BEA 東亞銀行

Economic Research Department

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Economic QuickView

FOMC Meeting: Fed Chairman Powell calls inflation impacts from tariffs "transitory"

- The FOMC held the federal funds rate unchanged at 4.25-4.50% in March and scaled down the pace of its quantitative tightening.
- The March dot plot projected 2 rate cuts in 2025, the same as in December.
- The latest summary of economic projections revealed a slower growth outlook and higher inflation projections, largely due to tariffs.

The Fed held rates unchanged in March, as expected. At its March meeting, the Federal Open Market Committee (FOMC) voted unanimously to hold the federal funds rate steady at 4.25-4.50%, the second consecutive meeting of leaving rates unchanged. Additionally, the FOMC decided to slow its quantitative tightening (QT) by reducing the monthly cap on Treasury redemptions from USD 25 billion to USD 5 billion, while maintaining the monthly cap on agency debt and agency mortgage-backed securities at USD 35 billion. Notably, this decision was not unanimous; one member, Christopher Waller, dissented and preferred to retain the current pace of QT. The post-meeting statement featured a key change: the phrase "the risks to achieving its employment and inflation goals are roughly in balance" was replaced with "uncertainty around the economic outlook has increased". This highlights the highly uncertain environment faced by the FOMC.

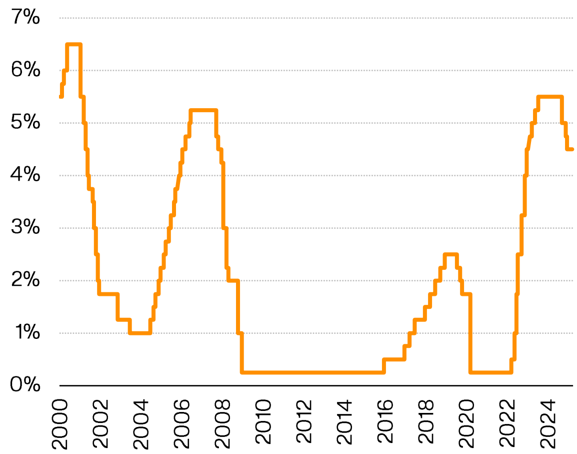
The March Summary of Economic Projections (SEP) continued to expect 2 rate cuts in 2025. In the March SEP, the median forecast for the federal funds rate in 2025 remained unchanged from December's SEP at 3.875%, implying a total of 2 rate cuts for the year. However, the March dot plot showed a more concentrated distribution of rate forecasts with an upward shift: 8 out of 19 FOMC members projected rates at 4.125% or above in 2025, compared to 4 in December. Meanwhile, only 2 members projected rates to be at 3.625% or below in 2025 in the March dot plot, compared to 5 in December. Median rate projections for 2026 and beyond were also unchanged.

Slower growth and higher inflation would offset the implications for monetary policies. The FOMC raised its 2025 projection for core PCE inflation to 2.8% in the March SEP, up from 2.5% in December, while holding its forecasts for 2026 and 2027 unchanged. GDP growth forecasts were revised downward at 1.7% in 2025, 1.8% in 2026, and 1.8% in 2027, compared to December's projection of 2.1% in 2025, 2.0% in 2026 and 1.9% in 2027, respectively. At the press conference, Fed Chairman Powell attributed a good part of these revisions to tariffs, indicating that higher inflation due to tariffs would likely a be one-off impact and cause meaningful but not excessive drags on economic growth.

FOMC Projections (March 2025)	**2025**	**2026**	**2027**	**Longer run**
Real GDP growth (%) [December 2024]	**1.7** [2.1]	**1.8** [2.0]	**1.8** [1.9]	**1.8** [1.8]
Unemployment rate (%) [December 2024]	**4.4** [4.3]	**4.3** [4.3]	**4.3** [4.3]	**4.2** [4.2]
Core PCE inflation (%) [December 2024]	**2.8** [2.5]	**2.2** [2.2]	**2.0** [2.0]	-
Fed Funds rate (%) [December 2024]	**3.9** [3.9]	**3.4** [3.4]	**3.1** [3.1]	**3.0** [3.0]

Source: The Fed

US Fed Funds Rate (Upper)



Source: Bloomberg

Fed Chairman Powell reiterated a patient approach toward policy adjustments. Powell emphasised elevated uncertainties in the current economic environment and called for a wait before making policy changes. Besides, he stressed that he expected the impacts of tariffs on inflation to be transitory. Powell also downplayed the risks to growth, stating that while there has been a moderation in consumer spending to start the year, the US economy remains "strong overall". Regarding recent upticks in inflation expectations, especially from the University of Michigan surveys, Powell regarded them as outliers, pointing out that other survey-based assessments showed longer-term inflation expectations remained well-anchored. Additionally, Powell clarified that the decision to slow the pace of QT was a technical adjustment aimed at maintaining appropriate liquidity conditions rather than signalling concerns about the economy.

Markets reacted positively to Powell's "transitory" comments. Despite the hawkish elements in the meeting statement, Powell's dovish comments during the press conference, particularly his "transitory" view on tariff impacts, fuelled market sentiment for continued monetary easing. US stocks rose and treasury yields fell. Looking ahead, we expect that the Fed will cut rates 2-3 times in 2025, with the first rate cut likely around mid-2025 depending on upcoming data and Trump's policies. In response, Hong Kong banks held their prime rates steady, and we expect the prime rates to follow the rate cut path of US interest rates, but at a smaller magnitude.

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