2026-7-30

ECO

WSJ Print Edition

image

Chairman Kevin Warsh said the Fed didn't have a magic wand that would be able to bring inflation down quickly. SHAWN THEW/ EPA/ SHUTTERSTOCK

Fed Stands Pat, With Three Dissents

Dissenters back a rate increase amid elevated inflation; stocks fall sharply

BY NICK TIMIRAOS

WASHINGTON—Federal Reserve officials held interest rates steady Wednesday over the objections of three bank presidents who wanted an increase, underscoring how pressure is building inside the central bank to act on inflation that has run above its target for five years.

The Fed held its benchmark rate steady, in a range of 3.5% to 3.75%, in a 9-3 vote. The rate-setting panel issued the same policy statement as it did in June, when it also held rates steady. The decision left Chairman Kevin Warsh's vow to end the run of above-target inflation to rest for a second straight meeting on words rather than action.

The three Fed presidents who voted for a quarter-point rate hike—Beth Hammack of Cleveland, Neel Kashkari of Minneapolis and Lorie Logan of Dallas—had opposed in April the decision to issue a statement that suggested a rate cut was more likely than an increase. It was the first time since 2016 that three officials dissented in the same direction over a policy change.

After the meeting, Warsh said the Fed didn't have a magic wand that would be able to bring inflation down quickly. "I hear from you what I hear more broadly from households and businesses: Impatience. 'Deliver it already,'" he told a reporter. "The suggestion that we're going to be able to do it with our magic wands is one I want to disabuse you and everyone else of."

The Dow Jones Industrial Average sank more than 1,100 points, or 2.2%, after Warsh gave remarks that some traders interpreted as a signal that rate increases in the near future are less likely. The S&P 500 fell 1.5%, while the Nasdaq Composite tumbled 1.7%.

At last month's meeting, around half of officials thought a rate increase would be warranted later this year. Inflation data released two weeks ago had been mild enough to ease pressure on the Fed to raise rates at this meeting. But renewed fighting between the U.S. and Iran sent energy prices higher again last week.

The conflict has underscored officials' fraying patience with looking past another price shock on the heels of tariff-related increases last year and with robust demand stemming from the AI build-out.

For households, the message is that relief on borrowing costs is unlikely to arrive soon. The Fed's benchmark rate most directly affects short-term borrowing such as

Note Note

credit cards and auto loans. But the costs that matter most to many businesses and households, including mortgage rates, track longer-term Treasury yields, and those have been climbing. The 30-year mortgage rate reached 6.76% last week, the highest in nearly a year, according to a survey by the Mortgage Bankers Association released Wednesday.

Warsh pointed to a rise in market-determined interest rates since the last meeting, in both nominal and inflation-adjusted terms, as a sign that policy had tightened even though the Fed hadn't acted. "That has provided us some comfort," he said.

Investors read Warsh's comments as pushing the prospect of a rate hike further out. The 2-year Treasury yield, which is sensitive to expectations for the policy rate, fell after the news conference. But longer-term yields climbed, with the 30-year bond yield rising about 0.136 percentage point—its largest one-day gain in over a year—to 5.228%, its highest since 2007, according to Tullet Prebon data.

That mix of a Fed on hold and long-term rates rising reflects how far the inflation fight has moved from where officials expected it to be by now.

Three years ago, officials ended a sprint to lift rates to a two-decade high to combat much higher inflation. It be-gan cutting them two years ago as inflation moved closer to its 2% target, paused early last year as tariffs threatened to push inflation up, and then resumed reductions last fall as hiring slowed and officials moved to insure against a labor- market downturn.

The slump never arrived. In its place came price pressures from the Iran war and AI build-out. The Fed is left with a resilient economy and inflation stuck near 3% or higher, depending on the gauge.

Warsh didn't specify what would tell him the Fed needed to raise rates. He offered a principle instead: any central banker who sees underlying inflation moving higher is more inclined to tighten, and one who sees it falling is more inclined to ease. He didn't say where he thought underlying inflation was heading.

The officials pressing for an increase have increasingly pointed to the AI boom—hundreds of billions of dollars flowing into data centers and computing power—as a source of demand the economy can't easily supply. Interest rates can do little about price increases from tariffs or oil, but they can restrain demand. And while higher rates might not deter spending on data centers, where the capital is largely committed, they can cool other parts of the economy enough to ease the strain on supply.

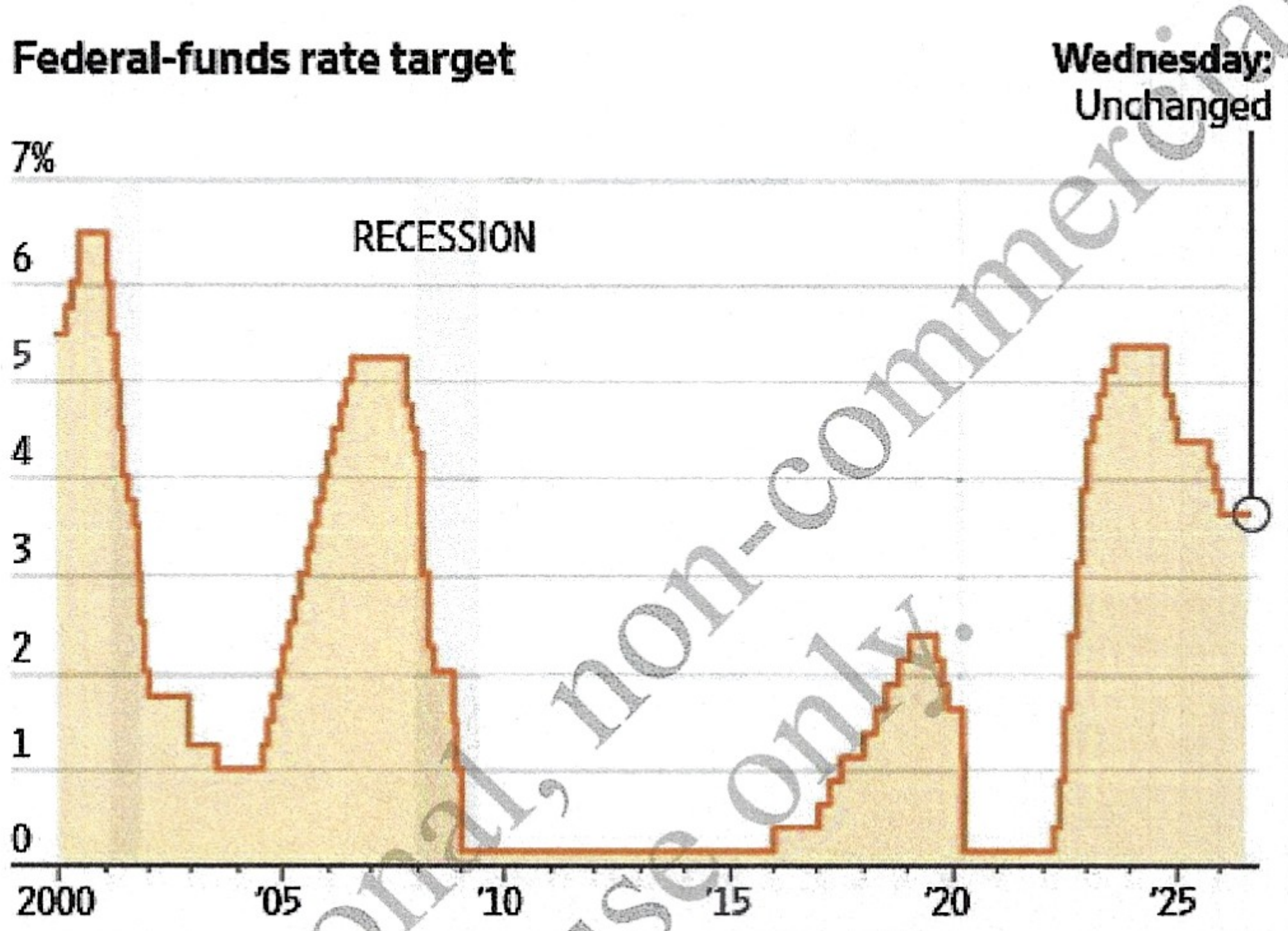
These officials worry the Fed is providing support the economy no longer needs. When they cut last year, they expected inflation to run just above 2%; higher inflation this year means the inflation-adjusted policy rate is looser than expected.

These officials have pointed to stock markets near records and easy corpo--rate borrowing as evidence the economy could absorb higher rates without much difficulty.

The judgment is complicated because the Fed is confronting inflation its analytical apparatus wasn't built to explain. The models it relies on treat inflation as a broad-based phenomenon with the labor market at its center. Most officials have suggested that, for now, the labor market isn't the source of price pressures.

Those officials counseling patience say the pressures are a series of one-off shocks of the kind a central bank is supposed to look through, so long as households and businesses still expect inflation to subside. Their fear has been the opposite mistake: reacting to price changes that will have washed out of the data by the time higher rates take effect.

Two inflation reports arrive before the Fed meets Sept. 15-16. "The bar for them to do something later this year is not that high," said Kurt Lewis, a former senior Fed adviser now at Piper Sandler. Lewis expects inflation to improve enough that they won't have to raise rates, though he said that path has narrowed. If the next two months show stiffer price pressures, "I have every belief that they would go," he said.



Note: Chart shows midpoint of target range since 2008.
Source: Federal Reserve

