Global Macro Insight

17 March 2025

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US Pulse: Fed on hold

A backdrop of elevated prices, rising inflation expectations and heightened uncertainty over the inflationary impact of tariffs supports the Fed leaving rates on hold when it meets this week and for the next few meetings.

We expect the Federal Open Market Committee's (FOMC) median rate projections for the fed funds rate (the dot plot) to remain unchanged over the forecast horizon. The risk is the projected easing cycle is more gradual and has a higher terminal rate than that forecast in December.

The soft top line read of core and headline inflation of 0.2% m/m for each in February portrays a more optimistic picture than what lies beneath. Statistical analysis of the Consumer Price Index (CPI) data suggest underlying inflation is running above levels consistent with 2%. The CPI and Producer Price Index (PPI) data combined suggest core Personal Consumption Expenditures (PCE) inflation in February will come in hotter than core CPI.

Stocks were down for the fourth straight week amid nervousness about the negative impact the Trump administration may have on the economy. President Trump fuelled unrest when he said the economy was going through a transition which could be harmful for growth in the short term but supportive over the long run. At one stage the S&P500 had fallen by more than 10% from its recent peak, implying a correction.

The 25% tariff on steel and aluminium imports went into effect on 12 March. There are no exceptions.

What to watch

- The FOMC meets on 19-20 March.
- Retail sales likely rebounded after severe weather held back shoppers in January.

Figure 1. Coming events

Date *	Event	Period	Survey	Prior
17 Mar	Empire Manufacturing	Mar	-2.0	5.7
17 Mar	Retail Sales Ex Advance m/m	Feb	0.6%	-0.9%
17 Mar	Retail Sales Control Group	Feb	0.3%	-0.8%
18 Mar	NAHB Housing Market Index	Mar	42.0	42.0
18 Mar	Housing Starts	Feb	1,381k	1,366k
18 Mar	Housing Starts m/m	Feb	1.1%	-9.8%
18 Mar	Building Permits	Feb P	1450k	1473k
18 Mar	Building Permits m/m	Feb P	-1.6%	-0.6%
18 Mar	Import Price Index m/m	Feb	-0.1%	0.3%
18 Mar	Export Price Index m/m	Feb	-0.2%	1.3%
19 Mar	Industrial Production m/m	Feb	0.2%	0.5%
19 Mar	MBA Mortgage Applications	14 Mar	--	11.2%
20 Mar	FOMC Rate Decision (Upper Bound)	19 Mar	4.50%	4.50%
20 Mar	FOMC Rate Decision (Lower Bound)	19 Mar	4.25%	4.25%
20 Mar	Current Account Balance	Q4	-USD330.0bn	-USD310.9bn
20 Mar	Initial Jobless Claims	15 Mar	224k	220k
20 Mar	Continuing Claims	8 Mar	1,888k	1,870k
21 Mar	Leading Index	Feb	-0.2%	-0.3%
21 Mar	Existing Home Sales	Feb	3.94m	4.08m
21 Mar	Existing Home Sales m/m	Feb	-3.4%	-4.9%

*In Australia; P=preliminary; A = Advance; F=final

All Things Fed: on hold

The prospects of tariffs and other policies from the Trump administration are looming over the US economy. Notably, heightened uncertainty over tariff policy and an earnest start to enhancing government efficiency have negatively impacted survey data and financial markets. Hard data are lagging, so it's too soon to assess the economic implications. That said there has been a surge in imports, likely an attempt to front run any decision on tariffs. Policy uncertainty may also lead to precautionary behaviours like slower hiring and increased household savings. Adverse weather and wildfires earlier this year also weighed on January consumption.

At a recent conference on monetary policy, Fed Chair Powell said the US economy is in a good place despite elevated uncertainty. This viewpoint is a contrast to the bleak picture posed by the Atlanta Fed GDPNow for Q1 2025, which suggests the economy is contracting by -2.4% saar. We believe this measure is pessimistic. It has personal consumption contributing nothing to growth while net exports are a significant detraction. The deterioration in trade reflected a surge in imports, notably of gold. The Bureau of Economic Analysis excludes gold imports from the national accounts, as they are often unrelated to US production or consumption and fluctuate based on demand from gold market participants. Other Fed GDPNow measures are more favourable: New York is at 2.7%, and St Louis sees 2.5%.

Early 2025 inflation data confirm restrictive monetary policy settings are consistent with a gradual disinflation trend towards target. In February, both headline and core CPI rose 0.2% m/m to leave the annual rates at 2.8% y/y and 3.1% y/y respectively. The annual rise in core inflation was the lowest since April 2021. Core services inflation fell to 4.1% y/y from 4.3% y/y, its lowest since January 2022. However, recent survey data point to potential upside risks to inflation possibly related to worries over the impact of tariffs on prices.

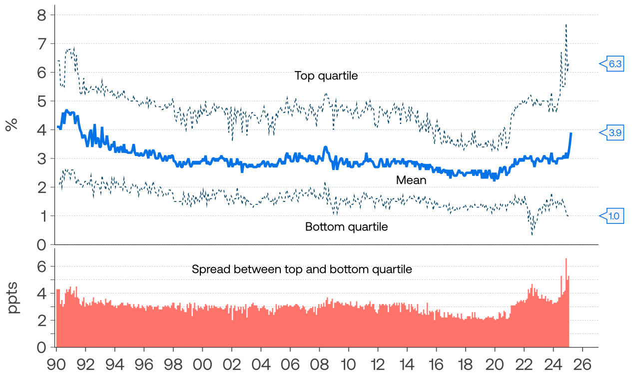
- The National Federation of Independent Business's (NFIB) small business economic survey for February reported a 3ppt increase to 29.0% in the number of firms expecting to raise prices over the next three months, the highest reading in 11 months.
- The University of Michigan's measure of long-term household inflation expectations shot up to 3.9% in March, the highest level in 32 years.
- Both the ISM and S&P manufacturing surveys show that input prices facing businesses have climbed sharply in the last few months.

Given the backdrop of high inflation and near full employment it is appropriate for the FOMC to hold this week. We expect the Fed to remain attentive to its dual mandate, whilst assessing the impact of the new administration's policy changes. Our view is that the underlying disinflation process is intact, although recent developments in inflation expectations bear monitoring,

We expect a further 75bp of cuts this easing cycle before the federal funds rate (FFR) ceiling bottoms out at 3.75% in Q1 2026. We see 25bp cuts in both Q3 and Q4 2025, then a final one in Q1 2026. The Fed could go earlier if the labour market deteriorates materially and/or inflation slows sharply.

We expect the FOMC's median rate projections (the dot plot) to remain unchanged over the forecast horizon. The risk is the projected easing cycle is more gradual and has a higher terminal rate than that forecast in December. It's likely the Fed will revise down/up its growth and inflation forecasts for 2025. We expect no adjustment to quantitative tightening (QT) at this week's meeting. Powell and Dallas Fed president Logan have both recently said bank reserves are abundant and there is a way to go before they become ample enough for the Fed to wind up QT.

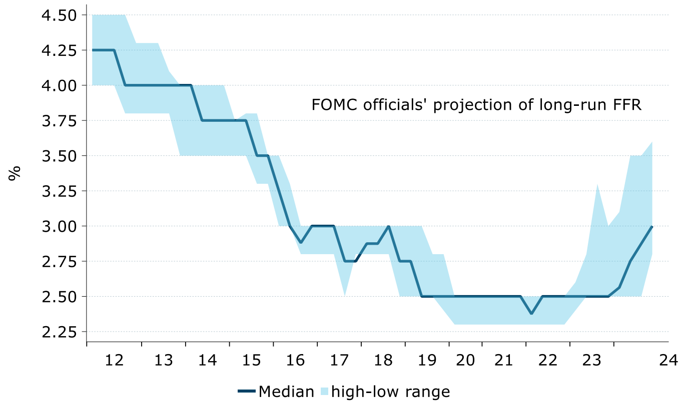
Figure 2. Household long-run inflation expectations



Source: University of Michigan, Macrobond, ANZ Research

Figure 3. The long-run estimate of FFR

Figure 4. is trending up



Source: Federal Reserve, Macrobond, ANZ Research

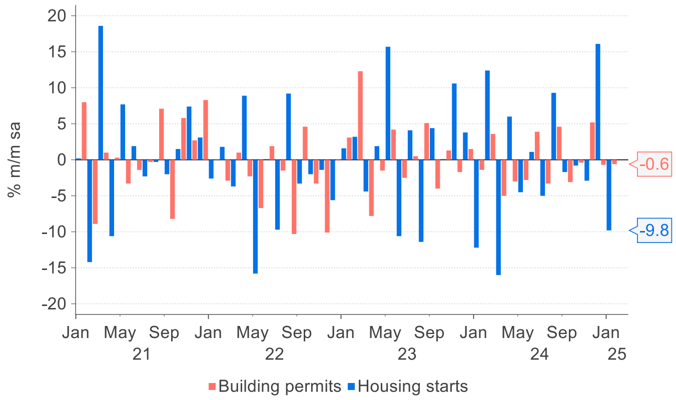
Data Pulse: the week ahead

Building permits are expected to have declined 1.6% m/m (consensus) in February after a 0.6% m/m fall in January. Housing starts, which fell by 9.8% m/m in January, are forecast by consensus to have increased 1.1% in February, likely due to a pick-up in single-family dwelling starts. Industrial production in February is set to rise by 0.2% m/m (vs 0.5%), as the Purchasing Managers Index manufacturing subindex indicates a small expansion during the month.

The market expects headline retail sales to increase by 0.6% m/m in February, rebounding from a 0.9% decline in January, as improved weather conditions boosted activity. Control group sales are expected to rise to 0.3% m/m in February after a 0.8% decline the previous month. Import prices are expected (consensus) to fall 0.1% m/m after rising 0.3% m/m last month, likely due to lower energy prices.

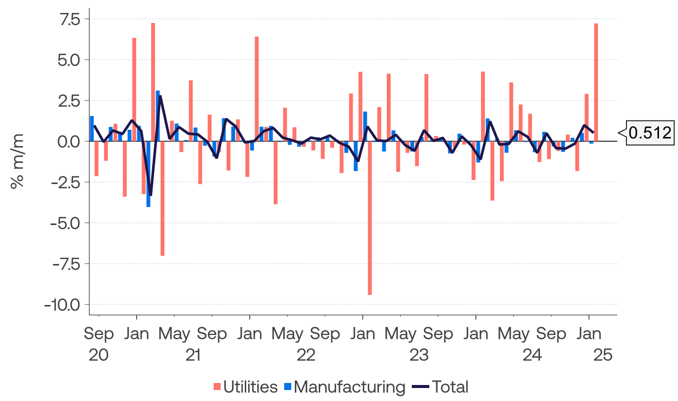
The consensus expectation for Conference Board's Leading Economic Index is to have declined by 0.2% in February driven by waning consumer confidence and rising jobless claims. Recent surveys suggest the Empire manufacturing survey will show a decline in manufacturing activity (-2.0 vs 5.7) in early March, alongside a probable up-tick in the prices paid component.

Figure 5. Building permits and Housing starts



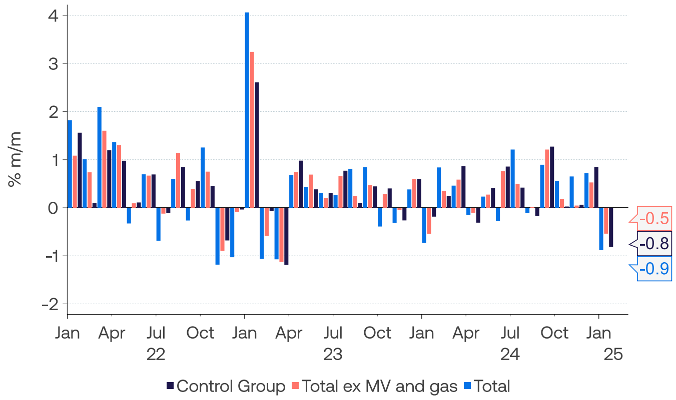
Source: US Census, Macrobond, ANZ Research

Figure 6. Industrial production



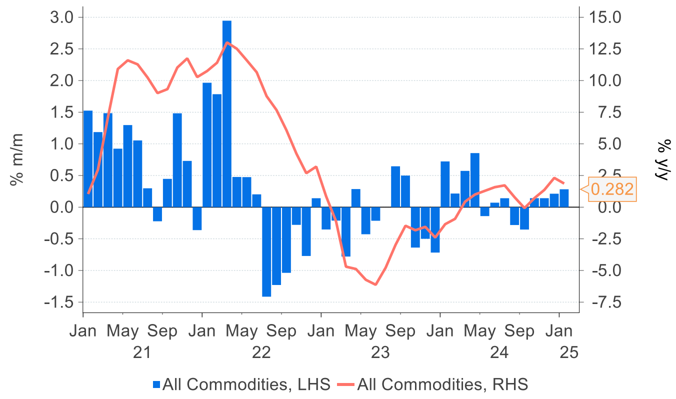
Source: Fed, Macrobond, ANZ Research

Figure 7. Retail sales



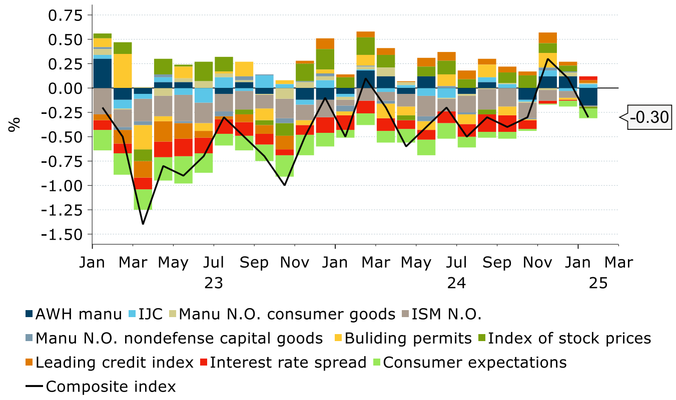
Source: US Census, Macrobond, ANZ Research

Figure 8. Import prices



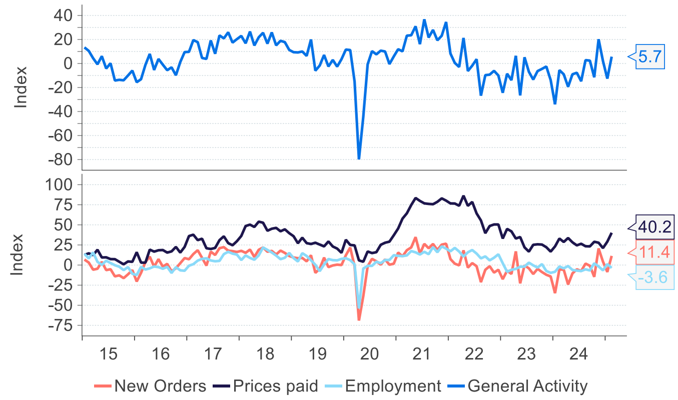
Source: Fed, Macrobond, ANZ Research

Figure 9. Leading Economic Index



Source: Conference Board, Macrobond, ANZ Research

Figure 10. Empire manufacturing survey



Source: NY Fed, Macrobond, ANZ Research

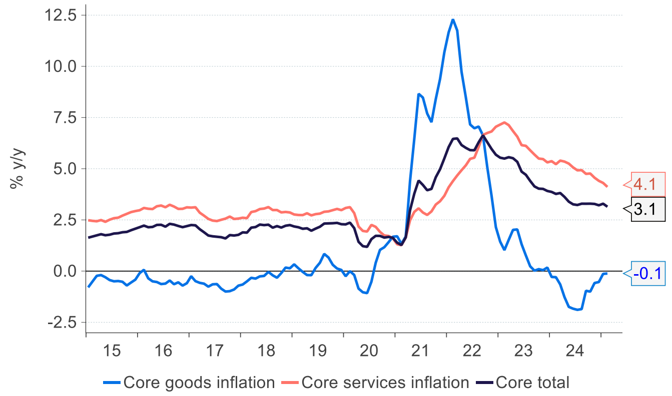
The Week That Was: softer inflation print

In February, both headline and core CPI rose 0.2% m/m to leave the annual rates at 2.8% y/y and 3.1% y/y respectively (see page 8 for more discussion). Driven by a 1% m/m drop-in trade services, PPI for final demand was flat at 0.0% m/m (vs 0.6%) in February. Core PPI fell 0.1% m/m in February after an upwardly revised 0.5% rise in January.

The NFIB Small Business Optimism Index fell for the second consecutive month in February to 100.7, driven by inflation concerns and tariff uncertainty. The uncertainty subindex rose 4ppt to 104. The net worth of households rose by USD164bn to USD169trn during Q4 2024, fuelled by the stock-market rally that followed the presidential election.

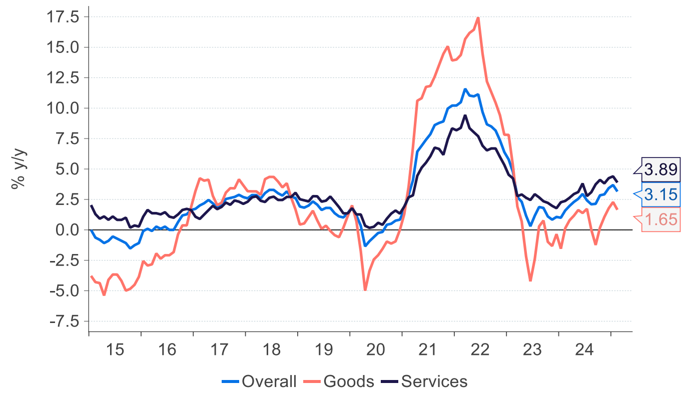
Job openings rose 232k to 7.74m in January up from a downwardly revised 7.5m in December. The ratio of job openings-to-unemployed inched up to 1.13 from 1.09 in January and is at its highest since May 2024. University of Michigan consumer sentiment index fell to 57.9, its lowest level since November 2022. Driven by tariff concerns, 1y-ahead inflation expectations rose to 4.9%, up from 4.3% a month ago; while 5-10y ahead inflation expectations shot up to 3.9%, its highest level since 1993.

Figure 11. Consumer Price Index inflation



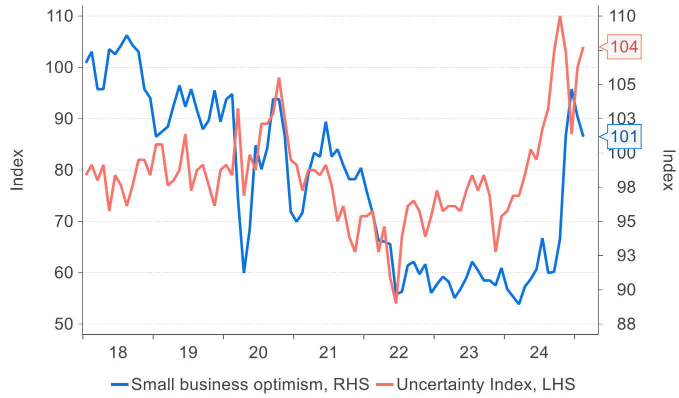
Source: BLS, Macrobond, ANZ Research

Figure 12. Producer Price Index



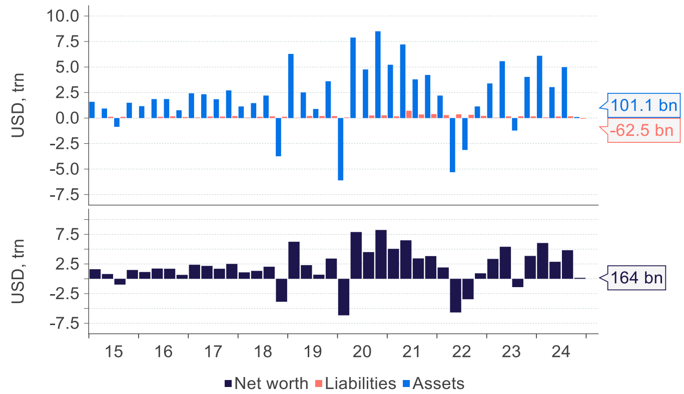
Source: BLS, Macrobond, ANZ Research

Figure 13. NFIB Small Business Optimism



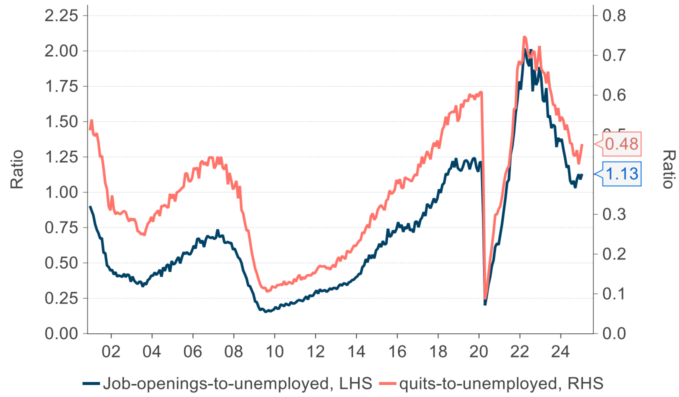
Source: NFIB, Macrobond, ANZ Research

Figure 14. Household change in net worth



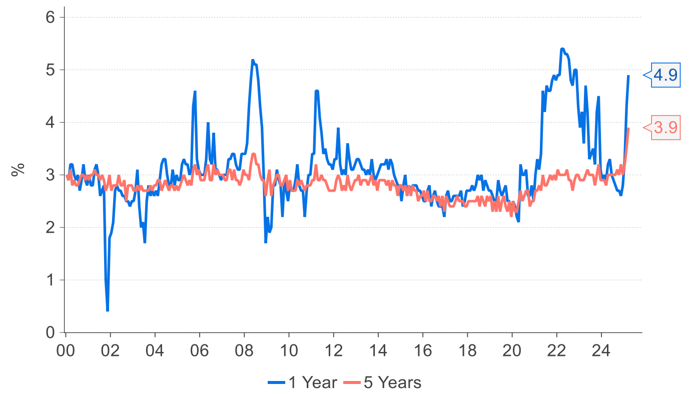
Source: Fed, BEA, Macrobond, ANZ Research

Figure 15. Job openings & quits



Source: BLS, Macrobond, ANZ Research

Figure 16. Household inflation expectations



Source: Uni of Michigan, Macrobond, ANZ Research

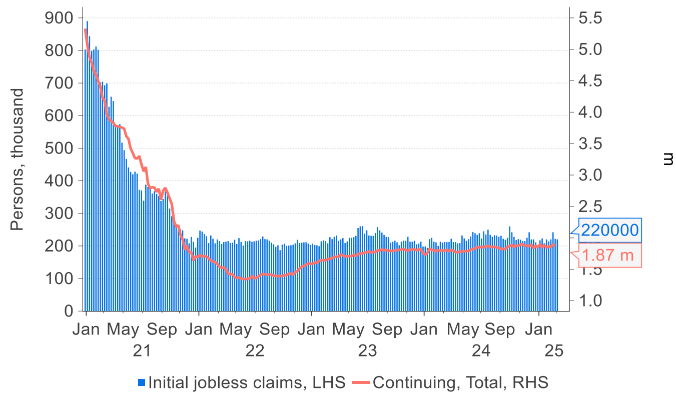
High Frequency Indicators: continuing claims edged lower

Initial Jobless Claims fell by a modest 2k to 220k for the week ending 8 March, with the four-week moving average reaching 226k, its highest point in almost three months. Claims increased the most in California, followed by Texas and Michigan. Continuing claims fell 27k to 1870k in the week ending 1 March. New job postings from Indeed.com edged higher after two weeks of consecutive decreases.

The Dallas Fed Weekly Economic Index edged up to 2.65% in the week ending 8 March, from 2.24% previously. New York Fed's Survey of Consumer Expectations showed median inflation expectations increased by 0.1ppt to 3.1% at the 1y horizon and were unchanged at 3.0% at the 3y- and 5y-ahead horizons.

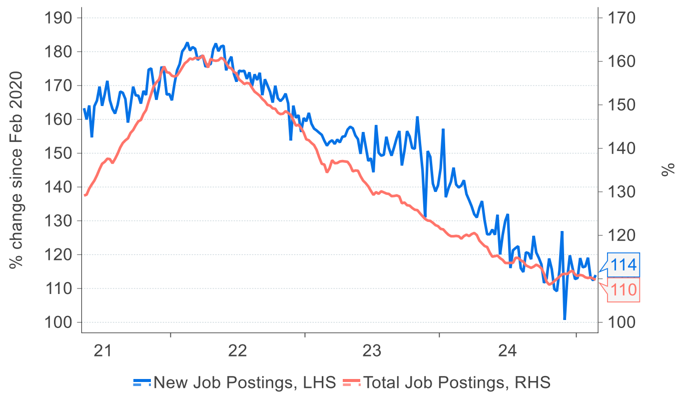
Mortgage rates edged up 02bp last week to 6.65%, marking the first increase in eight weeks. Despite the modest pick-up in rates, mortgage applications rose 11.8% w/w. Purchase applications were up by 8.3% w/w and refinancing applications rose by 16.2% w/w.

Figure 17. Initial Jobless Claims



Source: US Dept of Labor, Macrobond, ANZ Research

Figure 18. Indeed.com job postings

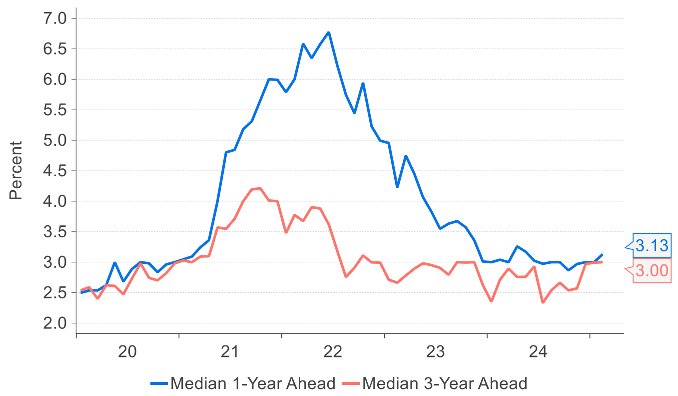


Source: Indeed.com, Macrobond, ANZ Research

Figure 19. Weekly economic index

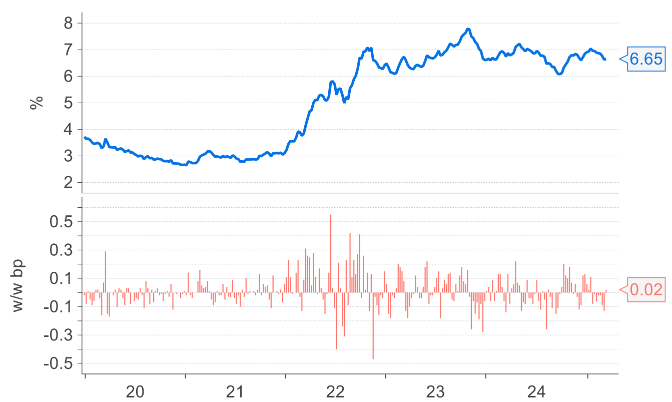
Source: Dallas Fed, Macrobond, ANZ Research

Figure 20. NY Fed survey of consumer expectations



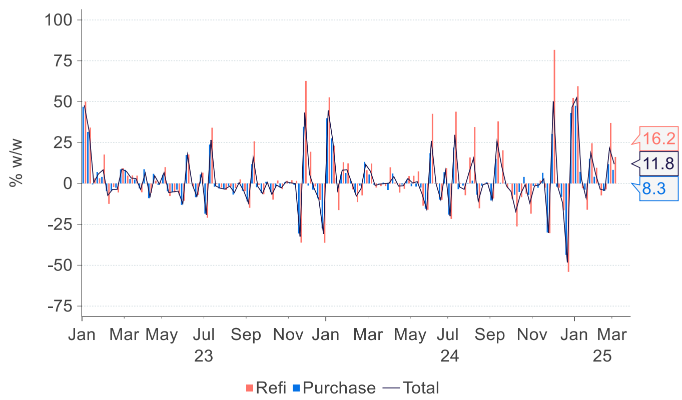
Source: NY Fed, Macrobond, ANZ Research

Figure 21. Mortgage rate



Source: Freddie Mac, Macrobond, ANZ Research

Figure 22. Mortgage applications



Source: MBA, Macrobond, ANZ Research

Financial conditions

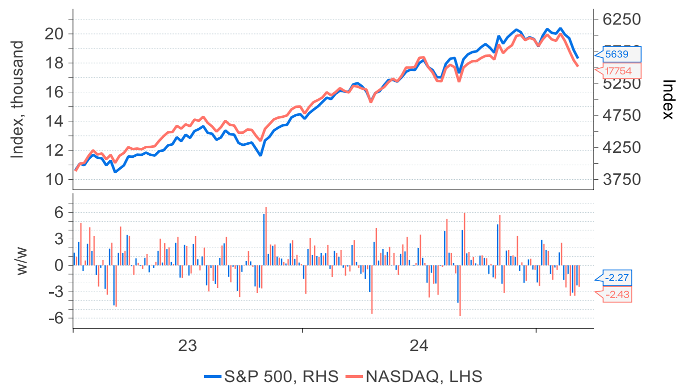
Equities correct, then rally

Stocks were down for the fourth straight week amid nervousness about the negative impact the Trump administration may have on the economy. Trump fuelled some of that unrest when he said the economy was going through a transition which could be harmful for growth in the short term but supportive over the long run. At one stage the S&P500 had fallen by more than 10% from its recent peak implying a correction. Volatility improved slightly across most financial markets.

US Treasury (UST) bond yields rose slightly, both the 10y and 2y were up a little over 1bp each to 4.3% and 4.0% respectively. The 10y/3m UST yield curve remains barely in negative territory amid heightened worries of a sharp slowdown in growth.

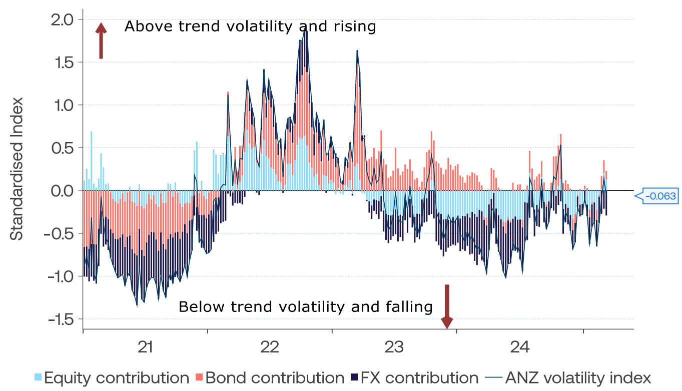
The DXY was off for a second straight week, finishing at 103.7. The price of gold briefly breached USD3,000 for the first time ever.

Figure 23. S&P500 and NASDAQ



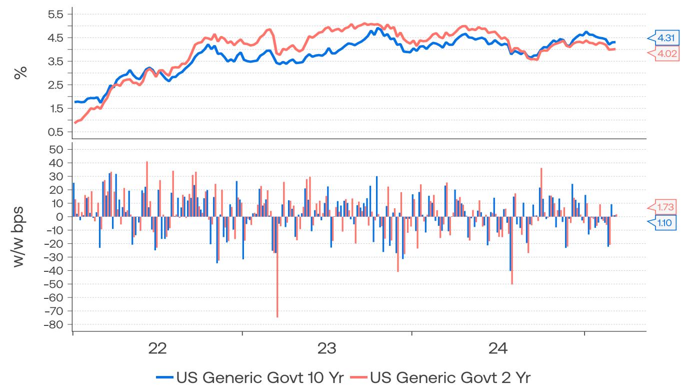
Source: Bloomberg, Macrobond, ANZ Research

Figure 24. Financial Market Volatility Index



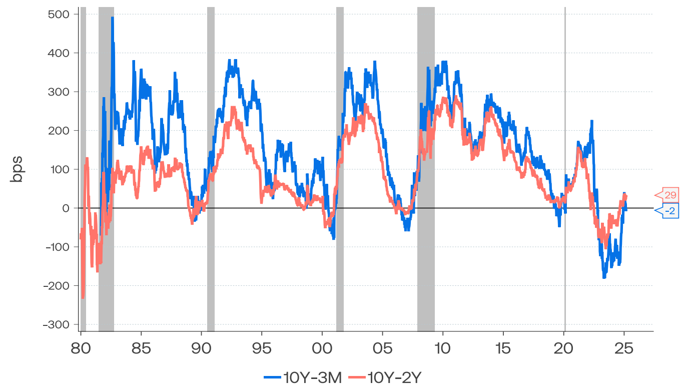
Source: Bloomberg, Macrobond, ANZ Research

Figure 25. Benchmark UST yields



Source: Bloomberg, Macrobond, ANZ Research

Figure 26. UST yield curve

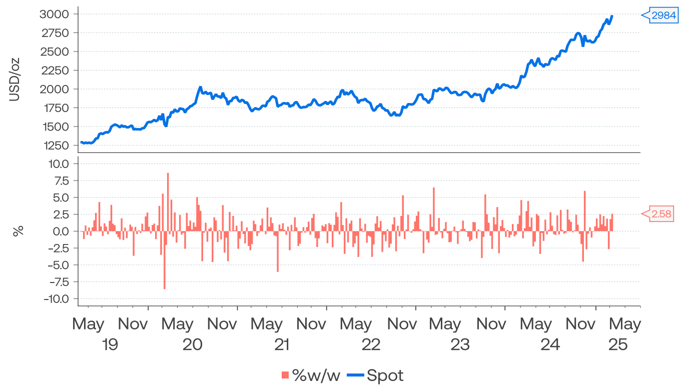


Source: Bloomberg, Macrobond, ANZ Research

Figure 27. DXY

Source: Bloomberg, Macrobond, ANZ Research

Figure 28. Gold price



Source: Bloomberg, Macrobond, ANZ Research

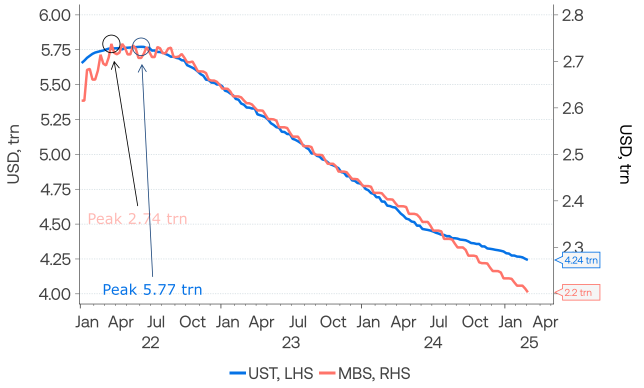
Bank Term Funding Facility no more

The size of the Federal Reserve's balance sheet was unchanged at USD6.76trn over the week ending 12 March. Outstanding loans from the Fed's emergency lending facilities declined by around USD750bn. There is now no longer any loans outstanding from the Fed's Bank Term Funding Facility. This facility was set up in the wake of the collapse of Silicon Valley Bank and ceased making new loans in March 2024.

Financial institutions withdrew USD10bn in funds from the Fed's reverse repo facility in the week ending 12 March. The total amount parked at the Fed is USD126bn. Money invested in money market funds was little change in the past week at a near record high USD7.02trn.

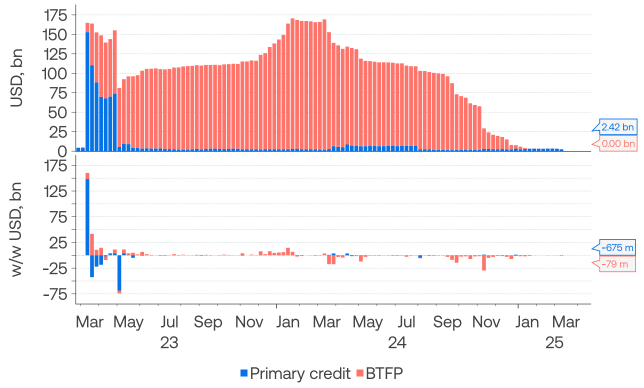
Bank deposits were little changed over the week to 5 March, with an inflow into large banks being countered by an outflow from regional banks. Commercial bank lending rose by USD17.1bn largely owing to an increase in lending to commercial and industrial as well as to the 'other' category. The other lending portfolios showed a decline in net lending.

Figure 29. Fed balance sheet: selected assets



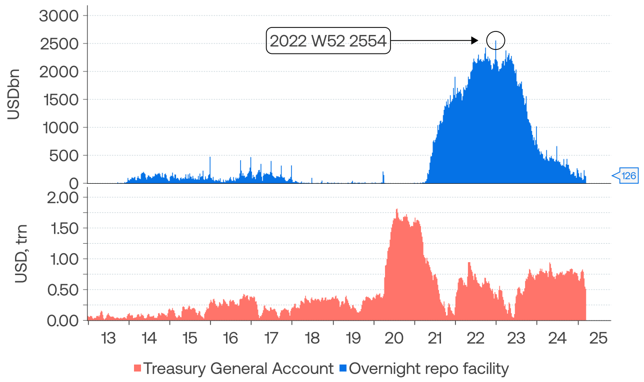
Source: Fed, Macrobond, ANZ Research

Figure 30. Fed balance sheet: selected assets



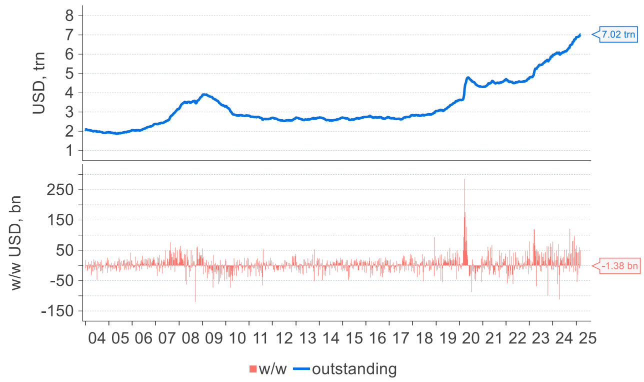
Source: Fed, Macrobond, ANZ Research

Figure 31. Fed balance sheet – selected liabilities



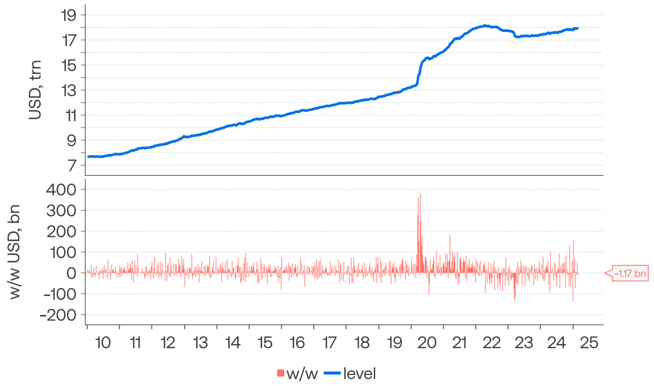
Source: SIFMA, Macrobond, ANZ Research

Figure 32. Money Market Funds



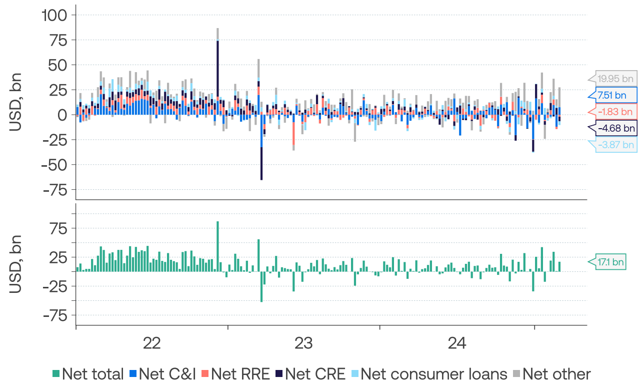
Source: ICI, Macrobond, ANZ Research

Figure 33. Bank deposits



Source: Fed, Macrobond, ANZ Research

Figure 34. Bank lending



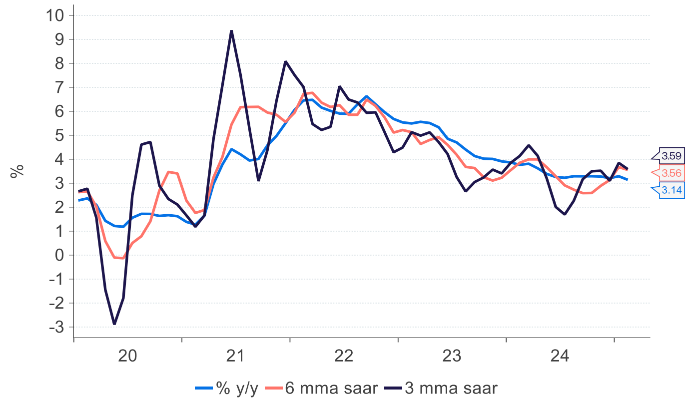
Source: Fed, Macrobond, ANZ Research

What else we're watching

February CPI review

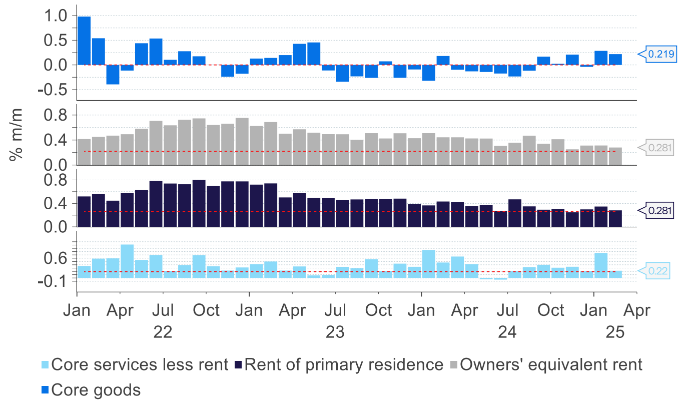
Core CPI inflation eased to 0.227% m/m in February from 0.446% in January. The better-than-expected outcome (consensus 0.3%) was owing to a few volatile items, including: airline fares and vehicle insurance prices. Neither of these items flow through to core PCE inflation. Core services ex-rent (or supercore) inflation decelerated sharply to 0.22% from 0.76%, while core goods prices slowed modestly to 0.22% from 0.29%. In coming months, tariffs are set to put upward pressure on consumer prices.

Figure 35. Nonfarm payrolls



Source: BLS, Macrobond, ANZ Research

Figure 36. Core CPI inflation – major components

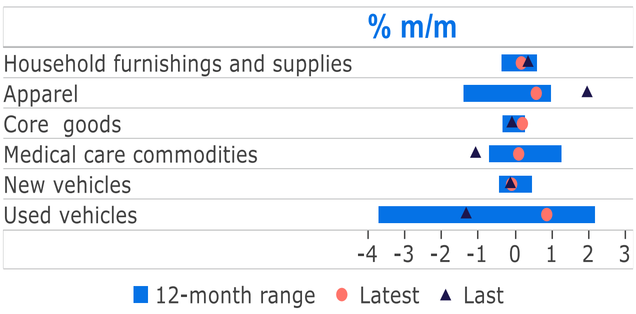


Source: BLS, Macrobond, ANZ Research

For the key core inflation components:

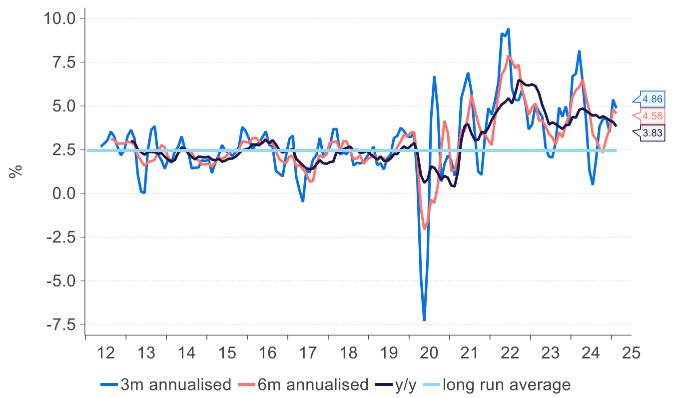
- **Core goods prices** rose by 0.22% m/m with all main components contributing, with the most notable being from used cars (up 0.90%) and apparel (by 0.6%).
- Weaker transportation service prices were behind the sharp slowing in **supercore CPI** inflation to 0.22% m/m in February from 0.76% in January. Notably Airline fares fell sharply by 4.0% in February. Elsewhere motor vehicle insurance, motor vehicle repairs and motor vehicle fees were all soft.
- **Regular rent and owners' equivalent rent** both eased to 0.28% m/m in February from 0.347% and 0.313% in January, respectively. The disinflation in rent is in alignment with the Bureau of Labor Statistics' (BLS) repeat rent index, a reliable leading indicator for official rent inflation.

Figure 37. Goods prices inflation



Source: BLS, Macrobond, ANZ Research

Figure 38. Supercore inflation

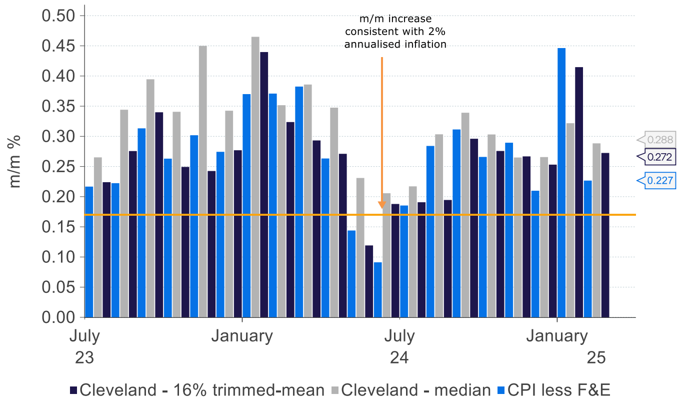


Source: BLS, Macrobond, ANZ Research

Statistical analysis shows core CPI trends were a little stronger than the headline indicated.

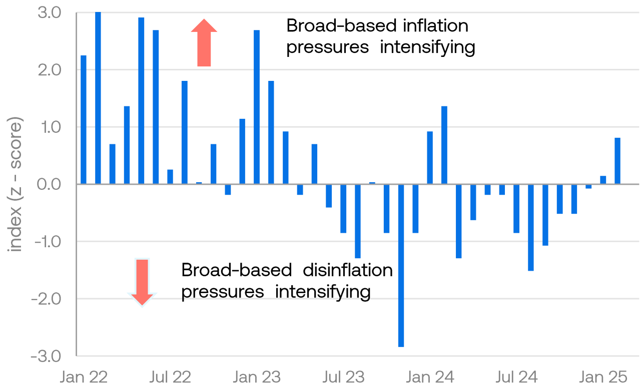
- Although both the w**eighted median** and trimmed CPI eased from last month, they were both above core CPI, with increases of 0.29% m/m and 0.27% respectively.
- Our one-month core **CPI Diffusion Index** (CDI) aggregates (using equal weights) the standardised price changes of all items (Figure 39). The one-month CDI was 0.8, the highest since February last year. A CDI above zero suggests a broad-based inflationary trend that is more than usual, so stronger than 2% y/y pace.

Figure 39. Core CPI measures



Source: BLS, Macrobond, ANZ Research

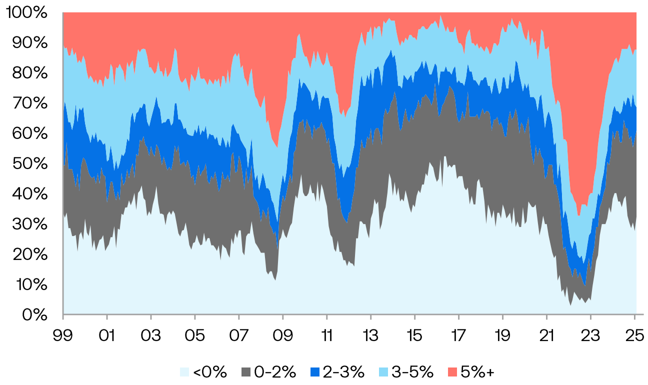
Figure 40. Core CPI Diffusion Index



Source: BLS, Macrobond, ANZ Research

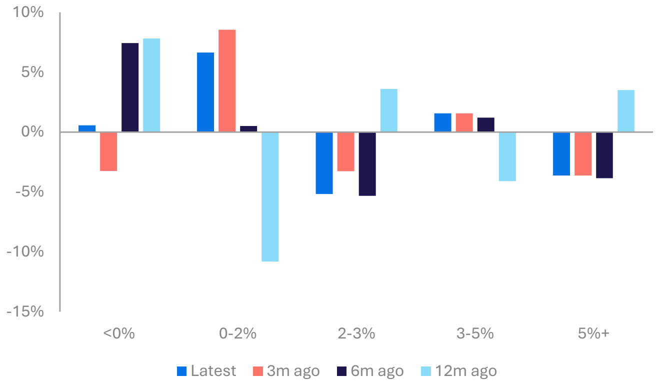
- Our core **CPI dispersion heat map** for February suggests inflation trends were modestly more disinflationary relative to three months ago (Figures 40 and 41). The main difference between the distribution in February and three months back is a shift to more items that are falling in price. Overall, the distribution of price changes isn't too different than usual suggesting inflation pressures consistent with 2%.

Figure 41. Core CPI dispersion heat map



Source: BLS, Macrobond, ANZ Research

Figure 42. Core dispersion – deviation from trend



Source: BLS, Macrobond, ANZ Research

Implications for core PCE inflation. Core PCE is likely to have come in around 0.33% m/m, 10bp higher than core CPI. Much of the softness in the core CPI outcome came from items, like airlines and motor vehicle insurance, that do not flow through to core PCE. On the other hand, some CPI items that had a strong rise in price have a greater weight in the core PCE basket. The relevant PPI items for PCE inflation were mixed, with strength in hospital services mostly offset by weakness in airfares, portfolio management and physician's services.

ANZ Research view. The soft top-line read of core and headline inflation portray a more optimistic picture than what lies beneath. Statistical analysis of the CPI data suggest underlying inflation is running above levels consistent with 2%. The CPI and PPI data combined suggest February's core PCE inflation will come in hotter than core CPI. This picture of elevated inflation, rising inflation expectations and heightened uncertainty over the inflationary impact of tariffs supports the Fed being patient towards any further easing of monetary policy.

ANZ Research forecasts

	Quarterly				Annual2		
	Dec 24	Mar 25	Jun 25	Sep 25	2024	2025	2026
GDP % y/y	2.5	2.6	2.3	2.1	2.8	2.3	2.0
CPI % y/y	2.7	2.1	1.5	1.7	3.0	2.6	2.2
Core CPI % y/y	3.2	2.7	2.7	2.5	3.4	2.6	2.2
Unemployment rate	4.1	4.2	4.2	4.2	4.0	4.2	4.0
Fed fund rate1 %	4.50	4.50	4.50	4.25			
10y yield %	4.60	4.50	4.25	4.25			

1. Upper end of Fed target range; 2. Annual figures are year average. Actual =

Figure 43. FOMC GDP forecast (Dec 2024)

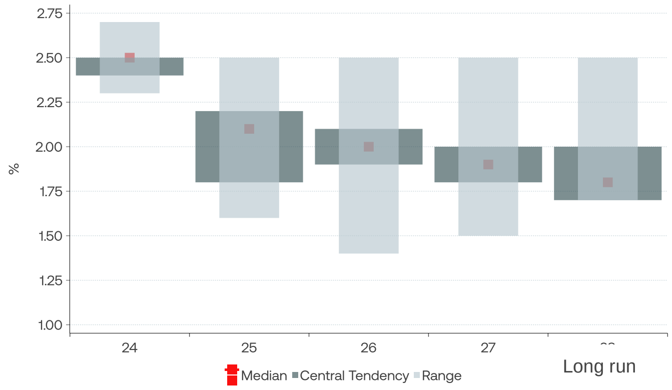


Figure 44. FOMC unemployment rate forecast (Dec 2024)

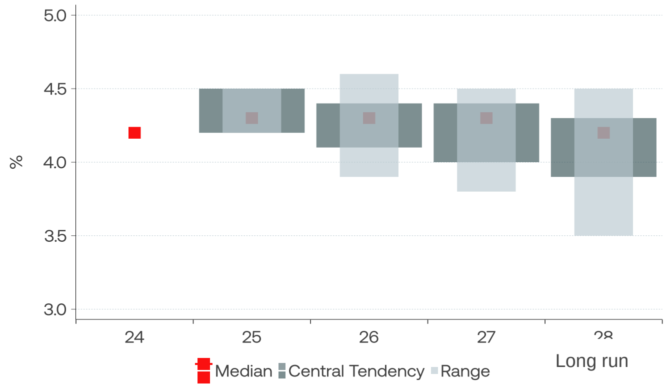


Figure 45. FOMC PCE inflation forecast (Dec 2024)

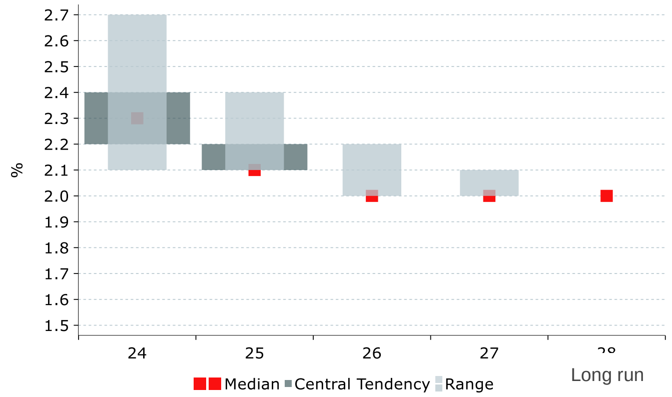


Figure 46. FOMC FFR forecast (Dec 2024)

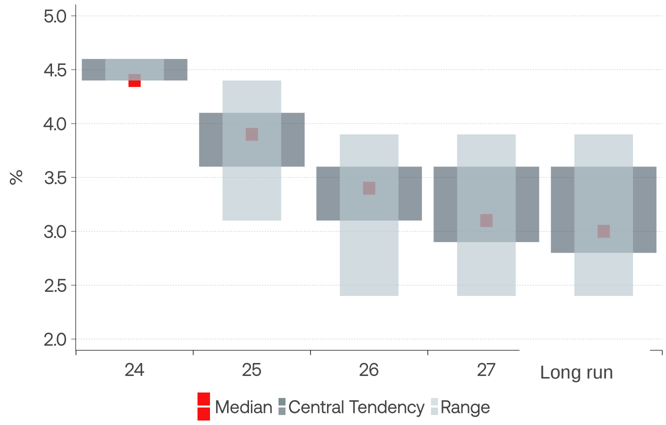
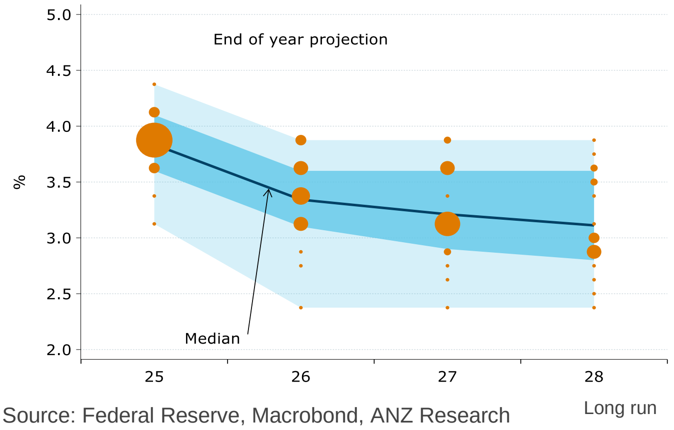
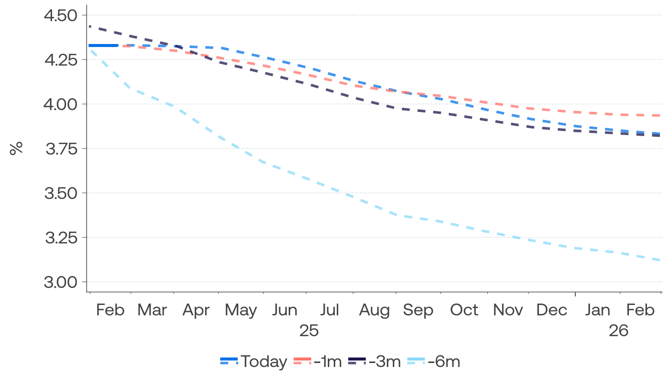


Figure 47. FOMC dot plot (Dec 2024)



Source: Federal Reserve, Macrobond, ANZ Research

Figure 48. Effective FFR projections (market)



Source: Bloomberg, Fed, Macrobond, ANZ Research

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