


PREDICTED FED DECISION **-25 bps**
5.50%

OPENFED OPTIMAL RATE **HOLD**
5.75%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to cut 25 bps, but judges the optimal move to be no change at 5.75%, following the framework's loss-minimizing 0 bps recommendation.

STATEMENT

Information reviewed for this meeting described an economy running close to equilibrium, with little in the incoming data pointing decisively toward either restraint or stimulus. Core PCE inflation stood at 2.14%, only modestly above the 2.0% objective, while the unemployment rate at 5.6% sat slightly above the Committee's estimated natural rate of 5.34%. Growth as measured by the Chicago Fed activity index at 0.07 was essentially at trend, and jobless claims of 346,000 were moderate rather than deteriorating. Financial conditions were notably calm: the financial stress index at 0.0741 and the VIX at 10.63 pointed to placid, even complacent markets, the Baa credit spread at 1.77 showed no distress, and the 10y-2y curve at a positive 0.33 gave no recession signal. Weighing against this benign backdrop, the 3-month T-bill trading 0.5 below the funds rate indicated that markets had already priced in near-term easing.

In assessing the likely action of the real Federal Reserve, most participants concluded that a 25 basis point cut was the probable outcome, and the Committee's predictive vote came to -25 bps. The argument for a cut rested on a convergence of considerations: inflation only marginally above target and not accelerating, a small but real employment gap alongside softening leading indicators, and the market-implied easing signal in the T-bill spread. Several participants emphasized that surprising a calm, low-volatility market with a hold would itself be the more disruptive move, and that a single 25 bps step aligned policy with expectations without overreacting; none saw a case for a larger 50 bps move. One participant dissented from this reading, judging that with core PCE still above target and no economic distress evident, holding at 5.75% was the sounder course and that market expectation is not itself a mandate to ease.



On its own independent framework, the Committee reached a different conclusion: the loss-minimizing recommendation was 0 bps, no change from the current 5.75%. This result is worth dwelling on because the reference rules did not point that way. The Taylor rule, the balanced-approach rule, and the ELB-adjusted rule all recommended -75 bps, reflecting the level gaps in inflation and unemployment against an r^* of 2.654. Only the first-difference rule returned 0 bps. The framework judged the reference rules reliable but still settled on a hold, and participants located the reason in momentum: inflation momentum of -0.065 and unemployment momentum of -0.1 are both small and near-neutral, describing an economy drifting gently rather than deteriorating. Participants across viewpoints found the first-difference logic most persuasive for present conditions—it responds to change rather than stale level gaps, and with activity at trend and markets calm, a 75 basis point cut risked over-easing into stable conditions or fueling excess in already-accommodative credit markets.

The Committee thus records a genuine divergence between what it expects and what it judges optimal: a predicted 25 basis point cut set against an optimal recommendation of no change. Participants characterized this gap as modest rather than fundamental. The market's pricing and the small employment gap justify a cautious easing gesture in practice, but the framework's discipline, weighing benign momentum over mechanical level gaps, argues that the current stance is only mildly restrictive and that patience is the loss-minimizing choice. The 25 bps divergence quantifies the small accommodative move that expectations warrant but the fundamentals do not yet fully require.

COMMITTEE VOTE

The Committee's predictive vote was 4 to 1 in favor of a 25 basis point cut. On the framework's 0 bps optimal recommendation, the Committee split 2 endorse and 3 partial, with no member declining outright.

NOTES

On the predictive side, one participant favored holding at 5.75%, arguing that with core PCE at 2.14% still above target and no economic distress in the data, cutting risked re-igniting price pressures and that a small overshoot is still an overshoot. On the optimal side, the three partial votes agreed with the direction of patience but not the full hold: those weighting the employment gap and the market's T-bill signal read the current stance as mildly restrictive and preferred a modest 25 bps step, viewing a flat hold as too passive given labor slack and priced-in easing.