Podcast: Research @ Citi Episode 84: The Warsh Fed — Mind the Data

Recorded: July 16, 2026

Published: July 23, 2026

Host: Rob Rowe, Head of Research, Citi

Guest: Veronica Clark, Developed Markets Economics, Citi

Transcript:

Opening Teaser (0:00)

Research @ Citi

Rob Rowe (0:01)

Hi everyone. I'm Rob Rowe. I'm the interim Global Head of Research. With me on the Research @ Citi podcast today is Veronica Clark, and we are going to talk about Warsh.

Now, that's a really exciting topic. Everyone has talked about Warsh, and everyone has talked about the potential restructuring of the Fed. And, also, a lot's happened since June. So we need to also discuss the economic data and how that positions Warsh here. But you're going to bring it all together for us. And I think the way we'll do this is, In six months to a year, after we've been through all the committees and we've done everything, what does the new Warsh Fed look like? What is it going to have? How much forward guidance can we depend on? Will we have a new inflation model? How is this whole thing going to look?

Veronica Clark (0:59)

Yeah, it is a really interesting question. Happy to talk about it. I mean, we really don't know at this stage, right? I think everyone has kind of gotten comfortable with this lack of knowing for now. And hopefully we find out more over the next couple of months. But yeah, we came in with this new Warsh Fed, and the very first thing I think that we learned is that we really should not expect anything in terms of forward guidance from him.

I don't know if that changes. I do hope that it does a little bit because the situation we're in right now is he's certainly not giving us any forward guidance in terms of policy rates. That's fine, and that's probably the main thing that in a year from now, I do expect will probably change. We will have a lot less specific guidance from the Fed in terms of where they think policy rates are going.

Here, I'm thinking specifically of the Fed dot plot. We know that one of the task forces that Warsh has put together is focused on Fed communications. I think it's probably pretty expected that we do see some changes to those dot plots. So now, Fed officials are putting in their forecast for where they think policy rates will be at the end of this year, end of next year, end of the following year. And I think those can change. Maybe even a simple change, moving from a calendar-based dots right now to maybe a one-year rolling forward forecast, or a two-year rolling forward. Or maybe the dots go away altogether. So I think that's a probably pretty expected change. And certainly Warsh is already living by that lack of guidance. So he's not told us where he thinks policy rates need to be. We know that he did not place his own dot in the June SEP.

What I do hope changes from him somewhat, though, is that we also really don't know at this point, not only how he's thinking about policy rates — which maybe we never really know — but we also don't really know how he's thinking about the recent data. We don't really know how he's considering the tradeoff between the labor market and inflation. He's not really talked about his own view, or analysis of the recent data. And I do think that will hopefully change at some point. Because otherwise, what we should expect from a Fed a year from now that is giving less forward guidance, and maybe is talking a bit about the data less than where we're used to, is that that's a much more volatile situation for markets trying to price the Fed. So maybe we're in an environment where there's a lot more volatility.

Maybe we do have some more inflation data to look at, some other measures that the Fed will be considering, maybe different ways of gauging what the right inflation trend is. And those are task forces that hopefully we find some kind of resolution on later this year. But right now, it looks like we're just looking at a Fed that maybe tells us a bit less, and we're just then a bit more sensitive to every data point and how we perceive that data has changed the risk for the Fed.

Rob Rowe (3:53)

There's other elements to that, right? So I guess we'll have to start looking at his briefcase the way we used to do with Greenspan to see what we think the call might be, right? But there are people who are proponents that the Fed shouldn't be in the business of forward guidance, right? And I think there's even potentially consensus that we shouldn't have a dot plot, right? How important is the dot plot? I mean, do we need that? Or if we don't have it, then we should have at least some forward guidance. We want to reduce volatility in markets. How much forward guidance do you need?

Veronica Clark (4:35)

I think we need at least some kind of guidance on their reaction function, right? Like they don't need to tell us the specific dots — and, to be honest, we will never base our forecast for the Fed on what the Fed thinks is going to happen. We will always base our forecast on what we think the data is going to show and how the Fed is going to react to that data. So we're never marking to market our forecast, for instance, with the dots. Maybe towards the end of the year, when there are only a couple meetings left, if the dots are showing one specific thing, then we can make an assumption of what might happen. But ultimately, yeah, that's not really how we're forecasting the Fed anyway.

So, dots specifically are maybe not the most helpful, but I do wish we had some guidance on a reaction function. Because you'll still get the volatility. You will still be incredibly reactive to any new data point that comes out and changes the narrative. We got some of that this week, even. But if the Fed at least tells us how they're going to be viewing that data and reacting to that data, then that's helpful in itself.

Rob Rowe (5:35)

So maybe we don't care about the dot plot?

Veronica Clark (5:41)

I don't think so. I mean, it's interesting right now. And it does at least give us a sense when it comes out of how Fed officials have shifted in their thinking since the last meeting. We got the dot plot in June and it was much more hawkish than we thought — more officials had penciled in rate hikes. And that does help us at least know where the Fed is coming from. So as we're getting into the second half of the year, most Fed officials were more hawkish than we thought they would be. But that's the kind of thing that we can glean from speeches and appearances and things like that. I don't know if we need the dots specifically to tell us that.

Rob Rowe (6:18)

Do you think that Warsh wants all these folks yapping in the media? Or do you think that he'd rather see them be a little quieter about all that?

Veronica Clark (6:27)

I don't know. I don't know if he's had any discussions behind the scenes that we're not privy to. Because the issue then is, we were very used to a Powell Fed — Powell was very good at forming a consensus and being the voice of the center of the committee, steering things in one direction. We did not have many dissents at meetings under Powell. Maybe towards the very end we did, but for the most part, the decisions were pretty unanimous.

And what we're faced with now is, Is Warsh going to be a chair like that? If he wants to be this consensus former, and wants to steer the committee in terms of his views, well, he's not really doing that with this lack of guidance right now — he's letting other people do that, right? We heard even from Governor Waller earlier this week in a speech that was at the time pretty hawkish, kind of guiding towards if the June inflation data that we got this week comes in hot, we might need to be hiking, considering a hike as soon as July. That's the kind of guidance that officials used to give us, and I don’t know if we can really trust that as much, if we should even trust other officials as much. But yeah, if Warsh isn't telling us, then we probably will take more guidance from other officials.

Rob Rowe (7:44)

In terms of the committees — one of the committees is dedicated, I think, to assessing new measures of inflation. Is Warsh biding his time until the results from that committee come about? And what do you think the implications are? What's going to come out of that? And will it necessarily be eye-opening in terms of the way that inflation is being assessed over all the decades that we've been studying inflation?

Veronica Clark (8:14)

So I don't think waiting for the results from the task forces necessarily boxes them into doing nothing until the end of the year, not being able to react. If there is something very clear in terms of the data, if inflation is really heating up, we see signs that the labor market is re-tightening, wages are picking up again, then yeah, they might be hiking. Of course, we think they will see the opposite and they could even be cutting.

But yeah, that inflation task force is interesting because we've already heard a little bit from Warsh about not looking necessarily at just one measure of core inflation. Right now they look at PCE inflation, but maybe these trimmed mean measures that are a lot softer. So yeah, I do wonder if the outcome of that task force will be somewhat dovish. And it almost maybe has to be, because the measure that they target right now is by far the outlier strongest measure. So if you're looking at inflation in any other way, it was probably going to look weaker than the one they target right now.

But I don't know if it's necessarily going to be so much of a game changer. We're already kind of doing that. Again, already seen this week that core CPI — which is a very important measure, it's not the one specifically that the Fed targets — it's looking a lot better, and you have to weigh that against core PCE that looks stronger.

Rob Rowe (9:31)

Let's talk about core PC and core CPI and all of it, and let's talk about the differential between you and the team's call and the call that markets have, or that some of the Fed officials have. Officials are saying hike — I'm not sure with how many hikes the market is currently pricing in. You're all talking about two to three cuts at the end of the year. That's a big divergence in terms of what's going to happen over the course of, let's say the next four months. But some of the recent data went in your favor, and I would say it went in Warsh's favor too, because if there was any anticipation that he was going to cut rates, he was boxed in in June. So how are you looking at it?

Veronica Clark (10:16)

Yeah, it's been a very interesting couple of months, and a very interesting week. So yeah, we started the week as we have been the last few months, obviously pricing out the cuts that we had, pricing in all these hikes. And we started the week, I think pricing probably over 50 basis points of hikes for this year. And on Monday, we got a speech I mentioned briefly from Governor Waller, a pretty hawkish speech, indicating that if this week's inflation data comes in hot, maybe they need to consider a hike as soon as July. That meeting is in two weeks, right? And so we were pricing even a 50% chance of a hike at that meeting, something like 10, 12 basis points at that meeting. And then, yeah, we got the inflation data on CPI on Tuesday, and it was much, much softer than even we expected.

So we were expecting a 0.2% increase in core CPI, a somewhat softer 0.2. But instead, we actually had a slight decline in core CPI, which is very rare: fell by two basis points, that rounds to flat on the month. But it was a surprisingly soft CPI reading. Some of the issue, and maybe partly why we're pricing so many hikes, is that among all the inflation data this year, the real problem has been with core PCE inflation, which is what the Fed targets.

In normal times, normal pre-pandemic times, core PCE tends to run maybe 20 to 30 basis points below core CPI. So right now we're looking at core CPI, that's at 2.6% year on year. That would maybe be consistent with core PCE just a little above two, maybe 2.3, something like that. Instead, we have core PCE at 3.4%. Now we got some softer PPI data also on Wednesday, we take those details of those two measures and we get an estimate for core PCE inflation, and we are coming out softer for this June data. So 18-basis-point increase in core PCE, that would imply it falls to 3.3%. But OK, you're clearly still far from target in terms of core PCE.

But the issue for us and why we very much differ in how we see inflation? I think it is the inflation data alone that over the summer can get us to price out hikes altogether. And then maybe cuts depends on the labor-market data. But that pricing out of hikes, I think what we'll see in the inflation data the next couple months is CPI continuing to slow. So we have that falling below two and a half percent within the next two months.

Rob Rowe (12:50)

That’s regular CPI or core CPI?

Veronica Clark (12:55)

That's core CPI. Yeah, headline CPI is still high. Energy, gas prices came up — they're coming down now, but they're obviously still much higher than they were a year ago. But yeah, core CPI falling pretty close to two percent and that has to do with shelter inflation that's slowing. And honestly, the weakness in Tuesday's number, this week's number for June, was very broad-based. It was not just one outlier component, it was pretty much everything was weaker than we expected, and it looks like some of those components can stay that way.

And it was around this time last year that we started to see some of the tariff increases and goods prices — those are now dropping out of the annual reading, they happened over a year ago. And so yeah, CPI could look a lot better. Core PC will still be strong. But this then goes back to, How does the Fed look at underlying inflation? Do they just look at core PCE, or should they look at this range of measures, including CPI — which, by a lot of measures, I think will look pretty close to where we were pre-pandemic. This would be the lowest core CPI we've seen yet. And so, yeah, you're questioning what signals should I take from CPI vs. PCE. Like, which one is the right signal?

And then late September, we're going to get revisions to core PCE inflation. They announced these a couple of weeks ago. And our best guess for those revisions is that it's going to lower core PCE by about 25 basis points. So it's still too high, right? You're still not at two. But these are components of PCE that are getting revised because they've had some methodological issues. So that also makes you further question what the signal to take from core PCE is, I think. And so yeah, the data over the summer, I think will just look like, Yes, there are these inflation risks from energy prices and AI and what-not, but the bulk of prices that matter for consumers and certainly things like wage growth and home prices and what-not, those are not particularly inflationary. Those are not signs of an economy that's overheating and needs rate hikes.

Rob Rowe (15:01)

What has to happen? Where do we have to get to for the Fed to be motivated to cut rates two or three times? Like, what unemployment rate do we need? Do we need to really see the jobs market or NFP go through the floor? Do we need inflation, core inflation at like 2%? What do we need to see?

Veronica Clark (15:23)

So to start pricing out the hikes right before we even get to cuts, I think that they'll need to see in the inflation data. And I think they will see that, especially in CPI, even within the next two months. So yeah, that would look like core CPI at around 2.3% year-on-year, below 2.5%. I think they would be very comfortable with that. They're obviously being very cautious — and rightfully so — on this week's number, because it was just one month. It was incredibly soft. We need to see what the trend is over at least a couple months. In the next couple months, I think they can see that in CPI.

And then to actually get to cuts, that's where the labor-market side of things has to come in. Right now they would describe the labor market as very stable, which is fair. The unemployment rate is moving mostly sideways, maybe even a bit lower. It's at 4.2% right now. It's been around 4.3, 4.4 for most of the last year. I think what they would need to see is, OK, you're feeling better about inflation getting closer to target. If the unemployment rate starts rising again, then all of a sudden you're looking further away from your goal in terms of the labor-market mandate.

And yeah, I think an unemployment rate getting above four and a half percent — something like 4.6, 4.7, which is our forecast because we've seen this before where the last couple of years, the labor-market data looked very stable through most of the year, but this is still a very low hiring environment. Layoffs are still very low, but low hiring enough in the summer months especially has been enough to push the unemployment rate higher, and you tend to see that in the late summer.

And so far, a lot of the familiar patterns and things like jobless claims, the labor-force participation rate fell very substantially in June. If the participation rate had not fallen in June, the unemployment rate right now would be at 4.6%. It tends to rise later in the year. So our base case is that by the time we've seen softer inflation data in the summer, we get to September. So in the labor-market data for September and the unemployment rate is also now moving in the wrong direction at something like 4.6, 4.7%.

Rob Rowe (17:38)

Got it, Veronica. And lastly, is there anything baked into your assumptions about labor regarding AI or innovation? Or is it too early for that?

Veronica Clark (17:50)

Yeah, I think it's too early. And honestly, the macro data that we look at, data on the labor market as a whole, is probably not going to be the best place to pick out the early signs of AI disruption. So yeah, we've seen some pickup in layoffs in the information sector. So that would be like tech companies and what-not. Maybe it would be one reason that hiring is so low — you're not replacing people, you just need fewer workers — but the pullback in hiring started really in mid-2022. This has been happening for a while, so it definitely didn't start with AI. There is something else going on here. So yeah, it's not a big driver of softer job growth, to be honest. I think it's just the labor market can be rate-sensitive over time. And yeah, I do think this level of policy rates is restrictive, and I think Fed officials, if they saw the labor market weakening again and inflation still slowing, they will also think this level of policy rates is restrictive, and maybe we should be closer to neutral, and that requires some rate cuts.

Rob Rowe (18:56)

Veronica, thanks so much for your insights. This has been fantastic, and let's see what happens when we get closer to the fourth quarter of this year.

This episode was recorded on July 16, 2026.

Disclaimer (19:10)