Huntington PRIVATE BANK

# March 2025 | Fed Holds Rates Steady as Tariffs Cloud Outlook

Olu Omodunbi, Ph.D.
Chief Economist
Huntington Private Bank®

Nick Blizniak
Senior Research Analyst
Huntington Private Bank®

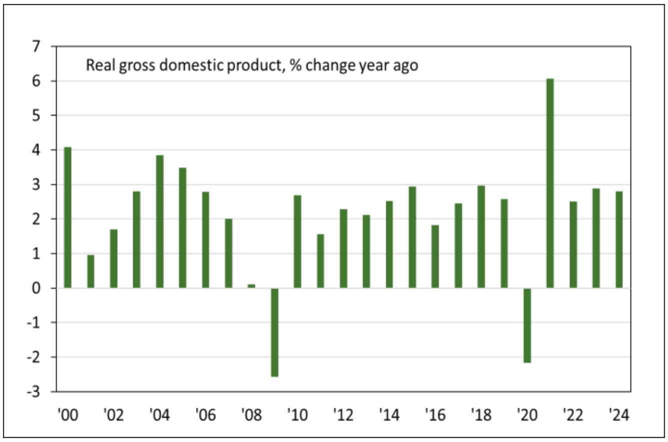
## Highlights

- The FOMC kept the fed funds rate unchanged amid economic uncertainty.
- Recent economic data have been weaker than expected.
- Slower job growth and a weaker economy should allow the FOMC to lower the fed funds rate by 50 basis points this year.

The Federal Open Market Committee (FOMC) maintained the target range for the fed funds rate at 4.25% to 4.5% at the conclusion of its two-day meeting on March 19. The Committee also announced that starting next month it will slow the pace of its quantitative tightening process. There were major changes to the Summary of Economic Projections, also known as the dot plot. The median projection forecasts weaker economic growth and faster inflation in 2025 and 2026, compared to the December forecast. In his post-meeting press conference, Federal Reserve Chair Jerome Powell noted that further progress on inflation may be delayed due to tariffs.

After entering 2025 from a position of strength, the U.S. economy is showing signs of weakness. Economic reports have disappointed in recent months. Employment gains, retail sales, housing starts, consumer confidence and business confidence have all been weaker than expected.

Fig. 1: Moderate Economic Growth Expected in 2025

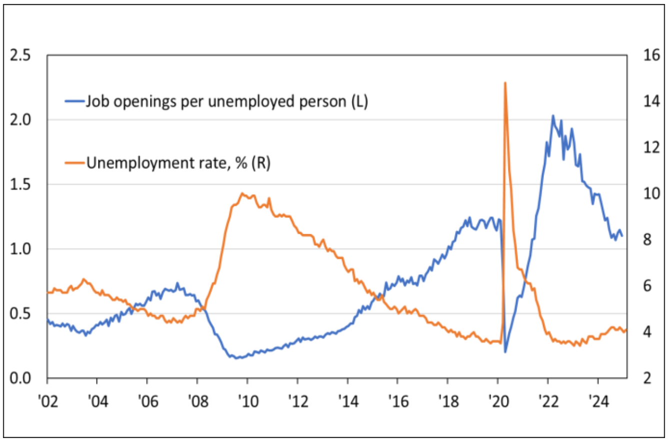



Source: BEA

Some of the weakness can be attributed to extreme weather conditions in many parts of the U.S. and the Southern California wildfires. Moreover, tariff policy uncertainty, and Department of Government Efficiency (DOGE) job cuts are weighing on consumers and businesses.

Employment gains were below expectations in February and job growth for December and January was revised lower. The establishment and household surveys showed cooler labor market conditions. The U.S. economy added 151,000 jobs

Fig. 2: Labor Market Conditions Are Healthy




Source: BLS

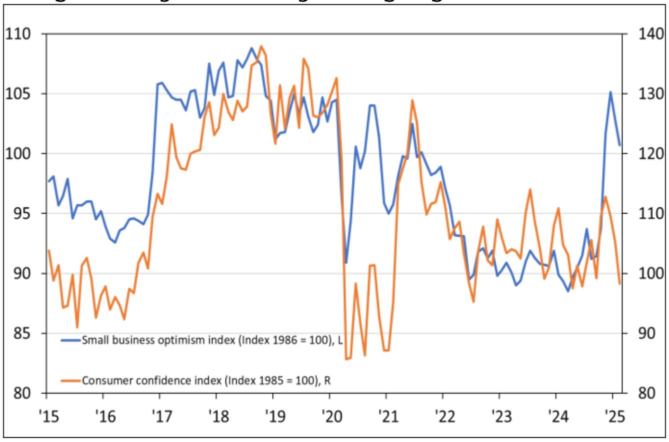
last month following employment gains of 125,000 (revised lower from 143,000) in January. The average job growth over the last three months slowed to just under 200,000 in February from around 240,000 in January. The unemployment rate rose to 4.1% in February from 4% in January. Many DOGE job cuts were not captured in the February jobs report as they occurred during or after the reference week (February 9 to 15) of the employment surveys.

Consumer and business confidence fell in February amid rising uncertainty over trade policy and the U.S. economy. The Conference Board's consumer confidence index fell in February to the lowest level since June 2024. Average 12-month inflation expectations jumped from 5.2% in January to 6% in February. Small business optimism as measured by the National Federation of Independent Business (NFIB) declined in February, following a decline in January. The NFIB's economic policy uncertainty index rose to the second-highest reading on record.

Overall, given solid economic fundamentals, Huntington Private Bank expects real GDP growth of around 2% in 2025. Employment gains are expected to slow this year and DOGE layoffs will likely start showing in labor market data in the next couple of months. Labor market weakness and cooler economic growth should allow the FOMC to lower the fed funds rate by 50 basis points before the end of 2025.

Trade policy remains a near-term downside risk to the U.S. economy. Tariffs could weigh on consumer spending, business investment and disrupt global supply chains. Additionally, tariffs will likely be inflationary and could keep the FOMC on the sidelines until policymakers get more clarity on the economic impacts of tariffs. In the medium- to long-term, new trade policies in combination with tax cuts and deregulation could have a net positive effect on the U.S. economy.

Fig. 3: Policy Uncertainty Is Weighing on Confidence




Sources: Conference Board and NFIB

At Huntington, we remain focused on prudent diversification via cash, stock and bond investments formed around client investment outcome objective(s). Call your Huntington Private Bank® team to see how we can help or visit [Huntington.com](Huntington.com) for more from our team.

Fig. 4: Baseline Economic Outlook

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025* | 2026* |
|---|---|---|---|---|---|---|---|
| Real GDP Annual Growth Rates, *2017 Chained Prices* | | | | | | | |
| Pers. Consumption Expenditures | -2.5 | 8.8 | 3.0 | 2.5 | 2.8 | 2.4 | 2.7 |
| Government Expenditures | 3.4 | -0.3 | -1.1 | 3.9 | 3.4 | 1.6 | 1.4 |
| Private Investment | -4.5 | 8.8 | 6.0 | 0.1 | 4.0 | 2.7 | 4.0 |
| Exports | -13.1 | 6.5 | 7.5 | 2.8 | 3.2 | 2.3 | 3.0 |
| Imports | -9.0 | 14.7 | 8.6 | -1.2 | 5.4 | 3.5 | 2.5 |
| Total Real GDP | -2.2 | 6.1 | 2.5 | 2.9 | 2.8 | 2.0 | 2.3 |
| CPI *(1982-1984=100), % Change Annualized* | 1.2 | 4.7 | 8.0 | 4.1 | 3.0 | 2.7 | 2.5 |
| Core CPI *(1982-1984 = 100), % Change Annualized* | 1.7 | 3.6 | 6.2 | 4.8 | 3.4 | 3.4 | 3.1 |
| PCE Price Index *(2017=100), % Changed Annualized* | 1.1 | 4.2 | 6.5 | 3.8 | 2.5 | 2.5 | 2.3 |
| Core PCE Price Index *(2017=100), % Change Annualized* | 1.3 | 3.6 | 5.2 | 4.1 | 2.8 | 2.6 | 2.4 |
| Crude Oil *WTI, ($/barrel)* | $39 | $68 | $95 | $78 | $76 | $65 | $62 |
| Effective Federal Funds Rate, *% (Average)* | 0.37 | 0.08 | 1.68 | 5.02 | 5.14 | 4.17 | 3.69 |
| 10-Yr. Treasury Rate, *% (Average)* | 0.92 | 1.51 | 3.88 | 3.88 | 4.21 | 4.75 | 4.34 |
| 30-Yr. Fixed Rate Mortgage, *%* | 2.87 | 3.27 | 6.66 | 6.99 | 6.72 | 7.20 | 6.80 |
| Industrial Production *(YoY%)* | -7.0 | 4.9 | 3.4 | 0.2 | 0.2 | 1.0 | 1.6 |
| Payroll Jobs, *Average Monthly Difference, Thousands* | -774 | 606 | 399 | 225 | 166 | 130 | 105 |
| Unemployment Rate, *Annual Average* | 8.1 | 5.4 | 3.6 | 3.6 | 4.0 | 4.3 | 4.2 |
| DXY Dollar Index | 89.9 | 95.7 | 103.5 | 101.3 | 104.2 | 108.0 | 106.0 |

*Forecast
Historical data sources: Federal Reserve, BLS, BEA and Bloomberg