



Fed March Rate Decision

Fed holds rates at 4.25%-4.50%,
but lowers growth outlook amid
economic uncertainty

E I J I A O N O

Fed Rate Decision Summary

Fed holds rates steady as expected, cites higher economic uncertainty while reducing economic growth

The Fed held rates steady at the 4.25%–4.5% range after its latest regular meeting and also published its updated economic projections. After its December meeting, the Fed had a very optimistic outlook for the US economy with GDP growth staying above trend, inflation slowly moderating and the unemployment rate staying at lower levels. However, after the first 2 months of the Trump administration and the uncertainty around tariff policies, the Fed seems to be more concerned about the economic outlook as it now expects slower GDP growth and higher inflation and somewhat higher unemployment. Within the press release, the Fed stated that “uncertainty around the economic outlook has increased”, largely due to uncertainty around the Trump tariff policies.

During the press conference, Chairman Powell mentioned numerous times that there seems to be an impact on inflation from tariff policies but that it is difficult to specify. Fed officials are also largely assuming tariffs will cause a transitory impact on inflation as the inflation outlook increased to 2.7% in 2025 from 2.5% previously but then moderates to 2% by 2027, the same as previous assumptions. The impact on growth remains uncertain as well. Powell admitted that many surveys of consumer and business confidence have deteriorated in the past few months, but hard (actual) economic data does not reflect this. Hard economic data may or may not follow the deterioration in survey data so the Fed is in a wait and see mode for the coming months.

Nevertheless, the Fed is assuming GDP growth will be slower in the coming years (but not falling into recession) than previous assumptions, due to the economic uncertainty.

A key point in the updated economic projections is that the Fed still assumes 2 rate cuts of 0.25% this year, although in its “Dot Plot”, there was a shift towards fewer rate cuts. If economic growth holds up and the unemployment rate does not deteriorate, then the Fed would need inflation to moderate further in order to reach the 0.50% in rate cuts. However, if tariff uncertainty leads to a drop in consumer and business spending, slower GDP growth, and a rise in the unemployment rate, then we believe the Fed would move quickly to cut rates, even if inflation was still somewhat high.

Key points on the Fed’s economic projections:

- GDP growth was lowered to 1.7% for 2025 from December’s projection of 2.1%. Projections also fell for 2026 and 2027, down to 1.8% for both from 2.0% and 1.9%, respectively.
- The unemployment rate increased slightly for 2025, up to 4.4% from 4.3%. The Fed maintained their expectations for 2026 and 2027 at 4.3% and for the longer run at 4.2%.
- Inflation expectations were also revised higher. PCE is expected to hold higher at 2.7%, up from 2.5% for 2025. Core PCE also increased to 2.8% from 2.5%. For 2026, PCE projections increased to 2.2% up from 2.0% while 2027 and the longer run held at 2.0%. Core PCE projections were unchanged for 2026 and 2027 at 2.2% and 2.0% respectively.

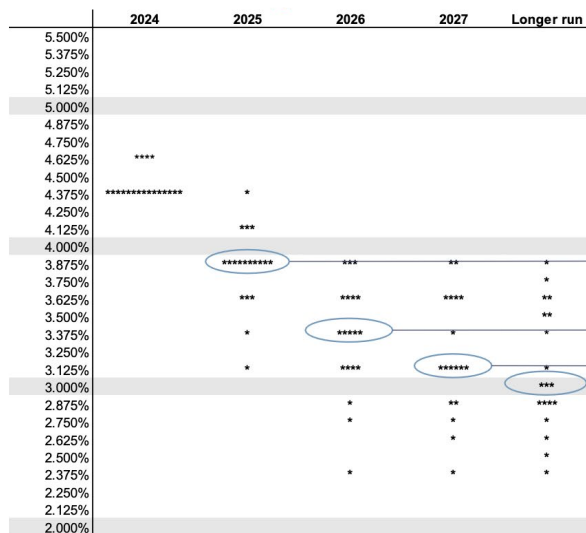
Source: Bradesco – March 2025

Dot Plot shows Fed expects 50 bps in cuts in 2025 though highlights economic uncertainty

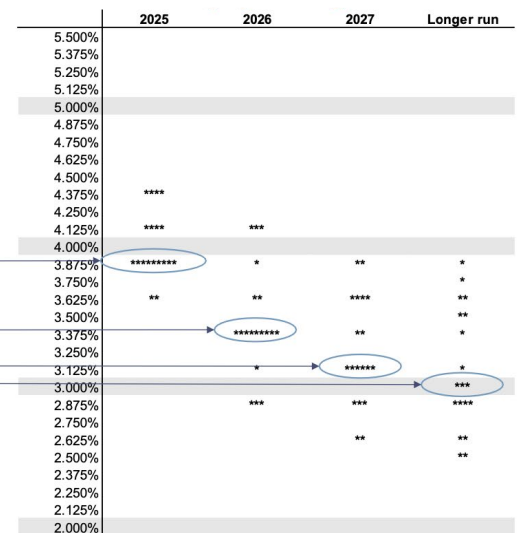
Fed "Dot Plot" March vs December

- Fed held rates steady as expected and kept the pace of rate cuts unchanged for 2025.
- But there was a shift in those assuming either 0 or 1 rate cut this year from 4 respondents to 7 respondents and those assuming more than 2 rate cuts from 4 respondents down to 2.
- The pace of rate cuts remain unchanged, expected to reach 3.25%-3.5% in 2026, 3.0%-3.25% in 2027 and a longer-run rate of 3%.

December "Dot Plot", just 0.50% in cuts in 2025



March "Dot Plot" largely unchanged from December



Source: US Federal Reserve/Bradesco – 19 March 2025

Economic Projections

Fed's Economic Outlook March vs December

- The Fed's outlook reflected uncertainty around the growth of the economy.
- GDP growth was lowered to 1.7% for 2025 from December's projection of 2.1%. Projections also fell for 2026 and 2027, down to 1.8% for both from 2.0% and 1.9% respectively.
- The unemployment rate increased slightly for 2025, up to 4.4% from 4.3%. The Fed maintained their expectations for 2026 and 2027 at 4.3% and for the longer run at 4.2%.
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Fed's Economic Outlook: US economy remains strong, but inflation outlook is for higher for longer.

	Median				Central Tendency				Range			
	2025	2026	2027	Longer run	2025	2026	2027	Longer run	2025	2026	2027	Longer run
Change in real GDP	1.7	1.8	1.8	1.8	1.5-1.9	1.6-1.9	1.6-2.0	1.7-2.0	1.0-2.4	0.6-2.5	0.6-2.5	1.5-2.5
Dec Projection	2.1	2.0	1.9	1.8	1.8-2.2	1.9-2.1	1.8-2.0	1.7-2.0	1.6-2.5	1.4-2.5	1.5-2.5	1.7-2.5
Unemployment Rate	4.4	4.3	4.3	4.2	4.3-4.4	4.2-4.5	4.1-4.4	3.9-4.3	4.1-4.6	4.1-4.7	3.9-4.7	3.5-4.5
Dec Projection	4.3	4.3	4.3	4.2	4.2-4.5	4.1-4.4	4.0-4.4	3.9-4.3	4.2-4.5	3.9-4.6	3.8-4.5	3.5-4.5
PCE Inflation	2.7	2.2	2.0	2.0	2.6-2.9	2.1-2.3	2.0-2.1	2.0	2.5-3.4	2.0-3.1	1.9-2.8	2.0
Dec Projection	2.5	2.1	2.0	2.0	2.3-2.6	2.0-2.2	2.0	2.0	2.1-2.9	2.0-2.6	2.0-2.4	2.0
Core PCE inflation	2.8	2.2	2.0		2.7-3.0	2.1-2.4	2.0-2.1		2.5-3.5	2.1-3.2	2.0-2.9	
Dec Projection	2.5	2.2	2.0		2.5-2.7	2.0-2.3	2.0		2.1-3.2	2.0-2.7	2.0-2.6	
Projected appropriate Policy Path:												
Federal funds rate	3.9	3.4	3.1	3.0	3.9-4.4	3.1-3.9	2.9-3.6	2.6-3.6	3.6-4.4	2.9-4.1	2.6-3.9	2.5-3.9
Dec Projection	3.9	3.4	3.1	3.0	3.6-4.1	3.1-3.6	2.9-3.6	2.8-3.6	3.1-4.4	2.4-3.9	2.4-3.9	2.4-3.9

Source: US Federal Reserve/Bradesco – 19 March 2025

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