First Trust
ECONOMIC RESEARCH REPORT
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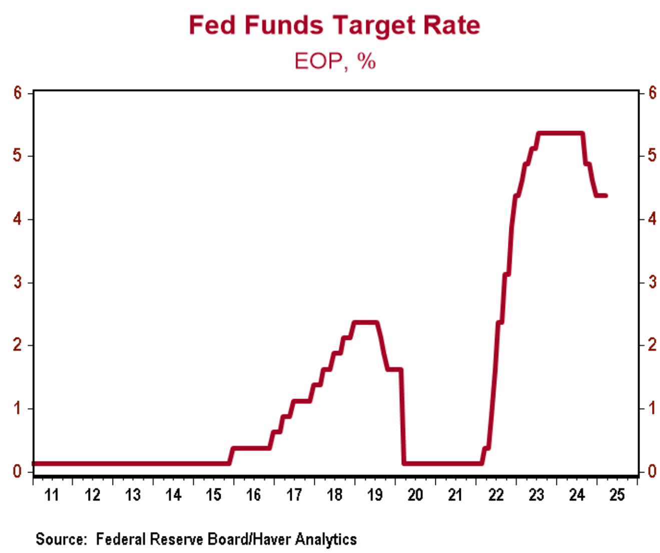
Uncertain

The Federal Reserve held rates steady today, but downgraded the outlook for economic growth in the year ahead. Policy changes in Washington, looming tariffs, and a cautious consumer have made "uncertainty" the new favorite word in the Fed's vocabulary.

Starting with today's FOMC statement, there were a few changes worthy of note. Prior comments that the risk to achieving the Fed's employment and inflation goals as "roughly in balance" were replaced with a simple and direct statement that "Uncertainty around the economic outlook has increased." The other is that beginning in April the Fed will slow the pace of Treasury security run-off from $25 billion per month down to $5 billion. Agency debt and agency mortgage-backed securities will continue to be redeemed at a pace of $35 billion per month.



The Fed also released updated economic projections, showing real GDP will grow at 1.7% annual rate this year versus a prior forecast of 2.1%. Meanwhile, PCE prices – the Fed's preferred measure of inflation – are now forecast to rise 2.7% in 2025, slightly more than the prior forecast of 2.6%.

While slower growth could suggest for a faster pace of rate cuts, higher inflation suggests the Fed should wait longer to act. The Fed essentially ruled these changes offset and made no change to their expectation that two rate cuts will be appropriate in 2025. That said, the number of FOMC members who think less than two cuts will be appropriate this year doubled from four to eight, while the number of members who believe that more than two cuts will be warranted fell from five down to two. On net, a more hawkish tilt.

During the press conference, Powell acknowledged that tariffs have brought uncertainty to the outlook, particularly as it relates to inflation. While it is unclear just how tariffs will ultimately be rolled out, for how long, and if/how countries will retaliate, consumers and businesses are already reacting with changes in activity. The incoming data is showing a weakening economic environment. For the time being, the Fed plans to wait patiently on the sideline and watch how this all plays out, and the markets will wait for them to signal when it is the next time to move.

We admit this is an incredibly difficult time to forecast. The remnants of COVID-era spending measures are still echoing through the system, and how the economy will progress in the short term if true progress is made in cutting the deficits is still to be seen. The era of easy everything is over, and while that may not be a welcome transition for many, it's a necessary transition. As always, we will continue to watch the data, with an extra emphasis on the money supply as we forecast the path of inflation ahead. We welcome the short-term pain of true change if it leads to the longer-term gains of faster growth and progress on the debt. Let's hope the Fed is willing to accept that trade-off as well.

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Text of the Federal Reserve's Statement:

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. Uncertainty around the economic outlook 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. 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.