# Given Inflation Risks, FOMC Minutes Point to Another Rate Hike Later This Year

## Headlines

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- **The FOMC voted unanimously to increase the fed funds rate at its mid-September meeting citing high inflation, inflation risks tilted to the upside, and balanced risks to the labor market.**
- **Participants expect inflation to move toward the committee's 2% objective in the medium term.**
- **The minutes say most participants expected to hike the fed funds rate again later this year.**
- **PNC's forecast is for two fed funds rate hikes in the months ahead.**

## Details

**At their meeting on September 15 and 16, the 12 members of the Federal Open Market Committee voted unanimously to raise the federal funds rate, their key short-term policy rate, by a quarter of a percentage point** to a range of 3.75% to 4.00%. According to the minutes from that meeting, participants were satisfied that the labor market was "near full employment, with some signs of strengthening," but noted that "inflation remained elevated." **Most participants viewed risks as weighted toward higher inflation, but labor market risks as balanced.** Given this balance of risks, "all participants viewed a higher target range for the federal funds rate as appropriate. Participants judged that this would support a timelier return of inflation to the Committee's 2% goal." The minutes also say that many participants viewed a September rate hike as "providing insurance against inflation remaining persistently above target due to stronger-than-expected demand or further adverse supply shocks."

**Participants provided several reasons for supporting a rate hike in September:** to protect against further unexpected inflationary pressures; to slow inflation in the most likely economic outcome; to prevent consumer, business, and financial market inflation expectations from moving higher; and to prevent strong AI-demand from driving inflation up further. Given that several participants viewed monetary policy as "not restrictive or only mildly restrictive," that is, either not weighing on economic growth at all, or weighing on it only slightly, **"most participants assessed that another increase in the target range for the federal funds rate would likely be appropriate by year end."**

In looking at current conditions, "participants noted that inflation remained elevated and that they had

not seen sufficient progress on lowering inflation in recent months." They cited core inflation that remains elevated and higher inflation coming from strong AI-related demand, even as the inflationary impact of tariffs faded. **Participants did expect inflation to return to the Fed's 2% objective in the medium term,** but they noted that businesses were having more success in passing along higher input costs to their customers.

**Participants generally expected labor market conditions to remain stable,** with the unemployment rate staying close to its current level.

According to the minutes, "despite the recent rise in longer-term Treasury yields, **financial conditions appeared to be supportive of economic growth,** with equity prices having risen substantially this year and spreads on corporate bonds having remained narrow." Credit availability was generally good.

**Growth remained solid heading into the fall** according to the minutes, with "robust business investment and resilient consumer spending… even as adverse supply shocks from geopolitical developments had intensified. Several participants commented that the underlying momentum in the economy appeared to have increased." Some participants also noted that AI investment was surprising to the upside.

According to the minutes from the September 15 and 16 FOMC meeting, **a shift in the balance of risks supported a fed funds rate hike.** Inflation remained above the 2% objective, had risen over the past year, and risks were tilted toward higher, not lower, inflation. At the same time risks around the labor market were more balanced. Given this balance of risks, the committee voted to unanimously raise the fed funds rate.

**The minutes point to an additional rate hike this year,** in an attempt to make monetary policy somewhat more contractionary. **PNC's baseline forecast is that the FOMC keeps the fed funds rate unchanged at its next meeting** on October 27 and 28, just a week before the midterm elections. PNC then expects another 25-basis-point hike in the fed funds rate at the Committee's mid-December meeting, with another rate hike in mid-March. This would take the fed funds rate to a range of 4.25% to 4.50% by the early spring of next year.

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