

No Conviction

In what is supposed to be Jerome Powell’s next to last meeting as chairman, there was plenty for the FOMC to discuss, but little action taken. As expected, there was no rate cut at today’s meeting, but changes to economic projections and comments at the press conference gave some light into how the Fed is processing political and geopolitical events, and how those events are shaping the Fed’s outlook.

The only notable change in the Statement from January was the addition of a new sentence stating the “implications of developments in the Middle East for the U.S. economy are uncertain.” Notably Fed Governor Miran once again voted against today’s decision to keep rates unchanged, preferring a 0.25% rate cut. Governor Waller, who also dissented in favor of a cut back in January, voted with the remaining FOMC members to keep rates unchanged.

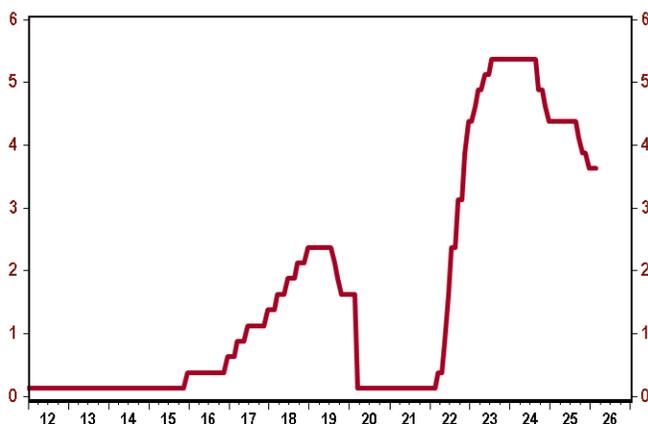
Moving to the Summary of Economic Projections (the “dot plots”) shows inflation concerns rising, but anticipated to be short-lived. The Fed’s preferred PCE inflation measure is now forecast to rise 2.7% in 2026, versus a 2.4% forecast back in December. But inflation is still expected to move toward the longer-run 2.0% inflation target by the end of 2027. At the same time, the Fed slightly upgraded the outlook for GDP for 2026 (to 2.4% from 2.3%) as well as for each of the next two years. The unemployment rate forecast for 2026 remained unchanged.

FOMC is taking today’s forecasts with a grain of salt, stating that many members have “no conviction” on how things will evolve and therefore moved little from what they had forecast before events in Iran began.

Instead, the Fed is focused on goods inflation and watching if tariff-related price increases from last year roll off in 2026. It’s a bit odd the emphasis the Fed continues to put on goods inflation, considering PCE goods prices rose 1.3% in the twelve months ending in January, compared to 3.5% inflation in the less tariff-exposed services sector. Yet when this stubbornly high services inflation, most notably in the “super-core” inflation category (PCE services excluding energy and housing) that the Fed itself created during COVID came up during Q&A, Powell largely dismissed it, saying simply that it’s frustrating these prices haven’t declined, but they should come down eventually. Apparently if it doesn’t fit the Fed narrative of the day, it’s not worth dwelling on.

Finally, Powell addressed his future with the Fed. In the event that a new Chair is not confirmed before Powell’s term ends on May 15th, he will stick around and continue to serve his role until a replacement is appointed. He also stated that he has no intention of leaving the Federal Reserve Board of Governors until his ongoing investigation with the Department of Justice is well and truly behind him. As a reminder, his term as Fed Chair ends mid-May, but his seat on the Board of Governors runs through January of 2028. It’s unusual for a Fed Chair not to vacate their seat on the board when their Chairmanship is up, but it is not required, and Powell may linger at the Fed for the foreseeable future.

Fed Funds Target Rate
EOP, %



Source: Federal Reserve Board/Haver Analytics

What should you take away from today’s meeting? The Fed isn’t sure how the economy, inflation, or the employment market will react to events in Iran, and they aren’t interested in guessing. There are six weeks between now and the next FOMC meeting at the end of April, and by then we should have a much better idea of both the magnitude and duration of the economic ripples out of the Middle East. In terms of inflation, we still believe that the M2 money supply is a much more reliable tool for forecasting sustained inflation. To track our ongoing analysis of how oil flows, tariffs, employment, and the money supply are impacting the outlook for the United States, we would encourage you to keep an eye on our [Three on Thursday](#) publications.

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Text of the Federal Reserve's Statement:

Available indicators suggest that economic activity has been expanding at a solid pace. Job gains have remained low, and

The question now becomes, should the Fed react to what they expect is a temporary inflation impact and largely outside of their control? Early in the press conference, Powell made a surprisingly transparent and honest comment that even the

the unemployment rate has been little changed in recent months. Inflation remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook remains elevated. The implications of developments in the Middle East for the U.S. economy are uncertain. 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 3-1/2 to 3-3/4 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 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; Lisa D. Cook; Beth M. Hammack; Philip N. Jefferson; Neel Kashkari; Lorie K. Logan; Anna Paulson; and Christopher J. Waller. Voting against this action was Stephen I. Miran, who preferred to lower the target range for the federal funds rate by 1/4 percentage point at this meeting.