ECONOMIC UPDATE
REGIONS
September 16, 2026

September FOMC Meeting: "We Removed A Dose Of Accommodation"

- The FOMC raised the Fed funds rate target range by twenty-five basis points, which puts the mid-point of the target range at 3.875 percent
- The updated dot plot shows sixteen of eighteen members who submitted projections see at least one more Fed funds rate hike by year-end 2026

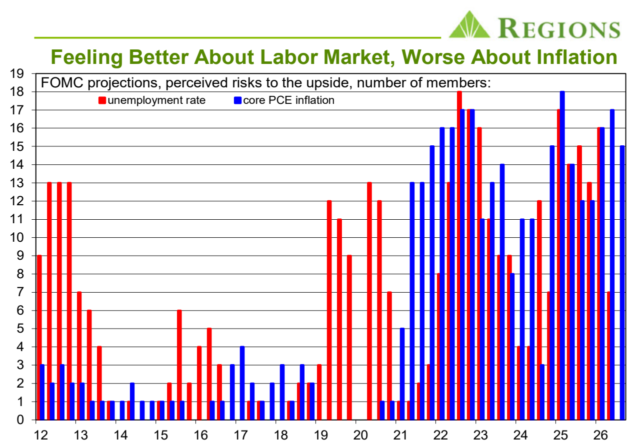
The markets spoke, loudly and clearly, and the FOMC listened and then acted, voting unanimously to raise the Fed funds rate target range by twenty-five basis points at today's meeting. This hike, the first funds rate increase in more than three years, puts the mid-point of the target range at 3.875 percent. This move was considered all but a done deal after Friday's release of the August CPI report. In his post-meeting press conference, Chair Warsh used an interesting choice of words to describe today's action, stating that "we removed a dose of accommodation." Market participants took that to mean there is more to come in the way of Fed funds rate hikes, which is consistent with the updated dot plot, with the median year-end 2026 dot at 4.125 percent, implying an additional twenty-five basis point hike by year-end. Consistent with his disdain of forward guidance, however, Chair Warsh offered no thoughts on the prospects of additional moves but, between the updated dot plot and the tone of Chair Warsh's comments in his press conference, market participants are, at least today, not expecting this to be a "one and done."

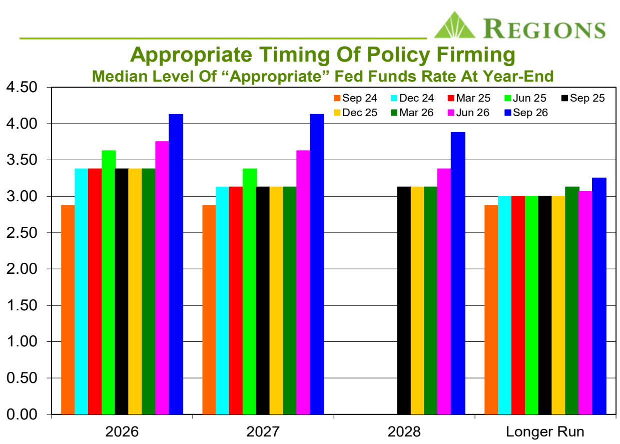
Though still notably brief, the post-meeting policy statement suggests that Committee members feel confident enough that the economy is on firm footing to withstand further rate hikes. Economic activity is, as in June, characterized as "expanding at a solid pace," giving nods to "strong" productivity growth and "robust" capital investment. As in June, the statement notes that "inflation remains elevated," and ends with a repeat of the pledge that "the Committee will deliver price stability."

There were modest but still noteworthy changes in the updated Summary of Economic Projections (SEP). Expectations for real GDP growth in both 2026 and 2027 were revised modestly higher relative to the June SEP, and the Q4 average unemployment rate now sits at 4.1 percent for 2026, 2027, and 2028, each lower than in the June SEP. While the Q4/Q4 inflation rate, headline and core, was revised up by one-tenth of a percent for 2026, the 2027 rate was unchanged from June, but the 2028 rate was also revised up, with the SEP now indicating the median forecast does not have inflation returning to the 2.0 percent target rate until 2029. To be sure, that's a long way off and much can, and will, change between now and then. But, this is nonetheless noteworthy given that Chair Warsh cited returning inflation to the 2.0 percent target rate in a "timelier manner" as one rationale for raising the funds rate at this meeting, the seeming takeaway being that more than one hike will be required here.

As noted above, the updated dot plot puts the year-end 2026 median dot at 4.125 percent, implying an additional twenty-five basis point hike in the funds rate by year-end. It is striking that sixteen of the eighteen members (Chair Warsh again declined to contribute to the SEP) see at least one additional rate hike by year-end 2026, with four seeing two more hikes by then. While the year-end 2027 median dot is also at 4.125 percent, note that eight members see an additional twenty-five basis point hike at some point in 2027, while at the same time four members see at least two rate cuts as being appropriate by year-end 2027. This is a bit of an odd dispersion of the dots around the median, particularly considering that no member sees the unemployment rate being higher than 4.2 percent in Q4 2027 (quarterly average) and no member sees inflation being below 2.2 percent in Q4 2027 (Q4/Q4). Moreover, not a single member sees the risks to their forecast of the unemployment rate as being weighted to the upside, quite a shift from the seven who made that assessment in the June SEP while the overwhelming majority of members continue to see the risks to their inflation forecasts as weighted to the upside. It's one thing to note that much can change, taking some of the weight off the SEP, but that doesn't account for the seeming inconsistencies in the outlooks for inflation, unemployment, and the path of the funds rate.

When questioned on what changed since July to get the Committee to a unanimous vote to raise the funds rate (July's vote was 9-3 in favor of holding the funds rate steady), Chair Warsh pointed to three factors: 1) data suggesting a stronger economy; 2) inflation trends that are not "passing the test;" and 3) geopolitics, given that the collective judgment of the most likely outcome in the Middle East has changed. Though a bit vague, one might interpret that last factor as members assuming the conflict with Iran will drag on and, in turn, keep upward pressure on headline inflation while risking the odds of pass-through to core inflation. It remains to be seen how many funds rate hikes there will ultimately be and how effective they will be in stemming largely supply-side driven inflation. It is now at least clear the FOMC is willing to find out, and while we had no doubts along those lines, many others seemed to.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com