

# U.S. Economic Comment

- The March FOMC meeting: Committee currently on hold; rate hikes in near future not the “base case” for most officials; current forecasts carry little weight given acute uncertainty stemming from Middle East crisis, but a low probability of 70’s-style stagflation
- Update on dual-mandate objectives: PCE price index to record firm increase in February, which suggests the need for patience, especially as labor market viewed to be existing in low-hire/low-fire equilibrium
- House view on the path of monetary policy: still anticipating 2 reductions of 25 basis points in 2026 (versus median of 1 cut in the March dot plot), but FOMC likely on hold until at least September

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## Uncertainty to Prompt a Pivot by the FOMC?

With war in the Middle East now dragging well into its third week, the Federal Open Market Committee was forced to set policy (and publish a new set of forecasts) at its meeting this week amid already challenging conditions – notably ongoing political pressure from the Trump administration and the impending end of Chair Powell’s term at the helm of the central bank – compounded by a jump in energy prices coinciding with attacks on Gulf states’ production and shipping infrastructure. Against that backdrop, policymakers left unchanged the current target range for the federal funds rate at 3-1/2 to 3-3/4 percent for the second consecutive

meeting and maintained phrasing in the statement designed for flexibility in an evolving situation rather than adopting a more hawkish stance on account of a possible inflation shock: “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.” Coinciding with the statement, the latest Summary of Economic Projections (SEP) indicated the potential for near-term inflation pressure emanating from the crisis, but at the same time marked higher projections for economic growth and offered only the slightest of adjustments to the median projection for unemployment (an increase of 0.1 percentage point in the year-end 2027 rate to 4.3 percent, only slightly above the longer-run view; table, right).

Despite the relatively modest shifts in the latest SEP, Chair Powell was quick to emphasize in his press conference that the projections were of limited utility – and that the ultimate effects of the conflict on the U.S. economy are not easily ascertained at this time. In response to an inquiry from among the initial reporters given the floor, Powell conceded, “...I really want to emphasize is that nobody knows... people are writing down something that seems to make sense to them, but have no conviction.” However, he did acknowledge that there was a certain inertia inherent to the forecasts (“And also, what you’ve written down before will be -- you’ll be reluctant to move too far away from that, just because you don’t know, it’s so unclear what the direction from this particular end will be.”). With that addressed, he drew attention to various risks associated with the recent surge in domestic gasoline prices, especially if they remain elevated for a prolonged period (chart, next page). With respect to household spending, he argued: “if we have a long period of much higher gas prices, that’s going to weigh on consumption, that will weigh on

### Economic Projections of the FOMC, March 2026\*

	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>Longer Run</u>
<b>Change in Real GDP</b>	2.4	2.3	2.1	2.0
<b>Dec. projection</b>	2.3	2.0	1.9	1.8
<b>Unemployment Rate</b>	4.4	4.3	4.2	4.2
<b>Dec. projection</b>	4.4	4.2	4.2	4.2
<b>PCE Inflation</b>	2.7	2.2	2.0	2.0
<b>Dec. projection</b>	2.4	2.1	2.0	2.0
<b>Core PCE Inflation</b>	2.7	2.2	2.0	--
<b>Dec. projection</b>	2.5	2.1	2.0	--
<b>Federal Funds Rate</b>	3.4	3.1	3.1	3.1
<b>Dec. projection</b>	3.4	3.1	3.1	3.0

\* Median projections

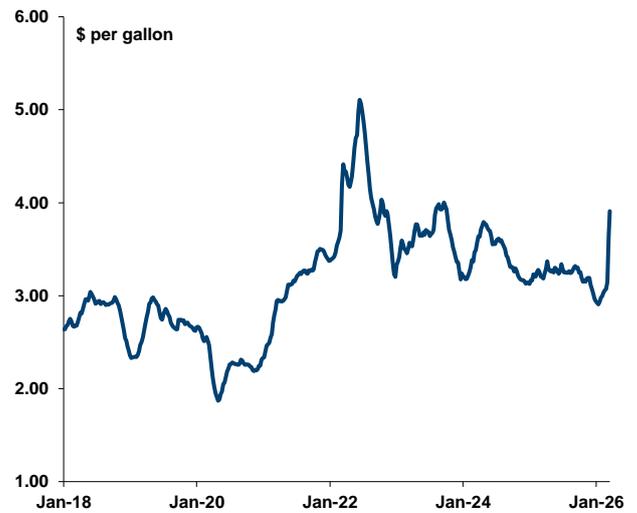
Source: Federal Open Market Committee, Summary of Economic Projections, March 2026

disposable personal income...But we don't know if that's going to happen...we might have much lower than expected passthrough." And, offering a topline view on potential risks to dual-mandate objectives, he suggested, "the net of the oil shock will still be some downward pressure on spending and employment, and upward pressure on inflation." With all that said, Chair Powell pushed back on the idea that the U.S. economy faced the risk of stagflation, which he defined as the 1970s scenario wherein "unemployment was in double figures, and inflation was really high." Moreover, he added, "What we have is some tension between the goals, and we're trying to manage our way through it. It's a very difficult situation, but it's nothing like what they faced in the 1970s." And, he added later, pivoting toward restrictive monetary policy was not the "base case" of many of his colleagues.

Beyond his discussion of significant near-term challenges to formulating a clear view on the U.S. economy and the path of interest rates, the Fed Chair did provide useful insights in to current thinking by policymakers with respect to the current range for the federal funds rate vis-à-vis the employment and inflation mandates, which remain in tension. Regarding the policy rate, Powell noted that it was in the "high end of neutral, or...perhaps mildly restrictive, even modestly restrictive," which was appropriate given that inflation is well above the Committee's 2 percent objective. On the point, inputs from the CPI and PPI contributed to Fed staff projections for the price index for personal consumption expenditures to advance 2.8 percent year-over-year in February, matching the increase in the prior month, and for the core measure to increase 3.0 percent – down slightly from the January reading but within the range of the past two years and indicative of little recent improvement after a sharp drop in inflation through the spring of 2024 (chart, right).

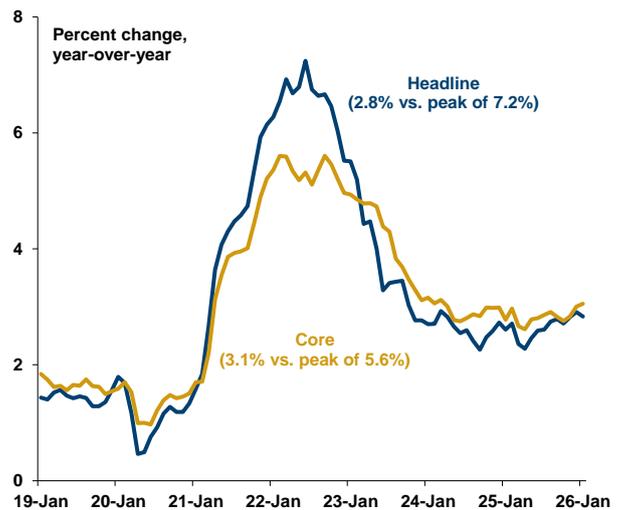
Most recently, sticky inflation was not necessarily the result of a miscalibration of monetary policy, but rather a development tied to the tariff program of the Trump administration, which Chair Powell suggested would take between six months and a year to pass through fully before the price level fully adjusts and core goods inflation reverts to the previous trend. Moreover, given aforementioned geopolitical developments, we may be at the precipice of a new supply-side shock to prices. With that in mind, ongoing improvement was required in three key areas before further rate cuts could be on the table. Powell stated, "what we want to see for this year...is continued progress on housing services, finally seeing the goods inflation come back down, because the one time effects of tariffs are through, and then also get some help from non-housing services. That's what we'd like to see" (charts on the next page indicate broad areas to monitor). But, he added, "it's a good question why we didn't see much of that last year."

**US Gasoline Price: All Grades\***



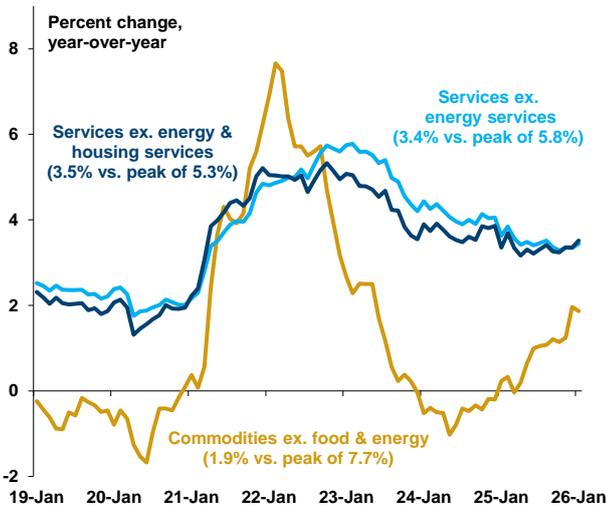
\* Weekly data except for the latest observation which is a daily quote from March 19, 2026.  
Source: U.S. Department of Energy via Haver Analytics

**PCE Price Index\***



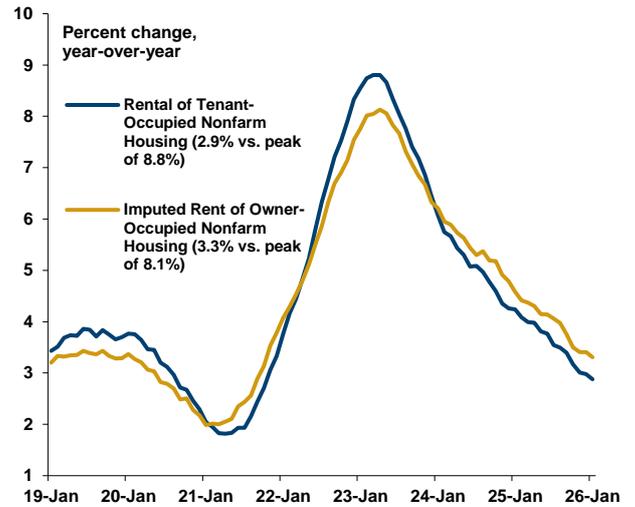
\* Data through January 2026. Results from the latest CPI and PPI reports suggest that the headline and core PCE price indexes advanced 2.8 and 3.0 percent year-over-year, respectively, in February 2026.  
Source: Bureau of Economic Analysis via Haver Analytics

**PCE Price Index: Core**



Source: Bureau of Economic Analysis via Haver Analytics

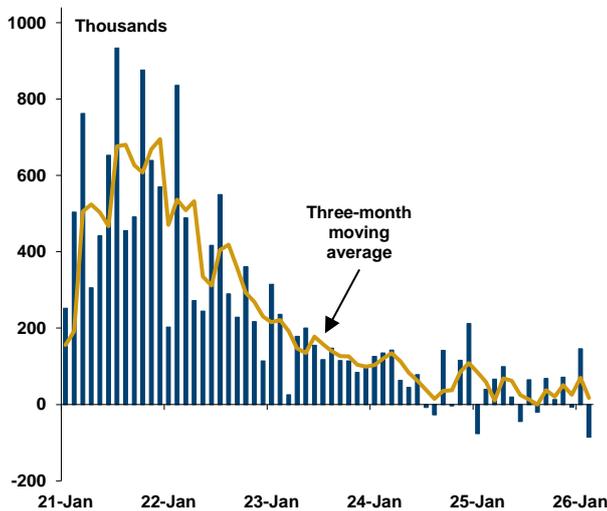
**PCE Price Index: Housing**



Source: Bureau of Economic Analysis via Haver Analytics

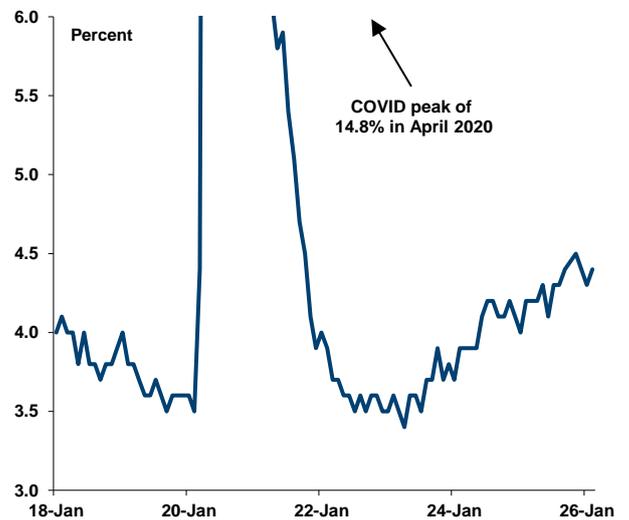
Given that previous and more recent inflation-related developments require vigilance, which will prevent rate cuts for at least the next few FOMC meetings, the Chair indicated that he viewed risks to the labor market as tilted to the downside while also emphasizing that recent data were not overtly concerning. He described the current state of the labor market as in a “zero employment growth equilibrium” where there is “effectively zero net job creation” (chart, below left), but it is offset by little to no labor force growth (a function of the Trump administration’s immigration policy and thus holding the unemployment rate at a low level (chart, below right). The balance appears precarious, but it is sufficient for policymakers to maintain focus on inflation and keep the federal funds rate steady.

**Change in Private-Sector Payrolls**



Source: Bureau of Labor Statistics via Haver Analytics

**Unemployment Rate**



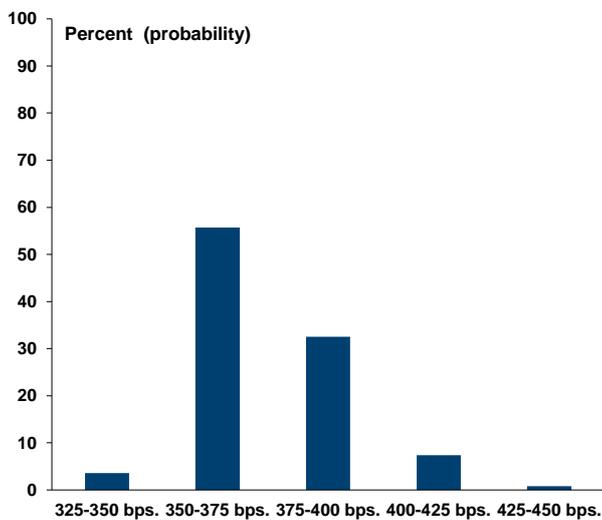
Source: Bureau of Labor Statistics via Haver Analytics

**A Change in Daiwa’s View for 2026**

In light of recent developments and interpreting the potential path of monetary policy through the lens offered by the Fed Chair, we are adjusting our rate call for 2026. We interpret market pricing of a potential rate hike by year-end as premature – a tail risk to be sure – and one more or less dismissed by Powell (chart, next page, left). A scenario where the need for rate hikes could materialize is if oil prices surge higher and remain stuck for a protracted period, but such an outcome is only one of many that could be realized in the months ahead. Moreover, in interviews earlier today, Fed Governor Bowman expressed her ongoing preference for three rate reductions this year, and Governor Waller expressed the need for “cuts” later this year in light of ongoing labor market weakness (even if it is in

equilibrium). Moreover, road blocks remain: President Trump's pick for Fed Chair, Kevin Warsh, is likely to take the helm later this year, which could clear the path for further insurance reductions deeper into neutral territory in support of employment-related goals. Therefore, we acknowledge that the timing of cuts has shifted, and that the probability of multiple cuts has perhaps fallen to a degree, but we keep open the door to such a possibility. As such, in light of an expected further easing in inflation and eventual upward drift in the unemployment rate – and anticipated resolution of the Middle East conflict at a point before elevated energy prices pass through to core inflation – we now project the FOMC to reduce the target range for the federal funds rate by 25 basis points each at the September and December 2026 meetings (versus June and September previously) and maintain that stance within the range of neutral through 2027 (chart, below right). That said, with the outlook remaining in flux, forecasting at this juncture proves exceptionally difficult. As such, we will be monitoring ongoing events closely in an effort to ascertain when adjustments, if any, need to be made.

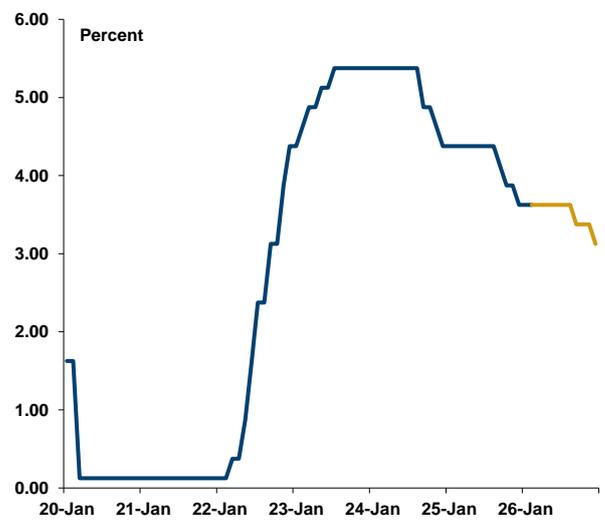
**Federal Funds Target Rate Probabilities\***



\* The implied target range for the federal funds rate at the conclusion of the December 2026 meeting based on futures pricing data as of March 20, 2026.

Source: CME Group, FedWatch tool

**Federal Funds Target Rate\***



\* The gold line is the projected path for the federal funds rate through year-end 2026.

Sources: Federal Reserve Board via Haver Analytics; Daiwa Capital Markets America

## The Week Ahead

### Construction (January) (Monday)

Forecast: +0.1%

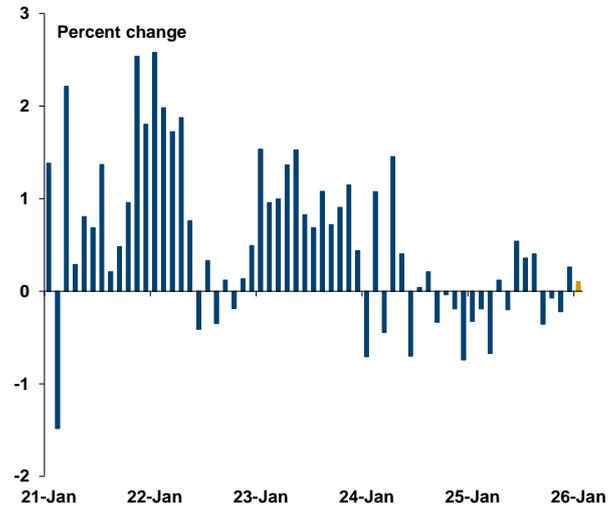
With housing starts essentially rangebound over the past year, private residential construction is likely to remain on its sideways trend. Moreover, government-sponsored building has decelerated after trending sharply higher earlier in the expansion and business-related activity has cooled steadily since surging to a nominal record in late 2023. Resultantly, we expect total construction spending to rise only slightly in the first month of 2026.

### Revised Nonfarm Productivity (2025-Q4) (Tuesday)

Forecast: +1.7%

With the output number that feeds into the calculation for productivity adjusted notably lower from the initial estimate (-1.1 percentage point to +1.5 percent, annual rate; nonfarm gross value added from the GDP accounts), it appears likely that nonfarm productivity growth will be downwardly revised from the preliminary tally of 2.8 percent. Correspondingly, the projected adjustment could nudge unit labor costs higher from the already-reported increase (expectation of +4.0 versus the preliminary tally of +2.8 percent).

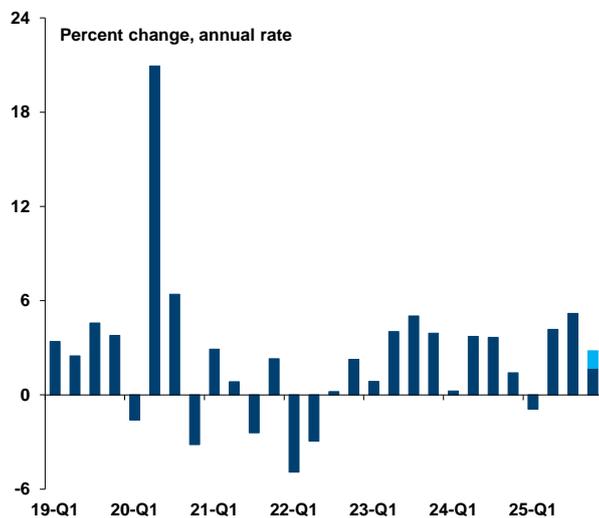
### Value of Construction Put in Place



\* The gold bar is a forecast for January 2026.

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

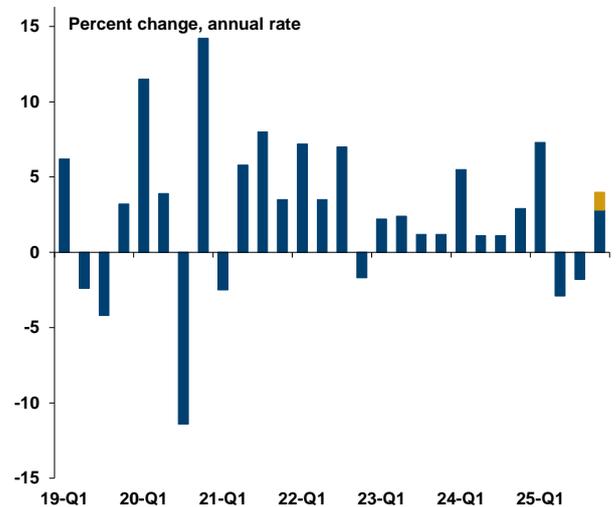
### Nonfarm Productivity\*



\* The light blue bar is the projected size of the downward revision for 2025-Q4.

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

### Unit Labor Cost\*



\* The gold bar is the projected size of the upward revision for 2025-Q4.

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

## Economic Indicators

March/April 2026				
Monday	Tuesday	Wednesday	Thursday	Friday
16	17	18	19	20
<b>EMPIRE MFG</b> Jan 7.7 Feb 7.1 Mar -0.2  <b>IP &amp; CAP-U</b> Dec 0.3% 75.8% Jan 0.7% 76.3% Feb 0.2% 76.3%  <b>NAHB HOUSING INDEX</b> Jan 37 Feb 37 Mar 38	<b>PENDING HOME SALES</b> Dec -7.4% Jan -1.0% Feb 1.8%  <b>FOMC MEETING (FIRST DAY)</b>	<b>PPI</b> Ex. Food Final Demand & Energy Dec 0.4% 0.5% Jan 0.5% 0.8% Feb 0.7% 0.5%  <b>FACTORY ORDERS</b> Nov 2.7% Dec -0.4% Jan 0.1%  <b>FOMC RATE DECISION</b>  <b>TIC FLOWS</b> Long-Term Total Nov \$205.2B \$203.0B Dec \$96.5B \$113.9B Jan \$15.5B -\$25.0B	<b>UNEMPLOYMENT CLAIMS</b> Initial Continuing (millions) Feb 21 0.211 1.871 Feb 28 0.214 1.847 Mar 7 0.213 1.857 Mar 14 0.205 N/A  <b>PHILADELPHIA FED MFG BUSINESS OUTLOOK</b> Jan 12.6 Feb 16.3 Mar 18.1  <b>NEW HOME SALES</b> Nov 0.764 million Dec 0.712 million Jan 0.587 million  <b>LEADING INDICATORS</b> Nov -0.3% Dec -0.2% Jan -0.1%  <b>WHOLESALE TRADE</b> Inventories Sales Nov 0.2% 1.4% Dec -0.1% 1.3% Jan -0.5% 0.5%	
23	24	25	26	27
<b>CHICAGO FED NATIONAL ACTIVITY INDEX (8:30)</b> Monthly 3-Mo. Avg. Dec -0.21 -0.29 Jan 0.18 -0.06 Feb -- --  <b>CONSTRUCTION (10:00)</b> Nov -0.2% Dec 0.3% Jan 0.1%	<b>REVISED PRODUCTIVITY &amp; COSTS (8:30)</b> Unit Labor Productivity Costs 25-Q3 5.2% -1.8% 25-Q4(p) 2.8% 2.8% 25-Q4(r) 1.7% 4.0%	<b>IMPORT/EXPORT PRICES (8:30)</b> Non-Petrol Nonagri. Imports Exports Dec 0.5% 0.7% Jan 0.4% 0.7% Feb -- --  <b>CURRENT ACCOUNT (8:30)</b> 25-Q2 -\$249.2 bill. 25-Q3 -\$226.4 bill. 25-Q4 --	<b>UNEMP. CLAIMS (8:30)</b>	<b>REVISED CONSUMER SENTIMENT (10:00)</b> Feb 56.6 Mar(p) 55.5 Mar(r) 54.0
30	31	1	2	3
	<b>FHFA HOUSE PRICE INDEX</b> <b>S&amp;P COTALITY CASE-SHILLER</b> <b>20-CITY HOME PRICE INDEX</b> <b>MNI CHICAGO BUSINESS BAROMETER</b> <b>CONFERENCE BOARD CONSUMER CONFIDENCE</b> <b>JOLTS DATA</b>	<b>ADP EMPLOYMENT</b> <b>RETAIL SALES</b> <b>ISM MFG. INDEX</b> <b>BUSINESS INVENTORIES</b> <b>VEHICLE SALES</b>	<b>UNEMP. CLAIMS</b> <b>TRADE BALANCE</b>	<b>GOOD FRIDAY</b>  <b>EMPLOYMENT REPORT</b> <b>ISM SERVICES INDEX</b>
6	7	8	9	10
	<b>DURABLE GOODS ORDERS</b> <b>CONSUMER CREDIT</b>	<b>FOMC MINUTES</b>	<b>UNEMP. CLAIMS</b> <b>REVISED Q4 GDP</b> <b>PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX</b> <b>WHOLESALE TRADE</b>	<b>CPI</b> <b>CONSUMER SENTIMENT</b> <b>FACTORY ORDERS</b>

(p) = preliminary, (r) = revised

Forecasts in bold. Despite an end to the government shutdown, some economic data are still delayed. We have made best efforts to incorporate revised release schedules from various statistical agencies, although some changes may not be reflected.

# Treasury Financing

March/April 2026																																											
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\*Estimate