# Transcript

**Kathleen Navin:** Welcome to this installment of *Take Five with the St. Louis Fed*. I'm Kathleen Navin, Senior Business Economist, and today I'll be discussing the latest FOMC meeting that took place on January 28 and 29.

Now, at the January meeting, we have the annual rotation of voters on the FOMC, and as a reminder, while every year the Federal Reserve Board of Governors and the New York Federal Reserve Bank president are always voting members on the FOMC, the additional four voting members come from a rotation of the remaining Federal Reserve Bank presidents. And rotating onto the FOMC this year as voting members are Federal Reserve Bank presidents from Boston, Chicago, St. Louis, and the Kansas City Fed. So, what did the FOMC do at the January meeting?

Well, the FOMC unanimously voted to maintain the current target for the federal funds rate at a range of 4.25% to 4.5%. This followed the previous three meetings where we saw a total reduction in policy restraint of 100 basis points. In describing the January decision, Chair Powell noted, "With our policy stance significantly less restrictive than it had been and the economy remaining strong, we do not need to be in a hurry to adjust our policy stance."

Now, let's take a look at some of the incoming data that really support the U.S. economy having been in a strong place in 2024 as we move into 2025, and the latest data were released on real GDP the morning following the FOMC meeting. Here, we see for real GDP growth in the fourth quarter a 2.3% annualized growth rate. Now, this is down a bit from the previous two quarters, but remains a healthy number above longer-run estimates closer to about 2%, and underlying this number was a very healthy gain in consumer spending, which rose at a 4.2% annualized rate.

And where do we currently stand on the dual mandate? Now, there were a few changes to the FOMC policy statement regarding labor market conditions and inflation. On labor market conditions, the statement noted that these really remained solid and the unemployment rate has stabilized at a low level, and this was an improvement from the December statement, which focused more on the easing in labor market conditions that occurred in 2024. On inflation, the language was simplified and really focused on the fact that inflation remains somewhat above the 2% objective, so still a focus on both sides of the dual mandate. And indeed, the statement noted that currently policymakers view risks around the dual mandate as roughly balanced.

Now, looking forward, policymakers will remain data dependent and make these decisions on policy on a meeting-by-meeting basis depending on the evolving outlook, the balance of risks, and the incoming data. But we want to keep in mind that some of the data moving forward will have a lot of noise from the tragic fires that we've seen on the West Coast, and other disruptions could cloud some of the signal from the data. So, we really want to look at it very thoroughly and look at a wide range of data.

Now, one of the other things worth paying attention to is what's going on in markets, and while we've had 100 basis points in easing since September of last year, market rates have actually moved the opposite direction. And here, we look at a chart on the federal funds rate in black and then the 10-year Treasury yield in maroon, and what we see since mid-September when we had the beginning of policy easing last year that the 10-year Treasury yield has actually moved higher, and from September 16 to about mid-January, rose more than one full percentage point on that 10-year Treasury yield. Now, it has moved back a little bit in the couple weeks since, but still remains about a percentage point above where it was in September.

Now, when we look at this increase, some of it could be reflective of evolving market expectations for future Fed policy, and indeed, markets have come to expect fewer rate cuts this year than they did previously prior to September. But what really seems to be going on is an increase in the term premium. Now, the term premium is essentially the premium that investors require to hold these longer-duration bonds, and that has increased when we look at various estimates of the term premium. And this has important implications for other market rates like the mortgage rate, consumer, and business borrowing rates. And here where we look at a chart of the 10-year Treasury yield—again here in maroon—then we have a corporate rate in black and a 30-year mortgage rate—this is the national average—in gray, we see that upward trend since September, and this has important implications for interest-sensitive sectors of the economy, like housing, consumer spending on durables like automobiles, and also business investment. And for banks, this is an important part of their lending portfolio, and it could really be putting some downward pressure on demand for these areas as these market rates remain elevated. So, something we'll continue to watch even as interest rates evolve, and we'll continue to watch this along with all other incoming data moving forward.

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

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