

Fed emphasizes increased uncertainty as it stays on hold

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Tension between the two goals favor a long pause, with near-term cuts unlikely unless the labor market weakens materially

As widely expected, the FOMC left rates unchanged at 3.50-3.75%, with a broadly unchanged statement now citing uncertainty around the war in Iran. Today's statement continued to describe activity as expanding at a "solid" pace and inflation as "somewhat elevated." The unchanged assessment of real activity comes despite last week's downward revision to 4Q25 GDP, suggesting the Fed is looking through the temporary drag from the government shutdown and expects a rebound in 1Q26 to offset it. The labor market assessment was also broadly unchanged, with job gains still described as low. The unemployment rate is now said to have been "little changed in recent months," replacing the previous reference to having shown "some signs of stabilization." We would not read too much into this change, which likely only reflects a more cautious characterization of a still-fragile but broadly stable labor market rather than a shift in the Fed's view. As expected, the statement continued to note that "uncertainty about the economic outlook remains elevated," and added that "the implications of developments in the Middle East for the U.S. economy are uncertain." Forward guidance was unchanged, keeping an easing bias as we expected: "in considering the extent and timing of additional adjustments," the Fed "will carefully assess incoming data, the evolving outlook, and the balance of risks." Miran dissented in favor of a 25bp rate cut.

The updated Summary of Economic Projections showed relatively limited changes, with participants largely expecting the main impact of the conflict to be on inflation. Powell noted that "this [was] one of those SEPs where a number of people mentioned [that] if we were ever going to skip an SEP, this would be a good one because we just don't know." Reinforcing the high degree of uncertainty, he warned against reading too much into forecasts in the current context¹. Growth projections were revised higher across the forecast horizon, with median GDP for 2026 rising to 2.4% (from 2.3%), to 2.3% in 2027 (from 2.0%), and 2.1% in 2028 (from 1.9%), alongside a 0.2pp (to 2.0%) higher longer-run estimate. Powell attributed this more optimistic outlook in part to stronger productivity. The unemployment rate path remained broadly unchanged, with only a marginal increase to 4.3% in 2027 (from 4.2%), suggesting little change in the Fed's assessment of labor market conditions. Inflation projections moved higher, with both headline and core PCE revised up to 2.7% this year (by 0.3pp and 0.2pp, respectively), reflecting the expected pass-through from higher oil prices, and the slow unwinding of

¹ The key point is that "nobody knows," Powell said. "The economic effects could be bigger, they could be smaller, they could be much smaller or much bigger. We just don't know."

tariff-related one-off effects, alongside sticky non-housing services inflation, which has essentially “moved sideways for a year.” Despite these upward revisions, the median path for the federal funds rate was left unchanged, still pointing to one rate cut this year and another next year. That said, the dot plot shifted modestly in a more hawkish direction, with fewer participants projecting lower rates than in December. Powell described this as “a meaningful amount of movement toward fewer cuts².” Still, Twelve of the 19 participants expect at least one rate cut, while seven see rates unchanged. The longer-run fed funds estimate edged up to 3.1% from 3.0%.

In the Q&A, Powell emphasized a wait-and-see approach, citing uncertainty around tariff-related disinflation and inflation risks from higher oil prices. He reiterated that progress has been uneven and noted that the Committee is still waiting for the effects of tariffs to fully pass through the system. On this front, he expressed “slightly more confidence” that tariff-related goods inflation should begin to moderate over the coming months, adding that we “should start seeing that more and more in the middle parts of the year.” He also noted that disinflation this year should be supported by continued easing in housing services and some improvement in non-housing services inflation. Regarding the oil shock, Powell acknowledged that, despite uncertainty around the duration of the conflict, “the net of it [...] will still be some downward pressure on spending, and employment, and upper pressure on inflation.” At the same time, he stressed repeatedly that the Fed can look through the shock, provided inflation expectations remain well anchored, which he said will be monitored “extremely carefully.” More broadly, he emphasized that it is too early to assess how the conflict will evolve and its economic implications, noting that, like any supply shock, “it’s completely out of our hands [...] we just have to wait and see what happens,” with the outcome depending on its duration, its effects on prices, and how consumers respond.

Taken together, the statement, SEP, and Powell’s remarks reinforce the view that the Fed remains firmly on pause, with little urgency to resume easing in the near term. The combination of a still-strong assessment of growth, a broadly balanced—though fragile—labor market, and renewed inflation risks suggests that most participants will prefer to wait for greater clarity before adjusting policy. With rates now close to neutral³ and with risks to both sides of the mandate still in tension, the Fed appears content to maintain a cautious, data-dependent stance. In this context, we do not expect a rate cut at the remaining meeting under Powell’s tenure as Chair. A resumption of easing soon thereafter would likely require either a more decisive weakening in the labor market—such as a rise in layoffs pushing the unemployment rate higher—or a faster-than-expected easing of tariff-driven goods inflation, potentially reinforced by a swift resolution of the current conflict. Absent such developments, most at the FOMC are likely to favor remaining on hold for several more months. Looking further ahead, we continue to expect that conditions will allow the Fed to resume easing in the second half of 2026, delivering two additional rate cuts and bringing the policy rate to a 3.00–3.25% terminal range.

² “The median [dot] didn’t change but there was some movement, a meaningful amount of movement toward fewer cuts. Four or five people went from two cuts to one cut.”

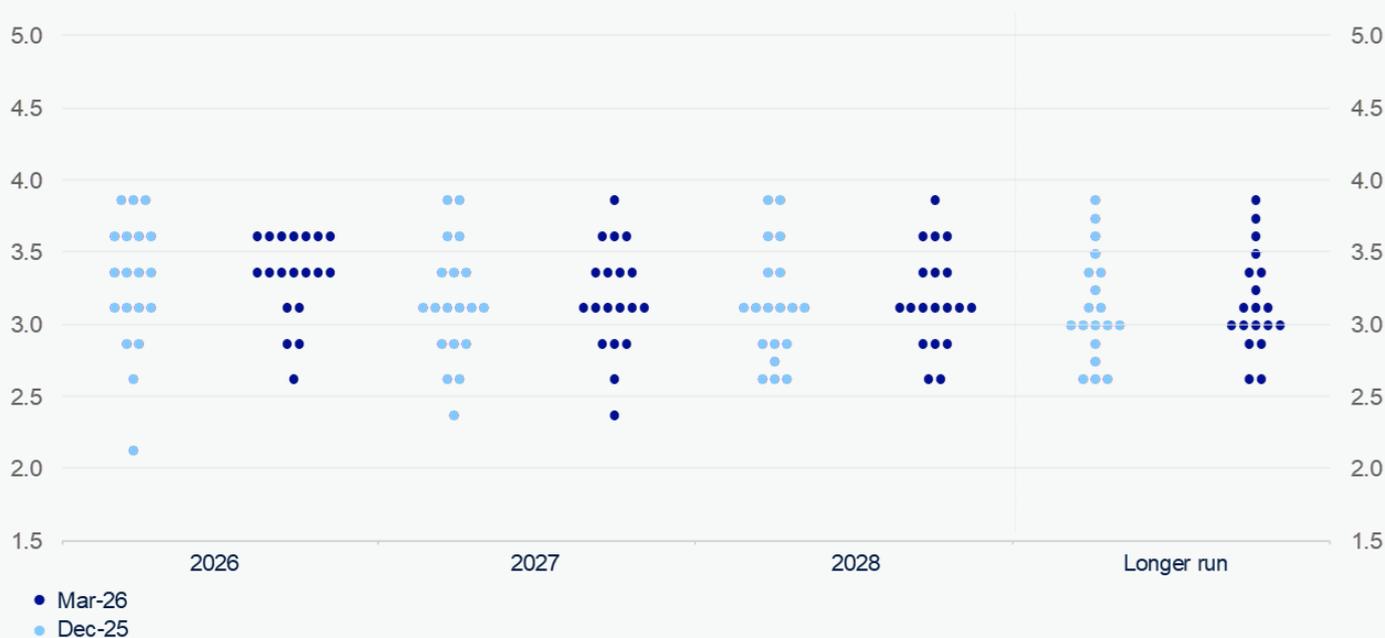
³ “Rate in the borderline of restrictive and not. We feel that’s the right place to be.”

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TABLE 1. FOMC PARTICIPANTS' SUMMARY OF ECONOMIC PROJECTIONS (MARCH 2026, %)

Variable	Median				Central tendency				Range			
	2026	2027	2028	LR	2026	2027	2028	LR	2026	2027	2028	LR
Change in real GDP	2.4	2.3	2.1	2.0	2.2-2.5	2.0-2.4	2.0-2.3	18-2.0	2.1-2.7	2.0-2.7	18-2.7	1.7-2.5
Dec-25	2.3	2.0	1.9	1.8	2.1-2.5	1.9-2.3	1.8-2.1	1.8-2.0	2.0-2.6	1.8-2.6	1.7-2.6	1.7-2.5
Unemployment rate	4.4	4.3	4.2	4.2	4.3-4.5	4.2-4.4	4.0-4.4	4.0-4.3	4.3-4.6	4.0-4.5	4.0-4.5	3.8-4.5
Dec-25	4.4	4.2	4.2	4.2	4.3-4.4	4.2-4.3	4.0-4.3	4.0-4.3	4.2-4.6	4.0-4.5	4.0-4.5	3.8-4.5
PCE inflation	2.7	2.2	2.0	2.0	2.6-3.1	2.0-2.3	2.0	2.0	2.3-3.3	1.8-2.4	1.9-2.2	2.0
Dec-25	2.4	2.1	2.0	2.0	2.3-2.5	2.0-2.2	2.0	2.0	2.2-2.7	2.0-2.3	2.0-2.0	2.0
Core PCE inflation	2.7	2.2	2.0		2.5-2.8	2.0-2.4	2.0		2.2-3.0	2.0-2.5	2.0-2.2	
Dec-25	2.5	2.1	2.0		2.4-2.6	2.0-2.2	2.0		2.2-2.7	2.0-2.5	2.0-2.0	
Federal funds rate	3.4	3.1	3.1	3.1	3.1-3.6	2.9-3.6	2.9-3.6	2.9-3.5	2.6-3.6	2.4-3.9	2.6-3.9	2.6-3.9
Dec-25	3.4	3.1	3.1	3.0	2.9-3.6	2.9-3.6	2.8-3.6	2.8-3.5	2.1-3.9	2.4-3.9	2.6-3.9	2.6-3.9

FIGURE 1. FOMC PARTICIPANTS' PROJECTED APPROPRIATE FEDERAL FUNDS RATE (%)



Source: BBVA Research / Fed

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