All Signal, No Noise

MARKET ANALYSIS

MNI Fed Preview: January 2026

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This preview includes **analyst expectations – click here**

Meeting Dates: Tue-Wed, Jan 27-28
Decision/Statement: Wed Jan 28 at 1400ET / 1900UK
Press Conference/Q&A: Wed Jan 28 at 1430ET / 1930UK
Minutes: Wed Feb 18

Links (likely URLs based on previous meetings):

Statement: https://www.federalreserve.gov/newsevents/pressreleases/monetary20260128a.htm
Implement. note: https://www.federalreserve.gov/newsevents/pressreleases/monetary20260128a1.htm
Press Conference: https://www.federalreserve.gov/monetarypolicy/fomcpresconf20260128.htm
MNI Review of Previous FOMC (December - link)

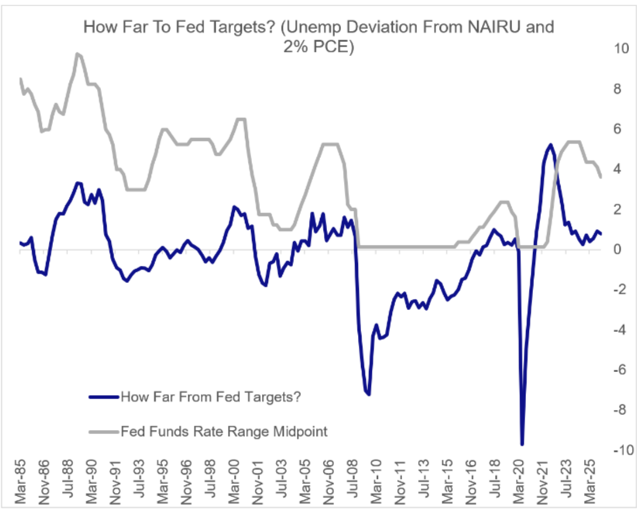
MNI POV (Point Of View): New Year, Same Divisions

By Tim Cooper
Jan 23, 2026

- *The FOMC's January meeting appears poised to deliver a neutral hold, with heated debate continuing about the appropriate pace of easing over the coming year.*
- *Divisions within the FOMC over the way forward are unlikely to have narrowed much since the December cut. The center of the Committee is likely to hold sway in maintaining an easing bias, albeit with no rush to make the next move now that rates have been brought down to within plausible estimated ranges of neutral policy.*
- *If anything, the Committee may be even more patient now than it was 6 weeks ago.*
- *Recent data have done little on net to affirm the case for another near-term cut, with the unemployment rate steadying and economic activity proving more resilient than expected.*
- *With government shutdown-related distortions failing to clarify the overall picture, Chair Powell is likely to repeat his message from the December meeting that the FOMC is "well positioned to wait to see how the economy evolves", with plenty of data to consider before the next decision in March.*
- *The new Statement is likely to see only limited changes, but should acknowledge both reduced near-term concerns over the labor market as well as the above-expected economic activity since the last meeting. It will maintain the rather vague forward guidance adopted in December that the "extent and timing" of future easing will depend on the data.*
- *That would likely be taken in stride by rate markets which price only around a 3% implied probability of a 4th consecutive 25bp cut, with the next easing expected only by July.*

The Fed's January meeting appears poised to deliver a neutral hold, with heated debate continuing about the appropriate pace of easing over the coming year. With no new Summary of Economic Projections until March, and data coming in distorted and mixed since December's SEP, there is little fundamental reason for Chair Powell and the Statement to change tack. That would likely be taken in stride by rate markets which price only around a 3% implied probability of a 4th consecutive 25bp cut, with the next easing expected only by July.

- We know from the December meeting minutes and the Dot Plot showing a 1-cut 2026 median that a sizeable minority of members saw no further easing through end-2026, but a base case among a solid if narrow majority that further limited cuts would ensue if the data cooperate.
- Divisions within the FOMC are unlikely to have narrowed much since then. We would be unsurprised if the eventual January minutes echo December's in saying that "most participants judged that further downward adjustments to the target range for the federal funds rate would likely be appropriate if inflation declined over time as expected. With respect to the extent and timing of additional adjustments to the target range for the federal funds rate, some participants suggested that, under their economic outlooks, it would likely be appropriate to keep the target range unchanged for some time."
- The one thing that everyone could agree on in December was that "monetary policy was not on a preset course", and we would expect that message to be conveyed again this month.



Source: Fed, CBO, NBER, BLS, MNI

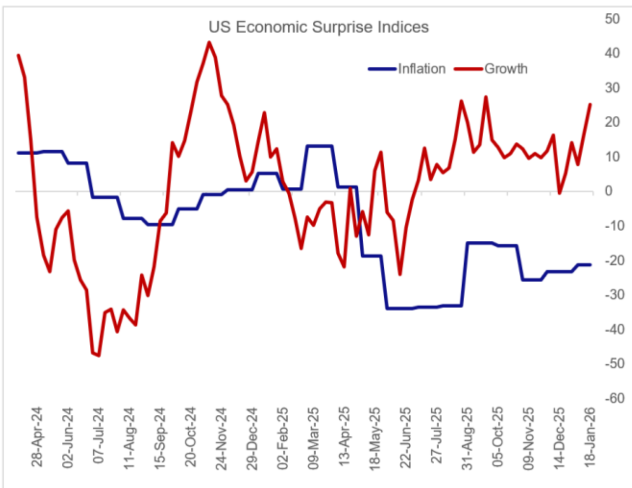
Divided Into Three Camps: We go extensively through the inter-meeting communications later in this preview (**Key FOMC Communications**), but in summary there are three camps on the Committee:

- **The dovish wing** argues the labor market is weakening and inflation is essentially at target once distortions are removed—so additional easing is necessary to prevent unnecessary labor market damage. Additionally, these proponents of cuts emphasize the forward-looking nature of monetary policy, with their own outlooks wary of labor market deterioration and very much unconcerned about the inflation trajectory. This is a small but crucial set of permanent FOMC voters (Govs Bowman, Miran, Bowman).
- **The hawkish wing** believes inflation remains too high, tariff effects could reignite price pressures, and the economy is too resilient to justify more cuts. This includes regional presidents Hammack, Kashkari, Logan, (all 3 are 2026 voters), as well as Bostic and Schmid. Unlike some who we have characterized as in the "center" who merely require more evidence to support another cut, we believe that the members of the "hawkish wing" would not be particularly averse to a case for a hike in order to anchor inflation, which some see as more concerning than the labor market.
- **The center** includes Powell and aligned officials: Williams, Jefferson, Cook, Barr, as well as presidents Daly and 2026 voter Paulson, with the more hawkish-leaning contingent of Collins, Barkin and Musalem (Goolsbee is somewhere in between, hawkish short-term but dovish longer-term). They continue to be open to future cuts to varying degrees as a base case, depending in part whether downside risks to the labor market materialize, but emphasize caution, neutrality, and waiting for clean data. The spectre of tariff-driven inflation and/or higher firm price-setting at the beginning of 2026 loom as risks, but the expected inflation trajectory will keep it consistent with the Fed's target over time.

As Chair Powell said at the December meeting press conference, "adjustments to our policy stance since September bring it within a range of possible, plausible estimates of neutral and leave us well positioned to determine the extent and timing of additional adjustments to our policy rate based on the incoming data, the evolving outlook and the balance of risks". The center will hold sway at for now, considering even Waller said that "we can take our time. There's no rush to get [rates] down".

Data Remains Unconvincing: Chair Powell emphasized last month that "we are well positioned to wait to see how the economy evolves. We will have to see. We will get quite a bit of data" by the time of the January meeting. With data dependency the order of the day, it's unfortunate that the latest major reports have been distorted and delayed by the federal government's shutdown. We go through the key inter-meeting data here **Macro Developments Since Previous FOMC Meeting** - with the bottom line being that it's extremely doubtful that any FOMC members will have changed their minds over the outlook since the last meeting on the basis of data alone. If they have, it's probably toward greater patience, with no impetus to cut in January.

- Fed officials (and most analysts) have been continually surprised at the resilience of economic growth through numerous headwinds throughout the post-pandemic cycle. That includes the uncertainty and apparent collapse in confidence among private sector actors after the tariff announcements in the first half of the year, and more recently the federal government shutdown in October and November. By some measures the economy not only hasn't faltered, it may post its strongest GDP reading of the year in Q4 (posing upside risks to the FOMC's December Q4/Q4 median forecast of 1.7% for 2025) albeit exaggerated by net export distortions.
- With the FOMC relying increasingly on anecdotal "data", it's also notable that January's Beige Book portrayed a slightly stronger take on economic activity compared with the prior release (November), with a slight improvement in labor market conditions and steady inflationary pressures – likely reinforcing conviction on the FOMC that there is no hurry to cut rates.
- Additionally, the unemployment rate edged off recent highs in December and weekly jobless claims data are showing renewed signs of strength. In short, the apparent deterioration in labor market conditions that spurred a restart of the easing cycle in September has not worsened, with Q4 unemployment printing in line with FOMC median expectations.



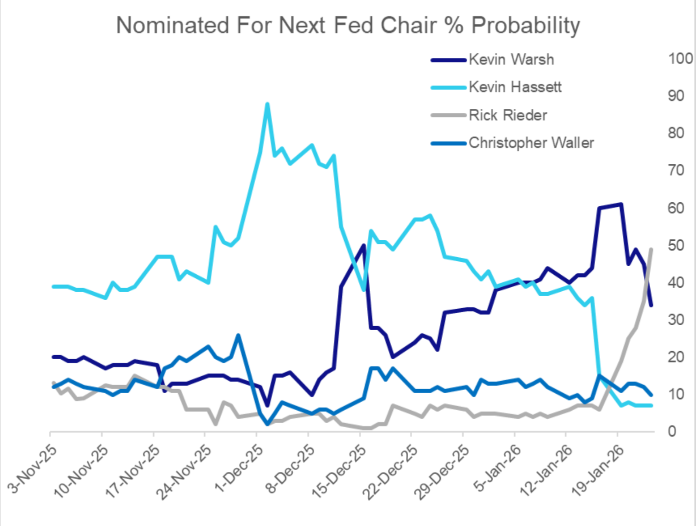
Source: Citi, Bloomberg Finance L.P., MNI

- And while inflation has come in on the downside of expectations (including the Fed's), this too is in large part an artifact of methodological choices in assembling CPI indices for shutdown-hit October and November. As such it's not something doves will be able to point to with conviction when arguing for cuts to continue immediately.

Statement To Retain Forward Guidance: We expect this non-committal tone to be reflected in the January Statement (more later in this preview: **Policy Statement**) which is likely to see only limited changes, should acknowledge both the signs of stabilization in the labor market as well as the above-expected economic activity since the last meeting. The FOMC will probably also retain the forward guidance language which continues to provide flexibility without guiding markets to any particular outcome. The Statement added "extent and timing" in December to signal that after 3 consecutive cuts, the easing bias remains but the pace has slowed and the next move will be data-dependent. We don't expect any announcements on balance sheet policy after December's decision to start reserve management purchases, and there's likely to be little if any discussion at this meeting on that front.

One Legal Battle After Another: Looming over the meeting are multiple uncertainties about the future composition of the Fed board. We might have expected some more certainty over the nomination for the next Fed Chair, which was reportedly due to have been announced by President Trump by the time of the January meeting. However the announcement has not been made as we write this, and the odds keep shifting besides. There have been three different favorites for the role just this month: Ex-Fed Gov Warsh, current White House NEC director Hassett, and currently, Blackrock's Rieder (the fourth finalist is Gov Waller).

- Complicating the picture is that the Fed has received grand jury subpoenas from the U.S. Justice Department that threaten a criminal indictment, with Powell arguing the move is a pretext aimed at curbing the Fed's independence. The controversy has reverberated politically and jeopardized the White House's ability to secure a Senate nomination for its preferred candidate until the legal issues are resolved.
- At this point we don't know who Powell's appointed successor will be, nor whether Powell will step down from the Board after his term as Chair expires in May (his Board term ends in January 2028). The prospective lack of Senate support for new nominees also means that Gov Miran looks increasingly likely to stay on the Board past the end of his term's expiry at end-January (he can stay until a successor is confirmed, or indeed he might be re-nominated himself).
- Interlinked is Gov Cook's legal fight against her firing by the Trump administration. Opening up a seat on the Board would both give the White House more options for a Powell successor, and move influence overall on the Board. However prediction market-implied probability of Gov Cook leaving office by end-year fell to 18% from 29% (on Kalshi) on Jan 21 during the government's oral arguments at the Supreme Court for the President's power to fire Cook. It's unclear when the Supreme Court would rule but in the interim it would seem that Cook will be able to remain in her position.
- With the January monetary policy decision unlikely to be controversial, we would be unsurprised if there was a large portion of the press conference to be devoted to questions on these subjects.
- We would expect Powell to remain circumspect, not commenting on legal proceedings or possible outcomes, instead emphasizing the importance of Fed independence and the FOMC's commitment to its dual mandate goals. Powell made pointed comments in a video responding to the DOJ investigation: "This is about whether the Fed will be able to continue to set interest rates based on evidence and economic conditions—or whether instead monetary policy will be directed by political pressure or intimidation."



Source: Kalshi, MNI

Rate Cut Expectations Have Diminished Since December: Market expectations for 2026 rate cuts have diminished slightly since the December meeting, with only between one and two 25bp cuts currently anticipated (a total 44bp). That compares with a debate between 2-3 cuts (~54bp) just after the December FOMC. Over that last 6 weeks there have been multiple factors pushing against against a near-term easing, most notably apparent stabilization in labor market readings. The next cut is not fully priced until July, whereas it had previously been seen arriving in June (which had been expected to be the first meeting under the next Fed Chair after Powell). Indeed much of the expectation for a June cut had centered around the idea that Powell's successor would tilt the balance toward more decisive easing, but there is some doubt now whether the next Chair will be a Trump administration-aligned dove (ie Hassett) or a candidate with historically hawkish monetary policy credentials (ie Warsh) – or indeed, whether Powell will be leaving his post in May at all.

Meeting	Current FF Implieds (%), LH	Cumulative Change From Current Rate (bp)	Incremental Chg (bp)	Post-Dec FOMC (Dec 10)	Chg Since Then (bp)
Jan 28 2026	3.63	-0.8	-0.8	3.59	3.9
Mar 18 2026	3.60	-4.2	-3.4	3.52	8.3
Apr 29 2026	3.56	-8.3	-4.1	3.45	10.4
Jun 17 2026	3.45	-18.9	-10.6	3.32	12.8
Jul 29 2026	3.38	-25.8	-6.9	3.25	13.4
Sep 16 2026	3.29	-34.6	-8.8	3.17	12.7
Oct 28 2026	3.25	-39.5	-4.9	3.13	11.7
Dec 09 2026	3.20	-44.4	-4.9	3.09	10.3

Statement: Neutral Tone

(Link to December FOMC statement)

Going paragraph by paragraph through the previous (December) statement in italics:

Available indicators suggest that economic activity has been expanding at a moderate pace. Job gains have slowed this year, and the unemployment rate has edged up through September. More recent indicators are consistent with these developments. Inflation has moved up since earlier in the year and remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook remains elevated. The Committee is attentive to the risks to both sides of its dual mandate and judges that downside risks to employment rose in recent months.

- While the post-federal government shutdown data flow has picked up considerably, the distortions in what we have received in the major indicators (nonfarm payrolls, CPI/PCE) may limit the FOMC's appetite to convey any conclusions in the opening paragraph – particularly so given there is no need to make a case for another cut at this meeting.
- Describing economic activity as having risen at a "moderate pace" could be upgraded to "solid pace" (in Gov Jefferson's words). Describing job gains as having "slowed" (albeit over the past year or so rather than "this year") may be left unchanged though the reference to unemployment having "edged up through September" needs revision given that it reverted back to September's level (4.4%) in December. Noting that it's stabilized would be a slightly hawkish, if factual, shift, though the Statement could merely note that it's moved up over the past year.
- Trickier is the description of inflation which has waned to multi-month lows on a year/year basis and was surprisingly subdued on a sequential basis in Q4, but these diminishments were in large part due to methodological reasons – inflation hasn't "moved up" in the data since the December meeting but neither has it truly eased. They may simply describe it as "somewhat elevated" without describing its latest movement.
- There may have to be a tweak in the 2nd paragraph on the balance of risks to recognize that the available data indicate that the downside risks to employment don't appear to have risen in the most recent months - in particular due to the downtick in December's unemployment rate. This latter clause may be deleted, leaving the language that the Committee is "attentive to the risks to both sides of its dual mandate".
- We have little strong conviction on what changes could be made to these paragraphs, particularly the 1st paragraph – but it's unusual for this portion to be a market-mover, especially since whatever emerges is probably intended to convey neutrality in the face of distorted and inconclusive data.

In support of its goals and in light of the shift in the balance of risks, the Committee decided to lower the target range for the federal funds rate by 1/4 percentage point to 3-1/2 to 3-3/4 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

- In changing the Statement to announce the rate hold at 3-1/2 to 3-3/4 percent, the FOMC will probably also retain the forward guidance language which continues to provide flexibility without guiding markets to any particular outcome.
- The Statement added "extent and timing" in December to signal that after 3 consecutive cuts, the easing bias remains but the pace has slowed and the next move will be data-dependent.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

The Committee judges that reserve balances have declined to ample levels and will initiate purchases of shorter-term Treasury securities as needed to maintain an ample supply of reserves on an ongoing basis.

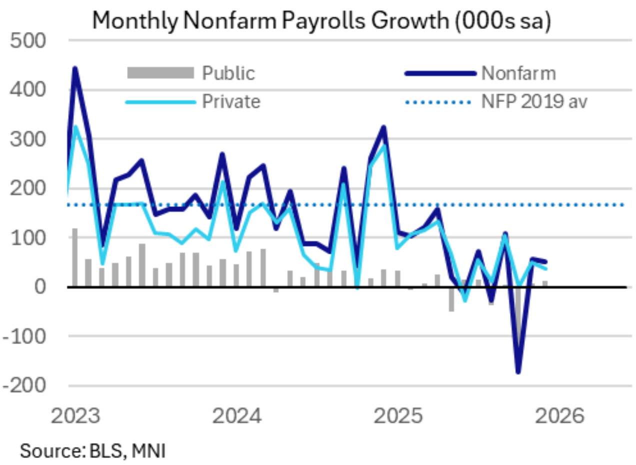
- The paragraph on reserve management purchases will be deleted.
- MNI's Instant Answers questions for the meeting include a tally of dissenters.
- We'd be surprised if there were any dissenters apart from Gov Miran who has dissented in favor of a larger 50bp cut at each of the meetings he's participated in since September 2025. He said after the December meeting that he hadn't decided on whether he would support a 25bp or a 50bp cut in January, but he is eyeing 150bp of cuts in 2026 and it's clear he will deliver a dovish dissent all the same. Gov Bowman is an additional possibility to deliver a dovish dissent.
- **The Implementation Note** could at some point include a tweak of administered rates, including a nudge lower in the interest rate paid on reserve balances from the current 3.65%, or the standing repo facility rate of 3.75%. We include these in our Instant Answers, just in case - we don't expect any move at this meeting.

Macro Developments Since The December 9-10 FOMC Decision

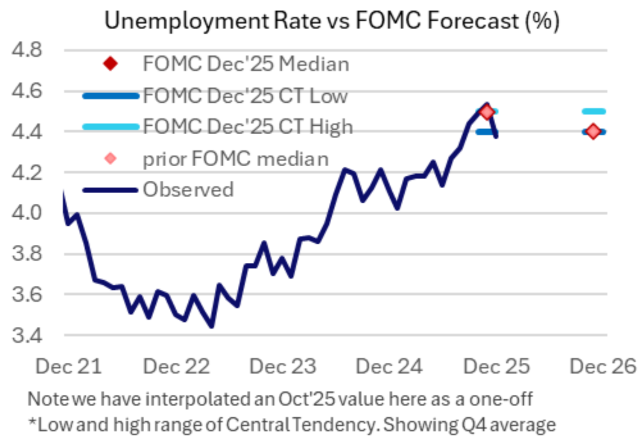
By Chris Harrison and Tim Cooper

With the December FOMC meeting coming shortly ahead of delayed BLS payrolls and CPI reports for the Oct/Nov shutdown-impacted period, there has been a lot of new information to parse with December updates for both also now to hand.

Labor Market: Unemployment Rate Below Level Seen Ahead Of Dec FOMC But Doesn't Give Huge Confidence
Having received three months of data within two BLS nonfarm payrolls reports, the FOMC is left with two latest months of subdued but at least resilient nonfarm payrolls growth of 50k/56k in Dec/Nov. That's right around estimates of the recent breakeven pace such as the St Louis Fed's range of 30-80k. It does however follow a hugely weak -173k in October, on DOGE-driven federal government deferred resignations showing up with a -174k hit but with the private sector exhibiting weakness as well in October with just a 1k increase. For a better sense of underlying jobs growth, private payrolls increased an average 29k over three months to December but strip out the ever-large contribution from the cyclically insensitive health & social assistance sector and private payrolls would have averaged -19k, with only one of the past eight months seeing net job creation. We suspect colder than usual weather had a modestly adverse impact on the December data, with the 37k private sector jobs growth potentially understated specifically on that front, but it's unlikely a big needle mover and an impact that is likely dominated by regular revisions as more data comes in. Whilst broadly expected, recall that annual benchmark revisions, due with the January report to be released in February, are also set to show significant downtrend revisions to payrolls, such that payrolls growth is perhaps overstated by about 60k per month.



Source: BLS, MNI



Note we have interpolated an Oct'25 value here as a one-off
*Low and high range of Central Tendency. Showing Q4 average
Source: BLS, Federal Reserve, MNI

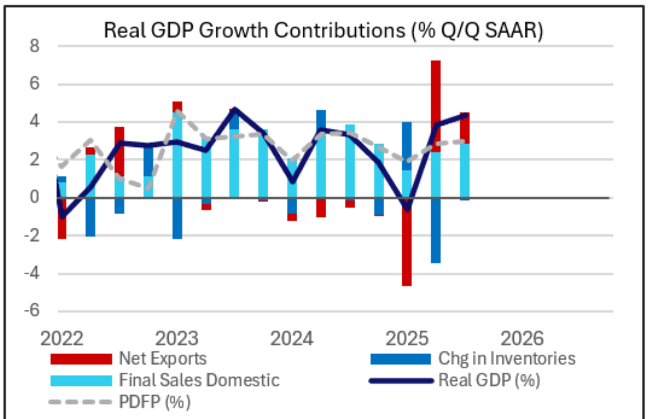
Looking to the household survey for a better sense of labor market balance, the unemployment rate stood at 4.38% in December to placate fears of further deterioration. It more than unwound a push higher to 4.54% in November (revised from 4.56% first reported before annual seasonal adjustment revisions) having been 4.44% in September (unrevised) in the latest update prior to the December FOMC meeting. NY Fed Williams had estimated after the delayed release of the November report that it might have been overstated by 0.1pp and Fed Chair Powell had specifically warned of its potential technical distortions ahead of time. We're left with an average unemployment rate of 4.47% in Q4 (using an interpolated value for Oct with no household survey conducted) to match the 4.5% the median FOMC participant forecast in the Dec SEP. In doing so, it importantly ruled out a further increase to 4.6-4.7% that seven members had pencilled for what's an increasingly divided committee. Nevertheless, there has been a clear uptrend in the second half of the year having averaged 4.15% in 1H25. Data quality concerns are still elevated though, particularly with the household survey response rate barely increasing from November's record low.

Away from these top tier labor releases, weekly jobless claims have been of note in recent weeks as initial claims have consistently pushed lower. There are concerns over residual seasonality here, which could start to see increases heading into February, but levels are nevertheless particularly low with a four-week average at its lowest since Jan 2024. Continuing claims have also held their pulling back from cycle highs seen throughout June-October, suggesting that re-hiring conditions may have cooled when looking at a long-term trend but that conditions have at least improved compared to the summer and fall. These claims data clearly point to a labor market in an unusual low fire, low hire state, which appears to give some on the FOMC more concern than others.

Growth: Underlying Demand Remains Resilient

Fed officials (and most analysts) have been continually surprised at the resilience of economic growth through numerous headwinds throughout the post-pandemic cycle. That includes the uncertainty and apparent collapse in confidence among private sector actors after the tariff announcements in the first half of the year, and more recently the record-long federal government shutdown in October and November. By some measures the economy not only hasn't faltered, it may post its strongest GDP reading of the year in Q4 (posing upside risks to the FOMC's December Q4/Q4 median forecast of 1.7% for 2025).

The third and final reading of Q3 2025 GDP saw limited revisions from the combined and delayed first/second releases, with overall growth revised a little higher but underlying demand a touch lower. The headline Q/Q SAAR real GDP reading was revised up 0.03pp to 4.37% (the unrounded improvement to 4.4% from 4.3% was thus slightly exaggerated). But with several categories revised a little lower, including fixed investment, government spending, and personal consumption expenditures, final sales to domestic purchases saw a 0.10pp downward revision in terms of its contribution to GDP. That's a still-robust 2.87pp contribution, though with PCE revised down a heir (3.45% Q/Q SAAR vs 3.53% in the intitial reading) it was largely inventories (0.10pp less of a drag on GDP) and net exports (0.03 more of a contribution, largely thanks to higher real exports) that helped offset.



Source: BEA and MNI

The final Q3 report was stale (was originally due out Dec 19) and a 5+% real GDP handle in Q4 as implied by the Atlanta Fed tracker may be misleadingly high due to distorted October trade data, but domestic final demand looks to have been roughly as strong at the end of the year as it was through its resilient middle. Though most labor market data remains concerning, activity is still robust not least because recent productivity growth was shown this week to be stronger than expected. Additionally while manufacturing activity remains moribund, December's ISM Services report was meaningfully stronger than expected, with the headline PMI index surprisingly jumping to a 14-month high.

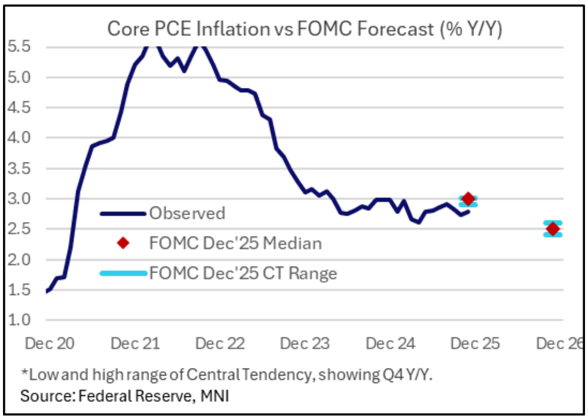
The FOMC will also take note of January's Beige Book, which portrayed a slightly stronger take on economic activity in the mid November-December period compared with the prior release (November). It was one of the strongest Beige Books in this respect in the last several cycles, in terms of breadth at least: 8 of 12 districts saw activity rise at a slight/modest pace, compared with just 4 in the previous report.

Inflation: Slow Progress To Target, When Distortions Are Removed

The most recent inflation data will merely reinforce conviction among FOMC participants that it could be a little longer before there is a cleaner read on underlying inflation dynamics, as opposed to triggering any reassessment of the outlook. Overall while inflation may not have picked up as strongly toward the end of the year as feared following the imposition of tariffs, Fed officials have signalled that they will be waiting to see data early in the New Year for any signs that businesses are finally setting prices higher to offset input inflation pressure. Most are cautiously optimistic that inflation should come down over the course of the year. But the fact remains that incoming inflation data reads closer to 3% than the 2% target, and has consistently done so for the better part of the last 2 years.

December's CPI data was softer than expected in most respects, with relatively limited "payback" from the unusually soft (and heavily distorted) October/November report. (**More in our latest Inflation Insight here**.) Headline and core CPI continued to be distorted in a downward direction on a year/year basis due to the BLS's decision to record October's housing inflation at a zero rate (an anomaly that will only reverse in April 2026). Headline CPI inflation was softer than expected in December at 2.68% Y/Y (MNI cons 2.75) as it eased further after 2.74% in Nov and 3.01% in Sep. It's the softest headline inflation rate since June. Core CPI inflation saw a larger downward surprise at 2.64% Y/Y (MNI cons 2.8) as it failed to bounce from he 2.63% in Nov after 3.02% in Sep. These were the softest core CPI Y/Y rates since Mar 2021.

Looking at the Fed's preferred PCE measure, the series is a little more delayed. The October/November inflation PCE inflation releases (2.7% Y/Y in October, 2.8% in November) point strongly to a quarterly year-year core rate of 2.8% in Q4, even if December's sequential print proves unusually robust (eg 0.4% M/M after 2 months at 0.2%). That virtually guarantees the eventual print will come in below the FOMC's December SEP which saw a median for core PCE of 3.0% in Q4 2025 Y/Y (central tendency range of 2.9-3.0%). Reminder that there is no update to forecasts in January - the next edition is in March. in forming their forecasts, FOMC participants will have PCE data through January as ell as a 2nd reading of GDP by the time of its March decision (Mar 16). The FOMC is already sharpening its pencils for end-2026 forecasts of course, with the last edition showing a 2.5% core PCE median within a central range of 2.4-2.6%. In other words, still slow progress in underlying inflation below target.



MNI Instant Answers:

The questions that we have selected for this meeting are:

- Federal Funds Rate Range Maximum
- Number of dissenters to rate decision
- Interest Rate On Reserve Balances (IORB)
- Standing Repo (SRP) Operations Rate

The markets team has selected a subsection of questions we think could be most market moving and will publish the answer to all of these questions within a few seconds of the Fed statement being released.

mni Central Bank Watch - FED

22 January, 2026

MNI FED Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	2.7	2.9	↓	2.4	↑					-0.45
PCE Deflator	% y/y	2.8	2.7	↑	2.5	↑					1.05
UoM 1-Yr Inflation Exp	% y/y	4.2	4.6	↓	4.5	↓					-1.31
Inflation Swap 5y/5y	%	2.47	2.47	↑	2.47	↑					-0.28
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
ISM	Index	47.9	49.1	↓	49.0	↓					-0.69
Industrial Production	% m/m	0.37	0.19	↑	0.51	↓					0.66
Factory Orders	% m/m	-1.3	-1.3	→	-3.9	↑					-0.37
Housing Starts	K	1246	1420	↓	1398	↓					-1.42
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Corporate Spreads BBB/Baa	bps	1.00	1.00	→	1.10	↓					-1.42
Chicago Fed Financial Con	Index	-0.55	-0.53	↓	-0.50	↓					-1.32
Consumer Credit Net Chg	$bn	4.2	2.7	↑	9.1	↓					-1.10
New Home Sales	K	737	639	↑	706	↑					1.19
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales	% m/m	0.6	0.5	↑	-0.8	↑					0.50
Consumer Confidence	Index	89.1	95.6	↓	95.2	↓					-1.97
Nonfarm Payrolls Net Chg	K	50	108	↓	-13	↑					0.44
Average Hourly Earnings	% y/y	3.8	3.7	↑	3.7	↑					0.54
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market	Index	6913	6688	↑	6205	↑					1.67
US 10-Year Yield	%	4.25	4.15	↑	4.23	↑					-0.28
US Yield Curve (2s-10s)	bps	63.7	54.2	↑	50.9	↑					1.89
USD TWI	Index	90.82	92.70	↓	91.63	↓					-0.80

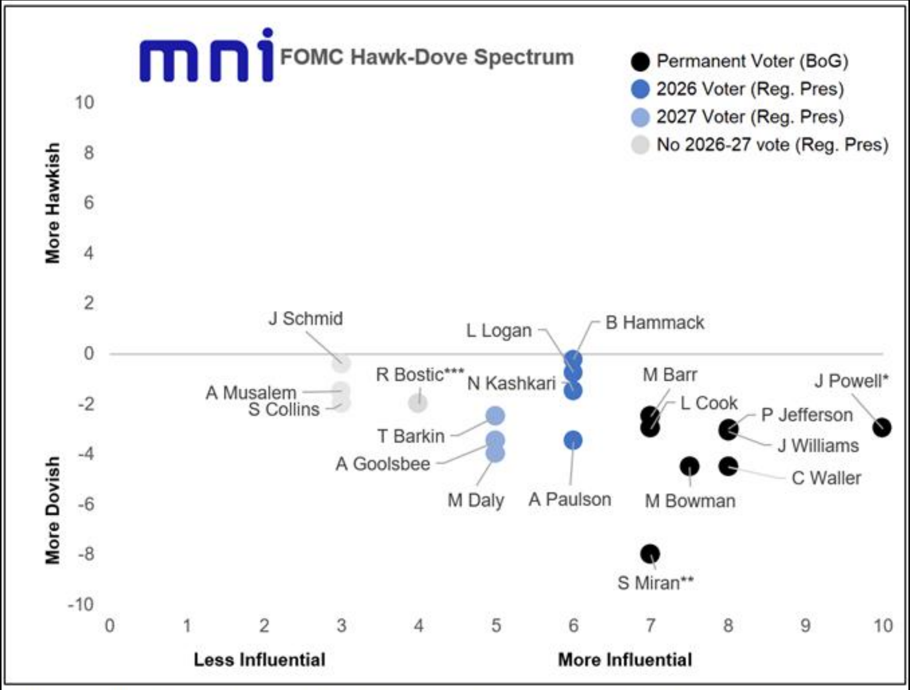
Source: MNI, Bloomberg Finance L.P.

Key Inter-Meeting Fed Speak – Jan 2026

By Tim Cooper

Core of FOMC Sees Policy Near Neutral, No Urgency To Cut Again: Several FOMC members have emphasized since the December meeting (see below) that after three consecutive cuts, the policy stance is close to neutral and the bar for additional easing is now higher.

This has been especially notable in the case of core FOMC leadership. NY Fed President Williams said "I don't personally have a sense of urgency to need to act further…because I think the cuts we've made have positioned us really well." Vice Chair Jefferson said just before the blackout period that current policy "leaves us well positioned to determine the extent and timing of additional adjustments" based on incoming data. Additionally, data-dependence has meant that the poor quality and delayed nature of recent releases meant there is both a need and a flexibility to wait for further evidence before making the next cutting decision. We think that's an opinion shared by the majority of the Board, including Chair Powell.



Hawkish/Dovish: Scores indicate MNI`s subjective assessment of each member`s stance on monetary policy. **-10** implies member believes aggressive easing warranted; **+10** is most hawkish, implies member believes aggressive tightening warranted. Scores around -2 to +2 considered relatively neutral.
Influence: The x-axis runs from **0** ('least influential') to **10** ('most influential'). Voters in the current year receive a minimum score of 6; the Chair receives a 10 and Board of Governors members receive at least 7. Those who are not voters in the current year are limited to a score of 5; among them, those due to vote next year receive higher influence scores (rising towards end of current year), and vice-versa. **Updated Dec 29, 2025**

** Powell's term as Chair expires on May 15 2026 but his term on the Board expires in Jan 2028*
*** Miran's term on the Board expires on Jan 31 2026*
**** Bostic is retiring at the end of his term on Feb 28 2026 - his successor will vote in 2027*

Indeed the latest major data releases don't seem to have swayed opinions one way or another, with commentary suggesting that FOMC participants are discounting the seemingly-soft CPI and unemployment readings as distorted by technical factors, with the dip in December's unemployment rate further complicating matters. This appeared to leave the bar set extremely high for a cut at the January meeting, judging from FOMC commentary.

3 Dovish Governors: As for the permanent members of the FOMC, three of them are the driving force behind signaling further cuts.

This includes **Gov Waller** (whose 2026 rate dot submission was below the FOMC median (of 3.4%) at "about three", saying "maybe we're 50 to 100 basis points off of neutral") and **Gov Bowman** who argues policy should be adjusted toward neutral absent evidence of improvement in the labor market; she too sees underlying inflation already close to 2%. It also of course includes **Gov Miran** who argues current policy is "materially too tight" and has damaged the labor market, so he supports 150bp of cuts in 2026 and with underlying inflation already near target.

Introducing The 2026 FOMC Voters: We'd characterize the four 2026 Fed presidential voting slate as slightly more hawkish than the outgoing 2025 rotation, contrasting with a relatively dovish Board.

- **Philadelphia's Paulson** is the most dovish of the 2026 regional Fed voters, saying that "I am still a little more concerned about labor market weakness than about upside risks to inflation...I continue to see monetary policy as somewhat restrictive". Paulson heavily implied she would have backed the December rate cut and that she currently envisages more easing in 2026.
- Also becoming voters in 2026 are **Cleveland's Hammack** and **Dallas's Logan** who are among the biggest 3 hawks on the Committee; they are comparable to **KC's Schmid** who dissented against the last two rate cuts. Hammack said "we've got policy that's in that range of neutral...I would prefer to be on a slightly more restrictive stance".
- The fourth is **Minneapolis's Kashkari** who sees the economy as "surprisingly resilient," with policy currently "pretty close to neutral," while implying that the next move could even be a hike depending on inflation persistence.

2026 Dot Plot Assumptions See Fine Split On Multiple Cut Prospects

Taking into account comments from several FOMC participants since the December Dot Plot projections were released, MNI's compilation of end-2026 funds rates by member is below. As usual there is a lot of educated guesswork involved in placing the 19 dots though we do have a couple of members at both ends of the table who have been pretty specific on their views. 2026 voters' names are in green, and the key theme here is that the bulk of the current voters (9/12) see at least 1 cut this year though there is a fine split (6/6) between those who see 2 or more cuts and those who see 1 or fewer. We go into more detail on the reasoning behind individual members' Dots here and here.

MNI Assumption Of December 2025 Dot Submission For End-2026

Members		end-2026
Hammack, Schmid, Bostic	3.875	3
	3.750	
Collins, Kashkari, Logan, Musalem	3.625	4
	3.500	
Barkin, Barr, Cook, Paulson	3.375	**4**
	3.250	
Jefferson, Powell, Daly, Williams	3.125	4
	3.000	
Goolsbee, Waller	2.875	2
	2.750	
Bowman	2.625	1
	2.500	
	2.375	
	2.25	
Miran	2.125	1
	MEDIAN	**3.4**

Green = 2026 FOMC voter. Table: Median bolded. Source: Federal Reserve, MNI

Member	Role	Voter '26	Voter '27	Monetary Policy Commentary Since December FOMC
J Powell	BOG, Chair	X	X	- **No commentary on current monetary policy since last FOMC meeting**
J Williams	NY Fed, VChair	X	X	NY Fed President Williams told CNBC in an interview on Dec 19 that latest soft CPI print as well as the tickup in the unemployment rate were distorted by technical factors. As such he says that the latest data don't change his view of the outlook: "I don't personally have a sense of urgency to need to act further on monetary policy right now because I think the cuts we've made have positioned us really well." - We would interpret the lack of "sense of urgency" to "act further...right now" as Williams pushing back against prospects of an end-January FOMC rate cut, at least unless there is some significantly dovish development in the data between now and then. - He says that "technical factors" associated with the BLS's post-shutdown estimates may have pushed down CPI by around 0.1pp (unclear whether he's referring to the 2.74% Y/Y November headline CPI reading or the 0.2% 2-month rise), with the unemployment rate unduly boosted by 0.1pp (came in at 4.56% in November, so implying it would have been largely unchanged from the 4.44% printed in September). - So as Chair Powell warned at the December meeting, Williams (and likely the rest of the FOMC) will require more data to get a more accurate read on the current state of the dual mandate variables before making a decision to ease further. - On the well-known technical issues with the messy November CPI report, Williams told CNBC "There were some special factors of practical factors that really are related to the fact that they weren't able to collect date in October and not in the first half of November. And because of that, I think the data were distorted in some of the categories, and that pushed down the CPI reading, probably by a tenth or so...it's hard to know, we'll get some when we'll get to December date, I think we'll get a better reading of how much that distortion, how big the effect was, but I do think that that was pushed down a bit by these technical factors." In a Dec 15 speech called "Resilience", NY Fed President Williams - a dovish-leaning, permanent FOMC voter - says that after the Fed's latest cuts, "monetary policy is well positioned as we head into 2026." LINK

Member	Role	Voter '26	Voter '27	Monetary Policy Commentary Since December FOMC
				- Williams of course reignited December rate cut pricing in a speech he gave in November signalling unusually clearly that he saw room for a further cut in the "near term". Here he reverts to his usual communications approach, not revealing much about his rate preferences and in any case not signaling support for a follow-up cut in January. - His economic forecasts are basically in line with the FOMC medians, particularly for inflation and unemployment, suggesting that he's probably in line or if anything slightly below the overall December FOMC median projections for rates (which were 3.4% end-2026, 3.1% end-2027, so one cut in each year). That, combined with his "well-positioned" comment and the title of his speech, suggests that he sees a slower pace of cuts ahead after 3 consecutive reductions. - While the economy has "shown considerable resilience and looks poised to pick up steam next year", "the labor market has continued to cool, with labor demand softening more than supply" albeit "I should emphasize that this has been an ongoing, gradual process, without signs of a sharp rise in layoffs or other indications of rapid deterioration." - He forecasts GDP growth of 2.25% in 2026 (1.5% for 2025; FOMC December medians were 2.3% and 1.7% respectively), with the unemployment rate rising to "around" 4.5% for end-2025 (in line with the FOMC median) which he says partly reflects government shutdown effects. And then alongside above-potential growth, Williams expects unemployment "to gradually come down over the next few years", again in line with the FOMC medians. - On inflation, "the effects of trade policies have boosted inflation this year, but these effects have been more muted and drawn out than I originally anticipated...I do not see any signs of tariffs contributing to second-round or other spillover effects on inflation...inflation expectations remain well anchored." - He pencils in "just under" 2.5% PCE inflation in 2026, reaching the 2% target in 2027 (basically exactly in line with the latest FOMC medians: 2.4%, 2.1% 2027).
P Jefferson	BOG, VChair	**X**	**X**	Federal Reserve Governor Jefferson hinted strongly in a speech on Jan 16 that he will support the overwhelmingly expected hold at the January meeting **(speech text here)**. - With the cuts so far bringing Fed funds into "a range consistent with the neutral rate — a rate that neither stimulates nor restricts economic activity. I look forward to our upcoming policy meeting, which will be held in less than two weeks. While I do not want to prejudge the decision that will take place there, in my view, the current policy stance leaves us well positioned to determine the extent and timing of additional adjustments to our policy rate based on the incoming data, the evolving outlook, and the balance of risks." - We regard Jefferson as pretty close to the center of the Committee, and his views are probably not far removed from Chair Powell's, so all in all this leads us to expect Powell will take a similarly "cautiously optimistic point of view" at the January meeting. Indeed we would expect some of Jefferson's commentary on the labor market and inflation to be repeated almost verbatim by Powell. - Jefferson: "I am starting 2026 with a cautiously optimistic point of view. Conditions in the labor market appear to be stabilizing, and I see the economy as well positioned to continue to grow while inflation returns to a pathway toward our 2 percent objective....the labor market is not deteriorating rapidly, as layoffs remain low; however, hiring remains low as well... In this less dynamic and somewhat softer labor market, the downside risks to employment appear to have risen. My baseline, however, is for the unemployment rate to hold steady throughout this year." - On inflation, "progress slowed over the past year or so, and inflation remains at a level that is above readings consistent with our inflation target" but "shelter inflation, shown by the black dot-dashed line, has continued to decline, and core services inflation excluding shelter, the red dashed line, has also been on a downward trend, albeit on a somewhat bumpier path. Those readings are consistent with overall inflation moving back toward our target....While some upside risks remain, moving forward I expect to see inflation return to a sustainable path back to our 2 percent target."
M Bowman	BOG, VChair	**X**	**X**	**Speaking publicly on monetary policy for the first time in three months on Jan 16,** Fed VC Supervision Bowman gave an unsurprisingly dovish speech (link). We have previously considered her to be the second most dovish member of the FOMC, and assume her 2026 dot at the Dec SEP to have looked for 125bp of cuts in 2026. - "Absent a clear and sustained improvement in labor market conditions, we should remain ready to adjust policy to bring it closer to neutral. We should also avoid signaling that we will pause without identifying that conditions have changed. Doing so will indicate that we are not attentive or responsive to the recent and expected path of the labor market." - "Although the labor market is still near full employment, it has become increasingly more fragile and could continue to deteriorate in the coming months," - "On inflation, we have seen considerable progress in lowering the underlying trend, considering that still-elevated inflation mostly reflects tariff effects that I expect will fade this year. When those effects are taken into account, core PCE inflation appears to be much closer to 2%."
L Cook	BOG	**X**	**X**	- **No commentary on current monetary policy since last FOMC meeting**
C Waller	BOG	**X**	**X**	Gov Waller unsurprisingly remains concerned about the labor market following the latest nonfarms release in a **Q&A at the Yale CEO Summit in New York on Dec 17,** referring also to Chair Powell's estimate that NFPs are overstated by about 60k/month in making the case for further cuts: - "The jobs numbers are around 50 to 60,000 the last couple months on average - we know that that's too

Member	Role	Voter		Monetary Policy Commentary Since December FOMC
		'26	'27	
				high, and those are most more likely to get revised down when we get the Unemployment Insurance administrative data later. It'll take a while before we get that, but Board staff is estimating, take off another 50 or 60,000 jobs. So we're close to zero job growth now that's that's not a healthy labor market." - "My focus as a governor has just been to focus on the labor market. Inflation I'm not particularly worried about - I know it's above target, but I believe it'll start coming down the next few, three to four months...There's no forces that are suggesting that inflation is going to take off again in 2026." - Waller says he's below the FOMC 2026 rate dot median (of 3.4%) at "about three", saying "maybe we're 50 to 100 basis points off of neutral. We still got some room." But "We're not seeing a dramatic decline of labor market going off a cliff...I don't think we have to do anything dramatic. If you have to do something dramatic, it's too late." There were 8 (of 19 total) dots below the median in the December projections, with 4 at 3.1% and 2 at 2.9%. - Waller indicates that he's forecasting GDP growth of 1.6% this year and 2.5% in 2026 (vs FOMC medians 1.7% / 2.3%), and that supply-side improvements mean that stronger growth will not translate into stronger inflation (an argument advanced by the Trump administration as well as some of Waller's FOMC colleagues such as Gov Miran). As such, rates can come down further in his core view, though he emphasizes that there is "no rush" to ease: - "I think inflation is still going to start coming down the first half and year towards our target, and we can continue to cut rates. Just on that alone. There's no reason we have to cut keep rates high just because there's positive growth in the economy. That doesn't cause inflation, per se. But because inflation is still up, we can take our time. There's no rush to get down. And so that's my view, is we just can steadily, kind of bring the policy rate down towards neutral. Keep an eye on inflation, and I'm not too worried about, you know, if growth is two and a half percent [next] year, which is above our kind of long run estimate, I don't view that as being overly stimulative to inflation."
S Miran	BOG	**X**	**X**	**Governor Miran told MNI on Jan 5** the FOMC needs to cut interest rates substantially this year because underlying inflation is near target and a hesitancy to lower borrowing costs has already unduly damaged the labor market. Recent weakness in the labor market, which saw the jobless rate increase to a four-year high of 4.6% in November, could have been prevented by more consistent monetary support from the central bank, Miran said. - "I would say the labor market has been on a trajectory of gradual weakening, in large part because of Federal Reserve policy…and with the unemployment rate having crept higher and with various survey measures showing a job market that increasingly favors employers, it seems clear where the trajectory is and, given the inflation outlook, it seems inappropriate for us to try to maintain that trajectory and push it even farther." - Miran said he penciled in 150 basis points of rate cuts for this year in the December SEP, up from 100 basis points in his September forecast. "My previous dot was preconditioned upon the Fed pursuing the right policy, and as long as we keep policy at what I think of as materially too tight, we're reducing my growth expectations in the future," he said. "That requires looser policy now to offset that." **Gov Miran said on Dec 22 he hasn't decided on whether to push for a 25bp or 50bp cut at the January meeting -** he "could see voting for" 25 given that with rates having come down 75bp at the last 3 meetings "the need for me to dissent for 50 becomes less", but "I do think it's important we continue steadily reducing the policy rate". Of course, that could be Miran's last meeting if he is replaced after his term ends at the end of January. He followed up his third consecutive dissent in favor of a 50bp cut (vs the 25bp decided) at the December meeting with a speech detailing his views on inflation **(link)**. There are no surprises from the current-biggest dove on the FOMC on his rate outlook: he advocates "a quicker pace of easing policy". He argues that underlying inflation pressures are moderating, and a preferred measure of core inflation that cuts out various components that he considers distorted - market-based core ex-shelter PCE - is running close to the 2% target already. No word in the speech on whether he was the participant who submitted the lowest Fed funds rate dot for end-2026 (2.1%, 150bp of cuts from current levels) in the December projections but it is likely. - The main thrust of his argument is that shelter inflation is both a badly-lagging indicator of price pressures from the pandemic period, and measures of it are due to come down substantially in the coming quarters. And since wages "are the primary driver of service inflation" recent labor market looseness have "tilt[ed] nominal wage growth risks toward the downside". - He acknowledges "The lack of a clear downward forecast for core goods prices might suggest keeping interest rates elevated." But "the shelter outlook appears relatively clear—because market rents lead measured inflation—and powerful enough to overwhelm even the possibility of sustained higher goods inflation. Underlying inflation is near, and further approaching, our target...Shelter inflation is indicative of a supply–demand imbalance that occurred as much as two to four years ago, not today. Given monetary policy lags, we need to make policy for 2027, not 2022...Keeping policy unnecessarily tight because of an imbalance from 2022, or because of artifacts of the statistical measurement process, will lead to job losses". - But he says "a better measure of underlying inflation would account for distortions from shelter and imputed prices. Removing imputed phantom inflation like portfolio management, market-based core inflation is running below 2.6 percent. If we further remove housing and look at market-based core ex shelter, underlying inflation is running below 2.3 percent, within noise of our target. Once shelter inflation has normalized from the anomalous post-pandemic experience, ordinary market-based core may be more appropriate." - The above provides impetus to cut, in addition to potential labor market risks (and, he notes warily, "Recessions are an inevitable part of the business cycle, and at some point, we will suffer one. We should strive to ensure that point is as far in the future and as shallow as possible by appropriately calibrating monetary policy.")

Member	Role	Voter		Monetary Policy Commentary Since December FOMC
		'26	'27	
		X		**Miran said on Dec 22 on Bloomberg TV** that the incoming data have "come out in accordance with my view of the world", referring in particular to last week's CPI and Employment Situation reports. His view of course includes further rate cuts in 2026. - Inflation "has steadily come in cooler than expectations", with the unemployment rate having "poked up potentially above where people thought it was going to go", so overall "we have had data that should push people into a dovish direction." - He acknowledges that the softer-than-expected CPI print included "a couple of anomalies" that suppressed the figures to the downside but "the consequences are not huge", with an impact of "in the neighborhood of 2/10 of a point" for PCE split between shelter data quirks and 2nd half-November collection date effects.
M Barr	BOG	**X**	**X**	- **No commentary on current monetary policy since last FOMC meeting**
B Hammack	Clev. Fed	**X**		Cleveland Fed President Hammack **in a Q&A on Dec 12 sounded typically hawkish on inflation** - our presumption is that she penciled in no cut in December and no further changes through 2026 in her latest Dot Plot. Indeed, she implies that she could potentially even be supportive of a hike in 2026 if inflation fails to abate. - Asked if she supported the December rate cut, Hammack implies that she did not, as the new level of rates is not restrictive enough for her liking: "This was a complicated decision. We'd reduced interest rates by 50 basis points already. We're in this challenging time where we've got pressure on both sides of our mandate... we've got policy that's in that range of neutral...being close to neutral is probably the right place to be. I would prefer to be on a slightly more restrictive stance... my perspective is that right now, after the 75 basis points of reductions that the Committee has taken over the last quarter of this year, we're right around a neutral policy, and I want to be watching carefully as we get this data over the next several months to see: are we seeing inflation start coming down towards our objective? Are we seeing the employment levels stabilize? Those will be key signals to me that we're moving into a place where this can be a policy rate that we can maintain..." - "If [inflation is] sticking around and if it's at these higher levels for a bit longer, then that's going to say to me, maybe we need to look at where we are from a policy perspective. Maybe we're not restrictive enough assuming the labor market holds up. If the labor market weakens further, then it just gets to be back in this, this challenging time." - "Inflation has been too high and it's been pretty stable. It ticked up a little bit, but it's been really kind of stuck closer to three than two. It is our job and our responsibility to get it down towards 2%. And I'm committed to doing that. It is challenging right now for monetary policy because we're being challenged on both sides of the mandate. Inflation has been too high and it's been holding there at those levels for some time. But we are seeing some softening on the labor side of the economy...we are looking closely at the labor market to understand how much of this is secular.. and how much of this is cyclical." - She says in response to a question about the next Fed chair and a higher inflation target that "I have every confidence that a new [Fed] Chair coming in will also be focused on a 2% inflation objective."
N Kashkari	Minn. Fed	**X**		Minneapolis Fed President Kashkari, a 2026 FOMC voter, sounded patient on the prospect of future rate cuts in **comments made Jan 9 on CNBC.** Overall based on his first remarks since the December FOMC meeting, we would continue to characterize his stance as just the 3rd most hawkish of this year's 4 rotating presidential voters (less hawkish than Cleveland's Hammack and Dallas's Logan, more hawkish than Philly's Paulson). Back in November he said that he wouldn't have supported the October rate cut, and we assume this meant he didn't support December's cut either. - It sounds like if early-2026 inflation tariff passthrough from businesses does not prove to be too alarming, then he could plausibly support further cuts because there is a risk that unemployment could "pop" higher going forward. - But he's also in no hurry to ease because the labor market looks relatively steady amid a consistently more resilient economy than had been expected, inflation remains too high, and he sees policy as around neutral already. Indeed he implies that the scope for cuts is limited and that he wouldn't rule out support for the next move being a hike depending on how the data unfolds. - "The economy has proven to be far more resilient than I had expected...that tells me monetary policy must not be putting that much downward pressure on the economy. My guess is we're pretty close to neutral right now." On balancing the Fed's dual mandate risks, Kashkari says that the FOMC needs to see more data before determining which of the inflation or the labor market mandates is at bigger risk of being missed, and then "move from a neutral stance whatever direction is necessary" (note the "direction" appears to be a matter of debate for him). - He says "I think the inflation risk is one of persistence, that these tariff effects take multiple years to work their way all the way through the system, whereas I do think there's a risk that the unemployment rate could pop from here...We have two sides of our mandate... inflation is slowly trending down. The unemployment rate has gone from 3.6% to 4.6% so we're moving in the wrong direction on the labor market." - Kashkari's outlook on the economy appears to consist of more-of-the-same on growth and the labor market. But he also echoes comments from other FOMC members in scrutinizing whether businesses will pass through tariffs to clients via price resets at the start of the year. He characterizes the main inflation debate on the FOMC as whether tariff-related price increases are persistent or a one-off. - On inflation, "I've got a lot of confidence that housing services inflation... should continue to come down. Non housing services should be tied to wages, and wage growth is slowly trending down, so it's going to be slow... the tariff induced goods inflation - are we going to see a repricing in January of this year? A lot of

Member	Role	Voter '26	Voter '27	Monetary Policy Commentary Since December FOMC
				businesses have said, there could be a repricing this year as they reset prices, that's something that we're going to need to watch." - On growth, Kashkari reiterates that it keeps "surprising me how resilient growth is, and my expectation is the economy will probably continue doing what it's been doing, which is pretty resilient, pretty decent growth." On the labor market: "My expectation has continued low hiring but low firing."
L Logan	Dall. Fed	**X**		- **No commentary on current monetary policy since last FOMC meeting**
A Paulson	Phil Fed	**X**		Philadelphia Fed President Paulson (2026 voter) largely repeats previous comments on her monetary policy outlook for the year in a speech on **Jan 14.** She's the most dovish of the 4 regional voting presidents this year. We would think she's a little below the median participant in the Dot Plot (ie looking for at least 2 cuts) though her outlook suggests that she's not looking for a cut early in the year and certainly not at her first meeting as an FOMC voter at end-January. - She says "I view the current level of the federal funds rate as still a little restrictive" and her cautiously optimistic appraisal of the inflation outlook combined with "a slowing labor market" "argue against tighter monetary policy". Overall "some modest further adjustments to the funds rate would likely be appropriate later in the year" if her outlook pans out. - "I see a decent chance that we will end the year with inflation that is close to 2 percent on a run-rate basis; that is, 12-month inflation may still be a little elevated, but three-month inflation will be 2 percent by the end of the year. Yesterday's [December] CPI inflation release for December doesn't change my assessment. - Paulson says her cautious optimism is based on multiple factors, including having "already seen a lot of the price adjustments" in goods as a result of tariffs. However Paulson repeats her previous caution in noting that "producers may still have some more price changes to make. The data for January will be especially useful for gauging this because the beginning of the year is a natural time for firms to change prices." - She doesn't see any evidence that "tariff-induced price pressures are leading to broader inflation." While supercore inflation is "still elevated", "it is moving in the right direction". And on housing inflation, "here the news is unambiguously good" with both recent data and forward looking indicators pointing to continued progress. - On the labor market: "While the labor market is clearly bending, it is not breaking...still, labor market risks have risen and that has been an important factor in my support for the 75 basis points of cuts that the FOMC did last year. I will be monitoring labor market developments closely." - And her she notes as part of a long passage on the divergence between strong GDP growth and a softer labor market that "typically, when GDP and labor market signals are in conflict, the labor market signal turns out to be more accurate". And on labor market risks, "my baseline outlook is pretty benign and does not take strong signal from Q3 growth".
T Barkin	Rich. Fed		**X**	**Richmond Fed President Barkin told reporters including MNI on Jan 9** that the December payrolls report was "encouraging", with the unemployment rate downtick to 4.4% in the month coming as a welcome development in a labor market environment characterized by modest and balanced supply and demand. - "This fine balance between a modest job growth environment with a modest labor supply environment seems to be continuing and that was encouraging, Some of it is uncertainty, a lot of it is productivity. But it's hard to find businesses outside of the AI ecosystem or health care that are talking about hiring, and that's very consistent with what I saw today." - Speaking on the intersection of today's jobs numbers and the strong recent productivity data shown in this week's report: "businesses are going to have to make a call as to whether they can sustain the productivity, and they're going to need to hire to meet demand. That's the upside case. The downside is they're convinced that demand will falter, in which case you reduce jobs equivalently." - We pencil in Barkin as being in line with the FOMC 2026 median implying 1 rate cut this year though clearly given his comments in the last week, he's not in any rush to ease. Barkin's **speech on the economic outlook on Jan 6** was typically guarded on the expected path of policy rates. - Barkin takes a measured approach in his speech, noting that after some "insurance" cuts, policy is close to neutral, with the dual mandate variables finely balanced. - Barkin says "As the labor market has softened in the past year, the FOMC cut rates further in the fall and to a level now within the range of its estimates of neutral. Think of it as taking out a bit of insurance. But going forward, policy will require finely tuned judgments balancing progress on each side of our mandate. Unfortunately, for the last three months, we've been operating without data or with low-quality data that are hard to put much weight upon. That makes our task a bit more challenging. So, I'm looking forward to digging in and learning as clean data start to come in over the coming weeks." - "Both sides of our mandate bear watching. Unemployment remains low on a historic basis but has ticked up. Inflation has come down but remains above target. With the hiring rate low, no one wants the labor market to deteriorate much further; with inflation above target now for almost five years, no one wants higher inflation expectations to get embedded. It's a delicate balance." - He doesn't see much of an impact from tariffs on consumer prices, largely because "consumers, exhausted

Member	Role	Voter		Monetary Policy Commentary Since December FOMC
		‘26	‘27	
				by higher prices, have pushed back". He also seems concerned that demand and job growth are "narrow" (AI spending/wealthy consumption, and private sector job growth dominated by healthcare/social assistance). Overall though he seems to take the view that the economy is resilient until proven otherwise, especially as fiscal stimulus is on its way and "uncertainty is bound to diminish" vs a "foggy" 2025.. "resilience has been enabled by strong underlying dynamics. Consumers have jobs. Real wages are increasing. Asset values keep growing. Corporate earnings and earnings outlooks remain strong. In those circumstances, it’s hard to imagine consumers and businesses moving to the sidelines."
R Bostic	Atl. Fed		**X**	Atlanta Fed President Bostic won't vote again on the FOMC, and is retiring in February, but told reporters including MNI on Dec 16 that he "would have preferred to hold rates" in December, implying he was one of the six FOMC members who pencilled in no change in end-2025 rates in the Dot Plot. Additionally he said that for 2026 "I didn't pencil in any cuts, because I think the economy is going to be a bit stronger." Note that just 3 (of 19) participants saw rates unchanged vs pre-December cut at 3.9% at the end of next year. - Additionally, the latest employment data "haven't changed my perspective on things that much". - He writes in an essay (**link**) that "after wrestling with all the considerations, today I continue to view price stability as the clearer and more pressing risk despite shifts in the labor market...as I write in mid-December, signals from the labor market remain too ambiguous to warrant an aggressive monetary policy response when weighed against the more definitive risks of ongoing inflationary pressures." - Notably he's concerned about whether the Fed will maintain its credibility on inflation: "credibility is a cornerstone of effective monetary policy. I am mindful of just how precious and hard-won our credibility is, and how difficult it would be to regain that credibility should it slip away."
M Daly	S.F. Fed		**X**	SF Fed's Daly ('27 voter) **posted a thread on X on Jan 15** (link) noting that incoming data looks promising but with the Fed needing to be deliberate as it calibrates policy to achieve its full mandate. - "The Federal Reserve’s job is to serve the American people. In monetary policy that means achieving our dual mandate goals of price stability and full employment. - Last year the FOMC reduced the policy rate by 75 basis points, responding to significant slowing in the labor market and milder than expected inflationary pressures. - As we start the year, inflation and the labor market remain front and center. The incoming data look promising. - Projections for growth are solid, the labor market is stabilizing, and inflation is expected to improve over the course of the year. - Of course, there is still a lot of uncertainty, with risks to both sides of our mandated goals. - So, we will need to be deliberate as we calibrate policy to achieve both price stability and full employment. Fortunately, policy is in a good place to respond to however the economy evolves. - As we determine our next steps, we will need to focus beyond any data print, looking further ahead and prioritizing listening—to businesses, households, and communities—to fully understand the economy."
A Goolsbee	Chic. Fed		**X**	Chicago Fed President Goolsbee said of his somewhat surprising dissent in favor of a rate hold at the December meeting (**link**): "While I voted to lower rates at the September and October meetings, I believe we should have waited to get more data, especially about inflation, before lowering rates further... Given that inflation has been above our target for four and a half years, further progress on it has been stalled for several months, and almost all the businesspeople and consumers we have spoken to in the district lately identify prices as a main concern, I felt the more prudent course would have been to wait for more information." - However we wouldn't categorize his views as hawkish given that he still appears to see multiple rate cuts in 2026, a view he's had throughout the tariff episode: "I remain optimistic that interest rates can come down a significant amount over the next year. My unease is about too heavily front-loading rate cuts and just assuming that inflation will be transitory. Given the last several years, getting more evidence first feels like the wiser choice." - With only moderate cooling the labor market and "little to suggest a deterioration of the labor market so rapid that we could not have waited for the data to come in the early months of next year before deciding to act", the key criterion for him in resuming cuts is inflation: "elevated inflation may have come mainly from tariffs and may quickly prove transitory. The danger, of course, is either the tariff inflation proves more long-lasting than we currently forecast or that inflation in more persistent categories like non-housing services remains too high or gets worse." **Goolsbee told CNBC on Dec 12:** "I am not hawkish on rates for next year. I think that we make progress [on inflation] and that by the end of next year, if you look at the dot plot, I'm one of the most optimistic folks about how rates can go down in the coming year, I'm just uncomfortable with front loading the rate cuts assuming all of the inflation that we've seen be transitory....the dots are anonymous for reason, but I'm more than the median for the end of 26". That being the case, he's one of the 8 most dovish dots (of 19) which are below the median of 3.375% for end-next year. **Goolsbee told NPR radio on Jan 14** that the stand out in December’s inflation data was that it didn’t get worse but that it’s an important challenger over the next couple months to make sure that the path is back towards the 2% target. That’s not surprising, having dissented at the Dec meeting as he wanted more clarity on post-shutdown developments, but sees rates going down a fair amount if inflation is on track. **Speaking on Dec 18, he saw a lot to like in the November CPI report.**

Member	Role	Voter '26	Voter '27	Monetary Policy Commentary Since December FOMC
S Collins	Bos. Fed			Boston Fed's Collins wrote on LinkedIn on Dec 15 that she **needs more evidence that inflation is cooling before supporting another interest rate cut.** - "Given a policy stance that is at the lower end of a range I view as mildly restrictive, I would want greater clarity about the inflation picture before adjusting policy further, to ensure a timely return of inflation to the Committee's 2% objective". - Last week's 25 bp cut was a "close call," Collins said, adding she was swayed by evidence "the balance of risks had shifted a bit." The risk of inflation rising further "seem somewhat less likely" while some recent data and anecdotal evidence suggest "pockets of fragility" in the labor market, especially among smaller businesses. - "Still, with nearly five years of elevated inflation, I remain concerned about potential inflation persistence," she said.
A Musalem	St. Louis Fed			St Louis Fed President Musalem (non-2026 FOMC voter) appears encouraged by recent inflation developments but is nonetheless hesitant about making further rate cuts in the near-term. - **He said at an MNI event on Jan 13** that he expects inflation to resume its convergence to the 2% target over the course of this year, and the December inflation data "was encouraging that respect" with the 3-month rate of inflation trending lower. - He says that his "sense" is that "policy is right around neutral" and "well positioned right now, balancing both the expected path of the economy and the risk on both sides". - Musalem says he sees "little reason for near-term further easing of policy". - That said, "If the labor market risks were to rise more than I currently expect, or if the risk that expected inflation begins to undershoot 2% on a persistent basis increases, of course, at that point, it might be appropriate to reduce the policy rate further, but I would have to see those risks materialize." - He says that the latest nonfarm payrolls report for December and other data suggest a "resilient" labor market that he expects to "stabilize around current levels". - "What I see is a labor market that has been cooling in an orderly way over the past nine months or so, I see demand and supply factors that have been at play...what I took away from it is, the unemployment rate's right around the neutral rate of unemployment. I took that payrolls are growing right in the middle of the range that we estimate [St Louis Fed] to be the new break even rate, which we say somewhere between 30,000 to 80,000 persons per month. And in terms of compensation growth, it is robust compensation growth, but consistent with a very high labor productivity that we've had in the last few quarters... if you look at the employment components of a lot of the business surveys, they've been robust. If you look at unemployment claims, they've been stable or coming down as new claims. And if you look at layoff announcements, they have come back out again, at least in the last read. So all in all, I see labor market that has been resilient. I expect it to stabilize around current levels. And the last labor report in my read was, was a good one." - He eyes solid growth in 2026: "I expect the economy to grow and operate at or above potential in the coming year, there are some very robust tailwinds. We have a positive fiscal impulse, we have the cumulative lag effects of the 175 basis points of monetary policy easing working through the economy, we have accommodative financial conditions. And so all these, I think, will lead to a robust economy this year. The economy was very robust last year, very resilient to a number of shocks, and so that tells me the labor market will be stabilizing, will be supported by those dynamics."
J Schmid	K.C. Fed			Kansas City Fed President Schmid **emerged with a hawkish speech on Jan 15,** unsurprising given that he dissented against the FOMC's most recent two cuts when he was a voter in 2025. It remains clear that he does not envisage rate cuts this year in his base case scenario, though he is not a voter in either 2026 or 2027: "my preference would be to keep monetary policy modestly restrictive. And I will judge the restrictiveness of monetary policy by how the economy evolves." - He writes in repeating his dissent explanation from the December meeting that "One way to interpret the recent rate cuts is that the Committee had become a little more worried about the employment side of its mandate and a little less worried about the inflation side. My preference at both meetings, as reflected in my vote, was to leave the policy rate unchanged. My reasoning was based on three factors. First, inflation remains too high. Second, I believe that cutting rates could disproportionately harm the inflation side of our mandate without providing much benefit to the employment side. And third, I don't think that monetary policy is currently very restrictive." Indeed he takes a different view of the balance of risks than most of the FOMC: "I believe that there is a risk that lowering rates could do more harm to the inflation side of our mandate than benefit on the employment side." - His take on the latest shutdown-distorted data is that "the effect of the shutdown on the quality of the data will likely persist through the first part of this year. That said, what data we do have, including this week's CPI release for December, is consistent with an inflation rate that remains close to 3 percent", with concerns over future inflation stemming from conversations with private sector contacts and surveys that suggest potential for input price passthrough to come. He acknowledges moderation in housing costs and "While I am hopeful that price pressures will ease, I am reluctant to step back until I see more convincing signs that overall inflation is headed in the right direction", pointing to both non-energy goods and non-housing services inflation as troublesome. - He says also that while "The labor market has clearly cooled in recent months" he points to the KC Fed's Labor Market Conditions Indicator which "remains a touch above its historical average. Overall, the data suggest a low-fire/low-hire labor market". - "With inflation too high, prices are sending us a signal that demand growth is outpacing supply growth". He goes on to say that "the data suggest to me that the neutral interest rate in the economy has moved up and

Member	Role	Voter		Monetary Policy Commentary Since December FOMC
		'26	'27	
				that the current stance of policy, which well could have been restrictive before the pandemic, is no longer very restrictive now."

January Beige Book: Improvement In Economic Activity, With Positive Outlook

The Federal Reserve's Beige Book for January portrayed a slightly stronger take on economic activity in the mid November-December period compared with the prior release (November). In this regard it's only going to reinforce conviction on the FOMC that there is no hurry to cut rates.

- This is one of the strongest Beige Books in this respect in the last several cycles, in terms of breadth at least: 8 of 12 districts (the exceptions being NY, Chicago, Minneapolis, Dallas) saw activity rise at a slight/modest pace, compared with just 4 in the previous report. (See table below - MNI categorizes the results using the verbatim commentary in individual regional Federal Reserve banks' reports).
- Labor market conditions were slightly improved in the January Beige Book vs November, though the overall theme remained very much "low hiring, low firing" across most of the 12 districts. The lack of further deterioration vs November's report (when half of the districts reported decreases in employment) will also reinforce the notion that the rate cuts already implemented will suffice as sufficient "insurance" against labor market weakness for now.
- Reported inflationary pressures remained fairly steady across Fed districts in the January Beige Book vs November's edition, though this time no districts reported a downtick in prices (New York did in November).

District-By-District Descriptions of Current Conditions - Jan 2026 Beige Book

	Econ Act	Previous Report	Employment	Previous Report	Inflation (Selling Prices)	Previous Report
Boston	Edged Up Further	Expanded slightly	Unchanged	Edged lower	Rose modestly further	Modest increases
NY	Continued to decline modestly	Declined modestly	Continued to decline slightly	Declined slightly	Picked up further but remained moderate	Eased slightly
Phil	Slight pace of growth	Modest declines	Increased modestly	Declined slightly	Rose at a moderate pace	Rose moderately
Cle	Increased slightly	Increased slightly	Flat	Flat	Rose moderately	Rose moderately
Richmond	Grew at a modest rate	Grew modestly	Unchanged	Unchanged	Grew moderately	Moderate
Atl	Grew slightly	Unchanged	Flat to slightly down	Levels remained flat	Rose slightly	Increased modestly
Chicago	Little changed	Rose slightly	Flat	Increased slightly	Rose moderately	Rose moderately
Stl	Modestly increased	Unchanged	Unchanged	Unchanged	Increased moderately	Increased moderately
Minn	Flat	Flat	Down slightly	Declined slightly	Increased slightly	Increased moderately
KC	Increased slightly	Slowed slightly	Improved slightly	Declined slightly	Gone up modestly	Increased modestly
Dallas	Held steady	Weakened slightly	Largely held steady	Continued to fall	Remained moderate	Increased moderately
San Fran	Expanded modestly	Mixed	Stable on net	Largely held steady	Rose moderately	Rose modestly

Source: Federal Reserve, MNI. MNI's characterization is derived from the individual Fed reports, not the overall summary

December Minutes Show A Solid (But Narrow) Majority Eyes Further Cuts

The key paragraph from the December FOMC meeting minutes (link here) indicates (as did the meeting Dot Plot) a sizeable minority of members seeing no further easing through end-2026, but a base case among a solid if narrow majority that further limited cuts would ensue if the data cooperate.

- It was: "Most participants judged that further downward adjustments to the target range for the federal funds rate would likely be appropriate if inflation declined over time as expected. With respect to the extent and timing of additional adjustments to the target range for the federal funds rate, some participants suggested that, under their economic outlooks, it would likely be appropriate to keep the target range unchanged for some time after a lowering of the range at this meeting." But "all participants agreed that monetary policy was not on a preset course".
- The 25bp cut itself was a finely-poised decision. While "most" of the 19 FOMC members backed a cut, "some" (which in Fed-speak is less than "Many" but more than "Several") members preferred to keep the target range unchanged.
- Keeping in mind that that 6 members pencilled in no cut in their Dot Plot, an additional "few" who could have supported a hold implies that the Committee was evenly split on a rate cut vs a hold coming into the meeting: "A few of those who supported lowering the policy rate at this meeting indicated that the decision was finely balanced or that they could have supported keeping the target range unchanged."
- Indeed the "some" who saw rates on hold for "some time" after this meeting is consistent with the 7 members who pencilled in rates at or above the current 3.6% Fed funds midpoint by end-2026.
- Putting a finer point on it, "Those who favored lowering the target range for the federal funds rate generally judged that such a decision was appropriate because downside risks to employment had increased in recent months and upside risks to inflation had diminished since earlier in 2025 or were little changed." But "Those who preferred to keep the target range for the federal funds rate unchanged at this meeting expressed concern that progress toward the Committee's 2 percent inflation objective had stalled in 2025 or indicated that they needed to have more confidence that inflation was being brought down sustainably to the Committee's objective."
- Indeed the bar to a January cut remains high - the holdouts even appeared to suggest that they were concerned that a December cut would be shown as unwarranted in retrospect: "Some participants who favored or could have supported keeping the target range unchanged suggested that the arrival of a considerable amount of labor market and inflation data over the coming intermeeting period would be helpful in making judgments on whether a rate reduction was warranted."

MNI Policy Team Insights

Selected Policy Insights From Pre-FOMC Blackout Period – For Latest Articles, See Marketnews.com

MNI INTERVIEW: Musalem Warns Easy Fed Policy 'Unadvisable'

By Jean Yung and Pedro Nicolaci da Costa (Jan 13, 2026)

WASHINGTON – Further U.S. interest rate cuts would bring monetary policy to an "unnecessary and unadvisable" accommodative stance given strong consumer demand, rising non-labor costs and the impact of tariffs and energy prices, Federal Reserve Bank of St. Louis President Alberto Musalem told MNI on Tuesday.

"I see little reason for near-term further easing of policy," he told an MNI Connect webcast. "Given the risk that inflation could still be persistent, I think that it's unnecessary and unadvisable to bring monetary policy into an accommodative stance at this point in time."

The softer-than-expected December CPI report Tuesday comes in line with Musalem's judgment that the risk of inlation accelerating from here has moderated, but he remains concern that inflation could be stickier than desired.

"We have a very robust economy with a very robust consumer, with very strong demand, with rising electricity and other energy prices. Therefore we have to watch the balance of risks," he said.

INFLATION RISK MODERATES

After 175 bps of cuts over the past 16 months, the Fed's target policy rate has fallen to 3.5%-3.75%, "right around neutral," Musalem said.

"Policy is really well positioned right now, balancing both the expected path of the economy and the risks on both sides," he said, adding he estimates the real neutral rate at roughly 1%-1.2%.

"If the labor market risks were to rise more than I currently expect, or if the risk that expected inflation begins to undershoot 2% on a persistent basis, of course at that point it might be appropriate to reduce the policy rate further. But I would have to see those risks materialize."

Inflation is still closer to 3% and than the Fed's 2% target but will cool this year as housing inflation slows and tariff effects fade in the second half of the year, Musalem said.

That the U.S. might have entered a higher productivity regime offers additional hope that the economy can experience higher growth with lower inflation and lower interest rates, but increased demand for capital to invest in AI and other technologies pushes rates in the other direction, Musalem said.

"It's too early to call that, and it's certainly too early to outsource our job of bringing inflation back towards 2% to assumptions about productivity." (See: MNI POLICY: Fed Warms To Productivity Step-Up, Rethinks Risks)

RESILIENT LABOR MARKET

The labor market has been cooling in an orderly way over the past nine months or so, Musalem said, and growing downside risks had convinced him to vote for last year's rate cuts.

Demand for labor has been slowing due to policy uncertainty and a "hiring overhang" after the Covid-19 pandemic, when labor markets were very robust, Musalem said. But supply has shrunk in tandem with demand, with immigration flows down materially and demographic developments pulling down participation rates.

The unemployment rate at 4.4% in December sits right around the neutral rate of unemployment, with hiring near the current breakeven rate of 30,000-80,000 jobs a month, he said. Business surveys have been robust, initial claims for jobless benefits have been stable to falling, and layoff announcements have come back down, he said.

"We're kind of still near full employment and not falling off of a cliff when it comes to the job market," he said. "If you add on to that the growth backdrop, I would think that that would lead a policymaker to find some comfort in the in the likely future resilience of the labor market." (See: MNI INTERVIEW: Fed Could Cut Around 100BP This Year-Bell)

MNI INTERVIEW: Fed Could Cut Around 100BP This Year-Bell

By Pedro Nicolaci da Costa (Jan 12, 2026)

WASHINGTON - The Federal Reserve has ample room to keep cutting interest rates despite a robust economic backdrop because inflation excluding factors like shelter is already near target and the job market is effectively stalled, former IMF economist Gerwin Bell told MNI.

“They have room to cut. Inflation is not as stubborn or high as people say, if we look at it correctly. I don't really see the new inflationary momentum coming,” he said in an interview. “About 100 basis point of cuts this year would be my base case, so we end up around 2.5%, 2.25%." (See MNI INTERVIEW: Fed's Miran Sees Substantial Rate Cuts In 2026)

Speaking on Friday, before Fed Chair Jerome Powell said a criminal investigation into a building renovation was part of a campaign to pressure for lower interest rates, Bell said the latest employment report did not change his view that the labor market has weakened substantially. Employment requires additional support from the monetary authorities as they seek to balance their dual mandate, he said.

“A labor market at zero – that’s basically how I look at it. If you look at the three-month moving average the ADP is barely above zero, the NFP first estimate is -33K, the final one is about 29K,” he said. “The labor market gives me the sense that monetary policy is still restrictive.”

He judged it too soon to tell whether the apparent gap between robust GDP and flaccid job growth is related to some kind of AI-linked productivity boom. “We'll know in five years. We are ripe for a step-up but it's too early to call it.”

BEHIND THE CURVE

On the inflation side, Bell argued shelter costs are overstating price pressures, and said some underlying measures were already undershooting the Fed's 2% target.

He worries the FOMC is being just as slow to recognize this reversal as it was in spotting the post-Covid surge in prices.

“Now they are similarly stuck on the idea that they can't get inflation below 3%. That's simply wrong. If you take out parts of inflation where the supply shock really hit Chinese imports, by some measures we are now running below 2% inflation,” said Bell

“The second thing is they are worried about their independence. It doesn't look good, given the political pressure, for the Fed to admit it has been too slow to cut,” he added.

Bell said Fed Governor Chris Waller is the best placed candidate on the list of possible Trump picks to replace Jerome Powell as chair if the president wants rates to actually go down.

“I would hope that he chooses Waller, because Waller has credibility on this. He has been right for the last four years, both in the up and the down. He would have the credibility also within the committee to be more aggressive in cutting if it's justified,” he said.

MNI POLICY: Fed Warms To Productivity Step-Up, Rethinks Risks

By Jean Yung and Pedro Nicolaci da Costa (Jan 8, 2026)

WASHINGTON - The Federal Reserve is cautiously embracing a U.S. productivity boom story with dovish short-run implications for interest rates but more debatable longer-term outcomes.

Policymakers last month upgraded their growth forecast without higher inflation or significant changes to unemployment, citing in speeches ever-more productive businesses after a pandemic-era reallocation of workers and accelerated automation and adoption of emerging technologies like AI.

Fresh data from the Bureau of Labor Statistics Thursday showed U.S. labor productivity growth in the nonfarm business sector soared to a 4.9% annualized rate in the third quarter. Over the past two and a half years, it has picked up to 2.3% from 1.4% the five years before Covid-19.

"I never thought I would see a time when we had five, six years of 2% productivity growth," Fed Chair Jerome Powell said after the December FOMC meeting, in which officials marked up growth next year to 2.3% from 1.8% in September. "Productivity has just been almost structurally higher for several years now. So if you start thinking of it as 2% per year, you can sustain higher growth without more job creation."

EASIER POLICY

An AI-fueled productivity boom like that of the 1990s has been a key argument of National Economic Council Director Kevin Hassett, a leading contender to be the next Fed chair, for lowering interest rates. Productivity gains topped 3.3% between 1997 and 2004, at the dawn of the Internet era, when the unemployment rate sank to its lowest in decades.

The U.S. economy grew 4.3% in the third quarter, the fastest rate in two years, while employers added an average of just 51,000 jobs a month, suggesting a sharp increase in worker productivity. Fiscal stimulus in the tax bill and deregulation this year adds more fuel.

New research by a St. Louis Fed economist and others found generative AI may have increased labor productivity by up to 1.3% since the introduction of ChatGPT.

The Powell Fed won't quickly decide whether the numbers reflect a one-off efficiency gain or the start of a sustained economy-wide surge led by AI. The median FOMC official expects just one rate cut next year, and Powell has hinted rates may stay on hold until new data show inflation is falling again or the labor market weakening.

But recognizing diminished inflation risk also opens the door for easier policy as tariff effects fade.

"A number of participants noted that structural factors such as technological progress and higher productivity growth, possibly reflecting increasing use of AI, could boost economic growth without generating price pressures and could also damp job creation. These participants remarked that it could be difficult in real time to determine the extent to which economic conditions reflect such structural factors as opposed to cyclical ones," the minutes of the December FOMC meeting said. (See MNI INTERVIEW: Fed's Miran Sees Substantial Rate Cuts In 2026)

R-STAR

Over a longer period of time, a faster growing economy tends to require somewhat higher real interest rates, especially if AI turbocharges demand and increases the risk of overheating. Hawks on the FOMC have pointed in part to the AI-fueled growth boom for their skepticism about the restrictiveness of monetary policy.

A "golden age of AI" narrative can additionally fuel speculative excess, prompting the Fed to lean on tighter monetary policy to maintain financial stability. But an administration that is prioritizing easy monetary policy could also be more tolerant of higher inflation, creating less certainty over future policy.

Powell himself was noncommittal when asked at the December press conference whether a productivity boom was likely to raise the neutral level of interest rates: "All things equal, yes. But all things aren't equal. There are many, many things pushing in different directions on where the neutral rate would be. But, yes, that argument does come up."

MNI INTERVIEW: Fed's Miran Sees Substantial Rate Cuts In 2026

By Pedro Nicolaci da Costa (Jan 5, 2026)

WASHINGTON - Federal Reserve Board Governor Stephen Miran told MNI on Monday the FOMC needs to cut interest rates substantially this year because underlying inflation is near target and a hesitancy to lower borrowing costs has already unduly damaged the labor market.

Recent weakness in the labor market, which saw the jobless rate increase to a four-year high of 4.6% in November, could have been prevented by more consistent monetary support from the central bank, Miran said in an interview.

"I would say the labor market has been on a trajectory of gradual weakening, in large part because of Federal Reserve policy," he said.

"And with the unemployment rate having crept higher and with various survey measures showing a job market that increasingly favors employers, it seems clear where the trajectory is and, given the inflation outlook, it seems inappropriate for us to try to maintain that trajectory and push it even farther."

CATCHING UP

Miran, who has dissented in favor of larger 50-basis point cuts at all three Fed meetings he's attended thus far, said he penciled in 150 basis points of rate cuts for this year in the December Summary of Economic Projections, up from 100 basis points in his September forecast.

“My previous dot was preconditioned upon the Fed pursuing the right policy, and as long as we keep policy at what I think of as materially too tight, we're reducing my growth expectations in the future,” he said. “That requires looser policy now to offset that.”

Other reasons for the downward revision were greater damage from the government shutdown and more dovish readings on employment and inflation than he had expected, Miran said. Futures traders are currently pricing in just over two quarter-point cuts for the year.

The way shelter and financial services costs are imputed in traditional inflation measures is significantly overstating price pressures in the economy, Miran said.

“Once you extract from both of these distortions, underlying inflation is running at around 2.3%, which is basically within noise of our target,” Miran said. Headline and core CPI in November rose at a 2.7% and 2.6% rate, respectively.

“Because average tenant rents appear finally to have caught up to new tenant rents, and because market rents have been running at a 1% rate for a couple of years, that gives me a lot of confidence that we're going to see CPI rents really start to decelerate in the near future.”

UNDERSHOOT RISK

Miran said inflation is making such swift progress that it actually has the potential to undershoot the Fed’s 2% target. His expectation for a large looming inflation drag from shelter means that even sticky goods prices would not derail his view.

“I actually don't need a decline in goods prices to hit my inflation forecast. My inflation forecast is driven entirely by things that are not core goods. And so I can tolerate higher inflation from goods for a sustained period of time, in large part because I have such aggressive shelter-inflation marked in my forecast,” he said.

“If I end up being right on housing and wrong on tariffs, and then goods inflation does come down as a result of tariffs, we're going to end up pretty substantially undershooting our target as a result of that,” said Miran. “That's a risk that I feel is really being underappreciated by people. We seem to be having a lot of people that are fighting the last war without sort of thinking about the fact that we have two-sided risk looking forward.”

STAYING PUT FOR NOW

Miran, who was appointed to the Board of Governors in September to serve out the remainder of a 14-year term set to end this month, and is currently on leave from his role as chair of President Donald Trump’s Council of Economic Advisers, indicated he intends to stay at the central bank at least until someone is appointed to replace him, possibly beyond.

“Until somebody else is confirmed into my seat, I will continue to sit in my seat. That means what happens depends on whether somebody is nominated for my seat, and then what the timeline for that person's confirmation is, if someone is nominated for my seat,” he said.

“Whether I'll remain on the Federal Reserve if somebody is confirmed into my current seat will depend on a variety of things, including how many seats are open, and whether the president nominates me for one of them, or wants to keep me in this seat. That's not up to me.”

MNI INTERVIEW: Fed In Easing Territory After Rate Cuts - Tracy

By Jean Yung (Dec 19, 2025)

WASHINGTON - U.S. monetary policy has crossed into accommodative territory after three straight rate cuts, further imperilling the Federal Reserve's price stability objective and inflation-fighting credentials, Joe Tracy, former executive vice president and senior adviser to the president at the Dallas Fed, told MNI.

In prioritizing the full employment side of its dual mandate, the central bank is also poised to deliver more cuts that the Trump administration has loudly called for, highlighting the difficulty of maintaining independence when tasked with both monetary and fiscal objectives, Tracy said.

"If Congress aligned the Fed's mandate with that of other major central banks, which is to focus solely on price stability, then there's no way with the Fed missing its inflation target for five years that they could move to accommodative monetary policy," he said.

"Unfortunately, when you ask the central bank to choose between its two mandates in a supply shock, there’s pressure on the administration to encourage the Fed to choose the employment side," he said.

"Maybe the data are signaling a future slowdown, but right now there's really not slack in the labor market. So it's interesting that the Fed is focusing on a potential problem rather than an actual, persistent problem."

EASY POLICY

Policy is no longer restrictive after the December cut, based on estimates of r-star and financial conditions, Tracy said. The real neutral rate has risen to 1% to 2% on expectations of strong productivity growth. Assuming the natural rate of unemployment is 4.5%, Taylor rules suggest policy rates should be roughly a full point higher, he said.

The Chicago Fed’s National Financial Conditions Index has also indicated looser-than-average conditions and is trending looser since late 2022.

"They were on the low end of where they should have been before the cuts. Now they’re in accommodative territory," Tracy said.

With another round of stimulus from tax cuts hitting next year, ongoing tariffs and firms delaying price hikes on policy uncertainty, "we could very much be in a situation where inflation gets back to the low 3s over the course of the year," he said. "I don’t think it’s all behind us." (See: MNI: Fed Biased To Ease With Focus On Jobs - Ex-Officials)

INFLATION TAKES PRIORITY

The FOMC's latest projections have inflation hitting target in 2028. That long timeline puts the Fed's credibility at risk and makes it more challenging to return inflation to target, Tracy said.

"Inflation expectations aren’t moving up now, but at some point people will say the Fed is not serious about 2%, otherwise they’d be acting on it. When they come to that view, expectations will rise."

As the central bank faces down fresh tests of its independence in 2026, Congress should legislate to allow the Fed to focus solely on its inflation mandate, as dealing with inflation first and foremost is better for the labor market in the long run, Tracy argued.

"If we look back at the major times when the Fed has been pressured by the administration, it’s reasonable to assume that would not have happened at all or to a lesser degree if the Fed were only responsible for inflation," he said.

"It would create cleaner lines of accountability and keeps the Fed out of anything that looks like fiscal policy."

MNI: Fed Biased To Ease With Focus On Jobs - Ex-Officials

By Pedro Nicolaci da Costa, Jean Yung and Evan Ryser (Dec 12, 2025)

WASHINGTON - The Federal Reserve is still inclined to keep cutting interest rates as policymakers worry predominantly about employment weakness, even if the bar for additional easing is higher with borrowing costs closer to neutral, former central bank officials and staffers told MNI.

“I read the direction of travel as dovish. While the SEP highlighted the hawkish disagreement around the table, the chair's comments clearly placed more weight on the cooling labor market dynamics than inflation,” said former Kansas City Fed President Esther George.

Fed Chair Jerome Powell "dismissed any consideration of higher rates, leaned pretty clearly I thought on productivity effects without saying that suggests higher neutral, and protested too loudly in my opinion that ‘reserve management purchases’ were not at all related to monetary policy," she added.

Policymakers are putting too little weight on persistently high inflation, and the Fed could hold off on further cuts until it waits for a leadership transition, George said.

"I worry that pressures are growing on the Fed to accommodate massive Treasury issuances through asset purchases and lower capital requirements for banks," she said. "Continuing to de-emphasize inflation is a mistake regardless of assumptions about tariffs and expectations."

PERSUADABLE

Joseph Wang, a former New York Fed staffer, said the FOMC could well be persuaded to ease again over the next couple of meetings.

“Powell mentioned he viewed jobs data as significantly overstated, and also that he viewed inflation excluding tariffs as only slightly above target. That seems to me to qualify for an easy policy stance, even as we are currently above neutral,” Wang said. “So cuts in January and March sound reasonable. This would be derailed by strong jobs prints.”

Rick Roberts, a former Fed system executive who also worked at the Kansas City Fed, thinks the Fed remains in easing mode despite the effort to message renewed caution, which was likely a compromise to get the hawks on board.

“Three sequential cuts plus bill buys read as the opening salvo of an ongoing and likely to continue easing cycle unless incoming data argues otherwise. Moreover, the data will have to be very convincing given the administration's ongoing influence on the FOMC — it seems to be the early part of an ongoing easing cycle to me, not the conclusion of an adjustment period,” he said.

PRODUCTIVITY

Importantly, Powell's embrace of the possibility that strong productivity growth could be a more permanent feature of the economy also portends lower rates.

“The Fed's soft endorsement of the productivity story widens its tolerance band. So, strong growth no longer equals inflation risk, while soft labor data equals a reason to cut. The reaction function becomes asymmetric -- ease on weak data, but don't tighten simply because of strong growth,” Roberts added.

“This provides Powell's Trump-appointed successor with more analytical headroom to argue that deeper or faster cuts are consistent with the Fed's mandate. By leaning in a narrative of stronger supply side performance and productivity gains, the Chairman has effectively broadened the set of policy rates that the Fed can defend as consistent with stable inflation." (See MNI INTERVIEW: Fed Faces Politically Tumultuous Year - Bullard)

Peter Ireland, a former Richmond Fed economist, said the latest rate cut was a prudent move given relief in non-tariff inflation and weakening labor market conditions -- as is the decision to "wait-and-see" before making any further cuts.

"The implicit message that the Committee will await further news on the evolving state of the economy before committing to additional reductions in rates strikes me as appropriate as we still haven't gotten inflation back down to the 2% target," he said.