



with their projections. The Summary of Economic Projections was released to the public following the conclusion of the meeting.

Participants generally observed that overall inflation remained above the Committee's 2 percent longer-run goal. Some participants remarked that further progress in reducing inflation had been absent in recent months. Some participants noted that the rate of increase in core goods prices remained well above the pace likely to be consistent with the sustainable achievement of the Committee's inflation objective, at least in part reflecting the effects of tariffs. In addition, some participants commented that, although price increases in the housing services category had slowed considerably over the past year and were now close to their pre-pandemic pace, increases in nonhousing core services prices had continued to be elevated relative to their pre-pandemic pace.

Several participants noted that most measures of longer-term inflation expectations remained consistent with the Committee's 2 percent objective. Several participants observed, however, that measures of near-term inflation expectations had risen in recent weeks, reflecting the substantial rise in oil prices caused by events in the Middle East.

Participants anticipated that, under appropriate monetary policy, inflation would gradually move down toward the Committee's 2 percent objective after the effect of increased tariffs and higher oil prices had faded. Participants generally expected that the effects of tariffs on core goods prices would diminish this year, though they assessed that the pace and timing at which these effects would fade had become more uncertain since the time of the January meeting. Participants also expected that higher oil prices would increase inflation in the near term and delay the anticipated decline in inflation toward the Committee's 2 percent objective. Several participants remarked that the ongoing deceleration in housing services prices was likely to continue to exert downward pressure on overall inflation. Several participants also expected higher productivity growth, associated with technological or deregulatory developments, to put downward pressure on inflation. Participants noted that a prolonged conflict in the Middle East would likely lead to more persistent increases in energy prices and that these higher input costs would be more likely to pass through to core inflation. Some participants highlighted the possibility that, after several

years of above-target inflation, longer-term inflation expectations could become more sensitive to energy price increases. Partly as a result of these factors, the vast majority of participants noted that progress toward the Committee's 2 percent objective could be slower than previously expected and judged that the risk of inflation running persistently above the Committee's objective had increased.

With regard to the labor market, participants observed that the unemployment rate had been little changed in recent months, while job gains had remained low. Most participants judged that the recent data readings, such as those for job openings, layoffs, hiring, and nominal wage growth, continued to suggest that the labor market was broadly in balance, with the low rate of job growth roughly in line with slower labor force growth. Some of these participants commented that the February payroll employment data were held down by a strike in the health-care sector and by the effects of unusually harsh winter weather. Several other participants, however, highlighted signs of potential softening in the labor market, including a slight increase in the unemployment rate among prime-age workers, the concentration of job growth in the health-care sector—excluding the effects of the February strike—and in a few other sectors, and survey measures of job availability that had declined in recent months. Some participants noted that business survey responses or their business contacts continued to express caution in hiring decisions amid uncertainty about the near-term economic outlook and concern about the longer-term effects of AI and other technologies on the labor market.

The vast majority of participants judged that risks to the employment side of the mandate were skewed to the downside. In particular, many participants cautioned that, in the current situation of low rates of net job creation, labor market conditions appeared vulnerable to adverse shocks. They pointed to the possibility that a further fall in labor demand could push the unemployment rate sharply higher in a low-hiring environment or that the concentration of job gains in a few less cyclically sensitive sectors was potentially signaling heightened vulnerability in the overall labor market. Many participants cited evidence from business contacts and surveys suggesting that firms were likely to delay or reduce hiring in anticipation of AI adoption, although a few noted that instances of AI-related layoffs remained rare or that firms generally reported using AI to augment, rather than replace, workers. Most participants

highlighted the risk that a protracted conflict in the Middle East could weigh on business sentiment and further reduce hiring.

Participants observed that economic activity appeared to be expanding at a solid pace. Participants generally noted that consumer spending had been resilient, importantly supported by gains in household wealth. Participants observed that business fixed investment remained robust, largely reflecting strength in the technology sector. With respect to the agricultural sector, a couple of participants remarked that farmers were experiencing strains due to higher fuel and fertilizer prices associated with the conflict in the Middle East.

Participants generally anticipated that the pace of real GDP growth would remain solid in 2026. Most participants expected growth to be supported by AI-related investment, continued favorable financial conditions, fiscal policy, or changes in regulatory policy. Most participants cautioned that the recent developments in the Middle East had raised the uncertainty surrounding their outlook for economic activity and had increased the associated downside risks.

In their consideration of monetary policy at this meeting, participants noted that inflation remained above the Committee's 2 percent objective and that available indicators suggested that economic activity had been expanding at a solid pace. They observed that job gains had remained low and that the unemployment rate had been little changed in recent months. Participants agreed that uncertainty about the economic outlook remained elevated and that the conflict in the Middle East was an additional source of uncertainty. Against this backdrop, almost all participants supported maintaining the current target range for the federal funds rate at this meeting. With the policy rate having been lowered 75 basis points in the second half of last year, these participants generally viewed the policy rate as within a range of plausible estimates of its neutral level. They judged that leaving the policy rate unchanged kept the Committee well positioned to determine the extent and timing of additional adjustments to the policy rate based on the incoming data, the evolving outlook, and the balance of risks. Most participants commented that it was too early to know how developments in the Middle East would affect the U.S. economy and judged it prudent to continue to monitor the situation and assess the implications for the appropriate stance of monetary policy. One participant preferred to lower the

target range for the federal funds rate 25 basis points, expressing the concern that the current stance of policy remained restrictive and was contributing to weak labor demand and elevated downside risks to the labor market.

With regard to the outlook for monetary policy, in light of the heightened degree of economic uncertainty, participants emphasized the importance of being nimble in adjusting the stance of policy in response to incoming data, the evolving outlook, and the balance of risks. Many participants judged that, in time, it would likely become appropriate to lower the target range for the federal funds rate if inflation were to decline in line with their expectations. A couple of these participants highlighted that, in their projection for the appropriate path of the policy rate, they had pushed their assessment of the most likely timing of rate cuts further into the future in light of recent readings on inflation. Some participants judged that there was a strong case for a two-sided description of the Committee's future interest rate decisions in the postmeeting statement, reflecting the possibility that upward adjustments to the target range for the federal funds rate could be appropriate if inflation were to remain at above-target levels. All participants agreed that monetary policy was not on a preset course and would be determined on a meeting-by-meeting basis.

In discussing risk-management considerations that could bear on the outlook for monetary policy, the vast majority of participants judged that upside risks to inflation and downside risks to employment were elevated, and the majority of participants noted that these risks had increased with developments in the Middle East. In particular, most participants raised the concern that a protracted conflict in the Middle East could lead to a further softening in labor market conditions, which could warrant additional rate cuts, as substantially higher oil prices could reduce households' purchasing power, tighten financial conditions, and reduce growth abroad. Many participants pointed to the risk of inflation remaining elevated for longer than expected amid a persistent increase in oil prices, which could call for rate increases to help bring inflation down to the Committee's 2 percent objective and keep longer-term inflation expectations firmly anchored. Most participants reiterated, however, that it was too early to know how developments in the Middle East would affect the U.S. economy and judged it prudent to continue to monitor the situation and assess the implications for the appropriate stance of monetary policy. With upside risks to inflation and downside risks to employment both elevated, some

participants remarked that it was important that the Committee follow its balanced approach in promoting the Federal Reserve's employment and inflation goals, taking into account the extent of departures from those goals and the potentially different time horizons over which employment and inflation were projected to return to levels judged consistent with the Committee's mandate.

Several participants discussed issues related to the Federal Reserve's balance sheet and monetary policy implementation, including the relationship between bank liquidity regulations and the demand for reserves. A couple of these participants also commented on the role of standing repo operations in the implementation of monetary policy and supported further study of centrally clearing these operations in light of the evolving structure of money markets...

Voting against this action: Stephen I. Miran.

Stephen I. Miran preferred to lower the target range for the federal funds rate by 1/4 percentage point at this meeting.

Source: Federal Reserve Board