409_A2B

February 1, 2026

1 409 Assignment 2, Part B

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1.2 February 3, 2026

AI Note: ChatGPT was used to fix grammatical errors and tighten phrasing. AI was not used to change any ideas/opinions, gather quotes, or assess accuracy.

Question A There has been no change in the federal funds rate target range from the December 10 meeting to the January 28 meeting. In December, the Federal Reserve cut the target range to 3.5 to 3.75 percent, and at the January meeting the Committee decided to hold the target range at that same level.

Question B

- Economic conditions are stabilizing. The economy is growing at a solid pace, and downside risks to unemployment have lessened since the December meeting. The unemployment rate has been rising steadily since early 2023, but it is no longer viewed as acutely concerning. However, whether this stabilization should be interpreted positively is unclear. Overall job growth has been very weak, and the stabilization in the unemployment rate appears to reflect a sharp slowdown in labor supply growth due to restrictive immigration policy rather than a reacceleration in labor demand. Both labor supply and labor demand have slowed, producing a stable unemployment rate. Whether this environment should be considered one of full employment is therefore questionable. Inflation remains above the Federal Reserve's 2 percent target, but the trajectory is not viewed as alarming. Chair Powell emphasized that goods inflation appears to have peaked, with the transitory tariff shock largely passing through, while services inflation continues to ease. If these trends persist, the Fed sees scope for further disinflation.
- The FOMC and Chair Powell view policy as being on the upper side of neutral. This implies that the current stance is slightly restrictive rather than accommodative. This assessment is consistent with the Committee's caution around inflation and its desire to avoid easing too quickly before disinflation is clearly reestablished.
- Comments on data dependence were closely tied to distortions created by the October government shutdown. The shutdown limited the ability of federal agencies to collect reliable data, delaying releases such as JOLTS, increasing reliance on imputed CPI values, and fully canceling the Household Survey of Consumer Sentiment. Powell suggested that these issues complicate real-time assessment of the economy and highlighted a broader concern about the

gradual degradation of government data quality, as an increasing share of key statistics are imputed due to budget constraints that have not kept pace with inflation.

- There were no explicit hints about the timing of future rate cuts. The repeated characterization of policy as being on the upper side of neutral suggests that, if economic conditions continue to stabilize and disinflation resumes, additional cuts are likely at some point in 2026. However, the timing remains highly uncertain and explicitly dependent on incoming data.

Question C I believe the Committee will hold the target range at the next FOMC meeting. While Chair Powell noted that policy is now near the upper end of neutral, his comments consistently emphasized patience rather than urgency. Since Q1 2024, the federal funds rate has been cut by 175 basis points, including 75 basis points since last September, which is a substantial shift toward accommodation, and Powell stressed that these cuts have not yet fully worked through the economy. At the same time, growth remains solid, the labor market appears to be stabilizing, and inflation is still somewhat elevated, largely due to tariff related pressures. Powell repeatedly described policy as "well positioned" and highlighted that decisions will be made meeting by meeting based on incoming data, not on a preset path. Without clearer evidence of renewed labor market weakness or sustained disinflation, there is little reason to expect an immediate rate cut, making a hold the most likely outcome at the next meeting. My view also aligns with the broader consensus in markets and commentary. Prediction markets show a strong expectation that the Fed will hold rates at the March meeting, with Polymarket assigning roughly 90 percent odds to a hold. A similar stance has been reflected by multiple journalists and commentators, including discussions on Marketplace and recent commentary from Jared Bernstein, the former Chief Economic Advisor to President Biden, whose Substack has emphasized the Fed's incentive to pause and evaluate the cumulative effects of prior easing rather than act again too quickly.