June 16, 2026

Monday Monetary Thoughts

Warsh faces the music

Neil Dutta

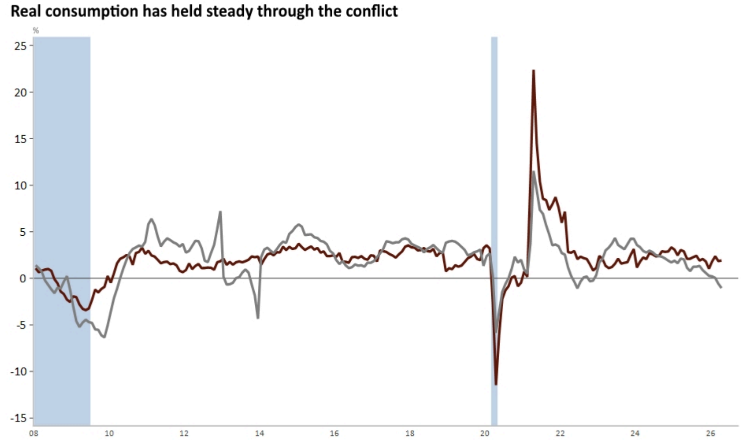
Consumption smoothing

Events over the weekend have led to a sharp decline in crude oil prices.

First, the drop is likely to take pressure of rate hike bets. Hiking into a supply shock seems much less likely now than hiking into solid growth – equities can live with that. If the Fed was willing to lean into two negative supply shocks – tariffs and oil – before, the easing of these supply shocks should imply the opposite now. Household inflation expectations are likely to fall. That said, core inflation is running firmer in the US than it is elsewhere, and this is likely to keep some upward pressure on the USD relative to other G10 currencies.

Second, on the economy, I would not expect a rapid turn in consumers' spending. Real consumption has been relatively steady during the conflict with Iran – consumption smoothing. If households see the real income loss as temporary, then they'll maintain their real consumption behavior and dip into savings. The drop in oil prices will now allow households to replenish those buffers as real incomes recover.

Real consumption has held steady through the conflict



Source: Renaissance Macro Research, Macrobond

Hawkish shift

As the Iran War broke out, the concern was primarily of stagflation, weak growth coupled with elevated inflation. Stagflation creates tension for policymakers as they are pulled in opposing directions. As the conflict progressed and is now ending, no tension exists. An inflationary boom better characterizes the tenor of the data in recent weeks.

Payroll employment has strengthened while underlying inflation has perked up somewhat. The Fed is moving further away from both its dual mandate goals as labor markets potentially tighten while inflation already remains above target. Central bankers only know how to respond to these conditions in one way – policy will continue to be nudged in a hawkish direction.

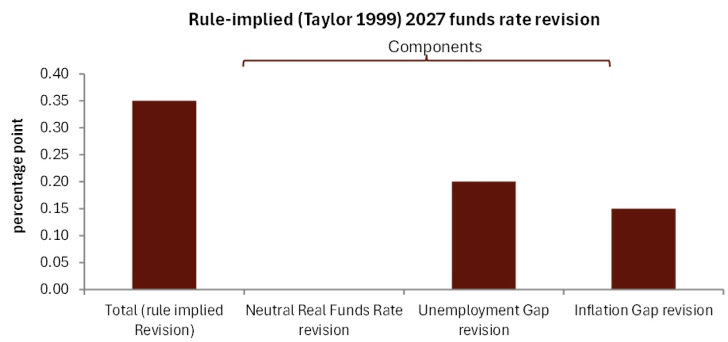
For this week's meeting, Warsh's first, I expect a slight hawkish shift. The language around "additional adjustments" will be dropped from the press statement. This works in two ways. First, it gives the hawks on the FOMC, a policy win. Many had dissented in favor of dropping the language in April. Now, they'll get what they want. Second, for Chair Warsh, the presence of an easing bias is itself a form of forward guidance he has publicly said he does not like to begin with.

Warsh should not take up the Miran mantle

Looking through the Summary of Economic Projections, former Governor Miran was the lowest "dot" on the FOMC, at 2.625 percent or 100 basis points of rate cuts. That's gone. Of the remaining participants, seven officials wanted no rate change in 2026, seven wanted one cut, and the other four wanted more than one cut.

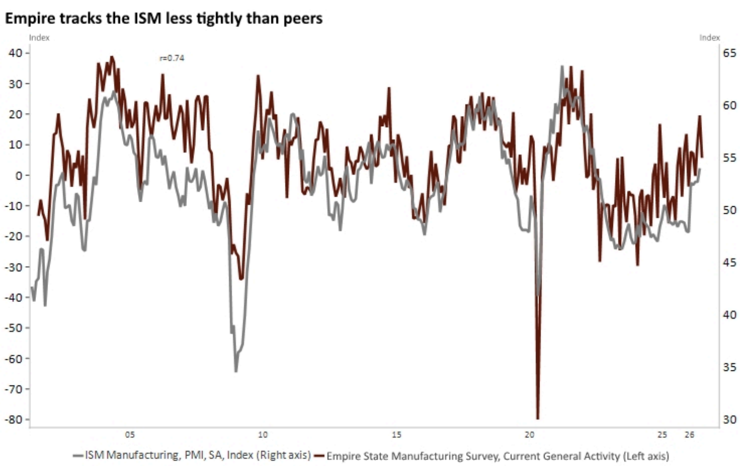
I am not sure if Warsh decides to submit forecasts into the SEP. On the one hand, it's part of the forward guidance that he hates. On the other hand, not submitting a forecast is a bit like unilateral disarmament. You allow others to fill the information and communications vacuum by keeping quiet yourself.

If he decides to put down a forecast, it probably would not be a welcome development for the bond market if he took up Miran's mantle nor would it make for comfortable post-meeting press conferences. It's best to stake out a position within the dovish mainstream of the FOMC. No one is going to be persuaded of a productivity-driven Golden Age right now.



Note: Funds rate revision = neutral_real_rate_revision + 0.5*Core_Inflation_revision + 2*Unemployment_gap_revision

A mark to market accounting the forecasts should take rate cuts completely off the table with at least a few participants penciling in hikes in 2027 – currently only one official does. The 2026 median projection has core PCE rising 2.7 percent against last year. Presently, core PCE inflation is average roughly 4.0 percent so far this year with the year-over-year percent change up to 3.4 percent. The inflation forecast needs to come up by at least 0.3ppt. The unemployment rate is presently 4.3 percent, a tenth below the current estimate. Plugging these changes into a standard Taylor Rule implies that the appropriate federal funds rate should be marked up by roughly 35 basis points, or one to two rate hikes.

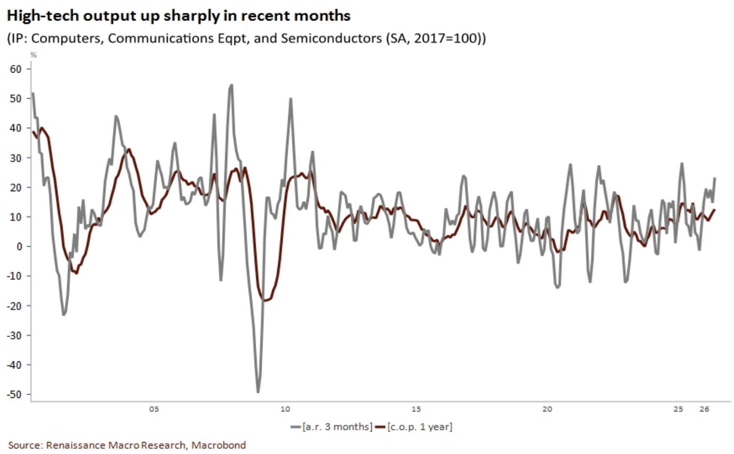


Source: Renaissance Macro Research, Macrobond

Data review

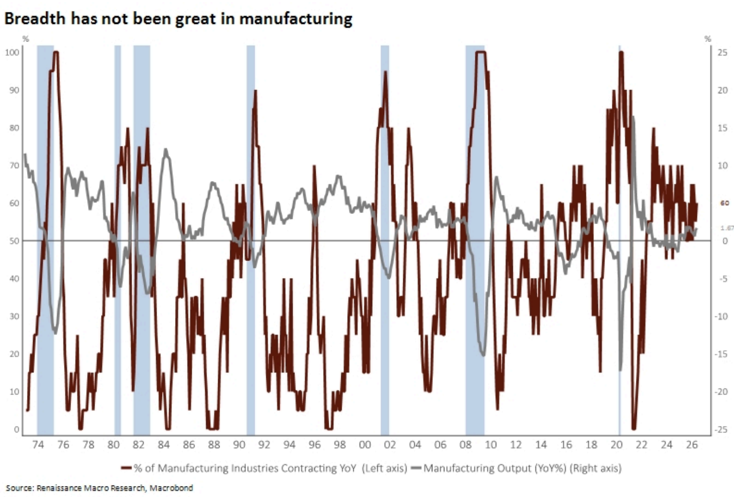
Empire hits a three-month low

The New York Empire Manufacturing Index missed estimates, declining to a three-month low of 5.7 in June from 19.6 in May. The good news is that this is the fifth month of expansion in the last six. New orders slid to +3.5, the lowest since December 2025. Lastly, capital spending intentions fell to 10.9, the lowest since January. I tend to put less weight on the Empire survey; the index has a 0.74 contemporaneous correlation with the ISM Manufacturing PMI, somewhat lower than other regional PMIs.

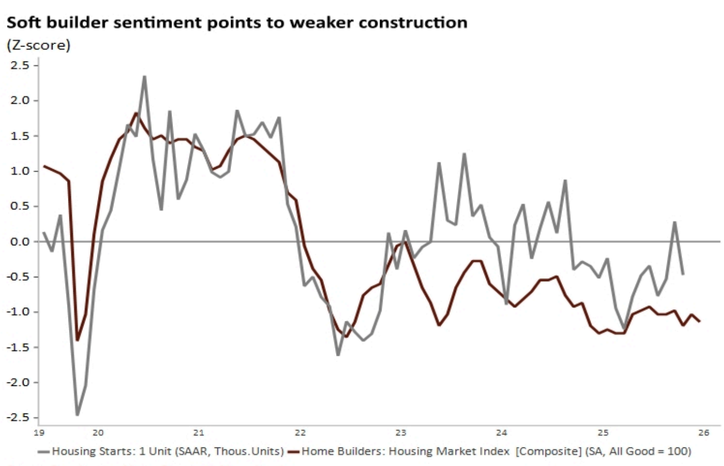


Manufacturing output stalls in May

In May, manufacturing production stalled after rising for four consecutive months. The growth in manufacturing last month was helped by a 1.2 percent burst in motor vehicle and parts production. Excluding autos, manufacturing production was flat over the month, the weakest since January. Outside of autos, manufacturing remains well supported by high-tech industries. Selected high-tech industries have seen factory output up 23.3% SAAR over the last three months.



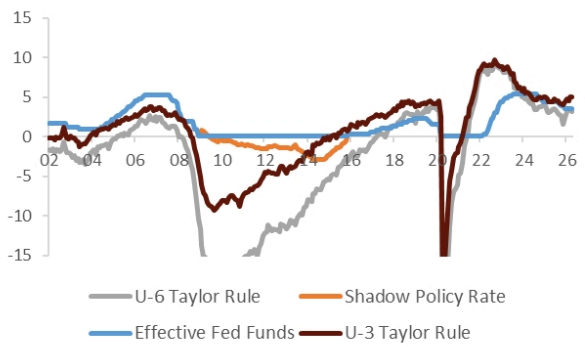
That said, the broader story in manufacturing is one of relative weakness in breadth – conditions seem uneven. Over the last year, manufacturing output is up about 1.5 percent; however, during this period ,more than half the sub-industries have been sliding.

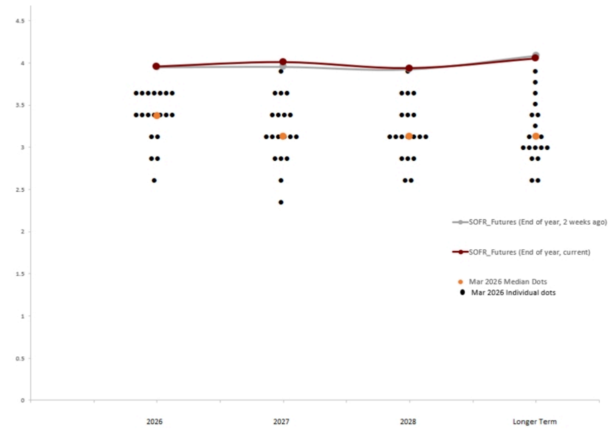


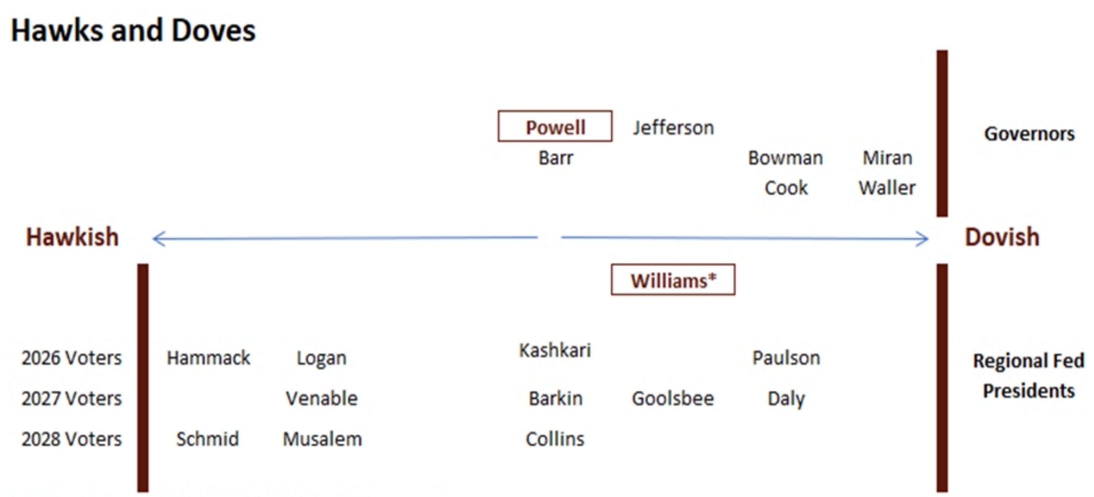
Builder sentiment sluggish

The NAHB Housing Market Index unexpectedly decline in June, sliding two points to 35. The decline was driven by current sales, which slid to 38, largely undoing the improvement in May. Six-month sales expectations and prospective buyer traffic were unchanged. Across the country, builder sentiment has improved notably in the Northeast but fell sharply in the South. Looking ahead, the sluggish level of builder sentiment alongside the still elevated interest rate environment will likely constrain new housing construction.

Monetary metrics

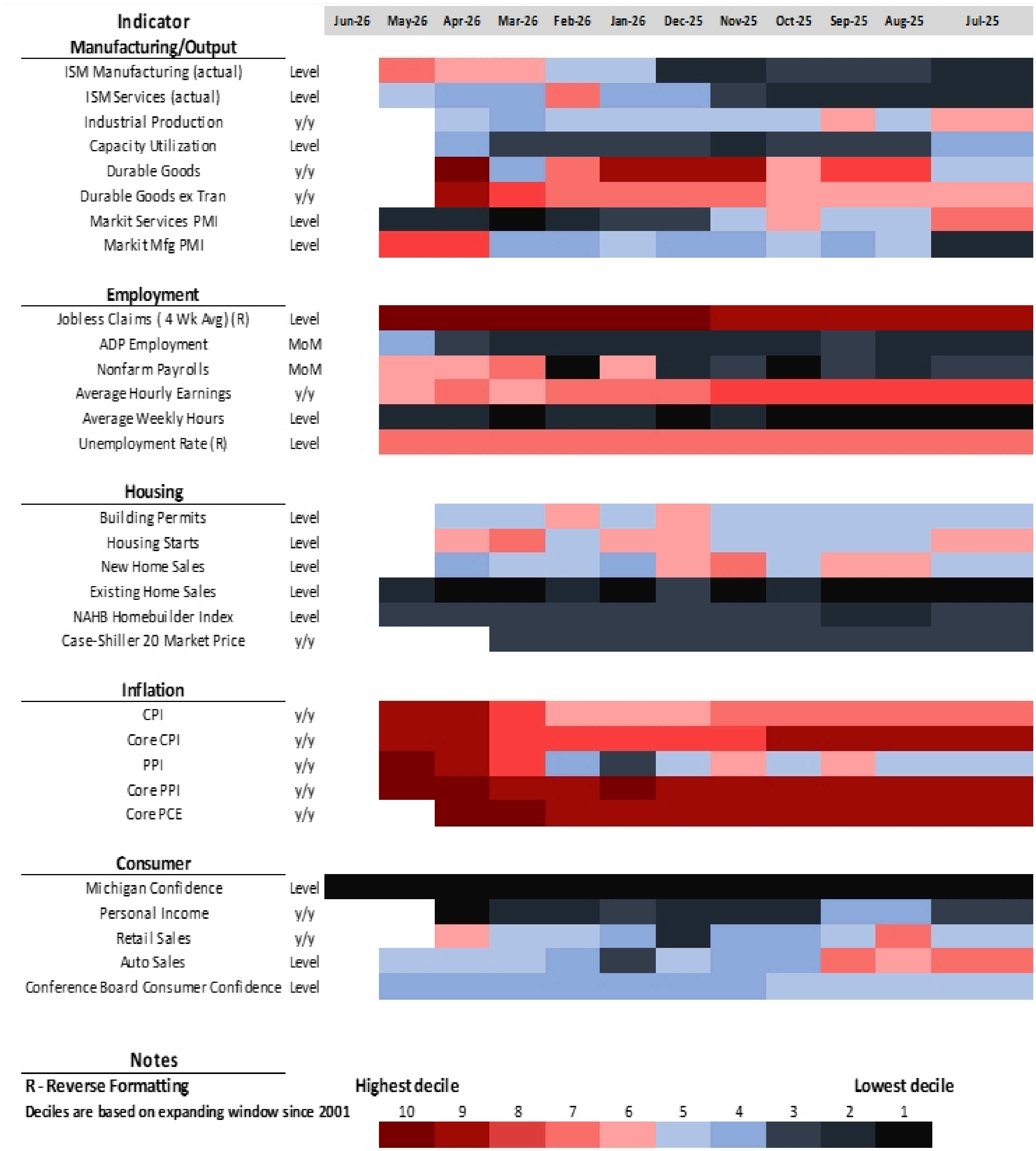




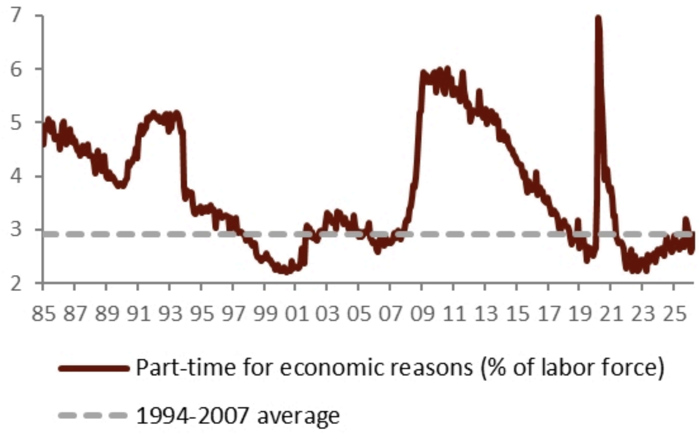


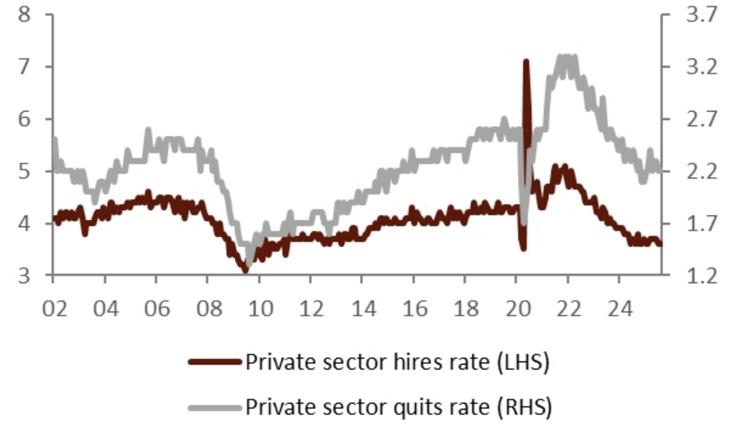
FOMC Forecasts	Median				Central Tendency			
	2026	2027	2028	Longer run	2026	2027	2028	Longer run
Change in real GDP	2.4	2.3	2.1	2.0	2.2–2.5	2.0–2.4	2.0–2.3	1.8–2.0
December projection	2.3	2.0	1.9	1.8	2.1–2.5	1.9–2.3	1.8–2.1	1.8–2.0
Unemployment rate	4.4	4.3	4.2	4.2	4.3–4.5	4.2–4.4	4.0–4.4	4.0–4.3
December projection	4.4	4.2	4.2	4.2	4.3–4.4	4.2–4.3	4.0–4.3	4.0–4.3
PCE inflation	2.7	2.2	2.0	2.0	2.6–3.1	2.0–2.3	2.0	2.0
December projection	2.4	2.1	2.0	2.0	2.3–2.5	2.0–2.2	2.0	2.0
Core PCE inflation	2.7	2.2	2.0		2.5–2.8	2.0–2.4	2.0	
December projection	2.5	2.1	2.0		2.4–2.6	2.0–2.2	2.0	
Projected policy path								
Fed funds rate	3.4	3.1	3.1	3.1	3.1–3.6	2.9–3.6	2.9–3.6	2.9–3.5
December projection	3.4	3.1	3.1	3.0	2.9–3.6	2.9–3.6	2.8–3.6	2.8–3.5

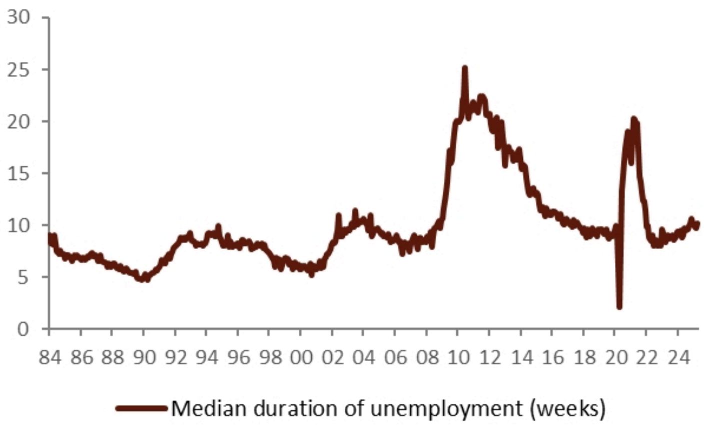
High frequency data heat-map

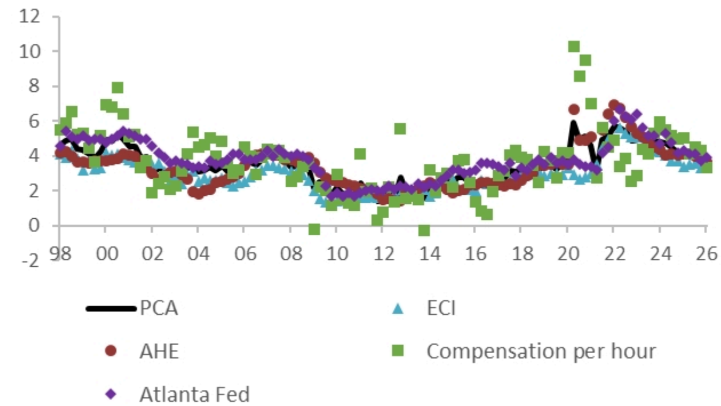


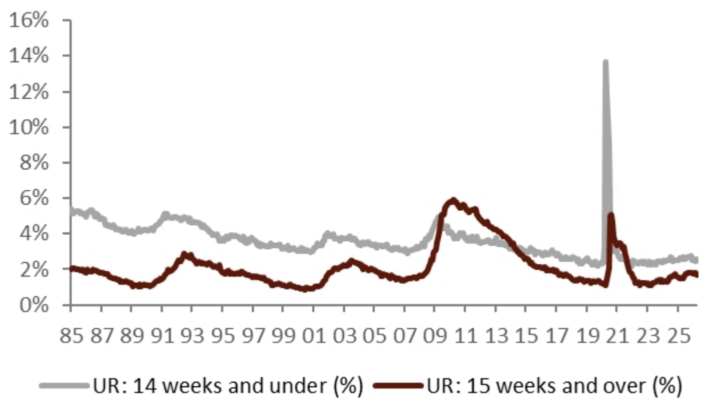
Labor market indicators

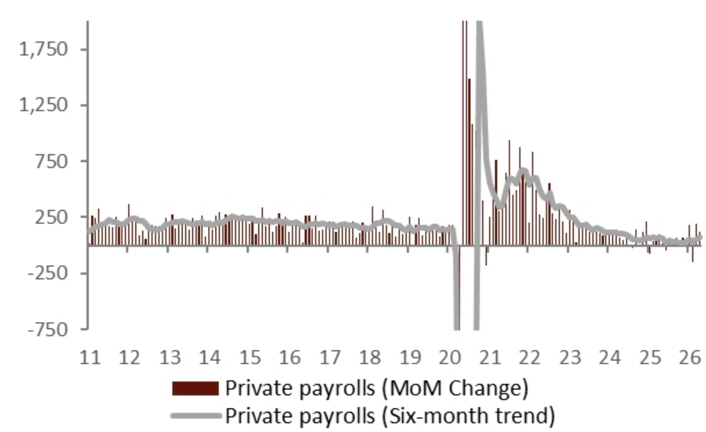




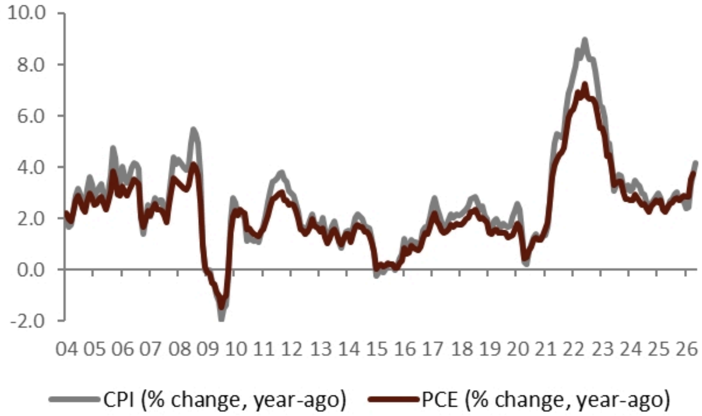


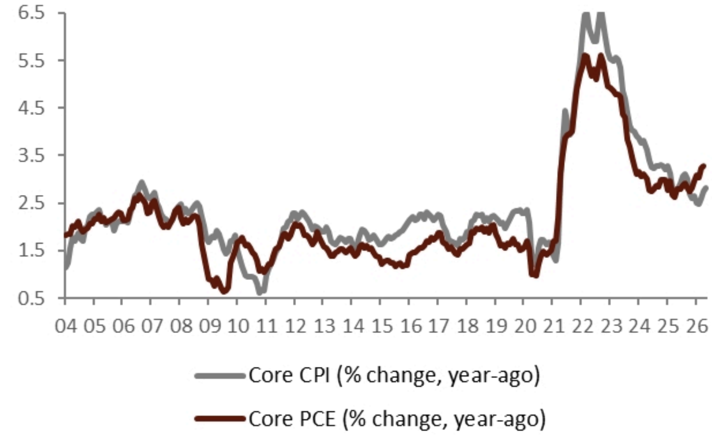


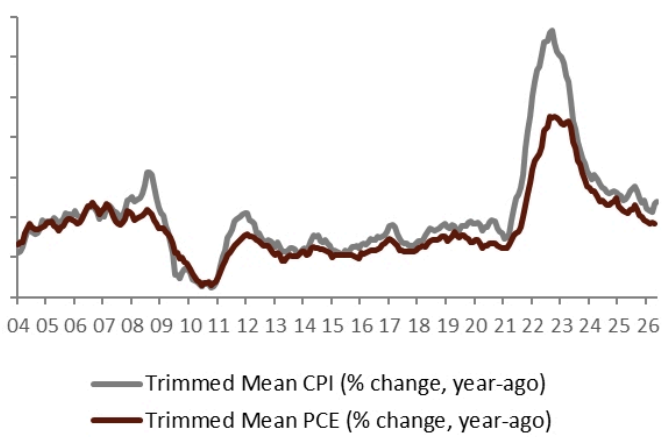


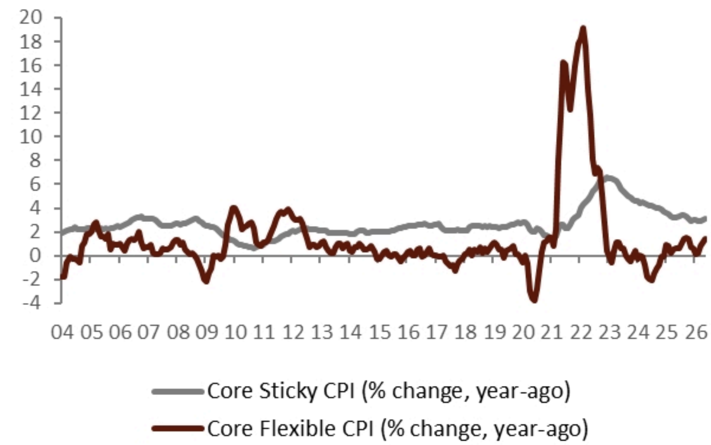


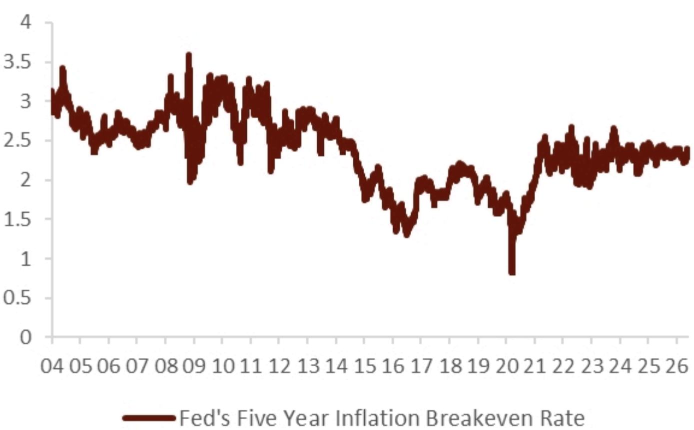
Inflation indicators



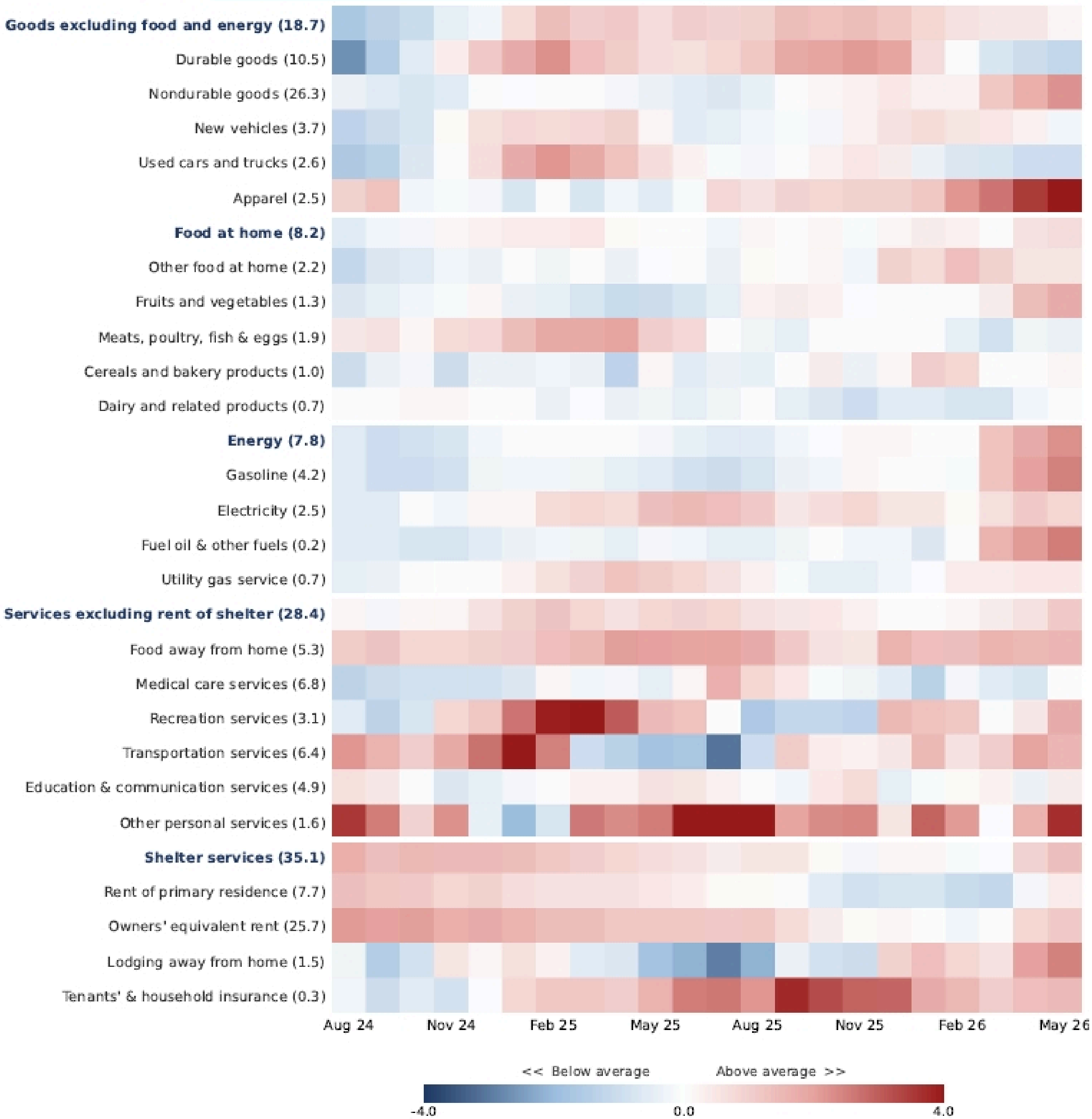






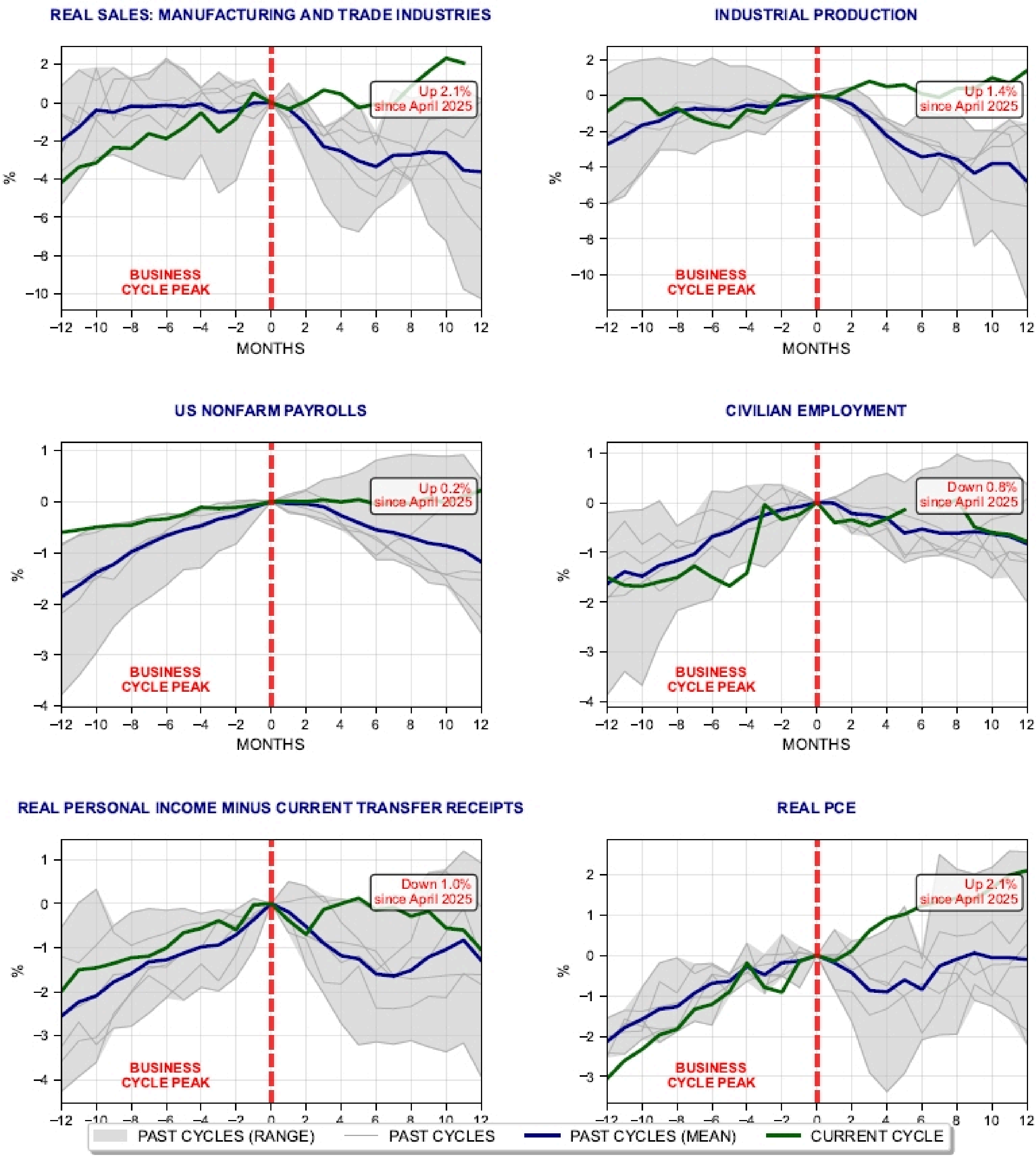


US Inflation Heatmap (6-Month Annualized)



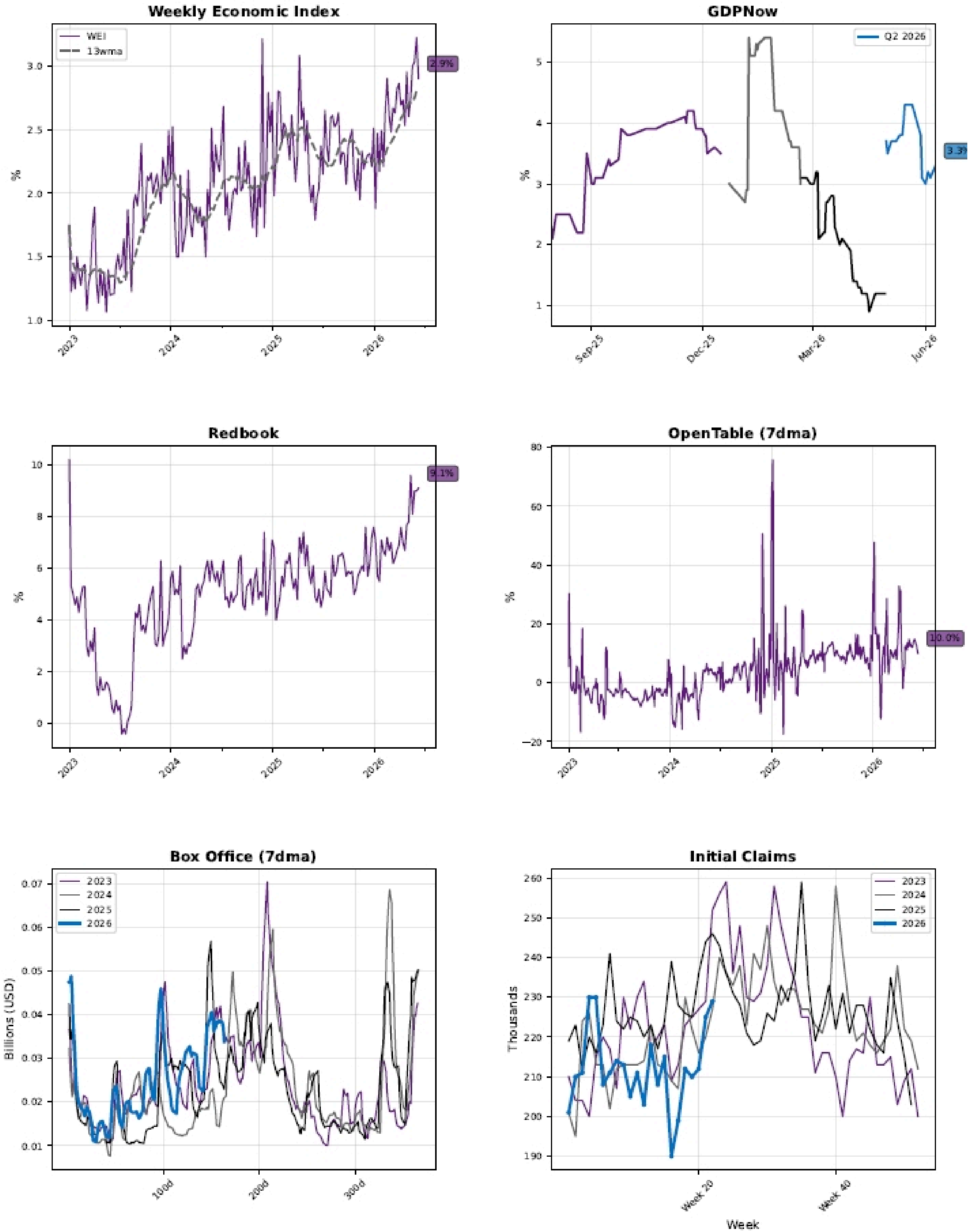
Note: The heatmap shows the distance of each US CPI component's 6-month annualized inflation rate from its historical average. The colour is white when a component's inflation rate is close to its average and is a varying shade of blue (red) when the rate is below (above) the average. Each inflation 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: May 2026.

NBER RECESSION INDICATORS DASHBOARD



Past 7 cycles excluding Covid-19 period

High Frequency Economic Dashboard



High Frequency Economic Dashboard