


PREDICTED FED DECISION **HOLD**
6.00%

OPENFED OPTIMAL RATE **HOLD**
6.00%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to hold at 6.0%, and its own framework independently arrives at the same 0 bps as the loss-minimizing choice, even as three reference rules prescribe deep cuts.

STATEMENT

Information reviewed at this meeting described an economy settling toward balance rather than one demanding action in either direction. Core PCE inflation at 2.2% remained modestly above the 2.0% objective, but participants agreed the overshoot was small and not accelerating. Unemployment at 5.4% sat essentially at the estimated natural rate of 5.39%, pointing to a labor market in equilibrium, and initial claims near 343,000 gave no sign of deterioration. The Chicago Fed activity index at -0.07 indicated growth just below trend. Financial conditions were notably calm: the financial stress index stood at 0.108, the VIX at 11.53, and the Baa credit spread at a contained 1.52, with a positively sloped 10-year to 2-year curve at +0.45 offering no recession signal. Several participants read the 3-month T-bill trailing the funds rate by 26 basis points as the market's judgment that the prior tightening cycle is at or near its peak.

Against that backdrop the Committee's predictive judgment was straightforward. Having just delivered a substantial 50-basis-point tightening whose lagged effects are still transmitting, participants saw no case for a further hike into an economy already cooling to trend, and no case for a cut while inflation runs above target with mild positive momentum. Members weighting inflation risk most heavily stressed that easing now, one meeting after tightening, would risk unanchoring price stability; those focused on employment agreed a preemptive cut was hard to justify absent actual rising unemployment; and those attentive to markets and financial stability found calm conditions and market pricing consistent with a pause rather than any abrupt move. The Committee accordingly expects the real Federal Reserve to hold the target rate unchanged, a change of +0 bps.



The Committee's independent framework arrives at the same destination by a more contested path. Three of the four reference rules point the opposite way from the outcome: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule each prescribe -75 bps, driven by an estimated r^* of 2.009 and gaps that, with both inflation and unemployment close to their benchmarks, place the current 6.0% rate well above their neutral prescriptions. The first-difference rule instead recommends +25 bps, keying off momentum rather than levels. Here the momentum terms did the work: inflation momentum of +0.08 signals prices still creeping upward, while unemployment momentum of -0.2 shows the labor market tightening slightly, not loosening. Participants judged that the level-based rules, however reliable in the framework's own reckoning, underweight the persistence of above-target inflation and would front-run a market that has priced patience rather than an abrupt reversal. Netting the aggressive-easing rules against the momentum-based rule, the framework's loss-minimizing recommendation lands at +0 bps.

That the predictive expectation and the optimal determination coincide at 0 bps was, in the Committee's view, itself informative: the wide gap between the -75 bps level rules and the actual hold quantifies how far current policy sits above a mechanical neutral, yet participants concluded that distance is justified while inflation has not convincingly returned to 2.0%. Holding at 6.0% preserves the restrictive stance and lets the prior tightening continue to work through the economy. Members noted the asymmetry going forward: should claims rise or unemployment turn up, the case for easing would firm quickly, but the data at hand did not yet support acting on it.

COMMITTEE VOTE

The Committee's predictive vote was unanimous at 0 bps, 5-0. On its own framework's 0 bps recommendation, the optimal-side deliberation also landed in full agreement, with all five members endorsing the recommendation as-is.