

Fed drops easing bias, and forward guidance

Javier Amador, Iván Fernández

A sharp hawkish shift in the dot plot shows many officials now see rate hikes as the more probable path forward

The fed funds rate was unanimously left unchanged at 3.50-3.75%. Warsh's debut policy statement was "a bit shorter" and "a bit simpler", shrinking from 244 words in April to just 114. The shortening reflected a more concise assessment of economic conditions, while the overall characterization of the economy remained largely unchanged. As in April, the Committee continued to describe economic activity as expanding at a "solid pace" despite uncertainty surrounding the Middle East conflict, noted that the unemployment rate has "changed little", and judged that inflation "remains elevated", largely reflecting the energy shock. The only notable addition was a reference to "strong" productivity growth and capital investment, likely reflecting Warsh's emphasis on the supply side of the economy and its implications for inflation. The Powell-era language emphasizing risk management and the need to assess a wide range of incoming information was replaced by a single "unambiguous" and "unanimous" commitment: "The Committee will deliver price stability." Most importantly, the Committee removed not only the easing bias that drew three dissents in April, as expected, but also all explicit forward guidance. Warsh suggested that the consensus view, at least for now, is that forward guidance is simply "not well-suited to the current policy conjuncture", rather than permanently abandoned.

The stripped forward guidance from the scaled-back statement was removed only for the hawkish dot plot to deliver the exact guidance Warsh likely wanted to avoid. The updated SEP projections still depict an economy growing above potential over the forecast horizon. Median GDP growth for 2026 was revised down only modestly to 2.2% from 2.4% this year, and the outlook for the unemployment rate was broadly unchanged. The largest revisions came on inflation. Headline PCE inflation for 2026 was raised to 3.6% from 2.7%, although participants continue to expect inflation to return to target in 2028. The upward revisions were not limited to energy-related pressures, with core PCE inflation also revised up sharply to 3.3%, six-tenths above the March projection ([Table 1](#)). While Warsh underscored that the dots are written in pencil, the dot plot turned decisively more hawkish. The March distribution, which was skewed toward rate cuts, has effectively reversed. The new 3.8% median projection lands exactly halfway between holding steady and a rate hike. Eight participants now project no change in rates this year and only one still expects a cut. Of the remaining nine participants, three project one hike, five project two hikes, and one projects three ([Figure 1](#)). The policy rate is now projected to remain above the 3.1% long-run level in 2027 (3.6%) and 2028 (3.4%). Futures

markets now assign close to a 90% probability of a rate hike by year-end, up from around 60% before the meeting.

Warsh devoted much of the Q&A to outlining a broader agenda for the coming weeks and months to review several aspects of the Fed's monetary policy framework. In particular, he announced five "taskforces" focused on: 1) Fed communications, 2) the balance sheet and reserve framework, 3) alternative data sources, 4) the relationship between productivity and employment, and 5) the drivers of inflation. While Warsh emphasized that the 2% inflation objective remains firmly in place, he repeatedly suggested that the Fed must reassess how it gathers information, communicates its views, and evaluates structural changes in the economy. He indicated that the taskforces are expected to deliver recommendations by year-end. He offered little additional guidance on the near-term policy outlook. Indeed, the removal of forward guidance may have reflected not only Warsh's long-standing skepticism toward such tools, but also the difficulty of forging consensus around a neutral policy signal.

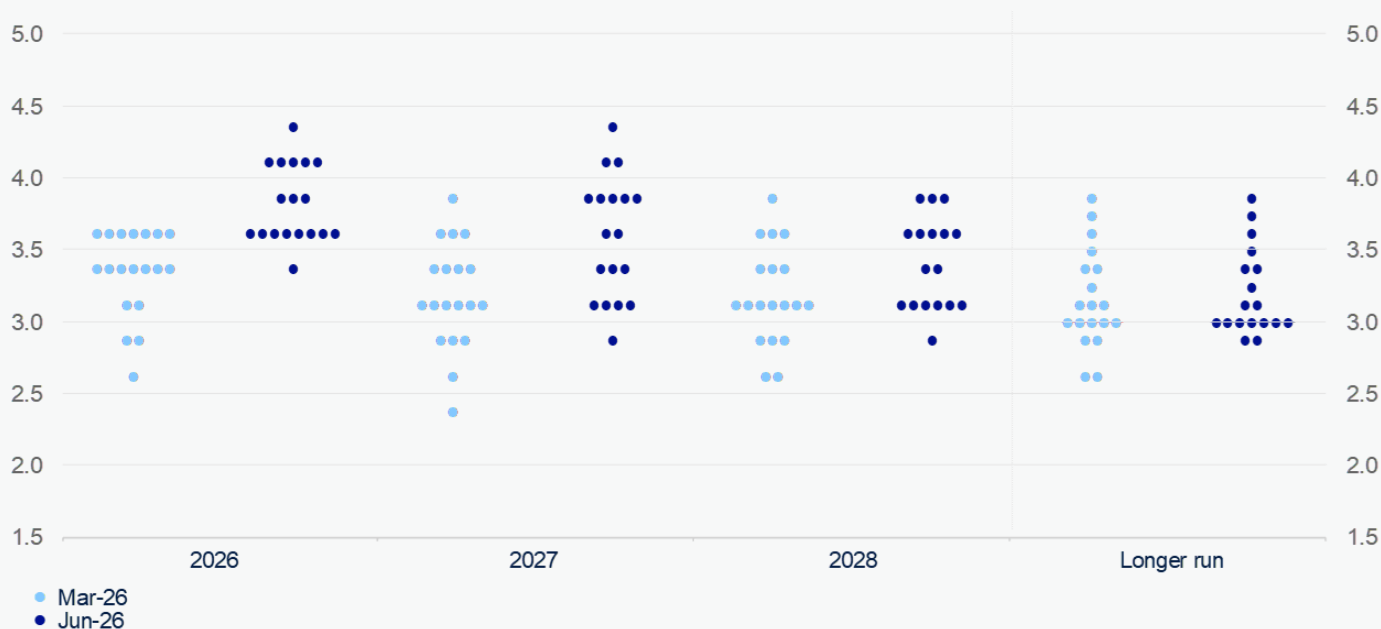
The hurdle for additional easing is now considerably higher than it was earlier this year, while the possibility of future rate hikes can no longer be dismissed if inflation fails to resume its path toward target. A key source of uncertainty is the evolution of the conflict in Iran. Should a more durable resolution emerge in coming days, the Strait of Hormuz effectively reopen, and oil prices retreat meaningfully, an important source of inflationary pressure and potential second-round effects would fade, reducing some of the concerns currently held by the more hawkish participants. Besides, the path for the continued resilience in activity, consumption, and employment remains uncertain. A faster moderation in inflation and consumer spending could ultimately prevent the rate hikes now embedded in the dot plot from materializing. While we still expect the Fed to hold rates steady for the rest of the year, the shifting balance of risks has introduced an upside bias to our outlook.

Huge shift in the Fed's dot plot: officials are now roughly split between no cuts and one or more rate hikes this year. A massive swing from March, when the majority leaned toward rate cuts

TABLE 1. FOMC PARTICIPANTS' SUMMARY OF ECONOMIC PROJECTIONS (JUNE 2026, %)

Variable	Median				Central tendency				Range			
	2026	2027	2028	LR	2026	2027	2028	LR	2026	2027	2028	LR
Change in real GDP	2.2	2.3	2.2	2.0	2.0-2.3	2.0-2.4	2.0-2.3	1.8-2.0	1.8-2.6	1.9-2.9	1.8-2.6	1.7-2.5
Mar-26	2.4	2.3	2.1	2.0	2.2-2.5	2.0-2.4	2.0-2.3	1.8-2.0	2.1-2.7	2.0-2.7	1.8-2.7	1.7-2.5
Unemployment rate	4.3	4.3	4.2	4.2	4.3-4.4	4.2-4.5	4.1-4.3	4.0-4.3	4.3-4.6	4.0-4.6	4.0-4.4	3.8-4.5
Mar-26	4.4	4.3	4.2	4.2	4.3-4.5	4.2-4.4	4.0-4.4	4.0-4.3	4.3-4.6	4.0-4.5	4.0-4.5	3.8-4.5
PCE inflation	3.6	2.3	2.0	2.0	3.5-3.7	2.2-2.5	2.0-2.1	2.0	2.7-4.1	1.9-2.8	2.0-2.3	2.0
Mar-26	2.7	2.2	2.0	2.0	2.6-3.1	2.0-2.3	2.0	2.0	2.3-3.3	1.8-2.4	1.9-2.2	2.0
Core PCE inflation	3.3	2.5	2.1		3.2-3.5	2.3-2.6	2.0-2.2		2.6-3.5	2.0-3.0	2.0-2.4	
Mar-26	2.7	2.2	2.0		2.5-2.8	2.0-2.4	2.0		2.2-3.0	2.0-2.5	2.0-2.2	
Federal funds rate	3.8	3.6	3.4	3.1	3.6-4.1	3.1-3.9	3.1-3.6	3.0-3.5	3.4-4.4	2.9-4.4	2.9-3.9	2.9-3.9
Mar-26	3.4	3.1	3.1	3.1	3.1-3.6	2.9-3.6	2.9-3.6	2.9-3.5	2.6-3.6	2.4-3.9	2.6-3.9	2.6-3.9

FIGURE 1. FOMC PARTICIPANTS' PROJECTED APPROPRIATE FEDERAL FUNDS RATE (%)



Source: BBVA Research, Fed

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