

Back to the Powell Future?

Another two hikes a reasonable baseline for 2026

Kevin Warsh was hawkish last week. As much as he eschews forward guidance, he has given a very crude form of it – the FOMC will deliver price stability. He has not necessarily told the market what pushes the Fed to raise rates again nor has he told markets what gets the Fed to stop, but I think two things are clear.

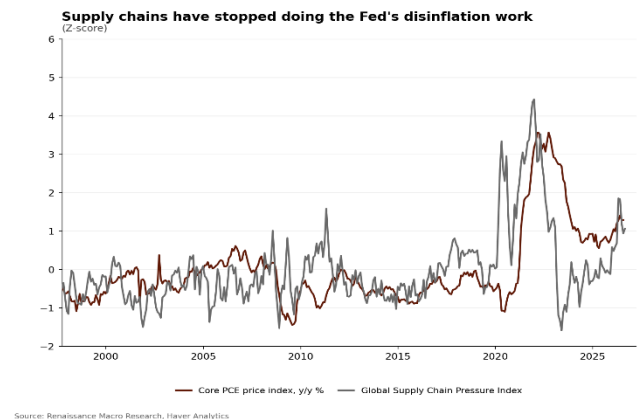
- Last week's rate hike was more the beginning of something than the end of something. Removing a "dose of accommodation" implies that policy is not restrictive to begin with. If policy is not restrictive, it is difficult to see how inflation returns to target.
- Financial market conditions are too loose. Warsh is "hard-pressed to describe broad financial conditions as restrictive" and the Fed aims to "ensure that credit and financial conditions are consistent over time with our mandate."

A reasonable baseline for the rest of the year is another two hikes, October and December. The market is priced for just over one rate hike through the end of the year. Thus, there might yet be some work for markets to do.

Where is the productivity boom?

The bigger story is a theme that Chicago Fed President Goolsbee addressed earlier today: "the only way to restore balance is to reduce demand." Indeed, as a cursory glance at the data reveals, there is likely less room for the fading of supply shocks – immaculate disinflation – to pull down inflation now than the case a few years ago.

Moreover, at the margin, delivery times appear to be lengthening of late. This is notable since one of Warsh's themes up to this point has been a supply-side driven productivity boom that would create space to ease without threatening the inflation mandate. Productivity growth has been sluggish and persistence of supply shocks makes the prospect of a boom less likely, not more.



Upward Revisions to the FOMC's Unemployment Rate Projections (1-2 Year Horizon)

Summary of Economic Projections archive, October 2007 – September 2026

Episode	SEP Vintages	Revision (1-2yr ahead)	Nature	Context
Global Financial Crisis	Jun 2008 → Jan 2009	2009 UR: 5.3-5.8% → 7.1-7.6% (Oct '08) → 8.5-8.8% (Jan '09)	Reactive	Chasing realized deterioration; largest cumulative markup in SEP history
Debt-ceiling growth scare	Jun 2011 → Nov 2011	2012 UR: 7.8-8.2% → 8.5-8.7%	Reactive	Growth scare / European crisis; partially unwound by Jan 2012
Powell 'pain' SEP	Jun 2022 → Sep 2022	2023 UR: 3.9% → 4.4%; 2024: 4.1% → 4.4% (Dec '22 took 2023 to 4.6%)	Ex ante — only instance	Paired with +100bp on the 2023 dot post-Jackson Hole; UR up because dots up, no realized deterioration (UR was 3.7%)
Sahm-rule scare	Jun 2024 → Sep 2024	2024 UR: 4.0% → 4.4%; 2025: 4.2% → 4.4%	Reactive	Marking to realized labor softening; paired with the 50bp cut
Tariff stagflation shock	Dec 2024 → Jun 2025	2025 UR: 4.3% → 4.5%; 2026: 4.3% → 4.5%	Exogenous	UR and inflation both revised up; dots still showed cuts — shock-driven, not policy-chosen

Memo: current vintage

Sep 2026 SEP moved the opposite direction: median UR revised DOWN to 4.1% for 2026-28 (from 4.3/4.3/4.2 in June) alongside a 25bp hike and a dot plot showing further tightening — an 'immaculate disinflation' forecast. Historical template implies the pain concession, if it comes, lands Dec 2026-Mar 2027 (2-3 quarters post-lift-off, per the 2022 lag).

Source: Federal Reserve Board, Summary of Economic Projections

Serious about inflation means higher U3

A Fed that is serious about bringing inflation to target is a Fed that is serious about pushing up the unemployment rate. The most recent guide is September 2022. Normally, if the Fed sees higher unemployment, it is largely a reactive affair; their marking to market their forecast. September 2022 is a rare example of the Fed signaling its intent. We're not close to this point yet.

In September 2022, the market reaction to the FOMC day was a bear flattening as the two-year yield jumped and sell-off in equities. I think this is a reasonable guide to what may transpire if Warsh means business about price stability now. For someone that was meant to be the anti-Powell, Warsh is shaping up to be a lot like him!

Data review: Consumption en fuego

Consumers' spending is defying gravity. After a couple of soft months, retail sales surged in August. Consumption is supported by a wealth effect; as net worth continues rising relative to income, the household saving rate has declined. All told, we're tracking 3.5 to 4.0 real PCE annualized growth in Q3. We remain skeptical that this pace can sustain. Real income growth continues to cool off while fiscal policy tightens into year-end.

While consumption is strong, we see somewhat less juice out of manufacturing and housing. As strong as manufacturing business surveys have been, there is not much evidence of a breakout in actual factory production. This is a reminder that surveys are not a substitute for hard-data. Importantly, productivity in the industry appears sluggish. Aggregate hours worked have risen more than output. The weak growth in productivity undercuts the notion of a supply-side boom.

Factory hours rising faster than output

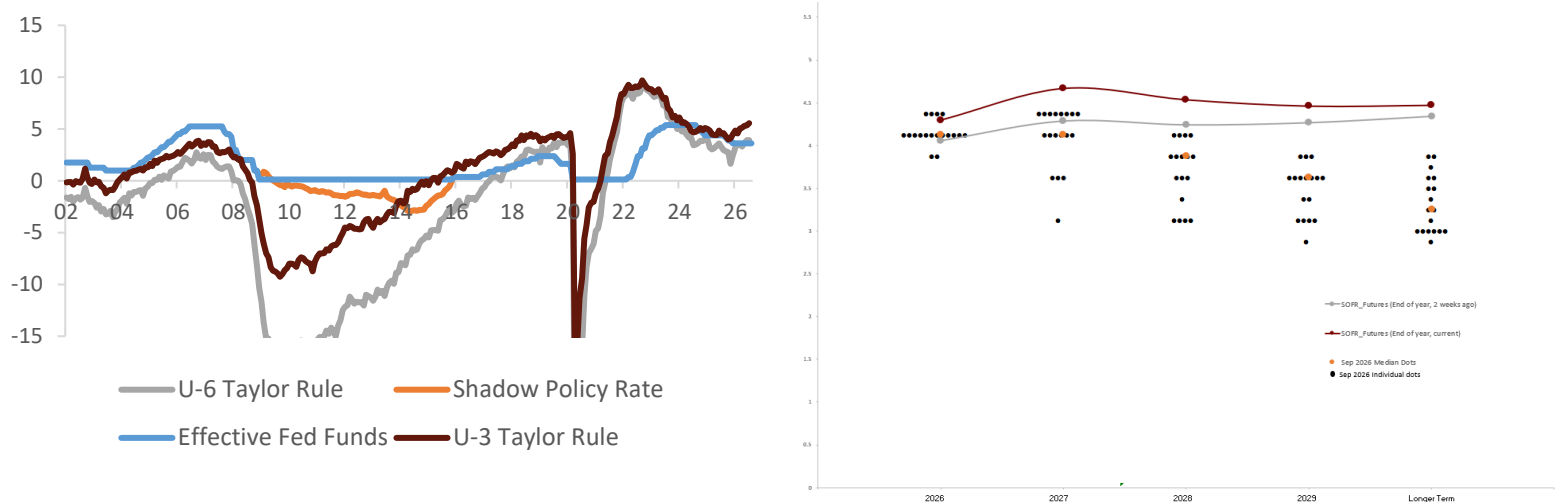


Builder sentiment points to weaker single-family construction

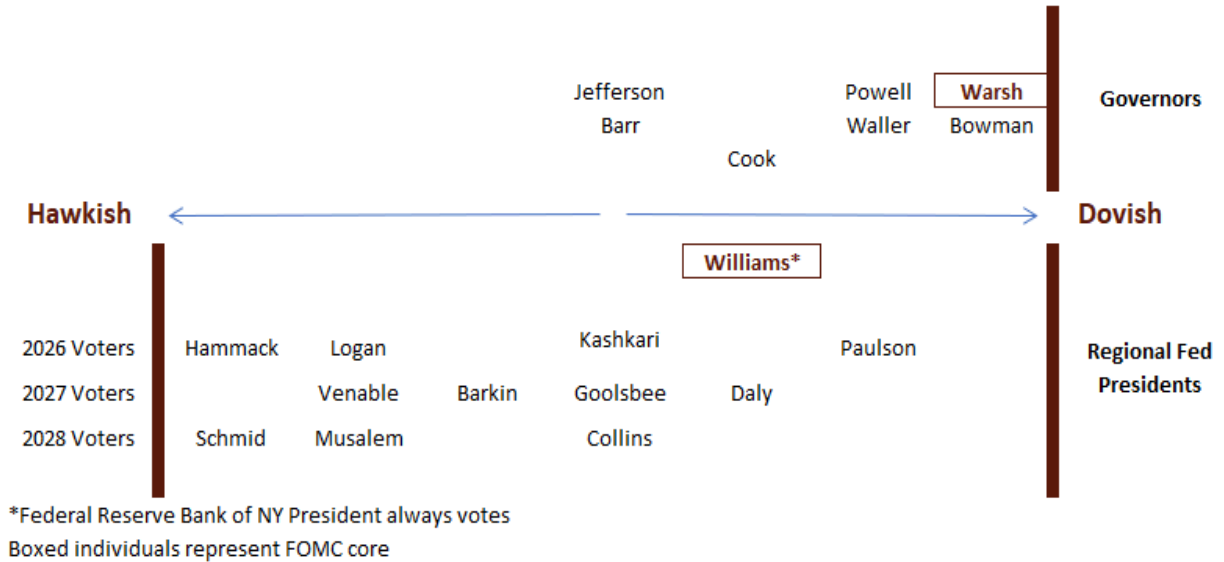


Housing continues to buckle under higher interest rates. With housing demand fading, there is some evidence that inventories are beginning to creep up. This is not a positive development for residential construction. In September, builder sentiment hit another low. Typically, this is an unwelcome sign for new home sales and residential construction activity. The lack of housing turnover is one reason to expect somewhat slower growth in household durables spending lies ahead.

Monetary metrics



Hawks and Doves



FOMC Forecasts	Median					Central Tendency				
	2026	2027	2028	2029	Longer run	2026	2027	2028	2029	Longer run
Change in real GDP	2.3	2.4	2.2	2.1	2.0	2.2-2.4	2.2-2.6	2.1-2.3	2.0-2.2	2.0-2.2
March projection	2.2	2.3	2.2		2.0	2.0-2.3	2.0-2.4	2.0-2.3		1.8-2.0
Unemployment rate	4.1	4.1	4.1	4.1	4.2	4.1-4.2	4.0-4.2	4.0-4.2	4.0-4.3	4.0-4.3
March projection	4.3	4.3	4.2		4.2	4.3-4.4	4.2-4.5	4.1-4.3		4.0-4.3
PCE inflation	3.7	2.3	2.1	2.0	2.0	3.5-3.7	2.2-2.5	2.0-2.2	2.0	2.0
March projection	3.6	2.3	2.0		2.0	3.5-3.7	2.2-2.5	2.0-2.1		2.0
Core PCE inflation ⁴	3.4	2.5	2.2	2.0		3.3-3.4	2.3-2.6	2.0-2.2	2.0	
March projection	3.3	2.5	2.1			3.2-3.5	2.3-2.6	2.0-2.2		
Projected policy path										
Fed funds rate	4.1	4.1	3.9	3.6	3.2	4.1-4.4	3.6-4.4	3.1-4.1	3.1-3.6	3.0-3.6
March projection	3.8	3.6	3.4		3.1	3.6-4.1	3.1-3.9	3.1-3.6		3.0-3.5

VOTING RECORD FOR THE PAST 7 FOMC MEETINGS

Fed funds rate target range (bps changes)

Member	Kevin	Jerome	Michael	Michelle	Lisa	Philip	Chris.	John	Beth	Neel	Lorie	Anna	Stephen			
	Warsh	Powell	Barr	Bowman	Cook	Jefferson	Waller	Williams	Hammack	Kashkari	Logan	Paulson	Miran			
	Chair	Board	Board	Board	Board	Board	Board	NY	Cleveland	Minne.	Dallas	Philly	Board			
		of	of	of	of	of	of	Fed	Fed	Fed	Fed	Fed	of			
		Gov's	Gov's	Gov's	Gov's	Gov's	Gov's	President	President	President	President	President	Gov's			
Term ends	May	Jan.	Jan.	Jan.	Jan.	Jan.	Jan.	Jun.	Dec.	Dec.	Dec.	Dec.	Jan.			
	2030	2028	2032	2034	2038	2036	2030	2028	2026	2026	2026	2026	2026			
Fed funds mid-point																
	Vote Split															
	Level, %	Δ, bp	(Ease-no change -tighten)													
Dec.10	3.625	-25	10-2-0	N/A	-25	-25	-25	-25	-25	-25	-25	N/A	N/A	N/A	N/A	-50
Jan.28	3.625	0	2-10-0	N/A	0	0	0	0	0	-25	0	0	0	0	0	-25
Mar.18	3.625	0	1-11-0	N/A	0	0	0	0	0	0	0	0	0	0	0	-25
Apr.29	3.625	0	1-11-0	N/A	0	0	0	0	0	0	0	0	0	0	0	-25
Jun.17	3.625	0	0-12-0	0	0	0	0	0	0	0	0	0	0	0	0	N/A
Jul.29	3.625	0	0-9-3	0	0	0	0	0	0	0	0	+25	+25	+25	0	N/A
Sep.16	3.875	+25	0-0-12	+25	+25	+25	+25	+25	+25	+25	+25	+25	+25	+25	+25	N/A

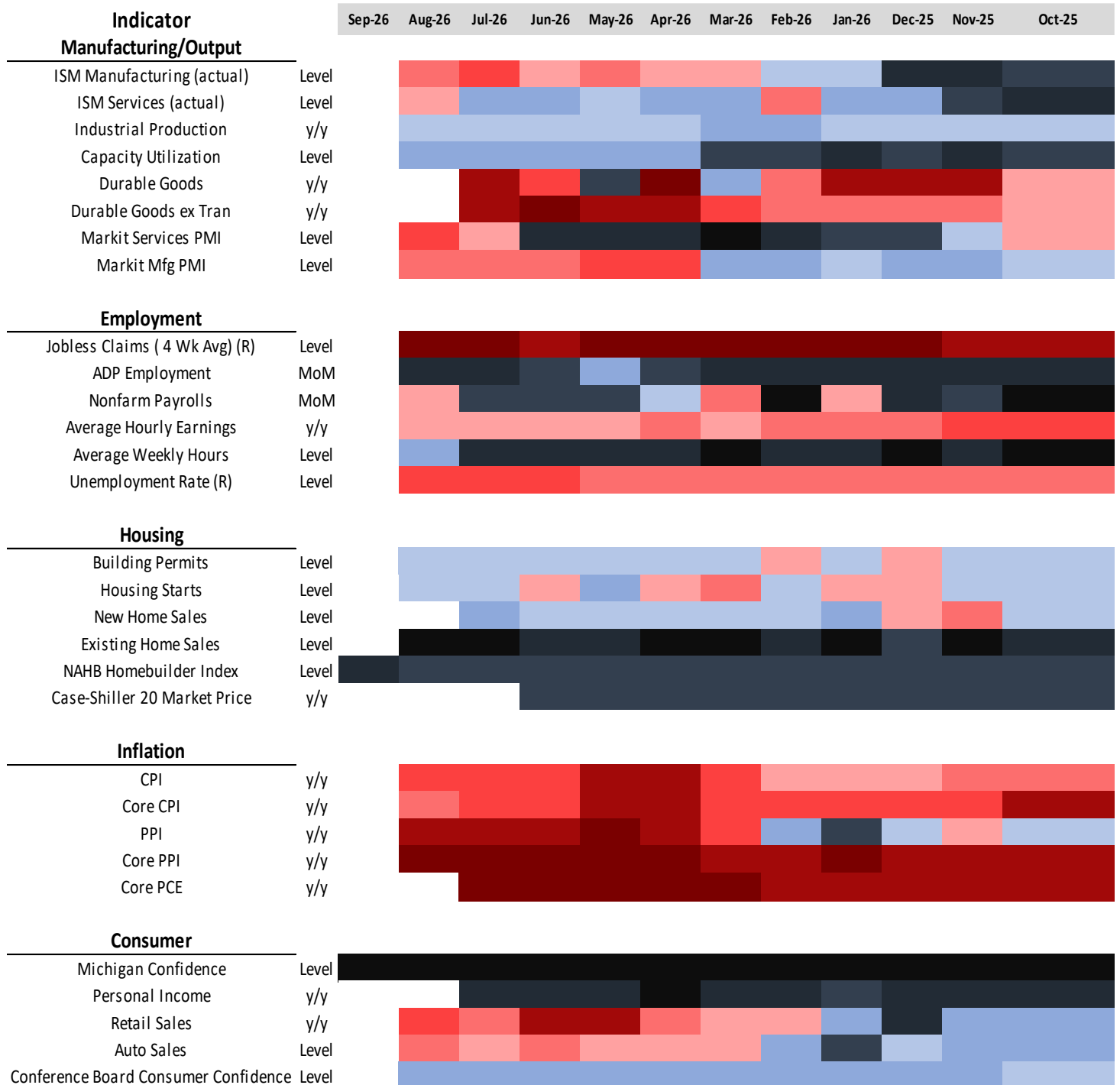
Shaded = dissent on the rate decision; the member's own preferred change is shown. N/A = not a voting member. Vote split counts every voter's preferred direction, so it differs from the for-against tally.

Dec-2025 used the 2025 rotation (Collins, Musalem, Goolsbee, Schmid), who are counted in that row's split but have no column.

Miran's Board term expired January 31, 2026; he served on in a holdover capacity until formally resigning May 21, 2026, hence his votes through April 29.

Source: Federal Reserve FOMC statements and committee membership; Haver Analytics; Bloomberg.

High frequency data heat-map



Notes

R - Reverse Formatting

Deciles are based on expanding window since 2001

Highest decile

10

9

8

7

6

5

4

3

2

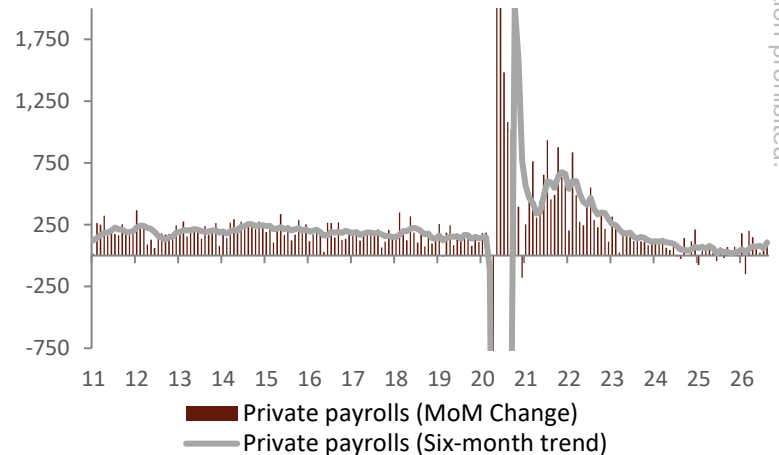
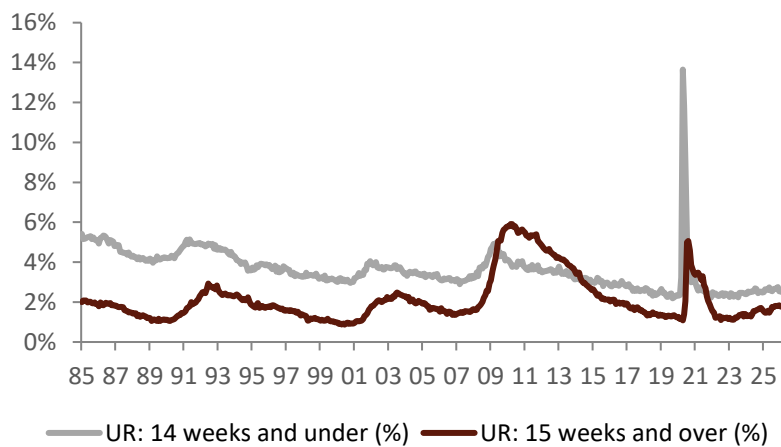
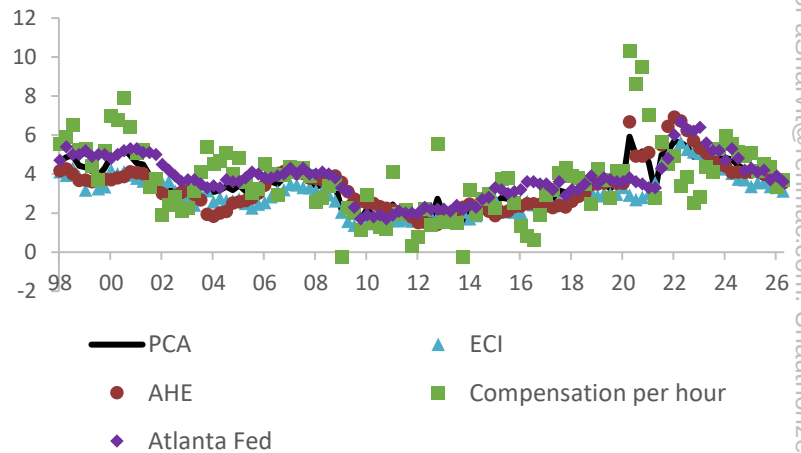
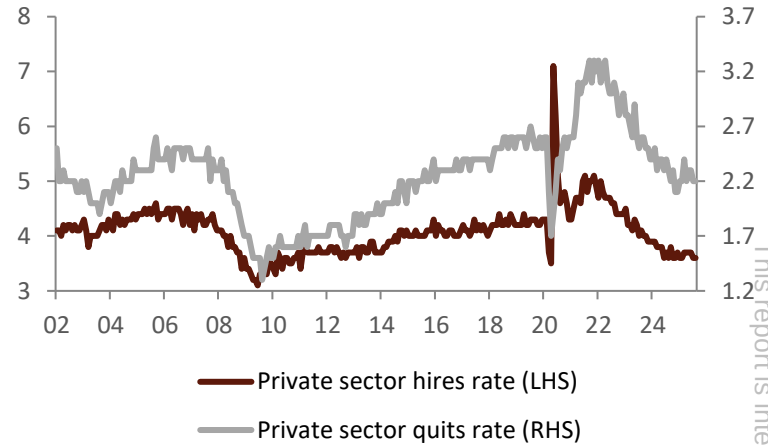
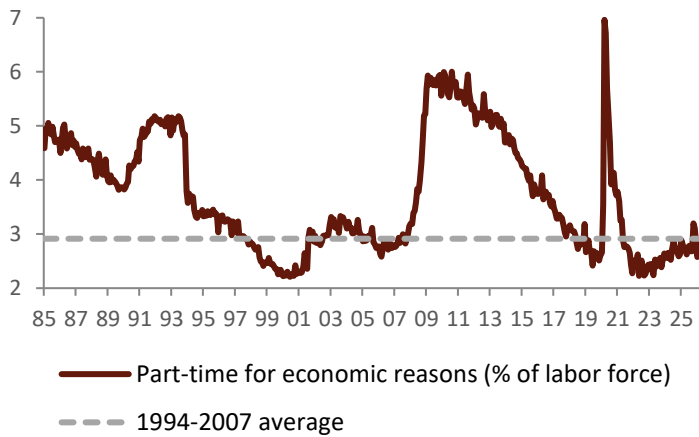
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Lowest decile

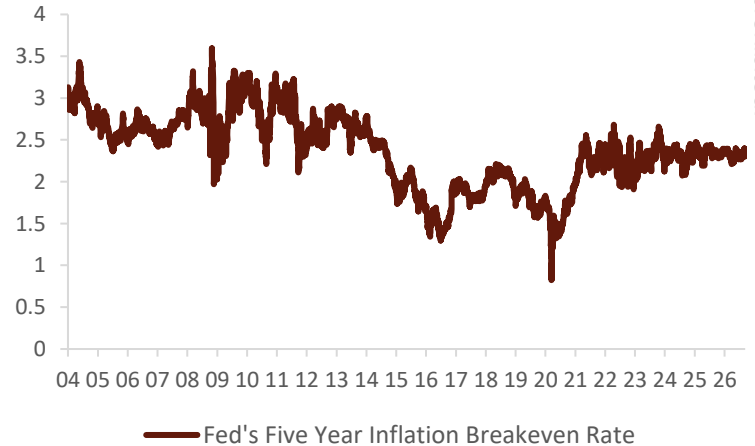
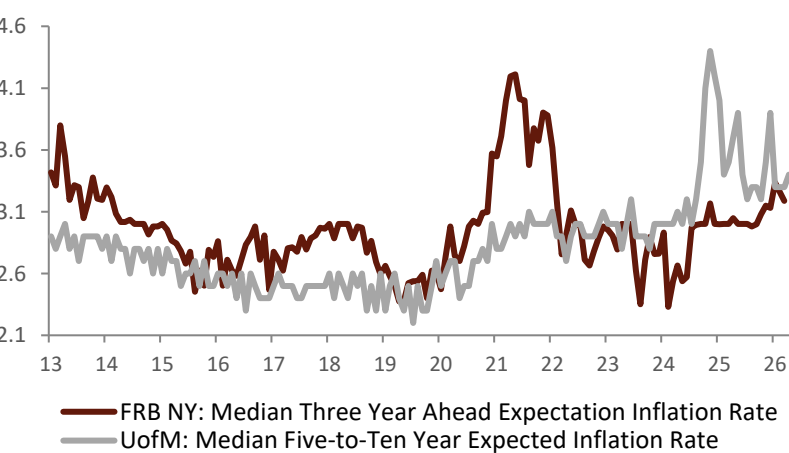
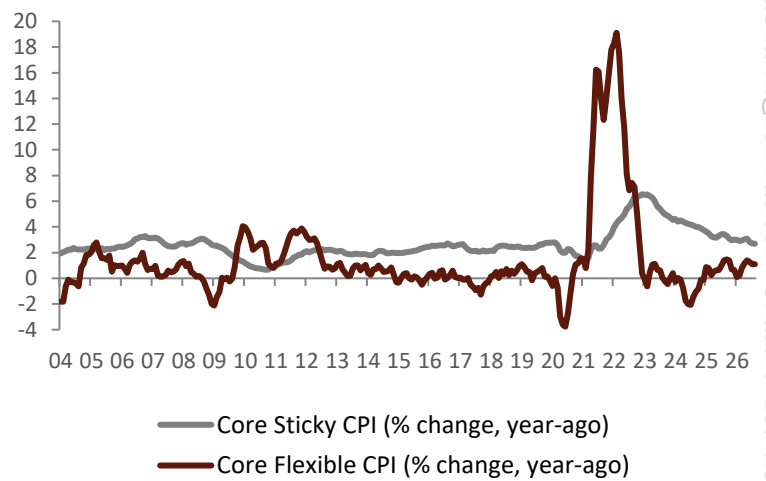
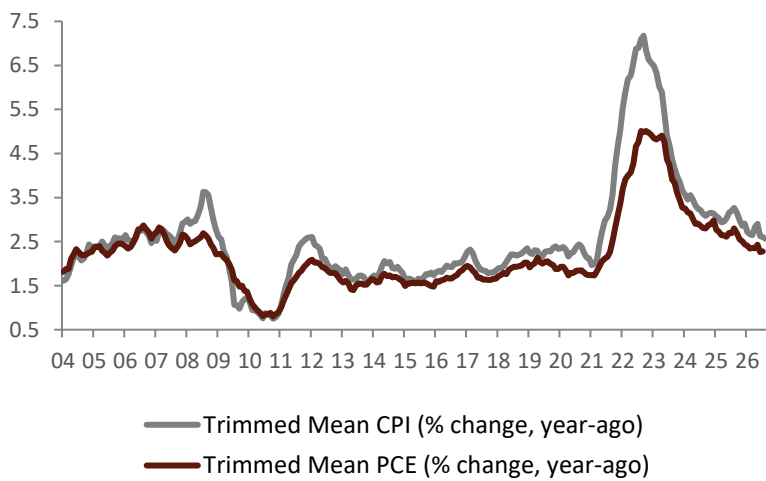
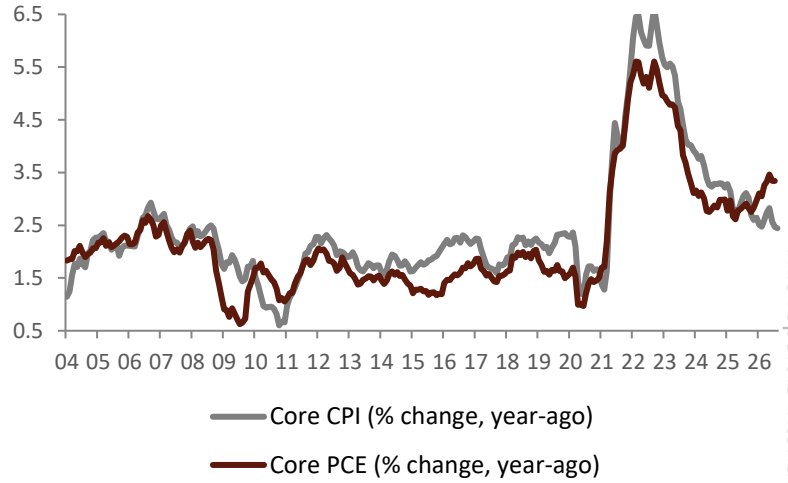
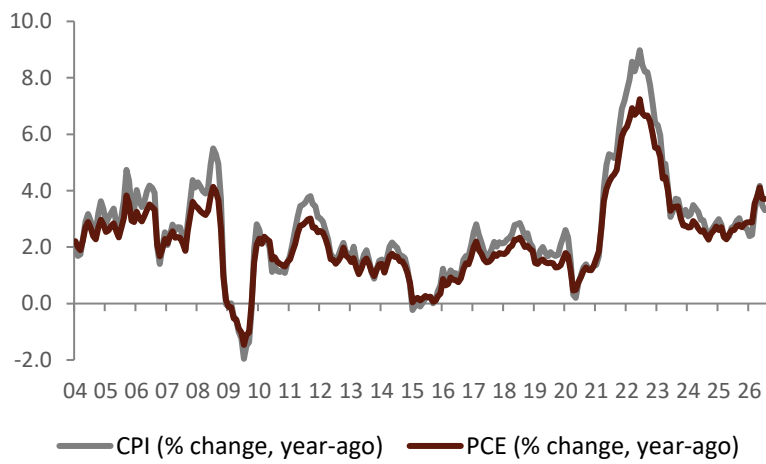


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Labor market indicators



Inflation indicators



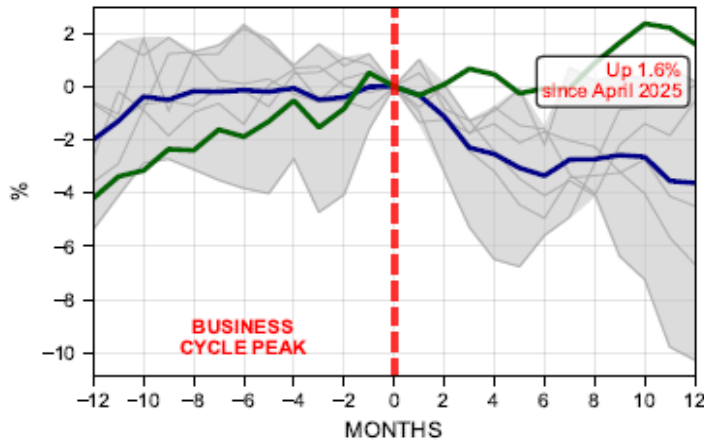
US Inflation Heatmap (6-Month Annualized)



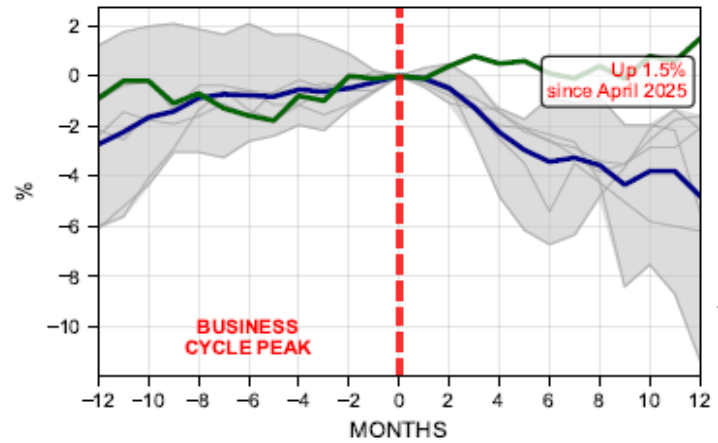
Note: The heatmap shows the distance of each US CPI component's 6-month annualized inflation rate from its historical average. The colour is white when a component's inflation rate is close to its average and is a varying shade of blue (red) when the rate is below (above) the average. Each inflation rate is standardized by subtracting its mean and dividing by its standard deviation, computed over 1996-2019. and We show full Nondurables (which includes food and energy components) alongside Durables, New vehicles, Used cars and trucks, and Apparel; the parent group itself excludes food and energy. Food away from home, Other personal services, and Tenants' & household insurance are published NSA by BLS and seasonally adjusted via X-13ARIMA-SEATS. Values in parentheses are CPI relative importance weights (parts per 100). Sources: BLS via Haver Analytics; RenMac calculations. Last observation: August 2026.

NBER RECESSION INDICATORS DASHBOARD

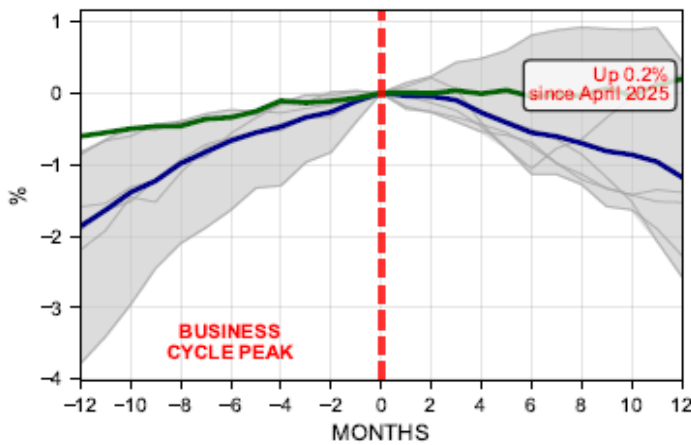
REAL SALES: MANUFACTURING AND TRADE INDUSTRIES



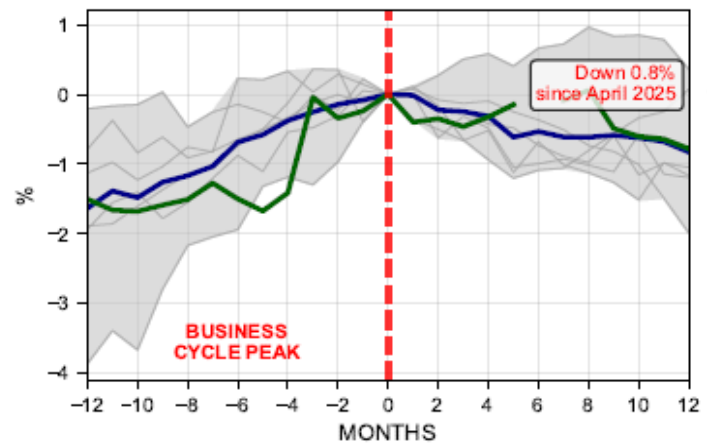
INDUSTRIAL PRODUCTION



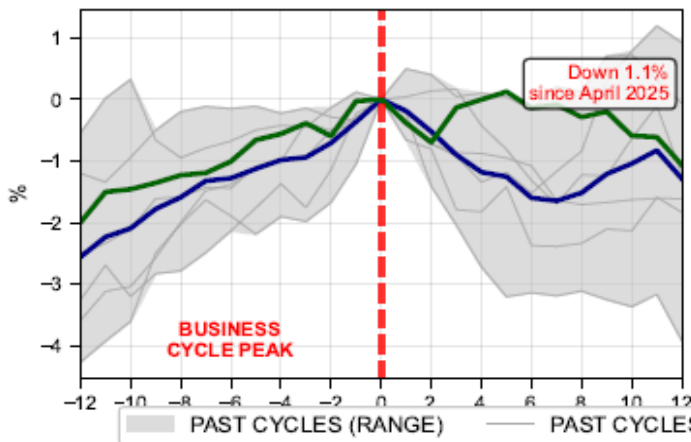
US NONFARM PAYROLLS



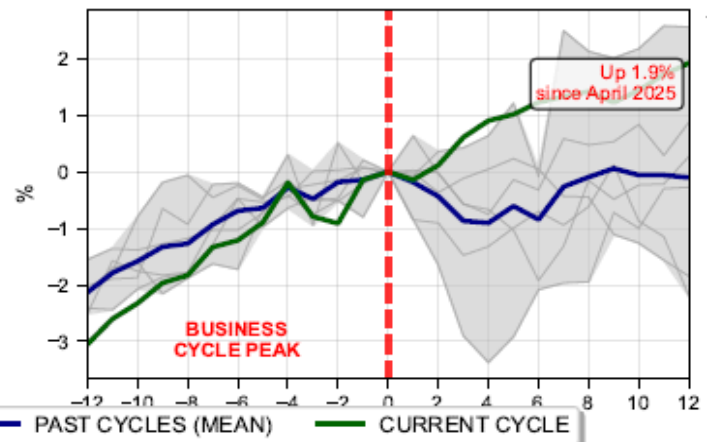
CIVILIAN EMPLOYMENT



REAL PERSONAL INCOME MINUS CURRENT TRANSFER RECEIPTS



REAL PCE

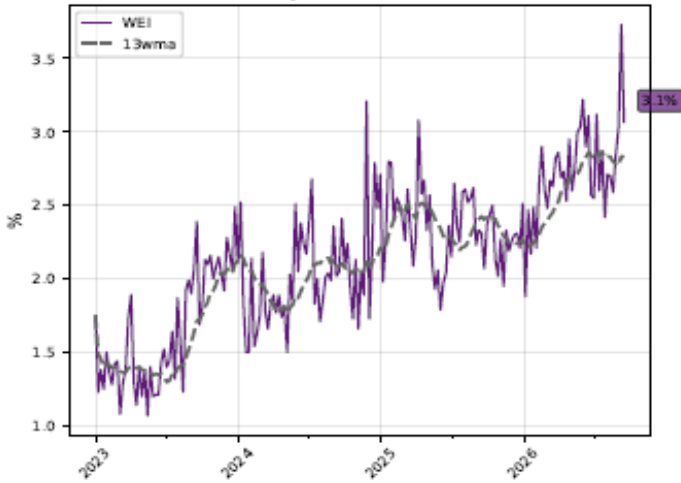


PAST CYCLES (RANGE) PAST CYCLES PAST CYCLES (MEAN) CURRENT CYCLE

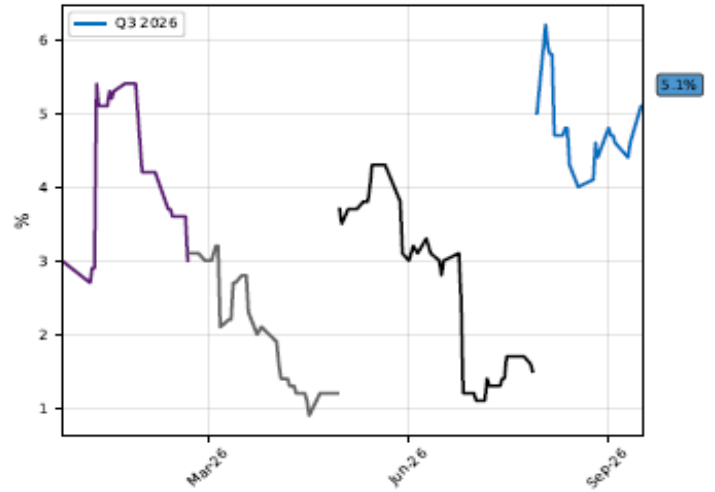
Past 7 cycles excluding Covid-19 period

High Frequency Economic Dashboard

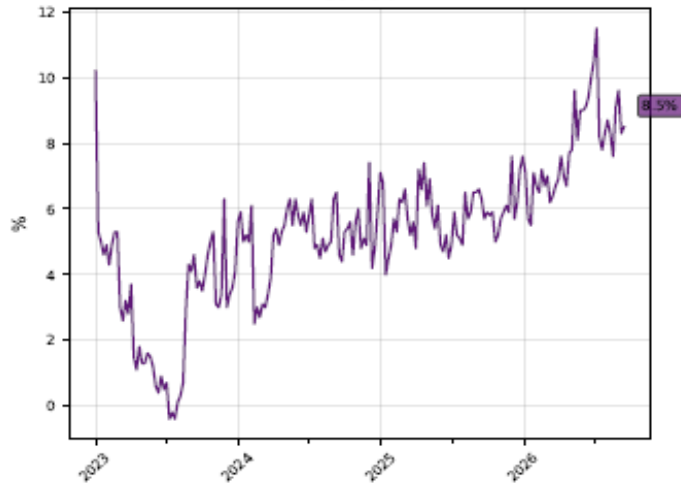
Weekly Economic Index



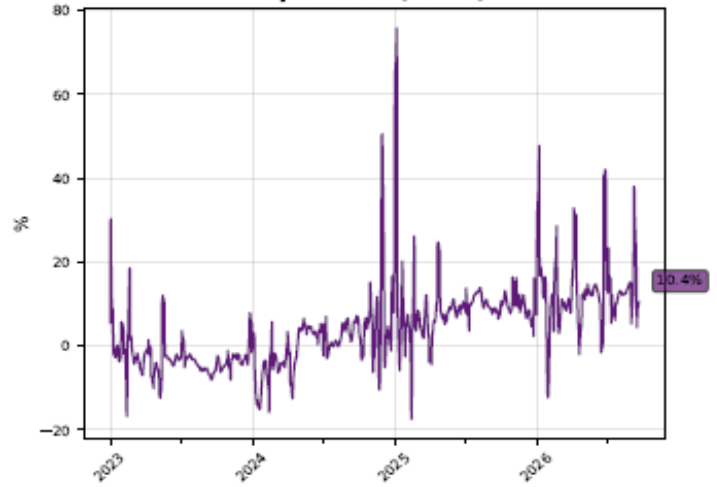
GDPNow



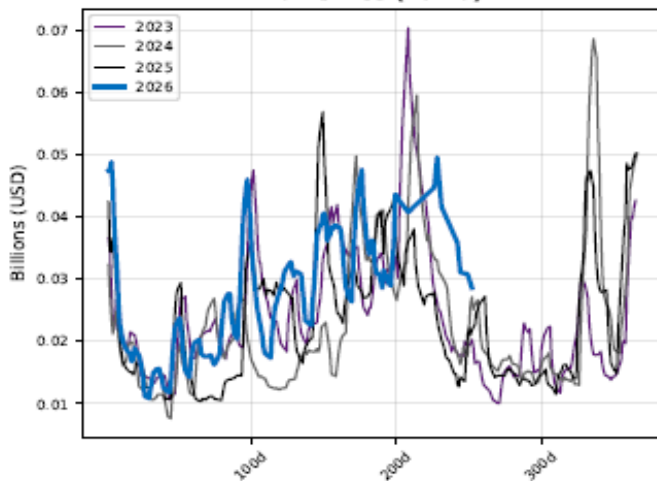
Redbook



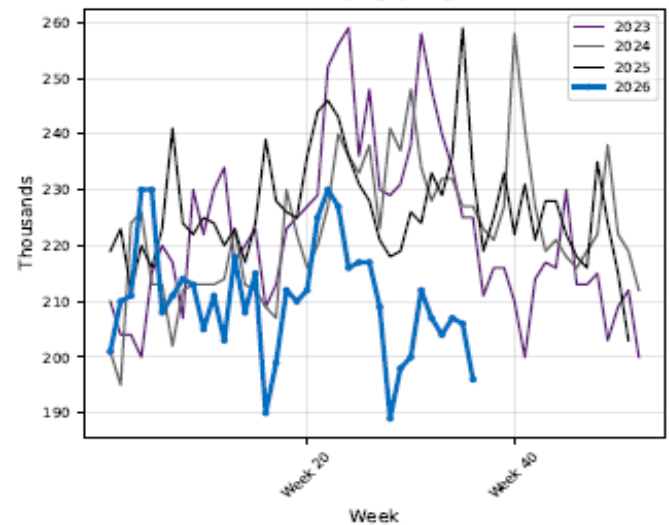
OpenTable (7dma)



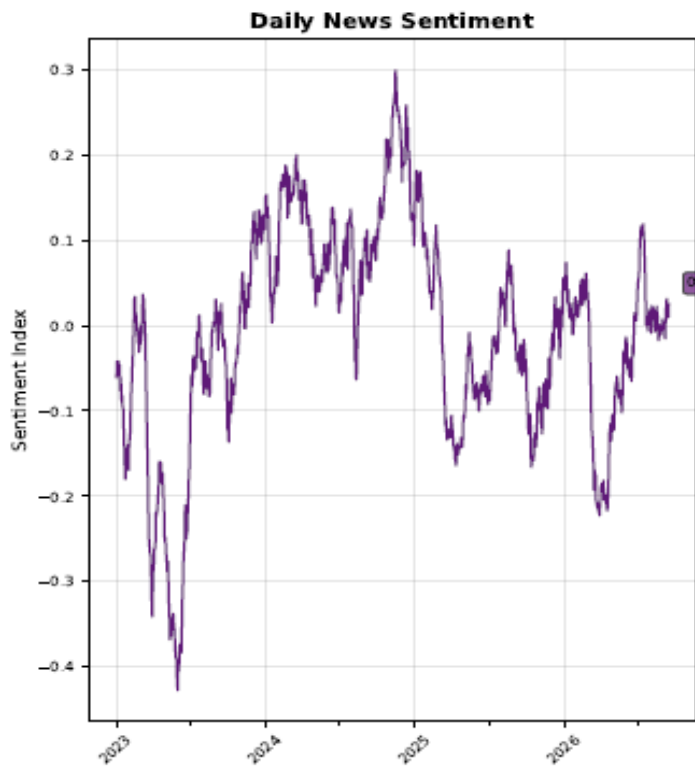
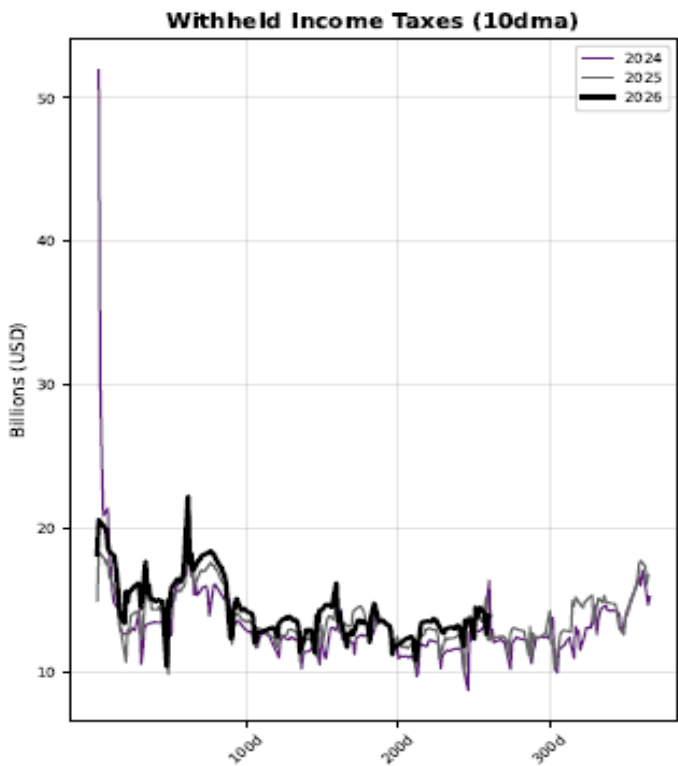
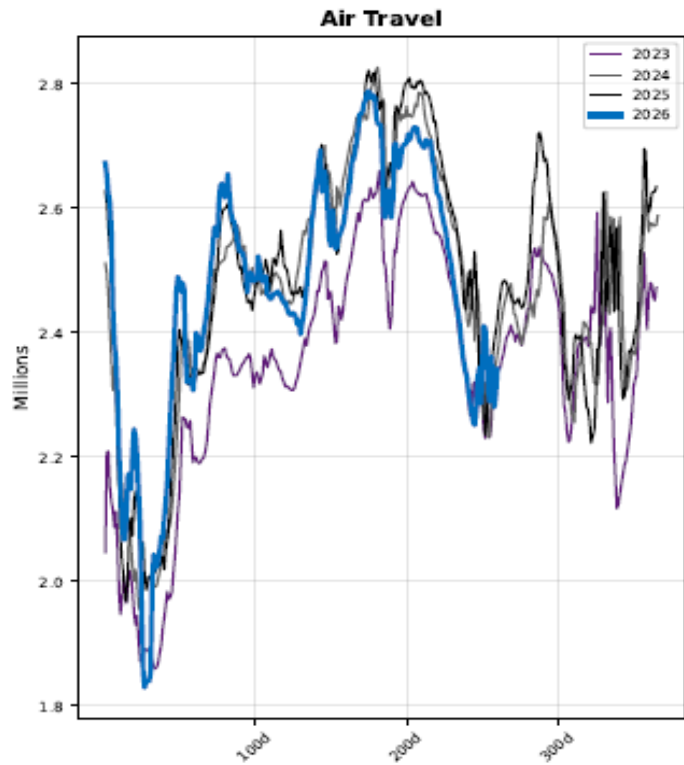
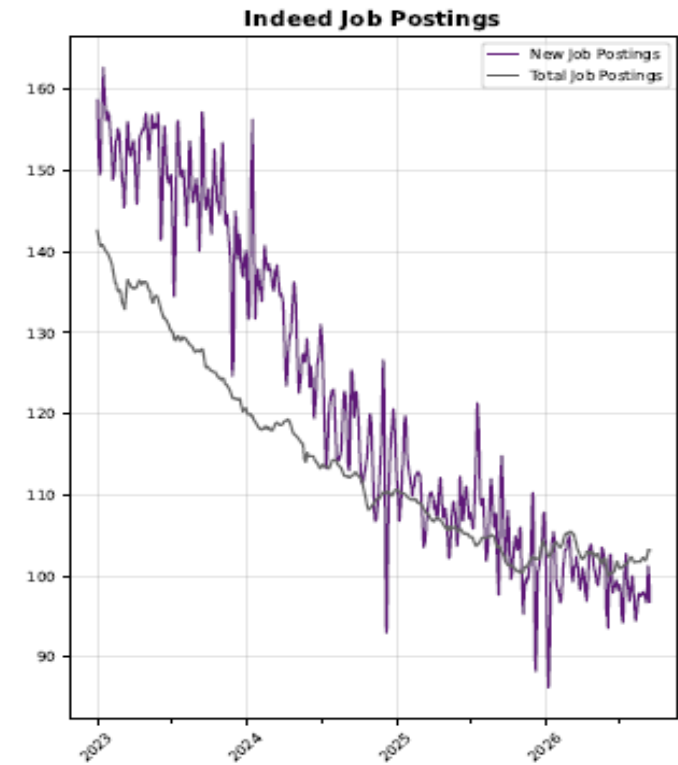
Box Office (7dma)



Initial Claims



High Frequency Economic Dashboard



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