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FOMC still expects to cut once this year

FOMC Post-Meeting Comment March 2026

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Summary

- As widely expected, the FOMC remained on hold at the March 17-18 meeting. Governor Miran dissented again.
- Although the FOMC raised its inflation projections, the Committee still expects to make one rate cut this year. This suggests that they expect to look through the temporary rise in energy prices.
- Given the sanguine reaction of the FOMC to the inflationary impact of the war with Iran, we drop only one rate cut from our forecast for 2026. This means that we now expect two rate cuts, one in September and one in December. (Before the war, we expected three rate cuts, in June, September and October.)
- However, depending on how the war develops, we could be dropping another rate cut from our forecasts in the coming weeks.

Introduction

As widely expected, the FOMC remained on hold at the March 17-18 meeting. Governor Miran dissented again, because he wanted a ¼ percentage point cut. The FOMC statement saw only minor changes. The most important one was the addition of *"The implications of the developments in the Middle East for the U.S. economy are uncertain."* Given the high level of uncertainty, Powell downplayed the importance of the new Summary of Economic Projections. However, the new forecasts did give us some insight into the Committee's thinking. During the press conference, Powell also made some comments about his own future.

Projections

The new Summary of Economic Projections showed substantially higher inflation, both headline and core. Both are now seen at 2.7% in 2026, but they are also expected to fall rapidly to 2.2% in 2027. Inflation projections for 2028 remained unchanged at the 2.0% target. This suggests that FOMC participants expect only a temporary rise in inflation, which they could decide to look through when making rate decisions. This is confirmed by the unchanged median rate projections.

Interestingly, GDP growth has been revised upward, for all years (2026, 2027, 2028) and in the longer run. During the press conference Powell explained this by increased productivity which predated the AI boom. Note that this also seems to outweigh the negative effects on economic activity from the oil price shock, in the minds of the FOMC. The forecasts for the unemployment rate were unchanged, except for a small upward revision in 2027.

Despite higher inflation and GDP growth, the median rate projections for 2026, 2027 and 2028 were unchanged. The longer run rate projection was actually revised upward to 3.1% from 3.0%.

If we look at the dot plot, there is still a wide range of views in the Committee. On the hawkish side of the spectrum, 7 participants do not expect a single rate cut in 2026. If we look at the median view, 7 participants anticipate one rate cut. On the dovish side of the median (5 participants in total), 2 expect two rate cuts, 2 anticipate three rate cuts, and 1 sees four rate cuts. This would suggest that the Trump-loyalists are aiming for 3 to 4 rate cuts this year. On balance, it would take three participants who now expect one cut to change their mind to no cut, to move the median rate projection to zero cuts. Compared to the December dot plot, the range of forecasts for 2026 has narrowed to 2.6-3.6% from 2.1-3.9% and the central tendency moved up to 3.1-3.6% from 2.9-3.6%. The latter does suggest that the Iran war has had some upward impact on the rate projections, but not enough to change the median.

Table 1: Median projections of FOMC participants, March 2026

Variable	*2026*	*2027*	*2028*	*Longer run*
GDP growth	2.4 (2.3)	2.3 (2.0)	2.1 (1.9)	2.0 (1.8)
Unemployment	4.4 (4.4)	4.3 (4.2)	4.2 (4.2)	4.2 (4.2)
PCE inflation	2.7 (2.4)	2.2 (2.1)	2.0 (2.0)	2.0 (2.0)
Core PCE inflation	2.7 (2.5)	2.2 (2.1)	2.0 (2.0)	
Federal funds rate	3.4 (3.4)	3.1 (3.1)	3.1 (3.1)	3.1 (3.0)

Source: FOMC, March 18, 2026 (December 10, 2025)

Press conference

In his prepared speech, Fed Chair Powell said that it is too soon to know the effects and duration of the economic impact of the war with Iran. However, he did acknowledge the near-term rise in energy prices. During the Q&A, Powell said that looking through inflation caused by the energy price shock would be dependent on inflation expectations remaining anchored and the fact that inflation has been above target for five years. Powell said that they were making progress on tariff inflation, but he also warned that if you don't see (further) progress on tariff inflation, you don't see that rate cut. In fact, he said that the higher inflation projections reflected both less progress on tariff inflation and the situation in the Middle East. With respect to inflation pressure besides oil prices, Powell said it was out of the Fed's hands and we'll have to wait and see how long this lasts and what the effects are.

Although he said they could have skipped the Summary of Economic Projections at this meeting because of the high uncertainty, and therefore we should take it with a grain of salt, Powell expects considerable information from the data about the economic impact at the next meeting (April 28-29). Unfortunately, that meeting won't be accompanied by fresh projections.

Powell said we don't need rates to be too restrictive because of the downside risks to the labor market. He said rates were now mildly restrictive or at the high end of neutral. There was a discussion again in the Committee about two-sided guidance in the formal statement to stress that hikes could be considered as much as cuts, but Powell said that the vast majority did not see that (hikes) as their base case.

Powell made three comments on his own position at the Fed. First, if there is no new Chair by May 15, Powell would serve as Chair pro tempore. Second, he has no intention of leaving the Board of Governors as long as the criminal investigation regarding the renovation and his testimony lasts. Third, he has made no decision on staying on the Board after his Chairmanship ends, but he said *"I'll make that decision based on what's best for the institution."* In other words, the attempts by the Trump administration to remove Powell seem to have had the opposite effect. It's no longer unthinkable that if Powell feels that the Fed's independence is not guaranteed, he will stay on as Governor, rather than allowing President Trump to replace him by a loyalist.

Conclusion

Before the war with Iran, we expected three rate cuts this year: in June, September and October. As we signalled in our FOMC update and our FOMC preview for March, the risk to our long-held baseline forecasts of three rate cuts in 2026 was toward later and fewer, because of the war. We promised that the new FOMC projections and Powell's press conference would play a key role in the upcoming adjustment of our Fed rate forecasts. Given recent developments, we anticipated pushing out the timing of our first rate cut and reducing the total number expected.

Given the sanguine reaction of the FOMC to the inflationary impact of the war with Iran, we drop only one rate cut from our forecast for 2026. This means that we now expect two rate cuts, one in September and one in December. With two rate cuts we remain on the dovish side of the market consensus. Keep in mind that once Warsh becomes the new Chair, he will try to convince the Committee to make more than one cut. At a certain point, this could become a mission impossible though. Therefore, depending on how the war develops, we could be dropping another rate cut from our forecasts in the coming weeks.

Table 2: Rabobank forecasts of the target range for the federal funds rate

FOMC meeting	*Target range (%)*	*Size of change (bps)*
March 17-18, 2026	*3.50-3.75*	*0*
April 28-29, 2026	3.50-3.75	0
June 16-17, 2026	3.50-3.75	0
July 28-29, 2026	3.50-3.75	0
September 15-16, 2026	3.25-3.50	-25
October 27-28, 2026	3.25-3.50	0
December 8-9, 2026	3.00-3.25	-25
January 26-27, 2027	3.00-3.25	0
March 16-17, 2027	3.00-3.25	0
April 27-28, 2027	3.00-3.25	0
June 8-9, 2027	3.00-3.25	0
July 27-28, 2027	3.00-3.25	0
September 14-15, 2027	3.00-3.25	0
October 26-27, 2027	3.00-3.25	0
December 7-8, 2027	3.00-3.25	0

Source: Rabobank

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