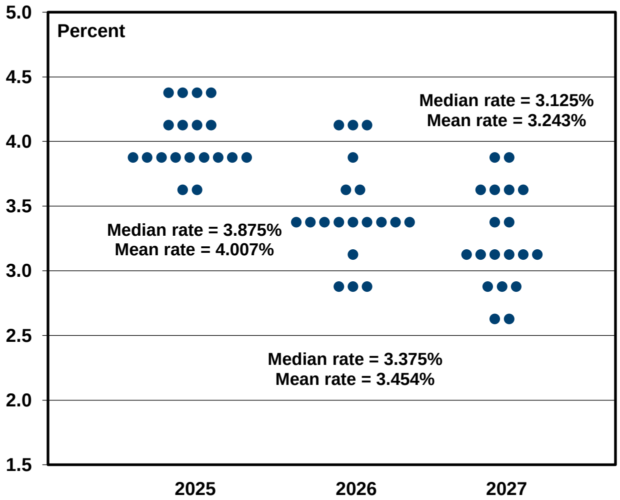
views for both headline and core inflation for 2025 increased, as did that for the headline measure in 2026. Specifically, the price index for personal consumption expenditures is now expected to increase 2.7 percent in 2025 and 2.2 percent in 2026 (versus 2.5 percent and 2.1 percent, respectively, as of December) and the core measure is projected to rise 2.8 percent in 2025 (versus 2.5 percent). None-the-less, inflation is still anticipated to return to target by 2027.

The median expected path of the federal funds rate as of March matched that in the December dot plot, although the dispersion of dots in 2025 suggested a somewhat more hawkish bias (mean of 4.007 percent versus 3.836 percent as of December). As of the latest survey, nine officials suggested two cuts (versus 10 in December). Moreover, eight saw the possibility of one or no cuts – up from four as of December. Changes to the dispersion of dots in 2026 and 2027 were less pronounced. In addressing this point, Chair Powell noted "inertia" as a factor informing forecasts – that is, a reticence to make significant adjustments given the unusually high degree of uncertainty.

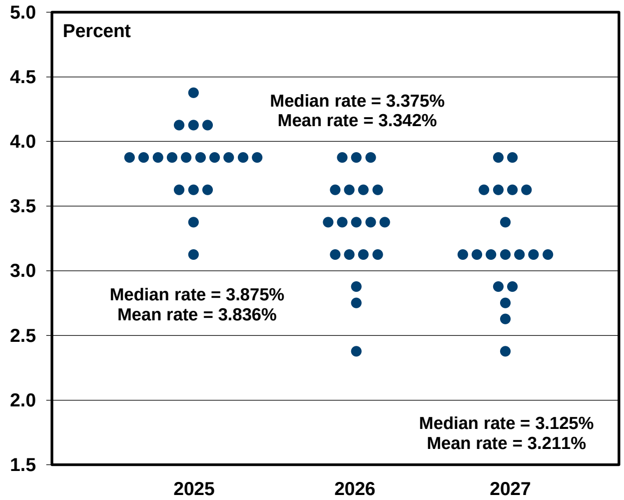
FOMC Rate View, March 2025*



** Each dot represents the expected federal funds rate of a Fed official at the end of the year.*

Source: Federal Open Market Committee, Summary of Economic Projections, March 2025

FOMC Rate View, December 2024*



** Each dot represents the expected federal funds rate of a Fed official at the end of the year.*

Source: Federal Open Market Committee, Summary of Economic Projections, December 2024

Moving on to the post-FOMC press conference, Chair Powell used his introductory remarks to reiterate that the economy was "strong," although it was too early to accurately discern the longer-term implications of moderation in household spending and suggestions of deterioration in consumer and business sentiment considering that uncertainty is currently "remarkably high." And, given that the economy was on solid footing, he argued that policymakers need not be "in a hurry" to adjust the stance of monetary policy as they assessed the implications of President Trump's policies on both sides of dual mandate objectives. Regarding inflation, Chair Powell did state that tariffs were exerting upward pressure on prices, although he indicated that the extent of the impact is yet unclear. He pointed to recent stirring in core goods inflation as possible evidence, but hedged the statement by suggesting that recent readings could be economic actors attempting to front-run tariffs or simply "noise." Either way, he reiterated that it was too soon to ascertain if tariff generated price pressure would be transitory or persistent (although a transitory influence was the Committee's current base case). Encouragingly, he defended officials' ongoing characterization of longer-term inflation expectations as "anchored," pointing to relative stability in survey and market-based readings, even as short-term measures have slipped. On QT and balance sheet policy, the Fed Chair suggested that reserves are still abundant, although he indicated that the debt ceiling issue prompted some rethink on the timing of adjustments and now appeared to be a "good time." That said, he stated that the latest change was merely a technical adjustment to the process, with the shift offering no signal with respect to Committee views on the ultimate size of the securities portfolio and balance sheet upon conclusion of the program.