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Federal Reserve Monitor | North America

March FOMC Quick Reaction

Economic and fed funds rate projections in line with our expectations. Committee slows the pace of balance sheet runoff.

Key Takeaways

- Projection revisions were in line with our expectations, with lower growth projected this year and next and higher inflation projected for this year.
- Median projected funds rate stayed at 3.9% in '25 but the mean rose 20bps to 4.0%. The '26 median dot remained at 3.4% but the mean moved up 10bps to 3.45%.
- "Uncertainty around the economic outlook has increased."
- One surprise: the Committee took the decision to slow the pace of balance sheet runoff.

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Quick Reaction

The statement and projection revisions were in line with our expectation. We thought the committee would take on board more restrictive trade and immigration policies which would imply somewhat softer growth and firmer inflation. It did so, revising down growth to 1.7% this year and 1.8% in 2026 and 2027. For inflation, it revised PCE inflation higher to 2.7% at the headline and 2.8% at the core, up from 2.5% previously. The unemployment rate path was largely unchanged. Balancing these revisions was an unchanged policy rate path versus December; the median member still projects two 25bp rate cuts this year and two additional cuts next year. All of these revisions and unchanged dot plot were in line with our expectations. We looked for a forecast that smelled stagflationary and that was indeed the case.

The statement contained few changes in its description of activity and labor markets. The rebound in February retail sales may have given members confidence on growth, thereby allowing them to say activity remains solid. Labor market developments reflect stability over weakness, in our view. The main change came in two places. First, the statement acknowledges increased uncertainty to the outlook and the committee took the decision to slow the pace of balance sheet runoff. The latter went against our expectations. The statement reads, "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."

Also notable, in our view, were that nearly all participants said uncertainty about the outlook for GDP growth and the unemployment rate had risen. Nearly all participants said risk to growth was titled to the downside and risk to unemployment was tilted to the upside. These shifts augment the decision by the committee in December, where nearly all participants concluded risks to inflation were tilted to the upside.

On net, the statement and forecasts suggest balance. Some revisions are hawkish (inflation and risks to inflation) while some revisions appear dovish (growth and risks to growth unemployment.) This, in our view, reflects the Fed's newfound reality. In the press conference we expect Powell to say heightened uncertainty prevents the Fed from clearly signaling its policy rate intentions. With policy modestly restrictive, we think Powell will reiterate the view that the committee is well-placed to respond to developments and is not in a hurry to act.

Changes:

- Added "Uncertainty around the economic outlook has increased" in place of "The Committee judges that the risks to achieving its employment and inflation goals are roughly in balance."
- "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."

Consistent language with January:

- "…economic activity has continued at a solid pace."
- "…labor market conditions remain solid."
- "Inflation remains somewhat elevated."

Exhibit 1: March statement changes from January

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. ~~The Committee judges that~~Uncertainty around the ~~risks to achieving its employment and inflation goals are roughly in balance. The~~ economic outlook ~~is uncertain, and the~~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~~; and~~. 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.

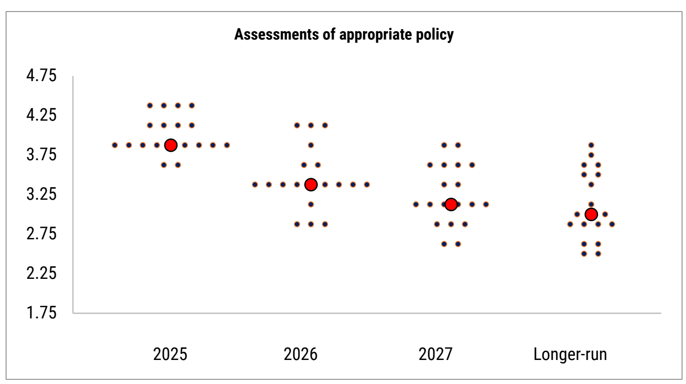
Source: Federal Reserve Board, Morgan Stanley Research

Exhibit 2: Summary of Economic Projections

Changes to the Summary of Economic Projections	2025	2026	2027	Longer Run
Real GDP (% 4Q/4Q)				
FOMC March SEP	1.7	1.8	1.8	1.8
FOMC December SEP	2.1	2.0	1.9	1.8
Difference	*-0.4*	*-0.2*	*-0.1*	*0.0*
Unemployment Rate (4Q Avg)				
FOMC March SEP	4.4	4.3	4.3	4.2
FOMC December SEP	4.3	4.3	4.3	4.2
Difference	*0.1*	*0.0*	*0.0*	*0.0*
Core PCE Inflation (% 4Q/4Q)				
FOMC March SEP	2.8	2.2	2.0	
FOMC December SEP	2.5	2.2	2.0	-
Difference	*0.3*	*0.0*	*0.0*	-
Fed Funds Target				
FOMC March SEP	3.9	3.4	3.1	3.0
FOMC December SEP	3.9	3.4	3.1	3.0
Difference	*0.0*	*0.0*	*0.0*	*0.0*

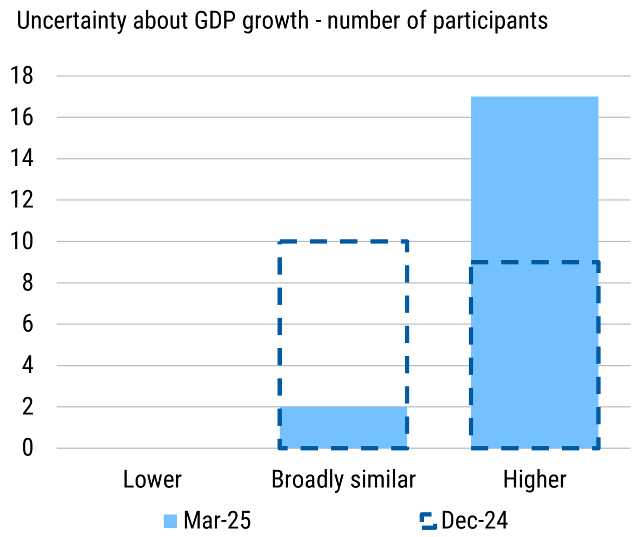
Source: Federal Reserve Board, Morgan Stanley Research

Exhibit 3: Dot plot



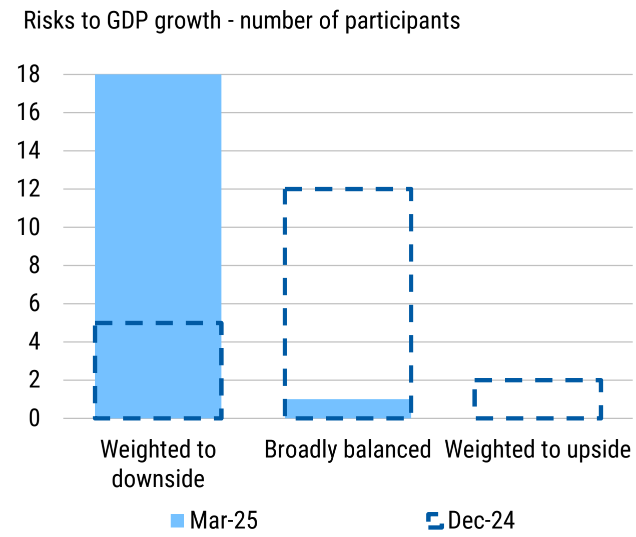
Source: Federal Reserve Board, Morgan Stanley Research

Exhibit 4: More uncertainty around GDP growth



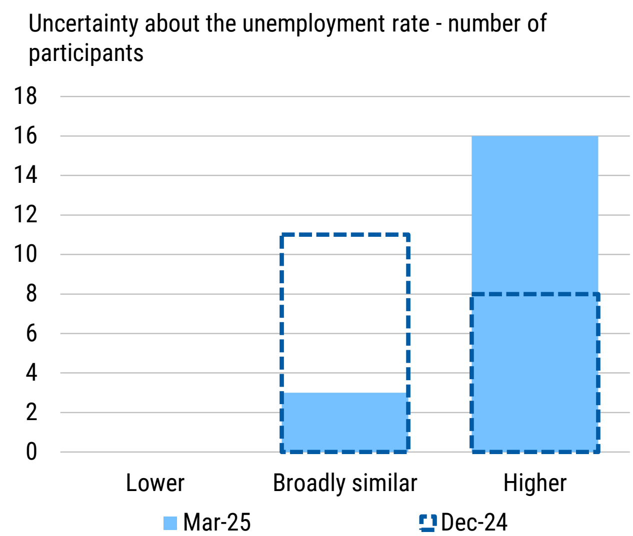
Source: Federal Reserve Board, Morgan Stanley Research

Exhibit 5: With risks to GDP growth skewed to the downside



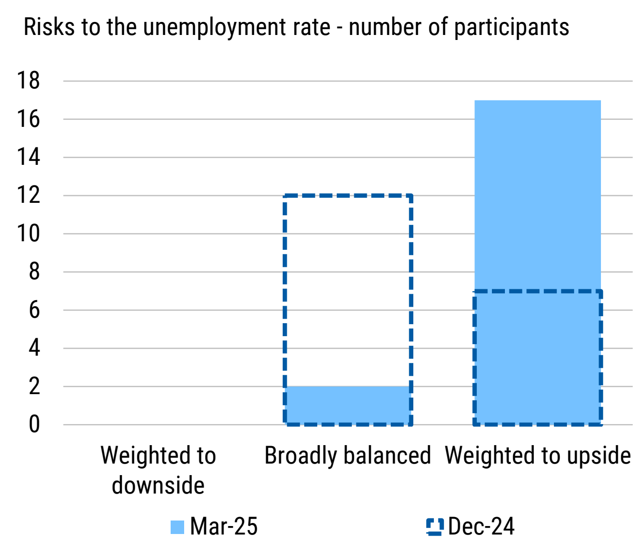
Source: Federal Reserve Board, Morgan Stanley Research

Exhibit 6: More uncertainty around the unemployment rate



Source: Federal Reserve Board, Morgan Stanley Research

Exhibit 7: With risks to the unemployment rate skewed to the upside



Source: Federal Reserve Board, Morgan Stanley Research

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