PREDICTED FED DECISION +25 bps

3.50%

OPENFED OPTIMAL RATE HOLD

3.25%

KEY TAKEAWAY

The Committee unanimously expects a 25 bps hike continuing the tightening cycle, while its own framework judges the loss-minimizing policy to be a hold at 0 bps, with two members endorsing the direction but preferring a modest step up.

STATEMENT

Information reviewed by the Committee described an economy expanding at an above-trend pace, with the Chicago Fed activity index at 0.98 and manufacturing widening across regions despite some weather-driven noise in the Beige Book. Core PCE inflation ran at 2.4%, modestly above the 2.0% objective, while the Beige Book reported only limited broad price pressures, with increases concentrated in selected materials, metals, and chemicals. Unemployment stood at 6.5%, close to a full point above the 5.47% natural rate, leaving meaningful labor-market slack even as jobless claims at 341,000 showed no deterioration. Financial conditions were calm: the financial stress index at 0.0444 and the VIX at 14.78 signaled no market fear, the Baa spread at 1.64 pointed to healthy credit conditions, and the 10-year-to-2-year spread of 1.48 carried no recession signal.

Against this backdrop the Committee's members converged, in successive rounds, on a single predictive judgment: that the real Federal Reserve will raise the target rate by 25 bps. Participants reasoned along complementary lines. Those weighting inflation most heavily stressed that core PCE above target, combined with firm growth, argues for continuing to remove accommodation begun at the prior meeting, the first tightening since 1989. Those attentive to market signals noted that the 3-month T-bill sits 0.33 above the current 3.25% funds rate, a spread consistent with roughly a 25 bps move already being priced in, so that delivering it avoids a surprise that could jolt otherwise calm conditions. Members focused on financial stability made a similar point from a different angle: with credit spreads contained and volatility low, a measured step is absorbable, while a larger 50 bps move risks disrupting mortgage refinancing markets that rising rates have already slowed. Even the member most attentive to employment slack, while wary of choking off the recovery, judged a cut plainly unjustified given above-trend growth and above-target inflation, and accepted a modest continuation. The predictive read was therefore unanimous, and reached for consistent reasons rather than by deferral to any single voice.

The Committee's own deterministic framework, run independently, reached a different conclusion: the loss-minimizing policy this meeting is 0 bps, a hold. The tension is real and worth stating plainly. Three of the framework's four reference rules pointed sharply the other way, toward easing, the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each recommending -75 bps, all driven by the wide unemployment gap relative to the 5.47% natural rate with inflation only modestly elevated. Only the first-difference rule, at +25 bps, aligned with the predictive path and with the momentum from the prior meeting's turn. The framework's synthesis lands between these, and the reason is momentum: both inflation momentum and unemployment momentum read 0.0, so there is no accelerating price pressure to chase and no worsening labor deterioration to defend against with a cut. With r* estimated at 0.75, the framework judged the current 3.25% stance to be only mildly restrictive rather than deeply so, which drains the urgency out of the level rules' aggressive easing signal. The 0 bps recommendation thus declines the level rules' large cuts while also declining to add further restriction onto a labor market still carrying a one-point slack gap.

In reconciling the two, members generally judged the hold to be the defensible loss-minimizing call, precisely because flat momentum in both directions argues against both aggressive easing and further tightening, and because benign credit conditions leave no fragility to protect and no overheating to arrest. The direction of the framework, no easing while inflation exceeds target with growth intact, commanded broad agreement. The residual disagreement was one of magnitude and timing, not direction: some members, weighting above-target inflation and market-implied pricing, preferred to honor the incremental tightening path with a modest step up rather than consolidate at a flat hold. The Committee lets both conclusions stand as its own: a predicted 25 bps hike, and an optimal recommendation of 0 bps.

COMMITTEE VOTE

The predictive vote was unanimous, 5-0, for a 25 bps increase. On the framework's 0 bps recommendation, the Committee split 3-2 in substance, three members endorsing the hold as-is and two supporting its direction while preferring a modest step up, with none opposing the direction outright.

NOTES

Although the predictive vote was unanimous, two members declined to endorse the framework's 0 bps recommendation in full. Both agreed with its rejection of the level rules' -75 bps easing, but preferred a modest +25 bps step: one weighting core PCE at 2.4% above target and the prior meeting's turn away from accommodation, arguing that flat inflation momentum does not erase an above-target level; the other reading the +0.33 T-bill spread as markets embedding continuation of the prior hike, and treating the divergence as one of magnitude and timing rather than direction.