Economic Update

April 9, 2025

FOMC Minutes Note "High Degree of Uncertainty," Monetary Policy "Well Positioned to Wait for More Clarity"

- The minutes from the March FOMC minutes used the word “uncertainty” 21 times in reference to the political and economic outlook. The minutes used “tariff” or “tariffs” 18 times.
- According to the FOMC, risks to inflation were to the upside and to growth to the downside.
- The FOMC kept the fed funds rate unchanged, while awaiting further clarity on the outlook. The minutes indicate the FOMC was in no hurry to change monetary policy, but that there was flexibility to change it if needed.
- The FOMC voted to slow the pace of balance sheet reduction, citing in part concern over debt limit renewal.
- PNC expects two cuts to the fed funds rate in 2025.

“Uncertainty” was the takeaway from the Federal Open Market Committee’s meeting on March 18 and 19, with the word appearing 21 times in the meeting minutes. In particular, the minutes say that “participants generally noted the high degree of uncertainty facing the economy,” particularly related to government policy. The minutes also say that this “high uncertainty had the potential to damp consumer spending as well as business hiring and investment activities or that inflation was likely to be boosted by increased tariffs.” Given this, “participants generally saw increased downside risks to employment and economic growth and upside risks to inflation while indicating that high uncertainty surrounded their economic outlooks.” The key source of uncertainty was over tariff policy; the minutes used “tariff” or “tariffs” 18 times.

Inflation remained a concern for the committee. Although inflation has slowed over the past few years, it remains above the FOMC’s 2% objective, and the minutes note that tariffs were likely to boost inflation, although with uncertain impacts. Several participants noted contacts already reporting higher costs in response to potential tariffs. There was some concern about how to interpret the inflation numbers in the near term, with the minutes saying that “couple of participants noted that, in the period ahead, it could be especially difficult to distinguish between relatively persistent changes in inflation and more temporary changes that might be associated with the introduction of tariffs.” Participants also suggested that tariffs could boost inflation over the medium term, not just the short run, which could require a monetary policy response. Participants also noted that market- and survey-based near-term inflation measures had increased, although longer-run inflation expectations appeared to remain well-anchored.

Gus Faucher
Chief Economist

Jay Hawkins
Senior Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Ershang Liang
Economist

With respect to the labor market, the minutes say that “participants judged that labor market conditions remained broadly in balance.”

Business contacts and “reported increased uncertainty about potential changes in federal government policies and a deterioration in business sentiment, which had led many firms to pause their capital spending plans.” There was particular concern about the auto industry.

The high degree of uncertainty about Trump administration policies made it “appropriate [for the FOMC] to take a cautious approach. Emphasizing that uncertainty, a majority of participants noted the potential for inflationary effects arising from various factors to be more persistent than they projected. With economic growth and the labor market still solid and current monetary policy restrictive, participants assessed that the Committee was well positioned to wait for more clarity on the outlook for inflation and economic activity. Participants noted that policy decisions were not on a preset course and would be informed by the evolution of the economy, the economic outlook, and the balance of risks.”

There was widespread agreement that “risks to inflation [were] tilted to the upside and risks to employment [were] tilted to the downside. Participants remarked that monetary policy was well positioned to address future developments; a restrictive policy could be maintained for longer if inflation were to remain elevated, and policy could be eased if labor market conditions were to deteriorate or economic activity were to weaken.” Although participants generally believed that monetary policy was well-positioned, there was concern about the potential for inflation to pick up and the labor market to slow simultaneously: “some participants observed, however, that the Committee may face difficult tradeoffs if inflation proved to be more persistent while the outlook for growth and employment weakened.”

The FOMC decided to slow the pace of reduction in the size of the Federal Reserve’s balance sheet at the March 18-19 meeting. Starting in April, maturing Treasurys would be replaced on the Fed’s balance sheet up to $5 billion per month, down from $25 billion per month previously. The minutes explicitly note that “some participants noted that a slower pace of runoff would also help guard against reserve scarcity emerging with little advance notice during a period of potentially rapid increase in the TGA,” or Treasury General Account. This suggests that the FOMC wanted to keep the balance sheet ample in case of problems raising the debt limit later this year.

The minutes from the March 18-19 FOMC meeting found the committee unsure about the outlook given Trump administration policies. Given all the “uncertainty,” the committee’s new favorite word, the FOMC decided to stand pat and keep the fed funds rate unchanged in a range between 4.25% and 4.50%. At this level the funds rate is restrictive, weighing on economic growth and putting downward pressure on inflation. If inflation reaccelerated, perhaps because of tariffs or strong wage growth due to restricted immigration, the FOMC could keep the fed funds rate contractionary. But if the labor market started to deteriorate, the committee could quickly cut the funds rate to support growth. There was some discussion about potential problems if inflation picked up as the labor market was deteriorating, but no resolution.

The outlook has changed dramatically since the March FOMC meeting, with the Trump administration imposing much higher tariffs than expected. Although the administration has apparently rolled back some of the tariff increases, they are still much higher than they were when the FOMC met. The minutes indicate, at least at the time of the meeting, that the committee would take a “wait-and-see” approach to determine the impact of any tariffs on growth and inflation before altering monetary policy, and that approach is likely still operative. The FOMC is unlikely to change the fed funds rate at its next meeting, on May 7-8, absent a rapid shift in the data. But rate cuts later in 2025 are likely, at least as long as inflation remains under control. PNC expects two 25 basis point cuts in the fed funds rate in 2025, which would take the fed funds rate to a range of 3.75% to 4.00% toward the end of this year.

PNC Economics
Gus Faucher, Chief Economist
economics@pnc.com

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