

Transcript

Kathleen Navin: Welcome to *Take Five with the St. Louis Fed*. I'm Kathleen Navin, senior economist, and today I'll be breaking down the latest FOMC meeting that took place on January 27 and 28.

At this meeting, the FOMC voted to maintain the target for the federal funds rate at its current range of 3.5% to 3.75%.

There were two dissents from this policy decision, with Governors Miran and Waller dissenting in favor of a 25-basis point rate cut.

Now, with the January meeting, we had the annual rotation of voting members on the FOMC. As a reminder, there are 12 voting members that make up the FOMC. This includes the seven Board of Governors and the president of the New York Fed, which always hold voting positions.

The remaining positions are made up of the other 11 regional Federal Reserve Bank presidents, and that occurs on an annual rotating basis.

Now, rotating on to the Committee in 2026 we have Regional Reserve Bank Presidents Beth Hammack of Cleveland, Neel Kashkari of Minneapolis, Lorie Logan of Dallas, and Anna Paulson of Philadelphia.

Now, after the January meeting, where do we stand on the current stance of monetary policy?

Chair Powell described this in his opening remarks of the FOMC press briefing. He stated, "In support of our goals, today the Federal Open Market Committee decided to leave our policy rate unchanged. Having lowered our policy rate by 75 basis points over the course of our previous three meetings, we see the current stance of monetary policy as appropriate to promote progress toward both our maximum employment and 2 percent inflation goals."

And in addition, he had mentioned that this position really leaves the FOMC well positioned to respond to any changes in economic conditions.

So where do we stand on the current progress towards the dual mandate? Well, let's take first a look at inflation.

Here we have core PCE inflation in gray and headline PCE inflation in navy. What we see is essentially we're still running closer to 3% than the 2% objective.

As of November, headline PCE inflation was 2.8%, and this is on a 12-month basis. Core PCE inflation was also 2.8%.

Now, Chair Powell noted estimates for the December readings using available price data today. And what we see there on those estimates is for headline PCE inflation to tick up to 2.9% in December and core PCE inflation to move up to 3%.

Now, again, we need to be moving down to 2%. So what is accounting for these more elevated readings as of late?

When we look at the contributions to PCE inflation, what we see is if you look at that lighter blue color—that core goods component—we see that that is accounting for some of this overshoot that we've been seeing in the past few months.

Now, the expectation is that that component, which currently reflects tariff effects, that as those tariff effects diminish, which is expected to occur this year, we would see overall inflation and core inflation continuing to then move downward.

And that's going to be driven by the services components, which we see here in the two darker blue, the core services excluding housing and then housing, and those we see more disinflationary pressures over the last few months.

So that would be expected to continue moving inflation down over the balance of the year.

Now let's take a minute to look at the other side of the dual mandate, turning to employment. When we look at the latest report on the unemployment rate, well, this was actually a very welcome report.

We saw the unemployment rate move down from 4.5% in November to 4.4% in December. And in fact, this was noted in the FOMC statement, which referred to the unemployment rate as showing some signs of stabilization. So this was a welcome development in the most recent report.

Now, readings on state unemployment across the Eighth District are either close to the national average or below it, with a range of 3.5% in Indiana to 4.6% in Illinois as of December.

Now, at the same time, job gains remain low. As pointed out in both the FOMC statement and the chair's press briefing, overall monthly gains slowed to an average of just 12,000 per month from May to December of 2025.

In addition, payroll revisions due out in early February will include the downward benchmark revision that we first learned about last year. So that will show slower employment growth leading up to this period as well.

So the overall assessment looking at these data is that this is an economy with inflation still running above the 2% objective but with expectations for that downward trend to resume over the balance of this year.

On the employment side, we see a labor market that has really slowed but most recently has shown signs of stabilization.

Now, when we think about the dual mandate, it is still the case that we have risks on both sides of the dual mandate. But as Chair Powell noted in the press briefing, the view is that these risks have diminished relative to where we were in December. And indeed, we saw in the FOMC statement from January the removal of the phrase around downside risks on employment.

So risks remain, although a little bit lower than where we were in December.

Now let's take a minute to also look at overall economic growth, which the FOMC changed its description of in the latest statement, improving that description from moderate in December to solid economic activity as of the January statement.

Now, when we look at real GDP growth, here we have real GDP growth per quarter on an annualized basis in the white diamonds and then the contributions to that in the bars.

What we see is solid economic growth in the third quarter of 2025 of 4.4%, and that reflects positive contributions from personal consumption expenditures and business fixed investment, as well as net exports and government.

Now, looking at estimates for growth in the fourth quarter, which will be due out in late February, we see expectations for another quarter of solid growth, primarily driven by the consumer sector.

So where do markets stand following the January meeting?

Well, as of this filming, markets were pricing in just shy of two 25-basis point rate cuts in 2026 and one rate cut fully priced in by the July FOMC meeting.

Now, as we know, a lot can change and will change between now and the end of the year. So we'll be continuing to look at the incoming data to determine how the economic outlook is evolving and what that may mean for interest rates going forward.

Well, that concludes this installment of *Take Five with the St. Louis Fed*. Thanks so much for joining us.

(END OF RECORDING)