Fed Preview

10 September 2026

We expect an unchanged Fed rate, but August CPI will decide

We expect the Fed to hold its policy rate unchanged at the September meeting, but it is a close call. One single data point – the August CPI – will decide if we are to believe the Fed. Going forward, we see scope for renewed disinflation as temporary shocks from tariffs, energy prices and IT from AI, passes, which we think will be enough for the Fed to stay on hold for the rest of 2026. Risks to our forecast are skewed to the upside, given limited tolerance within the Fed for new inflation setbacks and the need for Chair Warsh to prove his inflation credentials.

Key points

- Policy rate expected on hold at 3.50-3.75%
- A lower CPI inflation rate should be enough for the Fed, but the details are important too
- Markets are pricing more than 50% probability for a hike before the CPI data
- Several Fed members have signaled willingness to wait for more evidence on disinflation
- Hawkish Warsh needed to strengthen his inflation credentials at Jackson Hole, not signal intentions for September
- New forecasts but Warsh will not use them as a signaling tool
- Inflation trends need to improve further by year-end for policy to remain on hold
- We continue to forecast that rates have peaked but risks are skewed to the upside

On hold if August CPI behaves

We expect the Fed to keep its policy rate unchanged within a 3.50-3.75% interval at the 15-16 September FOMC meeting, but it is a very close call. The September meeting is surrounded by unusual uncertainty, and absurdly enough, it seems to come down to one single data point; August CPI, which will be released on 11 September. We expect the y/y core CPI rate to decelerate further, from 2.5 to 2.4%, which we believe should be enough for a decision to keep policy on hold. But the details and what they tell us about the Fed's key metric – the core PCE – and the underlying inflation trends, will be important too. Since the Fed has now entered its silent period, we will not get any comments from Fed members about how they interpret the data.

The Fed is split but several members want to give disinflation a chance

The uncertain outlook for the September meeting also reflects an unusually split Fed and the fact that Fed Chair Kevin Warsh does not believe that the Fed in normal times should tell markets in advance what it intends to do.

Three regional Fed presidents – Beth Hammack, Lorie Logan and Neel Kashkari – voted for a hike already at the July meeting. At the same time, several members of the Governing Board – Lisa Cook, John Williams, Michael Barr and Christopher Waller – have signaled that they could consider leaving the policy rate on hold in September if data supports continued progress for inflation. Waller in his 3 September speech said that his decision will be "heavily influenced by what we learn about August inflation". John Williams in an interview with CNBC on 2 September said he was taking a "wait-and-see" approach to whether a hike is necessary. Michael Barr on 1 September said that if data give some confidence that inflation is moderating, he thought the Fed can take "a bit more time to assess our policy stance". Lisa Cook in a speech on 5 August said she was prepared to raise rates, if necessary, but that it may not be, given that "some disinflationary forces are already in play which could push inflation toward our target without a rate increase".

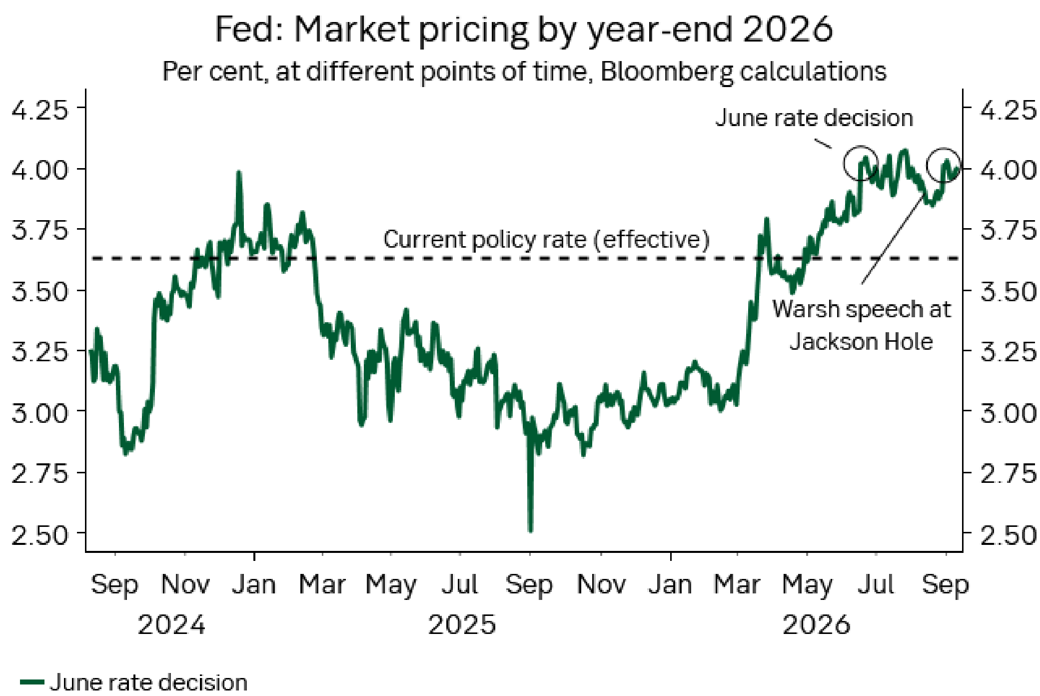
Hawkish Warsh did probably not intend to signal the September decision

Fed Chair Kevin Warsh was criticized for his unclear communication at the July post-FOMC press conference but strengthened his inflation credentials in his 28 August speech at Jackson Hole. His comments - that the Fed's predominant focus should be on prices after a long period of sustained, elevated inflation, that the better-than-expected inflation data during the summer has not convinced him that underlying trends have "meaningfully improved" and that he would be "hard pressed to describe financial conditions as restrictive" – now seem to position Warsh among the more hawkish members. Notably, the Fed Chair warned against taking comfort from modest wage increases ("wage growth has not proven a reliable indicator of future inflation for a very long time") or the fact that inflation expectations continue to be consistent with the target ("the thing about market measures of inflation expectations … is that they tend to look strong and durable until they don't). Read more in our comment on Warsh's speech here.

Warsh's speech succeeded in convincing the market that he is serious about inflation and that he sees changes in the Fed's policy rate as the main tool to achieve the target. Still, we believe it would be a mistake to conclude that Warsh was sending a signal for the September meeting given his opposition to forward guidance. Warsh policy conclusion is also not that dissimilar to the other members: The Fed must be confident that underlying inflation is moving to the target and if not, the Fed will need to act.

Markets are pricing more than 50% probability for a September hike

Markets made a hawkish interpretation of Warsh's comments at Jackson Hole but shifted to pricing a 50/50 probability for a September rate increase after Waller's speech. The probability then increased to 60% (15 bp) after the stronger-than-expected August non-farm payrolls. Fed members have in general downplayed the weaker jobs data during the summer and as such we do not think the strong August report will play a large role in their deliberations over whether to hike or not in September. However, solid demand for workers is a positive sign for the economy and could support the view that current policy rates are in fact not that restrictive. We continue to expect that August CPI will be decisive for both market pricing and the Fed.



Source: Macrobond, SEB

A decision to hike needs to have large support

We do not expect a decision to hold rates unchanged in September to be unanimous. The dissenting members have continued to call for a rate hike after the July meeting, and we expect them to vote for a tighter policy in September too. If the Fed, contrary to our expectations, decides to tighten policy we think that the Committee will strive to build a consensus, given the risks for intensifying political pressures from the White House and the fact that members seem to share the view that inflation cannot be allowed to diverge so much from target for so long.

Copy-paste of July statement?

The Fed's post-meeting statement was remodeled after Kevin Warsh's first policy meeting in June and was left almost completely unchanged in July. The statement does no longer include any language on forward guidance and instead the main components are a description of the current state of the economy and inflation and a promise that the Fed "will deliver price stability". Given that there have not been any major changes to the broader economic trends since the 28-29 July meeting – at least not according to Warsh's Jackson Hole speech - we do not expect any significant changes to the language in the statement either. If the Fed, contrary to our forecast, decides to hike rates, some explanation for the decision would likely be needed, however.

Warsh to repeat his message from Jackson Hole

We expect Warsh to repeat some of his views from Jackson Hole at the post-meeting press conference and to continue to stress his commitment to bringing inflation back to target but abstain from clear signals for coming meetings. Warsh's earlier press conferences have been criticized for not including a clearer explanation of the Fed's policy decisions and the reaction function, and we think that the Jackson Hole speech was partly a response to that. However, if the Fed hikes, Warsh will be under more pressure to describe both the reaction function and the next steps.

New projections without input from Warsh

In September FOMC members are, as usual, expected to deliver new forecasts for the economy and rates. Warsh has been clear that he thinks the Fed should stop releasing its own forecasts and he has chosen not to provide his own. However, we do not expect any changes to communication policy until next year, when we see it as likely that the Fed either abolishes the projections or chooses to release them together with the publication of minutes, to downplay their role as a signaling tool.

No significant changes to the economic outlook

We do not see a need for the Fed to make other than minor changes to the economic projections compared to June and expect them to continue to project healthy, slightly above trend, growth, a slight decline in the unemployment rate towards the longer-run and above target inflation in 2026 and 2027 before returning to target by end 2028. Members usually add one more year in September and we expect these projections to be close to the current longer-run projections.

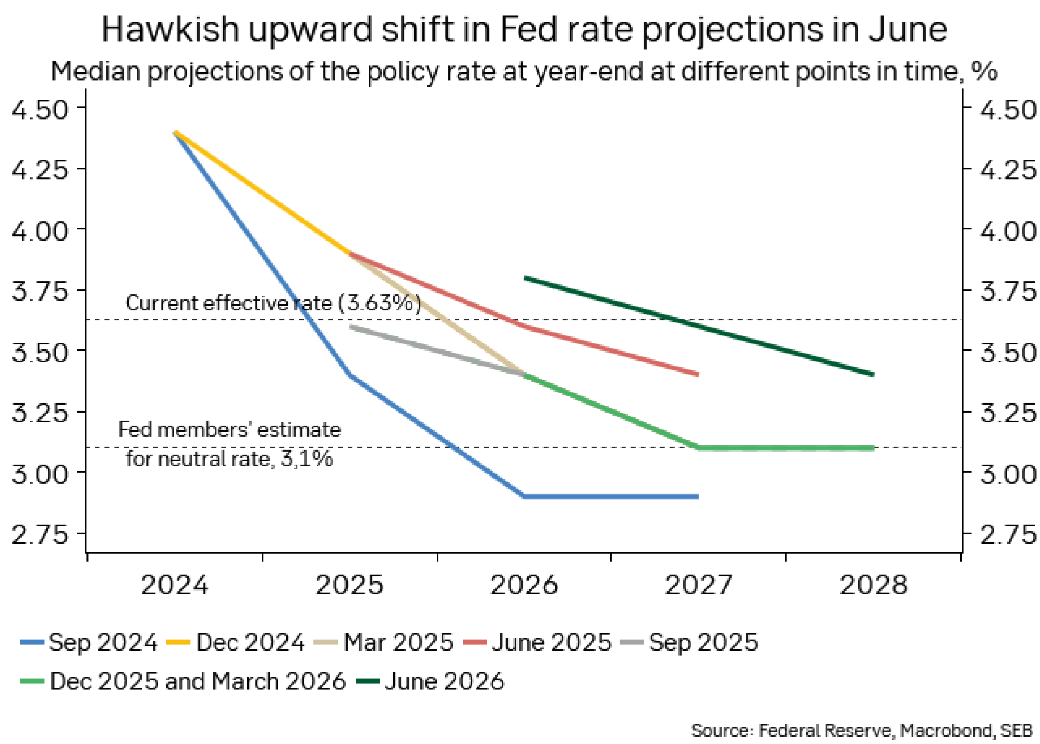
June 2026 projections (March 2026 in parentheses)

Q4, y/y, %	2026	2027	2028	Longer run
GDP	2.2 (2.4)	2.3 (2.3)	2.2 (2.1)	2.0 (2.0)
Unemployment*	4.3 (4.4)	4.3 (4.3)	4.2 (4.2)	4.2 (4.2)
PCE inflation	3.6 (2.7)	2.3 (2.2)	2.0 (2.0)	2.0 (2.0)
Core PCE	3.3 (2.7)	2.5 (2.2)	2.1 (2.0)	--
Fed funds rate**	3. 8 (3.4)	3.6 (3.1)	3.4 (3.1)	3.1 (3.1)

*Quarterly average, **End of period

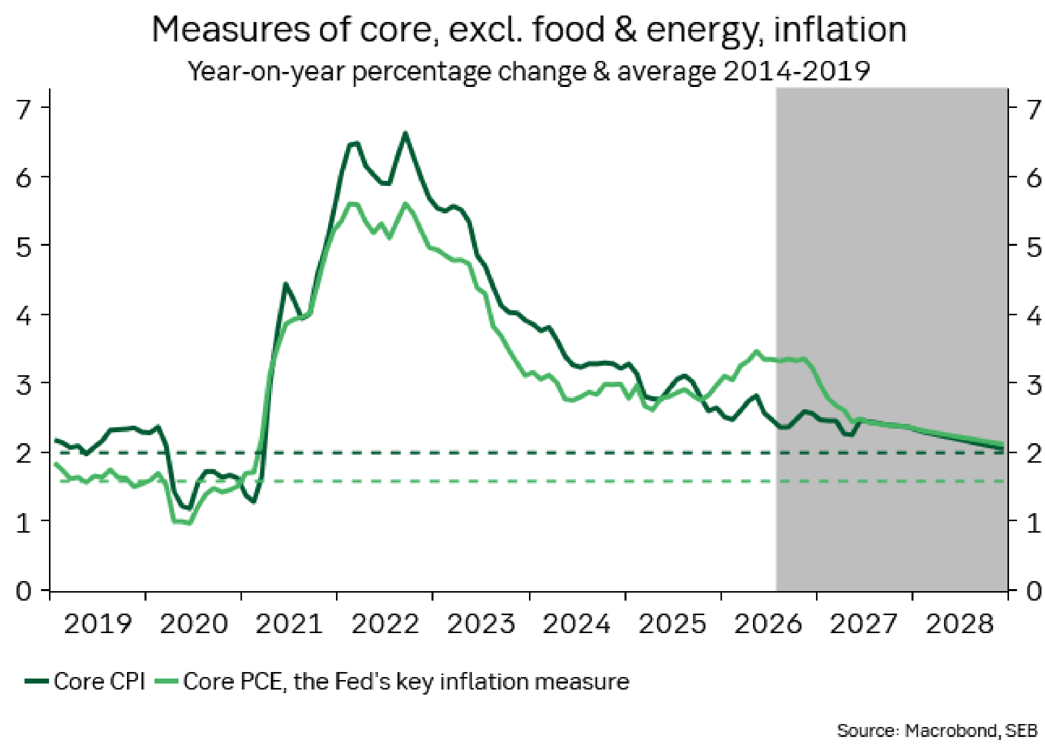
Members are likely to project a 2026 rate hike even with policy on hold in September

The rate projections will be affected by the policy decision in September. In June, Fed members were split down the middle with 9 out of 18 members predicting at least one hike in 2026, resulting in an increase in the median rate projection for end-2026. This was expected to be followed by two cuts in 2027 and 2028 respectively. We expect the median rate to continue to project a hike by December. Even if policy is left on hold, we do not think that members will feel confident enough about inflation progress to materially change their near-term policy views from June. If the majority believe current rates are restrictive enough to bring inflation back to target it would still make sense to project scope for a slightly lower rate once inflation has moved closer to the 2% inflation objective. The urgency in getting inflation back to target could, however, argue for postponing rate cuts until later in the period or in 2028 and 2029, rather than 2027 and 2028.



We stick to our forecast that rates have peaked, but risks are skewed to the upside

In our Nordic Outlook forecast in August, we stuck to our view that the Fed's policy rate has peaked but pushed our expectations for rate cuts further out in time, to September 2027 and March 2028 respectively. Current market pricing and a hawkish leaning Fed means that risks to our forecast are clearly skewed to the upside. Even if the Fed holds rates unchanged in September, they will need to see further progress in inflation during the rest of the year. Our forecast for the core PCE – which remains the key metric for the Fed and is currently unusually elevated compared to the CPI - suggests that disinflation will be more evident in 2027. The Fed should get some help from the planned methodological changes to the calculation of PCE inflation later this month, however. The resumption of hostilities in the Middle East and renewed upward pressure on the oil price is another upside risk. If inflation trends do not improve further in 2026 the Fed will have no choice but to hike in December. This would further delay our expected rate cuts and signal that the Fed may not be prepared to cut rates as low as we currently expect unless there is need to add new policy support.



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