


PREDICTED FED DECISION **HOLD**
5.25%

OPENFED OPTIMAL RATE **-25 bps**
5.00%

KEY TAKEAWAY

The Committee unanimously expects the Federal Reserve to hold at 5.25%, while its own framework judges the optimal move to be a modest 25 bps cut toward neutral.

STATEMENT

The data reviewed for this meeting describe an economy sitting close to balance on both sides of the mandate, with no indicator demanding an immediate move in either direction. Core PCE inflation stood at 1.85%, just below the 2.0% objective, while unemployment at 5.6% held modestly above the 5.3% natural rate the Committee uses as its reference, leaving a small measure of labor slack. Growth appeared firm rather than fragile: the activity index at 0.35 pointed to above-trend expansion, and initial claims at 341,000 gave no sign of labor-market deterioration. Financial conditions were quiet by every measure participants weighed, with the stress index at 0.0882, the VIX at 15.43, and the Baa spread contained at 1.49. The yield curve remained positively sloped at 0.61, offering no recession signal, though the 3-month T-bill spread of -0.15 suggested the front end was already discounting a slightly easier path for short rates.

Against this backdrop the Committee's predictive judgment came together quickly and without friction. Participants attentive to inflation risk acknowledged that above-trend growth and a tightening labor market could build price pressure over time, but conceded that core PCE below target made a preemptive hike hard to justify at this meeting. Those focused on employment saw slack in the 5.6% unemployment rate, yet found no collapse in claims or job growth to warrant easing now. Members reading financial and market signals stressed that calm, well-functioning markets gave no reason to disturb the current stance, and that the faint dovish tilt in the T-bill spread fell well short of a case for an actual cut. On that reasoning all five participants judged that the real Federal Reserve will hold the target rate at 5.25%, and the predictive vote was unanimous.



The Committee's own deterministic framework arrived at a different, though not distant, conclusion: an optimal move of -25 bps. The level-based reference rules were considerably more aggressive, with the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule all pointing to -75 bps, driven by inflation below target and unemployment above its natural rate relative to an estimated r^* of 2.812. The first-difference rule, by contrast, recommended 0 bps, reflecting the small recent momentum changes. With inflation momentum at -0.075 and unemployment momentum at -0.1 both drifting favorably, and with the reference rules judged reliable, the loss-minimizing calculation tempered the aggressive -75 signal against the steady 0 to settle on a single quarter-point step toward neutral. Participants found this the sensible middle path: the negative inflation momentum eased the usual caution against cutting, the real funds rate near 3.4% confirmed policy was mildly restrictive, and yet the benign stress backdrop and solid growth argued strongly against the full -75 bps, which several warned could inflate asset prices in placid markets for no compelling reason.

The gap between the unanimous hold and the framework's -25 bps is narrow — one measured step — and participants read it as a sign that the current stance is marginally tight but tolerable rather than clearly wrong. Several noted that easing 25 bps now would function as preemptive insurance for employment while inflation gives room to move, consistent with what the front-end spread already discounts. The Committee will continue to watch labor and inflation data closely and stands ready to respond should either mandate gap widen.

COMMITTEE VOTE

The predictive vote to hold at 5.25% was unanimous at 5-0. On the framework's -25 bps recommendation, the optimal-side deliberation landed 4 endorse, 0 decline, with 1 partial endorsement.

NOTES

The lone partial came from the inflation-focused position, which agreed with the direction of a modest cut given easing inflation momentum but leaned toward the first-difference rule's 0 bps, preferring to hold out of continued vigilance against renewed price pressure while conceding a single 25 bps step was defensible.