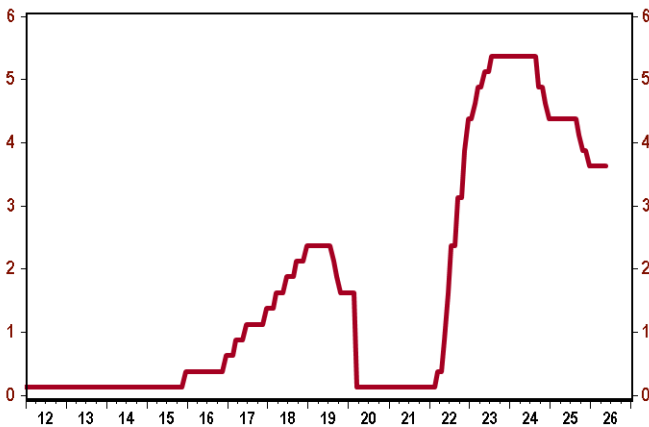


Chair Warsh and a New Era for the Fed

In Kevin Warsh’s first meeting as Fed Chair, the FOMC held on rates but made significant changes to both their economic projections and the nature of today’s Fed statement. And today’s press conference shows there is a lot more change to come.

Starting with the statement, the Fed essentially started over from scratch and made the new version shorter and simpler. Yes, comments are still made regarding inflation (which “remains elevated”) and the employment outlook (which has “changed little”), but the formality of language and length of the comments were a notable shift from prior statements. Notably absent is any forward guidance. For a look at what FOMC members see coming, we have look to today’s updated forecasts.

Fed Funds Target Rate
EOP, %



Source: Federal Reserve Board/Haver Analytics

The summary of economic projections (the dot plots) showed a substantive shift versus what was published back in March. Survey respondents now see PCE inflation and core PCE inflation ending 2026 at around 3.6% and 3.3%, respectively, versus prior estimates of 2.7%. Employment forecasts were little changed, so the net focus of the committee has clearly shifted toward inflation concerns. Matching this shift, the appropriate path of rates estimated by members moved higher versus March, but is very evenly split. Of the eighteen members who submitted forecast, nine expect it will be appropriate for rates to be at or below the current level at year end, while nine believe that we should have at least one hike. However there should have been nineteen members submitting forecasts, so who opted not to participate? For that, we jump to the press conference.

Chair Warsh made clear from the start of today’s press conference that change is in the air. He highlighted the more succinct FOMC statement and announced that he was the

member who did not provide forecasts in the summary of economic projections because he doesn’t believe in the value of forward guidance. He could have stopped there and left reporters with plenty to write about and debate, but he was just getting started.

The biggest news from today’s press conference was the announcement of five new task forces that will be looking into how the Fed currently operates, and what can be improved so the committee achieves the mandates that they have failed to deliver on over recent years. Each of the five task forces will address a different topic: 1) Fed communications, 2) the Fed’s balance sheet, 3) the use and reliance on existing data sources, 4) productivity and jobs in an era of transformation and 5) the Fed’s inflation frameworks. Each team will include members from both inside and outside the Fed, and many will include individuals with backgrounds beyond the economics profession. Their charge will be to start with first principles, ask hard questions, examine current practices, consider alternatives, and ultimately propose next steps to be considered by policy makers.

In our opinion, this initiative is long overdue. When an organization – public or private – continuously fails to live up to expectations and has frameworks that have significantly differed from reality, questions should be asked. And now that process looks to be starting. Through the remainder of the year, these teams will evaluate and reflect on what has been working and what hasn’t, and along with whatever changes in rates may come, we are likely to see changes to how the Fed operates on an ongoing basis.

For now, inflation remains a central concern. We believe that concerns over sustained higher prices are a bit misguided. It’s true that inflation measures remain above the Fed’s 2% target, and higher energy costs have shown in the most recent readings, but the M2 measure of money has been growing below the historical trend pace over recent years, and higher energy prices are likely to be offset by consumers pulling back in other areas, which will see those other prices eventually decline. We aren’t advocating for rate cuts any time soon, but we are fully on board with the Fed asking itself hard questions while they wait for more clarity on their dual mandate. Hopefully this Fed under new leadership will begin to make progress on shrinking the balance sheet, improving the quality and timeliness of data sources, and will return to the economic fundamentals that truly matter.

Brian S. Wesbury, Chief Economist
Robert Stein, Deputy Chief Economist

Text of the Federal Reserve’s Statement:

The Federal Open Market Committee approved the following statement for release by a 12 – 0 vote:

The Committee decided to maintain the target range for the federal funds rate at 3-1/2 to 3-3/4 percent, in support of the

Federal Reserve's dual mandate. The Committee reaffirmed its policy of maintaining ample reserves in the banking system.

Economic activity is expanding at a solid pace despite elevated uncertainty that owes, in part, to the conflict in the Middle East. Productivity growth and capital investment are strong. Job

gains have kept pace with the workforce, and the unemployment rate has changed little.

Inflation remains elevated relative to the Committee's 2 percent goal, in part reflecting supply shocks that have driven price increases in certain sectors, including energy. The Committee will deliver price stability.