Fed's decision and US CPI in August

United States

Credit Rating Agency

Economy
September 21, 2026

Edgar González
edgar.gonzalez@hrratings.com
Economic Analysis and Sovereign Debt Senior Associate

Santiago Liceaga
santiago.liceaga@hrratings.com
Economic Analysis and Sovereign Debt Analyst

Ricardo Gallegos
ricardo.gallegos@hrratings.com
Deputy Chief Economic Analysis Officer

Felix Boni
felix.boni@hrratings.com
Chief Credit and Economic Analysis Officer

Federal Reserve raises rates for the first time since 2023, due to prolonged price pressures in the U.S. economy

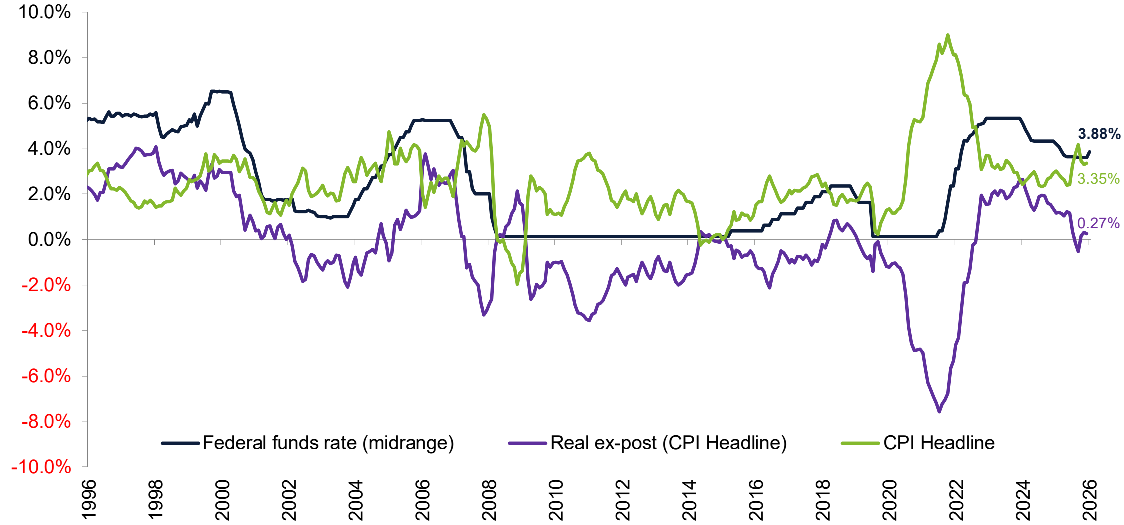
The Federal Reserve (Fed) increased its target range for the federal funds rate by 25 basis points (bps) to 3.75%–4.00%, as anticipated by market participants. The statement emphasized that the Federal Open Market Committee (FOMC) is steadfast in its dedication to maintaining price stability, and the decision was unanimous. An update to the Summary of Economic Projections was also included in the decision, which was notable for its median expectation of an additional 25 bps increase in 2026. Additionally, the unemployment rate estimate was revised downward, while the growth and PCE inflation projections were revised upward.

This is consistent with Chairman Warsh's press conference statement to the effect that inflation has been "unduly high for an extended duration," showing scant confidence that fundamental inflation is advancing toward the Fed's goal clearly and even less so at a satisfactory rate. Moreover, he indicated that the central bank is poised to act as required by the circumstances.

HR Ratings anticipates an additional 25 bps increase in the reference rate for the remainder of the year. This is due to the persistent inflationary pressures in the U.S. economy, which may be further exacerbated by the extended Middle East conflict. As shown in the below graph, the midpoint of the current range implies a real ex-post rate of around 0.30%, which seems inadequate for an inflation rate significantly above the Fed's 2.0% target and even more so given that CPI inflation shows no sign of being on a downward trend. Furthermore, with the headline PCE inflation at 3.7% in July the real rate is nearly zero. Thus, an additional rate hike in December (if not earlier) is virtually imperative.

A downside, of course, is that higher short-term rates, in addition to recent rises in long-term yields will only further increment the Federal government interest cost. With little political support to reduce non-defense spending and calls to increase military expenditures, the impact on aggregate demand of higher rates is uncertain. In addition, if cries of doom will not deter AI development spending, for interest rate hikes to have an inflationary impact consumer spending and residential investment will have to decelerate significantly.

Figure 1. Federal Fund Rates in Nominal and Real Terms



Source: HR Ratings and historic information from the Federal Reseve retrieved from FRED.

Although Chairman Warsh noted that the FOMC is attentive to trends rather than specific data points, the August inflation report revealed additional price pressures. The Consumer Price Index (CPI) rose 0.40% month-over-month (m/m), accelerating from the 0.07% m/m increase recorded in July. Unlike previous releases, inflationary pressures were also observed in the core CPI, which registered its largest percentage change in four months (0.29% m/m). Additionally, energy prices rebounded 2.10% m/m after two consecutive monthly declines, as shown in Figure 2. This reversal comes amid the ongoing escalation of the Middle East conflict, which has now persisted for over six months with no clear signs of a swift resolution.

Figure 2. CPI Inflation Evolution

Inflation During:	July-26		August-26		Annualized 3MMA		
	Monthly	Annual	Monthly	Annual	Jun-26	Jul-26	Aug-26
Headline	**0.07%**	**3.30%**	**0.40%**	**3.35%**	**6.07%**	**3.77%**	**1.14%**
Core	**0.22%**	**2.47%**	**0.29%**	**2.45%**	**2.88%**	**2.36%**	**1.97%**
Services less Energy	0.08%	3.01%	0.26%	3.01%	4.75%	3.62%	2.27%
Services less Rent	0.19%	2.99%	0.31%	3.10%	4.11%	3.50%	2.21%
Rent of Shelter	0.14%	3.15%	0.25%	3.03%	4.71%	3.99%	2.99%
Non Durable Goods	-0.29%	5.61%	0.73%	5.85%	15.16%	7.55%	-1.02%
Durable Goods	0.31%	-0.17%	0.01%	-0.33%	-1.25%	-0.29%	0.32%
Food	0.08%	2.94%	0.12%	2.63%	3.26%	2.64%	2.30%
Energy	-1.48%	14.45%	2.10%	16.05%	57.22%	23.11%	-9.32%
Gasoline	-2.86%	24.64%	3.90%	27.41%	115.44%	41.12%	-16.98%

Source: HR Ratings with seasonally adjusted information from the U.S. Bureau of Labor Statistics, retreived from FRED.

Within core inflation metrics, the index for services, excluding energy services, saw a 0.3% month-over-month uptick, largely due to the contributions from shelter (0.3% m/m) and transportation (0.5% m/m), with the latter being partially spurred by a 2.7% month-over-month escalation in airline tickets linked to the summer vacation period. Alternatively, commodities excluding food and energy displayed more consistent behavior, with a minimal fluctuation of 0.1% from month to month.

Looking closely at energy inflation, the gasoline subcomponent jumped 3.9% m/m, accounting for over one third of the total monthly headline increase, as reported by the Bureau of Labor Statistics (BLS). In August, the national average price for regular gasoline reached $4.06 per gallon, up from $3.93 in July 2026 and higher than the $3.13 averaged in August 2025. On the contrary, natural gas and electricity prices fell 1.1% m/m and 0.2% m/m, respectively.

On a seasonally adjusted annual basis (y/y), headline and core inflation stood at 3.35% and 2.45%, respectively, compared to 3.30% and 2.47% in July. Among the most notable variations, the energy index surged 16.1% y/y, while the shelter index increased 3.0% y/y. At HR Ratings, we expect inflation to face continued upward pressure, primarily driven by high energy costs tied to the prolonged closure of the Strait of Hormuz. Consequently, our year-end 2026 headline CPI forecast remains unchanged at 3.8% y/y. As we mentioned before, these inflation levels could cause a more hawkish stance from the Federal Reserve, potentially leading to an additional 25 bps hike before the end of the year.

The last columns of Figure 2 suggest a cooling of inflationary pressures on an annualized intra-year basis. Driven by a negative reading in June—which we consider an anomaly under current conditions—annualized inflation for the three months ending in August dropped to 1.47%, down from 3.77% in July. However, assuming a 3.8% y/y baseline by year-end, we project the annualized rate to bounce back to approximately 4.2%.

Finally, the consensus expectation of a more hawkish Fed, the assumption of "higher-for-longer" inflation in the short and medium term, and growing concerns over the U.S. government's fiscal situation have caused significant upward pressure across the nominal yield curve. In the last twelve months, the 2-year Treasury yield has climbed more than 110 basis points, reaching levels not seen since July 2024. Furthermore, the 10-year Treasury yield has broken above 5.0% in recent days, while the 30-year Treasury yield surpassed 5.4%, with both benchmarks hitting multi-decade highs last recorded in 2007.

Media Contact

comunicaciones@hrratings.com