2026-11-12

ECO

Personal, non-commercial use only

Warsh Leaves Investors Guessing

Fed Chairman Kevin Warsh has said little about how he would respond to data like Tuesday's, leaving investors to guess whether he shares the Fed's tendency to smooth out its moves rather than make big jumps.

Financial markets remain a wild card. A selloff in technology stocks last week briefly led investors to wonder whether the Fed might hold off on raising rates next month. Michelle Bowman, the Fed's vice chair for bank supervision, said Tuesday that investors appeared to be reassessing the expected returns on AI investments, pushing stock prices lower and raising borrowing costs for some companies involved in the build-out.

That leaves officials worrying about moving too slowly and letting inflation fester or moving too quickly and setting off a rout that slows the economy more than they may want. Bowman said that with financial conditions already tighter, "the benefit of additional policy tightening has to be carefully weighed against its costs."

The full effect of this year's diesel-price shock may also still lie ahead.



Fed Chairman Kevin Warsh spoke at his postmeeting news conference on Oct. 28. JULIA DEMAREE NIKHINSON/ AP

Case for Fed Rate Increases Grows

Another month of underlying inflation raises question of pace of size of hikes

BY NICK TIMIRAOS AND MATT GROSSMAN

Federal Reserve officials spent October talking markets down from bets on a quick string of rate increases. Inflation data haven't cooperated.

Core consumer prices, which exclude food and energy, rose at a 3.7% annualized rate over the three months through October, a broad acceleration from the 1.6% rate for the three months through July, according to a Labor Department report released Tuesday.

The figures left little doubt that the Fed will raise rates at its Dec. 8-9 meeting. The bigger questions are how quickly the central bank should move and whether it is still making the modest adjustment of two or three increases that many officials have

Nov 11

envisioned or is instead at the start of a longer campaign to slow the economy and bring down inflation.

On Tuesday, two officials who supported the decision to hold rates steady last month suggested the Fed might now need to pick up its pace. Fed governor Christopher Waller, who spoke in London hours before the inflation data were released, said the Fed should consider a half-point increase next month if core prices rose around 0.3% in October from the previous month, which they did. And after the report, Dallas Fed President Lorie Logan hinted that a faster pace of hikes might be warranted given the current inflationary pressures hitting the economy.

Yields on short- and longterm U.S. Treasury securities jumped Tuesday, signaling expectations for higher Fed rates. The 0.18 percentage point rise in the 2-year Treasury yield, to 4.725%, was the largest daily increase since April 9, 2025, when President Trump announced a pause on many of his tariffs. Bond markets were closed Wednesday.

The strength in core prices last month showed up in categories that might be expected to reflect the pass-through of higher costs from tariffs, energy or shipping—and in categories less exposed to those pressures, such as housing, recreation and other nontransportation services, said Tiffany Wilding, an economist at Pimco.

Prices for retail goods also rose despite early-October discounting from **Amazon.com 's**

Prime Day, which usually holds those figures down, she said. Surging artificial intelligence investment, meanwhile, has pushed up costs for electronic components. Prices of televisions and smartphones rose briskly last month.

"This still doesn't look like a replay of 2022," when year--over-year inflation peaked above 9%, Wilding said. But "it is a very disappointing inflation report for the Federal Reserve."

The full effect of this year's diesel-price shock may also still lie ahead. While crude-oil prices have fallen meaningfully in recent weeks, the cost of moving goods hasn't come down as much. Diesel prices, which topped $6.50 a gallon in September, were still around $6.10 this week, according to the Energy Department.

Waller explained his uneasiness when asked Tuesday why he was putting more weight on backward-looking government data given the more than 20% drop in crude prices this month.

"I just don't see diesel coming down dramatically because more oil is coming out of the [Persian] Gulf," he told a conference. "You've got to have refining capacity, and that stuff's been seriously damaged around the world, and isn't going to come back soon."

Officials who want to move faster have two ways to do it. One would be to raise rates by a half percentage point in December. A quarter-point increase after a third straight firm inflation reading "would put our credibility at risk, a risk I am not eager to take," Waller said. The Fed last raised rates by a half point in 2022.

Another would be to signal that a January increase was more likely to follow December's. Shifting the presumed pace of policy tightening to consecutive meetings would be notable given how officials had only recently been explaining why they thought a less hurried pace was justified.

Logan, who is a voting member of the Fed's rate-setting committee this year, pointed in that direction Tuesday. "It may be possible to move more rapidly this winter than the [committee] has moved so far this fall," she said. Logan said she still expects the Fed will need at least two more quarter-point increases before taking stock of those moves.

That second strategy currently seems more likely, said Matthew Luzzetti, chief U.S. economist at Deutsche Bank, given how officials had settled recently on an approach to balance the need to restrain inflation against the risk of tightening too much while markets were volatile.

Philadelphia Fed President Anna Paulson struck a more patient tone Tuesday evening. She said she still preferred raising rates gradually because it gives households and businesses more time to adjust, and that she would want to move more quickly only if higher inflation began feeding into wages or into what the public expects inflation to be in the future. "Right now, that's not what I'm seeing," she said in prepared remarks.

Luzzetti said he now expects the Fed to raise rates by a quarter point at each of its next three meetings, delivering a total of 1 percentage point of increases, including September's rate hike. Larger increases were likely only if officials concluded that substantially more than a percentage point of total rate increases was needed, he said.

For personal, non-commercial use only

Waller's comments Tuesday highlight the cost of the Fed's decision to hold rates steady last month, said Daleep Singh, a former New York Fed executive who is now chief global economist at PGIM. "Quickening the tempo is an option you want to preserve for when you're demonstrably behind the curve, not something you want to make necessary by waiting," he said.

The following is a digital replica of content from the print newspaper and is intended for the personal use of our members. For commercial reproduction or distribution of Dow Jones printed content, contact: Dow Jones Reprints & Licensing at (800) 843-0008 or visit djreprints.com.

Copyright (c)2026 Dow Jones & Company, Inc. All Rights Reserved. 11/12/2026

For personal, non-commercial use only.