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Fed announcement: Enter the Warsh Fed era with less guidance

Helen Lao helen.lao@cibc.com

The Federal Reserve held its policy rate steady 3.50-3.75% in an unanimous vote. The FOMC statement was much shorter than previous ones (trimmed back by almost 2/3 word count), but removed some easing bias language as expected. The language on potential additional adjustments to interest rates was removed and “the committee will deliver price stability” was added. While the “economic activity expanding at a solid pace” was kept, the statement added “productivity growth and capital investment are strong”. On inflation, more was added to describe the shock “in part reflecting supply shocks that have driven price increases in certain sectors”.

On the dot plot, 9 of 18 FOMC participants pencil in 2026 rate hike. One dot was missing, which was from the new Fed Chair Kevin Warsh. The plot indicates wide divergence, three FOMC members puts in one hike and five members see a 50 bps hike over 2026 and one member puts in three hikes for 2026. Eight believe in status quo for 2026 and one believes in a 25 bps cut in 2026. For 2027, the dot plot is mixed, but the median forecast for interest rates at the end of 2027 remains unchanged at the current rate.

The summary of economic projection shows inflation was revised up significantly for 2026. PCE inflation is projected to be 3.6% in 2026, up from 2.7% in March. Core inflation revised up to 3.3% in 2026 from 2.7% in March and revised up even for 2027 to 2.5% from 2.2% in March. Unemployment rate was revised down a touch to 4.3% for 2026. GDP growth was revised down in 2026 but broadly unchanged beyond.

During the press conference, Kevin Warsh announced the ending of forward guidance in the policy statement and said he will review Fed communication. He also announced task force in five areas, “Fed communication”, “Fed balance sheet”, “use and reliance of current data sources”, “productivity and jobs” and “Fed inflation framework”. He said press conferences can be useful when there is something important to say but did not commit to having it on an ongoing basis. He also reaffirmed the Fed will deliver price stability.

Re: Economic forecast — The removal of easing bias and addition of the committee will deliver price stability certainly has a hawkish tilt to the Fed's tone. However, whether the hike will happen depends on incoming inflation data. Uncertainty in the war and oil prices declining could see the Fed wait and see on the sidelines for the rest of the year. We continue to expect two rate cuts from the Federal Reserve in 2027, albeit delayed until the second half of the year, which will bring rates down close to a neutral level, but that forecast rests on the assumption that the conflict in the Middle East doesn't worsen again, gasoline prices are falling and pass-through to core inflation will be limited.

Re: Markets — Yields rose and the USD strengthened following the hawkish tilt in the Fed’s tone following the FOMC.

CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC