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## June FOMC Meeting: Well, That Was Different . . .

- › The FOMC left the Fed funds rate target range unchanged, with the mid-point of the target range remaining at 3.625 percent
- › The updated dot plot shows nine of eighteen members who submitted projections see at least one Fed funds rate hike by year-end 2026

As generally expected, the FOMC made no changes to the Fed funds rate at today's meeting, leaving the target range mid-point at 3.625 percent. As for the rest of this meeting, many analysts and market participants find themselves asking "what just happened here?" Not only did new Fed Chair Kevin Warsh make an immediate mark on the FOMC, but he also made it clear that many more changes, potentially sweeping changes, are on the way across the whole realm of how the FOMC conducts its business and how it communicates with the financial markets. Underpinning all of this, however, is Chair Warsh's insistence that "inflation is a choice" and that after five years of inflation easily running ahead of the FOMC's 2.0 percent target rate, "this Committee will deliver price stability." Rather than simply making changes for the sake of making changes, it is clear that Mr. Warsh sees all of the changes he envisions for the FOMC as being squarely focused on that goal. Just as clearly, it will be up to market participants to decipher and adapt to these changes as opposed to being given a well laid out road map given the extent to which Chair Warsh has already scaled back forward guidance.

To that point, the post-meeting policy statement is significantly shorter than has been the case over the past several years, with a clear emphasis on "just the facts." Economic activity is characterized as "expanding at a solid pace" with inflation remaining "elevated" relative to the 2.0 percent target rate, "in part reflecting supply shocks." Beyond that, there is very little, including the complete absence of forward guidance other than the final sentence: "The Committee will deliver price stability." Chair Warsh reiterated this point many times in his post-meeting press conference.

It came as no surprise the Chair Warsh indicated he did not contribute to the updated Summary of Economic Projections (SEP) given that he sees the SEP, as currently constructed, as being of little use in the conduct of monetary policy. As for the eighteen members who did contribute, the median forecast for real GDP growth in 2026, on a Q4/Q4 basis, was marked down to 2.2 percent from the March projection of 2.4 percent. This largely reflects the median forecast for inflation as being marked meaningfully higher, with core PCE inflation at 3.3 percent on a Q4/Q4 basis as opposed to the March projection of 2.7 percent. Keep in mind, however, that the March projections were made very early on after the

start of the conflict with Iran. Reflecting what have been more favorable labor market conditions, the median forecast for the unemployment rate in Q4 2026 fell to 4.3 percent from 4.4 percent in the March SEP.

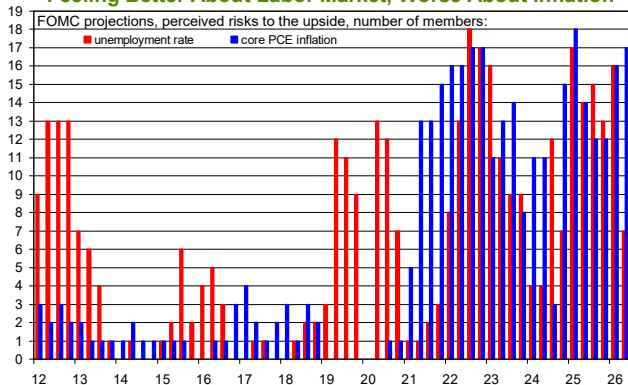
Those changes are neither surprising nor all that noteworthy as they simply reflect the evolution of the data since the March meeting. What is striking, however, is the updated dot plot. After countless meetings when the focus was on how many Fed funds rate cuts the updated dot plot would imply, this edition shows that nine of the eighteen members expected at least one Fed funds rate hike by year-end 2026, with six members implying at least fifty basis points of hikes. The year-end dots for 2027 and 2028 are also higher than in the March edition. The updated dot plot does seem more in line with how Committee members see the risks to their forecasts. While seventeen members see the risks to their inflation forecasts as being weighted to the upside, up from sixteen in March, only seven see the risks to their forecasts of the unemployment rate as being weighted to the upside, down from sixteen in March.

One could argue that the updated dot plot helps make Chair Warsh's case for him, as it seems at odds with recent declines in crude oil prices and retail gasoline prices which began prior to the U.S. and Iran having struck a deal to ease tensions in the Middle East. It is likely that the May data will mark the peak of inflation, so it could be that more FOMC members are concerned with the prospect of sticky inflation than had been the case. This also goes to Chair Warsh's point about the lack of forward guidance, which is that it is "not well suited to the current policy at this juncture." Assuming some semblance of truce in the Middle East endures, the next dot plot six weeks hence will likely look very different than this one. Mr. Warsh noted that excessive forward guidance robs market participants and central bankers of the signals being sent by price discovery.

Mr. Warsh also announced the creation of five task forces to scrutinize every facet of FOMC operations. While he clearly has ideas of what changes he feels are in order, the task forces are a way of giving FOMC members and staff a stake in these changes. All of this will take time. In the interim Mr. Warsh's main message will be the commitment to delivering price stability. That, however, could be the harder part.



### Feeling Better About Labor Market, Worse About Inflation



### Appropriate Timing Of Policy Firming

