



# FOMC March 2025: Rate Pause, QT Slowdown, and Revised Economic Projections

## Navigating Uncertainty: The Fed's Cautious Path

- ▲ The Fed held its federal funds rate target steady at 4.25%-4.5%, maintaining its extended pause following 100 basis points of cuts from September to December 2024.
- ▲ The pace of Quantitative Tightening (QT) will slow, with the runoff of maturing Treasury securities reduced from \$25 billion to \$5 billion per month, while mortgage-backed securities runoff remains at \$35 billion.
- ▲ The Fed downgraded its 2025 GDP growth forecast to 1.7% from 2.1%, while raising core PCE inflation expectations to 2.8% from 2.6%.
- ▲ The median dot plot projection still anticipates two 25 basis point rate cuts in 2025, but a growing number of FOMC members are leaning toward fewer cuts, signaling a slightly more hawkish stance.
- ▲ Powell acknowledged tariff-related inflation risks, which could delay a return to the Fed's 2% inflation target.
- ▲ *We believe the Fed is underestimating labor market risks and anticipate weaker job numbers in the coming months, which could prompt a more aggressive policy response.*

The March Federal Open Market Committee (FOMC) meeting delivered few surprises but reinforced the Fed's cautious and data-dependent stance. The central bank maintained its federal funds rate target at 4.25%-4.5%, reflecting its commitment to an extended pause following the 100 basis points reduction in rates from September to December 2024. Additionally, the Fed announced a slowdown in Quantitative Tightening (QT), reducing the monthly runoff of maturing

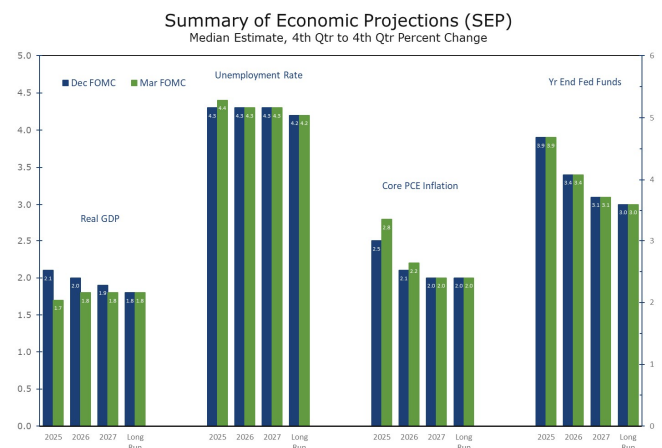
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Treasury securities from \$25 billion to \$5 billion beginning in April, while keeping the runoff of mortgage-backed securities steady at \$35 billion per month. This policy adjustment reflects the Fed's intent to ensure liquidity remains ample while navigating evolving economic and geopolitical conditions.

***The Fed is adopting a more cautious view on the economy and will remain data dependent.***

The updated Summary of Economic Projections (SEP) highlighted a downward revision to 2025 GDP growth, which is now expected at 1.7%, down from 2.1% in December. Core PCE inflation expectations were revised higher to 2.8% from 2.6%, reflecting concerns over persistent inflation pressures. The Fed's dot plot still anticipates two 25 basis point rate cuts in 2025, but with a more hawkish tilt—eight FOMC members now project fewer than 50 basis points of cuts, up from four in the prior forecast. This shift suggests that concerns over inflationary pressures and policy uncertainty are weighing more heavily on policymakers.



Source: Federal Reserve Board

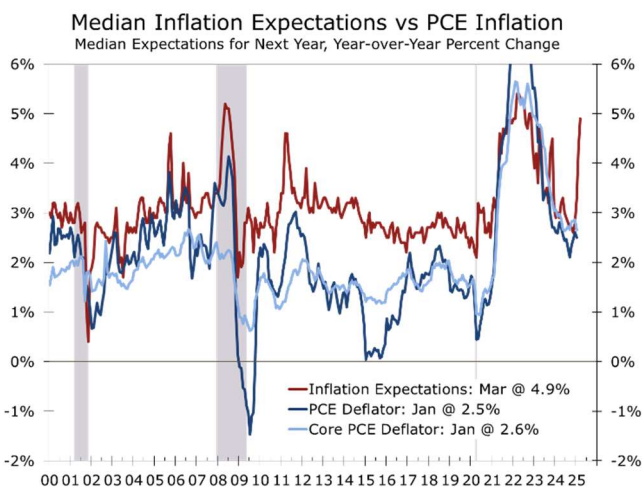


Chair Powell’s post-meeting comments emphasized the Fed’s intent to remain flexible. He downplayed inflation concerns stemming from the University of Michigan’s survey, noting that other measures, such as the New York Fed’s inflation expectations survey and market-based indicators, remain stable.

***The spike in inflation expectations in the UMich Consumer Sentiment Survey looks like an outlier.***

Powell also acknowledged the inflationary impact of tariffs, estimating a temporary price increase of a few tenths of a percentage point, which could delay the Fed’s return to its 2% inflation target until 2026. However, he stressed that the overall economic outlook remains balanced, justifying the Fed’s wait-and-see approach.

Markets responded positively to the Fed’s update view, with the 10-Year Treasury yield falling around 10 basis points and stocks rallying following Powell’s comments. The slowdown in QT is expected to provide additional support to economy and financial markets. Lower long-term interest rates should provide some needed relief to housing as it enters the critical spring selling season, mitigating some of the broader economic slowdown projected in the Fed’s SEP.



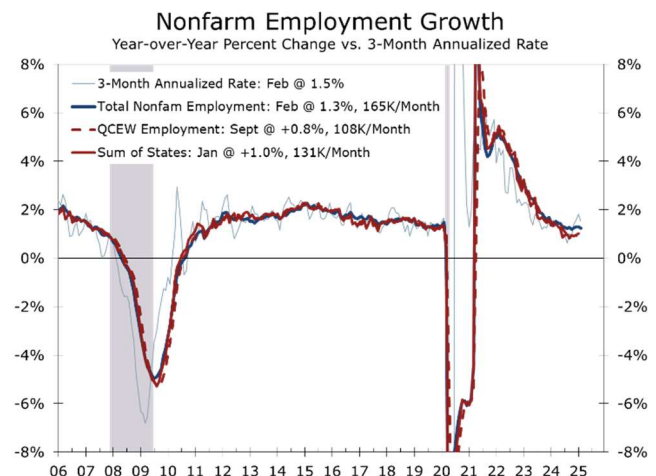
Source: University of Michigan and Bureau of Economic Analysis

Despite the Fed’s cautious optimism, we believe policymakers are underestimating labor market risks.

Hiring trends point to slowing job growth, and we expect the labor market to weaken in the coming months. QCEW data suggests job growth through last September is currently overstated by about 550,000 jobs. If payrolls slow more sharply and unemployment exceeds 4.4%, the Fed may need to adjust policy more aggressively. We expect a rate cut this June, with additional moves this summer and possibly this fall.

Conversely, persistent inflation—particularly from tariff-induced price pressures—might delay or reduce expected rate cuts. Powell’s emphasis on uncertainty underscores the Fed’s cautious, data-driven approach. While the Fed maintains an easing bias, rising inflation concerns suggest policymakers are ready to shift course if needed. Such a shift seems less likely today, given the recent slide in energy prices.

Many have rushed to label the Fed’s outlook as stagflationary, but comparisons to the 1970s are overstated. Even with slower growth, unemployment is expected to peak around 4.5%, and inflation, even after being stoked by tariffs, should remain below 3%—both well below late-1970s levels. Additionally, tariff-related price increases are likely temporary, with inflation trending lower over the next two years.



Source: Bureau of Economic Analysis and Federal Reserve Bank of Dallas

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