At their March meeting, the Federal Reserve Open Market Committee kept the Fed funds range unchanged at 5.25-5.50%, where it's been since last July. There were no dissents. The formal statement today was barely changed from January, when it was updated to a narrative depicting a more 'balanced' set of risks. Today, job gains were described from 'moderated' to 'remain strong.'

Based on CME Fed funds futures markets, the probability of no action for March had risen to 99%, being in the high 90's over the past month. For June, the chances of at least one 0.25% rate cut have run about 55-60% over the last few weeks. For September, the highest odds point to two cuts, and by December, the base case is three cuts to 4.50-4.75%. For Sept. 2025, the furthest-out estimate, the highest odds are for 5-6 cuts to around 4.00%. The number of assumed rate cuts has fallen over the last few weeks, as today's sentiment reflects the narrative of improved growth and still-sticky inflation.

The Fed's quarterly Summary of Economic Projections (SEP) included the 'dot plot'—a chart that features committee member opinions of future Fed funds rates. One question has been whether the long-term neutral rate estimate would rise from its long-standing 2.5% level, reflecting more persistent inflation, larger fiscal deficits and debt, and perhaps the Fed's reaction with a higher neutral rate level. Compared to December, the expected Fed funds rate was unchanged at 4.6% for 2024, up 0.3% to 3.9% in 2025, up 0.2% to 3.1% in 2026, and the long-term rate up a tenth to 2.6%. Though seemingly small changes, they represent an evolution in the thinking of the Fed about the prospects for long-term inflation and their ability to control it.

Economy. Based on GDP growth measures, the U.S. economy continues to hum along at a solid clip, although there is still wide divergence among industries. At the broad level, manufacturing has been in contraction for well over a year, while the larger services sector continues to expand. Concerns have also focused lately on the continued robustness of consumer spending, as well as commercial office real estate, which is rate-sensitive and the problems of which are well-documented. Today's SEP showed upgrades in GDP growth estimates from 1.4% to 2.1% in 2024, up 0.2% to 2.0% in 2025, and up a tenth to 2.0% in 2026, with the long-run trend unchanged at 1.8%. Per the Atlanta Fed's GDPNow tool, the latest estimate for Q1-2024 has cooled to 2.1%, a tick above the long-term trend rate of roughly 2%. While this is slower than last year's strong pace, it's still robust enough to push concerns about a recession to the side, in an increasing acceptance of the 'soft landing' scenario. Based on these positive growth metrics alone, the Fed doesn't seem to feel compelled to stimulate policy via sharply lower rates, other than to reduce the impact of restrictive policy from 'tight' back toward 'normal,' in a reflection of the historical lag effect.

Inflation. This focus of Fed concerns continues to improve from the peak in summer 2022, but remains elevated compared to target, with several upside surprises recently that could affect the Fed in a more hawkish way. The trailing 12-month CPI for February came in at 3.2% and 3.8% for headline and core (ex-food and energy), respectively. PCE, the Fed's preferred inflation basket, has decelerated to 2.4% headline and 2.8% core—also high, but inching slowly toward target. The SEP for core PCE showed a 0.2% rise to 2.6% in 2024, no change at 2.2% for 2025, and no change for 2026 or the long run at 2.0%. Near-term upside risks remain, though, with one being higher transportation costs due to attacks on Red Sea shipping—a key transportation lane for global goods and especially energy. The Fed remains cognizant of inflation pressures potentially reigniting. A less optimal scenario would be starting rate cuts followed by a reversal and hiking rates again soon after, which could confuse markets. The Fed has been consistent in their message that consistent progress towards their inflation target is what's needed to consider rate cuts, as opposed to needing to reach the target first.

Employment. Labor has been a persistent bright spot of the economy. The unemployment rate rose a bit in February but remained low (relative to history) at 3.9%. The SEP of the unemployment rate showed a decline of a tenth to 4.0% for 2024, no change at 4.1% in 2025, a decline of a tenth to 4.0% for 2026, with the longer-run rate unchanged at 4.1%. However, other measures have eased in their strength, including payrolls revised lower, job openings reduced, lower quits rate, etc. Importantly, there has not been widespread layoff activity, aside from a few companies in selected sectors. A slow normalization of this data, especially not in conjunction with a recession, would also point to a lessened need for extensive rate cuts at this point, while a sudden deterioration in labor markets would boost the rationale for cuts.

The use of the word 'balanced' by central bankers is becoming more frequent, which is not an accident. Looking across segments, this has come from the growing lack of 'imbalance' and landscape that continues to look fairly benign. In fact, such scenarios are what central bankers claim to want most, but they're rarely appreciated as much as they probably should be at the time. But economic conditions can change quickly, and since monetary policy operates with a lag, central bankers are often left with difficult choices that are sometimes conflicting. The narrative has shifted from hoped-for dramatic rate cuts (like 7-8) to perhaps just a few this year (even 3 or less). The November election convolutes the timing somewhat, with the Fed not wanting to appear partisan. The U.K. and Europe appear to be on a similar expected timeline, while Japan has slowly moved in the opposite direction this week, in taking rates up from extremely loose levels. By using history and current data as a guide, gradual easing still seems to be the base case, but just 'not yet.'

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Sources: CME Group, Federal Reserve Bank, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, FocusPoint Solutions calculations.