USA: FOMC Hikes by 25bp; Median Dot Shows One Additional Hike in 2026 and No Policy Changes in 2027; SEP Raises Core Inflation Slightly

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BOTTOM LINE: The FOMC raised the funds rate target range by 0.25pp to 3.75-4.00% at its September meeting, the first hike since July 2023. There were no dissents from the Committee's decision. The post-meeting statement noted that inflation "remains elevated" and that "today's policy action will support a timelier return to the Committee's 2 percent goal." The median forecast in the Summary of Economic Projections (SEP) projected one additional hike in 2026 and no changes to the fed funds rate in 2027. Chairman Warsh did not submit projections. The median SEP forecast projected slightly higher core and headline PCE inflation in 2026, suggesting the FOMC expects limited downward revisions from the upcoming methodological changes later this month or chose not to incorporate expectations for those revisions at this point, as well as higher GDP growth and a lower unemployment rate.

MAIN POINTS:

1. The FOMC raised the funds rate target range by 0.25pp to 3.75-4.00% at its September meeting, the first hike since July 2023. There were no dissents from the Committee's decision. The post-meeting statement noted that inflation "remains elevated" and that "today's policy action will support a timelier return to the Committee's 2 percent goal." It also reiterated that economic activity is "expanding at a solid pace," that "productivity growth is strong" and "capital investment is robust," and that job gains have "kept pace with the workforce."

2. The median forecast in the Summary of Economic Projections (SEP) projected one additional hike in 2026. In particular, two participants projected one hike only in 2026 (including today's hike), twelve participants projected two hikes, and four participants projected three hikes. Prior to today's FOMC meeting, we expected a 10-8 majority to show one hike only in 2026. The median dot also showed the fed funds rate at 4.00-4.25% in 2027, 3.75-4.00% in 2028 and 3.50-3.75% in 2029. The median forecast for the longer-run fed funds rate edged up slightly, from 3.06% to 3.25%. Chairman Warsh did not submit projections as at the June FOMC meeting.

3. The median SEP forecast showed higher headline (+0.1pp to 3.7%) and core (+0.1pp to 3.4%) PCE inflation in 2026, suggesting the FOMC expects limited downward revisions from the upcoming methodological changes later this month or chose not to incorporate expectations for those revisions at this point. The median headline and core PCE inflation forecasts for 2028 were also slightly higher (+0.1pp to 2.1% and +0.1pp to 2.2%, respectively). The median SEP forecast also showed higher GDP growth (+0.1pp to 2.3% in 2026 and +0.1pp to 2.4% in 2027) and a lower unemployment rate (-0.2pp to 4.1% in 2026, -0.2pp to 4.1% in 2027 and -0.1pp to 4.1% in 2028).

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