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March FOMC Meeting: Greater Uncertainty Around A More Constructive Outlook

- › The FOMC left the Fed funds rate target range unchanged, with the mid-point of the target range remaining at 3.625 percent
- › The updated dot plot implies a single twenty-five basis point cut in the Fed funds rate target range in both 2026 and 2027

As generally expected, the FOMC made no changes to the Fed funds rate at today’s meeting, leaving the target range mid-point at 3.625 percent. Aside from a nod to the uncertain implications of the events in the Middle East, the post-meeting policy statement was almost identical to that issued after the January meeting, while the updated dot plot implies the same trajectory of the funds rate in 2026, 2027, and 2028 as in the December 2025 edition of the Summary of Economic Projections (SEP). It may, then, seem that as the world is seemingly changing rapidly around them, the FOMC sees nothing changing in terms of the paths of the economy and the Fed funds rate. The details of the SEP, however, show that to not be the case. There were changes to the median forecasts for real GDP growth and PCE inflation, as we and most others anticipated, the dispersion of the dots around the year-end medians is notably different, i.e., skewed higher, than was the case in the December SEP, and there was a notable shift in how FOMC members assess the risks to their forecasts for growth and inflation, with greater downside risk seen to growth and greater upside risk seen to inflation. On the whole, the SEP reflects the heightened uncertainty looming over the economy at present, and in this environment holding the funds rate steady was the most logical outcome even as ahead of this week’s meeting some were arguing for a funds rate cut and some were arguing for a funds rate hike.

The post-meeting policy statement again characterized economic activity as expanding at a “solid pace,” which is consistent with what prior to the start of the conflict with Iran were numerous signs that the economy had been reaccelerating. The unemployment rate was described as having been little changed, reflecting ups and downs over recent months more or less canceling each other out, and inflation again characterized as “somewhat elevated.” After noting that the implications of developments in the Middle East were uncertain, the statement again pointed out that “the Committee is attentive to the risks to both sides of its dual mandate.”

The updated Summary of Economic Projections (SEP) shows real GDP growth of 2.4 percent in 2026, on a Q4/Q4 basis, compared to 2.3 percent in the December SEP, with a larger upward revision in 2027, to 2.3 percent from 2.0 percent in the December SEP. It is also worth noting that the median estimate of “longer run” growth, which can be thought of

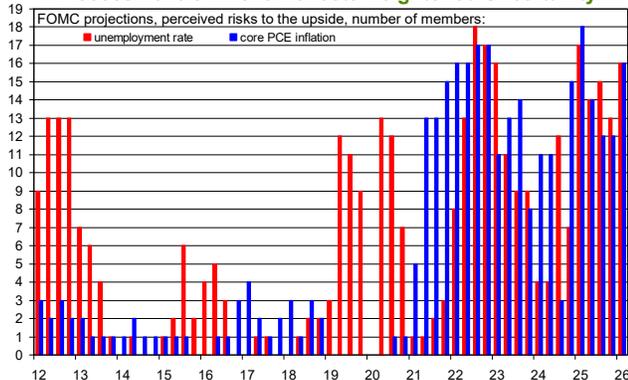
as the estimate of the sustainable trend rate of real GDP growth, moved up to 2.0 percent from 1.8 percent in December. This could signal more FOMC members seeing the potential for faster labor productivity growth to have a lasting impact on trend real GDP growth. While making this point in his post-meeting press conference, Chair Powell noted the ongoing acceleration in productivity growth pre-dates the AI rush. The median forecasts for total and core PCE inflation were marked up, with the median forecast for each measure above 2.0 percent as of Q4 2027.

While the median forecast for real GDP growth is higher, fourteen of the nineteen FOMC members see the risks to their forecast as being weighted to the downside, up from eight who made that assessment in December. That is in keeping with the increase, from thirteen to sixteen, in the number of members seeing the risks to their unemployment rate forecast being weighted to the upside. At the same time, seventeen members saw the risks to their forecast for PCE inflation being weighted to the upside and sixteen members saw the risks to their forecast for core PCE inflation as being weighted to the upside, each up from twelve in December. That shift in the assessment of the risks comes, again, after the median forecasts for total and core PCE inflation were marked up from December. One possible interpretation of the body of the SEP – forecasts and assessments of risks – is that most Committee members have a more constructive take on the state of the economy than had been the case, but the uncertainty fostered by events in the Middle East is leading them to have less conviction in their forecasts, quite understandably so.

As noted above, the median year-end dots for 2026, 2027, and 2028 are the same as in the December SEP, but in each case there are fewer dots below the median and, for 2027 and 2028, more dots above the median than was the case in the December SEP. It is also worth noting that the median “longer run” dot, a proxy for the estimate of the neutral funds rate, moved up to 3.125 percent, which is where the median year-end dots for 2027 and 2028 rest, suggesting policy is closing in neutral which, in turn, means less downside room for the funds rate than many market participants seem to think there is. But, with Chair Powell stressing what is heightened uncertainty in his post-meeting press conference, there is even less reason to get too attached to the SEP than is usually the case.



Assessment Of Risks Reflects Heightened Uncertainty



Appropriate Timing Of Policy Firming

