Fed policy

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Warsh: Hawkish speech walking back some of the July communication mistakes

Fed Chair Warsh delivered a clear and hawkish speech at Jackson Hole, walking back his communication mistakes in July. While Warsh did not send clear signals on the timing of rate changes, the speech was supportive of markets expectations of a rate hike during the fall – whether in September or by year-end. Inflation and the balance within a currently split FOMC will be decisive but the speech indicates an upside risk to our forecast that rates have peaked.

Kevin Warsh's speech at the 2026 Jackson Hole Economic Policy Symposium

The speech by Kevin Warsh at the Fed's Jackson Hole Symposium repeated some of his earlier talking points on the changes he wants to see in the Fed's monetary policy framework and communication while stressing the importance of AI and the scope for rising productivity and growth. More importantly, the speech sent a clearer monetary policy message than we had expected. And the message was hawkish. We note the following from the speech:

It is the Fed's job to deliver stable prices. Short-term interest rates are the predominant tool to achieve the dual mandate (at the July press conference, the market interpreted Warsh as saying that the inflation fight may be conducted in alternative ways).

Financial conditions are not restrictive. There he seems to come out on the side of the more hawkish FOMC members, who have voted for hikes.

He downplayed recent weaker labour market data, saying he believes labour markets are "consistent with full employment". Instead, he highlighted upside risks to inflation and that this is what the Fed needs to focus on. On "the price-stability side of our mandate, the numbers are more concerning…. inflation is running above our 2 percent target and the Fed's predominant focus right now should be on prices."

He downplayed the importance of recent softer inflation data: Though this summer's PCE and CPI readings were "better than expected, they do not tell me that underlying trends have meaningfully improved". At the same time, he reverted from the message in July that he would like to shift focus from the currently high core PCE to other softer measures.

Warsh also warned against drawing too much conclusions from modest wage increases. "…. wage growth has not proven a reliable indicator of future inflation for a very long time." Also interesting is that he warned against drawing too much comfort from inflation expectations being in line with the target. And finally, he warned about risks from rising commodity prices.

The market is now back to pricing more than 50% probability for a September hike and almost 1 ½ hike before year-end and two full hikes by summer 2027. We do not know to what extent Warsh is speaking on behalf of the full FOMC or more expressing his own views. Any new signals from more dovish members ahead of the silent period will be important. And so will the data. August CPI will be released on September 11, just before the September meeting. But the key conclusion is that 1) the September meeting is live and 2) if inflation trends do not improve the Fed will hike during the fall.

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