

FORMER FEDERAL RESERVE OFFICIALS MARK UP INFLATION AND UNEMPLOYMENT PROJECTIONS AHEAD OF MEETING

War in the Persian Gulf will contribute to higher inflation and more unemployment in 2026 than the Federal Reserve started the year expecting, and there's little the U.S. central bank can do about it, according to former Fed officials and staff surveyed during the past week.

Former central bank officials projected 3% inflation this year, higher than the Fed's official 2% target, and higher than the 2.4% inflation rate that the central bank projected for 2026 back in December. Former officials also projected a jobless rate of 4.6%, higher than the 4.4% rate that the central bank projected in December and higher than the 4.2% rate that the Fed sees as normal in the long run. The former officials projected slower growth in economic output than previously estimated. For now, they agreed the U.S. is not in recession or heading toward one, but they said that could change if conflict in the Middle East and disruptions to global oil supplies deepen or persist.

MARCH 2026 ECONOMIC PROJECTIONS, FORMER FED OFFICIALS AND STAFF

	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>Long Run</u>
CHANGE IN REAL GDP	2.0	2.0	2.0	2.0
<i>Fed December Summary of Economic Projections</i>	<i>2.3</i>	<i>2.0</i>	<i>1.9</i>	<i>1.8</i>
UNEMPLOYMENT RATE	4.6	4.4	4.3	4.2
<i>Fed December Summary of Economic Projections</i>	<i>4.4</i>	<i>4.2</i>	<i>4.2</i>	<i>4.2</i>
PCE INFLATION	3.0	2.5	2.2	2.0
<i>Fed December Summary of Economic Projections</i>	<i>2.4</i>	<i>2.1</i>	<i>2.0</i>	<i>2.0</i>
CORE PCE INFLATION	2.8	2.5	2.2	
<i>Fed December Summary of Economic Projections</i>	<i>2.5</i>	<i>2.1</i>	<i>2.0</i>	
FEDERAL FUNDS RATE (Appropriate)	3.60	3.40	3.20	3.11
<i>Fed December Summary of Economic Projections</i>	<i>3.40</i>	<i>3.10</i>	<i>3.10</i>	<i>3.00</i>

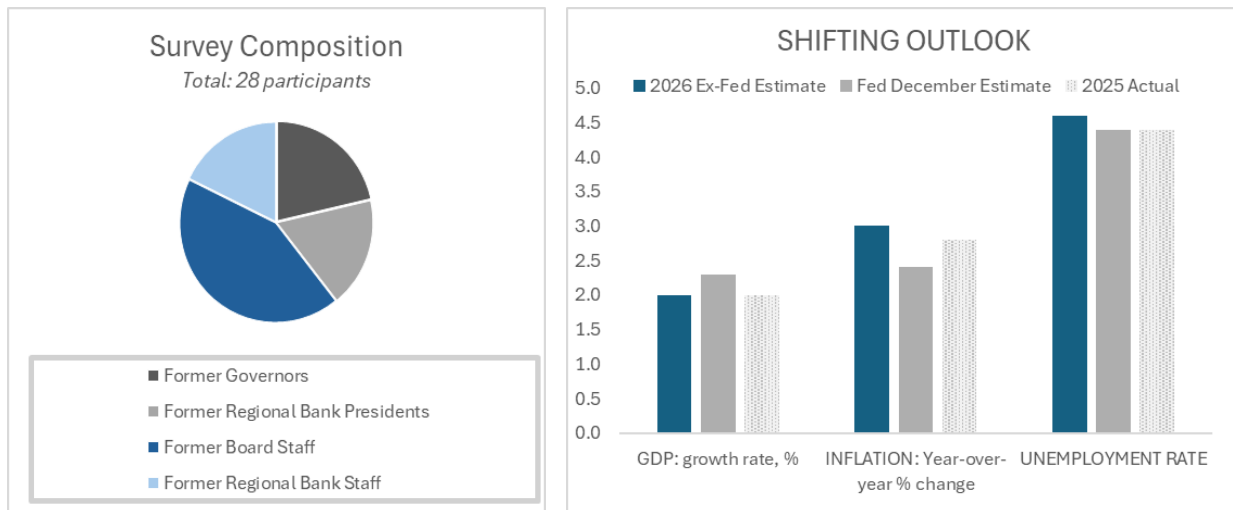
NOTES: All numbers are percentages. Estimates represent the median among former officials surveyed. Inflation is based on the personal consumption expenditure price index, fourth average versus quarter year earlier. GDP is also q4/q4. Fed funds rate is the estimate for year-end rate.

In all, 28 former officials and staff members participated in the survey between March 6 and March 13. The survey panel included former Fed board governors, former regional bank presidents and former Board and Reserve Bank staff. The projections outlined here are based on medians of their estimates. Some people didn't answer every question.

Given the economic backdrop, most respondents said the Fed would need to hold policy steady this year. Thirteen respondents said appropriate policy in 2026 would be no change in rates, while six people said it would be appropriate to raise rates and eight said it would be appropriate to reduce rates.

The Fed's "Summary of Economic Projections" provides its estimates of inflation, unemployment, and economic output, in addition to estimates of interest rates that officials see as most appropriate policy over a three-year horizon. The interest rate estimates, also known as the Fed's "dot plot," are closely watched on Wall Street for insight into how the central bank's thinking and plans.

The survey is conducted by Jon Hilsenrath, a former Wall Street Journal economics writer and Visiting Scholar at Duke, in partnership with the Duke University Department of Economics. Surveys are conducted ahead of the Fed’s quarterly update of its own economic and interest projections. The U.S. central bank next meets March 17 and 18. Survey respondents are granted anonymity in this survey to encourage participation and frank commentary.



Many former officials described the conflict in the Persian Gulf as a global supply shock – a constraint on the production and movement of energy and other products from the Middle East to other parts of the world.

The Fed typically responds to higher inflation by raising short-term interest rates and it responds to lower inflation by reducing interest rates. It generally responds to higher unemployment by lowering interest rates, and vice versa. Stagflation is a combination of higher inflation and less growth and hiring. Higher inflation gives the Fed less room to cut short-term interest rates to support growth and hiring.

U.S. inflation slowed from mid-2022 to mid-2024, then the slowdown stalled during the past year. The Fed cut rates by three-quarters of a percentage point in 2025 and by a full percentage point in 2024. The central bank in December penciled in one additional quarter percentage point interest rate cut in 2026 and another cut in 2027.

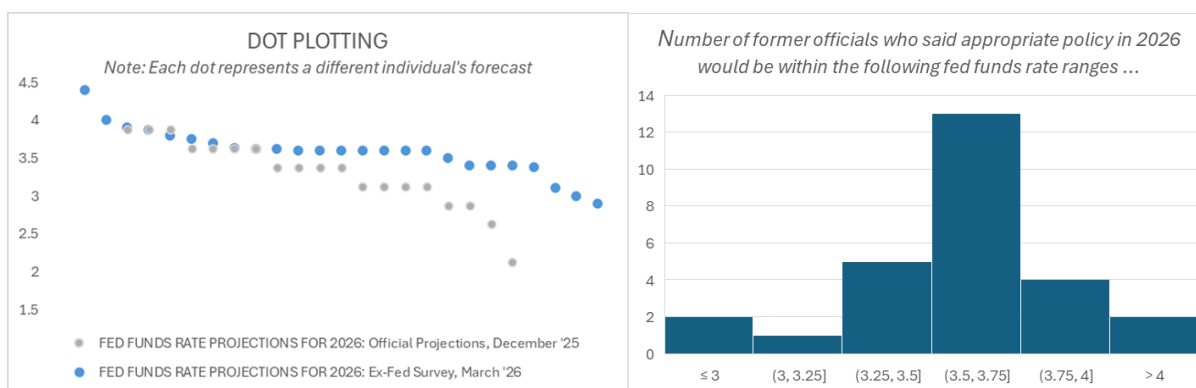
One former official estimated that every \$10 per barrel increase in the price of oil adds 0.2 percentage points to the U.S. inflation rate. The longer this disruption lasts, this person said, the greater the risks to inflation and output. A short-term disruption might wash through the economy without major effects on inflation or output. A sustained shock would be more damaging. Sustained oil prices above \$100 per barrel would raise recession risk, while sustained oil prices over \$120 per barrel would make recession the most likely outcome, this person said.

“It is Groundhog Day,” another survey participant said in describing the economic outlook. “Last year, tariffs generated a stagflationary shock, and the Fed had to try to balance the risks in a world of uncertainty. Just as that problem seemed to be passing more or less successfully, the war with Iran is another stagflationary shock. So, the Fed has to again try to balance the risks in a world of uncertainty.”

OTHER COMMENTS ON THE WAR:

- *“Easing into a supply shock risks de-anchoring inflation expectations; tightening would compound the drag on growth. Patience is the least-bad option until the data clarify which effects dominate.”*
- *“I have assumed (without any conviction) that hostilities will end within a few weeks. There will be some imprint on headline inflation for the year, but otherwise things proceed about as expected in December.”*
- *“The conflict will put upward pressure on inflation making it even less likely that maintaining a slightly accommodative policy stance will be consistent with inflation trending back to target over the next year or two.”*
- *“I incorporated effects of the war on growth and inflation in the near term but I do not presume a protracted conflict. That would be an alternative scenario. Because of US oil production, growth effects will be muted. The main effects will be prices at the pump on headline inflation.”*
- *“Oil price spikes, unless fully reversed in coming months, will raise headline and to a lesser extent core inflation this year. Higher and more volatile energy prices will damp demand as will the recent small retreat in equity prices, offset in part by an increase in defense spending. It’s a volatile situation with higher inflation, which will keep policy on hold for longer, absent a sharp labor market retreat.”*

Many former officials in the survey said the appropriate policy now would be to hold rates steady, between 3.5% and 3.75%. The group’s median rate estimate of 3.6% is higher than the 3.4% rate that the Fed penciled in last December when officials last offered their own rate projections. “The Fed is on hold as it waits to see effects of the war/oil shock on prices and the economy,” one person said. “There is great uncertainty right now and policy should signal that it is waiting, watching, and assessing.”



Most former officials and staff said the Fed needs to be open to the possibility that rates might need to move higher to keep bringing inflation down to the central bank’s 2% target. The Fed’s recent policy statements have generally been regarded as “dovish,” meaning they lean toward more rate cuts. Eighteen survey participants said the Fed’s communication should be more two-sided, meaning open to the possibility that interest rates could go either higher or lower.

“Particularly given the Iran mess, I think they should say that the outlook is very uncertain and be agnostic about where policy might be headed,” one person said. Another person noted: “The presumption that the next move is a cut is no longer appropriate ... the 1970s taught us that ambiguity about resolve in the face of supply shocks is itself a policy error.”

A critical unknown is duration. Most survey participants said they assumed hostilities end within weeks, allowing oil prices to partially retreat. But confidence in that assumption was limited. Several former officials noted it was made without conviction.

OTHER COMMENTS ON WHETHER THE FED SHOULD SIGNAL WILLINGNESS TO EITHER RAISE OR REDUCE RATES:

- *“The committee should ‘look through’ tariffs and oil prices and not raise rates unless longer-term inflation expectations rise. Given the damping effect of already higher productivity on unit labor costs and ultimately inflation, the next move is still more likely to be down than up, if only by a little.”*
- *“I think the direction of the next funds rate movement could, in fact, be up rather than down. But given all the uncertainty that exists about the duration of the war with Iran and oil prices, I wouldn’t want to signal any change in the likely policy path. The current statement affords sufficient flexibility and is appropriate for a “wait and see” approach.”*
- *“It was disappointing that they did not move more decisively to a balanced outlook for rates at the last meeting. They definitely should now. And they should push back against the notion that oil-price-type supply shocks automatically require accommodation; demand needs to align with supply, and sometimes real rates need to rise to accomplish that, and a surge in near term inflation reduces real rates.”*
- *“The policy rate should take into account stubbornly above target inflation rate as a counterbalance to somewhat weak economic growth. Current inflation pressures due to disruptions in the Middle East leading to higher energy and food prices worldwide should also be reflected in a more two-sided policy stance.”*