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20 MARCH 2025

Rate Cuts on Hold, But Not Off the Table – Key Takeaways from March FOMC

At its 19 March meeting, the **FOMC maintained its current monetary policy stance** while making a notable adjustment to its balance sheet strategy. Key decisions included:

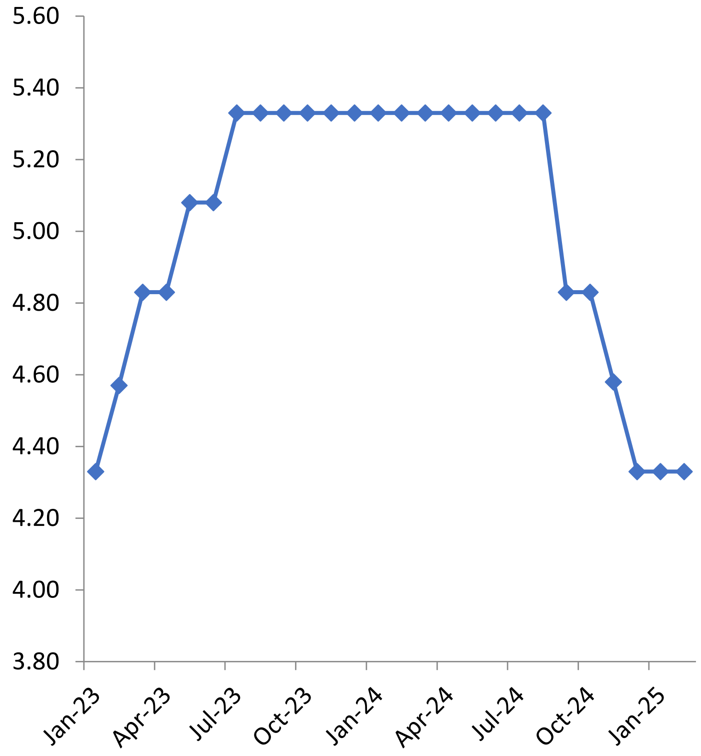
- **Interest Rates**: The Fed **held the target range for the federal funds rate at 4.25%–4.50%,** in line with our expectation. The Committee noted that it will *“carefully assess incoming data”* to determine the extent and timing of any future adjustments to rates, signaling a patient and data-dependent approach.

- **Balance Sheet**: The FOMC will **continue reducing its securities holdings (quantitative tightening)**, but at a **slower pace for U.S. Treasury securities**. Beginning in April, the monthly cap on Treasury runoff will be cut from USD25 billion to USD5 billion, while the cap for agency debt and mortgage-backed securities remains USD35 billion.

- **Forward Guidance:** The policy statement highlighted increased uncertainty in the outlook and reiterated that the Fed *is “attentive to the risks”* to its dual mandate. The Committee reaffirmed it *“will adjust the stance of monetary policy as appropriate if risks emerge”* that threaten its goals.

- **Vote and Dissent:** The decision to hold rates steady was supported by **all but one FOMC member**. Governor Christopher Waller dissented, not over the rate decision (he concurred with no rate change) but slowing the balance sheet runoff. Waller preferred to continue the current, faster pace of Treasury roll-off, indicating a more hawkish view on maintaining a tighter policy stance via the balance sheet.

Policy Rate: Effective Federal Funds Rate



Sources: CEIC, BMMB Economics

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From Caution to Dovish Tilt: Comparing the Fed's Jan vs. Mar Statements

	January 2025	March 2025	Key analysis
Economic Activity	• Economic activity has continued to expand at a solid pace.	• **No change**	• No shift in language suggests steady economic growth.
Unemployment Rate	• Unemployment rate stabilized at a low level; labor market conditions remain solid.	• **No change**	• Labor market remains robust with no major changes.
Inflation	• Inflation remains somewhat elevated.	• **No change**	• Inflation remains a concern; no change in wording.
Economic Outlook	• Economic outlook is uncertain. Risks to employment and inflation goals are roughly in balance.	• **Uncertainty around the economic outlook has increased.**	• Increased uncertainty signals a more cautious tone.
Federal Funds Rate	• Maintained at 4.00-4.25% to 4.50%	• **No change**	• Policy rate unchanged, reinforcing wait-and-see approach.
Balance Sheet Reduction	• Continue reducing holdings of Treasury securities and agency mortgage-backed securities	• **Slower balance sheet reduction**: Monthly Treasury securities redemption cap reduced from USD25 bn to USD5 bn starting in April.	• More dovish stance, slowing the balance sheet reduction pace.
Policy Flexibility	• Will monitor incoming information, adjust policy if needed.	• **No change**	• Continued flexibility in response to economic conditions
Voting Outcome	• Unanimous vote for policy action.	• **Christopher J. Waller dissented**, preferring to maintain the current pace of securities reduction.	• First dissenting vote signals internal debate on tightening pace.

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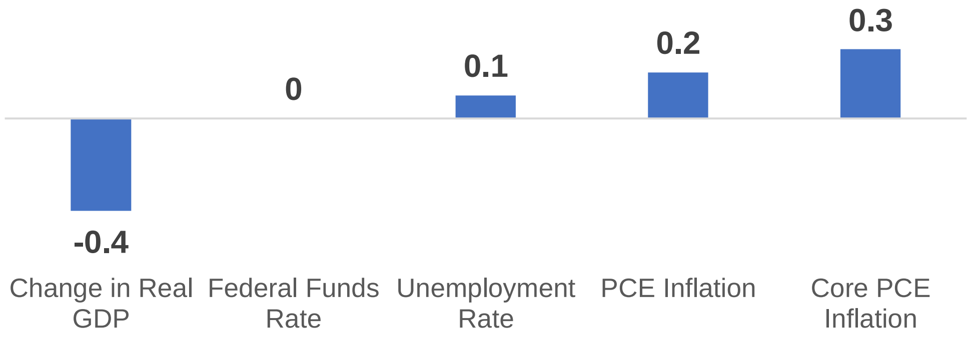
Summary of Economic Projections (SEP): A Slower Growth Path, Sticky Inflation, and Delayed Cuts

Fed's Projection 2025 (%)

	Change in Real GDP	Federal Funds Rate	Unemployment Rate	PCE Inflation	Core PCE Inflation
Mar-25	1.7	3.9	4.4	2.7	2.8
Dec-24	2.1	3.9	4.3	2.5	2.5

Sources: Federal Reserve, BMMB Economics

Change in Fed's 2025 projection (%)



Sources: Federal Reserve, BMMB Economics

Alongside the policy decision, the Fed released its SEP, which included participants' forecasts for key economic variables and the federal funds rate. Comparing the new March 2025 projections to the previous set from December 2024 reveals several notable shifts:

GDP Growth: Fed officials **marked down their growth outlook,** reflecting expectations that the economy will expand at a more modest pace than previously thought, likely due to headwinds from higher uncertainty and the dampening effects of tariffs.

Unemployment: The unemployment rate is projected to **rise slightly more than earlier anticipated**. However, the projections shows only a moderate uptick in unemployment from current levels, implying the Fed **does not foresee a sharp downturn** in the baseline scenario.

Inflation: Inflation forecasts were revised higher, especially in the near term, reflecting the anticipated impact of the import tariffs and recent price trends.

Interest Rate (Dot Plot) Projections: Despite the changes in the economic outlook, the projected policy path (the "dot plot") **remained essentially unchanged in median terms.** The median FOMC participant **still anticipates a federal funds rate of about 3.9% at the end of 2025.**