OpenFed

POLICY STATEMENT | January 21, 2026

PREDICTED FED DECISION HOLD

3.50%-3.75%

OPENFED OPTIMAL RATE −25 bps

3.25%-3.50%

KEY TAKEAWAY

The Committee expects the real FOMC to hold at 3.50-3.75%, four to one, while its own framework judges the loss-minimizing move to be a modest 25 basis point cut toward a still-low neutral.

STATEMENT

Information reviewed at this meeting described an economy that had grown calmer than restrictive. Core PCE inflation had eased to 1.9%, slipping just below the 2.0% objective, and the framework's inflation momentum term at -0.215 pointed to disinflation still in train rather than fading pressure re-emerging. Unemployment stood at 4.4%, only marginally above an estimated natural rate of 4.31%, with initial claims low at 198,000 and a Beige Book that read as soft but not deteriorating: employment mostly unchanged, hiring largely to backfill vacancies, and firms leaning on temporary workers to stay flexible in uncertain times. Financial conditions offered no cause for urgency, with the stress index at 0.1282, the VIX benign at 16.9, the Baa spread tight at 1.65, and the 10-year to 2-year curve positively sloped at 0.66. Against that backdrop the three-month T-bill spread of -0.035 sat essentially flat against the current 3.50-3.75% range, which participants read as markets pricing the stance as close to appropriate.

Most participants judged that holding was the more likely course for the real Committee, and the Committee's predictive conclusion is a hold at 3.50-3.75%, no change. The reasoning ran along several lines that reinforced one another. Some weighted the tariff-driven input cost pressures still flagged in the Beige Book as a live upside risk, arguing that cutting again with inflation only just at target could reignite the very pressures they most feared. Others emphasized that absent a fresh shock, data-dependence favored assessing incoming information after the prior meeting's 25 basis point cut rather than following through back-to-back. Still others weighted market pricing most heavily, noting that the near-flat T-bill spread and the resolved curve inversion did not corroborate any urgency to front-load easing. The dissenting view, grounded in the labor mandate, held that unemployment above its natural rate together with a softening hiring picture and a Chicago Fed activity index of -0.21 argued for a measured 25 basis point cut now, on the logic that waiting for stress to appear means reacting late.

On the Committee's own independent determination of optimal policy, the framework's loss-minimizing recommendation was -25 basis points. That figure sat below the more aggressive reference rules the framework produced: the Taylor rule at -75, the balanced approach at -50, and the ELB-adjusted rule at -50, all of which lean on the small unemployment gap. The first-difference rule, by contrast, read 0 basis points, responding to momentum that was itself modest, with inflation momentum at -0.215 and unemployment momentum barely positive at +0.05. What tips the framework to a quarter point rather than to zero is the level gap: with r* estimated at 0.285, real neutral is low, and the current range sits meaningfully above it, leaving policy modestly restrictive relative to neutral even with both mandates roughly met. The Committee concludes that a single -25 basis point step captures that restrictiveness gap without overreacting on any one rule.

The gap between the predicted hold and the optimal quarter-point cut is best understood as a difference of timing more than direction. Even those inclined toward patience acknowledged the drift is toward easing; even those endorsing the cut framed it as a measured move toward the neutral rate, not a front-loaded one. The tension the Committee wishes to record is genuine but narrow: whether the restrictiveness relative to r* warrants acting this meeting, or whether one meeting's patience to confirm durable disinflation is the more prudent course when markets have largely already discounted the step.

COMMITTEE VOTE

The Committee's predictive vote was 4-1 in favor of a hold at 3.50-3.75%, with one member favoring a 25 basis point cut. On the framework's -25 basis point recommendation, the optimal-side deliberation split three ways: one member endorsed it as-is, three agreed with the easing direction but not the magnitude or timing this meeting, and one declined.

NOTES

The lone predictive dissent came from the labor-focused member, who argued that unemployment at 4.4% above the 4.31% natural rate, a Beige Book showing hiring only to backfill and rising reliance on temporary workers, and below-trend activity on the Chicago Fed index justified a measured 25 basis point cut now; the absence of a financial crisis, in this view, was no reason to keep policy restrictive against a softening labor market, since waiting risks letting employment damage entrench before the Committee responds.