# Fed minutes

19 August 2026

## Hawkish but outdated - upcoming inflation data will still be important

**The minutes from the July meeting were predictably hawkish but also somewhat outdated. Many members thought that tighter policy would likely be necessary if inflation did not decline. The Committee has received another modest CPI inflation report after the meeting, which should have calmed some of these concerns, but July PCE and August CPI will still be important for the outcome of the September meeting.**

**Key points**

- **Most members supported unchanged rates**
- **Many saw tighter policy as necessary if inflation did not decline**
- **Main scenario is that inflation will move down but many saw possibility of persistently elevated inflation**
- **Re-escalation of conflict had significantly clouded the outlook**
- **Focus on effects of AI build-out but no consensus**
- **Awaiting input from task force on balance sheet policy**

### Policy tightening may become necessary

At the July 28-29 meeting meeting the Fed kept rates unchanged within a 3.50-3.75% range but with three dissents – from Beth Hammack, Neel Kashkari and Lori Logan – for a 25 bp increase in the fed funds rate. According to the minutes, "most" members supported unchanged rates, while "several" favoured an increase by 25 bp. The latter is not a surprise, given the three dissents and comments from some non-voting members that they would have supported a hike. However, the minutes again highlighted that the FOMC is losing patience with continued elevated inflation. Thus, "many" participants thought that policy tightening would likely be necessary if inflation did not decline. Participants generally thought that information in the intermeeting period could provide more clarity and reduce uncertainty about the inflation outlook. Also noteworthy is that, in contrast to earlier discussions this year, there were no mentions of rate cuts, meaning the risk for rates is clearly skewed to the upside in the near term.

### Rising yields partly reflecting anticipations of tighter Fed policy

At his press conference, Fed Chair Warsh suggested that rising yields meant that the market was doing some of the job for the Fed. According to the minutes "various" participants suggested that financial conditions had tightened, partly reflecting strong growth and expectations that the Committee would adopt a more restrictive policy. Still, "some" members believed financial conditions might not currently be sufficiently restrictive.

**No decision on balance sheet or number of meetings**

There was apparently also a discussion on the balance sheet policy though with no clear conclusions. Instead, participants seemed to await the findings of the task force. Fed Chair Warsh raised the question of reducing the number of scheduled meetings from eight to six per year, but no decisions were made and any change would, according to Warsh, not happen until after this year.

**Possibility of more persistently elevated inflation**

The discussions on the economy and the outlook highlighted the increased inflation concerns. Most participants expected that inflation would step down over the rest of the year as the effects of tariffs and energy prices waned, but many participants noted the possibility that inflation might be more persistently elevated. Participants' inflation outlooks were described as highly uncertain, and inflation risks skewed to the upside. The re-escalation of the conflict in the Middle East had "significantly" clouded the outlook and many participants were concerned that continued elevated inflation could begin to affect inflation expectations and wage- and price-setting decisions.

**Differing views on inflation effects from AI**

The pass-through of tariffs was seen as largely complete and with likely modest effects of recently announced increases. However, there were differing views on how businesses would handle rising costs from a continued conflict in the Middle East or new supply shocks. There were also different views on the effects of the AI build-out and to what extent this would lead to a shift in relative prices for some goods and services or affect inflation more broadly and persistently. While some believed that productivity gains from AI would eventually put downward pressure on inflation, there were different views on how long this might take. Chair Warsh said at the press conference that the Committee had a lively discussion on these topics, and it does not seem like it has reached a conclusion yet.

**Risks for growth and financial stability from AI**

Labour market conditions were seen as stable and generally expected to remain so. Participants also generally expected continued solid GDP growth in the near term, though the outlook was surrounded by elevated uncertainty, partly due to the conflict in the Middle East. AI investment was a key topic also for the economic outlook, with several discussing the possibility that AI disappointments could hurt both the stock market and consumer spending. The AI buildout also featured as a risk to financial stability.

**Inflation data until September meeting will be important**

The market has reduced the probability of a September hike to around 30% after weak July employment data, another modest CPI reading for July and also the weak retail sales in July. The Fed will receive July PCE data and August CPI and payrolls before the 15-16 September meeting. The decline in July CPI should have calmed some inflation concerns, but the upcoming inflation data will still be important for the outcome in September. If inflation data remains well-behaved, as we expect, we believe that Fed members could continue their wait-and-see strategy. However, the minutes highlight that many members will be sensitive to any new upside surprise for inflation.

**Elisabet Kopelman**
US Economist & Fed Watcher
elisabet.kopelman@seb.se
@EKopelman