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GLOBAL ECONOMICS

SCOTIA FLASH

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Contributors

Derek Holt
VP & Head of Capital Markets Economics
Scotiabank Economics
416.863.7707
derek.holt@scotiabank.com

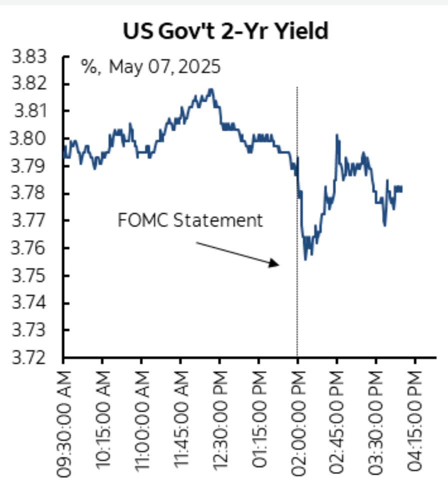
The FOMC Remains in No Hurry

- **No policy changes were announced**
- **The Committee statement-codified higher uncertainty**
- **Powell continued to emphasize that the appropriate policy action is unclear…**
- **…because of a lack of clarity on how the dual mandate evolves in response to tariffs**

The FOMC left the fed funds policy rate unchanged at 4.5% as universally expected. The Committee also left its balance sheet plans unchanged. Guidance on the path forward was very similar to the tone at Chair Powell's April 16th event in Chicago and to his March 19th press conference but with increased uncertainty this time. The bottom line is that the Committee doesn't know what to do and when, as data and developments will inform potentially conflicting changes in unemployment and inflation that could merit very different policy responses. The guidance continues to be that if inflation strays further from 2% than the job market from full employment then they may leave rates unchanged, but if the opposite happens they may cut. Time, developments and data will inform which path they are on and they offered no further clarity around their expectations at this meeting.

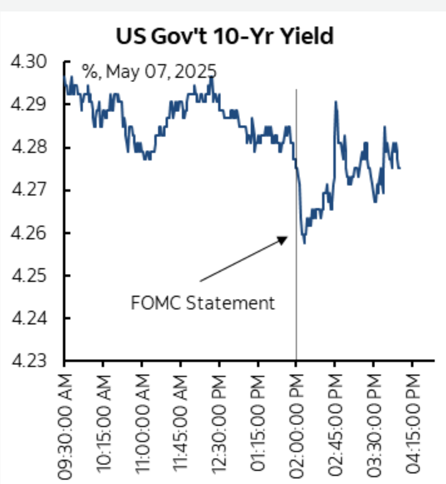
MARKET REACTIONS—JUNE CUT PRICING IS ALL BUT WIPED OUT

Chart 1



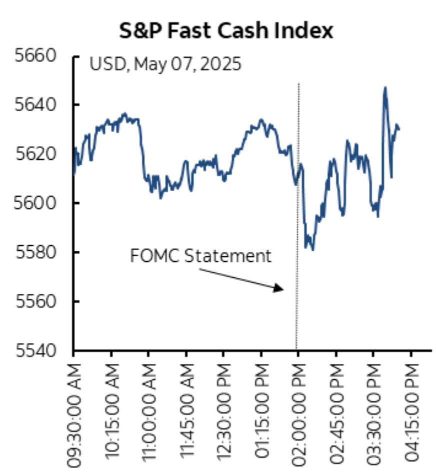
Sources: Scotiabank Economics, Bloomberg.

Chart 2



Sources: Scotiabank Economics, Bloomberg.

Chart 3



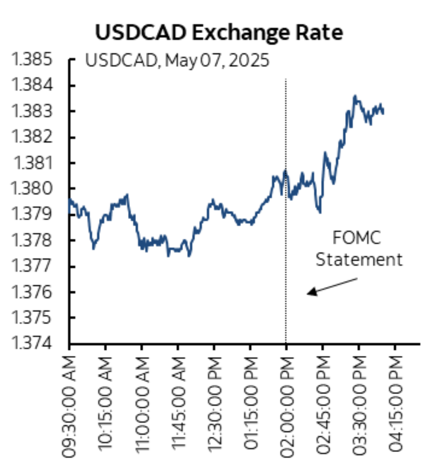
Sources: Scotiabank Economics, Bloomberg.

Charts 1–4 show intraday pricing movements from when the decisions began to roll at 2pmET and through the roughly 45-minute press conference. Pricing for the June 18th decision was shaved by a few basis points to just 5bps of a cut. July meeting pricing was also reduced by a few basis points but may continue to be too high at about 20bps of a quarter point cut priced. Full year cut pricing was little changed at about 75bps of easing by year-end which I think is still too high.

The two-year and ten-year Treasury yields were little changed on net. Ditto for the S&P. The dollar was slightly stronger including a one-third-of-a-cent depreciation by CAD.

MINOR STATEMENT CHANGES

Chart 4



Sources: Scotiabank Economics, Bloomberg.

There were very few changes in the shorter statement compared to the March 19th statement. Please see the accompanying statement comparison.

- The opening line dismissed weak GDP by observing "***although swings in net exports have affected the data,*** recent indicators suggest that economic activity has continued to expand at a solid pace." This is a way of emphasizing that the FOMC is more focused upon final domestic demand that excludes inventory and net export swings and that posted solid growth in Q1.
- The Committee had previously said that uncertainty had increased, but they said it has now increased further. That's just an update of 'Liberation Day' tariff developments since the March FOMC.

- The previously announced change to Treasury redemption caps was struck out as old news by now.
- The decision was unanimous this time.

PRESS CONFERENCE EMPHASIZES UNCERTAINTY AND PATIENCE

Here is my attempt at a full transcript of the press conference with any errors/omissions attributable to my tpying skiiils.

Powell's opening remarks emphasized that the economy is starting off in a good place before tariff shocks. He noted that Q1 GDP growth excluding government, inventories and net trade was solid at 3%. He observed the average monthly payroll gain of 155k over the past three months and a narrow range for the unemployment rate over the past year with wages still outpacing inflation but moderating. Powell noted that labour market conditions are broadly in balance and at maximum employment but not a material source of inflation. He also flagged that core PCE prices are still up 2.6% y/y while near-term measures of inflation expectations have moved up but longer-term measures remain consistent with the 2% inflation goal. [ed. I continue to believe that those measures of longer-run inflation expectations including market-and survey-based metrics are over-emphasized by the Committee. Consumers, businesses and markets have no clue how to reasonably form such expectations].

Powell's opening comments also noted that as conditions evolve, they will continue to evaluate the appropriate policy response. That's code language for being patient. On inflation, he repeated that it's unclear whether tariffs are a one-off price level effect or generate sustained inflation and that their job is to ensure the latter doesn't happen. He did emphasize the primacy of the price stability mandate since not achieving that makes it harder to achieve full employment.

Overall, Powell noted that "we're well positioned to wait for greater clarity" which is a further nod to being in no rush to do much of anything over coming meetings.

Q1. Are you any closer now to deciding which side of the mandate will need urgent care first?

A1. We noted that the risks to higher unemployment and inflation have risen relative to March. I don't think we can say which way this will shake out such as how tariffs shake out and what the implications may be. We think our policy rate is in a good place to stay where it is as we evaluate.

Q2. It sounds like a long-term process before you are comfortable to act

A2. I don't think we know. Looking through Q1 distortions the economy was still solid. The economy is still resilient. The labour market remains solid. This leaves us in a good place. We can let things evolve and become clearer in terms of what should be the monetary policy response.

Q3. What do you see now that could nourish higher inflation beyond a rise in goods prices this year?

A3. There is a lot that we don't know. We don't have to be in a hurry. The costs of waiting to see further are fairly low. So that's what we're doing. The administration is entering into negotiations with many countries over tariffs. We'll know more in the weeks and months. I can't tell you how long it will take.

Q4. Could the outlook change in such a way as to warrant a change at the next meeting?

A4. We think it is appropriate to be patient. We think right now the appropriate thing to do is to wait and see how things evolve. Everyone is waiting to see how things play out and then we can see what to do. I can't really give you a time frame on that.

Q5. Given the outlook, do you still see a path for a soft landing and what does that look like?

A5. What looks likely given the scope and scale of the tariffs, is that the risks to higher inflation and higher unemployment might delay further progress to our goals. At least for the next year we would not be making progress, but there is so much uncertainty about the scale, scope and timing of tariffs.

Q6. How much weakness does the Committee need to see to lower interest rates again?

A6. We don't see that yet. We have good labour force participation and wages. In the labour market we look at the totality of the data, the speed with which it is changing to see if conditions have really deteriorated. We also have to look at the other side of the dual mandate which could be a very difficult decision.

Q7. How much of the assessment will be rooted in data versus forecasts?

A7. It will be rooted in the two. It will be a complicated judgement. We would look at how far they are away from the goals, how far they are, how long this may persist. We haven't faced that question in a very long time.

Q8. Should the Federal Reserve be cutting rates at all this year?

A8. It depends. We're going to need to see how it evolves. There are cases in which it may be appropriate to cut rates. There are cases in which it wouldn't. Until we know how it all balances out I can't say what would be the appropriate path.

Q9. How do Trump's comments affect the decision?

A9. It doesn't affect it at all.

Q10. What does your intuition tell you about the underlying direction of the economy? How much may the economy slow?

A10. My gut tells me that uncertainty about the path of the economy is extremely elevated. The downside risks have risen but they haven't materialized yet. They're not in the data yet. It's obvious that the right thing to do is to await further clarity.

Q11. The Beige Book contained a lot of negative sentiment. Everybody is looking at soft data now. The Beige Book was talking about layoffs and prices rising in some places and investment being postponed. Doesn't that point to a slowdown?

A11. It may but it hasn't shown up yet. If decisions get postponed then you would expect that to begin to show up in economic data over weeks and months. There are things that can happen that will change that narrative. We're watching extremely carefully but don't see much evidence of this in actual data yet. Consumers keep spending, credit card data is solid.

Q12. A former Governor has criticized the Fed for mission creep [ed. Warsh.] Is that a fair critique you would be looking at in your strategic review? The other part of that critique is that you went too far taking on climate change and targeting certain groups for better labour market outcomes.

A12. The reason we went on with QE for long is that we didn't want a sharp tightening in financial conditions at a time when the economy was still vulnerable. Then we tapered and went into QT. With the benefit of hindsight we could have taped earlier or faster. We knew doing it in real time that we wouldn't get it fully right. You could say that that little bit on climate was too much but I wouldn't want to give the impression we're spending much time and energy on it. We didn't do much on climate. I think it's a real danger to try to take on a mandate like that with very little application to our main mandate.

Q13. The impact of tariffs is already showing up. The challenges are here. For mainstreet, what would have to happen to prompt a rate cut?

A13. We really don't see in the data the evidence. We see in the surveys they are worried but that hasn't shown up beyond sentiment data. And there are two effects, potentially higher inflation and higher unemployment. The timing, scale and scope of those effects is very uncertain. It's not at all clear what the right thing to do will be.

Q14. In March, the Committee pencilled in two cuts. Has that guidance been overtaken by developments since?

A14. We don't do projections in between meetings. In six weeks we'll have another SEP. I'm not going to hazard a guess here what it will be. We think our policy is in a good place to respond in a timely way to potential developments. That could include holding or rate cuts.

Q15. How are you thinking that addressing one dual mandate can worsen the other with policy moves?

A15. You just addressed the issue. There can be a case when one goal is very far from its target and you focus on that. In 2022 we had that and focused on inflation. Our framework document will factor in how far we are from our goals. The data could easily favour one or the other.

Q16. Could spending cuts slow growth more?

A16. We don't give Congress advice. We take what they do and put it in our models. We do think the debt is on an unsustainable path but not unsustainable level. *I think they don't need our advice on fiscal policy any more than we need their advice on monetary policy. [ed. Good one!].*

Q17. How has your tolerance for weakening labour market conditions changed compared to a year ago?

A17. The circumstances are very different. Everyone was talking about downside risks to the labour market and it was really obvious concern. We wanted to address that forthrightly at Jackson Hole. Fortunately, since then, the unemployment rate has been moving sideways and well in the range of maximum unemployment and that concern has gotten a lot less. Now the risks are to both higher inflation and higher unemployment.

Q18. How much of a rise in the unemployment rate would you tolerate?

A18. I can't give you an estimate. It depends upon how both parts of the dual mandate are changing.

Q19. Question on expectations for this weekend's talks in Geneva, and how close we are to seeing higher prices from tariffs

A19. Coming out of the March meeting we thought we understand the tariff moves and then the April decisions were much bigger. That changed things. Now we're going into talks that could change the picture again. We're mindful about not making conclusive judgements about what might happen as the facts are changing.

Q20. Could we see goods shortages and higher prices in the coming weeks?

A20. We shouldn't be involved in judging the timing of that data. This is their mandate [ed. Trump] not ours as they are having talks with many nations.

Q21. Could the rise in imports cause a delay in the impact of tariffs on inflation and it could take a longer time to reach a future policy decision?

A21. We think that there was a big spike in imports, historically large, and that should actually reverse in Q2 through an unusually large contribution to GDP growth as imports drop sharply and we could get restatements of Q1 GDP to show higher consumption. It may go into the third quarter as well which could make ti harder to evaluate demand. It's more confusing to the general public than us.

Q22. Why does the Fed need to wait to see hard data deteriorate especially if it is not as timely.

A22. We can afford to be patient. There is no real cost to waiting. We're not really sure what the right thing to do may be. What happens to inflation and unemployment could potentially drive different choices. Everyone on the Committee supported waiting.

RELEASE DATE: May 7, 2025

Although swings in net exports have affected the data, recent indicators suggest that economic activity has continued to expand at a solid pace. The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid. Inflation remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. ***Uncertainty about the economic outlook has increased further.*** The Committee is attentive to the risks to both sides of its dual mandate ***and judges that the risks of higher unemployment and higher inflation have risen.***

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; Susan M. Collins; Lisa D. Cook; Austan D. Goolsbee; Philip N. Jefferson; Neel Kashkari; Adriana D. Kugler; Alberto G. Musalem; and Christopher J. Waller. ***Neel Kashkari voted as an alternate member at this meeting.***

RELEASE DATE: March 19, 2025

Recent indicators suggest that economic activity has continued to expand at a solid pace. The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid. Inflation remains somewhat elevated.

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In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. ***Beginning in April, the Committee will slow the pace of decline of its securities holdings by reducing the monthly redemption cap on Treasury securities from $25 billion to $5 billion.*** The Committee will maintain the monthly redemption cap on agency debt and agency mortgage-backed securities at $35 billion. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

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