

Transcript

Kathleen Navin: Welcome to this edition of *Take Five with the St. Louis Fed*. I'm Kathleen Navin, senior economist, and today I'll be discussing the latest FOMC meeting that took place on March 17 and 18.

At this meeting, the FOMC voted to maintain the target for the federal funds rate at its current range of 3.5% to 3.75%, where it has been since the December FOMC meeting.

There was one dissent from the policy decision, with Governor Miran voting in favor of a 25-basis point rate cut.

Now, the FOMC statement that was released following the meeting was, for the most part, little changed relative to the January statement, but there was one notable inclusion, and that was a new sentence around the added uncertainty that we're currently experiencing as a result of the conflict in the Middle East. And indeed, this was discussed at several points throughout the press briefing that followed the March meeting.

In his opening remarks, Chair Powell noted, "The implications of events in the Middle East for the U.S. economy are uncertain. In the near term, higher energy prices will push up overall inflation, but it is too soon to know the scope and duration of the potential effects on the economy. We will continue to monitor the risks to both sides of our mandate."

And we want to keep this idea that there is a lot of uncertainty currently around the U.S. economy when thinking and looking through the latest FOMC projections.

Let's start with real GDP growth. Now, the latest median projection for real GDP growth did show upward revisions throughout the forecast horizon, with growth looking to firm to 2.4% this year, to 2.3% in 2027, and 2028 coming in at 2.1%.

Now, while not shown on this chart, these projections do reflect an upward revision to the longer-run estimate of real GDP growth. In particular, the median projection was revised up from 1.8% to 2%. And in discussing these upward revisions during the press briefing, Chair Powell did note that this reflected more confidence among the Committee around productivity growth.

Now let's take a look at the latest projections for the unemployment rate. The median projection for the unemployment rate is that it will ease from 4.4% this year to 4.3% by the end of 2027 and then 4.2% by the fourth quarter of 2028, which brings it in line with the longer-run estimate according to the median projection.

Now turning to the other side of the mandate, let's take a look at the latest projections for inflation. Here we have headline PCE inflation. We see that the median projection is for

inflation to remain elevated this year at 2.7% before moderating to 2.2% in 2027 and then further to 2% in 2028.

Now, in discussing the latest projections during the press briefing, Chair Powell did note that the upward revision, especially in the near term, is likely reflecting those upward revisions around thoughts around energy prices. But in addition, it could also be reflecting some slower progress on other components of inflation like core goods and core services excluding housing.

So let's take a moment to look at those components of inflation. Here we have contributions to 12-month PCE inflation, with that 12-month PCE inflation shown in the navy line.

Now, if we look just bar by bar, first, let's take a look at the housing services inflation, as shown by the darkest blue bar there at the bottom. We see continued moderation in this component, which is helping with that disinflationary process.

Now the second and really the largest component of overall inflation is core services, excluding housing, where over the last few months we actually haven't seen much progress. So this is an area that we'd want to see more disinflationary progress, bringing back the overall inflation number to 2%. So this is really an area to watch going forward.

The third bar there in that kind of medium blue is core goods inflation. And this we've seen actually increasing in its contribution over the last few months. And this is where we're having those tariff effects come through in the inflation data. Now this will be a very important area to watch throughout the year, as the expectation is that this contribution will become smaller as those tariff effects pass through.

Now those three components make up core PCE inflation, but we know that in headline PCE inflation, we also have food and energy. And what you've seen over the last few months is that those have actually been quite small in terms of contributions—even negative—if you look back a little further at energy. But we know that this data, which is through January, predates the conflict in the Middle East. And in particular, when looking at the next chart, the surge in energy prices—in particular oil here—that we've seen over the last few weeks. And so that will really start to show in the March inflation data.

Now, there is still a lot of uncertainty around how long this surge in oil prices will last, how high it will go, what the duration will be, and what the overall effects on the U.S. economy will be. And so this is an area that we'll really watch closely over the next six weeks, especially leading up to the April meeting.

Now keeping that in mind, what does all of this mean for the path of monetary policy going forward?

Well, along with the latest set of economic projections, we have a new path for the appropriate path of monetary policy, which actually is unchanged when looking at the medium projection relative to December. The median projection shows one 25-basis point rate cut this year and then an additional 25-basis point rate cut in 2027, bringing the midpoint

of the range to 3.1%, which is in line with the median projection for the longer-run federal funds rate.

That being said, if we look at individual projections, we do still see variation among the Committee, though we are now seeing a bit more concentration around fewer rate cuts than we did at the December meeting. So with 14 of 19 participants expecting either no rate moves this year or with seven of those looking for one rate cut.

All of this being said, a common theme throughout this meeting, as well as this *Take 5*, has been the added uncertainty due to the conflict in the Middle East.

So as I mentioned earlier, the next six weeks between now and the April FOMC meeting will be very important in understanding any developments on that front as well as the normal flow of economic data and how that may be affecting the economic outlook.

So that concludes this installment of *Take Five with the St. Louis Fed*. Thanks so much for joining us.

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